

**ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM  
JUNE 16–18, 2011**

**Business round table**

**FROM REGIONAL INTEGRATION TO GLOBAL ENGAGEMENT:  
PROSPECTS OF FURTHER EXPANSION OF THE CIS**

**JUNE 16, 2011 — 15:00–16:30, Pavilion 4, Conference Hall 4.1 Arena**

**St. Petersburg, Russia**

**2011**

The key components of the CIS economic integration agenda include the creation of a free-trade zone, expansion and development of the Customs Union (CU), creation of a Common Economic Space (CES), and the gradual formulation of a new framework for potential integration of other countries in the CU and the CES. Implementation of the fundamentals of the CU and CIS will allow the potential for deeper integration of the CIS and enhanced engagement with the EU and Asia-Pacific countries.

**Moderator:**

**Sergey Sinelnikov-Murylev**, Rector, The Russian Foreign Trade Academy of the Ministry of Economic Development of Russia

**Panelists:**

**Sergei Glazyev**, Executive Secretary, Commission of the Customs Union, Deputy of Secretary General of EURASEC

**Kairat Kelimbetov**, Minister of Economic Development and Trade of the Republic of Kazakhstan

**Sergey Lebedev**, Chairman of the Executive Committee, CIS Executive Secretary

**Tair Mansurov**, Secretary General, Eurasian Economic Community

**Valery Muntiyon**, Government Commissioner of the Cabinet of Ministers of Ukraine for cooperation with the Russian Federation, the member states of the Commonwealth of Independent States, the Eurasian Economic Community and other regional associations

**Alexander Rahr**, Director of the Russia-Eurasia programme, the German Council on Foreign Relations

**Andrei Spartak**, Director, Russian Market Research Institute

**Uchkunbek Tashbayev**, Minister of Economic Regulation of the Kyrgyz Republic

**Tatiana Valovaya**, Head of the Department of the International Cooperation of the Government of the Russian Federation

**S. Sinelnikov-Murylev:**

The topic which we will be discussing today is of interest to both economists and politicians. This is a rather complex topic, because it includes many different interests, many versions of how integration progresses, and if you look at the bigger picture, you see that there are many different frameworks. First, there is the issue of the Union State, then the Customs Union, which is developing in the area of the Common Economic Space, then EurAsEC, then the CIS. There are many different frameworks, do we need all of them? This is one of the questions that we will discuss today. If we look at international experience, which we will also discuss today, we see that the European Union contains many different frameworks: the EU itself, the euro zone, the Customs Union, the Schengen Area. Evidently life is so varied that it does not fit into strict formal constructs, this is why we have this many different structures. This is all I want to say in introduction. Our discussion will begin with a presentation by Sergey Lebedev of the Executive Committee of the CIS.

**S. Lebedev:**

Thank you. Round table participants, I would like to welcome you on behalf of the Executive Committee of the CIS, and to thank you for your participation in the discussion on outlooks for CIS expansion in relation to integration processes worldwide. This year we are celebrating the 20th anniversary of the CIS and, of course, I cannot ignore this special occasion. An anniversary is always an excuse to look back, to reflect on what has already been done and to look forward into the future. This topic is being discussed at many conferences and forums which are taking place at this time, during these months in different CIS countries—we are thinking about our next step. I really hope that during today's discussion, the participants at this round table will share their views, and present interesting ideas and suggestions which we will then be able to use in our work.

We can already confidently say that the CIS has established itself as a unique international organization, one respected on the global stage. The members of this organization are already working together effectively in the areas of energy, economics, security, and culture. During the last few years, within the framework of the CIS, many documents have been developed and approved. The implementation of these documents is extremely useful for all CIS countries. On the other hand, this implementation is impossible without linking it to similar projects in neighbouring countries which are being carried out by international economic organizations. I would include among these documents all the main partnership directions in the transport realm, the framework collaboration programme for the peaceful use of atomic energy, and the transnational programme for innovative collaboration. I'm naming these particular documents because they are the best known, and because these projects will be happening before 2020, which in itself says something about the potential growth of the CIS. We're not just looking at the short-term projects for the next year, or the next 2–3 years, but we are looking further into the future.

The CIS has prospects for expansion, it's obvious to the leaders of our countries and to those implementing the documents. You can understand that when we talk about the development of new transport corridors in the CIS, we don't limit ourselves to just member states of the CIS, naturally. We are thinking about how to link these transport corridors with the EU, with China, with the countries to the south of the CIS, and so on. We perfectly understand that the growth of the CIS, given globalization, is impossible without close collaboration with international economic and financial organizations and with other countries, which are themselves moving closer together.

I would also like to say that the CIS has created a respectable international legal basis, especially in the area of economic cooperation, and I very much hope that this year the basis will be strengthened by a new free-trade agreement, which will replace the 1994 agreement. An important point about this new agreement is

that it was developed on the basis of World Trade Organization norms and regulations, it's filled in the gaps in the existing legal basis, and the trading policy toolbox was significantly enhanced. The evolution within the CIS echoes the spirit of the global trend towards the increasing role of integration structures; in the CIS we are also seeing a multilevel and multispeed integration. As you already know, several of the CIS countries which are ready for closer cooperation have created the Eurasian Economic Community, the Customs Union, and are currently working towards forming a common economic space. There is no doubt that the successful development of these organizations can attract other member states of the CIS into these structures.

The global financial and economic crisis has spurred the CIS countries to develop and agree on common measures for overcoming the negative consequences of this crisis. Only a couple of weeks ago, the Financial Ministers of the CIS countries met again in Kiev, a meeting which has yet again proved the importance of close financial cooperation between us. What is remarkable about this? At this meeting, the Russian initiative regarding the creation of a regional consultative group of the CIS countries at the Financial Stability Board was met with approval. The goals of this group will include deepening the relationships with the countries which are currently not part of this Board, in the interests of global financial stability.

The experience gained during 20 years of CIS development tells us that integration cooperation within the framework of the CIS is absolutely essential for its members. We are closely linked together and practical experience shows that it is much easier for us to solve economic problems together. On the other hand, events show the importance of the expansion and deepening of the relationship between the CIS countries with the EU countries and the Asia-Pacific Region countries, and with global economic and financial organizations. Experience also shows that participation in these global financial and economic organizations, and cooperation with them, is much easier for each of the CIS

countries when we work together, when our actions are coordinated and agreed on. I believe that our Forum presents an excellent opportunity to discuss the role and the place of the CIS countries in world economic development and to discuss new directions for international cooperation.

I genuinely would like to thank the Government of the Russian Federation, the Ministry of Economic Development and the organizers of this Forum for creating a venue for discussions about this very important topic, and also to express my confidence that round table discussions about CIS issues will become a tradition in future years at SPIEF. I would like to truly, deeply wish all participants of this round table success in their work. I hope the results of these discussions will be very useful for the Executive Committee of the CIS. Thank you for your time.

**S. Sinelnikov-Murylev:**

Sergey, thank for opening the discussion. I would like to pass the floor to Tatiana Valovaya. If the participants do not object, I would like to stick with the following format, to make sure that this is still a discussion—after every presentation, we will spend 2–3 minutes on the presented issue. If there will be other people who wish to make a presentation, they can do that in the end of the session, and if there any new questions, we will also answer them at the end. I hope that if everyone sticks with the schedule, we will still have time left. Ms Valovaya, go ahead.

**T. Valovaya:**

As Mr Lebedev rightly pointed out, this year the CIS is celebrating its 20th anniversary, and this is a good time to remember how it all began. Personally I found out about the collapse of the Soviet Union and the creation of the CIS in Maastricht. I was there December 8–10, 1991, as at the time I was working as one of our representatives at the European Union, and was sent to observe the work of the landmark Maastricht Summit, where the decision on the introduction

of the euro and on creation of the European Union was made. I will be honest with you—the coincidence and the polar extreme of what happened at Bialowieza forest and in Maastricht shook me so much that the first thing that came to my mind was a simple phrase, similar to the traditional saying of the French kings: "The Union is dead, long live the Union!"

The Soviet Union died, and the European Union was born. Now, 20 years later, we can draw some conclusions. In the last few years, the European Union has met some challenges. But it has fully fulfilled the task that was set for it at Maastricht, and on January 1, 2012, it will be celebrating the 10th anniversary of the introduction of the euro, even if in a muted atmosphere. At best, half of the tasks set in the Bialowieza forest have been completed: yes, the CIS has acted as an instrument of a civilized divorce, it has prevented a Balkan-style conflict in the ex-Soviet space, but it has also successfully failed in its declared function of reintegration of the former Soviet republics. Moreover, the agreements of the Bialowieza forest included a common economic space, a unified currency, and even shared control over the armed forces. Does anyone here remember this now? What I have said does not mean that I think negatively about the role of the CIS. In fact, I believe that is the most important systemic element of the ex-Soviet space, but it's not at all an integrated structure. To correctly assess its role and place, we need to take a small historical detour.

The history of post-Soviet integration is winding, complex, ambiguous and often very dramatic. We have attempted to describe it on this slide, which will be slowly loading. So, it's 1991, December. The USSR has collapsed and the CIS is created. The next day after the USSR collapsed, all of its former republics understood that in order to assert their sovereignty and independence, they would need each other's help. The beginning of the 1990s was marked by a wide range of initiatives to integrate: a 1993 agreement about the creation of an Economic Union; a 1994 free-trade zone agreement; a 1994 payments union agreement, and attempts to keep the rouble zone from shrinking like the

proverbial magic skin. Even in the mid-90s, it became obvious that not everyone was interested in integration, real integration, and that was when the multilevel structure began to form in the post-Soviet space. In 1995, the first agreement about a Customs Union between Russia, Belarus and Kazakhstan is signed, soon to be joined by Kyrgyzstan and Tajikistan. These agreements are mostly framework agreements. Nonetheless, a higher level of integration was created, a core group of some CIS countries was ready for more advanced forms of partnership. At this stage however, they did not understand that they would need to sacrifice their sovereignty in the name of integration. More precisely, not to sacrifice but to pass it—utterly voluntarily—to the supranational level. While even these comparatively advanced states have been living according to the principle ‘gain integration and keep sovereignty’, in 1999, five member states signed an agreement regarding the formation of a Customs Union and a Common Economic Space. That year Russia and Belarus signed an agreement on the Union State, aimed at creation of a full-fledged economic, monetary and political union. This is how another level of integration was born. In 2000, these five countries transformed themselves into the EurAsEC, and in the post-Soviet space, a triad of organizations was born: the CIS, EurAsEC and the Union State. Within the framework of these three organizations hundreds, even thousands of documents, a multitude of action plans have been approved, many institutional reforms have taken place, but despite the claims, there is still no real integration: nobody wants to go beyond a free-trade zone.

The breakthrough comes in 2003, when the project of the Common Economic Space is launched, uniting Russia, Ukraine, Belarus and Kazakhstan. It was obvious from the beginning that this undertaking does not have much chance of success, but all participants in this process—including myself—concentrated as a first priority on the conceptual and theoretical issues. We did not think of this as just international discussions, where we could swap compromises and horse-trade, but we worked to prepare a comprehensive working document which

could be realized in practice, subject of course to the political will. This was a really revolutionary document for the post-Soviet space. It provided for the creation of a supranational body which would take on a part of national powers and decision-making, taking into account the economic weight of the states. All these are universal truths as concerns integration, but this is the first time that they were accepted by the post-Soviet states. The agreement was signed and ratified in 2003, and even though Ukraine later pulled out, the three other members continued its realization.

I need to be honest with you: it's possible that this process of realization would still be continuing had the global financial crisis not intervened. In this respect, it was a very good thing: it stimulated integration, and in the last three years we did more in the area of integration than in the previous 17 years. The Customs Union of Russia, Belarus and Kazakhstan has been functioning since January 1, 2010. On July 1 of this year the single customs area will be formed and the last barriers on the Russian–Kazakhstani border will be removed. In this short timeframe, in just one year, a normative and legal basis for the Common Economic Space was prepared, and this space will start functioning on January 1, 2012.

All this work was performed in a very complex economic situation. It can even be said that, unlike in the European Union, which has usually moved to new stages only when the economic situation was positive, during periods of economic upturn—which earned a nickname of ‘fair weather community’—the CIS, and all organizations in the space, for now seem to be ‘bad weather communities’. When we are having a hard time, we look for help from our next-door neighbours, and the political will behind the integration process is revived. When the situation improves, we sometimes turn up our noses and start looking at other issues. This is why the post-Soviet integration has one very important task: it has to become a self-developing process, powered by an inner development dynamic which would not depend strongly on the economic situation.

For now, the material base for integration is quite shaky. You can see on this slide, which shows the general volume of trade between the CIS countries, that the mutual trade in 2010 was less than 22% of the total external trade of these countries. At the same time, in the European Union—next slide, please—the mutual trade in 2010 was over 63% of their total trade turnover. Nonetheless, since the Customs Union was created, this trend has improved, and I hope that the launch of the Common Economic Space on January 1, 2012 will make this process irreversible. The functioning of the Common Economic Space will unleash the integration process for economic players, and will create a motivation and, more importantly, the demand to go forward. This is one of the lessons of the European Union, their own project of the Common Economic Space, which they called the Internal Market—its realization 20 years ago has become the material base for taking European integration to the next level, for creation of an economic, monetary, political and economic union.

What can we expect from post-Soviet integration in the future? We can't avoid drawing parallels with the European Union. I believe that a functioning Common Economic Space will certainly create an incentive for further development towards an economic and monetary union. Obviously, if this process is successful, we will have to face the issue of expansion. A successful integration project is like a vacuum cleaner: it gets noticed by the neighbours, which is what happened in the European Union. By the way, again about drawing parallels with the EU: I think that if their current problems are due to the fast, sometimes reckless expansion and absorption into the euro zone of countries which were not always ready for it, then the problem of the post-Soviet space, as already said, lies rather in its excessive fragmentation. In the division between those who desire true integration and who are mostly ready for it; those who are interested in it, but due to economic reasons cannot join; and those who could join but don't want to, and who are happy to continue enjoying advanced economic partnership within something like a free-trade zone. Therefore, the

CIS has become a mosaic of various groupings. Whether this is good or bad, there are more parallels with the EU experience. Remember that the European federalists began in the late 1940s with the creation of an organization which did not become a real union, but eventually became the Council of Europe. Only after multiple attempts did they ratify the Treaty of Rome, the agreement about real integration.

So what's going to happen here? At the present day, as we can see from the slide, we have four levels of regional relationships, they were named earlier. Let's look into the future, perhaps the year 2020. The most probable scenario will be the merger of the three top levels into one, when by expanding the Customs Union with Kyrgyzstan and Tajikistan, who have already shown interest, the Customs Union and the Common Economic Space will merge with EurAsEC. The Union State between Russia and Belarus will become a part of this organization, more developed in some spheres, for example, in the foreign policy and military areas, but the economic relationship will remain the same. These three levels will form the Eurasian Union.

Therefore, there will be two levels of cooperation in our space: the CIS and the Eurasian Union. The CIS is a regional transnational grouping, which in the economic arena does not expand past the boundaries of the free-trade zone and the parts of the Common Economic Space, and therefore does not presuppose the creation of supranational organizations. However its members have close relationships in such areas as the humanities, education and culture, science and innovation, infrastructure and transport. This is the common denominator for cooperation that is acceptable to all post-Soviet countries: a very valuable grouping, a platform for dialogue at all levels of government, society and business. The second level, the Eurasian Union, is a supranational, truly integrated organization, which is slowly moving from the Common Economic Space to an economic and, even later, monetary union. This internal harmony and balance throughout the Eurasian space will allow us to better organize

economic ties throughout the continent. Even back in 2001, Russia made an agreement with the EU regarding the possible creation of a common economic space. We are working in that direction, however it's obvious that at the core of this organization would be not Russia, but the Customs Union (and in the future the Eurasian Union), which will be able to form a common economic space with the EU, the CIS, and, obviously, with APEC, under the very same economic principles. This will be the beginning of the formation of one large Europe, spreading from the Atlantic to the Pacific, or one wide Eurasia, spreading from Vladivostok to Lisbon. Thank you very much.

**S. Sinelnikov-Murylev:**

Ms Valovaya, thank you very much. Colleagues, we have a couple of minutes for questions. Ms Valovaya, I have one question. I like the picture that you painted very much but I'm just wondering about the possible timing or a roadmap? In the last part of your presentation, you said that by the year 2020, it may be possible to do something concrete in terms of creating the Eurasian Union which will grow out of the Common Economic Space. If this is going to happen, what steps will need to be taken? Can you talk a bit more about this?

**T. Valovaya:**

I like that picture very much as well, but of course it's not certain that this is what we'll see in nine years' time at SPIEF, however much I may hope for it. Which steps? I think that the first step is obvious: the Common Economic Space will be moving in the direction of a Eurasian Economic Union, and then towards a Eurasian Union. Our presidents have already decided this, they have stated this, and they are working in that direction. I think that a Eurasian Union with three participants may appear in the foreseeable future, perhaps in 2015 or 2016. By that time, I think, our partners from Kyrgyzstan and Tajikistan will be able to complete the necessary economic work, and join us in this undertaking. It will

remain, just like the union states, it will have its own peculiarities, but economically speaking, it will be virtually indistinguishable from what we already have in the Customs Union and the Common Economic Space. I think that the realistic timeframe is 2016–2018, up to 2020, of course assuming that integration will continue at the same rate as it has been going for the last three years.

**S. Sinelnikov-Murylev:**

Thank you very much.

**A. Rahr:**

I would like to ask a question about this very interesting presentation: what role will China play in this respect? I hear a lot about the alignment of the ex-Soviet space towards the EU, the West, but the numbers also say that the economic development and cooperation of the CIS countries with China and Asian countries is growing at a breathtaking rate. How will China take it if, for example, Central Asia shifts towards the Eurasian Union? This is a rhetorical question of course, but I think it's an interesting one.

**T. Valovaya:**

I think that we will hear the Chinese viewpoint tomorrow from the Chinese President. But I think that in the picture I imagine, China plays an important role. This is how we see it—we have the Common Economic Space, the economic and monetary union represented by the Eurasian Union, and a supranational organization: the Eurasian Union. Russia has been planning the creation of a Common Economic Space for a long time. And the Eurasian Union and the European Union will be creating a Common Economic Space. This Common Economic Space will include, if they so desire—and I think that they will—the CIS countries, because there will be no supranational bodies. After this, Russia

as a member of APEC, as a sovereign state firmly working along the lines of ASEAN, will be able to work towards a common economic space with China and with other countries in that region. And I think that, given goodwill, it is perfectly possible. I think that a similar process is in play today. There are too many players, too many pieces in the global economy. In the past, there were only a few players—at first one, then two, then seven, then eight, now it's the G20. But in reality even 20 is not enough, but you can't have 120 or 180 or all countries be players in the global economy. In other words, it needs to be built up as if with pieces: uniting into integrated groups that are linked together by economic principles that are identical globally. I think that this is a sensible framework.

**S. Sinelnikov-Murylev:**

Thank you, Ms Valovaya. Mr Spartak, did that answer your question? Then let's proceed to the next presentation by Andrei Spartak, Director of the Russian Market Research Institute and Head of Chair at the All-Russian Academy of Foreign Trade.

**A. Spartak:**

Colleagues, first I want to say that I'm very glad that this table is round. At this Forum there are square tables, but here we have a round one, and everyone knows that a circle is an ideal shape. I think that this is a good sign, a good beginning, we have something to work towards. Nonetheless, in this presentation I would like to raise a rather difficult, but an important question—what is the price of our integration, in particular for Russia? At this stage, we cannot afford not to ask these questions. Everyone understands that integration is not an end in itself, that every participant endeavours to gain certain benefits and advantages from participating in this process. It is also understood that these benefits and advantages are not always balanced amongst countries, and it's also obvious that they might not be obvious. Nonetheless, I would like you to

have a look at this slide, let's first talk about the advantages of integration, and our related problems. First, a number of advantages, the positive influences of deepened economic cooperation are already present, these are quite obvious. First of all, they consist of the fact that the CIS countries are already playing the part of large markets for each other's agricultural and manufacturing industries, the products that other countries are not interested in. In this respect we help each other, significantly help to keep each other's economies afloat, and assist in development of a whole range of important industries and manufacturing. Another advantage is the preservation and development of industrial partnership in a range of industries, including machine-building. An important advantage of our relationship is that we help each other in supplying resources which are in short supply, and for Russia this means manpower above all. Another important advantage of integration is that it gives everyone an opportunity to use the once-shared transport infrastructure.

But right now I would like to mention a few problems in respect to our integration. The first was already mentioned: at this stage we have not been able to overcome the shrinking material base for our integration, the positive aspects have only appeared recently, and we cannot say that at this stage they are stable. This is mainly demonstrated by the fact that since the year 2000, the share of mutual trade between the countries of the Customs Union and the CIS countries has been shrinking in comparison with the trade with other countries. There are clear reasons for this: our economies are growing slowly, but are modernizing and thus showing an increased demand for more technology, equipment, complex technical products, and consumer goods, which we cannot always supply to each other. But on the other hand, this is like a 'Road Narrows' sign, warning of decreased profit from partnership. The next question is an issue of the excessive expectations from the many countries of the CIS in respect to integration, and which come up at certain time periods. Mainly, this is related to

the expectation of additional bonuses and transfers from Russia as payment for integration, but Russia cannot always afford these payments.

There is another problem, which mainly affects Russia as the dominant economy in the CIS. Russia's interest in integration is long-term and strategic, but we cannot say that the long-term benefits from integration are predictable or guaranteed. This is an area of a certain risk, and after all, integration is a two-way street. Therefore, Russia, like any other CIS country, is searching for, and will continue to search for, ways to find tangible economic benefits from integration at the same time as pursuing long-term interests. They do exist, I am simplifying the situation somewhat, but there is another underlying problem, which is related to the most apparent type of support that Russia provides to the CIS countries, and accordingly, an obvious benefit of integration for CIS countries. Energy subsidies, and to a lesser extent financial donations—general-purpose loans—in the short term, and from Russia's viewpoint, create additional potential for development, and remove a range of social and economic problems for our partners. But at the same time, in the long term—we understand this, and the countries of the CIS have the right to think this too—this assistance can diminish the stimulus to grow; it slows technical progress, increases in labour productivity and increases in energy efficiency.

Now I would like to say just a few words about a topic that is often mentioned in the context of integration. That would be the question of the energy subsidies to CIS countries. Our expert assessment of the amount of the subsidies is about USD 70 billion since the year 2000. Mainly these subsidies went to Belarus and Ukraine, but it is important to understand for the assessment of the total balance of benefits and advantages of integration, that the supply of subsidized fossil fuels from Russia has enabled Belarus and Ukraine to increase their export of the related products, I mean refined petroleum products. According to our estimation, these too are substantial numbers: about USD 90 billion since the year 2000. It may have been for a short time, not forever, as we understand it,

but it must be said that the energy subsidies from Russia have increased the competitiveness of our partners' power-intensive industries, including their main export industries—such as the Ukrainian iron industry.

The next slide shows some quantitative assessments which could also be of interest. According to our calculations, the total income of the CIS countries from trade and economic partnership with Russia averages at about 20%, no, more than 20% of the total gross domestic product. This number is higher in Belarus, for obvious reasons: during the last five years overall this number was about 60%, in 2009–2010 it was on the order of 50%. Now let's have a look at—again, this is just for discussion, it's obvious that certain numbers are missing—let's have a look at Russia's balance of income and expenditures for integration. The first line shows our donations, let's say pure ones, which were about 1% of Russia's GDP since the year 2000, and 3.5% of the GDP of the CIS countries, on average, they are in the black. If we add to this the benefits from economic partnership, then for Russia the total balance for the last 10 years will be negative—a deficit of about USD 185 billion, which is about 2% of Russia's GDP, and 7% of the GDP of CIS member states. We have made certain assumptions here, excluding sales of energy resources, since these resources can be sold to anyone at any time. Just a note: average annual assistance from the 15 older members of the EU to the younger members has always been about 0.2% of the combined GDP of these 15 countries.

I think today we can discuss new approaches to reaching a more optimal balance of our integration, which would make this integration for Russia perhaps not quite less burdensome, but just more understandable economically speaking, without any additional explanations, more understandable for the populace as well. I would like to point out, and we have already spoken about this today, that we might be reaching a stage where we will see real advantages of integration. Sergey Glaziev of the Institute of Economic Forecasting of the Russian Academy of Sciences has completed the relevant calculations. We

have to, we must feel these advantages, which, according to the formula, form the mutual capitalization of advantages from our integration. Moreover, we may be ready for thinking about development and implementation of mechanisms which assist the development of this integration, and which have been tested elsewhere in the world, including in the European Union. I am talking about the specific targeted grants, which would be supplied through our national programme of assisting this integration, and targeted investment credits, which would be supplied directly by Russia or through the regional financial institutions. In this respect we could use the financial model of the International Bank for Reconstruction and Development, or other regional banks that deal with development, and the recipients of our investments could be projects that are useful for integration—projects oriented at export, earning foreign currency, or replacing imports. A recipient could be infrastructure that is being used for integration. Of course, in the foreseeable future, donations such as general-purpose loans, funds for stabilization and energy will continue to be provided, but we understand that the balance has to slowly shift towards more transparent and understandable forms of supporting this integration.

The next slide, this will be our last, shows new and modern drivers behind integration which are appearing now. Of course this is not all of them, I'll talk about just one. This is probably a good time to seriously think about the mechanisms for increasing the role of the Russian internal market as the generator of integration. Here's a number for you: at present, Russia's portion of imports among the countries of the Customs Union is only 30%. We all understand the reasons for this, but at the same time, the USA's portion of NAFTA imports—and that organization also has only three members—is 60%. We should think about programmes of import substitution within the framework of the Customs Union, and for the entire CIS, especially in terms of food imports—especially since at the moment that situation is quite favourable. I will finish with this and I would like to wish that, thanks to our combined efforts, the

accounting balance of the integration will be more transparent, comprehensible and that it will inspire all of us toward further integration and collaboration. Thank you.

**S. Sinelnikov-Murylev:**

Thank you, Mr Spartak. We have a minute or two, any questions? We welcome questions not only from the participants of the round table, but also from the audience. Go ahead.

**From the audience:**

Thank you very much. We are starting to get an impression that if the Soviet Union was united by one political idea, then the CIS is united by economic and trade interests. A question to all participants—do you think it's possible to have a political platform which will unite the CIS countries? And if so, what would it be?

**A. Spartak**

If I may say a couple of words. It's quite the opposite. We are concerned that currently the driver behind integration is the political will and the institutional mechanisms, and economics not very much at all. In other words, we expect that due to our combined efforts, we will be able to change it in such a way that our integration will be based on more mutually beneficial and mutually understandable economics, because at the moment it's mostly based on politics. So the situation is quite the opposite—that is my opinion, anyway.

**S. Sinelnikov-Murylev:**

Anyone else? Mr Glaziev, of course.

**S. Glaziev:**

I have a couple of questions for Mr Spartak about views on subsidies. I think that this is a very interesting topic, and then it seems to me that there are obvious double standards in a number of arguments. But most importantly, there is no link between what Russia donates in energy resources and what it receives through industrial cooperation. For example, Belarus receives cheap energy resources and uses them for increasing the competitiveness of its end products, a large part of whose cost comes from Russian components. And if Belarus, for example, increases its manufacture of tractors, then the supply of tractor parts from Russia increases. Even if some of these tractors are sold back to Russia, this is still advantageous for economic growth. Because of this, I think that if we're talking about the effect of donations, we need to look at it in a wider context of cross-industrial collaboration. Even the basic assessment of the cross-industrial balance shows that increased export of your raw materials slows down your economic growth. By doing this, a country shrinks its raw material base and prevents development of refining industries that create added value. Perhaps because of this, by expanding the export of raw materials, even subsidizing the economies of the CIS countries in your understanding—that is, by selling raw materials at less than global market prices—we expand the potential for diversification of our economy, and in the end, benefit from the growth in economic activity.

This is one aspect of this question, and another one I think is that when we talk about the donations within our Common Economic Space, we need to weigh the alternatives. For instance, if we sold this oil and gas to non-former Soviet countries, we would see a growth in foreign currency reserves, we could add some funds to our stabilization fund, we could purchase more American mortgage securities, and earn a little more interest. But at the same time, if we invest this money for example in our own development or in our own banking system, then we would receive about five times the interest than we would from the American mortgage securities. So it works out that we have provided funding

to the USA, because we are giving the money cheaper than we receive it back. And this is why we need to talk about funding in a wider context, and we don't really have a choice about that—something that looks like donations may in fact show itself as the most effective strategy.

**T. Valovaya:**

Mr Glaziev, I just want to say that I think that what Mr Spartak said was quite true. We are not saying that we do not like Russian funding as such. What we are saying is that funding or financial support for this integration has to be effective. Funding which leads to economic stagnation for ourselves or our partners is dangerous. We don't need any old sort of integration; we need integration that will make our countries modern, contemporary and efficient. If we just supply each other with cheap oil, gas, wood and so on, and try to create something in that space and sell it to each other—we will just be 'back in the USSR', which is something we do not need. This is what Mr Spartak was talking about, just with more emotion. We're not saying that for example the level of this funding, this financial support needs to be less—but we need normal, efficient things. If you look at the European Union, they do exactly this: they have a huge number of programmes, and they often argue about how this money is being used. But their financial assistance leads to economic growth and not stagnation. This is why, since we're thinking about it now, we need to find frameworks which will lead to further growth. And regarding energy subsidies... very well, we have agreed within the framework of the Common Economic Space that by 2015 we will have equal-netback internal prices for gas, that we will not have any export duties. What does this mean? Since Russia will have to share its natural resource rents with its partners in the Common Economic Space, this will induce us to have a normal internal economic policy. In other words this will be the right type of integration, which will modernize Russia. It

would be good to discuss this with Mr Spartak, since we have already discussed this topic with him a few times.

**S. Glaziev:**

I would just like to highlight my main point. If we take as the common denominator just the export of energy resources to the world market at global prices, then we will have a skewed picture, because there could be other criteria at play besides maximizing our foreign currency earnings from the export of hydrocarbons. We know about these criteria, they are very multidimensional.

**V. Muntiyan:**

Well, we had a clear question—we used to have the Soviet Union, now we have the CIS, politics and economics, which is more and which is less? I would like to say that in the CIS we have plenty of politics and economics, but what we don't have is ideology. I think that this is essential, because apart from being strong economically, we are strong in spirit. We need ideology. Ideology is a new way of seeing the world, we must create it! If we would have Danko, he would show us where we need to go, then we will have the capacity to make it into a reality. Otherwise, we will drown this discussion in our politics and economics. Thank you.

**S. Sinelnikov-Murylev:**

Thank you. Colleagues, we went outside of our format and started a serious discussion. This is not a bad thing but we do need to follow the time schedule. I would also like to say a few things myself. Mr Spartak mentioned a few numbers, but they are just an illustration. These are just separate numbers, we need to calculate total income and expenses. The so-called specific equilibrium is not enough. We need to see the bigger picture, we need to see the streams of migrants who are not only taking money out of Russia, as most people seem to

think, but who also create large added value here. This is of course a very difficult and big question, and that's why I suggest that we continue with our presentations. I give the floor to Mr Kairat Kelimbetov, the Kazakhstani Minister of Economic Affairs and Trade.

**K. Kelimbetov:**

Thank you very much. I have also prepared a presentation, but since the discussion has already begun, I would like to reflect a little about the issues which have already been voiced, and about the theme of my presentation. I believe that the most important question is the one that you voiced right in the beginning—do we have too many frameworks, and which do we actually need? History does not like 'what-ifs'. These frameworks already exist because of the events which took place 20 years ago, and I think that we do not have too many of them. Ms Valovaya said there will be some organizations, that perhaps some of them will merge, but in any case we need them. I think that today we are slightly idealizing this integration. It will not be as problem-free as we think. And I think that the framework of the CIS, however eclectic it may be from the point of view of its critics, it helps to pull together the entire space which used to be called the Soviet Union, and this has some truth in it. After all, the problems of the people who live in this space can only be resolved by these same people, and we convinced ourselves of that in the last 20 years.

My second comment is regarding excessive expectations. There is a saying that goes 'The best is the enemy of the good-enough', and I think that in Ms Valovaya's presentation, there is more of 'the best' rather than the 'good enough'. Today we have the Customs Union because of the great political will of the three participants; because if we did not have that, then of course it would've been very hard to sign so many documents and to achieve this integration. And then we begin to say, as it was already said here, 'let's pass a few more', and then we would have an entire queue of documents. Here I am in disagreement

with the earlier speakers, and I think the tone of that discussion can also be criticized. It comes out as if all of this integration is happening because of the energy resources in one country. This reminds me of 1994, but of course it's not the same at all. If you were participating in the negotiations, then you would know that the question of energy resources is a key one, and in regard to this question the positions of all three participants—Russia, Belarus and Kazakhstan—are clear and everything is well understood. And the relationship between Russia and Ukraine is quite clear as well. I think that these particular years have illustrated a famous saying that it's important to completely disagree at first, before finding some common ground. And here I think we are talking not just about someone's donations, and not that the Customs Union or the Common Economic Space will become charities. This is not so. By the way, 20 years ago we somewhat idealized the European Union, and today we can see that despite the strength of that organization, the sustainability of its development model raises some questions. Here we need to complete building what we have started. We have a very clear plan for 2011–2012, both for the Customs Union and the Common Economic Space. They will serve as an axis for future integration, as, for example, France and Germany serve as an axis for the European Union, and it could be said that their economies are propping up the prosperity of less well-off countries. First we'll need to construct and very clearly formalize everything, for example the coordination of economic policy. Today, we have already agreed on a unified, coordinated macroeconomic policy. So what is this? This is a solution to problems, overcoming differences in inflation and budget deficits, it's the implementation of a responsible macroeconomic policy. All countries can put their hand on their heart and say that they are implementing a responsible macroeconomic policy. Yes I think that they can implement it, but I don't think it's there. Even in the EU at present, they have problems when they begin discussing a unified fiscal policy, that is to say that even the EU is not ready for this. Do we really need to speed up or

dramatize the situation regarding this process? I believe that the integration that is happening in the CIS space today is happening according to best world practices, but in its way it is unique. We may have even more preconditions for this. What I meant to say is that we are not implementing this integration in a vacuum. There was a very good issue raised earlier which I think should be included in our discussion later on. The issue is that at the present day we find ourselves in a changed geopolitical and geo-economical situation: the EU is having problems, other developed economies are having problems, and the role of Asian, especially Chinese, economies is growing. Just yesterday there was a meeting in Astana between the Shanghai Co-operation Organization and the observing countries. But even the bilateral relations between Russia and China, Russia and Kazakhstan, Belarus and Kazakhstan, have a slightly different character. We need to understand how our alliance is going to specialize in relation to the European Union and, for example, in relation to our Asian neighbours. We cannot ignore this, we cannot bury our heads in the sand like ostriches, because the question here is not even about competition, but about the enormous advantages and possibilities that our position gives us. Today, we have world economy number two at our doorstep, but various economists are saying that in 10–20 years, this economy will be number one. And we need to understand how we going to develop in regard to raw materials, to energy resources. This gives us huge advantages, and together we need, on the level of the Customs Union, to discuss an appropriate situation and appropriate relationships with them. And one more comment regarding the CIS. The President of Kazakhstan has probably been the greatest and most consistent proponent of integration, from the very beginning. In 1994 he spoke at Moscow State University and expressed his idea regarding the creation of a Eurasian Union. All groupings that exist today are largely the result of the goodwill of Kazakhstan, Russia, Belarus, and other member countries. But in his presentation that day, he also spoke about multispeed integration. Integration

proceeds at different speeds due to various stages of economic preparation, different degrees of their reform, different speeds of economic development, different degrees of support from their product manufacturers. At the present day there are four members of the World Trade Organization among the CIS countries, and two countries are soon planning to become its members: Russia and Kazakhstan, but on different terms. This, in turn, creates certain difficulties during the creation of various trading alliances, including free-trade zones, which I believe is currently probably the most important goal for the CIS, in economic terms. I support the idea that the CIS could become a free-trade zone in the future, truly effective, truly working—not like it is today. At the moment it is a union of culture, education, transport, science and innovations—this is what unites our people. On one hand it's probably a bit wrong to hurry, to say, come on, let's go faster or slower. But on the other hand, we shouldn't really separate—this is our historical commonality, which in the future, as Ms Valovaya said, will have an economic basis. And in relation to this I would like to see us give proper respect to this huge achievement, this agreement between the three countries—Russia, Belarus and Kazakhstan—about the creation of the Customs Union. I believe that we should not take our example from the European Union, but from the Customs Union, which we have managed to achieve after so many hours of negotiations and compromises. Now we are entering a new stage in the development of the Customs Union. Right now it resembles a draft marriage contract, that is to say, the countries are discussing potential access to the markets. The next stage will be real joint integration projects. For example, the countries of that same European Union are united by Airbus, where the planes which we all use so often are being produced simultaneously in several countries. I think that similar projects or power bridges between Russia, Belarus and Kazakhstan will be happening soon as well. We need to work more in that direction, and I think we all need to do that simultaneously. Thank you.

**S. Sinelnikov-Murylev:**

Mr Kelimbetov, thank you very much.

**From the audience:**

May I ask a question? How do you feel about the timetable that Ms Valovaya mentioned in her presentation? Do you have any comments, how do you envisage the speed of integration? What should be done and what can be done about it?

**K. Kelimbetov:**

I think that Ms Valovaya's vision of 2020 is very romantic. I am presently a believer in a practical approach and in implementing the agreements which already exist between our heads of state. The Customs Union needs to work in all its incarnations, in 2011–2012 the economic space should be ready. Those are the documents that we have at this stage. Let's do this first, and then see what happens.

**T. Valovaya:**

My vision is romantic, because I am here as an expert, and not in my official capacity. Because of this I understand that the Minister cannot present his personal point of view, he has to speak from a more careful and pragmatic position. But I have always said that integration needs to develop very quickly, if it should ever develop. The Europeans have stated this very simply, it's like riding a bicycle: if you don't spin the pedals, you fall. If integration does not develop, you take a step back and everything collapses. Let me give you a definite example, in fact our own situation. We have a Customs Union, and from January 1, 2012 we will have the Common Economic Space. We have removed all barriers that block the movement of goods, services and so on. We cannot take any protective, special or any other measures. Right now, one of the

member states, the Republic of Belarus, is undergoing a massive devaluation. This of course increases the competitiveness of Belarusian goods. Naturally, we do not have the right to close our markets to them, and naturally our manufacturers—I don't know about yours—are beginning to shout, they are already shouting: we are scared of milk, we are scared of this, we are scared of that. Europe had gone through all of this in the 1970s, when their fixed rate system collapsed and they started dumping currency, started the so-called 'beggar-thy-neighbour' policy, and they eventually came to the European Monetary System. When I speak about the economic union and the possible monetary union, I don't mean an introduction of a single currency. What I'm saying is that we need a concerted macroeconomic policy, a real one, and that the documents we have now are just not enough. If we disagree, then we are obviously thinking about the same thing, partly romantically, partly pragmatically. However, if you are suggesting that we stop at the existing limits and then see what happens, then I'm afraid we are going to have a very difficult time in the future.

**K. Kelimbetov:**

Of course we are thinking in the same way, it's obvious from the 70 documents which have been ratified by our parliaments. It's probably too early to make comments about a monetary union, even the experts are not talking about it yet, but we do need to have a concerted macroeconomic policy. And when we are saying today that one of the member states of the Union is having problems, they are first and foremost problems of economic policy. It's the question of whether or not this or that government can allow itself a deficit in the budget, whether a government can allow itself particular macroeconomic stabilization indicators. By the way, the EU problems which you mentioned are currently very similar to ours, because some of the European countries believe that Greece is following a rather irresponsible macroeconomic policy. Today Belarus is having

difficulties, and it's receiving assistance specifically within the framework of the Customs Union and the anti-crisis fund. Will this support be enough? It's being given according to particular conditions, in the same way that the International Monetary Fund provides assistance. There need to be certain elements in the economic policy, including market access, including privatization programmes, which in some sense speed up integration. I think that in this respect we are on the same page, we understand that we are ready to be responsible not just for ourselves but for each other, and at the same time right now we rely on ourselves, but perhaps it will change in the future. The Union is being created not just to receive someone's support, but to find an energy together, that is to say that one plus one plus one has to be equal to more than just three, I think this is the point. Someone has voiced the thought that integration is not an end in itself—integration needs to increase the competitiveness of the Union overall, and of each separate member. So if we would think about that, then the questions of one member subsidizing another would disappear of their own accord. Another important point regarding the CIS: I wanted to say that we are also united by the issues of regional stability and security. After all we have the CSTO and the SCO, we live in a complex world, and it creates certain security and peace on our borders.

**S. Sinelnikov-Murylev:**

Thank you. Any other questions? Please, last one.

**From the audience:**

Thank you. I am at a disadvantage, I'm sitting behind the moderator's back, but no matter. First of all I would like to sincerely thank Mr Kelimbetov for his very accurate description of the situation, with which we in Belarus completely agree. I would strongly like to caution my colleagues against using the terminology of donations, and especially against describing mutual trade as donations.

Colleagues, give me just one example of any time when Gazprom or any other of the 200 Russian oil companies has sold gas or oil to anyone in the CIS at less than the market rate? They sell at higher than the market rates, I can give you examples, but less than that never happens these days! Gazprom has long-term contracts, and as soon as it signs a contract with anyone, one of the CIS countries, with some preferential conditions, the rest of the consumers come asking for the same discounts. So, I beg you—don't confuse anyone with your words about donations! I will give you another example. Our trade with Russia, between Belarus and Russia, is unbalanced. Russia has a surplus of about USD 10 billion per year, but we don't mention that in the last 20 years we have supported Russia to the tune of USD 100 billion! Colleagues, mutual trade is not a donation, as Mr Kelimbetov rightly said, it's a resource that will give us energy. One plus one plus one is equal to more than just three! Thank you.

**S. Sinelnikov-Murylev:**

Mr Kelimbetov, do you wish to make any comments? No? Then we will continue. Unfortunately, we can't have any more questions, but perhaps we will have time for more later. I give the floor to Mr Valery Muntiyan, Government Plenipotentiary for Cooperation with States-Participants of the CIS, EurAsEC and other Regional Groupings from the Cabinet of Ministers of Ukraine. Please go ahead.

**V. Muntiyan:**

Thank you. Ladies and gentlemen, participants of the Forum, I would like to welcome everyone present in the name of the government of Ukraine. I would like to take the opportunity to sincerely thank the organizers of this meeting, especially the Ministry of Economic Development and Trade of the Russian Federation, for inviting me to participate in this Forum. Since we have already begun the discussion, before I talk about Ukraine, I would like to say a few

words about how I see this issue. First would like to say that the CIS has proved that it is viable and will continue to be viable. The thoughts about how we are going to split something, what's better, what's worse, need to be ignored at least in this environment, that's obvious. The CIS exists, and thank goodness that we have managed to preserve that space, because we will still need to fight for it in the future, but that's ahead of us and it's a fight we need to prepare for. I will just mention a couple of documents. First: the leaders of the CIS countries have accepted the development strategy, our leaders already have a vision of the future. Second: Mr Lebedev mentioned the transnational programme of innovative collaboration, we can clearly see when and how we will construct an innovative development model, because as it has already been said many times, even integration needs a model, and we will build it.

Now let's talk about integration. According to the classic model, there are five stages. That's true, but I would like to say that today's researchers are looking at integration in a different way. Today's integration is not a cooperation, it's a restoration, replacement of a certain unity. In other words, it's a new wholeness. This says that we need to have a cohesive idea of our collaboration, and we need to do everything we can to see it only from that viewpoint. Such disciplines as global studies, geopolitics, geoeconomics and geofinance are showing that today geoeconomics are number one worldwide, and its main conclusion is that the Eurasian mainland is going to be the centre of economic development. This has already been proven. Second: the CIS needs to modernize and to become the nucleus—we don't need to join with anyone, and we don't need to go anywhere, only modernize and draw strategically correct conclusions. Russia or the Customs Union or whatever else is going to be that. Russia is Russia, and I would like for Russians to clearly understand that. We think of the Russian Federation as a great country, because according to all nine international criteria, it's the largest country in the world; it has military, nuclear and scientific potential. Russia is a great country which has a great mission, and it needs to

take on the third level—it needs to become the centre of strength on the European continent.

I would like to say just one more thing before talking about Ukraine. Ukraine, like other countries, needs to determine its economic niche, because a new narrative is being formed. If we have concluded—not us, but scientists—that in the 21st century the main driving forces are going to be two countries, Russia and China, what is there to think about? We need to form our policy around these centres. Moreover, I would like to say that new industrial chains are being built, and that we all need to participate in the processes today, we don't need to compete with each other. We do not need competition—that is true. Why? Because I think that it's the wrong path! Why do we need integration? Integration is a response to something, it's a process. What processes are happening today? We know of two processes—of globalization and regionalization. But there is a third process as well. That is chaos, today the events in East Africa and other Arab countries are showing that chaos is the last thing we need. The European Union is already involved, it's in chaos. Those who create it, those who hold the strings for controlling this chaos, and this will constantly change, there will always be instability. Why? Because they are fighting for resources! The world has run out of them. Without the CIS, in the modern day, when this vertical economy has cracked, I don't want to remember that Maastricht Treaty that someone was telling me about, I don't even know how we could follow the lead of the EU, that's just irresponsible! I just want to say that it's very good that we were not accepted into that zone, because there are developments, there are technologies which control it! It's quite the opposite, we need to get away from that drowning man, otherwise he will drag us under with him!

Now I would like to talk about Ukraine. Today we are looking at the five stages of integration: the first one is preservation of the existing situation, which to be honest, we find satisfactory, but only for now. Why? Because at the present day, our trade with the CIS makes up 40.4%, and with the EU it is 28.6%. We are not

happy with that breakdown, because 64% of that trade is machine-building, products with high added value. The trade of goods with the Russian Federation consists 55% of machine-building. But that's just for the present day, it won't be like that tomorrow. And we may lose our main manufacturing sectors, those niches will be taken! By whom? By the French, the Italians, the Chinese and others. We must not allow that to happen! As was already said and quite correctly, the CIS countries have already created the Customs Union and are intensively preparing for the creation of the Common Economic Space. Option number two is a new agreement, an agreement about a free-trade zone with the CIS countries. I would like to say honestly and openly that Ukraine finds that palatable. Why? Because we performed mathematical and economic modelling and we can see that this agreement about the free-trade zone will increase our total trade turnover with the CIS countries to 35%. A proposed option number three is creation of a free-trade zone between Ukraine and the Customs Union members. I think that this is only a partial solution and that it cannot be practically implemented, because the members of the Customs Union will not agree to it. And essentially, the government of Russian Federation made it very clear to us. Option number four is a sectoral Customs Union. Basically we take some sectors and create mutually beneficial relationships—energy, space, transport—although again I think that this option is not viable. Why? Because it's not viable even in theory, but in practice no one will agree to it, and that's why I'm making a report to the government that this option is being rejected. And the fifth option involves Ukraine joining the Customs Union, since as I said that tomorrow the whole narrative will change, and we will have a common economic community, the Common Economic Space. The calculations show that, if Ukraine joins the Customs Union, and then the EU, the free-trade zone, then we will have more preferences in that zone, and will be joining it not as a peripheral, but a key force, together with the countries of the Customs Union. I would like to

say that we have calculated this by industries, by costs, and all 37 main economic industries will benefit from this.

Now, another option, with the European Union. I would like to say that, for Ukraine, the EU is a strategic partner, that it is a strategic partner for the Russian Federation as well, because Russia's trade turnover with the EU is 51%, and Ukraine's is almost 30%, but how can we join it, what will we lose, what model should we use? At what speed, as someone else mentioned? The best option, I think, is through the Customs Union, through the Common Economic Space. It's obvious today that the EU is having a hard time, that the Maastricht Treaty of 1992, which Ms Valovaya mentioned earlier, is not being fulfilled by any member. But honestly, out of 27 countries only three conform to the main criteria, i.e. the budget deficit. 24 countries do not comply. The budget deficit has to be less than 3%, but at the present day the average budget deficit in the EU is at 6.4%, almost 2.5 times the allowable amount. I would like to say that according to the information for 2010, none of the CIS countries has a deficit that high. Ukraine's deficit is 5.6%, which is the highest out of all of us, the deficit in other countries is less. On the other hand, Ireland's deficit is 34.2%, can you imagine? That's 10 times the accepted norm! Second, government debt must be less than 60%. Why? Because this is the second criteria of the so-called economic convergence. Again the picture is the same: 14 out of 27 countries do not fulfil this criteria. Overall in the EU this number is 80%, in the euro zone 90%—those are the official statistics. The unemployment levels are 9.9%, when the economically safe critical level is 8–10%. That's another bad number. And what do you think now, how are they going to accept us, on what conditions, how can we crawl into this enormous pyramid scheme, just so that it can draw us in and drown us, when we need to run away from it!

The European Union, which today has the highest worldwide GDP, at USD 16.6 trillion, and turnover, at USD 24.3 trillion, cannot protect itself according to any criteria, it does not have the resources. They have barely scratched together

EUR 700 billion, Spain is next, they have only EUR 220 billion left, but how much will Spain alone need for one and a half years, for two years—how much? They need EUR 450 billion! What are the global gold and currency reserves? Two countries were mentioned today, we could also add France, the United Kingdom and Germany. Global gold and currency reserves are equal to USD 62.65 trillion, that's all. Russia, for example has USD 535 billion, but its foreign debt is even greater! The official total governmental debt of the European Union is EUR 13.7 trillion.

Now let's look at another country, the USA. They take second place by GDP, USD 14.75 trillion. What is their debt? 150% greater than their GDP! And what can they do for our country or any other? What resources do they have? Currency printing! This resource is already subject to inflation, I don't think it can be relied on today. Moreover, their official unemployment level is 9.1%, and the unofficial level is 16.4%. Can you imagine statistics like that? Again, we don't have that in any of the countries!

And the third question — I mentioned NATO as an example of integration. Someone here raised the question of security. Today, that's very important—we must know how to protect our vital space. In a situation where the USA budget deficit was 13.4% of the GDP in 2009, by 2011 only military expenditures were increased up to USD 811 billion. Ms Valovaya, this is just an example, make a note: that's 64% of global military expenditures!

Now about our resources. Our resources are not virtual, they are universal, and in regard to my country, Ukraine, I'm sorry but I'm convinced that food is the main weapon! This is the most important strategic resource in the 21st century. And in regard to energy, gas, let's not argue about this, I am in agreement with my colleague from Belarus, he was right to say that it's not very nice. Why? Because if we are going to argue among ourselves, it will end badly. It will lead to new trade wars. Let's just answer a question, how did we lose, without being

asked, USD 2.2 trillion in the first 10 years? We lost 50% of our GDP! We need to look at this, we need to protect our vitally important space.

The main conclusion which I would like to make, summarizing what I already said, is that Russia is a great country according to all nine criteria, but together with Ukraine and other countries, it's a whole civilization, we are organizing together. Unlike China, Europe and Asia, Russia alone unites two civilizations, and we can create a new model, which is currently being developed by the Ukrainian scientists, which is called a noospheric model of economics, because integration needs to have a goal, a purpose. Therefore, I think that the CIS has a future. Today our countries have a unique mission, and Russia also needs to take on that burden. I'm sorry, but it's the nucleus around which the electrons need to rotate! We are ready to work together, to do everything we can, to make it viable, to make sure that it survives, develops and prospers. Thank you for your attention.

**S. Sinelnikov-Murylev:**

Mr Muntiyar, thank you very much. Two questions, please.

**From the audience:**

Thank you. I would like to continue on the topic that Mr Muntiyar raised in his first presentation—the issue of ideology. Ideology is the reason why we are here today. Ideology always implies allies and opponents, and I would like to talk about the opponents. Mr Glaziev and I recently organized a round table in Kiev, the main topic of which was the Customs Union, and we saw that one of the opponents was someone who was paid by someone else. I think that one of our opponents is the corruption within the Customs Union, and that's why it may be advisable to create a joint anti-corruption committee for CIS territory. I think this would greatly help us to implement our plans. Ukrainian representative, I am talking about the Customs Union. Thank you.

**V. Muntiyan:**

Thank you. Was this a question or a comment?

**S. Sinelnikov-Murylev:**

Does Mr Muntiyan need to answer this? It was a comment. Mr Glaziev, please.

**S. Glaziev:**

The Customs Union is our medicine against corruption, because all decisions are made under the observation of three governments. You see, it's much harder to contrive something there, everyone controls and keeps each other in check, that's why it's much easier to get rid of the corruption when we work together.

**S. Sinelnikov-Murylev:**

Let's move on to the next question. I give the floor to Mr Tashbaev, the Minister for Economic Regulation of the Kyrgyz Republic.

**U. Tashbaev:**

Ladies and gentlemen and participants of the round table. First, from the Ministry of Economic Affairs of the Kyrgyz Republic and from myself personally, I would like to greet all participants of today's discussion, all respected and well-known representatives of governmental, social and international structures, and also of the business community, who are participating today in this large-scale and extremely important and timely enterprise. The interest in participating in this Forum is proved not only by its increasing status around the world, but as today's discussion has shown, a growing importance of the exchange of opinions and comparison of approaches to trends in global economic development. I'm very glad to meet my colleagues, whom I know personally and

whose work I have read. I highly regard the publications of the leading economists and public figures who are present in this room. It's hard to be one of the last people to make a presentation, because the points that you have prepared have generally already been voiced. On the other hand, it makes me glad because it shows a unity in perspective, a unity in the agenda which is being discussed in other governments, and before making a presentation one can relate the thrust of one's ideas with the ideas of the rest of humanity—well, at least in our CIS.

There are however some issues on which I would like to present my point of view. At present, we are discussing the global economic system, and in this respect Mr Muntiyani and I are probably of one mind. Let's admit it: the world economy has become unprincipled, speculative and amoral. The economy has become truly unjust, in the entire world. This fact has to be acknowledged. The numbers that Mr Muntiyani mentioned yet again confirm that, despite our different integration processes and despite the European Union, all governments and in particular the Kyrgyz Republic—which for the last 20 years has been declaring an open-door policy—have been searching for real, actual allies, under constantly shifting conditions. And now, when I talk about the CIS as a space for real integration, as a structure—although I don't know how this is going to look later, where it is all going—the integration of the CIS will become a real integrating force only if it is based on ideology, as Mr Muntiyani has already pointed out. I will go further: if it is based on the idea of God. For the entire 70 years of the Soviet Union's existence, we talked about a moral and ethical economy, we disguise that idea with these words. Only if every member sees itself in the context of that idea, with that way of seeing the world—you can call it ideology if you like—then we will be able to work and collaborate together in that space, on the understanding of these principles, only then will the real integration begin. Otherwise, it'll be just a short sprint. One of the suras in the Koran is entitled 'The Hypocrites', and we must not turn into hypocrites

ourselves. We cannot say one thing, then make agreements about something else and so on and so forth.

Now let's talk about some practical issues in the context of Kyrgyzstan. When will the CIS become the force which will give the push to tighten integration, when will Kyrgyzstan feel comfortable and actively participate in this integration? Firstly, the CIS has to provide all necessary infrastructure which will extinguish any desire on the part of CIS members to participate in other integration groupings. The Minister of Economic Affairs of Kazakhstan said that it is too early to talk about a monetary union. I think that it is actually a very timely issue, and we need to discuss not just the creation of a common monetary zone, but the creation of a reserve currency in the CIS space, as an alternative to the dollar and the euro. The Central Banks of Russia, Kazakhstan and Kyrgyzstan will become branches of a federal reserve system, and the trading relationships will become closer.

Let me cite a few numbers. Kyrgyzstan's exports are divided into two equal parts. 50% of exports go to Belarus, Kazakhstan and Russia; the other 50% are countries outside of the CIS—rather, they are other countries of the CIS and, say, other WTO countries. About 70% of these are exported, 17 tonnes of gold are shipped to London or Switzerland, and that's where the trade stops. The other 30% are imported. If we have trade relationships with the Customs Union, the Union will need a different currency. So at the present time, we first need to think about a reserve currency, about common valuations and so on. Of course the approach has to be fair, as ordained by God. No one of the countries should take on the role of the currency issuer. As soon as anyone would try to do this, everything will collapse, since everyone will understand that someone is playing some unfair games. We need to think about how we can seal our trading and economic relationships by creating this reserve currency—and I don't mean far off. In the future we can look forward to a real integration of currency, perhaps in the distant future we will share the same currency. But perhaps we can have

some alternatives? I read the book by Mr Glaziev, he suggested an idea of creating an energy rouble. This toolbox does not exist yet, but in any case we need to think about this. This reserve currency could first protect us from the currency chaos, from derivatives, it can become a tool of stabilization, and even the catalyst of integration processes in the CIS.

Second, perhaps this is an issue that only touches Kyrgyzstan, but perhaps also Tajikistan—I do not know, is there anyone here from Tajikistan? In the CIS space, the day-to-day issues have to be resolved by the CIS itself, the issues which Kyrgyzstan resolves with the help of other global financial institutions or other organizations. Can the CIS can provide all this infrastructure? I'm talking about two things. First, the government of Kyrgyzstan regularly faces a deficit in the budget. Where do we go for money? We say, let's ask the anti-crisis fund, ask money from them as a member country, and this is how we are going to do it. If they don't help, where else do we go? We go to the International Monetary Fund, we go to the World Bank. In other words, we need to create powerful financial structures at the CIS and strengthen them in such a way, that if some country, for instance Kyrgyzstan, is to take out a loan, then the CIS will be able to provide what right now is being provided by others.

Third is construction, of course. It's financing of the government investment programmes, which at the moment are linked with the requirements of the World Bank, of the Asian Development Bank and so on. There may be some sense in beginning work on making the CIS the initiator for nominating an executive director from this group of countries. This will allow us to create a policy of recruiting contractors in such a way that the contracts would go to enterprises located in the CIS. There are of course the common GOSTs, common state standards, which are preventing us from winning World Bank contracts and so on. We receive credit from the World Bank, from the Asian Development Bank, we are working with Belgian builders, Dutch builders, we are financing the GDP of these countries, we need to resolve these issues as well.

And the last point is creation of a unified system of a private-public partnership model in the CIS. This is the unified approach which I presented at the Economic Council. The approach which we are presenting now is based on the Western model, taking into account our Soviet past, taking into account that the private sector is not prepared to pay for infrastructure. We need to build our own model in partnership with the Bank for Foreign Economic Activity of Russia, which is currently the leader in this area in the CIS. And the pedals of our bicycle will continue to spin only if we achieve these conditions, they will spin faster from the Kyrgyzstani end and, I think, from the end of other member states of the CIS. Thank you very much, and I apologize for exceeding my time.

**S. Sinelnikov-Murylev:**

Thank you very much, any questions?

**T. Valovaya:**

Thank you for a very interesting presentation, I have just one question about the reserve currency. The reserve currency needs to have an issuer, I'm completely in agreement that it's pointless to talk about some supranational currency at this stage, about creation of a currency in the likeness of the euro, for three or even five countries. It's quite pointless, taking into account the structure of our organization. As someone has to issue a reserve currency, it would have to be the currency of one of our countries. But at the same time you are saying that none of the countries should be the issuer. How would you resolve this conflict?

**U. Tashbaev:**

At this stage I do not have a definite solution, but we do have the option of the Commission of the Customs Union. I don't know how to fit this in, it doesn't have to be the Commission, it could be another body, but currency needs to be treated with respect and care. If the currency-issuing centre is moved, the other

countries will feel it, everyone will quickly start printing their own currency, and that country will be left alone with its currency. We need to think about this together. Just last week, I was at the World Islamic Economic Forum in Astana, and I heard the following statistic: where 1,400–1,500 years ago a chicken used to cost one silver dinar, today it still costs one silver dinar. In other words, the silver equivalent has remained the same for 1,400 years. We need to think about some other equivalents. Well, we can't hold on to half of our foreign currency and gold reserves in euros and dollars—this is the constant burden of external debt which Mr Muntiyan was talking about. The inflation which is happening in the context of free-floating currencies, when we begin to cut into our own cash reserves of somoni—that's a problem. Perhaps I was wrong to digress, but I would like to point out for now that this is important.

**T. Valovaya:**

The issue is simple—the Russian rouble is a logical reserve currency for the post-Soviet space, especially since Mr Muntiyan has mentioned some very impressive figures. And in theory, this is a perfectly normal project, because for example in the European Union countries—before our integration, I worked on the currency integration of the European Union—they used to have reserve currencies. In the last years before the introduction of the Euro, there was basically one reserve currency—the Deutsche Mark. The euro was spurred on by a situation where there was a single currency, but it was issued by only one country and the others cannot influence its economic policy. That was a very complex balance. But for the 1970s, for example, even the beginning of the 1980s, this was quite a positive situation. But is Kyrgyzstan ready, for example, to see the Russian rouble as a unit of payment, as the reserve currency, with its natural status?

**V. Muntiyan:**

Ukraine can answer for the CIS. I completely support my colleague, because regardless of what customs unions, common economic spaces, or currency unions we might create, if we do not create what my colleague is talking about, we will be working for the Americans and the European Union. Moreover, unlike the dollar, the euro is not a true currency according to all criteria. For us to survive today, the rouble must be made both the settlement currency and the reserve currency. The means already exist, and we need to implement them. I think that this will all whirr up quite soon, perhaps by the end of the year. Theoretically, I also completely support him in respect to currency printing—the tools and mechanisms are being developed, they exist and they have to be immediately implemented. Thank you.

**U. Tashbaev:**

I would only add one thing—it doesn't matter if it will be rouble, the Kazakhstani tenge, or the Kyrgyzstani somoni—we need to understand that we need an alternative currency. Even if it will be the rouble, we will need to change its backing, and the backing of our currencies. I don't know if it will be gold, that's in the past. We could introduce an alternative currency in the CIS which will slowly grow in status. I don't think we will be able to introduce the rouble, tenge, or somoni just like that. We need to think about this and that's what I encourage you to do.

**S. Glaziev:**

I would like to say just one thing about this, since someone mentioned me. Ms Valovaya, I think that the main problem for the rouble is hidden in the internal policy of our Russian Central Bank. This is quite outside of our topic for today, but overall, the problem is Russian monetary policy. Even today Belarus is already using the rouble as a reserve currency. If we switch to trading energy

resources in roubles, we should have made the anti-crisis fund in roubles, not in dollars. Why is it in dollars, that's what I don't understand? And so on.

**S. Sinelnikov-Murylev:**

Thank you colleagues, let's continue. Mr Alexander Rahr, Director of the Berthold Beitz Center for Russia, Ukraine, Belarus and Central Asia at the German Foreign Policy Committee.

**A. Rahr:**

Thank you for inviting me. I have just received a very interesting book from Mr Glaziev, called *Lessons of Yet Another Russian Revolution*, in other words the revolution here is just beginning, and then an interesting subheading: *The Failure of the Liberal Utopia*. Many say that the liberal model has come to a complete dead-end, and that we are looking for new directions through a revolution, and that there is a chance for an economic miracle, which as I understand, could happen here. It's a very interesting book, and I think it's very timely, and I look forward to reading it soon. It's very interesting to hold a discussion in this atmosphere, and it's great that these books are published. I am guessing that you invited me not to praise the European Union, but to talk about certain problems which exist between us. I will try to be very succinct.

First, it's true that there is a certain rivalry between the West and Russia in a political sense, not economic, and that for the last 20 years this rivalry in the post-Soviet space between the EU and NATO on one hand, and Russia on the other, has formed an element of the Euro-Atlantic architecture. Speaking frankly, the West is against the renewal of excessively strong Russian influence in the post-Soviet space. And this is why the West says to Ukraine and other post-Soviet countries, the CIS countries: "Come to us, come even if you will need to wait for a little longer, but this union with Russia in the Customs Union is against the norms of the WTO and the norms which we are currently building in Europe."

I think that, generally speaking, in the long term the EU sees almost all post-Soviet independent states as members of the European family. The doors into the EU and NATO are open, but I'd like to emphasize that this will happen in the very, very far future. Today it seems quite unrealistic, because the financial crisis has restricted expansion. All of this needs to be emphasized.

Now, about collaboration—I think that, as other speakers have pointed out, collaboration is possible within the framework of creating a free economic zone between the West, or the EU, and the CIS countries, or through various EU associate member statuses which will be granted to various CIS countries. However, this is not membership. I think that, from a Western point of view, this collaboration will be successful when all CIS countries join the World Trade Organization. And then of course, the EU has various tools, so-called strategies—Northern vector, Eastern neighbours, the Central Asian direction—which will construct various roadmaps and types of collaboration. I don't think we have spoken about what is behind these. But I think that the main stumbling block in our collaboration comes from attempts by the EU to impose their values, their democratic ideals, this liberal model or utopia, on the post-Soviet space. In the Western understanding, Europe does not have any alternatives right now.

However, I see this quite critically. The main goal of the EU is the expansion and creation of Europe all the way to Vladivostok, but under the flag of liberal and democratic values. We can see how well this works out in North Africa, where earlier this year we saw certain movements and turbulence. The EU is currently switching temporarily to that region. We are yet to see how well they deal with that region and with Eastern Europe. I think that right now, if we talk about the CIS space, we need to talk about a certain neighbourliness which is possible between the EU and Russia. The French have a good word—cohabitation, not coexistence, as the English and Americans call it. It means that everyone can live on one continent and arrange their lives together. Of course, to live together, we need to learn how to cooperate in the economic sense.

Another speaker has already raised the issues of security, I just want to remind you that there are aggravations in the form of frozen territorial disputes. I will be frank with you: the conflicts in Abkhazia and South Ossetia were resolved. By force, but they were resolved. Right now we all can see many attempts to jointly resolve the Nagorno-Karabakh and Transnistria conflicts. Our good neighbourly relations will also depend on whether we are able to resolve these conflicts together. Of course, Belarus always shows up as the problem country, which the EU wants to somehow 'work on' together with Russia and the other CIS countries, because from the point of view of the EU, the lack of democratic development in that country is irritating. Because of this rivalry, which I keep on coming back to and which simply needs to be mentioned as an existing condition, we have regretfully been unable to make the energy alliance which Putin presented at the Bundestag in 2001, a fortnight after 9/11. The energy alliance would have really strengthened the energy security of Russia and Europe, bringing advantages to Russia, the CIS countries and the EU, but unfortunately it did not work out. There were some big complications. It did not work out because of the Common Economic Space and the rivalry. In two months' time, we will all be remembering the 50-year anniversary of the construction of the Berlin Wall. I think that it's reasonable to say today that we are still dealing with some vestiges of those times, that there are still visas and barriers in the East, that these barriers are much stronger than in the relationships with North Africa, Latin America or the USA.

So what is our outlook? Again, I repeat, it would be interesting to play with the term 'cohabitation' in the European Union, or the Eurasian Union, however it will be called. Perhaps, in the framework of the Customs Union and the Common Economic Space, a certain 'Eastern European Union' may be created, if it follows your instructions and recommendations. I think that it's an interesting model. Someone here mentioned the German–French collaboration, which was the main driver for the European processes. That's a very interesting idea, and I

think we need to think about it. Psychologically, it's very important that the reunification processes in the post-Soviet space come not from just one player, from a single actor. It needs to be created similarly to a German–French engine, Russian–Kazakhstani or Russian–Ukrainian engine, or perhaps a trilateral engine. Then this aggravation in the eyes of the West will disappear, i.e. Russia's desire to create another empire in the post-Soviet space by some trickery, which by the way, is far from the real situation.

Last, I think that we need to think about how we are going to work—perhaps, within the framework of creating a European free-trade zone. After all, we do have the European Free Trade Association in the West, which today includes Switzerland and Norway. They are successfully collaborating with the European Union. I think that within the framework of this European Free Trade Association we will be able to build a free economic zone spreading from Lisbon to Vladivostok. Some countries within that zone, such as Russia and Ukraine, would receive a certain associate status with the EU, and then work with the European Union and Brussels with the same rights and opportunities which Switzerland and Norway are currently enjoying. This will of course remove the visa regime and create many other opportunities. For now, this is a theoretical issue, but this is the direction in which it is all moving. It's not that hard to create all of this in the next 15 years. And here we need to talk about what we can give each other. This isn't just my idea, right now everyone is talking about the de-industrialization in the European Union, we want to live very comfortably: create golf courses and a green economy, get rid of heavy industry. Russia won't have it either, but Russia and the CIS countries in the post-Soviet space are currently undergoing re-industrialization. I think that in the economic sense, we would be able to really help and assist each other in this area.

The security question I hope will be raised in 2012, after NATO withdraws its troops from Afghanistan. Perhaps this is not really our topic, but I would like to bring your attention to the questions of security on Russia's southern borders.

Nobody knows what will happen with Afghanistan. I really hope that this year NATO will sign an agreement with the SCO, which will of course strengthen the CIS space, make it legitimate in terms of security, which unfortunately at the moment does not exist because NATO countries do not recognize CSTO.

And the last issue is the question of China, I have already mentioned it. When we talk about our outlook, in the framework of an enlarged Europe, we must not forget the fact that the CIS borders a new superpower, which has its own interests, which will have its own political and economic levers, and strong influence. What sometimes helps in cooperation between the CIS countries and China is that in this relationship, there is no issue of values. China is not waving the nightstick of democracy over the CIS countries, it does not declare that it will only collaborate when you adopt democratic norms and liberal values. There is a very pragmatic partnership there, it's another interesting topic for discussion. Thank you.

**S. Sinelnikov-Murylev:**

Thank you. Mr Glaziev has a question.

**S. Glaziev:**

I have a comment about the European tendency to rebuild our space on the basis of democratic and liberal principles. First, I think that we need to separate these two ideas, they are not synonyms. And secondly, as we can see from the Ukrainian example of what really happens, we see double standards. The European Union wants for Ukraine to remove all barriers, but does not wish to do the same itself. And I think, this tendency is not about integration of the liberal model, but in making this a one-sided liberal model, i.e. European roots would be supplied to us without barriers, but our goods will be restricted. Everything that's been pushed onto Ukraine today is an asymmetrical and unfair free-trade zone that is clearly discriminatory. And we can see the same in their relationship

with our Customs Union. We are constantly accommodating the European Union in regard to their fire safety and sanitary requirements, but at the same time we think that their veterinary control system is much worse than ours. We still accommodate them. But they don't do the same for us. So, here we are talking not about the integration of these values and models, but about using them in the interests of one's own trading and economic expansion. Perhaps we are seen as a kind of colonial space, which needs to be stripped of its protective measures by any means or methods and left free for their own use. That's how I would put it.

**A. Rahr:**

I would still say that at the present time, Ukraine has some opportunities to make an agreement with the European Union. As I understand it, the European Union is making big compromises in the agricultural area, and the only remaining stumbling block is the question of transport. There are some problems in the transit area. But Mr Glaziev, we understand that in the West the liberal model is almost a religious ideal, and that it is all much more serious there, there are no tricky games. Those people are convinced that they can rule the world based on this model. For example, look at what is happening in North Africa—we see it very differently than you do. The general point of view is that democracy, which was almost dead and buried as a utopia after 9/11 and during the financial crisis, can rule again. We believe that the Ukrainian elite are the most freethinking in the entire post-Soviet space, and they will be able to absorb these values and enter Europe quickly. This is serious, I don't think there are any tricks in that.

**S. Glaziev:**

Well, perhaps the intellectuals believe that and the politicians. Ms Valovaya, for example, a participant of many negotiations, can confirm that we do not meet so many lovers of the ultraliberal model among the European Commissioners.

**T. Valovaya:**

I will go on. I have a question for Mr Rahr, which is related among other things to the European Commissioners. You said that the West is against Russia regaining its influence over the post-Soviet space. We, of course understand that, and we can perceive that. It's nothing new. But at the present day, how do you think the West views our integration? Is it ready to accept the integration that we are creating within the framework of the Customs Union and the Common Economic Space? Taking into account that we are building this integration along the lines of the EU—democracy in politics, a market in economics—it's not some other integration. Why am I asking this question? At the end of the 1980s and the beginning of the 1990s, the European Union had a very positive opinion of post-Soviet integration. When Jacques Delors, then the chairman of the European Commission—I believe that he was a brilliant chairman, that this was really a man who unified Europe, and that one day he will be remembered for that—when he came to the Soviet Union for the first time, he especially asked for a meeting with the Soviet Cabinet of Ministers, with one simple goal: he wanted to convince them to prevent the economic ruin of the Soviet Union. His message was this: do whatever you like in the politics, independent countries, sovereignty—it's all great, but don't touch the common currency and the Common Economic Space. We will be fighting for this at great cost in Maastricht, but you already have it, don't ruin it! And even at the time I could feel that in my work, it was a very positive message, and many documents that I have mentioned from 1993 were written with the help of the Europeans, they were assisting us. And then everything changed. What was the reason for that? Was it because the bureaucrats have come to power, people who do not have this vision, or are there deeper reasons?

**A. Rahr:**

In short, yes. My personal impression is that until 2002, 2003, 2004 the European Union was united, and then after the expansion—I won't name the countries which have joined, the former Warsaw Pact countries—the EU has changed, and these new members have strongly influenced the Union. The Orange Revolution in Ukraine, I think, was the main reason why the EU interests and Russia's interests have conflicted in the same space, and I think that's when the problems started.

**S. Sinelnikov-Murylev:**

Very quickly, we are running out of time. The next presentation is by Mr Tair Nasurov, the General Secretary of EurAsEC. Go ahead.

**T. Nasurov:**

This is such a lively discussion... Mr Rahr was saying that Ukraine is the most free and liberated country. I think if my friend Mr Muntiyar had participated in a forum in Kiev, he would have been more cautious in his assessments. We participated in three forums together, I remember we were there with Mr Primakov, and Mr Muntiyar said then that we need to adapt many issues for the West. I said to him—and what about Russia, your main economic partner and so on? And that's why, remembering our meeting in Yalta, like our meeting in Kiev, I think that the contemporary post-Soviet space is free and democratic, because you see it all from a completely different perspective. You understand tact, we are surrounded here by the economic elite, the brains, the people who are involved in the real integration. Nobody here reacted to your assessments, because the people are tactful, and they know that you are saying these things because you have to. But in reality, if we had not had Kosovo, we would not have had problems in Abkhazia and South Ossetia. So the problems which affect wider politics remain beyond our scope. The traditional literature says that economics and politics influence each other, and enable the development of the

state and society. Today we are looking at the issues and directions of global integration. Of course, as Mr Spartak said, our expectations are excessive. But before 2009 we did not have excessive expectations! We had conservative forecasts.

I can tell you one thing, that when the Customs Union was being formed in 2007, then the heads of state accepted an action plan and began active work throughout 2007 and 2008. On June 9, 2009, the heads of government agreed that these three states will begin joint negotiations on joining the World Trade Organization, and announced that the Customs Union will begin to operate as of January 1, 2010. The next day, Mr Glaziev and myself met with Mark Frank, representative of the European Council, and he questioned us for 40 minutes—is this really going to happen from the first of January? It can't happen! Maybe it's not ready yet! Maybe someone will withdraw their agreement! Well, it just can't happen! How?! We've been expecting that it will be a long process for you, perhaps three, four, five, six years. We spent a long time explaining it to him. It turned out that the European representatives were always told that this process is just 'in the works'. All of this continued until June 9, 2009, when Prime Minister Putin announced at the press conference, representing all prime ministers, that the Customs Union will start come January 2010! And it was very surprising—while we were peacefully and quietly working to the schedule, the Customs Union suddenly was brought to life. But then it only took us a year to formulate the legal base and the agreements for the Common Economic Space.

Of course here we are following in the steps of European integration. European integration is a long and hard road, we know that even though the Common European Act was signed in 1986, they still needed six years to approve 279 measures which led to the full-fledged creation of the common internal market. It won't be easy for us either. Come January 1, 2012, all 17 of our agreements will be ratified, which will only be the beginning of the Common Economic Space. We will need to ratify another 55 documents before 2015 for full-scale functioning.

Moreover, we have almost completed all work related to the Customs Union. All we have left is to move the Kazakhstani–Russian customs to the external borders on July 1. Then we will have common customs and a common customs code, and we already have one and a half years of experience working together. During these five years, the Common Economic Space will require a huge amount of work, especially from the governments. The regulations which were created as the governments' obligations will have to be carried out by the governments of all countries. This is going to be our hardest task. For example, from January 2013, we will all have to comply with the approved values. Mr Muntiyan said that 24 of the EU countries do not comply with the established macroeconomic parameters. But starting from 2013, we will be obliged to comply with them. On January 1, 2014 we are introducing national treatment for all countries for state procurement systems.

If we talk about the railroads, then currently all manufacturers are suffering from three separate tariffs in each country: the internal tariffs, export tariffs and import tariffs. However, starting from January 1, 2013, each of the countries has agreed to introduce a common tariff. By 2015, we will be providing full access to railroad service in each country. This will affect special manufacturers, those who transport ore, those supplying heavy metallurgy and so on. This is a big deal. As I mentioned before, approval of all descriptions, and performance by the governments of their obligations, will enable the Common Economic Space to fully function from January 1, 2016. By that time, we will formulate the conditions for creating a Eurasian Economic Union. But as Ms Valovaya has rightly pointed out, Kyrgyzstan has already applied, and Tajikistan is studying this issue. If these two countries are able to join the Customs Union and the Common Economic Space before 2016, then they will become fully-fledged members of the Customs Union and the Common Economic Space. Then the transformation of the Eurasian Economic Community into a Union will be implicit.

Today we heard my colleagues from Kyrgyzstan and Ukraine. I think that these countries wish to look at distant horizons. We are now talking about the currency. In our current anti-crisis programme which Alexey Kudrin is always presenting for the Ministry of Finance, one of the clauses speaks about ensuring regular interaction of national currencies during purchasing of goods. We are working in this area as well, it is good that Belarus has already begun work, and as Mr Muntiyani said, only the Russian rouble should become the reserve currency—that is also good. During the last 3–4 months, all the media in Ukraine have been actively discussing the question of whether Ukraine should join the Customs Union, and what is this Union? Our experts usually don't work on forecasts or analyses, they don't present some plans: they ask questions such as, what will it give Russia? What will it give to the Customs Union? What will it give to Ukraine? First of all, Ukraine will gain from this, because if we look at the turnover between Ukraine and EurAsEC, then we see USD 42 billion. Currently, Ukraine's imports are USD 26 billion and exports are only USD 16 billion. If Ukraine would join at least EurAsEC, then the exports will also increase, to prevent a trade deficit.

This is all well known, but it depends on the wish of each country. The fact that one of the most advanced and intelligent economists in Ukraine says this, it does not mean that everyone supports this. At the Yalta conference we had different opinions—some wish to create a free-trade zone with the European Union. But I am absolutely convinced that Ukraine needs to go where people are waiting for her, where she is understood and supported. Sooner or later Ukraine will join EurAsEC and the Customs Union, this will happen in the near future.

A couple of words about our experts. Integration has its own particular laws. But it would be good if fundamental science worked on economic ideology, so it wouldn't just make forecasts on the basis of *fait accompli* and calculate the advantages gained by the parties. Fundamental science should develop and present various projects, it needs to be out in front of the real economists and those working on practical organizational issues. Just recently I visited the Centre

for Economic Integration in the Post-Soviet Space—as you know, we created this at Moscow State University. After a year, those who are working there and spend their time on scientific developments, they know more about the European Union and the global integration, they are interested in these issues, but they know virtually nothing about the post-Soviet space. Sometimes I make presentations there and say, listen, you have EurAsEC, the Customs Union, and these are all structures of the post-Soviet space, and the fact that we have the CIS and that it's celebrating its 20th anniversary is a great thing, because it includes countries which are still in conflict with each other. And that is why the CIS platform, in the state in which it's currently working in different directions including real economics—I believe that it's a great thing for our three countries which created, and are developing, the Customs Union. It's a great thing for the five countries which are currently joined in another economic community, EurAsEC. It's fantastic that we have a structure which includes other countries, which have the opportunity to join us. And that's why I think that today's discussion is very useful, it will unquestionably give us an opportunity to correct a few things. Thank you.

**V. Muntiyan:**

There was a reply in my direction. May I? I would like to say that today I was speaking as a Ukrainian patriot, and that I am convinced of what I said. As a professor, I have to be competent and honest; as an academic, I have to strive for truth and understanding. Wherever I may make a presentation, in Kazan or in other places, I do not change my criteria: I think of all the CIS countries as my family, to remove one of them is like cutting off a finger from your own hand. I will not change, and I try not to change, and I try to tell the politicians the truth to their faces. And the crisis, of course, is our most important issue—we need to work at understanding it, and begin with ourselves. Thank you.

**S. Sinelnikov-Murylev:**

Thank you, this was a comment on Mr Nasurov's presentation, not a question. We have time for one question. If there are no questions, we have two more presentations. Igor Finogenov, Eurasian Development Bank. And then Mr Glaziev will conclude the discussion.

### **I. Finogenov:**

I will be brief, because during this discussion all important issues have already been voiced. I am on a slightly different level, when compared to Mr Glaziev, Mr Lebedev, Mr Nasurov and Ms Valovaya, because on the slide that you saw, I am represented by a square below all the elements of integration. I represent the Eurasian Development Bank, which was created five years ago by Russia and Kazakhstan. Today, we are present in six countries, and soon I think will be present in another two. We represent a real element of the trading, economic and investment collaboration in the post-Soviet space, that is to say that we are one of the components of the engine which is driving the economic integration in this space. I will be frank, we have already accumulated a certain amount of experience in this respect.

What does this experience tell us? First, that there are objective economic requirements for implementing joint projects. These requirements are formed due to completely understandable and rational motives of the players in the economy, the entrepreneurs who are moving towards realization of integration projects and are making us move with them. These are projects which generate additional trade and additional mutual investments. We are also involved in implementing infrastructure projects. However, there exists a range of factors which constrain integration, or show that there are a number of directions in the post-Soviet space.

We have researched the system of Eurasian integration indicators, and studied this integration in accordance with numerous criteria, which included both economic and cultural ones. As it was said before, the integration will be defined

not only by economics, but by politics and cooperation in culture. It is true that during the last decade, the economies of the CIS countries have been drawing apart from each other, excluding three countries: Belarus, Russia, and Kazakhstan. All three countries have been drawing together according to all criteria. This rapprochement was also probably based on some subjective factors with the leaders of these countries, who wanted to live in peace. However, there were some objective reasons as well. Obviously, these countries have become the real integration nucleus for the entire post-Soviet space.

Why am I talking about this? There are very few integration projects which can be implemented in the post-Soviet space today, because of the administrative, political, emotional and other barriers which derail many projects. And only if we remove those barriers will we be able to move forward. In this respect I can say as a financier, as a banker, that the work related to removing these barriers, regardless of the type, will allow the businessmen and the players in the economy, and ultimately the populations of the member countries of these organizations, to move forward and to resolve their problems.

What else? While I was listening to the presentations, I had many new thoughts. I would like to say a word about one situation, which was related to the anti-crisis fund. We manage the EurAsEC anti-crisis fund. This fund works on slightly different principles than a bank. But the creation of this fund has shown the effectiveness of mutual help and assistance in solving problems.

That's why I would like to repeat that the barriers which are currently blocking integration, whether they are real or imagined, they need to be removed. The institutions of integration such as our bank and other banks which exist in this space need to be able to develop so that we can achieve positive shifts in economics.

**S. Sinelnikov-Murylev:**

Mr Finogenov, thank you. We need to finish now. Last presentation. On one hand a lot has already been said, but on the other, this presentation truly is the closing one. I give the floor to Mr Glaziev, the Deputy Secretary-General of EurAsEC, the Executive Secretary of the Customs Commission of the Customs Union, and an academic.

**S. Glaziev:**

Friends, I realize that you are all tired. But since only the most interested parties have remained, I will not simply summarize our discussion, but draw your attention to some problems which were voiced in the course of our discussion. At this stage we don't have the answers, this is something we need to work on. But at first I would like to make two general comments, coming back to the beginning of our discussion today.

First—taking into account existing turbulence in the world markets, events are showing us the advantage of large economic spaces. Those countries or groups which have a large and voluminous internal market have weathered this crisis significantly better and now have much greater opportunities for grooming competitive advantages. This tendency will continue. The second tendency is quite the opposite—it is the disintegration of the global economic space, not in the sense of the return to isolationism, but in the sense that the principles of liberal globalization, which have been guiding global development for the last 20 years, are now being revisited. This has an effect on market protectionism, which still exists, although not as obviously. It largely concerns financial protectionism. The most serious and strong protectionism exists in the centre of the global financial system, in the USA. As we know, they do not allow international investments in the industries that they wish to keep for themselves. Russia has encountered this, as well as China and the Arab countries.

Most importantly, the global financial system, which is centred around the US dollar, is suffering from increasing erosion. The world is inevitably shifting

towards a multicurrency, polycentric system, in which large economic spaces have an advantage because they can develop zones of regional stability. They can come into existence by creating economic unions and their own financial markets, by creating their own currency and finance systems which are to some extent protected from the turbulence in the world financial market, which if we think of the dollar, will inevitably grow—the lack of balance between the demand and supply of the dollar progressively increases daily, at an ever-growing rate. It's obvious that the system is fated to shift from a global one to a polycentric one. And we can see in front of our own eyes the world is changing, that we can already see new centres: China, which was mentioned here; India, which wasn't mentioned; the EU and our CIS, which at this stage looks very small when compared to the giants surrounding us. And that's true, according to our trade we are quite small. Judging by our role in the global financial system, we are dwarfs. But at the same time we have the largest territory, which was already mentioned here, and our transport potential. We have the largest amount of natural wealth, thanks our natural resources. We are certainly not the last by scientific and technical potential, which gives us a chance to push forward. So what are our distinguishing features? As I see it, we always need to understand that our integration grouping is squeezed between two giant economic unions, two giant economic entities: the EU and China. This has a very significant influence on our integration. The European Union has always been our key partner. But in the last 10 years, there have been some incredible changes, and the role of China in our mutual trade has grown immensely.

These changes are increasing, and we are running a strong risk of turning from an entity in trading and economic relationships which can plan its own development, into a wild resource-rich periphery both for China and for the EU, and become an object of contention for these two giants. As a matter of fact, the integration and the creation of the Customs Union were a response to this challenge, because to survive in these conditions one needs a large economic

space, one's own trading and economic policy, one's own defined interests, and an understanding of the overall strategy. Of course, our partners from Brussels may think that this is crazy, they have already concluded that Russia has become the energy and natural-resource periphery of the EU, and that the economies of all CIS countries have disintegrated. On one hand, a resource boundary was created, aimed the external market. On the other hand, the consumption all went to imports, and it seemed that everything in the middle was gone. But in reality it hasn't.

I am grateful to the Eurasian Development Bank, which assisted in researching the state of scientific and technical potential and ties between Russia and Ukraine. They have shown that there is potential and that the ties still exist, that cooperation can be expanded and that the Customs Union and the Common Economic Space are the tools for expanding this cooperation and for increasing the competitive advantage in promising areas for economic growth. This is why we are creating the Customs Union: for machine-building, for science-intensive industry, as a priority for the highly cooperative industries in which the costs of overcoming the transborder barriers are high. I am certain that this work will be successful.

I would have liked to have debate this with Mr Spartak, to talk about our desired results. The logic of subsidies in mutual trade, tied to world market prices, has already been criticized here. From my point of view it's flawed in the sense that it confuses us when it comes to setting our goals and creating common denominators. If we believe that our main goal is maximizing our foreign currency income, total or per capita, we could end up deciding that the ideal model is the Yamalo-Nenetskiy Autonomous Area, if it were to be an independent state. We remember the discussions when the Soviet Union was collapsing about who is feeding whom. Ukraine was convinced that it was the breadbasket—now it has dropped those illusions. There were experts in Russia who argued that Russia would find the transition a lot easier if it dealt with it alone. But then we

discovered that the twofold collapse in industry, which happened in Russia, was explained by a third—by the snapping of cooperative ties, and that the customs borders and barriers played a large role in this breakdown, as Ms Valovaya said our colleagues warned us about. Let's just say that at that time we underestimated their importance. And now if we are betting on growth in economic activity, GDP growth, industrial growth and growth in the standard of living, then we have to choose the right toolbox.

This is not migrating our trade to world prices, thinking that we will make a profit if we trade at those prices. The prices are truly market prices. But there are different markets, they are segmented. That's why it's hard to talk about supplying goods to everyone at market prices. Perhaps, it would be better not to supply anything, as the Americans do—they conserve their oil and then think that they are doing the right thing, even when oil prices are skyrocketing. If we choose the correct tasks, the correct toolbox—even a rough one like cross-industrial balance—then we will be able to assess the effect. According to the information from the joint research team—the Institute of Economic Forecasting at the Russian Academy of Sciences, the Institute of Economic Forecasting, the National Academy of Sciences of Ukraine and our colleagues from Kazakhstan—GDP growth is about 15%. This is taking into the account the fact that more of our oil and gas will be refined within the Common Economic Space than exported outside of its borders. This is what I was talking about: the Customs Union and the Common Economic Space are an expansion of a common base of natural resources, the creation of development possibilities for manufacturers. In that sense, the success of any country is the success of the entire Customs Union.

I would just like to say a couple of words about Belarus. Due to a very complex economic situation in that country, some people were saying that the Customs Union did not give the Belarus the stability which it was expecting. In reality, we can see its effect: Belarusian GDP has grown during the first quarter, in comparison to the first quarter of 2010, by 12%. This is an absolute record for the

CIS and perhaps even in the entire world. They have even overtaken China in terms of their economic growth. But they have stumbled on the restrictions over the balance of payments, and their currency reserves could not keep up with this growth. Their demand for currency, linked to the fact that the economy significantly depends on import, has exceeded their potential to earn this currency on exports. In other words, they did not have that currency reserve buffer which could have enabled quick economic growth and flexibility in structural policy. And, as you know, oil prices have risen, which created panic among the population, and all of this created a demand for foreign currency. However, I am certain that if the Customs Union did not exist and if we did not have common plans for the Common Economic Space, they would not have had that 12% growth in their GDP, and the situation would worsened much earlier.

And this is why we are all trying to stabilize that situation. We need to remember that half of that 12% in GDP growth was achieved thanks to Russia—Russian components and raw materials for Belarusian products. This movement is mutually advantageous. According to our calculations, integration provides just over 1% of GDP growth per annum, which is very significant, and most importantly it provides reasons for innovative development, since it provides more opportunities for diversification of the economy and for expanding cooperative ties.

I would like to briefly attract your attention to certain fundamental differences between ours and other types of integration, and which we must remember. We created the Customs Union quite quickly, but only after a rather long period of preparation, starting work in 1992. The birth of this brainchild, on the creation of which we expended so much energy, was possible because of the political will of the leaders of our countries, and dedicated work by our government leaders who set a strict schedule and made sure to follow it. At the same time, the one and a half years of experience showed that we have a lot more common interests than differing ones. At this stage our Achilles' heel is that the portion of our mutual

trade is not as large as it is in the EU or NAFTA. This could be because of the excessive export of oil, gas and natural resources in general to non-former Soviet countries. It works out that the volume of mutual trade is less than the volume of external trade.

But at the same time I can say that out of the 659 resolutions which the Commission passed during this year and a half, there was not a single one that we have had to vote on. That is to say, they were all passed by consensus. That means that at every meeting of the Commission we passed 50–60 resolutions, and they were passed quickly and quite efficiently, which means that we have quite significant common interests. The Common Economic Space will enhance those common interests not only with the agreement on macroeconomic political parameters, but by forming an overall strategy for development, which is very important for survival in today's unstable world. We already have our first result: trade has grown by about a third in comparison to the corresponding period in 2010, and this dynamism confirms our calculations of the economic effects. This means that we have a rather strong zone of influence.

I would like to say especially for Mr Rahr that we are creating the Customs Union and the Common Economic Space in accordance with the norms of the World Trade Organization. We are not rejecting the liberal ideology in the good sense of this word; we are working according to the international standards. The Customs Code is based on the widely accepted Kyoto Convention, we are trying to create more progressive legislation and move towards world standards, overtaking even the national legislation of the Customs Union member states. At the same time we perfectly understand that even though all men are brothers, and that we all love the liberal philosophy, trade is a constant conflict of interests, and at times it turns into trade wars.

In this respect I would like to make one last point. At this time we are experiencing a very strong stress, more precisely a test of strength in respect of Ukraine's desire to create a free-trade zone with Europe. What is important here?

When we did not have this zone of gravitation, the Customs Union, we believed that the free-trade zone and the removal of trading barriers go without saying. We are so close with each other, but these trading barriers have destroyed our cooperation and led to a decline in industry. And since we have more common interests than competition, we could do without the barriers. But then there is the issue of Ukraine having a free-trade relationship with the European Union. I would like to come back to the thought that our CIS finds itself in a difficult position between two trading and economic giants, China and the EU. Obviously, regardless of the call for free trade in all of Eurasia, this is more of a dream for a bright future than today's harsh reality. We are constantly feeling it in our discussions with the European Union, and China is not an easy trading partner—they strongly protect themselves. They protect themselves not so much with trading tariffs, but with technical regulations, sanitary norms and other difficult tools, in the sense that it's impossible to easily deal with them. They need years of hard work and achieving mutual understanding.

And so we have a situation, we are kind of disarmed as regards the second-largest economy in the CIS and the second-most populous country. The free-trade zone is trading and economic disarmament: we do not use the weapons for defending our economic interests in the mutual relationship. Ukraine is refusing to use these weapons against the European Union, and that means that about one seventh of our common economic territory is being disarmed. How are we supposed to feel about this? This is not a trivial question, there are no ready answers. But I have no doubt that we need to discuss this sort of large-scale action, we need to calculate the threats together and seriously research what it could lead to.

We have offered our Ukrainian colleagues to develop a common position in respect to the EU, but they have not replied. We can see that they are being forced into an unfair free-trade agreement, we do not really understand what Ukraine will gain from this, since the most important Ukrainian export goods will

not go to Europe because of the preserved quotas. Therefore, I think the conclusion is obvious: our multilateral agreement about the free-trade zone is under threat, because the stress is very great. We don't really understand the consequences, but we see a similar though lesser-scale situation with Kyrgyzstan, which has a formed de-facto free relationship with China. We know what this objectively led to, but I don't want to give any assessments. Due to purely economic mechanisms, Kyrgyzstan is now mainly specializing in importing Chinese goods. We realized that problem, and the Kyrgyzstani side also understands very well, and the decision of their government to join the Customs Union was a perfectly understandable response to the existing stress in mutual trade.

However the problem of the EU and Ukraine is much, much greater by an order of magnitude. And so we can see that the free-trade relationships, if we analyse them in the context of the opposition between large trading and economic blocs, turn out to be a rather unstable transitional form. The CIS countries, which find themselves between the Customs Union and the EU, or between the Customs Union and China, currently find themselves in a very difficult situation, in which they turn from entities into the objects of competition. This is why I mentioned that virtually all of our decisions are being passed by consensus. If Kyrgyzstan joins the Customs Union, they will become a part of the decision-making process. They in essence develop an overall policy together with us. They preserve their legal personality as an independent spokesman of their own interests.

And if the government finds itself between two giants, with only a free-trade zone and utterly disarmed—what overall strategy can it develop? It cannot work with us on a common strategy, because it's not involved in forming a general policy. It cannot work with Europe, because it's not being allowed to join the EU. So it finds itself naked, if you forgive the expression, between two power centres and becomes an object of competition.

I think that this new situation, created by the hurried discussions by Ukraine now regarding the free-trade zone, needs some special attention. I have always been a proponent of a multilateral agreement regarding free trade within the CIS, but this is making us think quite seriously. Logic dictates that the Customs Union is the centre of force, the centre of gravity, and a very attractive one at that. We have a plan, the Common Economic Space, the Eurasian Economic Union, and I would like to express my hope that logic, pragmatism and understanding of the commonality of our interests will lead the countries of the CIS into the Customs Union and the Common Economic Space.

**S. Sinelnikov-Murylev:**

Thank you, Mr Glaziev.

**S. Lebedev:**

May I answer straight away?

**S. Sinelnikov-Murylev:**

Of course.

**S. Lebedev:**

Mr Glaziev, the last meeting between the heads of governments in Minsk on May 19 showed that Ukraine is strongly in favour of signing a new free-trade zone agreement. It's interesting that this document, which could mean the inclusion of Ukraine in a new free-trade zone agreement, is also being seen in Brussels as a threat to EU interests. And as my Ukrainian partners told me, they were told that if they sign a new agreement regarding a free-trade zone within the CIS framework, they will have difficulties in signing an equivalent agreement with the European Union, and they will have difficulties on their path to the EU. And then the Ukrainians said—how can this be, we are in a very strange situation, with the

CIS telling us that you pose a threat to us. We want to sign an agreement about free trade with the CIS and this agreement takes precedence. Why? Because we are signing this agreement first—yes, there are some nuances and we know what they are—but this is just how it is, this is what the Ukrainian partners say. This is an interesting situation, a unique situation, and as a proponent of integration, I am of course interested in finding a reasonable compromise and nonetheless including Ukraine in our groupings. Perhaps the Ukrainians themselves can clarify the true situation and explain to us what is going on? Thank you.

**S. Sinelnikov-Murylev:**

Mr Muntiyan, please explain.

**V. Muntiyan:**

I would honestly like to say that, for Ukraine, a stalemate is the worst possible situation: when, from one side, the EU promises us this much, but takes it all back tomorrow, and we do not receive any trade preferences from them at all. On other hand, the Customs Union will set up its boundary, and we will lose what we already have. I doubt that the EU will be buying our airplanes, energy, transport, cognac, cheese and sparkling wine. All products that do not comply with their standards will not be sold on the European market. Basic calculations show that we will be making a loss. If we take 2011 for our base calculation of the free-trade zone with the European Union, we will see just that in primary industry we are employing 34,000 fewer people, there is a 1.3% drop in trade, there is even a drop in the GDP. But if we have the Customs Union, taking into account trade preferences, which we will receive, we will make a profit. Moreover, there are issues of wear and tear for example, if you take mechanical construction this is 5%, today it's at a critical level. According to the economic security criteria, the threshold for wear and tear is 50%, in Ukraine 63%, in Russia 50% as well. How

are we going to find the funds to produce new goods? And how can we destroy something that we have been destroying for the last 20 years! We need to fight for the most highly profitable industries, we need to save them. What I want to say is that we need to stay on the straight and narrow. There was one famous personality, I like him, his name was Spartak. He said—everyone loves freedom, but not everyone wants to die for it. This is what we must remember. Otherwise it will be our end.

**S. Sinelnikov-Murylev:**

Thank you very much. Well, colleagues, I think it's time that we finished. Some would say that the time schedule of this meeting was ruined, that our discussion was almost twice as long as expected and that it's my fault as the moderator. But at the very least, I found this interesting.