

From the CIS to the SES

A New Integrationist Game in Post-Soviet Space

PONARS Policy Memo 303

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November 2003

On September 19, 2003, the presidents of Russia, Belarus, Kazakhstan, and Ukraine signed an agreement in Yalta on “The Concept of a Single Economic Space” (SES). The idea behind this agreement was initially announced by these presidents in Moscow on February 23, 2003. High-level groups, led by vice prime ministers, were established to negotiate the draft documents, which were signed on August 17 in Astana, Kazakhstan.

The governments of Russia, Belarus, and Kazakhstan supported the drafts completely. The government of Ukraine introduced a proviso that the SES must adhere to the Ukrainian constitution and its strategic goal of European integration. Ukrainian president Leonid Kuchma thus signed the agreement with the understanding that it should correspond to the constitution of Ukraine. The documents signed in Yalta are framing documents, they do not establish any concrete regimes or institutions. Despite this, the very idea of the SES has led to the most intensive foreign policy debates of recent memory, especially in Ukraine.

The Positions of the Parties

At the beginning of the drafting process, it became apparent that Russia and Ukraine had very different approaches to what the SES would entail. In March 2003, Russian prime minister Mikhail Kasyanov said that the ultimate objective of the SES was the creation of a monetary union based on a common currency. This vision was confirmed by other Russian officials on multiple occasions. The common currency would, in the Russian view, be the ruble because the Russian economy is four times larger than the economies of the other three states combined. President Nursultan Nazarbayev of Kazakhstan supported the idea of a common currency other than the Russian ruble. Nazarbayev even proposed a name for this common currency: altyn. Belarus generally shares Russia’s view of the proposed monetary union and is currently in the process of creating a bilateral monetary union with Russia. Another integral part of the Russian version of SES is a customs union, which is suggested as the initial stage of the project or the minimum requirement for the creation of the SES.

Ukraine’s view of the SES diverges significantly from Russia’s. It rejects the idea of a monetary union. Responding to Kasyanov’s March 2003 statement, President Kuchma called this idea a dream. The head of the National Bank of Ukraine, Serhiy Tyhipko, who

is also the leader of the Russian-oriented centrist party, Labor Ukraine, stated that the strategic aim of Ukraine is to enter the Euro zone, not the ruble zone. The customs union idea also has few supporters in Ukraine. Even the head of Ukraine's high-level group for the initial talks, Vice Premier Mykola Azarov, stressed that, in his opinion, the customs union is not a necessary component of the SES.

A free trade area (FTA) without any exceptions and limitations is Ukraine's officially proclaimed SES objective. The question of whether an FTA is the ultimate goal for Ukraine or just the first step to further integration within the SES is still open. For example, Ukrainian officials from the Ministry of Foreign Affairs (Deputy Minister Oleksandr Chaly) and the Ministry of Economy and European Integration (Minister Valery Khoroshkovski) have consistently noted that the free trade area is the maximum level of integration that Ukraine may allow itself without causing essential damage to its strategic objective, which is integration into the EU. This point of view was supported also by Anatoly Halchynkky, director of the Institute for Strategic Studies in the presidential administration as well as one of the oldest members of President Kuchma's team. Deputy Foreign Minister Oleksandr Motsyk told journalists on September 23 that "Ukraine is going to limit its participation in the SES to taking part in its free trade area."

There is, however, another point of view that argues that Ukraine should first participate in the SES free trade area and then address whether to participate further in the SES, taking into account existing experience, chances, and prospects. Among the proponents of this view of Ukraine's participation in the SES are former president Leonid Kravchuk and Mykola Azarov, first deputy prime minister and minister of finance. This point of view does not exclude the possibility of a customs union in the SES if the prospect of EU integration is poor. This also seems to be Kuchma's leaning.

The Ukrainian opposition is divided on the SES. Although the communists are still enamored of the concept of post-Soviet space and therefore generally support any initiatives that promote integration, the right-wing opposition led by Victor Yushchenko completely rejects the SES formula, labeling it a betrayal of Ukraine's fundamental national interests. Borys Tarasyuk, the head of the People's Movement of Ukraine (Rukh) called for Kuchma's impeachment after Kuchma signed the SES agreement. The parliamentary committee on European integration, which Tarasyuk leads, recommended that the SES agreement not be signed in its existing form.

From September through early October 2003, there were public protests against the SES in the largest cities of western Ukraine. The regional councils (oblast' radas) of Lviv and Ternopil and the city council of Lviv voted against the SES. Ukraine's ambassador in Romania (and former deputy foreign minister), Anton Buteyko, resigned from his position on September 21 in protest against Kuchma's signing of the SES agreement.

On September 17, Ukraine's parliament, the Supreme Rada, voted in favor of the concept of the SES by a majority (291 votes out of 450), but without concrete debates on the content of the documents. It was a vote for "general approval" of the idea with a proviso that the SES must adhere to the Ukrainian constitution, other legislation, and the international obligations of Ukraine. Most political forces in Ukraine seem to accept the SES with the condition that it correspond to the constitution, international treaties, and

not contradict or hamper the goal of European integration. Given these reservations, the parliamentary ratification process is unlikely to be easy.

In Russia, however, there seems to be a broad consensus on the SES issue. Russian politicians and analysts transparently stress the geopolitical, not economic, essence of the project. According to Anatoly Chubais, leading member of the Union of Right Forces (SPS), the creation of SES, linking together Russia, Ukraine, Belarus, and Kazakhstan, will be a direct step toward the reestablishment of the empire. Chubais argued on September 26 that Russia's main goal over the next 30–50 years is to build what he termed “a liberal empire” that embraces the states of the Commonwealth of Independent States (CIS). The SES is seen as the first step on the road to building this liberal empire.

With such widely diverging views of the purpose and ultimate goal(s) of the SES, it is hard to see a common agreement on the nature, institutions, and process of the SES being reached by all the parties involved.

The Content of Documents Signed

The SES documents already signed are quite ambitious and go far beyond simply establishing an FTA. For example, Article 1 of the draft agreement contains the following conceptual definition of the SES:

The Parties understand the Single Economic Space (SES) as an economic Space, which unites customs territories of the Parties on which common principle based economic regulatory mechanisms are applied. These principles guarantee free movement of goods, services, capitals and labor force; common foreign trade policy and coordinated taxes, financial and currency policy are applied.

The authors of the draft have consciously avoided using widely adopted and understood integration terminology in the draft. The definition does not contain reference to a concrete integration stage (such as an FTA, customs union, common market, or an economic union). The SES is decidedly abstract and thus may be interpreted differently. Indefinite terms were used to avoid clear commitments. But the content of the definition includes aspects of considerable integration, including a customs union (“Space, which provides common foreign trade policy”) and also a common market (“free movement of goods, services, capitals and labor force”).

Special commitments of the parties are included in Article 2:

- Creation of the FTA without exemptions and limitations, which implies non-application of anti-dumping procedures, compensation and special protection actions on the basis of common tariff and non-tariff regulation policy, common competition rules, subsidies and other forms of governmental protection;
- Harmonization of macroeconomic policy;
- Harmonization of the Parties' legislation up to the level necessary for the SES functioning including trade and competition policy...

Article 2 means, firstly, an expansive definition of the FTA; secondly, the harmonization of macroeconomic policy is usually applied at higher stages of economic

integration; and thirdly, harmonization of the parties' legislation means that the agreement will lead Ukraine to "double commitments" in the legal approximation (which refers to the process of step-by-step adoption of the EU laws and standards). This is a clear contradiction to the numerous normative acts of Ukraine that foresee the only path of approximation is to EU legislation. Double harmonization looks doubtful because these institutions, the EU and the SES, apply very different regulatory rules and have different economic legislation.

The most controversial part of the agreement is Article 4, which provides the prospect of creating a regulatory body. The term "supranational body" was excluded from the text on Ukraine's request. But the existing term "regulatory body" is likely to become the main target for SES opponents:

The Parties will establish a single regulatory body of the SES to which they pass a part of their sovereignty according to international treaties. Its decisions are obligatory for all Parties. The decisions in the regulatory body will be taken by weighted vote. The number of the votes of each Party is being defined taking into account its economic potential.

SES opponents have always mentioned that Ukraine's constitution directly prohibits any part of the state's sovereignty being delegated to any external actor. Article 4 is likely to become the first "victim" of Ukraine's reservation that the agreement may not contradict the constitution. Also, taking into account that Russia's GDP totaled \$346 billion in 2002, Ukraine's was \$41 billion, while Belarus's GDP amounted to \$14 billion, and the GDP of Kazakhstan was \$6 billion, Russia would be entitled to about 80 percent of votes in the regulatory body.

It is also worth noting that the agreement includes the principle of multispeed integration, according to which each country independently defines its appropriate level of integration within the SES. This principle was introduced by Ukraine in a proposal that serves to provide support for SES supporters in Ukraine who see no threat to national sovereignty in this project.

SES Political Implications

The SES idea is part regional egoism, part explicit hegemonism, and even part anti-globalism. None of "The Four" is yet a member of the World Trade Organization (WTO), and the creation of the SES is likely to delay their accession. In all likelihood this is the hidden intention of the authors of the SES, to create a hermetically closed system with external communication only through the Kremlin. To "take into consideration the norms and rules of the World Trade Organization" as written in the draft does not mean follow those norms and rules. Based on their own specifications, "The Four" may implement their own quasi-rules that would be preferential to residents and discriminatory against external actors. This will lead to the monopolization of Russian capital in the less financially developed markets of the SES.

The example of Kazakhstan provides a compelling case. According to a July 2003 IMF report, Kazakhstan has no active desire to integrate into the world economy and has frozen some talks on the framework of Kazakhstan's participation in the WTO. The

reason for this, according to *GazetaSNG*, is the close cooperation with the Eurasian Economic Community (EurAsEC) and Russia. Moscow, according to some experts, does not allow Kazakhstan to make decisions on WTO talks independently. Russia made the same demands on Ukraine: to synchronize the WTO entry process, to acquaint partners with the accords achieved and protocols signed, and to withdraw those protocols that do not correspond with SES (Russian) interests. Kazakhstan has always followed this approach, thus indefinitely postponing its WTO entry.

Conclusions

The SES serves as a striking source from which to observe post-Soviet identity mutations. “The Four” is a modified version of the Soviet Union, but without unnecessary baggage: the too far western Baltic, the too far eastern Central Asia, and the too unpredictable Caucasus and Moldova, which has already entered the WTO.

The SES agreement and concept go far beyond an FTA. SES documents propose a move to a customs union, common market, and, according to the initial Russian version, to a common (Russian) currency. Ambitious texts will not necessarily lead to ambitious politics. Russia is unlikely to introduce a real free trade area vis-à-vis the SES partners, therefore Ukraine will never go to deeper stages of integration. Ukraine’s reservation may lead to the opposition targeting Article 4, which provides for the creation of a regulatory body, and this does not correspond to Ukraine’s constitution.

The SES agreement provides a multispeed integration principle, which means that each party determines its acceptable level of integration. This approach may lead to the washing-out of the project. The SES is, ultimately, another attempt at post-Soviet integration. Putin’s Russia, as part of a myth of Russia’s “golden age,” now needs the SES before parliamentary (December 7, 2003) and presidential (March 14, 2004) elections. Whether the Russian government will still need the SES in a year is unclear. Given the approaching ten-year anniversary of the CIS free trade area (2004), which was not ratified by Russia and therefore has always been a completely ineffectual institution, and the slow death of EurAsEC, there is good reason to expect a similar fate for the SES.