REGIONAL ECONOMIES

THE CIS COUNTRIES: SOME PECULIARITIES OF ECONOMIC DEVELOPMENT

Viktor BUDKIN

D.Sc. (Econ.), Professor, Chief Research Fellow, Institute of World Economy and International Relations, National Academy of Sciences of Ukraine (Kiev, Ukraine)

Introduction

December 1991 marked the beginning of a grandiose experiment whose purpose was to establish a whole group of independent states in the territory of a world giant known as the U.S.S.R., which occupied one-sixth of the Earth. Their establishment was based on the negation of the previous Soviet model providing for the domination of one party, which had imposed a no-choice ideology on the society, and for the administrative command system of politics and economics.

Could that experiment succeed? Certainly, especially given the successes of the countries of Central Europe (CE) and the Baltic region. Unfortunately, the path of social reform chosen by the post-Soviet countries has never actually demonstrated its effectiveness in the past two decades.

The imitation of democratic reforms led to a state of affairs where most of the population in the post-Soviet states was barred from having real influence on political processes, which are now based on the activities of clan groups. Denationalization and privatization have resulted in very high income inequality in the society, i.e. its division into a small group of super-rich oligarchs and the majority of the people with low or middle incomes (sometimes slightly higher).

There is no denying that the newly independent states (NIS) have made some progress in regaining their national identity and restoring respect for traditional customs and religion.

Meanwhile, these successes could have been more significant had they been supported by the dynamic development of the economic base of the Commonwealth of Independent States (CIS) countries.

The following analysis shows that the economy is the weakest link in the process of enhancing stability in the CIS countries, and this has a negative effect on both the internal situation in the NIS and their position in the world community.

The Starting Point for the Economic Development of Independent CIS Countries

After winning independence, the CIS countries were faced with a choice between two paths of economic development (basically excluding the Chinese/Vietnamese path with communist parties providing political guidance for economic transformations).

The path of radical economic modernization has demonstrated its advantages in postwar Japan and newly industrialized countries. With somewhat lesser success, this path has been traveled by the group of post-socialist states of Central Europe and the Baltic.

The other, "post-Soviet" path, as it turns out, ruled out the possibility of a fundamental and complex restructuring of the economic mechanism: it was oriented toward the use of the economic potential inherited from the U.S.S.R., with an actual imitation of market reforms or their partial implementation.

Unfortunately, the CIS states chose the second, less effective model of economic development (it should be noted that there are some country-specific peculiarities in its implementation), which is due to the impact of a number of external and internal factors.

Real reforms in Poland, Hungary, Estonia and other future members of the European Union (EU) were carried out under its tight control, with a special commission monitoring step-by-step progress in introducing a market economy in these countries.[1] The Central European countries had a generally balanced economic complex, sufficient numbers of government officials in the field of external economic relations, and links with Western partners (expanded by the late 1980s) and within the "Soviet bloc," while the NIS had nothing of the kind.

After the collapse of the "single national economic complex" of the U.S.S.R., the NIS economies were characterized by extreme imbalances, exacerbated by the disruption of cooperation ties with former "intra-Union" partners. The new states had to look for ways of interacting with the world market starting from scratch: in the conditions of a state monopoly in the field of external economic activity all organizational and economic institutions were concentrated in Moscow.

There are also two different ways of looking at the activities of numerous Western experts and advisers invited to work with government agencies in most CIS countries in the 1990s (for example, consultants to the Central Bank and government institutions in Russia, the EU advisory group UEPLAC in Ukraine and Armenia, advisers to the president of Kazakhstan, etc.).

On the one hand, this helped to transfer world experience in economic activity and to establish contacts with foreign business. On the other hand, the advice of Western experts was based on examples of countries with a different economic climate and took no account of the specific conditions in the NIS national economies.

[1] See: *EG-Polen-Ungarn, Dokumentation*, Wien, Zürich, 1993, S. 278.

In this context, the admission made by Jeffrey Sachs, one of the leading advisers in the CIS region, is most indicative: "In my own thinking, I have treated Russia like Poland, only four times larger and perhaps ten times harder in structural and cultural terms."[2]

The activities of international organizations influencing economic transformations in the countries of the region were also divorced from reality. It is known, for example, that the reforms of the 1990s prepared by IMF experts in Kyrgyzstan were a failure. An analysis of the miscalculations made by this international organization in Georgia is to be found in a number of publications by the Georgian researcher Vladimer Papava; one of his monographs has a section focusing on "mistakes generated by a standard approach."[3]

Among the internal factors behind the ineffective functioning of the current economic mechanism in the countries of the region let us mention, in the first place, the imitative nature of market reforms. In some countries, they are no more than cosmetic (Turkmenistan), and in others their implementation is only partial or too slow (Uzbekistan, Tajikistan, and until recently Belarus). Formally, Russia, Ukraine and Kazakhstan have moved furthest along the path of reform. Transformations in these countries have followed somewhat different but very close models based on the policy of "primitive accumulation of capital" proposed by Anatoly Chubais.

Property was denationalized and privatized in the interests of future oligarchs, while small and medium businesses were wiped off the face of economic life, being largely confined to secondary service sectors (cafes, hairdressers, small repair shops, etc.). Large and a significant part of medium-sized production and trade enterprises were turned into joint stock companies. In a short time (the first half of the 1990s), these companies became the basis for the power of a small group of the "new rich" due to the voucher transfer system established in the process of reform.

It should be emphasized that active privatization and the whole set of reforms were not based on appropriate rules of law but followed a principle resembling the customs of the Middle Ages: businessmen close to the administration at different levels were granted a kind of "feud," i.e. were given an opportunity to acquire major state-owned facilities (such decisions were made at the level of the central authorities), and also medium and even small enterprises (according to decisions at lower rungs of the administrative ladder).

As the American journalist and political scientist David E. Hoffman put it, "the result was that Russian capitalism was born into an airless space, a vacuum without effective laws and a state so badly weakened it could not enforce laws that were on the books." This actually applies not only to Russia, but also to other CIS members.[4]

It is only necessary to specify that representatives of the state (government officials at different levels) made skillful use of the already existing legal framework for their own personal enrichment. This situation persists today, when the legal framework for economic activity is formally more advanced.

In this situation, the potential threat of losing one's job in administrative agencies or in parliament and lack of public confidence in the effectiveness of legal norms lead to a high level of corruption, which is an inherent phenomenon of economic life in the CIS countries.

The reforms in most CIS countries were based on models essentially close (though with some variations) to those used in Russian market reform policy. As a result, a clan system of economic activity has emerged in all these countries. In NIS with a majority of Muslims in the population, these clans were largely built on the tribal-kinship or territorial principle,[5] while in Russia, Ukraine, Moldova, Georgia and Armenia they arose mainly on the basis of economic interests.

[2] J.D. Sachs, *The End of Poverty. Economic Possibilities for Our Time*, The Penguin Press, USA, 2005, pp. 139-140.

[3] T. Beridze, E. Ismailov, V. Papava, *Tsentral'nyi Kavkaz i ekonomika Gruzii*, Nurlan, Baku, 2004, pp. 124-157.

[4] See: D. Hoffman, *The Oligarchs*: *Wealth and Power in the New Russia*, Public Affairs, New York, 2002, p. 6.

[5] The situation is somewhat different in Kazakhstan, where Koreans, Jews and representatives of other non-titular nationalities will be found among the oligarchs.

In both cases, clannishness and the fusion of business, the administrative apparatus and parliament have led to a high level of economic monopolization, to a weakening or even total loss of the positive effect of competition on economic processes at national, regional and micro levels (when firms providing services to a particular city or other population center have a monopoly).

Economic life in the CIS countries is also directly affected by a whole set of other factors. With the exception of Ukraine, Moldova, Kyrgyzstan (with their periodic changes of leadership) and Armenia, all other CIS countries have a "strong leader" form of government, under which the head of state determines the parameters of the country's political and economic life over a long period of time with a greater or lesser degree of authoritarianism.

A very interesting conclusion on Russian financial industrial groups (FIGs) was drawn by Martha Brill Olcott, an American researcher of post-Soviet realities: "Putin views their (financial industrial groups'.—*V.B.*) control of Russia's assets as a form of guardianship from which the management and 'owners' are free to profit. It is also clear that Putin does not understand this *stewardship* as *ownership*, as it is often construed in the West, where owners have full control of their assets and the authority to determine the direction of their firms' development."[6]

Such an informal, de facto "nationalization" of business not formalized in law is also characteristic of other "strong leader" countries of the CIS, especially those of Central Asia.

It is precisely the handout of "feuds" and the subsequent permissive attitude toward the expansion of businesses by their new owners that provided the basis not only for such nationalization, but also for the persistent dependence of oligarchs and smaller businessmen on the central and local authorities. In this context, it is appropriate to recall the court action against the owner of Yukos Mikhail Khodorkovsky in Russia or the head of one of the largest banks in the CIS region (BTA Bank) Mukhtar Ablyazov in Kazakhstan.

Without questioning the court decisions, one can say that, compared to other oligarchs, Mikhail Khodorkovsky and Mukhtar Ablyazov did not do anything out of the ordinary. Their main distinction was that each of them, while doing business, engaged in politics and came out against the ruling authorities, so standing out from the crowd of loyal entrepreneurs.

Another example is "government raiding" in Russia, Ukraine and Kyrgyzstan; after the change of political leadership in these countries, the clans that came to power engaged in a redistribution of property belonging to the clientele of the previous government vertical.

In contrast to Western countries, where involvement of government officials and members of parliament in business is not only prosecuted by law, but is also rejected by the national mentality, the use of one's position in government structures in the CIS region is a widespread phenomenon even where administrative staff, party workers and lawmakers are formally barred from economic activity. A case in point is the former Moscow Mayor Yuri Luzhkov, who allegedly does not own any property, and his wife Yelena Baturina, who became a billionaire while her husband was in office. The same can be said about the former prime minister of Ukraine, Pavlo Lazarenko, who rapidly increased his personal fortune in a matter of years and after fleeing the country was convicted by a U.S. court on charges of corruption and money laundering.

All these peculiarities of the transformation process have created in the CIS region a distinctive model of economic activity unlike that of other countries. It has not accomplished the main tasks of the implemented reforms, whose purpose was to achieve a high level of economic and social development and help the CIS countries occupy a significant place in the world economic system.

---

[6] M. Olcott, *Vladimir Putin and the Geopolitics of Oil*, Carnegie Endowment for International Peace, 2004, p. 19, available at [http://carnegieendowment.org/files/wp-2005-01_olcott_english1.pdf].

The CIS Countries Before, During and After the 1998 Crisis

Since independence, the new states, like other countries in the world, have experienced two crises, whose manifestations in the CIS had some distinctions.

The 1998 crisis struck hardest at Russia, had little effect on Ukraine and Kazakhstan, while seven of the twelve CIS countries even recorded GDP growth between 2% and 10%. The reason for such a peculiar "response" of some countries to global trends was the relatively low level of their involvement (except Russia) in the international division of labor, and also the momentum of national economic recovery based on the reanimation of production facilities inherited from the past (at the same time, in 1998 Azerbaijan, with its highest indicators of GDP growth, was already beginning to feel the effects of cooperation with foreign TNCs in developing offshore oil fields in the Caspian Sea).

The imitation of reforms in the CIS region hindered foreign investment and generally prolonged the decline in GDP caused by the crisis, whereas in the CE countries it was overcome in two or three years.

A high degree of instability in economic development in the CIS region was characteristic of the entire 1990s, but on the whole it persisted throughout the pre-crisis stage of the past decade. Even excluding the figures for crisis year 2009, there were sharp fluctuations in GDP growth in most CIS countries even against this more favorable background, ranging from almost 14% to a modest 2-3%. Steady growth was recorded only in Azerbaijan, Uzbekistan and Turkmenistan.[7]

Western researchers have also noted the connection between the unstable dynamics of economic indicators in the CIS countries and the slow progress of reforms. The German researcher Roland Götz writes, for example, that given the slow implementation of market reforms in the Commonwealth countries in the 1990s, there can be no question of strong economic growth in these countries in contrast to the reformist states of Central and Eastern Europe.[8]

For an overall assessment of the economic situation in the NIS in the current decade, it is necessary to take into account a number of specific features of their national economies. Market reforms could not ensure the imperative of reproduction processes within each of these states, and all of them took the path of creating an "open economy," in which an overwhelming or substantial part of state budget revenue depends on exports.

Accordingly, the countries of the region have fallen into two groups. The first group includes countries with exportable energy products and raw materials (Russia, Azerbaijan, Kazakhstan and Turkmenistan, actively joined by Uzbekistan in recent years), intermediate goods (Ukrainian metallurgical products, Russian forest industry and other products) and military technology products (Russia, Ukraine and Belarus); the second group includes countries lacking such opportunities (Moldova, Armenia, Tajikistan, and to some extent Kyrgyzstan).

In the ten years between the crises, the economic situation in the first group of countries seemed to be quite satisfactory. Russia, for example, ranked third in the world in terms of international reserves, and its leaders even spoke of the possibility of turning the ruble into a convertible currency. In addition, huge foreign exchange earnings from energy and commodity exports resulted in a constant

---

[7] See: *Osnovnye sotsial'no-ekonomicheskie pokazateli gosudarstv-uchastnikov SNG za 1992 (1994)-2010 gody*, Economic Cooperation Department of the CIS Executive Committee, Minsk, 2011, pp. 3, 6, 7.

[8] See: R. Götz, "Wirtschaftsmacht Russland," *Osteuropa*, No. 2, 2008, S. 24.

budget surplus in Russia, Kazakhstan and Azerbaijan, enabling them to accumulate significant reserves in stabilization funds.

The differences in economic dynamics in the CIS region in the 1990s and before the 2008-2009 crisis are most characteristic. In the previous decade, along with periodic downturns, all these countries had roughly similar indicators despite higher growth rates in some years in the weak economies of Armenia, Kyrgyzstan and Tajikistan.

In the subsequent period, the situation changed radically. In 2000-2007, GDP increased 6.2-fold in Azerbaijan, 5.7-fold in Kazakhstan, 5-fold in Russia and 4.8-fold in Turkmenistan. In that period, the GDP of Kyrgyzstan increased only 2.7-fold, Moldova 3.4-fold, and Tajikistan 3.7-fold, with the lowest figures recorded in Uzbekistan (an increase of only 1.6-fold; compared to the higher figures of 1999 the increase was even smaller: 1.2-fold), medium figures in Ukraine (an increase of 4.5-fold) and Belarus (4-fold), and a peak increase of 4.8-fold in Armenia uncharacteristic of that country.[9]

The above data clearly show that GDP dynamics correlate with the presence or absence of an opportunity to ensure high rates of economic development by exporting energy and commodities to the world market.

The 2008-2009 crisis unexpectedly revealed the paradox of the general economic situation in the CIS region: the hardest hit countries were those which had made the greatest progress in reforming the economic mechanism. In 2009, the largest drop in GDP was recorded in Ukraine (by 14.8%); then came the extremely unstable economy of Armenia (14.1%), followed by the previously most stable Russian economy (a drop of 7.8%). Compared to pre-crisis indicators, GDP growth slowed sharply in Kazakhstan as well (from 18.8% in 2007 to 9.5% in 2008 and 6.2% in 2009).

The largest increase in GDP during the crisis (9.3% in 2009) was observed in Azerbaijan (a country with a high level of direct government influence on economic processes), and also in two countries still using directive methods in the economy: Uzbekistan (8.1%) and Turkmenistan (6.1% in 2009).[10] Moreover, in December 2009 the international organization called the Economist Intelligence Unit included Uzbekistan and Turkmenistan among the contenders for the top five fastest growing countries in the world; a similar assessment was given to them by the World Bank (in this case, in the context of the CIS region).

Does this mean that a somewhat modernized administrative command economy has an advantage over a market-oriented one? Of course not. This only indicates that reforms in Russia, Ukraine and Kazakhstan are partial and fragmentary, while the economic mechanism they have created does not meet the current needs of economic entities in these countries. The Russian expert Pyotr Orekhovsky rightly notes that "the numerous ongoing reforms and state programs are essentially imitative."[11] It can be said that this conclusion is true for all CIS countries regardless of how far they have advanced along the path of creating a real market economy.

As for the countries that are outwardly doing best in the region, the energy and commodity specialization imperative has extremely negative aspects. First of all, even today, let alone in the medium term, such specialization can lead to manifestations of the so-called Dutch disease, when support for one sector (in this case natural resources) at the expense of other structural divisions of the national economy is bound to cause economic imbalances.

The "welfare" of these countries is based on the exploitation of nonrenewable natural resources, which in the foreseeable future will no longer ensure national economic stability (in this context, for

[9] See: *Osnovnye sotsial'no-ekonomicheskie pokazateli gosudarstv-uchastnikov SNG za 1992 (1994)-2010 gody*, p. 4.

[10] See: Ibidem.

[11] P. Orekhovsky, "Vlast' i innovatsii (pochemu v Rossii ne poluchaietsia postroit' innovatsionnuiu ekonomiku)," *Obshchestvo i ekonomika*, No. 9, 2009, p. 116.

example, one cannot share the optimistic view that sufficiently abundant energy resources in Kazakhstan will last for at least 40 years, expressed by senior oil and gas ministry officials in the republic in March 2012).

It was precisely the 2008-2009 crisis that revealed Russia's vulnerability associated with the extreme dependence of its economy on the conditions in the global energy market. Similar vulnerabilities have slowed economic growth in Kazakhstan.

It would seem that the conclusion about the negative impact of the global crisis situation on the national "resource-based" economy is contradicted by high indicators in several CIS countries; however, the impact of the global recession on their economies is offset by other factors.

Azerbaijan, for example, enjoys guaranteed oil exports under the 1994 Contract of the Century for the development of Caspian offshore fields and the supply of oil by pipeline through Georgia to the Ceyhan terminal in Turkey.

Turkmenistan has similar long-term contracts for gas supply, although for more than ten years now that country has not provided any exact data on its export-import operations (like Uzbekistan).

In recent years, Uzbekistan has gradually begun to "open up" its economy, admitting foreign investors to its gold mining, energy, engineering and other industries. In late 2009, the republic together with Turkmenistan began exporting gas to China.

Besides, in the conditions of traditionally tight government control over economic activity, the anti-crisis programs in Uzbekistan and Turkmenistan were implemented more consistently and successfully than in other CIS countries.

In the post-crisis period, these two countries remain the fastest growers in the CIS. In 2010, Turkmenistan's GDP rose by 9.2%, and in 2011, by 14.7%. The corresponding figures for Uzbekistan were 8.5% and 8.3%, while the average increase in GDP for the CIS as a whole was 4.5% in 2010 and 4.7% (estimate) in 2011.[12]

In the conditions of an imitation of market reforms and irrational economic openness, the results of the 20-year development of the NIS differ significantly. The highest economic growth in this period was recorded in Azerbaijan and Kazakhstan (in 1994-2010, their GDP increased 32.4-fold and 12.4-fold, respectively), which is directly connected with exports of energy and raw materials in demand in the world market.

Economic growth in countries without marketable products, on the contrary, has been much slower: in the same period, GDP in Moldova and Kyrgyzstan increased just over 4-fold, and in Tajikistan, 7-fold.

As for the most developed countries, their indicators rose at a slower rate: in 1994-2010, GDP increased 10.1-fold in Belarus, 5.3-fold in Russia, and 3.6-fold in Ukraine. In the same period, Uzbek GDP increased 6-fold, mainly in the last five years (2.2-fold in the 12 years from 1994 to 2005, and 2.7-fold in 2005-2010). Rapid GDP growth in Armenia (15.7-fold in 1994-2010) is associated exclusively with the extremely low initial level: due to the disruption of cooperation ties with partners in the post-Soviet space, the country's economy at the beginning of its independent development was at a virtual standstill.

Turkmenistan provides only some data on its economy; it is only known that in 1994-2007 the country's GDP increased 5.3-fold.[13]

In the past two decades, the CIS countries have not been able to join the ranks of the most developed countries in the world. The best economic indicators have been achieved by Russia (per capita

[12] See: *Osnovnye sotsial'no-ekonomicheskie pokazateli gosudarstv-uchastnikov SNG za 1992 (1994)-2010 gody*, p. 3; *Osnovnye sotsial'no-ekonomicheskie pokazateli stran SNG v 2011 godu*, CIS Interstate Statistical Committee, Press Release, 8 February, 2012.

[13] See: *Osnovnye sotsial'no-ekonomicheskie pokazateli gosudarstv-uchastnikov SNG za 1992 (1994)-2010 gody*, p. 4.

GDP of $10,437), but this has enabled it to rank only 53rd among 142 countries in the world, with a GDP 6.5 times smaller than the average for the top ten most developed countries.

According to the International Monetary Fund (IMF), the following CIS countries also ranked among the top hundred: Kazakhstan ($8,883 with a rank of 59), Azerbaijan ($6,008, rank 71), Ukraine ($3,000, rank 94) and Armenia ($2,846, rank 99). Moldova with its $1,630 was ranked 107th, while Kyrgyzstan ($864, rank 120) and Tajikistan ($741, rank 125) were included among the least developed countries in the world. Virtually identical data (2010) for these countries are given by the World Bank, which additionally estimates GDP per capita in Belarus ($5,765), Turkmenistan ($4,180) and Uzbekistan ($1,384).[14]

From Difficult Problems of the Present to No Less Difficult Problems of the Future

The need for fundamental changes in the current model of economic development is recognized by all countries in the region we are considering. The slogan of modernization became particular popular during the latest crisis; it has been included in official long-term economic development programs in Russia, Kazakhstan, Ukraine and other CIS countries. These programs define the priority (and, unfortunately, the simplest) ways to eliminate the negative elements of the economic policy system that has emerged in the past 20 years.

The leaders of many CIS countries rightly believe that one of their main tasks is to fight corruption. According to the 2010 Corruption Perceptions Index (compiled annually by the international organization Transparency International) ranking 178 countries, the best performers in the region are Kazakhstan and Moldova (with a score of 2.9 on a 10-point scale or 107th and 108th places, respectively, i.e. at the level of Algeria, Argentina, Senegal, etc.).

Armenia (2.6-2.1 points, rank 123), Belarus (rank 127), Azerbaijan (rank 134) and Ukraine (rank 144) are placed by Transparency International in the group of countries that includes Madagascar, Lebanon, Bangladesh, etc.

Russia (rank 162), Tajikistan (rank 163) and Kyrgyzstan (rank 166) are in a very dangerous situation: with scores of 2.1-2.0, they are in the same group with Cambodia, Laos, Kenya, etc.

Turkmenistan (rank 173) and Uzbekistan (rank 174) have the sixth and fifth lowest rankings on Transparency International's list and are included in the group of the most corrupt countries in the world.[15]

Of course, one can dispute the inclusion of these countries in a particular group, but one must agree with the general conclusion about a high level of corruption in all of them.

Rampant corruption, the existence of a "gray," semi-legal or illegal economy, and widespread raiding (seizure of property using loopholes in legislation) significantly "distort" economic activity, discourage business and cause public discontent with the authorities. The periodic anti-corruption campaigns conducted over the years in the CIS countries have produced practical results only in Georgia, which in 2009 left the Commonwealth.

The fight against corruption has recently been particularly active in Russia (in March 2012, President Dmitry Medvedev, in particular, proposed monitoring not only the income, but also the purchases of public officials and their family members). This problem is examined in the works of Stephen Knack and Gregory Kisunko, U.S. researchers studying corruption in the CIS region; in one

---

[14] See: *GDP per capita. 2010. World Economic Outlook Database*, IMF, April 2011, available at [http://data. worldbank. org / data — catalog / world. development — indicators].

[15] See: *The 2010 Corruption Perceptions Index*, Transparency International, 2010.

of their studies, there is a section entitled "The Russian Federation—Anti-Corruption Effort Continues, but with Mixed Results."[16] It can be noted that similar attempts have been made in all CIS countries (and in a number of countries even less effectively).

An equally negative impact on the economic situation in these countries is made by high inflation, although it must be admitted that inflation figures are not as shocking as at the beginning of the reform period. In 1992-1994, for example, the consumer price index in Armenia increased 110-fold year-on-year, and in other CIS countries 10-fold or more.

In the past five years, the annual inflation rate is around 8-9%; the highest rates among the NIS were recorded in Ukraine in 2008 (122%) and in Kyrgyzstan in 2007-2010 (120%).[17]

The authorities in the countries of the region have been able to stop hyperinflation, but cannot cope with creeping inflation, especially in services to the public. Thus, only in the 1st quarter of 2012 the rates for gas, hot and cold water supply, and heating services in Uzbekistan increased by 14%; electricity rates in Tajikistan rose by 20%, and the price of gas for households in Kyrgyzstan rose by 11%.

A significant role in reducing the labor activity of the population is played by the huge income gap between the oligarchs and the majority of working people. According to the International Labor Organization, such a basic performance evaluation indicator as the minimum wage in a number of countries has a purely symbolic character: in 2008-2009, it was $20 a month in Kyrgyzstan, $31.9 in Uzbekistan, and $48 in Tajikistan. This is 20-30 times less than in the post-socialist countries of Central Europe, let alone the richer countries of the world.[18]

Among the major external economic factors that must be overcome if the CIS countries are to achieve long-term economic stability, let us mention their extremely high dependence on the world market and the fact that the stability of their central budgets is directly connected with it. Today more than 80% of the region's total exports go to "Far Abroad" (non-CIS) countries. In Azerbaijan, for example, this indicator exceeds 90%. At the same time, imports in some years have mainly come from other CIS countries only in Belarus, Tajikistan and Kyrgyzstan, with the other eight Commonwealth countries oriented exclusively toward imports from other regions of the world.[19] Such excessive dependence can be overcome only by a significant improvement in the quality of domestic products, and also by restoring and modernizing trade cooperation among the CIS members.

If these and many other problems of current economic development in the countries of the region are reduced to a common denominator, we will come to the conclusion that the only way to solve them is to go over from an extensive to an intensive model of economic activity based on widespread, general use of innovations.

One cannot say that up to now there have been no attempts in the NIS to follow the example of many countries in the world and go over to a consistent innovation policy; this applies, in the first place, to Ukraine, Kazakhstan and Russia. For example, innovation has been a systematic component of Ukrainian government programs since 1998, and in Kazakhstan such a component is present in all long-term national development plans: from the Kazakhstan 2030 project announced by Nursultan Nazarbaev to the current post-crisis programs, on which it is planned to spend 6.5 trillion tenge (about $439 billion) by 2020.[20]

---

[16] S. Knack, G. Kisunko, *Trends in Corruption and Regulatory Burden in Eastern Europe and Central Asia*, World Bank, Washington, D.C., 2011, p. 23.

[17] See: *Osnovnye sotsial'no-ekonomicheskie pokazateli gosudarstv-uchastnikov SNG za 1992 (1994)-2010 gody*, p. 9.

[18] See: *Zarabotnaia plata v mire v 2010-2011 godakh*, ILO Subregional Office for Eastern Europe and Central Asia, Moscow, 2010, pp. 118-119.

[19] See: *Osnovnye sotsial'no-ekonomicheskie pokazateli gosudarstv-uchastnikov SNG za 1992 (1994)-2010 gody*, p. 5.

[20] See: N. Nazarbaev, "My stroim protsvetaiushchi Kazakhstan," *Mezhdunarodnyi kuryer*, Nos 5-6, 11-24 February, 2010.

Before the crisis, the Russian leadership, whose resource capacity exceeds that of other NIS, was also planning to implement a wide-ranging innovation policy (it was planned to finance sectoral innovation projects, set up regional venture funds, organize large innovative corporations similar to Rusnano in the fields of aircraft construction, shipbuilding, etc.). In the post-crisis period, particular attention is being paid to the creation of a Russian Silicon Valley in Skolkovo near Moscow.

Russia's example is the best illustration of the difficulties faced by attempts to impose an innovation development model "from above." Out of the 41 initial Federal programs in the field of innovation, only 21 have produced positive results while some were total failures. The economic mechanism that exists in Russia and other CIS countries rejects not only domestic, but also most imported high-technology developments, including such forms of innovative activity tested in other countries as technology parks, research parks and technology-oriented special economic zones.

Significant difficulties have also arisen in implementing the Skolkovo innovation center project. Since 2012, the then prime minister and now President of Russia Vladimir Putin has persistently promoted the need to focus innovation efforts on the military industrial complex with subsequent transfer of the best achievements to civilian industries.

In this context, it should be noted that there is a very important peculiarity in the use of innovations in both the Russian economy and the economies of other CIS countries.

With the current, "post-Soviet" economic mechanism, innovative research and development projects can indeed be applied in various segments of the public sector and significantly stimulate GDP growth. But this mechanism has so far failed to create an inherent urge for "bottom-up" innovation. Moreover, there is no large-scale or general need in the NIS for the use of innovations in day-to-day work as is characteristic of other countries with a really functioning market economy.

In other words, the problem is not confined to shortcomings in innovation policy, but lies in the need for a fundamental restructuring of the whole economic mechanism in Russia and the other CIS countries in order to bring it closer to similar mechanisms used throughout the world.

Such a restructuring is the most difficult component of the effort to raise the CIS national economies to global levels of competitiveness. It requires a radical change in the relations between the main economic and political actors (the state, oligarchs and other large and small employers, and employees) established in the past two post-Soviet decades.

It is necessary to overcome the dominance of powerful clans reigning in the economy, to deprive them of support from the entire administration vertical (from the central to the local authorities), and ensure real and effective rule of law and its use in the interests of society as a whole. Besides, in order to overcome the people's paternalistic view of the relations between the individual and the authorities, the consciousness and mentality of the society needs to be changed drastically.

A restructuring of the economic mechanism is impossible without the decisive role of political factors such as real democratization and the construction of a civil society, which in advanced countries of the world ensures the self-reproduction of rational economic and political processes.

Certainly, a fundamental change in the economic mechanism is a very difficult task. Unless it is accomplished, the CIS space will remain among the regions of the world that are losing ground in the world economic system.

Conclusion

Recent processes in the CIS region do not allow us to draw a definitive conclusion either on the future of the organization itself or on the development prospects of its member countries. It should be noted that the Russian leadership's persistence in creating the EurAsEC and then the Customs Union will undoubtedly lead to very contradictory results.

On the one hand, an "integration core" is indeed forming within the CIS, and it is quite probable that its three key members (Russia, Kazakhstan and Belarus) will be joined by some other countries of the region. On the other hand, the integration efforts of the key members obviously create a strong barrier in relations with other Commonwealth members despite the conclusion of an agreement on a free trade area. In other words, in the next few years we are bound to see a strengthening of both centripetal and centrifugal trends in the region. In these conditions, even if the CIS nominally continues to exist, this international organization will be even more formal in character than before.

The problems that have arisen in domestic political processes in the CIS countries are no less fundamental. The latent and non-formalized dissatisfaction with the current state of affairs is beginning to give way to more organized forms of civic activism, a challenge already faced by the authorities in Russia and a number of CA countries.

Historical experience shows that attempts at "democratization from above" do not produce results because they are confined to partial and superficial reforms whose real purpose is to preserve the existing order.

In summary, it can be concluded that the CIS region is entering a period of serious qualitative changes. The overall stability of the political and economic foundations of the Commonwealth countries depends on whether these changes follow the evolutionary path or erupt in uncontrollable turmoil. The choice of path will primarily affect the economy.