

**ECONOMIC IDEAS AND INSTITUTIONAL CHOICE AMONG
THE POST-SOVIET STATES**

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The post-Soviet states present an interesting empirical puzzle for theories of international political economy and analysts of post-Communist transitions. On the one hand, the post-Soviet states are very similar. As a result of their common past as administrative units of the Soviet state, the fifteen countries began independence with virtually identical domestic political institutions, very similar economic structures, and societies organized into a similar menu of groups sanctioned by the Soviet regime. Upon independence, each of the states faced fairly similar economic problems. When the collapse of the USSR opened their access to the world economy, they were saddled with unproductive and interlinked Soviet-era enterprises which could not compete on an open market. With similar institutions and economic structures, most theories of political economy would have predicted that these states would respond similarly to their new-found independence and openness.

Since achieving independence in 1991, however, the post-Soviet states have chosen three very different institutional arrangements for governing their trade relations with other countries. Georgia, Latvia, Estonia, and Kyrgyzstan have pursued free trade and secured rapid entry into the World Trade Organization (WTO). Russia, Belarus, Kazakhstan, and Tajikistan formed a regional customs union (CU) with a high common external tariff that precluded WTO entry. Ukraine, Uzbekistan and Turkmenistan have pursued autarkic strategies, erecting barriers to trade and eschewing membership in all international trade institutions. Given their structural similarities, why have post-Soviet governments made such different institutional choices?

This paper argues that the variation in state choices is rooted in the different economic ideologies of the elites that have gained control of these states since independence. To preview, I will first examine the difficulties encountered by traditional approaches in trying to explain this variation. I then present a theoretical case that economic ideas shape states' preferences, and go through the methods that can be used to identify the economic ideas of the governing elite. Finally, I present a cross-national comparison of the post-Soviet states which suggests that actors' ideas about how economies function have an important role in explaining why post-Soviet states have taken different international institutional paths.

Alternative Explanations: Nationalism, Coercion, Economic Structure

The increasing importance of national identity in constructivist theories of international relations has naturally led some scholars to ascribe the variation in the behavior of the post-Soviet states to differences in the strength or type of nationalist sentiment.¹ This explanation is at best incomplete. Several of these accounts tend towards tautology, as indicators of nationalism are not clearly specified and the causal links between nationalist ideas and policy choices are not demonstrated empirically. As a result, resistance to post-Soviet regional institutions itself appears to be implicitly taken as evidence of nationalist sentiment. For example, a weak national identity is often cited as the reason for Belarus' strong support for the customs union, with no evidence of the

¹ Several scholars have cited a lingering "imperial culture" and different levels of national identity as an explanation of the variation in state behavior in the region. See Beissinger 1995; Suny 1995; Solanichy 1993; Dawisha 1997; Starr 1994; Szporluk 1994; Brzezinski 1997; Olcott, Aslund, Garnett 1999.

weakness of Belarusian national identity other than its support for closer ties with Russia. In more nuanced accounts, prior independence or a later date of incorporation into the USSR is taken as the underlying cause of stronger national sentiment in a republic, and is used as the indicator of nationalism.² Even this more refined explanation cannot fully account for the variation in institutional choice. Of the four states that secured entry into the WTO, Latvia and Estonia enjoyed a period of independent statehood before forced incorporation into the USSR, but Georgia and Kyrgyzstan have never been independent states. Belarus, Ukraine, Moldova, and all of the Caucasian and Central Asian states were products of the Soviet regime and had no modern history of independence, but these countries have chosen very different institutional paths. At best, the nationalist arguments may provide some insight into an explanation of the behavior of the three Baltic states, but they do little to account for the overall variation in institutional choice.

Arguments drawing on realist or neorealist theories of international relations have stressed the power imbalances embodied in international institutions and the coercion required to establish and maintain them.³ Writing in this vein, several scholars have suggested that Russia has pressured the other post-Soviet states to join a customs union that primarily serves Russian interests.⁴ They contend that the variation in support for the customs union reflects differences in the capacity to resist Russia, and that dependence on Russia for energy resources or the absence of alternative alliance partners would make states more easily coerced into joining the union.

This explanation is also incomplete. It only purports to explain whether states can be expected to join the customs union, and is silent on the issue of whether the remaining states will pursue entry into the WTO or autarkic “self-help” strategies. Yet even this more limited claim does not square well with the empirical record. Closer investigation reveals that only five of the fifteen post-Soviet states were dependent on Russia for their primary energy supply at the time the customs union was formed: Belarus, Ukraine, Estonia, Latvia, and Lithuania.⁵ If Russia were using its monopoly on energy supply to coerce states onto a particular institutional path, one would have expected these states to have joined the customs union. But of these states, only Belarus joined the Customs Union. Estonia and Latvia joined the WTO, and Ukraine became one of the most closed economies in the region and imposed a high tariff wall. Moreover, neither Kazakhstan nor Tajikistan, the other two customs union member states, are dependent on Russia for

² Abdelal 1999; Tsygankov 2000. Even these more sophisticated accounts also do not fully explain why a short period of independence during the interwar period should outweigh the influence of 50 years of Soviet rule.

³ On the role of a hegemonic state in establishing a particular institutional order (liberal or otherwise) to serve its interests, see, among others, Hirschman 1945; Krasner 1976; Gilpin 1987; Lake 1988, 1996; Gowa 1993.

⁴ Examples of work which stresses the geopolitical, power-maximizing, or security concerns as explanatory factors for the behavior of states in the region are Posen 1993; Odom and Dujarric 1995; Becker 1996/7; Brzezinski and Sullivan 1997; Olcott, Aslund, and Garnett 1999; Hendrik Spruyt (1997) uses Realism to explain the behavior of some states. Realist elements come into the discussion of Mark Webber (1997); Roeder 1995. Some basic realist assumptions about preferences go into Lake 1997.

⁵ CIS Statistical Commission 1995. Moldova had been supplied by Russia under the Soviet period, and received natural gas supplies after 1995. Moldova did not become a customs union member.

energy supply.⁶ There appears to be no clear relationship between energy dependence and institutional choice.

Some scholars have suggested that states that face internal or external security threats and lack alternative alliance partners might be more reliant on Russia and more subject to Russian coercion.⁷ We find, however, that such states are not any more inclined to join the customs union than those which are stronger and more secure. The five Central Asian states all face potential threats from China, Afghanistan, and domestic Islamic movements and have cooperated with Russia to counter each of these threats. This reliance on Russia in security affairs has not translated into any particular choice of institutions for governing trade. Uzbekistan and Turkmenistan are the two most autarkic post-Soviet states and have rejected any institutional membership. Kyrgyzstan was the first of the fifteen to join the WTO, and Kazakhstan and Tajikistan have chosen membership in the customs union. Moreover, Belarus, a country facing no external or internal threats and having NATO as a potential balancing partner against Russia, has been one of the strongest advocates of the customs union and other regional economic institutions. If Russia were preying on the weaknesses of its post-Soviet neighbors to draw them into a customs union, this is not the pattern of membership that we would expect.

A third set of arguments points to the lobbying efforts of domestic commercial interests to explain a state's choice of institutional membership.⁸ According to this approach, countries with a higher concentration of enterprises that cannot compete on world markets are more likely to develop winning coalitions that support regional closure in the form of a customs union or national autarky.⁹ And since virtually all manufactured goods in post-Soviet countries are uncompetitive on international markets, we would expect that states with the highest concentration of Soviet-era industry would be the strongest supporters of closure. Countries with strong natural-resource sectors should be inclined to maintain open trade without import restrictions and to resist regional bloc formation, as these sectors would not face significant competition under conditions of trade liberalization and would benefit from lower prices on imported goods. We might also expect that those states with economies that were most closely linked into Soviet production networks (i.e. that have a higher percentage of transaction-specific assets) would be more likely to prefer the customs union to national closure or autarky.

⁶ Some areas of northern Kazakhstan are part of an electricity grid with production facilities on Russian territory.

⁷ Lake 1997.

⁸ Moravcsik 1997, 528-530; Milner 1997. Much of this work has focused on the effects of an exogenous increase or decrease in the internationalization of capital flows or trade flows on domestic policy preferences and coalitions (Gourevitch 1986; Rogowski 1989; Frieden 1991; Frieden and Rogowski 1996; Keohane and Milner 1996). The logic can be reversed, however, as both Milner (1988, 1997) and Moravcsik (1997) have done, to argue that the policies of economic openness or closure are due to the relative balance of commercial interests favoring (or opposing) greater internationalization. The most well-developed literature of this type is endogenous tariff theory (McKeown 1983; Milner 1988; Magee, Brock, and Young 1989; Schonhardt-Bailey 1991; Trefler 1993; Grossman and Helpman 1994, 1995).

⁹ As applied to the formation of the European customs union, see Moravcsik (1997, Chapter 2). Milner makes a more sophisticated argument about increasing returns to scale in specific sectors which leads them to have a preference for a customs union over either a smaller national market or a open market in which they might be driven out by more competitive foreign producers. See Milner 1997b. Also Lawrence 1996.

This argument is not supported by the data from the post-Soviet states. The economies of the Soviet republics fell into two basic groups. One group included republics with a high percentage of their workforce engaged in industrial production, a stress on heavy industries, a higher percentage of military-industrial enterprises, and a greater number of enterprises locked tightly into Union-wide production networks.¹⁰ In this category we find Estonia, Latvia, Lithuania, Belarus, Ukraine, Russia, and Armenia.¹¹ The rest of the Soviet republics were industrialized, but to a lesser extent and with fewer enterprises tied to Union-wide chains and more of a focus on agriculture and natural-resource extraction. By the logic of an argument stressing the role of commercial coalitions rooted in underlying economic-structural differences, we would have expected the countries in the first category to have pushed most strongly for regional closure in a customs union. Instead, we find that Estonia and Latvia joined the WTO; Ukraine and, to a lesser extent, Lithuania, pursued autarkic strategies; and only Belarus and Russia joined the customs union. The economic choices of the second class of states are equally mixed, suggesting no relationship between the competitiveness of a post-Soviet country's industries and its subsequent choice of trade institutions.

The difficulties of using these traditional variables to explain a state's choice of institutions is most clearly seen in the comparison of Belarus and Ukraine shown below in Table 1.

Table 1
Comparison of Belarus and Ukraine

	<u>Belarus</u>	<u>Ukraine</u>
Production controlled by Union-level (Soviet-specific assets): ¹²		
As % of total production volume	54	58
As % of industrial personnel	54	63
As % of fixed assets for industrial production	74	73
Heavy industry as % of total ¹³	65	68
% employed in industry	30	30
Military-Industrial employment as % of total	17	19
% of imports from Russia ¹⁴	54	57
% of exports to Russia	47	53
% fluent in national language ¹⁵	78	78
% fluent in Russian	83	78
% of population of titular nationality	78	73

¹⁰ Based on Soviet data from 1989. *Narodnoe Khoziaistvo SSSR: Osnovnye Pokazately, 1989*. (Hereafter Narkhoz). For details see Darden 2000, Chap. 3.

¹¹ Kazakhstan fits this category only insofar as a large percentage of its industry was heavy industry, but the percentage of the population employed in industry was significantly smaller than in the rest of these states.

¹² Narkhoz 1989, 331.

¹³ World Bank 1995, Table 7-1, 53. (Data for 1990)

¹⁴ Narkhoz 1989, 634.

¹⁵ Language and nationality data is from *Natsional'nyi Sostav Naseleniia SSSR, po dannym vsesoiuznoi perepisi naseleniia 1989*. Moscow: Finansy i Statistika, 1991.

In terms of economic structure these two countries are virtually identical, both rely on Russia for their primary energy supply, and neither has a prior history of independent statehood, yet they have made radically different choices with respect to institutional membership.¹⁶ Belarus has been the strongest advocate of the customs union, whereas Ukraine has rejected membership in the customs union or in any other international trade institutions.

In sum, traditional approaches do not take us very far towards an explanation of the choices made by the post-Soviet states. An alternative approach is required.

Economic Ideas, Preference-Formation, and Institutional Choice

The argument presented here is that the choice of membership in international institutions depends on the economic ideology of the elite in control of the state. It suggests that an important feature of post-Communist politics is the struggle for the control of the state between groups with different economic ideologies,¹⁷ and that the resolution of these political battles has a profound effect on the choices that states make regarding their participation in international economic institutions. Different elite ideologies lead to different definitions of the national interest and radically different views on the international institutions needed for economic growth. Ultimately, the three institutional pathways we find among the post-Soviet states result from differences in the economic ideas of post-Soviet elites.

The primary focus of this account is thus on the role of economic ideas in the formulation of national economic strategies by the elites in control of the state bureaucracy. This focus on top state officials stems in part from institutional peculiarities of the post-Soviet states, where interest groups have yet to organize, there are few institutionalized channels of access to policy-makers, and the state bureaucracy has traditionally had a highly autonomous role in defining priorities and implementing policy. The argument is not limited to the post-Communist states, however. Even in the advanced industrial democracies there is strong evidence that economic policy is more than the product of a parallelogram of group forces and the state plays an autonomous role.¹⁸

Underlying this argument is a theory of preference-formation that highlights the role of causal ideas in shaping the preferences of decision-makers. The theory assumes that top officials generally do not have a natural preference over economic institutions or policies – for example, they do not naturally have a preference for customs unions over

¹⁶ When Russia withdrew from World War I, Austro-German forces occupied much of the European territory of the empire that is now part of Belarus and Ukraine. Under Austro-German occupation, both Ukraine and Belarus were declared independent from Russia and established as sovereign states. Nationalist historians in both states have presented this as a prior tradition of independent statehood. In actuality, however, both the Belorussian and Ukrainian National Republics enjoyed no more than a brief symbolic independence and depended entirely on the good will of the Austro-German Occupation Army authorities. The BNR lasted only 10 months. The UNR lasted only slightly longer by virtue of the fact that Russian General Denikin's White Army tried to keep the territory outside of Bolshevik control. This does not amount to a significant history of prior statehood.

¹⁷ I speak of the state here not as a neutral framework of rules, but as a purposive organization with the coercive power to implement the will of the leadership.

¹⁸ Hall 1986, Chapter 1.

free trade in the way that one might prefer apples to pears. Rather, they have a more basic (or 'primitive') preference for economic growth and believe, to continue the example, that a customs union is a better means to secure wealth than is free trade. What links a preference for growth to support for an international institution like the customs union is a set of economic ideas that establishes a causal link between the institutional means and the economic ends.

The upshot of this line of reasoning is that the ideas that actors hold about how economies function significantly shape their preferences over possible institutional outcomes. Actors with different ideas about the economy will conceive of the causes of economic problems or crises in different terms, and will thus have different preferences over possible strategies for resolving them. Since institutional arrangements with other actors are one type of strategy for resolving economic problems, it follows logically that actors' ideas about how economies work lead them to prefer different institutional arrangements. And because actors' ideas play an important role in the definition of their preferences, one can expect that variation in the economic ideas employed by elites may often be an important factor in explaining the variation in state support for different international institutional forms.

The theory has particular strength in those situations where state actors differ in the inferences they make about the nature of the economy and about the incentives, constraints, and policy opportunities available to them. Such differences in thinking are most common under the conditions of high uncertainty that result from economic crises. Looking at the Great Depression, the "stagflation" of the 1970s, or the severe economic crisis faced by post-Soviet states since 1991, we find that policy-makers can certainly view the causes of the crisis and means for resolving it in radically different terms. Indeed, the struggle between groups with conflicting ideas about how best to manage the economy has become a central feature of post-Communist politics.

Ideational Variation Among post-Soviet Elites

To investigate the variation in economic ideas across the region, I conducted over 200 interviews with decision-makers in nine of the post-Soviet states over a period of 18 months from mid-1996 to the end of 1997, which included interviews with officials in each of the economic ministries as well as the Ministry of Foreign Affairs, the Presidential Administration, the National Bank, and the Customs Commission. These interviews were designed both to draw out the officials' ideas about how economies function and to get factual information about the formulation of the state's economic policy. I have also done extensive work with Soviet planning manuals and Soviet economic texts to develop an understanding of Soviet thinking about the economy.

Based on this work, I have found three frameworks for understanding the economy that are prevalent among post-Soviet elites, which I have labeled market-liberalism, mercantilism, and organicism. Each mode of thinking rests on a different set of ideas about how economies function. Each leads its practitioners to hold different beliefs about the sources of the economic crisis faced by states in the region, the means for escaping the crisis, and the proper institutions for governing economic activity. And critically, each leads its practitioners to assess the value of joining the customs union, the WTO, and other institutions in radically different ways. To get a sense of how these

three modes of thinking affect state choice, let us sketch out the different economic ideas and the institutional preferences that result from them.

The tenets of market-liberal thought are familiar and require very little explanation. The cornerstone of liberal economic thought is that competition is the driving force of economic growth and innovation. The institutional recipe for preserving competition and encouraging investment is nicely summarized by Shleifer and Treisman:

At the turn of the twenty-first century, there is little dispute among economists about what conditions are conducive to economic growth and prosperity. Markets should be free. Property should be private and secure. Inflation should be low. Trade between countries should not be obstructed. To achieve these goals, a country's government must leave prices alone, avoid owning or subsidizing firms, enforce contracts, regulate responsibly, balance its budget, and remove trade barriers. Any government that does all this can expect national income to grow.¹⁹

Applying these ideas to the post-Soviet context, market-liberals claim that the state-owned sectoral industrial complexes that characterized the Soviet economy need to be destroyed or restructured as competitive markets, and that enterprises should be deprived of state support. This set of economic ideas has achieved consensus among Western economists²⁰, and has made inroads into the region via the import of American economic texts to post-Soviet educational institutions, the training of post-Soviet citizens in the US and Europe, and with the active efforts of international organizations.²¹

Organicism is essentially the conceptual legacy of Soviet economic theory.²² Soviet economic theory shared with Western economics the idea that specialization, the division of labor, and economies of scale bring greater efficiency. In contrast to liberalism, however, organicism places a premium on specialized, monopolistic cooperation rather than competition as the key to productivity and growth. In the Soviet period, an extreme form of organicist thinking provided the intellectual justification for state planning and the chains of interlinked monopolistic enterprises that constituted the Soviet production complexes, making the Soviet economy a highly interdependent, specialized production unit – referred to in Soviet parlance as the economic “organism” or “mechanism”. Like organs in a living body, each economic unit plays a critical and unique role in the functioning of the whole.

Even in the post-Soviet period, when direct state planning has largely been discredited, the idea that specialized monopolistic cooperation could produce greater

¹⁹ Shleifer and Treisman 2000, vii.

²⁰ For a useful review of the process by which economists arrived at this consensus, see Haggard 1990, Chapter 1.

²¹ The International Monetary Fund (IMF) sponsors a three-week training program in liberal economics in Vienna for state officials. The United States Agency for International Development (USAID), the EU's Technical Assistance to the Commonwealth of Independent State (TACIS), the Soros Foundation, the Harvard Institute for International Development (HIID), and many other organizations work to proselytize liberal economic ideas.

²² Useful English-language sources on Soviet economic thought and institutions include Guelfat 1969, Grossman 1970, Bor 1967.

returns than market competition was strongly held by many in the elite. The economic crisis that all states have faced since the break-up of the USSR in 1991 was viewed by organicists primarily as the result of the breaking of the vital ties between soviet enterprises and the liberalization of prices, which undermined the cooperative regional specialization of industry and economies of scale built into the Soviet economic system. The national parts of the Soviet economy, now fifteen independent states, are deemed to be unable to resolve their economic problems on their own, and the preservation of the common economic system is considered to be in the interests of all of the post-Soviet states. The organicists advocate the regional revival of the monopolistic Soviet production complexes in the form of financial-industrial groups.

What I refer to as the mercantilists in the region share many of the economic views of the organicists about the virtues of monopoly and the benefits of cooperation over competition. Mercantilism differs primarily in combining these tenets with a rejection of the notion that the international division of labor is beneficial to all parties. In the mercantilist worldview, international economic relationships are zero-sum, and the relationship between the Soviet republics was one of exploiter and exploited, not of interdependent and mutually-beneficial parts of a living organism. This mode of thinking leads to a justification for the development the nation's capacity for closed-cycle production of as many goods as possible and to efforts to limit imports and promote value-added exports as a means for enhancing national wealth. In this respect, as well as in the anti-imperial rhetoric that often accompanies it, post-Soviet mercantilism shares much in common with the economic ideas which justified import-substituting industrialization strategies in Latin America, Asia, and Africa.²³

These three modes of thinking naturally led their adherents towards different interpretations of national economic interests and of the type of trade institutions that would be expected to advance those interests. Liberals will support regional institutions so long as they facilitate competition, but are opposed to any attempts to close the regional market or reconstitute Soviet-era production chains. The liberal's preferences are fairly straightforward. They should prefer rapid entry into the WTO and view regional institutions like the Customs Union as distinctly undesirable. The organicist ideas lead to an interest in the formation of a regional customs union – both to revive the vital ties of the economic organism by removing internal barriers and to protect it from foreign competitors by restricting trade. The customs union, on this way of thinking, will remove the barriers between enterprises, and allow for the revival of the organic Soviet production ties. Mercantilists reject regional cooperation as a threat to their interests and view regional institutions as attempts at imperialism.

If these ideas have a role in the formation of states preferences for different institutions, then states in which the elite's ideology is organicist should support the formation of a customs union; states with a mercantilist elite should reject the formation of a customs union and other international institutions; states in which market-liberals are dominant should support rapid entry into liberal multilateral institutions like the WTO.

Who Controls the State?

²³ For review see Haggard 1990.

Thus, to explain a state's behavior, we must be able to identify the ideas of the elite who control it. The methods for seizing and maintaining state control in the region have varied widely: coups d'etat, elections both free and rigged, the manipulation of public opinion through state-owned media, the violent suppression of opposition, disbanding parliaments, forced constitutional changes, and discriminatory citizenship laws that deny potential opponents access to political life.²⁴ We need not trace out the political struggles and mechanics of control in all 15 states, and systematic explanation would most likely prove elusive. What concerns us is the outcome of these struggles. Our interest is in the economic ideas of the elite that controls the state, and in the effect of these ideas on the choice of different international institutional paths.

One way of determining the ideas of the elite is to look at the domestic economic policies pursued by the government. In those countries where market liberals are in control, we would expect to see balanced budgets, efforts to stabilize the national currency, rapid privatization of enterprises through open auctions, and the breakup and privatization of national monopolies in key areas such as energy and transport. In those countries where organicists hold the reins of power, we would expect subsidies to Soviet enterprises, the retention of monopolistic production structures, and efforts to preserve the links between enterprises and their Soviet era partners by transferring shares to existing managers, by encouraging the purchase of linked firms in other post-Soviet states, or by creating joint state-controlled financial-industrial groups with other post-Soviet countries. Where mercantilists govern, we would expect state investment in new industries to substitute for imports from Soviet-era partners; state control over national industrial monopolies; and an effort to increase energy autonomy by diversifying supply or more costly state exploitation of natural resources. A system for coding the economic ideology of the elite based on energy, privatization, and macro-economic and industrial policies is shown in Table 2.

²⁴ For those interested in the weapons employed in these political battles, the information from the OSCE monitors is often quite useful. See <http://www.osce.org/odihr/elecprep.htm>.

Table 2
Coding System for Elite Economic Ideas Based on
Domestic Economic Policies

	ENERGY POLICY	PRIVATIZATION (LARGE-SCALE ENTERPRISES)	MACRO-ECONOMIC/ INDUSTRIAL POLICY
ORGANICISM	*Maintain or increase energy dependence on prior suppliers or delivery routes *Transfer shares to FSU partners	*Encourage purchase by regional buyers *Create joint state-controlled regional Financial-Industrial Groups	*Union-linked enterprises maintained through subsidies *Inflationary
MERCANTILISM	*More costly state exploitation of national resources *Diversify sources of supply, delivery routes	Resist privatization and keep industries under national control	*Import-substituting industrial policy *Inflationary
MARKET-LIBERALISM	Privatize and break up energy monopolies	Auctions open to national and international bids	*Prioritize stable currencies, balanced budgets *No direct intervention in production

Using this system of coding, I have coded the economic ideologies of the governments of the post-Soviet states as they stood in 1995-6, the period that the customs union was formed and when countries began to actively pursue membership in the WTO.²⁵ These are shown below in Table 3. In cases where the governing elite was divided between groups with different ideologies, the weaker of the two is noted in parentheses. Table 3 also indicates the trade institutions in which countries secured membership.

In each case, the decision on institutional membership rested primarily with the post-Soviet applicant, and thus the institutional outcomes reflect a free choice made by each of the 15 states. Entry to the customs union or to the WTO was open to each of these states, but rested on a country's willingness to meet the requirements of entry by passing the necessary legislation or adopting the appropriate tariff regime.²⁶ As is clear below, the economic ideology of the leadership appears to have a strong influence on a country's selection of institutions for governing foreign trade.

²⁵ For a full elaboration of the basis for coding each country, see Darden 2000, Chap. 6.

²⁶ An exception to this rule is Tajikistan, which was denied entry into the customs union until the end of its civil war.

Table 3
The Relationship Between Elite Economic Ideas and
The Choice of Trade Institutions Among Post-Soviet States in 1995-96

	Economic Ideas 1995-6	Trade Institutions²⁷	Confirms Hypothesis?
Russia	Organicist (liberal)	CU (1995)	Yes
Belarus	Organicist	CU (1995)	Yes
Kazakhstan	Organicist	CU (1995)	Yes
Tajikistan	Organicist	CU (1998) ²⁸	Yes
Armenia	Organicist (liberal)	FTA with CU	No
Moldova	Organicist	FTA with CU	No
Uzbekistan	Mercantilist	No Membership ²⁹	Yes
Ukraine	Mercantilist	No Membership ³⁰	Yes
Turkmenistan	Mercantilist	No Membership ³¹	Yes
Azerbaijan	n.a. ³²	No Membership ³³	n.a.
Kyrgyzstan	Liberal	CU (1996), WTO (1998) ³⁴	Yes
Georgia	Liberal	WTO (1999)	Yes
Lithuania	Liberal (Mercantilist)	No Membership ³⁵	No
Latvia	Liberal	WTO (1999)	Yes
Estonia	Liberal	WTO (1998)	Yes

How do these results confirm the hypothesis that elite ideologies drive institutional choice? Consistent with expectations, four out of the six organicist governments joined the customs union. Moldova and Armenia expressed interest in joining, but due to the fact that these countries were landlocked and did not share a border with any of the customs union members, they could be expected to reap few of the benefits of the customs union. The difficulty of transporting goods of any kind into or out of Armenia due to the closure of the heavy rail route through Abkhazia (Georgia) and the blockade imposed by Turkey and Azerbaijan would effectively have made customs union

²⁷ Here, as noted previously, a “liberal” regime denotes a regime with no tariffs above 15% (and usually an average weighted tariff of considerably less than 15%). The data here have been culled from ministry sources of the countries, but are now conveniently available on the website of the US Commerce Department’s Business Information Service for the Newly Independent States (BISNIS), (www.bisnis.doc.gov).

²⁸ Prior to joining the CU, Tajikistan had a liberal regime with no tariffs higher than 15%. Bisnis.

²⁹ Uzbekistan has high tariffs on all domestically-produced goods (including a 100% tariff on cars) as well as in strategic areas where it seeks to develop domestic capacity or restrict imports.

³⁰ Ukraine has high tariffs on most goods, especially manufactured goods produced domestically and on agricultural products. Effective November 28, 1997, there was a significant reduction in agricultural duties, but these still generally fall in the range of 20-50% with some 100% spikes. Bisnis

³¹ Turkmenistan has no tariffs on imports, but has currency restrictions and other state regulations which effectively allow the state to control trade.

³² The economic ideology of the Azerbaijani elite is focused entirely on the extraction and sale of the country’s natural resources. It does not fit any of the three economic ideologies cited above.

³³ Azerbaijan has a 70% export tariff on oil and a number of petroleum related products, but a low external tariff in other areas. Bisnis.

³⁴ Kyrgyzstan formally became a member of the customs union in 1996 but never adopted the common external tariff. The country adopted a regime compatible with WTO entry after 1997.

³⁵

membership meaningless. Of the three states governed by a mercantilist elite, all rejected membership in international institutions and took measures to close off their internal market to imported goods. Of the five liberal states, all but Lithuania took the necessary steps to secure entry into the WTO, and Lithuania has completed many of the requirements for admission. The country's unwillingness to lower tariffs on agriculture, sparked by mercantilist parties that have been part of the coalition government since 1996, has slowed its progress towards entry.³⁶ On the whole, the data conform closely to what we would predict based on the theory.

Smoking Guns

In addition to these general indicators, internal government documents and interviews with state officials provide direct evidence that these ideas actually shaped the institutional choices of the post-Soviet countries. These sources show the actual calculations that the governments drew on in their decisions about institutional membership. They reveal that decision-makers thought about the costs and benefits of institutional membership in different terms, and that these different ways of thinking had a decisive impact on the definition of state interests and on the choice of which institutions to join – so that even structurally similar states like Belarus and Ukraine, or Kyrgyzstan and Tajikistan, made very different institutional choices.

The Organicist Calculation of Customs Union Members

Internal memos reveal that officials in Kazakhstan drew on organicist ideas in determining the costs and benefits of membership in the customs union. For example, the Kazakh government calculated that there would be an annual loss of 85 million dollars to the state budget due to the adoption of the common external tariff and the removal of tariffs in trade with Russia and Belarus as a result of Kazakhstan's entry into the customs union. But, consistent with organicist reasoning, they reasoned that "the restoration of the broken ties with the enterprises of Russia and Belarus [would] bring the revival of the main sectors of the economy" and stop the collapse in production that the country had faced since 1991.³⁷ According to government models, the expected economic revival would increase revenues from income tax, profits tax, and value added tax (VAT), more than making up for the losses to the budget due to the removal of customs duties in trade with Russia and Belarus.³⁸ In this way, the Kazakh government's calculations rested on the assumed synergistic effect of re-integration of the Soviet economic complexes – a central tenet of organicism. This same set of organicist causal linkages pervades the Kazakh files, and appeared in scores of documents and interviews with officials in Kazakhstan and other organicist states.³⁹

³⁶ This is the position of the Homeland Union party, particularly the wing of the party associated with Vytautas Landisbergis.

³⁷ "O tamozhennykh Soyuzakh: Istoriia, praktika, perspektivy edinykh tamozhennykh territorii. informatsionnyi material." From the files of the State Customs Commission, Kazakhstan.

³⁸ *ibid.*

³⁹ *Sostoianie ekonomicheskikh sviazei so stranami SNG*. Kazakh Ministry of Economy internal report, October 1997; Confidential Sources in Ministry of Economy, Ministry of Finance, Customs Commission.

We see similar organicist sentiments among the Russian officials who were behind the decision to form the customs union. The Russian government was divided between liberals and organicists at the time the union was formed in the mid-1990s. Consistent with our expectations, the economic ministries that were headed by liberal economists were resistant to the customs union. The liberals attacked the customs union on the grounds that its supposed benefits would not outweigh the losses to the budget, and they raised the spectre of a return to the Soviet-era subsidization of the other republics by Russia. They felt that little was to be gained from access to the smaller CIS markets and were not willing to make any sacrifices to gain such access.⁴⁰ Two well-placed interview respondents noted independently that there was particular resistance to the customs union encountered from the Ministry of Foreign Economic Relations, the Ministry of Finance, and the Ministry of Economy.⁴¹

Support for the customs union came largely from then-Prime Minister Victor Chernomyrdin and several of his deputy prime ministers (Valery Serov, Aleksei Bol'shakov), the Ministry of Foreign Affairs, the Ministry of CIS Affairs, and the State Customs Commission.⁴² The primary logic behind the agreement, as conveyed by officials in the Ministry of Foreign Affairs in personal interviews, was that “the recreation of the single chain of production [*edinnaia proizvodstvennaia tsepkha*] was essential to the development of Russia.”⁴³ We can also get a sense of the organicist calculus circulating inside the Russian government from a letter written to Konstantin Zatulin, the chairman of the Russian parliamentary (Duma) committee responsible for evaluating the customs legislation.⁴⁴ After listing the legislation that needed to be passed for the completion of the customs union, the letter stated that the purpose of the agreements, from the Russian perspective, was to remove the customs barriers,

to restore, on a new basis, the production ties between the member countries of the customs union...to make manufactured products less expensive [cut costs], raise their competitiveness, and provide for their sale in the traditional markets of the former republics of the USSR, and to

Author's interview (11/8/97) with Head of Department of Multilateral Collaboration of the CIS in Ministry of Foreign Affairs [Igor Pasko, who accompanies Kazakh President Nursultan Nazarbaev to all CIS meetings and is a close advisor].

⁴⁰ Interview with “Konstantin”, a liberal economist working for the Russian government at the time. Interview with Vladimir Pokrovskii, a Russian negotiator (himself an organicist, who later headed the Executive Commission of the Russia-Belarus Union), April 17, 1997.

⁴¹ Deputy Minister Fradkov of the Russian Ministry of Foreign Economic Relations and Sergei A. Vasiliev (at the time in the Ministry of Economy) were particularly opposed according to a confidential memo prepared by a Russian economist working for the World Bank. Author's interview with Vladimir Pokrovskii, 4/17/97. This division was also noted in several articles in *Kommersant Daily*. Pokrovskii also noted that Dubinin, the Head of the Russian Central Bank at the time, was in opposition.

⁴² World Bank memos. The world bank memos were written by two World Bank staffers with close ties to the Russian government who tried to ascertain who within the government was behind the customs union agreement after it was announced. Its findings are corroborated by interviews that I later conducted with one of the advocates of the CU (Pokrovskii), and thus appears to be quite reliable about the divisions within the Russian government at the time. Pokrovskii Interview 4/17/97.

⁴³ Interview with “Ivan” a department head in Ministry of Foreign Affairs (and “Gleb” another specialist), 7/4/97.

⁴⁴ The letter was never intended to be made public.

significantly reduce spending on the creation of customs controls on mutual trade, and in the long term...remove control on internal borders.⁴⁵

Interviews with parliamentary figures from several major parties in the Duma (Our Home is Russia, Yabloko, Communist Party) revealed a widespread sense that the Russian economy could only get on its feet again if the production ties between the post-Soviet states were revived and if these countries became markets for one another's goods.⁴⁶ The customs union was a means to this end. In response to the question of why the customs union was in Russia's interest, the Duma representative responsible for the position on CIS affairs of the "Our Home is Russia" party responded there was "not just a Russian interest in the Customs Union", and that the pressures for integration resulted from "the model of territorial distribution of the economic production of the USSR."⁴⁷ The representative explained that because there was a single Soviet economic system,

when it all fell apart, it became difficult for everyone...Some do not have resources, others have a great store of metals without the means to process them. For Russia this is much less of a problem. For other countries it is much worse since they cannot create all of the parts of the process from scratch.

In closing, he noted that "before, everything was together in a single complex. The goal of integration is to find that past productive strength [*naiti byvshie proizvodstvennye moshchnosti*]."⁴⁸ It was believed that the customs union would facilitate this process, and the customs union was viewed as the first step towards economic union.

In Belarus, in 1995-96 and continuing through to the present time, we find the same rational calculations based on organicist causality. Although no internal Belarussian documents pertaining to the formation of the customs union were made available, interviews reflected the same concern with the broken economic ties of the Soviet Union and the negative effect this condition was having on the Belarussian economy. But all of those interviewed stressed that they had no role in making the decision and that the decision on the customs union was made by President Aleksandr Lukashenko and his closest advisors without a broader discussion in the government.⁴⁹

⁴⁵ Undated Letter to Konstantin Zatulín from the Head of the Department of External Relations of the State Customs Commission of the Russian Federation (Fedosov).

⁴⁶ Author's interview with Viacheslav Igrunov of Yabloko. Yabloko supported a customs union with a lower external tariff than the Russian tariff – a liberal customs union. Igrunov noted that no major Duma faction was opposed to the process of integration, but that there were differences of opinion about how it should be accomplished.

⁴⁷ Author's interview May 21, 1997 with A. A. Tiagunov of *Nash Dom Rossii*. At the time, Our Home is Russia was referred to as the Party of Power [*Partiia Vlast'*] because of its ties to Prime Minister Chernomyrdin (a member of the party) and the Kremlin.

⁴⁸ All quotations from Tiagunov interview.

⁴⁹ However, the industrialists and bankers stressed that they did not have influence over politics in Belarus. Both industrialists and bankers noted that the political actors significantly affected economic conditions, but that economic actors did not affect political choices. (One top government official noted, in regard to a question on decision-making, that "one man makes all the decisions. It is like under Stalin!")

All officials expressed that there was considerable political will behind the customs union coming from organicists in the office of the President.

Uzbek Mercantilism

The ideas that provided the basis for the Uzbek government's decisions closely approximate the mercantilist ideal-type. The Uzbek government's overall economic program was designed to undo the interdependence of their economy with the rest of the CIS states and to make the country as economically independent, or autarkic, as possible. According to one of President Islam Karimov's closest economic advisors, Uzbekistan was seeking "economic independence and a closed cycle of production in certain products with no reliance on outside production."⁵⁰ This included joint ventures with Daewoo and Daimler-Benz to give Uzbekistan full domestic production in cars, trucks and buses; a program to switch the agricultural system from its traditional cotton crop to the production of grain to secure independence in foodstuffs; a (successful) program to gain total energy independence by developing the country's own resources, and to achieve self-sufficiency in gasoline by developing refining capacity outside Bukhara in conjunction with a French company.⁵¹ The Uzbek government was also looking to gain a few niche production markets "as part of the international distribution of labor", but even as late as 1997 these markets had not yet been defined by the government.⁵² Establishing national autarky was the first priority.

For a time, the Uzbek government overtly expressed interest in joining the customs union and signed an agreement with Russia removing duties on trade with customs union members. But this was a ruse, and the Uzbek government never implemented the agreement. In a private meeting between top-level Uzbek government officials and World Bank Head James Wolfensohn, the Uzbek Deputy Prime Minister and Minister of Finance Hamidov "stressed that customs duties have been eliminated [by the Uzbeks] on paper only; in practical terms, they still exist."⁵³ Subsequent interviews with Uzbek officials closely involved in these processes revealed that the government was primarily seeking to use customs union "membership" to facilitate the development of a corridor for the duty-free transport of its goods via Russia.⁵⁴ They were not concerned with maintaining or expanding the interdependent production ties with the customs union members;⁵⁵ they were opposed to the creation of a customs space with

⁵⁰ Author's interview with "Ruslan" [confidential], November 27, 1997. One may note the same economic ideology expressed in Karimov's books (1993).

⁵¹ Ibid. Notably, the domestically-produced Uzbek gasoline is more expensive and of lower quality than that which was previously imported from Kazakhstan ("Ruslan" admitted this in the interview, and it was also a complaint of every cab driver that I had in Uzbekistan).

⁵² Ibid.

⁵³ November 8, 1995 World Bank Office Memorandum from Ziad Alahdad, EC3TA [Tashkent] to Veeyen Rajagopalan [Washington] Subject: Mr. Wolfensohn's visit: Meeting with DPMs on Oct. 31.

⁵⁴ Author's interview with "Amur" [confidential], an Uzbek official directly involved in negotiations with Russia, November 25, 1997. Uzbek officials noted that as a "double-landlocked state" (a state with two or more countries lying between its borders and a usable port) Uzbekistan was particularly concerned with transport issues. This concern was heightened by the government's mercantilist stress on exports and the desire to diversify its markets so as not to be dependent on CIS countries.

⁵⁵ Interview with "Ruslan"

borders that were collectively protected;⁵⁶ and they had no intention of adopting a common external tariff regime that differed from their own.⁵⁷ In short, they had no intention of following through on the commitment to form the customs union and based their policy on mercantilist, not organicist, calculations. The government hoped primarily to facilitate exports by having restrictions removed on transport and communications links through Russia.

Georgian Liberalism

In contrast, Georgia rejected membership in the Customs Union on the basis of a liberal calculus that led the country to pursue free trade and WTO entry. According to an interview with Georgian President Eduard Shevardnadze's chief economic advisor, Temur Basilia, the decision to pursue entry into the WTO and reject the customs union was based on a commissioned study which concluded that Georgia's membership in the customs union would cost it 600 to 700 million dollars annually.⁵⁸ The study employed a standard neo-classical economic analysis to show how Georgia would be hurt by increased protection due to the adoption of the customs union's common external tariff, which would result in a net welfare loss.⁵⁹ This liberal calculation stressed the costs of trade protection to consumers, the misallocation of resources due to trade diversion, and the increased cost of technology transfer. None of these factors played a central role in the Kazakh, Russian, Belarusian, or Uzbek analyses. The study concluded that membership in the customs union would lead Georgia to suffer a net welfare loss of 8.6% compared to total imports, a 36% reduction in import revenues, a reduction of Georgian exports by as much as 2%, and described a decision to join the customs union as "a mistake, from a purely economic point of view" suggesting that Georgia "should promote policies that integrate it into the world economy, especially with developed countries."⁶⁰

⁵⁶ Interviews with "Ruslan", "Amur"

⁵⁷ Ibid. In most respects, the Uzbek tariff was higher than the common external tariff of the Customs Union.

⁵⁸ Author's interview with Temur Basilia, June 13, 1997. Basilia's official title was "President's Aide in the Issues of Economic Reforms", but he handled all economic issues for Shevardnadze. Basilia actually noted that there were two parallel studies done. One study was done by "young experts" in the Georgian government itself, as part of a small commission established for the purpose of determining whether the customs union was in Georgia's interests. The second study was done by the Center for Economic Policy and Reform (CEPAR) under contract from the United States Agency for International Development (USAID). Basilia claimed that the Georgian analysis had been done first, but that both came to the same conclusion independently. No one else in the Georgian government that I spoke to had ever heard of the independent Georgian study. Several were very familiar with the CEPAR study (most notably, David Onoprishvili – Head of the Economics and Finance Committee in the Georgian Parliament; Irakli Svanidze of the Ministry of Foreign Affairs, who had the CEPAR paper on file and showed it to me.) The staff at CEPAR had never heard of an independent Georgian study.

⁵⁹ Although crafted by PhD economists, the logic of these analyses is the standard defense of free trade of the type one encounters in first-year economics (and generally the same as the calculation by which a neo-classical economist demonstrates that *any* government intervention reduces welfare). Most notably, these analyses leave out any possible dynamic effects of the CU – i.e. precisely those factors which are of significance to the organicists.

⁶⁰ CEPAR study, conclusions.

The Georgian case provides a good example of the way that liberal ideas were employed by the elites of post-Soviet states. Whereas organicist ideas had nearly seven decades of development and formidable institutional support behind their refinement, reproduction, and dissemination throughout the Soviet elite, liberalism was transplanted to the region only in the immediate post-Soviet period. For this reason alone, indigenous liberal analysts were more difficult to come by among the elite. It was often the case that the liberal calculus was not indigenous, even if the liberal orientation of the state was quite strong. Many government leaders placed their faith in the authority of senior western economists even as they themselves had a limited understanding of the tenets of neo-classical theory. For this reason, it makes more sense to speak of governments with a liberal orientation who then chose to rely on Western economists to do their analysis for them.

This is not to suggest that Georgia's position was due to Western aid and advice. All governments were supplied with similar analyses and similar financial incentives from Western governments and financial institutions to adopt a liberal agenda. Some chose to act on them while others did not. As the Customs Union was being formed, several states approached the IMF and World Bank offices to ask their opinion of the costs and benefits of joining the customs union.⁶¹ And in those cases where information was not directly solicited, the IMF and World Bank made their advice available without prompting. In particular, a policy paper by two senior World Bank officials which argued against the Customs Union along the same lines as the Georgian analysis achieved very wide circulation among the CIS economic elites.⁶² A similar paper by the IMF representative in Armenia was widely distributed among the post-Soviet states.⁶³ Access to liberal ideas and the material incentives to adopt them were a constant and cannot explain the variation across states.

The critical factor appears to be the thinking of the government elite. Western advice was effective, but only when it fell on the receptive soil of a liberal-oriented government. At best, one could say that the aid helped provide a viable alternative to customs union membership or national autarky, but did not determine whether a government would choose it.

⁶¹ World Bank note (from Washington), November 8, 1995; IMF Armenia interview.

⁶² This was later published as Constantine Michalopoulos and David Tarr, *The Economics of Customs Union in the Commonwealth of Independent States* *Post-Soviet Geography and Economics*, 1997, 38, No.3, 125-143. Michalopoulos and Tarr were, respectively, the Lead Economist of the International Economics Department and the Senior Advisor in the Russia and Central Asia Department of the World Bank.

⁶³ Susan K. Jones "WTO Accession for Transition Economies: A Case Study of Armenia" Mimeograph copy.

Conclusion

Any explanation of the variation in the institutional choices made by the post-Soviet states rests ultimately on its ability to account for the interests of those states. Traditional explanations have suggested that states are primarily concerned with maximizing their power or security, that state interests are directly derived from the preferences of the country's commercial holdings, or that national identity defines national interests. I have presented the case for an alternative approach, one which stresses the ways that elite economic ideas shape the formulation of state interests, and, in particular, determine the type of international institutions chosen for managing trade relations with other nations. Drawing on a set of domestic policy indicators as well as interviews and internal government documents, we find strong evidence that the economic ideologies of the elites who have taken control of the post-Soviet states differ, and that these differences shaped the decisions states made on institutional membership.

This stress on elite ideology in no way implies that these decision-makers were irrational, that the governments ignored material incentives, or that they chose to pursue their ideas instead of their interests. In all documented cases, governments conducted rational cost-benefit analyses of different institutions for governing their trade with other countries. But the way in which costs and benefits were conceived, and the ideas about the economy that lay behind those calculations, differed significantly across countries in the region. For the countries concerned, economic issues were central to their selection of institutions, but their decisions were informed by different economic ideas which shaped their preference for different institutional arrangements.

The economic ideas of the elite are certainly not the only factor affecting state choice, but in the post-Soviet states they were decisive. The fact that so many traditional explanatory factors are constant across these cases allows us to see the causal role of the ideas much more clearly. But the fact that domestic institutions are relatively constant across cases, and therefore cannot explain variation in state choice, does not mean that the structure of state institutions does not have a critical role in the explanation provided here. It is precisely as a result of a common institutional heritage in which societal actors are weak and the state plays the leading role in formulating, directing, and implementing policy that the ideologies of the elites that have seized control of the state since independence have had such a profound impact on the international institutional paths taken by these countries. The power of economic ideas, in this case, rests, in part, on the power and autonomy of the state.

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