



THE KYRGYZ REPUBLIC'S ENTRANCE INTO THE EURASIAN ECONOMIC UNION: HISTORICAL PARALLELS WITH STATE FORMATION IN EUROPE AND THE POTENTIAL IMPACT ON ECONOMIC AND POLITICAL DEVELOPMENT

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Abstract

Modern geopolitical challenges require the Kyrgyz Republic to concentrate on regional integration in its economic and political development. By the end of the 1990's, the Kyrgyz Republic realized the need to adjust its development strategy in favor of regionalization, aiming at a partial recovery of economic and political ties that existed in Soviet times. In December 2014, the countries of Eurasian Economic Union (Russian Federation, Kazakhstan, and Belarus) approved the road map on accession of the Kyrgyz Republic, and between April-July 2015 parliaments of member countries ratified accession of the Kyrgyz Republic. This paper examines one of the most pressing questions for the Kyrgyz Republic: how will accession to the Eurasian Economic Union (EEU) impact economic and political development in the Kyrgyz Republic? We consider some of the main issues surrounding accession to the EEU by noting some historical parallels with the analysis in H. Spruyt's (1994) influential work, *The Sovereign State and Its Competitors: An Analysis of Systems Change*. We argue that accession of the Kyrgyz Republic to the EEU is positive from a current economic standpoint. However, since there are also political risks along with potential long-term economic risks, we argue for a cautious yet balanced position.

Keywords: Kyrgyz Republic, Eurasian Economic Union, Europe, Economic Development, Political Development.

Introduction

Relations between states, whether regional or global, are always characterized by competition. Whether we consider empires (Athens, Rome, Ottoman), state formation in early modern Europe, the Cold War era or the contemporary state system, there is plenty of evidence for the conception of politics famously defended by Thucydides (1993) and Hobbes (1994). In the first years of the 21st century countries with highly developed economies are likely to displace less developed competitors within global markets. However, competition takes place not only in the economic sphere. There is also competition between states that have conflicting aims in creating a future world order, different points of view on political development, and different approaches to

international relations. For these reasons, the economic and the political matters are inseparable. In the context of Central Asia, one prominent historical example of this multidimensional political maneuvering is competition between the Russian and British empires during the so-called 'Great Game' (Hopkirk, 1992).

The most significant recent development in this area was the creation of the European Union. Yet we also witness similar developments in the Asia-Pacific Region (APR), and other important interstate organizations such as BRICS (Brazil, Russia, India, China and South Africa), the SCO (Shanghai Cooperation Organization), among others. In a state-system organized in this way the Kyrgyz Republic cannot stay on the sidelines. Although staying on the sidelines is not an option, the Kyrgyz Republic must also address major problems facing its domestic economy, including challenges related to infrastructure and energy needs. For example, the Kyrgyz economy relies upon remittances from migrant labor (approximately 30% of annual GDP, Trilling, 2014) and there have been two revolutions in the past decade, one in 2005, another in 2010.

There is a large body of research in international relations theory on questions about the creation of sovereign states and the global state-system (Castells, 2004, Tilly 1994). If we consider the formation of states in Medieval Europe, according to some scholars, the origins of the sovereign state are rooted in trade and commerce (Spruyt, 1994). By developing a new model of change Spruyt proposes to explain why the sovereign state emerged by highlighting internal (e.g. pressure from an emerging merchant class) and external (e.g. competition from other political powers) factors. Although we do not claim that Spruyt's model is a perfect match we propose that the Kyrgyz Republic's membership in the Eurasian Customs Union (hereafter, EEU) can be understood from the standpoint of some features of this picture of politics and international relations.

The first part of the paper discusses central aspects of the accession of the Kyrgyz Republic into the EEU by considering some historical parallels of state formation in late Medieval Europe. Secondly, we consider the larger picture of international relations and economic development in the contemporary state system. On this point we discuss some of the main factors of integration into the CIS (Commonwealth of Independent States). Here we draw on some key elements of Spruyt's (1994) work, focusing on the contingent political and economic factors that limit options for states and for state actors. (Lake and Powel, 1999). Finally, we consider the risks of political paternalism that comes with the Kyrgyz Republic's membership in EEU, in particular the risk of an overbearing political influence from Russia. Our position can be summarized as follows: On the one hand, membership in the EEU promises to bring benefits to the Kyrgyz

Republic in the economic sphere. On the other hand, strengthening regional alliances with states with less democratic politics, including states that are more powerful than the Kyrgyz Republic, poses risks to the emerging democratic politics than many Kyrgyz citizens support. There are of course economic risks too. The Russian Federation's dependency on oil along with domestic political problems that include opposition to the government and discontent among Russia's many minority groups, create difficulties in Russia that may 'spill over' into EEU members, like the Kyrgyz Republic. In presenting this more nuanced perspective our view captures some important economic and political factors that are often overlooked by Western commentators, who focus one-sidedly on the political risks of membership in the EEU.

An historical summary of integration and the creation of CIS

On December 21, 1991, in Alma-Ata, Kazakhstan, the former USSR countries signed the Declaration on the Commonwealth of Independent States (CIS). This officially constituted the CIS. In this respect, the idea of Eurasian cooperation and the commitment to create a common economic space first took place twenty-four years ago. In October 2000, the presidents of Belarus, Kazakhstan, the Russian Federation, the Kyrgyz Republic and Tajikistan signed the treaty on the establishment of the Eurasian Economic Community (EurAsEC). Therefore, the key principles of the modern Customs Union were formally accepted back in 2000. The Multilateral Treaty on Free Trade Zone among eight CIS countries was signed in 2012, although at that time only six countries ratified it. On January 20, 1995, an agreement on the Customs Union between the Russian Federation, Belarus and the Republic of Kazakhstan was consolidated. Twelve years later, on October 6, 2007, a treaty to establish a common customs territory and customs union between the Russian Federation, Belarus and the Republic of Kazakhstan was eventually signed and accepted.

In the early stages, efforts to copy the European model of integration "from Free trade zone to Common currency zone" (Balassa, 2012) and to enable integration processes among post Soviet countries failed because of "ignorance of national economic interests of each member" (Ushkalova, 2013). Another barrier to integration resulted from misguided planning, for instance, one country-one voice and the parity approach made negotiations between states with significantly difference levels of economic and political power more difficult. Nevertheless, the Customs Union and Eurasian Economic Union models were eventually put into place very rapidly, within a three-year period. The main reasons for the rapid pace after a protracted process are that negotiations were made on the basis of consensus along with a pragmatism adopted by all sides. This enabled acceptable trade offs and bargains for all the parties. Attempts to integrate CIS

countries are considered by some scholars as an attempt to reintegrate “the former Soviet countries” (Ushkalova, 2013). While this perspective is not without merit, we believe it is too simplistic. In the next section we begin to develop a more nuanced perspective on the EEU.

Relevant historical lessons from Spruyt’s *The Sovereign State and Its Competitors*

Hendrik Spruyt (1994) aims to explain the emergence of the state system by offering an original analysis of state formation in the late Medieval Europe. His main argument is that the primary trigger that gave rise to the sovereign state was changes in trade and commerce among newly prosperous and influential towns. By contrast, other scholars focus on variables such as warfare and conflict (Hobbes, 1993, Tilly 1992, Keating 2000). War and conflict are important variables, of course, yet Spruyt’s point here is directed against what he regards as too much emphasis on the role of conflict in the making of the sovereign state. Spruyt argues against the “war making” theory of the state system by showing that states emerged as the result of a preference by “social actors” to secure “mutual empowerment” and the economic benefits of cooperation. The latter, as some scholars suggest, was defined by mutual recognition between the primary actors (Osiander, 2001). Moreover, Spruyt also criticizes the idea that the emergence of the sovereign state came about because political institutions are molded by a unilinear trajectory that made state formation more or less inevitable. By contrast, Spruyt emphasizes the role of contingent variables on state formation. In reality of course, state formation depends on multiple variables and we are not suggesting that any one factor is sufficient to explain the formation of states. Rather, the issue here is one of emphasis on some variables and not the exclusion of others.

According to Spruyt, in late Medieval Europe there were three dominant options on the table. At that time the major political players could reasonably consider: the city-state model, the city-league model, and the sovereign state. For example, something like an updated version of the Greek city-state or polis could have been pursued as an option. Likewise, an alliance between city-states was also a possible contender. The sovereign state with a monopoly on the use of violence (Weber, 2004) and legal supremacy over a jurisdiction generally larger than that of a city-state was a third option. The political factors highlighted in Spruyt’s model of change can be extended to interstate integration in CIS. For instance, as we illustrated above when offering an historical overview of events that ultimately lead to the EEU, state actors pursued various integration schemes, such as dialogue and the creation of interstate institutions. Moreover, consensus was ultimately achieved in part because the state actors came to regard the formation of the EEU as one as compatible with mutual empowerment. Had integration been

viewed as equivalent to 'annexation' then of course no such consensus would have been achieved. On this last point especially, there is a clear parallel to Spruyt's analysis of state formation in Europe because he emphasizes the role that perceived common interests played in motivating political powers to opt for the sovereign-state option. The analogy here is only partial of course, because Spruyt focuses on the formation of states or the transition from a non-state to a state system, whereas we are focusing on integration between states within a pre-existing state system. Yet the strategic rationality that motivates political actors is similar in the two contexts.

Spruyt draws from Gould (1989) on the idea of "evolution as adaptation" in order to provide a model of state formation and to explain why the state came to dominate in Europe. The relevance of Gould's ideas to theories of change in politics, suggested earlier by Krasner (1984). Spruyt is aware of the methodological pitfalls that come from adopting a method from one discipline—Gould was a biologist working in evolutionary theory—and applying these methods to another. Perhaps political units unlike biological organisms, develop in ways that are too dissimilar to be explained with the same methodology. Nevertheless, Spruyt draws on Gould's work to help motivate the model of change that he thinks can explain state formation. In late Medieval Europe the state was a competitor with other forms of institutional organization, such as the city-state. The sovereign state emerged as the most viable political unit because of its ability to adapt to the new economic reality. From this standpoint, key elements of sovereign states emerged not in the Peace of Westphalia (1648), but centuries earlier in France, when state institutions began to outcompete alternative forms of political organization. Spruyt presents a historically contingent account of state formation, arguing that the emergence of sovereign states was not inevitable; city-states as well as urban leagues represented enormous competitors at that time.

As Spruyt demonstrates one of the significant reasons behind competition between political units was economic. The main actors wanted to facilitate commerce and trade relationships for their own benefit. Between the 12th and 14th centuries significant trade relations developed and this put pressure on established forms of political organization such as churches and feudal labor practices. Yet these political units were unable to meet the requests by the merchant class for more secure and transparent tax policies. These challenges are one factor that brought about changes in political organizations in Europe. On this point, the analogy with Gould's ideas is clear: an organism can influence but not totally determine its environment; viability within an environment depends in part on competition with other organisms; and the organisms that are best at adapting to new environmental conditions are

more likely to survive. Compared to the emerging sovereign state model, the church, the city-state and the city-league fared much worse in the new economic environment of late Medieval Europe.

It is also clear from Spruyt's arguments that efforts to meet the demand to enable trade strengthened the role of those actors with the authority to decide which policies to pursue for this economic goal. For example, the king in France was against the church and other nobles in supporting the merchants. In the Hanseatic League (a confederation of merchant guilds in the Baltic region), trade had a high-volume. Yet low profit margins increased the burden of taxation on merchants. Since there was no strong central authority, like a king, the league carried out many tasks to support the merchants. However, the Hansa cities were subject to local lords of other nobles.

If we try to draw lessons from Spruyt's work that can be applied beyond the particular examples and historical contexts that he considers, several questions become pressing. Why did the European version of the sovereign state eventually emerge throughout the world? Was it because this institutional model had first won out in the European competition, or was it because of asymmetries in power politics, as suggested by Cederman (1997)? Or was it functional advantages enjoyed by states over other institutions, such as feudalism, the Catholic Church or city-states? One of the interesting features to Spruyt's work is that it gives rise to potential research programs that extend his ideas to new contexts. That is what we propose to do here. Highlighting the role of contingent factors as well as the rational strategies adopted by political powers that enjoy unequal levels of political and economic power it is possible to apply some of Spruyt's central ideas to contemporary Central Asia.

One point that we want to stress here is that contingent historical and economic factors are important in understanding the process that made the EEU possible. We need to be careful though in order to avoid oversimplification. There are both analogies and dis-analogies to Spruyt's model in the Central Asian context. The analogies include: economic interests and the role such interests play in making inter-state agreements and organizations, such as EEU possible. These agreements can be seen as based in part on each actor believing that cooperation will be mutually beneficial and that mutually beneficial cooperation will favor domestic political and economic interests. Likewise, even within an existing state-system, the most powerful states are limited by factors beyond their control. This is true in peace, in war, and in economics. In the EEU context Russia is of course the dominant player. Yet this dominance is limited by the fact that Russia depends on resources and labor from less powerful member states. Though Russia has most of the leverage, it does not have all of the leverage.

Might EEU membership result in greater economic and political dependency for the Kyrgyz Republic?

In this section we discuss some factors that we believe should be highlighted in any analysis of the Kyrgyz Republic's membership in EEU. Our position is neither pessimistic nor overly optimistic. We believe that from an economic standpoint, the limited options facing the Kyrgyz Republic are such that joining the EEU was the right move. It is true that Russia's faltering economy, diminished by a number of factors including low oil prices and Western sanctions in response to the Crimea crisis, imposes a significant challenge to the short term economic prospects of the EEU. Yet those who have criticized the Kyrgyz Republic's decision to join EEU can reasonably be asked, what would be a better alternative for the Kyrgyz Republic in the current economic and political climate? A well-known principle from decision-theory and political philosophy, the *maximin rule*, holds that when a rational actor must select an option under conditions of uncertainty he or she should select the least bad option from among the viable alternatives (Rawls, 1999). It is arguable that from this standpoint, the Kyrgyz Republic's economic interests are likely to be best served, in the short run at least, by membership in the EEU. From the standpoint of political development, the picture is complicated for different reasons. One of the most relevant factors here is that Russia is not whereas the Kyrgyz Republic is a democracy. Will membership in the EEU be bad for democracy in the Kyrgyz Republic? This is an important question.

It is arguably idle counter-factual speculation to ask, what kind of democracy would the Kyrgyz Republic become if the Kyrgyz Republic did not join the Eurasian Customs Union? Yet the fact that the Kyrgyz Republic is now in the Union does raise important questions about the connection between membership and domestic politics. One reason for this is that the Kyrgyz Republic is the most democratic state in the EEU. In fact it is a remarkable anomaly in geopolitical terms that the Kyrgyz Republic, a small and relatively weak state, has been able to develop democratic institutions in a region dominated by authoritarian states. To put this point into perspective, consider that the Kyrgyz Republic shares international borders with China, Uzbekistan and Kazakhstan, all of which are more powerful states, none of which are democratic.

Given all the factors in play, we believe the following are open questions in at least the short term:

To what extent will integration into the EEU impact the prospects for further democratic development in the Kyrgyz Republic?

Will economic integration result in greater influence from Moscow on the Kyrgyz government's policies towards NGO's, human rights activists, and civil society organizations that defend causes such as religious freedom and human rights?

How will integration into the EEU create incentives or disincentives for direct foreign investment into the Kyrgyz Republic?

How should we compare and assign weight to potential economic benefits with potential political negatives?

None of these considerations however undermine the fact that there are benefits for the Kyrgyz Republic that stem from membership in EEU. Rather, these are mitigating factors. These questions should be juxtaposed to the economic considerations in favor of joining the Customs Union. The incentives for joining are significant. In addition to dependency on remittances from migrant labor to Russia, Gazprom acquired the Kyrgyz Republic's national gas company (KyrgyzGaz) in 2010. Membership in the Customs Union will likely mean that migrant laborers from Kyrgyzstan will continue to have easy access to Moscow and other Russian cities where Kyrgyz migrants currently seek employment opportunities that are lacking in the Kyrgyz Republic. Had the Kyrgyz Republic opted out of the Union, it is possible that the Russian response would have been erect significant immigration hurdles for Kyrgyz laborers, and to raise the price of imported gas. Either would create significant problems for the Kyrgyz Republic.

Considering the economic and political issues together is important if we want an informed perspective. Western media is likely to emphasize the potential political negatives of joining the Customs Union. Even granting that these negatives are significant, we must still consider the economic positives. This leads us to one of the more difficult perennial questions in debates about political and economic development. As McGlinchey (2011) and Khuru (2015) have shown, understanding the intersections of cultural and religious identity and political and economic development is essential to having an informed perspective on the larger political issues in Central Asia. For example, unlike Kazakhstan, the Kyrgyz Republic is not a rentier state. As a rule, rentier states are more able to maintain authoritarian forms of politics because they have the economic resources to create patronage systems that generate support for government. With a per-capita GNI that is approximately nine times less than Kazakhstan—Kyrgyz Republic, 1,250; Kazakhstan, 11,670 (World Bank, 2014)—it is predictable that citizens will be more likely to express their political discontent in the Kyrgyz Republic. One way for the political class to manage potential sources of discontent among the populace is to adopt strategies that are likely to enhance economic prospects. Since from an economic standpoint, Kyrgyz membership in the

EEU brings some likely benefits and since there are currently no promising alternative options, the economic factors create significant political incentives to join the EEU.

Other perspectives that highlight the intersection of political and economic factors are provided by Hancock who describes the phenomenon of following the lead of the Russian Federation in interstate cooperation schemes as, “A cooperation through plutocratic governance arrangements” (Hancock 2009). Kyrgyz scholar Tiulegenov describes this same phenomenon as akin to, “Joining a more autocratic club of countries, where decisions are made by country leaders without much public deliberation” (Tiulegenov, 2015). If we accept that the international state system is based on the aspiration of sovereign equality it is puzzling why states would choose to cooperate on terms such as those described by Hancock and Tiulegenov. If asymmetries in power between actors result in agreements that produce a dependency of the weaker on the stronger, then outcomes that are mutually beneficial are much less likely. From this standpoint we would expect that members of a multilateral accord, such as CIS and EEU will “delegate policymaking to the wealthiest state among them” (Hancock, 2009).

We want to stress that matters are not quite as straightforward as Hancock’s model suggests. While he is not wrong to emphasize how asymmetry in power can explain why agreements between states are sometimes one-sidedly in favor of the most powerful, that is not the whole story. Rather, as Spruyt’s work shows, there are typically factors beyond the control of any one party to an agreement and that plays a role in explaining why even powerful actors can have an incentive to form mutually beneficial alliances. This is one reason why it is possible for a weaker state to, in fact, negotiate with, rather than merely serve the interests of a more powerful state. Of course the more powerful have more bargaining power yet it does not follow from this that the weaker actor is simply a pawn on a chessboard. This is the perspective we want to emphasize in our analysis of the Kyrgyz Republic’s membership in EEU.

Having highlighted some political and economic factors that we think stand out as especially significant in the context of the Kyrgyz Republic’s ascension to EEU we can now return to Spruyt’s model to test the degree to which his conception of state formation is relevant to understanding the Kyrgyz Republic’s membership in EEU. We have already acknowledged one important dis-analogy between the historical period that Spruyt investigates and contemporary Central Asia. So what remains? One lesson we learn from Spruyt is that the dynamics of political power are such that in some contexts the most powerful cannot simply impose its will on the weaker. This holds in the case of the Russian

Federation and the Kyrgyz Republic. At the same time, the respective bargaining positions of the Russian Federation and the Kyrgyz Republic are not equal. It is quite mistaken to think of the EEU as having been formed by actors with roughly equal power, as if the EEU emerged from a Hobbesian state of nature in which cooperation is the most rational strategy because the only alternative is a protracted stalemate between powers that are not powerful enough to dominate the other. Neither domination nor equality in bargaining power holds in this case.

Conclusion

It is possible that in the future the EEU will dissolve for economic or political reasons. Yet this is also true of the European Union. In this paper we are not predicting the future but rather offering an analysis of the present. If the analysis presented here is plausible then we believe the following central points should be highlighted in current discussions about the Kyrgyz Republic's membership in the EEU:

- From an economic perspective although stronger states are more likely to influence multilateral agreements it does not follow that such agreements will not be mutually beneficial. On this point we have offered some evidence for the claim that the Kyrgyz Republic can benefit from membership in the EEU.

- It is an open question at this point whether major agreements will emerge as a result of the EEU. It is too early to suggest that a common currency might be feasible, partly for political reasons (e.g. member states fear loss of their sovereignty) and partly for economic reasons (e.g. the ruble is currently struggling, the price of oil is very low, and none of EEU member states currently has a strong currency).

- Political and cultural differences cannot be overlooked. Although the ties between Russia and the Kyrgyz Republic (along with other Central Asian states) are longstanding and deep, linguistic, religious and cultural identities play a role in political relations between the Kyrgyz Republic and the Russian Federation. Likewise, the Kyrgyz Republic is more democratic than the Russian Federation and many Kyrgyz politicians and citizens want to keep it that way.

Sometimes economic and political factors that are beyond the control of the most powerful political actors are crucial to explaining why some forms of political organization emerge while others under consideration are taken off the table. It is possible to exaggerate this fact about politics to the point of denying a political reality in which the more powerful impose their will on the less powerful. Yet we believe our assessment of the Kyrgyz Republic's accession to the EEU is neither too optimistic about the Kyrgyz Republic's position in EEU nor too pessimistic. Spruyt highlights facts about politics that helps explain

why in the late Middle Ages European political powers opted for the sovereign state model: mutually beneficial outcomes were seen as more likely with the sovereign state model compared to the alternatives. We have taken some ideas from Spruyt's work that we believe are helpful in shedding light on the Kyrgyz Republic and the EEU.

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