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Holding Together Regionalism and the Interaction of Functional Bureaucracies

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The paper focuses on regional integration projects established by countries originally comprising a single political entity after its collapse. It shows that in this framework the existing economic ties between countries are likely to adversely affect the interests of functional bureaucracy to support regional integration given the cutting off the existing connections is often more promising from the point of view of the budget expansion. Hence, interaction of national and supranational bureaucracies is unlikely to generate impetus for increasing regional cooperation. On the other hand, external economic shocks are likely to boost “holding-together” regionalism. The empirical case for the analysis is that of the regional cooperation of the post-Soviet countries in the area of transportation and power utilities.

Keywords: holding-together regionalism, regional integration, bureaucracy, post-Soviet countries

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1. Introduction

The debate on regional economic and political integration, as it is presented in the study of international relations (Hurrell 1995) and economics (Baldwin and Venables 1995) usually assumes that the starting point of regional interaction is, somewhat simplified, the absence of interaction: a world of independent countries with more or less autonomous economies. Certainly, the existence of old cultural, economic and political ties is recognised as a factor influencing the development of regionalism,¹ yet the assumption underlying the debate is still that regional integration emerges as a process of the “coming together” of more or less separate political and economic entities. While this approach does accurately describe a multitude of the regionalism projects (including the most pronounced case of the EU), in the developing world it seems to be somewhat limited. Consider, for example, the post-colonial regional projects (like the West African Monetary Union or the Economic and Monetary Community of Central Africa) or initiatives without a clear regional focus (the British Commonwealth of Nations and similar associations based on French, Portuguese and Spanish origin): in these case regionalism emerges in an environment of already existing economic and political ties, and in fact aims to mitigate the consequences of dissolution of these connections.

The situation has a number of parallels in the debate on federalism. Stepan (1999, 2001) distinguishes between the “coming together” and “holding together” federations: while the former are an outcome of bargaining among independent states interested in creating a more stable and efficient union, the latter results from the attempts to keep together an already existing state through the bargaining of the central government with individual regions for the degree of their autonomy. Buchanan (1995) describes two possible opposing directions of emergence of federalism: from a collection of sovereign states and from a centralised unitary state. In a similar way, regionalism can emerge from the “coming together” of individual countries or as an attempt at “holding together” the disintegrating community. However, to our knowledge, there has been little effort in studying this particular variety of regionalism in the literature; therefore, this is the focus of this paper.

The objective of this paper is to show that certain integration strategies, which have been sometimes successfully used in “coming-together” regionalism projects, do not function in “holding-together” projects *because of* the common heritage of a single political entity. While “holding together” projects have been studied in literature for a long time (to give an

¹ In this paper we use the terms of “regional integration” and “regionalism” interchangeably.

early example, Nye (1965) looks at the failing Western African regionalism and specifically notes that it originated under the British colonial rule), no specific analysis of the previous political unity as a factor of the development of regionalism has yet been carried out. As this paper will show, highly developed past ties can, somewhat surprisingly at first glance, cause trouble for the present regionalism. Specifically, our main focus is to look at the interaction of functional bureaucracies and their ability to generate spillovers for regional integration. We show that *because* the existing ties are highly developed bureaucrats consider the advancement of regional integration as less attractive, and therefore use their position to advance the economic and political disintegration of the region.

In order to achieve this goal, we look at what is probably the most evident instance of holding-together regionalism in the modern world – the countries of the former Soviet Union (FSU), with the exception of the Baltic states. During the last two decades the FSU experienced a multitude of regional integration projects, particularly within the framework of the Commonwealth of Independent States (CIS) and the Eurasian Economic Community (EurAsEC), with the most recent initiative launched in January 2010 (the Customs Union of Russia, Belarus and Kazakhstan).² Nevertheless, this intensive work has so far resulted in an extremely limited degree of international cooperation – even worse, according to some recent estimates, Belarus (Russia’s closest ally actively involved in the regional integration projects) is ranked first above all countries according to non-tariff restrictions on Russian exports. Although the reasons for the weakness of the post-Soviet regionalism have been discussed in literature (see Kubicek 2009 for a recent summary), there is, to our knowledge, no analysis from the point of view of the interaction of bureaucracies as the driving forces of integration. However, this is a problem relevant not just to the FSU, but for the understanding of holding together regionalism in general.

The paper is therefore organised as follows. In the next section we provide the main definitions and concepts used in the analysis. The section that follows offers a simple theoretical framework explaining the behaviour of bureaucrats in the presence of large economic interconnections. The fourth section tests the theoretical implications in an empirical case of the electricity and transportation integration in the former Soviet Union (FSU). The last section concludes.

² Other similar cases of the states of the former Soviet bloc collapsing like Yugoslavia and Czechoslovakia (see Leff 1999) are not applicable here given no special form of regionalism emerged in this case – due to the hostilities and wars in the Yugoslavian case or clear orientation towards the EU membership for the Czech and Slovak Republics (although in the last case structures like CEFTA could come into question, their objectives were obviously limited due to the strong and realistic EU membership expectations).

2. Definitions and concepts

Since the notion of regionalism is ambiguous (Mansfield and Milner 1999), it is necessary to start by precisely defining the key concepts for the analysis. Regionalism as it is interpreted in this paper consists of intergovernmental interaction (for example, based on a set of treaties) and the activities of consciously designed supranational institutions. It does not, however, cover “regionalisation”, or increasing interaction between companies and individuals in the countries of the region without direct intervention of the governments (and, most likely, overcoming existing barriers set by the governments). It does not imply the economic and social convergence and homogenisation of the member states as well – at least, we do not make this assumption *ex ante* (see Hurrell 1995, for a more detailed treatment of the concepts of regionalism). The progress of regionalism is evaluated based on the degree of policy coordination across countries, either through intergovernmental or supranational institutions, but also based on the delegation of the policy authorities to the strongest member (Hancock 2009), and is not explicitly linked to economic advancements (for example, growth in the gross domestic product) or political reforms (for example, democratisation in developing countries).

We define “holding-together regionalism” as regional integration projects emerging in a group of countries, which have recently belonged to a single political entity and have intensive economic and social ties between each other: in this case any form of regionalism actually implies a *lower* degree of policy coordination than that existing in the former single polity. The question is, however, whether the regional integration project initiated by these countries is, able, first to “sustain” a stable level of intergovernmental policy coordination, and second, to create a trend towards increasing policy coordination during the period of existence of the regional project. So, the main question is whether “holding-together regionalism” can *ceteris paribus* (if economic and political conditions are similar) achieve a level of policy coordination comparable to that of the “coming-together” regional projects, or will the “shadow” of the previously existing political unity prevent the regionalism from advancing. Thus, we implicitly assume at least a U-shape development of the policy coordination following the collapse of the single polity: after a period of disintegration the regionalism project should be able to generate impetus for further integration.

This analysis relies on yet another important assumption, which is often violated by “holding-together regionalism”: creating a regional integration project should indeed aim to

develop a certain level of policy coordination, one which is intended to be sustained in the future. Alternatively, the supposed regionalism could just serve as a tool to resolve the unavoidable problems related to the dissolution of the single political entity. The latter, in fact, takes time, and some institutional arrangements are required to make the transition smooth. In this case it is unreasonable to expect any level of policy coordination across the member countries, since that was not the intention in the first place. The difficulty from this perspective is that in today's world the "language" of the regional integration and regionalism initiatives (i.e. the way how institutions of regionalism are described and how goals are set in the integration documents) is heavily influenced by the experience of the European Union, the most successful "coming-together" project. Hence, even if the only goal of the regionalist initiative is to make disintegration less painful, it is still possible that the declared goals of the project will be identical to that of "coming-together" regionalism.

In what follows, however, the analysis assumes that the regionalism considered indeed aims to ensure a certain level of policy coordination in the long term. Generally speaking, the "shadow of the single political entity" – including common language, similar institutions, existing infrastructure and economic ties – seems to be rather something that fosters the advancement of regionalism (if it is indeed desired) than prevents it (Feng and Genna 2003; Herrmann-Pillath 2006). On the other hand, the objectives of the regional integration could be incompatible with the nation-building goals pursued by individual countries: thus the expansion of "holding-together" regionalism is forced to be limited and slow, if it is possible at all. However, the nation-building is an inherent and acute task to be implemented by any country just after obtaining its statehood – what is per definition a problem in the type of regional arrangements studied here. The issue of "triple" or even "quadruple" transition has been also recognized as a key aspect of the post-Soviet political development (see Kuzio, 2001), so it is applicable for the case study of this paper. In addition, this form of regionalism is usually influenced by the contradictions between the new independent elites, which had already arisen during the conflict resulting in the collapse of the single political entity preceding the current project and are likely to shape the interrelations between countries after their independence.

From this perspective, however, the role of unintended consequences as early steps of the regional integration becomes crucial. The importance of spillovers, when the initial agreements create a set of problems avoidable only through further integration (or through the collapse of the integration project as such) has been pointed out in the literature since the very

early studies of regional integration in economics (if, for example, a free trade area in the long run is not sustainable without a customs union), but more specifically in the neofunctionalist approach to regionalism (for a review see Schmitter 2004 and Rosamond 2005). In this case special attention should be paid to the supranational bureaucracy, which exploits the spillovers, when they happen. However, unintended consequences can also be present in the interaction of national executives, for instance, through the change of their attitude towards integration and their ability to promote it caused by “socialisation” through their participation in the joint decision bodies (as it has been examined for the case of the EU in the “Europeanisation of national bureaucracies” literature, cf. Page and Vouters 1995, Beyers 2005; Lewis, 2005; Egenberg, 2006). In this case, interaction between national bureaucracies is free from the difficulties of the politicisation of regionalism, which is often claimed to be a serious problem in the more advanced regional integration projects (Hooghe and Marks 2006), and therefore better able to implement the “integrationalist” solutions in the decision-making cycles.

Of course, these mechanisms are not automatic, as has already been pointed out in the earliest contributions; however, one interesting aspect which has been, to our knowledge, never discussed before, involves the fact that the heritage of the “common past” does influence the motivation of bureaucracies (national and supranational) faced with the crises caused by interdependencies (and potentially able to generate spillovers). In the next section we will consider this problem in greater detail.

3. Spillovers and bureaucratic incentives

As the starting point in our considerations, it is reasonable to debate the motivation of supranational and national bureaucrats involved in integration decision-making. If one assumes the Weberian “rational” bureaucracy, the discovery of spillovers is a natural by-product of the attempt to resolve the crises generated by the original agreements signed without (direct) recognition of these spillovers. In this paper we, however, assume a less optimistic assumption on the motivation of bureaucrats, resulting from the Public Choice perspective. In this case bureaucrats are assumed to maximise their own utility and to pursue personal goals (Vaubel 1986). Expanding policy coordination seems to be a reasonable approach for the supranational bureaucrats, if they intend to increase their financing and power, as well as for the national bureaucrats, if their involvement in the joint decision-making is significant. In the classical model of Migue and Belanger (1974) the decisions by

bureaucrats are motivated by their interest in maximising the discretionary portion of the total budget at their disposal.

Bureaucrats in the joint decision bodies (both national and supranational) receive more money (and have more flexibility in terms of utilising it) if they are to develop new forms of regional integration (or even if they just need to generate projects for regional integration, regardless of their actual implementation (Shams 2005) – since the respective work is also well-funded). This is also the reason why the supranational bureaucracy may be driving the international unions towards greater centralisation: Alesina et al. (2005) consider the European Union from the perspective of this “game of bureaucracies”. In the same way, national bureaucrats can promote centralisation if their involvement in the international decisions is high enough (i.e., the “socialisation” is relatively advanced and the “multi-level fusion” of national bureaucracies is in progress, see Wessels 1998), though their incentives can be somewhat limited compared to the supranational bureaucrats. In any case, the community decisions are often implemented by national bureaus, which then also obtain even stronger autonomy and power within their domestic political systems (as the “promoters” of the realisation of the integration agenda).

It seems to be straightforward that in a “coming-together” regional project advancing regionalism is the best way for a bureaucrat (supranational or “socialised” national) to receive money and power. Since the bureaucrat is maximizing her budget, it seems to be reasonable for her to select the (relatively) more expensive solution to the crisis caused by the interdependencies of policies.³ In a “coming-together” union advancing regional integration is at least in the early stage relatively more expensive than falling back to the pre-integration stage. It should be noted that the costs we refer to do not cover the whole set of benefits and expenses associated with the regionalism; for a bureaucrat in the Public Choice world what matters is the specific budget at the disposal of a particular agency. Advancing regionalism (i.e. expanding the domain of policy coordination) requires significantly more bureaucrats and technical staff, expands the opportunities for rent-seeking and economic interventions and creates new career opportunities; falling back reduces these benefits and jeopardises the very position of the bureaucrat.

Things are, however, different if one looks at “holding-together” regionalism. There are two main reasons for that. First, somewhat simplified, “falling back” might be more

³ The crisis refers here to the variety of acute economic and political problems, which are either caused or enhanced by the combination of the existing interdependence between countries in particular areas and absence of complementary policy coordination or openness and thus can be reduced either by development of these complementary regulation steps or by reducing the existing interdependence. See also Schmitter 2004

expensive than “advancing” or at least “keeping” the level of regionalism. The level of interdependence of individual economies and countries is relatively high, and therefore “separating” the existing ties and accounting for all possible negative consequences becomes a difficult task which in turn is able to increase the discretionary budget and generate career opportunities. In this case disintegration in one area generates spillovers for interrelated functional areas, which are also realised and implemented by bureaucrats. Second, the national bureaucracies in individual states are often underdeveloped (because of their relatively short term existence), thus offering attractive opportunities for the public officials (once again, both national and supranational), which can be implemented only if the disintegration continues. Therefore the existence of economic and political ties, potentially able to facilitate regionalism, in fact reduces the chances for the advancements of regional integration: bureaucrats are rather more interested in the “difficult and expensive” way (increasing their discretionary budget), which in this case seems to be the dismantling of regionalism.

This logic, however, should not be viewed as over-simplified if one takes into account the uncertainty regarding the budget expansion, and whether the adjustments in the decision cycles are made by politicians and not by bureaucrats themselves (as is usually the case with regional integration). In “coming-together regionalism” advancement of regional integration does incur substantial costs that the bureaucrats are interested in, but at the same time the existence of these costs restricts the interest of the politicians to pursue further integration. In “holding-together regionalism”, in the same way, politicians could be aware of the costs of disintegration and proceed with caution. Nevertheless, in reality this concern is mitigated due to two reasons. First, the information on costs and benefits is generated by bureaucrats (in fact, their ability to misinform the politicians within the framework of these principal-agent relations is crucial for the classical Public Choice analysis). Therefore it is possible that they over-state the costs of disintegration in the “coming-together” framework and under-state these costs in the “holding-together” unions.

Second, disintegration in the “holding-together” unions is supported by the nation-building ambitions of the political elites, which reduces the uncertainty for bureaucrats (for example, with respect to the degree of potential development of national bureaucratic hierarchies). From this point of view one could claim that the “politicisation” of holding-together regionalism is usually higher from the very beginning, since the collapse of the previously existing entity is an obviously important political event. However, it is not

necessarily the case in all areas of the public administration, as it will be shown in what follows.

Anyway, it is reasonable to hypothesise that the interest of the supranational and “socialised” national bureaucracy in exploring the spillovers from the integrated policies leading to further policy coordination is small if the degree of interdependence of policies between countries is high. On the contrary, given a cycle caused by the absence of policy coordination in complementary policy area, the bureaucrats are likely to consider it an opportunity to look at the “alternatives” to regional integration for their home countries. If one focuses the attention specifically on the supranational bureaucrats, this hypothesis assumes also that the supranational bureaucrats can continue their career in the domestic administration of individual countries or are, at least, closely linked to the national bureaucracy: if the degree of independence is high and the “way back” to the bureaucracy in the home country is closed, the supranational bureaucracy can become indifferent to further integration progress. For the national officials representing the country in the joint decision bodies this logic is even more straightforward.

4. Empirical case: the FSU integration

4.1. Preconditions and results

As has been shown above, in order to test the main predictions of this paper empirically, we have to look at the regionalism projects that emerged in a region originally belonging to a single polity, and for which the objective of regional policy coordination in the long run is valid. Therefore the paper considers the case of the regionalism in the former Soviet Union – more specifically, regional integration in the area of electricity and transport within the framework of the CIS and the EurAsEC. The first condition required for the study is obviously satisfied. The “post-Soviet regionalism” emerged immediately after the collapse of the Soviet Union, which was indeed based on a highly centralised hierarchy spanning the political and the economic spheres. The CIS was established almost immediately after the collapse of the USSR and currently includes 11 of its former 15 republics.⁴ The Eurasian Economic Community evolved as a smaller group of the FSU states aiming to achieve a

⁴ Three Soviet republics, which currently belong to the EU – Lithuania, Latvia and Estonia – have never been part of the CIS; Georgia left the CIS in 2009. Thus, members of the CIS are Azerbaijan, Belarus, Armenia, Kazakhstan, Kyrgyz Republic, Uzbekistan, Tajikistan, Russia, Moldova, Ukraine and Turkmenistan.

higher level of regional integration from the mid-1990s, but was institutionalised in 2000.⁵ The degree of economic and political interconnections among these countries has been (at least originally) very high and can even be traced back to the pre-Soviet period.

It is more difficult to justify the second assumption. Or, at least, for the CIS the situation is not clear. The texts of the original declarations signed by the member states, on the one hand, suggest the need for a relatively broad policy coordination (for example, the Declaration on Economic Policy points out the need for value-added tax coordination, coordination of customs policies and free transit; the founding Belovezh agreement proclaims the need to coordinate the foreign policy and transport and communications policies and to maintain an integrated economic area); however, the key goals of the CIS seem to be rather related to the slow and painless disintegration of the USSR (the Declaration on Economic Policy proclaims the need for coordinated economic reforms and the introduction of national currencies to guarantee the observance of the parties' economic interests; two further Declarations signed in Almaty and Ashgabad focus on restricting mutual interventions in domestic policies rather than on policy coordination, with the exception of the nuclear weapons; for the English versions of the founding documents of the CIS see Brzezinski and Sullivan, 1997). It is therefore not surprising that the CIS has often been interpreted rather as a tool of a "civilised divorce" than of developing a full-fledged policy coordination mechanism (Kux 1996). As to the real position of the elites of the new independent states after the collapse of the USSR, it is likely to be mixed: hopes and aspirations towards future re-integration were combined with the desire to "move away" from the Soviet past, and the proportion of this mixture is likely to be different in the various FSU countries (Grinberg 2004).

However, even if one assumes the idea of the "civilised divorce" prevailed at the founding moment of the Commonwealth, it does not entirely explain the further development of the FSU regionalism. If the only objective of the new independent states were to support the disintegration of a once common polity, one would expect the degree of the policy coordination *and* of the effort to ensure the policy coordination to decrease (more or less) slowly, as the member countries become less interconnected with each other. The process is likely to take decades (as one can learn from other cases of the state collapses; for example, the claims regarding common property between Austria and Hungary were finally settled in

⁵ Currently the organisation includes Belarus, Russia and Kazakhstan (three original members), as well as Tajikistan and Kyrgyz Republic. Uzbekistan entered the EurAsEC in 2006 and suspended its membership in 2008.

1986, although in the FSU, given the absence of conflicts similar to World War II and the Cold War, the process could be faster), but the trend should be obvious at least two decades after the dissolution of the FSU. However, while the degree of policy coordination is indeed decreasing (with some important exceptions to be discussed in what follows), the demonstrated effort to foster policy coordination is still relatively high.

More specifically, the FSU seems to experience a series of “integration cycles”. New projects and initiatives have been initiated during the recent decades. These integration cycles seem to resemble the decision cycles experienced by the successful regionalism projects (like the EU), yet their outcome is very different. Usually new initiatives have exactly the same goals as the old ones, co-exist with the old ones, however, are systematically not implemented by the member states. Specifically, in 1992-1993 the CIS members signed a number of agreements aiming to promote closer economic cooperation (for example the CIS Economic Union, the CIS Customs Union and the CIS Free Trade Area agreements); since the mid-1990s new projects have been initiated by smaller groups of countries (including the EurAsEC and the Russian-Belarus Union). Hence, it seems plausible to claim that the “civilised divorce” logic is unlikely to be able to explain this cyclic activity. Of course, it is possible that the real goals of politicians engaged in the negotiations are different from the desire to implement a higher level of policy coordination and are linked, for example, to the domestic political process, as will be discussed in what follows; however, domestic politics has a crucial role in the design of regionalism in general and from that point of view the FSU is not an exception.

Nevertheless, even if one assumes that the CIS is not entirely driven by the civilised divorce logic (and the EurAsEC certainly is not), it is also the case that the effects of regionalism have been so far low. The CIS and the EurAsEC were unable to establish even a systematic free-trade area; it was only in 2009 that the three largest EurAsEC members began implementing the fully-fledged customs union. The degree of policy coordination in other areas is even smaller (see Libman 2007; Obydenkova 2010). However, in individual sectors attempts to develop the regional cooperation are sometimes more successful. It is particularly important for the interaction of functional bureaucracies in the areas outside the “high politics” agendas – so, one can refer to the “intermediate” level of integration enforced by second-rank bureaucrats and not by politicians. Nevertheless, these areas, in spite of the economic common sense, do not seem to generate spillovers for the expansion of regionalism – as shall be studied in this paper.

In our analysis we will try to understand the role of national and supranational bureaucracy in the process of the CIS and EurAsEC development. Both organisations established a relatively large supranational framework with a sophisticated bureaucratic apparatus. The number of permanent structural divisions in the EurAsEC rapidly increased from four in 2000 to 21 in 2008; the CIS includes 82 structures, including 66 sectoral councils designed to support and foster regional integration. Whether this bureaucracy developed an independent ethos similar to that debated in the EU case is not clear. In most cases one is dealing with national bureaucrats involved in the activity of the supranational decision-making bodies on a regular basis rather than “true” supranational officials without direct links to national ministries and agencies. As for “true” supranational bureaucrats (usually associated with the secretariat of both organisations), it looks like at least the key appointments in the CIS institutions are sometimes used as an “exile of honour” for high-ranking Russian politicians (for example, the last two executive secretaries of the CIS originally served as the Minister of the Interior and head of the foreign intelligence service in Russia). This is however not the case for the EurAsEC, where a position in the secretariat can serve as a launching pad for future domestic advancement. For instance, the former secretary general of the EurAsEC Grigory Rapota went on to be a representative of the President of Russia in the Southern and Volga federal districts – an important position in the Russian political hierarchy.

The analysis of this paper aims to discuss regional interaction in two areas, which provides an example of highly successful bureaucratic coordination between the CIS countries: electricity and railroad transportation. The choice of these two sectors is driven by four considerations. First, in this area the logic of the residual budget maximisation is easier to trace, as regional integration is associated not just with creating the common institutional framework, but also with infrastructure investments decisions. In the CIS countries the railways and the electricity networks are owned or controlled by the governments; so, bureaucrats are involved in both regulation and the allocation of investments. Thus, there are clear budgetary consequences from the political decisions over CIS integration. Second, the railroad and the electricity sectors could serve as examples of a relatively successful policy coordination driven by the supranational bureaucracy, compared to other sectors of the FSU regionalism, where integration has been limited to pure rhetoric. Third, the spillover logic seems to be relatively straightforward for these sectors, as they serve as powerful devices of market integration through the reduction of the cost of cross-border transactions (it is

particularly important for the railways, which are the main medium of transportation of goods and people in the FSU) and through the establishment of interdependencies in the price mechanisms between markets.

Fourth, these are also areas where the integration is facilitated by a substantial infrastructure created by the Soviet Union (the network of railways and the integrated electricity transmission system). The CIS region is interconnected by a very developed network of rail routes under the common 1520mm gauge standard, which differs from the European (except for the Baltic states), Chinese, and a number of South Asian gauges. That makes for a homogenous technologic base, including wagons and locomotives: imports of wagons and motive power from outside the CIS region are highly unlikely (Vinokurov et al., 2009). Rail traffic accounts for 50% of cargo and 40% of passenger turnover in the CIS. As for electric power generation and distribution, the post-Soviet states inherited an extensive, although somewhat outdated, united power system. A number of heat and hydro power stations close to new states borders in conjunction with developed cross-border transmission lines facilitate cross-border trade in electric power in such country pairs as Russia-Ukraine, Russia-Belarus, Belarus-Ukraine, Ukraine-Moldova, Russia-Kazakhstan as well as throughout Central Asia. While it has fallen by a factor of three since the 1980s, cross-border trade in electric power remains significant and in many cases is unavoidable in the post-Soviet space (Vinokurov, 2008b).

4.2. Electricity and railways: advances and promises

We will begin by discussing the composition of the Councils and the mode of their decision-making. The decision-making process in the CIS and EurAsEC Industry Councils proceeds in a similar manner. The preparatory work is done by the Secretariat of the respective organisations. Then the draft decisions are discussed and prepared by experts – the members of national delegations. Finally, the decisions are taken by the members of the respective Councils, which are usually composed of ministers and/or deputy ministers of national ministries in charge (Energy, Transportation and so on). The experts groups represent the crucial chain in this process. They are often regarded as one of the most efficient means of international coordination and decision-making at an international level in the CIS region (Vinokurov 2008b). The Experts groups are composed of specialists, mostly engineers and economists.

CIS Electric Power Council and EurAsEC Energy Council are composed of more specialists (engineers and specialised economists) than their respective transport counterparts, although the latter ones are also prone to being populated by professionals (see *Table 1*). Even if one takes all the members of the councils into account, half of the EurAsEC Energy Council consists of energy engineers, while the other 50% is of mixed professional background, mostly economists and professional bureaucrats representing ministries and state enterprises. The situation is even more pronounced if one recalls that the councils include both ministers of the member countries *ex officio* and also deputy ministers, who usually are directly involved in the negotiation and decision-making process. If one just concentrates on the deputy ministers, nine out of ten members of these two councils are engineers or technicians by education. As they belong to the same generation (again, nine out of ten were born in the 1950-1960s) they were educated under the highly homogenous system of the Soviet technical universities (see *Table 1*). From that point of view one could expect much greater advances in the “socialisation” in this group (which could have also been partly “socialised” even before the collapse of the USSR as part of the single Soviet bureaucracy).

Table 1 about here

The experts, too, share a lot in common. They tend to belong to the same generation of 40-55-year-olds, that is, they graduated and began their careers in the same Soviet organisations and enterprises in the 1970-1980s. Importantly, they were educated in the same institutions. At the time, a relatively small number of specialised industry institutes existed where professional cadres of a higher calibre were educated for the entire Soviet Union. Future professional cadres in railway and automobile transportation graduated from Novosibirsk Railway Transport Institute, Alma-Ata Railway Transport Engineering Institute, Moscow Automobile and Road Building Institute, Leningrad Transportation Institute, Urals Electromechanical Institute of Transport Engineers, and the Moscow Institute of Transport Engineering. Perhaps an even closer circle of specialised institutes nurtured the future leaders of electric power industry (Moscow Power Engineering Institute, Moscow Hydro-Melioration Institute, Leningrad Economic Engineering Institute, and the Almaty Energy Institute). Moreover, all these institutes shared *the same* academic programme and the same textbooks so their graduates speak the same language both literally and figuratively. To sum up, the functional bureaucracy shares a common educational and professional heritage. And even more, these bureaucrats originated in a system of the post-Soviet public administration, still

inheriting many features of the Soviet bureaucratic apparatus, which should also provide them with a common “language of communication” facilitating regional cooperation.

So how do these well-acquainted bureaucrats perform in terms of promoting regional integration? Central Asia provides us with a number of high-profile examples of infrastructure investment decisions. During the recent decades, Russia and Kazakhstan have efficiently managed extensive cross-border flows of electric power based on the developed infrastructure and Kazakhstan’s comparative advantage as a provider of low-cost electric power produced from Ekibastuz coal. While Ekibastuz power was exported and consumed by neighbouring Russian regions just across the border, western parts of Kazakhstan were supplied with Russian energy. However, the Kazakh authorities deliberately implemented substantial investments to reduce this interdependence. This led to the construction of the 500km-long 500kW “North Kazakhstan – Aktobe region” power line, which cost around USD180 million to build in 2006-2007. Partly as a result of this, Kazakhstan’s electric power imports from Russia fell from 5316 mln kW/h in 2004 to 2214 mln kW/h in 2008, while its exports to Russia remained virtually unchanged at 2379 mln kW/h, despite the vast export potential of Ekibastuz coal-fired power plants.

Uzbekistan represents another striking example of the prevalence of the narrowly defined ‘electric power security’ over an economically far more beneficial regime of cross-boundary electricity flows within an existing unified energy system. The country withdrew from the Unified Energy System of Central Asia (UES-CA) on December 1st, 2009. This unilateral act was apparently in planning for two years, as the Uzbek power system was becoming internally connected. Because of Uzbekistan’s central position, all the Central Asian countries have been hit by this decision; Tajikistan, however, may be worst affected. For the last 70 years, Tajikistan has received a substantial proportion of its power supplies from neighbouring Uzbekistan (its energy deficit in the autumn-winter period constitutes around 2bn kW/h; this is covered by 0.6bn kW/h of Uzbek energy and 1.2bn kW/h of Turkmen energy transited through Uzbekistan). Over the same period, Tajikistan has exported comparable amounts of electricity to Southern Uzbekistan in the spring-summer season, in the process of irrigating countries located downstream on major rivers. Overall, Uzbekistan and Tajikistan were connected by 89 transmission lines, which are now being physically cut off. One of the solutions now being actively considered is to connect Khudzhand (Tajikistan), Datka (Kyrgyzstan) and Almaty (Kazakhstan) with a high-voltage power line, thus effectively bypassing Uzbekistan. This power line would, however, be longer than the existing one and

require several years to build. Thus, Uzbekistan's withdrawal from the UES-CA has led to economically suboptimal production and the need for extensive capital investment. Uzbekistan will also be adversely hit by its own decision, as the country's own power consumption peaks will no longer be covered by daily cross-border power flows within the regional unified system. In addition, effective international regulation of water in Central Asia has now become an even more remote prospect.

On the Western flank of the CIS, Belarus is striving to invest substantially into new hydro-power facilities in order to substitute the gas-fired heat and power plants and thus mitigate energy dependency on Russia. The state policy foresees building a number of these - despite poor economics. The unfavourable fundamentals of landscape and river flow will result in a very high cost of construction - \$8000 per kWt of installed capacity. The viable alternative would be allowing privatisation and sale of energy and gas-chemical assets to Russian companies.⁶

Overall, the situation in electric power sector is well characterised by the words of an anonymous official of a regional integration organisation: 'It is better (for national bureaucrats – *authors*) to pay ten times over the odds than to go and ask your neighbours (interview by the author, April 2010, Almaty). Expensive domestic projects seem to be a more attractive solution to the decision cycles than advancing regional integration. Of course, the result is also partly linked to the specifics of the bureaucratic culture as it exists in the post-Soviet countries. International negotiations, even performed with the peers in the ministries of agencies of other countries with a very similar background, can be perceived as a factor of discomfort, just because of their relative transparency (as opposed to the informal and opaque bureaucratic culture of the FSU countries) and complexity as opposed to the "traditional" informal relations and connections within the bureaucratic hierarchy (see Ledeneva 2009; Gel'man 2010), which was inherited in most post-Soviet states from the Soviet past alongside the bureaucratic personnel employed in the various agencies (Makeyenko et al. 1999). The logic of protecting the comfort of national bureaucracy proves to be overwhelming.

⁶ Of course, it would be too simplified to claim that all cross-border cooperation projects end up as a disaster. Examples of successful cooperation include the Sangtuda hydro power station-1 in Tajikistan and the third energy bloc of Ekibastuz heat power station-2 in Kazakhstan, as well as the Ekibastuz heat power station-2 reconstruction. Also, it is worth noting that Inter RAO's power stations and transmission lines in Georgia functioned uninterrupted even during the Russo-Georgian war in 2008. However, examples of obviously expensive "domestic" solutions in place of regional cooperation are numerous.

Nuclear power sector represents a specific case of cooperation between two important global players in this market, Kazakhstan and Russia. Under a programme for strategic cooperation in nuclear fuel production, three joint ventures were founded in 2006. The first joint venture (JV) was established in Kazakhstan to produce natural uranium fuel for Russian-designed reactors. The second JV, the International Uranium Enrichment Center (IUEC), was established in Russia to enrich uranium. Subject to completion of feasibility studies the partner companies we supposed to contribute equally to the initial asset base for the joint ventures: uranium production facilities will be provided by Kazakhstan; and uranium enrichment facilities will be provided by Russia. Finally, the third JV involving KazAtomProm (Kazakhstan) and AtomStroyExport (Russia) was established in order to design and produce a Russian-Kazakh nuclear reactor with VBER-300 power units. From the economic point of view the cooperation is explained by their urgent need to reduce their energy deficit, and to the synergies which exist between their production capacities and technologies at each stage of the nuclear fuel production chain (Vinokurov, 2008a).

However, four years later, the practical results of these large-scale agreements are modest. Only the first JV functions as planned and produces uranium concentrate. The IUEC and the design of VBER-300 reactors have stalled. The latter failure is particularly telling. While theoretically connected to the debate on intellectual property, it can be explained by the unwillingness of Kazakhstan to invest in the JV and build its first nuclear power station in Aktau with VBER reactors. Kazakhstan painstakingly tries to balance the interests of all major players and promotes cooperation not only with Russia but also with the U.S., France, Japan, and China. In particular, Kazatomprom acquired Toshiba's 10% stake in Westinghouse Electric, a leading producer of nuclear reactors, for \$540 million. For Kazakhstan, this creates new opportunities to develop a hi-tech nuclear industry and to market its output in the West. Supplying high-end nuclear products to Western markets is one of KazAtomProm's development priorities, along with continued cooperation with Russia in supplying Soviet-type reactors.

Let us now look at the specifics and cooperation in railway transportation – to repeat, by far the most important means of cargo and passenger transportation in the FSU based on the Soviet infrastructure heritage and common standards. A number of announced international initiatives within EurAsEC and CIS concern the development of railway transport corridors, in particular between Western China and Western Europe through the territory of Russia, Kazakhstan, and Belarus. These corridors should play two roles, namely

developing transcontinental transit as well as trade between EurAsEC states. Only very modest success has been achieved so far, including in container trains. For instance, despite a number of high-level statements, only 9320 TEU were carried on container trains in transit from China to Western Europe through EurAsEC territory. Despite the transit potential of EurAsEC member countries (primarily, Russia, Kazakhstan and Belarus), and the existence of a system of international transport corridors (including railways and motorways), the fact remains that transit is not taking off: in the context of annual traffic from Northeast and Southeast Asia to Europe of over 17 million TEU, the several tens of thousands containers being shipped via the ITCs of EurAsEC are insignificant (Vinokurov et al. 2009: 17).

There are two primary transit routes from Eastern Asia to Western Europe through the CIS, namely the Transsiberian (TSR) and Northern Trans-Asian railway corridors. Unlike the former, the Northern Trans-Asian corridor runs through both Russia and Kazakhstan. It is viewed as the second most developed corridor after the TSR, and is sometimes referred to as “the second Eurasian overland bridge”. It runs from Lianyungang through central and northwest China, Kazakhstan and Russia to Western Europe. The economics of this corridor might be more favourable than the TSR’s, since it is 2,500 km shorter. Nevertheless, the major Russian investment in railway transit targets primarily the Trans-Siberian route. Russian Railways has pledged to invest about 50 billion roubles (\$1.7 billion) in the modernisation of the TSR up to 2015, primarily to allow it to handle special container traffic.

The potential ‘Central Eurasian’ corridor, running from the Sino-Kazakh border via Dostyk to Almaty and on to Ukraine (Donetsk-Kiyv), is also worth mentioning in this regard. This is the shortest route from Asia to Central Europe, providing access to Poland via Jagodin and Mostiska and to Slovakia and Hungary via Chop. This corridor was proposed as early as 1996 (UN ESCAP, 1996). Arguably, it is the most promising transcontinental corridor of all (Emerson and Vinokurov, 2009). The necessity to enter an international agreement and coordinate investments on the Kazakh, Russian, and Ukrainian territory probably prohibits this corridor from being adequately developed and exploited. Another powerful obstacle, according to interviews with anonymous market players, is Ukrainian bureaucracy: logistics professionals would simply prefer to pay extra to avoid dealing with Ukraine.

The railway connection Shar - Ust-Kamenogorsk in Northern Kazakhstan was built in 2005-2008 to avoid the need to travel through Russian territory and to cut time in traffic. Earlier, it was necessary to travel through Russia in the western and southern direction from Ust-Kamenogorsk. Constructing the new railway line allowed the distance to be cut by 300

km and significantly cut time by avoiding two border crossings. So, in this case, heavy investment in the railway infrastructure was justified not only by considerations of national security but also by pure economic considerations.

Pipeline transportation – while outside the scope of our empirical analysis – provides a striking example of the impact that national bureaucracy renders on international cooperation, namely Gazprom's South Stream pipeline project that will link Russia through Black Sea with Southern and Central European markets. The economists consent on the bad economics of this \$25 billion project, particularly facing the competitive pressures in the European market. Gazprom is nevertheless pushing forward unrelentlessly.

Following the theoretical argument hypothesised in this paper, there are two explanations for that. First, the functional bureaucracy follows the logic of maximising long-term budgets at its disposal. Second, as Trans-Ukrainian gas pipelines have enough capacity to cover current export needs, and their modernisation could eliminate all need for a new capacity while demanding only a fraction of South Stream's costs. However it would require difficult bargaining between Russia and Ukraine. The South Stream is basically supposed to create an alternative capacity and put Russian functional bureaucracy in a vastly more superior position in their further negotiations with their Ukrainian counterparts. Thus, constructing the South Stream would provide functional bureaucracy with far more comfort and a higher degree of bureaucratic entrenchment.

4.3. Crises, asymmetry of gains and non-democratic regimes

The results so far seem to be broadly consistent with the hypotheses formulated for holding-together regionalism. While there seems to be a significant bulk of infrastructure remaining from the Soviet Union, the interest of bureaucracy seem to manifest themselves rather in the development of domestic alternatives to the regional integration than in the expansion of regionalism. This logic, however, is likely to be reinforced by two further considerations, which shall be discussed in this section. First, the distribution of gains and resources invested in the regional projects in the FSU is highly asymmetric. Second, the channels of communication and selection of bureaucrats in the FSU are likely to be influenced by the nature of political regimes in the countries of the region. Finally, we have hypothesised that the interest in the domestic alternatives to the regionalism is high if the costs of abandoning regional integration are not overly large. Otherwise the bureaucrats have little

incentive to deviate from the existing regional arrangements. In this section we will also review some evidence in favour of this claim.

To start with, the post-Soviet regionalism is obviously highly asymmetric in the sense of how resources and costs of regional integration are distributed. It suffices to say that Russia accumulated the lion's share of the economic resources of the FSU, its territory and its population; but, purely geographically, it is Russia's presence in the CIS and EurAsEC which "connects" other countries to each other (specifically, three main sub-regions of the CIS: its European part, Caucasian countries and Central Asia). In the framework of a holding-together regionalism project this has interesting implications for the bureaucratic incentives. Consider first the opportunities of the budget expansion through regional integration versus search for domestic alternatives for the regionalism for the leading country. Since the dependence on regional integration is low, there are also limited opportunities to be gained through creating its own "alternative" infrastructure; in the Russian case the domestic market is large enough and is connected enough without strong additional investments "replacing" the decline of regionalism. Hence, the bureaucrats once again receive incentives to promote the regional integration – as in case of the "coming together" federalism. However, while incentives for searching for spillovers are large, the spillovers as such are relatively low, given the size of the dominant economy. For example, while in the early 1990s the collapse of the USSR certainly affected the position of Russian enterprises as well, the costs have been lower than for smaller CIS countries, which in many cases lost access to vital resources (Melnikov 2001).

Under these assumptions it is possible to expect that, on the one hand, leading countries (and especially Russia) will provide a relatively large contribution to the CIS budget, but, on the other hand, this will not result in advancements of regionalism. The empirical observations indeed seem to confirm this result, as *Figure 1* illustrates. It shows the simple correlation between a measure of the relevance of the CIS for the economies of individual countries and the measure of spending on the CIS. The former is reflected by an integration index calculated by the Eurasian Development Bank (Vinokurov 2010a). The index aims to show the degree of *economic dependence* of individual countries on the CIS markets, and not of the formal involvement in the regional integration projects and initiatives, and accounts for the importance of the CIS for the foreign trade, international migration, trade in three main sectors (energy, agriculture and educational service) and economic convergence between the country and the CIS. In order to measure the spending on the CIS we look at the share of the mandatory contributions to the CIS budget (set in the integration treaties) actually

made by the countries. As one can see, the measure varies from less than 20% for Georgia (which has been a member of the CIS over the timeframe of calculations) to more than 100% for Russia (which contributes more than it is obliged to). The relation between two indicators is significantly negative; excluding outliers (Russia and Georgia) from the sample does not change it, as one would expect from the discussion above.

Figure 1 about here

Alternatively, one could look at the absolute value of the mandatory contributions, but in this case the relation is even more pronounced: Russia has committed itself to the highest contributions, and has the lowest integration index. In fact, *Figure 1* shows that given even already set differences in the size of the contribution, the CIS countries with the ex-ante lower contributions do not fulfill them, while the CIS countries with ex-ante larger contributions over-fulfill them - and also happen to be less interested in the regional integration. It should also be noted that the over-contribution of the largest partner has been confirmed in a variety of international unions (for example, for the military alliances see Olson and Zeckhauser 1966). However, in the CIS setting the result seems to be extreme, given the low level of efficiency of the organisation and hence limited payoffs for Russia. Of course, for Russia the CIS and EurAsEC are important from the point of view of domestic politics, given the still-existing public preferences for the re-integration in the FSU (see Furman 2006 for a critical discussion); however, implementation of contributions set in the agreements is not publicly visible, so, political effects should be negligible.

Another feature of the CIS politics, which we have not considered so far, is that the CIS countries are mostly non- or semi-democratic. This feature does have an impact on the FSU regionalism, which has already been discussed in the literature: the integration rituals are used by the non-democratic governments to “silence” the opposition, and autocratic regimes seem to be eager to support each other (see Ambrosio, 2006; Allison, 2008; Collins, 2009). The analysis of the bureaucratic incentives suggests yet another perspective on the possible effects. To start with, the ability of functional bureaucracies at the “intermediate level of integration” to pass the information on possible spillovers to the “top” of the hierarchy in non-democracies is likely to be smaller, simply because non-democratic regimes suffer from significant information transmission problems in their hierarchies and are more likely to appoint incompetent bureaucrats (Dixit 2009, Egorov and Sonin 2010). However, it is also

likely that the non-democracies are more eager to base their actions on the sense of national security, which would increase their incentives towards greater autarky: thus, they also set respective incentives for bureaucrats, reinforcing the effects of “holding-together” regionalism from the existing bulk of interrelations and infrastructure.

Finally, as we have mentioned before, increasing costs of “moving away” from the regionalist solutions are likely to influence the stimuli for the bureaucrats. It is possible to claim that the costs are particularly high (or at least perceived as particularly high) if the overall economic situation is bad. From this perspective one should once again observe the logic reverse to that of the “coming together” regional projects. For the latter adverse economic shocks (like global economic crises or regional depressions) are usually associated with a decline in the level of economic cooperation, as the advancement of regionalism becomes more costly and incentives for free-riding go up (the setbacks of the European integration during the global economic turbulences is a good example of that logic). In “holding together regionalism”, on the contrary, worsening economic conditions make the search for domestic alternatives to the existing regional interdependencies more problematic, and therefore crisis could encourage cooperation. The experience of the 1990s in the FSU is difficult to analyse from this perspective, because the region suffered simultaneously from the economic recession and the need to establish a new set of economic and political institutions. Nevertheless, Vinokurov (2010b) discussing the policy of Kazakhstan shows that the surge in interest towards regional integration is closely correlated with periods of decline in economic performance.

The developments of the 2000s, when the political and economic structure of the new independent states became more stable, provide us with some evidence in favour of this hypothesis.⁷ During the period of 1999-2007 almost all FSU countries experienced rapid economic growth. At the same time, however, the attempts to revive the post-Soviet regionalism were highly unsuccessful. While some new initiatives were started or proposed (specifically, the Single Economic Space project of Russia, Ukraine, Belarus and Kazakhstan in 2003 and the CIS Free Trade Area project initiated by Ukraine), none of them was implemented. In fact, the intensity of conflicts between the FSU countries and their reluctance to commit themselves even to the repeating integration rhetoric rituals increased (Libman 2009). However, the situation changed rapidly when the global economic crisis hit the FSU

⁷ Unfortunately, the evidence is circumventional and not clearly related to the areas of transportation and electricity studied in this paper; partly because the reaction of these sectors to the decline of economic conditions is usually not very fast because of the dominance of natural monopolies free from the usual competition pressure.

region. Specifically, the Eurasian Economic Community agreed on establishing a \$8.5 billion anti-crisis fund aiming to provide financial support to the CIS countries facing severe economic problems. While the potential efficiency of this fund is not undisputable (Nikolaev et al., 2009; Golovnin et al., 2009), its establishment differs from the general attitude dominating the 1990s. In 2010 Belarus, Kazakhstan and Russia initiated a new attempt of creating a customs union of these countries, connected by more binding commitments this time (for example, due to the decision of coordinated WTO accession negotiations, see Baranov 2010; besides, the Commission of the Custom Union has many attributes of a supranational body). The increase in interest in integration at the time of crisis seems to be present.

5. Conclusion

The debate on regionalism as it has been present in the literature so far usually assumes the international anarchy with independent states as the starting point. Yet for many regional projects this perspective is misleading. In this paper we analysed a particular case of what one could call “holding-together” regionalism, when the regional integration starts “on the ruins” of a previously existing single political entity. Our goal was to understand whether successful interaction of bureaucracies in these international unions can provide momentum for the advancements of regionalism. However, the paper shows that, if one assumes the Public Choice bureaucracy driven by the budget and power expansion interests, the set of incentives for these bureaucrats - *because* of the already high interdependence and a “bulk” of common infrastructure inherited from the past - reduces their interest in advancing regionalism and supports the search for “domestic alternatives”.

In order to empirically verify this claim, we have looked at one of the most pronounced “holding-together” regional integration areas – the former Soviet Union. We were able to show that indeed areas where bureaucrats from different FSU countries seem to speak a “common language” and successfully interact in order to ensure limited policy coordination – transportation and energy – do not spill-over to other policy areas; on the contrary, the crises seem rather to be resolved by the advancement of domestic infrastructure. We have also discussed the implication of economic asymmetries and deficit of democracy for this setting, as well as studied the potential implications of economic crises. Unlike the “coming-together” alliances, where crises seem to be a factor preventing further advancements of regionalism,

for “holding-together” regions crises could rather generate positive effects and at least stabilise the existing regional arrangements.

The study acknowledges its limitations. Analysing a particular case study is always difficult from the point of view of possible generalisations of the results obtained. For this paper the situation is in fact even more difficult, as it is not clear whether “holding-together” regionalism represents a wide-spread phenomenon worth studying. We have mentioned several projects in this group in the introduction, but their importance in the world economy and politics is often (but not always) marginal. It is possible to speculate, however, that a similar logic of the bureaucratic incentive can be attributed to a broader class of regional projects. It is sufficient to assume that the degree of interconnections (and common infrastructure) at the “starting point” of regionalism is very high, so that “domestic alternatives” are associated with larger budget expansion. It can be the case because of the pre-existence of a common political entity, but it can also result, for example, from the exposure to the globalisation forces, if the regionalism is attempted in a group of countries that are integrated with the global economy. In addition, increasing decentralisation trends observed in many countries can, generally speaking, generate new cases for “holding-together” regionalism with similar incentives for regional bureaucrats.

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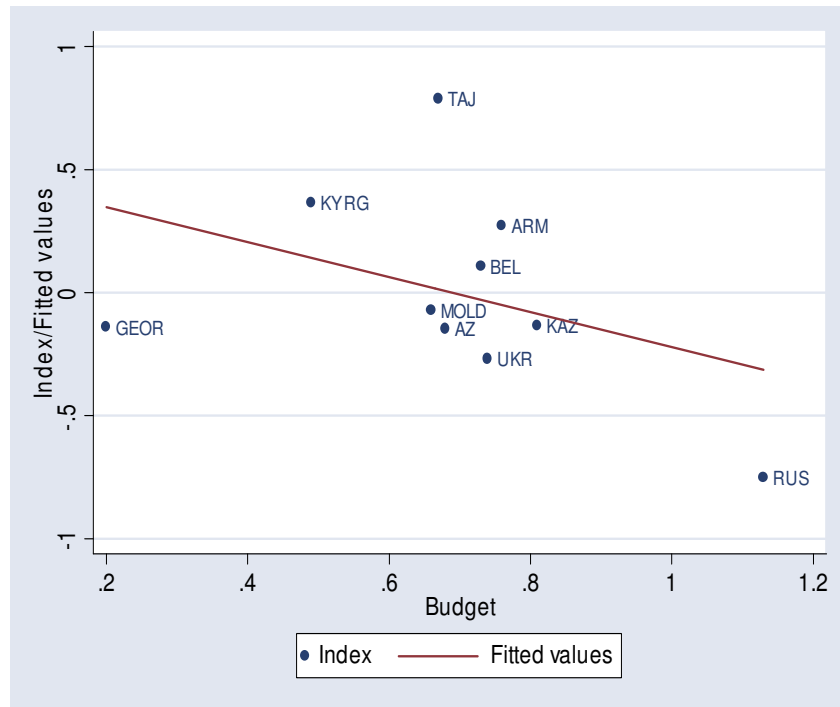


Figure 1: Economic importance vs. spending on the CIS, 2008

Note: x axis = share of the mandatory contribution to the CIS budget actually implemented by the country, y axis = EDB integration index; RUS = Russia, GEOR = Georgia, TAJ = Tajikistan, KYRG = Kyrgyz Republic, ARM = Armeina, BEL = Belarus, MOLD = Moldova, AZ = Azerbaijan, UKR = Ukraine, KAZ = Kazakhstan

Table 1: Professional background of the deputy ministers of the EurAsEC Energy and Transportation Councils, 2009

Member	Council	Country	Year of birth	Education	Born in the 1950s	Technical education at a Soviet university
Bekturov	Transportation	Kazakhstan	1976	Almaty State University	No	No
Hudoerov	Transportation	Tajikistan	1958	Dushanbe technical institute	Yes	Yes
Mamataliev	Transportation	Kyrgyz Republic	1957	Frunze Politechnical Institute	Yes	Yes
Misharin	Transportation	Russia	1959	Urals Electromecanica I Institute of Transport Engineers	Yes	Yes
Mukhitdinov	Energy	Tajikistan	1959	Moscow Engineering and Construction Institute	Yes	Yes
Rymashevskiy	Energy	Belarus	1959	Belarus Politechnical Institute	Yes	Yes
Saidov	Energy	Kyrgyz Republic	1969	Kyrgyz Technical University	No	Yes
Turganov	Energy	Kazakhstan	1959	Almaty Energy Institute	Yes	Yes
Verkohvets	Transportation	Belarus	1950	Belarus Politechnical Institute	Yes	Yes
Yanovsky	Energy	Russia	1957	Moscow Mining Institute	Yes	Yes

Source: data of the Eurasian Economic Community and national agencies on ministry and transportation