



## EURASIAN ECONOMIC UNION: A 6 MONTHS REPORT

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## Eurasian Economic Union: Undergoing A Durability Test

By Gennady Chufirin, Moscow

### Abstract

This article considers the positives of, and challenges facing, Eurasian economic integration. The EEU has begun in a challenging economic context, with a global recession, low global energy prices and Western sanctions on Russia. Nonetheless, the project continues to move ahead and is seeking to overcome such challenges. It is argued that the EEU has a fair chance of succeeding in the long-term, but will have to travel a difficult uphill road to do so.

The future of the Eurasian economic integration project—which started in 2010 when the Customs Union (CU) between Russia, Kazakhstan and Belarus was established and then moved into its next stage by establishing the Eurasian Economic Union in January 2015—is now the subject of active debate between its supporters and critics, both at home and abroad.

This debate has been provoked by various impediments that have accompanied the implementation of this project from its very start, but which have become particularly acute in the last couple of years. The arguments voiced in favor and against the sustainability of this project are equally polemic and divisive. To escape simplistic answers, it is necessary to conduct a multi-dimensional evaluation of the Eurasian economic project, which takes into account all the various relevant factors and tendencies: not only economic considerations, but also political and social factors.

### The Customs Union: a Positive First Step Towards Eurasian Economic Integration

Two and a half decades after the collapse of the Soviet Union, most of its former constituent Republics have failed to achieve either stable and sustained rates of economic growth or noticeable improvements in living standards for their populations. Under these conditions, the idea of reaching these goals by collective and collaborative methods has become increasingly popular. A special role in this process has been attributed to the Eurasian economic integration project.

One should not be surprised, therefore, by the exceptionally high level of public support for this project in many post-Soviet states. In 2013–2014, according to the data of the Eurasian Development Bank, 68 per cent of the population in Belarus and 79 per cent in Russia approved of their countries' participation in Eurasian economic integration, while in Kazakhstan the rate of approval exceeded 80 per cent. Similar public attitudes to participation in the Eurasian economic integration project were evident in Tajikistan (75 per cent of its population), Kyrgyzstan (72 per cent), Armenia (67 per cent) and Moldova (54 per cent).<sup>1</sup>

Among the most important factors for such positive public perception was the positive record of mutual trade between the three members of the Customs Union during the first four years of its operation (2010–2013). During this period, the volume of their trade relations grew by 36 per cent, exceeding the growth rate for their trade with the rest of the world. Also, the commodity structure within their trade relations demonstrated a clear tendency for greater sophistication. Thus, for instance, the share of machinery and equipment in their trade relations in 2010, according to the Russian Commerce & Industry Chamber, was 16.5 per cent, but by 2013 had grown to 20.4 per cent.<sup>2</sup> It is also worth noting that, at the same time, the share of machinery and equipment in the three CU member-states' trade with the rest of the world continued to account for only around 2.5 per cent of their aggregate exports.

It should be emphasized that these positive changes became possible to a large extent because the CU has served to restore many of the pre-existing commercial, technological and production links between its member states, which had been broken by the collapse of the Soviet Union. In addition, it has also led to the creation of new business ties.

The implementation of measures to promote Eurasian economic integration has not only had a positive impact in intensifying trade flows between CU members, it has also helped to increase their mutual investment activities. Thus, in the opinion of Dr. Leila Muzaparova from the Kazakhstan Institute of Strategic Studies: “Cooperation in investment activities among countries participating in the Eurasian integration never slowed down. From 2010 on, the growth in investments from Russia and Belarus to Kazakhstan was maintained continuously at a rate exceeding that of growth in investments from the rest of the world.”<sup>3</sup>

of Russian Analytical Digest no. 165 (17th March 2015).

- 2 Na evpraziiskom prostranstve proiskhodit aktivizatsiya integratsionnikh protsessov, (Activization of integration processes taking place in the Eurasian Space) TPP-Infom.ru, 14 January 2015
- 3 L. Muzaparova “Kazakhstan v Evrazijskom sojuze: problemy i ojidaniya” (“Kazakhstan in the Eurasian Union: Problems and Expectations”), “Metally Evrazii” (Eurasian Metals). Moscow 2015. no. 1, p. 10

1 Center for Integration Studies, Eurasian Development Bank: see <<http://www.centre.eabr.org>>; q.v. chart (opinion poll) on p. 21

This phenomenon has also been noted by Russian President Vladimir Putin. In addressing a meeting of the leaders of Belarus, Kazakhstan and Russia in Astana in March 2015, he said: "The volume of Russian direct investment in Belarus and Kazakhstan has recently reached US\$ 18 billion, while the direct investment from these two countries into the Russian economy amounts to no less than US\$ 10 billion. As a result, over 7 thousand joint companies have been set up".<sup>4</sup>

Furthermore, notable progress has been achieved in establishing a common labor market among the CU members. They succeeded in concluding several agreements aimed at making their national labor laws more uniform. Special attention has been paid to establishing a common policy on employment, medical care and social insurance for labor migrants, who move between these three countries. Such steps are not only aimed at establishing a solid legal basis for labor relations between the member states, but also at giving their own citizens equal rights.

Summarizing the above, one may conclude, with good reason, that the level of progress and achievements reached during the initial stage of the Eurasian economic integration project are quite impressive.

### **EEU: Beginning in Difficult Economic Circumstances**

However, after the promising early years of the Customs Union, during the second half of 2013, and especially during 2014, a variety of negative events and tendencies began to pile-up, resulting in a slowdown in mutual trade and the postponement of several other integration schemes. The reasons of this reversal in fortunes were both internal and external.

The slowdown in trade relations was partly due to the large number of special sectorial and goods exemptions from the CU's trade rules and regulations. Originally, such exemptions were established as temporary protective measures, and were intended to function for only a limited transition period. But, several years later, over 400 exemptions were still in place due to some pretext or other. As a result, a number of problems started to affect interstate-CU trade, including trade in such commodities as oil, natural gas and their products, medicines and a number of food products.

An even more adverse factor for the CU economies and cooperation between them was the negative trends in the global economy and finances, with recession in many developed economies and a decline in their con-

sumption. These developments resulted in, among other consequences, a sharp fall in world prices for many raw materials and energy commodities, including oil. The latter was especially painful for Russia and Kazakhstan, whose economies were strongly dependent on the export of oil and natural gas. It was of little surprise, therefore, that export revenues, trade balances and balances of payments in both states were seriously affected, forcing them to revise the original plans for integration.

On top of these challenges, the outbreak of the crisis in Ukraine led to the US and its allies applying punitive sanctions on Russia. These sanctions caused substantial damage not only to Russia's economy, but also indirectly to Russia's Eurasian partners as their economies are closely linked to Russia's. As a result, the currencies of both Kazakhstan and Belarus were devalued, and both experienced a slowdown in local business activity and a reduction in public consumption levels.

Taken as a whole, the factors outlined above have undoubtedly had a serious negative impact on the progress of the Eurasian integration project. Thus, according to the Eurasian Economic Commission, the volume of mutual trade fell in 2014 by 11 per cent as compared to the previous year.<sup>5</sup> This downward trend continued, and even intensified, in the first four months of 2015. Due to the adverse factors outlined above and a strong devaluation of the Russian ruble at the end of 2014, the estimated (in US dollars) volume of EEU mutual trade declined by 33.2 per cent compared to the first four months of 2014.<sup>6</sup>

However, these negative consequences from the global recession, the fall in world oil prices and Western economic sanctions have only served to delay the process of Eurasian economic integration process, not to terminate it. The leaders of Russia, Kazakhstan and Belarus took joint decisions aimed at continuing and facilitating their integration plans. In May 2014, they signed the treaty that established the Eurasian Economic Union (EEU). Thus, making a clear choice in favor of closer interstate cooperation to resolve the common economic problems that they face, to modernize and upgrade their national economies and to increase their competitiveness on a global scale. In January 2015, after the Treaty had been ratified by the national parliaments of its founding members, the EEU officially came into being. The same month, Russia, Belarus and Kazakhstan were joined in the EEU by Armenia, who became the fourth fully-fledged member. And, in May 2015, it was announced that Kyrgyzstan would become the EEU's fifth member state.

4 Zayavleniya dlya pressy po itogam vstrechi liderov Rossii, Belorussii i Kazakhstana ("Statements for Press on the Results of the Meeting of Leaders of Russia, Belarus and Kazakhstan"), Kremlin, 20 March 2015

5 Eurasian Economic Commission report, 16 February 2015; q.v. Statistics on p. 13.

6 Eurasian Economic Commission report, 15 June 2015; q.v. Statistics on p. 14.

## EEU: Priorities and Goals

The EEU Treaty not only sets out the general principles for more intensive cooperation between its signatories, but it also specifies the concrete areas in which such cooperation will occur, setting both priorities and dates for their achievement. Particular attention is given to those statutes and regulations aimed at the formation of the EEU common market for commodities, services, capital and labor. July 2016 was set as the deadline for formulating a program to create a common market for electricity, with July 2019 as the stated completion date for this program. Another provision covers the very important issue of establishing a common market for oil and natural gas within the period of 2018–2024. For this purpose, it was agreed that the signatories would eliminate existing technical, administrative and other barriers that interfere with the free trade of energy products, equipment and technologies. It was also decided that transport infrastructure for a common market of energy resources should be developed.

If the creation of a common energy market may take a rather long time, progress towards a common labor market is proceeding at a much faster rate. Even before the official inauguration of the EEU, a high degree of labor mobility between the EEU member states had been developed. All that was lacking to complete the formation of a common labor market, in the opinion of Victor Khristenko, head of the Eurasian Economic Commission, was the adoption of common pension legislation.<sup>7</sup>

Alongside the steps aimed at establishing common labor and energy markets, the signatories also agreed that they would begin working on the formation of common markets for financial, transport, construction and telecommunication services in 2015. While, the formation of a common market of medicines should be completed by the beginning of 2016.

Following the guidelines in the EEU Treaty, and taking into account the strong interest of all of its signatories in modernizing their industrial base, the Eurasian Economic Commission published proposals in March 2015 on the priority directions of industrial cooperation from a medium-term perspective. Among these directions, the EEC named as priorities: (a) import substitution of industrial goods from third countries at EEU markets, by intensifying mutual supplies of such goods by the EEU members; (b) the promotion of production in manufacturing industries by mobilizing support for this purpose from all the EEU member states; (c) the acceleration of the technological development of members' industrial complexes and the establishment of a EEU common bank for technical innovations and achievements.<sup>8</sup>

To this end, the EEU countries are expected not only to continue, but to step up and expand their activities towards establishing joint enterprises in such industries as machine-building, production of ferrous and non-ferrous metals, chemical and pharmaceutical products, production of electrical power, the oil & gas industry, automobile production and agricultural machine-building. Furthermore, they are expected to give special attention to setting up joint export companies in these industries. The principal anticipated results of such industrial cooperation will be the development and expansion of the EEU countries' domestic markets, as well as reduction in local unemployment. Also, this policy may help to intensify domestic business activities, bring down current inflation rates and build-up an effective consumer demand among the populations in the EEU member states.

This industrial program is, of course, of critical importance for the future of the Eurasian Economic Union and, in fact, for the whole Eurasian economic project. Its success or failure will depend on a number of factors, among them the ability of participating countries to overcome the adverse impact of Western sanctions on their access to external bank credits and investments. To do that, the EEU members will have to step-up their cooperation on financial matters and to undertake effective measures for raising sufficient domestic investments, both government and private.

It was of little surprise, therefore, that at the above mentioned summit meeting in Astana, Vladimir Putin proposed to upgrade the coordination between the financial policies of the EEU member states. He also raised the issue of establishing a common monetary union. As a follow-up to these proposals, it was decided that, by the end of 2015, the central banks of the EEU member states should submit their thoughts on concrete steps aimed at greater coordination of financial and monetary policies, as well as on the practicalities of creating a common monetary union in the foreseeable future.

Yet, the establishment of an EEU monetary union and the introduction of a common currency hardly appear to be feasible, not just now but also from a medium-term perspective. Taking into account the experience of the European Union's adoption of the Euro in 2002, which had announced its plan to introduce a common currency as early as the end of 1960s, the EEU member states will first need to build a full-fledged economic union and create a single market before then moving on to establish a monetary union.

What seems to be more realistic and practical in the short-term is to promote closer cooperation between commercial banks and other financial institutions, in order to mobilize domestic resources for effectively implementing the already adopted programs for the pro-

7 [Ekhoplanet.ru](http://Ekhoplanet.ru)

8 [Eurasian Economic Commission](#), 16 March 2015

duction sectors of the EEU economies. Also important for these purposes, would be for the EEU to more vigorously pursue the return of national private capital that is now hiding abroad by declaring an amnesty on tax evasion charges for the capital's owners, and by giving them other legal guarantees for a safe return to their states.

### The Future Outlook

A major development in the offing that may have a profound impact on the future of the EEU is cooperation with China's New Silk Road initiative. In early May 2015, the Ministers for Trade of the Eurasian Economic Commission and China announced their plans to start negotiations on such cooperation in Beijing in July–August. It is expected that several areas of cooperation in industry and transport infrastructure will be singled

out as areas for cooperation.<sup>9</sup> Indeed, it is already known that China is interested in building a transcontinental high-speed railway road to Europe across the territory of the EEU member states and is prepared to make substantial investments for this purpose. Even though final decisions by the EEU and China on this and other projects may take some time to be reached, the importance of this cooperation should not be ignored or underestimated. And, after China announced recently its intention to establish the Silk Road Fund, there will hardly be any shortage of resources for its implementation.

Summarizing the above analysis, one may conclude that the EEU project has a fair chance to succeed in spite of the serious challenges it is currently facing. But to succeed, it will certainly have to travel a difficult uphill road.

#### About the Author

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9 Butrin D., Edovina T. "EAES nachinaet dlitel'nyye peregovory s Kitaem ob ekonomicheskoy integratsii" ("EEU Begins Long Negotiations with China on Economic Integration.") "Kommersant". Moscow. May 12, 2015

## ANALYSIS

# A Global Eurasian Region in a "Regiopolar" World-Order

By Maria Lagutina, Saint Petersburg

### Abstract

This article considers the Eurasian Economic Union (EEU) in light of wider processes of global regionalization or regionalization 2.0. It suggests that the conceptual idea of global regionalization serves as the theoretical ground for modern Eurasian integration. As a result, the Eurasian Economic Union should be seen as an attempt to construct a global region that will be an active part of the emerging "regiopolar" world-order and global economic space, and hence to ensure that Eurasia does not function solely as a raw-material appendage and a set of peripheral states.

The first half of the second decade of the 21<sup>st</sup> century has been marked by the robust dynamics within integration projects in various regions of the world. The polysemy of these regional transformations is reflected in the emergence of supranational structures, an evolution of the transnational/cross-border principle and an aspiration to set up multi-vector foundations for integration. In this context, many political experts are

becoming inclined towards the idea that "in the globalization epoch, nation-states can be replaced by "region-states", regions constituting former countries (micro-regions), or blocs of countries (macro-regions)".<sup>1</sup> And,

1 L.S. Gagatova. 1996. "Imperii: identifikatsiia problemy". *Istoricheskie issledovaniia v Rossii. Tendentsii poslednikh let.*— Moskva: AIRO-XX. s. 348. [L.S. Gagatova. 1996. "Empire:



thus, that “globalization can be achieved via regionalization, and not only via the interstate system”.<sup>2</sup> Consequently, a greater role for such the new centers-of-power is a trend within contemporary global affairs—*global regions* are gradually becoming the subjects of world political processes. This build-up of large integrational entities around the borders of geographic regions represents a transition from an international system based on sovereign nation-states to a system characterized by global convergence among the primary actors in world politics.

On January 1<sup>st</sup>, 2015, a new integrational union—the Eurasian Economic Union (EEU)—was founded, and is currently comprised of five member-states: Armenia, Belorussia, Kazakhstan, Kyrgyzstan and the Russian Federation. This integrational structure aims to fill the “integration vacuum” that has formed in the post-Soviet/Eurasian space following the collapse of the USSR. The importance and need to create such an organization stems from the challenges of the modern geopolitical and geoeconomic situation in the world. Some 20 years after the collapse of the USSR, the post-Soviet space finds itself on the outer periphery of global integrational space, and is viewed as something of a “black hole” (Z. Brzezinski) on the world integration map. Indeed, until recently, no truly-effective regional structure aimed at quickly resolving the regional and global problems facing the former Soviet republics had been created. Against this background, the EEU project should be seen as a response to the challenges of the global regionalization of the post-Soviet/Eurasian space, and as an attempt to create an effective structure that would correspond to contemporary world trends and demands.

### Global Regionalization as a New Generation of Regionalization

Recent decades have seen a rapid growth in globalization, as well as regionalization. Both of these processes have drastically transformed the spatial contours of the international system, altering the geopolitical landscape of the XXI century. The outcome of this fusion between globalization and regionalization is the process often referred to as “*global regionalization*” or “*regionalization 2.0*”. This can be defined as a regionalization process within global space, which in practice presents a multi-level structure (sub-, meso-, macro-regions and global regions) in which the “region” is a core element.<sup>3</sup>

identification of problems”. *Historical research in Russia. Trends in recent years*. Moscow: AIRO-XX: p. 348].

2 *ibid.*

3 O.G. Leonova. 2013. “Global’naia regionalizatsiia kak fenomen razvitiia global’nogo mira”. *Vek globalizatsii. No1*. [O.G. Leonova.

In the era of globalization, the classical form of integration between territorial-states is being transformed (as international regions) from one in which states were guided exclusively by national interests into *global regional* integration, with supranational interests coming to the forefront. This new generation of regionalization can be defined as “*regionalization 2.0*”.<sup>4</sup> In “regionalization 1.0”, the principle agents remained the nation-states, with national sovereignty the ultimate principle of international relations. As a result, this mode of regionalization centered on sub-regional structures of nation-states based on a closed type of system. By contrast, in “regionalization 2.0”, players others than nation-states are active, some of whom challenge the notion of national sovereignty. In addition to sub-regional structures, regionalization 2.0 also comprises trans-regional structures, which cross territorial borders (the most important of which being spatial boundaries). With ‘Mode 2.0’, according to van Langenhove (2011), regionalization moves from being based on closed to open systems.<sup>5</sup> This is a networked vision of regional multipolarity, marked by the growing importance of *openness, transparency, multi-actorness, cross-borderness and multi-levelness*. There are signs that “regionalization 2.0” is already partially in evidence in 2015, and is becoming one of the primary trends of the global order, resulting in the emergence of *global regions*. Yet, at the same time, there are of course also strong forces pushing for the continuation of a “regionalization 1.0” approach.

### The Global Region Concept: from “Territory” to “Space”

In the contemporary context, it is critical to take into account that our sense of the relationship between the term “region” and geographical distance has dramatically changed. Some experts speak about “the end of geography”. According to the classical approach, a region refers to territorial entities that share some specific characteristics. From this perspective, regionalization is focused on the integration of nation-states to the end of specific interests, such as trade, economic or security issues, etc.

Among scholars, however, there are now varying opinions about the integral importance of “territory” traits to the concept of a region. Geographic unity is no longer a determining attribute. Rather, a functional

2013. “Global regionalization as a phenomenon of the development of the global world”. *Century of Globalization 1*].

4 L.V. Langenhoven. 2011. “Towards a world of regions and states”.

5 L.V. Langenhove. 2011. *Building Regions: The Regionalization of World Order*. London: Ashgate Publishing: p. 133; L.V. Langenhove. 2010 “The Regionalisation of the World. What does it mean for Asia?”

principle is coming to the forefront, which seeks to move beyond an exclusive and sheer geographical approach to identifying a region. The term “*space*” is favored, as it seen as being free of notions of territory and able to absorb the new features of a “*region*” that are not pegged to a territorial map. Space is the structure that constitutes a region in the course of a process of regionalization (this is of paramount importance in forming “global regions”). In this way, a region can be defined as a coherent entity that is not rigidly confined to territorial constraints. Consequently, the *global region* is a space comprised of both the key features of traditional integration (historical, civilizational and cultural) and new ones typical of postmodernity (networking, communicational, digital, etc.). *Global regions* are, thus, complexes of diverse spaces orientated towards each other around the following characteristics: common “global” spaces; multilevel governance; supranational nature; transnational networks.

### Towards a “Regiopolar” World-Order?

We are in a transitional period between an international (inter-state) network world-order and a *global region* network world-order, in which borders do not exclusively refer to geographical territory.<sup>6</sup> It seems that the Westphalia system of international relations is being replaced by a polycentric system based on *global regions*. The concept of the polycentric world order implies that there will be several centers of the order at any one time. According to numerous analysts, the change to such a world order is underway, with the ascension of several new centers, which will come together to form a new collective system of governance based on international law and the notion of security for all. Indeed, the contemporary international system is already too complicated to be described in the classical terms of “poles”, whereby poles are exclusively nation-states or an alliance of a group of nation-states. The international system is no longer exclusively state-centered, or exclusively Western-centric. *Polycentricity* is already here.<sup>7</sup> In light of this, a polycentric perspective can be found at the heart of Russia’s incumbent foreign policy strategy, with the Eurasian Economic Union an important dimension in this respect.

It is noteworthy that in eyes of most contemporary scholars that the classical concept of “pole” is inter-

preted solely through the notion of “centers-of-power” and exclusively involving the classic players of international relations—states and their alliances. In other words, a state-centric perspective theoretically underlies the concept of “polarity”. However, under the conditions of global regionalization, contemporary international relations are being qualitatively transformed: *global regions* and *region-states* are replacing nation-states (e.g., the European Union, etc.).<sup>8</sup> In our increasingly polycentric world, a system of *global regions* is emerging, underwritten by the development of regional economic, political and cultural-civilizational hubs. The leading scholar of regionalism, Amitav Acharya (2009) suggests that we should be talking about “*regiopolarity*’, rather than multipolarity’,<sup>9</sup> and that the future will be one of a *regiopolar world-order*.

However, at the current time, the formation of such *global regions* remains at a preliminary stage. Nonetheless, it is possible to talk about the two types of *global regions* that are emerging: *region-states*: confederative unions of several states (for example, the European Union, MERCOSUR); and *region-economies*: unions of economies (for example, APEC).

### The Eurasian Integration Model

For centuries, the Eurasian area was a single whole. Before the Soviet Union, there was the Russian empire. As a result of this history, there is a Eurasian community with common historical, cultural and civilian roots. The modern space of Eurasia, however, does not correspond to the historical frameworks of the Soviet past. In line with contemporary global and transnational processes, it has acquired a new spatio-temporal shape, in which the local and global coexist. Under these conditions, the Eurasian space has certain features of a *global region*. At present, the following traits of “*regional globality*” are evident in the EEU project:

1. The availability of *common areas* (historic, civilizational, economic, etc.) to form a common space.
2. According to the EEU Treaty, a succession of supranational bodies will be set up. For instance, in February 2013, the Eurasian Economic Commission became operational and represents an equivalent body to that of the EU’s European Commission. As its official web-site puts it, the Eurasian Economic Commission is “a permanent supranational regula-

6 H.J.G. Beerkens. 2004. *Global Opportunities and Institutional Embeddedness*: pp. 29–30.

7 O.G. Leonova. 2010. Global’nyi mir: prognoz konfiguratsii i mesta Rossii v nem. *Futurologicheskii kongress: budushchee Rossii i mira*. s. 203–204. [O.G. Leonova. 2010. “Global world: prospects for its order and Russia’s place within it”. *Futurological congress: the future of Russia and the world*. Moscow: pp. 203–204].

8 N.N. Shchebarova. 2005. Razvitie globalizatsii cherez liberalizatsiiu regional’nykh ekonomicheskikh svyazei. *Biulleten’ MGTU*, Vypusk 8, No 2: s. 348–354. [N.N. Shchebarova. 2005. “Evolution of globalization via liberalization of regional economic networks”. *Bulletin of the MGTU*, Volume 8, No 2: pp. 348–354].

9 A. Acharya. 2009. *Regional Worlds in a Post-Hegemonic Era*. Bordeaux: Spirit Working Papers: 7.

tory body of the Customs Union and Single Economic Space".<sup>10</sup> EEU activity is carried out at two levels—interstate and direct cooperation among business-communities. Moreover, other supranational structures are also to be established in the years ahead (for example, the Council of Republics and Governments' Heads of the EEU, the EEU Parliament etc.).

3. The EEU project is derived from the experience of previous post-Soviet integration efforts, and seeks to take transnational considerations into greater account than in previous integration frameworks. As a result, Eurasian integration is shifting from a focus on a "top down"—initiatives of the political leaders of member-states—to a "bottom up"—aspirations and initiatives from business and civil society— approach. Indeed, a key reason for the failures of previous Eurasian integration entities was their totalitarian-statist nature, characterized by the absence of civil society and business-structures. This approach deprived them of the benefits of a unified natural environment for development (contrary to West-European forms of integration). That is precisely why the EEU is seeking to move beyond a concentration merely on state structures, by building-up Eurasian integration in relation to civil society and business-structures.

In the last year, an interest in the EEU project has been evident among many countries: both ex-Soviet repub-

lics, and the countries beyond the post-Soviet space. Armenia<sup>11</sup> and Kyrgyzstan joined the EEU this year, while Tajikistan has declared its desire to engage with the project as well. In addition, the geopolitical potential for the further expansion of the EEU has taken on a global dimension. Nearly 40 countries had expressed their interest in the free-trade area with the EEU, among which were: Vietnam, Japan, India, Syria and others.

### Conclusion

The contemporary space of Eurasia does not correspond to the historical frameworks of its Soviet past. It has rather acquired a new spatio-temporal shape as a result of contemporary global and transnational processes, in which the local and global coexist. In this way, the Eurasian space exhibits features of being a *global region* (*region-state* model), with significant economic and technological potential. As a result, it has a chance to move beyond a function as a raw-material appendage and a peripheral set of states, to become an active component part of the world integrational system and global economic space. In this scenario, integration policy should not be considered as a matter of internal member-state interaction, but rather as an instrument for building-up a qualitatively new space. A space in which, on the one hand, nation-states are unifying and dissociating themselves in relation to one another. And, on the other hand, pushes new actors in global Eurasian regionalization to the forefront.

#### About the Author

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#### Further Reading

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<sup>10</sup> The official web-site of the Eurasian Economic commission.

<sup>11</sup> It is important to underline that Armenia does not have any common borders with other members of the EEU, but can be seen as creating as common economic space.



## The First Steps of the Eurasian Economic Union: Disputes, Initiatives and Results

By Kateryna Boguslavska, Zurich

### Abstract

This article examines the first six months of the Eurasian Economic Union from the perspective of its macro-economic development and economic trade relations. It highlights that there are a number of trade disputes between the EEU members, and that the member states have taken steps to protect their national markets.

The Eurasian Economic Union (EEU) is not a completely new attempt at integration between its member states. It rather can be seen as a project that is reshaping old initiatives, both political and economic, into a new form. Its founders do not dispute its historical roots in previous integration initiatives, claiming that the EEU is a fourth institutional step—following the Single Economic Space, Customs Union, and Eurasian Economic Community<sup>1</sup>. One of the main distinguishing features of today's Union—the EEU—is its focus on setting common macro-economic, financial, monetary and tax policy. Unlike the previous forms of integration, the EEU has a legal personality. It is also set to provide more freedom of movement of goods, services, capital and workers.

### Has Any Progress Been Made Yet?

The plans to create common markets are mainly set with medium-term and long-term perspectives in mind. The most important issues, connected with establishing common markets on oil, gas, electricity, finance have been postponed for 10 years. For example, the EEU has outlined that members should take steps to harmonize their legislation platforms and create common gas and oil markets by 2025, and electricity by 2019. It has also been declared that the members have until 2025 to establish a Joint Center in Kazakhstan to regulate the EEU financial market. That it will take 10 years to form certain common markets illustrates that those economic sectors that are considered strategically important (especially for Russia) continue to function beyond the scope of integration. This situation has been severely criticized by the President of Belarus, Aleksandr Lukashenka<sup>2</sup>. During the EEU negotiations, he even suggested postponing its creation, because it was not possible to agree about common markets on oil and gas.

Most progress is evident within the aim of facilitating free access to the common EEU labor market. The

members have agreed to mutually-recognize education degrees in certain areas and established common regulations on paying income taxes. However, the deterioration in the economic situation in Russia has decreased the demand for further regulation of the free movement of people<sup>3</sup>. Some successful steps have also taken place in the development of a common market on construction. Russia, Belarus and Kazakhstan signed a protocol to establish several working groups on the unification of the market on building construction services. Last year, it had been announced that a joint market on building construction services will be established by 2025, but the members have decided to start work on this earlier. It is expected that by the end of this year, construction companies will be able to fulfill their business in countries of the Eurasian Economic Union without having to establish new legal entities<sup>4</sup>. Belarusian construction companies are interested in this initiative due to the opportunities this would offer them to enter the Russian market. In addition, EEU technical regulations on railway transport were agreed on 3 February 2015<sup>5</sup>.

However, the EEU still lacks some basic documents for facilitating integration between its members. For instance, an EEU trade codex has been developed, but its terms have not yet been agreed to by the members. It is expected that Tax Code will come into force by mid-2016.

In summary, thus far the members have been unable to form the most important joint markets: oil, gas and electricity. These questions have been postponed and are not listed in the EEU's list of main priorities. As a result, progress has been restricted to a limited number of other spheres.

1 [Evraziyskiy Ekonomicheskiy Soyuz: Zachem Eto Rossii](#)

2 [Lukashenko Grozit Otkazom ot Evraziyskogo Soyuz, Trebuot Lgot na Neft.](#)

3 [Jarosiewicz A., Fisher E. The Eurasian Economic Union—more political, less economic. January 2015, Center for Eastern Studies. OSW. Commentary.](#)

4 [Kazakhstan, Belorussiya i Rossiya Sformiruyut Edinyi Rynok Stroitelnykh Uslug](#)

5 [Utverzhdeny Perechni Standartov k Tekhnicheskim Reglamentam Tamozhennogo Soyuzu v Oblasti Zheleznodorozhnogo Transporta.](#)

## What About the Numbers?

The EEU's first 6 months have not delivered results to suggest it is thriving. It has seen fierce bargaining between Russian and Belarus and discussions within Kazakhstan about its virtues. After only 2 months, the President of Kazakhstan said that the EEU faces significant challenges<sup>6</sup>.

During the first three months of 2015, the volume of internal trade between EEU members—Russia, Belarus, Kazakhstan and Armenia—actually declined by about 36% in comparison with the same period last year<sup>7</sup>. More recent data is only available on a country level, but also demonstrates the same decreasing trend<sup>8</sup>. Such a drop in trade is causing deep concerns in Belarus<sup>9</sup>. Moreover, trade between Kazakhstan and the EEU also declined by 21% in the first quarter<sup>10</sup>.

Another concern relates to the value of the trade exchange between EEU countries compared to their total trade. In fact, in 2012 and 2013 the trade exchange between the EEU's founding countries accounted for only 12% of their total trade. In 2014, it constituted around 11%. This trade is mainly based on bilateral agreements between Russia and other EEU member states<sup>11</sup>. Trade between Kazakhstan, Belarus, and Armenia is very limited.

It should be noted that such negative trends were partially expected. For instance, the President of Kazakhstan explained that they fully understood the possible challenges of the EEU<sup>12</sup>, while the President of Russia has stated that the EEU countries should unite and establish a common monetary policy, in order to cope with the current challenges<sup>13</sup>.

## Trade Conflicts and the Protection of National Markets?

The EEU has encountered several problems in trade relations between its members in its first 6 months. Most of these problems are not new, but the new instruments of the EEU have not been able to resolve them.

## Trade Disputes on Quality of Agricultural Goods

Since December 2014, Belarus and Russia have been struggling with trade conflicts. In early December 2014, Russia declared that Belarusian meat and dairy products contain antibiotics, salmonella and listeria and are therefore dangerous for consumption, imposing an import ban on such products. Secondly, Russia accused Belarus of transferring and repackaging Western goods that are subject to Russian sanctions. Officially these goods are in transit from Belarus to Kazakhstan through Russian territory, but in practice they end up in Russia<sup>14</sup>. Belarus has responded to the politically charged ban on Belarusian meat and dairy imports to Russia by stepping up customs checks on Russian vehicles entering their territory, arguing this is a smuggling prevention action. The meeting between Russia's Head of the Committee on Standards and the Belarusian Minister of Agriculture on 12<sup>th</sup> of January failed to solve this ongoing trade conflict. Both sides agreed on the necessity of normalizing trade relations. However, Russia insisted on continuing its enhanced controls and checks of Belarusian products<sup>15</sup>. On February 6, Russia allowed the import of frozen and chilled beef from seven enterprises from Belarus<sup>16</sup>. However, products from two other companies—a Minsk and a Bobruisk meat processing plant—remained banned from exporting to Russia. Almost at the same time on February 10, Russia's Service of Standards (Rosselkhozadzor) found bacteria in partly salted salmon delivered from Belarus. This product is now banned from the Russian market<sup>17</sup>.

Meanwhile, controls on the quality of meat production have already been imposed on Kyrgyzstan. The EEU Veterinary Commission has reported that meat production in 5 local Kyrgyz enterprises do not correspond to existing quality standards. As of now, their production is not banned for export<sup>18</sup>.

The latest mutual restrictions on the trade of certain food products between Kazakhstan and Russia add to this picture of trade conflicts on agricultural goods. For instance, on 31 March Kazakhstan excluded 5 tons of Russian meat products from its market, saying that Russia was in violation of quality standards. In return, the Russian Service of Quality Control stated that Kazakh producers do not fulfill the same quality rules. Such

6 [Evraziyskiy Soyuz Seychas Perezhivaet Bolshie Ispytaniya—Nazarbaev](#)

7 [Torgovlya Mezhdru Stranami-Chlenami EAES Sokratilas.](#)

8 [Evraziyskiy Soyuz Ne Spas Belorusskuyu Ekonomiku.](#)

9 [Dinamika Tovaroborota Mezhdru Stranami EAES Vyzyvaet Ozabochnost](#)

10 [Tovaroborot Mezhdru Stranami EAES v Pervom Kvartale 2015 Upal na 21%](#)

11 [Zayavleniya Dlya Pressy po Itogam Vstrechi Presidentov Rossii, Kazakhstana i Belorussii.](#)

12 [Nazarbaev: Evraziyskiy Soyuz Neobkhdim Nesmotrya na Padeniye Tovaroborota.](#)

13 [Putin: Strany EAES Mogli by Protivostoyat Skachkam Valyut.](#)

14 [Ryhor A., Belarus Reinstates Customs Control on the Border with Russia: The End of the Eurasian Union?](#)

15 [Torgovaya Voyna RF Protiv Belorissii Nabiraet Oboroty.](#)

16 [Rossiya Vozobnovlyayet Postavki Govyadiny s 7 predpriyatiy Belorussiyi](#)

17 [Rosselkhozadzor Obnaruzhil parazitov v Partii Belorusskogo Lososya.](#)

18 [Vetkomissiya EAES Vyyavila Nedostatki v Myasopererabatyvayushchikh Predpriyatiyakh Kyrgyzstana.](#)

restrictions on imports from Kazakhstan might be partially connected with the depression of the Russian ruble and as a result cheap Russian production in comparison to Kazakhstan<sup>19</sup>. Although officially both the Russian and Kazakh authorities ask that these disputes are not called “trade wars”, the situation does not promote closer ties between two countries.

### Initiatives to Protect National Markets

One of the first initiatives to protect national markets from EEU imports was taken by Kazakhstan on 5<sup>th</sup> March. Kazakhstan suspended Russian fuel and gas imports (such as light distillates and products, medium distillates, motor fuel, kerosene, diesel fuel, gasoil, hydraulic liquids, light oils, oils for gear wheels, electric isolation oils and other oil products, with exceptions for housing furnace fuel, in order to prevent a critical shortage) to protect its domestic market from a “surplus of Russian oil products”<sup>20</sup>, due to a weakened ruble which has sent ripples of economic uncertainty through Central Asia. After the ban was implemented for 45 days in March, it has been prolonged several times and was still active as of 20<sup>th</sup> June<sup>21</sup>.

Besides Kazakhstan, Belarus has also introduced protection measures. Belarus refuses to supply petroleum products to Russia in the amounts that it had agreed to earlier<sup>22</sup>. Over past years, Russia sold oil to Belarus at domestic prices and Minsk supplied Russia with oil products. The plan for 2015 envisaged the supply of 23 million tons of oil from Russia to Belarus and 1.8 million tons of oil products from Belarus to Russia. This agreement was made on establishing the EEU in January 2015. However, Minsk has changed its plans amid the ruble devaluation, as the prices for oil products in Russia became lower than the export parity price (export price minus customs duty and transport expenses). It has become more advantageous for Belarus to supply petroleum to other countries.

### Sanctions Imposed by Russia and Not Supported by Belarus and Kazakhstan

One of the main current issues for the development of trade relations between the EEU member states is the sanctions that Russia has applied on certain goods from the European Union. The sanctions were imposed in August 2014. Russia expected that Belarus and Kazakh-

stan would also impose the same sanctions. However, these countries refused to do so. As a result, Russia has taken additional measures to prevent European products from entering the Russian market through the other members of the EEU. According to Russian Prime Minister, Dmitry Medvedev, all members should introduce a system of labeling for imported goods, in order to prevent illegal re-exporting schemes.

### Why are There Problems in Trade Relations? Do Factors Other Than the Economy Matter?

The current economic problems facing the EEU have been explained in detail by the President of Kazakhstan Nursultan Nazarbaev. He stated that the economic crisis in the region, the decreasing world oil price and sanctions against the Russian economy have had a negative impact on the development of the EEU<sup>23</sup>. Similar positions are evident in Moscow and Minsk. However, it is not only economic problems that are proving a challenge for the EEU. Political relations between its members are another serious issue that is casting doubt over integration in the EEU. The Russian annexation of Crimea and the Ukrainian conflict have sharpened Belarusian and Kazakh concerns about Russia’s political and security ambitions within the EEU. In this context, both are seeking to keep good relations with alternative partners. Kazakhstan is interested in continuing to pursue its self-proclaimed multi vector foreign policy, while Belarus seems to be on its way to partially improving its relations with the European Union.

Currently, public relations between Belarus and Russian are tense. During February 2015, an unusual increase in anti-Belarusian activity in the pro-government Russian media and blogosphere was observed. In the face of the unfolding economic crisis in both Russia and Belarus, and with the Belarusian presidential elections scheduled for 2015, this could signal a new shift in the relations between Russia and the regime of Alexander Lukashenko<sup>24</sup>. At the same time, Lukashenko has activated his so called pro-European rhetoric and even threatened to withdraw from the EEU if it does not suit Belarus’s national interests. According to his statements, Belarus will start to normalize and build relations with EU and USA. However, he also empathizes that Russia remains the closest country to Belarus<sup>25</sup>.

19 Torgovyi Tupik Rossii i Kazakhstana. Voyny Poka net, no Konflikt Nalitsa.

20 Russian Oil Products are Under Embargo in Kazakhstan.

21 Zapret na Vvoz iz RF Dizelnogo Topliva Deistvuet v RK do 20 Iyunya.

22 Belarus Refusing to Supply Oil Products to Russia in Agreed Amounts.

23 Nazarbaev: Snizhenie Eksportnykh Tsen na Energonositeli i na Tovary Stalo Ispytaniem dlya EAES.

24 Zapadnye Spetslyzhby Pytayutsya Possorit Lukashenka s Moskvoi.

25 Lukashenko Poprosil Moskvu ne Napryagatsya iz-za Resheniya Minska Normalizovat Ontnosheniya s Zapadom.

Echoing Lukashenko's threat, Kazakhstan's President Nursultan Nazarbayev has also said that his country could theoretically leave the Eurasian Union, if membership would threaten the independence of Kazakhstan. This statement came in response to the scandalous statement of the leader of the Russian liberal-democratic party, Vladimir Zhirinovskiy, who said that Russia should take on the alleged anti-Russian sentiments in Kazakhstan, after "it will deal with Ukraine"<sup>26</sup>. Concerned about possible tensions with the Russian speaking minorities (21.47% of the Kazakhstan population), the Kazakh authorities have increased their control over any issue of inter-ethnic relations in the country. A case about pro-Russian posts on an internet social media site has become the subject of court investigation in Almaty. One author of the incriminating posts has been put under house arrest until the court procedures are finished<sup>27</sup>.

### What Is the Future of the EEU?

The future progress of the EEU will depend primarily on Russia, as the member state that is both the most interested in its continued existence and with the economic potential to subsidize the economies of the other members<sup>28</sup>. In the short-term, relations between Russia, Belarus and Kazakhstan may worsen as concerns about the speed of further integration are exacerbated. Recently, Russia has begun promoting the idea of establishing a common monetary market and one currency. However, neither Kazakhstan, nor Belarus appear to be ready to even follow the Russian sanctions against certain Western imports. Kazakhstan has denied any discussions on establishing a common currency market

have taken place<sup>29</sup>. Atameken, a business association in Kazakhstan, has severely criticized the idea of a common currency<sup>30</sup>. Unlike Belarus and Kazakhstan, Armenia and Kyrgyzstan are second-rank members of the EEU, and are not in a position to oppose Russia. Their participation in the EEU is a matter of political necessity and opportunities to obtain subsidies.

In spite of these inter-member problems, Russia is trying to increase the geopolitical role of the EEU. For instance, Russia is promoting further enlargement by starting to discuss EEU free trade agreements with Egypt, Iran, China, India and other countries. On 29<sup>th</sup> May in Kazakhstan, the EEU signed a free trade agreement with Vietnam. According to the documents, EEU members agreed to simplify trade regimes with Vietnam and provide a liberalized regime for 90% of goods<sup>31</sup>. As of now, it is hard to predict the effectiveness of such agreements. However, the trend suggests that the EEU will seek to sign free trade agreements with many other countries. Dmitriy Medvedev announced that more than 40 countries are interested in establishing free trade zones with Eurasian Union<sup>32</sup>. The main purpose of these agreements would seem to be to boost the geopolitical interests of Russia.

Overall, the EEU has started with caution and mistrust in economic trade relations, as well as against a background of fears about giving up sovereignty. With Russia's hard currency reserves rapidly depleting—due to low oil prices, Western sanctions and monetary interventions—the carrot and stick approach might soon become a one sided approach. And, if Russia refuses to provide financial support to the EEU, it may well follow the destiny of the Commonwealth of Independent States.

#### *About the Author*

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26 Nazarbaev Napomnil o Prave Kazahstana Pokinut Evraziyskiy Soyuz.

27 Pod Domashnij arest Vzyata Obvinyayemaya v Razzhiganii Mezhnatsionalnoj Rozni.

28 Jarosiewicz A., Fisher E. *The Eurasian Economic Union—more political, less economic*. January 2015, Center for Eastern Studies. OSW. Commentary.

29 Edinoy Natsionalnoy Valyuty v EAES ne Budet.

30 Kazahstanskij Biznes Schitaet Beperspektivnoj Ideyu Valyutnogo Soyuza.

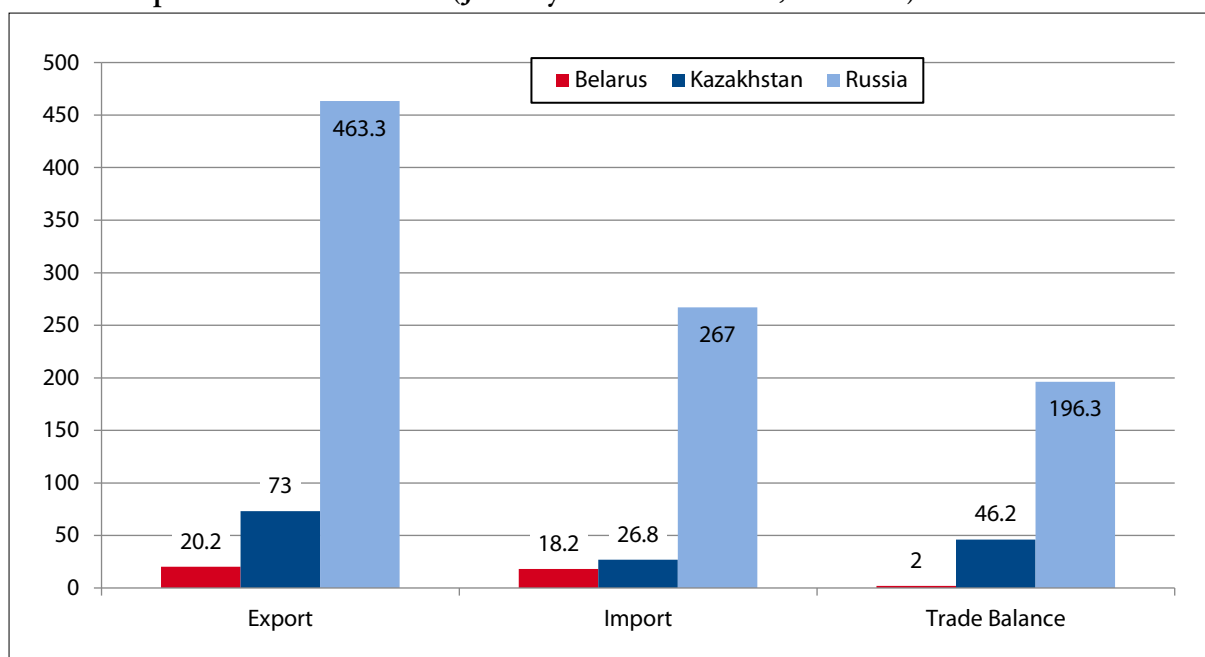
31 Gosudarstva Evraziyskogo Ekonomicheskogo Soyuza i Vietnam Podpisali Soglashenie o Svobodnoi Torgovle.

32 Medvedev: Torgovue Otnosheniya s EAES Khotyat Ustanovit Svyshe 40 Stran.

## STATISTICS

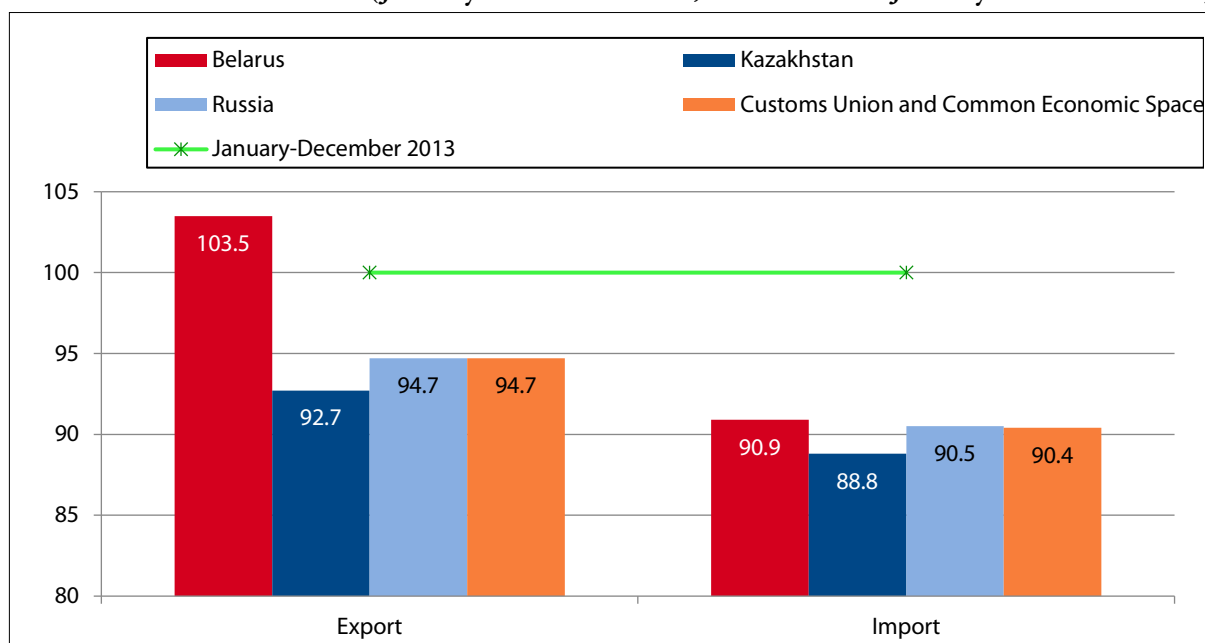
## Foreign Trade Balance of the Eurasian Economic Union 2014–2015

Figure 1: Trade (Goods) of the Member States of the Customs Union / Common Economic Space with Other States (January–December 2014, bln USD)



Source: <[http://eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_stat/tradestat/analytics/Documents/express/JanDecember2014.pdf](http://eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/analytics/Documents/express/JanDecember2014.pdf)>

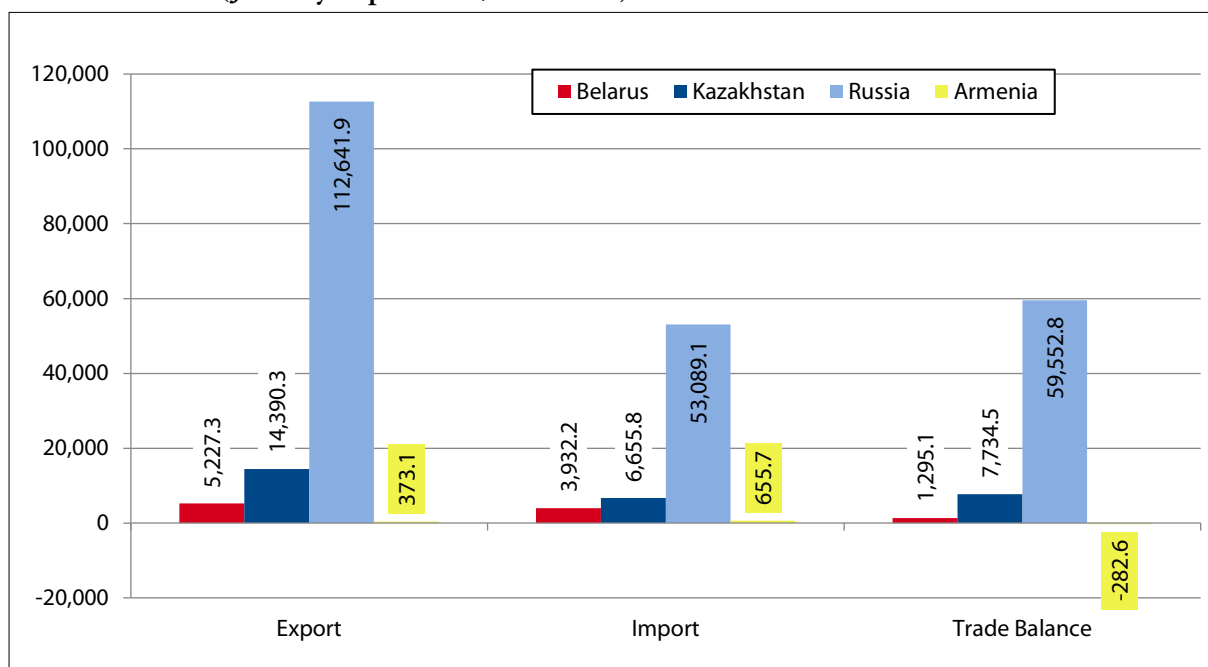
Figure 2: Trade (Goods) of the Member States of the Customs Union / Common Economic Space with Other States (January–December 2014, in % of Trade January–December 2013)



Source: <[http://eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_stat/tradestat/analytics/Documents/express/JanDecember2014.pdf](http://eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/analytics/Documents/express/JanDecember2014.pdf)>

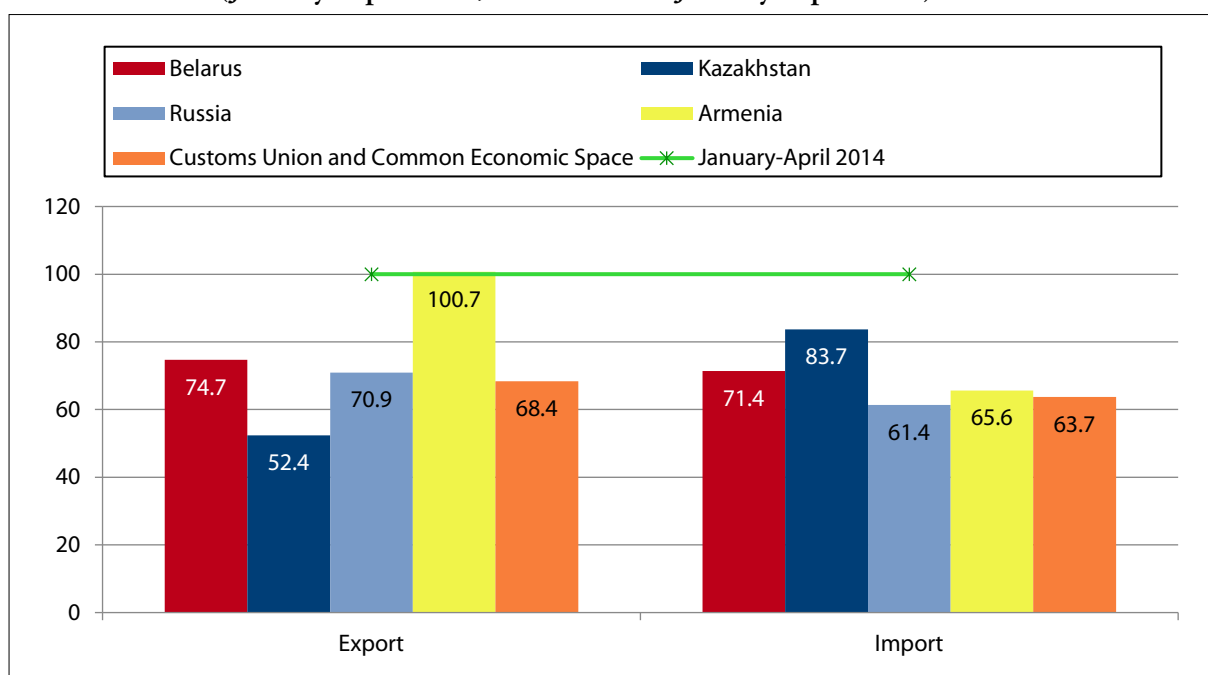


**Figure 3: Trade (Goods) of the Member States of the Eurasian Economic Union with Other States (January–April 2015, mln USD)**



Source: <[http://eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_stat/tradestat/analytics/Documents/express/Apr2015.pdf](http://eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/analytics/Documents/express/Apr2015.pdf)>

**Figure 4: Trade (Goods) of the Member States of the Eurasian Economic Union with Other States (January–April 2015, in % of Trade January–April 2014)**



Source: <[http://eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_stat/tradestat/analytics/Documents/express/Apr2015.pdf](http://eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/analytics/Documents/express/Apr2015.pdf)>

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