

The Eurasian Economic Union: a time of crisis

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The Eurasian Economic Union (EaEU), a project forced through by Russia which links it to Kazakhstan, Belarus, Armenia and Kyrgyzstan, is currently struggling with serious problems. The economic crisis in Russia – mainly caused by the fall in the price of oil on world markets and increased by sanctions imposed by Western countries in connection with the Ukraine conflict – is affecting these uncompetitive post-Soviet economies which are dependent on Russia. This has resulted in increased economic and political tension among the members of the EaEU. From Russia's point of view, however, the EaEU project remains useful, because it is not economic integration that is Moscow's priority. The Union remains its most important instrument for implementing the Kremlin's geo-political objectives, in particular maintaining its sphere of influence and preventing post-Soviet countries from integrating with the West, as well as restricting their rapprochement with China. Moscow is pushing for the EaEU to include new countries, strengthening its tools for political dominance within the Union, and promoting its project on the international stage. However, the future of this project will depend on both the continued determination of the Kremlin, and whether the other countries can change the rules for integration by taking advantage of the current crisis.

Moscow's goals

The Eurasian Economic Union (EaEU) was formed on 1 January 2015 as a result of the transformation of the Customs Union and the Common Economic Space. From the Kremlin's point of view, it is now the most important formal mechanism for cooperation in the post-Soviet area. In Moscow's eyes the EaEU has three main functions. First, it is intended as a mechanism for strengthening Russian influence in the region. Secondly, it is to serve as a barrier preventing the integration of the countries in this region with the West, and prevent the rising influence of China in Central Asia. Thirdly, as an expression of the primacy of Russia in the post-Soviet area, the EaEU also has the function of legitimising the Kremlin elite to Russian society.

The Eurasian Economic Union, in which the Kremlin has the final say, remains an essential tool for Russia's political influence on the other member states. Under the guise of integrating equal countries within the framework of an international organisation, it is in fact a project for Moscow's dominance of the post-Soviet area. The formally established institutions within the EaEU serve merely as a façade, and have a limited impact on economic and political processes. For Russia, they are another forum wherein the Kremlin may exploit its military and economic advantages to put pressure on the leaders of individual countries. The Kremlin's interests are of key importance in the decision-making process, and Moscow has succeeded in entangling the member states into cooperating more closely in the political dimension, which

formally is secondary to the economic aspect¹. The most common method for the other member states to escape from Russian dominance is to simulate integration into the EaEU, and delay the implementation of its decisions.

For Russia the EaEU is an instrument in a geopolitical game, which is intended to prevent states which were formerly part of the Soviet Union from integrating with Western structures.

The EaEU project was developed in parallel with the intensification of European programmes in the post-Soviet area². Thus it is also a response to the structural strength of the European Union, which is manifested in its ability to re-define the framework of international relations, and the political and economic systems of the neighbouring countries. For Russia the EaEU is an instrument in a geopolitical game, aiming to prevent countries which once belonged to the Soviet Union (except the Baltic States) from integrating with Western structures. To this end, Moscow is trying to present the EaEU as an alternative project to the EU, and is working to achieve legitimacy for the EaEU internationally. The Kremlin has primarily been pushing to insti-

tutionalise relations between the EaEU and the European Union, in an effort to encourage the EU to establish permanent mechanisms for dialogue with the EaEU on economic and political matters. Russia has demanded that the West recognise the EaEU as a partner in the talks on ending the conflict in Ukraine, and during talks with Brussels it has also pushed to establish official relations between the Moscow-dominated EaEU and the EU. Such formal mechanisms for cooperation are intended on the one hand to serve as a tool to put pressure on EaEU members, by showing that Russia has the final word on key issues related to international relations in the region; and on the other hand, that it is still a platform for negotiation and a tool to influence the countries of the West. At the same time, due to the rising influence of China in Central Asia, Moscow is trying to exploit the EaEU as an entity in talks with Beijing³.

Russia promotes the EaEU as an alliance which can compete with the EU in the economic dimension, and at the same time as being axiologically different from Western structures, by its distinctness from the principles of liberal democracy and its roots in conservative values. Moscow stresses the specificity of the socio-political model of the post-Soviet states, which results in these countries' inability to integrate with the West. To this end, it employs a narrative about the civilisational distinctiveness of the so-called Russian world (*Russkiy Mir*)⁴. An example of this can be found in the words of Vladimir Putin, who has stated that "the Eurasian Union is a project to preserve the identity of the peoples of the historical Eurasian space

¹ Russian capacity of pushing its own solutions is also increased by the fact that in the Eurasian Economic Commission, which is the permanent body of the Union, the overwhelming majority of civil servants are citizens of Russia. Iwona Wiśniewska, 'Eurasian integration. Russia's attempt at the economic unification of the Post-Soviet area', *OSW Studies*, 30 July 2013: <http://www.osw.waw.pl/en/publikacje/osw-studies/2013-07-30/eurasian-integration-russias-attempt-economic-unification-post>]

² The shape of Russia's Eurasian project was drawn up during the development of the EU's programmes in Eastern Europe, in particular the Eastern Partnership programme addressed to post-Soviet states, which – like the establishment of the Customs Union between Russia, Kazakhstan and Belarus – was launched in 2009. From the start, Russian leaders and columnists have tried to portray Eurasian integration as analogous to integration within the framework of the European Union; see for example Vladimir Putin's interview of 3 October 2011 for *Izvestia* (<http://izvestia.ru/news/502761>)

³ On 9 May 2015, a Russian-Chinese statement on cooperation in the Russian Eurasian Economic Union project and the Chinese New Silk Road project was signed in Moscow. The most important parts of the document concern Russian support for routes to Europe built by China, and the Chinese declaration of starting talks about the shape of an agreement for commercial and economic cooperation with the EaEU.

⁴ This concept is used in many senses in Russian discourse, most commonly to describe the community of people who speak Russian and identify with Russian culture.

in the new century and in the new world. Eurasian integration is an opportunity for the entire post-Soviet area to become an independent centre of global development, and not just the periphery to Europe or Asia⁵. This narrative is also domestically important for the Kremlin.

Extending the EaEU would on the one hand validate the initiative and consolidate Russian dominance over an increasingly large part of the post-Soviet area, while on the other hand reducing the economic viability of the Union itself.

It mobilises symbolic resources and highlights the successes of Russian foreign policy for domestic purposes⁶. The stability of the system of power in Russia, in the perception of the Russian elite, is closely linked to the stability of the other post-Soviet regimes. For this reason the EaEU, as a project which binds the elites of these countries in their dependence on Moscow, is intended on the one hand to prevent 'colour revolutions' taking place in its immediate neighbourhood, and on the other to strengthen the sustainability of the system of power in Russia itself.

Expansion at the expense of the economy

The main tasks which Moscow has set for the EaEU demand its expansion. The Kremlin has consistently worked to join more countries to the Union, regardless of their economic condition and the lukewarm opposition from the EaEU's current members. In January 2015 Armenia joined the Union; Kyrgyzstan did so in May 2015; and Tajikistan will most likely join in

2016. Expanding the EaEU, on the one hand, validates this initiative and strengthens Russian dominance over an increasing part of the post-Soviet area; but on the other hand it reduces the economic viability of the Union itself. By pushing for the expansion of the EaEU, the Kremlin is skilfully exploiting the other members' dependence on Russia. Moscow effectively forced the President of Armenia, Serzh Sarkisian, to opt out of European integration and join the EaEU, probably by using its position as the guarantor of security for Armenia as an instrument of pressure, in the face of the country's conflict with Azerbaijan over Nagorno-Karabakh, which has been smouldering for years. Belarus and Kazakhstan were initially unwilling to dilute the EaEU's economic effectiveness by adding Armenia and Kyrgyzstan. Moreover Kazakhstan feared that as a result of the enlargement, Kyrgyzstan's role as a re-exporter of goods from China would be strengthened, and the inflow of economic migrants and cheaper products from Kyrgyzstan would increase. However, the existing members of the EaEU were unable to block its inconvenient expansion. The Kremlin's political power was also demonstrated by its ability to place the membership of Tajikistan on the agenda, as well as the more distant prospect of Azerbaijan joining. Fear of reprisals from Moscow means that integration is primarily a political necessity for the new members of the Union. Membership in the EaEU also allows them to obtain immediate financial advantages. Yerevan, Bishkek and Dushanbe have realised that joining the EaEU has been linked to a number of negative consequences for their economies, including price rises, caused primarily by increases in customs duties, and declining competitiveness, which could lead to the collapse of many companies⁷. For Kyrgyzstan, the increase in customs duties

⁵ Putin's speech at the meeting of the Valdai Club in September 2013; transcript available at <http://www.rg.ru/2013/09/19/stenogramma-site.html>

⁶ According to a study by the Levada Centre, the percentage of Russians who are proud of their country's political position in the world has risen from 46% in 2012 to 68% by 2015. <http://www.levada.ru/2015/12/07/gordost-patriotizm-i-otvetstvennost/>

⁷ In the period leading up to accession, the government of Kyrgyzstan repeatedly discussed the EaEU with notable coolness; for example on 27 October 2014, the President of Kyrgyzstan Almazbek Atambayev called joining the Economic Union "a lesser evil". <http://tass.ru/mezhdunarodnaya-panorama/1534233>

on goods from China have proved to be especially painful, as re-export of these goods is an important source of income. These costs are supposedly being rewarded by *ad hoc* financial assistance from Moscow, the abolition of customs duties within the EaEU, and the opening of the labour markets in Russia and Kazakhstan. For the regimes in the EaEU countries, membership also brings political benefits offsetting the risk of protests, as the short-term financial support allows them to discharge social tensions, and fear of Russian intervention limits any pro-Western and pro-democratic movements.

The economic crisis in Russia is reflected in the condition of the economies of the other EaEU member states, which are dependent on Russia; this will cause economic and political conflicts within the Union.

Taking on countries with low economic potential has not strengthened the EaEU economically. Russia has used the series of transformations and expansions to extend its supremacy over these post-Soviet countries, and to demonstrate the success of its integration project, which is intended to offer an alternative to integration with the West. In this way, Russia is trying to build a narrative of a 'multi-polar' international order, which is intended to function as a system of balance between powers which respect each other's interests and spheres of influence. In the light of the Kremlin's main objectives, the EaEU has been effective, because even in an economically weakened state, it seems to have prevented its members from joining other integration structures unacceptable to Moscow. At the same time, Russia regularly raises the subject of strengthening mechanisms within the EaEU's structure that would bolster its political dimension, and by extension Russian supremacy within it (such as the establishment of a parliament, a move away from payments

in US dollars, and creating a single currency within the EaEU). These attempts have met with resistance from other members of the Union, as demonstrated in numerous statements by Presidents Aleksandr Lukashenko and Nursultan Nazarbayev questioning the need to deepen Eurasian integration.

Echoes of the Russian crisis

The fall in the price of oil, which is a major Russian export commodity and a source of budget revenue⁸, and to a lesser extent the Western sanctions introduced in connection with the Ukraine conflict, have led to a rapid deterioration of the economic situation in Russia. This crisis also affects the weak economies of the other member states of the EaEU, which has caused conflict within the Union.

Clearly the impact of Russia's economic problems results primarily from the historically strong ties between the economic systems in the post-Soviet area. Moreover, this impact has been aggravated by the large economic disparities between the members of the EaEU: Russia's gross domestic product represents about 86% of the GDP of the entire EaEU; the GDP of Kazakhstan, the second biggest in terms of size and economic potential, represents less than 10%, Belarus approximately 3.5%, and Armenia and Kyrgyzstan less than 1% together⁹. In addition, trade relations within the EaEU are heavily dominated by individual countries' trade with Russia (predominantly exports from Russia). This means the Union's members are largely dependent on the health of the Russian

⁸ Profits from oil and gas exports constitute about 75% of the proceeds from all Russian exports, which through taxation provides more than half of the proceeds to the state budget. Dependence on the export of raw materials means that the economy, and with it also the state budget and political stability in Russia, are strongly linked to the prices of gas and oil on world markets. According to calculations by the Economic Expert Group, a Russian consulting company, an annual drop in the price of a barrel of crude by US\$1 causes a loss of US\$2.3 billion to the state budget.

⁹ <http://www.eurasiancommission.org/>

economy, and consequently they merely play a supporting role to Russia in the decision-making process. The differences in size of the EaEU states' economies, and the 'concentric' nature of trade within the EaEU, mean that tensions concerning economic policy are to some degree structurally embedded in the functioning of the project (see Appendix).

The deteriorating economic situation has led to attempts to restrict the free movement of goods by means of various non-tariff barriers, which are being used to bypass the principles of the common market within the EaEU.

The recession in Russia has strongly affected the value of trade among the EaEU countries. Although the Kremlin has stated that economic cooperation within the EaEU is a priority for Russia, trade with the EaEU countries makes up only 6.6% of Russian international trade, while the EU represents 49.5% of Russia's trade¹⁰. The continuing low rate of the rouble has also intermittently reduced the competitiveness of those producers who incur expenses in other currencies; this means that within the EaEU the value of imports to Russia has fallen more than exports of Russian goods. Exporters from Kazakhstan have noted particularly severe losses, especially manufacturers of cars, building materials, foodstuffs and oil-derived goods. The Russian crisis, as characterised by the fall in the value of the rouble, reduced investment and

a clear decline in the real income of the population, has also led to a sharp reduction in money transfers from emigrants working in Russia. Within the EaEU, the fall in these revenues has turned out to be most severe for the countries most dependent on remittances, namely Kyrgyzstan and Armenia. In Kyrgyzstan, where according to the World Bank 30% of GDP is made up of transfers from economic migrants, there was a drop in this figure of over 45% in the first three quarters of 2015 compared with the same period in 2014. Meanwhile in Armenia, where around 18% of GDP is made up of remittances from guest workers, transfers fell by around 50% during the same period¹¹. The decrease in the income of migrants and the imposition of the Russian crisis on the systemic problems of the EaEU economies, along with the deterioration of the economic situation, has led to a rise in social tensions, and anxiety among the ruling elites about the future of these countries' political systems.

The impact of the Russian economic crisis, and the introduction of Russia's embargo on food products from Western countries, has actually weakened integration within the EaEU the economic sphere rather than strengthened it, which has caused numerous conflicts. At the same time, the strong impact of the Russian crisis on the other Union economies testifies to the strength of the economic ties within it. However, economic links within the Union primarily consist of bilateral links with Russia and are largely a historical legacy, and not – as presented in the Russian narrative – a result of the success of integration within the Eurasian Economic Union¹².

¹⁰ The sharp falls in trade relate primarily to the value of the goods, and are largely associated with a decrease in the value of currencies in the post-Soviet area: in the first quarter of 2015, soon after the official formation of the EaEU, Russia's trade flows with the member countries were a third lower than a year earlier. This decline particularly concerned imports to Russia (compared to the first quarter of 2014, imports amounted to 57%). The amount of goods exchanged is only slightly lower than before the advent of the crisis: see http://customs.russia.ru/index2.php?option=com_content&view=article&id=21240&Itemid=1976

¹¹ http://www.cbr.ru/statistics/?Prtid=svs&ch=TGO_sp_post#CheckedItem

¹² In the period from January to November 2015, almost 97% of the value of trade in the EaEU area consisted of bilateral trade involving Russia. Details of trading between the members of the EaEU are available at: http://www.eurasiancommission.org/ru/act/integr_i_makro-ec/dep_stat/tradestat/analytics/Documents/express/Nov2015.pdf

Conflicts within the EaEU

The imposition of the Russian crisis on the systemic problems of the EaEU's economies will lead to the accumulation of conflicts between member states. The multitude of non-tariff barriers and the low institutional culture of these countries have contributed to the emergence of trade wars and attempts by the Union members to weaken the level of integration.

The imposition of the Russian crisis on the systemic problems of the EaEU countries' economies, including the deterioration of the economic situation, will lead to social tension and anxiety among the ruling elites about the future of these countries' political systems.

The continual outbreak of such disputes shows that the EaEU's economic condition primarily derives from the state of the Russian economy and Moscow's ability to impose its will on the Union's other members.

In order to defend themselves against the effects of the crisis and the dictates of Moscow, some EaEU members have begun to use protectionist instruments. At the beginning of 2015 Belarus and Kazakhstan introduced reductions in the imports of certain products from Russia, in order to defend their markets against an influx of Russian goods, the prices of which had dropped significantly as a result of the devaluation of the rouble. On several occasions the leaders of both countries have spoken sharply on the adverse effects of Eurasian integration and the losses to their countries' economies due to the crisis in Russia¹³. This tension has resulted

¹³ For example, on 1 June 2015 Aleksandr Lukashenko stated that as of that moment, the crisis-related losses to the Belarusian economy linked to the crisis in Russia, the sanctions imposed by the West on Russia, and Russian retaliatory sanctions amounted to almost US\$3 billion. The losses for Belarus were associated with a decrease in both the trade between Belarus & Russia, and a reduction of revenues relating to transit and re-export.

in attempts to limit the freedom of movement of specific goods by applying non-tariff barriers, which are used to circumvent the rules of the common market within the framework of the EaEU¹⁴. In addition, the decline in income of the general population has brought forth growing social frustration, which could lead to protests (as in June 2015 in Armenia, after the announcement of a rise in electricity prices), something which will further deepen the anxiety of local elites.

The EaEU countries' economic situation has been worsened by Russia's ban on the import of selected products from countries which have introduced sanctions since Russia's aggression towards Ukraine and its annexation of Crimea. This embargo, which was introduced by Moscow without consulting the other members of the EaEU, has significantly affected the functioning of the goods market in the EaEU area. The other members of the Union did not join in with Moscow's 'counter-sanctions'; this became another field of conflict, and marked the beginning of a series of accusations that Belarus and Kazakhstan had failed to comply with Russian regulations. These two countries, in order to minimise the losses resulting from a decrease in export of their own goods to Russia, have begun to re-export Western products. To this end, the real origin of the goods is often concealed, and sometimes they are illegally imported onto the territory of the Russian Federation under the pretext of transit from Belarus to Kazakhstan. This has met with opposition from Moscow, which is pushing to stop the influx of Western food through the territory of other Union members, and has begun to apply increased sanitary, veterinary and transport checks in order to counteract the import of goods from the countries covered by the 'counter-sanctions'.

¹⁴ Examples of such actions include Kazakhstan's limiting of Russian food imports at the beginning of 2015 under the pretext of sanitary and veterinary requirements, after the Russian rouble significantly lost value relative to the Kazakh currency, the tenge.

The tensions in the Eurasian Economic Union were further strengthened by the accession of Kazakhstan to the World Trade Organisation (WTO). The conditions for Kazakhstan's accession include an average customs duty of 6.1%; this is significantly less than the rates adopted by the EaEU, which suited the terms of Russia's accession to the WTO (an average duty of 10.4%). Kazakhstan has thus returned to the level similar to that which applied to the country before 2010, when it began to operate a common customs duty with Russia and Belarus. This poses a risk to the other EaEU countries (primarily Russia) that goods will be imported to the EaEU mainly via Kazakhstan. To prevent this, changes in the operation of the common market have been introduced, which establish two parallel customs systems: imports onto the domestic market in Kazakhstan with lower customs duties, according to its agreement with the WTO; and imports onto the EaEU market, while maintaining the existing EaEU duties. However, Kazakhstan has been obliged to introduce mechanisms to prevent products covered by lower duties from being transported to the other EaEU member states¹⁵. Kazakhstan's accession to the WTO will likely cause a further weakening of economic relations within the framework of the EaEU's rules by restricting the free movement of goods. This may also lead to periodic trade wars, if the goods imported into Kazakhstan from third countries are then transported into the EaEU.

Economic integration within the EaEU has weakened in connection with the effects of the Russian crisis. It has revealed and deepened the problems in cooperation within the EaEU, which are related to uneven economic growth, the lack of coordination in macroeconomic policy, significant fluctuations in exchange rates, and above all, the proliferation and randomness of use of non-tariff barriers. For some members of the EaEU, however, the crisis has also brought

an opportunity to try to redefine the conditions imposed by their membership in the Union: to obtain subsidies and loans, in the case of Belarus, and to improve foreign trade, in the case of Kazakhstan.

Prospects

The economic condition of the EaEU depends primarily on the state of the Russian economy. In connection with the economic crisis, which has arisen principally because of the fall in oil prices on world markets, and also to some extent Western sanctions, Russia is unable to build up the Union's economic potential. The continuing crisis in Russia will therefore continue to jeopardise the economic situation of the other EaEU states. As a result of the EaEU's declining economic attractiveness, these countries will remain reluctant to deepen their economic integration with and imposed political submission to the Kremlin¹⁶. Kazakhstan, Belarus, Armenia and Kyrgyzstan will attempt to protect their own markets and obstruct Russian plans to strengthen its dominance.

Due to the member countries' conflicting interests, plans to create a joint energy and raw materials market and a monetary union, as announced by Putin in Astana on 20 March 2015, should be considered unrealistic¹⁷. Russia's war against Ukraine also *de facto* rules out the chances of Ukraine joining the EaEU¹⁸,

¹⁵ <http://www.pravo.by/main.aspx?guid=12551&p0=F71500373&p1=1>

¹⁶ For example, in a TV interview on 24 August 2014 the President of Kazakhstan stated that Astana may opt out of membership in the EaEU, if "membership threatens the independence of the country."

¹⁷ The creation of a monetary union would considerably reduce the competitiveness of the other EaEU countries and deepen their political and economic dependence on Russia.

¹⁸ The results of extensive research conducted by Rating Group Ukraine in November 2015 in Ukrainian cities on behalf of the US-based International Republican Institute (IRI) clearly show that, despite the disappointment in the post-Maidan authorities among Ukrainian society, the Eurasian Economic Union had substantially lost popularity, and only 15% of those polled would like Ukraine to join the organisation, while 57% of respondents were in favour of Ukraine's accession to the EU (the survey was only conducted in areas controlled by Kiev); http://www.iri.org/sites/default/files/wysiwyg/2015_11_national_over-sample_en_combined_natl_and_donbas_v3.pdf

which was one of the Kremlin's main objectives when the integration project was founded. It is necessary to further extend the EaEU, and reinforce its ties in the political, economic and military fields, in order to carry out Russia's geopolitical project of restoring its unquestioned control over the post-Soviet area. Hence, Russia will seek to extend the EaEU to include

Tajikistan, and work to strengthen its influence on the foreign policy of the EaEU countries. Despite the growing economic problems and political tensions, it seems that in the political dimension, the EaEU project will continue to serve the strengthening of Russia's dominance over a growing number of countries of the former USSR.

Appendix

The GDP of the EaEU members (2014) and their trade within the EaEU (January-November 2015)

	GDP in 2014 (billion US\$)	Country's GDP share in the GDP of the entire EaEU (2014)	Trade with EaEU countries during January-November 2015 (million US\$)	Share of trade with Russia in trade with EaEU countries during January-November 2015
Armenia	10.9	0.5%	1179	96.9%
Belarus	75.9	3.5%	24503.8	97.4%
Kazakhstan	212.2	9.7%	15212.9	91.9%
Kyrgyzstan	7.4	0.3%	2058.8	63.9%
Russia	1 880.6	86.0%	40300.7	
Total	2 187.0	100.0%		

Source: the Eurasian Economic Commission, <http://www.eurasiancommission.org>

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