

The Eurasian Economic Union: Power, Politics and Trade

Europe and Central Asia Report N°240 | 20 July 2016

Table of Contents

Executive Summary.....	i
I. Introduction	1
II. Soviet Collapse and Post-Soviet Integration.....	2
A. Putin’s “Big Idea”	3
III. The EEU as Idea: Eurasianism.....	5
IV. The EEU as Political Project.....	7
V. The EEU as Economic Bloc	9
A. Institutions.....	9
B. Trade	10
C. Sanctions.....	12
D. Economic Impact	13
VI. Social Welfare and Migration.....	14
VII. Enlargement and Popular Support	16
VIII. The EEU and the World	18
A. EEU and China.....	18
B. EEU and EU	19
IX. Conclusion	22
APPENDICES	
A. Map of Eurasian Economic Union	23
B. EEU members trade with Russia, China and EU.....	24

Executive Summary

The Eurasian Economic Union (EEU), created in 2015 by Russia, Kazakhstan, Kyrgyzstan, Belarus and Armenia, claims to be the first successful post-Soviet initiative to overcome trade barriers and promote integration in a fragmented, under-developed region. Supporters argue that it could be a mechanism for dialogue with the European Union (EU) and other international partners. Critics portray a destabilising project that increases Russia's domination of the region and limits its other members' relations with the West. The EU views the project as a challenge to sovereign choices in its Eastern neighbourhood. Positions hardened after Armenia's 2013 departure from the Association Agreement with the EU, including the Deep and Comprehensive Free Trade area, and Russia's annexation of Crimea.

On paper, the EEU is an economic, technocratic project that offers some benefits to members, particularly in easing cross-border trade and facilitating labour migration, but also poses economic risks by raising external tariffs and potentially orienting economies away from global markets. So far it has had little economic success, though access to Russia's labour market has been an important motivator and, on balance, a positive outcome for struggling post-Soviet economies. Beset by trade disputes, sanctions regimes and a regional economic crisis, trade inside the EEU fell by 26 per cent in 2015. But optimists argue that the legal status of labour migrants within the bloc has improved, and there will be long-term gains from harmonising customs and trade rules.

The main political tensions around the EEU, however, stem from its role in regional politics. Russia views it not only as an economic grouping, but also as a mechanism to institutionalise influence over its neighbours and as a building block in a new international order. This raises tensions with members and has led to a clash with other integration drivers in the EU's and Russia's shared neighbourhood, specifically the EU's Association Agreements, including a Deep and Comprehensive Free Trade area (AA/DCFTA). Moscow views these EU initiatives as encroachment into its sphere of influence. This clash between different regional projects contributed to the tensions and conflict in Ukraine in 2014, and while Moscow argued the AA/DCFTA was harmful for its economy, EU officials saw the concern as political, stressing that EU standards are not a burden even for EU companies when exporting to Russia or cooperating with Russian companies. Both sides view the other as a rival, but EEU member states other than Russia have sought to deepen their relationships with the EU where they can.

Closer economic integration within the EEU should make conflicts between members (for instance, between Russia and Kazakhstan) less likely. Easier cross-border trade and movement could reduce tensions in Central Asia. Yet, if Russia uses the EEU to dominate the region politically and as a platform for confrontation with the West, other members are likely to view the organisation as a threat to their independence. Rival economic partnerships – whether with the EU or China – would then look more attractive, potentially creating tensions in relations between EEU members and Moscow.

The EEU's uncertain role and future and the standoff with Russia over Crimea and eastern Ukraine, make it difficult for the EU to develop a coherent policy toward it. Some Brussels officials and member states are opposed to any talks, fearing they

would legitimise Russia's policies toward its neighbours and cut across bilateral relations between the EU and Armenia, Kazakhstan, Kyrgyzstan and Belarus – all of which have experienced new momentum in the past year and a half. Others argue that EU engagement with the EEU is a possible channel for a breakthrough in relations with Russia, or at least that it could help build bridges, or even take pressure off countries in the Eastern neighbourhood and Central Asia, some of whom have complained about being trapped between Moscow and Brussels.

Political engagement between the two blocs is hardly realistic at present, in particular until conditions such as implementation of the Minsk Agreement on the Ukraine conflict are met. While Moscow has repeatedly expressed an interest in formalising relations, many in the EU have concerns that such a step would produce a substantively empty process with an appearance of normal relations but minimal substantive gains.

If approached with full awareness of the above risks, low-level technical talks between EU and EEU officials could, however, help inform future strategies and offer some pragmatic short-term gains, at least in terms of defining substance for future discussions.

Higher-level engagement, however, should only follow serious shifts in Russian policy, both in Ukraine and in relation to other regional states, and this is highly unlikely in the short-to-medium term. The EU would also have to consider whether recognition of the EEU would enhance or undermine the ability of smaller EEU member states to define their bilateral relationship with Brussels.

Moscow/Astana/Bishkek/Dushanbe/Brussels, 20 July 2016

The Eurasian Economic Union: Power, Politics and Trade

I. Introduction

This is the first of two reports that aim to inform debates around the EEU and other regional projects in Russia's neighbourhood. It examines the institution's development, its economic and political impact and its geopolitical significance. A second report will assess the EEU's role in Central Asia in more detail, its economic impact on smaller member states and its relationship to other regional projects, such as China's Silk Road Economic Belt (SREB). Research was conducted in Moscow, Astana, Bishkek, Dushanbe and Brussels in 2015-2016.

II. Soviet Collapse and Post-Soviet Integration

Crisis Group's research on Central Asia and the Caucasus has highlighted the instability caused by closed or disputed borders, lack of economic cooperation and political disputes among former Soviet states.¹ Regional initiatives that contribute to economic prosperity should improve political and social stability. Projects that successfully promote open borders and cross-border cooperation can help to prevent and manage conflict. In practice, however, post-Soviet regional projects have often been divisive and fuelled rather than resolved political and economic tensions. The EEU may claim potential to contribute to a more cooperative, integrated region, but so far its development has often exacerbated tensions between Russia and its neighbours.

When the USSR collapsed in 1991 many former Soviet republics were hostile to regional reintegration, but a core of six states continued to pursue a variety of regional initiatives from the late 1990s onwards, with little success.² Belarus, Russia and Kazakhstan were the main drivers; Kyrgyzstan and Tajikistan sought economic and security benefits from a close relationship with Moscow, and Armenia sought close security and economic ties with Russia because of its conflict with Azerbaijan and border closures with that country and Turkey. Even among these states, divergent economic and trade policies made cross-border commerce and travel more difficult. Customs officers became rich, but regional trade dwindled.

When Russia, Kazakhstan and Belarus announced a new Customs Union (CU) in 2006, it was met with widespread scepticism, but spurred by the 2008 economic crisis, they began to make progress. They agreed a common code in 2009 to replace domestic laws and formally launched the CU in 2010. Unlike previous agreements, it had tangible impact, removing customs barriers in 2011. It was also committed to engaging with the global trade regime, prioritising World Trade Organisation (WTO) provisions and coordinating with Russia's WTO accession in 2012. In January 2012, the three launched a Single Economic Space (SES) to harmonise policy more widely. In a major shift, they also set up the Eurasian Economic Commission (EEC) that year, a supranational body with power to overrule states. These steps gained attention: the European Bank for Reconstruction and Development (EBRD) labelled the CU a qualified success. But even in 2012, questions were raised about its political nature and whether it might be a "front behind which Russia is collecting former Soviet lands".³

¹ Crisis Group Europe and Central Asia Briefings N°s 76, *Kyrgyzstan: An Uncertain Trajectory*, 30 September 2015; 74, *Stress Tests for Kazakhstan*, 13 May 2015; and 71, *Armenia and Azerbaijan: A Season of Risks*, 26 September 2013.

² The Baltic states rejected all post-Soviet bodies, including the weak Commonwealth of Independent States (CIS). Azerbaijan, Georgia, Uzbekistan and Turkmenistan minimised involvement in Russian-led regional organisations. Moldova shifted toward Western Europe. Internally divided Ukraine wavered. The first post-Soviet organisation, the Commonwealth of Independent States, established in December 1991 and originally comprising eleven ex-Soviet Republics, failed to maintain close economic and political ties among members, though a 2011 Free Trade Agreement has been more successful. Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan in 2000 created the Eurasian Economic Community (EurAsEC), which also largely failed. Nicu Popescu, a senior analyst at the European Union Institute for Security Studies, wrote that the "recent history of Russian attempts to reintegrate the post-Soviet space is littered with failed political and economic initiatives". "Eurasian Union: The real, the imaginary and the likely", European Union Institute for Security Studies, September, 2014.

³ Rilka Dagneva, Kataryna Wolczuk, "Eurasian Economic Integration: Institutions, Promises and Faultlines", *The Geopolitics of Eurasian Economic Integration* (London, 2014), pp. 8-15. Svitlana

A. Putin's "Big Idea"

In November 2011, Vladimir Putin, as part of his campaign to regain the Russian presidency, called for a new regional initiative, the "Eurasian Union". It was to build on the CU and SES to promote closer economic integration and freedom of movement for labour and capital, largely inspired by the EU. Putin denied any attempt to recreate the Soviet Union: the new Union would be "open to the world" and bring its members into a "Greater Europe".⁴

Despite this rhetorical emphasis on economic integration and modernisation, the geopolitical significance and aspiration of the new organisation became clear in 2013, when it came into direct competition with the EU's Eastern Partnership. Russia objected to the EU's Association Agreements, including the Deep and Comprehensive Free Trade Areas (AA/DCFTA), negotiated with Armenia, Georgia, Moldova and Ukraine. The AA/DCFTAs frame contractual relationships leading to systemic economic and regulatory reform. A DCFTA facilitates access to the EU's internal market, so is incompatible with another arrangement by which a DCFTA state would give up sovereignty over external tariffs. In effect this means that a state with a DCFTA could not join the EEU. Russia strongly objected to the level of economic cooperation these agreements envisioned, claiming that they would damage its own economic interests. Moscow's political objections to a DCFTA state's closer relations with the EU were, however, more salient.⁵

In addition to political reforms envisaged in the Association Agreements, the trade-related DCFTAs involved two key aspects: elimination of most customs tariffs with the EU; and extensive and systemic reforms based on harmonisation of major parts of domestic legislation with EU rules to improve compliance with EU regulations in a wide range of areas, such as technical barriers to trade, sanitary and phytosanitary standards, public procurement, and competition policy.

The EEU, which was modelled on the EU, had a similar set of goals, removing customs duties between member states (but putting in place a common external tariff with third countries), while also agreeing common standards for traded goods among members and developing a single market in services and labour. However, the EEU's regulatory requirements were less modernised and far-reaching than those of the EU, being based on more familiar Soviet-era technical standards (GOST). The DCFTAs have potentially significant structural impact by encouraging economic reform; the EEU, on the other hand, is unlikely to play a role in tackling poor governance or problems of corruption, and therefore poses less threat to existing political and business elites.

Under Russian pressure, first Armenia, then Ukraine backed out of agreements with Brussels in favour of joining the new Eurasian grouping. Russia used intense

Pyrkalo, "Customs Union of Russia, Kazakhstan and Belarus is first success in CIS integration, says EBRD", EBRD, 7 November 2012. Olga Shumylo-Tapiola, "The Eurasian Customs Union: Friend or Foe of the EU?", Carnegie Endowment for International Peace, October 2012.

⁴ Vladimir Putin, "Новый интеграционный проект для Евразии – будущее, которое рождается сегодня" ["A new integration project for Eurasia – the future, which is being born today"], *Izvestiya*, 3 October 2011. This political aspect of the new union was welcomed by nationalist Eurasianists such as Alexander Dugin. See his, *Великая Война континентов* [*The Great War of Continents*] (Moscow, 2014), p. 106.

⁵ Although the Ukrainian DCFTA did pose problems for Russian-Ukrainian economic ties, the potential challenges were probably overstated, and the trilateral Russia-EU-Ukraine DCFTA talks stalled on political rather than trade issues.

pressure to achieve a U-turn by Yerevan in September 2013, just two months after it finalised an AA/DCFTA. Society was divided, with many preferring to keep good relations with both the EU and Moscow, but Russia used the security relationship to persuade the Armenian leadership to switch.⁶

Ukrainian society was divided between pro-Moscow and pro-EU orientations, with many also preferring to avoid a stark choice. Kyiv had traditionally manoeuvred between Moscow and the West to maximise economic and political gains. In October 2013, under Russian pressure, President Viktor Yanukovich said he would not sign the AA/DCFTA at an EU summit the next month. The resulting anti-government demonstrations in Kyiv culminated in his ouster in February 2014, followed by Russian annexation of Crimea and conflict in eastern Ukraine.

Only three states, Russia, Belarus and Kazakhstan, signed the Eurasian Economic Union Treaty on 29 May 2014. Putin's original "Eurasian Union" formulation had been seen as too political, so "Economic" was added to define the nature and limits of the agreement. Armenia's accession was agreed in October 2014, followed by Kyrgyzstan's in December. The EEU entered into force on 1 January 2015 among Russia, Belarus, Kazakhstan and Armenia. Kyrgyzstan's membership – broadly supported domestically, reflecting traditionally close ties with Russia – was confirmed in May and formalised in August. Kyrgyz officials said non-membership was not an option, as they otherwise feared problems for their migrants in Russia and economic isolation. The country's main trade and transport routes pass through Kazakhstan. "We had to join the EEU", an official said, or "the Kazakh borders would be closed".⁷

The EEU was thus born amid international conflict and divisive geopolitics. The Ukraine conflict encapsulated the dangers of tensions between rival regional projects and made any dialogue with the EU very difficult. Belarus and Kazakhstan, concerned by the fallout from that conflict, became more cautious about Eurasian integration. For some Western commentators, events in Ukraine confirmed fears that the EEU would threaten regional stability and undermine relations with the West.⁸ Sceptics argued that the EEU was "set up for failure", "nothing more than an illusion", and "might not survive 2015".⁹

Though it survived the year, it was seriously challenged by international tensions, disputes between member states and regional economic crisis. Above all, it failed to make progress in reconciling its multiple identities, as ideological goal, geopolitical project and economic bloc.

⁶ For details, see Pasquale De Micco, "When choosing means losing: The Eastern partners, the EU and the Eurasian Economic Union", European Parliament Think Tank, March 2015. "EU Relations with Armenia", EU External Action Service. Richard Girogosian, "Armenia and the Eurasian Economic Union: The View from Yerevan", European Council for Foreign Relations, 8 January 2015.

⁷ Apparently President Nazarbayev lobbied to add "Economic" to the Union's title. Benoit Vitkine, "Vladimir Putin's Eurasian Economic Union gets ready to take on the world", *The Guardian*, 28 October 2014. Crisis Group interview, government advisor, Bishkek, April 2015.

⁸ A typical view is that of Ariel Cohen, who warned in 2013 that "the EAU [Eurasian Union] could threaten regional stability and undermine economic and political freedom in Eastern Europe and Central Asia". "Russia's Eurasian Union Could Endanger the Neighborhood and U.S. Interests", The Heritage Foundation, 14 June 2013.

⁹ Tony van der Togt, Francesco S. Montesano, Iaroslav Kozak, "From Competition to Compatibility: Striking a Eurasian balance in EU-Russia relations", Clingendael Report, Netherlands Institute of International Relations, October 2015; Anton Barbashin, "The Eurasian illusion: the myth of Russia's Economic Union", *Foreign Affairs* (online), 15 January 2015; Nate Schenkkan, "Eurasian disunion: why the Union might not survive 2015", *Foreign Affairs* (online), 26 December 2015.

III. The EEU as Idea: Eurasianism

Official EEU publications consist mostly of upbeat statistics and technical news, but they occasionally include the romantic notion of Eurasianism, a vague and contested ideology that can be traced back to discussions among Russian exiles in Europe in the 1920s.¹⁰ Philosophers such as Petr Savitsky argued that Russia should consider itself not part of Europe, but as the centre of Eurasia, a region of steppe lands stretching from the Carpathian mountains in Europe to the borders of China that define a distinct civilisation, neither European nor Asian, but a mix of Slavic and Turkic peoples with Russia at its heart. Resurrected in the 1990s, the idea of Eurasia is now a staple of foreign policy rhetoric in Russia.¹¹

That idea is not clearly defined geographically or ideologically.¹² At least four broad interpretations are in use today. Far-right ideologues such as Alexander Dugin see Eurasianism as both a global campaign against the West and a process of neo-imperial regional integration centred on Moscow.¹³ Some echoes of his anti-Western thinking can be seen in official policy, though his influence should not be exaggerated.

A more moderate position espoused by some Russian officials and analysts, though retaining nationalist overtones, sees Eurasianism as a way for Russia to reassert its international role. For these advocates of Eurasian integration, the EEU is a way for Russia both to “pivot to Asia” and to reconnect with Europe on its own terms.¹⁴

More liberal EEU advocates reject nationalist versions and emphasise pragmatic links between Eurasian integration and the wider international economic system, East and West. This technocratic Eurasianism is common among officials working in regional institutions but is a minority position: there is still much scepticism among experts about regional integration prospects, and enthusiasm for the EEU as an institution remains muted among policy analysts in Moscow.¹⁵

Kazakhstan has its own version of Eurasianism, promulgated by President Nursultan Nazarbayev in numerous publications and speeches since the early 1990s. Here too the meaning is slippery. It is a useful metaphor that avoids difficult choices for the country’s multi-vector foreign policy, while helping to consolidate its multi-ethnic population, but it is sharply at odds with Russo-centric ideologies.¹⁶ Far from promoting Moscow’s “Great Power” aspirations, Kazakh leaders view the EEU as a way of containing Russia within a supranational organisation.

These varied interpretations – from autarkic, neo-imperialist, anti-liberal ideology to framework for inter-ethnic cooperation and economic integration – make Eur-

¹⁰ *Евразия: От идеи – к интеграции* [Eurasia: From idea to integration], Eurasian Economic Commission, (Moscow, 2015).

¹¹ For background, see Marlene Laruelle, *Russian Eurasianism: An Ideology of Empire* (Baltimore, 2012).

¹² Marlene Laruelle, “Eurasia, Eurasianism, Eurasian Union: Terminological Gaps and Overlaps”, *PONARS Eurasia*, no. 366 (2015); Alexander Dugin offers seven meanings for Eurasianism. Dugin, *The Great War of Continents*, op. cit., pp. 131-143; Vinokurov and Libman offer three. Yevgeny Vinokurov and Alexander Libman, *Евразийская континентальная интеграция [Eurasian continental integration]* (Saint Petersburg, 2012), pp. 12-23.

¹³ Dugin, *Великая Война континентов* [The Great War of Continents], op. cit. p. 133.

¹⁴ Crisis Group interviews, academics, Moscow, March 2016.

¹⁵ Yevgeny Vinokurov, “Pragmatic Eurasianism: Prospects for Eurasian Integration”, *Russia in Global Affairs*, vol. 2, no. 2 (2013), pp. 87-96. Crisis Group interviews, analysts, Moscow, March 2016.

¹⁶ Golam Mostafa, “The Concept of ‘Eurasia’: Kazakhstan’s Eurasian Policy and its Implications”, *Journal of Eurasian Studies*, vol. 4, no. 2 (2013), pp. 160-170. Vinokurov and Libman, op. cit., p. 19.

asianism a highly flexible ideology. EEU members can support “integration” while glossing over fundamental foreign policy differences, but this makes it difficult to agree a coherent path for the EEU’s development.

IV. The EEU as Political Project

If its ideological framework is disputed, so too is the EEU's geopolitical significance. While Russian officials have not disguised the importance of the EEU to their vision of Russia as a "Great Power", Belarusian and Kazakh officials repeatedly stress that the EEU is an economic initiative free of overt political commitments. The tension between these views is perhaps the central challenge faced by the EEU and will determine its future direction.

There are three main geopolitical aspects to the Russian concept. First, President Putin has frequently argued that the international system is breaking into "geopolitical zones", a version of the idea of a multipolar world, and that the EEU should be one such pole or zone. "Eurasian integration", he argues, "is a chance for the entire post-Soviet space to become an independent centre for global development, rather than remaining on the outskirts of Europe and Asia".¹⁷

Some Russian officials express this in almost existential terms. Presidential adviser Sergei Glazyev argues that "Russia is facing a clear choice: either become a powerful ideological and civilizational centre in its own right ... or integrate with one of the existing power centres and lose its identity". In this thinking, the EEU is a mechanism for Russian influence in a "sphere of special interests" in the former Soviet republics, where Russia opposes Western political or security influence, particularly achieved through the kind of "colour revolutions" experienced in Georgia, Kyrgyzstan and Ukraine. Russian officials continue to see the West as a destabilising actor in Eurasia, seeking to undermine friendly regimes.¹⁸ This argues for a more politically integrated EEU, capable of resisting such influence.

Secondly, the Russian leadership views the EEU as a mechanism to prevent neighbours being absorbed into rival regional blocs, particularly the EU's Eastern Partnership (EaP), but also potentially Chinese-led projects. The EU's cooperation with former Soviet states is seen as an expansionist precursor to NATO encroachment, something Russia says challenges its security interests.¹⁹

Thirdly, an even more ambitious view of the EEU is as the core of a wider regional grouping, a "Greater Eurasia", extending "from Murmansk to Shanghai".²⁰ In June 2016, President Putin announced support for a "more extensive Eurasian partnership involving the [EEU] and countries with which we already have close partnership

¹⁷ Vladimir Putin, Valdai Group plenary meeting, Novgorod region, 19 September 2013.

¹⁸ Sergei Glazyev, "Russia and the Eurasian Union", in Piotr Dutkiewicz and Richard Sakwa (eds.), *Eurasian Integration – The View from Within* (Routledge, 2015), pp. 84-96. Dmitry Trenin, "Russia's spheres of interest, not influence", *The Washington Quarterly*, vol. 32, no. 4 (2009), pp. 3-22. "Lavrov accuses West of seeking 'regime change' in Russia", Reuters, 22 November 2014.

¹⁹ Alexei Podberezkin, an academic and government adviser, sees a Eurasian bloc as a potential "third centre of power and influence that will be able to become a counterweight to the two already existing ones led by the U.S. and China. This centre of force would prevent agreements between the two already existing at the expense of the third countries". Podberezkin, K. P. Borishpolets, O. A. Podberezkina, *Евразия и Россия [Eurasia and Russia]* (Moscow, 2013), p. 109. "Восточное партнерство: проблемы реализации и возможные последствия" ["The Eastern Partnership: problems of implementation and possible consequences"], Council of the Federation of Russia, November 2009, pp. 33-37.

²⁰ "Toward the Great Ocean-3: Creating Central Eurasia", Valdai Discussion Club, June 2015. "Нарышкин: Россия хотела бы создать зону свободной торговли с ШОС и АСЕАН" ["Naryshkin: Russia wants to create a free trade zone with SCO and ASEAN"], TASS, 19 April 2016.

– China, India, Pakistan and Iran”, but also including the EU.²¹ Much of this is still just rhetoric, but ideas for future cooperation with China, India and Iran are common features of Eurasianist thinking.

There is some common political thinking among EEU members; Belarus, Kazakhstan and Russia are all suspicious of Western democracy promotion and human rights advocacy. But the first two strongly oppose the notion of the EEU as a closer political union or a bloc with an anti-Western agenda. Nazarbayev and President Alexander Lukashenko are outspoken in resistance to any political integration, such as a joint parliament or common currency. Both countries are enhancing relations with the EU, though they remain resistant to substantive discussion of human rights or democratisation.²²

Wider differences among members over Russian foreign policy, particularly in Ukraine, make regional integration harder, but other conflicts also demonstrate a lack of political solidarity. An outbreak of fighting around Nagorno-Karabakh in April 2016 exposed stark differences. Kazakhstan has closer relations with Azerbaijan than with fellow EEU member Armenia. An EEU summit due for Yerevan in April had to be shifted to Moscow after Kazakh officials made it clear they would not attend while hostilities continued around Nagorno-Karabakh.²³

²¹ Speech at plenary of St. Petersburg International Economic Forum, 17 June 2016, <http://en.kremlin.ru/events/president/news/52178>.

²² “Kazakh Experts on the Eurasian Economic Union: Aligned Competition or Aligned Stagnation?”, Russian International Affairs Council, May 2015. On 17 March 2016, the Kazakh parliament ratified an Enhanced Partnership and Cooperation Agreement with the EU. “Kazakhstan does not want to be married in an exclusive way to Russia”, a senior EU diplomat said. Crisis Group interview, Astana, April 2015. Robin Emmott, “Europe ends sanctions on Belarus, seeks better ties”, Reuters, 15 February 2016.

²³ Sara Hojoyan, “Conspicuous by Presence: Armenia attends EEU summit moved from Yerevan amid Karabakh crisis”, Armenianow.com, 14 April 2016.

V. The EEU as Economic Bloc

For most people in the region, the EEU will be measured by its impact on daily business, trade and labour migration. Its long-term success will depend on its ability to build effective institutions, make progress on trade liberalisation and boost economic prosperity. So far, it has had little positive impact. Trade fell by almost 26 per cent inside the bloc in 2015, and by 34 per cent with other countries. Figures were worsened by currency volatility and low oil prices, but the economic problems undermined confidence in the bloc, and trade barriers were re-introduced between some member states as they tried to protect their domestic markets.²⁴

A. Institutions

Unlike previous regional initiatives, the EEU has a potentially powerful supranational body mandated to overrule narrow national interests in agreed trade policy areas. The Eurasian Economic Commission (EEC) has a well-qualified staff of over 1,000 specialists at its Moscow headquarters but is often sidelined by national leaders, who continue to manage economic disputes through political deals rather than agreed rules and processes.

Loosely modelled on its Brussels counterpart, the EEC is headed by ten “Members of the Collegium” (or ministers), two from each member state. Each presides over several of 25 thematic departments, of which perhaps the largest and most important is trade policy. The leader is former Armenian Prime Minister Tigran Sargsyan. Other key members include Minister for Trade Veronika Nikishina, who was deputy head of the delegation that negotiated Russia’s WTO accession, and Tatiana Valovaya, the integration and macroeconomics minister. These senior technocrats are seen as competent potential interlocutors by some in Brussels, but their political remit is very limited.²⁵

In theory, EEC decisions are binding on all member states if passed by a two-thirds vote at a full meeting of the Collegium. However, each state has a veto through the Council of the Eurasian Economic Commission, which comprises the deputy prime ministers of member states and must affirm Collegium decisions. In practice, decisions are usually by consensus, achieved through long discussion with national agencies, either directly or in Consultative Committees – advisory bodies under the Collegium.²⁶ If there is a dispute, it is quickly escalated to prime ministers, who meet twice yearly as the Eurasian Intergovernmental Council. Particularly controversial issues are sent to the Supreme Eurasian Economic Council, which convenes at head-of-state level at least annually.

This structure appears to work smoothly in relatively uncontroversial areas, where the emphasis is on bureaucratic and technical decisions. In any areas of controversy, however, it faces three key problems:

²⁴ Oleg Cherkovets, “Что же за интеграция такая?” [“What sort of integration is this?”], *Pravda*, 5-8 February 2016. “Об итогах внешней и взаимной торговли товарами Евразийского экономического союза, Январь – декабрь 2015 года” [“Foreign and mutual trade in goods of the Eurasian Economic Union, January-December 2015”], EEC, 17 February 2016. Russian GDP fell by 3.7 per cent in 2015, according to the IMF: “Subdued Demand, Diminished Prospects”, January 2016.

²⁵ For the internal organisation of the EEU, see www.eurasiancommission.org. Crisis Group interview, EU official, Brussels, March 2016.

²⁶ Crisis Group interviews, EEC, Moscow, March 2016.

- Though Russia is outnumbered in the Collegium and has no veto, it has greater sway on decisions. Some officials deny this. “Probably we give way too often”, complained a Russian expert.²⁷ But overall, Russia’s economic and political weight, together with its advantage in technical and specialist knowledge (the majority of EEC staff are Russian citizens), inevitably has an impact.
- The EEC has few real sanctions and relies on political leverage and peer pressure to ensure compliance. Its court, based in Minsk, has not been used to bring member states into line.²⁸
- There is no mechanism for resolving complex disputes except escalation to high-level political channels. Rather than work through the EEC, leaders prefer a telephone call and making decisions on a one-to-one basis. On major issues, the EEC often appears to be sidelined. It is “becoming largely irrelevant”, an analyst said, “because policymaking is highly centralised and top-down”.²⁹

B. Trade

The initial creation of the Customs Union coincided with a boost in intra-regional trade, up by 32.1 per cent in 2011 to some \$62 billion, and by a further 7.5 per cent in 2012. Since then, however, the trend has been strongly downwards, falling by 5.5 per cent in 2013, 11 per cent in 2014 and 25.8 per cent in 2015. By 2015 trade among EEU members was down to \$45 billion. In January-April 2016, trade was down 18.4 per cent, year-on-year.³⁰ Foreign trade outside the EEU has also been in decline for the bloc since 2012, shrinking by 34 per cent in 2015.

It is difficult to assess the EEU’s direct impact on trade, because its introduction coincided with an economic slowdown in Russia and Kazakhstan and sharp currency devaluations. Above all, the decline in oil and commodity prices skewed figures sharply downwards (mineral resources were two-thirds of EEU exports and one-third of trade within the EEU in 2015).³¹ As a result foreign trade for EEU members has declined with all major partners, both within and outside the EEU.³²

EEC officials highlight real achievements in cross-border trade, starting with the abolition of customs barriers between Russia, Kazakhstan and Belarus in 2011 and their removal from the Kazakh-Kyrgyz border in August 2015. However, travellers continue to report frequent delays at borders, where guards still check identity papers and paperwork for vehicles, and stringent quality checks on goods are some-

²⁷ Crisis Group interview, Moscow, March 2016.

²⁸ The court has two judges from each member state and a permanent home in Minsk, www.court.eurasian.org. Some companies have challenged EEC decisions in court, with mixed success. Tony van der Togt, et al., “From Competition to Compatibility”, *op. cit.* pp. 24-25.

²⁹ Crisis Group telephone interview, Rilka Dragneva-Lewers, University of Birmingham, 20 April 2016.

³⁰ Figures are for Russia, Kazakhstan and Belarus for 2011-2014. From 2015 they include Kyrgyzstan and Armenia. Official EEC statistics, at www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/analytics/Pages/default.aspx.

³¹ According to the EEC, 65.6 per cent of EEU exports in 2015 were mineral resources. See www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/analytics/Pages/default.aspx.

³² Kazakhstan, for example, experienced a 28.8 per cent decline in foreign trade with Russia, 48.4 per cent with China and 41.5 per cent with Europe. These differences relate primarily to the structure of trade (China and Europe are both importers of Kazakh oil and gas) rather than any impact of the EEU. See “Kazakhstan: Balance of Payments and External Debt for 2015”, National Bank of Kazakhstan, p. 37, <http://bit.ly/29vI5wQ>.

times imposed. Moreover, numerous exemptions and restrictions limit trade liberalisation inside the bloc, while sanction regimes and currency volatility have added further problems.

The EEU replaced its members' individual tariff regimes with a single external tariff. In most cases this was based on pre-existing Russian trade tariffs, which were relatively high and therefore raised levies on imports for the more open economies of Kyrgyzstan, Kazakhstan and Armenia, although there have been transition arrangements for tariffs on many goods.³³ Nevertheless, for countries such as Kyrgyzstan, which had low tariffs on its consumer-goods trade with China, the result has been higher prices on Chinese imports and difficulties for wholesale and re-export trade. Russian goods, on the other hand, have become cheaper, largely as a result of the weaker rouble.³⁴

Unified external tariffs are expected to fall gradually over the next few years in line with commitments Russia made on joining the WTO in 2012.³⁵ In other cases, however, WTO membership complicated the tariff regime. Kazakhstan joined in 2015 and now has in effect two sets of tariffs, one for goods destined for other EEU states and another for those destined exclusively for its home market.³⁶ WTO membership also slowed progress on a unified EEU Customs Code. Promised in 2015, it will come into force in 2017 at the earliest.³⁷

More important than formal tariffs are non-tariff barriers (NTB), ranging from time taken to cross borders to the use of sanitary checks or product standards to restrict trade. The EEC is trying to harmonise these, but quality standards on many consumer goods, particularly foodstuffs, remain a popular way for governments to restrict trade. Russian standards agencies have frequently imposed selective, informal sanctions during Moscow's political disputes with the EU, Ukraine, Turkey, Georgia, Moldova and others.³⁸ In 2015, Kazakhstan used its own standards bodies to block cheap imports of Russian dairy products. In other instances, the problem is capacity, not politics. Kyrgyzstan has struggled to meet EEC standards, because it lacks the necessary infrastructure, such as veterinary services and laboratories.³⁹ Russia and Kazakhstan have given Bishkek grants to support certification of its food exports, but compliance will take time.

³³ Armenia (until 2022) and Kyrgyzstan (until 2020) have arrangements in place to retain former tariffs for a transitional period on some imports that are only used inside the country. See "Eurasian Economic Union One Year On", U.S. Department of Agriculture Foreign Agricultural Service, GAIN report, 11 March 2016; David G. Tarr, "The Eurasian Economic Union among Russia, Belarus, Kazakhstan, Armenia and the Kyrgyz Republic: Can it succeed where its predecessor failed?", *Eastern European Economics*, vol. 54, 1 (2016). Crisis Group interviews, Bishkek, March 2016.

³⁴ Crisis Group interviews, Bishkek, March 2016.

³⁵ On Russian accession and the WTO, see R. Connolly, "Russia, the Eurasian Customs Union and the WTO", in R. Dragneva and K. Wolczuk (eds.), *Eurasian Economic Integration: Law, Policy and Politics* (Cheltenham, 2013).

³⁶ A European diplomat said Kazakhstan "busted a gut to get entry to the WTO ... a lot of that was about [sending a signal] to Moscow". Crisis Group interview, Astana, April 2015.

³⁷ Evgeny Denisenko, "Министр ЕЭК от Кыргызстана назвал приоритеты в таможенной сфере ЕАЭС" ["EEC Minister from Kyrgyzstan named the priorities in the customs sphere in the EEU"], *Vecherny Bishkek*, 4 February 2016.

³⁸ Notably Russia's activist (and highly politicised) bodies Rosselkhoznadzor (Federal Service for Veterinary and Phytosanitary Surveillance) and Rospotrebnadzor (Federal Service for Supervision of Consumer Rights Protection and Human Well-Being).

³⁹ Crisis Group interviews, EEC staff, Moscow, March 2016.

C. Sanctions

The goal of improving regional trade has been badly damaged by Russia's involvement in a series of sanctions regimes since 2014. U.S. and EU sanctions imposed in 2014 in response to actions in Ukraine had only a limited direct impact on other EEU members but contributed to Russia's economic slowdown. Moscow's response, which included an embargo against EU agricultural products, was much more significant. No fellow EEU state supported it. Instead, they quickly found ways to profit. EU imports began entering the Russian market via Belarus, often with allegedly forged documents or by listing Kazakhstan as country of destination. A mini trade war ensued. By December 2014, just weeks before the EEU's formal launch, Russia and Belarus had in effect reinstated customs controls. Gradually, both de-escalated: Russia relaxed its controls, and Belarus did more to stop the most overt smuggling, but Russia's sanctions on EU foods continued to drive a wedge among members.⁴⁰

Another example of the fault lines in the EEU was illustrated by Russia's unilateral sanctions against Turkey, introduced in December 2015 in response to the shoot-down of a Russian plane on the Turkish-Syrian border. The standards agency Rosselkhoz nadzor (Federal Service for Veterinary and Phytosanitary Surveillance) led the clampdown.⁴¹ Kazakhstan and Kyrgyzstan have particularly close economic ties with Ankara and refused to support Russian sanctions.

EEU members also refused public support to Russia in its conflict with Ukraine and maintained cordial relations with Kyiv. On 1 January 2016, Russia suspended its recognition of a CIS Free Trade Agreement with Ukraine in response to the entry into force of that country's AA/DCFTA with the EU; announced an embargo on Ukrainian food imports; and imposed obstacles on Ukrainian goods transiting to Kazakhstan and Kyrgyzstan.⁴² The rest of the EEU continued normal trade: Ukraine, for example, is one of Kazakhstan's top five importers. To avoid transit difficulties, an alternative route has been opened through Georgia, Azerbaijan and across the Caspian Sea.⁴³

Significantly, Moscow took all these decisions on its own, with little or no prior consultation with other EEU members. Though the EEC discussed the issues, it was unable to resolve differences.⁴⁴ Russia's foreign policy goals consistently trumped economic cooperation.

⁴⁰ Ryhor Astapenia, "Belarus reinstates customs control on the border with Russia: the end of the Eurasian Union?", *Belarus Digest*, 11 December 2014. Igar Gubarevich, "Belarus and Russian food embargo: a success story?", *Belarus Digest*, 18 August 2015.

⁴¹ "Russia retaliates against Turkey with range of trade sanctions", *Financial Times*, 26 November 2015.

⁴² "Turkey, EU, U.S., Canada support Ukraine's statement on Russian restrictions at WTO General Council", *Interfax-Ukraine*, 25 February 2016; Kataryna Wolczuk, Rilka Dragneva-Lewers, "No Economic Bright Spot in Tensions Between the EU, Ukraine and Russia", *Chatham House*, 17 December 2015.

⁴³ "Ukraine to ship goods to Kazakhstan, bypassing Russia", *Radio Free Europe/Radio Liberty (RFE/RL)*, 13 January 2016, www.rferl.org/content/ukraine-goods-kazakhstan-bypassing-russia/27486101.html.

⁴⁴ "Разногласия стран-участниц ЕАЭС по поводу торговых санкций разрешит суд" ["Disagreements of the member-states on trade sanctions will be reviewed by the court"], *Ежедневник*, 6 March 2015.

D. *Economic Impact*

Even without the negative impact of geopolitics and a regional economic crisis, some economists have thought the EEU will not bring substantial economic benefits, because its higher external tariff will not be offset by more internal trade. More recent analysis suggests this may change over time, as tariffs are gradually reduced. That could be positive for members, but only if non-tariff barriers are cut and the business environment improves.⁴⁵

One of the biggest challenges to emerge in 2014-2015 was exchange rate volatility. The rouble's sharp devaluation in 2014 significantly impacted intra-regional trade. Kazakhstan resisted devaluation until 2015 and was forced to ban imports of much cheaper Russian goods to protect domestic producers, but eventually also devalued amid general volatility in Central Asian currencies. The EEU could do little to counter the problems. Closer monetary and financial integration is envisaged in the treaty but is a distant prospect. Russian officials have raised the notion of a single currency, but this has been firmly rejected by the other members, who view it as an infringement on their sovereignty.⁴⁶

The economic crisis not only undermined the main attraction for EEU states – closer integration with a growing Russian market – it also made it more difficult for Moscow to provide the funds that made integration more financially attractive to poorer states. In 2015, it pledged Bishkek some \$1 billion in direct grants and contributions to a Kyrgyz-Russian Development Fund designed to assist the former in overcoming the economic adjustments of membership, but further promised investments in hydro-electric plants were cancelled.⁴⁷

Perhaps most importantly, the challenges to economic growth are still primarily located in domestic economies. Each EEU state faces serious governance problems. Members all score much worse on corruption, rule-of-law and regulatory indicators than states with similar income levels elsewhere.⁴⁸ The EEU has no explicit mandate to improve economic governance among member states; at best, it was expected to stimulate an improved business environment across the region. In practice, however, it is unable to tackle obstacles to economic reform, which are entrenched and politicised across the region.

⁴⁵ A 2011 World Bank paper suggested that trade diversion, owing to higher external tariffs, would offset any benefits from internal trade liberalisation. L. Vinhas de Souza, "An Initial Estimation of the Economic Effects of the Creation of the EurAsEc Customs Union on its Member States", *The World Bank Economic Premise*, no. 47 (2011). Tarr, "The Eurasian Economic Union", op. cit.

⁴⁶ At a March 2015 EEU summit in Astana, Putin announced "the time has come to start talking about the possibility of forming a currency union". This was news to the Kazakh and Belarusian presidents, who had repeatedly rejected this. On 22 April, Kazakh Deputy Economy Minister Timur Zhaqsylyqov noted that "Kazakhstan has a clear and consistent position on excluding the possibility of introducing a single currency within the framework of the Eurasian Economic Union". "Kazakhstan rejects Moscow's single currency proposal", RFE/RL, 22 April 2015.

⁴⁷ David Lewis, "Reasserting hegemony in Central Asia: Russian policy in post-2010 Kyrgyzstan", *Comillas Journal of International Relations* 3 (2015), pp. 73-74. Bruce Pannier, "Kyrgyzstan revokes hydropower deal with Russia", RFE/RL, 20 January 2016.

⁴⁸ Rilka Dragneva says "poor governance characterising the current and prospective member states – Russia, Belarus, Kazakhstan and Armenia – presents a severe test to the effective functioning of the union as a rules-based regime pursuing deep economic integration". Dragneva, Wolczuk, "Eurasian Economic Integration", (2014), op. cit., p. 11. Crisis Group Briefing, *Stress Tests for Kazakhstan*, op. cit. World Bank governance indicators, at www.govindicators.org.

VI. Social Welfare and Migration

Proponents of Eurasian integration have had little to say on social issues, but the EEU has a potentially positive role to play on welfare and labour migration. Russia and Kazakhstan are host to millions of labour migrants from poorer ex-Soviet states, such as Tajikistan, Uzbekistan and Kyrgyzstan.⁴⁹ Migration flows have important consequences for prosperity and stability across the region. As Russia's economy worsened in 2015, some migrants left, and remittances dropped sharply. The prospect of thousands of unemployed young men returning to poor, fragile states such as Tajikistan is concerning.⁵⁰

The EEU distinguishes between migrants from member states, who now have less paperwork, and those from non-members, such as Tajikistan and Uzbekistan, who face growing obstacles to working legally. While migrants from Central Asia have visa-free travel to Russia, administrative and residency requirements often leave them working illegally, vulnerable to exploitation or deportation. Small rule infringements can lead to being blacklisted for up to five years. In theory, EEU membership reduces the administrative burden for labour migrants, ending requirements for Kyrgyz and Armenians to pass language and history exams and allowing them to spend a month in Russia before registering.⁵¹ Though migration is primarily a national responsibility, the EEC has set up a department for it and produced research on flows and a guide on migrants' rights in member states. It has also begun to work on other welfare issues, such as pension harmonisation, but the complexity of member-state systems means there will be no quick fix.⁵²

Kyrgyz are most likely to benefit from the new rules. Kyrgyzstan has managed to get some citizens removed from Russia's migrant blacklist. A Russian diplomat said, "one of the most important aspects of the EEU is freedom of movement. In Kyrgyzstan, we hope people who can do business will come back. It's a two way street".⁵³ Most Kyrgyz migrants Crisis Group interviewed had not yet noticed significant change,

⁴⁹ According to the Russian Federal Migration Service, in April 2016 there were 1,755,781 Uzbek citizens, 878,536 Tajik citizens, 574,194 Kyrgyz citizens, 588,811 Kazakh citizens and 24,363 Turkmen citizens in Russia. In 2012, those numbers had been 2,333,244 Uzbeks, 1,061,770 Tajiks, 544,365 Kyrgyz, 553,457, Kazakhs and 26,332 Turkmen. See *Количество трудовых мигрантов из Центральной Азии в России несколько сократилось* ["Number of Central Asian labour migrants in Russia has reduced"], Fergana News Agency, 7 April 2016; and Alexey Bessudnov, "Сколько гастарбайтеров в России?" ["How many labour migrants are in Russia?"], Slon, 27 December 2012.

⁵⁰ In 2014, personal remittances accounted for 42 per cent of GDP in Tajikistan and 30 per cent in Kyrgyzstan, making them the world's first and second most remittance dependent countries, according to the World Bank. "Personal remittances, received (% of GDP)", The World Bank. In 2015, they were down by some 25 per cent in Tajikistan and as much as 46 per cent in Uzbekistan. "Migration and Development Brief", no. 26, World Bank Group, April 2016, p. 22. Crisis Group Europe and Central Asia Briefing N°78, *Tajikistan: Early Warning: Internal Pressures, External Threats*, 11 January 2016.

⁵¹ Evgeny Denisenko, "Токтоболотов: Вступление в ЕАЭС серьезно изменило статус трудовых мигрантов" ["Toktobolotov: Entry into the EEU has seriously changed the status of labour migrants"], *Vecherniy Bishkek*, 4 April 2016.

⁵² Crisis Group interviews, EEC officials, Moscow, March 2016.

⁵³ Migrants deported for minor infringements are denied re-entry. Diana Esenalieva, "В 2015 году из черного списка ФМС выведено 76 тыс. Кыргызстанцев" ["76 thousand Kyrgyzstanis were taken out of the blacklist of the FMS in 2015"], K-News, 5 February 2016. Crisis Group interview, Bishkek, April 2015.

however, and officials expect continued registration and contract problems. Moreover, rule changes may have less impact due to informal employer-employee arrangements. Nevertheless, early figures suggest the EEU rules may be having a positive impact for Kyrgyz migrants.⁵⁴

⁵⁴ Crisis Group interviews, Bishkek, April 2016. See also Denisenko, “Токтоболотов” [“Toktobolotov”] op. cit. In January 2016, Kyrgyz migrants grew by 2 per cent, while Uzbeks fell by 4.1 per cent and Tajiks by 3.8 per cent. Uzbek migrants were down by 18.6 per cent compared with January 2015. See “ФМС России: Количество трудовых мигрантов из Кыргызстана растет, из Узбекистана и Таджикистана – снижается” [“Federal Migration Service of Russia: The number of labour migrants from Kyrgyzstan increases, from Uzbekistan and Tajikistan – falls”], Fergana, 13 January 2016.

VII. Enlargement and Popular Support

The EEU faces many challenges in achieving deeper integration, but some supporters are also keen to enlarge membership. The options are limited. Though eligibility is not limited to post-Soviet states, the idea of Turkey or EU members such as Greece or Cyprus joining was always unrealistic. Talk of Iranian membership is mostly geopolitical posturing, but a free trade agreement is conceivable.⁵⁵

In 2015, Russian diplomats argued that membership was the only solution for Tajikistan's security and economic problems;⁵⁶ Moscow's enthusiasm may be waning, however, with recognition that such a new member, the poorest post-Soviet state, could make solving EEU internal problems even harder. Russia would likely struggle to find money to support early entry. Growing economic ties to China may limit support for the EEU among Tajik leaders, who see Beijing as a more likely source of lucrative investment.

No current member has held a referendum on the EEU or (with the partial exception of Kyrgyzstan, where there was some lively media discussion) allowed informed debate on joining. Media across the region is dominated by Russian outlets, which invariably present the EEU positively. As a result, opinion polls should be regarded cautiously, but some broad trends are worth noting. Surveys in the last several years suggest general support across Central Asia, both in member states (Kazakhstan 80 per cent or more) and non-member states (Uzbekistan 68 per cent and Tajikistan 72 per cent). Support is lower in Armenia (56 per cent), where there was significant backlash after the government's 2013 U-turn on the AA/DCFTA, and in Belarus (60 per cent), but both leaders and a significant part of the populations have been broadly in favour.⁵⁷

The picture in Armenia is perhaps more nuanced than the above number suggests, with significant overlap between support for the EU and for the EEU. A 2013 survey found that while 55 per cent "rather" or "fully" supported membership of the EEU's predecessor, EurAsEC, 40 per cent favoured EU membership, and 60 per cent of respondents who "fully" supported Eurasian integration also "fully" supported EU membership.⁵⁸ Similar backing for involvement in multiple regional initiatives is also evident in other states in the region.

⁵⁵ Presidential adviser Sergei Glazyev has advocated enlargement to encompass Greece and Cyprus. Kazakh President Nazarbayev invited Turkey to join in 2014. "Is Eurasian Economic Union membership possible for Turkey?", *Turkish Weekly*, 6 April 2015. "Eurasian Economic Union starts working on a free trade zone with Iran", EEC, 24 December 2015.

⁵⁶ Crisis Group interview, Russian diplomat, October 2015.

⁵⁷ "EDB Integration Barometer, 2015, Analytical Summary", Eurasian Development Bank, Centre for Integration Studies, October 2015. Unless otherwise stated, figures here are also from the EDB. The EDB has a strong interest in further regional integration, so its published polls should be considered in that light. However, their figures are broadly in line with other surveys, although all on this topic demonstrate considerable volatility. For comparison, an International Republican Institute (IRI) poll in Kyrgyzstan found that in July 2015 82 per cent strongly or somewhat supported joining the Customs Union with Russia, Kazakhstan and Belarus, though support in previous (2013-2015) polls had fluctuated between 49 per cent and 76 per cent. "Public Opinion Survey, Residents of Kyrgyzstan July 22-31, 2015", IRI.

⁵⁸ "Do Armenians Still View Integration with the EU as Part of a Positive-Sum Game?", Caucasus Research Resource Centres (CRRC) (<http://crcc-caucasus.blogspot.com/2014/10/do-armenians-still-view-integration.html>), 20 October 2014. In summer 2013, the debate in Armenia over the choice

Elsewhere, support for the EEU is muted. In Georgia and Azerbaijan both elites and the populations have consistently opposed any integration mechanism with Russia.⁵⁹ Ukraine was once divided (in 2013, half the citizenry favoured EEU membership), but after two years of war in the east, only 19 per cent would join. Moldova remains divided.⁶⁰

Support for Eurasian integration is quite volatile and depends on concrete economic benefits and the possible alternatives. In Central Asia, the main alternative economic partner is China, not the EU. Support also varies among social groups. While EEU membership has quite widespread support in some countries, influential opinion-formers and intellectuals in states such as Belarus, Kazakhstan and Armenia are often more sceptical or indifferent. Moreover, in Russia, where support is generally high (78 per cent), enlargement to include poorer Central Asian states could provoke domestic opposition, despite official assertions that Tajikistan's membership would improve regional security.⁶¹

between EU and EEU integration projects was vivid, and many criticised the “non-transparent, secret choice by the leadership”. Crisis Group interview, diplomat, Brussels, June 2016.

⁵⁹ The EDB records 22 per cent support in Azerbaijan and 41 per cent support in Georgia. The latter figure appears high – the National Democratic Institute (NDI) found 31 per cent support in Georgia, and even this was much queried in a country where backing for Euro-Atlantic integration has been high, especially since the 2008 war with Russia. Some 61 per cent would join the EU. “Public attitudes in Georgia”, Survey by CRRC for NDI, August 2015, www.ndi.org/files/NDI_August_2015_Survey_public%20Political_ENG_vf.pdf.

⁶⁰ “EDB Integration Barometer, 2015”, op. cit. In November 2015, an NDI poll suggested 43 per cent support for the EEU and 41 per cent for the EU. “Moldovans’ Public Perceptions of Politics and Government: Results of NDI’s November 2015 Public Opinion Research”, 18 December 2015.

⁶¹ Belarus has seen a pro-European shift in recent years, according to Elena Korosteleva. “Belarus between the EU and the EEU”, in Dutkiewicz and Sakwa (eds.), *Eurasian Integration – The View from Within*, op. cit., pp. 84-96 and 111-125. Crisis Group interview, Russian diplomat, February 2016.

VIII. The EEU and the World

EEC officials emphasise willingness to engage with the wider world, noting that trade agreement talks have begun with some 40 states. A free trade agreement with Vietnam was reached in 2015. Iran signed a temporary trade deal in December 2015, and talks are ongoing with Egypt, Israel, India and others.⁶² But the key relationships for the EEU are with the West, the EU in particular, and with China. The second report in this series will analyse the impact of EEU membership on smaller states' political and economic relations with the EU and China and the impact of different regional projects on stability in the Central Asian region.

A. *EEU and China*

Though relations with the West are the most controversial, perhaps the most significant potential relationship for the EEU is with China, which is also a particularly important partner for Kazakhstan and Kyrgyzstan. "Chinese economic plans are vast; they see [Central Asia] as absolutely necessary to implement the Silk Road through which trade routes will transit", said a Russian diplomat.⁶³ China has its own regional economic initiative, the ambitious Silk Road Economic Belt (SREB), which crosses Central Asia to Europe and is one of two strands of the One Belt, One Road project (OBOR), the transport, infrastructure and trade initiative President Xi Jinping launched in 2013. The SREB still lacks a clear program but is backed by at least \$40 billion of promised investments in infrastructure for trade routes from western China through Central Asia and Russia to the Middle East and Europe. On paper at least, it is a challenge to the EEU project.

In May 2015, President Putin highlighted "the possibility of a harmonious alignment" with the Chinese initiative. In December 2015, after talks in Beijing, Prime Minister Dmitry Medvedev announced initial agreement "to search for points of common interest".⁶⁴ Working groups are putting a roadmap together, but it is hard to imagine substantive joint initiatives. Some observers say the EEU must cooperate with the Shanghai Cooperation Organisation (SCO) to sustain growth. But from the EEU perspective this could increase difficulties. More likely, the EEU and China's SREB will work largely in parallel, with China focusing on bilateral investments and infrastructure and the EEU on cooperation among its members. This also would have complications, as protests in Kazakhstan over the possible rent of agricultural land to foreigners (Chinese) in April and May 2016 showed.⁶⁵ States such as Kazakhstan will try to balance domestic stability against potential financial and trade benefits of closer cooperation with China.

⁶² Crisis Group interview, Saadat Asanseitova, Department of Economic Integration, EEC, Moscow, 28 March 2016. "Eurasian Economic Union starts working on a free trade zone with Iran", EEC, *op. cit.*

⁶³ Crisis Group interview, Astana, April 2015.

⁶⁴ "Meeting of Supreme Eurasian Economic Council 8 May 2015", President of Russia, 8 May 2015. "Интервью Министра иностранных дел России С.В.Лаврова телеканалу «Звезда»" ["Interview of Russian Foreign Minister S.V. Lavrov to Zvezda TV channel"], foreign ministry, 30 December 2015.

⁶⁵ "EEU is only the first step, I think; now we need to create and be part of a trading union in the framework of the Shanghai Cooperation Organisation". Crisis Group interview, trade expert, Bishkek, March 2016. "Kazakhstan's Protests Postponed – But for How Long?", Crisis Group In Pursuit of Peace blog, 12 May 2016.

B. EEU and EU

Western responses to the EEU have been largely hostile. U.S. officials are critical or dismissive. In December 2012, Secretary of State Hillary Clinton called the projected EEU “a move to re-Sovietise the region” and said, “we are trying to figure out effective ways to slow down or prevent it”. This position has largely been maintained by the U.S. administration. The EU reaction is more nuanced. Viktor Khristenko, then head of the EEC, formally requested negotiations with the European Commission in October 2015. European Commission President Jean-Claude Juncker responded with a letter to President Putin in November 2015 that held out the possibility of cooperation with the EEU under certain conditions. That was too much for Eastern European member states; Juncker’s initiative was sharply criticised by Poland and Lithuania among others.⁶⁶

There are several obstacles to closer links:

- ❑ the dispute over Crimea’s status and the conflict in eastern Ukraine;
- ❑ Russia’s opposition to decisions by Ukraine, Moldova and Georgia to pursue political association and economic integration with the EU;⁶⁷
- ❑ the desire of non-Russian EEU members to maintain or enhance bilateral relations with the EU, rather than negotiate through the EEU, though some say a combination of both channels could be the winning option;⁶⁸
- ❑ the difficulty of harmonising EEU and EU standards; though trade specialists see them as worlds apart in their logic, this is a challenge that might begin to be addressed via technical negotiations;⁶⁹ and

⁶⁶ “Clinton calls Eurasian integration an effort to ‘re-Sovietize’”, RFE/RL, 7 December 2012. “Letter on cooperation between EU, Eurasian Economic Union sent by EC chief to Putin”, TASS, 19 November 2015; Andrew Rettman, “Poland and Lithuania rebuke Juncker on Russia”, *EU Observer*, 15 December 2015.

⁶⁷ In the case of Georgia, reactions from Moscow have been less harsh than originally anticipated and trade between the two has even increased in the wake of the EU-Russia sanctions; but trade had been at a historic low in the run-up to and following the 2008 war, with suspension of trade and diplomatic relations in 2006. Trade in the first quarter of 2016 increased 17 per cent compared to the same period in 2015, amounting to more than \$256.2 million and accounting for 7.8 per cent of Georgia’s total foreign trade turnover. In this time period, Russia was recorded to be Georgia’s third major trading partner after Turkey and Canada. “Россия входит в тройку основных торговых партнеров Грузии” [“Russia now in the top three of Georgia’s trade partners”], Sputnik-Georgia.ru, 24 May 2016. The August 2014 suspension of tariff-free preferences under the 2011 Russia-Moldova CIS Free Trade Agreement for nineteen categories of predominantly agri-food products, not discounting the 2013 ban on imports of Moldovan wine, impacted Moldovan producers dependent on the Russian market. In the first five months of 2014 the share of exports to CIS countries shrank by 18.8 per cent, while exports to the EU grew by 22.5 per cent compared to the same period of 2013; with access to the EU market reinforced by historically strong bilateral ties with Romania. Moldovan exports to Russia continue to fall. In 2013, exports to Russia accounted for 26 per cent of all exports, dropping to just 11.08 per cent in 2015. “Russia’s Punitive Trade Policy Measures towards Ukraine, Moldova and Georgia”, No. 400 CEPS Working Document, September 2014. See also “Export of the Republic of Moldova by main partner-countries (2005-2016)” and “External trade of the Republic of Moldova in January-May 2015-2016”, National Bureau of Statistics of the Republic of Moldova.

⁶⁸ As a Customs Union, the EEU restricts members’ ability to conclude separate trade deals, but they remain free to make significant agreements with the EU, such as the Kazakhstan Enhanced Partnership and Cooperation Agreement in 2015.

⁶⁹ De Micco, “When choosing means losing”, *op. cit.*

- many Russian analysts see the proposed EU-U.S. Transatlantic Trade and Investment Partnership (TTIP) as making any pan-European (EU-EEU) deal much more difficult.⁷⁰

These obstacles, and especially the political standoff over Ukraine, lead many to oppose any form of an EU-EEU dialogue. Many in the EU believe Russia's partners are keen on formalising a process that would project a sense of normalcy in relations between Moscow and Brussels and between the two blocs, but which would be essentially devoid of substance.⁷¹ There is also reluctance to legitimise what is seen as Russia's domination of the EEU region.⁷² Another critic calls it "a misguided attempt to find another technical solution to what is essentially a problem of different values with Russia".⁷³ A similar position is held by many officials who view the EEU as a project that threatens Ukraine's European aspirations. As a result, few EU diplomats see opportunities for substantive dialogue:

Let's say the EU thinks it's a good idea to talk with the EEU, to turn a page, a new partnership to maybe indirectly get around sanctions; but how Russia behaves doesn't seem to be anything but Russia pursuing its interests. [The EEU is] not like the EU, where small states matter. ... Russia needs to make membership equitable, with internal mechanisms that lead to consulted opinion that really is a shared opinion. But this would be just a pre-requisite [to dialogue]; we would still face fundamental questions about Ukraine.⁷⁴

Despite these problems, ideas of dialogue with the EEU still circulate in Europe, not least because the new organisation is likely to play an increasing role on issues of regional alignments and, potentially, trade.

A pragmatic view argues for some level of technical contacts, which could help inform future strategies and offer some short-term gains, or at least seek to respond to practical issues of trade and cross-border customs procedures. This might be feasible, though trade and cross-border cooperation have at times fallen prey to Russia's broader political interests. Potentially, it could lay the basis for higher-level talks in future, if other conditions are met, crucially among them implementation of the Minsk Agreement on Ukraine. A more ambitious position – substantive talks with the EEU to overcome the zero-sum relationship between the EU and Russia in their joint neighbourhood – could only follow serious shifts in Russian policy, both in Ukraine and in relation to its other regional partners.

Some have argued that Europe should use the EEU as a mechanism to "forge a new post-Crimea relationship with Russia ... through economic competition rather than military confrontation".⁷⁵ Engagement might also encourage EEC officials and national governments which seek to develop the organisation as a genuine economic

⁷⁰ Crisis Group interviews, analysts, Moscow, March 2015.

⁷¹ Crisis Group interview, EU member-state diplomat, July 2016. The experience of the technical trilateral DCFTA talks between the EU, Russia and Ukraine suggests to many on the EU side that problems that need to be addressed are of a political, not a trade or technical nature.

⁷² David J. Kramer, "Why Europe shouldn't cooperate with Russia's economic bloc", politico.eu, 17 December 2015.

⁷³ Kataryna Wolczuk, Rilka Dragneva-Lewers, "No Economic Bright Spot in Tensions between the EU, Ukraine and Russia", Chatham House, 17 December 2015.

⁷⁴ Crisis Group interview, EU member-state diplomat, Bishkek, December 2015.

⁷⁵ Mark Leonard and Ivan Krastev, "The New European Disorder", European Council on Foreign Relations, 20 November 2014.

project, rather than as a platform for geopolitical confrontation, and to encourage more progressive policies in governance, migration and external trade. However, such goals are unrealistic at present, and even initial discussions on them would require genuine changes in Russian policy in the region.

The EU has continued to forge deeper economic relations with members of the EEU: negotiations with Armenia “on a new overarching framework for the deepening of their bilateral relations” began in 2015; sanctions against Belarus were lifted in February 2016; an Enhanced Partnership and Cooperation Agreement was signed with Kazakhstan in December 2015; and Kyrgyzstan was granted GSP+ status in February 2016.⁷⁶ Membership of the EEU has not, for now, constrained the desire or legal ability of its members to pursue contractual arrangements with the EU that are compatible with their EEU membership obligations. But it remains to be seen if a direct EU-EEU relationship would limit bilateral engagement with EEU members that seek not just economic advantages from the EU, but also use Brussels as a counterweight against Russian pressure in other areas.

President Nazarbayev has frequently called for closer ties between the EU and the EEU. In June 2016, he asserted that “the collaboration of economic spaces of the European Union and the [EEU] has great potential for a breakthrough in the development of the entire Greater Eurasia and the world as a whole. I was and remain a strong supporter of this process. I constantly raise this issue at my meetings with European partners”.⁷⁷ However, smaller EEU nations may be more cautious about talks between the two organisations if they feel ties will constrain their own bilateral relations with Brussels.

⁷⁶ “EU and Armenia launch negotiations for a new agreement”, press release, EU External Action, 7 December 2015; Jennifer Rankin, “EU lifts most sanctions against Belarus despite human rights concerns”, *The Guardian*, 15 February 2016; “EU and Kazakhstan sign Enhanced Partnership and Cooperation Agreement”, press release, EU External Action, 21 December 2015; “European Union grants GSP+ status to the Kyrgyz Republic”, press release, EU Delegation to the Kyrgyz Republic, 2 February 2016. GSP+ is a component of the EU Generalised Scheme of Preferences for developing countries.

⁷⁷ Malika Orazgaliyeva, “President Nazarbayev calls for further integration and international cooperation”, *The Astana Times*, 18 June 2016.

IX. Conclusion

To date, the EEU has failed to achieve the breakthroughs its advocates promised. Multiple, often contradictory identities make it difficult to develop a coherent policy acceptable to all members. Russia's geopolitical concept of it has undermined the supranational, technocratic elements that offer some prospect of economic modernisation and regional cooperation. Nevertheless, it is too early to dismiss the EEU as just another failed post-Soviet project, as some critics have done. Leaders in the region have invested heavily in its success, and whether it develops or stagnates will be important for regional stability and economic prosperity. Developments in five key areas will decide whether the EEU becomes a successful regional body.

Openness to the outside world. The EEU will only be effective if it engages with other regional bodies and global trade regimes. That requires Russia to accept a more independent stance for members and potential members.

A shift away from geopolitics. Russian policy will need to turn from using the EEU for geopolitical confrontation toward a renewed commitment to regional economic growth and modernisation.

A focus on governance. Economic progress requires EEU states to embrace reforms that promote good governance and tackle corruption.

An emphasis on social welfare and migration. Improving the lives of millions of labour migrants could win the EEU popular support and positively impact economic growth in Central Asia.

Improved institutions. A successful EEU requires a stronger EEC, with the capacity and political clout to tackle non-tariff barriers and protectionism, and a court that can enforce regulations.

Such a pattern of regional development could contribute to stability and promote prosperity. At present, however, member states have limited political will for policy reform, and the EEU in its current form will struggle to play a positive role in managing the political, economic and social challenges in the region.

Moscow/Astana/Bishkek/Dushanbe/Brussels, 20 July 2016

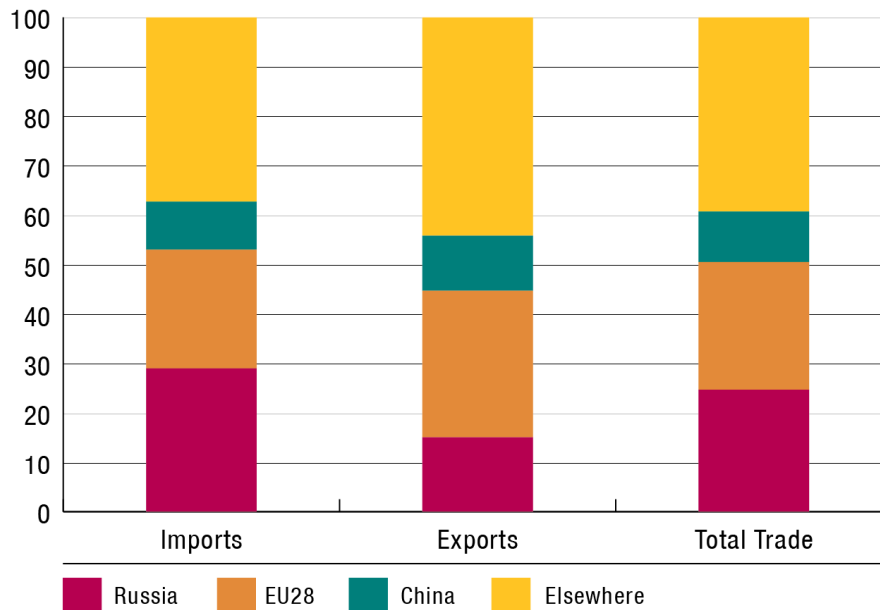
Appendix A: Map of Eurasian Economic Union



Appendix B: EEU Members Trade with Russia, China and EU

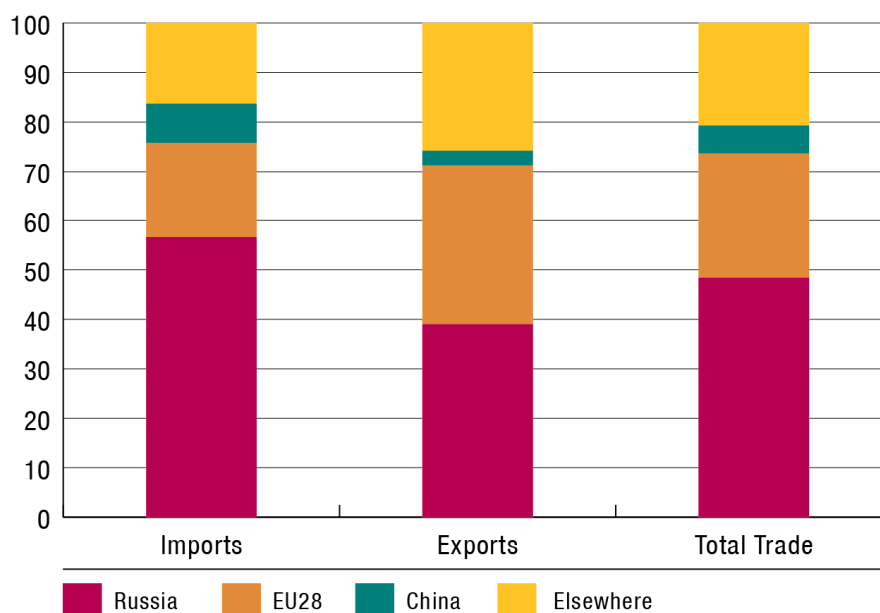
Source: The information presented in the graphs is from the International Monetary Fund cited in “European Union, Trade in goods with Armenia”, “European Union, Trade in goods with Belarus”, “European Union, Trade in goods with Kazakhstan”, “European Union, Trade in goods with Kyrgyzstan”, “European Union, Trade in goods with Russia”, European Commission, Directorate-General for Trade, 21 June 2016.

Armenia Trade with Russia, EU28 and China



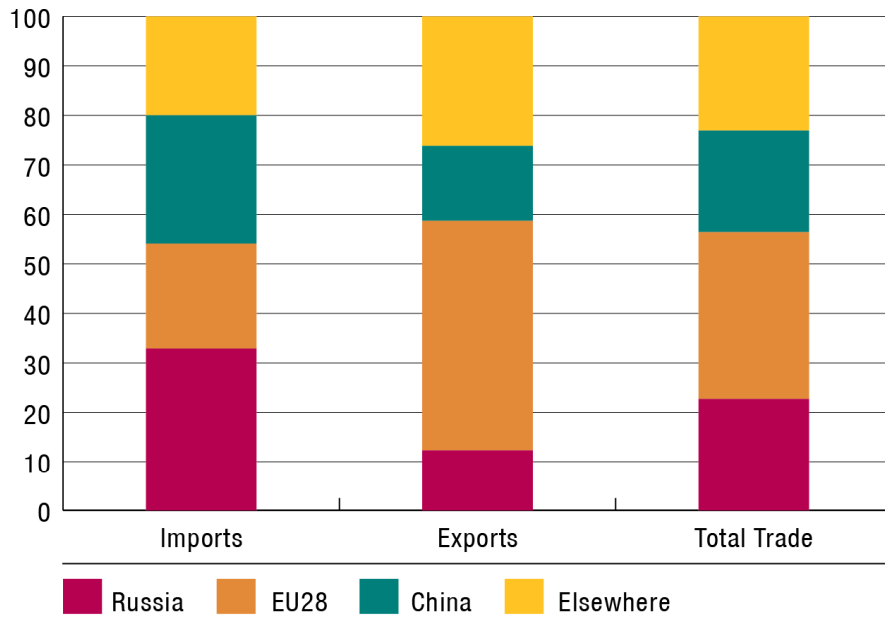
Armenia's total trade in 2015 was 4.273 billion euro. Major trading partners also include Iran, Georgia, U.S. and Turkey.

Belarus Trade with Russia, EU28 and China



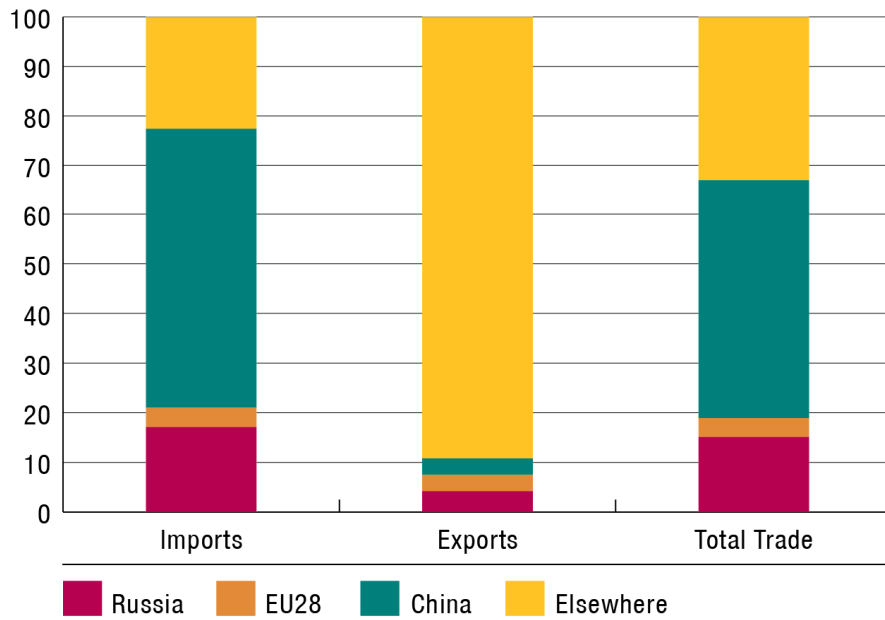
Belarus's total trade in 2015 was 51.318 billion euro. Major trading partners also include Ukraine, Brazil, Turkey and Kazakhstan.

Kazakhstan Trade with Russia, EU28 and China

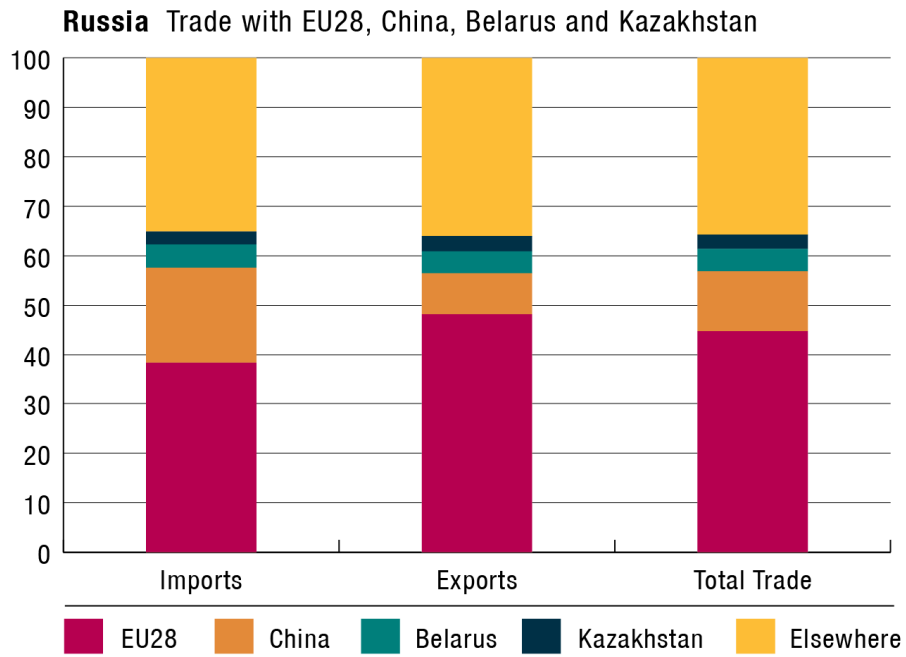


Kazakhstan's total trade in 2015 was 63.998 billion euro. Major trading partners also include Uzbekistan, Turkey, U.S. and Ukraine.

Kyrgyzstan Trade with Russia, EU28 and China



Kyrgyzstan's total trade in 2015 was 8.927 billion euro. Major trading partners also include Kazakhstan, Uzbekistan, Switzerland and Turkey.



Russia's total trade in 2015 was 473.934 billion euro. Major trading partners also include Belarus, Turkey, Japan and the U.S.