

The Eurasian Economic Union – more political, less economic

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The Eurasian Economic Union is undoubtedly the most comprehensive form of economic integration of the post-Soviet countries since the break-up of the Soviet Union. However, the way in which the integration process has been unfolding, as well as Russia's aggressive policy over the last year, are indications that the EEU has become primarily a political project, and the importance of its economic aspects has eroded. This has triggered a change in the way Kazakhstan and Belarus treat the EEU. Initially, the two countries viewed integration as an opportunity for the development of genuine economic co-operation. However, Russia's annexation of Crimea and the conflict in Ukraine have revealed the real significance of the EEU project – as a tool to reinforce Russian influence in the post-Soviet area and isolate the post-Soviet countries from the West and China.

While the Kremlin presents the EEU as the Eurasian equivalent of the European Union, the project is in reality an imitation of integration. The reasons for this include the nature of the political systems in the participating countries, which are authoritarian, prone to instrumentalise law, and affected by systemic corruption; the aggressive policy that Russia has been pursuing over the last year; and Russia's dominant role in defining the shape of the EEU.

The EEU appears to be based on forceful integration, and is becoming less and less economically attractive for its member countries other than Russia. Moreover, it is clearly assuming a political dimension that those other member countries perceive as dangerous. For these reasons, its functioning will depend on the power and position of Russia. In the longer term it is likely that the other member states will try to 'sham' and delay closer integration within the EEU. This means that if Russia becomes politically and economically weaker, the EEU may evolve into an increasingly dysfunctional organisation – a development that will be reinforced by the low standards of legal culture in its member states and their reluctance to integrate. Should Russia's power increase, the EEU will become an effective instrument of Russian dominance in the area of the former USSR.

The Eurasian Economic Union (EEU) was launched on 1 January 2015. It marks the third stage of the Russian-driven process of economic, but *de facto* political integration in the post-Soviet area. The creation of the EEU was preceded by the establishment of the Customs Union (on 1 January 2010) and the Common Economic Space (on 1 January 2012). The new organisation, which unlike its predecessor, has legal personality, consists of Russia, Kazakhstan and Belarus, which have participated in the

integration process from the start, as well as Armenia, which joined them on 2 January 2015. Kyrgyzstan is also expected to become a member this May, once all the required procedures are completed.

An economic bridle

In the economic dimension, the establishment of the EEU formally represents a step forward towards a new stage of integration, but it is not

a breakthrough. The EEU's founding treaty provides for more freedom of movement of goods, services, capital and workers, and lays down more detailed and extensive regulations for the sectors that have already been integrated. In 2016, common regulations for the market in pharmaceuticals and medical devices will come into force. In some cases, the EEU will retain the members' sovereignty in domains that have not hitherto been regulated because of their economic sensitivity (e.g. in the policy of non-tariff regulations in relations with third countries).

Contrary to previous declarations, regulations for the most contentious domains have been postponed: this concerns the creation of a common market for oil and gas (postponed until 2025), common market for electricity (postponed until 2019) and the common market for services (postponed until 2025)¹. A common transport market (for motor vehicles and rail) is to be created in several steps. The fact that those sectors have once again been exempted from integration under transitory provisions demonstrates that the interests of the participating countries are still divergent, and the EEU members are reluctant to integrate those branches of the economy which are of strategic significance, especially those strategically important for Russia. The fact that no agreement has been reached in those domains is also due to the excessively rapid tempo of negotiations, which has been imposed by Russia and criticised by the other members.

The EEU retains the original principles of tariff policy, which are in keeping with the terms of Russia's accession to the WTO, including the provisions on sharing revenue from import duties and co-ordinating measures to support exports of goods from the EEU members (such as export loans, brand promotion, joint presences at fairs and exhibitions). A new la-

bel of 'made in the EEU' has been introduced (modelled on the EU solution). The EEU members will also retain their original prerogatives concerning the pursuit of their own industrial policies and the protection of their economies through various subsidies, although these need to be agreed with the EEU Commission.

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The integration goes deepest in the area of allowing citizens of the EEU member states free access to labour markets. The treaty expands the list of professions (e.g. by including education and the legal professions) in which the member states will mutually recognise degrees on an automatic basis. Income tax will be paid in the country of residence from the first day of employment (hitherto, the figure was 183 days). The treaty also guarantees equal access to basic medical care to all citizens of the member states. Work is underway on an agreement to recognise work experience, and on the acquisition of pension rights by workers employed in the member states.

Despite such progress, the expected direct economic benefits from integration will be limited, due to the differences in the member states' economic potentials, and the fact that the creation of the common market in oil and gas and the common market in electricity, both which are of key importance for the partners, has been postponed². Trade exchange between the EEU's founding countries accounted for only 12% of their total trade in 2012 and 2013

¹ By a decision of the Supreme Eurasian Economic Council adopted on 23 December 2014, the common market in services will include the sectors of construction, wholesale and retail trade and agriculture as of 1 January 2015.

² In 2013, energy resources and energy products accounted for 43% of the trade exchange between member states of the Customs Union.

(11% in the first half of 2014)³. Moreover, due to the differences in economic potentials, the nature of trade exchange, and finally Russia's central geographical position in the EEU, integration will in fact strengthen the network of bilateral economic relations between the member countries and Russia⁴. Even if Belarus and Kazakhstan are willing to increase their economic co-operation, they cannot do so on a wider scale for various reasons, including the fact that it is impossible to transit Kazakh oil to Belarus via Russia.

The creation of the EEU will consolidate the existing system of economic dependencies, and open only narrow opportunities for integration in new areas. In the cases of Belarus and Armenia, the EEU preserves the existing system whereby Russia has been subsidising their economies, mainly through the supplies of cheaper energy resources – a benefit that has become less attractive in view of the present economic situation (low oil prices and changes to the taxation of the oil sector in Russia⁵) – and through loans granted by Russia and the Russian-dominated Eurasian Development Bank. Russia's decision to offer preferential terms of co-operation to Belarus⁶, Armenia and Kyrgyzstan (at the level of bilateral economic relations with Russia) was the price that the Kremlin agreed to pay for involving those countries in the integration process.

³ Member states of the Common Economic Space (the predecessor of the EEU) accounted for 51% of the foreign trade of Belarus in 2013 (49% in the first half of 2014), 18% (15%) of the foreign trade of Kazakhstan, and only 7.5% (7%) of the foreign trade of Russia.

⁴ For example, Russia accounted for 96.5% of Kazakhstan's total trade exchange with the EEU countries between January and October 2014 (data from the Statistical Committee of Kazakhstan).

⁵ Ewa Fisher, Szymon Kardaś, '„Manewr podatkowy” w rosyjskim sektorze naftowym', *Analizy OSW*, 24 November 2014.

⁶ Belarus received US\$450 million in loans from the Russian government during the last few months before the signature of the EEU treaty alone (and the total amount is expected to reach US\$2 billion), as well as two bridging loans of US\$2 billion and US\$440 million from the Russian state-controlled VTB bank.

In the case of Kazakhstan, its participation in the Eurasian Economic Union exposes the country to growing competition from stronger Russian companies on its domestic market, and makes the Kazakh oil sector less attractive to foreign investors. As the manufacturing base in the EEU countries is underdeveloped and obsolete, the creation of a common market will in fact facilitate the access of goods from Russia (whose industry is the most developed among them) to the markets of the other member states, and not the other way around (this tendency is currently being reinforced by the depreciation of the Russian currency). Belarus is an exception here, because nearly 50% of its exports go onto

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the Russian market. Moreover, the higher capital potential which Russian companies dispose leads to fears that they might buy out the most attractive enterprises in the smaller and economically weaker member states.

Participation in the EEU, which is dominated by the backward Russian economy, will not generate any impulses towards modernisation, is not conducive to a diversification of markets, and conserves the existing, uncompetitive economic mechanisms. As a result, the EEU will only strengthen mutual dependencies, consolidating the trend whereby the problems of the EEU's economically strongest member, i.e. Russia, spill over to the other member countries (for instance, the depreciation of the rouble has been driving pressures towards devaluation in Belarus and Kazakhstan).

The institutional and legal dimension of the EEU – effective dysfunction

The creation of the EEU formally closes the process of forming the institutional bases for the integration process, which was launched in 2010 with the establishment of the Customs Union. The new organisation is not based on a new legal basis but on the existing legal *acquis*, which has been expanded, re-ordered and formulated in more detail in the EEU Treaty⁷. The operation of the EEU is based in principle on already existing institutions, which have been equipped with additional prerogatives. The novelty consists in the fact that the EEU now has legal personality.

The **Supreme Eurasian Economic Council** remains the EEU's highest body (at the presidential level) and unanimously defines the directions of co-operation. The task of the newly created **Eurasian Intergovernmental Council** (at the prime ministerial level) is to supervise the implementation of the treaty's provisions and of the decisions taken by the presidents.

The integration will in fact be limited to co-operation at the highest political level, and the Commission will continue to play a technical role.

The **Eurasian Economic Commission**, headquartered in Moscow, is the permanent executive body of the Eurasian Economic Union. The Commission consists of a Council (a political organ made up of four deputy prime ministers, which acts in a supervisory role) and a College (an executive body). The Commission's Council adopts its decisions by consensus, while

the College does so by a qualified majority of two-thirds of the votes, with the exception of so-called 'sensitive' subjects, for which unanimity is required (the Supreme Eurasian Economic Council defines the list of sensitive subjects). Each decision of the College taken by a qualified majority of votes may be vetoed by a member country and become the subject of debate at the prime ministerial or presidential level (cf. Article 30 of the EEU Commission Statute). Decisions of the Supreme Eurasian Economic Council prevail over the decisions of the Eurasian Intergovernmental Council, and the decisions of both these institutions prevail over the decisions of the Commission. The **Court of the Eurasian Economic Union**, headquartered in Minsk, is in charge of resolving disputes and guaranteeing the parties' compliance with the agreements signed.

The member states implement the decisions of both the EEU Councils "in keeping with the order established by their internal legislation" (Article 6 p.1 of the EEU treaty), which in practice means that those decisions become binding on the day of publication. The Commission's decisions become binding in the same way.

Based on the practice of integration hitherto, we may expect that legislation will take place at the level of the Supreme Eurasian Economic Council (Supreme Council), and that the decisions of the remaining bodies will be of an executive and technical nature. This means that the decision-making process in the EEU will take place at the highest level and may be blocked under national legislation because of the lack of precision of the provisions of the EEU agreements; for instance, different interpretations of the veterinary and sanitary rules are possible, and on this basis Russia banned the transit of meat to Kazakhstan via its territory in November 2014.

All this means that integration will in fact be limited to co-operation at the highest political level, and the Commission will continue to play a technical role. At first sight, this would seem to strengthen the member states because

⁷ The treaty establishing the Eurasian Economic Union was signed in Astana on 29 May 2014. It consists of four chapters: Establishment of the Eurasian Economic Union (I), Customs Union (II), Common Economic Space (III) and Final and transitory provisions (IV).

the Supreme Council's decisions are taken by consensus, which in theory offers the weakest partners the possibility of blocking those solutions that are unfavourable to them. This was a concession from Russia intended to encourage other states to join the integration project. However, this solution necessitates frequent presidential summits (Supreme Council meetings)⁸, which in turn enables Russia to pressure the weaker members politically and force them to agree to decisions conceived by the Russian-dominated Commission⁹.

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The EEU institutions, and especially the Supreme Council, thus form a network of dependencies that entangle the member states, forcing them to accept closer co-operation with Russia. The Kremlin also seeks to use them to impose its own will with regard to political issues that formally remain beyond the EEU's remit¹⁰. In this context, the establishment of the EEU epitomises the on-going process whereby Moscow has been subjugating the former CIS countries. The nature of the political systems in the member states also affects the character of integration: all of them are authoritarian countries in which the principles of the rule of law and the activities of public institutions are instrumental-

ised, and the power of the authoritarian leadership is what matters most. The same model governs relations within the EEU. For that reason, and despite the fact that the EEU is modelled on the European institutional setup¹¹ (to the extent that the names of the institutions are similar¹²), the practice of integration to date shows that the Eurasian Economic Union is not a symmetrical reflection of the European Union, and any similarities are illusory. The experience of mutual relations within the Customs Union and the Common Economic Space also shows that the legal regulations of the Eurasian Economic Union are often evaded (e.g. by creating non-tariff barriers) or even ignored by its members. The differences in the interpretations of veterinary regulations by the competent bodies of individual states, the fact that the Kremlin did not notify the member states of its decision to impose anti-Western sanctions, Russia's unilateral banning of the transit of goods to Kazakhstan, and Russia's introduction of restrictions on imports from Belarus are all examples of this. They show that compliance with the provisions of the EEU treaties is only a matter of the member states' political decisions.¹³

⁸ In 2011 and 2012, the Supreme Council met twice a year; in 2013 it met on three occasions, and in 2014 four meetings were held.

⁹ For instance, Russia has forced the other EEU members to accept the inclusion of Armenia in the integration process. President Nursultan Nazarbayev has complained about the role of Russian officials in the Commission, accusing them of acting in the interest of Russia and of providing documents to the Kazakh side only hours before they were due to be signed.

¹⁰ For instance to take a common position on the Ukrainian crisis, of which the holding of the August 2014 meeting in Minsk in the EU-EEU format was an example.

¹¹ In a policy article published in *Izvestia* on 3 October 2011, Vladimir Putin pointed to the need to "creatively apply the Schengen Treaty" in the integration process, and argued that the speed of European integration was comparable to that of Eurasian integration; <http://izvestia.ru/news/502761> In popular science articles, the EEU is presented as an organisation modelled on the EU; see Wikipedia.

¹² The European Council, the European Commission, the EU Council and the European Court of Justice are meant to be the equivalents of the Supreme Eurasian Economic Council, the Eurasian Economic Commission, the Eurasian Intergovernmental Council and the EEU Court respectively. Like the EU, the EEU ensures 'free movement of people, capital services and goods'. Despite the absence of an institutional basis in the EEU treaty, the Eurasian Development Bank (created in 2006) serves as an investment bank of the EEU. It has been 'harnessed' to serve the EEU's objectives through the adoption of certain rules and regulations to govern its activities.

¹³ A telling example of this practice occurred when Kazakhstan banned the imports of Russian alcoholic products (on the grounds that the required information was not provided on the labels) and lifted the ban three days later, immediately after a telephone conversation between Nazarbayev and Putin. The Belarusian president Alyaksandr Lukashenka said on 29 December 2014 that the methods employed by Russia to curb Belarusian imports were "of an administrative nature and illegal".

Russia's political tool

Because it is dominated by Russia, the EEU¹⁴ is the Kremlin's instrument for pursuing its own political objectives in its relations with both foreign partners and the post-Soviet states. Russia has been trying to promote the Eurasian Economic Union as an equal partner in dialogue with the European Union, this sending a signal that the EEU should be the main player in defining the shape of relations between the post-Soviet states on the one hand, and the EU¹⁵ and China on the other. As a result, the other member states' participation in the EEU hinders the development of their own relations with the West and China by restricting their ability to pursue dialogue with them (e.g. Armenia's membership of the EEU means that the country cannot sign an association agreement with the EU). Russia is also using the EEU to demonstrate that it still has allies in its on-going confrontation with the West. The format of the August talks on the Ukrainian crisis, held in Minsk, indirectly proves this: it was a dialogue on the consequences of Ukraine's signature of the Association Agreement with the EU, conducted between representatives of the EU and the EEU. Russia also tends to use the creation of the Eurasian Economic Union to strengthen its narrative about the need to revise the international order and promote a multipolar world while rejecting US dominance. The Eurasian Economic Union is being represented as a bridge between China and the EU, one that is necessary for the establishment of a single economic area span-

¹⁴ Initially, the EEU was supposed to be called the Eurasian Union. That term had been coined by Vladimir Putin in his policy article on integration (cf. footnote 11). However, under pressure from Kazakhstan, in the end the organisation was officially named the Eurasian Economic Union – to emphasise the economic dimension of the project, which was an important point for Astana.

¹⁵ The talks on the Ukrainian crisis held in Minsk in August 2014 between the EU and the emerging EEU were an example of this approach.

ning Europe and Asia. Such a bridge would be helpful in Russia's efforts to undermine co-operation between the EU and the USA¹⁶. In this context, Russia is interested in selected elements of the Chinese concept of the New Silk Route, such as the development of infrastructural connections between China and the EU via the territory of the Eurasian Economic Union. The EEU member states, and Russia in particular, would then reap the benefits from transit, and the EEU would become a relatively permanent element in the China-EU economic co-operation.

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In the post-Soviet area, the Eurasian Economic Union is one of a number of tools that Russia is using to subjugate those countries which belong to what Russia identifies as its sphere of influence, and isolate them from other potential partners. The way Armenia was forced to reject the Association Agreement with the EU in order to join the EEU (in September 2013) is a case in point; other examples include the invitations extended to Azerbaijan and Tajikistan to join the EEU, and the recent suggestions that Uzbekistan should join the organisation. In the sphere of security, the Collective Security Treaty Organisation (CSTO) serves a similar purpose. The EEU also serves as a platform for Russia to promote the concept of Eurasianism and the

¹⁶ Cf. Marek Menkiszak, 'Greater Europe. Putin's Vision of European (Dis)integration', OSW Studies, October 2013, www.osw.waw.pl/en/publikacje/osw-studies/2013-10-14/greater-europe-putins-vision-european-dis-integration

civilisational primacy of Russia and the Russian language and culture in the post-Soviet area (Russian is the sole official language of the EEU)¹⁷. This manifests itself in the Russian initiatives to establish Eurasian information platforms and Eurasian forums, in the way educational and research institutions are promoting the concept¹⁸ and in the calls for a greater role of the Russian language in the post-Soviet states¹⁹. The member states view this policy as a threat, and believe that it indirectly undermines their sovereignty. This has already provoked criticism of the EEU within its member states' nationalist circles, and also within its business associations, which have been emphasising the need to defend the interests of Kazakhstan and Belarus (their voices can be heard in public media). This aversion and fears of Russian dominance are reflected in the fact that the presidents of Kazakhstan and Belarus have recently been anxious to emphasise their independent status in relations with Russia²⁰.

¹⁷ Cf. Marek Menkiszak, 'The Putin doctrine: The formation of a conceptual framework for Russian dominance in the post-Soviet area', <http://www.osw.waw.pl/en/publikacje/osw-commentary/2014-03-27/putin-doctrine-formation-a-conceptual-framework-russian>

¹⁸ Examples include the activities of the Kazakh affiliate of the Lomonosov University in Moscow, which includes organising research forums on subjects such as 'Kazakhstan and the idea of Eurasianism in the new world', and the establishment of the Dostyk-Druzhba research and education centre for Eurasian culture, http://www.msu.kz/information/detail.php?ID=975&sphrase_id=17. Also, the activities of the L.N. Gumilyov Eurasian National University in Kazakhstan, including the creation in 2009 of the Chair of Eurasian Studies and the Eurasia research centre. The university also runs the website <http://www.eurasianism.enu.kz/ru/>, which promotes the idea of Eurasianism and identifies Nazarbayev as its architect.

¹⁹ For example, see the article by Ilya Namirov titled 'Russkiy vopros v Kazakhstane', published by the *Stoletie* news portal, 11 December 2014, http://www.stoletie.ru/vzglyad/russkij_vopros_v_kazahstane_620.htm

²⁰ For instance, in a TV interview in August 2014, Kazakhstan's president Nursultan Nazarbayev suggested that Kazakhstan could quit the EEU if membership did not serve the country's interests.

Prospects: a stick rather than a carrot

The functioning of the Eurasian Economic Union will depend primarily on Russia, as the country most interested in its continued existence and having the economic potential to subsidise the economies of the other member states. Russia is the driving force behind the integration process, and its aim is to integrate more in those areas in which that benefits Russia, as evidenced by the Russian plans to introduce a common currency or create an EEU parliament²¹. The other founding members of the EEU do not support those plans, and have been increasingly delaying or feigning integration. Armenia and Kyrgyzstan are second-rank members who are not in a position to oppose Russia, and who treat their participation in the EEU as a political necessity, but also as an opportunity to gain subsidies to support their inefficient economies. On the other hand, Kazakhstan and Belarus fear the political dimension of integration, and are concerned that their room for manoeuvre in foreign policy could shrink. This means that if the position of Russia weakens, the EEU may become increasingly dysfunctional and transform into something like today's Commonwealth of Independent States, whose significance is purely symbolic.

In the short term, the greatest challenge for the EEU states will concern the worsening economic situation in Russia and, consequently, mounting economic problems in Kazakhstan and Belarus in particular (which will be the result not so much of the two countries' membership in

²¹ The Chairman of the Duma, Sergey Naryshkin, also raised the question of creating an EEU parliament during his visit to Kazakhstan in November 2014. A ban on settlements in euros and dollars and an acceleration of work on a common currency have been proposed in the draft concept paper on the development of the EEU member states' payment systems; cf. <http://izvestia.ru/news/580112>

the EEU as of the scale of their economic links to Russia). Russia may take advantage of economic instability in those countries to control them more tightly, as economic problems will undermine the existing rules of play whereby the authoritarian leader gets support in return

for guaranteeing economic stability. From the point of view of the political elites in the EEU member states, closer co-operation with Russia, institutionalised in the EEU format, may make it easier for the Kremlin to enforce political obedience.

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