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## THE EURASIAN UNION PROJECT

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## ANALYSIS

## Eurasian Union—a New Name for an Old Integration Idea

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### Abstract

On the initiative of Vladimir Putin, a proposal to create a “Eurasian Union” as a new format for the integration of the post-Soviet space was announced by Russia, Belarus, and Kazakhstan in October 2011. Indeed a number of substantial steps towards more integration can be found in the Customs Union on which it is to be based. However, any reconceptualization of the notion of integration remains at the purely rhetorical level. Thus, the Eurasian Union has only little integration potential and has few attractions to offer the newly independent states.

### Putin’s Eurasian Union

The strengthening of regional integration was a core issue of Vladimir Putin’s first presidency. By 2001, he had initiated the reorganization of existing regional integration fora into full-fledged regional organizations. The Eurasian Economic Community (EurAsEC), the Collective Security Treaty Organization (CSTO), and the Shanghai Cooperation Organisation (SCO) have today become relatively stable formats for cooperation, but not for integration. In October 2011, preparing for his third term in office as president, Putin—and flanked by the presidents of Belarus and Kazakhstan—launched a new integration project: the Eurasian Union. Ever since, a sustained PR campaign has been underway: Russian television has advertised the Eurasian Union, and draft designs for the logo of the new union have been circulating. A regional Ukrainian TV station even featured its own advertisement film for the Eurasian Union.

The pronouncements made so far by Russian, Belarusian, and Kazakh officials on the Eurasian Union convey a fragmented picture at best. The organization is to be the result of an expansion of the Eurasian Economic Union, which the troika (Russia, Belarus and Kazakhstan) aims to establish by January 2016. It is to be different from other previous multilateral organizations in the post-Soviet space, and will be based on a similar concept as that of the EU. As opposed to previous attempts, Putin’s rhetoric does indeed approximate the idea of the EU. The promise of voluntary political and economic integration of equal sovereign partners into a supranational organization had also accompanied earlier projects. What is new is the focus on society, its welfare, and the inclusion of non-state actors in the integration process. The Eurasian Union is also to be a value-based community. Yet, the emphasis on democracy, freedom, and free-market principles, coming from the leaders of three authoritarian regimes, hardly sounds convincing. For the first time, Putin is defining integration not as delineation against the EU, but in harmony with it. This strategy is designed to strengthen the propensity of the other post-Soviet states, mainly the EU-oriented states and especially Ukraine, to integration, and to realize

the long-cherished desire for integration throughout the Russian neighborhood space.

### Lukashenka’s Eurasian Union: Few Alternatives

Belarusian President, Aleksandar Lukashenka, who since 2011 has once more been advancing rhetorical support for post-Soviet integration, supported Putin’s ideas and even exceeded them. He has called for the implementation of the Eurasian (Economic) Union sooner than 2015 and called for discussions over a common currency. Lukashenka has also alluded to the EU, referring to its supposed weakness compared to the Eurasian Union: The latter, he claimed, will be more stable and has already demonstrated that unlike the EU, it will need only a few years not decades to achieve integration. In doing so, Lukashenka is following a familiar pattern; the concrete reason behind this may be the EU’s increased criticism of and sanctions against Belarus. Post-Soviet integration is high on the agenda whenever foreign-policy alternatives are lacking and when Russia creates lucrative incentives within the integration projects, such as the discounts on gas and oil from Russia that are linked to membership in the Customs Union. So far, however, in the case of Belarus, the evidence has always been that rhetoric and membership do not imply unconditional willingness to integrate.

### Nazarbaev’s Eurasian Union: Reluctant Acceptance

Kazakh President, Nursultan Nazarbaev, is also sticking to his principles in his response to the idea of a Eurasian Union. He is willing to embark on a substantial integration process. However, he wants it to be limited mainly to economic matters and require only minimal concessions on sovereignty, and to be co-determined on equal terms by Kazakhstan. It should protect Kazakhstan from China’s economic prowess without bringing the country’s business under Russian sway. Accordingly, he stresses that the current integration formats are adequately functioning and regards the Eurasian Union as a distant goal. He believes Putin’s promise of equality among all parties is already being violated. Only a few

weeks after the collective motion to study the feasibility of a Eurasian Economic Union had been tabled within the Customs Union, Putin single-handedly presented the Eurasian Union; Nazarbaev refused to respond until several weeks later. Moscow's insistence on hosting the seat of the Eurasian Commission, instead of having it in Astana, has been interpreted as another sign of Russia's lack of willingness to commit to equal partnership. Nazarbaev welcomes the transition from a customs union to an economic union, but opts for a slow approach.

### Customs Union and Single Economic Space

Do the troika's steps towards integration really represent the beginning of the new type of binding integration in the post-Soviet space that Russia aspires to? Indeed, the creation of the Customs Union (CU) between Russia, Belarus, and Kazakhstan in 2010 has remained the only move of its kind to date. However, just as many questions remain about the willingness of these actors to engage in binding integration, as about the novelty of the integration approach. The creation of the CU in 2010 marked the implementation of a project that had been under discussion since 1996, when the same three countries went beyond the customs negotiations within the CIS by creating a customs union. However, this union was not realized. This did not change after its enlargement with Tajikistan and Kyrgyzstan in 1999. On Russia's initiative, negotiations were restarted among the troika members in 2006. In 2009, the customs codes basically prepared in 1999 were approved. However, in 2010, it was only with economic pressure and special incentives that Russia managed to persuade Belarus to participate in the joint implementation of the CU. Since July 2010, customs issues have been dealt with under the common customs code, with only 48 out of 90 accords having been ratified so far. According to practitioners, the main effect of the CU has been the alleviation of customs bureaucracy, rather than substantial changes compared to the previous customs regulations. It remains to be seen how much willingness there is to ratify agreements that will have middle-term effects on the respective national economies. This would indeed mark a significant new development in the integration process of the post-Soviet space. So far, one of the main reasons for Belarus's participation in the union has been to strengthen its own position in international trade: Based on the CU, Belarus hopes to secure the same trade facilitations that the more attractive economic powers of Russia and Kazakhstan enjoy. Responding to a Belarusian initiative, Russia, with reference to the CU, warned the EU and the US not to impose economic sanctions on Belarus. Once the CU had been consolidated to some extent, the next integration project—the “Single Eco-

nomic Space”—has begun to be tackled this year. It is to bring a harmonization in energy, transport, and communication policy, as well as the establishment of comprehensive free movement of capital and workers. In 2012, the complete implementation of the Single Economic Space was postponed until 2016. Furthermore, the CU Commission, which is made up of the deputy prime ministers of the three countries, was complemented with a “Kollegium” of delegates from relevant ministries. This commission is to form the core of the future Eurasian Union, as a Eurasian counterpart to the European Commission. So far, however, it has remained far behind this model in terms of competencies and lacks a line-up of independent delegates. It is an intergovernmental organ without competencies of its own. Once the Single Economic Space is fully realized in 2016, the Eurasian Economic Union is to be formed. However, experts believe that both the timetable and the project are overambitious when the integration steps achieved so far are taken into account. Up till now, the Eurasian (Economic) Union mainly reflects the characteristics of earlier integration projects in terms of integration ambitions, structure, and the relationship between stated and realized intentions. While membership is prompted by short-term political and material gains, what is lacking is the willingness to give up sovereign rights, which is necessary for consistent integration.

### Comparable Regional Organizations

The troika's initiative for an integrated customs union as the predecessor to an economic union in the post-Soviet space is not new. The troika took its first step in this direction in the CIS, when it proposed the formation of a CIS Economic Union in 1994 and created the Interstate Economic Committee in 1997. The intention had been for the Union to serve as the predecessor to an economic system with a common currency. The Committee had been planned as a supranational body, but was solely entrusted with administrative tasks. The CIS Economic Court, designed to promote the implementation of the agreement, had purely recommendatory competency. The goal of a common customs space was not achieved. The most significant integration step was the free trade agreement that was signed in 1994 and amended in 1999. Russia was the sole state to refuse ratification. As a consequence, the agreement is hardly ever applied. In 2010, against the background of its own imminent WTO accession and the CU, Russia suggested a new free trade agreement, which was signed in 2011. However, ratification is proving to be more problematic. Negotiations and projects in the economic sphere are important constants in the CIS that are actively used by all members. There is no consensus over integration in this framework.

In 1996, therefore, the troika created a new framework for the integration project: a customs union that was expanded in 1999 and moved into the EurAsEC in 2000. In 2006, Uzbekistan joined it. The goals and structure largely mirror those of the planned Eurasian Economic Union. The EurAsEC, too, is modeled on the EU and has a supranational organ. However, now that the decision-making powers have been allocated, it cannot be regarded as a de-facto supranational organ. The EurAsEC Economic Court was only activated in 2012, as it is also responsible for the CU of 2010. There is no consensus as to how binding the decisions of this body are. The EurAsEC members that are not members of the CU will hardly be affected by the court's work, even if they supply judges for it, as they are signatories to almost none of the EurAsEC agreements. Individual economic incentives are the main reasons for Kyrgyzstan, Tajikistan, and Uzbekistan to participate in the EurAsEC. These include the US\$10bn stabilization fund created in 2010 (of which US\$7bn were contributed by Russia and US\$1bn by Kazakhstan) as well as favorable loan terms with the Eurasian Development Bank. This has not, however, led to stronger participation of those countries in agreements of the EurAsEC.

The CU and the Eurasian Union in 2016 seem to suggest a third attempt of realizing such an integration model. According to its structures, the EurAsEC would constitute an adequate format for the concept of a Eurasian (Economic) Union. The foundation of a separate Eurasian Union hence resembles rather a new roll of the dice. It is predicated on the hope of gaining regional and international attention and boosting the dynamics of integration. The latter will hardly be achieved without substantially changing the integration concept.

### Prospects for the Eurasian Union

Compared to the previous regional organizations, the new model with its limited implementation of the customs union does at least display practical application of the agreements that have been signed. Internationally, too, the CU is for the first time attracting interest. It is in negotiations with Serbia and Vietnam on free trade agreements. The extent of its effective integration will

depend on the willingness of its members to accept the negative implications of multilateral integration projects for their countries and cede sovereignty. A crucial element will be Russia's desire to accept modalities that take into account the long-term interests of Kazakhstan and Belarus. All three states will also need to take leave of their longstanding custom of suspending valid agreements when it suits their own political and economic interests. With its current authority, the competent EurAsEC court will not be able to force them to reconsider their positions. Russia's economic preponderance in the CU will continue to create tensions.

The potential for success of the CU and the Eurasian Economic Union is increased by the concentration on the vanguard states of Russia, Kazakhstan, and Belarus. A complete implementation of the agreements is unlikely to happen, though, after the intended enlargement to include Tajikistan, Kyrgyzstan, and Uzbekistan. The new formats will be interesting for these states only if it allows not just short-term material advantages, but also abstention from signing agreements. Ukraine, Moldova, Azerbaijan, and Armenia will also have a certain limited interest in the Eurasian (Economic) Union. The main point for them will be to follow, influence, and react individually to developments in the post-Soviet sales markets. It is conceivable that Ukraine, Moldova, and Armenia, which have observer status in the EurAsEC, will also strive for such a status within the Eurasian Economic Union. However, it is hardly conceivable that a consensus on accession will be formed in Ukraine, Moldova, and Azerbaijan.

Should a future Eurasian Union pursue the obsolete practice of aiming primarily for the accession of new members in order to expand its own sphere of influence, and should their willingness to integrate be regarded as a matter of secondary importance, then achieving integration goals will be difficult in this format, too. At the same time, it is likely that the Eurasian Union will struggle to find applicants among the newly independent states if it makes compliance with a "Road Map" for adopting agreements a prerequisite for membership, as proposed by Lukashenka.

*Translated from German by Christopher Findlay.*

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#### *Further reading*

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## A Difficult Road to Eurasian Economic Integration

By Gennady Chufirin, Moscow

### Abstract

In 2010, almost two decades after the collapse of the Soviet Union, Russia, Kazakhstan and Belarus formally started a process of economic integration by establishing a three-country Customs Union. The article analyses the development of this project since then, highlighting both the achievements made by its participants and problems that they are facing.

In January 2012, the implementation of an ambitious project of economic integration between Russia, Kazakhstan and Belarus moved into its second stage, with the inauguration of the Common Economic Space (CES). During the first stage of this project (2010–2011), these three major post-Soviet countries established a Customs Union (CU). As part of this process of creating a Customs Union, the founding member-states adopted unified rules and procedures regulating their mutual trade, established a single customs tariff (SCT) and a unified customs area. They also founded a CU Commission as a special body with supra-national powers to manage the Customs Union's activities. The CU member-states also agreed to establish unified non-tariff protection measures, as well as anti-dumping legislation and compensatory tariffs, in their trade with other countries. In addition, in July 2011 the CU member-states took a significant step forward in their economic cooperation, by abolishing customs controls on their common borders.

After only two years of the CU's existence, it is too early to expect any major economic benefits to be derived by these countries from their membership. And yet such benefits have already started to accumulate and become increasingly obvious.

Following the lifting of customs barriers on trade between Russia, Kazakhstan and Belarus in 2011, the size of their mutual trade turnover jumped by over 35 per cent, exceeding the growth rates of their trade with other countries. Also, as a result of easing border procedures, the time needed for transportation of goods across their common borders was reduced substantially. Moreover, with the total package of CU regulations coming into force, free transit of goods across territories of the CU member-states is now allowed.

This does not mean, of course, that conducting trade between Russia, Kazakhstan and Belarus has become problem-free. In fact there still remain a number of problems and contradictions which continue to stand in the way of the development of mutually beneficial business relations between them. Some of these problems are a result of technical mistakes and discrepancies, and are thus relatively easy to deal with. Others, however, are more serious and are of a more fundamental

nature, reflecting differences in the national and business interests of CU's member-states, which have accumulated over two decades of their sovereign existence since the collapse of the Soviet Union.

The newly established CU Commission was entrusted with resolving these problems by streamlining disputed rules and procedures. It was also authorized to single out the most "sensitive" commodities for each of the CU members and, in order to preserve economic stability, set custom tariffs for such commodities that would be different from the SCT, but valid for a certain transitional period only.

Yet, for the most part CU trade policy was aimed at protecting interests of national production in the member-states and at promoting cooperation between them, not by making temporary exclusions from the SCT or adopting protection measures, but by carrying out a coordinated policy of creating the most favorable conditions for business activities across the unified customs area.

These purposes were served, firstly, by the abolishment of customs controls on the CU internal borders. As a result, numerous barriers impeding normal business activities were lifted. Thus, an important step was made in promoting national business, to reduce production costs and overhead expenses and, consequently, to bring down consumer prices.

Secondly, the CU member-states agreed to continue coordinating their policies on those issues where serious differences still existed. The need for such coordination was needed as, for instance, the level of taxation on business activities in Kazakhstan was markedly lower than in the other two CU member-states, while agricultural production in Belarus was heavily subsidized by the government.

Thirdly, additional efforts were taken to resolve differences, which sometimes were very sharp, between the CU member-states in certain areas of their business interaction.

Probably the most serious and painful among them were differences between Russia and Belarus on trade in energy commodities. While Belarus wanted free import of Russian oil and gas at discounted prices or even at Russia's domestic prices, Russia, on the other hand, was pre-



pared to export only a limited amount of energy products to Belarus on such terms and only for Belorussian domestic consumption. The Russians argued that Belarus wanted, in fact, to import cheap Russian oil and gas in excess of domestic consumption and then re-export the excess to other countries at much higher international prices, which, they claimed, would amount to direct subsidizing of the Belorussian economy at Russia's expense.

To resolve these differences Russia and Belarus conducted several rounds of negotiations in 2010 and 2011. The atmosphere at the negotiations, which periodically were bordering on collapse, was very tough. The participants, however, understood quite clearly that if the talks collapsed then the future of the Customs Union was doomed to failure and the continuation of economic integration between Russia and Belarus would be impossible. Against this background, they managed, therefore, to avoid such a negative scenario and finally reached a compromise on the major issues under discussion.

Thus at the end of 2010, Belarus confirmed its intention to continue its participation in the integration project with Russia and Kazakhstan by official ratifying the accession documents to the Common Economic Space. In response, Russia announced the introduction of the so-called integration coefficient to be used for the progressive reduction of Russian gas prices for Belarus.

These steps were followed by the conclusion of an inter-governmental agreement between Russia and Belarus at the beginning of 2012. Under its terms, the price for Russian gas exports to Belarus in 2012 is set at the level of US\$ 165.5 per 1000 cubic meters, or at the closest level to Russian domestic prices. Russia also agreed to Belarus's insistent requests to sell it over 21 million tons of tax-free oil, thus actually providing its neighbor with a subsidy of US\$ 4.3 billion. In response, however, Russia established its full control over the Belarus gas transport company "Beltransgas".

Yet, in spite of these and other difficulties, the CU member-states view the results of the first two years of the Customs Union activities positively and as such have decided to move into the second stage of economic integration, by launching the Common Economic Space from January 2012.

This decision was reflected in the Declaration of Eurasian economic integration, which was signed by the Presidents of Russia, Kazakhstan and Belarus on 18 November 2011. As a result of the formation of the CES, not only will free movement of goods be possible across the territories of Russia, Kazakhstan and Belarus, but also the free movement of services, capital and labor. In order to convert this political statement into an economic reality, the participating countries decided to coordinate their industrial, transport, agricultural and energy

policies, as well as to promote cooperation in production, including the possible formation of joint transnational corporations. They also pledged to continue harmonizing their national legislation in areas specified by the 17 agreements that form the legal basis of the CES.

The new format of economic integration also required further perfection of the management of economic integration. It was therefore decided that the CU Commission was to be replaced from 1 July 2012, by the Eurasian Economic Commission (EEC), which has its headquarters in Moscow. The functions of the EEC were expanded substantially to cover (a) implementation of a coordinated macro-economic policy between CES countries; (b) setting up of unified trade regimes with other countries; (c) regulation of the activities of natural monopolies; and (d) development of a unified policy of supporting industrial and agricultural production.

In order to upgrade the authority of the EEC, it was decided that its structure would be a double-level one. At its upper level would sit three appointed Deputy Prime Ministers from each of the participating countries. All the current activities of EEC, including custom taxation, setting up sanitary, veterinary and migration norms and regulations, as well as observation of distribution of industrial and agricultural subsidies, are carried out at its lower level by a Board of Experts and its Chairman, who will be appointed for a four-year period.

Decisions taken by the EEC are to be obligatory for implementation by all member-states of the Common Economic Space. However, in order to guarantee protection of their national interests, it was decided that if the EEC failed to reach an agreement on a certain issue, the final decision will be taken by the Higher Eurasian Economic Council, which consists of the Presidents of the CES member-states and can only be passed by consensus.

It was also decided that the Eurasian Court, established formally back in 2000 but that has been lying dormant since then, should at last become operational. Its services have actually only been called upon when integration processes within the post-Soviet space started to accelerate, and the need for objective settlement of economic disputes, as well as for uniform application of agreements reached between members of the emerging integration structures, grew.

Consequently, the Eurasian Court, the headquarters of which are in Minsk, began to function on 1 January 2012. According to its status, the Court was entrusted with examining economic disputes between member-states of the Customs Union and the Common Economic Space or between individual companies and business corporations from these countries. The verdicts of the Court in such cases are to be obligatory for all parties to a dispute.

The Declaration of Eurasian economic integration set not only short-term goals aimed at a more efficient functioning of the CU and CES, but also targets for the continuous development of their legal basis and perfection of their management. The most important part of the Declaration was that it announced the intention of the participating countries to complete by 1 January 2015 all preparations necessary for the establishment of the Eurasian Economic Union.

The idea of establishing such a Union was initially launched by Kazakhstan's President, Nursultan Nazarbayev, as far back as March 1994. However, his proposal did not raise any interest among the other post-Soviet states, either then or during the next several years. There was little interest in this proposal because in the initial period of their sovereign existence, the newly independent states from the Soviet Union aspired to maximize their economic independence and were thus conducting centrifugal policies. It was only in the first decade of the new century that due to a number of both domestic and international trends, which had a negative impact on the economic and social development of the majority of post-Soviet states, that these centrifugal tendencies in their policies began to be replaced with centripetal ones. Consequently, these states started to restore and strengthen bi-lateral, as well as multi-lateral, ties with each other, not only in economic, but also in political, relations, as well as on issues of international and regional security.

These changes were reflected in the formation of the Customs Union and then of the Common Economic Space between Russia, Kazakhstan and Belarus. Another manifestation of this strengthening of economic cooperation between post-Soviet countries was given by the establishment of a common free trade zone under the auspices of Commonwealth of Independent States. An agreement to this effect was signed by Russia, Ukraine, Belarus, Kazakhstan, Armenia, Kyrgyzstan, Moldova and Tajikistan in October 2011. In other words, economic cooperation between post-Soviet states has started to gain momentum, although in different forms and in varying combinations of its participants. Within this context, the intention of Russia, Kazakhstan and Belarus to move to the next stage of economic integration and to establish a full-scale economic union by 2015 constitutes an important part of this process.

However, these integration projects face new challenges. The most serious among them may come as a result of some CU and CES member-states joining the World Trade Organization ahead of others. At the end of 2011, after almost two decades of intense negotiations, Russia's request for admittance to the WTO was finally approved at the ministerial conference of this

organization. As a consequence, Russia's partners in the CU and CES, even though not yet themselves members of the WTO, are now expected to meet WTO obligations similar to those undertaken by Russia. Obviously, under such conditions, it was necessary for all the countries involved to find a way out that would help them to avoid conflict between their national economic interests, without sacrificing their obligations either to the WTO or to the CU/CES.

Of course, this development did not come as a total surprise, since at the very beginning of the formation of the Customs Union, its members agreed that both the CU, and then the Common Economic Space, would be established on the basis of WTO norms and regulations. Hence, Russia, Belarus and Kazakhstan have tried to follow these conditions diligently, while building up their common trade policy. They also announced their intention to make their Customs Union a collective member of the WTO (as is the case with the European Union) after all of the member states have joined this organization.

Moreover, the existing preferential trade regime on the territory of all three CU member-states does not, in fact, contradict international practice and WTO principles, such as participation of WTO members in preferential trade agreements (PTAs). The number of such trade agreements grew up from approximately 70 in 1990 to almost 300 in 2010. And on the average every WTO member now participates in 13 PTAs. Also among the participants in PTAs are both developing, as well as industrial nations. Nevertheless, the Customs Union of Russia, Kazakhstan and Belarus will need to somehow adapt its earlier established SCT rates and import substitution programs to these new conditions.

It is safe to predict also that the member-states of the future Eurasian Economic Union will face further and no less difficult challenges, as, for instance, the formation of a coordinated/single monetary policy and the establishment of a single currency. Obviously, success or failure of the Eurasian Economic Union project will depend firstly, and above all, on the state of the domestic economic situation in Russia, Kazakhstan and Belarus. They will need, however, to draw proper conclusions from the experience of the European Union, as it lives through its current serious crisis. It is not by accident, therefore, that future members of the Eurasian Economic Union are already conducting consultations regarding mutual obligations to maintain specified limits of state budget deficits, or the ratio of state debt to GNP, or the maximum size of inflation.

Still, in spite of the already existing and expected problems and challenges, experts from the CU and CES member-countries tend to have reached favorable con-

clusions about the macro-economic effects of the current, as well as, future integration measures.

Indeed, a report by the Centre for Integration Studies of the Eurasian Development Bank that was published at the beginning of 2012, forecasts that the formation of the Common Economic Space between Russia, Kazakhstan and Belarus will have a positive impact on the development of the countries involved, contribute to deep structural changes in their economies and facilitate their mutual trade and GNP growth rates.

According to this report, by the year 2030 the greatest macro-economic effect from integration will have been witnessed in Belarus, with a substantial increase in its machine-building and food-processing sectors predicted. Economic integration with Russia and Belarus will allow Kazakhstan to upgrade the technological level of its industrial output and radically reduce energy and materials consumption per unit of production. The over-reliance on the mining sector and metallurgy in Kazakhstan's economy is projected to gradually decline, while serious changes in its structure will come as a result of higher growth rates in the service sector, machine-building industries, transportation and communications.

Also, the report forecasts that over the period of 2011–2030, the cumulative effect of economic integration within the framework of the Common Economic

Space may reach US\$ 632 (in 2010 prices) for Russia, US\$ 106.6 for Kazakhstan and US\$ 170 for Belarus.

Admittedly, these forecasts may seem to be overly optimistic, and will quite likely undergo certain corrections and changes in the future. What is important, however, is that the report reflects changes in the economic mood within the CU and CES member countries, whereby integration plans and emerging business opportunities linked to them are stimulating growing interest among society, and local business circles in particular.

As a consequence, integration processes in the post-Soviet space are no longer restricted to government or government-sponsored programs, but are characterized by an increased involvement of private business. This is because private businessmen have begun to recognize the benefits created by the emergence of a new common market, by the formation of a unified customs area, by the unification of services rates, by the prospects of a free flow of labor, etc. As a result, private businessmen are starting to put forward their own initiatives provoked by these new developments. This growing interaction between government and private activities will begin to transform economic integration in the post-Soviet space, from a process initiated from "above", largely from the political level, into an integral part of the routine everyday economic life of the countries taking part in it.

#### *About the Author*

Professor Gennady Chufrin is a member of the Governing Board of the Institute of World Economy and International Relations (IMEMO), Moscow. He has authored 8 monographs and over 170 articles in Russian, English, Chinese, Korean and other languages on the role of Russia in regional and global economic and political security.

#### ANALYSIS

## When the "Near Abroad" Looks at Russia: the Eurasian Union Project as Seen from the Southern Republics

By Marlène Laruelle, Washington

### **Abstract**

Moscow's role and legitimacy in the post-Soviet space is widely discussed within CIS countries. Beyond the divergences of opinion concerning the merits of the Eurasian Union project, a key element underlying the prevailing skepticism about Russian-led integration in Central Asia and the South Caucasus is the low level of trust in the Kremlin's capabilities and capacity to effectively manage such an integration project.

The view of Russia held by other former Soviet republics is extremely diversified and varies from country to country, but also from group to group within countries: political authorities, economic circles, intellectu-

als with nationalist sensibilities, Russian minorities or minorities supported by Russia. These countries and groups perceive Moscow's role and legitimacy in the post-Soviet space differently. Moreover, the projects of



regional integration initiated by Moscow do not cater to all CIS countries to the same degree: Putin's Eurasian Union project is aimed mainly at Central Asia, less at the South Caucasus, with the ultimate aim and supreme reward being the potential reintegration of Ukraine into the Russian bosom.

### **Kazakhstan: Enthusiastically Supportive, but Hoping for Equal Status**

In Kazakhstan, public opinion as expressed in surveys, as well as by the ruling elites, is very favorable towards Russia. The Kazakh President, Nursultan Nazarbayev, presents himself as a very enthusiastic supporter of all proposals for regional integration suggested by Moscow. Astana is particularly supportive of the idea of the Eurasian Union, which is unsurprising given that Nazarbayev championed a similar idea from 1994 onwards, but which was at the time ignored by Boris Yeltsin. Nazarbayev tried to revive this proposal in 2004 by commissioning the famous Russian publicist Alexander Dugin to write a book glorifying his Eurasianist vision, which facilitated a large media operation both in Russia and in Kazakhstan. This Kazakh Eurasianist ideology is based on a twofold appreciation: firstly, of the country's geographic position at the "crossroads" of Eurasia and as the meeting point of Russian/European, Asian/Chinese and Muslim civilizations, and secondly, of its internal national diversity, in particular its important Slavic minorities. On an economic level, the Eurasian Economic Community, as much as the Customs Union, both tend *a priori* to fit with Kazakh economic strategies, with some competitive sectors aiming to gain access to the Russian market, as well as, to a lesser extent, the Belarusian one.

However, this pro-Russian stance ought not to deceive us: Astana also wholeheartedly backs concurrent regional initiatives in the name of its "multi-vector" foreign policy, and sees itself, over the long term, not as a loyal second to Russia, but as an *equal* partner. Moreover, the younger generation of Kazakh political and economic leaders, who will rise to power in the years to come, will probably be more nationalistic and out to legitimize a new Kazakh identity, which will be in large part de-Sovietized, less favorable to national minorities, more concerned about the country's industrial and economic autonomy, and that will look to continue to assert Kazakhstan as an autonomous regional power in Eurasia.

In addition, if the strategic partnership with Moscow is practically never challenged within Kazakh political debate, the notion that the Customs Union works to promote national economic interests does not receive unanimous support. In March 2010, 175 members of the Kazakh opposition parties, as well as non-governmental organizations and people from the world of the media,

signed an open letter to President Nazarbayev asking him to pull out of the Union. Even among the current ruling circles, dissonant voices make themselves heard: if the idea of a common external trade tariff and the unification of technical regulations (for instance, sanitary ones) is largely supported, deeper economic integration poses more problems and greater dissent, since some Kazakh sectors could be penalized by Russian competition, in particular in the mechanical and chemical industries, and potentially also agribusiness. Moreover, as Kazakhstan is pushed to trade more with the members of the Customs Union, it will tend to receive less imported technology from the more technologically advanced countries, especially European ones. Lastly, the prospect of a common currency, though not officially rejected, has been postponed to a time far in the future and is actually not considered a serious future strategy, since it would signal a loss of national sovereignty.

In practice, Kazakh hesitations on the economic level could grow in the coming months, if the Common Economic Space does not bring advantages to the Kazakh companies that target the Russian market, or if it works to penalize integration into the World Trade Organization, which Kazakhstan is likely to receive by the end of 2012, or if the Kremlin maneuvers ineptly by transforming the economic argument into a tool for domestic interference.

### **Kyrgyzstan, Tajikistan, Armenia, Azerbaijan: from the "No Choice" Strategy to a Quiet "No Thanks" Policy**

In the other countries of Central Asia and the South Caucasus, Eurasian integration does not raise much interest. Although, such ideas were very evident in Kyrgyzstan during the 1990s and at the start of the 2000s under the presidency of Askar Akayev, since then such discussion has disappeared. It is also largely non-existent in Tajikistan, where identity narratives are oriented around the Persian-speaking world, and where Eurasianism is decried as a pro-Turkic doctrine, one that is thus favorable to the historic Uzbek enemy. If the current Kyrgyz ruling circles are considered pro-Russian, their choice is a pragmatic one, not an ideological one: massive labor migration, investments, movements of capital and strategic orientations are directed towards or come from Russia and Kazakhstan, and only the country's role as a platform for the re-export of Chinese products prevents it from seeing only advantages in the Customs Union. In Tajikistan, the President, Emomali Rakhmon, and his close associates are taking increasingly anti-Russian stances, but the Tajik economy, which is less linked to China than its Kyrgyz neighbor, is almost totally oriented around Moscow, and Dushanbe has limited geopolitical options to alter this, leaving Russia in a position

of significant influence due to an absence of competition. However, the Kyrgyz and Tajik elites know that the Customs Union and the potential Eurasian Union would make Russia an even more significant stakeholder in their domestic affairs, hence they are reluctant to join.

The same hesitation crops up in Armenia, a country which is also very dependent upon Russia both economically (Moscow is the main trading partner of Yerevan and controls 80 percent of its energy resources) and strategically (Moscow has a 49-year agreement for the stationing of its troops at Gyumri). If the Prime Minister, Tigran Sarkisian, has praised the Eurasian Union, the dominant idea remains, nonetheless, “not to rush” any such development. The country signed an agreement to create a free trade zone within the CIS, but the fear of a total loss of independence regarding Moscow is also present. For Armenia this could result in a difficult situation in the event of a Russo–Azeri rapprochement, or in the context of an already well developed alliance between Russia and Turkey. It also risks hampering potential European investments. The Armenian reading of Russian integration projects thus remains centered on the questions of Nagorny-Karabakh and of the Turkish blockade, more than on a narrative about the need for any kind of supranational Eurasian integration.

In Azerbaijan, the official discourse is balanced. The authorities have said clearly they are currently not interested in a Customs Union or the project of a Eurasian Union, not seeing any benefits in it for their country, but they claim to be well disposed in principle to strategies of cooperation, and indeed of integration, provided such strategies are beneficial to all members. President Ilham Aliyev quite rightly highlights that bilateral economic relations with Russia have been booming without the need for a specific regional framework. Even Asef Hajiyev, deputy member of the interparliamentary group for promoting Azerbaijan–Russia friendship, considers that the Customs Union is yet not attractive to the Azerbaijani economy, which is heavily based on Western investments in the oil and gas sectors. He also states that the country wants to preserve the competing GUAM structure, and is not convinced by any kind of integration with a structure that recognizes the Armenian position on the Nagorny-Karabakh conflict. Baku thus has enough leeway and self-confidence to refuse quietly the Russian proposals, but does not think it would be penalized should these proposals become a reality.

### **Turkmenistan, Georgia, and Uzbekistan: Positioning Themselves Outside the “Eurasian” Narrative**

The final group of countries is the three post-Soviet states that have taken a stance of total disagreement with

the idea of Russia-backed regional integration, namely, Turkmenistan, Georgia, and Uzbekistan. The first two do not belong to any such regional structures (the Eurasian Economic Community (EAEC), the Collective Security Treaty Organization (CSTO)), while the latter does, but has suspended its participation in the EAEC and only participates reluctantly in the CSTO. For Moscow, the bad will of Ashgabat presents no major problem. A Georgian commitment to policies more favorable to Russia would of course be welcomed, but neither is this absolutely necessary. The Uzbek refusal of Russian integration strategies is seen as more problematic, and the Kremlin still hopes to be able to reintegrate Tashkent by exacerbating its regional isolation or as a result of a presidential succession that could be to its advantage.

In Uzbekistan, President Islam Karimov has clearly expressed his opinion by stating that Moscow’s strategies of integration represent no more than a return to a disguised Russian imperialism and that his country had no need for integration with “a political flavor”. The Eurasianist narrative has never been well received in Uzbekistan: It has been perceived as a form of hidden Russian nationalism, as a Soviet nostalgia unsuited to the country, or as a competing narrative orchestrated by Nazarbayev. By the early 1990s, Almaty and Tashkent had entered into symbolic competition: Islam Karimov referred to the need for regional unity by reviving the historical name of Turkestan, and promoted an identity based on Turkic and Muslim values that he named Turanism, while Kazakhstan, by contrast, adopted Eurasianist arguments. Twenty years later, Uzbekistan remains clearly opposed to any Eurasian notions. It actively aims to distance itself from Moscow on the strategic level by promoting the return of the United States to the region, as well as on the economic level by targeting China, and in any case takes an isolationist approach, showing little interest in any form of regional cooperation. The Turkmen President, Gurbanguly Berdimukhammedov, for his part, did not need to voice explicit formulations and, to avoid having to take a position on Russian integration projects, was able to refer to his country’s status of permanent neutrality, validated by the United Nations in 1995.

In restive Georgia, the Atlanticist approach of the Saakashvili Presidency is unambiguous in its criticisms of Putin’s attempt to “resurrect the Soviet corpse”. However, the confrontation with Russia is not unanimously supported, and other actors discretely call for rapprochement with Moscow. These political actors (The Conservative Party of Zviad Dzidzigouri, the Worker’s Party of Chalva Natelachvili, The New Right, The Democratic Movement–United Georgia of Nino Burjanadze, and the Georgian Party of Irakli Okruashvili) rally around,

among other things, the Georgian Church. The Church is indeed legitimated to speak in the name of the nation and of its cultural values and cannot be suspected of not being loyal to the independent state, which it defended by asserting its refusal of Abkhaz or South Ossetian secessionism. However, it can simultaneously maintain a position of proximity to Russia in the name of a common religion. For those who are most critical of the strategic choices taken by Tbilisi since the Rose Revolution, there is no question of Georgia rejoining Moscow-backed regional organizations, but instead there is an interest in minimal mechanisms of cooperation with Russia. Even in Georgia, Moscow has soft power instruments that it could activate, if it saw fit, and ones that would pass through Orthodox unity and the emergence of an alternative Georgian identity that does not deny its rootedness in the Eurasian space.

### Conclusion

The project of a Eurasian Union does not garner much support in the former Soviet republics, except in Kazakhstan, and even then there are reservations about the eco-

nomnic benefits. In the second member country of the Customs Union, Belarus, the official narrative in favor of more integration with Russia is not without ambiguities. The Belarusian authorities intensified their efforts to please Moscow by publicly praising the idea of the Russia-dominated Eurasian Union, but mainly because of the current political and economic deadlock that pushes Minsk into a “no other choice” strategy. This “no other choice” policy is also to be found in Kyrgyzstan and Tajikistan. Russian projects of regional integration nonetheless have to contend with two rebellious members, without which a Eurasian Union would be rather irrelevant and unattractive: Ukraine and Uzbekistan. Moreover—and this idea is dominant among all of Russia’s neighbors—this integrative strategy is challenged not because of Moscow’s (il)legitimacy to generate an integrationist dynamic, but because there are questions marks over its ability to do so: the low level of trust in the Kremlin’s effective management and capabilities is a key element of the prevailing skepticism about Russian-led integration in the South Caucasus and Central Asia.

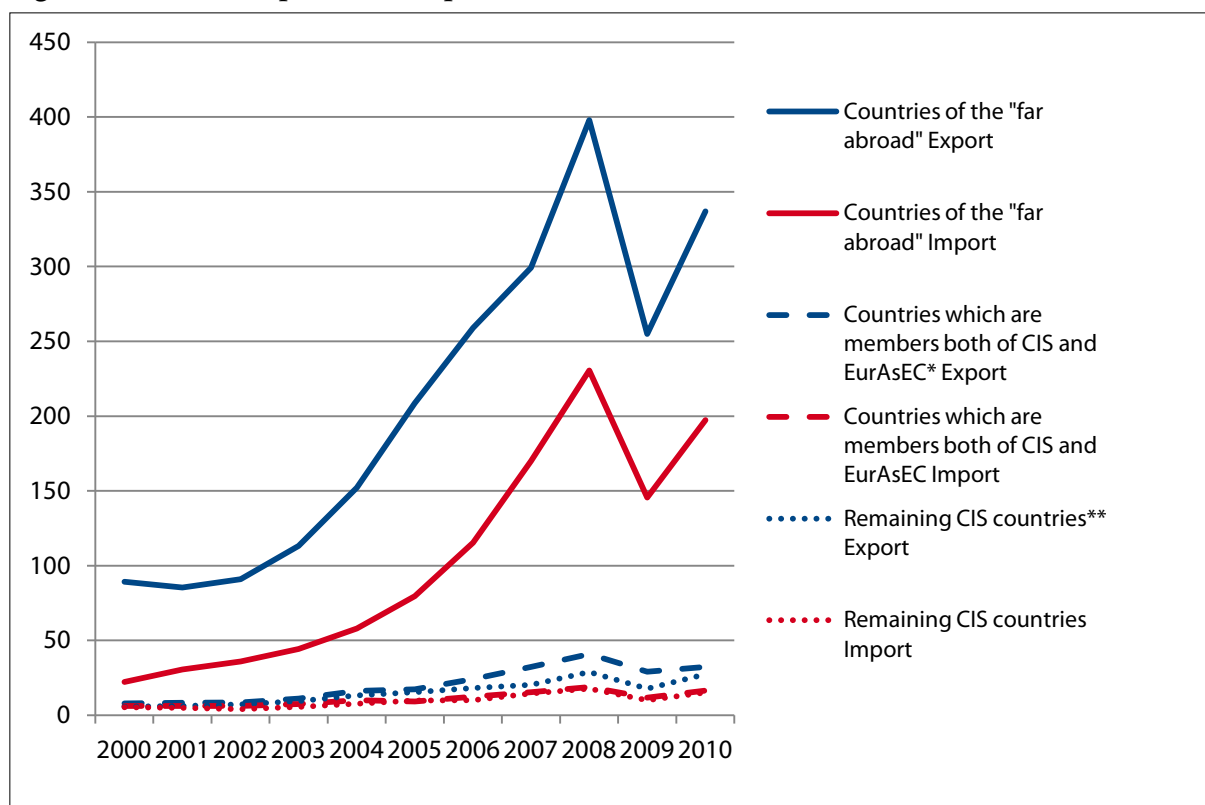
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## STATISTICS

## Russian Exports and Imports

Figure 1: Russian Exports and Imports 2000–2010 (bln. USD)



\* Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan; \*\* Armenia, Azerbaijan, Moldova, Ukraine

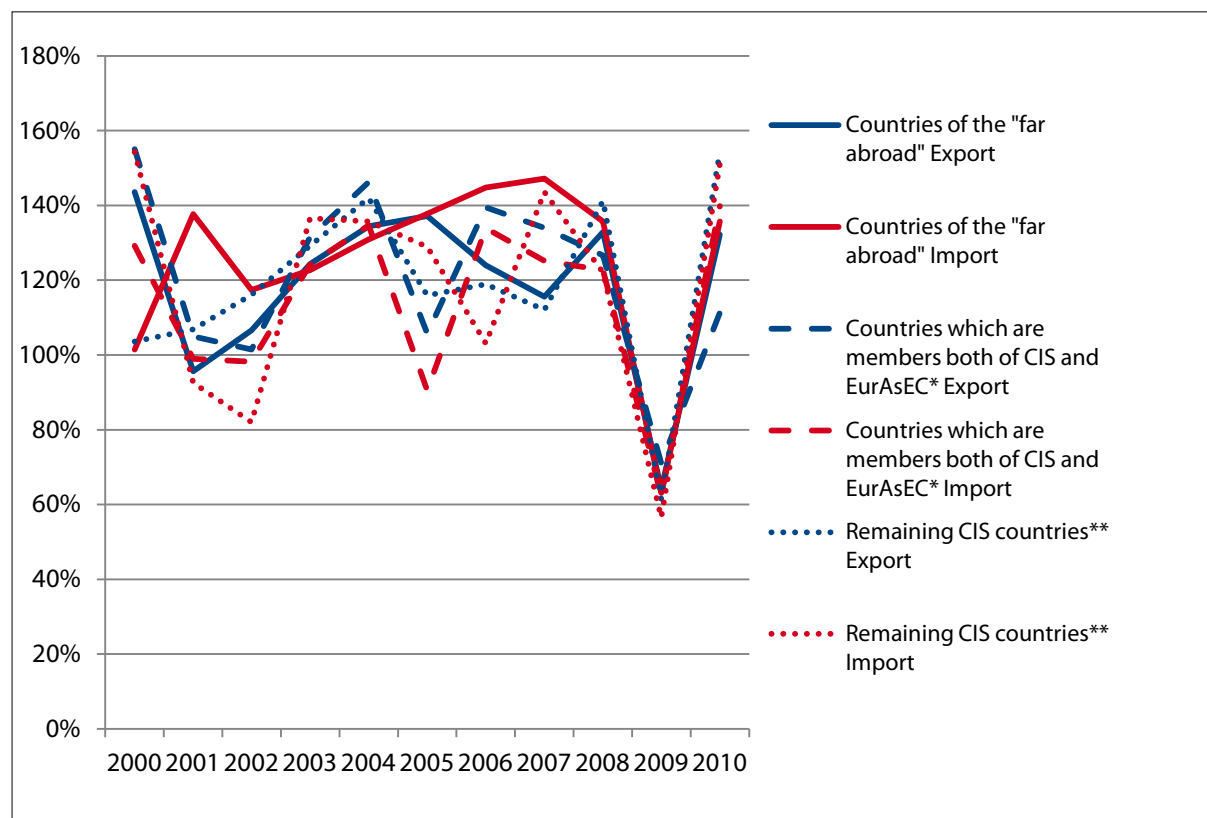
Source: Russian Federal State Statistics Service, customs statistical data, [www.gks.ru](http://www.gks.ru)

Table 1: Russian Exports and Imports 2000–2010 (bln. USD)

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Countries of the "far abroad"	Export	89.3	85.4	91.0	113.2	152.1	208.8	258.9	299.3	397.9	254.9	337.0
	Import	22.3	30.7	36.0	44.2	57.9	79.7	115.4	169.9	230.5	145.5	197.4
Countries which are members both of CIS and EurAsEC*	Export	8.0	8.4	8.5	11.2	16.3	17.3	24.1	32.3	40.9	29.1	32.4
	Import	6.2	6.2	6.1	7.5	10.1	9.2	12.3	15.4	18.9	11.8	16.5
Remaining CIS countries**	Export	5.8	6.2	7.2	9.3	13.2	15.3	18.2	20.4	28.8	17.7	27.3
	Import	5.4	5.0	4.1	5.6	7.6	9.8	10.1	14.5	17.7	10.0	15.1

\* Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan; \*\* Armenia, Azerbaijan, Moldova, Ukraine

Source: Russian Federal State Statistics Service, customs statistical data, [www.gks.ru](http://www.gks.ru)

**Figure 2: Russian Exports and Imports 2000–2010 (change in % compared to previous year)**

\* Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan; \*\* Armenia, Azerbaijan, Moldova, Ukraine

Source: Russian Federal State Statistics Service, customs statistical data, [www.gks.ru](http://www.gks.ru); own calculations

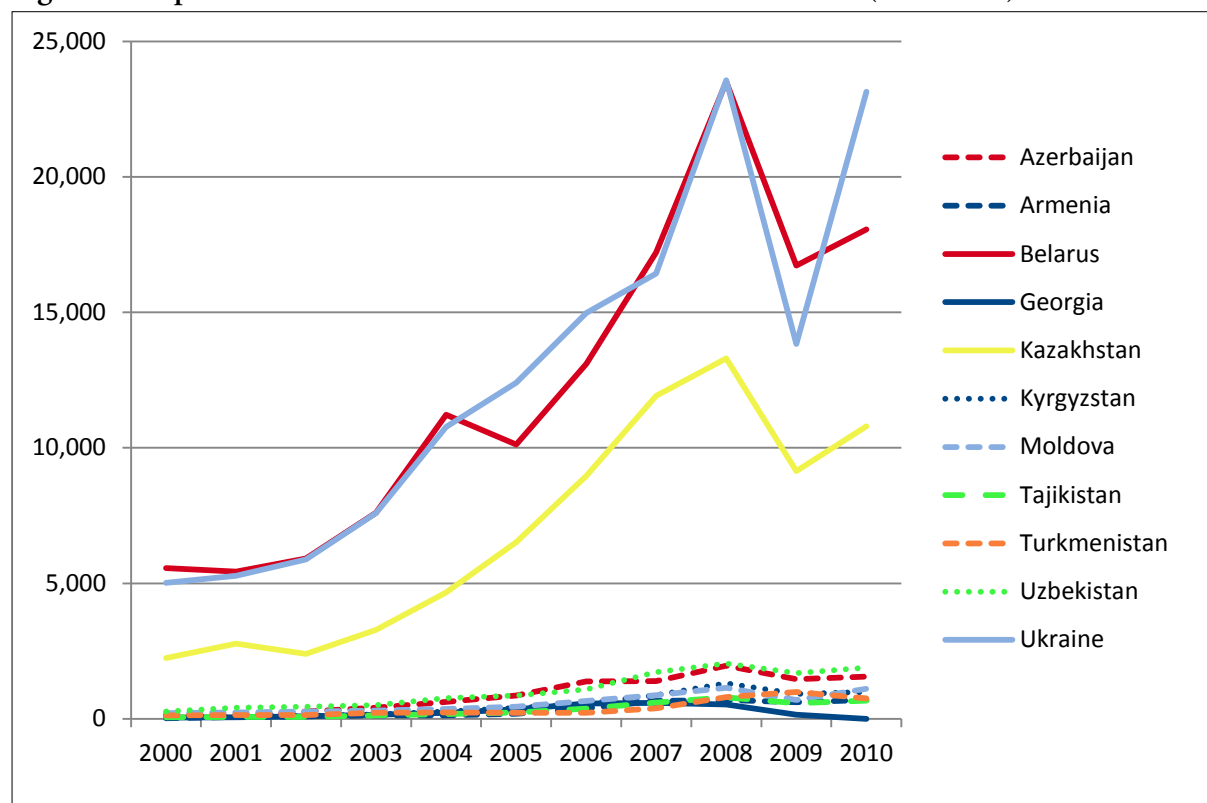
**Table 2: Russian Exports and Imports 2000–2010 (change in % compared to previous year)**

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Countries of the "far abroad"	Export	143.6%	95.6%	106.6%	124.3%	134.4%	137.2%	124.0%	115.6%	132.9%	64.1%	132.2%
	Import	101.5%	137.7%	117.4%	122.7%	130.9%	137.8%	144.8%	147.2%	135.7%	63.1%	135.7%
Countries which are members both of CIS and EurAsEC*	Export	155.1%	105.0%	101.5%	131.5%	146.2%	105.7%	139.5%	134.0%	126.6%	71.1%	111.3%
	Import	129.2%	99.0%	98.2%	124.2%	134.7%	90.5%	133.9%	125.2%	122.7%	62.4%	139.8%
Remaining CIS countries**	Export	103.6%	106.9%	116.1%	129.2%	141.9%	115.9%	119.0%	112.1%	141.2%	61.5%	154.2%
	Import	154.3%	92.6%	82.0%	136.6%	135.7%	128.9%	103.1%	143.6%	122.1%	56.5%	151.0%

\* Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan; \*\* Armenia, Azerbaijan, Moldova, Ukraine

Source: Russian Federal State Statistics Service, customs statistical data, [www.gks.ru](http://www.gks.ru); own calculations



**Figure 3: Exports from Russia to Countries of the CIS 2000–2010 (mln. USD)**

\* Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan; \*\* Armenia, Azerbaijan, Moldova, Ukraine

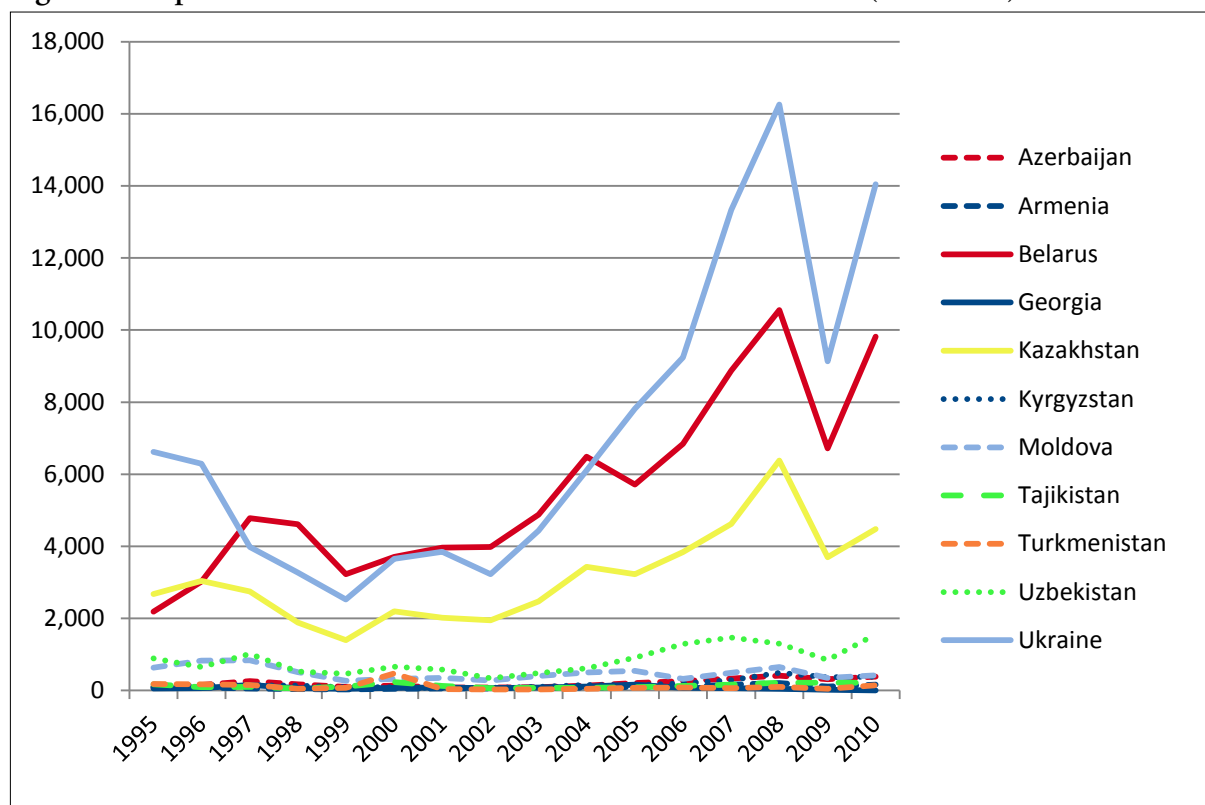
Source: Russian Federal State Statistics Service, customs statistical data, [www.gks.ru](http://www.gks.ru)

**Table 3: Exports from Russia to Countries of the CIS 2000–2010 (mln. USD)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Azerbaijan	136	133	277	410	621	858	1381	1397	1966	1469	1562
Armenia	27.5	75.5	94.5	126	135	191	392	656	692	612	701
Belarus	5568	5438	5922	7602	11219	10118	13099	17205	23507	16726	18058
Georgia	42.3	58.2	91.4	153	230	353	570	589	530	150	n. a.
Kazakhstan	2247	2778	2403	3279	4664	6524	8967	11920	13299	9147	10796
Kyrgyzstan	103	83.3	104	161	268	398	561	879	1308	916	992
Moldova	210	240	269	306	372	448	664	870	1147	695	1111
Tajikistan	55.9	69.4	67.9	128	183	240	378	607	794	573	673
Turkmenistan	130	140	143	222	242	224	229	384	808	992	759
Uzbekistan	274	409	453	512	767	861	1087	1729	2038	1694	1890
Ukraine	5024	5282	5885	7595	10770	12402	14983	16425	23567	13836	23143

\* Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan; \*\* Armenia, Azerbaijan, Moldova, Ukraine

Source: Russian Federal State Statistics Service, customs statistical data, [www.gks.ru](http://www.gks.ru)

**Figure 4: Imports to Russia from Countries of the CIS 2000–2010 (mln. USD)**

\* Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan; \*\* Armenia, Azerbaijan, Moldova, Ukraine

Source: Russian Federal State Statistics Service, customs statistical data, [www.gks.ru](http://www.gks.ru)

**Table 4: Imports to Russia from Countries of the CIS 2000–2010 (mln. USD)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Azerbaijan	135	81.1	86.8	93	139	206	260	328	412	311	386
Armenia	44	51.8	56.6	78.7	73.7	101	104	166	204	111	159
Belarus	3710	3963	3977	4880	6485	5716	6845	8879	10552	6718	9816
Georgia	76.6	83.4	69	84.2	107	158	70.8	61.2	49.1	23.4	n. a.
Kazakhstan	2200	2018	1946	2475	3429	3225	3840	4623	6379	3697	4478
Kyrgyzstan	88.6	61.9	74.2	104	150	146	194	291	491	367	387
Moldova	325	347	281	403	496	548	323	490	652	352	421
Tajikistan	237	130	66	69.9	75.9	95	126	162	213	213	213
Turkmenistan	473	39.1	32.1	28.4	43.2	77.2	80.1	69.1	100	45	147
Uzbekistan	663	584	344	484	613	904	1292	1471	1300	847	1556
Ukraine	3651	3845	3230	4437	6100	7819	9238	13330	16254	9131	14044

\* Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan; \*\* Armenia, Azerbaijan, Moldova, Ukraine

Source: Russian Federal State Statistics Service, customs statistical data, [www.gks.ru](http://www.gks.ru)

## ABOUT THE RUSSIAN ANALYTICAL DIGEST

Editors: Stephen Aris, Matthias Neumann, Robert Orttung, Jeronim Perović, Heiko Pleines, Hans-Henning Schröder, Aglaya Snetkov

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