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Russia's turn to Eurasia: regional and international implications

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Russia's Turn to Eurasia

Russian efforts to integrate some post-Soviet states into the common framework of the Eurasian Economic Union could have a lasting impact—Europe should take note.

By Jeronim Perović

Moscow's failure to make Ukraine part of its Eurasian economic integration project was a severe blow to Russian foreign policy ambitions. Notwithstanding Ukraine's turn to the West, however, Russia has continued its integration efforts in the post-Soviet space, resulting in the establishment of the Eurasian Economic Union (EAEU) in 2015. The EAEU's overall economic performance has been modest so far, and the organization, consisting of Russia, Kazakhstan, Belarus, Armenia, and Kyrgyzstan, has a long way to go before it achieves its goal of forming an EU-style internal market with free movement of goods, services, people and capital. But there have been tangible achievements in various sectors, and ambitions for the future are high. Moldova joined the union as an official observer in 2017, and several other countries, including Tajikistan and Uzbekistan, might become observers or even EAEU members. The EAEU is gaining in international status as it is successfully negotiating free trade and/or economic agreements with numerous other countries, including China. Notwithstanding current difficulties, the EAEU is here to stay, and Europe should treat it accordingly. Otherwise, Europe might miss a crucial opportunity, while Russia, and the whole of Eurasia, continue to drift eastwards.

Moscow and the EAEU

Russia was not actively pushing for closer relations in the post-Soviet space for a long time. During the 1990s, Russia was economically weak, but its neighbors were even weaker, and therefore, Moscow was able to rely on its still formidable

economic, political and military weight in order to influence developments in its neighborhood. It was only from the early 2000s onwards that Russia's position in the region was destabilizing, as Western states and organizations began to make inroads. The Baltic states became NATO members in 2004, the first oil and gas pipelines circumventing Russian territory were built with the help of foreign companies, and China started to expand economically into Central Asia.

Moscow's decision to push for regional economic integration was a reaction to these processes. So far, Moscow's primary interest has not been in the economic side of integration (after all, trade with EAEU members accounts for only about 6 percent of Russia's overall trade), but the larger geopolitical gains. By establishing the EAEU, Russia has sought to raise its own political standing in world

Key Points

- ▮ A further deepening of integration of the EAEU, namely in the sphere of energy, is to be expected, and an enlargement of the union cannot be ruled out.
- ▮ While geopolitics is the main driver of Russian policy in the region, integration within the EAEU is taking place primarily in the area of the economy, and the EAEU is establishing trade and economic relations with other parties, including China.
- ▮ Given the fast-changing realities on the ground, it is time for Europe to recognize the EAEU as an official partner – otherwise, Russia and Eurasia will continue to shift towards Asia.

affairs. Building this regional organization is not, in Moscow's view, something that undercuts globalization, even though overall tariffs have been significantly raised for non-EAEU members, thereby enhancing regional protectionism. On the contrary, creating regional economic organizations should, in Russian thinking, facilitate global trade and interdependency. But unlike previously, this is now to be realized through the common union.

This dovetails with another key Russian foreign policy goal: to establish the union as an integrating link between Europe and Asia. Transportation projects (including the building of high-speed train lines) are high on the agenda, and Russia hopes to make the EAEU a participant in China's One Belt and One Road Initiative. In May 2018, the EAEU signed its first major economic and trade agreement with China, which could be an important step towards the conclusion of a free trade agreement. The union also signed an interim agreement with Iran, in May 2018, with the purpose of forming a full-scale free trade area in the near future. The EAEU is internationally active elsewhere; it has already concluded a free trade agreement with Vietnam, in 2016, and is currently negotiating free trade and/or economic agreements with India, Israel, Singapore, Egypt, and Serbia. Several other countries, including Pakistan, Bangladesh, Cambodia, Indonesia, the Philippines, South Korea, Thailand, Tunisia, Mongolia and Syria, are reportedly interested in cooperation as well.

Member states interests and tensions

If Russia's goal in establishing the EAEU was largely geopolitical in nature, other states have joined for a mixture of economic, political, and security considerations.

First, as each of the EAEU member states is more dependent on Russia than vice versa, the union project is currently mostly about individual countries aligning themselves with Russia, not with each other. Despite deepening economic integration, the level of overall internal trade among the member states is still low, accounting for only 14.5 percent of total trade in 2017. By comparison: In the EU, 64 percent of trade is between union members. Theoretically, most of the trade and other economic issues could be dealt with bilaterally, between Russia and the individual member states. But since the union is now the framework within which economic and trade relations are regulated, states dependent on Russia saw advantages in joining, even if this resulted in raising formerly low tariffs in order to match higher Russian tariffs.

The EAEU: Key Facts

Russia, Kazakhstan and Belarus launched a customs union in 2010, and in January 2015 upgraded this to a full-fledged economic union with Armenia and (since August 2015) Kyrgyzstan as new members. The EAEU is in part modelled after the EU: The Eurasian Economic Commission (EEC) is the union's permanent supranational body consisting of two representatives from each member state. The EAEU's non-permanent bodies include the Council of the Commission, an intragovernmental body consisting of the deputy ministers of each member state, the Eurasian Intergovernmental Council, comprising the prime ministers of member states, as well as the EAEU Supreme Council, which consists of the heads of state and decides on the overall direction of the integration process. The Supreme Council meets at least once a year and selects the members of the EEC Board. Another important institution is the Court of Justice, based in Minsk, and the Eurasian Development Bank (EDB), with its headquarters in Almaty. The EDB is not formally an institution of the EAEU, as it also includes Tajikistan, but it is an important organization as it finances numerous development projects in the EAEU area, namely in the energy and transportation sectors.

A second reason why states have joined the union is, to some extent, the lack of other options. Economically, Russia may be less attractive than the EU, but since membership in the EU is currently out of the question, Russia is the only alternative. Even though the external trade of individual members is much higher than internal trade (in the case of Russia and Kazakhstan, this is due to the fact that these countries export most of their oil and gas outside the EAEU area), historical factors have also fostered closer cooperation. These manifest themselves not only in integrated transportation and energy connections and common technical standards deriving from Soviet times, but also in the socio-cultural sphere. Furthermore, Russia is a major investor and trade partner for all the other EAEU members, and it is the primary destination for labor migration, mostly from the Central Asian members and Armenia.

A third major reason is that by joining the union, these states were also serving various other interests: the bulk of Kazakhstan's external trade is currently with Europe, not Russia, but Astana decided to join partly because it hopes to contain Russia within a rules-based organization. Also, fearing that Moscow could one day lay claim to the northern, Russian-populated part of Kazakhstan, Astana has sought to accommodate Russian geopolitical interests. Armenia joined because of Russian pressure, but also because of promises of cheap energy and in hopes of gaining protection against Azerbaijan, Armenia's main antagonist in the conflict over Nagorno Karabakh. Belarus relies to a significant degree on the continuous shipment of

cheap Russian oil and gas, and Kyrgyzstan on access to the Russian labor market as well as Russian investments and loans from the Eurasian Development Bank.

Most importantly, integration is also something that many people see as a natural process. Opinion polls conducted by the Eurasian Development Bank indicate that in each of the EAEU member states, the population is overwhelmingly positively inclined towards the union (with the exception of Armenia, where less than 50 percent view the EAEU favorably).

Problems and prospects

Russia accounts for 87 percent of the EAEU's total GDP and constitutes 80 percent of the union's population. Russia is also the most important military power; the combined military spending of Kazakhstan, Armenia, Kyrgyzstan and Belarus amount to less than 4 percent of Russia's defense budget. Because of these massive asymmetries between Russia and the rest of the EAEU members, the cost of a member state dissociating itself from Russia could be very high. As the example of Ukraine demonstrates, leaving or staying is potentially a matter of war and peace. For instance, abandoning the union was never an option for the new leaders who came to power during Armenia's "velvet revolution" in spring 2018.

The member countries are thus very careful in dealing with Russia, but at the same time, they also have considerable leverage. Every time Belarus does not get what it wants, it threatens to distance itself from the union, and Russia, which is not interested in another conflict, usually tries to accommodate Minsk, for example by lowering energy prices or by writing off debts. Kazakhstan continues to conclude agreements with the EU and is also negotiating agreements with China; this puts pressure on Russia, which will have to offer something equally attractive within the framework of the EAEU.

But Russia, too, at times puts its economic interests above those of the union. When, in the wake of Russia's intervention in Ukraine, the other members of the union declined to reply in kind to EU economic sanctions, Moscow unilaterally imposed sanctions. When Russia sees its interests at risk, it tends to disregard the restrictions a common regime would characteristically impose.

Despite Russian dominance, it would be misleading to view the EAEU as Russian empire building, as the Kremlin's key interest is not, in the first place, directed towards control of the domestic institutions and policies of its neighbors. For Russia, the main goal is to make sure that no country aligns with other regional blocs or centers of power. This could have

implications for China's role in Central Asia: if the EAEU plays a greater role in regulating external economic and trade relations and in coordinating large-scale infrastructure projects, such as the ones proposed in the framework of China's One Road and One Belt Initiative, this will ultimately have an impact on China's room for maneuver in Central Asia. At the same time, strengthening the EAEU as an economic bloc might also give Russia, the union's most important member, more leeway in dealing with China.

Comparing the EAEU to the USSR would be similarly misleading. Unlike the Soviet Union, the EAEU is not based on any ideology, and has not established effective supranational decision-making bodies. Like the EU, the EAEU also has a permanent executive body – the Eurasian Economic Commission. But this organ has relatively little power. The real power rests with other organizations, namely the Supreme Eurasian Economic Council, which consists of the individual head of states, with a yearly rotating presidency.

For the time being, Russia seems not to be interested in giving more power to the EAEU's supranational institutions because the current arrangements suit Moscow's interests. As the other member states are also very sensitive when it comes to their political sovereignty, it is far from certain whether this project will come to resemble a Eurasian version of the European Union. What, then, can we expect from the EAEU in the future?

The EAEU is here to stay

If geopolitics have been the main driver behind Russian integration efforts, there is also an economic rationale, and this is likely to become more important as the integration

Further Reading

The Eurasian Economic Union: Deals, Rules and the Exercise of Power

Rilka Dragneva and Kataryna Wolczuk, Chatham House, May 2017

This comprehensive study provides a critical assessment on the evolution, achievements and prospects of the EAEU.

Putin's and Russian-led Eurasian Economic Union: A Hybrid Half-Economics and Half-Political 'Janus Bifrons' *Bruno S. Sergi, Journal of Eurasian Studies 9, 2018*

This article examines Russian interests vis-a-vis Eurasian integration, evaluating the prospects of this project.

A Common Energy Market in the Eurasian Economic Union: Implications for the European Union and Energy Relations with Russia

Maria Pastukhova and Kirsten Westphal, Stiftung Wissenschaft und Politik, February 2018

This study assesses the implications of the creation of a common EAEU energy market and argues for increased EU-EAEU cooperation.

process continues. The EAEU has achieved harmonization of external customs tariffs, it has abolished, at least to a large part, internal customs borders, and transferred decision-making about tariff issues to the union level and away from the national states. It has also eliminated internal constraints on labor mobility and capital movement and is planning to integrate a number of key markets – including medical products, transportation, electricity, oil, gas, and financial services. Especially ambitious is the plan to create a common energy market. By 2019, the union envisions a common electricity market, and by 2024–25, a common market for oil and gas. If accomplished, this would give EAEU operators unrestricted and equal access to energy networks in other EAEU countries.

It is unclear whether and when all of these plans will be put into practice, but member states have already changed regulations and reformed their bureaucracies in order to adapt to EAEU directives. A large bureaucratic apparatus employing hundreds of people has been set in motion to work out further integration plans and draft legislation. Moreover, in order to eliminate obstacles to further economic integration, a priority for the coming years is the creation of a single digital space across the entire union. If properly implemented, this project might yield significant economic benefits to all EAEU members, according to a joint study by the Eurasian Economic Commission and the World Bank. Given this level of progress and the projects already put in motion, it seems unlikely that the EAEU will falter any time soon.

In fact, the more realistic scenario is that the EAEU will deepen links between member states. After the difficult initial years, the EAEU economic zone is showing signs of recovery, and the volume of trade among union members has been rapidly rising. Further positive news will ultimately make the project more attractive for other prospective members, or will at least have an effect on third parties. For example, Uzbekistan, although not a formal EAEU-member, is currently harmonizing its import tariffs with EAEU regulations in order to facilitate economic growth and mutual trade with EAEU members. Tajikistan is already a member of the Eurasian Development Bank (but not yet the EAEU), and both Uzbekistan's and Tajikistan's populations take a positive view of the EAEU, according to opinion polls.

Europe in the off

The EAEU is an economic and political reality with which Europe needs to reckon. However, the EU (as well as other European and Western countries, including Switzerland) have refused to establish official relations with the organization. This is a result of ongoing tensions between the West and Russia, especially the unresolved Ukraine crisis. To be sure, as long as the most important decisions are still taken at the level of nation states (such as Moscow's unilateral ban on certain EU imports), it seems logical that the EU and other Western states continue to deal with individual national authorities. However, by not recognizing the EAEU as a partner, the West is failing to account for significant changes in the larger Eurasian region. While other states, including China, are deepening economic and trade cooperation with the EAEU, the Europeans have been standing aside.

Establishing formalized cooperation would be advisable, especially in light of the EAEU's intention to create a common energy market in the near future. As the new regulations will also affect external relations, this is likely to have an impact not only on Europe, which is a key customer of Russian and Kazakh oil and gas, but also on those countries located in between the two emerging energy spaces of the EU and the EAEU. Entering into a dialogue regarding developments in the energy market could create new bridges and facilitate better economic and trade relations. Moreover, while the EAEU is expanding and modernizing its energy market and transportation infrastructure, new opportunities for foreign investment, know-how and technology transfer would open up. A rapprochement with the EAEU would thus not only stimulate trade and new business opportunities, but would help to ease political tensions. It is thus high time that Europe took account of what is happening in its eastern vicinity and started to review its position.

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