

FIRST STEPS OF THE EURASIAN ECONOMIC UNION

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In 2015 the Eurasian Economic Union (EEU) was created as a regional organism with its own separate legal identity, composed of Russia, Belarus, Kazakhstan and Armenia. It is based in Moscow, with a legal tribunal in Minsk and a financial tribunal in Almaty. Throughout the preceding two and a half years of negotiations, Moscow sought vainly to incorporate other members, in view of opposition from Belarus and Kazakhstan. The EEU plans further development that would create additional omissions and institutions whose ultimate goal would be to achieve a common fiscal, monetary and foreign policy. During 2015 the presidency is held by Belarus.

The basis of the Eurasian Economic Union is a common customs union that eliminates tariff barriers between Russia, Belarus and Kazakhstan and the erection of a common tariff barrier around the three states. Its goal is to develop broader integration and gain new members, such as Kirghizstan.

To eliminate redundant functions and bureaucracy, on October 10, 2014 Russia, Belarus, Kazakhstan, Kirghizstan and Tajikistan signed a prior agreement to dissolve the preceding Eurasian Economic Community after fourteen years of existence.

The EEU includes a territory of more than twenty million square kilometers (geographically the largest contiguous economic unit in the world), with a popular in excess of 170 million inhabitants.

Its GDP is the sixth largest on earth, and its members control one-fifth of all the world's gas reserves, as well as 15 percent of its oil, and provide the most direct conduit of energy and communications between Europe and Asia. The new Union has sparked interest in other

adjoining countries, though at present expansion has slowed due to sanctions against Russia because of the conflict in eastern Ukraine and Russia's incorporation of Crimea.

The EEU will implement a common policy in energy, industry, agriculture and transport, and also in the free flow of goods, services, capital and labor. Certain sectors such as agriculture, commerce and construction will undergo liberalization immediately, while others will follow more gradually. A common market in electrical energy will be postponed until 2019, and hydrocarbons will follow not later than 2025.

Each member has entered the Union with a different set of problems and interests. For Russia the EEU will seek to achieve its economic and geopolitical goals on a regional level, through closer relations with Kazakhstan and other countries that will achieve a common front against China, which has been positioning itself prominently in Central Asia through joint economic projects with countries in that area. Since the economies of both Russia and its partners are based on raw materials, conflicts of interest seem likely. To a certain extent the EEU constitutes a reply to recent geopolitical developments and is of paramount importance to Russia in maintaining ties with its allies and neighbors, avoiding the danger of a second Ukraine.

Some analysts also assert that Russia further intends to build cultural and political bonds beyond the economic sphere, and is eager to reconstruct a common identity with other post-Soviet states in the zone between Europe and Asia. The Union is important for Kazakhstan geographically, for example, because it needs Russia to cope with its distance from Europe.

In the case of Belarus, political relations are more significant than purely economic ones, even though at present Russia is a vital economic partner for natural gas transit and other items and maintains its own military bases within the country. There is also a common interest on the part of both countries to draw closer to the European Union through the latter's neighborhood policy, with a forum on the latter to be held later this year in Riga. It would be very difficult for Belarus to move away from its Russian "partner," in view of what has transpired in Ukraine and also because the EU seems to show no particular interest in Minsk. Nonetheless, a Belarus deficient in natural resources has managed to sustain its own industrial structure since Soviet times and, though its long-term strategy may be undecided, Russia still sells to it oil products on favorable terms.

As it joins the Union, Armenia has few alternatives because of its own political and economic problems, though its affiliation is incomplete and will have to be developed in successive phases. This country finds itself in a high-tension zone of vital interest to neighboring countries such as Georgia and Azerbaijan. It, too, lacks natural resources, and is locked in the territorial dispute of Nagorno-Karabakh with Azerbaijan, a country of great interest to the EU because of its large volume of commerce. Azerbaijan was able to reach an agreement with Russia about the Caspian Sea, while Moscow was drawing nearer Turkey, which holds a key position in the region. Russian bases in Armenia guard common frontiers with Turkey and Iran, and serve as protection in the conflict over Nagorno-Karabakh, despite long-standing suspicions about Russian arms sales to Azerbaijan.

Critics in the Armenian opposition, as well as part of the influential diaspora in the United States, draw attention to the progressive deterioration of relations with Georgia, due to the latter's relations with NATO and the EU, as well as to the importance of Iran, where it has opened an alternative channel in order to import gas and be more independent from its neighbors. Moreover, as a member of the WTO, Armenia has promised to lower tariffs that now will have to be raised because of the protectionism of the EEU, while due to the need to import natural resources more cheaply its present government remains unstable. In the meantime, Armenia has been invited to participate in the Riga forum on Neighborhood Policy in May 2015.

In the case of Kirghizstan, which also has a common border with China and Kazakhstan, entry into the EEU is planned for May 2015, but its weak economy will need to receive further Russian investment.

At present this remains quite uncertain because of the current state of the Russian economy. Facing the aftermath of two revolutions as well as unfavorable economic conditions, the Kirghiz president must formulate a new political and economic policy, strengthen his country's lobby in Moscow and Astaná, and hope that Russian aid, if it ever arrives, will improve the economy. In Central Asia, the former Soviet republics rely in large measure on remittances from their national diasporas working in Russia.

For business interests not already oriented toward Russia, membership in the EEU will be a drawback, since imports from China, with which Kirghizstan currently has a free trade treaty because of their common membership in the WTO, will increase in cost. The membership of Kirghizstan, and also the probable future inclusion of Tadzhikistan (which borders Afghanistan), might produce serious border problems, illegal immigration, drug smuggling and mounting Islamism. These are matters that greatly worry the Kirghiz government, though it remains of strategic importance to the EEU (??).

Concluding Remarks

All these states are united by common Soviet past and complementary infrastructures which make it difficult for them to prosper in isolation, while possessing important natural resources that could be vital for other countries. They have been drawn to the EEU in part because such an international structure might benefit their domestic economies while defending them from external threats.

The domestic markets of EEU countries vary considerably in their density of population: Belarus has 9 million inhabitants, Kazakhstan 17 million, and Armenia only 3 million, compared with 144 million in Russia. Yet the size of this broader market will not be sufficient to stimulate the economies of all its member states. Their problems cannot be solved merely by expanding the number of potential consumers, while it appears that trade between EEU members has decreased in recent years, due to slow growth and lower mutual investment. Industry is inadequately developed, each country having different specialties, while the main source for new financing is energy resources, whose price has fallen far below the level of sustainability.

Not all states in the EEU are members of the WTO, and this needs to be taken into consideration, though it is also the case that this might simplify entry into the latter for such countries. It will be necessary to examine carefully the prospects offered by the Eurasian Economic Union to each member, taking into consideration the fact that some important aspects are still pending further negotiation, quite apart from the sanctions on Russia that are already affecting the entire project. Until recently the union was deemed to be impossible without Ukraine, but now the Russian goal is not to lose any other prospective member, and to maintain regional and international influence.

Surveys indicate that public support is declining, especially in Belarus and Kazakhstan. Citizens of the latter countries do not indicate much optimism about the benefit of such a supranational organization, so that their governments always use the term “economic” to the exclusion of political references, to avoid speculation about a partial loss of sovereignty. Neither Minsk nor Astaná has an official position with regard to the West and its sanctions against Moscow, and neither wishes to close its borders or to limit relations with other commercial partners. Moreover, Chinese investment in Central Asia might be an alternative for the development of strategic projects in the region.