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A Word From The Publisher

With great pleasure, LIBERTAS - Europäisches Institut GmbH offers today its newest periodical, the Eurasian Economic Union Observer. It is intended to close a gap in information about the EEU which is clearly Russia-dominated and is intended to become a counterpart to the European Union, in the European (and worldwide) perception. "EEU-Obs" shall reflect on the objective as well as on the subjective success of the EEU, but also on its failures - and its very far reaching non-comparability with the EU.

But politicians, diplomats, consultants and above all business should know what the EEU is about, when e.g. travelling from the EU or the US or other parts of the world to the EEU countries. They should in particular know about the EEU from different points of view.

This eQuarterly, of which the first issue can be downloaded free of charge on www.eufaj.eu, is an "offspring" of European Union Foreign Affairs Journal. In this issue, we have remained on the EEU's echo, and this exclusively in English; some of the articles have been translated from Russian.

We owe great thanks to our colleague Ofelya Sargsyan M.A. editing EEU Observer, who works very close, in research and publications, on EEU affairs. In the EU, for example, EEU merits to be monitored closely, in order to find an appropriate policy towards it. Here, we might help a bit.

Hans-Jürgen Zahorka
Chief Editor, European Union Foreign Affairs Journal (EUFAJ)

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Chapter 1. Eurasian Economic Union as it is

The First Steps of the Eurasian Economic Union: Disputes, Initiatives and Results

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Center for Security Studies, August 2015, <http://www.isn.ethz.ch/Digital-Library/Articles/Detail/?id=192642>

Abstract

This article examines the first six months of the Eurasian Economic Union (EEU or EAEU) from the perspective of its macro-economic development and economic trade relations. It highlights that **there are a number of trade disputes between the EEU members, and that the member states have taken steps to protect their national markets.** The Eurasian Economic Union (EEU) is not a completely new attempt at integration between its member states.

It rather can be seen as a project that is reshaping old initiatives, both political and economic, into a new form. Its founders do not dispute its historical roots in previous integration initiatives, claiming that **the EEU is a fourth institutional step—following the Single Economic Space, Customs Union, and Eurasian Economic Community**¹. One of the main distinguishing features of today's Union—the EEU—is its focus on setting common macro-economic, financial, monetary and tax policy. Unlike the previous forms of integration, the EEU has a legal personality. It is also set to provide more freedom of movement of goods, services, capital and workers.

Has Any Progress Been Made Yet?

The plans to create common markets are mainly set with medium-term and long-term perspectives in mind. The most important issues, connected with establishing common markets on oil, gas, electricity, finance have been postponed for 10 years. For example, the EEU has outlined that members should take steps to harmonize their legislation platforms and create **common gas and oil markets by 2025, and electricity by 2019.** It has also been declared that **the members have until 2025 to establish a Joint Center in Kazakhstan to regulate the EEU financial market.** That it will take 10 years to form certain common markets illustrates that **those economic sectors that are considered strategically important (especially for Russia) continue to function beyond the scope of integration.** This situation has been severely criticized by the President of Belarus, Aleksandra Lukashenka ².

During the EEU negotiations, he even suggested postponing its creation, because it was not possible to agree about common markets on oil and gas. **Most progress is evident within the aim of facilitating free access to the common EEU labor market.** The members have

agreed to **mutually-recognize education degrees** in certain areas and **established common regulations on paying income taxes**. However, the deterioration in the economic situation in Russia has decreased the demand for further regulation of the free movement of people ³.

Some successful steps have also taken place in the development of a common market on construction. Russia, Belarus and Kazakhstan signed a protocol to establish several working groups on the unification of the market on building construction services. Last year, it had been announced that a joint market on building construction services will be established by 2025, but the members have decided to start work on this earlier. It is expected that by the end of this year, construction companies will be able to fulfill their business in countries of the Eurasian Economic Union without having to establish new legal entities⁴. Belarusian construction companies are interested in this initiative due to the opportunities this would offer them to enter the Russian market. In addition, EEU technical regulations on railway transport were agreed on 3 February 2015⁵.

However, **the EEU still lacks some basic documents for facilitating integration between its members. For instance, an EEU trade codex has been developed, but its terms have not yet been agreed to by the members.** It is expected that Tax Code will come into force by mid-2016. In summary, so far the **members have been unable to form the most important joint markets: oil, gas and electricity.** These questions have been postponed and are not listed in the EEU's list of main priorities. **As a result, progress has been restricted to a limited numbers of other spheres.**

What about the Numbers?

The EEU's first 6 months have not delivered results to suggest it is thriving. It has seen fierce bargaining between Russian and Belarus and discussions within Kazakhstan about its virtues. After only 2 months, the President of Kazakhstan said that the EEU faces significant challenges⁶. During the first three months of **2015**, the **volume of internal trade between EEU members- Russia, Belarus, Kazakhstan, Armenia - actually declined by about 36%** in comparison with the same period last year⁷. **More recent data** is only available on a country level, also **demonstrates the same decreasing trend** ⁸. Such a drop in trade is causing deep concerns in Belarus ⁹. Moreover, trade between Kazakhstan and the EEU also declined by 21% in the first quarter¹⁰.

Another concern relates to the value of the trade exchange between EEU countries compared to their total trade. In fact, in 2012 and 2013 the trade exchange between the EEU's founding countries accounted for only 12% of their total trade. In 2014, it constituted around 11%. This trade is mainly based on bilateral agreements between Russia and other EEU member states¹¹. Trade between Kazakhstan, Belarus, and Armenia is very limited. It should be noted that such negative trends were partially expected. For instance, the President of Kazakhstan explained that they fully understood the possible challenges of the EEU ¹², while the President of Russia has stated that the EEU countries should unite and establish a common monetary policy, in order to cope with the current challenges ¹³.

Trade Conflicts and the Protection of National Markets?

The EEU has encountered several problems in trade relations between its members in its first 6 months. Most of these problems are not new, but the new instruments of the EEU have not been able to resolve them.

Trade Disputes on Quality of Agricultural Goods

Since December 2014, Belarus and Russia have been struggling with trade conflicts. In early December 2014, **Russia declared that Belarusian meat and dairy products contain antibiotics**, salmonella and listeria and are therefore dangerous for consumption, imposing an import ban on such products. **Secondly, Russia accused Belarus of transferring and repackaging Western goods** that are subject to Russian sanctions. Officially these goods are in transit from Belarus to Kazakhstan through Russian territory, but in practice they end up in Russia¹⁴.

Belarus has responded to the politically charged ban on Belarussian meat and dairy imports to Russia by **stepping up customs checks on Russian vehicles entering their territory**, arguing this is a smuggling prevention action. The meeting between Russia's Head of the Committee on Standards and the Belarusian Minister of Agriculture on 12th of January failed to solve this ongoing trade conflict. Both sides agreed on the necessity of normalizing trade relations. However, Russia insisted on continuing its enhanced controls and checks of Belarusian products¹⁵. On February 6, **Russia allowed the import of frozen and chilled beef from 7 enterprises from Belarus**¹⁶. However, **products from 2 other companies** - a Minsk and a Bobruisk meat processing plant - **remained banned** from exporting to Russia. Almost at the same time on February 10, **Russia's Service of Standards (Rosselkhoznadzor) found bacteria in partly salted salmon delivered from Belarus. This product is now banned** from the Russian market¹⁷.

Meanwhile, **controls on the quality of meat production have already been imposed on Kyrgyzstan.** The EEU Veterinary Commission has reported that meat production in 5 local Kyrgyz enterprises do not correspond to existing quality standards. As of now, their production is not banned for export¹⁸. The latest mutual restrictions on the trade of certain food products between Kazakhstan and Russia add to this picture of trade conflicts on agricultural goods. For instance, on 31 **March Kazakhstan excluded 5 tons of Russian meat products from its market**, saying that Russia was in violation of quality standards. **In return, the Russian Service of Quality Control stated that Kazakh producers do not fulfill the same quality rules.** Such restrictions on imports from Kazakhstan might be partially connected with the depression of the Russian ruble and as a result cheap Russian production in comparison to Kazakhstan¹⁹. Although officially both the Russian and Kazakh authorities ask that these disputes are not called "trade wars", the situation does not promote closer ties between two countries.

Initiatives to Protect National Markets

One of the first initiatives to protect national markets from EEU imports was taken by Kazakhstan on 5th March. **Kazakhstan suspended Russian fuel and gas imports** (such as light distillates and products, medium distillates, motor fuel, kerosene, diesel fuel, gasoil, hydraulic liquids, light oils, oils for gear wheels, electric isolation oils and other oil products, with exceptions for housing furnace fuel, in order to prevent a critical shortage) **to protect its domestic market from a “surplus of Russian oil products”²⁰, due to a weakened ruble** which has sent ripples of economic uncertainty through Central Asia. After the ban was implemented for 45 days in March, it has been prolonged several times and was still active as of 20th June ²¹.

Besides Kazakhstan, Belarus has also introduced protection measures. Belarus refuses to supply petroleum products to Russia in the amounts that it had agreed to earlier ²². Over past years, Russia sold oil to Belarus at domestic prices and Minsk supplied Russia with oil products. The plan for 2015 envisaged the supply of 23 million tons of oil from Russia to Belarus and 1.8 million tons of oil products from Belarus to Russia. This agreement was made on establishing the EEU in January 2015. However, Minsk has changed its plans amid the ruble devaluation, as the prices for oil products in Russia became lower than the export parity **price** (export price minus customs duty and transport expenses). **It has become more advantageous for Belarus to supply petroleum to other countries.**

Sanctions Imposed by Russia and Not Supported by Belarus and Kazakhstan One of the main current issues for the development of trade relations between the EEU member states is the sanctions that Russia has applied on certain goods from the EU. The sanctions were imposed in August 2014. Russia expected Belarus and Kazakhstan would also impose the same sanctions. However, these countries refused. As a result, Russia has taken additional measures to prevent European products from entering the Russian market through the other the EEU members. According to Russian Prime Minister Dmitry Medvedev, all members should introduce a system of labeling for imported goods to prevent illegal re-exporting schemes.

Why are 3 Problems in Trade Relations? Do Factors Other Than the Economy Matter?

The economic problems facing the EEU have been explained by President of Kazakhstan Nursultan Nazarbaev. He stated that **the economic crisis in the region, the decreasing world oil price and sanctions against the Russian economy have had a negative impact on the development of the EEU²³.** Similar positions are in Moscow and Minsk. However, it is not only economic problems that are proving a challenge for the EEU. **Political relations between its members are another serious issue** that is casting doubt over integration in the EEU. **The Russian annexation of Crimea and the Ukrainian conflict have sharpened Belarusian and Kazakh concerns** about Russia’s political and security ambitions within the EEU. In this context, both are seeking to keep good relations with alternative partners. **Kazakhstan is interested in continuing to pursue its self-proclaimed multi vector foreign**

policy, while Belarus seems to be on its way to partially improving its relations with the European Union. Currently, public relations between Belarus and Russian are tense. During February 2015, an unusual increase in anti-Belarusian activity in the pro-government Russian media and blogosphere was observed. In the face of the unfolding economic crisis in both Russia and Belarus, and with the Belarusian presidential elections scheduled for 2015, this could signal a new shift in the relations between Russia and the regime of Alexander Lukashenko²⁴. At the same time, **Lukashenko** has activated his so called pro-European rhetoric and even threatened to withdraw from the EEU if it does not suit Belarus's national interests. According to his statements, **Belarus will start to normalize and build relations with EU and USA. But, he also empathizes that Russia remains the closest country to Belarus**²⁵.

Echoing Lukashenko's threat, **Kazakhstan's President Nursultan Nazarbayev has also said that his country could theoretically leave the Eurasian Union, if membership would threaten the independence of Kazakhstan.** This statement came in response to the scandalous statement of the leader of the Russian liberal-democratic party, Vladimir Zhirinovskiy, who said that Russia should take on the alleged anti-Russian sentiments in Kazakhstan, after "it will deal with Ukraine"²⁶. Concerned about possible tensions with the Russian speaking minorities (21.47% of the Kazakhstan population), the Kazakh authorities have increased their control over any issue of inter-ethnic relations in the country. A case about pro-Russian posts on an internet social media site has become the subject of court investigation in Almaty. One author of the incriminating posts has been put under house arrest until the end of the court procedures²⁷.

What Is the Future of the EEU?

The future progress of the EEU will depend primarily on Russia, as the member state that is both the most interested in its continued existence and with the economic potential to subsidize the economies of the other members²⁸. In the short-term, relations between Russia, Belarus and Kazakhstan may worsen as concerns about the speed of further integration are exacerbated. Recently, **Russia has begun promoting the idea of establishing a common monetary market and one currency. However, neither Kazakhstan, nor Belarus appear to be ready** to even follow the Russian sanctions against certain Western imports. Kazakhstan has denied any discussions on establishing a common currency market have taken place²⁹. Atameken, a business association in Kazakhstan, has severely criticized the idea of a common currency³⁰. Unlike Belarus and Kazakhstan, **Armenia and Kyrgyzstan are second-rank members of the EEU, and are not in a position to oppose Russia.** Their participation in the EEU is a matter of political necessity and opportunities to obtain subsidies.

In spite of these inter-member problems, **Russia is trying to increase the geopolitical role of the EEU. For instance,** Russia is promoting further enlargement by **starting to discuss EEU free trade agreements with Egypt, Iran, China, India and other countries.** On 2th

May in Kazakhstan, the **EEU signed a free trade agreement with Vietnam**. According to the documents, EEU members agreed to simplify trade regimes with Vietnam and provide a liberalized regime for 90% of goods³¹. As of now, it is hard to predict the effectiveness of such agreements. However, **the trend suggests that the EEU will seek to sign free trade agreements with many other countries**. Dmitriy Medvedev announced that more than 40 countries are interested in establishing free trade zones with Eurasian Union³². **The main purpose of these agreements would seem to be to boost the geopolitical interests of Russia**.

Overall, the EEU has started with caution and mistrust in economic trade relations, as well as against a background of fears about giving up sovereignty. With Russia's hard currency reserves rapidly depleting—due to low oil prices, Western sanctions and monetary interventions—the carrot and stick approach might soon become a one sided approach. And, **if Russia refuses to provide financial support to EEU, it may well follow the CIS destiny**.

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The Eurasian Economic Union: Ambitions – Analysis

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Elcano Royal Institute, 13 October 2015, <http://www.eurasiareview.com/13102015-the-urasian-economic-union-ambitions-analysis/>

Abstract

The Eurasian Economic Union – officially in existence since 1 January 2015– is the most ambitious attempt yet at economically integrating the post-Soviet space. **What are its successes and limitations so far? How does it alter Russia's relations with the West? Should the EU engage it as a partner?** The creation by Armenia, Belarus, Kazakhstan and Russia (to be soon followed by Kyrgyzstan) of a Eurasian Economic Union (EEU) crowns a decades-long process aimed at the restructuring and gradual integration of the post-Soviet space.

Moscow has high hopes for the EEU, and expects to use it as a platform through which to reinforce its leading role in the region and to vindicate its status as a great power in a multipolar global order. Additionally (though less conspicuously), Moscow hopes to benefit economically from the EEU, in particular, by using it to claw back part of the commercial ground already lost to the EU, China and the US. The birth of the EEU is thus a considerable foreign-policy coup for Vladimir Putin, but one which might yet prove to be short-lived.

The EEU's existence begins at a highly uncertain and volatile time for the Russian economy, plagued by economic sanctions, capital flight, currency devaluation and low hydrocarbon prices. The disadvantages of joining the EEU are becoming increasingly manifest, and its record on commercial integration is mixed. Critically, the EEU's life has begun with the noticeable absence of the Ukraine, which Russia had tried hard to cudgel and wheedle into membership –in the process causing the onset of armed conflict there. **The EEU is also precarious in the structural sense: it is, essentially, an elite project** taking root in a political context in which corruption is rife and legal standards feeble.

Though some have called for the EU's engagement with the EEU, at the time of writing no honest dialogue, let alone beneficial partnership, seems either likely or possible between the two blocs. And yet time now plays on Brussels' side.

Analysis

The term 'Eurasian Union' has become the shorthand for the Eurasian Economic Union (EEU), an international organization established through a 1,000-page treaty signed by Belarus, Kazakhstan and Russia on 29 May 2014. The document marked New Year's Day of

2015 as the EEU’s effective inauguration date. Armenia soon volunteered (or perhaps, more accurately, was soon ‘encouraged’ to do so) to become a cosignatory to the agreement in October 2014, gaining full membership on 2 January 2015. Kyrgyzstan, currently a candidate state, is scheduled to join before the year 2015 is out. The EEU has further extended invitations to Azerbaijan and Tajikistan (the latter’s frictions with Kyrgyzstan make its membership unlikely for now) and suggested that Uzbekistan follow suit (Tashkent has already clarified this will not be the case). Its current and scheduled membership overlaps with the so-called Union State between Russia and Belarus, and almost coincides with that of the Collective Security Treaty Organisation, which also includes Tajikistan.¹

The EEU’s fundamental function is to establish a common economic area based on the (eventual) free circulation of goods, capital and labour. In spirit and institutional design it is loosely modelled on the EU and has provisions for the full creation of a single market along with the development of common production and transport infrastructure –progress is uneven, of course, and the development of a single market in key sectors like energy has been postponed until 2025. Critically, the EEU clears the way for a closer coordination of monetary policy and leaves open the possibility of a currency union.²

The map below (Fig. 1, released on the EEU’s presentational brochure of 2015, but based on 2013 and 2014 data), offers an overall idea of its considerable dimensions.

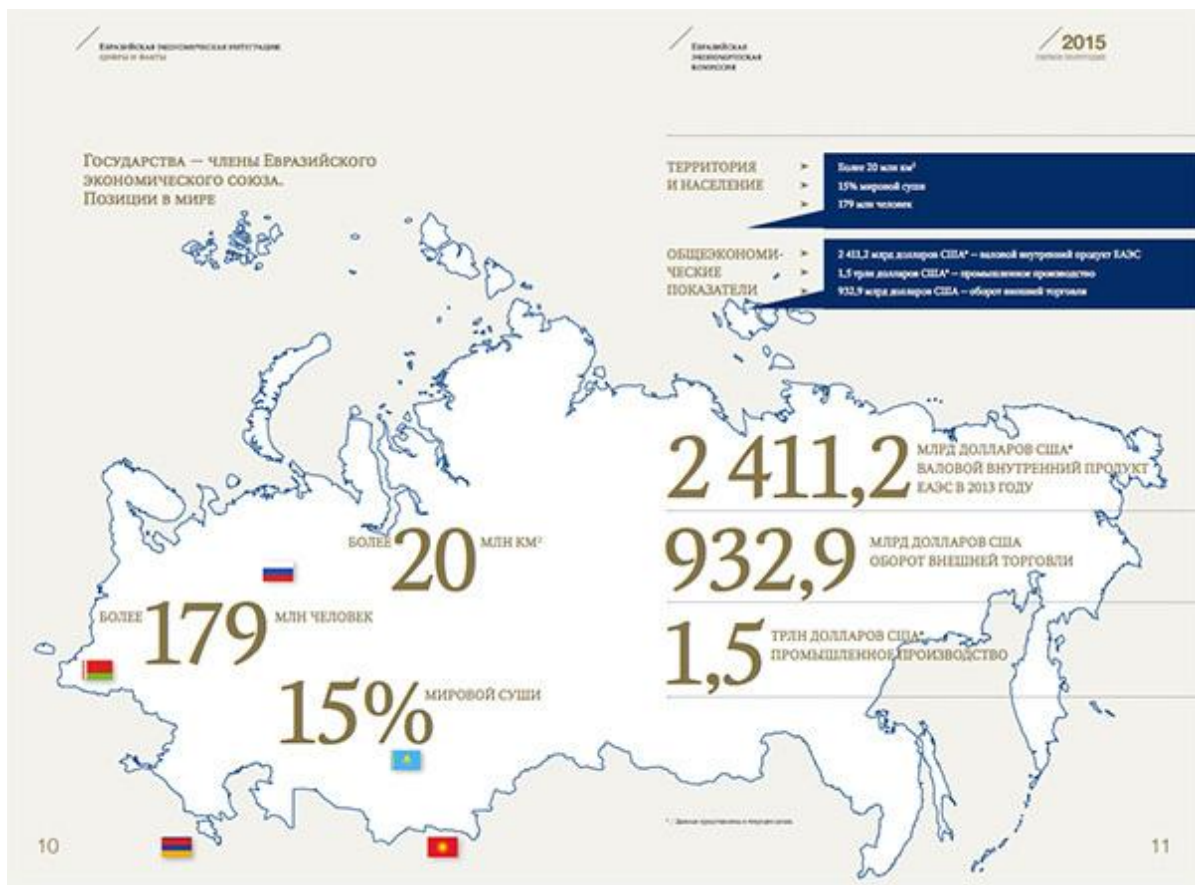


Figure 1. Basic EEU figures based on data up to June 2014(3) EEU_figures

According to official EEU figures, the organisation includes over 179 million people, covers more than 15% of the world's surface (20 million km²) and generates a combined GDP of US\$2411,2 billion – an estimate on 2013 prices. To give an indication of its relative size, and following IMF data (GDP/PPP), the EEU's economy was, roughly, seven times smaller than that of the US and the EU, six times smaller than China's and about half the size of India's, slightly surpassing Brazil's.⁴ Further, the EEU turned over US\$932.9 million in foreign trade and was capable of industrial output worth US\$1.5 trillion.

Unsurprisingly, the Russian Federation accounts for over four fifths of its entire GDP, population size and geographical surface. Russia is overwhelmingly the organisation's centre of economic and demographic gravity. Politically and diplomatically, the EEU represents the highest and institutionally most comprehensive stage of economic integration within the geography of the former Soviet Union. It is the culmination of a sustained, if often uneven and faulty, effort at gradually coordinating trade, investment, monetary policy and economic cooperation within the post-Soviet space. The process goes back to the treaty founding the Commonwealth of Independent States (CIS).

Though at different times other ex-Soviet Republics have played an active role in that progression, its most consistent drivers have been Russia, Belarus and Kazakhstan. It is therefore hardly surprising that the characteristics of their political systems (including, alas, the most negative ones, such as corruption, authoritarianism and a high degree of concentration of wealth and power in the hands of a minute corporatist elite) should appear stamped on the EEU's origins and evolution, beyond its official institutional design. Plainly, **the vertical nature of Eurasian integration makes it especially vulnerable to economic fluctuations, leadership changes and international instability** – exactly the conditions which have dominated post-Soviet affairs over the past year.

To complicate matters, **the term 'Eurasian Union' denotes something which goes well beyond the EEU.** Writ large, this **other Eurasian Union is essentially a geopolitical, if not a territorial, concept, evoking an eventual integration of all the peoples that,** notwithstanding their national differences and political sovereignty, make up the liquid geography of 'Eurasia'. In its fullest version, then, this other Eurasian Union could be described as the institutional intergovernmental expression of a civilisational entity (or is it identity?) formed by all those who inhabit the hazy in-between lands of Europe and Asia, while being neither Asian nor European. The distinction between the factual and visionary senses of 'Eurasian Union' is important because the Russian leadership often juxtaposes them when stating its wishes and objectives. A good (if not isolated) example of this can be found in President Putin's speech at the 2013 Valdai International Discussion Club, where he argued that the future of the EEU was not to be seen only as a collection of mutually beneficial agreements but as a 'project for the defence of the identity of peoples of a historical Eurasian space in a new age and a new world'.⁵ Further, in an earlier piece for *Izvestiya* (2011), the then Prime Minister Putin explained that the EEU was an open-ended project, providing a bridge 'towards the next, higher level of integration: Eurasian integration'.⁶

In this way (deliberately or not) **Putin has sometimes fused the actual construction of the Eurasian Union (EEU), with both the idea of a transitional phase towards a deeper stage of Eurasian integration and a broader historical process involving the potential re-articulation of an alleged Eurasian civilisation around Russian culture and values.** Additionally, Putin's Eurasian idea recognises the realities of the 21st century (as the Kremlin understands them). First (and in case anyone still harboured any hopes), **Eurasian integration is not/cannot be seen as an effort to restore the USSR.**⁷ Secondly, **Eurasian integration reflects the fact that the international system is increasingly multipolar,** with Russia as one great power axis (держава – derzhava) among several others. **Thirdly, it recognises that the world economy is moving towards global integration,** and here, whatever the specific Russian variations on the free-market theme, **the Kremlin's commitment to capitalism and 'trade liberalisation' is made clear** beyond any possible doubt. Eurasian integration, we are assured, is about conjugating Russia's own best national interests with its growing role within global capitalism.⁸

The Russian elite's outlook on Eurasian integration is thus multifaceted and often vague. It sits between far-reaching aspirations and bare compromises leaving open visible gaps between overall interests, actual capabilities and concrete realities. As a consequence, **the EEU can only be, from its very inception, the object of great expectations and considerable disappointments for the Kremlin.** Particularly in the context of friction with the West and given the high Russian ambitions it feeds, the EEU's existence and profile will continue to be defended by Russia, regardless of its shortfalls and limitations and no matter the level of disaffection of its other members. **The Russian elite sees the EEU as a strategic and symbolic priority and so it is committed to doing whatever it takes to maintain and defend it. This, however, will prove costly,** especially in the short and mid terms. Given the project's elite-driven nature it is likely that **pressure and arm-twisting will increasingly displace incentives and cooperation as the EEU's chief unifying logic.**

How does the EEU work and who does it work for?

The EEU's roots lie in a number of negotiations and agreements conducted under the auspices of the CIS during the mid-1990s, with two of those meriting special mention. **The first step was** a treaty signed in January 1995 promising the creation of a **Customs Union** (CU, Таможенный союз – Tamozhennyi Soyuz) originally **between Russia, Belorussia and Kazakhstan,** and later coming to include Kyrgyzstan (1996) and Tajikistan (1997). **The second** important step, designed to promote and strengthen the original CU proposals, was the March 1996 Agreement for Increased Cooperation in the Economic and Humanitarian Spheres. It was signed by Belarus, Kazakhstan and Russia and established a **Eurasian Economic Community (EurAsEc).** EurAsEc came into official existence on 10 October 2000, and from that point also included Kyrgyzstan and Tajikistan (and Uzbekistan between 2005 and 2008).⁹

While the CIS's ability to articulate a process of economic or institutional integration had proved insufficient throughout the 1990s –mostly given the low commitment of its members and its focus on security issues– Putin successfully used EurAsEc as a platform for a more selective and substantial integration effort in the 2000s. Putin, and then Dmitry Medvedev (President between May 2008 and May 2012) prioritised Eurasian integration, in great part as a challenge to what they saw as the West's intensifying and illegitimate encroachment on its near abroad: in particular, the Colour revolutions in the Ukraine, Georgia and Kyrgyzstan and the EU's inception of the Eastern Partnership (EaP) after 2003. **The effort culminated in 2007 with the establishment of a CU from 1 January 2010 as well as the creation, from 1 January 2012, of a Single Economic Space (SES) to oversee the steps for the creation of a single market. The last stage in the Putin/Medvedev integration roadmap was the creation of the EEU as a legal entity in 2015 (that future is now the present).**

Internally, the EEU is, in appearance, designed in the image of the EU, with a permanent executive body (the **Eurasian Economic Commission**) formed by a College and a supervisory body called the Council (at the deputy-prime-ministerial level). The Commission, however, must abide by the resolutions of the **Eurasian Intergovernmental Council** (at the prime-ministerial level) and, in turn, it must abide by the decisions of the Supreme Eurasian Economic Council (heads of state). Additionally, there is a **Court of the EEU**, whose headquarters are in Minsk, which resolves disputes and guarantees that members abide by the EEU's rules. However, the parallels with the EU begin to vanish here. At the insistence of Belarus and especially Kazakhstan, the EEU, unlike the EU, has no legislative branch.

Within the CU most decisions required approval by a two-thirds majority of votes but, simultaneously, the weighting system implied that no decision could be taken without Russia. **Within the EEU, however, decisions have to be reached by unanimity**, a clear attempt by Moscow to allay any fears that the new organisation might only end up institutionalising Russian domination. In practice, however, most general decisions are taken by the Supreme Council, and dropped on inferior-level organs which supply the technical substance and concentrate on the nitty-gritty. Ironically, the unanimity rule does not always act as a check on Russian power. Operationally, it forces members to call frequent meetings of the Supreme EEU council, where Russian diplomatic and political influence is most visibly exerted. *In practice*, therefore, **the power of decision in the EEU is highly concentrated, harnessing the broader process of Eurasian integration to the interests and whims of its elites and institutionalising mutual elite dependence and Russian control.**¹⁰

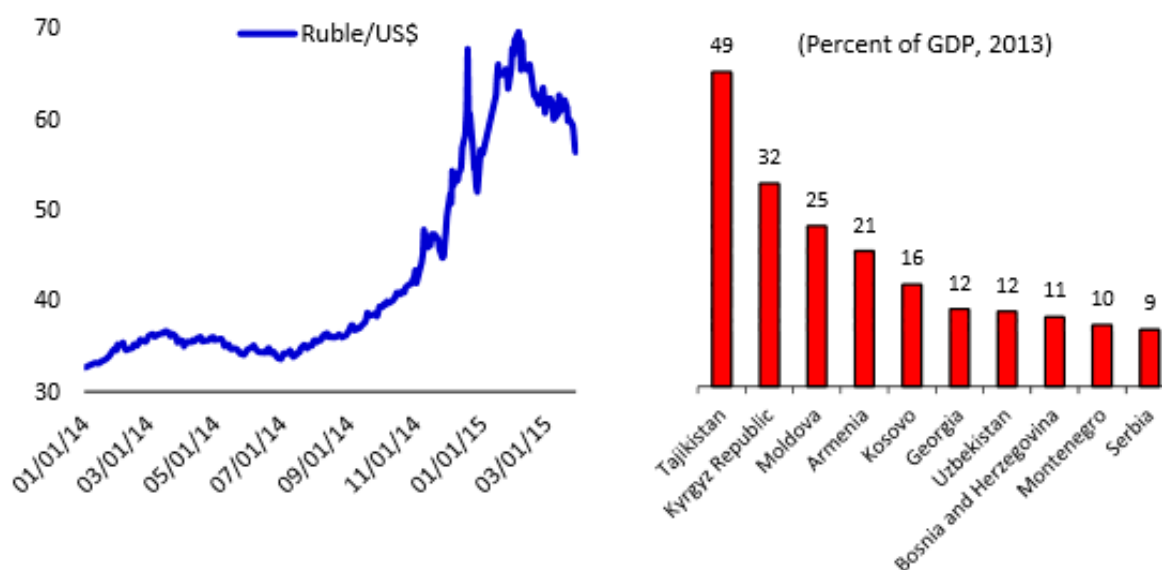
From an economic standpoint, the foundation of the EEU is based on the CU and SES, thus naturally predicated on the elimination of internal customs barriers, and the adoption of a common tariff level for trade with third countries. All that had to be achieved in some form of balance with the provisions of the World Trade Organisation (WTO), of which Russia, Armenia and Kyrgyzstan are members. **Up to 2014 the average tariff levels of most EEU states were considerably lower than Russia's. As a result, a country like Kazakhstan ended up adopting a much higher tariff level for third countries, which precludes it from the benefits of trade with the EU and China, to an enormous loss for its economy:**

this adjustment additionally complicates Kazakhstan's on-going accession to the WTO as well as the status of other EEU members within it.

The problems derived from Russia's overwhelming economic and political weight in the organisation have become even more visible after the EU and US-sponsored sanctions began to hit the Russian economy. By the end of 2014, capital flight from Russia had reached a record US\$151.5 billion; if this were not enough, the Ministry of Finance (MinFin) estimates 2015 levels to be between US\$100 billion and US\$130 billion.¹¹ Compounded by the very adverse effect of persistently low international oil prices since October 2014, the rouble began to lose value from October 2014. In the worst moments of the depreciation (mid-December 2014), the Russian Central Bank raised interest rates to 17% (a 100% hike) and spent over US\$80 billion in foreign reserves (about a fifth of the total) to keep its currency from sinking even deeper. Despite these desperate measures, the rouble continued to fall until February 2015, shedding about a quarter of its strength to the dollar and the euro in the process. At the time of writing, the Russian economy is in recession, expected to shrink by over 3% in 2015: inflation is in double digits, unemployment (5.8%) is at a 13-year high and real wages are contracting.¹²

The damage inflicted by the Russian crisis on the economies of the EEU has been extensive, thus substantially reducing its economic appeal and raising concerns that it is only making their lot worse. The problems have been mainly two. **First**, in the context of the rouble's devaluation within a customs union, **non-Russian goods have suddenly become uncompetitive relative to depreciated Russian merchandise.** Belarus paired its currency to the rouble, so it has been able to survive the worst blows; Kazakhstan, on the other hand, has been hit very hard, being forced to depreciate the tenge by almost 20% in 2014, and using up an estimated US\$2 billion every month to prevent the national currency from sliding further.¹³ **Secondly, the contraction of the Russian economy is drying up remittances from Central Asian migrant workers; in fact, remittances to the region are declining more rapidly than anywhere else on the planet.** This is particularly serious given that Tajikistan (invited to join the EEU) and Kyrgyzstan (a prospective member) are the world's two most remittance-dependent economies (see Figure 2).

Figure 2. Value of rouble and impact of remittances as a % of GDP, 2013



Source: World Bank, 2015.

<http://siteresources.worldbank.org/INTPROSPECTS/Resources/334034-1288000700745/MigrationandDevelopmentBrief24.pdf>

The value of remittances is expected to continue falling deep into 2015: by 12% in Belarus, by 18% in Armenia and Kazakhstan and by 23% in Kyrgyzstan, where this source of value accounts for a third of GDP.¹⁴ Taking into account that **commercial integration within the region actually narrowed by 13% in the first quarter of 2014**, and that **members continue to denounce Russian non-compliance on basic provisions concerning the circulation of goods**, the EEU’s economic record already seems deficient.¹⁵

In the wake of the crisis, **the EEU is not delivering more intraregional trade** (in fact, all evidence suggests that it is strengthening Russia’s bilateral commercial links to the other members and, ironically, some members’ bilateral relations with the EU); **nor is it providing a chance for local Belarusian or Kazakh industries to compete in the world market; nor is it helping the Armenian and Kyrgyz remittance economies; and, finally, nor does it seem to be helping diversify and develop the region.**

In fairness, the EEU can still claim one success (and it is not an unimportant one): the very fact that it has survived where analogous integration experiences in the 1990s would have folded. That said, however, the **EEU requires additional incentives** to trudge on, and such incentives are not derived from Eurasian economic integration per se but from an assortment of Russian carrots and sticks. **For instance, Moscow has offered to front the bill of any potential WTO fine arising from the implementation of the EEU tariff regime.** Additionally, it has thrown in subsidies, loans and cash transfers in bilateral deals with members like Kyrgyzstan, Belarus and Armenia, whose loyalty to the project has needed some urgent propping up. Also, Moscow continues to promise faster and better access to the Russian labour market –one of the areas in which the EEU has moved most quickly– even though Russian public opinion is widely against an increased presence of migrant workers from different corners of the former Soviet Union.

These additional economic costs are, all in all, worth it for Moscow; the EEU is Russia's best bet against continuing Western economic and political penetration. In the post-Soviet space, only Belarus keeps Russia as its main trading partner; in all other cases Russia comes second or even third to the EU and, particularly in Central Asia, to China. Critically, the EEU goes some distance to alleviating the Kremlin's 'day-after-tomorrow' anxieties and ensures its influence in the region after the dreaded disappearance of Lukashenko, Nazarbayev, or indeed, Putin himself. The EEU is, as far as Moscow is concerned, an antidote against a potential new round of elite disentanglement from Russian control (such as that witnessed in the Ukraine following Yanukovich's flight).

Russia, the EEU and the EU

In the context of the deep and protracted breakdown in Russia's relations with the West and, particularly, of the long-stalling EU-Russia partnership, several voices, both in academic and policy circles, have begun vindicating the EEU's potential as a platform from which to end the current stalemate. Last November, for instance, **Germany's Foreign Minister, Frank-Walter Steinmeier, advised that contacts between both organisations might go a long way to defuse mutual tensions and suspicions,** adding that such an initiative is heartily welcomed by EEU members like Kazakhstan.¹⁶ The Russian leadership, in its turn, continues to state its wish for closer cooperation; **Steinmeier's counterpart in Moscow, Sergey Lavrov, has repeated the EEU's offer of a free trade agreement with the EU.**¹⁷

As some analysts have argued, a European acknowledgement of the EEU as an equal partner could be a way of reassuring Moscow that the EU's eastern enlargement is not a relentless, never-ending expansion process, but rather one built on the recognition that there can be different, legitimate and not necessarily exclusive frameworks for post-Soviet integration. Accordingly, **in engaging with the EEU, the EU would be able to deal with Russia in a space in which its decision-making power is curtailed by its other members' veto rights** (as shown above, the EEU's resolutions must be agreed on unanimously). So ironically, it is claimed, the very thing which triggered off the Ukrainian crisis might still offer a way of overcoming it.¹⁸

For others still, the EEU is bound to end up cooperating with the EU. In fact, they argue, **the scope for mutual benefit and concerns implied by this partnership would be so vast that any substantial links would have to come from an inter-regional 'megadeal' between the two blocs; one that might start with trade liberalisation** but would necessarily have to reach out to a much deeper and more comprehensive level in the longer term.¹⁹ Clearly, the obvious stumbling block when thinking about possible EU-EEU links concerns the future of states which find themselves in between, such as the Ukraine and, to a lesser extent, Moldova, Georgia and Azerbaijan. Of course, the possibility of avoiding 'either or' decisions, and seeking closer relations with all neighbours (West and East) is always there: closer trade integration and even free-trade agreements with both the European and Eurasian spaces are possible, at least in principle. Indeed, European policy-makers are right

to stress the fact that an Association Agreement within the Deep and Comprehensive Free Trade Agreement (DCFTA) with the Ukraine would not prevent it from seeking closer commercial ties to Russia if it were to choose so.²⁰

It should be noted that the EU's stance on this, while commendable now, was not as constructive when it mattered, at a crucial moment in 2013 when Yanukovich was unceremoniously rebuffed for proposing precisely this type of EU-Russia-Ukraine triadic relation. But leaving that aside for the moment, the more important point is that complementary associations with both the EEU and EU are impossible at the point of substantial membership. **The EEU, for instance, is based on a customs union that would render incompatible any simultaneous EU-sponsored DCFTA deal.** At the point of a customs union, then, the EEU does draw the line, handing non-member states a clear 'in-or-out' choice. In any case, this is not solely a technical issue, but a political one: both the EU and Russia overplayed their hand in the run-up to the Vilnius summit of November 2014, when Yanukovich fatefully decided to turn down the Association Agreement with the EU. In other words, it was both the EU's and Russia's political behaviour (rather than a technical or legal impossibility) that helped chaos break out in the Ukraine. Both sides, in their very different degrees of responsibility for the ensuing conflict, would do well to change this mind-set in the future, especially if EU-EEU dialogue is to be credible.

More generally, however, for the EU to acknowledge the EEU as a partner would also imply crediting Russia's international leadership in an important regional organisation and, by extension, implicitly accepting its legitimacy as hegemon, even when, as argued here, this legitimacy frequently derives from coercive and elite-driven measures. To put it bluntly, Belarus's and Kazakhstan's membership of the EEU stem from a range of interests and possibilities which have no resemblance to those underpinning Armenia's or Kyrgyzstan's 'Eurasian choice' (in their case, they chose what they could). Contrary to what some have argued, even if Brussels were to show Moscow that it accepts Eurasian integration for those who 'choose' it, it is at best unlikely that, reciprocally, Moscow might therefore feel compelled to recognise the Ukraine's or Georgia's hypothetical 'European choices'. At any rate, such **speculations can only make sense if it is conveniently agreed to forget the Russian Federation's recent annexation of the Crimea and its continuing efforts in rendering other Ukrainian territories ungovernable from Kiev.** It is far more likely that the fate of the Crimea has been sealed, at least in the short and mid-term, by the need to find some workable compromise with Russia on the Donbass.

Conclusions

The successful creation of the EEU marks a key change in post-Soviet politics; the Russian elite is heavily invested in its durability and is ready to make sacrifices in order to sustain it. At the same time, the EEU is seriously challenged by its own political and economic contradictions. In the context of sanctions, countersanctions and open conflict in the Donbass, the economic basis on which to broker cooperation between the EU and EEU is,

to say the least, limited. For **as long as the Kremlin is haunted by the spectre of the Ukraine's potential EU membership, a substantive EU-EEU dialogue is likely to remain perfunctory** and superficial, pragmatically confined by the progress of hostilities. Nevertheless, the EU has a huge stake in closely observing the evolution of Eurasian integration and monitoring its ability to survive into 2016.

Notes

1 The Union State was created by Russia and Belarus in 1996 (established since 1999) in an attempt to forge a confederation; former Soviet republics such as Kazakhstan or Moldova have at different times expressed an interest in joining while Abkhazia and South Ossetia currently have observer status. The Collective Security Treaty Organisation is a security and military alliance formed originally in May 1992.

2 In practice, the problems derived from the rouble devaluation have, for the time being, dampened any appetite for a currency union. 'Lukashenko: edinaya balyuta EAES budet ne pri moei presidentskoi zhizni' ('Lukashenko: there will be no single EEU currency during my Presidency'), RiaNovosti, 29/I/2015.

3 These are relatively conservative valuations and are anyway subject to permanent variations and revisions. If one considers World Bank GDP/PPP data from 2014, for instance the overall economic size of the EEU reaches a more impressive US\$4 trillion.

4 Eurasian Economic Commission (2015), 'Evraziiskaya ekonomicheskaya integratsiya. Tsifry i Fakty' (Eurasian economic integration. Figures and facts), II/2015. GDP/PPP comparative figures based on IMF Data and Statistics (January 2013-April 2015).

5 'Будущий Евразийский экономический союз, о котором мы заявляли, о котором мы много говорим последнее время, это не просто набор взаимовыгодных соглашений. Евразийский союз – это проект сохранения идентичности народов, исторического Евразийского пространства в новом веке и в новом мире' (emphasis added). See footage of this fragment at <https://www.youtube.com/watch?v=SsXyfoVcHxM> (especially from 0'30'').

6 'на следующий, более высокий уровень интеграции – к Евразийскому союзу'. Vladimir Putin (2011), 'Novyi integratsionnyi proekt dlya Evrazii – budushee, kotoroe rozhdaetsya segodnya' ('The new integration project for Eurasia – A future which is being born today'], Izvestiya, 3/X/2011.

7 Presenting the EEU as an attempt to restore the USSR by stealth makes for attention-grabbing headlines. To give but two examples (from reputable Polish media outlets), see 'Niewielu Chętnych do nowego ZZZR' ('Few keen on new USSR'), Gazeta Wyborcza, 13/X/2014; and 'Unia Eurazjatycka konkurencyjna dla Europy?' ('Is the Eurasian Union a competitor for Europe?'), Polskieradio.pl, 3/I/2015. In his Izvestiya piece, Putin calls such speculations 'naïve'.

8 Putin, 2011.

9 All these treaties and agreements are available from the website of the Eurasian Economic Union.

10 A notorious example concerns Armenia's EEU membership, which followed after Russian pressure prevented it from pursuing an association agreement with the EU.

11 'MinFin ozhidaet ottok kapitala iz Rossii v 2015 godu v \$90-100 mlrd' ('Ministry of Finance is expecting capital flight from Russia at \$90-100 billion in 2015), RiaNovosti, 2/III/2015.

12 World Bank (2015), Russia's Monthly Economic Development, 10/IV/2015.

13 This dynamic has presented the Russian economy with some perverse advantages; for instance, the higher demand for cheaper Russian cars in Kazakhstan has allowed the industry to survive the worst consequences of Western sanctions. 'Rossiiskie avtozavody namereny udvoit' eksport' ('Russian car makers intend to double exports'), TASS, 15/II/2015.

14 World Bank (2015), 'Migration and development brief 2015', 13/IV/2015, p. 19.

15 'Tamozhennyi Soyuz ne srastaetsya trgovlei', Kommersant, 19/V/2014.

16 Frank-Walter Steinmeier, 'Europäische Friedensordnung steht auf dem Spiel' ('European peace framework is at stake'), Die Welt, 16/XI/2014.

17 'Lavrov hopes free trade zone for EU, Eurasian Economic Union still possible', Sputnik, 8/IV/2015.

18 This, at any rate, is the gist of a recent comment by Ivan Krastev & Mark Leonard (2014), 'The new European disorder', European Council on Foreign Relations Essay, XI/2014.

19 Evgenyi Vinokurov (2014), 'Мегасделка двух союзов' ('A megadeal of two Unions'), Izvestiya, 2/X/2014.

20 But note that what are meant here are commercial relations with Russia and the EEU within the framework of CIS free-trade agreements. Naturally, even the mere prospect of the Ukraine joining the EEU is unlikely.

Goodbye Dollar, Hello Altyn? In Ex-Soviet Union, Possible Future Currency Has Rich Past

Merhat Sharipzhan

05 September, 2015, Radio Liberty, <http://www.rferl.org/content/goodbye-dollar-hello-altyn-future-eurasian-currency/27228511.html>

When Russian President Vladimir Putin submitted a bill aimed to help de-dollarize the post-Soviet space, it came as no surprise for many in the former U.S.S.R. **On August 28, Putin asked parliament to ratify a treaty among members of the Commonwealth of Independent States that would expand the use of their national currencies** -- instead of the dollar or euro -- in foreign trade payments and financial services.

The move came as the ruble and other currencies across the region continue to suffer. It followed months of calls in Russia for the creation of a single currency for the EEU, which comprises Russia, Armenia, Belarus, Kazakhstan, and Kyrgyzstan.

The proposed name: the "altyn." For many, altyn sounds less Russian than Turkic - an impression that is completely accurate and raises many questions. The word, although not Slavic, is inseparable from the Russian statehood history, as are many other Turkic-origin words related to the Russian government and financial system.

So, why altyn?

Starting in the 15th century, the altyn was a major currency in what we today call Russia. Many relate its name to the Turkic word "altyn" - gold. But there is another explanation. If we look at the exchange rate of the altyn against another former Russian monetary unit, the denga (also Turkic: tanga or tenge), we will see that one altyn was equal to six half-dengas. Six in Turkic is "alty" -- and here lies the root of the currency's name.

The Golden Horde, of which many Russian principalities and territories were part - and of which Muscovite Russia was certainly a successor - had half-denga coins. Denga, like altyn, is of Turkic origin. The Russian word "dengi" - money -- is derived from denga. The altyn

and the denga circulated in Russia for centuries, until the end of the 18th century. Later, the name altyn went completely out of usage after the image of St. George on a horse with a spear started being engraved on the back of the coin. Spear is "kop'ye" in Russian, and the word "altyn" was gradually replaced by a derivative of kop'ye -- "kopeyka" or kopeck. The half-kopeck coin survived the Russian Revolution and was in use in the Soviet Union until 1928. Another trace of the altyn, the three-kopeck coin, continued to circulate until the Soviet breakup of 1991. Echoes of the altyn also rang out in the Russian word "pyatialtynnik" or "pyatialtyunny" -- meaning "five altyns" and used as a synonym for a 15-kopeck coin. As for denga, it is the root not only of the Russian "dengi" but also the national currency in Turkic-speaking Kazakhstan -- the tenge. Over in Turkmenistan, another Turkic-speaking Central Asian nation, the tenge is the smallest monetary unit, with 100 tenges making one manat. The smallest monetary unit in Kazakhstan is called the "tyin" - a Turkic word that was used by tens of millions of Soviet citizens for the Russian kopeck. In the Russian language, it was preserved in "poltinnik" (half-a-tyin), which was used originally for 50 kopecks (half a ruble), but in the modern Russian language is used to replace the word "fifty" - as in 50 rubles, or even \$50. And someone who turns 50 in Russia might say, "Mne poltinnik stuknul" - I hit 50 (or, more literally, 50 hit me). While history is often rewritten to serve political aims or conform to current societal preferences, languages still carry historic "proofs."

The Russian history strongly connected with the history of the Turkic-speaking Volga area, and many regions of the North Caucasus and Central Asia, is a part of the common history of the former subjects of the Golden Horde. After all, such important Russian words related to statehood as "kazna" (state treasury), "kaznachei" (accountant), "tamozhnya" (customs)-- from "tamga" (mark or stamp) - are remnants of the state system of the empire called the Golden Horde. Others include "yarlyk" (label), "tyurma" (prison), "karaul" (guard), "yamshchik" (postman), and many more. We shall see whether the altyn will return to the former Soviet space. Or should we say the post-Golden Horde space?

Altyn or Euraz: The Eurasian Economic Union and its Plans for a Common Currency

Ofelya Sargsyan

EUFAJ 1/2015, http://www.libertas-institut.com/wp-content/uploads/2015/03/EUFAJ_1_2015.pdf

The Eurasian Economic Union is a Russian-led project. On the way of forming it, then Prime Minister Vladimir Putin announced that from January 1, 2012 the Common Economic Space of Russia, Belarus and Kazakhstan would be created, which would pave the path for the establishment of the Eurasian Economic Union. Thus, the Custom Union (CU) of Russia,

Belarus and Kazakhstan, launched in 2010¹ was evolved into the Single Economic Space (SES) on January 1, 2012 with Armenia announcing about its interest to join the project on September 3, 2013. **The Eurasian Economic Union was put into force on January 1, 2015.** Its purpose can be correlated with Russia's competitive disposition with the EU, regarding the post-Soviet Union countries. Additionally, the initiative can be Russia's attempt to counterbalance the EU's appeal and influence. Hence, whereas Russia claims that integration is beneficial for all the parties engaged, in reality the picture is not that clear-cut. One of the causes is the political systems and structures of the member states of the Eurasian Economic Union – they are not democratic, disposed to corruption and instrumentalization of law. Another evidence is Russia's aggressive policy of recent years. Moreover, the country's superior position in shaping the EEU also comes to prove that the project is actually a simulation of integration. The EEU seems to be driven forwards by forceful integration, which is becoming less and less favorable for the member states except for Russia, per se.

Hence, **the EEU's functioning will mainly be dependent on Russia** which seeks to push integration involving more and more spheres from which it can get utmost benefits. Such an opportunity appears to be the introduction of a common currency within the EEU. Thus, while other founding members states of the project have been less supportive to such a plan and have been increasingly imitating integration rather than opting for it², on March 10, 2015, Russian President Vladimir Putin instructed the Central Bank of Russia and the Government "to determine the potential dimensions of the integration in the monetary and financial sectors in the framework of the Eurasian Economic Union with a study of the feasibility of establishing a monetary union in the future." Putin's this instruction is to be worked out together with the central banks of the member states of the EEU by September 1, 2015. And **the new currency can appear already in 2016³.**

Among many issues the establishment of a monetary union presupposes introduction of a common currency.

Hence, **according to the documents ratified by Russia, Belarus and Kazakhstan in May, 2014 in Kazakhstan, a Eurasian Central Bank and a common currency was supposed to be established by 2025⁴.** To the point still in 2014 Rinat Abdullin, the chairman of "Altyn Kara" Bank, stated: "Personally, I see absolutely nothing wrong with the introduction of a single currency for our three countries. Many of us lived in the Soviet Union, and they remember that there was a single currency such a large area - the ruble, which was accepted

¹Rilka Dragneva & Kataryna Wolczuk, Russia, the Eurasian Customs Union and the EU: Cooperation, Stagnation or Rivalry?, Russia and Eurasia Programme, Chatham House, 2012,

http://www.chathamhouse.org/sites/default/files/public/Research/Russia%20and%20Eurasia/0812bp_dragnevawolczuk.pdf.

² Aleksandra Jarosiewicz, Ewa Fischer, The Eurasian Economic Union – more political, less economic, Centre for Eastern Studies NUMBER 157, 20.01.2015, p. 1-7

³1. TASS Russian News Agency, Putin instructed the Central Bank and the Government to work out the possibilities of creating a monetary union in the EEU, March, 2015, <http://tass.ru/ekonomika/1817884>, 2. Radio Liberty, Armenia Not To Attend Meeting Of Trade Bloc Partners, March, 2015,

<http://www.azatutyun.am/content/article/26891807.html>, 3. Naviny.by, Putin instructed to work out the possibilities of creating a monetary union in the EEU; March, 2015, http://naviny.by/rubrics/finance/2015/03/10/ic_news_114_455255/

⁴Banknoteinfo.net, Eurasian Economic Union plans to adopt common currency unit, August, 2014, <http://banknoteinfo.net/eurasian-economic-union-plans-adopt-common-currency-unit/>

everywhere. No matter whether you were going to the Far East, Siberia or Georgia - it was very convenient, because there was a confidence that all prices are formed in a common currency. This situation is much easier for business, as well as for the calculation of ordinary people"⁵. **Yet, the Russian president decided to accelerate the process and this at a time when Russia faces a serious economic crisis and the ruble has practiced a severe depreciation**⁶ as a result of which the amount of mutual settlements among the member states of the EEU in dollars has increased. Moreover, the West speculated to turn off Russia from the interbank payment system SWIFT, yet to make transactions, say from Russia to Kazakhstan, it is necessary to obtain confirmation from the American settlement centers. Obviously enough, the tense foreign policy pushed Putin to rush with the initiative.

In reaction to the initiative, Armenian Central Bank Board member Armenak Darbinian stated, "there is no document among those signed [by Armenia] within the framework of its accession to the EEU that would concern the feasibility study or prospects related to this matter (introduction of the common currency)... There have been no negotiations, no formal discussions in this direction yet. I would say more: the issue of forming a single financial market regulator was discussed within the framework of the EEU and it should happen after 2025. During this time, national laws and regulations should be harmonized and only then the issue can be put on the agenda. It cannot be an administrative decision. This requires relevant developments in the economy and in the financial markets"⁷.

Yet Prosperous Armenia Party former MP, economist Vardan Bostanjyan considers it quite feasible that Armenia incorporates a common currency with the EEU. He adds that it will have a favorable impact on the country, saying that "solely by the fact that quite a number of Armenians are in that [EEU] region; the word is about the migrants who are having losses in the case of [currency] exchange rates. But, now, they will not have that". However, there are also contra opinions. As such Armenian economist Ashot Yeghiazaryan said, "If we switch to the ruble, or another Eurasian currency, and if our Central Bank begins to keep its funds in that currency, discrepancies will arise between the currency loans, and our entire microeconomics will deviate"⁸.

It is to be mentioned that the idea of establishing a common currency has not been accepted straightforwardly also in Belarus and Kazakhstan. The director of the Institute of the Global Political Economics of Kazakhstan, analyst Akimbekov Sultan said that the instrumentalization of a common currency should not be an issue of a near future. He states that while the idea is interesting there are apparent problems - all the member states have different levels of development. Moreover, Belarus has not yet undergone those market reforms that, say Russia and Kazakhstan went through. Belarusian columnist from the Belarusian Radio Liberty and political scientist for the "Strategy" center Valery Karbalevich

⁵East Time, Introduction of Alтын will Be Useful for a Eurasian Union, Tuesday, May 13, 2014, <http://easttime.info/news/kazakhstan/introduction-altyn-will-be-useful-eurasian-union>

⁶Pravda-TV.ru, By Putin's instruction a common currency of the EEU will be launched in 2016: Alтын or Euraz? <http://www.pravda-tv.ru/2015/03/10/129883>

⁷Asbarez.com, 'No Plans Yet' for Armenia to Adopt Single EEU Currency, March 11, 2015, <http://asbarez.com/132864/%E2%80%98no-plans-yet%E2%80%99-for-armenia-to-adopt-single-eeu-currency/>

⁸News.am, EEU single currency is foolish, March 14, 2015, <http://news.am/eng/news/257002.html>

stated, “And if we are talking whether the Member States of the EEU in general should have a single currency, I do not think that Kazakhstan and Belarus will agree. This would mean that these countries lose their sovereignty”⁹

With all the events, facts and discussions at stake, it is still to be mentioned that it is totally unthinkable that, for example, during the creation of the euro in the years 1990-1999 (Maastricht Treaty to book-money introduction¹⁰), and this since the Pierre Werner Plan from 1970, one president would have given a commando to "his" central bank ordering a study on the possible common currency, predicting its effective introduction for the next year, while the order to the central bank went out in March of the current year. Observers from the European Union sources, asked privately, have the presumption that the Russian president has an "economic psychogram" being somehow "actively jealous of the EU *acquis communautaire*" which he wants to be caught up rapidly, and "while common currencies are to be welcomed in general, any too fast introduction can damage the participating states considerably", even if the central bank of the integration is not de facto independent.

As for the idea of the Eurasian currency, on the whole, it dates back to 1994 when the President of Kazakhstan, Nursultan Nazarbayev proposed the notion. In 2012 Vladimir Putin endorsed the idea. The Kazakh President has never been suspicious to reset Soviet Union or Soviet Union 2.0., he was however all the time for economic integration, until a certain time in Central Asia¹¹. Concerning the currency within the framework of the EEU, it is said to be similar to the Russian ruble. **As for the name of the forthcoming common currency two options, are being discussed - Altyn and Euraz.** The first name – Altyn, mentioned by Nazarbayev in 2014, meant a three penny coin in Old Russian and the word itself stems from the Golden Horde. The second name – Euraz, is parallel to, or a kind of imitation of the Euro¹².

It is envisaged that **the key element in sustaining the new currency will be raw oil exports from Russia and Kazakhstan.** Therefore, it has been decided to base the Central Bank of the EEU in Almaty, Kazakhstan. Evidently, the involved EEU governments want to rely more than ever on oil and gas exports, which is diametrically opposed to what also Russian economists preach. The potential market will include about 180 million people, with the total volume of GDP being more than \$ 2 trillion.¹³ Yet, it is under a question whether the member states of the EEU, can indeed make the functioning of a common currency a reality. All the currencies of the member states currently face fluctuations and to avoid this in the event of a

⁹Mariam Grigoryan, The approach to the single currency of the Eurasian Union is ambiguous in Belarus and Kazakhstan, 1am, March 14, 2015, <http://www.1in.am/1572943.html>

¹⁰ Before the Euro has been introduced as cash currency in 2002, it had been at disposition as book-money, on bank accounts only, since 1999.

¹¹ Hans-Jürgen Zahorka, Strategy Options for Central Asian Integration –For a Central Asian "Cecchini Report", EUFAJ 1 / 2010, p. 116, www.eufaj.eu

¹² Interpolit, Oil altyn against the dollar banknote; 11.03, 2015, <http://politobzor.net/show-47317-neftyanoy-altyn-protiv-bumazhnogo-dollar.html>

¹³ Russian Telegraphic Agency, "Instead of the ruble - Altyn. EEU opts into a new currency", March, 2015, <http://www.riata.ru/ekonomika/item/716-vmesto-rublya-altyn-evrazijskij-soyuz-perekhodit-na-novuyu-valyutu.html>

common currency additional resources will be required. Moreover, the efficient functioning of the EEU, per se is also dubious.

Russia's Putin Drafts Bill to Dump Dollar, Euro from CIS Trade

September 02, 2015, Global Research, <http://www.globalresearch.ca/russias-putin-drafts-bill-to-dump-dollar-euro-from-cis-trade/5473405>

Russian president Vladimir Putin has proposed a bill to the country's legislature to eliminate the dollar and the euro from trade between member states of the Commonwealth of Independent States (CIS).

A statement from the Kremlin said that Putin submitted to the State Duma a draft federal law which seeks an integrated currency market in the CIS. "This would help expand the use of national currencies in foreign trade payments and financial services and thus create preconditions for greater liquidity of domestic currency markets," said the statement. Russian officials say **they seek to drop the dollar and the euro from their exchanges with former Soviet Union countries to achieve macro-economic stability in the region.**

They say using Western currencies could seriously increase the risks associated with trade especially at a time when the United States and its European allies are in a political row with Moscow over the situation in Ukraine. Russia has managed to move ahead with its plans to weaken the dollar through deals it has reached with some other countries.

Members of the EEU - including Russia, Belarus, Armenia and Kazakhstan - have already signed an agreement to switch to their national currencies. One such obligatory transition must take effect between 2025 and 2030. China has also decided to use the Russian ruble in trade exchanges in its border cities.

Putin calls for switching to sub-national currencies in mutual settlements in CIS

Alexey Nikolsky

16 October 2015, TASS, <http://tass.ru/en/economy/829383>

Aggregate GDP of CIS countries decreased in the first quarter of 2015 as well as investment in capital stock. Russian President Vladimir Putin has called for switching more actively to sub-national currencies in mutual settlements in CIS (Commonwealth of Independent States) countries.

"We should switch more actively to sub-national currencies in mutual settlements," Putin told a session of the Council of CIS Heads of State in the extended format. The Russian president reminded about the agreement on free-trade zone in CIS signed in 2011. "We should use its potential to the fullest and maximally simplify conditions for movement of goods and investment flows," Putin said. He noted that aggregate GDP of CIS countries decreased in the first quarter of 2015 as well as investment in capital stock. "Trade turnover between our countries has also decreased. In this situation, it is important to think about the package of measures on lowering dependence of national economics from foreign markets and think about reviving business ties inside the Commonwealth," he added.

Putin noted that Russia is finishing the ratification of the Agreement on CIS integrated currency market. The document was signed in Ashgabat in December 2012 by Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan. "The enforcement of the document will allow us to conduct coordinated currency policy, and in the future maybe even form CIS common financial market," the Russian president said.

The EEU's 'Single Information Field'

Casey Michel

September 27, 2015, The Diplomat, <http://thediplomat.com/2015/09/the-eurasian-economic-unions-single-information-field/>

There are a handful of nominal perks to joining the EEU: streamlined trade regulations, expedited access for migrant laborers within the Russian market, and increased access to Russian capital. To be sure, though, many of the perks remain in name only; the EEU serves to highlight the differences between regulation and reality. Intra-EEU trade has plummeted, with a floor yet to be found. Border checkpoints remain on paper alone. Protectionism has only increased. Today, the EEU is even farther from being the geopolitical “pole” promised by Russian President Vladimir Putin than when it came into force nearly ten months ago. Still, the EEU allows Moscow to consolidate its putative influence over the assorted post-Soviet republics who have thus far joined. Last week provided Moscow another opportunity to continue its outreach in Central Asia, as Dmitry Kiselyov joined Kyrgyzstani journalists for a symposium on “informational cooperation between Russia and Kyrgyzstan in the framework of Eurasian integration.”

Kiselyov, currently helming the Rossiya Segodnya conglomerate, unofficially acts as Russia's chief propagandist. There's no one quite like Kiselyov in the Russian media sphere, both in terms of managerial reach and on-screen persona. (To those familiar with the American mediascape, *The New Yorker's* David Remnick summed up Kiselyov's approach: “As a master of theatrical sarcasm and apocalyptic rhetoric, Kiselyov eclipses Bill O'Reilly, and as a theoretician of conspiracy he shames Glenn Beck.”) Kiselyov's crude charlatanry – his threats of turning the U.S. to “radioactive dust,” his calls to incinerate the hearts of LGBT individuals upon their passing – reaches a wide audience, both domestic and abroad. His *Sputnik* outlets, having absorbed the erstwhile *RIA Novosti*, continue to reach Central Asian audiences, and continue to co-opt the region's talented journalists.

This week, Kiselyov landed in Kyrgyzstan to spread his gospel of informational warfare: the pursuit of journalism not as a means of informing the public, but as a vehicle to espouse national interests, national values, and national – and governmental – sanctity. Journalism in this view is a buttress for the ruling castes, rather than any means to affect, or deter, oppression, repression, illegality, and the like. After all, as Kiselyov informed his audience, Russia doesn't experience any forms of repression. All the while, Western-trained journalists, part of an American megalith, are bent only on destabilization.

Instead, Kiselyov said that Kyrgyzstan needed to join the “single information field” linking those nations now part of the EEU. (A bit of an odd call, seeing as the EEU is only – nominally a commercial arrangement.) “Kyrgyzstan has a choice,” Kiselyov delaimed. “Following the path of Eurasian economic integration is the choice of national interests.

Unfortunately we see today how countries simply disappear, and there is no guarantee that Kyrgyzstan will also not disappear.” Such threats of state “disappearance,” transparent as they are, are by no means unique to Kiselyov. Indeed, Kyrgyzstan is not even the first state Kiselyov has claimed would longer exist; he earlier observed that Ukraine is now but a “virtual” state. (To be fair, Kiselyov was only mirroring Putin’s prior rhetoric: In 2008, Putin, according to Kommersant, informed U.S. President George Bush, “You don’t understand, George, that Ukraine is not even a state.”) They also follow an uptick in rhetoric from Russian officials and nationalists discussing the lack of sovereignty in another EEU member, Kazakhstan.

Now part of the Eurasian Union, Kyrgyzstan and its journalists are in for more rhetoric like that Kiselyov seems to enjoy crafting so much. Instead of the punchy media sphere Kyrgyzstan’s come to enjoy over the past few years, **Kiselyov wants to hitch the Kyrgyzstani journalist scene to Russia’s “single information sphere” – with all the realities, and threats of disappearance, it will provide.**

More than 40 Countries Interested in FTA with EEU

Mikhail Metzel

24 August 2015, TASS, Kuala Lumpur

Russian Economic Development Minister Alexey Ulyukayev said Monday at the East Asia Summit. "Global cooperation is an important trend. Russia, Kazakhstan, Belarus, Armenia and Kyrgyzstan organized EAEU and set the **free trade zone with Vietnam. More than 40 countries and international organizations have expressed interest in establishing a free trade zone with the EAEU — China, Indonesia, Thailand and Cambodia** are among them". Speaking about the cooperation with the countries of EAS, Ulyukayev noted that the summit is "an excellent opportunity to extend participation in integration processes in the region" for Russia. "The EAEU countries play an important role in the global economy - **the GDP of the EEU MSs reached \$60.5 trillion in 2014,**" the Minister added.

18 states participate in the EAS: 10 ASEAN countries and its dialogue partners - Australia, China, India, South Korea, New Zealand, Russia, the USA and Japan. In 2014 Russia's trade turnover with the countries of EAS, according to the Russian customs statistics, **amounted to \$208 bln and increased in comparison with 2013 by 2%,** including export that amounted to \$105.8 bln (increasing by 8.9%), import — \$102.2 bln (decreasing by 4.2%). The foreign trade surplus between Russia and the EAS in 2014 amounted to \$3.7 bln. The Russian exports to these countries were based on fuel and mineral products.

Integration of Russia's, China's Eurasian initiatives to reshape entire Eurasia

Yury Smityuk

04 September 2105, ITAR-TASS, <http://tass.ru/en/world/818880>

Integration of Russia and China's Eurasian initiatives will reshape the entire Eurasian space, Russian Deputy Foreign Minister Igor Morgulov said on Friday at the Eastern Economic Forum in Russia's Far Eastern city of Vladivostok. "The projects we are speaking about today, namely the project targeting **integration of the Eurasian Economic Union and the Silk Road Economic Belt, are seen as a large-scale, giant, long-term strategic task** that, I am sure, will reshape the entire Eurasian space when implemented," he said. **Moreover, India and Iran "are bound to join this common economic space this or that way in the long run.**

Practical measures have been kicked off to implement the integration tasks set by the leaders of Russia and China," Morgulov said, adding that an ad hoc bilateral working group involving representatives from all Russian and Chinese agencies concerned had been set up. "It is a comprehensive approach. Later on, the group will be split up to maintain dialogues in separate areas. In term of concept, we have a common view on how to tackle the integration programme," he said. "The matter is that neither we nor the Chinese keep to the "purely accountancy" approach. We don't mean only transit corridors."

EEU launches talks with Israel over free trade zone

October 16, TASS, Burabay, <http://tass.ru/en/economy/829483>

The EEU **will launch negotiations with Israel on creating a free trade zone**. The decision was made at a meeting of the **Supreme Eurasian Economic Council** on Friday. Representatives of the meeting also approved Main areas of international activity of EEU for 2015-216. Among other issues on agenda, participants of the meeting discussed the order of accepting new EEU member-states, some aspects of Kazakhstan's joining the WTO, personnel of collegium of Eurasian Economic Commission, mid-term approaches to development of trade and economic cooperation with the union's main partners. Also, the leaders of the **member-states discussed Main areas of EEU development, concentration**

of actions regarding issues of EEU's conjugacy with Chinese project of Silk Road Economic Belt. Besides, a number of sectors have been defined where equal service market will be formed in line with liberalization plans. Also, a working group has been set up to prepare unified system of identification external economic participants within the territory of the union.

EEU Closes Deal with Israel, China

Kseniya Bondal

November 17, 2015, <http://www.silkroadreporters.com/2015/11/17/eurasian-economic-union-closes-deal-with-israel-china/>

The Eurasian Economic Union is expanding, and quickly. In early September, leaders of the five member states gathered in Kazakhstan's Borovoe resort area to sign documents making Israel and China official partners to the trading bloc. **The Union and Israel have signed an agreement authorizing the creation of a free trade zone.** "Israel's extremely developed economy makes it a very attractive partner for the Eurasian Economic Union. In 2014 alone, this country's per capita GDP was at US \$39,100 while in Russia it was only \$14,400, in Kazakhstan \$14,600, and in Belarus \$5,500," says Kazakh economist Valentin Makalin. Kazakhstan and Israel have enjoyed a decent level of bilateral trade over the past few years, he says, though he adds that the bulk of Kazakh exports to Israel were oil and gas, and due to the fall in global oil prices, the trade balance had dropped in 2014. On the other hand, agricultural products, pharmaceutical, dominate Israeli imports to Kazakhstan and food products.

Kazakhstan regularly becomes a member of various unions that don't make sense for the country's economy, and this is the case now again. If we create a free trade zone with Israel it just means that this country will start shipping tax-free all of its goods to Kazakhstan. So they will benefit, but us? I don't think so," says Forex Market Dealing Center analyst Arman Beysembayev. **"We don't sell them anything apart from uranium and oil, so this isn't going to be a profitable agreement for our country,"** he warns. **"As a result of such an agreement, foreign currency flow out of the country will increase.** This means that the **dollar will become more expensive in Kazakhstan,** and this is no good for us. This means that the country will be supporting other countries' economies but harming its own," he says.

But free trade with Israel poses far less risk than the **free trade partnership with China,** another agreement reached at the gathering, says Aidar Alibayev of the Association of Financial Services. "This time around the final agreement wasn't signed, but next year this is likely to happen, and **that kind of agreement will threaten Kazakhstan's economy even more. This means all Chinese goods that are in transit from China to Europe through**

Kazakhstan will now pass through untaxed, which will be a huge blow to our economy. Especially given the extent of our economic problems already, this isn't smart"

China backs Putin's model of Eurasian integration — foreign ministry

December 04, TASS, Beijing, <http://tass.ru/en/economy/841551>

Vladimir Putin suggested EEU begin consultations with countries of the Shanghai Cooperation Organisation and the ASEAN on economic partnership.

China supports a model proposed by Russian President Vladimir Putin of the Eurasian integration involving Beijing's initiative, the Silk Road Economic Belt, China's Foreign Ministry spokesperson Hua Chunying said on Friday. "As for the integration of the Eurasian Economic Union (EAEU) and the Silk Road Economic Belt proposed by Russian President Vladimir Putin, the leaders of the two countries have reached consensus on this issue," Chunying said. "This is an important strategic step made by the countries of the region for economic cooperation and also for gaining common profit and prosperity," the Chinese diplomat said. "For achieving greater economic profits for the countries and people of the region, China is ready to work with all the sides, including Russia, to promote regional cooperation based on equality, mutual benefit and consultations as part of the Shanghai Cooperation Organization," she said. In his state of the nation address on Thursday, Putin invited EAEU colleagues to begin consultations with countries of the Shanghai Cooperation Organisation (SCO) and the Association of Southeast Asian Nations (ASEAN) on establishing economic partnership.

Putin said "this partnership creates new possibilities for Russia for increasing supplies of food, energy resources, engineering, educational, health and tourism services to the Asia-Pacific region and will allow playing a leading role in the formation of new technological markets, and extend major global trade flows to Russia."

EAEU hopes to receive observer status at next UN General Assembly

Alexander Shcherbak

05 November 2015, TASS, <http://tass.ru/en/world/834141>

The Eurasian Economic Union has already established itself as an international legal entity and automatically possess juridical personality, the Minister of Eurasian Economic Commission says. **The EAEU hopes to be granted observer status from the UN at the next General Assembly**, the Minister of Eurasian Economic Commission (EEC) on Economy and Financial Policy Timur Suleimenov said on Thursday. "We're working at this (receiving status) through our legal department and ministries of foreign affairs of EAEU member-states. Hopefully, we'll be granted this status at the nearest meeting of the UN General Assembly," he said. Suleimenov added that the Eurasian Economic Union has already established itself as an international legal entity and automatically possess juridical personality. **"I think this (receiving status within the UN) is a formalization of our status**, which by no means disables us either in our rights, or in talks with countries, or in talks with each other," the Minister said. Belarus, which is chairing the EAEU, submitted a draft resolution on granting it the UN observer status in mid-October in New York.

Chapter 2. Economic impact of the EEA on MSs

EEU: Russian Economic Statecraft

Clay Moore

16 November, 2015, Ex-patt Magazine, <https://expattmagazine.wordpress.com/2015/11/16/eurasian-economic-union-russian-economic-statecraft/>

The Eurasian Economic Union (EEU) is an economic and customs union originally consisting of the Russian Federation, Belarus, and Kazakhstan. The EEU is the culmination of a trend in the Eurasian space of regional economic and security-based collaboration between certain members of the former Soviet Union. However, this trend has been rife with competing national interests in the realms of state sovereignty, distrust of partner-states' intentions, and a hesitation to create supranational institutions with any leverage over national governments. From an external perspective, the EEU, with a common market of 170 million customers, a combined GDP of over \$2.7 trillion PPP, and a centralized location, cannot be ignored by the large economies of China and the European Union.

The economic union originated as an opportunity for Russia to exert economic statecraft both on member-states as well as to consolidate economic connections with the European Union and China; however Russia has been unable to cogently utilize the union to accomplish these goals.

Internal Dynamics

Following the fall of the Soviet Union, newly-independent states in the central Eurasian region sought to form an amalgam of security and economic treaties to establish a baseline of cooperation in the new geopolitical environment. Regional organizations such as the Commonwealth of Independent States, and eventually the Eurasian Economic Community were created to increase security and economic cooperation in the region. Due to Russian economic and coercive power, it would come to dominate these organizations, utilizing them to exert its influence on member states. Formally effective in 2015, the Eurasian Economic Union is the latest incarnation of this Russia-dominated trend, bundling a pre-existing customs union, an economic space, and an economic community organization into a unified organization with, for the first time, supranational institutions, the Eurasian Commission, the Eurasian Intergovernmental Council, and the Court of the Eurasian Economic Union.

However, from the draft stages of the original 2014 treaty, these supranational institutions have been rendered less effective than expected, as member states have actively worked to undermine their capabilities, or outright ignored them. **The Russian counter-sanctions against the European Union were enacted without any consultation or coordination with other members of the Eurasian Economic Union**, leading to problems such as Belarusian firms repackaging European foodstuffs and reselling them on the Russian market. **The crisis with the ruble also influenced the tariff schemes in the customs union, as large numbers of Kazakh and Belarusian distributors are purchasing cheap goods in Russia and returning to their domestic customers. The unified tariff zone is being largely ignored as national governments are implementing limitations on cross-border trade**, including a temporary Kazakh ban on the import of some Russian petrol products in spring 2014.

These breakdowns of this approach of the EEU indicate a consistent lack of resolve from member-states to empower a rule-based institutional approach towards intra-union trade. More broadly, it reflects a larger challenge of regional integration, as well as a failure of Russia to effectively utilize the union to coerce and influence fellow member-states.

External Dynamics

From an external perspective, Russia has been largely unsuccessful in coercing member states to avoid making bilateral agreements with external economic giants like the European Union. In early 2015, the European Union and Kazakhstan concluded an **enhanced partnership and cooperation agreement which facilitates stronger political and economic relations and contributes to Kazakhstan's political and social development.** This is the latest step in the deepening of Kazakh-EU relations, and the most relevant since Kazakhstan's entrance into the Eurasian Economic Union.

While Russia surely does not appreciate the increased cooperation between the EU and Kazakhstan, it remains hesitant to overtly punish the member-state, as it would further degrade any incentive for states aspiring to join the union. However, the Kremlin had little qualms about punishing a state whose populace had little desire to join the trading bloc. The winter 2013 revolution in Ukraine and subsequent Russian intervention demonstrated the resolve at which the Kremlin seeks to expand the EEU.

While the formation of the union was not finalized at the time of Ukrainian president Yanukovich's ouster, the intent was for Ukraine, with her large population, strategic location, and relatively developed industrial sector, to be a founding member alongside Belarus and Kazakhstan. Following the revolution and the subsequent government's signing of the EU association agreement, Russia was forced to create the union minus what would have been the second largest economy to join. While Russia has exerted coercive economic and military power to punish states who avoid the union, the EU-Kazakhstan agreement shows that it has avoided using similar tactics to punish states within the union.

Additionally, Russia has been advocating the establishment of Free Economic Zones with non-Eurasian Economic Union states and regional blocs. So far, an agreement has been made with Vietnam but other, more lucrative agreements remain in limbo, subject to the whims of international politics. These agreements would appear to benefit all Eurasian Economic Union member-states as a whole; however the state of economic development of the external partner state dictates the potential gains of an individual state within the union. Thus, the presence of a member-state veto power can serve to stifle external economic ties and promote intra-union rent seeking from the less developed member states such as Belarus.

Large economic blocs are taking notice of the Eurasian Economic Union. **The European Union has begun to receive pressure to begin to develop policy regarding the EEU. European businesses are operating in the EEU space, filing customs declarations without coordination at the top, and lobbying for a formal framework of relations.** However, the political crisis over Ukraine and the absence of Kazakhstan and Belarus from the World Trade Organization will work to dissuade direct engagement with the EEU as a whole. **China, on the other hand, made an agreement with Russia in May 2015 to coordinate her new infrastructure-centric Silk Road initiative in central Asia with the EEU in order to create a “common economic space”.** Although China and Russia are hesitant to convert this understanding toward a common free trade agreement, the fact that China plans on consulting with the EEU as a whole rather than individual states highlights China’s recognition of Moscow’s potential sway in the region.

Overall, the Eurasian Economic Union has failed to serve as an adequate conduit to coercively exercise economic statecraft; sometimes its presence has sabotaged policy from Moscow. However, with the vast majority of the resources in the union under its control, Russia has the option to ignore or utilize the supranational institutions to coerce disobedient member-states. It remains to be seen if Moscow desires to approach this precipice of economic statecraft, as once it is crossed, there is no return.

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Belarus and the Declining Eurasian Economic Union

Ryhor Astapenia

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03 December 2015, Belarus Digest, <http://belarusdigest.com/story/belarus-and-declining-urasian-economic-union-23846>

The first year of the EEU has highlighted how differently Russia and Belarus see this integration project. **While Russia tries to create something resembling for the external audience the European Union and for the internal audience Soviet Union, Belarus has failed to gain additional benefits from the project. Reduction of a large number of trade tariff exemptions has been slow and Belarus' trade within members of the EEU fell by a third.** On 24 November, the Russian newspaper Kommersant wrote that the **Eurasian Economic Union may soon abolish duty-free export of cars produced on the territory of the EEU. This will hit Belarus the most** and may undermine the whole idea of the existing assembly lines of Geely, Peugeot and Citroen cars in the country.

Union for Russia's Ambitions?

The first year of the Eurasian Economic Union showed that Russia wanted to make the project look like the European Union. Armenia and Kyrgyzstan became members alongside Belarus, Kazakhstan and Russia. **The EEU has signed a mutual free trade agreement with Vietnam, and according to Putin's article published on 17 November on the web site of Chinese news agency Xinhua, currently about 40 countries are considering having an FTA with the Eurasian Economic Union.** Some ideas look EU-inspired, such as the desire to abolish roaming within the EEU and working on a common identity. At the beginning of the year, the Speaker of the Higher Chamber of Russia's Parliament, Valentina Matvienko highlighted the need to "strengthen information work to grip the masses with Eurasian ideas." But it seems that only Russia thinks about the Union in this way. Belarus looks at it differently.

So Little of the Economy and So Much of Politics

The first year of the Eurasian Economic Union brought poor economic results for Belarus. Moreover, falling oil prices and declining Russian economy has hit the integration project hard. In the first six months of 2015 the trade between Belarus and other EEU countries was \$2.5 billion less than in the first half of 2014. This means that **Belarusian trade with the Eurasian Economic Union dropped by a third this year.** According to data of the Eurasian Economic Commission, **only Belarus and Armenia experienced a similar decline.**

Trade within the EEU (mln \$)		
Country	January-June 2014	January-June 2015
Belarus	7 991,20	5 312,80
Russia	18 345,20	14 417,60
Kazakhstan	3 540,80	2 674,30
Armenia	141,1	92,9
Kyrgyzstan	226,5	162,9

The year 2015 failed to bring trade liberalisation. This may sound weird for Belarus, as the country usually sticks to protectionist policies, but **Belarus actively promotes the removal of restrictions on trade between EEU member countries. Belarus tries to reach out to important markets such as gas and oil. However Russia plans to liberalise them at last, but only in 2025.** This will allow other countries' companies to buy Russian resources under the same conditions as Russian companies. During 2015, it seems all Belarusian top officials advocated the reduction of restrictions. On 12 July, Uladzimir Makei, the Minister for Foreign Affairs, complained that "the EEU should not be a toy" hinting that the Kremlin sees the union this way. According to Andrei Kabiakou, the Prime Minister of Belarus, the list of exemptions in mutual trade began to increase in February 2015.

The greatest problem of the Eurasian Economic Union has little to do with the economy, at least in terms of what people usually understand as the economy. **Trade wars, despite previous agreements, have continued.** The Eurasian Economic Union began its life against the background of **the Belarus-Russia food war.** Throughout the year, the conflict flared up when **Russia accused Belarus of re-exporting Western products. Therefore Russia banned the import of goods and reinstalled customs checks at the Belarusian-Russian border. Continued trade wars indicate that the Kremlin perceives the EEU as a political project.** Moreover, now almost every issue has become politicised.

On 24 November, the Russian newspaper Kommersant published an article according to which **Kazakhstan and Russia propose to remove preferences for foreign car manufacturers who assemble cars in the Eurasian Economic Union. If that happens, foreign companies could stop the assembly of Geely, Peugeot and Citroen in Belarus. This summer Belarus signed a contract with General Motors, which could also be reviewed if the EEU cancels the free zone benefits.** In December, the heads of the Eurasian Economic Union may make a decision on removing the trade preferences. **It seems that all countries except Belarus support this move.**

The Two Inertias of Eurasian Integration

Despite the fact that Belarus in many respects appears no closer to the other countries of the EEU this year, the Eurasian Economic Commission, the technical body of the Union, made a

few steps forward in integration. In September, **the Commission announced that it had adopted a number of agreements on the energy, agricultural and infrastructure sectors. The next year the liberalisation of the drug market should occur, and in 2017 there will be a common foreign exchange market.**

However, political inertia remains dominant, which causes disintegration. Russia perceives the EEU as a political project promoting their own hegemony. Therefore many other countries fear Eurasian integration. Moreover, some countries remain reluctant to see the Eurasian Economic Union as only an integration project in itself. **On 24 November, Kazakhstan completed the ratification of documents related to accession to the World Trade Organisation. A significant portion of tariffs agreed between Kazakhstan and the WTO appeared lower than those adopted in the EEU. Moreover, the economic decline, particularly in Russia, undermines incentives of countries to integrate further. Under such conditions the first year of Belarus membership in the Eurasian Economic Union has shown rather poor results.** Eurasian integration remains more about hype than substance.

Does Kazakhstan's WTO Accession Hinder Eurasian Integration? Not the only Contention in EEU

Catherine Putz

25 November 2015, The Diplomat, <http://thediplomat.com/2015/11/does-kazakhstans-wto-accession-hinder-urasian-integration/>

Kazakhstan became the World Trade Organization's newest member after nearly 20 years of negotiations. While far from the first regional state to join the WTO - Kyrgyzstan joined in 1998, Russia in 2012, Tajikistan in 2013 - Kazakhstan was the first to join after the inception of the EEU. As noted in documents related to Kazakhstan's accession to the WTO, specific commitments accepted by Astana are applicable to other EEU member states: *A unique aspect of Kazakhstan's rules commitments is the extent of accession specific commitments "accepted" by Kazakhstan, which shall be applicable to and bind the EEU and its member States on matters falling under the competence of the EEU. There are 23 commitments which contain measures to be undertaken by "Kazakhstan and/or the competent bodies of the EEU."*

This has reportedly irritated some in Belarus. According to *Tengrinews* (citing *Kommersant*, a Russian newspaper) the Belarusian Minister of Foreign Affairs Vladimir Makei said that **Kazakhstan's WTO accession might hinder EEU development: *We have preserved a large number of exceptions and limitations that are not conducive to the early***

establishment of the single economic space, which is the main goal we have sought to achieve. Moreover, its creation was postponed until 2025 and actions of some partners may delay this deadline even further. I particularly mean Kazakhstan's accession to the World Trade Organization and its commitments (within the WTO) that reduce the level of customs security within the EEU.

The EEU has been a curious, confusing and criticized organization. In theory, the five member states — Russia, Belarus, Kazakhstan, Armenia, and Kyrgyzstan — are part of an integrated single market, with the future possibility of deeper integration and a single currency. **Ideally, the EEU allows the free flow of goods and people** across the union's borders. **But reality** has not matched the vision. **Areas of contention remained when Kyrgyzstan and Kazakhstan opened their border after the former's August accession. In addition, there have been several instances of trade restrictions and stopped shipments between Russia and Kazakhstan (and Russia and Belarus).**

Deeper disagreements exist as well, particularly over a common currency. **Russia has been pushing for the establishment of a common currency and Kazakhstan has firmly pushed back. Belarus is also hesitant;** Makei commented that “at this stage, there is no point in talking about common currency. We first need to achieve success in creation of a single economic space.” The State Duma in Moscow is talking about it, however. *Tengrinews* reports that on November 10, the CIS Committee's chairman, Leonid Slutskiy, said progress was being made toward creation of a common monetary unit of account (called evraz), a quasi-currency seen as a presaging step toward a real common currency. *Tengrinews* wrote that “the introduction of the common monetary unit evraz means that the common currency of the economic union countries is just around the corner.” But that's not necessarily true, depending on the time scale mean by “just around the corner.” The EU, for comparison, used a basket of currencies as a unit of account — the European Currency Unit — from 1979 until 1999 when it was replaced by the euro.

Armenian representative: Trade within EAEU becomes more open over first year of work

Valeriy Sharifulin

01 December 2015, TASS, <http://tass.ru/en/economy/840650>

Among major trends Armenia's trade representative mentioned more joint ventures being created by Russian and Armenian enterprises after the country joined the bloc. Armenia positively views the results of the first year of the Eurasian Economic Union

(EAEU) work, the country's trade representative in the Russian Federation Karen Asoyan said at the opening ceremony of the Eurasian Economic Congress on Tuesday.

"In Armenia we're thoroughly analyzing the results of our membership - both in the government and in business," Asoyan said. "Our enterprises mainly speak about positive results. Many formalities concerning customs processing in particular, which are related to costs, are gone as the trade regime with the Union's states, Armenia's main partners, has become more open," the trade representative said. He added **though that there are some issues still in place. "The mechanism of VAT recovery hasn't been solved yet, which to some extent is restraining trade. This impacts trade (flows) from Russia to Armenia as well.** Hopefully, the Eurasian Economic Commission will somehow solve the issue in the nearest future," Asoyan said. Among major trends he mentioned more joint ventures being created by Russian and Armenian enterprises after the country joined the bloc. "Russian tourist flow to Armenia has increased and developed," he added.

The trade representative also noted the importance of participation of the Eurasian Economic Union in formation of the Silk Road economic belt. **"It would be important to construct a railroad from Iran to Armenia and reconstruct the railroad between Armenia and Russia,"** he said, adding that "this will allow creation of the shortest efficient way of supplying goods from the Persian Gulf countries to the EAEU member-states."

EEU boosts its members' economies - Armenian FM

Sergei Konkov

23 October 2015, TASS, <http://tass.ru/en/economy/831229>

EEU gives an additional motivation for the development of economies of its members, Armenian Foreign Minister Edvard Nalbandyan said on Friday.

"We assume that **four freedoms underlying the EEU — movement of goods, services, capitals and workforce — offer an additional impetus** for the development of the economies," the minister told an international forum of graduates from Moscow State Institute of International Relations.

"Economic integration processes are in focus of attention of the international community," he added, saying there were some 20 economic unions in the world at the moment.

Mulling Kyrgyzstan's Decision to Join the EEU

Bruce Pannier

August 15, 2015, Radio Liberty, <http://www.rferl.org/content/kyrgyzstan-urasian-economic-union-debate/27190440.html>

Kyrgyzstan officially joined the Russian-led Eurasian Economic Union (EES) on August 12. The process of Kyrgyzstan joining an economic union with Russia, Belarus, and Kazakhstan started several years ago when that troika were the sole members in the CIS Customs Union. Membership has been a topic of hot debate inside Kyrgyzstan ever since. Supporters and critics had their arguments for and against entry into such a union, and as Kyrgyzstan officially joined there was still great division inside the country as to the wisdom of becoming the EES's fifth member (Armenia joined at the start of this year). RFE/RL's Turkmen Service, known locally as Azatlyk, assembled a panel to look at Kyrgyzstan's decision to join the EES and consider some of the pros and cons of the move.

Roundtable: Kyrgyzstan & the EES

Joroev opened, saying, **"People have been excited especially about the possibilities of exporting certain goods, mostly in agriculture and food products from Kyrgyzstan to these other economies,** thinking of it as a much greater market, much higher prices and so on, but...people are at the same time worried about the possibilities of inflation, of consumer prices catching up with those of Kazakhstan and Russia." Joroev also mentioned that **for Kyrgyzstan's migrant laborers, EES membership eases regulations for working in Russia and Kazakhstan,** which helps guarantee those laborers will continue to send back remittances, "a major factor in [Kyrgyzstan's] economy." However, many in Kyrgyzstan were still reluctant to tie the country's fortunes closer to a Russian-dominated organization and according to Leonard, some of Kyrgyzstan's officials still do not seem to have fully grasped what EES membership entails. Leonard recounted that just some two weeks ago a meeting of the Eurasian Economic Council, "the watchdog of the union," took place in Kyrgyzstan.

"This particular panel was to deal specifically with the kind of macroeconomic data that will be going on in the years to come and...the questions [from officials of Kyrgyzstan's Finance Ministry and central bank] were sort of, 'How will you do it? How will you collect information? How will this happen?'" "This really kind of told me about the lack of preparedness that a lot of officials have really encountered this whole situation with," Leonard said. As discussions of Kyrgyzstan's entry into an economic union went on, **some had the feeling Russia was pushing Kyrgyzstan to join** and that Bishkek really did not have much of a choice. Tahir said that **Kyrgyzstan's membership in the EES seemed more a political rather than an economic or trade decision.** Joroev explained, "When you say

political decision, obviously it's very hard for Kyrgyzstan to distinguish its political and economic interests, especially when it comes to relations with Russia."

That is because few countries, and notably very few Western countries, have shown much of an economic interest in Kyrgyzstan. China has been making great economic inroads across Central Asia in recent years and Kyrgyzstan is no exception. But Leonard pointed out that **"Russia is offering [Kyrgyzstan] large amounts of money."** **"Something in the area of \$1.2 billion has been promised as part of a package** to assist Kyrgyzstan into being eased into the Eurasian Economic Union. **Already \$200 million of that money has been disbursed** and so it's not very difficult to see why Kyrgyzstan decided to make that decision [to join the EES] in the end," he said. And Joroev noted, "Current geopolitical tensions on the world stage, especially between the West and Russia over Ukraine and much else" have left Kyrgyzstan and other some other countries "caught in this fault line, as it were, and it's very difficult for these smaller countries to maneuver between the two sides." "When Kyrgyzstan is faced or perceives itself to be in a position of a zero-sum choice **between Russia or the West...of course for Kyrgyzstan the safest bet is to stay close with Russia,**" he said.

Interview: Scott Radnitz on Kyrgyzstan

Samuel Ramani

Radnitz is an Associate Professor at the Henry M Jackson School of International Studies, and Director of the Ellison Center for Russian, East European and Central Asian Studies at the University of Washington.

September 18, 2015; The Diplomat, <http://thediplomat.com/2015/09/interview-scott-radnitz-on-kyrgyzstan/>

Kyrgyzstan recently became a member of the Eurasian Economic Union (EEU). There has been a considerable debate on whether Kyrgyzstan is ready for EEU membership, due to its economic malaise and continued border security problems. What are your thoughts on Kyrgyzstan joining the EEU?

The EEU is a political body, first and foremost. **Countries decide to join the EEU primarily for political reasons rather than for economic ones.** I don't think Kyrgyzstan joined after a thorough cost-benefit analysis, or after extensively consulting technocrats on the economic consequences of membership. Its hard to say right now how Kyrgyzstan will adjust to EEU membership, every deal of this kind has winners or losers.

The EEU's economic impact on Kyrgyzstan has its limits as Kyrgyzstan over the past decade has become increasingly integrated with the Chinese economy. As China's economy slows, traders will likely suffer somewhat. This is a problem because bazaars still have significant economic influence in Kyrgyzstan. I think that **Kyrgyzstan will have an uncertain transition period to EEU membership. But over time, people and businesses**

will adjust their economic behavior, and gravitate towards sectors favored by Kyrgyz membership in the customs union.

Kyrgyzstan recently decided to cancel its cooperation treaty with the United States. What do you think motivated this decision? Will this decision have large repercussions for the Kyrgyz economy?

I think **Kyrgyzstan's recent decision to sever ties with the United States is a surprising development**. Up to this point, Kyrgyzstan, along with Kazakhstan, had been the Central Asian country with the shrewdest foreign policy. Kyrgyzstan is a poor country dependent on trade and foreign aid, so balancing Russia and the USA, as it has done for most of the post-1991 period is an effective strategy. **Now, at least symbolically, Kyrgyzstan is wholeheartedly embracing Russia**. Kyrgyzstan's decision was probably not entirely voluntary. Russia has put a lot of pressure on Kyrgyzstan, so it's unclear whether Kyrgyz elites think severing ties with the US is a good idea or because their hand was forced. The idea emanating from Moscow now is that you are with us or you are against us, so Kyrgyzstan was forced to make a clear choice. However, Kyrgyzstan's long-term future never lay with the US. Kyrgyzstan is not going to join NATO or the EU. **Kyrgyzstan loses a lot of military and development aid by cutting off ties to the United States, but the long-term impact of this is limited, as Kyrgyzstan's future lies with Eurasia**.

Closer integration with Russia is on the surface, a counter-intuitive decision, as the Russian economy has been weakened greatly by Western sanctions. How does Kyrgyzstan intend to rectify this economic shortfall?

This is a major issue, but one that Kyrgyzstan would face with or without becoming an EEU member. **Kyrgyzstan has a long-term structural problem because its economy is so closely linked with the Russian economy. Russia's economic slowdown as a result of low oil prices has been very damaging for the Kyrgyz economy, and would be a problem for Kyrgyzstan even with better US-Russia relations. As remittance levels are falling, the Kyrgyz economy is going to be weakened. Kyrgyzstan lacks the capital to industrialize or invest in, for example, high-tech sectors. Dealing with the problem is outside of Kyrgyzstan's control. I think Kyrgyzstan's decision to pivot so strongly towards Russia is a tacit acknowledgement on the part of the Kyrgyz leadership, that Kyrgyzstan has no real alternative**.

Corruption was a major contributing factor to the 2010 coup in Kyrgyzstan and despite President Almazbek Atambaev's self-declared "war on corruption," it continues to be a tremendous problem. Do you think Atambaev has made significant progress in reducing corruption levels since he took power in 2011?

Corruption in Kyrgyzstan, like in most developing and post-Soviet countries, **is extremely difficult to root out**. Atambaev lacks Bakiyev's authoritarian instincts, but he is also constrained by increased parliamentary power in Kyrgyzstan, which has prevented the

concentration of power in one individual's hands. Yet, that doesn't mean corruption has meaningfully fallen since Bakiyev's demise.

Decentralized corruption can be just as detrimental. One interesting trend is the improvement in Atambaev's approval ratings, confirmed by IRI opinion surveys over the past two years. What accounts for this? It's not economics, as the Kyrgyzstan's economy has not improved significantly since 2010. It could also be due to Kyrgyzstan not having a revolution since 2010, but continued instabilities in Southern Kyrgyzstan call that into question. So visible anti-corruption measures could be increasing public confidence in Atambaev without necessarily reducing corruption overall.

As you do not think Kyrgyzstan's corruption levels have declined appreciably since 2010, how can Atambaev prevent discontent over corruption from causing yet another popular revolution in Kyrgyzstan? How far will he go with his anti-corruption efforts?

As public disdain for corruption was one, but not the only, cause of the 2010 revolution, the Kyrgyz government has moved to decrease corruption perceptions. The government covers corruption crackdowns on state television to show that it is taking action. **Atambaev is targeting the forms of corruption that shape public attitudes most. He may focus on cracking down on visible corruption perpetrated by high level officials, much like Putin has done in Russia or Xi Jinping in China,** but few believe this represents a fundamental change. **I do not believe Kyrgyzstan will implement large-scale anti-corruption reforms,** as the Kyrgyz government benefits too much from corruption to tackle it full-heartedly. Atambaev's strategy is to conceal the high-level corruption, and ensure that Kyrgyz elites get the resources they need in ways that ordinary people cannot find out. This approach mirrors the strategy of most other post-Communist states, with the possible exception of Georgia. But even in Georgia, I think supporters of the revolutionary government bought into the mythmaking about the success of its anti-corruption efforts.

Kyrgyzstan has recently implemented a foreign agents law that closely resembles anti-Western NGO legislation adopted by Russia's president Vladimir Putin. Do you think this legislation will negatively impact Kyrgyz democracy?

It is important to distinguish between Kyrgyzstan's mimicry of Russia on the one hand and authoritarianism on the other hand. **Kyrgyzstan is imitating Russian civil society legislation** to underscore the strength of its alliance with Russia. **Putin is also a much more popular and respected figure amongst Central Asians, than any of their own leaders.** Western analysts of Kyrgyzstan's politics also overestimate the impact of the government's handling of NGOs on the overall quality of democracy.

In Russia, crackdowns on NGOs and civil society were part of a broader trend towards authoritarianism. So it could be a trailing indicator, but I think it is detached from broader political trends. Foreign NGOs do many useful things, but they are a tiny part of

Kyrgyzstan's political system. Kyrgyzstan still has considerable political pluralism, even though it is now treating foreign NGOs badly. The same goes for symbolic legislation like the anti-LGBT rights bill, which is merely appealing to Russia and the population's support for socially conservative values, but does not necessarily mean there will be a broader clampdown.

When Atambaev first came to power in 2011, he vowed to hold people involved in inflaming the 2010 ethnic riots in Southern Kyrgyzstan accountable. How effective do you think Atambaev has been in incorporating ethnic minorities in Kyrgyzstan?

I do not think the status of ethnic minorities in Kyrgyzstan has improved substantially since the 2010 riots. Kyrgyzstan continues to possess a decentralized political system, so Bishkek continues to have limited authority over politics in southern Kyrgyzstan. The **prevailing political groups in the south** are nationalists and ethno-nationalists, which use the same mobilization strategies as in 2010. They **still favor discrimination against ethnic Uzbeks.** The security services in southern Kyrgyzstan also exercise a lot of power that is not envisioned by the constitution, and their de facto exercise of power defies the democratic aims Kyrgyzstan agreed to in 2010. **Northern Kyrgyz elites and government officials are either unable or unwilling to impose the rule of law on an unwilling South,** and the treatment of Uzbeks is still a major blemish on Kyrgyzstan's progress.

Finally, many observers fear that ISIS might gain a foothold in Kyrgyzstan, and spread to other Central Asian countries. After all, Uzbekistan, Tajikistan and Kazakhstan continue to uphold and expand draconian anti-Islamist legislation. Do you think ISIS poses a credible threat to Kyrgyzstan and Central Asia as a whole?

With regard to ISIS, I see striking continuity with past rhetoric coming from Central Asian governments. In the 1990s, it was the Taliban, the united Tajik opposition and the Islamic Movement of Uzbekistan. In the 2000s, it was Al Qaeda and Hizb ut-Tahrir. Now it is ISIS. You can take the political statements of Central Asian leaders, and substitute Al Qaeda and IMU for ISIS, and you will get the same tropes.

There have been claims by security officials in the region that ISIS is a serious threat, so the government has to crack down and the West needs to support authoritarian regimes they do not like very much as a lesser evil to an ISIS caliphate. Hard evidence for ISIS's rise in Central Asia is weak or lacking. The narratives coming from Central Asian security services align with their political interests, so we should always question them.

Chapter 3. EEA and EU

Should EU recognise EEU as a negotiating partner?

Ramūnas Vilpišauskas

March 2015, European Leadership Network, [http://www.europeanleadershipnetwork.org/should-the-eu-recognise-the-
eurasian-economic-union-as-a-negotiating-partner_2505.html](http://www.europeanleadershipnetwork.org/should-the-eu-recognise-the-eurasian-economic-union-as-a-negotiating-partner_2505.html)

Contrary to the predictions that Russian aggression against Ukraine would mark the end of Eurasian integration, the process seems to continue unabated. According to a treaty signed last year, the Eurasian Economic Union (EEU) was established in January 2015. It has already enlarged to include Armenia, and Kyrgyzstan is expected to join in the coming months. **Is it time for the EU to start taking the EEU seriously** and enter into an official relationship with this regional organisation, as proposed by Russia?

If the prospect of free trade between the EU and the EEU is taken seriously, the idea sounds attractive. It would be beneficial to remove the barriers to trade between the EU and EEU, and include Ukraine, Moldova and Georgia in the process, since both the EU and EEU countries are important trading partners for them. **One could even imagine a free trade area stretching from Vancouver (and San Francisco), through Lisbon and Tbilisi, all the way to Vladivostok.** To be sure, global multilateral trade liberalization is the best option in terms of increasing trade volumes and enhancing economic development. But regional trade agreements could also enhance welfare, provided they liberalise a substantial share of mutual trade, within a reasonable timeframe, and refrain from increasing trade protection to outsiders.

However one needs to take a closer look at the history of the EEU, as well as the actual trade policy decisions within the block, and not just statements about the desirability of a common economic space from Lisbon to Vladivostok. It will then become evident that rather than becoming a building block of the international trading system, the EEU is likely to function as a stumbling block. The creation of the Eurasian Customs Union (EEU's predecessor) resulted in an increase of trade protection levels by some of its members, primarily Kazakhstan. Increasingly frequent, and often unilateral, **use of trade protection measures by Russia, and the fact that Belarus and Kazakhstan are not members of the WTO, further highlights the problems with integrating the EEU into a wider global trade system.**

Integration between the member states of the EEU itself is fragmented and vague, without even the completion of free movement of goods. Article 24 of the WTO on regional trade agreements mentions the voluntary nature of such initiatives. Armenia's sudden decision in September 2013 to give up on signing the association agreement with the EU and to opt for

the EEU accession could be linked with threats of higher gas prices. That may allow some to question the voluntary nature of such a decision.

Moreover, **in recent history Russia has been actively using trade protection measures as an instrument to influence the foreign policy priorities of the EU's Eastern partners – Moldova, Georgia, and Ukraine.** Moscow also argued that its economy would suffer damage if these countries implemented deep and comprehensive free trade agreements (DCFTAs) with the EU, exposing the perception of the trade liberalization as a zero-sum game and a threat rather than an opportunity to open its economy to competition, restructuring and technological upgrading. **The EEU itself has become an instrument of Russian foreign policy,** positioned as a regional block competing with the EU for preferential relations with the EU's Eastern partners. However, in contrast to the DCTAs proposed by the EU, which leave partners a sovereign choice of external trade policies, including possible free trade with the EEU, **membership in the latter's Customs Union would imply giving up powers of external trade policy and effectively depriving states of the possibility to liberalize trade with the EU on bilateral basis.** As evidenced by the threat of Russian authorities to cancel the free trade regime with Ukraine if its DCFTA with the EU came into force in November 2014, removal of barriers to trade in Europe is hardly Russia's main goal.

How can such policy be compatible with the idea of a greater economic space and free trade between the EU and EEU? The evidence given above suggests that the prospects of **any kind of trade agreement between the EU and EEU, based on the principles of the WTO, are vague** at best. The behaviour of the EEU and its members would have to change substantially. **Russia needs to overhaul its trade policy from ardent mercantilism to rules-based open trade. Belarus and Kazakhstan would need to become members of the WTO. More generally, respect for the rule of law and observance of international treaties is crucial for any trade agreement to be meaningful.** What can be said in this respect about Russia's policy after the annexation of Crimea and the events that followed? **If these conditions are not met, the EU should continue dealing with each EEU member bilaterally. The start of official talks between the EU and EEU would only result in muddling through the technical debates without the prospect of any tangible results. The EU's initiative could also serve as a springboard for propaganda messages from the Kremlin about the importance of the EEU, useful to justify the methods used to coerce Eastern neighbours into joining the organization.**

Some could argue that due to the importance of this issue to Russia, the decision of the EU to enter into official talks with the EEU might be offered in exchange for modifying Russia's policy towards Ukraine or assuring its wider compliance with international norms, including WTO commitments. The issues paper on the EU's relations with Russia leaked to the media before the Foreign Affairs Council meeting of 19 January 2015 is a good illustration of such thinking. However, attempts at a package deal along these lines would carry a high risk of failure. The policy record of Russia shows that its goal is not to liberalize trade, but to gain veto in the matters of sovereign policies of its neighbours. **It would also have important negative side-effects for the EU in terms of its reputation and effectiveness of its Eastern**

neighbourhood policy. The idea of a common economic space from Lisbon to Vladivostok is attractive and could be beneficial to all the parties involved. But the behaviour of those who keep bringing up this topic is totally incompatible with the vision.

Only after Russia changes its approach to international norms and trade relations, and the EEU turns into a building block of an open trade system, this vision of a common economic space could be achieved. Right now, it is used more as a cover up for the attempts to derail the talks between the EU and the US on the TTIP. Instead of chasing the EU-EEU partnership mirage, the EU should focus on the negotiations with the US and invest adequate efforts into informing the population of its member states about the effects of the transatlantic economic partnership.

The EU and EEU: Hidden Opportunities for Inter-Regional Cooperation?

Eleonora Poli

16 February 2015, http://www.glistatigenerali.com/asia_cina_geopolitica_russia/the-eu-and-eeu-hidden-opportunities-for-inter-regional-cooperation/

Formally launched on January 1st, the EEU is set to become the most advanced form of customs union ever accomplished in the post-Soviet space. Once Kyrgyzstan signs up in May, the Union will account for 15% of the world's land mass and a population of almost 177 million. However, such dazzling statistics also add fuel to concerns that the EEU is merely the latest attempt by Russia to reclaim a sphere of influence that it lost at the end of the Cold War. In this respect, the EU is among the most vocal critics of this new regional grouping. Yet, if Brussels was to scratch below the surface, it might find that it has more in common with the EEU.

Between 'hard' and 'soft' power

The EU's disdain for its eastern counterpart is hardly surprising given Moscow's criticism of Brussels' attempts to forge ever closer political and economic ties with the former Soviet bloc. Following the accession of most central and eastern European countries to the EU in 2004, Russia condemned what it saw as an attempt to Europeanize a region that it always considered as part of its sphere of influence. For its part, Brussels was quick to label Russia's incursion into Georgia and annexation of Crimea as part of Moscow's bid to bolster its regional presence with brute force. Similarly, the EEU has been developed through economic

coercion, with Russia offering dubious economic incentives, in the form of loans or cheaper gas prices, in exchange for membership in the Union.

What this overlooks, however, is that **the EEU is the first Russian-led attempt to institutionalize regional integration through norms, standards and regulations – much like the European model** of normative power. Indeed, when Putin first publicly spoke about the EEU, he acknowledged that the project drew on the experience of the EU and the Schengen Agreement. Moreover, the EEU's governing institutions were founded on the basis of equal representation, something that can hardly be said of previous regional integration efforts. For instance, each member state will return the same number of elected representatives to its governing bodies. By creating an institutional framework that bears more than just a passing resemblance with the EU, Russia and its fellow member-states hope that the EEU will eventually lead to the creation of a Single Economic Space (SES) where goods, services, capital and (to some extent) labor will be free to circulate. Beyond closer economic integration, a regulatory authority, bank and common judicial system are also envisaged. To assist, EEU members have already put in place institutional mechanisms, technical regulations and standards that supplant national legislation on regional business transactions and guarantee equal conditions among business actors and investors. In doing so, the EEU has set in motion a process of institutional cooperation that the EU and other international organizations will find hard to ignore.

From rivalry...

Yet, despite the integrationist outlook and rhetoric, **Moscow will always be the dominant force within the EEU. The statistics speak for themselves: Russia accounts for 87% of the Union's Gross Domestic Product (GDP) and 82% of its population.** Beyond offering economic incentives for closer integration, this primus inter pares status has emboldened Moscow to incorporate Crimea into the customs union and implement countersanctions against the West without consulting fellow EEU states. Little wonder that Brussels fully expects Russia to frustrate any attempts that it makes to foster closer EU-EEU ties. However, one thing that the European integration project has taught us is that once norms and rules become institutionalized, it becomes harder for member states to bypass them. If this is replicated by the EEU, then it might be possible for the smaller members to keep Russia's dominance in check. Kazakhstan, for example, has already threatened to leave the Union because Russia's isolation by the West is harming its economic development. And while Armenia has limited influence on Russia's foreign policy, Yerevan recently confirmed that it plans to deepen its ties with the EU while taking into account its commitments to other regional integration processes.

This bodes well for a European Union that remains in the grip of a profound economic and political crisis. Closer ties with the EEU's smaller member states might provide Brussels with opportunities to tap into a market with an estimated output of \$2.4 trillion without having to deal directly with Moscow. It might also reinforce that the West's economic sanctions against

Russia are having the desired effect. As a result of these and falling oil prices, the value of the Ruble relative to the Dollar has declined by 40 percent in recent months. It's telling that Russia's Minister for the Eurasian Economic Commission, Tatyana Valovaya, revealed on her recent tour of Europe that **Russia will probably have no choice but to turn to the EU markets in order to fend off more economic hardship.**

To cooperation...

Yet, it would be naïve to think that Brussels can seek rapprochement with Russia from a position of relative power. **Beyond sharing similar administrative structures and a vision of deeper regional integration, the EU also has something else in common with the EEU – its vulnerability to competition from other economic powers, most notably China. Under the guise of its Silk Road Economic Belt, Beijing not only offers Central Asian states a viable alternative to the EEU, it also provides a challenge to Brussels' efforts to forge closer regional ties. In addition, the Shanghai Cooperation Organization (SCO) has the potential to become an arena where China and Russia could possibly come to an understanding with regards to their interests in Central Asia. So, if the EU wants to preserve its status in Central Asia it might eventually be in its best interest to engage with the EEU rather than tempting it to look eastward.**

Indeed, **there are sufficient opportunities for cooperation** between both regional groupings. **For instance, Brussels could offer transferable skills that improve the EEU's transport, trade and investment sectors – a move that could offset China's efforts to do the same. In addition, the EU's stronger 'normative compatibility' with the Eurasian Union could be used to foster deeper cooperation and harmonized trade regimes.** If Brussels needed encouragement, then it should look at the series of Partnership and Cooperation Agreements that already has in place with both Russia and most Central Asian countries.

So, **by advancing a "Non-Business as Usual Approach" the EU could facilitate deepen cooperation with the EEU on many institutional levels.** There's no doubt, for example, that the EEU would benefit from Brussels' technical and legislative assistance as it develops its brand new institutional set up. Property rights expertise and controlling illegal migration, both of which the EEU is particularly interested in, might also be the basis for closer and deeper cooperation. In all of these sectors, China will have a hard time competing with the EU's experience and reputation.

Grounds for (cautious) optimism

Opening up any form of constructive dialogue with the EEU will undoubtedly be a challenge at first given the level of sanctions imposed by the West on Russia. Yet, even if both organizations find themselves engaged in low-level cooperation, with salient economic and political issues remaining trapped at the national level, the existence of a more neutral platform where Moscow would be required to channel its interests might

help to thaw EU- Russia (and, indeed, East-West) relations. Indeed, if we let the Ukraine crisis teach us anything at all, it is that nurturing a dichotomy between the European and the Eurasian regional projects results in a ‘lose–lose’ situation that perhaps far exceeded the expectations of both parties. With this firmly in mind, the emergence of the EEU should offer a valuable and perhaps unique historical opportunity for the EU and Russia not only to co-exist, but to consider the possibility that prospering together may not be the worst of solutions.

The EU and EEU: Geopolitical problems cannot be addressed by technocratic measures

Rilka Dragneva, Kataryna Wolczuk

3 March 2015, European Leadership Network, http://www.europeanleadershipnetwork.org/the-eu-and-eeu-geopolitical-problems-cannot-be-addressed-by-technocratic-measures_2490.html

In 2015 Eurasian Economic Union (EEU) uniting Russia, Belarus, Kazakhstan and Armenia was launched, with Kyrgyzstan joining in March 2015. While a new entity in terms of international law, the EEU is the latest stage of Eurasian integration, building on the Customs Union (CU) launched in 2010 and the Single Economic Space (SES) initiated in 2012. Given previous dysfunctional post-Soviet initiatives, the EU responded cautiously to the birth of the Customs Union in 2010, limiting itself to monitoring the regime and maintaining expert-level contacts. The EU was concerned with, first, the effect of the CU on the planned EU-Russia bilateral agreement and, second, Russia’s long awaited entry to the WTO. While the latter concern was placated once Russia’s WTO accession was completed and the CU undertook to comply with Russia’s WTO commitments, the former was not.

The Kremlin demanded inter-bloc rather than bilateral relations with the EU. The Eurasian regime was presented as an exercise in functional economic integration, reflecting the logic of the times, rather than an empire-reviving project. Russia was intent on working at the level of supranational institutions rather than individual countries. **However, the EU has remained reluctant to do so for a number of reasons: first, two of CU’s founding states, Belarus and Kazakhstan were not WTO members and; second, because of the design flaws of the CU, such as the unclear division of competences within it; and, three, the limited extent to which the Eurasian integration contributed to trade liberalisation and effective WTO compliance. In addition, there is evidence to suggest that Eurasian structures are being used as a tool for Russia’s geopolitical vision in violation of the autonomous choice of countries, such as Ukraine.**

In 2015, Russia asked the EU to develop formal relations with the EEU, including the establishment of a free trade area, thus radically overhauling its approach to the region. The EU's sympathetic reaction to this suggestion was reflective of the need to placate Russia in order to secure peace in Ukraine rather than based on a comprehensive review of EU's policy and the EEU's achievements.

Back in 2010 the EU's caution may have been excessive. However, in light of the current situations, too many questions remain unanswered to allow for straightforward agreement to this proposal. These include some fundamental issues: Have the grounds for caution at the launch of the CU been dispelled with the EEU? Are there any reasons to assume that an agreement with the EEU will contribute to a sustainable resolution of the current crisis in EU-Russia relations and conflict in Eastern Ukraine in particular? How is the EU to engage with a bloc between partners who appear to have been cajoled by threats and bribes rather than a sense of common interest? The launch of the EEU was an opportunity to tackle some of the 'teething problems' of Eurasian integration. Institutionally, the key achievement is the codification of the hitherto disparate legal basis of the CU and SES. In terms of the economic agenda, the parameters of integration have been clarified, though not vastly advanced. The new Treaty, for example, provides a time-table for including 'sensitive goods', such as pharmaceuticals or energy in the fold of integration. Generally, there is growing experience and progress across the integration agenda, e.g. in relation to adopting new technical standards.

At the same time, the record speed and manner of the project's deepening and widening has exposed its fault-lines, undone some of previous achievements and created new risks. The construction of the EEU was driven by a schedule determined a priori at the highest-level, leaving no time for careful legal drafting, consolidating gains or even monitoring progress on the ground. There have been numerous changes in rules as well as bodies (e.g. the Court), which have created significant institutional uncertainty. Despite the emergence of what is a complex regulatory regime on the books, little attention is paid to domestic implementation. The need for modernisation of domestic institutions is not addressed either. On the contrary, the new Treaty provides explicitly that the Union is based on 'respect for the specificity of the political structure of the member states', thus allowing for the continuity of the prevailing authoritarian political and rent-seeking modes of governance. The common regime remains critically dependent on political support from the highest levels. The commitment of presidents has involved concessions at successive stages of integration through bilateral bargaining between Russia and other member states. Belarus, in particular, has perfected the ability to extract specific benefits, thereby evidencing the high price Russia has been prepared to pay for the realisation of its geopolitical vision. This shows **the extent to which the asymmetry between Russia and the remaining members underpins Eurasian integration. Despite the formal equality of votes in the Supreme Council of the Union, Russia uses various political, economic and security dependencies to limit diversions from its position by its small and vulnerable partners.**

The contestation with the EU and, especially, the Ukraine crisis has exposed the dangers of this asymmetry. **Russia pursued the expansion of the EEU to counteract the EU's**

influence. Yet in doing so, Russia sorely tested the commitment of its allies. Their support for Russia's annexation of Crimea has not been as definitive and unequivocal as Russia might have wanted. On the contrary, old sovereignty sensitivities and concerns for independence were ignited in loyal partners like Kazakhstan. Astana asserted the principles of independence and sovereign equality in the new Treaty and it also sped up the conclusion of a new agreement with the EU. Crucially, **after refusing to join Russia's sanctions, Kazakhstan and Belarus have found themselves embroiled in new trade wars with Russia. This compromised the first and fundamental achievement of the CU, namely the customs regime. It has unravelled through Russia's unilateral departure from the common customs tariff, the reintroduction of customs checks and the marginalisation of multilateral institutions. Thus, in using the Eurasian project as a foreign policy instrument, Russia has wasted an opportunity to strengthen the EEU, while jeopardising its allies' political commitment.** The reliance of this project on the presidents' will and its weak implementation capacity cast serious doubts over the EEU's viability as an effective regime for 'deep' economic integration.

It is therefore ironic that **the EU is more willing to engage with the EEU than it was with the CU.** In reality, the EEU has become even less 'EU-like' than before. **Any agreement with the EEU is likely to be, in practice, an agreement with Russia** as the latter has monopolised the external agenda of the Eurasian regime. Further, there are the costs and risks of dressing a geopolitical contest in technocratic trade terms, even if this entails not only the marginalisation of partners at the borders of the EEU but also inside it. Russia now seeks the institutionalisation of its hegemonic position in direct relations with the EU. **It is unclear what source of optimism underpins the view that EU's engagement with the EEU would solve the problems that direct EU-Russia relations could not.** Given the EEU's instrumental use by Russia, **such recognition would carry a significant risk of empowering and legitimising Russia's hegemonic drive in the post-Soviet space.**

How Europe Should Approach the EEU (and Russia)

Liudmila Filippova and Inna Veleva

16 October, 2015, The Diplomat, <http://thediplomat.com/2015/10/how-europe-should-approach-the-eeu-and-russia/>

The EEU is an opportunity for Europe to engage with Eurasia and mend ties with Russia. The escalation of the Ukrainian crisis casts the Eurasian Economic Union countries in a completely new light. Contrary to common expectations, the former Soviet republics of Belarus and Kazakhstan demonstrated their determination to preserve neutrality amid exacerbating tensions between Moscow and Kiev. Balancing the competing interests of

Russia, China, and the U.S. in the Kremlin's "near abroad" has been essential for upholding the Central Asian states' multi-vector foreign policy.

Russia's Economic Slump: Implications for the EEU

One should not forget that the idea of a Eurasian alliance introduced by Kazakh President Nursultan Nazarbayev in 1994 referred first and foremost to an economic grouping meant to strengthen the already existing trade relations and to boost productivity and economic growth. (The political and security dimension of the project were never brought into play.) One might thus be inclined to think that, with Russia becoming less appealing as a partner due to falling oil prices, its collapsing currency, and tightening economic sanctions, Central Asian states might want to rethink their priorities and come to question their participation in the Eurasian Economic Union.

This would be a rather ill-considered conclusion, as it does not take into account the long history of coexistence, cooperation, and solidarity between Russia and its former Soviet Socialist republics. To understand the complex dynamics underlying this multi-faceted relationship, one must go beyond simple cost-benefit analyses and tap into a comprehensive constructivist approach, exploring cultural, social, and linguistic factors. Underlining the importance of deepening cooperation with Russia despite current challenges, the thought-provoking statement by former Prime Minister of Kyrgyzstan Djoomart Otorbaev illustrates the depth of this relationship: "We are not selecting our partners based on crude oil prices or, as a matter of fact, any other economic turbulence that might occur." Such a bond, sealed with collective memories of a shared past, cannot be easily overshadowed by what are being seen as temporary financial difficulties.

At the same time, the position of the EEU member states does not lack pragmatism either. The EEU countries inherited from the USSR a set of interconnected and mutually reinforcing infrastructure facilities – road, rail, and energy networks – which, even if partly outdated, may be considered a competitive advantage for any integration initiative in the region. **With energy being the conventional cornerstone of Russia's economic partnerships, what the EEU offers is the opportunity of creating a common electricity market by 2019 as well as common oil and gas markets by 2025.** The establishment of the electricity market seems quite realistic, as it will be able to build on the old Soviet grid system and will essentially create economies of scale. **Furthermore, Russia has long been a major destination for labor migrants from Commonwealth of Independent States (CIS) countries.** Not only has exporting their workforce helped alleviate unemployment and ease social tensions within the source countries, but migrant remittances from Russia have largely contributed to these countries' GDP. In this regard, the accession of Central Asian states to the EEU, which ensures the free flow of labor, implies increasing employment opportunities and improved working conditions for their nationals.

The EEU: An Opening for Europe-Russia Rapprochement?

Ignoring the regional dynamics and betting on the institutional failure of the new EEU cannot be in Europe's long-term interest. Especially with Russia slipping more and more into the role of China's elder sister (whom you respect but whose advice you are not obliged to follow) or losing even more authority, Western states could approach Moscow by offering a way back into an international community of states sharing burden and responsibility.

One possible scenario would be to explore opportunities for cooperation between the EU and the EEU and to initiate talks for identifying a shared legal and institutional framework based on a jointly developed set of rules. Any negotiations of this kind should be inclusive and transparent. Despite Russia's and China's competing interests over the Central Asian states that are part of China's One Belt, One Road initiative (with its vague rhetoric of "win-win cooperation") and the Eurasian Economic Union (which, on the contrary, has already elaborated a set of complex regulations), the parties have managed to agree preliminarily to coordinate the development of the two projects. The Kremlin has realized that it can maintain its influence and confront the rising economic ambitions of China in Central Asia only through involvement and close coordination.

That is the opportunity (with regard to both China and Russia) that Brussels is currently missing out on in the region. As Otorbaev also pointed out, **harmonizing different models of regional economic integration and engaging openly with all relevant stakeholders would increasingly benefit the landlocked Central Asian states** by substantially enhancing connectivity, improving transit corridor and transportation infrastructure, and unlocking new investment opportunities. **Turning their geographical position into a strategic advantage would necessarily improve their negotiating leverage and could also make their foreign policies more proactive. This would then allow Europe to concentrate on strategic areas of convergence such as energy diversification and regional security.** Beyond optimizing trade routes and boosting economic growth in Europe's eastern neighborhood, **potential cooperation between the EU and the EEU could also lay the foundation for cross-regional energy cooperation**, expanding the international energy security dialogue and improving energy supply administration by bringing together decision-makers from consumer, producer, and transit countries.

Furthermore, in view of interlinked security threats such as cross-border conflicts, failing statehood spillover, and the spread of Islamic State jihadist propaganda and attacks, developing a joint counterterrorism strategy engaging stakeholders from Europe, Russia, China, and the Central Asian region is indispensable for the long-term stabilization and security of politically fragile transit regions and contested resource-rich territories and is in the interest of all countries. In this regard, the collaboration between the EU and the Shanghai Cooperation Organization fighting the three evils of terrorism, separatism, and extremism in the region is long overdue. The romantic dream of Greater Europe has been shattered. The Eurasian Century might have begun, and while Russia has asserted itself as a Eurasian power, Europe's role in the future order remains to be defined. Instead of further encouraging political fragmentation, European decision-makers

should finally start building truly sustainable bridges rather than relying upon short-lived transportation rafts. This means drawing on existing strategic interests and translating them into mutually beneficial trade, investment, and security policies, especially in the field of energy cooperation and counterterrorism.

In view of Germany's chairmanship of the Permanent Council of the OSCE in 2016, the time might be ripe to take the initiative. As German Foreign Minister Frank-Walter **Steinmeier** stated in an address to the Council in Vienna, "**We have come a long way on this journey. Today's storms, including that raging in Ukraine, should not and must not put a stop to that journey!**" Reconciling the interests of major stakeholders – including those of previously neglected corridor states – requires reestablishing trust and dialogue at eye-level, identifying common core values, reaching a shared vision for developing the Eurasian space, and taking steps to make this shared vision a reality.

EEU needs to find some way to integrate with the EU

Alexey Khlebnikov

20 June, 2015, Russia Direct, <http://www.russia-direct.org/analysis/eurasian-economic-union-needs-find-some-way-integrate-eu>

The issue of potential cooperation between the EEU and EU was one of the most important topics in the agenda of the St. Petersburg International Economic Forum (SPIEF) that ended today. The SPIEF, which started on June 18, is the major Russian economic conference of the year. More than 1,600 companies are participating this year. One of the most discussed issues at this year's event is potential cooperation between the Eurasian Economic Union (EEU) and the European Union (EU). As the EEU is already halfway through its first year of existence and **European sanctions continue to impact businesses of both the EEU and EU, there is increasing concern about missed opportunities** and the time that is needed to build cooperation between the two integration structures.

The overriding concern, of course, is that political tensions may dominate economic pragmatism. During the first two days of the forum, the issue of the EEU and its future relations with the EU was discussed by several panels, which gathered together Russian government officials, business leaders of the EEU, and representatives of international organizations and academia. The only ones missing in the discussion were EU officials.

Defining the parameters of EEU integration with the EU

Anatoly Chubais, the head of Russian Nanotechnology Corporation (RUSNANO), opened the discussion by offering his vision that, “The Eurasian Economic Union is a far-reaching project which will cause tectonic changes.” All participants agreed with this assessment, as they see the EEU integration project as a strategically important long-term market opportunity for Russia and a source of future economic growth.

The Chairman of the Eurasian Economic Commission, Viktor Khristenko, formulated precisely the overall trend in current global development, “Integration structures will form the model of **global development**, which requires effective dialogue between such structures.” He continued that, if **Russia opposes this type of integration, economic development will slow down**. “This is to say that the **EU and EEU have to talk to each other and cooperate on a full range of economic issues** to obtain mutual benefits,” stated **Khristenko**. He also proposed that **one of the main issues of EU-EEU cooperation is the absence of common goals**. “**The EU-EEU economic cooperation needs a new model of cooperation** to give birth to a fresh start,” proposed Khristenko.

On the other hand, **Tatiana Valovaya, a board member at the Eurasian Economic Commission, argued that actually, “There is no EU-EEU dialogue at all and it has to be created from scratch.”** This is why she echoed Khristenko, saying that there is an urgent need for an interaction model between the EU and EEU. **However, the current international situation and the state of political relations between the EU and Russia provide almost no room for the type of political interaction that could spur economic interaction.**

Political concerns should never outweigh economic concerns

Elaborating on this topic, all panelists agreed that politics should never outweigh economic expediencies and pragmatism. Also, they argued that the EEU integration project should not be politicized. If business does not lose money it would suffer from a very low return on investment or from slow economic development. Consequently, it affects the entire economy of a country. **Representatives of European businesses also agreed that cooperation between the EU and EEU is needed.** Philip Pegorier, country president for Russia, Ukraine and Belarus at Alstom, argued that, “Europe will only benefit from cooperation between the EU and EEU.” He called on leaders to stop politicizing the purely economic EEU integration project. Ronald de Jong, executive vice president of Royal Philips, also called for closer cooperation between the two integration projects as “both sides lose potential benefits and prosperity.” As an example, he said that some most progressive medications produced and registered in the EU wait for about a year to enter the Russian market because of difficulties in procedures. Working together and eliminating such barriers via the EEU could save many lives.

How can the EEU foster dialogue with the EU?

Reiner Hartmann, head of the Moscow representative office of E.ON Global Commodities SE, noted that, “Firstly, the EEU was neglected and ignored, then seen as a competitor and then acknowledged as a coming regional power, but not really trusted yet. **It is absolutely necessary to build trust.**” Eckhard Cordes, chairman of the Committee on Eastern European Economic Relations, echoed his counterparts and argued that, “**The EU will have to abandon its reluctance with respect to the EEU**, in particular, due to political considerations. **The EEU must become a political partner of the EU.**” In his view, **this will create the basis for a necessary dialogue.**

According to Alexey Mordashov, the CEO of Severstal, in 2015 **the share of Russian trade with the EU decreased from 50% to 46%**. With Germany alone, trade dropped by 35 percent. He argued that this trend should be stopped. He stressed that with the current political situation in the world, EU-EEU dialogue is almost absent. “**Even if there is no dialogue on the political level, we need to talk and keep discussions on the business level**”. He continued, “We share one continent, we are neighbors, this is why we are partners forever and have to cooperate for the sake of our mutual prosperous future.”

Russia calls for EU talks with newly born EEU

Andrew Rettman

2 January 2015, Euobserver, Brussels, <https://Euobserver.Com/Economic/127081>

Russia’s EU ambassador has urged Brussels to launch talks with the newly born Eurasian Economic Union (EAEU) despite the Ukraine crisis. Vladimir Chizhov told EUobserver: “Our idea is to start official contacts between the EU and the EAEU as soon as possible. **[German] chancellor Angela Merkel talked about this not long ago. The EU sanctions [on Russia] are not a hinder**”. “I think that common sense advises us to explore the possibility of establishing a common economic space in the Eurasian region, including the focus countries of the Eastern Partnership [an EU policy on closer ties with Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine]”. “**We might think of a free trade zone encompassing all of the interested parties in Eurasia**”. He described the new, **Russia-led bloc as a better partner for the EU than the US, with a dig at health standards in the US food industry.** “Do you believe it is wise to spend so much political energy on a free trade zone with the USA while you have more natural partners at your side, closer to home?”, the ambassador said. “We don’t even chlorinate our chickens”.

The treaty establishing the Eurasian Union entered into life on Thursday (1 January). It includes Armenia, Belarus, Kazakhstan, and Russia, with Kyrgyzstan to join in May.

Modelled on the EU, it is to have a Moscow-based executive body, the Eurasian Economic Commission, and a political body, the Supreme Eurasian Economic Council, where member states' leaders take decisions by unanimity. It is to have free movement of workers and begin with single market for construction, retail, and tourism. It aims, over the next 10 years, to create a court in Minsk, a financial regulator in Astana and, possibly, to open Eurasian Economic Commission offices in Astana, Bishkek, Minsk, and Yerevan.

It also aims to launch free movement of capital, goods, and services, and to extend its single market to 40 other sectors, such as pharmaceuticals in 2016. Ukraine was planned to join, but a popular revolt last year overthrew its Russia-friendly president and the new government signed a free trade treaty with the EU instead. The developments prompted Russia to invade Ukraine and the EU and US to impose sanctions on Russia. They also prompted the EU and US to accelerate talks on their own free trade treaty.

Russia's Chizhov said neither the sanctions nor the recent slump in oil prices, and the resulting crash in the value of the rouble, will harm the Eurasian project. "Russia has been wise enough to build substantial reserves to withstand the external pressure", he noted. "The situation with the rouble will be remedied. And we have to see the future of financial and energy markets in the long term. They are of no doubt in favour of Russia and Kazakhstan particularly". He said EU-US economic relations have an equally volatile history. "Look at the currency rate of the euro compared with the dollar now and a year ago. Do you remember how many times the dollar was devalued since the 1960s? Do you remember when French president Charles De Gaulle in those days sent a ship loaded with US dollars to America to change them into gold?" The Russian ambassador played down internal tension with Belarus and Kazakhstan.

With friends like these ...

Russia's allies were spooked by its assault on Ukraine. They **have profited from Russia's ban on EU food imports by illegally re-exporting EU products to Russia. The rouble crisis has also seen Belarus reimpose customs controls with Russia and has seen Belarus and Kazakhstan demand that Russia pays for trade in dollars.**

Looking at Belarus, Chizhov said it "remains a close trusted partner ... with which we share a deep common historical, cultural and linguistic heritage". Asked by EUobserver if Russia's actions in Ukraine caused mistrust, he replied: "To date we have received no signals from our Belarusian partners on concerns related to your question". For his part, Steven Pifer, the former US ambassador to Ukraine, disagreed.

Pifer, now an analyst at Brookings, a Washington-based think tank, told the Boston NPR broadcaster on Thursday the main goal of the Eurasian Union is to extend Russia's control over its neighbours. "They [Russia] are looking at it not just in economic terms but as a way to expand Russian influence in the region ... by creating institutions which will give Moscow more influence in Kazakhstan and Belarus", he said. "Belarus and Kazakhstan have become

much more wary about Russia". "My guess is both Kazakhstan and Belarus, while they see certain advantages to economic aspects of the union, they also have worries they don't get pulled into Russian policies with which they disagree".

EEU seeks to strengthen relations with EU

09 September 2015, Inform Kazakhstan, Grodno, Kazinform, <http://www.inform.kz/eng/article/2815970>

The Eurasian Economic Union (EEU) is in favor of strengthening the relations with the European Union, Chairman of the Board of the Eurasian Economic Commission Viktor Khristenko told reporters in Grodno, BelTA has learned. **At the meeting of the Eurasian Intergovernmental Council in Grodno, the Prime Ministers of the five countries adopted the memorandum which says that the EEU is interested in deepening the cooperation between the EEU member states and the European Union countries.**

"The meeting discussed the international activities of the Eurasian Economic Union, the international positioning of the union. The memorandum has been adopted. It says that the EEU countries are interested in deepening the interaction with the EU in certain areas. **This interaction can be in such areas as economic regulation, phyto-sanitary measures, effective customs and tariff policy and interaction in other areas that can help improve the competitiveness of the EEU countries** and step up the interaction in this global competitive game so that we would identify the approaches to the free trade, create a common economic space from Lisbon to Vladivostok," he said. Viktor Khristenko underlined that **the memorandum adopted by the Prime Ministers would be sent to the European Commission.** "We hope that it will serve as an impetus to start a normal dialogue between the EC and the EEU," he said.

The Chairman of the Board also informed that the meeting participants adopted the documents, finalized the language concerning major international activities of the Eurasian Economic Union in 2016-2017 and the main priorities of trade and economic interaction in the medium term. Viktor Khristenko described today's

Lavrov urges EU to draw right conclusions from events in Ukraine

Artyom Geodakyan

27 October 2015, TASS, <http://tass.ru/en/politics/832011>

Moscow is calling on Europe to draw the right conclusions from events in Ukraine, Russian Foreign Minister **Sergey Lavrov** told a joint meeting of the boards of the Foreign Ministries of Russia and Belarus on Tuesday. **"It is necessary to draw the right conclusions from the dramatic events in Ukraine and begin work to form a common economic and humanitarian space from Lisbon to Vladivostok relying on the principles of equal and indivisible security and broad cooperation,"** he said. "Within the framework of a large-scale project the progressive development of all countries of our common continent without exception may be achieved."

"We assume that the most **important component of the work in this area is the progressive harmonization of the European and Eurasian integration processes,**" Lavrov noted. "Today we will consider, together with Belarusian friends, the possibility of a mutually advantageous dialogue between the EAEU and the EU." "We believe that there are all necessary pre-conditions for the rapprochement between the EAEU and the EU, including the commitment to the single trade rules. Recently, **a relevant proposal has been handed over to Brussels by the Eurasian Economic Commission. We hope it will draw a constructive response from the Europeans,**" the minister said.

Letter on cooperation between EU & EEU sent by EC chief to Putin

19 November 2015, Brussels, TASS, <http://tass.ru/en/economy/837900>

European Commission (EC) **President Jean-Claude Juncker has sent a letter to Russian President Vladimir Putin offering cooperation between the European Union (EU) and the Eurasian Economic Union (EAEU),** a representative in the EC press service told TASS on Thursday. "Juncker sent a letter to President Putin after a short talk on Monday on the sidelines of the G20 summit," the representative said, adding that **"the letter stresses Juncker's readiness to consider the possibility of cooperation with the EAEU according to established procedure via consultations with member-states and in case Minsk agreements are simultaneously implemented."**

In mid-October Russia's Deputy Minister of Foreign Affairs Alexey Meshkov said that the **EAEU member-states, namely Chairman of the Eurasian Economic Commission (EEC) Collegium Viktor Khristenko, had sent a draft agreement on economic cooperation to President of the European Commission Jean-Claude Juncker. The document concerns issues related with integration of the two entities.** According to Meshkov, respective proposals were approved at the meeting of the heads of governments of the EAEU member-states on September 8.

Juncker opens the door to EU-EEU rapprochement

Georgi Gotev

20 Nov 2015, EurActiv.com with Reuters, <http://www.euractiv.com/sections/europes-east/juncker-opens-door-eu-eurasian-union-rapprochement-319681>

European Commission President Jean-Claude Juncker wrote to Russian President Vladimir Putin this week, suggesting closer trade ties between the EU and the Russian-led Eurasian Union once a ceasefire is implemented in Ukraine. In the letter, written after a G20 summit in Turkey and seen by Reuters, **Juncker underlined the importance he attached to good relations between the European Union and Moscow, "which to my regret have not been able to develop over the past year". He said he had asked Commission officials to study options to bring the EU and the Eurasian Economic Union - a grouping of former Soviet states dominated by Moscow - closer together.** The decision on the circumstances in which to proceed along this path is in the hands of the member states of the European Union and should in particular be synchronized with the implementing of the Minsk agreements," Juncker wrote, referring to the name of a peace deal relating to Ukraine.

Russia has long ago sought to establish an official relation between the EU and its Eurasian Union. **The initiative could in theory offer Putin an incentive to cooperate in Ukraine** at a time when France and some other west European states are trying to re-engage with Moscow after the Paris attacks to fight Islamic State and forge a peace deal in Syria. **But the Kremlin reacted coolly, saying yesterday (19 November) it had received the letter, but that linking such an accord with the implementation of the Minsk agreements made no sense.** "This correlation with fulfilling the Minsk accords, especially in the current conditions when we see Kiev's unwillingness once again to honor these accords ... is hardly relevant or possible," Putin's spokesman, Dmitry Peskov, told reporters. Russia believes that Ukraine is dragging its feet over the provision of clause # 11 of the Minsk agreement, concerning carrying out constitutional reforms in Ukraine, with a new constitution entering into force by the end of 2015 providing for decentralization for the Donetsk and Lugansk regions. The idea of dialogue between the EU and the Eurasian Economic Union was an old one, Peskov said,

but one which he conceded was essential to develop trade and economic relations. In fact, the Declaration of the leaders of France, Germany, Russia and Ukraine, which accompanies the Minsk agreement (see background), foresees creating a joint humanitarian and economic space from the Atlantic to the Pacific, which could well be the shape of an EU-EEU deal. The Commission is not party to the Minsk agreements, but has been tasked to play a role in implementation.

Lithuania frowns

Lithuanian Foreign Minister Linas Linkevičius said he was surprised by the letter, which he said did not reflect a common view of EU member states and made no reference to EU sanctions against Russia over its annexation of Crimea and the destabilization of eastern Ukraine. Baltic and central European member states are worried that the Commission and Western European partners may be preparing to let Moscow off the hook on sanctions over Ukraine, in return for cooperation in the Middle East. A European Commission spokeswoman confirmed that Juncker had written to Putin after they had a brief conversation at the G20 summit, but said he had not made any new commitments in the letter.

‘Not sexy’

Juncker caused controversy last month when he said at an event in Germany that Europe must improve its relationship with Russia and should not let this be decided by Washington. "We must make efforts towards a practical relationship with Russia," he said on 8 October in Passau. "It's not sexy but that must be the case. We can't go on like this." The Eurasian Economic Union is a newly-formed trade bloc which, aside from Russia, includes Armenia, Belarus, Kazakhstan and Kyrgyzstan. **EU officials said nothing in Juncker's letter called into question the extension of the financial and personal sanctions against Russia when they come up for renewal in January.** Linkevičius said he was confident that there would be agreement to roll over the measures in January. **"I would prefer an improvement of the situation in Ukraine, but all indications at the moment show that the Minsk agreements are not kept. And our agreement is that in such case we will extend sanctions,"** he told Reuters. Linkevičius recently told EurActiv that since the Paris attacks, the military activity of Russian-backed separatists in eastern Ukraine had increased, and called for the EU to exert pressure on Russia, and not Ukraine, to fulfill the Minsk agreements. Concluding the brief letter, **Juncker said he had asked his diplomatic adviser, Richard Szostak, to follow the issue of closer trade ties closely.** "I can assure you that the European Commission will be a helpful partner in this process," he wrote.

Russia's envoy to the EU: The EU has finally come around to the idea of working with the EEU

2015, Austria, Sputnik, <http://sputniknews.com/business/20150901/1026420439.html>

The Russia-led EEU, comprising Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia, is an international organization which aims at streamlining free flow of goods and services between its member countries. "The long-term goal of establishing a free-trade area between those two bodies of integration [EU and EEU] should remain on the table. For a start, **it would be expedient to set up initial working contacts between the European Union and the Eurasian Economic Commission.** It is welcoming that many within the EU are finally coming around to this idea," Chizhov said at the European Forum Alpbach in Austria. **The Russian envoy to the 28-nation bloc warned of numerous security challenges faced by both EU countries and Russia that ignored borders.** He urged to restore cooperation on combating these threats to the level achieved before the breakout of the Ukrainian crisis. "Today our countries are faced with a multitude of challenges that do not stop at borders – terrorism, illegal migration, drug and human trafficking, climate change. In order to combat these acute threats, Russia and EU have invested substantial efforts," Chizhov said. "During the Ukraine crisis, much of this work has come to a standstill... While Russia and EU severely limited their cooperation, terrorists did not," he warned. Russia's relations with the European Union deteriorated greatly amid the Ukrainian crisis. Brussels accused Moscow of meddling in Ukraine's internal affairs and severed cooperation with Russia on many levels.

EU commissioner: EU won't compensate Ukraine for losing Russian market from January 1

Olivier Hoslet

19 November 2015, TASS, KIEV, <http://tass.ru/en/economy/837849>

The EU will not compensate Ukraine for losing the Russian market after the free trade zone regime is set between the country and the EU from January 1, 2016, Commissioner for European Neighborhood Policy and Enlargement Negotiations Johannes Hahn said in an interview with European Truth. We've already granted pretty much money to Ukraine's business for getting prepared to new export opportunities and new market conditions," he

said. "Let us be candid - since the time we agreed on a free trade zone it has been no secret that after it is introduced the Russian Federation may respond, whether we like it or not," Hahn said, adding that Ukraine has had enough time to get prepared. On Wednesday, Russia's Economic Development Minister Alexey Ulyukayev said that **Russian government had decided to impose food embargo against Ukraine starting from January 1.** "Since Ukraine joined anti-Russia sanctions - economic, financial - we've decided to impose ... protective measures in the form of food embargo," he said, adding that the decision is "postponed till January 1." "Most likely we'll have to protect our market on a unilateral basis from unattended access of goods through Ukraine's customs territory, those being goods from third countries, first of all from the states of the European Union. The protection will mainly concern introduction of most favored nation regime. In a situation like that we won't have reasons for keeping zero rate of customs tariff with Ukraine," the Minister said.

On the same day Ukraine's Prime Minister **Arseniy Yatsenyuk said that the country estimates potential losses of Russia's food embargo at \$600 mln in 2016.** "We are preparing for Russia's introduction of trade restrictions against Ukraine. Ukraine performed its assessment of potential losses from embargo, at least for 2016. We will lose about \$600 mln of export to Russia"

European Commission official comments on Juncker's letter to Putin

Patrick Seeger

23 November 2015, TASS, Brussels, <http://tass.ru/en/world/838474>

Margaritis Schinas said there's nothing new in the letter as creation of a common economic space of the EU and Eurasian Economic Union is a long-standing goal. Relationship between the European Union (EU) and Eurasian Economic Union (EAEU) may only be developed in case Minsk agreements are implemented, the European Commission (EC) representative Margaritis Schinas said when commenting EC President Jean-Claude Juncker's offer to Russian President Vladimir Putin on cooperation between the two bodies. "I would like to get back to the letter by the President [of EC Jean-Claude] Juncker to President [Vladimir] Putin, which was sent several days ago. This letter is nothing new.

Creation of a common economic space is a long-standing goal and also part of terms implied by agreements made in Minsk. That's why in this letter Juncker simply repeated his position, voiced after Minsk agreements were signed, and his readiness to implement all points of the agreements," he said. "It's only possible to develop relations between the EU and EAEU if Minsk agreements are implemented and all member-countries are engaged," he said.

Lukyanov: Juncker's initiative is a "canny move" to establish cooperation with Russia via EEU

November 21st, 2015, EurAsia Daily, <https://en.eadaily.com/news/2015/11/21/lukyanov-junckers-initiative-is-a-canny-move-to-establish-cooperation-with-russia-through-eurasian-economic-union>

The initiative of President of the European Commission Jean-Claude Juncker to establish closer contacts between the European Union and the Eurasian Economic Union is a canny move. Through the Eurasian Economic Union Europe is going to resume its trade and economic contacts with Russia, Chairman of the Board of Russia's Defense and Foreign Policy Council, Chief Editor of Russia in Global Politics magazine **Fyodor Lukyanov** said in an interview to EADaily.

In a letter to Russian President Vladimir Putin a few days ago, **Juncker suggested establishing closer relations between the European Union and the Eurasian Economic Union.** "The decision on the circumstances in which to proceed along this path is in the hands of the member states of the European Union and should in particular be synchronized with the implementing of the Minsk agreements," Juncker said in his letter. The Russian President's Spokesman **Dmitry Peskov** refused to give the details of the letter. He just **said that it was not a new idea.** "We have long tried to promote it as this is crucial for our trade and economic relations," he said.

According to Lukyanov, **the idea was first mentioned last year.** "This is a canny move: on the one hand, it will give Europe a chance to resume its contacts with Russia, on the other, it is not about Russia. Russia is the key player in the Eurasian Economic Union but it is not the only one to decide there. So, on the one hand, this is a move to get closer with Russia, but, on the other, this is an attempt to bypass it a bit," the expert said. He does not expect this process to be quick. "When Russia first suggested this two-three years ago, China was not as active in Eurasia as it is today. Now we have much more interesting plans – like harmonizing our Eurasian economic project with China's Silk Road initiative. Today we have other priorities, but this does not mean that we are not going to develop ties between the Eurasian Economic Union and the European Union. Our authorities have always said that our goal is large-scale cooperation over an area from Lisbon to Shanghai. So, now we just need time to see how this all will work," Lukyanov said.

He is not surprised to see such an initiative coming from Europe. "The 'sanction-cooperation' dialectics is becoming a norm today. Universal political rules are giving way to economic and geopolitical alliances. Russia and the USA seek leading roles here. So, they will use sanctions and cooperation as restrictive measures against one another. Today's world politically is disintegrated and competitive but economically it is interdependent," Lukyanov said.

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