

# *Eurasian Economic Union*

## *Observer*

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Lindenweg 37, D-72414 Rangendingen

Tel.: +49 7471 984 996-0; Fax: +49 7471 984 996-19

Email: [eufaj@libertas-institut.com](mailto:eufaj@libertas-institut.com)

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## *A Word from the Publisher*

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Dear readers,

the second quarterly issue of “Eurasian Economic Union Observer” is before you. This is a unique publication for monitoring all around the Eurasian Economic Union. Some of them are critical, some of them not - in the best tradition of a free press. We want to inform the interested public about the developments in and around the EEU.

This time, an accent was taken on the external relations of the EEU. It is also interesting, what happens in the EEU member states and how there is thought over the structure. It has to be noted, that the EEU member states are, while rather open economically - well, more or less - they are partly closed politically, in the sense of an authoritarian or semi-authoritarian regime. Whether this can lead to a real integration, must be seen in the future.

In the meantime, we are happy to see not only interest in the EEU Observer in the EU, but also in the EEU member states themselves.

Best regards,

*Hans-Jürgen Zahorka*

*Chief Editor, European Union Foreign Affairs Journal (EUFAJ)*

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# *Chapter 1. The Eurasian Economic Union and its Challenges*

## *Paradoxes of Rationality, Neoliberalism and International System in Modern Eurasia*

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**Babken G. Matevosyan**

Eurasian Research and Analysis (ERA) Institute, 15.01.2016, <http://www.erainstitute.org/paradoxes-of-rationality-neoliberalism-and-international-system-in-modern-eurasia/>

Many articles and analytical pieces about the IR in wider Eurasia, which tried to conclude 2015 and draw some predictions for 2016, brought me to one counter-intuitive question – *was neoliberalism failing in 2015 Eurasia?* It may seem absurd for a researcher from the first glance, but to explain my perception of the past few years and particularly 2015 Eurasia and to answer that question first we should define/operationalize what I mean by using these two terms – *neoliberalism* and *failing*.

Here, neoliberalism is understood neither as an IR theory *per se* [1] (that in research allows us to view and analyze specific features of the relations between IR subjects rather than others, i.e. absolute gain rather than relative (neo-neo debate), cooperativeness, economic factors, soft power and democratic peace, etc.) [2], nor economic theory/ideology [3] (where the same methodology is applied but it implies different features), rather, here under the term are meant the policies based on that features, such as rationality of actors, democratization that provides peace, economic and/or political integration and cooperation, and most importantly, interdependence – the notion that cost of war is the determining factor.

*Failing*, in turn, is understood as a decline, inability to successfully implement the policies based on it or predict their outcomes. Thus, by addressing the question this article provides a generalized and simplified glance on aforementioned specific features of modern international system.

The world is getting more and more interdependent and intertwined.

First of all, the rationality problem has emerged yet again. From Rousseau to prisoner's dilemma, many depicted that *what is rational for a group is not always rational for individual actors*, i.e. cooperation is rational for group of states or international community, while cheating is rational for individual states in short term (in long-term interactions, as in games with multiple steps/rounds in game theory, cooperation is rational while cheating has consequences). Moreover, long-term and more important issues are often overshadowed by short-term or even populist agendas (usually done by elites aimed to gain votes/legitimacy/stay

in power in both democracies and non-democracies). Furthermore, behavior of international actors based on those paradoxes undermines the international law as well as international institutions that currently are in decline after the relative stability in post-Cold War period [4]. Take for instance the weak European Union (with its financial and demographic difficulties and inability to conduct flexible policies with heavy bureaucracy, inability to form common policies on important foreign issues and construct hierarchy between common and individual interests/goals) or NATO with its hardline east flank, [5] the attempts to politicize the Shanghai Cooperation Organisation or failed regionalist policies in Greater Black Sea area [6]. Examples are many and we are not going to discuss all of them, but each deserves broader analysis to understand the pattern, causation or correlation among a huge variety of initial conditions and intervening factors/variables.

The Next issue is interdependence. While it cannot be described as being in decline – on the contrary, the world is getting more and more interdependent and intertwined – there are two issues I would like to discuss about the phenomenon: its growing complexity and inability to withstand some specific conditions.

A lot has changed from the first attempts to grasp the concept of commercial peace, i.e. with more trade between countries the cost of war rises. While there is a consensus on the benefits of liberal markets and free trade even in ideological non-democracies, in current terms of accelerating history the interdependence is getting harder to control. The growth in the number and wealth of states is not the only source of increased complexity. As Nye argues, the diffusion of power from governments to non-state actors is putting a number of transnational issues on the international agenda (climate change, financial stability, pandemics, terrorism, etc.), at the same time it weakens the ability of the states to respond. [7]

As the law of entropy suggests (the second law of thermodynamics), order in the world is being continually replaced by increasing disorder, and some scholars see its projection on the international system.[8] This idea becomes increasingly actual with the development of new technologies where transportation of goods and labor force becomes more affordable, financial markets more interdependent and most importantly, information more accessible and harder to control, while the cost of creating, finding and transmitting it decreased dramatically. Take for instance the role of social media in Arab Spring revolution, how Russia struggles to control public opinion or NSA leak scandals.[9]

Unlike the world described in Orwell's "1984", the informational revolution not only brought easier government surveillance, but also increased uncertainty and created a new field for different kinds of networks to operate – starting from criminal networks and international terrorist recruiters to corporations that collect customer information and civil society initiatives that make governments accountable and give them less time and space to respond. To generalize, the growing interconnection creates greater vulnerability. That, in turn, makes it harder for states to act alone, creates a need for additional cooperation and ipso facto further contributes to interdependence.

From the façade, all requirements have been met for being a successful example of policy based on neoliberal features in the Eurasian project.

Another feature of modern interdependence and the one most problematic neoliberal policies were based on in the past few years is that *despite the high cost of confrontation/war many actors prefer it* for different reasons. In most of these cases, issues such as the internal integrity and discontent towards the ruling elites by the populations are challenged by the use of ideology, information control, creation of an external enemy, etc. Two of the core examples of such irrational (in a specific context) behavior are Russia and Turkey, and ironically, eventually they confronted each other although both of them desperately need short and middle-term cooperation in energy component and beyond. Here, decision-maker(s) in Russia preferred to pay the high, almost unbearable cost for Crimea and for the new frozen conflict in Ukraine as a potential foreign policy tool, while in Turkey the ruling strongman gambled internal and regional stability in order to stay in power and increase it.[10]

The next good illustration of misguided neoliberal policies in modern Eurasia is the policies of integration, e.g. the emergence of Eurasian Economic Union (EEU), the EU Neighborhood Policy (ENP) initiatives. From the façade, all requirements have been met for being a successful example of policy based on neoliberal features in the Eurasian project: the integration project was initiated to provide free trade opportunities, customs liberalization and potentially, common economic/fiscal policies for countries with similar resource oriented (except Armenia) and already interconnected economies.

Though, if we glance beyond that façade, it doesn't require a special knowledge to grasp the variety and complexity of problems, namely: failure in modernizing the economy, corruption and lack of competition, inconsistent hardline ideology (anti-liberalism, anti-West) and nationalism in Russia and overused hard power that undermines any soft power, sharp decline in trade within the union, fiscal and custom wars among the states of the union, etc. Surely, the biggest problem for these countries was declining oil prices [11], but this only uncovered the core problems. Obviously, the emergence of the EEU and especially its timing was purely politically motivated while the cooperation remains declarative.[12]

Furthermore, the EU Eastern Partnership initiative and overall ENP have been reviewed and changed, as neoliberal institutionalism was defeated by power (geo)politics and imperative approach.[13]

Certainly, this set of generalized examples does not represent an exhausting list of major weaknesses/shifts in the modern international system. Neither does it argue that strategies based on other theoretical models are doing better. It rather outlines the growing dynamics and increasing complexity of modern accelerating historical processes, where the level of uncertainty rises. Many policies based on neoliberal approach were indeed failing, others were poorly designed or misused to reach other targets (EEU). However, as the paradox of rationality in game theory ironically suggests, the choices made illogically or naively often show better payoffs or outcomes. Hence, better times are to come.

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# *How Rival Economic Blocs Replaced the Cold War's Military Blocs*

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**Nikolay Shevchenko**

Russia Direct, 05.02.2016, <http://www.russia-direct.org/opinion/how-rival-economic-blocs-replaced-cold-wars-military-blocs>

## **Abstract**

**Relations between Russia and the European Union have deteriorated significantly over the past year. Although the parties may not acknowledge it openly, parallel projects of economic integration are primarily to blame.**

Relations between Moscow and Brussels may be at their lowest point in post-Soviet history. Diplomatic contacts remain intact, but the EU maintains economic sanctions against Moscow and Russian officials keep talking about import substitution models, apparently not envisioning a conceivable normalization of relations in the foreseeable future. Mutual dissatisfaction is obvious, demonstrating that the EU and Russia view the world differently. As a result, they harbor resentment and avoid making compromises.

The crux of the matter is foreign policy. All other troubles follow from this. Moscow and Brussels keep accusing each other of unwillingness to accept the logic of their respective counterparts and both are reluctant to understand each other's motives.

Exchange of accusations is not new in the history of relations between the EU and Russia. Reciprocal grievances used to taint the relationship during and after the Soviet era. Today, Moscow periodically accuses the West of attempts to expand NATO eastward; in turn, the West responds with criticism of the Kremlin's foreign and domestic policies. This track record makes it even more interesting why 2015 became a milestone in Moscow-Brussels mutual resentment. Even earlier crises had not damaged the relations between the two partners irretrievably, even though 2008 was a dreadful year for Moscow-Brussels relations by all standards.

Naturally, the Ukraine crisis may account for the current intransigent suspicion that the EU has about Moscow. But the Ukraine and Georgian crises are not as fundamentally different as they may appear - in both cases events unfolded in the post-Soviet space that Russia considers vital for its national interests. Ukraine and Georgia had leaned away from Russia toward the West, and both countries had lost parts of their territory as a result.

However, while Russia managed to minimize post-Georgian harm and had even secured WTO membership after the crisis, it failed to regain control over European attitudes after the Ukraine crisis. One aspect of their respective regional policies may shed light on this apparent

inconsistency: parallel economic integration projects. For Moscow it is the Eurasian Economic Union (EAEU); for Brussels it is the Transatlantic Trade and Investment Partnership (TTIP).

### **Two economic integration projects square off against each other**

Moscow assented to the idea of Eurasian economic integration only in 1996. Eurasianist views gained supporters only after attempts by Russian President Boris Yeltsin to integrate with the West failed to yield practical benefits for Russia. Yet, the Eurasian economic integration process made a decisive leap forward only in 2008.

It remains unclear whether the renewed development of the economic bloc was genuinely related to the desire of its member states to soften the impact of the financial crisis of 2008 or whether it was related to the Kremlin's desire to boost its own economic power by integrating the industrial potential and financial flows of Eurasia. Still, the fact is that the member states revitalized the negotiation process in 2008. The EAEU was launched on January 1, 2015. Most significantly, it aimed at uniting the electricity, oil, and gas markets of Eurasia.

The West followed the suit with its own initiative - TTIP - roughly within the same timeframe. U.S. President Barack Obama announced the start of the relevant negotiation process in his annual State of the Union address in 2013.

Soon thereafter, José Manuel Barroso, then the President of the European Commission, voiced the EU's desire to launch the trade and investment bloc with the U.S. The designers of the two trading blocs brag about the scopes of their projects in a peculiarly similar manner. The TTIP can potentially account for one-third of the world's trade flows and constitute half of the world's economic output.

The EAEU already embraces a space of more than 20 million square kilometers and produces oil, gas, coal, ore, and metal on an unmatched scale. The two economic blocs saw their respective finish lines approaching fast in 2015. The EAEU began functioning on January 1, 2015; the U.S. and the EU rushed into the TTIP negotiations the same year.

By now, tensions mounting between the two blocs begin to gradually appear from the surface. Suffice it to recall that the geopolitical crisis in Ukraine began with an economic tug of war between Russia and the EU and, consequently, between the respective economic integration projects. It shouldn't surprise anyone that Russian officials criticized the TTIP during the latest Gaidar forum in Moscow, while Vygaudas Ušackas, the EU's representative in Russia, voiced skepticism about prospects of the EAEU.

### **How economic might transforms into a geopolitical threat**

Apart from the current confrontation, Moscow and Brussels historically had plenty of reasons to distrust each other. British Prime Minister Winston Churchill, famous for his shrewd tongue, once defended his decision to help Stalin in his fight with Nazi Germany by saying: "If Hitler invaded hell I would make at least a favorable reference to the devil in the House of Commons." Even during the critical years of World War II, the European powers remained critically suspicious towards the Kremlin's intentions. The eventual capitulation of the common enemy

immediately aggravated mistrust between the former allies, promptly bringing them into the Cold War.

The collapse of the Soviet Union neither resulted in the so-called “end of history,” nor did it change the geopolitical environment of the European continent substantially. And although the ideological rivalry had formally ended, the underlying geopolitical foundation of the Cold War remained intact. The countries of Eastern Europe remain militarily and economically (in terms of GDP) inferior to Russia and their Western neighbors. This inevitably created a geopolitical vacuum in the heart of the European continent.

Hence, NATO’s desire to expand eastward and Russia’s desire to halt these advancements. Naturally, nuclear deterrence does not allow the competing sides to clash in a direct military confrontation. Economics is where the sides compensate for this self-restraint. Here Russia and the EU readily demonstrate riskier and more confrontational behavior.

The problem is that what starts as an economic issue may instantly transform into a geopolitical problem. At the very minimum, the military power of states directly depends on their economic strength. Even though states may not necessarily prefer to transform their economic potential into crude military power all the time, all states are traditionally suspicious of profound changes in the economic power of their peers. Russia and the EU are not an exception to this rule.

The very fact that a neighbor develops its own economic bloc of unmatched proportions is bound to alarm Brussels and Moscow alike. In addition, every economic union necessarily forms a wall of protectionism to shield its newly formed internal market from dangers of the global liberal economy. Given that the EU is the main economic partner for Moscow and Russia is the third-largest trade partner for Brussels, the transformation of one side into a closed economic bloc is bound to harm the other.

The TTIP threatens to undermine access to the European market for Russia’s mineral resources. This already menacing prospect for Moscow is being further aggravated by the U.S. Senate’s decision to lift a ban on crude oil exports in 2015. Mineral fuel and related products constitute some 70 percent of Russia’s exports to the EU. The TTIP directly threatens Russia’s source of hard currency by an ability to restrict the flow of its products to the EU. Economic stress at home and low oil prices make the prospect especially intimidating for Russia.

In a similar fashion, restricted access to the markets of the EAEU member states is certain to harm some of the EU’s producers and businesses. Already in 2007, the share of EU exports heading to the Russian market constituted 7 percent of the Union’s export flow. Russia remains one of the main consumers of the European transport and chemical industries.

Curiously enough, Ukraine’s exports to Russia structurally resembled the exports of the EU. Naturally, the loss of Kiev to a competing economic bloc could have seriously harmed Moscow as well as Brussels.

All in all, development of competing economic blocs - the TTIP and EAEU - will continue to undermine the economic, military and political positions of Russia and the EU. This is where experts and politicians must look for roots of the current European crisis.

## **How the Syrian crisis may help to regulate the European crisis**

The Ukraine crisis once more demonstrates how natural it is for an economic confrontation to transcend into geopolitical and even military spheres. This transformation is rather a rule, not an exception. The system always utilizes local or global conflicts as a tool to release excess of internal pressure. The problem is that the current level of pressure between Moscow and the EU is at a critical point.

Ironically, the Islamic State of Iraq and the Greater Syria (ISIS) threat and the Syrian conflict serve as a necessary valve, providing Moscow and Brussels with an opportunity to release a certain amount of pressure away from the European system. The Syrian battleground is a conveniently localized and limited struggle that does not affect Europe in a direct way, save for the refugee crisis, which still falls beyond conventional geopolitical categories.

In addition, Syria is a place where Russia and the West have a realistic potential to find a common ground. In spite of a widespread but misleading belief, Russia is not as adamant in its effort to preserve Assad in power and the West is not as uncompromising in its desire to see him gone.

It is necessary to remember, though, that the Syrian conflict, however it ends, is not capable of shifting the geopolitical balance on the European continent. It will neither change the European balance of power nor fill the vacuum in Europe's eastern frontiers. Syria can only provide Moscow and Brussels with a temporary and necessary pause to let both sides reorient on their own—European—geopolitical and geoeconomic playground.

Russia and the EU must utilize the Syrian conflict to think hard about how to rebalance the geopolitical and geoeconomic environment in Europe without resorting to arms. Unless Russia and the EU are able to do so, the end of the Syrian conflict may gradually mark a beginning of a conflict much more tragic in a classic Eurocentric sense.

In this light, finding a solution to the conflict between the two economic integration projects - TTIP and EAEU - must drive the agenda of Moscow and Brussels.

## *Russia's Ragtag Eurasian Economic Union*

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**Nelli Babayan**

The German Marshall Fund of the US, 23.02.2016, <http://www.gmfus.org/blog/2016/02/23/russias-ragtag-eurasian-economic-union>

On February 22, Kazakhstan announced the adoption of an “official program” to move the Kazakh language from the Cyrillic to the Latin alphabet by 2025. This seemingly domestic development is indicative of a broader regional trend: the ties between the members of the Eurasian Economic Union (EEU) are weakening. The EEU, Russia’s counterweight to the European Union’s Eastern Partnership policy, is an economic and possibly political union between Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia. And the state of that union is far from strong.

### **Here’s why:**

Research shows that the strength of unions and alliances depend upon four factors: 1) the degree of their sense of collective identity, 2) the degree of common interests, 3) the level of interdependencies (usually economic), and 4) the presence or absence of institutions to handle cooperation problems. All of these factors are present in the EEU. Yet unlike the EU, in the case of the EEU these factors have more negative than positive overtones. Mostly Russia’s economic and military leverage hold the EEU together so far.

In the EU, shared identity denotes a common understanding that this is a union of democracies sharing values. In the transatlantic alliance, a common understanding of security complements shared values. The only shared identity still sticking to EEU countries is the obsolete post-Soviet one. While “post-Soviet” often implies commonalities between these countries, it has arguably transformed into a geographic term. The differences between these countries are notable, although often not acknowledged.

The Kremlin has attempted to reinvigorate the sense of shared identity by invoking traditional values and shared history. Yet, it seems to have forgotten that this history points to Russia’s imperial past, which others often prefer to forget. The idea of Russian-speaking “russkiy mir” (Russian world) does not project the desired appeal either. Known Russophile Aleksander Lukashenko, the president of Belarus, shunned the Belarusian language for two decades, but is now attempting its political revival. Kazakhstan’s 2016 ban on foreign television channels carrying advertising has effectively removed Russian TV from its second-largest market. The younger generation increasingly uses the Kazakh language. Russia’s main propagandist, Dmitry Kiselev, notoriously complained that Armenians stopped speaking Russian.

Yet, the nature of their regimes is clearly common: all are increasingly autocratic, despite rhetorical commitments to democracy. Similar to Russia, all are also wary of popular protests and “color revolutions.” The interests of EEU countries often diverge rather than converge. Belarus has not had much choice in its foreign policy, given previous European and U.S.

sanctions due to Lukashenko's authoritarian rule. Yet, it has often sought to balance Russia by improving relations with the West. Armenia spent years negotiating an Association Agreement and Deep and Comprehensive Free Trade Agreement with the EU. Yet, its main national interest has been ensuring its security, due to the conflict with Azerbaijan. Russia's decision in late spring 2013 to increase its arms sales to Azerbaijan by another \$1 billion helped divert Armenia towards EEU membership. Similar ambivalence applies to Kazakhstan. For years, Astana balanced its foreign policy between Russia and the United States, and has insisted that the EEU should not become a political union. Thus, none other EEU member officially recognized Crimea as part of Russia, even if the Armenian and Belarusian presidents made vague statements on the legitimacy of the Crimean referendum. Moreover, none of them joined in on Russia's import ban on European and U.S. products in response to Western sanctions.

Economic interdependence is highly asymmetrical: First, while all of the other EEU countries trade with Russia, they do not all trade with each other and certainly not to the same degree. Moreover, they cumulatively trade more with EU countries, stressing the attractiveness of the EU market over EEU.

Second, economic changes influence these countries differently. The combination of EU and U.S. sanctions and low oil prices led to the devaluation of the Russian ruble. The Russian currency's devaluation hit its Armenian and Belarusian counterparts hard. Those economies rely on the ruble, and remittances sent by nationals working in Russia fill budgets. Responding to the weakening ruble, Kazakhstan devalued its currency by 19 percent against the U.S. dollar. Russia is also the main energy provider for Armenia and Belarus, while blocking Iran from increasing its gas deliveries to Armenia. Understanding this asymmetric interdependency, Russia has repeatedly imposed trade sanctions on EEU countries, most recently banning meat products from Armenia, which strongly denies claims of foot-and-mouth disease. Curiously, this ban followed the new agreement between the EU and Armenia to restart negotiations on a framework for their relations. The good news for the EEU is that it has institutions and in name they emulate those of the EU. The bad news is the limits for such institutions to govern illegitimate autocrats distrustful of one other.

### **How is this relevant for the EU and the United States?**

The conflict between the transatlantic partners and Russia largely stems from the clash of visions they have for the third countries. Russia has pursued the politics of submission and absorption to make sure these countries will do its bidding where Russia identifies its interests. The EU's projects, supported by the United States, have aimed to facilitate economic development through capacity building and technical assistance. In the long run they facilitate greater foreign policy sovereignty for these countries. But to design applicable policies, the EU and the United States need to stop putting them in the same post-Soviet basket, acknowledging the differences in their identities and interests. And first of all, they need to decide how much effort and money they are willing to spend to support these countries.

# *Does the Eurasian Economic Union Have a Future?*

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**Galiya Ibragimova**

Russia Direct, 09.04.2015, <http://www.russia-direct.org/debates/does-eurasian-economic-union-have-future>

## **Abstract**

Six experts from the post-Soviet space weigh in on whether the ambitious integration project – the Eurasian Economic Union, which Russia relentlessly promotes – makes economic and political sense for their nations.



*From left: Armenian President Serge Sarkisian, Belarus' President Alexander Lukashenko, Russian President Vladimir Putin, Kazakh President Nursultan Nazarbayev and Kyrgyz President Almazbek Atambayev attend final news conference after the Eurasian Economic Union summit in Moscow in December 2014. Photo: AP*

In May 2015, Kyrgyzstan will join the Eurasian Economic Union (EAEC), which is currently comprised of Russia, Belarus, Kazakhstan and Armenia. The union itself became operational on January 1, 2015, and welcomed Armenia as the fourth member country one day later on January 2.

Tajikistan is also showing interest in the EAEC, and on December 10, during a meeting between the presidents of Russia and Uzbekistan in Tashkent, the parties expressed their desire to hold consultations on the creation of a free trade zone between Uzbekistan and the EAEC (although one month later President Islam Karimov stated that his country would not join the EAEC or any other organization reminiscent of the former Soviet Union). Today the EAEC unites 180 million people within a common market, making it the largest integration union in the world.

But anti-Russian sanctions and the economic slump in Russia have raised doubts in Kazakhstan and Belarus about the sustainability of the new union. In potential member countries, where prior to Russia's crisis the arguments in favor of joining were overwhelming, the disputes

between Moscow, Minsk and Astana over organizational mechanisms have prompted a new wave of discussion.

**Daniyar Kosnazarov, head of the Central Asia and Caspian Geopolitics and Regional Studies Department under the Library of the First President of the Republic of Kazakhstan**

The backlash over Moscow's annexation of Crimea was the first serious test for the EAEC integration process. The divisions inside the EAEC in the wake of events in Ukraine and anti-Russian sanctions have strengthened Kazakhstan's sense of sovereignty. The measures being discussed in the country, which include banning the import of goods from Russia, show that each country in the EAEC intends to put its own interests first. Now is a natural "bedding-in" period and an opportunity to draw the boundaries of the union. Any integration project is a constant search for compromise, and for Kazakhstan the process is beneficial.

The EAEC can help solve Central Asia's interregional problems. The resumption of supplies of Uzbek gas to southern Kyrgyzstan in late December 2014 after Russian President Vladimir Putin's visit to Tashkent confirms Moscow's constructive role as a "solicitor" between EAEC member countries. The Central Asian republics are traversed by roads and pipelines connecting Europe and China. The discrepancies between the republics are hindering the implementation of Chinese projects in the region. Awareness of this should make the region's politics more flexible and compromising. In other words, the principle of "don't anger the Chinese" can simultaneously draw the republics closer together and determine the general prospects of the EAEC project.

**Denis Melyantsov, senior analyst at the Belarusian Institute for Strategic Studies**

For Minsk, the EAEC means access for Belarusian goods to the Russian market and the markets of Kazakhstan, Armenia and other potential members of the union. The EAEC can facilitate economic growth in Belarus. Another motive for Minsk's integration with the EAEC is access to energy resources, the price of which is set to be the same for all participating countries.

In ratifying the EAEC, Belarus stated that it would comply with the obligations only if trade exemptions and restrictions were removed. The experience so far of EAEC integration shows that many obstacles need to be overcome, often artificial and politically motivated ones. If all trade restrictions are removed and movement of goods, capital, people and services within the EAEC becomes genuinely free, such integration will do doubt promote economic growth in member countries.

**Tamerlan Ibraimov, director of the Bishkek Center of Political and Legal Studies**

All the Central Asian republics have a large domestic market, which the EAEC can help to develop. But in any economic union, the winner is always the country where the economy is more developed and technology-savvy, and where production costs are lower. Those Central Asian countries able to compete with other members of the EAEC have a good chance of solving their problems through expanding their products and services markets. Uncompetitive countries, however, risk even worse economic hardship than before.

Economic interdependence inside the EAEC has yet to result in assistance for economically weaker members. On joining the union, Kyrgyzstan will be even less willing to shoulder responsibility for others' economic weaknesses. There is debate in Bishkek about the requirement to share member countries' politically induced economic woes.

As long as the risk of disintegration hangs in the air, and the economic benefits of membership remain unclear, any talk of the EAEC's future must come with caveats. Much will depend on the ability of the most influential country, Russia, to take account of the economic and political interests of its fellow EAEC members.

**Vagram Ter-Matevosyan, senior research associate of the National Academy of Sciences of the Republic of Armenia, Institute of Oriental Studies**

Armenia was the first country where Russia applied the safety factor to keep it inside Moscow's zone of influence. The reason for joining the EAEC lies in Armenia's traditional security problems and complex regional surroundings.

The frequent violations of the ceasefire in the disputed region of Nagorno-Karabakh and on the Armenian-Azerbaijani border, coupled with Azerbaijan's increased military spending in excess of Armenia's national budget, have restricted our options.

Turkey's refusal to establish diplomatic relations with Armenia and lift the blockade in place on Europe's last remaining closed border (which is also a customs border of the EU), and Armenia's exclusion from regional energy and communications projects, all played a part in the country's decision to join the EAEC.

Armenia's economic troubles were another reason for joining the EAEC. Yerevan was seeking a short-term and tangible opportunity to improve the country's economy. The choice was made in favor of EAEC membership, which in contrast to the long-term benefits of the EU could help solve the economic problems in the short term.

The third reason was Yerevan's dependence on Russian energy. Under the "assets for debt" scheme, a number of strategic assets in Armenia were transferred to Russian companies in lieu of \$93 million owed to Russia. Armenia's gas industry became the property of Gazprom. In exchange for control of the Armenian gas sector, Russia reduced gas prices from \$270 per thousand cubic meters to \$189.

A little known reason for Armenia's predisposition to EAEC integration is the role played by Armenians in Russia. A large percentage (29 percent) of investors in the Armenian economy are members of Russia's Armenian diaspora. But the economic slowdown in Russia is lowering demand for Armenian exports and migrant laborers.

**Saodat Olimova, director of the Sharq Research Center, Tajikistan**

The Eurasian space is a huge market in which Tajik products — fruit, vegetables, cotton, textiles, energy, non-ferrous and precious metals — are in high demand.

If the country joins the EAEC, economists and businessmen expect to see an influx of investment in the hydropower sector and lower prices on hydrocarbon imports from Russia and Kazakhstan.

Another benefit of EAEC membership for Tajikistan could also be the common labor market. Tajik migrants would be able to work in Russia free of the current immigration restrictions.

Tajikistan's WTO membership would be a sticking point if it were to join the EAEC. The WTO forbids members from joining customs unions that include non-members of the organization without revising the terms of WTO membership. Integration into the EAEC may also restrict Tajikistan's maneuverability on foreign policy in relations with the EU and the U.S.

On the other hand, the EAEC would be a counterweight to China, allowing Tajikistan to avoid excessive dependence on the economy of the "Celestial Empire." In the ideal scenario, Tajikistan could become a gateway to the huge EAEC market for goods from China, India and Pakistan. It is not ruled out that inside the EAEC the country will become the principal model for CIS integration over the next decade.

**Farhod Tolipov, director of the private think tank Caravan of Knowledge in Tashkent**

Uzbekistan currently views the EAEC as politically motivated and is not looking to join the union. EAEC membership would require some major legislative changes that Tashkent cannot make at present. Another reason is that the country's diversified foreign economic relations make it infeasible to adopt all the rules of the game as prescribed by the EAEC. But it should not be ruled out that Tashkent might just be waiting and watching to see how events unfold before making a final decision.

In my view, the issue of regional integration is of greater relevance to Central Asia. Pointing to the flimsiness of such integration, people cite the fact that the Central Asian republics have built different economic and political models. But if this assertion is correct, the differences will manifest themselves even more markedly within the EAEC. The organization will be hounded by crises in member countries with weak economies, but there will be no joint effort to help each other overcome the risks.

Generally speaking, there are two essential dimensions to the integration processes taking place in the post-Soviet space. The first is whether or not Russia can become the center of gravity of the former Soviet republics, and not just economically. The second pertains to the ability of the republics to make their own choices based on their national interests. The future of the EAEC depends on a combination of these two dimensions.

# *The Eurasian Economic Union: A Time of Crisis*

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**Jan Strzelecki**

OSW Commentar, 01.02.2016, <http://www.osw.waw.pl/en/publikacje/osw-commentary/2016-02-01/eurasian-economic-union-a-time-crisis>

The Eurasian Economic Union (EaEU), a project forced through by Russia which links it to Kazakhstan, Belarus, Armenia and Kyrgyzstan, is currently struggling with serious problems. The economic crisis in Russia – mainly caused by the fall in the price of oil on world markets and exacerbated by sanctions imposed by Western countries in connection with the Ukraine conflict – is affecting these uncompetitive post-Soviet economies which are dependent on Russia. This has resulted in increased economic and political tension among the members of the EaEU. From Russia's point of view, however, the EaEU project remains useful, because it is not economic integration that is Moscow's priority. The Union remains its most important instrument for implementing the Kremlin's geo-political objectives, in particular maintaining its sphere of influence and preventing post-Soviet countries from integrating with the West, as well as restricting their rapprochement with China. Moscow is pushing for the EaEU to include new countries, strengthening its tools for political dominance within the Union, and promoting its project on the international stage. However, the future of this project will depend on both the continued determination of the Kremlin, and whether the other countries can change the rules for integration by taking advantage of the current crisis.

## **Moscow's goals**

The Eurasian Economic Union (EaEU) was formed on 1 January 2015 as a result of the transformation of the Customs Union and the Common Economic Space. From the Kremlin's point of view, it is now the most important formal mechanism for cooperation in the post-Soviet area. In Moscow the EaEU has three main functions. First, it is intended as a mechanism for strengthening Russian influence in the region. Secondly, it is to serve as a barrier preventing the integration of the countries in this region with the West, and prevent the rising influence of China in Central Asia. Thirdly, as an expression of the primacy of Russia in the post-Soviet area, the EaEU also has the function of legitimising Kremlin elite to Russian society.

The Eurasian Economic Union, in which the Kremlin has the final say, remains an essential tool for Russia's political influence on the other member states. Under the guise of integrating equal countries within the framework of an international organisation, it is in fact a project for Moscow's dominance of the post-Soviet area. The formally established institutions within the EaEU serve merely as a façade, and have a limited impact on economic and political processes. For Russia, they are another forum wherein the Kremlin may exploit its military and economic advantages to put pressure on the leaders of individual countries. The Kremlin's interests are of key importance in the decision-making process, and Moscow has succeeded in entangling the member states into cooperating more closely in the political dimension, which formally is secondary to the economic aspect [1]. The most common method for the other member states

to escape from Russian dominance is to simulate integration into the EaEU, and delay the implementation of its decisions.

The EaEU project was developed in parallel with the intensification of European programmes in the post-Soviet area [2]. Thus it is also a response to the structural strength of the European Union, which is manifested in its ability to redefine the framework of international relations, and the political and economic systems of the neighbouring countries. For Russia the EaEU is an instrument in a geopolitical game, aiming to prevent countries which once belonged to the Soviet Union (except the Baltic States) from integrating with Western structures. To this end, Moscow is trying to present the EaEU as an alternative project to the EU, and is working to achieve legitimacy for the EaEU internationally. The Kremlin has primarily been pushing to institutionalise relations between the EaEU and the European Union, in an effort to encourage the EU to establish permanent mechanisms for dialogue with the EaEU on economic and political matters. Russia has demanded that the West recognise the EaEU as a partner in the talks on ending the conflict in Ukraine, and during talks with Brussels it has also pushed to establish official relations between the Moscow-dominated EaEU and the EU. Such formal mechanisms for cooperation are intended on the one hand to serve as a tool to put pressure on EaEU members, by showing that Russia has the final word on key issues related to international relations in the region; and on the other hand, that it is still a platform for negotiation and a tool to influence the countries of the West. At the same time, due to the rising influence of China in Central Asia, Moscow is trying to exploit the EaEU as an entity in talks with Beijing [3].

Russia promotes the EaEU as an alliance which can compete with the EU in the economic dimension, and at the same time as being axiologically different from Western structures, by its distinctness from the principles of liberal democracy and its roots in conservative values. Moscow stresses the specificity of the socio-political model of the post-Soviet states, which results in these countries' inability to integrate with the West. To this end, it employs a narrative about the civilisational distinctiveness of the so-called Russian world (*Russkiy Mir*) [4]. An example of this can be found in the words of Vladimir Putin, who has stated that "the Eurasian Union is a project to preserve the identity of the peoples of the historical Eurasian space in the new century and in the new world. Eurasian integration is an opportunity for the entire post-Soviet area to become an independent centre of global development, and not just the periphery to Europe or Asia" [5]. This narrative is also domestically important for the Kremlin. It mobilises symbolic resources and highlights the successes of Russian foreign policy for domestic purposes [6]. The stability of the system of power in Russia, in the perception of the Russian elite, is closely linked to the stability of the other post-Soviet regimes. As a project the EaEU, binding the elites of these countries in their dependence on Moscow, is intended on the one hand to prevent 'colour revolutions' taking place in its immediate neighbourhood, on the other to strengthen the sustainability of the system of power in Russia itself.

### **Expansion at the expense of the economy**

The main tasks which Moscow has set for the EaEU demand its expansion. The Kremlin has consistently worked to join more countries to the Union, regardless of their economic condition and the lukewarm opposition from the EaEU's current members. In January 2015 Armenia

joined the Union; Kyrgyzstan did so in May 2015; and Tajikistan will most likely join in 2016. Expanding the EaEU, on the one hand, validates this initiative and strengthens Russian dominance over an increasing part of the post-Soviet area; but on the other hand it reduces the economic viability of the Union itself.

By pushing for the expansion of the EaEU, the Kremlin is skillfully exploiting the other members' dependence on Russia. Moscow effectively forced the President of Armenia, Serzh Sarkisian, to opt out of European integration and join the EaEU, probably by using its position as the guarantor of security for Armenia as an instrument of pressure, in the face of the country's conflict with Azerbaijan over Nagorno-Karabakh, which has been smouldering for years. Belarus and Kazakhstan were initially unwilling to dilute the EaEU's economic effectiveness by adding Armenia and Kyrgyzstan. Moreover Kazakhstan feared that as a result of the enlargement, Kyrgyzstan's role as a re-exporter of goods from China would be strengthened, and the inflow of economic migrants and cheaper products from Kyrgyzstan would increase. However, the existing members of the EaEU were unable to block its inconvenient expansion. The Kremlin's political power was also demonstrated by its ability to place the membership of Tajikistan on the agenda, as well as the more distant prospect of Azerbaijan joining. Fear of reprisals from Moscow means that integration is primarily a political necessity for the new members of the Union. Membership in the EaEU also allows them to obtain immediate financial advantages. Yerevan, Bishkek and Dushanbe have realised that joining the EaEU has been linked to a number of negative consequences for their economies, including price rises, caused primarily by increases in customs duties, and declining competitiveness, which could lead to the collapse of many companies [7]. For Kyrgyzstan, the increase in customs duties on goods from China have proved to be especially painful, as re-export of these goods is an important source of income. These costs are supposedly being rewarded by *ad hoc* financial assistance from Moscow, the abolition of customs duties within the EaEU, and the opening of the labour markets in Russia and Kazakhstan. For the regimes in the EaEU countries, membership also brings political benefits offsetting the risk of protests, as the short-term financial support allows them to discharge social tensions, and fear of Russian intervention limits any pro-Western and pro-democratic movements.

Taking on countries with low economic potential has not strengthened the EaEU economically. Russia has used the series of transformations and expansions to extend its supremacy over these post-Soviet countries, and to demonstrate the success of its integration project, which is intended to offer an alternative to integration with the West. In this way, Russia is trying to build a narrative of a 'multi-polar' international order, which is intended to function as a system of balance between powers which respect each other's interests and spheres of influence. In the light of the Kremlin's main objectives, the EaEU has been effective, because even in an economically weakened state, it seems to have prevented its members from joining other integration structures unacceptable to Moscow. At the same time, Russia regularly raises the subject of strengthening mechanisms within the EaEU's structure that would bolster its political dimension, and by extension Russian supremacy within it (such as the establishment of a parliament, a move away from payments in US dollars, and creating a single currency within the EaEU). These attempts have met with resistance from other members of the Union,

as demonstrated in numerous statements by Presidents Aleksandr Lukashenko and Nursultan Nazarbayev questioning the need to deepen Eurasian integration.

### **Echoes of the Russian crisis**

The fall in the price of oil, which is a major Russian export commodity and a source of budget revenue[8], and to a lesser extent the Western sanctions introduced in connection with the Ukraine conflict, have led to a rapid deterioration of the economic situation in Russia. This crisis also affects the weak economies of the other EaEU member states, which has caused conflict within the Union.

Clearly the impact of Russia's economic problems results primarily from the historically strong ties between the economic systems in the post-Soviet area. Moreover, this impact has been aggravated by the large economic disparities between the members of the EaEU: Russia's gross domestic product represents about 86% of the GDP of the entire EaEU; the GDP of Kazakhstan, the second biggest in terms of size and economic potential, represents less than 10%, Belarus approximately 3.5%, and Armenia and Kyrgyzstan less than 1% together[9]. In addition, trade relations within the EaEU are heavily dominated by individual countries' trade with Russia (predominantly exports from Russia). This means the Union's members are largely dependent on the health of the Russian economy, and consequently they merely play a supporting role to Russia in the decision-making process. The differences in size of the EaEU states' economies, and the 'concentric' nature of trade within the EaEU, mean that tensions concerning economic policy are to some degree structurally embedded in the functioning of the project (see Appendix).

The recession in Russia has strongly affected the value of trade among the EaEU countries. Although the Kremlin has stated that economic cooperation within the EaEU is a priority for Russia, trade with the EaEU countries makes up only 6.6% of Russian international trade, while the EU represents 49.5% of Russia's trade [10]. The continuing low rate of the rouble has also intermittently reduced the competitiveness of those producers who incur expenses in other currencies; this means that within the EaEU the value of imports to Russia has fallen more than exports of Russian goods. Exporters from Kazakhstan have noted particularly severe losses, especially manufacturers of cars, building materials, foodstuffs and oil-derived goods. The Russian crisis, as characterised by the fall in the value of the rouble, reduced investment and a clear decline in the real income of the population, has also led to a sharp reduction in money transfers from emigrants working in Russia. Within the EaEU, the fall in these revenues has turned out to be most severe for the country's most dependent on remittances, namely Kyrgyzstan and Armenia. In Kyrgyzstan, where according to the World Bank 30% of GDP is made up of transfers from economic migrants, there was a drop in this figure of over 45% in the first three quarters of 2015 compared with the same period in 2014. Meanwhile in Armenia, where around 18% of GDP is made up of remittances from guest workers, transfers fell by around 50% during the same period [11]. The decrease in the income of migrants and the imposition of the Russian crisis on the systemic problems of the EaEU economies, along with the deterioration of the economic situation, has led to a rise in social tensions, and anxiety among the ruling elites about the future of these countries' political systems.

The impact of the Russian economic crisis, and the introduction of Russia's embargo on food products from Western countries, has actually weakened integration within the EaEU the economic sphere rather than strengthened it, which has caused numerous conflicts. At the same time, the strong impact of the Russian crisis on the other Union economies testifies to the strength of the economic ties within it. However, economic links within the Union primarily consist of bilateral links with Russia and are largely a historical legacy, and not – as presented in the Russian narrative – a result of the success of integration within the Eurasian Economic Union [12].

### **Conflicts within the EaEU**

The imposition of the Russian crisis on the systemic problems of the EaEU's economies will lead to the accumulation of conflicts between member states (MS). The multitude of non-tariff barriers and low institutional culture of these countries have contributed to the emergence of trade wars and attempts by the EaEU MS to weaken the level of integration. Continual outbreak of such disputes shows that the EaEU's economic condition primarily derives from the state of the Russian economy and Moscow's ability to impose its will on the Union's other members.

In order to defend themselves against the effects of the crisis and the dictates of Moscow, some EaEU members have begun to use protectionist instruments. At the beginning of 2015 Belarus and Kazakhstan introduced reductions in the imports of certain products from Russia, in order to defend their markets against an influx of Russian goods, the prices of which had dropped significantly as a result of the devaluation of the rouble. On several occasions the leaders of both countries have spoken sharply on the adverse effects of Eurasian integration and the losses to their countries' economies due to the crisis in Russia [13]. This tension has resulted in attempts to limit the freedom of movement of specific goods by applying non-tariff barriers, which are used to circumvent the rules of the common market within the framework of the EaEU [14]. In addition, the decline in income of the general population has brought forth growing social frustration, which could lead to protests (as in June 2015 in Armenia, after the announcement of a rise in electricity prices), something which will further deepen the anxiety of local elites.

The EaEU countries' economic situation has been worsened by Russia's ban on the import of selected products from countries which have introduced sanctions since Russia's aggression towards Ukraine and its annexation of Crimea. This embargo, which was introduced by Moscow without consulting the other members of the EaEU, has significantly affected the functioning of the goods market in the EaEU area. The other members of the Union did not join in with Moscow's 'counter-sanctions'; this became another field of conflict, and marked the beginning of a series of accusations that Belarus and Kazakhstan had failed to comply with Russian regulations. These two countries, in order to minimise the losses resulting from a fall in exports of their own goods to Russia, have begun to re-export Western products. To this end, the real origin of the goods is often concealed, and sometimes they are illegally imported onto the territory of the Russian Federation under the pretext of transit from Belarus to Kazakhstan. This has met with opposition from Moscow, which is pushing to stop the influx of Western food through the territory of other Union members, and has begun to apply increased sanitary,

veterinary and transport checks in order to counteract the import of goods from the countries covered by the ‘counter-sanctions’.

The tensions in the Eurasian Economic Union were further strengthened by the accession of Kazakhstan to the World Trade Organisation (WTO). The conditions for Kazakhstan’s accession include an average customs duty of 6.1%; this is significantly less than the rates adopted by the EaEU, which suited the terms of Russia’s accession to the WTO (an average duty of 10.4%). Kazakhstan has thus returned to the level similar to that which applied to the country before 2010, when it began to operate a common customs duty with Russia and Belarus. This poses a risk to the other EaEU countries (primarily Russia) that goods will be imported to the EaEU mainly via Kazakhstan. To prevent this, changes in the operation of the common market have been introduced, which establish two parallel customs systems: imports onto the domestic market in Kazakhstan with lower customs duties, according to its agreement with the WTO; and imports onto the EaEU market, while maintaining the existing EaEU duties. However, Kazakhstan has been obliged to introduce mechanisms to prevent products covered by lower duties from being transported to the other EaEU member states [15]. Kazakhstan’s accession to the WTO will likely cause a further weakening of economic relations within the framework of the EaEU’s rules by restricting the free movement of goods. This may also lead to periodic trade wars, if the goods imported into Kazakhstan from third countries are then transported into the EaEU.

Economic integration within the EaEU has weakened in connection with the effects of the Russian crisis. It has revealed and deepened the problems in cooperation within the EaEU, which are related to uneven economic growth, the lack of coordination in macroeconomic policy, significant fluctuations in exchange rates, and above all, the proliferation and randomness of use of non-tariff barriers. For some members of the EaEU, however, the crisis has also brought an opportunity to try to redefine the conditions imposed by their membership in the Union: to obtain subsidies and loans, in the case of Belarus, and to improve foreign trade, in the case of Kazakhstan.

### **Prospects**

The economic condition of the EaEU depends primarily on the state of the Russian economy. In connection with the economic crisis, which has arisen principally because of the fall in oil prices on world markets, and also to some extent Western sanctions, Russia is unable to build up the Union’s economic potential. The continuing crisis in Russia will therefore continue to jeopardise the economic situation of the other EaEU states. As a result of the EaEU’s declining economic attractiveness, these countries will remain reluctant to deepen their economic integration with and imposed political submission to the Kremlin [16]. Kazakhstan, Belarus, Armenia and Kyrgyzstan will attempt to protect their own markets and obstruct Russian plans to strengthen its dominance.

Due to the member countries’ conflicting interests, plans to create a joint energy and raw materials market and a monetary union, as announced by Putin in Astana on 20 March 2015, should be considered unrealistic [17]. Russia’s war against Ukraine also *de facto* rules out the

chances of Ukraine joining the EaEU [18], which was one of the Kremlin's main objectives when founding integration project. It is necessary to further extend the EaEU, and reinforce its ties in the political, economic and military fields, in order to carry out Russia's geopolitical project of restoring its unquestioned control over the post-Soviet area. Hence, Russia will seek to extend the EaEU to include Tajikistan, and work to strengthen its influence on the foreign policy of the EaEU countries. Despite the growing economic problems and political tensions, it seems that in the political dimension, the EaEU project will continue to serve the strengthening of Russia's dominance over a growing number of countries of the former USSR.

#### Appendix: GDP of the EaEU members (2014) and their trade within the EaEU 01-11/ 2015)

	GDP in 2014 (billion US\$)	Country's GDP share in the GDP of the entire EaEU (2014)	Trade with EaEU countries during January-November 2015 (million US\$)	Share of trade with Russia in trade with EaEU countries during January-November 2015
Armenia	10.9	0.5%	1179	96.9%
Belarus	75.9	3.5%	24503.8	97.4%
Kazakhstan	212.2	9.7%	15212.9	91.9%
Kyrgyzstan	7.4	0.3%	2058.8	63.9%
Russia	1880.60	86.0%	40300.7	
Total	2187	100%		

Source: the Eurasian Economic Commission, <http://www.eurasiancommission.org>

## References

[1] Russian capacity of pushing its own solutions is also increased by the fact that in the Eurasian Economic Commission, which is the permanent body of the Union, the overwhelming majority of civil servants are citizens of Russia. Iwona Wiśniewska, 'Eurasian integration. Russia's attempt at the economic unification of the Post-Soviet area', OSW Studies, 30 July 2013: <http://www.osw.waw.pl/en/publikacje/osw-studies/2013-07-30/eurasian-integration-russias-attempt-economic-unification-post>]

[2] The shape of Russia's Eurasian project was drawn up during the development of the EU's programmes in Eastern Europe, in particular the Eastern Partnership programme addressed to post-Soviet states, which – like the establishment of the Customs Union between Russia, Kazakhstan and Belarus – was launched in 2009. From the start, Russian leaders and columnists have tried to portray Eurasian integration as analogous to integration within the framework of the European Union; see e.g. Vladimir Putin's interview of 03.10.2011 for *Izvestia* (<http://izvestia.ru/news/502761>)

[3] On 9 May 2015, a Russian-Chinese statement on cooperation in the Russian Eurasian Economic Union project and the Chinese New Silk Road project was signed in Moscow. The most important parts of the document concern Russian support for routes to Europe built by China, and the Chinese declaration of starting talks about the shape of an agreement for commercial and economic cooperation with the EaEU.

[4] This concept is used in many senses in Russian discourse, most commonly to describe the community of people who speak Russian and identify with Russian culture.

[5] Putin's speech at the meeting of the Valdai Club in September 2013; transcript available at <http://www.rg.ru/2013/09/19/stenogramma-site.html>

[6] According to a study by the Levada Centre, the percentage of Russians who are proud of their country's political position in the world has risen from 46% in 2012 to 68% by 2015. <http://www.levada.ru/2015/12/07/gordost-patriotizm-i-otvetstvennost/>

[7] In the period leading up to accession, the government of Kyrgyzstan repeatedly discussed the EaEU with notable coolness; for example on 27 October 2014, the President of Kyrgyzstan Almazbek Atambayev called joining the Economic Union “a lesser evil”. <http://tass.ru/mezhdunarodnaya-panorama/1534233>

[8] Profits from oil and gas exports constitute about 75% of the proceeds from all Russian exports, which through taxation provides more than half of the proceeds to the state budget. Dependence on the export of raw materials means that the economy, and with it also the state budget and political stability in Russia, are strongly linked to the prices of gas and oil on world markets. According to calculations by the Economic Expert Group, a Russian consulting company, an annual drop in the price of a barrel of crude by US\$1 causes a loss of US\$2.3 billion to the state budget.

[9] <http://www.eurasiancommission.org/>

[10] The sharp falls in trade relate primarily to the value of the goods, and are largely associated with a decrease in the value of currencies in the post-Soviet area: in the first quarter of 2015, soon after the official formation of the EaEU, Russia's trade flows with the member countries were a third lower than a year earlier. This decline particularly concerned imports to Russia (compared to the first quarter of 2014, imports amounted to 57%). The amount of goods exchanged is only slightly lower than before the advent of the crisis: see [http://customs.ru/index2.php?option=com\\_content&view=article&id=21240&Itemid=1976](http://customs.ru/index2.php?option=com_content&view=article&id=21240&Itemid=1976)

[11] [http://www.cbr.ru/statistics/?Prtid=svs&ch=TGO\\_sp\\_post#CheckedItem](http://www.cbr.ru/statistics/?Prtid=svs&ch=TGO_sp_post#CheckedItem)

[12] In the period from January to November 2015, almost 97% of the value of trade in the EaEU area consisted of bilateral trade involving Russia. Details of trading between the members of the EaEU are available at: [http://www.eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_stat/tradestat/analytics/Documents/express/Nov2015.pdf](http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/analytics/Documents/express/Nov2015.pdf)

[13] For example, on 1 June 2015 Aleksandr Lukashenko stated that as of that moment, the crisis-related losses to the Belarusian economy linked to the crisis in Russia, the sanctions imposed by the West on Russia, and Russian retaliatory sanctions amounted to almost US\$3 billion. The losses for Belarus were associated with a decrease in both the trade between Belarus & Russia, and a reduction of revenues relating to transit and re-export.

[14] Examples of such actions include Kazakhstan's limiting of Russian food imports at the beginning of 2015 under the pretext of sanitary and veterinary requirements, after the Russian rouble significantly lost value relative to the Kazakh currency, the tenge.

[15] <http://www.pravo.by/main.aspx?guid=12551&p0=F71500373&p1=1>

[16] For example, in a TV interview on 24 August 2014 the President of Kazakhstan stated that Astana may opt out of membership in the EaEU, if “membership threatens the independence of the country.”

[17] The creation of a monetary union would considerably reduce the competitiveness of the other EaEU countries and deepen their political and economic dependence on Russia.

[18] The results of extensive research conducted by Rating Group Ukraine in November 2015 in Ukrainian cities on behalf of the US-based International Republican Institute (IRI) clearly show that, despite the disappointment in the post-Maidan authorities among Ukrainian society, the EaEU had substantially lost popularity, and only 15% of those polled would like Ukraine to join the organisation, while 57% of respondents were in favour of Ukraine's accession to the EU (the survey was only conducted in areas controlled by Kiev); [http://www.iri.org/sites/default/files/wysiwyg/2015\\_11\\_national\\_oversample\\_en\\_combined\\_natl\\_and\\_donbas\\_v3.pdf](http://www.iri.org/sites/default/files/wysiwyg/2015_11_national_oversample_en_combined_natl_and_donbas_v3.pdf)

# *How to Cure the Woes of the Eurasian Economic Union*

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**Christopher Hartwell**

Russia Direct, 27.01.2016, <http://www.russia-direct.org/opinion/how-cure-woes-eurasian-economic-union>

## **Abstract**

**A year since its establishment, the Eurasian Economic Union has been largely unsuccessful in its efforts to bring its member states economically and politically closer together. In 2016, the trade grouping needs to focus more on free trade, less on exerting political influence.**



*Russian President Vladimir Putin, centre, before the meeting of the Supreme Eurasian Economic Council (SEEC) in the Kremlin. From left - President of Belarus Alexander Lukashenko and President of Armenia Serzh Sargsyan; from right - Press Secretary of the Russian President Dmitry Peskov, Chairman of the Board of the Eurasian Economic Commission Viktor Khristenko, President of Kazakhstan Nursultan Nazarbayev. Photo: Sputnik*

As of Jan. 1, 2016, exactly one year has passed since the Eurasian Economic Union (EAEU) of Belarus, Kazakhstan and Russia was formed. The Union, envisioned as a way to improve trade ties among the former Soviet republics and increase Eurasian integration amongst countries sharing a common heritage, faced an incredibly busy and challenging first year of existence year unlike that seen by any other trade grouping. With 2016 showing continued economic turmoil, the presence of the EAEU seems more anachronistic by the day.

While the Union hastily underwent its first wave of enlargement, adding new member states Armenia and Kyrgyzstan, the more pressing issues of economic decline and financial crisis dominated the thoughts of policymakers of Russia and Kazakhstan. With 2016 showing continued economic turmoil, the presence of the EAEU seems more anachronistic by the day. Did the Union have any key achievements that can be built upon in 2016, or will the weight of global forces show that the emperors of the EAEU countries indeed have no clothes?

## **One step forward, several steps back**

As a trade grouping or customs union, the EAEU has moved at breakneck speed in its integration, traversing ground that took the European Union (EU) much more time to cover. For example, the EAEU underwent its first wave of enlargement a mere day after coming into being, admitting Armenia on January 2, 2015. The treaty on the EAEU was signed in May 2014 and agreement was reached on Armenia's accession already in October 2014.

Unlike the EU, which took 15 years from its founding as the European Economic Community (EEC) to admit more members, the EAEU then added a second new member in the form of Kyrgyzstan in August of last year. Talks are also currently underway with Tajikistan to accede, but as of the moment there are no serious plans for countries outside of the former Soviet Union to join the grouping. Apart from the impressive speed of enlargement, global economic conditions have ensured 2015 was a tough year for the constituent members of the EAEU and thus for the Union itself. One need look no further than the continued contraction of the Russian economy due to sanctions, internal policies of Russia (including military engagement in Ukraine), and (above all) the drop in oil prices to understand that the EAEU is currently an economic union without a driver. In fact, the EAEU has played a deleterious rather than beneficial role over the past year, as the wide-open integration has enabled Russia's shocks to impact Kazakhstan more forcefully than they would have otherwise. Kazakhstan, Belarus, and Kyrgyzstan already had a substantial portion of their trade institutions and infrastructure oriented towards Russia, meaning that whatever transpired in Russia economically was always going to affect them. With Kazakhstan's trade links with Russia increasing as a result of the Union, however, it is even more exposed to not only economic volatility, but also currency and financial volatility. Likewise, Armenia, a country that has been far less dependent on Russia economically in recent years, has voluntarily opted to import economic uncertainty from Russia instead of dragging down the grouping.

Economic forces external to the EAEU also appear to be conspiring against the Union moving forward. The plummeting price of oil has almost single-handedly decimated the Russian budget and the ruble, and the prospect of oil wars between Iran, Saudi Arabia and Russia do not appear to signal the return of \$100 a barrel prices anytime soon. This, of course, not only impacts Russia, but also Kazakhstan, which derives the vast majority of its export earnings from oil and oil products. Similarly, China's slowdown, accelerating over the past four months, is coming at the worst time for Russia and other EAEU members, as the closing of markets in the West has meant a scramble to the East. Without the engine of global growth that was China to help prop up global demand, investors are becoming increasingly skittish about other emerging market economies and casting a hard look at the EAEU. The tide will not turn anytime soon, casting further doubt on the reason for the EAEU's existence.

## **Continued confusion on goals**

As an organization, the EAEU continues to suffer from a clear lack of focus. In this, the Union also appears to be in overdrive, as it is suffering a similar crisis of identity as the EU, but without the benefit of 58 years of operation. In the first instance, there has always been a tension

within the EAEU on its ultimate goal, that is, broader or deeper integration. At times, spurred on by Russia, the Union has lunged at both, attempting to add members while simultaneously lowering barriers amongst countries. The burst of accession in 2015 showed that perhaps broadening the agreement had triumphed, a feasible approach for a trade group that had suspiciously little diversification of exports.

However, the broadening appeared to only be a political ploy to create a rival to the EU in the wake of Ukraine's and Moldova's Association Agreements, somehow threatening Brussels with the economic might of Yerevan and Bishkek (even more surprisingly, the addition of Armenia and Kyrgyzstan did not improve the fortunes of the organization). As noted above, there has been no serious talk of bringing in countries that were not part of the Soviet Union, a missed opportunity that could help actually diversify the Union and make it less Russia-centric. Unfortunately, deepening of the EAEU also runs up against a formidable obstacle, in that Russia's idea of integration is inevitably a group of countries that listens to what Russia says unquestionably and carries out reforms at the command of the Kremlin. Such an eventuality has been worried about in Astana and even Minsk for some time, especially when President Vladimir Putin has questioned Kazakhstan's existence as a state, and Belarus and Kazakhstan have already voiced displeasure at the Kremlin's invasion of Ukraine and refused to go along with Russian embargoes of Western goods.

In response, Russia has at times banned transit trade of goods that could be re-exported within the bloc (as seen in the Russian prohibition of transporting Polish apples to Kazakhstan in 2015). Thus, while there may appear to be unanimity in goals within the Union, below the surface, there is much tension. Indeed, at its heart, the EAEU faces the same dilemma that pushed Ukraine into the arms of the EU, as, while Belarus may want deeper political integration with Russia in the long-term, Kazakhstan and Armenia want no such thing, preferring to keep the EAEU as an economic grouping, and even then at a much more superficial level that retains economic sovereignty. This desire mirrors the exact same concern that Ukraine had for years prior to Maidan, as even pro-Russian leader Viktor Yanukovich was unwilling to move towards ever deeper union with Russia in the EAEU. This tension eventually led to the events of the past two years and Yanukovich's downfall – once he succumbed to Russian pressure to cast his lot with the EAEU, the crowds turned out on Maidan to protest against the inevitable loss of sovereignty to Russia. In short, even the person who was personally predisposed to the EAEU was turned off by Russian tactics (including a trade war which Russia initiated in early 2013), showing that not even bullying, threats, or seizure of territory can keep a country in a trade bloc if it does not want to be there.

Even as an economic grouping, the EAEU is facing difficulties in understanding the extent of integration. The lack of monetary coordination amongst members of the group has become legendary, an inevitability given the ruble's precipitous decline over the past year and a half. But disjointed macroeconomic policies, especially in a realm of free movement of capital and labor, can create large competitive disparities within and for the businesses in the EAEU. As of January 2016, there has been little move towards coordinated macroeconomic policies, much less structural policies that all members so vigorously need. Without such coordination, at an even cursory level, there is a danger of large regional disparities forming (as has already been

seen in Russia), local issues that could create headaches at the national level. However, as has been pointed out before, the EAEU was not necessarily a doomed experiment - but only if the Union could take up the banner of trade liberalization that had been lost on the battlefields of Europe. Unfortunately, this has not been the case, and the example of the past year has shown that trade is being utilized as just another weapon.

Given this reality and the current crisis plaguing Russia, it is likely that the EAEU will remain as a vestigial institution, enabling visa-free travel from Moscow to Yerevan but otherwise having little beneficial effect on the economies of this trade grouping. The only way in which this can turn around in 2016 is if the focus shifts away from punishing those that Russia disagrees with politically and towards creating a zone that respects free trade.

## *The Eurasian Economic Union Continues to Focus on Global Economic Integration*

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**Alexander Stadnik**

Russia Direct, 27.01.2016, <http://www.russia-direct.org/opinion/eurasian-economic-union-continues-focus-global-economic-integration>

### **Abstract**

**A lot has happened for the Eurasian Economic Union in its first year of existence. The member states have felt the positive effect of free trade within the bloc and are working on a serious strategy for the future that will result in deeper, expanded cooperation.**

Established on Jan. 1, 2015, the Eurasian Economic Union (EAEU) launched a new period of economic integration in the Eurasian region. A Union formed among Russia, Armenia, Belarus, Kazakhstan and Kyrgyzstan is not simply a reincarnation of the U.S.S.R. as some politicians would claim. And it is also not an attempt to create a certain one-sided economic club. The way the Union is developing is a sign of its potential power, which is quite the opposite – the Union is strong due to a full and free dialogue with everyone.

Even before the establishment of the Union, the Eurasian integration process yielded obvious economic dividends for all its participants. For example, the total trade of Russia with Armenia grew by 64 percent during the last three business years, with Belarus – 15 percent, with Kazakhstan – 39 percent, and with Kyrgyzstan – 31 percent. Even those states that joined the EAEU not long ago have already felt the positive effect. For instance, the inflow of foreign direct investment to the economy of Kyrgyzstan increased 2.3 times from January to June 2015 and amounted to \$498.5 million. Moreover, the volume of investment coming from the

Commonwealth of Independent States (CIS) countries and Russia to Kyrgyzstan grew 2.8 times and 7.4 times, respectively.

Without a doubt, the effect from being a member of the Union is different in each country, keeping in mind that positive changes are not visible straight away since the level of integration of each economy is different: Without a doubt, the effect from being a member of the Union is different in each country, keeping in mind that positive changes are not visible straight away since the level of integration of each economy is different. And this is in line with one of the key principles of the EAEU – the principle of “multispeed integration” which allows the states to gradually adapt to common laws and regulations as well as find their respective specialization areas and join in the division of labor.

### **How the Union has been developing over the past year**

One year is not a long period of time. Surely, not all mechanisms of cooperation between the states have been adjusted. The large-scale work on synchronizing the legislative framework, standardizing technical requirements and eradicating the barriers to external trade among member states is in process.

Since the moment of the establishment of the EAEU, 80 such barriers were erased and it is planned that by 2025, there will be no obstacles in trade whatsoever. The regulations and norms in energy effectiveness, resource saving, machine and equipment production, ecological, sanitary and veterinary control, intellectual property protection and other areas are being harmonized.

A common gas market is being formed, the total effect of which is likely to reach \$4-5 billion a year. A common market for pharmacy and medical products is also being created that will increase the quality of products and their accessibility to the population.

Apart from addressing daily matters of economic interaction, the members of the Union are also working on a serious strategy for the future: they are discussing the perspectives of forming a common education area of the EAEU, as well as developing mechanisms for cooperation in nanotechnology and innovation. Some progress in these areas is being achieved – the Eurasian Engineering Center aimed at become a base for science and technology cooperation is being created while a Russian-Kazakh Fund for Nanotechnology, and Kyrgyz-Russian center for innovation in Central Asia have been already set up.

### **Interaction with third-party countries**

The further extension of the Union is facilitated both by the access of the new member states and by various cooperation carried out with third-party countries, some of whom are significant trade partners.

Tajikistan is on its way to a Union entry decision. In late May 2015, the Union and Vietnam signed a free trade zone agreement, which, according to some experts, might by 2020 allow the increase of the overall trade turnover from the current \$4 billion to \$10 billion.

On Nov. 25, the first business forum “The Eurasian Economic Union and Vietnam” dedicated to the development of mutual trade was held in Hanoi, Vietnam. The forum brought together more than 150 companies and business associations from both Vietnam and the EAEU. More than 30 countries that are Union trade partners showed interest in the free trade zone.

The end of November 2015 also marked the signing of the memorandum for cooperation between the Eurasian Economic Commission, a permanent regulatory body of the Eurasian Economic Union, and the Ministry of Trade, Industry and Energy of the Republic of Korea. The memorandum created the base for bilateral cooperation in a wide range of areas of economic development.

Constructive dialogue has also been established between the Union and Latin American states – namely, Mexico, Chile, Peru and Uruguay. Eurasian integration is the initial part of the global economy. Today the Eurasian Economic Union is keeping up its dialogue with the Asian-Pacific Economic Cooperation (APEC) forum, the Southern Common Market in Latin America (MERCOSUR), the Association of Southeast Asian Nations (ASEAN), as well as other partners – the BRICS countries, for example.

Russian and Chinese leaders discussed the opportunities of cooperation between the Eurasian Economic Union and China during a meeting in Moscow on May 8, 2015. The joint communiqué of Vladimir Putin and Xi Jinping says that Eurasian integration and The Silk Road Economic Belt could be correlated. It means there is a possibility for a higher level of cooperation - a common economic area for all of Eurasia. In effect, Eurasian integration is the integration of other integrated institutions. The Eurasian Economic Union can easily be and it must be a part of the Greater Europe project – extending from the Atlantic to the Pacific Ocean. And it will never become a part of the closed geopolitical game with specific rules and benefits only for exclusive players.

Today experts are actively discussing the prospects and possible models for cooperation between the EAEU and the newly created Trans-Pacific Partnership (TPP). As Tatiana Valovaya, Minister in charge of the Development of Integration and Macroeconomics at the Eurasian Economic Commission, said while speaking at the conference at the Cato Institute in Washington, DC on Oct. 29, 2015: “The formation of mega-regional trade blocs is a positive trend, adding more stability to the development of the global economy.” And this seems to be the case. The EAEU is one of the world’s centers of economic development and the countries of the Union consider the TPP not as a competitor or foe, but as a potential partner and an extra opportunity to extend the limits of cooperation and a next step towards global economic integration.

The Union currently offers to its partners entry to the market of an area of approximately 20,000,000 square kilometers of the world’s land surface, encompassing 180 million people, as well as access to affordable energy, skilled labor, extensive transportation infrastructure and the unique geographic location of the countries that strengthen the ties between West and East. The Union is number one in the world in production of oil, natural gas and gas condensate,

number one in the world's production of potash fertilizers and number two for length of railway connections.

A unified toolkit of export, import and investment support is being developed by the Union member states. Russia's Vnesheconombank, the Development Bank of Belarus and the Development Bank of Kazakhstan have already signed a Memorandum on Cooperation in investment and the trade and economic spheres. The Memorandum provides a possibility for financial institutions of other member-states to join in. The Memorandum's implementation would promote sustainable economic development and stimulate trade, economic and investment cooperation. The parties agreed to upgrade mechanisms of credit activities between the financial institutions, to cooperate closely upon implementing of joint investment projects and to promote exports of Union member-economies.

A "Russian Export Center" of Russia's Vnesheconombank was created as a basis for further cooperation. It will provide Russian and foreign companies operating in Russia with a wide range of actual support measures, including financing under subsidized interest rates, export insurance and state guarantees.

To sum up, a lot has happened in the Eurasian economic project over the past year. At the same time, we do witness the steady readiness of member states to have a system and open dialogue that allows the Union to move forward and achieve the goals of the Eurasian economic project. Its mission is clear - to create conditions for modernization and further stable development of the economies of the member states in order to improve the living standards of their population.

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## *Chapter 2. The Eurasian Economic Union and its Member States*

### *Putin Gets It Wrong Again: Eurasian Economic Union Hurts Russia*

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**Anders Åslund**

Atlantic Council, 01.02.2016 <http://www.atlanticcouncil.org/en/blogs/new-atlanticist/putin-gets-it-wrong-again-urasian-economic-union-hurts-russia>

In June 2009, Vladimir Putin unexpectedly launched the idea of a customs union with Belarus and Kazakhstan. Soon it was named the Eurasian Economic Union (EEU). In September 2013, Armenia agreed to join, and Kyrgyzstan joined in 2015. This is a Russian initiative, dominated by Russia in all regards. Its secretariat is located in Moscow. Yet this organization does not appear to benefit Russia's interests.

The EEU mimics the European Union (EU), but it is very different. Its declared purpose is economic integration—that is, freer trade—but its proclaimed customs union is not even a free-trade area. Plenty of agricultural goods are blocked from entry into Russia because of Russian sanitary regulations (which seem mainly inspired by certain Russian agricultural producers), and Russian consumers do not benefit from cheaper food. Kazakh officials complain bitterly that they are not allowed to transport oil or gas through Gazprom or Transneft's state-owned pipelines. Import tariffs have been harmonized, but not export tariffs. In order to become more competitive, economies need to open up to competition from the outside world. The EEU has done the opposite. As the dominant power, Russia forced the other countries to raise their tariffs to the higher Russian level. Kazakhstan produces no cars, but it has been compelled to hike its car tariffs to Russia's level, so that the Kazakh middle class now pays more for cars produced in Russia than for the South Korean or Japanese cars they previously bought. Russia has gained captive markets, but its competitiveness will ultimately be hurt.

Even if the EEU was an open market, its members would not necessarily benefit. It is small—only 1.6 percent of global GDP at the current exchange rate, less than one-tenth that of the EU. Its members are too different in terms of economic development and structure for it to make sense as a customs union. Econometric calculations suggest that the EEU causes more trade diversion than trade generation; that is, it reduces the common value added.

The eleven Eastern European countries that have joined the European Union have benefitted greatly from adopting EU rules and standards, which have modernized their administrations and legislation. The EEU, on the contrary, has reinforced obsolete Soviet standards through an intergovernmental treaty that impedes modernization.

European Commission President Jean-Claude Juncker has proposed closer ties between the EU and the EEU. The Kremlin responded instantly that his proposal was unrealistic. That was probably true: the EU and the EEU are not likely to be compatible partners. While the EU is a truly multilateral organization, Russia dominates the EEU completely. Usually Putin makes its main decisions impulsively, such as admitting Armenia or imposing trade sanctions against Ukraine or Turkey, without even mentioning it to the other EEU leaders. This treatment of its closest allies is damaging its relations with them. Belarus and Kazakhstan firmly oppose trade sanctions against Ukraine and Turkey. Kazakhstan has insisted on the EEU being purely economic and not political, vetoing Russian attempts to rename it the Eurasian Union.

Because of the EEU, Russia has been unable to benefit from the trade liberalization that its 2012 accession to the World Trade Organization (WTO) should have catalyzed. Hence, the EEU is blocking Russia's external economic integration, which is far more important to the country than anything the EEU could produce. Moreover, the creation of the EEU delayed Russia's entry into the WTO by about two years, and Kazakhstan's by roughly four years.

On top of everything, the EEU substantially costs the Russian treasury. Belarus has extracted implicit subsidies of up to \$10 billion a year from Russia, primarily of cheap oil and natural gas, which are to a considerable extent conditioned on the EEU. Armenia accepted the invitation to join the EEU when Russia promised it similarly low gas prices. Russia had to commit to various investment projects to persuade Kyrgyzstan to join, and has agreed to give up a disproportionate share of common custom revenues to other EEU members. The EEU isolates the country from the rest of the world, prevents Russia's economy from modernizing, and aggravates relations with its closest neighbors, while costing billions of dollars every year. In Russia's national interest, such a harmful policy should be ended.

Russia has a better alternative: the Commonwealth of Independent States (CIS) Free Trade Agreement of October 2011. Nine countries have signed it, and since eight countries, including Ukraine, have ratified it, it is formally in force. It is based on the principles of the WTO and would generate rather than divert trade. It would allow the present EEU members to develop bilateral cooperation with the EU to mutual benefit, rather than fencing themselves off from the EU. But unsurprisingly, Putin has gotten it wrong once again. Just before the new year, he signed into law the suspension of Ukraine from the CIS Free Trade Agreement that the Federation Council adopted on December 25 (excluding Russia's gas exports to Ukraine, as Gazprom is becoming desperate to sell), failing to realize that he is not legally entitled to do so without the agreement of Russia's EEU partners, who refused to join in this sudden action against Ukraine. The Eurasian Economic Union has been tried. It does not work. Russia and all the other EEU members would be better off without it.

## *Eurasian Economic Union is a Good Deal for Russia, but No One else*

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**Armine Sahakyan**

Kyiv post, 24.02.2016, <http://www.kyivpost.com/article/opinion/op-ed/armine-sahakyan-eurasian-economic-union-is-a-good-deal-for-russia-but-no-one-else-408756.html>

In 1994 the president of newly independent Kazakhstan, Nursultan Nazarbayev, called for the countries of the former Soviet Union to create an integrated economic community.

It was a dark time for Kazakhstan, with businesses closing and unemployment and prices soaring. Nazarbayev's hope was that economic integration would help stabilize the situation. His idea lay dormant until Russian President Vladimir Putin seized on it more than a decade later as a way to achieve a cherished personal goal: recreating the Soviet Union.

Putin's ploy was to create a common economic community that could then be turned into a common political bloc, as had happened with the European Union. His intent was for Russia, of course, to head both the economic and political organizations. Excited about this possibility, Putin became more of a champion of an integrated economic community than Nazarbayev — and his prodding led to the birth of the Eurasian Economic Union on Jan. 1, 2015. The founding members were Russia, Kazakhstan and Belarus, but Putin wanted all former Soviet countries to join.

In pitching membership to the non-believers, the Kremlin put on its best carnival-barker uniform to try to sell the snake oil: Join the EEU, it promised, and your economies and standard of living will jump.

**So how has the EEU, which now includes Armenia and Kyrgyzstan, worked so far?**

The verdict is still out because recessions in the bloc's oil titans, Russia and Kazakhstan, have disrupted their economies — and fallout from Russia's tailspin has also hurt Armenia and Kyrgyzstan's economies. But preliminary indications are that the only country the EEU has helped is — surprise! — Russia. Kazakhstan is a case in point. About 15 years ago the country began convincing foreign automakers to open assembly operations in Kazakhstan. The hope was that one day the companies would not just assemble imported components into finished cars but would open full-fledged manufacturing operations. Kazakhstan convinced several auto makers to open assembly operations, and its sales of domestically produced cars soared.

The EEU allowed Russia to send much cheaper Ladas across the Kazakhstan border tariff-free, however, eating into Kazakhstan's domestic and export sales.

**Those sales have now plummeted.**

In addition, Russia imposed on its EEU partners its own, much-higher tariff regimen on 90 percent of the goods the members import from countries outside the bloc. The result was that prices in Kazakhstan shot up on food, clothing, electronics and other goods imported from China, the West and elsewhere. The EEU also decimated whole import industries in Kazakhstan. One was the importing and selling of used cars from the United States, Europe, Japan and Korea. The Russian-dictated tariff on used cars from overseas — 100 percent — made them so expensive that importing them was no longer worth it.

Belarus joined the EEU largely because Moscow promised that, if it did, Russia would continue selling it oil and gas at hefty price discounts. Belarus has a stronger economy than Kazakhstan's because it actually makes things — machine tools and farm equipment, for example — but it has no domestic fuel resources so it must rely on imports to keep its economy humming. Belarus' entry into the EEU appears to have produced no major benefits for its economy, but it has made Minsk more vulnerable to Russian political pressure. The Kremlin has been twisting Belarus' arm to let it have an air base in Belarus — pressure that Belarusian President Alexander Lukashenko has resisted but may be unable to ward off much longer.

Armenia was two months away from signing an association treaty with the European Union — a step toward full membership — when Putin summoned Armenian President Serzh Sargsyan to Moscow in September 2013. Putin's arm-twisting led to Sargsyan announcing the very next day that Armenia would be joining the EEU instead of the EU. It did so on Jan. 2, 2015, the day after the original founders formed the union. Armenia is one of the poorest countries in the former Soviet Union, and much of its citizenry knew the EU was a better deal. So widespread public protests greeted Sargsyan's cave-in to the Kremlin. As happened in Kazakhstan, prices of imported goods in Armenia jumped because Armenian import tariffs were much lower than the tariffs Russia imposed on the EEU. In addition, by going with the EEU, Armenia gave up being in a trade bloc — the EU — with a market seven times larger than the EEU's.

A big chunk of Kyrgyzstan's economy before it joined the EEU was based on re-exporting Chinese goods to other countries in the former Soviet Union. Many entrepreneurs took advantage of Kyrgyzstan's low tariffs to import Chinese products, mark them up, then re-export them to Kazakhstan, for example. The higher import tariffs that Russia imposed on EEU members led to duties on Kyrgyzstan's re-exported products jumping in Kazakhstan, a major market for Kyrgyzstan. Because the higher duties made it harder for re-exported products to compete, Kyrgyzstan gambled that it would be better off joining the EEU than staying out. As with the other members, however, EEU membership has not only failed to help Kyrgyzstan, but decimated its re-export business.

Whether the EEU helps any of the member countries besides Russia over the long run remains to be seen. It may be some time for the Russian and Kazakhstan economies to rebound from the funk they are in due to today's low oil prices. When they do bounce back, their economic spark may rev up the economies of the other EEU members as well. But from the start the EEU was an organization heavily skewed in favor of Russia, so the other EEU members may find that it will always be more hype than payoff.

## *Russia Should Become Local Financial Hub for Eurasian Economic Union States - Official*

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TASS, Krasnoyarsk, 19.02.2016, <http://tass.ru/en/economy/857858>

Russia should become a local financial hub for the Eurasian Economic Union (EAEU) member-states and has the sufficient infrastructure to do so, Deputy Finance Minister Maxim Oreshkin said on Friday at the Krasnoyarsk Economic Forum. “We need to turn into a local financial hub at the least, the financial hub for the EAU nations,” Oreshkin said. “Financial infrastructure of Moscow and Russia is highly developed. Therefore [the task is] to have a local hub and gradually increase its share and influence,” the official said. If currency unions are simultaneously accompanied by fiscal and banking unions, this may result in a major unbalancing, Oreshkin added, citing problems the Eurozone is facing as an example.

## *Belarus Criticizes Poorly Integrated Industrial Policy in Eurasian Economic Union*

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Belarusian news, 19.02.2016, <http://eng.belta.by/economics/view/belarus-criticizes-poorly-integrated-industrial-policy-in-eurasian-economic-union-89118-2016/>

The industrial policy is the least integrated one in the Eurasian Economic Union, BelTA learned from Chairman of the Council of the Republic of the National Assembly of Belarus Mikhail Myasnikovich during the expanded participation session of the scientific advisory board for social and economic development of Belarus under the Presidium of the Council of the Republic on 19 February. The session was held to discuss the unification of laws in the Eurasian Economic Union. “The global community is finally coming to understand that the production sector is the foundation of the economy. In the Eurasian Economic Union the industrial policy is the least integrated one. It has to change since the accomplishments are non-existent,” said Mikhail Myasnikovich. “I believe the decision on adopting a unified industrial policy in the Eurasian Economic Union has to be made fast. Manufacturing cooperation in the Union can and has to be profitable,” noted the head of the upper chamber of the Belarus parliament. Mikhail Myasnikovich also spoke about the operation of the Eurasian Economic Union court by mentioning that economic operators seldom appeal to this agency. “It is no secret that individual enterprises, companies, including Belarusian ones, are unwilling to contact the court of the Eurasian Economic Union. They prefer complaining about the so-called objective difficulties in retail in order to cover up their bad performance and the poor competitive ability of their products. This flawed practice has to stop,” believes Mikhail Myasnikovich.

## *Gas Rebate, New Silk Road, Treasure Hunting - Belarus State Press Digest*

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Belarus Digest, 09.03.2016, <http://belarusdigest.com/story/gas-rebate-new-silk-road-treasure-hunting-%E2%80%93-belarus-state-press-digest-24898>

The Belarusian authorities are putting all their energy into combating the deepening economic crisis. They have released corrupt officials sentenced to prison terms and appointed them to manage bankrupt state enterprises. The government is seeking solutions to the problem of the growing black market for alcohol, which brings huge losses to a lucrative state-owned business. Externally, the authorities are negotiating a new gas rebate from Russia and trying to find a place for Belarus in the Chinese New Silk Road project.

### **Politics**

Lukashenka appoints officials charged with corruption to manage desperate enterprises. Belarus Segodnya discusses Lukashenka's recent decision to release corrupt officials from prison and appoint them to head up and save desperate state enterprises. The newspaper says that a state manager who committed an offence should not be lost from society. The author draws comparisons with the Stalin era, when repressed officials were given a chance to prove their devotion to the state. These officials' experience and skills can be used for the benefit of the people. The author also gives a few counter arguments: not all offenders receive this chance, it can damage the fight against corruption, it can be an example of corrupt ties within the elite, and become good material for the opposition to criticise the authorities.

Belarus wants to a place on China's New Silk Road. Belarus Segodnya quotes Lukashenka's interview with China Central Television. "We expect the most serious investments here in Belarus, we need to create companies that will produce a new generation of commodities. Belarus is well suited for this purpose – it has an extensive infrastructure and can transport goods in all directions, to the EU and the Eurasian Union. The project is open for investors from all over the world, and it is not built against somebody's interests. The project should unite economies and trade, and later also cultures and people".

Belarus is attempting to find its niche in the New Silk Road projects and is currently developing an industrial park called Great Stone jointly with China. Belarus condemns commemoration of Polish fighters guilty of the genocide of ethnic Belarusians. Respublika criticises the decision of the Polish authorities to allow a nationalist march in borderland Hajnaŭka which has a significant Belarusian population. The march commemorated the Polish fighters who struggled with the establishment of communist rule in Poland after World War II. Many of their activities were aimed at ethnic Belarusians who were regarded as supporters of communism. A squad under command of Romuald "Bury" Rais committed mass killing of the local Orthodox population in 1945-1948. The paper says that Poland has the right to interpret history and form

its own state ideology, but glorification of mass killing is unacceptable and the Belarusian authorities should support the local Belarusian minority to preserve its traditions and identity.

## **Economy**

Minsk wants a rebate on Russian gas price. Soyuznoye Veche reports on the negotiations between Belarus and Russia on the gas price discount. At the moment Belarus enjoys the lowest gas price among all importers of this Russian resource, but Minsk expects yet another rebate of \$10 per 1,000m<sup>3</sup>. Deputy Prime Minister Uladzimir Siamaška says that a new discount will help to reduce tariffs on energy for the production sector of the Belarusian economy. At the moment Belarusian producers work in unequal conditions with their Russian counterparts, and hence cannot compete on the single market of the Eurasian Economic Union. The authorities fight with the shadow alcohol market.

The number of offences related to illegal alcohol trafficking increased 4.5 times in 2015, Respublika reports. In total police confiscated around 700,000 litres of illicit alcohol. However, this represents only a small part of the market, which the Ministry of the Interior estimates to total 50m litres. Virtually all traffic comes to Belarus from Russia, as the countries have no customs control between them. The author claims that recent measures to restrict alcohol consumption have only driven it underground. To tackle the problem, he suggests removing restrictions and cutting the price in order to minimise the price gap between legal and illegal alcohol. He also speaks in favour of the internet trade in alcohol – a step which the Ministry of the Interior recently called a “diabolical idea”.

## **Society**

Women dominate in the state bureaucracy, but only at mid and low levels. Zviazda newspaper publishes statistics on Belarusian women dedicated to International Women’s Day. Women make up 53.5 per cent of Belarus’ population, and 78 per cent of women live in urban areas, with an average age of 42 years. 23 per cent of them work in industry, 18 per cent in education, 14 per cent in trade, 13 per cent in healthcare and social services, and 8 per cent in agriculture and forestry. 30 per cent of women have higher education and 42 per cent professional education. 35 per cent of females are unemployed, and they earn 23 per cent less than males on average. Women occupy 30 per cent of seats in parliament, 56 per cent in local executive and self-government bodies and account for 70 per cent of all civil servants.

## **Culture**

A new presidential edict outlaws treasure hunting. Narodnaya Gazeta discusses illegal treasure hunting and the new edict No. 485 targeting this problem. The edict bans unsanctioned searching for, selling and buying of archaeological objects. Earlier the police only showed interest in those digging up old weapons and ammunition. According to the law on protection of cultural heritage, the finder of treasure gets

## *Armenia, Belarus Sign Deal on Atomic Energy Cooperation*

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PanARMENIAN.Net, 19.02.2016, <http://www.panarmenian.net/eng/news/206429/>

The 12th session of the Armenian-Belarusian intergovernmental commission was held Friday, February 19, 2016. During the session, Belarus' Minister of Forestry Mikhail M. Amelianovich and Armenia's Economy Minister Karen Chshmarityan signed an agreement on cooperation in the peaceful uses of atomic energy.

Following the signing of the document, the parties discussed a number of issues on trade, economic, health, as well as infrastructure cooperation. "Of special importance is the development of bilateral ties within the Eurasian Economic Union," Chshmarityan noted. Also, the Armenian side proposed holding an event on innovation issues, with experts from both countries participating. We have serious cooperation resources in this sector."

## *Armenian–Ukrainian Relations: Common Challenges and Different Visions*

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Armenak Minasyants & Iryna Bakhcheva

Eurasian Research and Analysis (ERA) Institute, 10.02.2016, <http://www.era institute.org/armenian-ukrainian-bilateral-relations-within-the-framework-of-the-regional-developments-common-challenges-and-different-visions/>

Ukraine is a strategically important partner country for Armenia despite the ongoing stalemate in bilateral political relations, which has appeared as a result of the Revolution of Dignity in Ukraine and the surprising accession of Armenia to the Eurasian Economic Union. The Armenian-Ukrainian bilateral cooperation has huge potential, bearing in mind Ukraine's role as a key state of the EU's Eastern Partnership Program. On the other hand, Ukraine has also become the key element of the common European and Euro-Atlantic security system. At the same time, both countries are part of the Eastern Partnership Program, which offers post-Soviet countries entrance into deeper engagement, gradual integration in the EU economy, easier travel to the EU through visa liberalization, and the introduction of measures to tackle illegal immigration.

Nevertheless, within recent years Ukraine has passed through turbulent times of democratization processes accompanied by the success of the Revolution of Dignity, the annexation of Crimea by the Russian Federation and the ongoing military conflict in the East

of Ukraine with the pro-Russian and/or Russian-supported terrorists. In its turn, the Armenian political leadership managed to make a shocking political U-Turn from the European integration and association path, and furthermore joined the Russian-led Eurasian Economic Union. On the other hand, since 1994, Armenia recently was involved in tense and unprecedented military skirmishes and escalation with Azerbaijan over the disputed areas of Nagorno-Karabakh.

Even though the above mentioned processes in Armenia and Ukraine are not geographically connected, they have a common line which can be described as the ongoing deep political and geopolitical challenge through which the wider Black Sea region is going through now. The geopolitical instability brings new and multilateral challenges to the Eastern Partnership region, as the previously established model of the state governance falls short while providing sustainable growth and economic and political stability of the region.

Within this framework, the prospect of Armenian-Ukrainian relations is much broader from the bilateral context. The real value added implication of the relations can be found within the broader framework of the ongoing regional developments.

Today, Ukrainian statehood faces a variety of institutional challenges: corruption, necessity of public sector reforms, Russian propaganda, economic recession and etc. The outcome of the democratization processes in Ukraine will be crucial not only for the Ukrainians but generally for all post-Soviet states, including Armenia. Simultaneously, Armenia, despite its membership to the Eurasian Economic Union, faces almost the same institutional and democratization challenges as Ukraine. The high rates of corruption and low level of economic competitiveness are hampering barriers to further development and diversification of Armenia's economy.

When it comes to the discussion of Armenian-Ukrainian relations, one of the biggest facts and data usually dismissed is the amount and importance of the Armenian ethnic diaspora community in Ukraine. In accordance with the data provided by the Union of Armenians of Ukraine, there are approximately 350 000 ethnic Armenians living in Ukraine.[1] It is worth mentioning that in Ukraine the Armenians have the second biggest ethnic community in Europe (first is in France). The key feature of the Armenian community in Ukraine is its tightly integrated status within the Ukrainian society. The community acts in accordance with the ongoing political and social agenda of the Ukrainian state. According to the Member of the Verkhovna Rada of Ukraine Mr. Nikolay Knyazhytsky, 52 Armenians have sacrificed their lives in eastern Ukraine while fighting against the pro-Russian rebels. This number of casualties has also been confirmed by the Minister of Interior Affairs of Ukraine Mr. Arsen Avakov [2], who is also considered to be one of the key Ukrainian policy makers of Armenia descent. The very recent public events of the Union of Armenians of Ukraine have been attended also by other representatives of the Ukrainian political elite, namely by the Deputy Prime Minister of Ukraine Mr. Vyacheslav Kyrylenko and the Chairman of Ukraine's State Border Guard Service Mr. Viktor Nazarenko.[3]

Simultaneously, the level of political and economic relations between Armenia and Ukraine remains dramatically low. First and foremost, there is a lack of public push towards deepening

of relations between two countries. The Armenian reality is that Ukraine is usually perceived as a country that confronts Russia and automatically “harms and hampers” the prospects of a strong Russian-led economic union in face of the Eurasian Economic Union. On the other hand, the Armenian ruling political majority usually believes that the recent developments in Ukraine are not naturally driven by the necessity of change and democratic reforms but are rather a reflection of a weak political power system that was formed by the ex-President Viktor Yanukovich. Accordingly, there is a dominating misunderstanding of the real reasons of the Revolution of Dignity and further democratization processes in Ukraine. As a result, the key policy makers in Armenia perceive Ukraine as a country not located in the nearest neighborhood and strategically important for Armenia, but rather than as a country that does not have a direct connection with the Armenian political realities and its foreign policy.

On the other hand, Armenia’s Minister of Foreign Affairs Mr. Nalbandyan at the NATO Parliamentary Assembly’s 89th Rose-Roth Seminar in Yerevan voiced the official position of Yerevan on Ukraine. He particularly noted that “Today, the attention of the international community is focused on finding ways of settlement of the Ukrainian Crisis. Armenia and Ukraine are connected not only with centuries-old friendship, but also through thousands of Armenians living in Ukraine.”[4] The reality, however, is that the Armenian leadership has already made some steps which not only do not comply with the term “friendship”, but rather totally discredit Armenia as a reliable international partner for the Ukrainian government. Armenia’s controversial vote of the United Nations General Assembly Resolution 68/262 entitled “Territorial Integrity of Ukraine”[5] put at stake the future of Armenian-Ukrainian relations, thus causing deep diplomatic crisis and urging the Ukrainian authorities to call back their ambassador.[6]

This process would not be as painful for Armenia if not for the existence of the unsolved Nagorno-Karabakh conflict and increasing potential of the Azerbaijani lobby in Ukraine and other countries that have ongoing hardship with territorial integrity.

Meanwhile, the clash between two different value systems, “European” and “Eurasian”, seems to be inevitable in the post-Soviet region. It is a result of ongoing systematic internal development of the European Neighborhood Policy and the development of Russia’s Eurasian project.

The rapid expansion of Russia’s Eurasian agenda has brought new realities for Armenia and Ukraine also. Today, the Russian economy is in its gravest condition since the collapse of the Soviet Union. The ongoing Ukrainian Crisis, the deepening of Western-imposed economic sanctions and embargo as well as the dramatically decrease in international prices for oil are the key elements which continue to worsen the economic situation in Russia. Accordingly, the Russian Government has decided not to close down its Eurasian project but rather to play it in a new manner. As a key element of its new policy, President Putin imagined the creation of buffer zones that will protect Russia from the West. These buffer zones were directly drawn in Ukraine and Armenia. In particular, President Putin chose two different buffer models in Armenia and Ukraine. Russia has used the “tough buffer model” for Ukraine. By engaging military power and its proxies to annex Crimea and bringing total instability and war to Donbas

and Lugansk regions, buffer zones were accordingly created in these areas. In Armenia, the Russian side tried the so called “soft buffer model”, which did not have a direct military component, but successfully forced the Armenian government to make an unexpected political U-Turn on 3 September 2013 and urged the leading political class to withdraw its pro-European ambitions and replace it with blurry Eurasian integration prospect.

As a result, the current stage of Armenian-Ukrainian relations can be described as the “Hybrid Age”. There is a dramatic necessity to reconsider and reframe the platforms of cooperation and interaction. It is, however, worth mentioning that even during the pre-Euromaidan times the ties between Armenia and Ukraine were developing mostly in accordance with the logic of private or corporate business interests of particular individuals. These business ties and amounts of Ukrainian exports to Armenia continue to be the only real and sustainable lifeline in the bilateral relations. Many government officials and businessmen both in Ukraine and Armenia remain interested in the development of bilateral economic relations because it benefits all even though the bilateral trade fell to \$223 million in 2014.[7]

Due to the ongoing economic crisis and recession in Russia, official Yerevan currently has an opportunity to implement a balanced policy towards Ukraine, thus effectively maneuvering and changing the perception of Armenia among the Ukrainian political leadership. There is a necessity to implement sustainable and systematic policy for melting the ice in bilateral political relations, which can also help to boost the further interaction between business entities and societies. It is worth mentioning that all preconditions and grounds for making this happen are found on the Ukrainian side as well. In particular, on 24 April 2015, the Ukrainian Verkhovna Rada had a minute of silence in respect of the victims and the centennial of the Armenian Genocide [8]: a step which was highly appreciated and highlighted by the Armenian media and politicians.

In context, the recent developments in the Armenian-Ukrainian relations can be described as turbulent as ever. There is a glance of hope that strong political dialogue can be reestablished as a result of broader geopolitical transformations in the post-Soviet area. On the other hand, global political trends, such as the lifting of sanctions from Iran, can also catalyze the situation, thus opening Ukraine up to new economic opportunities and attractiveness in the South Caucasus region and in Armenia particularly. The willingness of the Armenian government to negotiate and finalize the new framework agreement with the European Union is another positive signal. It can also be perceived by Kyiv as an important step from the Armenian government to withdraw from its pro-Russian stance and diversify its foreign policy agenda by getting closer to the European community in face of the EU.

However, the key element to be undertaken is the continuous development of people-to-people contacts between Armenian and Ukrainian societies, which share a common historical past and traditions of friendly relations for already 9-10 centuries. In order to foster better mutual understanding between Armenia and Ukraine, it is vital for the civil societies in both countries to take the position of a bridge and bring a real breakthrough in bilateral perceptions.

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## *Nazarbayev: Kazakhstan to Continue to Adhere to Policy of Allied Relations with Russia*

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TASS, Moscow, 21.12.2015, <http://tass.ru/en/world/845626>

Throughout all the years of our independence we (Kazakhs) have adhered to the following stance: Russia is our great neighbor, ally and trusted partner in all affairs: Kazakhstan’s friendly policy towards Russia will not change, Kazakh President Nursultan Nazarbayev told Primate of the Russian Orthodox Church Patriarch Kirill of Moscow and All Russia who presented a high church award to the guest in Moscow. “Throughout all the years of our independence we have adhered to the following stance: Russia is our great neighbor, ally and trusted partner in all affairs. We have established the Eurasian Economic Union,” Nazabayev said. “If we preserve these relations — and we must do that — our friendship, (friendship) between Russia

and Kazakhstan, between Russians and Kazakhs is eternal.” He noted that “this benefits both the Russian and Kazakh peoples.” “And we will always be true to this policy.”

He recalled that Kazakhstan’s main religion was Islam and about 20% of the population were Orthodox Christians. “These two pillars of spirituality are the basis of harmony and tolerance in our society,” Nazarbayev said. “Throughout the years of our independence we have always supported the equality of relations and respect for all religions.” He noted that “we should be proud of” such relations between Orthodox Christians and Muslims as “an island of understanding and stability”, especially amid “raging religious and ethnic confrontation” in the world. Nazarbayev was awarded the Order of St.Sergius of Radonezh in the first degree (of the Russian Orthodox Church) for his contribution to “the development of relations between Kazakhstan and the Russian Orthodox Church and in connection with his 75th birthday.

## *Kazakhstan’s Ruling Party Calls for Integration with EAEU, Stronger Ties with Russia*

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TASS, Astana, 29.01.2016, <http://tass.ru/en/economy/852979>

The draft election program, “Kazakhstan-2021: Unity. Stability. Creation,” was presented ahead of the 17th session of the Central Asian republic’s largest party: Kazakhstan’s ruling Nur Otan party unveiled its election program on Friday saying it will assist further economic integration and strengthening the country’s national interests in the Eurasian Economic Union (EAEU) and the World Trade Organization (WTO).

The draft election program, “Kazakhstan-2021: Unity. Stability. Creation,” was presented ahead of the 17th session of the Central Asian republic’s largest party, which has been headed by President Nursultan Nazarbayev since 2007. “We plan to strengthen strategic relations with the key partners of the country — Russia, China, the United States, the European Union and the Commonwealth of Independent States (CIS) — and to continue bolstering cooperation with the Central Asian countries,” says the draft program that is due to be endorsed at the session.

The party forum is expected to approve a list of candidates for the elections to the country’s lower house of parliament due on March 20. The party also says it is necessary to “step up efforts on establishing inter-religious, inter-civilizational and inter-cultural dialogue and to actively participate in solving the problems of proliferation of weapons of mass destruction, international terrorism and extremism, drug trafficking, illegal migration and environment.” By 2021, the party expects to improve Kazakhstan’s position in the Corruption Perceptions Index from the current 126th to the 50th place. The document says there is readiness to increase the competitive performance of the oil and gas sector and to make the agricultural sector one of “the key drivers of the further economic growth.”

## *Kazakhstan Ratifies Vietnam - EAEU Free Trade Agreement*

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TASS, Astana, 24.02.2016, <http://tass.ru/en/economy/858691>

Kazakhstan has ratified a free trade agreement between the Eurasian Economic Union's (EAEU) member states and Vietnam. The relevant law was signed on Wednesday by the President of Kazakhstan Nursultan Nazarbayev, his press office reported.

The agreement that was concluded in Kazakhstan's Burabay resort on May 29, 2015, is intended to create favorable conditions for mutual trade and investment. It provides for duty-free trade regime between the EAEU countries and Vietnam. At the same time, according to Kazakhstan's First Deputy Minister of National Economy Marat Kusainov, "a transitional period for cancelling the import customs duties is set for some product types." "Some sensitive products have been withdrawn from the free trade regime and duties will be imposed on them in accordance with the sides' import tariffs," he said.

The agreement gives the parties the right to use special protective, antidumping and countervailing measures in accordance with the WTO rules. "It also provides the use of a protective mechanism in the form of customs duty at the level of the EAEU Common Customs Tariff, which will protect sensitive for EAEU textile products and furniture if the limit of the annual volume of imports from Vietnam is exceeded," Kusainov said.

The Kazakh Economy Ministry previously outlined the prospects of exporting to Vietnam of a number of domestic goods, first of all food products - flour, grain, alcohol, dairy products and beef. "We immediately get the zero duty in the Vietnamese market for our grain and flour. The duties will be also reduced to zero for other goods over certain transitional periods. So we have good prospects. We believe that we will be able to expand our exports", Kazakhstan's Deputy National Economy Minister Timur Zhaksylykov said.

The ministry assessed the losses of the national budget due to the abolition of import customs duties at 458 million tenge (\$1.26 million) a year. "The economy in general will benefit because the duties are reduced also for our exports," Zhaksylykov said. According to him, in 2015 the trade turnover between Kazakhstan and Vietnam accounted for \$205 million.

## *Kazakhstan's GDP up 1.2% in 2015*

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TASS, Astana, 15.01.2016, <http://tass.ru/en/economy/850015>

Kazakhstan's GDP grew by 1.2% in 2015, First Deputy Prime Minister Bakytzhan Sagintayev said on Friday with reference to preliminary calculations.

According to the official, "timely assumed targeted measures to back industrial enterprises allowed to avoid a substantial decline in production." Industrial production went down by 1.6% while agriculture grew by 4.4%, he added.

"Taking into account a sharp drop in oil prices and volatility on global markets", President Nursultan Nazarbayev requested the government to develop a potential scenario of economic development amid various global oil prices, up to \$20 per barrel, Sagintayev said.

"Those forecasts will be discussed at the meeting of the Council of economic policy at the government on January 19," he said, adding that "most probably we'll have to take tough budget decisions, review expenditures and outline inefficient areas of financing."

## *A 'Blurry' Union: Kyrgyzstan and the Eurasian Economic Union*

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**Catherine Putz**

The Diplomat, 18.02.2016, <http://thediplomat.com/2016/02/a-blurry-union-kyrgyzstan-and-the-eurasian-economic-union/>

Kyrgyzstan completed its accession to the Eurasian Economic Union (EEU) in August 2015, eight months after the union's official launch and three months after Kyrgyz President Almazbek Atambayev signed the agreements with the leaders of the other member states—Russia, Kazakhstan, Belarus, and Armenia—in Moscow. But as Oleg Pankratov, the deputy prime minister, said at a press conference this week, the results of Kyrgyzstan's accession to the union—which boasts a single market of 183 million people—are mixed.

As reported by 24.kg, Pankratov offered several comments regarding Kyrgyzstan's decision to join the union and the outcomes so far. "The effect of Kyrgyzstan's accession to the Eurasian Economic Union turned out to be blurry," he said. Pankratov, however, defended the logic of Bishkek's ultimate decision to join and noted that given the economic crisis blanketing the region if Kyrgyzstan had not joined, the country's "losses would be more significant."

Kyrgyzstan's accession was originally planned for January 2015 with the union's launch, but was delayed as Bishkek wrestled with passing the necessary legislation. As Casey Michel wrote

in November 2014, it seemed as if Kyrgyzstan was moving reluctantly toward the union. He noted Kyrgyzstan's leadership had "allowed its distinct lack of enthusiasm slip into its public discourse." In October 2014, Atambayev said "we are choosing the lesser of two evils. We have no other option." Better to be inside the union than outside.

One motivating factor for the decision to join was Kyrgyzstan's large population of migrant workers in Russia. If the country remained outside the union, its migrant workers would become subject to stricter rules.

The Kyrgyz Deputy Minister of Economy Kylychbek Dzhakypov said recently that over half a million Kyrgyz are presently working in Russia, an increase of 2 percent over the past six months. The actual sum of remittances, however, sent back to Kyrgyzstan has fallen by more than 28 percent, according to the minister. Dzhakypov drew comparisons to Kyrgyzstan's neighbors Tajikistan and Uzbekistan, which are not members of the EEU.

Tajikistan, for example, saw its remittances drop by 32 percent in the first half of 2015 in comparison to the year before, according to the World Bank. But as *Eurasianet* noted in a recent report covering the scramble by Tajik authorities to squeeze remittances, "Remittances from Russia in January-September in 2015 dropped by 65.1 percent to \$1.54 billion compared to the same period the previous year, when the figure stood at \$3.16 billion."

The spin the Kyrgyz authorities are using is that if the country had not joined the union, remittances would have declined even more. The primary purpose of accession, though, was gaining access to markets, Pankratov said. While the technicalities are proving difficult—for example, 24.kg reported that Kyrgyzstan needs \$5-6 million to pay for equipment for veterinary laboratories to meet EEU standards—there are no alternatives to the Kazakh and Russian markets for Kyrgyzstan.

That said, one of Kyrgyzstan's major industries is reexporting Chinese goods, a business that is now in a pinch; Kyrgyzstan's entry into the EEU changes the tariffs importers need to pay and alters the rules for reexporting elsewhere in the region. Meanwhile, cross-border trade with Kazakhstan was supposed to become simpler with the opening of borders, but Kyrgyzstan is still scrambling to meet technical requirements in several areas.

"Theoretically, withdrawal from EEU is possible," Pankratov said. "But do we need this? After all, there is no alternative to the union."

## *Russia Gives Kyrgyzstan \$30M Lifeline*

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Eurasianet.org, 06.03.2016, <http://www.eurasianet.org/node/77676>

Russia has thrown Kyrgyzstan a bone - albeit not a particularly large one - in the form a \$30 million grant to help cover budget shortfalls. Economic news website Tazabek cited Kyrgyzstan's presidential administration on March 6 as saying the money would go in part toward completing construction of social housing for military and police personnel. News of the pledged assistance followed a meeting between President Almazbek Atambayev and his Russian counterpart, Vladimir Putin, in Moscow on March 2. Atambayev's working visit was transparently motivated by a desire on both sides to seek clarity about the state of bilateral relations, which have been tested by the failure of Russian companies to complete essential energy-related projects in Kyrgyzstan.

Putin spoke reassuringly. "There is no need to talk about the nature of our relations," Putin said, before going on to talk about the nature of the countries' relations. "Kyrgyzstan is a reliable partner with which we have truly strategic relations. Since Kyrgyzstan joined the Eurasian Economic Union, the opportunities for cooperation have increased. I think this will be reflected not only in indicators, but also in real life, and in the development of our economic and social spheres."

Atambayev was similarly positive, while his office hinted strongly that talks touched upon the stalled hydroelectric plant projects that Kyrgyzstan sees as key to its economic survival. "During the meeting, the heads of state discussed current issues in Kyrgyz-Russian cooperation, progress in the completion of joint projects, and prospects for future collaboration in various spheres and in the development of Eurasian integration," Atambayev's office said in its statement.

All well and good, but that sheds little light on what exactly is going to happen to the Upper Naryn and Kambarata hydropower projects.

The Kambarata-1 hydropower plant was expected to cost \$2 billion to complete and eventually generate around 4.4 billion kilowatt hours annually. Upper Naryn, which is intended to be composed of four staggered hydropower plants, was designed to have an annual production of 942.4 million kilowatt hours. It is essential that those plans come to fruition if Kyrgyzstan wants to live up to dreams that it could one day become a net power exporter.

In January, however, parliament voted overwhelmingly cancel deals with the Russian companies leading the projects, citing lack of progress in work. Atambayev suggested hopefully that alternative investors could be found, but that appears to have been an expression of deluded optimism given the many factors to consider - first and foremost being that it is hard to think of which international investors would want to go anywhere near the projects. Complicating matters was the fact that Kyrgyzstan now apparently owes Russian state energy company RusHydro, which was servicing the Upper Naryn project, \$40 million for work done

to date. Another spoiler in relations is the mounting perception among Kyrgyz entrepreneurs that last year's accession to the Eurasian Economic Union has done little to advance their interests.

Seeking to dispel those concerns, Russian state television presaged Atambayev's visit with a glowing report hailing the achievements of the EEU. The director of a sewing factory, Chynybek Azhibekov, was shown explaining how easier access to EEU markets — ostensibly Kazakhstan and Russia for Kyrgyzstan's purposes — had helped boost turnover.

Another speaker was bullish about another oft-cited concern. "What they used to say before — that after Kyrgyzstan's entry into the Eurasian Economic Union, the large markets that used to re-export Chinese goods would stop working — is absolutely incorrect. They continue to work as before," said Zhumakadyr Akeneyev, chairman of the For the Union of Kyrgyzstan With Russia and Belarus society.

Anecdotal evidence suggests that latter assertion is a flagrant falsehood, and although border controls have indeed been substantially relaxed, reports of delays on the Kazakh frontier are still commonplace. The television report on state-owned Vesti was patently aimed as a palliative for Kyrgyz viewers, many of whom rely on Russian television for their perspective on international events. Until Moscow stumps up serious cash, which it is hardly at liberty to do for now given its parlous economic position, these attempts at bolstering broad enthusiasm for its geopolitical projects are doomed to struggle.

## *OSCE Centre in Bishkek supports Kyrgyzstan's efforts to join the GRECO*

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OSCE, Strasbourg, 17.03.2016, <http://www.osce.org/bishkek/228371>

The OSCE Centre in Bishkek supported the participation of the Kyrgyz delegation at the 71st Plenary and Working Group Sessions of the Group of States against Corruption (GRECO) in Strasbourg, France.

The key purpose of the trip is to facilitate Kyrgyzstan's accession to GRECO<sup>1</sup> which will allow Kyrgyzstan to fight corruption by monitoring compliance with the Council of Europe anti-corruption standards through a dynamic process of mutual evaluation and peer pressure. It will help Kyrgyzstan to identify deficiencies in national anti-corruption policies, prompting the necessary legislative, institutional and practical reforms.

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<sup>1</sup> Armenia joined GRECO on 20.01.2004, Belarus - 13.1.2011, Russia - 01.02.2007 and Kazakhstan is preparing for the accession.

“We support the Kyrgyz Government and the General Prosecutor's Office, in particular, on the accession of Kyrgyzstan to the anti-corruption conventions of the Council of Europe and in assisting the government in implementing the 2015-2017 State Strategy against Corruption by ensuring the participation of relevant government agencies in GRECO’s working groups and plenary meetings,” said Sergey Kapinos, Head of the OSCE Centre in Bishkek.

The Group of States against Corruption (GRECO) was established in 1999 by the Council of Europe to monitor States’ compliance with the organisation’s anti-corruption standards. It provides a platform for the sharing of best practice in the prevention and detection of corruption.



## Présentation

Multipol est un réseau international et interdisciplinaire de chercheurs et d'experts en droit international et relations internationales, provenant de milieux professionnels tels que la justice internationale, la diplomatie multilatérale et bilatérale, la recherche et la formation, la fonction publique internationale.

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## *Chapter 3. The Eurasian Economic Union and its Internal Policies*

### *Tigran Sargsyan Takes over Eurasian Economic Commission Chairmanship*

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PanARMENIAN.Net, 01.02.2016, <http://www.panarmenian.net/eng/news/205006/>

Armenia's Tigran Sargsyan assumed his responsibilities as the new Chairman of the Eurasian Economic Commission (EEC) on Monday, February 1, the EEC website reports. Sargsyan's chairmanship was approved by the Presidents of Eurasian Economic Union (EEU) at the session of the Supreme Eurasian Economic Council last December. By the decision of the Supreme Council, each EEU member state (Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia) is now represented by two, instead of three, members of the Board (Ministers). The Board thus consists of 10 members starting Monday. However, the only new Board member, other than the Chairman, is Veronika Nikishina (representative of the Russian Federation) who replaced her predecessor Andrey Slepnev as Minister for Trade. Also by the Council's decision, a new position was introduced to the Commission - Member of the Board – Minister in charge of Domestic Markets, Informatization, and Information and Communication Technologies, with Karine Minasyan (Armenia) taking the post.

### *EEC Commission Intensifies Work on the Draft of the New Customs Code of the EEU*

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BNews.kz, 13.02.2016,

[http://bnews.kz/en/news/tamojennyi\\_soyuz/spetsproekti/tamojennyi\\_soyuz/eec\\_commission\\_intensifies\\_work\\_on\\_the\\_draft\\_of\\_the\\_new\\_customs\\_code\\_of\\_the\\_eeu-2016\\_02\\_13-1256009](http://bnews.kz/en/news/tamojennyi_soyuz/spetsproekti/tamojennyi_soyuz/eec_commission_intensifies_work_on_the_draft_of_the_new_customs_code_of_the_eeu-2016_02_13-1256009)

The Republic of Kazakhstan presides over the Supreme Eurasian Economic Council, the Eurasian Intergovernmental Council and the Board of EEC in 2016. EEC meeting of the Council is the first in the current year and it was chaired by the Kazakh side. Council members discussed the issues of the reform of the Commission taking into account that the new composition of the Board of EEC started to work from February 1, 2016.

## *Eurasian Economic Union Official Dismisses Common Currency Plan*

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PanARMENIAN.Net, 08.02.2016, <http://www.panarmenian.net/eng/news/205592/>

A senior member of the Eurasian Economic Commission's board on Monday, February 8 ruled out plans for adopting a common currency, citing economic reasons as a serious impediment, Tert.am reports. **Tatyana Valovaya**, Member of the Board - Minister in Charge of the Development of Integration and Macroeconomics of the Eurasian Economic Commission, said that such a switchover, if approved, would lead to negative economic consequences at the current stage.

Instead, the official stressed the need of deepening macro-economic cooperation which she said could be possible in case of using national currencies in trade turnover among the member states of the **Eurasian Economic Union** (EEU). Asked about the timeframes of employing the system and Armenia's chances to make the payments for natural gas in the Russian ruble (which has been repeatedly proposed), Valovaya said that all the member states of the bloc can make any payment in their national currencies provided they establish the necessary economic grounds.

"To make payments in the national currency possible we need to establish economic grounds. That doesn't mean we are willing to ban any side from trading with a third country and making the payment in the respective currency. What we want is to facilitate the interstate calculations for the member states," she noted.

Valovaya said she is aware that the Armenian partners are now actively working towards implementing the idea. "With the emerging need of currency conversion from U.S. dollar to ruble and the Armenian dram to dollar, the process becomes long-drawn-out. So we are now actively considering possible tools to make the transfers in national currencies possible," she said, adding that the plan is likely to be realized in the nearest future.

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

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**Maria Pastukhova & Kirsten Westphal**

Stiftung Wissenschaft und Politik, German Institute for International and Security Affairs, 09.02.2016, [http://www.swp-berlin.org/en/publications/swp-comments-en/swp-aktuelle-details/article/ein\\_gemeinsamer\\_energiemarkt\\_in\\_der\\_eurasischen\\_wirtschaftsunion.html](http://www.swp-berlin.org/en/publications/swp-comments-en/swp-aktuelle-details/article/ein_gemeinsamer_energiemarkt_in_der_eurasischen_wirtschaftsunion.html)

**To the east of the European Union a regional energy market is taking shape under the auspices of the Eurasian Economic Union (EEU). Even if the interests of the participating states diverge and the ultimate shape of the market remains unclear, the development is likely to be substantial.**

**On the one hand, it threatens to deepen the fragmentation of energy markets in Europe and Asia, on the other the process could generate new opportunities for cooperation and larger spheres of integration. It is thus worth exploring at this early stage the extent to which the emerging energy market is compatible with the European Union and the European Energy Community. It is especially important to track the effects in the common neighbourhood, above all Ukraine, in order to avoid renewed geopolitical disruption.**

The Eurasian Economic Union was established on 1 January 2015, after Belarus, Kazakhstan and Russia signed the founding treaty in 2014. Kyrgyzstan and Armenia have since also joined. The concrete proposals for a common energy market developed in 2015 are more detailed and concrete than any other post-Soviet initiative; stability in the energy sector is essential for the economic prosperity of the EEU member-states. In terms of geographical area, this would represent one of the world's largest energy markets, strategically located between Europe and Asia and comprising a population of about 182 million. The affected countries together account for 14.6 percent of the world's oil production and 17.3 percent of natural gas production – although this is almost exclusively Russia's (Kazakhstan contributes 1.9 percent and 0.6 percent respectively).

The EEU's decision-making process is complex. Its institutions include the Eurasian Economic Commission (EEC) and the Supreme Eurasian Economic Council, composed of the heads of state of the member countries. While the Commission is responsible for routine questions, fundamental decisions about sensitive and strategic resources such as energy are taken by the Economic Council.

There is no clear legislative mechanism. Although the EEC is the Union's legislative organ, the Council also possesses the power to issue regulations and decrees, and to point the work of the Commission in the "right" direction. The EEU also has a Eurasian Intergovernmental

Council (composed of the prime ministers of the member-states) and the Court of the Eurasian Economic Union.

Partly owing to the asymmetrical power relations between the EEU members, the process is dominated by intergovernmental and bilateral negotiations. Armenia, Belarus, Kazakhstan and Kyrgyzstan together contribute less than 15 percent of the Union's joint GDP, and represent almost 20 percent of its population. Russia is geographically, demographically, economically and militarily far larger and more powerful than all the other members, and correspondingly funds almost 80 percent of the EEU integration process. Under the EEU's founding treaty all decisions at the highest level must be reached by consensus under "one country, one vote". Belarus and Kazakhstan, however, have repeatedly complained of Russia exploiting its dominant position.

A common energy market in the EEU would have a significant influence not only on its own member-states, but also on the European Union, on the Energy Community (which exports the energy-related *Acquis Communautaire* to the EU neighbourhood and to which the Balkan states, Moldova and Ukraine also belong), and on the common neighbourhood in the Black Sea and Caspian regions. The market would also reverberate on China's Silk Road initiative. Any revival of the old vision of a shared economic space from Lisbon to Vladivostok is now – if at all – only conceivable under these new premises. Decisively, Russia is pursuing the Eurasian integration project – against the backdrop of the Ukraine conflict – primarily for political motives, in order to consolidate its status as the leading power in Eurasia and to preserve its own influence in the region.

### **Concepts for the Energy Market**

The EEC's energy market concepts were prepared by its legislative body, the Collegium, and the concept for the electricity market was approved on 8 May 2015 by the Supreme Eurasian Economic Council. The Collegium approved the gas and oil market concepts in December 2015 and they are due to be confirmed by the Economic Council by the first quarter of 2016.

The common electricity market is due to be realised by 2019, while the concepts for oil and gas are to be implemented in stages by 2024 and 2025 respectively. Progress on integrating energy markets will require the successive dismantling of infrastructure, commercial and regulatory barriers.

The concepts are based on existing (partly Soviet-era) infrastructure and on agreements dating from 2010, signed in the context of the customs union. The only new elements in the concept for the electricity sector are the introduction of a trading platform at the international level and the commitment to grant all EEU states non-discriminatory access to national transmission grids. Tariffs for EEU-wide long-distance transmission are not to exceed those at national level. These objectives are also relevant for third countries, because a quasi EEU-wide grid could contribute not only to the development of an electricity market within the region, but also to its transit potential.

An agreement on the methodology for preparing indicative balances for oil and gas products in the EEU was drafted in May 2015 and approved by the EEC at the end of September, also on the basis of agreements from 2010. The harmonisation and exchange of indicative balances is regarded as a pre-condition for barrier-free access to transport infrastructure and cross-border trade. But creating a common market will ultimately require much more incisive reforms with respect to privatisation, competition, unbundling and price liberalisation, as well as effective, independent regulation. It must be remembered that the member states of the EEU differ greatly in their progress on implementing reforms.

According to the concepts for the common EEU energy market published in 2015, market, no concrete implementation time-table is specified. Instead the schedule until 2020 lists common standards as a priority, together with harmonisation of the relevant legislation. Under the objectives for a common gas market the concept also names non-discrimination, fair competition and a transition to market mechanisms, as well as a commitment to improve the conditions for investment in the gas transport system and to provide access to transport capacities in the EEU in a non-discriminatory and transparent manner. Not least, the concept also proposes establishing an exchange of information about consumption, pricing and transport capacities. For free capacity this is to be in place by 2020.

The pricing mechanism is described in quite some detail in the concept for the gas market, which proposes a voluntary commitment to achieve market-based gas prices. By 1 January 2025 a decision is to be reached on setting prices in the EEU on a netback basis, meaning net of the costs associated with bringing it to market. From the international perspective it is significant that the extant market concepts principally concern oil and gas trading within the EEU and not with third states. Bilaterally agreed conditions are to continue to govern trade with other countries. It is also noteworthy that the EEU members intend to investigate whether their gas exports compete with one another.

In summary, it can be said that the decisive details have yet to be negotiated and implemented. The example of the European Union demonstrates how convoluted and difficult such processes can be. Despite great ambitions on paper, conflicts are predestined in the EEU because far-reaching differences are becoming apparent in the inter-governmental negotiations. The strongest driver to date has been Moscow's geopolitical interest; in other words the Kremlin dictated the pace and direction.

### **Asymmetry of Interests**

The existence of (in some cases diametrically) opposing interests between EEU member-states hampers the creation of a common energy market. These result from an asymmetrical energy trade and the different starting situations of the involved states.

In the oil sector, resource-rich Russia and Kazakhstan are interested above all in modernising their refineries and petro-chemical industries in order to boost value added. The oil sector tax reform initiated by Moscow in spring 2015 shifts the financial burden from the export tax to the extraction tax and was conceived as such a stimulus. But these incentives are currently subverted by the falling oil price, the de-valuation of the rouble and the Western sanctions over

Ukraine. In order to generate hard currency, Russia is exporting crude oil at post-Soviet record levels. These developments cross-cut the interests of Belarus, whose economy is heavily dependent on refining and exporting Russian crude. Belarus needs access to cheap oil if it is to preserve its strong refinery sector and processing industry. While Moscow wants a pricing mechanism that takes into account the specifics of the national markets, Minsk argues for a uniform oil price no higher than that determined by the international agencies, minus the transport and transit costs and customs duties incurred in export to third countries. Kazakhstan for its part insists that pricing be left to the market and occur under conditions of fair competition.

Minsk also hopes that the common market will provide access to cheap and reliable supplies of natural gas from Russia. Given that more than 90 percent of Belarusian electricity is generated using Russian gas, the gas price is a top priority for Minsk in the talks on a common energy policy. In this connection Belarus explicitly demands that a common oil and gas market be developed before the common electricity market is tackled – throwing a spanner into the ongoing negotiations over the latter.

Electricity trading between Russia and the other EEU members is restricted to exports to Belarus and Kazakhstan (with respectively 9.7 and 11.7 percent of total Russian electricity exports). However, because Belarus, Russia, the Kaliningrad enclave and the three Baltic States share a power ring (BRELL), the Baltic States are synchronously connected with the Russian and integrated post-Soviet UPS/IPS grid. The UPS/IPS grid is also connected to Finland via a high-voltage D.C. line. Only small amounts of electricity are exchanged between Kazakhstan and Kyrgyzstan, while Armenia is not connected to the other EEU member-states at all.

The trade in oil and gas between resource-rich Kazakhstan and Russia and the other EEU members is very unbalanced and represents only a tiny fraction of total exports. Kyrgyzstan for example receives no more than 0.001 percent of Russian oil exports.

Trade between Russia and Belarus represents an exception, with a much higher export volume than to the other EEU states. In 2014 it amounted to 23.3 million tons of crude and 20.3 billion cubic metres of natural gas (representing 10.4 percent and 9.5 percent of Russian entire oil and gas exports). The two neighbours are linked by cross-border value chains. On the one hand 90 percent of the electricity supply for Belarusian industry is generated from Russian gas. On the other, Belarusian refineries process almost exclusively Russian crude with the products largely also re-exported to Russia.

At the same time businesses are very closely linked, giving grounds to expect an intensification of trade relations between the EEU member-states. Russian businesses dominate, even if the current slump in the oil price has shrunk their financial leeway. The Russian state-owned Gazprom has subsidiaries in all the member-states of the Union. In Belarus it is involved in the on-ward transport of Russian natural gas via the Yamal-Europe Pipeline, through its subsidiary Trans-gas. In Kyrgyzstan it possesses exclusive rights to explore and exploit domestic gas fields until 2028 and has taken over the state-owned Kyrgyz gas. In the Armenian gas sector Gazprom possesses a mono-poly via a subsidiary. In Kazakhstan Gazprom operates a joint

venture (KazRosGas) and runs joint gas and oil exploration projects with the Kazakh energy company KazMunaiGaz and with Rosneft and Lukoil.

The Russian electricity utility Inter RAO UES also controls Ekibastus power station in northern Kazakhstan (output 1 GW) and the Armenian Razdanskaya thermal power station (1.1 GW).

There are joint projects in the nuclear sector too. Rosatom (Russia) and Belarus have agreed to build a nuclear power station (2.4 GW) and negotiations on another are under way with Kazakhstan.

### **Electricity Market as the Driver?**

Electricity market integration is the project with the most ambitious timeframe. And the electricity market could function as the starting shot for the EEU's common energy market, because despite the critical position held by Belarus the negotiations are already well advanced.

However, an integrated market can hardly be created without privatisation, competition, unbundling of vertically integrated companies, and an independent regulator. And here the starting points diverge enormously. With 223 GW of installed capacity Russia possesses considerable surplus, with significantly ageing plant. Kazakhstan has 16.9 GW installed, Belarus 8.3 GW, Kyrgyzstan 2.6 GW and Armenia 2.1 GW.

In Belarus the electricity market is under complete state control through a single vertically integrated company, while Russia's is largely run by (part-) privatised companies. The Russian wholesale market is liberalised and there is a capacity market. Today consumer prices remain regulated only in a few regions. The Kazakh market is similar to the Russian, but with a different mechanism for consumer pricing. There are also considerable regional differences within the country, whose three electricity regions are only weakly connected to one another. A capacity market is to be established in 2016. Although the Kyrgyz electricity market is partially liberalised, it remains dominated by an open joint-stock company, in which the state holds a majority stake.

In principle electricity market integration can follow one of three models: a common market (the most far-reaching option), a common trading platform, or the linkage of national markets. In view of the differences between the EEU member-states and their unwillingness to restructure their national electricity markets, the common electricity market has been modelled on the European Union's electricity market for continental Europe.

This model retains the national markets, which operate in parallel to a common market on which companies can trade both bilaterally and through a centralised auction platform. An electricity exchange would be a new element for cross-border electricity trading in the EEU, whereas bi-lateral trading is already well-established. While the capacity of the cross-border trans-mission lines would permit trading of about 30 GWh annually, just 6.5 GWh were actually traded in 2014. Russia's exports are in fact declining, and now represent less than 4 percent of total generation. Imports are less than 1 percent of total consumption. Since Soviet times today's EEU members have been connected by a shared trans-mission grid. But this network needs to be further expanded and above all comprehensively modernised.

## **Implications for the European Union and the Energy Community**

Alongside the open question of how quickly and incisively a common market will in fact emerge in the EEU, the question of what internal reforms will be initiated in the process is also important. This affects above all the monopoly on pipeline transport, but also that on exports and imports. This is of interest to Europe in relation to diversified gas imports from Russian non-Gazprom and Central Asian producers, and also in relation to electricity trading.

In the 1990s the transit of Central Asian gas through Russian pipelines was a sticking point in the Energy Charter process, because Gazprom wished to protect its monopoly on transport and exports. Attempts by the Russian firms Rosneft and Novatek to gradually break open that monopoly failed again at the end of 2015. It is therefore hard to imagine the EEU integration process producing any change there. Circumstances within Russia could, however, lead to reforms. On the one hand Moscow shows great interest in expanding the area of integration; on the other, economic pressure is increasing as a result of sanctions, falling commodity prices and the slide of the rouble. Any reform moves in Russia could also present the European Union with a new situation, for example if other Russian gas companies would supply e.g. via the Nord Stream pipeline.

Despite the crisis over Ukraine, there are thus good reasons to approach the EEU process constructively. From the European perspective the question is to what extent one can encourage a positive market-led development from the outside. In the current complex political situation any active attempt by the European Union to exert influence is likely to be counterproductive.

A more promising option is cooperation at the technical, operational and regulatory (working) levels. Looking ahead, it is important to avoid fragmentation in the Euro-Asian energy market and to ensure compatibility. This is especially relevant at the boundaries of the different energy spaces and for countries located in-between that belong neither to the EEU nor to the European Energy Community. Creating a common energy market for the EEU could build new bridges – or create deeper rifts in Europe.

In Europe it is widely assumed that the EEU is a project aiming to isolate its members from the European Union and establish a political coalition under Russian leadership. But within the EEU both integration processes are in fact regarded as complementary at expert and working level. It is emphasised that closer cooperation with institutions of and in the European Union is essential and would offer advantages to both sides.

Both in expanding an EEU-wide energy grid and in modernising the energy market, it is noted that the Eurasian Economic Union will be heavily reliant on foreign investment, know-how and technology transfer. Thereby it is emphasised that the cooperation must be based on shared economic interests; different political values of the European Union and EEU member-states should not be made into a problem.

The fact that the European continental electricity market was taken as the model for the EEU's common electricity market leads to discussion of the potential of a common economic area with the European Union entering the domestic Russian discourse. Here there are obvious

similarities with the vision “From Lisbon to Vladivostok” propagated by Vladimir Putin in 2010.

The representatives of the EEC Collegium responsible for energy and infrastructure are seeking dialogue with European actors in the energy field. The chair of the EEC is Viktor Khristenko, who long led the Russian end of the EU-Russia Dialogue. European institutions visited by members of the Collegium include the independent Council of European Energy Regulators (CEER), marketplaces for energy and related products such as EEX, ICE and ICE ENDEX, the European Network of Transmission System Operators (ENTSO-E) and the European technical coordination centre for system security CORESO.

Apparently purely technical and commercial processes have potentially major impacts on the interfaces between different markets. They can deepen demarcation lines and exacerbate geopolitical conflicts. Although little strategic attention is generally devoted to the electricity sector, it is precisely here that important long-term changes are emerging in the Black Sea, Caspian and Baltic regions. The Baltic Energy Market Interconnection Plan (BEMIP) proposed synchronising the Baltic States with the European continental network. Estonia, Latvia and Lithuania are still part of the Soviet-era power ring (BRELL), and otherwise only connected to the Scandinavian Nord Pool electricity market via high-voltage D.C. lines. But talks about desynchronisation with Belarus and Russia were suspended in 2014 after a study showed that keeping the existing system made better economic sense.

Electricity market integration in the EEU context could create a whole new dynamic here, for example in connection with the planned nuclear power station in Kaliningrad, which will be looking to sell electricity to the European Union. On the other hand, a desynchronisation forced through for geopolitical reasons would create a great need for investment in network connectivity in Belarus and Russia and could lead to new political turmoil.

The implications of developments in the Black Sea region are even more far-reaching. Synchronising Turkey with the European continental network in 2014/ 2015 was a crucial step. A feasibility study has shown that Romania, Moldova and Ukraine could also be connected to the European continental network if that was politically desirable. It would be technically possible, but expensive. If that meant dis-connecting Crimea and the separatists in eastern Ukraine, it could write the military front lines into the grid architecture and de facto cement existing demarcation lines. This presents the European Union with a dilemma, as various sides in the conflict have without doubt used energy supplies as a means of hybrid warfare. Moves that might create greater security and flexibility for one side would leave others out on a limb. A tricky situation could also arise in the Caucasus, where Georgia is a candidate for the Energy Community, while South Ossetia, Abkhazia and Armenia are being drawn into the orbit of the EEU.

## **Recommendations**

The European Union should follow the development of an EEU-wide energy market very closely, as the process is strategically important for at least two reasons. Firstly, a fragmentation of the energy markets in Europe should be avoided, as it would create new conflict lines and

commercial disputes. Secondly, the European Union possesses a manifest interest in free and liberalised trade. The EEU's increasingly close cooperation with China could shift the region's orientation from Europe to Asia and establish mercantilist trading patterns. China and Russia are discussing the possibility of integrating the EEU into the Silk Road Economic Belt, and China is specifically channeling long-term funding into infrastructure projects in the region.

From this perspective it would seem advisable to seek dialogue at an early stage. The European Union should respond to the EEU and to China's Silk Road initiative with integrative proposals seeking shared technical standards and norms, compatible trading forums, and a joint codex for energy trading, investment and transit.

A realistic perspective is helpful here, because both integration processes – the EEU's and the Silk Road initiative alike – are driven by tangible economic interests. The European Union's "DNA" is different of course; it is rooted in general, commonly shared values and norms (such as solidarity). Even if the EEU and the European Union are not dissimilar on paper, their respective dynamics differ significantly. At the same time, the European Union must possess an interest in compatible norms, standards and rules. At the working and technical levels, despite geopolitical troubles, there are good grounds for offering the EEU cooperation in developing and implementing its common energy market. The repercussions at the boundaries of the energy spaces and on the common neighbourhood could otherwise be (even more) consequential.

First and foremost, cooperation at working level – for example concerning high voltage grids, experiences in unequal power generation and regional distribution, mechanisms of cross-border trading, network planning and IT security – could contribute to ensuring compatibility between the European Union and the EEU, and at least not drifting further apart at the technical, commercial and regulatory levels. Should direct cooperation between EU institutions and EEU continue to be difficult, the Energy Community could also become involved. But ultimately a plurilateral dialogue between Europe and Asia needs to be expanded and intensified at multiple levels: through existing institutions such as the International Energy Charter process, but also via new mechanisms in the UN Economic Commission for Europe (UNECE) and the OSCE. The lack of mechanisms and forums is a problem.

## *EEC to Increase the Level of Social Security System of Citizens of EEU Member States*

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BNews.kz, Astana, 11.03.2016,

[http://bnews.kz/en/news/tamojennyi\\_soyuz/spetsproekti/tamojennyi\\_soyuz/eec\\_to\\_increase\\_the\\_level\\_of\\_social\\_security\\_system\\_of\\_citizens\\_of\\_eeu\\_member\\_states-2016\\_03\\_11-1261452](http://bnews.kz/en/news/tamojennyi_soyuz/spetsproekti/tamojennyi_soyuz/eec_to_increase_the_level_of_social_security_system_of_citizens_of_eeu_member_states-2016_03_11-1261452)

The second meeting of the Advisory Committee on social security, observance of the pension rights, health care and professional activities of the Member States at EEC Board was held under the chairmanship of a member of the Board (Minister) for Economy and Financial Policy of the Eurasian Economic Commission Timur Suleimenov in Cholpan-Ata, Kyrgyz Republic.

Opening the meeting, Timur Suleimenov noted the obvious importance of the work carried out within the framework of the Advisory Committee, which is aimed at improving the social security of citizens of the Eurasian Economic Union member states (EEU). The event was attended by members of the Advisory Committee of the Union countries, representatives of international organizations - the General Confederation of Trade Unions, non-commercial partnership the International Alliance "Labour Migration" and others. Samat Aliyev, executive secretary of the Advisory Committee, deputy director of business development EEC told about the project contract on pension provision of workers of the Eurasian Economic Union Member States, which is currently undergoing internal approval procedure as well as the draft protocol on the procedure for interaction between the authorized and competent authorities on the application of the Treaty

## *Representatives of Belarus and the EEC Discussed the Main Approaches to the Creation of the Common Digital Space of the EAEU*

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Eurasian Economic Commission, 04.03.2016, <http://www.eurasiancommission.org/en/nae/news/Pages/09-03-2016-1.aspx>

In the framework of the round table session, representatives of the Eurasian Economic Commission and the Republic of Belarus discussed the main approaches to the creation of the common digital space of the Eurasian Economic Union (EAEU) and agreed on the need to elaborate the concept of the common digital space of the EAEU. The Member of the Board – Minister in charge of Internal Markets, Information Support, Information and Communication Technologies of the EEC, Karine Minasyan, Minister of Communications and Informatization

of the Republic of Belarus Sergey Popkov, Deputy Minister of Economy of the Republic of Belarus, Dmitry Krutoy, and other representatives of the government authorities and business community of the Republic of Belarus took part in the round table session.

The round table participants emphasised the relevance of the discussion on the digital space within the EAEU for the purpose of deepening integration. During the event, four priority areas for further cooperation were discussed: the digital upgrade of integration processes, digital markets, digital infrastructure and institutions for the development of the digital economy. "The concept should be developed with particular focus on business interests," Karine Minasyan stressed. "Because the results of establishment of the common digital space of the EAEU should be the improvement of the business environment, increased productivity and efficiency in the economy, the creation of new high-tech jobs, and an increase in internal and external trade turnover." The roundtable participants agreed on the need for the mandatory participation of the business community and research centres of the MS in the elaboration of the concept.

## *The EEC Initiated the Development of an International Agreement Providing for the Crossing of the Member States' Borders by EAEU Nationals, Including Crossing with National Documents*

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Eurasian Economic Commission, 03.10.2016, <http://www.eurasiancommission.org/en/nae/news/Pages/10-03-2016-4.aspx>

On March 4, the fourth session of the Advisory Committee for migration policy at the EEC Board was held in Cholpon-Ata (the Kyrgyz Republic) under the chairmanship of Timur Suleimenov, Member of Board - Minister in charge of Economy and Financial Policy of the Eurasian Economic Commission, where the rules on entry, departure and residence of EAEU citizens on the territory of the Member States were discussed.

The event was attended by members of the Advisory Committee from the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Russian Federation, representatives of border guard services of the Member States, the International Organization for Migration, the International Trade Union Confederation, International Alliance of non-profit Partnership "Labour migration, the Civil partner platform "Central Asia in motion", etc.

During the session, the issue of the entry into the territory of the Member States with foreign passports without having to fill out migration cards for any stay less than 30 days of the Union citizens was also reviewed. This is enshrined in the Treaty on the EAEU dated May 29, 2014.

In addition, the Advisory Committee recommended that the authorised authorities of the Member States learn from the experience of the Republic of Kazakhstan in changing initially declared purpose of entry on the migration card without having to travel outside the territory of the State (for example, changing from "private" to "business"). As well as the experience of the Republic of Kazakhstan in the following aspects.

If a citizen of one Member State arrived in the Republic of Kazakhstan with a foreign passport for up to 30 days, he/she does not receive a migration card at the border and is not subject to registration in accordance with the Treaty on the EAEU. If he/she decides to stay in the country for a longer period, he/she is granted the right to obtain a migration card in the Internal Affairs offices and register without leaving Kazakhstan in accordance with the legislation of the Republic of Kazakhstan. This practice does not exist in other countries of the Union.

The possibility of ensuring the priority crossing of the Member States' borders by separating the flows for the EAEU citizens and for citizens from third countries by means of dedicated checkpoints with signage "For EAEU nationals" was also discussed at the session. The Commission was instructed to prepare a recommendation to the Board. Introduction of information signage will simplify border control at internal borders of the EAEU Member States.

The Advisory Committee reviewed the issues of the development of bilateral international agreements on the procedure of the mutual stay of Member States citizens and their readmission. Such agreements are provided for in paragraphs of the "road maps" on accession of the Republic of Armenia and the Kyrgyz Republic to the Eurasian Economic Union approved by the Presidents of the Member States. Bilateral agreements on the procedure of the stay of citizens regulate the period of stay without registration within 30 days from the date of entry. The Member States are encouraged to intensify their work in this direction.

The session participants also discussed the international agreement that regulates the entry, exit, transit route, movements and stay of Member States citizens in the Union States. The Advisory Committee supported the initiative of the EEC on the drafting of an international agreement envisaging the possibility EAEU citizens crossing EAEU state borders, including with internal documents. Currently, for example, citizens of the Republic of Kazakhstan can enter the Republic of Belarus only with a passport of the citizen of the Republic of Kazakhstan, whereas citizens of the Russian Federation cannot enter the Republic of Armenia with their internal passport.

## *Eurasian Economic Union Backs Further Cooperation with IRU*

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International Road Transport Union, Moscow, 01.03.2016, [https://www.iru.org/en\\_news\\_item?story=3804](https://www.iru.org/en_news_item?story=3804)

The Eurasian Economic Union (EEA) has backed TIR developments and infrastructure cooperation with IRU. In talks, Dmitry Cheltsov, who leads IRU's work in Eurasia, discussed transport and economic growth potential across the Eurasian Economic Union with Danil Ibrayev, newly appointed Minister for Energy and Infrastructure, and Member of the Board of the Eurasian Economic Commission (EEC).

The meeting focused in particular on international road transport corridors and road-side infrastructure, as well as the implementation of well-established UN agreements, most notably the TIR Convention. The new minister was briefed on recent TIR developments in the Eurasian region, TIR expansion worldwide, and how accession to the TIR Convention and implementation of new TIR risk management tools can significantly reduce national transit costs and boost foreign trade. International Road Transport Union (IRU) stands ready to offer its experience and expertise for the development of the Common Transport Market currently being established within the Eurasian Economic Union. Supporting ongoing IRU initiatives, Mr. Ibrayev also proposed to extend potential areas of cooperation and determine relevant regional events that IRU and the EEC could coorganise.

## *The EEC is Working to Improve the Social Protection of the EAEU Citizens*

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Eurasian Economic Commission, 03.10.2016, <http://www.eurasiancommission.org/en/nae/news/Pages/10-03-2016-5.aspx>

On March 3, Cholpan-Ata (the Kyrgyz Republic) hosted the second session of the Advisory Committee for social security, compliance with pension rights, health care provision and the professional activity of workers of the Member States under the EEC Board chaired by Member of the Board - Minister in charge of Economy and Financial Policy of the Eurasian Economic Commission, Timur Suleimenov. In his opening speech, Timur Suleimenov noted undoubted importance of the work carried out within the Advisory Committee, which aims at improving the social protection of the citizens of the EAEU Member States. The event was attended by members of the Advisory Committee from the EAEU Member States, representatives of

international organisations - the General Confederation of Trade Unions, the Non-profit partnership “International Alliance “Labor migration”, etc.

Executive Secretary of the Advisory Committee, Deputy Director of the Department of business development of the EEC, Samat Aliev, spoke about the draft Treaty on the provision of pensions for workers of the EAEU Member States, which is currently undergoing internal approval, as well as the draft Protocol on the procedure for interaction between the authorised and competent authorities for the application of the said Treaty.

The Advisory Committee discussed the provision of medical aid to workers of the Member States in the EAEU states within the system of Compulsory Health Insurance (CHI). To address emerging issues related to the specific features of medical assistance, it was decided to hold a meeting with representatives of the ministries of health of the EAEU Member States.

In addition, the Fund of Social Insurance of the Russian Federation put forward the initiative of holding an International Conference “Social Insurance in the EAEU States. Practice, problems, prospects.” The Advisory Committee supported this proposal and decided to hold the Conference in May 2016. The event will be attended by representatives of the interested ministries and departments, social funds and partners, insurance companies and other organisations.

Another topic discussed at the meeting of the Advisory Committee was the question of recognition of diplomas for employment purposes. The Commission received numerous inquiries from legal persons concerning cases of refused direct recognition of educational documents of workers from the EAEU Member States in the Republic of Kazakhstan. In this regard, the Advisory Committee stressed the inadmissibility of violating the EAEU Treaty governing this area.

The participants of the session of the Committee also discussed the issue of restrictions imposed on foreign citizens exercising labour activities in the field of sports in the Russian Federation (“Law on Foreign Athletes”). Members of the Advisory Committee recommended that the representatives of the Russian Federation consider the possibility of amending the relevant orders of the Ministry of Sport of the Russian Federation with the aim of the provision of a national treatment to the citizens of the EAEU Member States exercising labour activities in the field of sports in the Russian Federation. The Advisory Committee also discussed the principles of developing a framework of the labour legislation of the Member States presented by the International Trade Union Confederation, for the purpose of harmonisation of the labour legislation in the EAEU.

## *The Treaty on Trademarks, Service Marks and Appellations of Origin of the EAEU Goods Facilitates the Comprehensive Legal Protection of Intellectual Property in the EAEU Member States*

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Eurasian Economic Union, 03.10.2016, <http://www.eurasiancommission.org/en/nae/news/Pages/10-03-2016-3.aspx>

At the session of the EEC Board on March 9, the draft EEC Council disposition “On the draft Treaty on trademarks, service marks and appellations of origin of the EAEU goods” was approved. The draft Treaty on trademarks, service marks and appellations of origin of the EAEU goods regulates the relations arising in connection with the registration, legal protection and use of trademarks of the Eurasian Economic Union and appellations of origin of the EAEU goods.

The draft Treaty envisages:

- the introduction of the “Union trademark” and “appellation of origin of the EAEU goods” (the Union trademark is a sign which is simultaneously protected on the territories of all the Member States and enables the goods of one natural and legal entity to be distinguished from the goods of other entities);
- the submission of one application for the Union trademark (application for Geographical indication) in any of the patent offices of the Member States;
- obtaining a single protective title on the territory of the Union;
- a single agency for Applicant’s needs (“single window”);
- maintaining the Single register of the Union trademarks and the Single register of the Union Geographical indication, both posted on the official website of the Union;
- adoption of legally meaningful actions by the EEC Council for Union trademark registration and Union Geographical indications under the Treaty, as well as duty rates.

The Treaty on trademarks, service marks and appellations of origin of the EAEU goods helps simplify procedures for registering trademarks and appellations of origin, as well as reduce business costs. Comprehensive legal protection of intellectual property as a result of the single protective document valid on the territory of all Member States stimulates investment in innovative, high-tech industries of the Union, as well as the introduction of innovative technologies in the EAEU Member States. This contributes to the opening of new enterprises and the modernisation of economies of the Union Member States, shifting the focus away from raw materials to innovations.

## ***Marking of Fur Products in the EEU Countries will Concern only Legal Persons***

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BNews.kz, 05.03.2016,

[http://bnews.kz/en/news/tamojennyi\\_soyuz/ekonomika\\_i\\_biznes/marking\\_of\\_fur\\_products\\_in\\_the\\_eeu\\_countries\\_will\\_concern\\_only\\_legal\\_persons-2016\\_03\\_05-1260709](http://bnews.kz/en/news/tamojennyi_soyuz/ekonomika_i_biznes/marking_of_fur_products_in_the_eeu_countries_will_concern_only_legal_persons-2016_03_05-1260709)

Since April 1 in the territory of EEU sale of fur products without identification marks with radio-frequency RFID tags (Radio Frequency Identification) will be forbidden. This innovation extends only to legal entities who deliver and make fur products. Other persons will import fur products in the same order that works now, the acting vice chairman of the board of Kazakhstan RSP “Atameken” Dana Zhunusova said at the online conference in BNews.kz studio.

According to her, one of the most discussed events which concerns business of member countries of EEU is marking of fur products. “Last year this subject was very actively discussed. Our partners offered to mark all consumer goods. For Kazakhstan it is new experience. From all countries of the Union such experience has only Belarus. Over the last 10 years it marks about 20 names and groups of goods. For us marking it a new phenomenon. Scientific Production Enterprises, one may say, with fight have defended that it is necessary to start the pilot project to understand, adapt, consider expediency of marking,” Zhunusova said. Since April 1 of this year marking will be subject by fur products on 8 nomenclatures of goods subject to foreign trade codes – products from a sheepskin, foxes, minks, a raccoon, etc. the accessories relating to the nomenclatures of goods subject to foreign trade certain codes.

## ***In 2017, the EAEU is Expected to Increase Production of Poultry Meat and Pork by 14% and 9% Respectively***

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Eurasian Economic Commission, 25.02.2016, <http://www.eurasiancommission.org/en/nae/news/Pages/26-02-2016-5.aspx>

On February 24, in Moscow on the site of the Eurasian Economic Commission, experts of the Eurasian Economic Union (EAEU) discussed the forecasts of the supply and demand for the main types of agricultural products, as well as the forecast of development of the agro-industrial complex for 2016-2017. Forecasts are generated as part of the implementation of the agreed agro-industrial policy of the EAEU countries under the coordination of the Commission’s Agro-industrial Policy Department. In line with forecasts, in 2017 as compared to 2015, the production of poultry meat and pork in the Union is expected to increase by 14% and 9%

respectively. The gross harvest of sugar beet will increase by 11%, oilseed crops - by 5%, grain, vegetables, fruit and berries - by 3%.

During the period under review, the total worth of agricultural products export is expected to increase by 4.5%, including through mutual trade, which will grow by 9.7%. Against the background of a slight increase in imports (1%), the negative foreign trade balance rate with third countries will improve by 2.3%.

Functioning of the single forecasting system in the AIC is envisaged by the Treaty on the EAEU and is necessary in order to ensure the balanced development of production and markets for agricultural products and foodstuffs. In addition, the forecasts enable to assess the status of food security, and develop solutions for the application of safeguards on imports. They also facilitate the systematic work in assessing the potential of mutual deliveries and exports, which enables the optimisation of trade flows and investments.

Based on the discussion, the experts from the Parties approved the joint forecasts for 2016-2017 and recommended the same for consideration at the next session of the Advisory Committee on the AIC.

## *Russia to Start Exporting Cancer Treatment Microsources to EEU, Middle East*

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Sputnik, 03.02.2016,

<http://sputniknews.com/russia/20160203/1034121825/ancerTreatmentMicrosources.html#ixzz42yLkXN71>

In June 2014, Russia launched a unique production of full cycle microsourses for the treatment of prostate cancer with low dose brachytherapy. The high-tech complex, total investments in which amounted to 688 million rubles (\$8.7 million), was established in Dubna, the international nuclear physics research center and one of the largest scientific foundations in Russia.

“Since 2016, it is planned to export [the microsourses] — to the countries of the Eurasian Economic Union and the Middle East,” the Minister of Investments and Innovations Denis Butsaev was quoted in the press release as saying. Since 2004, some 7,000 surgeries were conducted with the use of the German microsourses, the ministry recalled. Prostate cancer is a malignant tumor, currently one of the most common forms of cancer among Russian men. About 14,000 Russian males are diagnosed with the disease each year and mortality in the first year after diagnosis is over 10 percent. Brachytherapy has become a widely used therapy in many countries during recent years, and has proved effective as well.

## *Chapter 4. The Eurasian Economic Union, its External Policies and Potential*

### *No Measures Discussed by EAEU Leaders in Response to Kiev's Association with EU - Official*

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TASS, Moscow, 21.12.2015, <http://tass.ru/en/economy/845873>

The Russian delegation did not insist that Eurasian Economic Union members should adopt restrictive measures against Ukraine. Leaders of the member countries of the Eurasian Economic Union (EAEU) have discussed no possible measures that can be taken after a free trade zone between Ukraine and the European Union comes into force from January 1, 2016, Russian First Deputy Prime Minister Igor Shuvalov said on Monday.

“We did not speak about any response measures. Today, explanations were provided about how Russia will act on the basis of the presidential decree and the federal law that is to be passed,” he told journalists. “Other countries can either join this decision and it will be a common decision for the entire customs territory of the Eurasian Economic Union or this decision will employ certain monitoring instruments that will make it impossible to disguise Russia-bound exports as transit.”

Shuvalov said it would be right if such a decision was taken by all the five member countries. “They said it would be right in principle if such a decision, such a common decision, could be adopted by all the five countries so that it could impose a common regime along the common outer perimeter of the customs border,” he said when asked whether other EAEU leaders had announced any plans to withdraw from the free trade zone with Ukraine as well. He said that it were rather technical aspects that hampered passing of this decision at the EAEU summit. “And questions. We should take a closer look at possible harm to the current contracts in Kazakhstan and Belarus,” he said.

According to the Russian first deputy prime minister, the Russian delegation did not insist that these countries should adopt restrictive measures against Ukraine. “This is the matter of Russia-Ukraine relations under the free trade zone agreement,” he said. According to Shuvalov, a system of tracing commodity movement will be established by next summer. “Tomorrow, the Council of the Eurasian Economic Commission will have a meeting in Moscow that will be dedicated to the new edition of the Customs Code. It will be an extended meeting involving chief of customs services,” he told journalists. “The presidents have delegated us to discuss the issue of establishing an electronic protocol covering the entire customs space.” “We have agreed to work out a mechanism of monitoring commodity movement, including transit of

goods, as soon as possible. The first proposals will be voiced at tomorrow's meeting," Shuvalov said.

He said that measures were to be taken to prevent Ukrainian goods' reaching the Russian market disguised as transit. In his words, no restriction would be imposed of these goods if they were bound for other countries of the Eurasian Economic Union. The official also said Russia has no plans of conducting additional customs checks of goods supplied from the countries of the Eurasian Economic Union after the agreement on association between Ukraine and the EU comes into force. "We do not expect any additional checks, we think there are quite many of them," - he said. According to him, the number of such checks especially increased after Russian imposed counter sanctions.

## *Lavrov: Eurasian Economic Union has Potential for Expansion*

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TASS, Moscow, 16.12.2015, <http://tass.ru/en/politics/844625>

According to the Russian top diplomat, all those who accuse Russia and its partners of attempts to recreate something imperial ignore the fact that integration became the call of the times everywhere. The Eurasian Economic Union (EAEU) is a rather attractive integration association and has potential for expansion, Russian Foreign Minister Sergey Lavrov said in an interview for the documentary Number One devoted to Kazakh President Nursultan Nazarbayev. The new integration association — the EAEU — started operating on January 1, 2015. Russia, Belarus, Kazakhstan, Kyrgyzstan and Armenia make part of the EAEU. The Russian, Belarusian and Kazakh presidents held the final meeting in late December 2014 in the process to establish the EAEU.

"The efforts of the presidents of Russia, Kazakhstan and Belarus have played a great part [in establishment of the EAEU]," Lavrov said. "The fact that this result was positive is confirmed by Armenia and Kyrgyzstan joining the Union. I am convinced this is far from the complete composition of EAEU members." "This was very hard work that started from the establishment of the Customs Union and ended with formation of the Common Economic Space and the EAEU," the minister said. "It was difficult to agree thousands and thousands of positions regulating joint tariffs, customs procedures, positions ensuring the maximally open market and removing most barriers for movement of goods, services, capitals, workforce and people in general. Nevertheless, such work was completed," he said.

Lavrov recalled that the EAEU has been operating since January 1, 2015. He said the establishment of the integration association was the result of "very tense and serious work based upon the objective circumstance that the former USSR was a single economic complex."

“After sovereignization of the former Soviet republics, when the Soviet Union ceased to exist, Belarus, Kazakhstan and the Russian Federation were probably more than others ready, in conditions of the market economy, to maximally use the advantages of the single economic complex that remained in the form of economic ties, single infrastructure and many other components of economic life,” the Russian foreign minister said.

“They accuse us that it’s Russia’s attempt to recreate either the empire or the Soviet Union,” Lavrov went on to say. “But these are all useless statements, because if a serious researcher took the trouble of just looking for it in the internet or other information sources, it would become known that in 1994 Nursultan Nazarbayev, reading a lecture in the Lomonosov Moscow State University, first put forward the idea to promote Eurasian economic integration and consecutively defended it,” he said. “And he did it not just from the positions of 1994 but each time, at each stage of its promotion, he took into account the new things that are taking place in the global economy, finances and integration processes,” Lavrov said. “All those who accuse us and our partners of attempts to recreate something imperial on the post-Soviet space probably deliberately ignore the fact that integration became the call of the times everywhere, on a global scale,” he said. “All continents have been seized by integration processes.”

The top Russian diplomat said “the processes should be open, as we have done in the framework of the Eurasian Economic Union [EAEU], and not secret and behind-the-scenes when a ‘club of the elect’ is established, which is closed for all the others, like our American colleagues do on the Pacific and Atlantic spaces — jointly with the EU.”

## *Israel, EEU will Reach Agreement on Free Trade Zone in Few Months*

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Sputnik, 08.02.2016, <http://sputniknews.com/business/20160208/1034413546/israel-eeu-free-trade.html#ixzz42yKRUIM3>

The Eurasian Economic Union is a bloc created to streamline the flow of goods, capital and labor between its member nations, namely Russia, Kyrgyzstan, Armenia, Belarus, and Kazakhstan. The union came into being on January 1, 2015.

In January 2016, Iranian Ambassador to Russia Mehdi Sanaei said Iran was interested in introducing a free trade zone with the EEU. “We are really interested in removing all obstacles with the Russian Federation. We made progress on the visa issue in 2008... and [as for] the customs barriers, I am confident that we will be able to remove them in the coming months,” Goldman-Shayman said responding to a question on progress in bilateral Israeli-EEU affairs.

## *The EEC and the World Bank Have Agreed to Cooperate in the Field of Tax Policy of the Eurasian Economic Union Member States*

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Eurasian Economic Commission, 19.02.2016, <http://www.eurasiancommission.org/en/nae/news/Pages/19-02-2016-1.aspx>

On February 18, Moscow hosted a meeting between the Member of the Board – Minister in charge of Economy and Financial Policy of the Eurasian Economic Commission, Timur Suleimenov, representatives of the EEC Department of Financial Policy and experts of the World Bank’s Public Sector, Rajul Awasthi and Alma Nurshaikhova. The meeting included discussion of the cooperation in the field of tax policy in the Eurasian Economic Union (EAEU).

The meeting participants agreed on conducting joint analytical research and seminars on tax policy and fiscal consolidation in the EAEU. The following potential mutual research topics were outlined: improvement of indirect taxation in the EAEU, international taxation, and the compliance of tax rules in the EAEU with leading international standards in the field of taxation. As a result of the meeting, agreements were reached to continue and deepen cooperation between the Commission and the World Bank in the field of taxation on the platform of the Advisory Council on Tax Policy and Administration of the EEC.

A discussion was held regarding cooperation in conjunction with Vienna University of Economics and Business and the World Bank to form and launch an educational program entitled the “Eurasian Fiscal Academy”. The main goal of the program is to improve the professional development of financial and tax departments of the EAEU Member States in the field of tax legislation and tax administration on the most topical and problematic issues. Following the discussion, a plan was built for joint workshops on the following topics:

- indirect taxation issues (VAT and excise duties);
- transfer pricing, the recommendations of the Organization for Economic Cooperation and Development (OECD) to counteract Base Erosion and Profit Shifting from taxation (BEPS plans), and the OECD standard on automatic information exchange;
- improvement of agreements on double taxation avoidance and conventions on mutual administrative assistance in tax matters, and analysis of the possibility of drafting a multilateral convention between the EAEU Member States.

The first two educational workshops with the financial and organisational support of the World Bank will be held in September-October and March-April 2017. They will be dedicated to transfer pricing issues, regulation of controlled foreign companies, BEPS plans, OECD standards on automatic information exchange, as well as double taxation avoidance agreements and conventions on mutual administrative assistance in tax matters.

## *SCO and EAEU Countries to Announce Economic Continental Partnership Agreement - Official*

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TASS, Moscow, 02.03.2016, <http://tass.ru/en/economy/860102>

The member-countries of the Shanghai Cooperation Organization (SCO) and the Eurasian Economic Union (EAEU) are preparing an agreement on economic continental partnership, Russia's First Deputy Economic Development Minister Aleksey Likhachev said at the first ever Sino-Russia construction forum on Wednesday.

“In December 2015, our partners from Kazakhstan announced an idea to create an SCO free trade zone. Not only did we accept [the idea] together with the Chinese delegation, we transformed it into the following – we'll be actually preparing background for a certain economic continental partnership, for a universal agreement within SCO,” he said.

## *Eurasian Economic Union Can Start Talks on Free Trade Zone with Egypt in 2016 - Official*

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TASS, Moscow, 08.12.2015, <http://tass.ru/en/economy/842227>

The negotiations on establishing a free trade zone between the Eurasian Economic Union and Egypt could begin in 2016, Eurasian Economic Commission (EEC) trade minister Andrey Slepnev said Tuesday. “We have a solution with Egypt, it is being reviewed. Negotiations on the subject matter with experts will be completed next year and we will move to the negotiations stage,” he said.

Slepnyov added that negotiation rounds on establishing a free trade zone with Israel would also begin in 2016.

# *China's Silk Road Belt Outpaces Russia's Economic Union*

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**Catherine Putz**

The Diplomat, 10.03.2016, <http://thediplomat.com/2016/03/chinas-silk-road-belt-outpaces-russias-economic-union/>

Beijing's economic endeavors in Central Asia are off to a better start than Russia's. Don't expect that to damage ties. Announced in 2013 on a stage at Nazarbayev University in Astana, Kazakhstan by Chinese President Xi Jinping, the land-based portion of the "One Belt, One Road" initiative (the Silk Road Economic Belt) traces a line through Central Asia. The Chinese are far from the first to brand cross-regional trade visions under the Silk Road banner — although, as several speakers at a recent workshop hosted by George Washington University's Central Asia Program stressed, the Chinese are the first to put serious money behind their efforts.

Alexander Cooley of Columbia University's Harriman Institute contrasted the OBOR project with the sometimes-discussed, but more often dismissed, U.S. vision of a New Silk Road. The Chinese, Cooley said, are "actually committing hundreds of billions of dollars, the U.S... not much, if any." Further, the Chinese have established several funding vehicles to support new infrastructure developments—from the Silk Road Fund to the Asian Infrastructure Investment Bank (AIIB).

Most importantly, perhaps, the Chinese initiative signals China's rise and a commitment to lasting future engagement with the region. Meanwhile, Cooley said, the "New Silk Road for the U.S. is associated with a legacy of regional withdrawal." Another speaker, Scott Smith of the U.S. Institute of Peace, was just as critical of the New Silk Road policy, saying that it "is a vision that sometimes masquerades as a policy."

Russia's own form of economic engagement in the region—in the guise of the Eurasian Economic Union—had a rocky first year, as Alex Nice noted in an article for *The Diplomat Magazine* in January. Despite the fact that Russian President Vladimir Putin and Xi have broached the idea of linking their two economic endeavors together, experts doubt the feasibility of hooking the EEU to the OBOR's better-funded wagon. Cooley said the two were "conceptually incompatible": the EEU is an effort to fence-in economic activity within a regional block whereas the OBOR is about connectivity between regions (Asia and Europe).

Meanwhile, Russia's ability to make good on economic commitments in the region is increasingly in doubt (just ask Kyrgyzstan). At the same time, as RUSI's Sarah Lain commented, Moscow's economic leverage on the region is waning, to an extent, as the value of remittances drop and some migrant workers return home.

Even a slowing China presents a more reliable investor than Russia, not just because its economy is growing (whereas Russia's has contracted), but because the OBOR is a necessary part of Beijing's strategy to deal with the domestic ramifications of slowing growth. "In many ways, from the Chinese perspective this [OBOR] is part of the answer to the domestic slowdown," Raffaello Pantucci of RUSI said. While domestic demand slackens, Central Asia's infrastructure gap remains massive. China's steel mills can continue apace as long as bridges and roads and railways need building in Central Asia. This, of course, has not stopped Kazakh President Nursultan Nazarbayev from pointing to both the Russian recession and China's slowdown as factors in Kazakhstan's own economic stagnation. This is as much a tactic for Nazarbayev to displace blame as it is the truth. Kazakhstan's economic woes are inextricable from those of Russia, but Astana is not entirely innocent.

While it may be exciting for geopolitical wonks to float the idea of a great power contest between Russia and China, with Central Asia as the setting, many experts dismiss this formulation outright or at the very least push the horizon to the extreme long-term realm. Russia, China, and the Central Asian states themselves share a fundamental idea of what stability in the region looks like and how to maintain it. Overarching shared interests among them virtually ensure that areas of friction will be managed rather than allowed to spark. "Chinese commentators are not naive about the problems that may arise," Nadège Rolland of the National Bureau of Asian Research said. "They see some potential problems in terms of power contest but they don't see Russia as being a problem. They see the U.S. as being a problem."

## *China Backs Putin's Model of Eurasian Integration - Foreign Ministry*

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TASS, 04.12.2015, <http://tass.ru/en/economy/841551>

Vladimir Putin suggested Eurasian Economic Union begin consultations with countries of the Shanghai Cooperation Organisation and the Association of Southeast Asian Nations 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.”

## *Pakistan Sends Request to EEU on Creation of Free Trade Area*

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**Alexander Astafyev**

Sputnik, Moscow, 13.01.2016, <http://sputniknews.com/business/20160113/1033059728/pakistan-eeu-free-trade.html#ixzz42yIiu144>

The EEU, comprising Russia, Armenia, Belarus, Kazakhstan and Kyrgyzstan, is an international organization that encourages regional economic integration through the free movements of goods, services, and people within the union. More than 40 countries and international organizations, including China, Indonesia, Cambodia and India have expressed interest in creating a free trade zone with the bloc.

“Just two days ago we received a request from Pakistan about free trade, another one,” Slepnev said at the Gaidar Forum in Moscow. He explained that the five member states of the union had a very large agenda, as they had received many requests from different countries looking to establish trade relations with the EEU. “Therefore, we have to prioritize,” he added.

In August 2015, Pakistani Prime Minister Nawaz Sharif said that the country was interested in signing a free trade agreement with the bloc.

## *Russia Ready to Discuss Creation of Free Trade Zone between EEU, Hong Kong*

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Sputnik, 18.01.2016, <http://sputniknews.com/business/20160118/1033296408/eeu-hong-kong-free-trade-zone.html#ixzz42yL18uIc>

Moscow is ready to discuss the introduction of a free trade zone between the Russia-led Eurasian Economic Union (EEU) and Hong Kong, Russian Deputy Prime Minister Arkady Dvorkovich said Monday.

“We have recently reached the first agreement about a free trade zone between the Eurasian [Economic] Union and Vietnam, now we are engaged in negotiations with Israel. We are ready to discuss this issue with Hong Kong,” Dvorkovich said speaking at the Asian Financial Forum in Hong Kong.

The EEU, comprising Russia, Armenia, Belarus, Kazakhstan and Kyrgyzstan, is an international organization that encourages regional economic integration through the free movements of goods, services, and people within the union.

Vietnam became the first country to sign a free trade agreement with the EEU in May. More than 40 countries and international organizations, including China, Indonesia, Israel and Iran have expressed interest in creating a free trade area with the bloc.

## *Serbia Hopes to Sign Free Trade Agreement with EEU in 2016 - Ambassador*

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Sputnik, 12.02.2016, <http://sputniknews.com/business/20160212/1034637705/serbia-trade-eurasian-economic-union.html#ixzz42yMy4wDq>

Serbia hopes to sign a free trade agreement with the Eurasian Economic Union in 2016, Serbian Ambassador to Russia Slavenko Terzic said Friday. “We expect that this year an agreement will be signed on free trade with the Eurasian Economic Union, and this would give Serbia an agreement with all of the EEU’s members,” Terzic said at a press conference in Moscow.

## *Eurasian Economic Union Eyes Cooperation with Portugal*

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Panarmenian.net, 03.03.2016, <http://www.panarmenian.net/eng/news/205191/>

Eurasian Economic Commission Board Member – Minister in charge of Industry and Agroindustrial Complex Sergei Sidorsky met on Monday, February 1 with the Portugal Minister of Economy Manuel Caldeira Cabral, the EEC website reports.

During the meeting, Sidorsky briefed the Portuguese side on the Eurasian Economic Union's main goals and objectives, as well as key areas of cooperation. According to Sidorsky, the purpose of the EEU delegation's visit is to explore possibilities of collaboration with Portuguese organizations in the sector of light industry. In some regions of the Union member-states, he said, special clusters have been set up where textile and shoe companies successfully operate. Based on these platforms, joint projects with foreign partners can be launched to develop new productions, Sidorsky noted. Minister Cabral, in turn, hailed the potential of trade and economic cooperation between Portugal and the EEU, based on the Union's market benefits and investment conditions. Afterwards, Sidorsky suggested working out the issue of signing a memorandum of cooperation, with the Portuguese side supporting the proposed format. Also, the parties discussed possibilities of cooperation in the pharmaceutical industry and the production of medical products.

## *Thailand Expresses Interest in Agreement on EEU Free Trade*

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BNews.kz, 06.01.2016,

[http://bnews.kz/en/news/tamojennyi\\_soyuz/ekonomika\\_i\\_biznes/thailand\\_expresses\\_interest\\_in\\_agreement\\_on\\_eeu\\_free\\_trade-2016\\_01\\_06-1238425](http://bnews.kz/en/news/tamojennyi_soyuz/ekonomika_i_biznes/thailand_expresses_interest_in_agreement_on_eeu_free_trade-2016_01_06-1238425)

The ambassador of the Republic of Kazakhstan to the Kingdom of Thailand Marat Esenbayev held a meeting with the Minister of commerce of Thailand Apiradi Tantraporn. “During the negotiations, the party summed up the intermediate results of trade, economic and investment cooperation between Kazakhstan and Thailand in 2015 and discussed interaction prospects in 2016 in a bilateral, and multilateral format,” the message of Press Service of Kazakhstan Foreign Ministry read. The ambassador of Kazakhstan informed the Thai minister on the current social and economic development of Kazakhstan and noted prospects of development of the country within the Address of the Head of state “Kazakhstan in new global reality:

growth, reforms, development” and Plan of the Nation of “100 concrete steps”. Tantraporn noted that “Kazakhstan and Thailand have the high potential of expansion of interaction in the field of trade and investments”. The minister also congratulated Kazakhstan on the accession to the World Trade Organization and expressed intention to work under diversification of the trade and economic exchange between the countries.

The parties also discussed the opening possibilities of partnership within Economic Community of ASEAN (Association of Southeast Asian Nations) and the Eurasian Economic Union.

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