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## The Eurasian Economic Union: between co-existence, confrontation and cooperation with the EU

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## **The Eurasian Economic Union: between co-existence, confrontation and cooperation with the EU**

### **Introduction**

2015 was marked by the special event in the history of macro-level integration processes in the post-soviet space – creation of the new supranational integration structure of the Eurasian Economic Union (EEU). Initially comprising three former Soviet republics – Russia, Kazakhstan and Belarus and then extending to five member states with the accession of Armenia and Kyrgyzstan the EEU became the alternative center in Eurasia, that not only spurred the interest to the problematic of integration processes in the post-soviet, but also made the all parties concerned among the mighty regional actors to admit the fact of existence of the new structure as well as to defer with it.

First it matters the closest neighbor of the EEU – the European Union (EU), which is not only the biggest integration project ever but which is still highly regarded as most successful best practice of macro-level economic and political integration (Schäuble, 2012).

The creation of the Eurasian Economic Union, which stretches on the more than 1/5 of the Earth surface, forced the EU to preoccupy itself with the question of elaboration its policy towards the EEU and formulation of basic approaches to the interrelation with the newly created integration structure which long before its start was deemed both – partner and counterweight to the EU (*EvrAzijskiy*, 2014, p. 17–19).

### **Eurasian integration on the tips**

The EEU is mainly the product of economic integration within the traditional model of economic integration, which was elaborated by the Hungarian economics Bella Balassa in 1960-es. In accordance with it, the integration process comprises five major stages:

- 1) creation of the free trade area (FTA), which envisages the abolishment of the trade barriers;
- 2) the formation of the customs union, which comprises the FTA but also has the single external border;
- 3) the creation of the common market, where along with customs union there is the free transfer of products, services, capital as well as labor force;
- 4) the joint economic and currency union, which envisages not only functioning of the common market but also elaboration of the joint economic policy and introduction of single currency;

5) the formation of the political union, where alongside the joint economic and currency union there are joint security and law enforcement policy, joint structure of judiciary as well as joint citizenship (Balassa, 2013, p. 13).

The Eurasian Economic Union turns out to be the fourth stage of the economic integration (that derives from its name). But the most sparkling fact that passing the stages of the “integration ladder” up to the penultimate took only 15 years, whereas the economic integration in other cases was stretched for the decades (the brightest example is the EU). It can be attributed to the forced character of Eurasian integration or the Eurasian project, which always had the ambivalent role.

The idea of creation of the Eurasian Economic Union which could reintegrate the former soviet republics on the economic ground and thus enable to encompass the post-soviet space, was initially expressed by the president of Kazakhstan Nursultan Nazarbaev in 1994. His main argument was the creation of the economic union (Union of Eurasian States by analogy with the Commonwealth of Independent States) could guarantee the maintenance of the economic ties, which were formed in the Soviet period as well as create the new model of relationship between the post-soviet states, which core principle could be „economic pragmatism” (Nazarbaev, 2011).

But the realization of this idea as well as other integration projects within the post-soviet space wasn't accepted due to the wide-spread skepticism among many former soviet republics.<sup>1</sup> First it can be attributed to the „path-dependence problem” – malfunction of the integration structures, which were designed as substitute the USSR and were more politically rather than economically oriented thus being less flexible and effective.<sup>2</sup>

The second reason – the attempts of some post-soviet counties to distance themselves from Russia – the successor of the Soviet Union and dominant player in the post-soviet space.<sup>3</sup>

It took certain time and several unsuccessful attempts (for instance the Union State between Russia and Belarus) to reintegrate the post-soviet space before the process of Eurasian integration was put under way with the establishment of the Eurasian Economic Community (EurAsEC) in 2000.

The main function of this structure was not only to play the role of FTA but also to enable promotion of Common Economic Space (CES) – single-market entity, encompassing five former soviet republics – Russia, Kazakhstan, Belarus, Kyrgyzstan and Tajikistan – as well as effective start of Customs Union (CU), designed to bring the tariff regulation in different post-soviet states to joint standards (*EvrAzijskiy*, 2014,

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<sup>1</sup> Among other ideas/projects of the economic integration within the post-soviet space it should be mentioned the agreement of creation of the economic union within the Commonwealth of Independent States (1993), which didn't come into force due to the lack of ratification by the all CIS member-states.

<sup>2</sup> First of all, CIS, which was established in 1991 as successor of the USSR and comprised 11 former soviet republics.

<sup>3</sup> This trend found its embodiment not only in creation of the alternative blocs like GUUAM – the organization, comprising of 5 post-soviet states – Georgia, Uzbekistan, Ukraine, Azerbaijan and Moldova, which was created in 1997 but also in gaining of some post-soviet states of non-bloc-country status (like Turkmenistan).

p. 14). The premises for the creation of the EurAsEC was legal framework, passed in 1996 by the creation of the CU within the CIS.<sup>4</sup>

But due to different reasons the Eurasian Economic Community became only partially successful. Although the Common Economic Space didn't evolve into full-fledged working project (it was reestablished in 2012 under the name of Single Economic Space (SES)) the launch of the CU with the creation of all the necessary institutional structure, including the Commission of the Customs Union – the executive and regulatory body.

Moreover, formation of the legal framework (adoption of the Customs Code of the CU) as well as accomplishment of talks on technical issues, concerning the trade between member-states (Russia, Belarus, Kazakhstan) alongside the passage of the joint trade regulation, aimed at introduction of the joint technical and certification standards and the mechanism of redistribution of revenues, connected with the external tariffs, proved the effectiveness of the EurAsEC as integration structure.

The most important results of the functioning of the EurAsEC were the abolishment of customs clearance procedure of the goods in the mutual trade as well as enrollment and allocation of the import customs duties (*EvrAzijskiy*, 2014, p. 16).

In January 2010 the CU was formally launched with the adoption of the common tariff and non-tariff regulation between member-states. By July 2011 it got the full strength with the transfer of customs control of external borders of the CU to the newly created supranational body – Eurasian Economic Commission (EEC) – the successor of the Commission of the Customs Union as main executive body within.

The major function of the EEC was boosting economic integration within the Eurasia both – extensively and intensively. The Commission focused on the creation of the common customs territory as well as implementation of the SES, which eventually was put into force in 2012 and became the main achievement of the economic integration within the Eurasian project.

Besides the launch of the CU, which proved to be economic effective in the early stage of its functioning – mutual trade turnover rose 33.9% in 2011 – some founding members (especially Russia) were eager to step up integration process in the post-soviet space further by inclusion other former soviet republics (Eurasian Economic Commission...).

Prime goals of the integration aspirations, which were not only economically but sometimes also politically motivated, became such countries as Kyrgyzstan, Tajikistan, Armenia, Moldova and Ukraine. The extensive rather than intensive integration character of the Eurasian integration turned out to be the main direction of activity of the CU – trade bloc which comprises FTA with a common external tariff. Particularly the CU became the corner stone for the creation of the Eurasian Economic Union.

But given the long-standing skepticism among the post-soviet countries, wary about the real intentions of the CU (it was largely regarded as political rather than economic structure) as well as strained relationships between Russia and many post-soviet states (especially after conflict in Georgia in 2008) as well as active role of the third parties (first of all the EU, which initiated in 2009 the Eastern Partnership program (EaP),

<sup>4</sup> Among the countries, which signed this agreement were Russia, Belarus and Kazakhstan. Later it was also supported by Kyrgyzstan, Uzbekistan and Tajikistan.

aimed at promoting close cooperation with the post-soviet countries on the ground of creating legal framework the enlargement of the CU – the aim promoted largely by Russia – couldn't be name a story of success.

Among the post-soviet states alongside „the founding fathers” – Russia, Kazakhstan and Belarus – only Armenia and Kyrgyzstan opted to become the member-states of the new project of the Eurasian integration – Eurasian Economic Union, which was initiated in May 2014 by signing the treaty and came into force from 2015.

### **Conflict + compromise = cooperation?**

The “founding fathers” from the very beginning regarded the EEU as a „building block” designated to carry out the tasks of „global development” on a par with such structures as the EU, NAFTA, APEC and ASEAN (Popescu, 2014, p. 9).

Moreover it was designated to play the bridge role between the two main regions/spaces – Euro-Atlantic and Asian-Pacific (Putin, 2011).

First of all, in the economic sphere. Among the main goals of the EEU embedded in the founding treaty were: creation of conditions for comprehensive development of national (member-state) economies; improvement of living standards for the populace; formation of the single-market for goods, services, capital and labor resources within the union; comprehensive modernization, coordination aimed at improvement of the competitiveness of the national economies within the global economy (The Treaty..., art. 3).

All these goals do not contradict to the main principles of the Eurasian Economic Union, which were designed on the early stage of the Eurasian integration:

- expansionism within the post-soviet space (mainly extensive enlargement);
- cohesion and buildup of inner cooperation within the Union;
- institutionalization as supranational structure – establishment of economic and/or political contacts with different states and/or regional organizations;
- recognition as „building block” by different actors – states, international organizations;
- alliance-building as the next step of macro-level integration – formation of strategic alliances on supranational level.

In the case of alliance-building one should emphasize the fact that the EEU was designed as probable partner for the European Union and exploited the model of the latter. That is one of the reasons, why the EEU was to fulfill the „missionary function” as a „bridge” between the East and the West (Putin, 2011).

The latter can be attributed to the idea of Russian President Vladimir Putin – one of the „founding fathers” of the Eurasian Economic Union – about the creation a „harmonious economic community stretching from Lisbon to Vladivostok” (Putin, 2010). It made to think that the real goal of the creation of the EEU was establishment of the FTA with the EU.

By stressing the importance of the EEU as integration structure in Eurasia Putin mentioned „deep analysis” of the 40-year long integration experience of the EU and perspectives of its adaptation for the EEU (Putin, 2010).

But although the Eurasian Economic Union has some resemblances with its European counterpart differences between these two integrationist structures are more visible, not to say striking.<sup>5</sup>

And it couldn't be attributed only to the fact that the EU is well-established and long-standing structure, which proved its viability as economic and political actor whereas the EEU is unfledged and in many senses „loose” entity which has to prove its consistency for the years to come as well as different „weight-classes” between these organizations. But more important – to the very essence of the EEU and the EU as integrationist structures (Popescu, 2014, p. 13).

First it should be stressed that decision-making process within EEU is more sophisticated than one of the EU. It's four-tiered governance structure, including Supreme Eurasian Council – the main decision-making body, Eurasian Economic Commission – the main executive body, the Eurasian Intergovernmental Council (executive and legislative body) as well as Court of the Eurasian Economic Union (judiciary body) is more pyramidal and vertical concerning the decision-making process.

Practically all the decisions are carried out by the Supreme Eurasian Council, whereas the Eurasian Economic Commission – permanent structure – plays the minor and secondary role.

This contrast with more horizontal and diffuse governance organization of the EU, where not only the European Council (heads of EU member-states) and the Council of Ministers (ministers of the EU member states) as well the European Commission (the main executive body) and European Parliament (legislative body) are deeply incorporated into the decision-making process. Moreover, the huge part of the decisions, concerning the foreign policy, is carried out by the European Council, which plays the core role in the EU governance structure.

Second, although the EEU was designated to be union of the equals, in reality the inequality in decision-making process prevail. The dominate role plays the key member-state – Russia, which influences practically all the processes within the structure. And decision-making process is not the exclusion. Especially concerning the “outer agenda” – foreign policy of the EEU and the relationship with the third parties. This influence has the long-lasting history, dating back to the early days of existence of the Eurasian project.

For instance, during the early years the decision-making process was carried out on system of weighted voting, where Russia had 55% of the votes and Belarus and Kazakhstan 22.5% each, with decisions taken by two thirds of the votes. That system was subsequently dropped and the new one, based on the principle of unanimity between the member-states, introduced in 2007 after a row of inner conflict between the member-states of the Eurasian project (Popescu, 2014, p. 13).

But the division for „senior” and „minor” partners within the EEU is feasible up to the present day. Especially concerning the discussion of the accession of the new member-states.

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<sup>5</sup> For instance, the resemblance is visible not only in names of main governing bodies (EU – European Council, Council of Ministers, European Commission; EEU – Supreme Economic Council, Eurasian Intergovernmental Council, Eurasian Economic Commission) but generally in the decision making process (the consensus procedure).

For instance, Belarus and especially Kazakhstan are traditionally cautious in respect of accepting the new members without assessment of the economic and political impacts on the structure. And in general these countries are eager to focus on the development of the intensive integration as a prime goal of the EEU buildup. Whereas Russia was/is a vigor protagonist of the accession of the post-soviet states into the Union and extensive integration as the main direction of integration policy (Knobel, 2015, p. 92).

This contradiction in visions between EEU member-states about the mission of the structure constitutes the major difference between the Eurasian Union and the EU. In the Eurasian Economic Union, the political expediency frequently prevails over all other reasons (first of all economic efficiency). It makes the structure vulnerable and turns out to be major source of contradictions between member-states. During the relatively short period of functioning the EEU/CU – 2007–2016 there were a number of conflicting situations, which had mostly political reasons and contained the risk of derailing the whole Eurasian project.<sup>6</sup>

Among the most well-known is the opposition of Belarus and Kazakhstan to Russian attempts to turn the Eurasian Economic Union into the political organization (creation of the joint parliament) on a par with the EU instead of focusing mainly on the development of the economic cooperation, which could had have rather severe aftermaths for the EEU (Netreba, Butrin, 2013).

The latest and the most striking illustration of politically motivated contradictions between member-states of the EEU is the unwillingness of Belarus and Kazakhstan to support Russian „antisanctions” – the embargo on food products mainly from the EU introduced by Russia July 2014 in a response to the sanctions imposed by western countries in March–July 2014 over the conflict in Ukraine (Ljutova, Voronona, 2014).

It showed not only the deep rift between member-states in vision of handling the Ukrainian crisis but resulted in violation of common custom policy complicated by the problem of importing of the banned western „antisanctions” goods to Russia from the territory of the other EEU member-states.<sup>7</sup>

But the most disturbing point in this situation is the dominance of unilateral instead of multilateral (based on the unanimity of votes) approach towards decision-making process within the EEU which endangers the existence of this organization through the stirring up the inner competition between the member-states for having a “first hand” in the decision-making process.

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<sup>6</sup> It should be mentioned not only the so-called trade wars (for instance, „energy wars” and „milk wars” which Russia waged with Belarus in 2007, 2010 and 2014 but also confrontation between Russian and Kazakhstan over Kyrgyzstan accession. The latter was widely regarded as the hub for cheap Chinese goods (contrary to Kazakhstan, which became a member-state of the World Trade Organization (WTO) in November 2015, Kyrgyz Republic was the member-state of the WTO since 1998 and has low import tariffs, enabling the influx of goods from China).

<sup>7</sup> First of all from Belarus, it managed to increase its exports of food to the Russian market more than twofold. It is widely regarded as reexport of the European goods (See: *Belarus' stala glavnim beneficijarom rossijskih antisankcij*, RBC, 7 August 2015, <http://www.rbc.ru/business/07/08/2015/55c250db9a79478c7ff1ab42>).



Especially it is obvious in the situation of forming-up the relationship with the third parties – countries and regional blocs. Russia, which traditionally plays the role of the “senior” partner within the EEU and regards the “outer agenda” as the sphere of its sole competence prefer to promote bilateral (country-country) than multilateral (union-country) dialogue with the third parties. It is not only the conflicting point within the EEU but sometimes leads to the confusing situation. For example, on May 8 2015 Russia on behalf of Eurasian Economic Union signed an agreement with China, aimed at stirring up cooperation (conjugacy) between the EEU and the Chinese program “Economic Belt of the Silk Road”, aimed at the construction of the land transport corridors from western China to western Europe. Several days later Kazakhstan did the same by signing the agreement with China, envisaging the association of the “Economic Belt of the Silk Road” with its infrastructure project “Norly Zhol – Path to Future” (Gabuev, 2015).

This disregard of the position and opinion of the other members of the EEU and readiness to act unilaterally at the expenses of the “minor” partners is rather typical for the EEU external policy, which instead of heaving one voice have many of them. This is not only source of the inner conflicts within the union but endangers the process of handling the outer partners – they do not seem to regard the EEU as a full-fledged and institutionalized structure.

First it was demonstrated amidst so-called “sanction war” – mutual exchange of economic sanctions between Russia and the West in 2014. Failing to get support over imposing „antisafctions” and facing the opposition from Belarus and Kazakhstan Russia began to act unilaterally.

This made some experts believe, that there is the Russian monopolization of the external policy agenda of the Eurasian Economic Union (Dragneva, Wolczuk, 2015).

The „antisafctions” against the West as well as closure of the Russian market for the Ukrainian goods as a result of conflict over signing the Agreement of Association between Ukraine and the EU showed the weak institutionalization of the interrelations within the EEU, and prevalence of „political expediency” over existing legal framework (Dragneva, Wolczuk, 2015).

### **Geopolitical “heel of Achilles”**

Exactly the Ukrainian crisis became the first examination for viability for the EEU as integration structure, which highlighted different approaches of the member-states towards the Eurasian project.

Whereas for Kazakhstan and Belarus as well as for Kyrgyzstan the EEU is sheer economic project, aimed largely at the simplification of the trade and investment cooperation within post-soviet space (first of all Russia) and their approach can be described as geoeconomic, Russia regards the Eurasian Economic Union as a tool of institutional “binding” of the post-soviet space for largely political reasons (Maratalieva, 2016). In this respect the Russian approach towards the union can be called geopolitical and the main goal is reintegration (largely by extensive integration) of the post-soviet space into one entity.



The Russian approach, which is widely deemed as demonstration of its „neo-imperial” ambitions and vision of a country, which mission within the post-soviet space is to „assemble” the territories, in fact is connected with the specifics of the Russian geostrategic interests based of the principle of the “safe backyard” by creation of the different integration institutions even though their efficiency is rather dubious.

This statement can be illustrated by the Russian attempts to pursue the policy of “luring by subsidizing” towards the post-soviet states. It is relevant not only in case of the “old” member-states of the EEU as well as the union’s „newcomers” but also to the countries, which are to decide, whether they want to be members of the Eurasian Economic Union or not.

For instance, Armenia, which signed the treaty of accession to the EEU in October 2014 and got the full membership in January 2015, made it not only because geopolitical reasons (being in the “hostile environment”, the country needs military alliance with Russia) but also for economic reason. The South Caucasian country managed to negotiate not only huge rebates for Russian natural gas supplies but also was promised huge investments into infrastructure (*Armenij...*, 2013).

Nicu Popescu suggests that the gas rebates, achieved by Armenian authorities shortly after the formal accession were a disguised Russian „award” for the accession to the EEU as well as refusing to sign Association Agreement with the EU (Popescu, 2014, p. 23).

Initially the situation with political-bound subsidies was typical for the relationship between Russia and Belarus. Belarus leader Alexander Lukashenka not only managed to bargain huge rebates for Russian hydrocarbon supplies (especially lucrative were the supplies of Russian cruded oil, which was refined on Belarus refineries and then exported towards the EU) as well as stabilization credits for volatile Belarus economy.<sup>8</sup>

Moreover, due to the geographical location (close to the EU – main trade partner for the majority of the EEU member-states), Belarus manages to collect extra revenues by reexporting the goods to the markets of other EEU member-states, what makes it a sheer beneficiary of the Eurasian integration (especially given the situation with the Russian “antisanctions”).

But deterioration of the economic situation in Russia in 2013 as well as changes in Russian taxation system (introduction of so-called „tax maneuver”, connected with the export of hydrocarbons) endangered the additional „subsidies” for Belarus economy. The country is strongly dependant on the Russian energy supplies, which is one of the main sources of revenues for Belarus economy.<sup>9</sup>

According to the Russian economist Alexander Knobel, the so-called Russian “energy transfer” accounts for about 6–7% of GDP of the Belarus economy within the period 2011–2017 (table 1).

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<sup>8</sup> Within the last decade the Belarus economy experienced two major economic downturns – in 2011 and 2015.

<sup>9</sup> According to the Belarus statistic service, in 2014 they account for the 1/5 (about 3.9 bln USD) of all the export revenues of the Belarus economy.

Table 1

**Russian “energy transfers” as share of GDP of the EEU member-states\***

	2011	2012	2013	2014	2015**	2016**	2017**
Transfer to Belarus as % of GDP	10.0	14.0	8.3	7.7	5.0	4.5	4.0
Transfer to Kazakhstan as % of GDP	1.7	1.4	1.5	0.1	0.03	0.02	0.01
Transfer to Armenia as % of GDP				2.0	1.6	1.5	1.4
Transfer to the members-states of the EEU as % of Russian GDP	0.48	0.59	0.45	0.35	0.35	0.29	0.23
Transfer to the members-states of the EEU (USD, bln)	9.2	11.8	9.4	6.4	4.4	4.2	3.9

\* average oil price is 55 USD/bbl.

\*\* prognosis.

**Source:** A. Knobel, *Krisis i nalogoviy manevr kak ispitanie dlja EAES*, “Vedomosti” 17 May 2015, <https://www.vedomosti.ru/newspaper/articles/2015/02/17/integratsiya-ispitanie-eaes>.

Thus, the annual costs of the Russian policy of “luring by subsidizing” only y in case of energy resources was about 5–7 USD bln or about the 0.3–0.4% of GDP.

But in return of subsidizing the EEU Russia demanded not only the admission of its status of the “senior” partner but also the agenda-setting prerequisites, which comprises also the topic about the continuation of the integration – moving farther to the political union. But not only Belarus, but other EEU countries are very displeased by the constant Russian attempts to turn the EEU into political project (most conflicting point was introduction of the single currency).

Belarus even made the declaration about probable quitting from the union in case the political agenda prevails.<sup>10</sup> The tension was deescalated after Belarus managed to bargain the prolongation of the Russian duty-free oil supplies up to 2025.

But the political-motivated subsidies, which is not only the main instrument of Russian influence within the Eurasian Economic Union, but also the source of development of the EEU couldn't be guaranteed for the long-term period due not only the economic downturn in Russian but also certain political and geopolitical risks.<sup>11</sup>

They can contribute not only to the vulnerability of the EEU but also endanger further stable development of the organization making the question of viability of the Eurasian project the vital one.

Especially given the so-called „path-dependence problem” – a number of failed attempts to set up the Eurasian project.<sup>12</sup>

This viability issue along with conflict of interests between member-states due to different visions (geopolitical vs. geoeconomic) as well as botched image of the Union as a result of Ukrainian crisis, waning attractiveness amidst economic slowdown in

<sup>10</sup> For instance, Belarus President Lukashenka threatened to quit the Union in case „this entity is not economically worth for his republic”. (See: *Belarus' mozhet pokinut' EAES, esli Rossija ne perestanet podozrevat' ee v reeksporte*, Vesti.kg, 30 January, 2015, [http://www.vesti.kg/index.php?option=com\\_k2&view=item&id=32290&Itemid=79](http://www.vesti.kg/index.php?option=com_k2&view=item&id=32290&Itemid=79)).

<sup>11</sup> It should be mentioned not only “the odds”, connected with the Ukrainian crisis, but also the conflict in Syria.

<sup>12</sup> It should be stressed, that not only CIS, which turned out to be „bare shall” as political and economic structure, but also the established in 1996 but eventually stayed unimplemented „Union State” of Russia and Belarus.

Russia and lack of substantial resources turn out to be major risks for the EEU as a long-lasting project for the years to come.

Moreover, weighting the positive and negative factors for the structure one should admit the negative ones outweighs the positive factors. Amidst the latter – unique geostrategic location, historical and cultural affinity, human capital as well as huge economic potential.

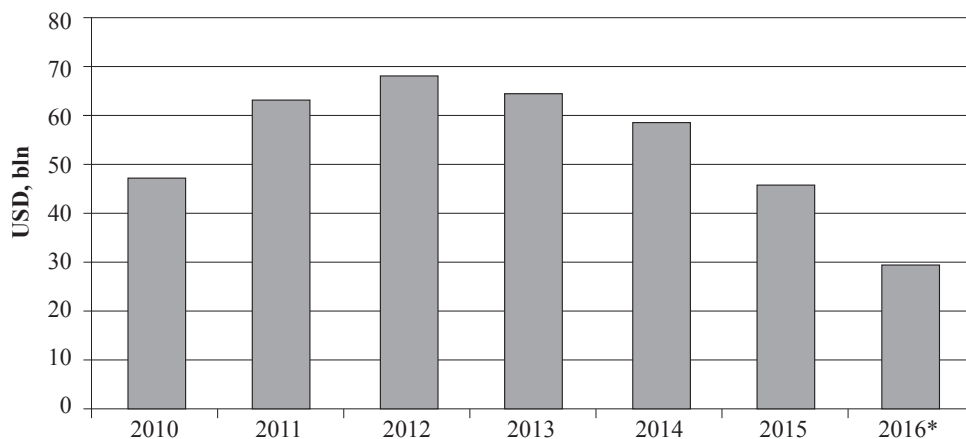
The major risk of for the time-being is waning attractiveness of the EEU due to the political „hard waters” (both internally and externally) as well as economic downturn in Russia – not only the major investor but also the biggest market within the EEU.

Deterioration of economic situation in Russia has not only the great impact on the economies of other EEU member-states given not only the huge interdependence but also more importantly spill-over (“domino principle”) effect.<sup>13</sup>

The waning of the Russian policy of “luring by subsidizing” forced EEU member-states not only to look for financing elsewhere (for instance, Belarus in November 2015 appealed to the International Monetary Fund (IMF) for granting stabilizing credits and Kyrgyzstan didn't receive previously approved credit for 3 bln USD), but contributed to the soaring economic ineffectiveness of the Eurasian Economic Union (Kudritski, 2015).

According to the data, provided by Eurasian Economic Commission, the volume of mutual trade within the EEU in 2015 decreased by almost 22%, gaining the lowest level since the introduction of the CU – 45.38 bln USD (year-on-year). In 2016 the situation is not going to be better – within the period January–September 2016 the volume mutual trade within the EEU barely exceeded 29 bln USD (decrease of 14.3%, year-to-year) (Evrazijskaya..., 2015, p. 2).

**Figure 1. The dynamics of the mutual trade turnover within the EEU/CU**



\* January–September 2016

**Source:** Eurasian Economic Commission

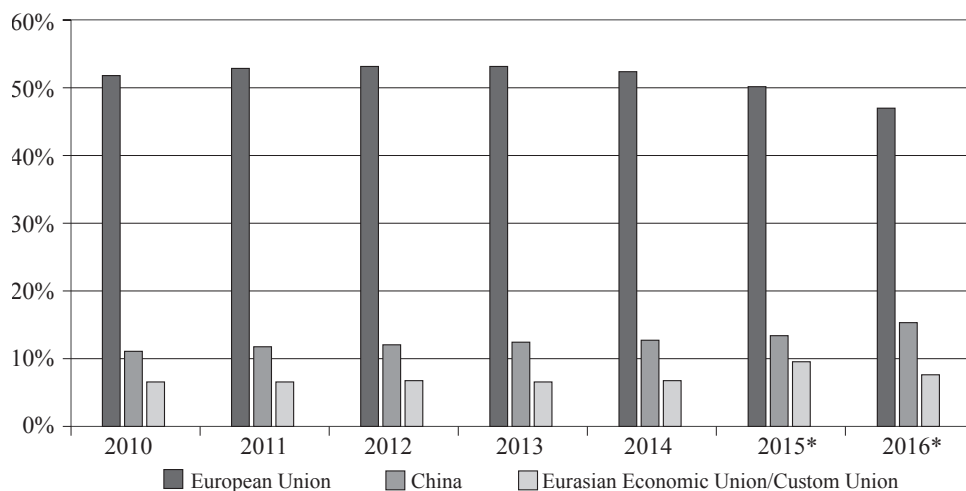
<sup>13</sup> For instance, the problem of devaluation of the currencies of the EEU member-states. According to the [www.netdania.com](http://www.netdania.com), within the period 2014–mid 2015 Russian ruble lost 118% of its value, Belarus ruble – 76%, Kazakh tenge – 64%.

The most affected were Belarus and Kazakhstan – their mutual trade volume only in 2015 shrank more than 32% (Evrazijskaya..., 2015, p. 2).

Paradoxically, the decrease in physical volume of mutual trade between certain member-states didn't result the sharp slump of the share of the EEU in combined mutual trade of the EEU. To the contrary, this share of the mutual trade significantly increased. According to the calculations, made on the data provided by Eurasian Economic Commission, in 2015 it gained 9.55%, whereas within the period 2010–2014 it didn't exceed the level of 6.5–6.8%. This can be partly explained by the huge slump of the physical volumes of trade as well as the attempts of some EEU member-states, for instance Belarus to facilitate the re-export of the European goods to the Russian market.

But more interesting is the increase of the share of mutual trade with the third parties. Especially with China – the country which after the EU became the biggest trade partner for the majority of the EEU member-states (Eurasian Economic Commission).

**Figure 2. The EEU: The dynamics of trade with the major trade partners (%)**



**Source:** Own calculations on data provide by Eurasian Economic Commission.

The reason of this growth is the reorientation of Russian external trade from the EU to China in accordance with the new trade policy of so-called “eastern vector” – stepping up the economic ties with China, which can be partly attributed to the sanction regime imposed of Russia.

The growing economic risks alongside the predominant “raw-material” economic model make the EEU vulnerable and dependent on economic situation from the position of certain member-states. The latter in their turn are dependent on the environment on the global financial and commodities markets.

Given the malevolent conjuncture on the global markets as well as surging geopolitical risks (continuing sanctions against Russia) the mid-term economic prospects for the EEU look rather sore. Even though there are the promising projects like aforemen-

tioned cooperation with the Chinese program “Economic Belt of the Silk Road” or the start of FTA with Vietnam.

This can substantially contribute to waning attractiveness of the structure. And not only to the potential “newcomers” but more important – to the current participants of the EEU.

Nonetheless the dominance of the negative factors doesn't mean, the Eurasian Economic Union couldn't handle the situation and prove itself as economic structure by establishing cooperation contacts with other actors. And especially with the European Union, which served not only as a pattern for the EEU but also is the closest neighbor, perspective partner and major competitor.

### **Tough dialogue vs. standoff?**

The competition between the EEU and the EU, especially in the post-soviet space is evident. It is due not only to the relative similarity of goals, resemblance in policies, as well as activities, but more the formula of the Eurasian Economic Union as effective counterweight to the European counterpart.

First it can be attributed to the position of Russia. Russian president Vladimir Putin in the first years of his presidency in the 2000-es tried to frame the constructive dialogue with the EU, designed to bring the EU and Russia closer to each other and elaborate the joint values.

The basis for this dialogue should be not only the legal framework, which was created under Putin's predecessor Boris Yeltsin but also the elaboration of the new legal and institutional framework.<sup>14</sup>

The latter emanated with the start of the project of so called „Four Common Spaces” between Russia and the EU in 2002.<sup>15</sup>

Among these „spaces” the most significant sphere for cooperation between for both sides became economics, which eventually managed to succeed whereas other spaces largely were not a success due to the different vision as well as action of bunch of internal and external factors. Among the internal one should single out the unreadiness of both – Russia and the EU for closer cooperation given the huge discrepancies and differences in approaches towards bilateral cooperation as well as political values.

The external factor is strongly connected with the activity of the EU in the post-soviet space, which was always regarded by Russia as “backyard” and the space of geostrategic interests.

The most sensible and conflicting point in the relationship between Russia and the EU, which contributed to the change of perception, became the so-called „Or-

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<sup>14</sup> The cornerstone of the EU-Russia cooperation is framework agreement (Partnership and Cooperation Agreement), which was signed in 1994 and came into force in 1997. There are also a number of binding agreements, connected within the Russian membership in the Pan-European structures (for instance, European Social Charter, which was signed by Russia in 1996 amidst accession to the Council of Europe).

<sup>15</sup> The „Four Common Spaces” project was designed to set up the EU-Russia cooperation in four spheres – economic, humanitarian, security and social.

ange Revolution” in Ukraine in 2004. Some experts stress the significance of this event for the bilateral relations, calling it „the Russian 9/11” (Krastev, Leonard, 2014).

From the perspective of the Russian authorities the political crisis in Ukraine, which resulted the victory of pro-western forces, was co-orchestrated by the EU and set up the dangerous precedent. It not only evoked the “spill-over effect” – the attempts of so-called „color revolutions” in the post-soviet republics (so-called “tulip revolution” in Kyrgyzstan in March 2005, Andizhan events in Uzbekistan in May 2005) but endangered the political stability in Russia.

The influence of internal and external factors (separate or combined) led to the gradual curtailing of the cooperation between Russia and the EU in political sphere, which started in 2005.<sup>16</sup>

The Russian president Putin stopped portraying himself as „European” and start to put forward the idea of „special way” of development of Russia as integral part of Eurasia given the cultural and historical background.

This folding of relations between Russia and the EU stood in line with the vigorous Russian attempts to bolster the Eurasian project (the start of the Customs Union in 2007), which shortly after it's initiation became the mainstream of the Russian foreign policy.

The curtailing in relations between Russia and the EU accelerated in 2007–2009 after the so-called „energy wars” with Ukraine as well as military conflict in Georgia in July 2008.

But the main incentive to circumscribe the cooperation with the EU was given after the start of Eastern Neighborhood Policy (ENP) initiative – Eastern Partnership (EaP).<sup>17</sup> It was designed to bring six post-soviet countries – Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine closer to the EU by signing *acquis communautaire* – legal framework of the EU in form of Association Agreement.

Russia, which was initially invited to take part in the EaP-program but refused due to the lack of „proper treatment”, regarded the activity of the EU towards the former soviet republics not only as an obvious challenge for its foreign policy aimed at reintegration of the post-soviet states but a crossing the “red-lines” on a par the enlargement of NATO. The situation was substantially complicated given the fact, that among the countries, which put forward the EaP-initiative was Poland – the country, Russia traditionally has tense political relationships with.

The obvious reply on the action of EaP-program which was regarded as a tool of European “soft-power”, was underpinning the development of the Eurasian project and “wooing” the post-soviet countries by using the political motivated subsidies as

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<sup>16</sup> Among the Russian elite is a wide-spread vision of the EU as „artificial structure” prone to serve the US interests. That’s why Russia during the tended to establish the direct bilateral contacts with different EU member-states. This became the basic practice after a row of serious conflicts concerning energy issues and especially after the start of Ukrainian crisis, where the EU played the important role.

<sup>17</sup> The Eastern Partnership (EaP) – EU-program, launched in 2009 at the EU Prague Summit and designed to bring East European counties among post-soviet states closer to the EU. The EaP program designed to support and encourage reforms in 6 post-soviet countries.

a “carrot” aimed at enhancing the attractiveness. The main goal of this action was to force neighboring states to choose the Eurasian project.<sup>18</sup>

But the policy of “luring” the former soviet republics to join the Eurasian project succeeded only partly. Namely with the accession of Armenia into the EEU as well as blocking the talks between the EU and Belarus and gaining non-bloc-country status for Azerbaijan.<sup>19</sup>

On the other hand, the EaP-program also wasn't a success – amidst six post-soviet states only Moldova, Georgia and Ukraine managed to sign and ratify the European *acquis communautaire*.

The major setback for the Russian aspirations to reintegrate the post-soviet space on the ground of the Eurasian project became Ukraine. Russia endorsed a lot in luring Ukraine to opt for the Eurasian project.<sup>20</sup> But politics of so-called „multi-vectorness” which Ukraine traditionally pursues for the long time as well as miscalculations made by the Ukrainian government led to the unexpected aftermaths. Pushed not only by Russia but also by the EU to define its position towards the integration process („either-or” situation – either blocking with the CU or signing the Agreement of Association with the EU) Ukraine got into the political crisis, which resulted not only in the collapse of the regime of president Viktor Yanukovich but also in territorial losses as well as breaking out of the military conflict in Eastern Ukraine.

The latter led to deterioration and substantial freezing of relationship between the EU and Russia, also putting on the ice the idea of elaborating the basis for cooperation between the European Union and the Eurasian Economic Union (than Customs Union).

### **Cooperation between the EU and the EEU: the mission is possible?**

The first step towards this was made in 2009, when the French president Nicolas Sarkozy within the EU-Russia summit in Paris spoke out for the creation of pan-European security plan, envisaging more close cooperation with Russia-led Eurasian structures (*Sarkozy backs...*, 2008).

In 2010 followed the proposal by Vladimir Putin to create the common economic space which could encompass the territory of Europe and Eurasia („from Lisbon to Vladivostok”).

But although the idea looked very promising not only in economic (creation of the biggest FTA ever, good synergy effect (European technologies+Eurasian resources),

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<sup>18</sup> For instance, this” stick and carrot” policy was used to Republic of Moldova, which in 2013 didn't refuse to sign the Agreement of Association and faced the stiff Russian sanctions on agricultural products and wine.

<sup>19</sup> Despite accession to the EEU, Armenia has still the open door for the talks about Association Agreement with the EU. The negotiations concerning forging the agreement are underway since December 2015.

<sup>20</sup> The well-known episode of Ukrainian crisis in its initial phase is Russian proposal to provide the financial assistance in amount more than 15 bln USD for the scrambling Ukrainian economy, which was put forward in December 2013 after the collapse of EU-Ukrainian talks about the signing the Association Agreement within Vilnius summit of the Eastern Partnership in November 2013.



huge logistics potential) but also in political sense (deep strategic partnership could gradually lead to the elaboration of the common values) the European authorities as well as national leaders of the EU member-states were reluctant to push forward the idea of forging the joint project with unfledged Eurasian project – Customs Union.

Some researchers point out to the three major obstacles on the way of formal commencing the dialogue between the EU and the EEU (Dragneva, Wolczuk, 2015):

1. Technical problems. To the moment of Putin's „historical” proposal none of the member-states of the CU (then the EEU) had the WTO membership. This hampered the technical start of talks. In July 2012 Russia assessed to the WTO. In October 2015 Kazakhstan also got the full membership within the organization. But for the time-being there is a problem of Belarus as non-WTO state. And Belarus chances to achieve the full membership within the WTO in the nearest future are minimal (Dragneva, Wolczuk, 2015).
2. “Design flaws” of the Eurasian project. It should be attributed to the unclear division of competences within the EEU, rather vague decision-making system as well as dominance of „manual governance” and unilateral approach, exerted by some member-states (for instance Russia). It has the negative impact on the image of union, making the potential partners to regard the EEU as “artificial” and not “viable” structure.
3. Efficiency problem of the EEU. At the moment there is a limited extent to which the Eurasian integration contributed to trade liberalization and effective compliance with the WTO rules (the work over the Customs Code the EEU is still underway). In other words, the economic efficiency of the EEU as integration structure as well as its compliance with the rules of international trade, provided by the WTO, at the moment are not clear. And this stampedes the elaboration of the position of the EU towards EEU, which is regarded as not fully institutionalized structure.

After the start of the Ukrainian crisis the fourth obstacle could be added – the lack of mutual trust and political will to start the talks with the structure, which is strongly associated with Russia, which in its turn is strongly involved in the Ukrainian crisis and was widely regarded as unwelcome partner for the EU.

Exactly the Ukrainian crisis at the moment is the main obstacle for the start of talks between the European and Eurasian structures. As EU made position clear with the words of the EU trade commissioner Cecilia Malmström that “entering into trade agreements with Russia (amidst Ukrainian crisis) is not appropriate” (*EU not ready...*, 2014).

Thus, the EU trade commissioner responded to the statement made by the German Chancellor Angela Merkel during the G-20 Summit in Brisbane in November 2014 about readiness „for talks between the Eurasian Union and the EU on trade issues” (Wagtyl, Khalaf, 2014).

But despite the rigid official position of the European Union towards the Russia-led Eurasian Economic Union given the ongoing Ukrainian crisis as well as a bulk of technical problems there are more and more signs about the growing intentions of the EU to establish the contacts with the Eurasian structures.

One of the most evident is proposal made by the head of the European Commission Jean-Claude Juncker in November 2015 in the letter addressed the Russian president

Vladimir Putin to start talks between EU and the EEU about establishment of trade relationship „once the aim of implementation of so called Minsk agreement, envisaging the end of the military conflict in the Eastern Ukraine, is achieved” (Syta, 2015). This proposal was reiterated during the Economic Forum in St. Petersburg in July 2016.

But it is still the open question, whether the end of the Ukrainian crisis could open the door for start of the dialogue between the EU and the EEU given the huge bulk of problems and contradictions between two institutions. At the moment there are three major scenarios of the development of the situation, which, figuratively speaking, can be called “3C” – co-existence, cooperation, confrontation.

The co-existence scenario is the basic one. It anticipates the continuation of the current status-quo – absence of the formal relationships between the EU and the EEU with sporadic intentions to start the dialogue („somehow” and „somewhere”), without any precise timings and certain preconditions. Due to the dominance of political factors this scenario, which Ivan Krastev and Mark Leonard named „co-evolution” is most likely to realize (Krastev, Leonard, 2014). The realization of this scenario also suggests the continuation of reintegration policy in the post-soviet space with the accession of new member-states. But the main emphasis will be made on the intensive over extensive integration.

The confrontation scenario at the moment looks rather unlikely, due not institutionalized relationship between the two institutions. Although there are the certain premises for deepening the contradictions between the EU and some EEU member-states. The confrontation between the EU and the EEU presupposes not only freezing of any contacts between the structures but active „proselytism race” – sharp competition between the EEU and the EU for the newcomers and attempts to uphold the current member-states. First it should be attributed to the EEU, which is not so good institutionalized, is handicapped of the soft-power and therefore more vulnerable. Given the current economic downturn in Russia, which also inflicts economic hardships on other EEU member-states (diminishing economic growth, currency devaluation, lack of credit resources), due to their dependence on the Russian market, the situation when Belarus and Kazakhstan tend to contemplate to quit the EEU and/or defect to “other camp” seems not so unrealistic.

The cooperation scenario, which is at the moment most unlike, given the fact, that the structures have different values and vision of the further development as well as the lack of political will, needed to overcome the obstacles and to set up joint agenda. It suggests the start of active dialogue between the EU and EEU by setting the broad agenda and discussing all the issues, concerning not only economic (basic outlines) but also political cooperation. The realization of this scenario presupposes the elaboration of the precise preconditions as well as setting the timings for the start of the talks. The core element of these negotiations should be the the major outlines – institutionalization of relationship, elaboration of the common principles for neighborhood policy as well as harmonization of technical regulation and trade policy between the two structures.

But the full-fledged cooperation between the EU and the EEU would demand not only resolving minor technical problems (the WTO membership for Belarus) but establishing the atmosphere of trust between the competing parties. Moreover, it pre-

sumes giving up the geopolitical aspirations by certain member-states of the EEU (thus turning it into sheer economic vehicle) and changing the manner of functioning of the Eurasian Economic Union, turning it into more transparent and in all senses democratic entity. The eventual goal is establishment of the common values and creation not only Pan-European FTA but also the start of large-scaled dialogue, encompassing all the spheres. But if this could be done, it would be done in the long-term perspective.

### Conclusion

The start of the dialogue between the EU and the EEU could be not only „a beautiful idea” but a logical step in the development of the macro-level integration processes in Eurasia. Especially given the huge potential for cooperation between the structures. Moreover, this cooperation matches the interests of both parties.

There are plenty of reasons to cooperate – not only economic, but also social and political. But despite all the evident pluses of the cooperation the start of the dialogue between the European and Eurasian structures in the short- and medium-term is rather unlike, given a huge bulk of political problems.

At the moment the most obvious scenario is co-existence – upholding the current status-quo due to the tense relations between the EU and Russia, lack of political will as well as absence of common values in general.

Moreover, contemplating the start of active dialogue, which can be turned into full-scaled cooperation one should always take into account other risks. And majority of them are connected with the Eurasian structure.

From our perspective, there are two major risks, which are be optimized.

The first one is viability issue, due not only to the relative youth of the EEU but also evident conflict of interests within the structure, what put the sustainable development of the Eurasian project at risk.

The second risk derives from the dominance of certain member-states within the EEU, prevalence of “unilateral approach” as well as attempts to use economic structure as an instrument for achievement the certain geopolitical goals. That not only negatively affects the functioning of the Union (first of all diminishing economic effectiveness) but also decreases its attractiveness both – inward and outward.

Only by optimizing these risks there is a chance for appearance of premises to set up joint agenda between the EEU and EU and to start dialogue, which effectiveness will depend on the political and economic processes both in Europe and the post-soviet space.

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### Summary

The article analyses integration process in the post-soviet space as well as Eurasian Economic Union (EEU) as a product of Eurasian integration. The EEU as newly created integration structure has a problem of finding the suitable form of interrelations with the European Union – the biggest integration structure ever.

The issue of finding common grounds between the EEU and the EU especially important given the fact that the Eurasian Union is a bloc led by Russia – one of the biggest European trade partner and long-standing political counterpart, which within a couple of years is at odds with the EU due to the political problems, connected with the Ukrainian conflict as well as the geopolitical tension between Russia and the West.

The start of the dialogue between the EU and the EEU, which has the certain potential, seems rather unlikely to place in short- and medium-term perspective. In order to start the dialogue both parties have to solve not only economic issues (institutionalization of relationship, harmonization of trade), but also improve political agenda by starting to elaborate a joint agenda.

The main point for the time being: the interrelationship between the EEU and the EU could evolve within the co-existence scenario, which envisages maintenance of the current status-quo – noninstitutionalized relationship. In order to change it as well as to single out the appropriate approach for framing the future relationship with the Eurasian Economic Union the European Union should take into account many factors, putting the special emphasis on the Russia's role within the EEU as well as conflicting nature of Eurasian project, which is only to prove its viability as integration structure.

**Key words:** Eurasia, Europe, Eurasian Economic Union, European Union, integration, cooperation, post-soviet space, Russia, geopolitics, geoeconomics, co-existence

### **Euroazjatycka Unia Gospodarcza–Unia Europejska: pomiędzy koegzystencją, konfrontacją i współpracą**

#### **Streszczenie**

Autor w artykule analizuje proces integracji w przestrzeni poradzieckiej zwłaszcza w formule Euroazjatyckiej Unii Gospodarczej (EEU). Przedmiotem analizy jest sposób w jaki nowo utworzona struktura integracyjna zamierza określić swoje powiązania z najważniejszą organizacją świata zachodniego – Unią Europejską. Kwestia znalezienia wspólnej płaszczyzny porozumienia i współpracy jest niezmiernie istotna ponieważ to Rosja jako główny komponent EEU jest jednym z najważniejszych partnerów Unii Europejskiej zarówno pod względem gospodarczym jak i politycznym. Nie sprzyjają tej kooperacji geopolityczne napięcia, zwłaszcza te związane z konfliktem na Ukrainie. Istnieje duży potencjał współpracy pomiędzy tymi dwoma organizacjami, ale rozpoczęcie dialogu uzależnione jest od rozwiązania przez obie strony nie

tylko problemów gospodarczych (instytucjonalizacja relacji, harmonizacji handlu), ale również od przygotowania odpowiedniej agendy politycznej. Wzajemne powiązania pomiędzy UE i EEU mogą ewoluować w scenariuszu współistnienia, który zakłada istnienie przede wszystkim obecnego status quo przy braku instytucjonalnych powiązań. Aby to zmienić i odpowiednio ukształtować wzajemne relacje w przyszłości, UE musi wziąć pod uwagę wiele czynników, kładąc nacisk na szczególną rolę Rosji w tym ugrupowaniu i udowodnieniu przez EEU celowości swojej egzystencji jako struktury integracyjnej.

**Słowa kluczowe:** Euroazja, Euroazjatycka Unia Gospodarcza, Unia Europejska, integracja gospodarcza, obszar postsowiecki, Rosja, geopolityka, koegzystencja