



The Future of the

EURASIAN ECONOMIC UNION

By Katia Glod

The Eurasian Economic Union (EAEU) was established in 2015 and incorporates five countries of the former Soviet bloc—Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia. The declared goal of the project was to create a common market with 180 million consumers, coordinate economic policies, and eliminate non-tariff barriers. The idea behind the EAEU was to revive the economic ties that had broken down when the Soviet Union dissolved by facilitating better growth and more trade. Its member states claimed that the EAEU would emulate the European Union (EU) by adopting a system based on clear and transparent rules to promote free trade. The reality, however, is proving different. So far, the EAEU has failed to transform into a full-fledged economic union. Many outstanding issues require greater political will from the member states to work out common approaches and practices.

THE DIVERGING INCENTIVES OF THE MEMBER STATES

Despite their declared ambitions, it was clear from the outset that the EAEU's members had diverging agendas to pursue. For Russia, the EAEU served as a geopolitical platform to promote global ambitions such as reasserting its sphere of influence to the West and reshaping the architecture of Eurasia. For example, the country has claimed that the EAEU's market could eventually merge with that of the EU, thereby transforming both into a

single economic space "from Lisbon to Vladivostok."⁹² Russia has also promoted the EAEU as a counterpart to China's growing influence in the region, particularly its Belt and Road Initiative.

The other member states were simultaneously dependent on Russia—politically, economically, and security-wise—and wary of its wish to flex its muscles. Belarus, for instance, relied on Russian energy and direct financial subsidies, as well as the Kremlin's backing of Alyaksandr Lukashenka's authoritarian regime. The government in Minsk expected that Belarus' membership in the Union would mean paying less for Russian oil and gas and having better access to Russia's large consumer market. Armenia, for its part, hoped for Russia's protection in a potential military conflict with Azerbaijan, while Kazakhstan saw the EAEU as a counterbalance to China's inroads into Central Asia. Finally, Kyrgyzstan depended on remittances from its workers in Russia. All of the member states hoped that the EAEU would, to some degree, constrain Russia within a rules-based system.

In other words, it was too risky for the member states to eschew the EAEU. Being part of the Union also served their national interests. As a result, however, a sincere commitment to the central goal of deep economic integration within the bloc has been lacking. This has also served as the ultimate cause of this project's stilted progress and multiple setbacks. It certainly does not



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suggest a very promising future; while the EAEU will probably stumble on, it is unlikely to meet the ambitious agenda set out at its inception or deliver tangible economic benefits.

A lack of commitment to deep economic integration and emphasis on national bargaining explains the EAEU's weak institutional design. This reality is responsible for the EAEU's inability to remove barriers to and restrictions from free trade. As a result, its policies have only made a moderate economic impact. For example, although mutual trade between EAEU members increased from 2015 to 2018 by 23.6 percent, it was still 5.4 percent lower than that between the same countries in 2014.⁹³ Even more striking is the fact that the EAEU's internal trade during that period remained at the same low level of 13.5 percent of its members' total trade.⁹⁴

EXTERNAL TARIFF AND REVERSALS IN COMMON TRADE POLICY

The obstacles to real economic benefits in the EAEU are inconsistent tariffs, non-tariff barriers, and the lack of a unified trade policy. Notably, all of these factors curtail the free movement of goods. Both Belarus and Kazakhstan had to increase their import tariffs to bring them in line with those of Russia when the three countries formed the

Customs Union—the EAEU's predecessor—in 2010. This significantly reduced Belarus' and Kazakhstan's imports from third-party countries and stirred up domestic public discontent.⁹⁵

There are still a great number of exemptions in the EAEU's external tariff regime. Although those toward Armenia and Kyrgyzstan should be phased out by 2022, Kazakhstan's lower import tariffs—negotiated during the country's accession to the World Trade Organization (WTO)—are due to stay indefinitely.⁹⁶ Instead of synchronizing the EAEU import tariff with those of Kazakhstan's, the EAEU banned the export of goods imported to Kazakhstan at a lower tariff to the rest of the EAEU. This effectively re-introduced barriers within the EAEU internal market.

Russia's unilateral embargo on the import of EU and Ukrainian food products following Western sanctions against its occupation of Crimea in 2014 is the most striking example of a breach in the EAEU's common trade policy. None of the EAEU member states supported Russia's embargo, which impaired the transit of Ukrainian goods through Russia to Kazakhstan and Kyrgyzstan. In retaliation, Russia introduced the patrolling of foodstuffs by its food safety agency, Rosselkhozadzor, at the Belarusian and Kazakhstani borders. The rules and transparency of this patrolling have been disputed by stakeholders in both countries and resulted in de facto exemptions to free trade on the basis of alleged violations of food safety standards.

NON-TARIFF BARRIERS

Non-tariff barriers—which include technical standards, sanitary and phytosanitary norms, competition, and public procurement issues—are perhaps the main obstacles to free trade within the EAEU. Although the alliance has an ambitious regulatory harmonization agenda, many technical standards, particularly those relating to food safety, remain inconsistent in practice across the member states. There is often little political willpower to bring them into conformity. Member states want to maintain flexibility in their policies at the supranational level. They may also prefer to rely more on high-level bargaining with Russia than committing to unified rules. Notably, the Union Treaty states that the integration "respects the specificities of the political order of its member states."⁹⁷

The Eurasian Economic Commission (EEC), the executive body managing EAEU integration, lacks the power to enforce regulatory compliance or penalize member states in case of noncompliance. Furthermore, although the Union Treaty entitles the EEC to develop and harmonize standards, the fact that compliance monitoring, supervision, and assessment are carried out at the national level means that discrepancies prevail. Examples include frequent bans of products manufactured by one member state into another, such as "milk and meat" wars between Belarus and Russia or "potato" wars between Kazakhstan

and Kyrgyzstan.⁹⁸ These disputes undermine trust in the EAEU and further erode member states' commitment to deeper integration.

THE PROSPECTS OF COMMON AREA MARKETS

The weakness of the EAEU's institutions and a lack of genuine commitment to economic integration has cast doubt on the organization's potential to live up to its aspirational agenda. Goals include harmonizing policies across sectors (i.e. transport, public procurement, financial services) and creating common markets without internal barriers in sensitive areas such as electricity, gas, oil, and the digital sphere. Member states are reluctant to relinquish control over these areas, signalling that any progress will likely be gradual. For example, the creation of a common market in pharmaceuticals and medical equipment, which started in 2017, will not be fully completed at least until 2026.⁹⁹ Yet this market has already damaged the EAEU's reputation among member states. For instance, certain European and American drugs popular within the EAEU have become more difficult or expensive to acquire, as they have been replaced with alternatives produced in the EAEU.

Setting up a coordinated energy policy and common market in oil and gas are particularly challenging due to the uneven distribution of energy resources within the EAEU. Since Kazakhstan and Russia are net exporters of energy while the rest of the member states are net importers, the chances of agreeing on trading and transit prices and rules, as well as non-discriminatory access to infrastructure, look slim. The current pace of integration in this field does not suggest that a common market will be established by 2025 as planned. In Belarus, access to Russian energy is essential in ensuring the competitiveness of its products, as Belarusian manufacturers are heavy gas consumers. Yet the government was openly told by Moscow at the end of 2019 that Russia's domestic-level price for oil and gas could only be given to Belarus on the condition of deeper political integration with Russia.¹⁰⁰ Similarly, Russia refuses to grant Kazakhstan access to its oil pipes to transfer its crude oil to Belarus.

Evidently, when Russia's interests are at stake, it ignores constraints of the common regime. Russia dominates the EAEU, even though a degree of formal power-sharing is enshrined in its treaty. At the same time, the EAEU is serving Russia's geopolitical ends in its present form, and Russia appears uninterested in making the agreement more effective.

INTERNAL LABOR MIGRATION

One area in which the EAEU has achieved some success is improving conditions for internal labor migration. In theory, member states' citizens can work in any of the EAEU countries without requiring a work permit for most professions. They are also entitled to the same social security rights—such as basic medical care, education for members of the family, and tax residency—as the nationals of the recipient country. In practice, however, questions over the recognition of educational certificates and medical care still exist. There are also issues over the often negative public attitudes toward migrants

that recipient countries seem unwilling to tackle. The distribution of migrants within the EAEU is also highly disproportionate—Russia receives approximately 97 percent of migrants, Kazakhstan receives 2 percent, and the rest of the countries receive less than 1 percent.¹⁰¹ These concerns curtail the smooth functioning of a labor market within the EAEU.

CONCLUSION

The EAEU has yet to achieve its stated goals. As its member states (particularly Russia) want the Union to stay, the project will likely continue. The success of the Union will depend on the strengthening of its institutions at both the national and supranational levels, as well as tackling non-tariff barriers and working out unified approaches to common policies. Above all, EAEU member states need to acknowledge the benefits of and commit to deeper economic integration and a rules-based system. Unfortunately, this is unlikely to happen any time soon.

⁹⁸Vladimir Putin, "Von Lissabon bis Wladiwostok," *Süddeutsche Zeitung*, November 25, 2010, <https://www.sueddeutsche.de/wirtschaft/putin-plaedoyer-fuer-wirtschaftsgemeinschaft-von-lissabon-bis-wladiwostok-1.1027908> (accessed April 5, 2021).

⁹⁹Jurij C. Kofner, "Did the Eurasian Economic Union Create A Common Domestic Market For Goods, Services, Capital and Labor?," *Blogactiv*, October 30, 2019, <https://12v.blogactiv.eu/2019/10/30/did-the-eurasian-economic-union-create-a-common-domestic-market-for-goods-services-capital-and-labor/> (accessed February 22, 2021).

¹⁰⁰Jurij C. Kofner, "Did the Eurasian Economic Union Create A Common Domestic Market For Goods, Services, Capital and Labor?," *Blogactiv*, October 30, 2019, <https://12v.blogactiv.eu/2019/10/30/did-the-eurasian-economic-union-create-a-common-domestic-market-for-goods-services-capital-and-labor/> (accessed February 22, 2021).

¹⁰¹Zarina Kozybaeva, «Первые результаты Таможенного союза: В Казахстане ожидают роста цен» [The first results of the Customs Union: Kazakhstan expects prices to go up], *Deutsche Welle*, January 13, 2010, (accessed April 5, 2021).

¹⁰²«Импортные пошлины в РК будут ниже единого таможенного тарифа ЕАЭС – Ж.Айтжанова» [Import customs duties in the Republic of Kazakhstan will be below the single customs tariff – Zh.Aitghanova], *Yurist*, https://online.zakon.kz/Document/?doc_id=36772869#pos=3;-80 (accessed April 5, 2021).

¹⁰³"Treaty On the Eurasian Economic Union (signed in Astana 29.05.2014, edition of 01.10.2019)," Article 3, *KonsultantPlus*, http://www.consultant.ru/document/cons_doc_LAW_163855/f522b-c8a58357bd36f913d4c94e11cb76231d9e2/ (accessed February 22, 2021).

¹⁰⁴Vitali Silitski, "The milk spilt by the milk war," *Politico*, June 24, 2009, <https://www.politico.eu/article/the-milk-spilt-by-the-milk-war/>. Zhavkat Turgayev, «Картофельная война закончилась, сколько потеряли фермеры?» ["Potator war" is over, how much did farmers loose?], *Nastoyashee Vremya*, June 2, 2016, <https://www.currenttime.tv/a/27774119.html> (accessed April 5, 2021).

¹⁰⁵Jurij C. Kofner, "Did the Eurasian Economic Union Create A Common Domestic Market For Goods, Services, Capital and Labor?," *Blogactiv*, October 30, 2019, <https://12v.blogactiv.eu/2019/10/30/did-the-eurasian-economic-union-create-a-common-domestic-market-for-goods-services-capital-and-labor/> (accessed February 22, 2021).

¹⁰⁶Andrey Yeliseev, «Кремль подтвердил свой ультиматум для Лукашенко: Поддержка в обмен на суверенитет» [The Kremlin reiterated its ultimatum to Lukashenko: Subsidies in exchange for sovereignty], *Reform*, December 24, 2019, <https://reform.by/kreml-podverdil-svoj-ultimatum-dlja-lukashenko-podderzhka-v-obmen-na-suverenitet> (accessed April 5, 2021).

¹⁰⁷Jurij C. Kofner, "Did the Eurasian Economic Union Create A Common Domestic Market For Goods, Services, Capital and Labor?," *Blogactiv*, October 30, 2019, <https://12v.blogactiv.eu/2019/10/30/did-the-eurasian-economic-union-create-a-common-domestic-market-for-goods-services-capital-and-labor/> (accessed February 22, 2021).

Katia Glod is a fellow with CEPA's Russia program. As an independent analyst and political risk consultant based in London, she advises on the politics and economics of former Soviet countries. Glod has worked as the Belarus consultant for the European Endowment for Democracy in Minsk and as an election observer and analyst for OSCE countries, including Azerbaijan, Kyrgyzstan, Ukraine, Albania, and North Macedonia. She was previously a Robert Bosch Academy Fellow on the Russia and Eurasia Programme at Chatham House in London. She has also managed research projects on labor migration and public attitudes for the Eurasian Development Bank in Russia and Kazakhstan.

Glod's research interests include political economy in the former Soviet countries; the EU's Eastern Partnership; Russia's policy towards former Soviet countries; and energy markets in former Soviet countries. Glod holds a Master's degree in European Politics from Sussex University, and a BA in Humanities from the University of North Dakota.