Eurasian Integration: The Next Stage

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In one form or another, re-integrating the states of the former Soviet Union has been on Russia’s agenda almost since the moment the Soviet Union collapsed. In recent years though, integration has moved to center stage not only in relations between Moscow and its post-Soviet neighbors, but in Russia’s relations with major outside powers as well. Among the rapid development and expansion of Eurasian institutions, the future remains murky, both with regard to the actual shape of the institutions themselves, and their affect on relations between member states and the outside world.

The Customs Union, a contested mechanism

The Russia-Belarus-Kazakhstan Customs Union came into effect at the beginning of 2010. Unlike an earlier attempt from the mid-1990s, this customs union has had a significant impact on members’ trade policies, establishing a common

Key Points

Both the structure of the planned Eurasian Economic Union and Moscow’s hardball tactics to persuade neighboring states to join suggest motivations beyond a simple desire to lower trade barriers.

Russia’s leaders seek to maintain influence across at least a significant swathe of the former Soviet Union, while limiting opportunities for outside powers to overtake Russia as the principal actor in the region.

Whether Russia can pivot to a more cooperative vision of Eurasia, stripped of the ideological pretensions and post-colonial resentment that remain too prevalent in Russian discourse of integration, is in some ways the biggest question facing Russian foreign policy in the decade to come.
external tariff and creating a Customs Union Commission with extensive authority to regulate members’ trade policies. Yet the required adjustments have been a source of hardship, particularly for Kazakhstan. Apart from President Nursultan Nazarbayev’s longstanding support for Eurasian integration on principle (which goes back to his initial calls for a Eurasian Union in 1994), Astana backed the establishment of the Customs Union as a mechanism for improving access to the large Russian market, despite fears about Kazakh firms’ vulnerability to competition from Russia.¹

A bigger problem has been trade diversion. The common tariff adopted by the Customs Union was based on the prevailing rate in Russia, not the (lower) rates in Belarus and Kazakhstan, meaning that Minsk and Astana were forced to raise their tariffs on goods from outside the Customs Union, in Kazakhstan’s case from a trade-weighted average of 5.3% to 9.5%. According to statistical analyses performed by the European Bank for Reconstruction and Development, the result has been significant trade diversion, with imports from the EU and China increasingly pushed out by imports from Russia, which was the only Customs Union member to see overall trade gains.² The percentage of Kazakhstan’s imports coming from Russia increased from 31.3% in 2009 to 42.8% in 2011, while Astana’s trade deficit grew by 63% in the same period and the country experienced overall declines in real income, wages, and return on capital.³

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For Kazakhstan the result of the Customs Union has been significant trade diversion, with imports from the EU and China increasingly pushed out by imports from Russia, which was the only Customs Union member to see overall trade gains. In response, Astana has come to question the direction of the Customs Union, while becoming increasingly wary of the next step towards regional integration.

Economic Commission summit in Minsk, Nazarbayev argued that rulings from the Commission had created needless additional barriers to trade with outside states, while failing to ensure Russia complied with its obligations to ensure market access for Kazakh goods. Belarus has also made similar complaints.⁴ Part of the problem is Russia’s membership in the World Trade Organization, which meant that non-members Belarus and Kazakhstan had to adjust their tariff policies to align with the agreements Moscow signed with other WTO members as part of its accession process, even at the cost of displacing imports from third countries. Nazarbayev also criticized the Customs Union’s “ politicization,” especially Moscow’s push for expanded membership, deeper integration, and the establishment of new supranational structures before existing difficulties could be addressed.⁵

On to the Eurasian Union?

Politization and the central role of Russia in Eurasian integration get at the heart of concerns about the Eurasian Economic Union, which is scheduled to come into effect at the start of 2015. Though Moscow’s public rhetoric about this body emphasizes the creation of a larger market, comparative advantage from specialization, and the re-connection of supply chains disrupted by the Soviet collapse, observers both inside Russia and out have noted what seems a deliberate ambiguity about the political logic underlying Moscow’s approach to Eurasian integration. Both the structure of the planned Eurasian Economic Union and Moscow’s hardball tactics to persuade neighboring states to join, suggest motivations beyond a simple desire to lower trade barriers.

The resurrection of the Eurasian Union idea stemmed in particular to the global economic crisis that broke out in 2008-9, which made European integration a less appealing prospect in Moscow and other post-Soviet capitals. Waning interest in Europe forced the post-Soviet countries to think more creatively about how they fit into the emerging global order. In this context, and notwithstanding the continuing emphasis in many on guarding against infringements on sovereignty, the idea of mutual integration among post-Soviet neighbors—with post-Soviet “Eurasia” sitting at the nexus of Europe and Asia—
received new life. In Moscow’s conception, this Russia-centric Eurasia is not only a geographic, but also a political and even ideological group, capable of interacting as an equal with both the EU and the dynamic economies of East Asia while rejecting Western values in favor of “traditional” values allegedly more suited for the peoples of Eurasia.

Momentum for building this more cohesive Eurasia began even before Putin’s return to the Kremlin in 2012. Indeed, new Russian President Dmitry Medvedev signaled the importance of Eurasia to Russian foreign policy by making his first foreign visit to Kazakhstan in mid-2008, when he announced the establishment of a new agency for CIS affairs that, he acknowledged, would focus on “new forms of integration.”

Shortly before the debut of the EurAsEC Customs Union at the start of 2010, leaders of the three member countries agreed to set up a Customs Union Commission to coordinate the work of the new union. With power to set tariff rates and oversee customs administration, the commission represented a significant step towards real integration; it also served as a foundation for the more authoritative commission that would emerge two years later during the transition to the Eurasian Union. Nazarbayev portrayed the commission and, more importantly, the adoption of a common customs code, as the vindication of his call for a Eurasian Union fifteen years earlier. The leaders’ stated aim at the time was the establishment of a common economic space facilitating the free movement of labor as well as goods, but requiring a certain degree of oversight from supranational institutions to operate.

A more detailed vision for these supranational bodies emerged a year later from a summit of CIS leaders held in Moscow in December 2010. In announcing the measures to establish the common economic space, the summit communiqué issued by the leaders of Russia, Belarus, and Kazakhstan mentioned that:

[In] developing the Customs Union and Common Economic Space, we are moving towards the creation of a Eurasian Economic Union, which aims at securing harmonious, mutually reinforcing and mutually beneficial cooperation with other countries, international economic groups, and the European Union, in pursuit of a common economic space.⁸

Medvedev remained vague about what this concept entailed, mentioning only that it would be based on international experience and that, for now, it remained a task for the future. Nevertheless, the three participating states continued taking steps towards creating a more political union administered by supranational institutions.

These developments received little attention at the time, and indeed, discussion in the West remained subdued as well until, in the context of his campaign to return to the Kremlin, then-Prime Minister Vladimir Putin emphasized the Eurasian Union in one of his pre-election essays, which appeared in Izvestiya in October 2011.¹⁰ Putin’s article helped fill in some of the details about what the Eurasian Union was supposed to look like. It also, notably, dropped the word “economic” from the planned association’s title, in the process reinforcing the political subtext to Russia’s vision of post-Soviet integration.

Putin’s Izvestiya piece emphasized that the Eurasian Union would be “a powerful supranational association capable of becoming one of the poles in the modern world and serving as an efficient bridge between Europe and the dynamic Asia-Pacific region. This project also implies transitioning to closer coordination in economic and currency policies in the Customs Union and [Common Economic Space] and establishing a full-fledged economic union.”¹¹ Putin also took pains to emphasize that the Eurasian Union would not only be based on the multi-decade experience of the EU, but that participation was designed to complement member states’ European aspirations, since the Eurasian Union “will be based on universal integration principles as
an essential part of Greater Europe united by shared values of freedom, democracy, and market laws" and would help give substance to the vision of a common EU-Russia economic space that the two sides agreed to create back in 2003.12

Putin’s article was more of an explanation of developments already underway than a manifesto for a new vision. Indeed, barely a month after its appearance, the presidents of Belarus, Kazakhstan, and Russia signed an agreement calling for the establishment of the Eurasian Economic Union by the start of 2015, and setting up in the interim the first truly supranational institution in the region, the Eurasian Economic Commission.13 In addition to tariff and customs issues, this body would have authority to regulate trade agreements with external states; coordinate currency, energy, and competition policy; subsidies; transportation; migration; and other spheres.14 President Medvedev noted that this was “the first supranational [nadnatsional’nyi] organ in the history of our countries, to which our governments have entrusted, in essence, part of their sovereignty. The volume of its responsibilities will be gradually broadened.” 15

With the appearance of Putin’s Izvestiya article, criticism of Russia’s approach to Eurasian integration expanded. Though Putin had specifically emphasized in his article that the Eurasian Union was not an attempt to revive the USSR, many observers, especially in the West, were skeptical. They saw it in essence as a bid to restore Russian hegemony across the post-Soviet region, entrench authoritarian rule, and push back against the spread of foreign influence in Russia’s back yard.16 Discussion of the project by Russian officials as a means of strengthening Russia’s geopolitical influence at the global level, not to mention its conceptual and rhetorical linkage to the Eurasianist ideological movement, reinforced these concerns.17

Of course, the model Putin had invoked in his Izvestiya piece was not the Soviet Union, but the European Union. The comparison, however, was far from precise. One major difference is the imbalance among prospective Eurasian Union members, which is much more extreme than in the EU. Europe’s largest economy, Germany, ac-
counts for around 20% of the EU’s GDP, while Russia’s share of GDP in a Eurasian Union that also included Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and Armenia would be more than 85%.18 Russia’s population, at more than 140 million, is more than 8 times that of the next largest member, Kazakhstan (17 million).19 This imbalance is also reflected in the composition of the Eurasian Economic Commission, which is headed by a Russian (former Deputy Prime Minister Viktor Khristenko) and whose roughly 1,000 personnel are, for now, about 85% Russian citizens.20

Moreover, the EU developed gradually, and among democratic states. Four decades passed between the creation of the Coal and Steel Community in 1952 and the signing of the Maastricht Treaty in 1992, and yet the EU still struggles to secure popular legitimacy. After agreeing to move forward in late 2010, the post-Soviet leaders aimed to have the Eurasian Union up and running by 2015, and none of them sought to put the issue to a vote or otherwise gain public assent for the process of integration. Because of the rush to set up the Eurasian Union, its actual form remains contested. Compared to the other prospective members, Russia has placed a greater emphasis on creating new supranational institutions and on using economic integration as a pathway to political integration. This emphasis on the political side of integration has been a source of tension between Moscow and Astana in particular, with Kazakh officials keen to emphasize that the proposed union “will remain only an economic union. There will be no foreign policy or political coordination or a single currency like the European Union.”21

The nature of the proposed supranational institutions comprising the Eurasian Union also remains very much up in the air. Moscow has pushed for a common currency, which the other members have opposed.22 Other Eurasian Union institutions proposed by different Russian officials by way of trial balloons include a court of human rights (envisioned as a counterweight to the European Court of Human Rights in Strasbourg that has frequently ruled against Russian officials), a joint parliament with unified political party blocs (in particular a common “party of power” based on United Russia), and commis-
sions dealing with issues ranging from finance to natural resources to economic cooperation. Apart from these uncertainties are questions about the ultimate membership of the Eurasian Union. Initial planning for the project involved the three Customs Union members, Russia, Belarus, and Kazakhstan, though Moscow especially would like to see membership expanded throughout the former Soviet Union. Responses in the most of the other post-Soviet countries were comparatively cool. Georgia and Azerbaijan made clear they had no intention of seeking membership, while Armenian Prime Minister Tigran Sargsyan announced after the appearance of Putin's article that Yerevan was not planning to join either. Uzbekistan, which has largely eschewed Eurasian multilateralism, rejected the project as unrealistic. Kyrgyzstan and Tajikistan, unstable and already seeking membership in the Customs Union, both expressed interest, albeit with reservations. For Tajikistan, the main impediment was the lack of a common border with other member states (at least as long as Kyrgyzstan remained outside). Much of the Tajik elite nevertheless saw Eurasian integration as a means of stabilizing the economy and ensuring Russian support in what remains a difficult neighborhood.

The biggest question mark was Ukraine, whose 46 million people, industrialized economy, and proximity to Europe made it the most attractive prize. Initially, Ukrainian leaders rejected the idea, whose prospects they viewed as doubtful. Instead, Kyiv prioritized deeper integration with Europe, culminating in plans for the signing of an EU association agreement that would create a so-called Deep and Comprehensive Free Trade Area (DCFTA). Yet recognizing that a Eurasian Union without Ukraine would be largely irrelevant, the Kremlin continued pressing Kyiv to reconsider. Russian pressure eventually succeeded in forcing Armenia to execute an about-face, with President Serzh Sargsyan announcing in September 2013 that Yerevan would join the Customs Union and participate in the formation of the Eurasian Union. As the end of 2013 approached, Ukraine's fate remained uncertain though under significant Russian pressure, it agreed to delay its integration with the EU. Kyiv's European prospects in any case remain compromised by resistance to political reform, while Russian pressure continued mounting to not only abandon efforts at integration with the EU, but to participate more fully in the Russian-led process of Eurasian integration.

A source of uncertainty about the political content of the proposed Eurasian Union has to do with its relationship with the post-Soviet region's principal security bloc, the Collective Security Treaty Organization (CSTO). Formally, the CSTO as a military bloc is separate from the Customs Union/Eurasian Union, but Moscow's logic of integration in multiple spheres seems to imply closer coordination over time. Partially in response to that failure, and partially as a result of concerns about security in Central Asia following the withdrawal of U.S. and allied forces from Afghanistan in 2014, Russia has sought in recent years to give the CSTO new capabilities. These include the creation of new force structures (a Collective Rapid Response Force and a Collective Peacekeeping Force) as well as doctrinal changes allowing for a more robust response to both internal and external security threats, as well as more frequent exercises.

The CSTO's membership overlaps to a considerable degree with that of the Customs Union and planned Eurasian Union. Russia, Belarus, Armenia, Kazakhstan, Kyrgyzstan, and Tajikistan are members of the CSTO—and all are also current
or aspiring members of the Customs Union/Eurasian Union. Likewise, Uzbekistan suspended its membership in EurAsEC in 2008 and its membership in the CSTO in 2012, in both cases because of concerns about Russian domination. Formally, the CSTO as a military bloc is separate from the Customs Union/Eurasian Union, but Moscow’s logic of integration in multiple spheres seems to imply closer coordination over time. Given the overlapping membership, the organizations typically arrange meetings of their parliamentary assemblies to coincide, and have signed memoranda of understanding allowing them to share information about their proceedings. Belarusan President Aleksandr Lukashenko, for one, has argued that membership in one ultimately implies membership in the other. Similarly, Armenian officials justified Yerevan’s about-face decision to join the Customs Union in September 2013 partially on the basis of the fact that Armenia was already a CSTO member.

Conclusion

The dilemma for the non-Russian states is that for the most part they want deeper economic and political ties with the outside world, even as they recognize the importance of maintaining close relations with Moscow. Kazakhstan has been the most enthusiastic proponent of post-Soviet integration; it has also been eagerly signing deals to sell energy to China. Unfortunately, the process of Eurasian integration is being sold to these states as a binary choice. Moscow (and, it should be said, Brussels as well) tells them they can be either inside a Russian-led Eurasia or out of it—and Moscow has used a wide range of tools to compel at least Armenia and Ukraine to make the “right” choice. Yet neither Yerevan nor Kyiv seems enthusiastic about the prospect of choosing Eurasia so irrevocably. Armenia has tried to salvage something from the EU after its decision to join the Customs Union, and Ukraine appears likely to continue avoiding making a final choice for as long as possible.

The potential for overlap between the CSTO and the planned Eurasian Union suggests that significant momentum exists behind Russia’s push to give the Eurasian Union political as well as economic content. Indeed, from Moscow’s perspective, the entire process of Eurasian integration has political undertones. Russia’s leaders seek to maintain influence across at least a significant swathe of the former Soviet Union, while limiting opportunities for outside powers to overtake Russia as the principal actor in the region. This dynamic is visible in Central Asia, where Chinese economic power has rapidly displaced Russia as the major trading partner and source of investment. The trade-diverting impact of the Customs Union then has an underlying geopolitical logic; by raising barriers to trade with the outside world, the Customs Union limits the economically driven re-orientation of the Central Asian states into Beijing’s orbit. Similarly, Russian pressure on Kyiv to join the Customs Union makes little sense apart from the growth of economic ties between Ukraine and the EU, and the possibility that Ukraine could move closer to the European political space by signing an EU association agreement.

The Central Asians have fewer options. The EU’s interests in Central Asia are limited, and while China is omnipresent in the region, it offers little apart from cash. Despite Beijing’s deep pockets, the Central Asian states still look primarily to Russia as a security provider and power broker—the more so once the U.S. is largely out of Afghanistan.

They all face difficult choices as they seek to ensure that Moscow’s Eurasian ambitions do not harm their interests. Some talk of expanding the Eurasian Union to include new states from outside the former Soviet Union, particularly Turkey (Turkish Prime Minister Recep Tayyip Erdoğan himself proposed establishing a Eurasian Union...
back in 2010, while Turkish elites have spoken of a Eurasian alternative to Europe for more than a decade now)—or even states such as Syria, India, and Vietnam. Like Nazarbayev, they also try to limit the degree to which Eurasian integration will take on political content. Yet with vulnerable economies and an uncertain security landscape following the withdrawal of foreign forces from Afghanistan, deeper integration across post-Soviet Eurasia appears likely in the near-term future.

To be successful, however, such integration has to meet the economic and security interests of all member states. Given the limitations of Russia’s own economy, which makes Moscow incapable of acting as a driver for regional economic development (such as China is doing in East Asia), Moscow’s vision of Eurasian integration will likely have to undergo significant change to prove viable in the long-run. That means pursuing a vision closer to the “open regionalism” of ASEAN than of the closed customs zone overseen by supranational institutions Moscow is currently seeking. It also means showing greater respect for the sovereignty of neighboring states and moving away from seeing integration as a zero-sum choice.

Whether Russia can pivot to this more cooperative vision of Eurasia, stripped of the ideological pretensions and post-colonial resentment that remain too prevalent in Russian discourse of integration, is in some ways the biggest question facing Russian foreign policy in the decade to come. Not only will it influence the prospects for Eurasian integration it will also determine to a significant degree whether Moscow can ultimately develop a more cooperative relationship with a West that it no longer sees as a rival for control over of Eurasia.

11 Ibid.
12 Ibid.


20 Unlike the old Customs Union Commission, which took decisions using a qualified majority voting system in which Russia’s voice counted for 57% and Belarus and Kazakhstan 21.5% each, the new Eurasian Economic Commission is headed by a three member “college” that, in theory, gives all members an equal say.


30 “All Eurasian Union members will join CSTO – Lukashenko,” Russia Today, November 27, 2011.


34 On this point, see especially Evgeny Vinokurov and Alexander Libman, Eurasian Integration: Challenges of Transcontinental Regionalism (Houndsmills: Palgrave Macmillan, 2012), 7-63.