

IN-DEPTH ANALYSIS

The signature of the Eurasian Union Treaty: A difficult birth, an uncertain future

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Abstract

The smiles at the signing ceremony for Eurasian Union Treaty held on 29 May 2014 revealed little of the arduous negotiations that had led to the agreement – or of its uncertain future. Present in Astana were the presidents of the same three countries that had formed the Customs Union, in force since 2010: Belarus, Kazakhstan and Russia. The media offered pictures of the cheery trio joining hands, cementing the agreement that Russian President Vladimir Putin had strongly advocated. But the next steps will be difficult, not least because of the terms to be offered to Armenia and Kyrgyzstan – the two countries that have agreed to join the Customs Union and the Eurasian Union. Several economic and political issues, with important regional implications, will need to be solved before the ‘first enlargement’. The treaty’s provisions are vague about the Union’s real content and will also need to be clarified in the months ahead – preferably before the Eurasian Union enters into force, on 1 January 2015. Conceived in haste in response to Moscow’s pressure, the Union is experiencing a dilemma that its model, the European Union, has also faced: should the union deepen or enlarge? Or how can it cope if it chooses to do both?

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1 A less than exultant signing ceremony

Russian President Vladimir Putin's dream of a new and updated union for the former USSR countries has begun to take shape...

...although it has faced more obstacles than expected.

Belarusian President Alexander Lukashenko expressed his hopes that Ukraine would join one day.

The idea originated with Kazakh President Nursultan Nazarbayev in 1994, in different economic and political circumstances.

Since Russia has returned to the forefront of the international scene, the country has reinforced or built several organisations with former Soviet republics.

The 2010 Customs Union between Belarus, Kazakhstan and Russia is

Russian President Vladimir Putin appeared happy – and perhaps relieved – at the signing ceremony of the Eurasian Economic Union Treaty (known as the Eurasian Union) held in Astana, Kazakhstan, on 29 May 2014. While the signatory countries were the same that enacted the Customs Union in 2010, President's Putin vision of rebuilding a modernised union for the former Soviet republics had finally begun to take shape. Yet this had required arduous negotiations, a higher financial price for Russia that Putin initially envisaged, and fewer participants at the ceremonial photograph than he would have liked. By the end of the ceremony, Belarusian President Alexander Lukashenko stated bluntly to the press, 'we lost some'. Lukashenko was not referring to Armenia or Kyrgyzstan – the two countries that have openly expressed their desire to join the Customs Union¹ and the Eurasian Union – or even to Tajikistan – which has expressed some interest as well. Lukashenko was clearly thinking of Ukraine. After Russia, Ukraine would have been the most significant member of the Union. Lukashenko added that he was sure that 'sooner or later the Ukrainian leadership will realise where its fortune lies'².

The original idea to set up a Eurasian Union, which dates to 1994, did not come from Russia, but from President Nursultan Nazarbayev of Kazakhstan. At the time, all the newly independent, ex-USSR countries were developing their statehood, while tackling the challenge of creating a market economy after decades of operating within a centralised communist economy. Yet 20 years on, Nazarbayev – who is still in command of his country, despite his age of 74 – has proved the most unwilling to complete the negotiations, as he has insisted that his country's interests must be protected by the treaty provisions³.

Russia has made its own comeback to the international scene, thanks to an economy based on hydrocarbon exports and an assertive leader who has remained in power – either as president or as prime minister. The country has extensively worked to build a network of former USSR countries, by reinforcing pre-existent organisations or setting up new ones. Among these are the Commonwealth of Independent States (CIS), the Russia-Belarus Union State⁴ and the 2002 Collective Security Treaty Organisation (CSTO). The organisation most directly related to the Eurasian Union has been the Customs Union of Belarus, Kazakhstan and Russia, which came into existence on 1 January 2010. The Eurasian Union represents the next logical step in the path opened by the Customs Union. By creating a common external tariff, the Customs Union initiated the integration of the economies of the three states. The Eurasian Union project goes beyond this, mirroring the integration

¹ The treaty is legally called The Eurasian Customs Union.

² BBC 29/05/2014 'Putin signs economic union deal with ex-Soviet states.

³ Kazakhstan was the last republic to declare independence from the USSR in December 1991, then already commanded by Nazarbayev.

⁴ Respectively established in December 1991 and in December 1998.

the cornerstone of the Eurasian Union.

The Eurasian Union goes further than the Customs Union, aiming to integrate the economies of its three countries, following the EU example.

The Eurasian Union was conceived as an alternative to the EU and its Eastern Partnership project.

The Eurasian Union aims to spur an integrationist movement among all the states of the Commonwealth of Independent States (CIS).

In Russia's view, the CIS countries share a civilizational space which is neither East nor West.

The Eurasian Union's main objective is to

process of the European Union and aiming to do so in record time.

Moscow's haste relates to its concerns about the progression of the EU's Eastern Partnership project (established in 2008) among the former Soviet republics on the European continent. Moscow's plans also reflect Russia's new self-esteem, which 'again'⁵ sees itself as a strong global player. In the past, Russian objections were primarily focused on the potential accession of any former Soviet republics to the North Atlantic Treaty Organisation (NATO), but Moscow has come to oppose any type of association between the countries located in the common EU / Russia neighbourhood and the 'West'. Moreover the Association Agreements (AAs) of the Eastern Partnership (EaP) and their integrated Deep and Comprehensive Free Trade Agreements (DCFTAs) incorporate several elements common to an EU accession process; they are now similar to the agreements signed between the EU and the Balkans countries, which have been granted a possible path to EU membership (the 'accession perspective').

The forthcoming entry into force of the Eurasian Union on 1 January 2015 should be regarded, first and foremost, as the incarnation of a political project instigated by President Putin, which represents an alternative to the EU for the EaP countries. (For the time being, these countries are not offered an EU accession perspective.) Russia also dislikes the greater cooperation among countries in its neighbourhood that the EaP has encouraged, as Russia does not participate in the EaP project and cannot influence it.

Russia's particularly strong opposition to the Association Agreements is also an objection to their effort to create common values with the EU, which would threaten – in Moscow's eyes – the 'different' values that Russia shares with these countries. The Eurasian Union aims to create convergence between all the CIS States – a common space uniting countries and peoples that understand one another. While the project attempts to avoid Russian nationalism, it presents itself as an effort to recreate a 'family' torn apart. The words of Vladimir Yakunin, one of Putin's most prominent ideologues and president of the state-run Russian Railways company, described the philosophy behind the project: 'Russia is not between Europe and Asia. Europe and Asia are to the left and right of Russia. We are not a bridge between them but a separate civilizational space, where Russia unites the civilizational communities of East and West'⁶. And yet despite this description, the Eurasian Union does present itself as a bridge between Europe and Asia, covering 17 % of the world's land surface⁷.

The Eurasian Union's main objective is to create a single market with free movement of capital, services and labour. With its current membership, this free movement will benefit 171 million people. The overall construction of

⁵ There is widespread confusion in the minds of many Russians between the USSR and the current Russian Federation sustained by the facts that Moscow was the capital of both and that the Russian state assumed the legal succession of the USSR.

⁶ BBC News '[Vladimir Putin: The rebuilding of 'Soviet' Russia](#)', 28 March 2014

⁷ [Eurasian economic integration, facts and figures](#); April 2014

create a single market with coordinated policies that can become common policies.

The 'mistakes' the EU has made will be avoided.

The asymmetry between Russia and the other members, coupled with other characteristics of the Union, bely comparisons with the EU.

the Eurasian Union will be built gradually over one or two decades, during which the member states' policies on transport, industry, agriculture, financial, energy and other fields will be increasingly coordinated and integrated. The extent to which these policies are to become common is not clearly defined the treaty. High officials of the three countries have referred to ambitious plans, such as retaining pension rights (regardless of where the person has worked), creating a Eurasian payment system or setting up a common hydrocarbons market by 2025 and a common electricity market by 2016. According to Russian officials, the EU experience will provide both positive and negative examples, with the latter including, according to President Putin, deindustrialisation.

The underlying differences between the EU and the Eurasian Union are, however, great. Notably, the asymmetry in the Eurasian Union is much larger than among the EU Member States: Russia is a giant when compared to Belarus and Kazakhstan, as it represents 84 % of the Eurasian Union's population and 88 % of its output. Several other differences that may threaten the future of the Eurasian Union include the following⁸:

- The Eurasian Union's consumer market is much smaller than that of the EU – 170 million people vs. more than 500 million – and suffers from much higher levels of corruption, swollen bureaucracies and excessive state involvement.
- Eurasian exports are dominated by hydrocarbons (72.6 % in January 2014) while the EU's largest export sector – machinery and transport – accounts for just 40.9 % of all EU exports.
- Outgoing capital flows from the Eurasian Union countries can be dramatic when crises erupt. This was the case in Russia after Crimea was annexed in March, and in Kazakhstan last February after the national currency (the tenge) was suddenly devalued by 19 %.

2 Stakeholders' concerns

Kazakhstan opposed incorporating political elements in the treaty.

Moscow's assertive stance in eastern Ukraine has frightened its partners.

The big question is whether the Eurasian Union is meant to remain an economic union or whether it will in time embrace elements of a political union. President Nazarbayev of Kazakhstan has stressed that the Eurasian Union has no political nature, that it has no intention to become a political union, and that the sovereignty of its member states will not be affected. His Deputy Foreign Minister, Damat Ordabayev, went even further; on the eve of the solemn signature, he cited examples of how his country had opposed political incursions. Ordabayev said that inter-parliamentary cooperation, common citizenship, common foreign policy, border management and combatting illegal migration had been deleted from the text of the treaty on Kazakhstan's request. Kazakhstan may have felt the need to edit the treaty given Russia's recent annexation of Crimea (on 21 March 2014), Russia's involvement in the revolt of Russian speaking citizens in eastern Ukraine, and

⁸ Reference "No reason to rush into a Eurasian Economic Union", East Asia Forum 24 May 2014.

Kazakhstan has a sizable Russian minority.

There have been some popular protests in Kazakhstan against the country's accession to the Eurasian Union.

Although Belarus is thought to have obtained important Russian concessions, its President acknowledged that the final treaty was not the one he had hoped for.

3 Attitudes and reprimands for those not joining

Uzbekistan's President has been critical of the Eurasian Union.

The Eurasian executive proposed raising customs duties on Ukrainian goods, but Belarus and Kazakhstan refused.

the laws passed by the Duma in Moscow to 'protect' Russian-speaking minorities. Some 25 million Russian speakers are nationals of other countries, including approximately four million in Kazakhstan, particularly in the north. Just ten days after the treaty signature, the Kazakh President also called for Turkey to become an associated member of the Eurasian Union – probably in the hopes that a Turkish presence would temper Moscow's ambitions to go beyond the Union's economic goals. In its current form, the treaty is far from unanimously popular in Kazakhstan. On the days before the signature, rallies against the Eurasian Union were held in Kazakh cities, and on the day of the ceremony, masked protesters gathered in the street of Astana and a local newspaper published an image of national flags showing black ribbons on its front page. Although the police detained dozens of demonstrators, the Kazakhstani regime, which is known its repressive measures against political demonstrations, had apparently allowed some protests to take place.

Belarus President Lukashenko also made statements expressing dissatisfaction. On the eve of the signature, he said, 'this is not the treaty Belarus was counting on and not the one our partners originally declared, primarily the Russian Federation'. Belarus is thought, however, to have gained important Russian concessions during the final stages of negotiations, maintaining some exceptions and limitations in trade provisions, particularly regarding the export duties on Russian oil.

Among those CIS countries that have refused to join the Customs Union and the Eurasian Union, the most outspoken has been Uzbekistan, whose President Islam Karimov has warned that the signatories 'have lost political independence'. There are indications that Uzbekistani exports to the Eurasian Union countries are already suffering as a result of the country's stance⁹.

The principal critics of the Customs Union / Eurasian Union institutional set-up have been the three EaP countries that signed an AA with the EU on 27 June 2014: Georgia, Moldova and Ukraine. On 23 June 2014, the 'Board' of the Eurasian Economic Commission¹⁰ proposed raising customs duties on Ukraine's exports to the Eurasian Union in response to country's signature of the AA with the EU. Russia had suggested that Ukraine's signature would threaten the economies of the three Eurasian Union States. Belarus and Kazakhstan ultimately prevented the proposal from advancing, arguing that the consequences of the Ukrainian AA remained unclear. Maintaining good relations with Ukraine is particularly important for Belarus, as Ukraine is its third trade partner after Russia and the EU. Kazakhstan has its own reasons for not antagonising Ukraine: there has always been a sizeable Ukrainian

⁹ Sales of Uzbek-made cars fell by 12 % in the first five months of 2014 in Russia and even by higher percentage in Kazakhstan.

¹⁰ The executive of the Customs Union, and in the future of the Eurasian Union, which composed of 9 Commissioners.

Moldova seems likely to become the next target of punitive measures.

In a surprise announcement, Russia said in July 2014 that it would remove all trade barriers imposed on Georgia after the 2008 war.

minority in Kazakhstan. But while Ukraine may have – so far – avoided punitive measures, the Eurasian Economic Commission is currently¹¹ discussing possible ‘protective trade measures’ against Moldova.

In a surprising opposite move, Russia announced on 14 July 2014 that it would remove all trade barriers imposed on Georgia after the 2008 war between both countries (before the Customs Union was established). If Moscow follows through, Georgia's unusual treatment is worth analysing; might it be the fruits of the Georgian government's efforts to establish a constructive relationship with Russia since 2012, despite the protracted conflicts in the Georgian breakaway regions of Abkhazia and South Ossetia? Or is there a deal in the making, such as a possible re-opening of the railway linking Russia and Armenia, which runs through Abkhazia and other Georgian territories?

4 The Armenian question

Armenia's entry in the Customs and Eurasian Unions will hold great political significance.

But negotiations are slow, and Armenia did not manage to become, as it hoped, a founding member of the Eurasian Union.

Initial negotiating difficulties were technical, but political issues emerged.

In September 2013, soon after Armenia completed its AA negotiations with the EU, Armenian President Serzh Sargsyan announced that the country would not sign the agreement, but would instead join the Customs Union – a U-turn in policy that surprised many observers. While Armenia is a small country with a relatively small economy, its accession to the Customs and Eurasian Unions would have great political significance. The country's participation would fortify President Putin's hopes to extend the organisations throughout the CIS countries. The Armenian U-turn was in fact heavily influenced by Moscow¹², and Russia has since become the Armenia's ‘mentor’ in the negotiating process.

Although membership of the Customs Union is in theory not a pre-requisite to join the Eurasian Union, it is in practice. Because Armenia wanted to be a founding member of the Eurasian Union, it sought to speed up the negotiations to join the Customs Union. The dates announced for the completion of the negotiations have been revised on several occasions, although both Armenia and its future partners now say the signature will take place ‘before the end of the year’.

The difficulties with Armenia's accession were initially of a rather technical nature: Armenia would be the only Member State without a common border with its partners, as neither Georgia nor Azerbaijan¹³ has the intention to join. In other words, the territorial continuity of the Customs Union would be breached. Furthermore, in terms of trade, while Russia is an important partner for Armenia, Belarus is not much, and its trade with Kazakhstan is almost negligible.

Over the course of negotiations, political problems began to emerge. Both

¹¹ As of July 2014.

¹² Armenian security considerations were triggered by Putin's state visit to Baku in August 2013 during which Russia agreed to sell a large amount of modern weapons to Azerbaijan.

¹³ The Armenia-Azerbaijan border is closed and in constant tension due to the Nagorno-Karabakh conflict.

Belarus and (particularly) Kazakhstan have defended the interests of Armenia's rival, Azerbaijan, in the negotiations.

The definition of Armenian borders is the core of the problem.

The uncertainties are negatively affecting domestic and foreign investment in Armenia and are impeding negotiations with the EU on a different type of bilateral agreement.

Another important question is the future of the Armenia-Georgia free trade agreement, which is essential for Armenia.

Armenia will also need to adapt the conditions of its WTO membership and probably pay compensations to some WTO members.

Belarus and Kazakhstan maintain close relations with Azerbaijan, Armenia's rival, and were ready to defend Azerbaijan's interests in their negotiations with Armenia. After the Eurasian Union signature, Azeri President Ilham Aliyev publicly thanked his Kazakh counterpart for 'supporting Azerbaijan's position'¹⁴. The core issue was how the Armenian territory would be defined – whether or not the UN-recognised borders (which do not include Nagorno-Karabakh) would be recognised. This matters greatly given the close economic interdependence between Armenia and the so-called 'Nagorno-Karabakh Republic'. Interestingly, there is no territorial definition of the three founding members – neither in the Customs Union nor in the Eurasian Union treaty – a point that has proved significant with Russia's annexation of Crimea in March 2014.

The delays in Armenia's accession to the Customs and Eurasian Unions, coupled with an absence of information about the date and conditions, are undermining the country's domestic and foreign investment. Uncertainty is also preventing negotiations on a possible new agreement between the EU and Armenia. Although the Armenian government is very interested in upgrading its 1996¹⁵ Partnership and Cooperation Agreement (PCA) with the EU, it has not yet indicated its 'red lines' to the European Commission – those areas it will not be able to negotiate as a result of its Customs Union membership – as it promised to do in late 2013.

Another significant unknown in Armenia's accession to the Customs Union and to the Eurasian Union is the future of its free trade agreement with Georgia. Since signing their agreement, the two countries' have forged very different economic alliances – one with the west, one with the east – nearly to the point of incompatibility. Yet for Armenia the free transit of its goods and citizens through Georgian territory is essential, because its borders with Azerbaijan and Turkey are closed. How Armenia's negotiations with the Customs and Eurasian Unions will affect Georgia is currently unclear: in mid-July, Georgian diplomats complained that Armenia was keeping them 'in [the] dark' about future trade tariffs. Armenian think tanks¹⁶ have suggested that one of the main reasons for the negotiating delays is the difficulty of preserving the transit arrangement with Georgia.

Another important point in the negotiations is how Armenia's membership in the World Trade Organisation (WTO) would be affected by its participation in the Customs Union and Eurasian Union. The Customs Union's import duties are significantly higher than the ones currently applied by Armenia. Under WTO rules, this would normally require Armenia to compensate some WTO members. Armenia became a WTO member in 2003, Russia did so only in 2013, but Kazakhstan and Belarus are not yet members¹⁷.

¹⁴ Aliyev expressed his gratitude and that of Kazakhstan at the entrance to the 4th Summit of Turkic speaking countries held in Bodrum, Turkey, on 5 June 2014.

¹⁵ The PCA entered into force on 1 July 1999.

¹⁶ E.g. Institute of International and Security Affairs [Armenia Now 8 July 2014](#).

¹⁷ Kazakhstan is under negotiations to join the WTO.

5 A Eurasian Union enlargement in Central Asia?

Kyrgyzstan and Tajikistan are also potential Eurasian Union members.

The two countries are the poorest and institutionally weakest CIS countries, and both depend greatly on remittances from their workers in Russia and Kazakhstan.

Kyrgyzstan's revenues from its re-exports of Chinese goods will suffer once it joins the Customs Union, which has meant that popular support for accession is diminishing.

Kyrgyzstan is asking for concessions, but Kazakhstan opposes them.

Kyrgyzstan has also expressed its wish to join the Customs Union and the Eurasian Union, although it has not acted with the same haste as Armenia. Tajikistan has also expressed interest, although its negotiations have yet to open. Kyrgyzstan and Tajikistan are the poorest and, in institutional terms, the weakest countries of the CIS. Large numbers of Kyrgyz and Tajik migrant workers live in Russian and Kazakh cities, and their remittances are essential to sustain their countries' economies – representing, for Tajikistan, around one-third of the country's gross domestic products (GDPs). This has made them dependent on Russia, particularly including in terms of security, on the eve of the withdrawal of the International Security Assistance Forces (ISAF) from Afghanistan in late 2014. Both countries belong to the CSTO and host Russian troops in their territory. In this they depart from Uzbekistan, their downstream neighbour (with which both countries disagree over water resources); Uzbekistan's foreign policy is increasingly favouring the US and its allies.

Kyrgyzstan was the first CIS country to join the WTO, which it did in December 1998. A large part of its GDP (15 %) is composed of revenues coming from Chinese goods which it re-exports, and as many as 1 million Kyrgyz (more than a third of the country's active population) are employed in the wholesale markets. Although joining the Customs Union and the Eurasian Union would eventually help Kyrgyzstan's economy move away from re-export activities and into proper production, there will be tangible economic and social costs in the short run. Popular support for the Customs Union is sharply declining in the country, dropping from 62 % in 2013 to 49 % in 2014¹⁸. The Kyrgyz government has therefore asked for concessions and long transitional periods for its bigger resale markets, asking for them to be treated as duty-free zones). Kazakhstan, Kyrgyzstan's neighbour (the home of most Kyrgyz markets' clients), strongly opposes this request. As a result, no date has been sought to sign Kyrgyzstan's accession to the Customs and Eurasian Unions.

6 Conclusion: Difficult choices

The ambitious and rapidly developed Eurasian Union faces a classical and difficult dilemma: whether it should deepen the integration of its member states or expand its membership. This choice has presented itself even before the date on which the Eurasian Union treaty will enter into force – 1 January 2015.

On the one hand, its two 'minor partners', Belarus and Kazakhstan, are at once true believers in the project and wary of the renewed assertiveness of their 'major partner', Russia. Neither Belarus nor Kazakhstan would like to lose much sovereignty. The 2014 events in Ukraine have given them reason to be concerned.

On the other hand, the Russian push to enlarge the Eurasian Union by

¹⁸ Bishek's Customs Union negotiations test flexibility, Oxford Analytica 11/07/2014.

accepting other CIS members has turned out to be far more complicated than expected. The Armenian case is the best example: fears about the Nagorno-Karabakh conflict were initially exploited by Russia to sway Armenia to join the Customs Union rather than sign an AA with the EU, but the implications of this very same conflict ultimately became one of the main obstacles to the country's accession.

The year ahead will be critical for the Eurasian Union, determining whether it will overcome its current challenges or become just another of the numerous organisations floating in the ex-USSR space.