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## Eurasian Union: the real, the imaginary and the likely

BY  
Nicu Popescu

### Chaillot Papers



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# EURASIAN UNION: THE REAL, THE IMAGINARY AND THE LIKELY

*Nicu Popescu*

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**CHAILLOT PAPERS** *September 2014*

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# Foreword

The situation east of the EU border started becoming a source of serious concern exactly one year ago when Armenia announced that it would not sign the proposed trade agreement with the EU. In the intervening twelve months, a number of events have substantially altered the *status quo* in the region that lies between the EU and Russia. Ukraine has been both the catalyst and the epicentre of such events, but their repercussions have been much wider – and the situation is still far from settled.

The political debate in and around Europe has mostly centred on the ‘strategic surprise’ represented by the Russian occupation and subsequent annexation of Crimea and Moscow’s ‘hybrid’ tactics and stealth offensive in Eastern Ukraine; on the West’s response to Putin’s challenge and the risk of sliding into a second Cold War; and, especially inside the EU, on the record and prospects of the Union’s decade-old neighbourhood policy and, in particular, the Eastern Partnership emanating from it. The discussion is still evolving, as is the crisis itself – and both are likely to shape EU (and NATO) policies in the months and years to come.

Nicu Popescu’s *Chaillot Paper* takes a slightly different angle – and herein lies its originality and distinctive contribution to the ongoing debate. The paper contends that while the crisis in Ukraine was sparked by the delay in signing the Association Agreement, one of its underlying drivers has been Moscow’s goal to attract Kiev into the Eurasian Union instead. The study thus focuses primarily on the Eurasian Customs/Economic Union promoted by Russia, a project symbolising Moscow’s approach to both its shared neighbourhood (with the EU) and the international system after the end of the ‘unipolar moment’. It analyses in detail both the existing Eurasian Union and the related ‘imagined communities’ (to use the famous concept coined by Benedict Anderson) floated by some players close to the Kremlin – and compares them. The paper presents and highlights hard facts (economic, political, and legal) as well as hard truths, for both Moscow and Brussels. And it pleads for a more sober and rational approach to the common European space between Russia and the EU – one whereby more cooperative games may eventually prevail and ‘lose-lose’ outcomes be prevented.

*Antonio Missiroli*

Paris, August 2014





# Introduction

The recent history of Russian attempts to reintegrate the post-Soviet space is littered with failed political and economic initiatives. Such initiatives have included the creation of the Union State of Russia and Belarus in the 1990s, the Eurasian Economic Community launched in 2000, and the GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova) grouping launched in 1997. So far the only project which seems likely to come to fruition is the Customs Union of Russia, Belarus and Kazakhstan which is scheduled to become the Eurasian Economic Union as of 1 January 2015.

The Eurasian Union exists already. Its physical headquarters – the Eurasian Economic Commission – is a bureaucratic structure with a staff of 1,000 housed in an eleven-storey glass and steel building on Vivaldi Plaza in a business complex near Paveletsky railway station in Moscow. Its legal basis is the Eurasian Union treaty signed in May 2014.

In fact, however, there are two Eurasian Unions: one real, and the other imaginary. One is economic, and the other geopolitical. The real Eurasian Economic Union is an international organisation like many others. It has a legal identity, a secretariat and is staffed by bureaucrats who would not look out of place in the European Commission building in Brussels or the WTO secretariat in Geneva. Its member states exchange trade concessions among themselves and rely on the institution as an external enforcer of rules.

But there is another Eurasian Union, one fuelled by geopolitical aspirations. President Putin launched this phase of Eurasian integration, the key foreign policy objective of his third presidential term in the Kremlin, in an article in *Izvestia* in October 2011. His vision was for the Eurasian Union not just to foster a new round of post-Soviet reintegration: he also wanted to turn the Eurasian Union into one of the ‘building blocks’ – on a par with the EU, NAFTA, APEC and ASEAN – of ‘global development’.<sup>1</sup> The Union was supposed to crown Vladimir Putin’s efforts to reintegrate the post-Soviet states: it was to be the instrument by which he would ‘bring Russia up from its knees’ and make it a distinctive pole of influence in a multipolar world by reversing the ‘civilised divorce’ of former Soviet republics from the USSR.

As any comparison of the size of the economies of the EU, US or China and Russia would suggest, Russia generates a much weaker gravitational pull than other global

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1. Vladimir Putin: ‘Novyi Intergratsionnyi Proekt dlia Evrazii’, *Izvestia*, 3 October 2011. Available at: <http://izvestia.ru/news/502761>.

## Eurasian Union: the real, the imaginary and the likely

economic powers. By launching its project of an Eurasian Union, the Kremlin hoped to compensate for its relative economic weakness through a high-profile display of political assertiveness. However, Putin's excessive political zeal and determination to reverse post-Soviet disintegration has played a key role in starting the conflagration in Ukraine and turning the post-Soviet 'civilised divorce' into a highly uncivilised one. Instead of smoothing the path towards post-Soviet reintegration, Russia finds that it has painted itself into a geopolitical corner, where no post-Soviet states want to join. Against this backdrop, Putin's dream of an Eurasian Union that will evolve into a powerful geopolitical bloc seems much less likely to materialise.

This *Chaillot Paper* examines Russia's Eurasian project in detail. Is this a new twenty-first century version of the Soviet Union? Or is it just a regional economic body like so many others? Is the Russian concept of Eurasia as a geopolitical entity viable? What are Russia's objectives and how far will it go to achieve them? Does the project make economic sense, or is it simply a ploy by Putin to restore Russia's great power status? And what of the post-Soviet states' attitudes to the Eurasian project? How does the crisis in Ukraine affect the Eurasian project? Finally, how should the EU interact with what was conceived by Moscow as a second pole of influence in the greater Europe?

### THE POST-SOVIET SPACE



Source: Perry-Castañeda library map collection, University of Texas.

## CHAPTER 1

# The real Eurasia

The term 'Eurasian Union', often used in political parlance, refers to several entities. It designates a Customs Union, initiated in 2006 and launched in 2010, that includes Russia, Belarus and Kazakhstan, and which mutated in 2012 into a Common Economic Space of the three countries. The term is also often used to refer to the Eurasian Economic Commission (formerly the Customs Union Commission) which is the executive of the Customs Union. And it also refers to the Eurasian Economic Union, a new institution which will be launched on 1 January 2015.

The organisation of the Eurasian Economic Union (EEU) is in many ways inspired by that of the European Union, although it has a four-tiered governance structure that is more pyramidal than the more diffuse decision-making processes in the EU. At the lowest level of decision-making is the executive – the 'College of the Eurasian Economic Commission' – which consists of 9 members, called ministers or members of the board, who preside over 23 departments. Each EEU country delegates 3 members of the commission, but once Armenia joins the EEU, there will be a reshuffling and the number of ministers could be reduced to 8 (i.e. 2 per country). Viktor Khristenko, a former Russian deputy prime minister, is chair of the commission, appointed for a mandate of four years. In the EU this institution would correspond to the European Commission.

The Council of the Eurasian Economic Commission oversees the executive. This consists of three serving deputy prime ministers in the governments of Russia, Belarus and Kazakhstan who formally take most decisions. The Council also has an annual rotating presidency. The EU equivalent of this body would be the EU Council.

Then, on the political front, there are two more levels of decision-making – the High Eurasian Economic Council in the format of prime ministers and the High Eurasian Economic Council for presidents only.

**TABLE 1: STRUCTURE OF THE EURASIAN ECONOMIC COMMISSION**

<b>Chairman of the EEC Board</b>
<ul style="list-style-type: none"> <li>• Organisational Support and Protocol Department</li> <li>• Finance Department</li> <li>• Legal Department</li> <li>• IT Department</li> <li>• Administrative Department</li> </ul>
<b>Member of the Board – Minister in charge of the Development of Integration and Macroeconomics</b>
<ul style="list-style-type: none"> <li>• Macroeconomic Policy Department</li> <li>• Statistics Department</li> <li>• Integration Development Department</li> </ul>
<b>Member of the Board – Minister in charge of Economy and Financial Policy</b>
<ul style="list-style-type: none"> <li>• Financial Policy Department Business Development Department</li> </ul>
<b>Member of the Board – Minister in charge of Industry and Agroindustrial Complex</b>
<ul style="list-style-type: none"> <li>• Industrial Policy Department</li> <li>• Agricultural Policy Department</li> </ul>
<b>Member of the Board - Minister in charge of Trade</b>
<ul style="list-style-type: none"> <li>• Tariff and Non-Tariff Customs Regulation Department</li> <li>• Department for Internal Market Defence</li> <li>• Trade Policy Department</li> </ul>
<b>Member of the Board – Minister in charge of Technical Regulation</b>
<ul style="list-style-type: none"> <li>• Technical Regulation and Accreditation Department</li> <li>• Sanitary, Phytosanitary and Veterinary Measures Department</li> </ul>
<b>Member of the Board – Minister in charge of Customs Cooperation</b>
<ul style="list-style-type: none"> <li>• Customs Regulations and Law Enforcement Practice Department</li> <li>• Customs Infrastructure Department</li> </ul>
<b>Member of the Board – Minister in charge of Energy and Infrastructure</b>
<ul style="list-style-type: none"> <li>• Transport and Infrastructure Department</li> <li>• Energy Department</li> </ul>
<b>Member of the Board – Minister in charge of Competition and Antitrust Regulation</b>
<ul style="list-style-type: none"> <li>• Department for Antitrust Regulation</li> <li>• Department of Competition Policy and Public Procurement</li> </ul>

Source: <http://www.eurasiancommission.org/en/Pages/structure.aspx>.

## Decision-making

In the early days of the Customs Union decisions in the Eurasian Commission were taken through a system based on 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. Such a system ensured that no decision could be imposed by Russia alone, but conversely no decision could be taken by Belarus and Kazakhstan without Russia.

That system was subsequently dropped and the Eurasian Commission's decision-making (at its Council level) is currently based on the principle of unanimity between the three states. The move from weighted voting to a purely inter-governmental system where every state has a veto over every decision is widely believed to have been introduced as part of the efforts to entice Viktor Yanukovich's Ukraine to join the Eurasian Union in 2012-2013.

The more the EEU will enlarge, the more complicated decision-making is likely to become. Obviously blockages inside the EEU could be overcome through side-payments or bilateral diplomacy, quite likely coercive diplomacy as well, to induce cooperation. But the more the need for coercive diplomacy, the more the EEU will risk replicating the fate of previous unsuccessful attempts at integration such as the Commonwealth of Independent States (CIS) or Eurasian Economic Community (EurAsEC).

At the same time, moving back to a system of weighted voting, given the huge power asymmetries between Russia and the other much smaller states, might stoke either resentment against Russia if the system does not give enough blocking power to small states, or build resentment in Russia if the system is too weighted in favour of small states. Furthermore both Kazakhstan and Belarus strongly insist on the principle of unanimity in the EEU.

## Economics

While it is too early to talk of the economic impact of the EEU, its economic foundations look uncertain. The main reason for this is the fact that in the two decades following the dissolution of the USSR, Russia's weight and importance as a trading partner for most post-Soviet states drastically declined. The economic rise of China and the opening of relations with the EU profoundly altered the patterns of interdependence in the vast territory of what was once the Soviet Union. As a result, the EU and China are bigger trading partners than Russia for every post-Soviet country except Belarus and Uzbekistan.

**TABLE 2: FOREIGN TRADE STRUCTURE OF POST-SOVIET STATES<sup>2</sup>**

CIS Country	Top trading partners (except Russia), 2012	Trade with Russia (% of foreign trade) for 2012
<b>EEU countries</b>		
Russia		
Belarus	EU – 29% , Ukraine 8.5%	Russia – 47%
Kazakhstan	EU – 32%, China – 23%	Russia – 19%
Armenia	EU – 29%, China – 7.6%	Russia – 23%
<b>Other post-Soviet states</b>		
Ukraine	EU – 33%, China – 7%	Russia – 21%
Moldova	EU – 54%, Ukraine – 15%	Russia – 11.8%
Georgia	EU – 28%, Turkey – 12%, Azerbaijan – 8%	Russia – 6.7%
Azerbaijan	EU – 46%, Turkey – 7.1%	Russia – 6.3%
Kyrgyzstan	China – 51%, Kazakhstan – 7%, EU – 5.5%	Russia – 17%
Tajikistan	China – 36%, Turkey – 10%	Russia – 14%
Turkmenistan	China – 45%, EU – 12%, Turkey – 9%	Russia – 6.8%
Uzbekistan	US – 14%, China – 12%	Russia – 9.7%

The emergence of the Eurasian Union would change the existing trade arrangements to some extent. Russia has much higher tariff levels than most post-Soviet states. For example its trade-weighted average tariff agreed in the WTO was 9.9% for 2011, whereas in the same year it was 3.6% for Armenia, 3.8% for Kyrgyzstan, 2.7% for Ukraine, and 3.7% for Moldova.<sup>3</sup>

The Customs Union largely took Russia's tariff levels as a basis for its own tariff provisions. Therefore when new members join the Customs Union, as was the case for Kazakhstan and will be the case for Armenia, they are usually obliged to raise their tariffs. In practical terms, this means that importing from the EU and China will become more expensive, making many consumer goods more costly for the population, as well as new equipment and machinery for businesses.

Another problematic effect of the increase in tariffs upon joining the EEU stems from the fact that it has complicated Kazakhstan's WTO accession process, and would breach existing WTO commitments for current WTO members that are set to join the EEU (Armenia and Kyrgyzstan) since they would need to raise their tariff levels

2. Data from DG Trade, European Commission. See: <http://ec.europa.eu/trade/policy/countries-and-regions>.

3. See interactive map of trade and tariff data at: [http://www.wto.org/english/res\\_e/statis\\_e/statis\\_maps\\_e.htm](http://www.wto.org/english/res_e/statis_e/statis_maps_e.htm).



above their existing commitments, potentially triggering compensation claims or retaliation from other WTO members. This problem is not unique or insurmountable, however. The states of the European Union (or the European Economic Community, as it then was) created a Customs Union in 1958, and all of them had to renegotiate their different tariff commitments as part of the General Agreement on Tariffs and Trade (GATT, the precursor to the WTO) in 1960-62.

Another problem is that, whereas a Customs Union would be expected to boost trade among partners due to the elimination of customs procedures, and raise tariffs for non-Customs Union members, the record in this respect has been rather mixed. After an initial boost in trade in 2010-2012, trade among the Customs Union members has actually been falling in 2013-2014. In 2013 intra-Customs Union trade fell by 5.5% and in the first half of 2014 by nearly 12%.<sup>4</sup> Data suggest the biggest winner since 2010 has been Belarus, which managed to increase its exports, but Kazakhstan seems to be on the losing side of the equation, with its exports to Russia and Belarus falling by 3.6% in 2012, 5.5% in 2013 and almost 22% in the first half of 2014.<sup>5</sup>

These initial complications might still be overcome. But in purely trade terms the EEU is not entirely and unquestionably attractive. Therefore, a whole system of other incentives are built into the edifice of Eurasian integration.

## Political commitment

Despite all the weaknesses in the foundations of the Eurasian Union, the project is going forward due to the sheer political will and determination of Russia's leadership. Reintegrating the former Soviet republics has been a key Russian foreign policy priority virtually from day one since the dissolution of the USSR. This time, though, Russia has more resources to do it than before.

It is also Vladimir Putin's personal project. He has partly staked his place in the history books on reintegration of the post-Soviet space – if not all, then most of it – and made it the centrepiece of his third presidential term. For Putin does not look at Russia's foreign policy engagement strictly in terms of financial logic: he is guided by another rationale, and is ready to spend a few billion a year on a foreign policy project that, in his opinion, brings geopolitical benefits to his country, as well as domestic political benefits for his presidency. Furthermore the Eurasian Union enjoys quite a wide base of political and societal support in Russia.

To balance the Eurasian Union's questionable economic foundations, Russia offers a whole range of subsidies for states that it is seeking to induce to join the

4. Eurasian Economic Commission, Data released on 25 August 2014. Available at: [http://www.eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_stat/test-trade/analytics/Documents/Analytics\\_I\\_201406.pdf](http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/test-trade/analytics/Documents/Analytics_I_201406.pdf).

5. Annual Statistical Bulletin of the Eurasian Economic Commission for 2011. Available at: [http://www.eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_stat/test-trade/publications/Documents/Int\\_2011.pdf](http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/test-trade/publications/Documents/Int_2011.pdf), 2012 - [http://www.eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_stat/test-trade/publications/Documents/Int\\_2012.pdf](http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/test-trade/publications/Documents/Int_2012.pdf), and 2013 - [http://www.eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_stat/test-trade/publications/Documents/Int\\_2013.pdf](http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/test-trade/publications/Documents/Int_2013.pdf).

body, in the form of cheaper gas, loans, or repayment in the event of compensation claims that might arise in the WTO. There are also the gas price subsidies offered to potential members of the Customs Union. Such subsidies would cut heating bills for most people in the countries concerned and are therefore a popular and attractive proposition. But most important of all for many post-Soviet states is the perspective of the Eurasian Union keeping the Russian labour market relatively open for migratory flows.

## The Russian debate

There are several strands of Russian domestic opinion on the Eurasian Union. These are mostly supportive or at least neutral towards the Eurasian Union. Perhaps the strongest supporters of the project are those who support the resurgence of Russia as an assertive great power – *derzhavniki*. This group comprises elements from various sections of Russian society, ranging from those who are nostalgic for the communist era to nationalists to liberal ‘imperialists’.<sup>6</sup> These groups see the EEU as a first step towards reasserting Russia as one of the regional poles of influence in a multipolar world. Some of them, like Sergey Glaziev, even dream that one day some current EU and NATO member states might join the Eurasian Union.

Visions of grandeur apart, the hope is that the EEU could become a centre of gravity for its member states linked to Russia beyond the lifetime of their current leaders. A Kremlin-connected political analyst interviewed by the author explained the rationale for the creation of the EEU as ‘an attempt not to allow another Ukraine. Putin’s nightmare is Lukashenko’s or Nazarbayev’s death. These countries have strong leaders, but weak institutions. There are few guarantees that their good relations with Russia will survive their current leaders. The EEU is a way to correct that. Putin wants to dilute the national elites to such an extent that after Nazarbayev and Lukashenko they would have no choice but to continue integration with Russia.’<sup>7</sup>

Such a calculation is reminiscent of the Soviet system of subordinating major industrial factories from the national republics, particularly in the military industrial complex, directly to Moscow as ‘enterprises of all-Union importance’. Building up stronger direct relations with economic, political and bureaucratic groupings in the post-Soviet states would be a way to hedge against the uncertainties that leadership changes could bring in their wake.

Moreover, many Russian liberals, who spent most of the last decade hoping that Russia would modernise, not least through engagement with the West, are cautiously

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6. Anatoly Chubais, one of the leading liberal reformers of the 1990s, called for the creation of a Russian-led ‘liberal empire’ in the post-Soviet space in an article in 2003. See ‘Missia Rossii v 21 veke’, *Nezavisimaya Gazeta*, 1 October 2010, available online at: [http://www.ng.ru/ideas/2003-10-01/1\\_mission.html](http://www.ng.ru/ideas/2003-10-01/1_mission.html).

7. Interview with the author in Moscow, June 2014.



supportive of the Eurasian Union idea. A Russian liberal intellectual even expressed the hope that the Eurasian Union could become something that is 'freer than the European Union, with more flexible rules, more open to new members, and with more equality between its members'.<sup>8</sup>

'Liberal' support to the Eurasian Union idea has several dimensions. One line of thought argues that the 'competition of jurisdictions' in the EEU would generate a race to the top and improve the business environment. The hope is that regulatory competition between a supposedly better-managed Kazakhstan and less corrupt Belarus could force Russia to improve the business environment, or otherwise risk losing tax revenues from companies relocating to Kazakhstan, or importers preferring to import goods into the EEU via the Belarus customs. Russia trails both Belarus and Kazakhstan in international ratings on the quality of the business environment. In 2013 the World Bank's *Doing Business* report ranked Russia at the 112th place, with Belarus and Kazakhstan ranked 58th and 49th in the world respectively.<sup>9</sup>

Another constituency of liberal opinion that is supportive of the EEU believes that the Eurasian Commission could act as a constraining power on Russia itself, especially when it comes to keeping in check the more protectionist or politically-motivated trade policies espoused by parts of the Russian administration. Of course, there is an understanding that it would not deal with high-priority issues, such as Russian trade restrictions on Ukraine or much of the West, introduced as counter-sanctions in the context of the Ukraine crisis. But nonetheless the hope is that the Eurasian Commission could limit or slow down many other negative regulatory tendencies that often emanate from the more conservative sections of the Russian executive.

There is also a view that the Eurasian Economic Commission could be, or indeed already is, a more open-minded and less politicised bureaucratic structure than large parts of the Russian executive. A Russian economist has expressed the hope that the 'Eurasian Commission will be a more rational regulator than Rospotrebnadzor' – the Russian phytosanitary agency that spearheaded many of the political trade embargoes on countries like Georgia, Moldova or Ukraine. The fact that Igor Shuvalov, one of the most 'liberal' members of the Russian government, is the key overseer of the Eurasian Union also boosts such hopes.

Various business groups have already started to attempt such bottom-up leveraging of the Eurasian Union against the Russian executive. This has happened for example in the area of regulatory-impact analysis, a good governance practice promoted by the OECD whereby governments assess the positive and negative effects of new regulations, not least through consultations with businesses.

Advocates of this idea managed to persuade one of the Kazakh ministers in the Eurasian Economic Commission, a 36-year old MBA graduate from Maryland University in the US, of the need to submit the Eurasian Commission to regulatory impact

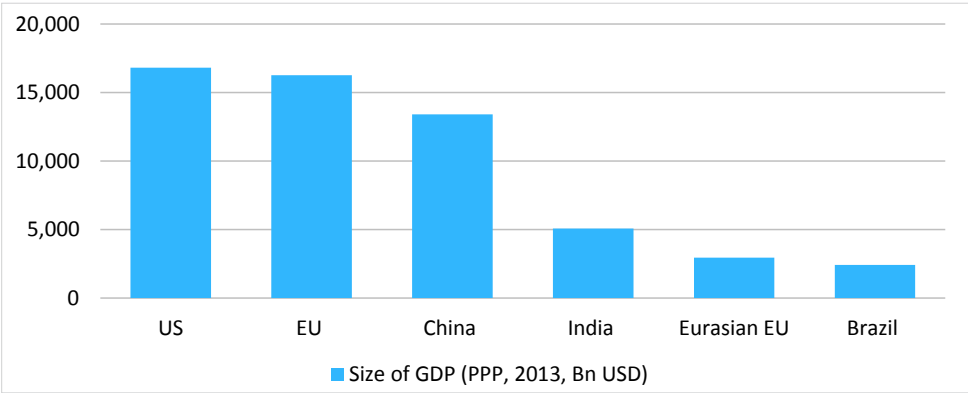
8. Interview with the author in Moscow, June 2014.

9. World Bank, *Doing Business 2013: Smarter Regulations for Small and Medium-Size Enterprises*, available online at: <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB13-full-report.pdf>.

analysis.<sup>10</sup> The minister then promoted the idea in the talks on the formation of the Eurasian Economic Union, which led to the introduction of the regulatory impact analysis as one of the core principles of the activity of the Eurasian Commission in the founding treaty of the EEU.

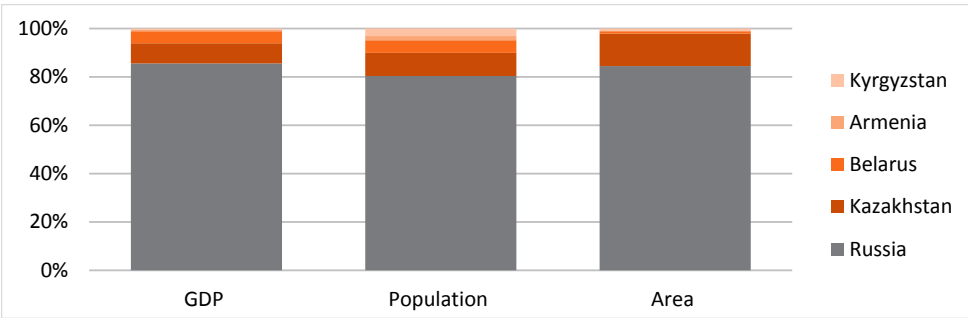
Thus, the Eurasian Union project draws some support from Russian economic modernisers who view either the Eurasian Commission itself, or the more open members of the Kazakh administration, as potential promoters of progressive and modernising ideas. As an employee of the Eurasian Commission has commented, ‘Kazakhstan has more Western graduates, in higher positions and they listen more to external advice. The same is true to a certain extent of Armenia. They might have a positive influence in the Eurasian Union’. Nonetheless, given the internal economic and power asymmetries within the Eurasian Union, it is clear that the impact that 2-3 small states might have on Moscow when it comes to issues of high salience or clearly determined policy priorities is rather limited.

FIGURE 1: THE ECONOMIC WEIGHT OF GREAT POWERS



Source for data: International Monetary Fund (IMF).

FIGURE 2: EURASIAN ASYMMETRIES: GDP, POPULATION AND AREA



Source for data: Wikipedia.

10. See: <http://www.hse.ru/news/community/124839957.html>.

## Russkii Mir vs Eurasia?

The prospect of free movement of labour is probably the single most attractive feature of the Eurasian Union from the point of view of most post-Soviet states, particularly those of Central Asia, which have large numbers of impoverished rural youth with very little prospects of employment in their home countries. From their perspective the trade dynamic with Russia might not be of paramount importance, but retaining access to the Russian labour market for hundreds of thousands of migrants is a matter of crucial socio-economic stability if not survival. However, this issue of migration is also something of a time bomb in terms of the Eurasian Union project.

From a Russian perspective, it is uncontroversial to have relatively open borders with countries like Belarus or Ukraine, or even Kazakhstan, whose oil economy generates sufficient job opportunities for its citizens at home. However, this is not the case when it comes to migration from the countries of the South Caucasus, and especially Central Asia – a major conduit of migration of poor rural Muslims into Russia.

Currently the citizens of most post-Soviet states can travel visa-free to Russia, although they do not have an automatic right to work unless they obtain a work permit. As a result of this system millions of workers, primarily from Central Asia, enter Russia legally, but then work illegally without work permits. The sheer scale of migration flows has triggered a backlash in public opinion, with 82% of Russians now in favour of introducing visas for the countries of Central Asia. However, with the creation of the Eurasian Union, the Russian government is moving in the opposite direction – it aims to liberalise and open the labour market for EEU members, which is clearly unpopular domestically. Public hostility to migrants from different ethnic and cultural backgrounds has already degenerated on a number of occasions into violent anti-immigrant riots, most recently in the Moscow suburb of Biryulevo in the autumn of 2013.<sup>11</sup>

When it comes to Kyrgyz or Tajik accession to the EEU this issue will become more acute. The tension between widespread anti-immigration sentiment among the Russian population and Russia's foreign policy of consolidating and expanding the Eurasian Union is already evident. Nationalist opposition to the Eurasian Union is not yet an important political undercurrent and Putin, who is at the height of his popularity after the annexation of Crimea, can ignore that for now. But if Putin's popularity slumps, the Kremlin may not find it so easy to ignore nationalist opposition to what is after all a central pillar of the EEU.

This is true of domestic Russian support for the EEU as a whole. The idea that the Eurasian Union implies that Russia will have to more or less directly subsidise its poorer neighbours – through cheaper gas, loans, or politically-inspired investments – is very widespread in Russia. This is mitigated, however, by the understanding that

11. Nicu Popescu, 'The Moscow riots, Russian nationalism and the Eurasian Union', *EUISS Brief* no. 42, November 2013. Available online at: [http://www.iss.europa.eu/uploads/media/Brief\\_42\\_Russian\\_nationalism.pdf](http://www.iss.europa.eu/uploads/media/Brief_42_Russian_nationalism.pdf).

## **Eurasian Union: the real, the imaginary and the likely**

even if the Eurasian Union proves a costly endeavour for Russia, that cost would not be exorbitant given the resources Russia has at its disposal. For many in Russia the Eurasian Union is not just an economic project, but a stepping stone to a bigger, greater, geopolitical Eurasia.

## CHAPTER 2

# The geopolitical Eurasia

‘Eurasianists’ in the Kremlin’s corridors of power nurture the hope that the small technocratic exercise in economic integration represented by the Eurasian Economic Union in its current format could evolve into something bigger – an integrated, Russian-led and globally relevant Eurasia. Many in Russia have a deep sense of entitlement to the post-Soviet states – as revealed once by Putin’s casual remark that the Soviet Union was in essence ‘Russia, but just under a different name’.<sup>12</sup> Some in Russia have even higher stakes, as they hope that Eurasian integration ‘could destroy the global dominance of the West and put an end to US hegemony.’<sup>13</sup>

Yet, the harder Russia has tried to promote a viable structure for post-Soviet reintegration, the less it seems to have worked. This is because virtually all post-Soviet states, relying as much as possible on other powers, have sought to either frustrate or drive up the costs of Russian-led integration initiatives.

## Deepening vs widening

The real Eurasia (as represented by the regional economic body) and the imaginary Eurasia (as represented by Putin’s vision of a geopolitical superbloc) are not necessarily mutually reinforcing. The former needs a measured, steady and calculated approach, and the latter is fuelled by grandiose and ideological ambitions. On the one hand, the current Eurasian Union is supposed to be the engine of the future geopolitical Eurasia. But for the real Eurasia to work it needs a small number of countries, a manageable number of internal tensions, and some economic benefits to make it minimally self-sustaining. The real Eurasia needs to focus first and foremost on its internal set-up before it can expand.

The logic of a geopolitical Eurasia is the opposite. It suggests that the larger the Eurasian Union, the stronger Russia’s great power image will be – both domestically

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12. Interview given by Vladimir Putin on the three federal TV channels, 18 November 2011. Available at: <http://www.vg-news.ru/news-intervyu-putina-trem-federalnym-kanalam-polnyi-tekst>.

13. Elena Ponomareva and Lubov Shishilina, ‘Krah Operatsii Vostochnoe Partnerstvo’, 18 June 2014. Available at: [http://zerkalokryma.ru/specialproject/novorossiya/predsedatelstvo\\_latvii\\_v\\_es2015\\_vostochnoe\\_partnerstvo\\_vmesto\\_ili\\_vmeste\\_s\\_rossiej/](http://zerkalokryma.ru/specialproject/novorossiya/predsedatelstvo_latvii_v_es2015_vostochnoe_partnerstvo_vmesto_ili_vmeste_s_rossiej/)

and internationally. It also needs to materialise relatively fast, before Russia loses even more economic relevance in the post-Soviet space to China and the EU. But the rush to expand creates the risk that adding too many carriages to the train or pushing the Eurasian engine to drive too fast will derail it.

Russia is trying to manage this balancing act by judiciously dosing both widening and deepening of the Eurasian Economic Union. That is why the Eurasian Economic Community of six states, launched in 2000, was dropped, and Russia moved ahead with a customs union with two other states only.

But if time might work in favour of deepening the Eurasian Union, it seems to work against its potential for enlargement. There is not much time in which to achieve consolidation before expansion. The risk is that the longer EEU enlargement is postponed, the fewer interested candidates there might be, since the other post-Soviet states seem to be increasingly tied into other international trade networks and commitments that complicate their potential accession to the EEU – either accession to the WTO, association with the EU, or the ever-deepening trade and investment relations with China.

This dynamic is a function of a changing world. After the demise of the USSR, the US, European Union and China became increasingly important players in the post-Soviet space – partly by choice, but often by virtue of their economic interests, as well as strong demand for greater foreign policy and economic partnerships from the post-Soviet states themselves. And the real obstruction encountered by Russian projects came from the post-Soviet states themselves, even those that more often than not paid lip-service to Russian leadership.

The Kyrgyz president Almazbek Atambayev, referring to Eurasian integration, stated in December 2013 with undisguised regret that ‘Ukraine has a choice, but unfortunately we don’t have much of an alternative [to the Eurasian Union]’.<sup>14</sup> The truth is that most post-Soviet states have enough wiggle room in regional politics to avoid Russian domination and have ruthlessly availed of this either to distance themselves from Russia, or to extract as many concessions from Moscow as possible. This has constantly complicated the implementation of Russia’s vision for a geopolitical Eurasia.

## **The current members**

Of all the post-Soviet states, the case of Belarus fits most naturally into the design of a geopolitical Eurasia. It is the single post-Soviet state that is most economically dependent on Russia, and its political isolation also limits its foreign policy options. But even Belarus is a far from easy proposition. Its president is engaged in a tough bargaining game with Russia over subsidies, gas prices and economic rents. And

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14. ‘Atambayev: Kirghizia vstupit v TS, esli budut vypolneny trebovania Bishkeka’, *Interfax*, 16 December 2013. See: <http://www.interfax.by/news/belarus/1143832>.

whenever Aleksandr Lukashenko is forced to make concessions, he retaliates by making jibes at the Kremlin and even at Putin personally. On one occasion he even commented that, looking at the party meetings of the ruling party in Russia, he was 'worried that Russia might be pushed back to Soviet times, when everyone stood up and shouted "Glory to the Communist Party of the Soviet Union"'.<sup>15</sup>

The case of Kazakhstan is more complex. Kazakhstan's political commitment to Eurasia is strong. The idea of a Eurasian Union was first enunciated by President Nazarbayev in 1994 in a speech at the Moscow State University. However, Kazakhstan is keen to put the brakes on attempts at integration that go beyond economic issues.

The organisation's formal title – the Eurasian Economic Union, rather than just the 'Eurasian Union' initially suggested by Russia – is also indicative of the attempts to limit the political scope of the project.<sup>16</sup> In relation to the ambitions of the EEU Nazarbayev stated that the 'politicisation of the newly-created union is unacceptable. Such matters as border control, migration, security and defence, as well as healthcare, education, culture, legal aid to citizens on matters of civil, administrative and criminal law, are not related to economic integration and cannot be brought into the framework of an economic union.'<sup>17</sup> A similar attitude extends to monetary integration. Whereas Russia promotes the idea, Kazakhstan is openly opposed.

Kazakhstan's qualified political commitment does not exclude basic bean-counting. After a Eurasian Union summit in October 2013, Nazarbayev complained that the Customs Union imposed more costs than benefits on Astana, whose exports to other Customs Union members fell by 4% (\$7 billion), and imports increased by \$17 billion. He also complained of 'continuing obstacles for exports of Kazakh meat and meat products, lack of free access to the Russian electricity market, and limited possibilities for electricity transit'.<sup>18</sup>

Another element that colours Kazakhstan's approach to the Eurasian Union is the fact that, for all of Astana's political commitment to the union itself and good relations with Russia, Kazakhstan does not have geopolitical ambitions, nor does it harbour illusions about Eurasia in this regard. Kazakhstan certainly does not want to be dragged into a geopolitical battle between Russia and the West. It just wants a functional economic union that delivers benefits to its members, which makes it sceptical about too swift an enlargement. As Nazarbayev has stated bluntly: 'we are very careful about new members'.<sup>19</sup>

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15. '15 komplimentov Lukashenko I Putina drug drugu', *Newsland.ru*, 4 August 2011. Available at: <http://newsland.com/news/detail/id/753091/>

16. See Stanislaw Secieru, 'Bumps on Russia's road to the Eurasian Economic Union: postponed integration, costly enlargement and delayed international recognition', PISM Policy Paper, no. 10 (93), Polish Institute of International Affairs, July 2014. Available at: [http://www.pism.pl/files/?id\\_plik=17741](http://www.pism.pl/files/?id_plik=17741).

17. 'Shuvalov Uspokoil Kazakhstan', *Newsru.com*, 28 May 2014. Available at: <http://www.newsru.com/russia/28may2014/shuvalov.html>.

18. 'Suverenitet ne ikona', *Gazeta.ru*, 24 October 2013. Available at: <http://www.gazeta.ru/business/2013/10/24/5722545.shtml>.

19. Transcript of the press conference on the conclusion of the meeting of the High Eurasian Economic Council, 24 October 2014. Available at: <http://kremlin.ru/transcripts/19485>.

The bottom line for both Belarus and Kazakhstan is that they want an economic Union with Russia, but they do not want to see the emergence of Eurasia as a geopolitical entity that either grows too fast or is assertive and confrontational in the international arena.

## **The future members**

None of the declared Eurasian Union accession candidates are enthusiastic Eurasians. None trade that much with Russia, and due to their geographic location and backward small economies the prospects of a massive increase in trade, especially exports to Russia, are slim. Nor do they have minimally significant industries that could get a respite from competition and a chance to get re-launched due to higher tariffs protection. Moreover, their business climate is not good, and their geographical location not attractive enough to lure major foreign investors who could use these countries as springboards to access the bigger markets of Russia or Kazakhstan.

The way in which Armenia, Kyrgyzstan and Tajikistan frame their relationship with the Eurasian Union suggests that they are more resigned to joining the EEU than motivated by any genuine enthusiasm for the prospect. Armenia explains its rationale for joining through the need to ensure Russia's security partnership in the face of its ongoing dispute with Azerbaijan. Tajikistan is going to great lengths to delay the moment when joining the EEU will be on the cards. And Kyrgyzstan's president Atambayev has even gone in for some diplomatic grandstanding, claiming that the country 'will join only if they will fulfil our conditions. We won't join it based on a road map that someone adopted. Pushing me into something won't work.'<sup>20</sup>

Kyrgyzstan even posited several conditions for accession to the EEU, which included financial support for the creation of labour-intensive industries (to compensate people who might lose their incomes if there is a drastic reduction of re-export opportunities from China); facilitations in the field of migration; and exemptions from the application of the EEU tariff levels for the import of equipment and machinery from countries such as Turkey or China. Obviously, such conditions are part and parcel of customary multilateral bargaining, but it is nonetheless significant that a state as small as Kyrgyzstan is advancing such conditions for joining a club.

Yet, all three countries export a lot of their working age populations to Russia. In the absence of jobs at home, their social stability depends on their citizens being able to obtain seasonal work in Russia. As a result of these migratory flows, large parts of their GDP depend on remittances from Russia as well. And that is perhaps the single most important thing that makes them very wary of alienating and upsetting Russia over the EEU.

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20. 'Atambayev: Kirghizia budet nastaivat na svoih usloviakh vstuplenia v TS', *Rosbalt.ru*, 16 December 2014. Available at: <http://www.rosbalt.ru/exussr/2013/12/16/1211950.html>.



All three countries, however, are part of the WTO where they negotiated relatively low levels of tariff barriers for imports into their countries.<sup>21</sup> Joining the EEU would thus imply that their tariff barriers would more than double in line with the existing tariff levels in the EEU, which is in violation of their WTO commitments and could lead to retaliatory measures from other WTO members. This does not prevent them from joining the EEU, but all are asking for financial compensation from Russia.

Joining the EEU will likely lead to an increase in tariffs and domestic prices. The situation is said to be critical especially in Kyrgyzstan, whose economy relies heavily on the country's role as a hub for the import of Chinese goods and their re-export onwards to the rest of Central Asia and Russia. To offset these drawbacks, the government is thus naturally asking for compensation from Russia. The risk with such top-down compensations is that funds could easily be misappropriated by the elites and hence not mitigate the potentially negative economic consequences that joining the EEU might entail for these countries. And given the recent years of near constant revolutionary upheavals, no scenario can be ruled out for Bishkek.

Scepticism towards Kyrgyzstan is also widespread inside the rest of the EEU. For one, Kazakhstan fears that if Kyrgyzstan joins the EEU this would open the flood gates for Chinese goods into the EEU market, partly because there is little trust in the capacity (and non-corruptibility) of Kyrgyz customs. As a Eurasian Commission official confessed, 'there is no rush with Bishkek's accession. It would be nice politically, but who wants a hole in the border with China?'<sup>22</sup> Thus the fear is that the illicit import of Chinese goods into the EEU via Kyrgyzstan might affect the entire EEU market.

Armenia, for its part, tried for years to pursue a foreign policy of 'complementarity' (akin to Ukraine's 'multivectorness'). Armenia's objective was to ensure maximal Russian security and military support in the face of its conflict with Azerbaijan, but in the meantime try to diversify its foreign political and economic links as much as possible. It even finalised negotiations with the EU on the Association Agreement. Russia had to arm-twist Armenia to give up on association with the EU and announce its intention to join the EEU.

Yet on its track to the EEU Armenia has found itself faced with a delicate situation. It might have decided to join the EEU because of the conflict over Nagorno-Karabakh and the need for a security alliance with Russia. But Nagorno-Karabakh is to be excluded from the arrangement. There is an understanding in the EEU that all trade matters should be arranged in line with international law and should be WTO-compatible. And Kazakhstan is determined to defend this principle over Nagorno-Karabakh, which *de jure* is (a secessionist) part of Azerbaijan.

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21. See: [http://www.wto.org/english/res\\_e/statis\\_e/statis\\_maps\\_e.htm](http://www.wto.org/english/res_e/statis_e/statis_maps_e.htm).

22. Interview with the author in Moscow, June 2014.

This leads to a situation where the territory of the secessionist region of Nagorno-Karabakh, which is in all but name part of Armenia, cannot join the EEU and its Customs Union area of tariff and customs-free circulation of goods and people, because it is not a *de jure* part of Armenia. The irony that Crimea is now part of the EEU, but not Nagorno-Karabakh, is certainly not lost on Yerevan.

Finally, from a Russian perspective, all other post-Soviet states are potential candidates for accession to the EEU, and Russia is engaged in constant diplomatic efforts to attract new members. Ukraine, Moldova, Georgia, Azerbaijan, and Uzbekistan have all been courted to various extents. Except for Ukraine (see next chapter), none really seems to have given serious consideration to the prospect. Azerbaijan is politically isolationist and prefers to keep aloof from all integration projects – either with the EU or Russia. Uzbekistan is also isolationist and a few years ago left the Collective Security Treaty Organisation (CSTO), a Russia-led military alliance.

Moldova and Georgia have just signed Association Agreements with the EU. In both countries there is a broad political consensus to move closer to the EU. In Moldova parts of the opposition are antagonistic to European integration, but the reality is that Moldova is too embedded in its relationship with the EU to consider withdrawing from it. For most of the last decade more than half of its trade was with the EU, and about 20% with Russia. No government is likely to defy such obvious economic realities.

Besides this natural pool of potential new members for the EEU, once in a while bizarre enlargement ideas for the Eurasian Union appear in the media. Sergey Glaziev, Putin's advisor on Eurasian integration who seems to have played a key role in the Russian efforts to scupper EU-Ukraine Association in the autumn of 2013, wrote an article in December 2013 outlining the future prospects for the Eurasian Union. His vision includes the idea of inviting some EU member states to quit the EU and join the Eurasian Union. He suggests that 'Cyprus could be used as a pilot project for transition from the European to Eurasian integration. For Greece and Cyprus, it would open new opportunities to boost the export of their goods and services to the market of the Customs Union of Russia, Belarus and Kazakhstan ... Turkey would be a welcome participant in the Eurasian integration. At this point, the participation of Greece, Cyprus and Turkey in the Eurasian economic integration is unrealistic due to their external commitments to the EU. To accomplish this objective, the first two states must withdraw from the EU, while Turkey will have to quit the customs union with the EU. This may entail their expulsion from NATO.'<sup>23</sup>

The Kazakh president has even suggested inviting Turkey to join the EEU. He stated on one occasion that 'every time I travel in the West they ask me if we are re-creating

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23. Sergey Glaziev, 'Who Stands to Win?', in *Russia in Global Affairs*, December 2013. Available at: <http://eng.globalaffairs.ru/number/Who-Stands-to-Win-16288>.

the Soviet Union under the guise of a Customs Union. In order to stop such talk, let's accept Turkey: it is a large country that will stop such rumours'.<sup>24</sup> Then there is talk of Syria signing a free trade area, or even joining the Eurasian Union.<sup>25</sup> Vietnam and Israel are working on the establishment of free trade areas with the EEU.

## The Chinese neighbour

China is another factor in the Eurasian equation. It is a bigger trading partner of the Central Asian states than Russia is, and its trading relationship with these states is made more complicated by the increase in tariffs that joining the EEU implied for Kazakhstan and will imply for Kyrgyzstan.

Yet, rather than opposing the EEU outright, China tries to circumvent it. Its calculation is that the EEU would not disrupt its projects and investments in the states of Central Asia – from acquisitions of raw materials to the building of gas pipelines, roads and railways – which are not subject to tariff restrictions. And the states of Central Asia, from either inside the EEU or outside, would continue hedging and navigating between Russia and China. It also considers that maintaining good political and economic relations with Russia is more important than the negative consequences of the EEU for Chinese exports to small Central Asian countries. Thus, from a Chinese perspective the EEU is not necessarily seen as a positive development, but at the end of the day its effects are still manageable. China clearly remains determined to continue its engagement with the states of Central Asia. Hence the Chinese proposal of a new 'silk route' through Central Asia, made by President Xi Jinping in September 2013 in Kazakhstan, just about the time when the Eurasian Union started to take shape.<sup>26</sup>

## Is greater Eurasia sustainable?

The project of a geopolitical Eurasia is thus facing a whole host of complications – ambiguities among its current and future members, and disinterest from countries that Russia would like to woo into the Union. Because the economics of the EEU rest on uncertain ground, EEU member states will be in constant need of financial incentives. And the more the EEU will enlarge, the more expensive and potentially unwieldy it will become.

The Russian state can of course afford to subsidise a few small countries like Kyrgyzstan or Armenia. As a Russian expert put it, a few billion dollars is not a great

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24. 'Suverenitet ne ikona', *Gazeta.ru*, 24 October 2013. See: <http://www.gazeta.ru/business/2013/10/24/5722545.shtml>.

25. 'Syria to join Eurasian Union', *The Syria Times*, June 2014. See: <http://syriatimes.sy/index.php/economy/13476-syria-to-join-eurasian-union>.

26. See Camille Brugier, 'China's Way: The New Silk Road', EUISS Brief no. 14, May 2014. Available at: [http://www.iss.europa.eu/uploads/media/Brief\\_14\\_New\\_Silk\\_Road.pdf](http://www.iss.europa.eu/uploads/media/Brief_14_New_Silk_Road.pdf).

sum to be paid as a 'subscription fee for the status of a great integrationist power'<sup>27</sup> and to ensure that Putin goes down in the history books as the leader who made Russia a great power again. But even then, Eurasia, with Russia having a few small states as allies and a rather reluctant partner in Kazakhstan (a country that seeks to avoid geopolitically conflictual entanglements at all cost), is hardly the geopolitical heavyweight that Putin hoped to build. In the context of the Ukraine crisis, Putin once stated that 'Russia, thank God, is not part of any alliances'. Despite having formal security alliances with several post-Soviet states, on crucial foreign policy issues Russia indeed stands alone. And the vision of a greater Eurasia has been exposed as a simple illusion by the crisis in Ukraine.

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27. 'Deni Pobedy Lukashenko', *Gazeta.ru*, 10 May 2014. Available at: <http://www.gazeta.ru/business/2014/05/09/6024573.shtml>.

## CHAPTER 3

# Ukraine and the unravelling of Eurasia

On 27 July 2013 Vladimir Putin visited Kiev to celebrate the 1025th anniversary of the 'Christening of Russia' in Crimea by Vladimir the Great, Grand Prince of Kiev, nicknamed 'the Fair Sun' (*Krasno Solnyshko*). Putin made an impromptu appearance at a conference on 'Orthodox-Slavic values – the foundation of Ukraine's civilisational choice' organised by Viktor Medvedchuk, a Ukrainian politician to whose daughter Putin is godfather. There, Putin announced that Russians and Ukrainians are 'one nation' and that throughout the vagaries of history the 'idea of unity between the western and eastern Rus [i.e. Ukraine and Russia] always lived on both in the east and west of the lands where our nation lived'. He then extolled the benefits of Ukraine's inclusion in the Russian empire and USSR, citing a whole array of Soviet-era statistics.<sup>28</sup>

Two weeks later Russia fired a warning shot across Ukraine's bows when it blocked virtually all Ukrainian exports to Russia, thereby pressurising Ukraine not to sign the pending Association Agreement with the EU. This sparked off a trade and diplomatic war, followed by a revolution in Kiev, Russia's occupation and annexation of Crimea, and a proxy war in Eastern Ukraine which within less than a year left thousands of people dead. The crisis tragically acquired an even greater international dimension when, on 17 July 2014, a civilian airliner carrying 298 foreign nationals from Amsterdam to Kuala Lumpur was shot down with the loss of all on board.

The Eurasian Economic Union was to a large degree conceived and designed to attract Ukraine. Indeed at times it has seemed that the Eurasian project is as much, if not more, about Ukraine than about Eurasia. Ukraine occupies a central place in Russia's political psyche. The debate on whether Ukraine is a separate country or *kraina* ('borderlands') of Greater Russia, and whether to refer to it as 'Ukraine' or 'the Ukraine' (as the borderlands, i.e. part of a country) is so intense that it can sour friendships and family relations in Russia.<sup>29</sup>

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28. Putin's intervention at the Conference 'Orthodox-Slavic values – the foundation of Ukraine's civilisational choice', 27 July 2013. Available at: <http://kremlin.ru/video/speeches/1545?page=28>.

29. In the Russian language this discussion takes the form of a debate on whether to use 'v Ukraine' or 'na Ukraine' to mean 'in Ukraine'. 'V' is used when referring to all countries in the world ('v Germanii'/'in Germany', for example), whereas 'na' is used for regions of countries ('na Dalmem Vostoke'/'in the Far-East', 'na granitse'/'in the borderlands').

Ukraine also plays an important role in Putin's personal political history. He has been a 'Teflon President' (as some critics have branded him) in both the domestic and foreign policy arenas on virtually all issues, except Ukraine. Ukraine has been a constant source of policy failure, frustrations and humiliation, from the Orange Revolution to the shooting down of the Malaysian airliner. The near-obsession with Ukraine, instead of bringing Russia and Ukraine closer together, seems to have ignited the largest 'uncivilised divorce' in post-Soviet history, and the unravelling of the Russian vision for a wider Eurasia.

## Ukraine is not Russia

In 2003, while still president of Ukraine, Leonid Kuchma authored a 560-page book, written in Russian and launched in Moscow, simply entitled: *Ukraine is not Russia*. That is perhaps the one unifying manifesto of the Ukrainian elites since 1991 that transcended parties and regions. For Russia, on the other hand, a similarly unifying theme is the idea that Ukraine *is* Russia.

The Ukrainian way of dealing with these contradictory visions was to opt for cooperation without integration with Russia. Kiev's policy, often dubbed 'multivectorness', was to send positive 'signals' to Moscow, make public pledges and even sign documents tabled by Russia, then expend significant political energy on not delivering on them. A similar approach was also used in relation to the West. This policy aimed at extracting benefits from Russia and the West without offering much in return, often playing the two against each other to the frustration of both.<sup>30</sup> Ukraine was not a victim, but a player in this game.

The accession to the presidency of Viktor Yanukovich in 2010 was perceived in Moscow as an opportunity to anchor Ukraine into a Russian-led post-Soviet order. It all started rather well when in 2010 Yanukovich was persuaded to sign an agreement prolonging the lease of the Russian Black Sea military fleet's naval base in Crimea until 2042 in return for a gas price discount.

But by 2013 the situation had altered radically. On the one hand Yanukovich was increasingly isolated internationally. The economy was deteriorating, not least due to rampant corruption, and the need for external financial assistance was becoming a matter of urgency. At the same time Ukraine and the EU, which initialled an Association Agreement in 2012, were intensifying their diplomacy with a view to signing the agreement at the Eastern Partnership Summit in Vilnius in November 2013, with the proviso that Yanukovich release former prime minister Yulia Tymoshenko from prison and fulfil a whole series of more technical conditions (most of which Ukraine complied with).

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30. Elena Gnedina and Evghenia Sleptova, 'Eschewing Choice: Ukraine's Strategy on Russia and the EU', CEPS, 13 January 2012. Available at: <http://ceps.eu/book/eschewing-choice-ukraine%E2%80%99s-strategy-russia-and-eu>.

It was these developments that led Russia to turn up the heat on Ukraine. In July 2013 Russia imposed drastic trade restrictions on the country in an effort to force Yanukovich not to sign the Association Agreement. A few months later Yanukovich capitulated. His decision not to sign the Association Agreement triggered a dramatic chain of events in Ukraine: mass protests in Maidan Square, then shootings in Kiev, followed by the ousting of Yanukovich and his flight to Russia, Russia's occupation and annexation of Crimea, descent into virtual civil war in two regions of Eastern Ukraine and indications of a covert Russian military infiltration – with special troops and weapons' supplies – into Ukraine.

## Get Crimea, lose Ukraine

The Kremlin justified its annexation of Crimea on the grounds that Russia acted defensively. Putin's speech to the Duma on the annexation of Crimea mooted the idea that NATO was planning to deploy its navy in Sevastopol, creating a real threat to Southern Russia.<sup>31</sup> Thus the Kremlin's logic was the need to salvage as much as possible of its presence in Ukraine after Yanukovich's flight from power in February 2014.

Russia also seems to have thought that by destabilising Ukraine it was safeguarding its own security. An unstable Ukraine with an unresolved territorial conflict over Crimea and ongoing hostilities in Eastern Ukraine would be Russia's best guarantee that Ukraine will not join NATO. The logic of 'what is bad for Ukraine is good for Russia' seems to have prevailed.

Yet Russia's 'gains' have been rather modest and have had multiple unintended consequences, mostly negative for Russia. Beyond the militarily smooth annexation of Crimea, there was no pro-Russian south-eastern Ukraine, or *Novorossia* – an eighteenth-century imperial term used by Putin – just waiting for the signal to challenge or rise up against Kiev. In the end the anti-Kiev rebellion was confined just to parts of two regions (out of the total of eight) in south-eastern Ukraine, Donetsk and Lugansk.

The downscaling of Russian ambition and rhetoric has been quite perceptible. If in autumn 2013 Russia hoped to attract the entire Ukraine into the Eurasian Union, by spring 2014 it expected half of Ukraine to rise against post-revolutionary Kiev – which did not happen. By summer 2014 Russia was militarily supporting just a handful of armed insurgents (who were not strong enough to confront Kiev on their own) with some, but not overwhelming, local support.

This shift in Russia's position was subtly reflected in the geographical references used by Putin in his speeches and declarations regarding Ukraine. In the summer of 2013 Putin spoke of Kiev as the cradle of Russia, and unity between Russia and

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31. Address by President of the Russian Federation, 18 March 2014. See: <http://eng.kremlin.ru/news/6889>.



the entire Ukraine, including Lvov, the centre of Western Ukraine;<sup>32</sup> by April 2014 Putin seems to have given up on the idea of unity with Western Ukraine and Kiev, invoking instead unity between Russia and 'Novorossia' only, a wide 'Russian and Russian-speaking' arc that 'has never been part of Ukraine' stretching over half of Ukraine from the border of Russia to that of Romania;<sup>33</sup> and by summer there was no more mention of 'Novorossia'.

To a large extent, Russia's actions in Ukraine have been self-defeating. It has succeeded only in galvanising anti-Russian sentiment in the country for years if not decades to come, driving Ukraine to rely more heavily on the West, and has led the West to take an even deeper interest in the region and start beefing up its own security infrastructure, from energy to defence.

In the process, Russia got Crimea but lost Ukraine, and relinquished the opportunity to make another attempt to woo Ukraine at a later stage. The events of the last few months attest to the ultimate failure of the plan to attract Ukraine into integrationist blocs like the Eurasian Economic Union, and deliver what was a key Russian foreign policy goal.

Russian failures are also part of a 'lose-lose-lose situation' for Russia, Ukraine and possibly the West. The closing of the Eurasian alternative for Ukraine will not necessarily pave the way to a successful European Ukraine. As a Russian expert puts it, 'rather than having a Turkish Ukraine – inside NATO and aspiring to the EU – the Kremlin prefers to have no Ukraine at all, to blow the house down'.<sup>34</sup> As a result both Russia and Ukraine are likely to emerge worse off from the current crisis.

## Uneasy allies

The annexation of Crimea and Russian policies in Ukraine have naturally reverberated across other post-Soviet countries, including Russia's partners in the Eurasian Union. There is a fundamental sense of unease with the fact that Russia did not hesitate to use military force to change the borders of a former Soviet state at a moment when that country was riven by internal divisions and bilateral tensions. For, ultimately, most post-Soviet states could see themselves becoming mired in a similar predicament.

This fear has two countervailing effects. On the one hand, it breeds a desire to hedge (discreetly) against Russia. On the other hand, it creates an awareness that pursuing such a strategy too obviously might prove costly. Hence, most post-Soviet states, but especially Belarus and Kazakhstan, tread a tightrope in their relations with Russia,

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32. Putin's intervention at the Conference 'Orthodox-Slavic values – the foundation of Ukraine's civilisational choice', 27 July 2013. See: <http://kremlin.ru/video/speeches/1545?page=28>.

33. Putin's remarks on *Novorossia*, 'Direct Line with President Putin', 18 April 2014. Available at: <https://www.youtube.com/watch?v=YXr-oLbT8Qc>.

34. Interview with the author in Moscow, June 2014.



carefully maintaining a guarded posture towards Moscow while continuing on the path towards integration. This was very visible in their reaction to the situation in Ukraine. Both Belarus and Kazakhstan obviously accepted the annexation of Crimea, and, by virtue of its *de facto* annexation to the Russian Federation, its inclusion in the EEU.

But both – Belarus more openly, Kazakhstan less so – distanced themselves as much as possible from Russian policies on Ukraine through various statements and actions. Both Belarus and Kazakhstan resisted the introduction of trade restrictions by the Eurasian Union against Ukraine and Moldova advocated by Russia in retaliation for the latter states' signing of Association Agreements with the EU. As a result, Russia is rolling out such trade restrictions on its own. The same happened with Russian trade restrictions imposed on imports from the EU and other Western countries.

These sanctions exposed not just a lack of intra-Eurasian solidarity, but even created incentives for (especially) Belarus to potentially capitalise on that, by positioning itself as a gateway for the entry of Western goods to the Russian market, circumventing the Russian sanctions on the import of selected Western products. When Belarus announced it would not close its market to Western products, in Russia jokes began to circulate that landlocked Belarus would soon become a major producer and supplier of smoked salmon and parmesan cheese to Russia. The joke has in fact some basis in reality. Belarus is already a supplier of lemons, bananas and cuttlefish to Russia, and was a conduit for the supply of Moldovan wine and Georgian mineral water into the country during Moscow's periodic embargoes.<sup>35</sup>

Both Belarus and Kazakhstan recognised the newly elected Ukrainian president Petro Poroshenko in a matter of days. While Russia continued to withhold formal recognition of Poroshenko, Alexander Lukashenko, the president of Belarus, even attended the inauguration in Minsk. On that occasion he went so far as to endorse the Ukrainian anti-insurgency campaign, commenting that 'those terrorists, who kill, should be destroyed'.

Kazakhstan's diplomatic style is less ebullient than that of Lukashenko, but the country is in fact probably more worried than Belarus. Many in Kazakhstan fear that Crimea sets a dangerous precedent for North Kazakhstan, an area that was transferred to Kazakhstan during the Soviet Union era, and has a large Russian population.

This does not imply that Kazakhstan or most other post-Soviet states think that Russia is about to launch military interventions in the region anytime soon – far from it. The fear is that in the event that Kazakh-Russian relations were to deteriorate, or Kazakhstan found itself facing a domestic political crisis arising from the lack of proper mechanisms to transfer power from one leader to another, then territorial challenges might arise. The fact that Russia guaranteed Ukraine and Kazakhstan's territorial integrity in exchange for denuclearisation under the same Budapest

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35. 'Ni Kazakhstan, ni Belorusia ne otkazhutsa ot importa is ES', *Vedomosti*, 12 August 2014. Available at: <http://www.vedomosti.ru/politics/news/32013971/soyuz-lomitsya-ot-edu#ixzz3BaQGSPjM>.

memorandum of 5 December 1994 also sends out ominous signals. Within three weeks of the annexation of Crimea, Kazakhstan introduced tough new criminal code legislation against calls for and action in support of separatism (an offence now punishable by up to 10 years in prison).

Such measures suggest discomfort and uneasiness with Russia's actions. But fundamentally both Belarus and Kazakhstan are too closely bound to Moscow politically and economically to be able to contemplate any major alteration in their current relationship with Russia due to the situation in Ukraine. A Russian expert suggests that 'Kazakhstan now understands that it is better to submit to Russia in a civilised way, otherwise Russia will take what it wants by force.'<sup>36</sup>

In addition, the situation in Ukraine is not only seen as a Russian land-grab and support by Moscow for military insurgency against a legitimate government. Ukraine-style popular uprisings are anathema to the authoritarian elites of Belarus and Kazakhstan. And Russia's insistence that the ousting of Yanukovich amounted to a *coup d'état* at least encouraged if not supported directly by Western meddling, is an argument that resonates with large sections of the leadership in several other post-Soviet states. Russia also proclaims, on the basis of recent events in Ukraine, that the EU's behaviour is evidence that the West easily abandons or even overthrows its erstwhile allies (the case of Hosni Mubarak is also often invoked), whereas Russia does not and, consequently, Russia makes a better ally in tough times than the West.

Thus Russia's partners in the EEU are now facing a situation where Russia seems readier than ever to use force against neighbouring states. Even if there is no immediate prospect of them becoming victims of Russian aggression, it is an important and disquieting new factor in the regional political equation.

## Uneasy neighbours

Georgia and Moldova are two other states that look askance at Russia, although the crisis in Ukraine did not make them falter on their path towards association with the EU. The societies and political elites in both countries were committed to a *rapprochement* with the EU, and the idea that the government of Moldova or Georgia would bargain over association with Russia as Yanukovich did in Ukraine, or give up on association and seek to join the Eurasian Union as Armenia did, was never really an option.

However, it seems that the possible Russian responses to their association with the EU could push them even further away from the Eurasian alternative. Both Georgia and Moldova have a long record of being the targets of Russian trade pressures, with

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<sup>36</sup>. Interview with the author in Moscow, June 2014.

wine embargoes introduced in 2006 being perhaps the most famous example of such sanctions. The numerous embargoes dealt a significant blow to the economies of these countries, but it also made them less dependent on the Russian market, with every new round of sanctions diminishing Russia's trade leverage.

Neither country ever considered joining the Eurasian Union,<sup>37</sup> but now having signed (and ratified) Association Agreements (including free trade areas) with the EU, they would no longer be able to even theoretically join the Eurasian Union since this would imply re-imposing tariffs on EU goods which would be in breach of their legal commitments *vis-à-vis* the EU. In theory, they have the option of denouncing the Association Agreements, but this could lead to the implosion of their entire economic and political relationship with the EU, and is therefore highly unlikely.

But Russia is also unrolling a new generation of potential sanctions. Since Moldova was the first to ratify the Association Agreement, Russia unleashed blanket trade embargoes on Moldovan products such as fruit, vegetables, and processed meats, which were applied on top of a pre-existing wine embargo.

Russia suggests it will retaliate with non-tariff measures, which are outside the scope of the CIS free trade area, such as discriminatory application of phytosanitary measures or new restrictions on the movement of people (possible introduction of visa requirements, refusal to issue work permits based on citizenship, or other measures for stricter migration controls). There is also talk of pushing signatories of the Association Agreement out of the CIS free trade area, although it is unclear how that would be achieved in practice.

Both countries have survived such economic pressure before. However, they fear the potential escalation of security risks. Georgia became embroiled in a war with Russia in 2008, and many in Georgia fear that a deterioration in the security situation might be on the cards again. Both Georgia and Moldova fear potential destabilisation spreading beyond the 'old' conflict zones that flared up in early 1990s – Abkhazia, South Ossetia and Transnistria. They are also concerned that security risks might be rising in other regions, Gagauzia in the case of Moldova and the Armenian-inhabited Samstskhe Javakheti in the case of Georgia.

## Is the Eurasian illusion over?

Other states like Azerbaijan, Turkmenistan and Uzbekistan have traditionally kept Russia at arm's length and are likely to continue to do so. Turkmenistan and

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37. Though former Prime Minister and leader of the political coalition currently in power in Georgia, Bidzina Ivanishvili once mentioned that 'I am closely monitoring and studying this issue. If it will be advantageous for our country, if it will bring it additional profits, and if, at the same time, it does not counter our strategy, which calls for Georgia's integration into the European Union and NATO, then why not?', Interview on Radio Free Europe, 9 September 2013, <http://www.rferl.org/content/georgia-ivanishvili-interview/25100642.html>.

## **Eurasian Union: the real, the imaginary and the likely**

Uzbekistan have been investing in their relationship with China, while oil-rich Azerbaijan has been playing its own version of non-aligned foreign policy – being relatively nice to all foreign powers that matter, while having enough oil revenue not to be dependent on foreign supporters.

The Eurasian Union has been an attempt to reverse the disintegration of the former post-Soviet space by turning it into a new Eurasia. Yet efforts in this direction seem to have precipitated the end of Putin's dream of a larger Eurasia. The real, but small, Eurasian Economic Union will continue to exist. Time will tell whether it will be a success or not. But the dream of a geopolitical Eurasia died in Ukraine. 'Eurasia' will remain confined to its existing members, and a few small and poor states that will not necessarily make the union stronger. The key question is how the real Eurasian Union will build its relationship with the European Union.

## CHAPTER 4

# Europe and Eurasia: Game of Unions?

The crisis in Ukraine was sparked by Yanukovich's refusal to sign the Association Agreement with the EU in November 2013. But a spark is nothing without a powder keg nearby. Ukraine itself is hardly a successful model of state building. However it is neither the first, nor the last, European state afflicted by severe corruption, democracy and governance problems to have undergone an internal revolution. Plenty of other states – inside and outside Europe – have gone through such experiences without provoking geopolitical crises of such proportions.

What really made Ukraine a powder keg was the geopolitical context of a tense dynamic between the European and Eurasian projects. Taken separately the ingredients of the Ukrainian crisis might not look that toxic, but, as is often the case, mixing and stirring otherwise innocuous ingredients can sometimes lead to explosive results.

## Europe's bipolar disorder

Russia and the EU clearly have different visions of what is often called their 'shared neighbourhood'. The EU's vision for Europe has for a long time been inspired by the Union's positive experience of enlargement. The successful 'export' of the EU to Central Europe gave way to a vision in Brussels in the early 2000s whereby the entire European continent and its southern neighbourhood could be structured around the EU in a system of concentric circles – with the EU member states at the core, followed by candidate countries and then with a friendly neighbourhood to the East and South that would gradually adopt EU norms.<sup>38</sup> That was overly optimistic for a variety of reasons, which are outside the scope of this paper.<sup>39</sup>

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38. European Commission Communication, 'Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours', COM(2003) 104 final, Brussels, 11 March 2003. See: [http://eeas.europa.eu/enp/pdf/pdf/com03\\_104\\_en.pdf](http://eeas.europa.eu/enp/pdf/pdf/com03_104_en.pdf).

39. See Nicu Popescu and Andrew Wilson: 'The Limits of Enlargement-lite: European and Russian power in the troubled neighbourhood', ECFR Report, June 2009 and 'Turning Presence into Power: Lessons from the Eastern neighbourhood' ECFR Policy Brief, May 2011.

In response, Russia advanced its own vision of a bipolar Europe. A Europe where the EU would constitute one pole, and Russia (and the post-Soviet satellite states grouped around it) another. According to this geopolitical vision, the Eurasian Union would be Europe's second pillar. Europe's Eurasian pole was supposed to integrate the post-Soviet states around Russia, and increase Russia's bargaining power *vis-à-vis* Europe and the rest of the world in economic and political terms. The argument in favour of wider European integration via Eurasia was used to 'market' the Eurasian Union in the post-Soviet space. It was Vladimir Putin who wrote that 'the Eurasian Union would be part of Greater Europe ... Accession to the Eurasian Union would allow each of its participants to integrate quicker and on better terms into Europe'.<sup>40</sup> The argument in favour of integration into Europe via Moscow and the Eurasian Union might have made some sense in Kazakhstan or Kyrgyzstan, but hardly in Ukraine or Moldova, which neither needed nor wanted Moscow's *droit de regard* over their relationship with Brussels.

Neither of these visions (propounded respectively by the EU and Russia) was destined to be realised. Both visions came unstuck – partly because the states in between refused them, and partly because they clashed with each other and were mutually contradictory to a certain extent. The EU's maximalist vision started to run aground when Russia, most of the Middle East and North Africa, as well as parts of the Eastern neighbourhood (Belarus and Azerbaijan), refused to be cast in the role of passive 'policy-takers' on the outskirts of the concentric circles arrayed around a Union that appeared to be in decline. The EU was obliged to take no (or sometimes 'yes, but ...') for an answer.

Russia's Eurasian vision, however, proved even less attractive for its intended beneficiaries than that of the EU – as most post-Soviet states, primarily Ukraine, spent more time avoiding getting drawn into it than actively contributing to building it. And the situation became increasingly complicated as Russia, unlike the EU, refused to take no for an answer.

In the end the EU's and Russia's maximalist ambitions were both frustrated primarily due to the choices and responses of the targeted states, rather than great power rivalry. The countries of the neighbourhood themselves proved to be the 'flies in the ointment'. But the mutual tension between the Eurasian and European projects also played a role. EU eastern policy proved to be a policy with more or less explicit geopolitical consequences that was not designed to either really counter or withstand serious Russian opposition to it, nor, as an alternative, to accommodate Russia. And Russia's Eurasian project was designed in ways that specifically countered the EU's interests and options, but it underestimated the post-Soviet states' resistance. Yet from the ruins of these shattered maximalist ambitions, a different reality emerged.

What is already becoming clear through the fog of the Ukrainian crisis is that the respective neighbourhood policies of both Russia and the EU are achieving their minimalist goals almost by default. Ukraine, Moldova and Georgia chose to implement

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40. Vladimir Putin: 'Novyi Intergratsionnyi Proekt dlia Evrazii', *Izvestia*, 3 October 2011. See: <http://izvestia.ru/news/502761>.

large swathes of the *acquis communautaire* through their Association Agreements and free trade areas with the EU. And Russia continues to pursue integration through a union with Kazakhstan, Belarus, Armenia, Kyrgyzstan and Tajikistan, which is probably not heavyweight enough to amount to an alternative pole of influence in Europe, but is nonetheless making progress. Settling for these minimalist visions might be a way to slowly overcome the current crisis and build a Europe that is neither unipolar nor bipolar but, at least in perspective, a more cooperative Europe.

## The Eastern Partnership scheme

The failure of both maximalist visions – of a unipolar versus a bipolar Europe – led to a storm of mutual recriminations between the EU and Russia. For years Russia treated the Eastern Partnership disparagingly, but in the context of the crisis in Ukraine Moscow became much more virulent in its attitude, portraying the Eastern Partnership as a *deus ex machina* that was designed by the EU as an insidious anti-Russian initiative. Almost everything that Russia considers to have frustrated its ambitions was ascribed to the Eastern Partnership.

Like any policy, the Eastern Partnership had plenty of room for improvement – in terms of both design and delivery. But it certainly was not a major, concerted EU attempt to contain Russia or expand the EU. Many key advocates of the Eastern Partnership, which was a 2009 add-on on to the European Neighbourhood Policy and a sort of response to the Mediterranean Union initiative, were indeed sceptical with regard to Russia, but the policy itself was quite modest in scale and ambition. It was neither tasked nor endowed with resources to challenge Russia. It was budget neutral, meaning that there was no increase in funding to the EU's Eastern neighbours following the launch of the Eastern Partnership. There was no significant security policy dimension, nor an explicit enlargement prospect. Its main policy tools were action plans and modest financial instruments. But its strongest point was not what the EU actually did, but the fact that most post-Soviet states were desperate to increase their cooperation with the EU (although not necessarily join it), often as a way of hedging against Russia.

## No zero sum game

Another recurrent argument against EU policies in the region was that the EU was forcing an 'either-or' choice on states like Ukraine. This is simply false. Ukraine's choice was to have free trade areas simultaneously with both Russia and the EU. Creating a free trade area with the EU was and still is entirely compatible with the existing status of relations between Russia, Ukraine, Moldova and other post-Soviet



states currently governed by a CIS free trade area. The CIS Free Trade Area Agreement stipulates explicitly that ‘the current Agreement does not prevent the parties from participating in customs unions, other free trade or border trade arrangements provided they comply with the rules of WTO’.<sup>41</sup>

Thus the EU offer was not a stark take-it-or-leave-it choice imposed on its Eastern partners. Dozens of states in the world have multiple free trade areas. Serbia is a country that currently has free trade areas with both Russia and the EU, and Israel has a free trade area with the EU and recently started talks on a FTA with the Eurasian Union. What was possible for Serbia was also possible for Ukraine, and the EU offer of free trade did not constrain Ukraine’s foreign trade choices in any ways.

Generally FTAs do not constrain the sovereignty of signatory states since they retain the right to decide on tariff levels *vis-à-vis* third countries. However, customs unions, which represent a deeper level of integration, impose limits on relations with third countries, since they presuppose that countries align their external tariffs towards all third countries and decisions on such tariffs are delegated to a supranational level. Given this, it is the Russian promotion of the Customs Union that created a zero-sum ‘either-or’ choice for those post-Soviet states that were invited, more or less politely, to join the Eurasian project.

Yet in the case of Ukraine even that choice did not correspond to actual reality since at that point in time Ukraine did not plan at all to join the Customs Union and, therefore, it did not need to make a choice between Russia and the EU. It chose both. The history of Ukrainian-Russian relations points to the fact that even without the Eastern Partnership Ukraine was likely to resist deeper integration with Russia. All Ukrainian leaders have a clear record of opposing integration with Russia. Under its first president Leonid Kravchuk, Ukraine failed to become a fully-fledged member of the Commonwealth of Independent States, but pretended to be just an associate member (though this did not mean much in practice). Leonid Kuchma refused to join the Eurasian Economic Community in 2000 and then to start building a Common Economic Space with Russia in 2003. President Yushchenko was even more adamant in opposing Russian integrationist initiatives. And Yanukovich, not unlike most of the Ukrainian elite, opposed accession to the Russian-led Customs Union until his last day in the presidency.

Another frequently heard argument is that the Russian-led Customs Union was launched as a defensive measure against the Eastern Partnership. This is clearly not the case, however, since the idea of a Russian-Ukraine-Belarus-Kazakhstan Common Economic Space was launched in September 2003, and the Customs Union with Kazakhstan and Belarus, as a project for deepened integration with post-Soviet states, was initiated in 2006, whereas the Eastern Partnership was not launched until 2009.

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41. Art 18.1 of the CIS FTA agreement. See: <http://www.e-cis.info/page.php?id=20062>.



## War of wor(l)ds

A dominant narrative in Russia is that its actions in Ukraine, but also in opposing the Association Agreements more broadly, have been defensive in either strategic or economic terms. In his speech on the occasion of the annexation of Crimea, Putin noted that the annexation of Crimea was intended to prevent the arrival of NATO troops in the region. He stated: ‘we have already heard declarations from Kiev about Ukraine soon joining NATO. What would this have meant for Crimea and Sevastopol in the future? It would have meant that NATO’s navy would be right there in this city of Russia’s military glory, and this would create not an illusory but a perfectly real threat to the whole of southern Russia. These are things that could have become reality were it not for the choice the Crimean people made.’<sup>42</sup>

Deputy Prime Minister Dmitri Rogozin also claimed that ‘there is a certain rule, known by all NATOists: in order to join the EU, it is necessary to join NATO. This rule won’t be changed for the sake of Moldova. All countries went through that. That is why association with the EU is the moment when Moldova puts its hand on the handle of NATO’s door. Tomorrow this door will open.’ This is of course not confirmed by the actual situation in an EU where there are several non-NATO members, some of which have very good relations with Russia.<sup>43</sup>

Another complaint was that Russia was excluded from the EU’s neighbourhood policy, although the reality is quite the opposite since Russia refused to be part of the EU’s policy when it was launched in 2003, and chose to pursue the much-higher profile bilateral track of a ‘strategic partnership’ with the EU. Russia considered it would be humiliating for it to be treated in the same basket as a group of small EU neighbours. But beyond formal labelling, the substance of what the EU offered to Russia and the Eastern neighbourhood was exactly the same – visa-free travel, political cooperation and a new generation of free trade agreements. Russia just judged those to be insufficiently interesting.

Another line of argument in Russia is that a free trade area with post-Soviet states will have a serious impact on the Russian economy, either because post-Soviet states will re-export European goods tariff-free to Russia, or because European goods will displace Ukrainian or Moldovan goods on their national markets, and these countries will then dump them on the Russian market, thus penalising Russian producers. The re-exportation argument is overblown since the global trade system has well-established mechanisms to safeguard against that: re-exportation is avoided by ensuring the rules of origin of goods. Re-export is of course possible, but it is possible everywhere in the world (including from Russia to the EU via Ukraine), and this problem is minimised through cooperation between states, not embargoes. The prominence this issue has received in Russian official opposition to the Association Agreement is clearly disproportionate to its actual likelihood.

42. Address by President of the Russian Federation, 18 March 2014. See: <http://eng.kremlin.ru/news/6889>.

43. Moldova beretsa za ruchku dveri v NATO’, *Kommersant*, 12 May 2014. See: <http://www.kommersant.ru/doc/2468545>.

As for trade displacement, this is also possible, but states like Ukraine, Moldova and Georgia are part of the WTO and already have low tariff protection levels *vis-à-vis* EU goods. So the effects of a free trade area with the EU should not be very dramatic. To say nothing of the fact that, even if some trade displacement from Moldova or Georgia did occur, it would have a negligible effect on the Russian economy, with Moldova's GDP representing 0.3% and Georgia's 0.6% of Russia's GDP.

An interesting twist to the Eurasian integration process is that neither Belarus nor Kazakhstan subscribe to the view that association with the EU would have a major negative impact on their markets. Both refused to join Russia in the policy of trade restrictions on the post-Soviet states that sign up to association with the EU, and Russia has had to adopt unilateral measures, even though this contradicts all the talk of developing common policies as part of the Eurasian Union.

Another false argument was that *rapprochement* with the EU, particularly progress towards visa-free travel within the EU for Ukrainian citizens, would lead to the imposition of visas by Ukraine on Russian citizens. Sergey Glaziev, Putin's advisor on Eurasian integration, invoked the following chain of events: Russia and Ukraine 'now have a visa-free regime, but because the Ukrainian leadership always promises that they are on a path to visa-free travel with the EU, it is logical to conclude that Ukraine's next step will be the joining of Schengen ... This means Ukraine will be forced to introduce visas for Russia.'<sup>44</sup>

Implementing the EU's conditions to qualify for visa-free travel in no way meant that any state should introduce visas for Russian citizens, nor did this imply joining Schengen 'by the back door'. There are numerous countries in the world that simultaneously enjoy visa-free travel with both Russia and the EU, including Israel, Serbia and most Latin American countries.

In the end what derailed Russian plans for post-Soviet integration was not the EU but the unhealthy dynamic in relations between Russia and many post-Soviet states, of which the EU was more of a watcher than a player. Well before the Eurasian Union initiative, Ukraine refused Russian reintegration offers on several occasions under successive Ukrainian presidents. And states that did not engage in Association Agreements with the EU – from Azerbaijan to Uzbekistan – equally opposed Russian reintegration initiatives without the need for Brussels to interfere. Naturally, misunderstandings and exaggerated ambitions regarding the bigger picture of Eurasian geopolitics affected interaction between the EU and the real Eurasia.

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44. 'Glaziev ne iskluchil vvedenie viz s Ukrainoi', *Vedomosti*, 10 October 2013.

## Eurasia or Russia?

At one of their bi-annual summits, in May 2003, the EU and Russia solemnly agreed to create a Common Economic Space, from Lisbon to Vladivostok. In 2005 a road map to that end was agreed, with the objective to create ‘an open and integrated market between the EU and Russia’. Since then the EU and Russia have regularly reconfirmed their attachment to the idea. The legal basis for the creation of the economic space was supposed to take shape within an EU-Russia strategic partnership agreement. Yet little seems to have happened.

The EU and Russia had several disputes over Russian trade embargoes on some EU member states. Then the parties waited for Russia to join the WTO, which was a precondition for meaningful trade liberalisation talks between Russia and the EU. However, Russia concentrated on the creation of its Customs Union with Belarus and Kazakhstan as a bigger priority, and joined the WTO only in 2012. In parallel, the economic crisis encouraged more protectionist instincts and policies throughout the world, including in Russia and the EU. Putin’s return to the Kremlin, as well as a Russian loss of interest in what the EU had to offer in terms of trade and political partnerships, have all put the brakes on plans for economic integration between Russia and the EU. Then, with Russia formally delegating certain competencies, including over tariffs, to the Eurasian Economic Commission, a new stumbling block arose around the issue of who should be talking to whom.

Having created the Customs Union and the Eurasian Economic Commission, Russia started to suggest, at some levels of government, that the EU should negotiate the Common Economic Space with the Eurasian Union rather than Russia.

Yet, from an EU perspective, this posed several political and technical complications. To begin with, the EU could not discuss trade liberalisation with non-WTO members like Kazakhstan and Belarus, in the same way it would discuss market opening with WTO members like Russia or Ukraine. The EU was also committed to liberalise trade with Russia, but not with Belarus.

The creation of the Eurasian Commission also generated competencies overlaps and bureaucratic tensions within Russia. As an EU document mentioned, ‘the formal authority to decide on technical regulations is now allocated at the level of the Eurasian Economic Commission. This impacts the efficiency of the Russia-EU bilateral dialogue. There have been some situations where comments of the European Commission on Russian/Eurasian technical regulations, articulated to the Russian side via the formal working groups, were not passed on to the Eurasian regulators ... Whereas the Russian side appeared to emphasise that dialogues should

be kept bilateral (as opposed to trilateral and including the Eurasian regulators), the European side emphasised that such a bilateral dialogue requires a counterpart that can commit (as opposed to remaining non-committal and referring to the competencies of the Eurasian regulators).<sup>45</sup>

What did not help foster the EU's direct dialogue with the Eurasian Commission was also the fact that many problematic trade issues seemed to have arisen not between the entire Eurasian Union and EU, but only between Russia and the EU. For Russia often applied trade restrictions at national level, itself sidelining the Eurasian Union. As a European diplomat said: 'How can we treat the Eurasian Commission seriously if one day Russia says it delegated external trade matters to the Eurasian body and we should talk to them, and another day it takes unilateral decisions as if the Eurasian Union does not exist?'.<sup>46</sup>

Most probably, if there was political desire to deepen EU-Russia economic integration, all of these obstacles could have been overcome in one way or another. Yet from an EU perspective the impression was that Russia was pushing for direct dialogue between the Eurasian Union and the European Union just to legitimise the former, rather than to generate meaningful trade liberalisation. And from a Russian perspective, there was little sense in talking trade integration with the EU, while Moscow was implementing protectionist measures at home, and the EU was trying to boost its energy security *vis-à-vis* Russia, not least by adopting legislative measures that increasingly complicated Gazprom's operations in the EU.

And then the Russian annexation of Crimea and the support for armed insurgents in eastern Ukraine, as well as the introduction of EU sanctions in response, led to the near-complete collapse of the fragile edifice of EU-Russia political relations. In the wake of this debacle, though, the contours of the Eurasian and EU projects emerge with greater clarity, as both projects are within reach of their minimalist goals. Accepting these more clearly defined and more modest contours could be a way to start looking for a way out of the current crisis.

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45. European External Action Service, 'EU-Russia Common Spaces – Progress Report 2012', March 2013. Available at: [http://eeas.europa.eu/russia/docs/commonsaces\\_prog\\_report\\_2012\\_en.pdf](http://eeas.europa.eu/russia/docs/commonsaces_prog_report_2012_en.pdf).

46. Interview with the author in Moscow, June 2014.

# Conclusion

Russia's Eurasian Union project was launched to reverse the divorce of much of the post-Soviet space but, paradoxically, it accelerated the process. Ukraine was supposed to be the crown jewel of a newly emerged, Russia-led Eurasia, but instead it turned into the graveyard of Moscow's ambitions to build a geopolitical Eurasia. Russia might have a lot of disruptive power in Ukraine and other post-Soviet states, but it lacks the power to create a positive unifying project.

What is left following the failure of the grand geopolitical project for a greater Eurasia is the real Eurasia – a Customs Union of Russia and two medium-sized states, with three more smallish states in the queue. The real Eurasia is still in its infancy. But the real Eurasia and the imaginary geopolitical Eurasia are underpinned by partly contradictory logics. If the Eurasian Economic Union is to really work, it needs to consolidate in a gradual and consensual way. However, the imperative of geopolitical Eurasia dictates the opposite. Thus the states participating in this project are at the same time closely linked to Russia and also busy hedging against Russia. And none of them is particularly willing to take part, by siding with Russia, in a geopolitical confrontation with the West.

Russia and the EU's far-reaching maximalist visions for their neighbourhood have been thwarted. The EU's vision, launched with the European Neighbourhood Policy in 2003, of a unipolar Europe ringed with concentric circles of 'friends' and/or well-governed countries has only partly materialised. In its neighbourhood the EU has newly acquired 'friends' that chose to become increasingly integrated into the European economic and legislative space through association (Ukraine, Moldova and Georgia). But the EU is also faced with states that chose not to do that (Azerbaijan or Belarus), and some that actively oppose the EU's project.

At the same time, Russia's attempts to build a geopolitically significant Eurasia, intended to become a second pole of influence in a bipolar Europe, has also hit a wall of post-Soviet states that frustrated these plans – some of them from inside the Eurasian Union, and others determined to stay outside.

Both Russia and the EU have achieved the interim goals of their respective neighbourhood policies. But hard reality is dictating that both Moscow and Brussels need to scale down the ambitious designs of their neighbourhood policies. The (partly unintentional) clash between two projects – European and Eurasian – has in a sense been 'settled' by the Ukraine crisis.

Thus the starting point for a new *modus vivendi* is for Russia and the EU to accept that the dynamic that generated the conflict – an Eurasian project keen to include Ukraine, and an EU enlarging the single market beyond the EU – has been partly, and tragically, solved. The borders of the Eurasian project are clear, and so is the number of states that chose to pursue association with the EU. Accepting this new reality is the next step in EU-Russia relations.

A simple diplomatic ‘reset’ might be tempting, but would not work. It did not work in the case of US-Russian relations, and it is unlikely to work in EU-Russia relations partly because as the war in Ukraine has evolved Russia has changed in fundamental ways, and so has the EU’s view of Russia. And even if a relaunch of EU-Russia engagement is desirable, the timing and choreography of that re-engagement will be crucial. In the foreseeable future, the contours of the re-engagement can only be based on a stabilisation of the Ukraine crisis.

When dealing with the Eurasian Economic Union, the EU has several options – it can choose to ignore the body entirely, it can engage in low-level cooperation, or it can go for full-scale engagement. What is most likely is a combination of these options. Yet in the background, what emerges is that on quite a number of issues the Eurasian Economic Union might be a more reasonable interlocutor than Russia. Other EEU states are not driven by illusions of grandeur nor are they enthusiastic supporters of confrontation with the West. And in this sense there might be better scope for a potentially less conflictual dynamic between the EU and the EEU as a whole, rather than with Russia alone, provided other EEU states are able to retain their distinct voice in the Eurasian Union. Deeper bilateral engagement with the states of the EEU could also help contribute to that.

When the *status quo* begins to hurt, there is often a greater desire for normalisation. The situation might be compared to difficult, late-night diplomatic negotiations where food is no longer served, and negotiators are prohibited from going for smoking breaks: in such circumstances the ‘pain factor’ is often conducive to hammering out last-minute compromises – indeed it is often a key background condition for focusing minds so that this can happen. Thus the mutual inflicting of pain in the current round of EU-Russia tensions might yet prove to facilitate normalisation in the medium term. Therefore, at some point down the road the lifting of Western sanctions on Russia and a stabilisation of Ukraine can go hand-in-hand. Settling for the minimalist neighbourhood visions might be a way to slowly overcome the current crisis and build a wider European space that is neither unipolar nor bipolar, but simply more cooperative.

# Annex

## Abbreviations

APEC	Asia Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
CIS	Commonwealth of Independent States
DCFTA	Deep and Comprehensive Free Trade Agreement
EEU	Eurasian Economic Union
EurAsEC	Eurasian Economic Community
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GUUAM	Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organisation
OECD	Organisation for Economic Cooperation and Development
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organisation

