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## Eurasian Economic Union: Evolution, challenges and possible future directions

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### ABSTRACT

Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia formed the Eurasian Economic Union (EEU) with the aim of fostering closer economic cooperation among member states for the well-being of the people of the region. This paper critically analyses the history and evolution of the EEU as well as its success, challenges and prospects. Despite numerous attempts and initiatives, the EEU's actions have hardly achieved any significant success because most of its goals have either been declarative in nature or politically motivated and not taken seriously. Russian domination, influence, control and pressure may also be reasons for lack of progress and success. Long, bitter historical memories and distrust among the member states also made the integration process difficult. The article concludes that this latest attempt at integration in the former USSR region seems to be in trouble and may result in failure because of deteriorating economic conditions in Russia, the crisis facing the ruble, Russia's continuous conflict with Ukraine and distrust among the member states.

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### 1. Introduction

Economic integration at the global, regional and sub-regional levels is considered an important initiative for achieving economic growth and development, and the formation of EEU is seen as a move for better economic growth and success among select post-Soviet states (Mahmood & Mostafa, 2017). The first such attempt at closer political and economic integration occurred on December 8, 1991, when the leaders of Belarus, Russia and Ukraine signed an agreement on the dissolution of the USSR and the creation of the Commonwealth of Independent States (CIS) as a successor entity. The new alliance, i.e., the CIS, was open to all USSR

successor states, and in December 1991, eight additional former Soviet Republics, Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Moldova, Turkmenistan, Tajikistan and Uzbekistan, signed the Alma-Ata Protocol and joined the CIS. However, the CIS was ultimately an ineffective and inefficient organization amid regional wars, political and ideological tensions, and conflicts among its member states; it also faced a lack of mutual trust and commitment among those states.

Since then, subsequent attempts to form this type of regional alliance with a narrower and more specific focus have been initiated. One of such attempt was the creation of the Free Trade Zone consisting of Armenia, Belarus, Georgia, Moldova, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Ukraine and Uzbekistan in 1994, but it never came into effect because of Russia's refusal to ratify the plan. The Eurasian Economic Community (EurAsEC) was created in 2000 in Astana, Kazakhstan, for economic and trade cooperation. It

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consists of Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan and has the specific and highly ambitious goals of creating a customs union (CU) (Kazanstsev, 2008; Qoraboyev, 2010). In 2006, Russia, Kazakhstan, and Belarus announced a proposal for a new CU and agreed to develop a common code to replace domestic laws and formally launch the CU in 2010. In January 2012, the three signed an agreement to create a Single Economic Space (SES) to harmonize a wide range of domestic economic and trade policies, which ultimately led to creation of the Eurasian Economic Union (EEU) in January 2015. Critics see the EEU's creation as a Russian initiative to expedite the regional integration process to form a continental bloc and create a multipolar world. These critics affirm the EEU as a counterbalance to the EU in the West and China in the East, as it seeks to limit and restrict Chinese economic influence and penetration in Central Asian markets (Black, 2014). Beyond these considerations, the union allows Moscow to present an image of itself as a great Eurasian power that enhances its own self-esteem and, supposedly, its standing in the eyes of foreign audiences.

Although the formal EEU came into effect on January 1, 2015, it could be considered as going through the formation process before it was firmly established as an institution of its own. The significance and importance of the EEU in the global geo-political and economic landscape has gained enormous attention among the politicians, governments, and academicians as well as in the corporate world. Although many academicians, governments and policy makers are critical of the stated goals and objectives of the EEU, in reality, it is functioning and aims to expand further in the near future. However, research on the prospects and challenges of the EEU are quite limited. Although a few studies were published, they are mostly based on personal observations and from a critical perspective rather than providing guidelines from a constructive perspective. Amid the dearth of research on the prospects and challenges of the EEU, this paper aims to provide both insights into the positive aspects of the EEU for the member states and some guidelines to help the EEU overcome future challenges and become more effective.

The scope of the paper is very specific, and it aims to contribute to the existing literature in the following ways. First, it will provide a chronological overview of the creation and evolution of the CU, the SES and the EEU to a wider audience. Second, beyond the critical assessments and potential doubt of the future of the EEU, it will assess the benefits of the integration process for a few select aspects with objective and authentic data. Third, it will try to identify the major challenges to the proper functioning of the EEU. Finally, it will provide recommendations for the governments and policy makers of the member states to accrue benefits from the newly formed regional integration process.

## 2. Methodology

The main research questions of the paper focus on identifying the challenges of the EEU and possible future directions amid unforeseeable uncertainties. The study follows a qualitative methodology. Data are collected from secondary sources published in journal articles, profession-

al magazines, conference papers, working papers, reports published by national and international organizations, unpublished archival documents, and online resources from different government and non-government organizations. The collected data were analysed and presented in table formats and used logical reasoning to make inferences in the study. A substantial amount of information was collected from sources published in the Russian language, which were translated to enrich the content of the article. The findings will hopefully add new information to existing knowledge and provide new insights those governments and policy makers can use to both understand the problems and challenges of integration and introduce appropriate initiatives for the desired and successful regional economic integration to benefit the people there.

## 3. The history and evolution of Eurasian Economic Union

### 3.1. The background of Eurasian Economic Union initiative

The ideas and proposals for the creation of a Eurasian Union, modelled on the EU, were initiated by the leader of the Russian Federation, President Vladimir Putin. At his annual State of the Nation Address to Russia's Duma on April 25, 2005, President Putin noted that, "First and foremost, it is worth acknowledging that the demise of the Soviet Union was the greatest geopolitical catastrophe of the century" (Putin, 2005). Critics believe that behind the integration process, Russia's real objective is to restore the USSR in its old territory in some form or other beginning with economic ties and then deepening the "integration" to include political, security, and cultural spheres (Starr & Cornell, 2014). President Putin later elaborated on his vision and the goals of the Eurasian Union when he wrote an article in Russian Newspaper *Izvestiya* in 2011. He stated, "the project is, without exaggeration, a milestone not only for our three countries but also for all post-Soviet states. ...we propose a model of a powerful supranational union capable of becoming one of the poles of the modern world and of playing the role of an effective 'link' between Europe and the dynamic Asia-Pacific region. ...we propose to the Europeans that they think about creating a harmonious economic community from Lisbon to Vladivostok, a free trade zone and even more advanced forms of integration" (Putin, 2011).

The leaders of Belarus and Kazakhstan, the other members of the CU, supported and welcomed President Putin's initiatives but simultaneously developed their own visions and perspectives. In an article published in the Russian Newspaper *Izvestiya* on October 25, 2011, President Nursultan Nazarbayev of Kazakhstan focused on the principles of economic pragmatism, voluntary participation, equality, sovereignty and mutual respect among the members. He also elaborated on the principles of the economic union as a global partnership, a global competitor, a developed part of the Euro-Atlantic and Asian areas, and a "bridge between dynamic developments in the EU, the East, the South-East and South Asia" (Nazarbayev, 2011). For Kazakhstan, the idea of regional economic integration was easy to adopt, as the country had been doing very well econom-

ically for the previous 15 years, the President was quite popular and had substantial public support and the population had a generally positive view about the union. Kazakhstan appeared to be the most enthusiastic and energetic member of any kind of Eurasian union (Mostafa, 2013).

President Lukashenko (2011) of Belarus also welcomed the Russian initiative but noted that the relationships among the member states should be based on equality and mutual benefit. President Lukashenko's main interests in joining the Russian-led union were the assurance of a steady and regular supply of Russian oil and gas at a discounted price, preferential treatment in customs duties, obtaining loans with preferential terms and other economic benefits. However, Belarus became concerned about the latest developments in Russia, particularly the economic crisis and sharp decline in the value of ruble, as more than 50% of its trade is with Russia (Astapania, 2015).

### 3.2. *The first stage of integration: the customs union between Belarus, Kazakhstan and Russia*

On November 27, 2009, Belarus, Kazakhstan and Russia agreed to form a common customs space, called the CU, to be effective by July 2010 and a further integrated SES by January 2012. Accordingly, the CU was formally launched in January 2010 within the framework of the EurAsEC. Initially, it was managed by a regulatory authority called the Interstate Council (Mezhgossoviet) and an executive body, the Customs Union Commission (CUC). The CUC was authorized to make decisions on various issues, such as changing import customs duty rates, maintaining the classification of goods for foreign economic activity, setting tariff exemptions and tariff quotas, defining the system of tariff preferences, and introducing non-tariff regulations. The CUC was instructed to perform its duties and responsibilities alongside other institutions and committees of the member states such as the Committee on the Regulation of Foreign Commerce, the Scientific and Expert Council, the Court of the Customs Union, and the Government Secretariats. The activities of the CU were also regulated by the existing laws and protocols signed by the member states since 2000 (Krotov, 2011).

Finally, the CU started operating on July 1, 2011, when all the three states agreed to remove all customs borders. The process was highly ambitious with the forward-looking goal of transforming the region into a stage of deeper integration, the SES, by January 1, 2012, and into a full union by January 1, 2015. The SES began with the aim of developing a common market for goods, services, labour and capital; the coordination of monetary policies, financial and tax policies; the development of unified transport, energy and information systems and the unification of systems of state support for innovation and priority sectoral development. Organizational modification and development occurred simultaneously. In July 2012, the Eurasian Economic Commission (EEC), the supranational executive body composed of deputy prime ministers, was established in Moscow (Eurasian Economic Commission). The SES was a step forward beyond the CU, the ultimate goal and objective of which was the creation of a full union.

### 3.3. *The second stage: formation of Single Economic Space – the Eurasian Economic Union (EEU)*

To pursue a deeper integration process, the Presidents of Belarus, Kazakhstan and Russia signed a memorandum on November 18, 2011, setting the target of establishing the Eurasian Union by 2015 that would be similar to the EU but with more of a focus on economic union to avoid politico-military and cultural-ideological divisions and differences. As mentioned earlier, the EEU is not a new project; instead, it is a more advanced and deeper version of the SES with closer levels of integration and with distinguishing features that set the common macroeconomic, financial, monetary and tax policy of the member states. The treaty creating the EEU was signed on May 29, 2014, in Astana, the capital of Kazakhstan, by the leaders of Belarus, Kazakhstan and Russia and in the presence of the presidents of Armenia and the Kyrgyz Republic, two countries that would later join the organization. The journey from the CU to the EEU through the SES was long and difficult for the member states. In the original integration plan of Vladimir Putin, advocated in October 2010, the idea was to create the SES by January 2012 and achieve a fully pledged Union modelled on the EU by January 2015, but this plan was somehow downgraded, and an economic union was created instead of a full union.

The EEU differs from its predecessors in many respects; it is a deeper stage of integration that not only promotes a free trade area but also establishes a common external tariff on imports and unifies product quality and other standards. It has the written rules, regulations, laws and procedures necessary for effectively running a union. It has developed a number of necessary bodies and institutions modelled after the EU for the efficient implementation and operation of policies. Hundreds of civil servants have been hired and trained, and regulatory frameworks are in place in order to assure that capital, labour and goods move freely and efficiently among the member states.

### 3.4. *The third stage: the expansion of EEU*

#### 3.4.1. *The joining of Armenia*

Armenia's sudden decision to join the EEU was a surprise to some members, particularly to Kazakhstan, who wanted the process to be delayed so that the new member could prepare and fulfil all the requirements before joining the union. However, Russia wanted the EEU to expand quickly and convinced Armenia and Kyrgyzstan to join in order to gain political, economic and strategic benefits. Armenia and Azerbaijan had a long territorial conflict, but Kazakhstan had maintained good relations with both parties (Schenkkan, 2014). One of the reasons for Armenia's decision to join the Moscow-led EEU was that it cultivated a close relationship with Russia, securing Armenia against its neighbours, i.e., Turkey and Azerbaijan, with whom it had long historical and territorial disputes, causing it to rely on support from Moscow. Armenia also wanted assurances that it would get a steady oil and gas supply from Russia at a discounted price. After becoming frustrated with its EU allies, it sacrificed its associate membership in the EU and decided to join the EEU, which was highly criticized by the general public (Giragosian, 2015).

**Table 1**

Basic information and data on the member states (as of December 2016).

	Territory (square km)	Population		GDP		GDP per capita
		Million	% of EEU	USD billion	% of EEU	USD
Russia	17,075,400	143.4	80%	1,268	87%	8,838
Kazakhstan	2,724,900	17.9	10%	128	9%	7,138
Belarus	207,600	9.5	5%	48	3%	5,092
Armenia	29,743	3.0	2%	11	1%	3,596
Kyrgyzstan	199,900	6.1	3%	6	0%	956

Source: World Bank Report (2017).

### 3.4.2. The joining of Kyrgyz Republic

Kyrgyzstan, which is a small, poor post-Soviet state in Central Asia, joined the EEU for two main reasons: (a) politico-military and security concerns and (b) trade and economic concerns. Kyrgyzstan used to be called “the island of democracy” in the region, and the country became the first post-Soviet state to gain membership in the WTO. It suffered from chronic ethnic conflicts, civil wars and border disputes with neighbouring countries (Trilling, 2010). Kyrgyzstan has become one of the most unstable countries in Central Asia because of internal political and socio-economic instability, including such negative factors as ethnic tensions, and the confrontation of internal regional elites and discord among its clans. The rapid growth of radicalism and Islamic fundamentalism from both within and outside has made the country unstable and vulnerable (Daneykin, Andreevsky, Rogozhin, & Sernetsky, 2015). Therefore, Kyrgyzstan needs Russian help and support for its internal security and political stability. Joining to a Moscow-led regional organization (EEU) is considered the best option for those purposes. China is gradually expanding trade and economic relations, but Russia will remain the most important external political, military and security guarantor for Kyrgyzstan in the years to come (Peyrouse, 2015).

Economically, Kyrgyzstan was one of the poorest Soviet Republics and depended on the union budget during the Soviet era. Since independence, the situation has not improved much because of corruption, state mismanagement and the huge impact of a shadow economy. Kyrgyzstan's joining the EEU was considered an economic boon in several ways. First, the country was assured oil and gas at a discounted price from Russia and investments in those sectors. In January 2015, Gazprom announced that it would invest half a billion US dollars to overhaul the country's gas infrastructure. Second, about half a million Kyrgyz seasonal migrant workers are working in Russia and Kazakhstan, and their remittances account for approximately 30% of Kyrgyzstan's GDP. Joining the EEU could increase the potential remittance inflows to Kyrgyzstan. Third, the country produces a large amount of fresh fruits, vegetables and flowers, and membership in the EEU will allow Bishkek to export those items to other member countries without barriers (Satke, 2015).

### 3.5. External cooperation is also possible

Despite some problems and internal conflicts, the EEU appears to be functioning normally; all units are working

properly, meetings are taking place on time, and decisions are made as usual. To divert attention from internal conflicts and tensions, Russia is actively trying to increase the geopolitical role of the union and promoting future growth by signing or obtaining commitments for free trade agreements with other countries outside the post-Soviet space. On June 17, 2015, the chairman of the EEC Board and the prime minister of Mongolia signed a Memorandum of Cooperation between the two parties to promote comprehensive cooperation for increased mutual trade and to improve economic relations by eliminating existing trade barriers between the EEU and Mongolia. India also confirmed its commitment to sign a free trade agreement with the EEU during the International Economic Forum meeting in St. Petersburg, Russia, in June 2015. In addition to Mongolia and India, a few other countries, i.e., Vietnam, Iran, Egypt and Israel, also expressed interest in signing cooperation agreements with the EEU. Some of these countries are already in the process of negotiating or concluding free trade agreements. However, considering the negative impacts of the union on its members and its growing internal tensions and conflicts, expansion at this time seems difficult if not impossible. Even the joining of the two new members, Armenia and Kyrgyzstan, in 2015 is now under scrutiny by civil society organizations in the region (Table 1).

## 4. Outcome of the integration process: achievements thus far

Belarus, Kazakhstan and Russia have been involved in the economic integration process more systematically and for a longer period than the other members of the CIS. They have been working closely with the CU, the SES and the EEU since 2010, and they are expected to benefit the most from the integration process. The EEU was established to facilitate “four freedoms,” i.e., freedom of movement of products, services, labour and capital, by removing barriers, establishing coordinated macroeconomic policies and gradually transitioning to a single currency. The EEU treaty stipulates the harmonization of macroeconomic policies in three main areas: strict liabilities on budget deficits with a threshold of 3% of GDP, a state debt limit of 50% of GDP and inflation not to exceed 5%. The creation of the CU is expected to enable the member states to boost their GDP by 15% by 2015 (Zviagelskaya, 2011). The CU has arguably helped member states in economic growth, industrial and agricultural developments and positive results in some areas.



**Table 2**  
Real GDP growth rate of EEU countries 2014–2019 (in percentage).

	2014	2015	2016	2017	2018	2019
Armenia	1.8	2.6	3.2	3.5	3.5	3.8
Belarus	1.7	−3.9	−2.6	−0.4	0.5	1.2
Kazakhstan	4.2	1.2	1.0	2.4	2.6	2.9
Kyrgyzstan	4.0	3.9	3.6	3.4	4.0	4.8
Russia	0.7	−2.8	−0.2	1.3	1.4	1.4

Source: World Bank Report (2017).

Table 2 reveals both the actual and the forecasted economic growth rates of the member states.

#### 4.1. Economic benefits of the member states

For Belarus, the economic implications of joining EEU seem to be mixed. The main reason for Belarus to join EEU was to access much-needed financial resources and cheap energy from Russia. As the custom duties were removed, Belarus bought oil from Russia at only about \$30 a ton. Similarly, the average cost of gas per 1000 cubic metres decreased from \$265 in 2011 to just \$165 in 2012. By contrast, non-members, such as Ukraine, pay \$414. It was estimated that Belarus profited nearly \$7.5 million from oil and gas prices alone during the years 2012–2015 (Dyner & Ryabova, 2013). This energy support from Russia helped Belarus recover from the 2011 economic crisis. GDP increased by approximately 5.5% in 2012, and industrial production grew by 9.1%. Because of the lack of custom duties to the Russian market, the production of petroleum coke, oil products and nuclear substances grew by 17.2%, and chemical substance production increased by 19.6% in 2012 compared to production in 2011. In terms of foreign direct investment, Russian direct investment in Belarus increased to \$593 million, which was the highest among the CIS countries. This FDI inflow from Russia helped Belarus to improve its economic situation and reform its economy. However, because of the common economic space (CES) agreement, Belarus lost its own mechanism for economic policy reforms. Preferential energy deals pushed Belarus towards total dependence on Russia and eliminated its ability to export oil products outside EEU markets. Additionally, because of the integration process, Belarus lost its power to devalue its national currency, which could stimulate exports to countries outside the EEU.

Economic and trade relations between Kazakhstan and Russia improved after signing the CU agreement in 2010. Sultanov and Dodonov (2012) claimed that Kazakhstan earned 1 trillion 142 billion tenge in 2011 compared to 700 billion tenge from customs duties in 2010. The inflation rate in Kazakhstan in 2012 was the lowest it had been, 4.6%, in the last 14 years. Foreign investment increased to a record USD 19.85 billion in 2011, which particularly benefitted the country's processing industries, such as machine building, electrical and electronics industries, and transportation and agriculture industries. Other researchers have also expressed optimism about Kazakhstan joining the CU. The SES helped to modernize its economy, industry and agriculture and made it more competitive through access to markets beyond its own 160 million people.

However, closer scrutiny reveals that none of the member states have achieved substantive economic gains and benefits from the integration process; instead, their economic conditions have been deteriorating gradually. Therefore, questions are raised concerning the success, progress, effectiveness, positive outcomes and benefits of the integration process for the peoples of the member states. The widely held public perception is that the integration process, the Russian economic crisis and the continuing decline in the value of ruble are the main causes for the economic suffering of the member states. The economic crisis in Russia, economic sanctions by the West, the devaluation of ruble, and the sharp decline in oil prices on international markets seriously affected the economy of Kazakhstan and forced it to devalue its currency, first by 19% in early 2014 and then by another 23% in 2015. As a result, Kazakhstan's trade with Russia and other CU members decreased significantly, while trade turnover with China increased by 20% in 2014. (Michel, 2014). Compared to 2010, Kazakhstani exports to Russia increased from 5.57% to 7.04% in 2013, while imports from Russia increased from 22.70% to 36.19% in the same period. However, the overall trade with Russia decreased to 21.1%, while China surpassed Russia and ranked number one with 24.1% of Kazakhstan's trade in 2013 (World Integrated Trade Solution, 2013).

#### 4.2. Mutual trade and investment among the member states

Traditionally, Russia is the main trading partner of Belarus and accounts for more than 50% of Belarus's exports and imports. However, despite the CES, Belarus's exports to Russia have decreased from 4.7% in 2011 to 3.8% in 2014. For Kazakhstan, Belarus's exports remain almost the same during the same period, i.e., 1.6% in 2011 and 1.7% in 2014 (Naurodski & Valetka, 2015). Similarly, the trade volume among the EEU member states reduced from USD 57.45 billion in 2014 to USD 64.52 billion in 2013, and the forecast is that it could decline further in the near future.

Researchers have claimed that because of global economic instability, both the total trade volume and the mutual trade among the member states have decreased quantitatively during the period 2012–2015. Nevertheless, in terms of qualitative assessment, the structure of mutual trade among the member states has improved in some cases. For example, as a percentage of their total trade, the mutual trade among the member states increased from 12.3% in 2014 to 13.5% in 2015 (Vinokurov, 2017). Similarly, some structural changes have been observed in the trade balance among the member states. The mutual trade deficit of Belarus with EEU member states decreased from \$10.4 billion in 2011 to \$6.2 billion in 2015 (Vinokurov, 2017). In the case of exports and imports, the mutual exports as percentage of total exports of EEU countries showed a positive indication as increased from 9.5% in 2014 to 10.8% in 2015. The mutual trade imports as percentage of total EEU imports also increased from 15.8% in 2014 to 18% in 2015 (Vinokurov, 2017).

#### 4.3. Improvement in global competitiveness

Irrespective of their political systems and leadership styles, the EEU members generally adhere to a free market

**Table 3**

Trade among the EEU member countries.

Exporting country, USD million, 2016	Importing country, USD million, 2016					Total EEU
	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia	
Armenia	–	14	6	1	371	392
Belarus	22	–	364	49	10,821	11,255
Kazakhstan	0	32	–	376	3,509	3,918
Kyrgyzstan	0	3	275	–	139	417
Russia	957	15,144	9,427	1,026	–	26,554
Total EEU	980	15,194	10,072	1,452	14,840	42,536

Source: [Giucci and Mdinradze \(2017\)](#).

economy with the goals and objectives of promoting free trade and creating a congenial atmosphere for attracting foreign capital and investment for economic growth and development among the member states. According to the [Global Competitiveness Report 2015](#), the rankings of the EEU members are as follows: Armenia 85, Kyrgyz Republic 108, Russia 53 and Kazakhstan 50 (with 1 being the highest). However, reactions to free trade were not the same in other member states. In Belarus, economic conditions were deteriorating, and the CU and Russia were blamed for the suffering. However, the real benefits of Belarus joining the EEU are supposedly outnumbering the costs.

According to the “Ease of Doing Business” ranking, some progress has been made during the last 4–5 years. As [Table 3](#) shows, Belarus improved its rank modestly from 67 in 2010 (out of 182 states) to 57 in 2014 (out of 189 states), while Kazakhstan dived from 58 to 77 in the same period because of the government’s introduction of more nationalist, regulatory policies and Tenge crisis (Kazakhstan’s national currency). The Kyrgyzstan ranking is not satisfactory, as critics blame political instability, internal conflicts, civil wars, uncertainties and lack of security for foreign business and investments for the deteriorating business environment. Surprisingly, Russia made a significant progress as it moved from 122nd to 62nd place in the same period, which can be attributed to a stable government. The Russian government took a number of measures and initiatives introducing liberal reforms and changes in foreign trade and investment laws to attract more foreign businesses and investments. Although Russia’s rank for “Ease of Doing Business” improved significantly, in reality, Moscow could not attract foreign business and investments because the country was isolated by the West and under economic sanctions by the USA and Europe.

Although it is still early to assess the progress of the EEU, the organization seems to have had some tangible success. As expected by at least its original three members – Belarus, Kazakhstan and Russia – it has created a common market in the oil, gas and electricity sectors. However, a trade war seems to be looming among members. As a response to Russia’s occupation of Crimea and support to separatist movements in eastern Ukraine, Western countries imposed sanctions on Russia, and as a countermeasure, Russia imposed sanctions on imports of agricultural goods from Western countries. Russia expected that the EEU members would follow with similar sanctions, but that did not happen. Russia started complaining about the exports from other EEU member states and closed its markets, which hurt the

exports of those members. For example, Russia declared that some Belarusian meat and dairy products did not meet Russian standards and were therefore dangerous for consumption, leading to an import ban on those products. Russia also accused Belarus of transferring and repackaging Western goods that were subject to Russian sanctions. Kazakhstan excluded some Russian meat products from the market accusing Russia of violations of quality standards. A similar ban was imposed on selected goods coming to the Russian market from Kyrgyzstan. Other punitive measures were also taken by other member states in order to protect their interests. For example, Kazakhstan suspended Russian fuel and gas imports to protect its domestic market from a surplus of Russian oil products ([Boguslavskaya, 2015](#)). [Yesdauletova and Yesdauletoev \(2014\)](#) identified five main barriers of successful integration of the EEU: (a) the large number of economic sectors requiring too many regulations, (b) the speed with which integration is proceeding, (c) the failure of the three countries’ foreign trade to orient itself towards SES markets, (d) the non-diversified nature of SES countries’ production, and (e) the coordination and balancing of tariffs between the three member states.

## 5. The EEU: challenges ahead

### 5.1. Internal political and social issues

All five EEU member states are ruled by authoritarian regimes, albeit some with symptoms of democracy such as the existence of more than one political party and periodical elections. According to Freedom House Democracy Index, the EEU member states did not make any significant progress or improvement during the CU and EEU periods (2010–2015). As [Table 4](#) shows, Kazakhstan, the Kyrgyz Republic and the Russian Federation improved slightly in the ranks in 2014 compared to 2012, but Belarus declined, while

**Table 4**

‘Ease of Doing Business’ ranking of EEU members (2010–2014).

	2010 (out of 182 states)	2012 (out of 189 states)	2014 (out of 189 states)
Armenia	47	55	45
Belarus	67	69	57
Kazakhstan	58	47	77
Kyrgyz Republic	43	70	102
Russian Federation	122	120	62

Source: [World Bank Report \(2015\)](#), compiled by the authors.

**Table 5**  
Democracy Index of the member states.

Country	2012 (out of 162 countries)	2014 (out of 167 countries)
Armenia	114	113
Belarus	122	132
Kazakhstan	141	125
Kyrgyz Republic	143	137
Russian Federation	106	95

Source: *The Economist* (2016).

Armenia remained the same. Therefore, the integration efforts and practices for the last 5 years have generally failed to bring any positive results regarding political reforms and democratic developments for the member states of the EEU. Moreover, as the integration process was agreed on and signed by authoritarian leaders, any change of state leadership may pose a threat to the EEU.

The EEU members are relatively new states that are building their nations while facing substantial challenges in separating from their Soviet past, promoting and protecting their titular languages, integrating diverse ethnic cultures and minimizing internal disputes. The long-term Russian plan for deeper integration of the EEU by adopting one currency (ruble) and one language (Russian) is very controversial and faces serious challenges from the ethnically diverse population of the region. No member state is ready to accept the ruble as a common currency, as it has been always unstable, suffering from continuous depreciation and lost value vis-à-vis other currencies. The issue of language is more emotional and sensitive, as the post-Soviet states are devoting substantial efforts to developing, promoting and adopting their titular languages in all spheres of life while gradually trying to eliminate the Russian language that symbolizes the past and the Soviet legacy. Closer integration could provoke public outrage in future (Table 5).

### 5.2. Differences among the member states

The five member states that constitute the EEU differ significantly in terms of territory, population and the size of their economy. The largest country in the union, the Russian Federation, is 574 times larger by territory than the smallest one, Armenia, and similarly, the Russian GDP is approximately 170 times larger than that of Armenia. The total GDP of the Russian Federation is approximately 6 times larger than the combined GDPs of the other four members. The situation is similar to the population. The total population of the four member states – Armenia, Belarus, Kazakhstan and Kyrgyz Republic – is less than 42 million, while the population of Russia is approximately 144 million. Therefore, there is no balance, and Russia has an overwhelming dominance in all areas in the union. Other member states are concerned that being the post powerful and dominant member, Russia may receive the most benefits and create pressure on or pose threats to others. This incongruence would be most prevalent as the member countries move towards further integration and a deeper political union (Umland, 2011).

As discussed earlier, the conflict in trade is explicit among the EEU member states, particularly among the original three, i.e., Belarus, Kazakhstan and Russia. This conflict will probably get worse and escalate in future with the deteriorating economic situations. Armenia and Kyrgyzstan are weak and not in positions to oppose Russia rather than focus on political, security and strategic interests as well as obtaining oil and gas from Russia at subsidized prices. Vladimir Putin's occasional remarks regarding the undermining of the independence and sovereignty of union member states creates tension and irritation among Russia's partners. Some statements by the Russian president such as "The Kazakhs never had a state of their own," "Both Ukraine and Northern Kazakhstan would reintegrate with Russia," or "All five Central Asian Republics would reintegrate with Russia as a Central Asian federal district with Almaty as its capital" do not contribute to the integration process (Laruelle, 2015). According to Sherr (2013), while Russia formally respects the sovereignty of its erstwhile republics, it also reserves the right to define the content of that sovereignty and the territorial integrity of those countries. Essentially, Putin's Russia has revived the Tsarist and Soviet view that sovereignty is a contingent factor that depends on power, culture, and historical norms rather than an absolute and unconditional principle of world politics.

### 5.3. Recognition and relations with wider international partners

The Russian-led integration process in Eurasia has been closely observed by regional and international actors, and Russia's role has been highly criticized since the crisis in Ukraine. The USA and Europe opposed Moscow-initiated/imposed economic organizations and labelled them as attempts to reintegrate the post-Soviet countries into a Soviet-type union, and they warned the post-Soviet states not to join that union. During her visit to Dublin, Ireland, in December 2012 to attend the 19th OSCE's Ministerial meeting, U.S. Secretary of State Hillary Clinton sharply criticized Russian policy by saying that Russia was trying to "re-Sovietize" Eastern Europe and Central Asia. She also criticized the Russian efforts to create a Eurasian Union, calling it a real effort to reassert Soviet-era controls on the region. She warned that the United States would work to slow down or prevent this effort. Similarly, the EU warned that any member joining the CU would not be considered for a free-trade agreement with the EU because the success of the CU and its further expansion and integration would affect the EU's Eastern Partnership initiative in which the EU could not offer the membership but could provide economic incentives for promoting closer relations with EU member countries (Weitz, 2011).

The formation of the EEU was never appreciated by Western countries' rather strong and widespread criticism of Russian policies towards the EEU and its member states. President Putin's views and statements were characterized as a mechanism for Russian domination, control and influence over other post-Soviet states by using the union as a vehicle and instrument. After the EEU was created, many experts and observers, citing the continuous poor economic performance of the CU (particularly Russia), the falling

price of ruble and the war with Ukraine, portrayed the EEU negatively and with a gloomy future (Michel, 2015; Schenkkan, 2015). In an article in Foreign Policy, Schenkkan (2014, 5) characterized the EEU as a “hollow post-Soviet multilateral institution celebrated with presidential summits but producing no progress towards its stated goals”.

#### 5.4. The emerging China issue

China has been surprisingly quiet and relatively calm regarding the creation of EEU with its further expansion and deeper integration headed by Russia. China is trying to pursue its own strategic interests by promoting penetrating economic and investment relations with EEU member states, including Russia. Nevertheless, there has often been competition for economic and strategic influence over Central Asian countries between Moscow and Beijing, or in other words, between the EEU and the China-initiated Silk Road Economic Belt (Guschin, 2015; Horak, 2014). During his visit to Kazakhstan in 2013, the Chinese leader Xi Jinping declared the creation of a “Silk Road Economic Belt” by involving Central Asian states in connecting China to Europe. There is the potential for clashes between the Eurasian Union and the Silk Road Belt in Central Asia, as both have similar goals of economic cooperation and integration, although the process and mechanism of implementation are different (Kaczmarek, 2015). China may not pose a direct threat to the EEU, but through active economic penetration, it has already become the most important trade and investment partner in the region, which may divert the attention and commitment of EEU members, particularly the Central Asian ones, towards China rather than the integration process headed by Russia. Interestingly, Russia, the leading member of the EEU, is also leaning towards China for trade and investment. After the economic sanctions by the West, Putin highlighted his newfound friendship with China, travelling there several times and securing some impressive trade deals, including a \$400 billion gas deal for 30 years signed in May 2014, which was described as the biggest gas deal in history (Ghittis, 2015).

Another important aspect of Sino-Russian relations was the presence of the Chinese President Xi Jinping along with President Putin at the Victory Day celebrations in Moscow, marking the 70th anniversary of the Soviet defeat of Nazi Germany. The Chinese president's attendance was more significant in 2015 than the previous years, as Western leaders had boycotted the celebration in protest of the Russian occupation of Crimea and Russian support of separatist movements in eastern Ukraine. Therefore, China may not pose a direct threat to the EEU, but its continuous trade and investment relations with most of the EEU members with more neutral terms and no political and ideological baggage may threaten the Russian-led EEU (Michel, 2015).

### 6. Future prospects/directions: what will happen?

The EEU has made some progress in organization and in building institutions compared to its predecessors. In many ways, the organization of the EEU has been inspired by that of the EU, although the EEU differs in many aspects. The EEU has a four-tiered governance structure that is more

pyramidal than the diffuse decision-making processes of the EU. The top administrative body of the EEU is the Supreme Eurasian Economic Council, which consists of the presidents of all the five member states. The secondary decision-making body is the Eurasian Intergovernmental Council, which consists of the Prime Ministers, and the third decision-making body is the Board of the EEC, the main executive body, headed by Viktor Khristenko, a former Russian deputy prime minister who is the Chair of the Commission. There are 23 departments under the Commission that are headed by members from different member states. The last administrative unit is the Advisory Bodies, and under each of them are various Consultative Committees (Eurasian Economic Commission). Based on the experience of the previous integration process in the region as well as other regional integration initiatives, the paper predicts that the future of the EEU could move in any of three potential directions.

#### 6.1. Continue with limited and minimum activities

In its current situation, the EEU may face more crises and will lack the proper support and attention from its member states to be effective in its operations. However, it may not die, but rather survive with minimum activities, as many post-Soviet integration organizations have been doing. It will confine its functions to limited activities, and the existing member states will continue as a weak regional organization in which the weaker members will try to gain as much as they can from Moscow. This may occur because no member state will take the risk of being blamed for the collapse of the EEU, and thus the EEU could continue with limited activities. Russia will certainly not take any step that will undermine the prestige of the EEU or reduce its importance because Russia uses it as a tool for its foreign and regional policy. Armenia, Belarus and Kyrgyzstan are small and weak members, and they will remain in the union as long as it serves their interests. Armenia and Kyrgyzstan may have the added interest of ensuring that their citizens can work in Russia and Kazakhstan and send remittances home. Therefore, the EEU will most likely not be “dead,” as many experts believe, but will survive with minimum activities and may well follow the destiny of the CIS.

#### 6.2. Expand with more membership and closer integration

The second possibility is very optimistic and idealistic. Russia can solve its conflict with Ukraine and return to the international community by abandoning political, ideological and military-security threats and pressures from Moscow with an attitude focused on good global citizenship. Ultimately, Western sanctions could be lifted, national currencies would become stable, and the economies of the member states would grow substantially. In these changed circumstances, international and regional powers would recognize the EEU and would increase cooperation in economic, trade and investment relations among the member states. Most importantly, this cooperation would improve trust and confidence among the member states, and they would believe that Russia was genuinely committed to building a union by promoting economic cooperation, trade and investment for the well-being of the peoples of the region.



However, this may be the idealistic, unrealistic vision in the present situation. The future of the EEU mostly depends on Russian leadership. Only Russia can make real changes and revitalize the EEU with radical changes of its policies, perceptions and visions towards Ukraine, the West, and the other EEU members.

### 6.3. The EEU could be subsumed with China leading another integration

China has been closely observing the developments of the economic integration process in Eurasia while at the same time developing its own strategy for developing economic relations with the Central Asian states by penetrating into the oil and gas sectors without going into direct conflict with Russia. China's main targets have been Kazakhstan, Turkmenistan, Kyrgyzstan and other Central Asian states. Chinese efforts have been rewarded, and China has become the main trade and investment partner of the central Asian countries in recent years. In 2013, Beijing proposed its own integration plan, the Silk Road Economic Belt, and invited the regional states to participate in this wider economic cooperation and select closer integration initiatives. Even after the Ukrainian crisis, China followed a very cautious and careful policy, adopted quiet diplomacy and offered Russia aid, signed several gigantic oil and gas agreements and committed to further cooperation in political, economic and military areas (Zongyou, 2014). Among the five members of the EEU, three countries, i.e., Kazakhstan, Kyrgyzstan and Russia, are active members of the Shanghai Corporation (SCO) (Belarus is an Observer, and Armenia is a Dialogue Member). Recently, the organization has been focusing more on economic cooperation and integration among the members. Therefore, if the EEU is in serious trouble, its members may decide to merge with the SCO and work in a broader and expanded framework. As mentioned earlier, India (a new member of the SCO), Iran and Mongolia (Observers of the SCO) have already expressed interest in signing agreements with the EEU, so any potential future integration of these two organizations may not face serious opposition, particularly when the member states are frustrated with the policies and attitudes of Russia and its leadership.

## 7. Conclusion

While numerous experiments regarding integration efforts have occurred in the Eurasian space over the last 25 years, the EEU has been the most effective initiative with its ambitious goal of creating a full-pledged economic union with a common currency and language. In fact, Russia took the initiative in creating the union and played the leading role in organizing, expanding, managing and resolving conflicts without offering space or a role to other members. Russian leadership in this integration process may not have been liked by all the member states, but no one protested for fear of irritating the current Russian leaders. However, when Russia occupied Crimea and supported separatist movements in eastern Ukraine, resulting in the West imposing sanctions, it expected the support of the other member states. Unfortunately for Russia and logically for

the member states, no one supported Moscow in those events and activities.

The economic integration efforts under the CU, the SES and the EEU seem to have had very little success, as there are gaps and differences in the stated goals of the organization, interests and objectives of the member states. Russia seems to want to use the EEU for its political, security and strategic interests as well as making it a vehicle to display Russian prestige and leadership to the world. Kazakhstan, the most active post-Soviet state and a strong supporter of economic integration, wants to focus more on economic, trade and investment issues without political, ideological or other pressures. The main objective of Kazakhstan in joining EEU is to facilitate free trade and the free movement of capital, human skills, and investments. Smaller states such as Armenia, Belarus, and Kyrgyzstan expect to achieve maximum benefits from Russia. However, Russia seems not to be ready for those causes and limits those benefits to the member states by creating different excuses that generate tension and conflict among the members. Member states blame Russia for maintaining a double standard in terms of following the rules and policies of the CU. Russia imposes internal trade barriers and restrictions for existing member states to export goods and curtails the free movement of labour, capital and investments, particularly from Central Asian member states. At the same time, Russia is promising concessions and benefits to new members for joining the EEU, even though they do not comply with the existing legal and economic rules and procedures (Dreyer & Popescu, 2014). This situation is unlikely to improve; sanctions may continue, the Russian economy may deteriorate further as oil prices are not increasing substantially, and the EEU will be in more trouble. Among the three potential options/directions that we have discussed and predicted, the first one seems to be more realistic considering the current situation of the EEU, the conditions in Russia, Russia's position in the region and global involvement.

## Conflict of interest

The authors declare no conflict of interest for this article.

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