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The Eurasian Economic Union and the European Union

Geopolitics, Geo-Economics and Opportunities for Europe

Abstract

Despite the observation that the creation of the Eurasian Economic Union (EEU) appears to have been primarily motivated by a Russian desire to reassert dominance over the region, the question of whether genuine cooperation can take place between the European Union (EU) and the EEU is a relevant one. Russia's economic downturn and the wider regional fallout have significantly eroded the EEU's attractiveness as a motor for economic integration. Moreover, Moscow's tendency to let geopolitics and foreign policy considerations trump economic cooperation causes friction among EEU members. The growing signs that individual EEU states are disillusioned with how membership in the Union has turned out should mean that there will be more willingness on their part to pursue a distinctly multi-vector foreign policy that seeks greater cooperation with both the EU, as well as China. Doing so would also strengthen the EEU member states' ability to form a counterweight to Moscow's dominance of the Eurasian Union, as well as in other areas. Lastly, the lack of funds available from Moscow to drive economic integration also means that domestic reforms in EEU member countries will grow in importance as a motor for positive economic change. Europe and Sweden should consistently seek to emphasise this as part of the Eastern Partnership policy, as well as in their bilateral relations with EEU member states.

1 Introduction

Kazakhstan's President, Nursultan Nazarbayev, is considered to have been the first to suggest the creation of a Eurasian Union. During a speech held at Lomonosov Moscow State University on 29 March 1994, he suggested the formation of a bloc of nations on the basis of respect for the sovereignty and independence of the states, for individual rights and the identity of each state.¹ Although Eurasian integration failed to gain traction immediately after Nazarbayev's speech, some twenty years later, on 29 May 2014, the treaty establishing the Eurasian Economic Union (EEU) – an

economic bloc of former Soviet states – was signed by the leaders of Belarus, Kazakhstan and Russia. Roughly a year later, on 1 January 2015, the Union entered into force. Soon after its inception, other countries joined the EEU, and its membership now consists of Armenia, Kyrgyzstan and the aforementioned three founding members (see Figure 1).

Two explicit motivations appear to be behind Moscow's creation of the EEU: (i) to re-establish its leading role in the region and cement its status as a great power in a multipolar world; and (ii) to regain some of the economic ground lost

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¹ Altair Nurbekov, 'Eurasian Economic Integration "Will Continue," Nazarbayev Says', *The Astana Times*, 2 April 2014, <http://astanatimes.com/2014/04/eurasian-economic-integration-will-continue-nazarbayev-says/>.

FIGURE 1 THE EURASIAN ECONOMIC UNION. SOURCE: WIKIMEDIA COMMONS



to China, the US and the EU in recent years.² The first of these motivations came to the fore in the protests and subsequent conflict that erupted in Ukraine in late 2013. Fearful of a loss of influence over a Ukraine that would integrate with western institutional structures such as the EU, and possibly NATO, Russian President Vladimir Putin enticed then Ukrainian President Viktor Yanukovich into abandoning the proposed Association Agreement (AA) with the EU in return for \$15 billion in loans and a reduction in the price of natural gas. The Ukrainian population feared that Yanukovich would bring Ukraine into the EEU.³ It was ultimately Yanukovich's decision to abandon the AA that sparked the *Euromaidan* protests that later led to the ouster of Yanukovich in February 2014. Although geopolitical motives appeared to play a larger role at the time, the second motive behind the EEU was also relevant in the case of Ukraine, as an EEU without Russia's large neighbour would mean that the Union would lose out on a large attractive market. Without Ukraine, and with Russia suffering from a recession due to a combination of its foreign adventurism and low energy prices, the success of the EEU is now cast in doubt.⁴ These problems notwithstanding, the organisation looks like it is here to stay. That also means that it is a legitimate question to ask whether the EEU and

the European Union (EU) are competitors, or whether they can co-exist or even cooperate. This policy brief starts by exploring some of the differences between the EU and the EEU. Relevant also is the question of how attractive the Eurasian Union is to its members, given that Russia is experiencing its worst recession since the late 1990s, and the impact of China's 21st Century Silk Road project on the bloc. Finally, I return to the question of how and if the EU and the EEU can cooperate and what the response from Moscow might be to such a proposition.

2 Eurasian Economic Union vs European Union

Politically and diplomatically, the EEU represents the most comprehensive form of economic integration in the territories spanning the former Soviet Union. That said, compared to the EU, the level of integration in the EEU is much more limited in scope. As a result, there are a number of important differences between the two organisations.

First, whereas the Treaty on the Functioning of the European Union explicitly lists the values that bind the EU together, the treaty establishing the EEU does not include political integration, and as a result, makes no mention of mutual

² Gonzalo Pozo-Martín, 'The Eurasian Economic Union: Ambitions - Elcano', accessed 8 March 2016, http://www.realinstitutoelcano.org/wps/portal/web/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_es/zonas_es/economia+internacional/ari49-2015-pozomartin-eurasian-economic-union-ambitions-and-vulnerabilities-of-the-other-eu; Jan Strzelecki, 'The Eurasian Economic Union: A Time of Crisis', *Ośrodek Studiów Wschodnich Im. Marka Karpia*, 2 January 2016.

³ 'Putin Pledges Billions, Cheaper Gas to Yanukovich', *RadioFreeEurope/RadioLiberty*, 17 December 2013, sec. Ukraine, <http://www.rferl.org/content/ukraine-protests-yanukovich-moscow/25203138.html>.

⁴ Anton Barbashin, 'The Eurasian Illusion', *Foreign Affairs*, 16 January 2015, <https://www.foreignaffairs.com/articles/russian-federation/2015-01-15/eurasian-illusion>.

values at all.⁵ Although values are not considered as such, the EEU does list a number of guiding principles in Article 3 of the founding Treaty. These include respect for universally recognised principles of international law; the sovereign equality of the member states and territorial integrity; respect for specific features of the political structures of the member states; ensuring mutually beneficial cooperation, quality and respect for the national interest of the parties; and respect for the principles of a market economy and fair competition.⁶

A second – and related – difference can be found in the area of citizens' rights. Whereas the EU makes explicit references to human rights through its Charter of Fundamental Rights⁷, the EEU, by contrast, only mentions respect for the rule of constitutional rights and freedoms in its preamble. The rest of the Treaty text makes no other reference to human rights.

A third major difference is found in the level of outward ambition. Where the EU strives for a role as a global actor through its nascent Global Strategy⁸, the EEU's focus is rather more regional in scope. The objectives listed in Article 4 of the Treaty on Eurasian Union are the creation of proper conditions for sustainable economic development of the member states; to establish a common market for goods, services, capital and labour within the Union; and to ensure the modernisation of and cooperation among the economies of the member states.⁹ A fourth and final difference is that, in contrast to the EU, the EEU does not declare a commitment to the principles of subsidiarity and proportionality which aim to bring the decision-making process closer to the citizens.¹⁰

Institutionally, the EEU is composed of a number of decision-making bodies. The most important decisions

are taken by the Heads of State in the Supreme Eurasian Economic Council, similar to how the European Council is set up. Decisions are taken on the basis of unanimity. Below this body sits the Eurasian Economic Commission, the EEU's executive, which is tasked with the day-to-day management of the Union and headquartered in Moscow, again similar to the European Commission. The Eurasian Economic Commission consists of two sub-bodies: a Council and a Board. The Council, which is composed of the Vice Prime Ministers of each member state, supervises the integration processes in the Union and looks after the overall management of the Eurasian Commission. The decision-making process in the Commission proceeds on the basis of consensus. The Board is composed of fourteen commissioners, three from each member state and two from Kyrgyzstan, appointed for a four-year renewable term. Decisions within the Board are taken on the basis of a qualified majority, except when the Supreme Eurasian Council deems the topic a 'sensitive subject', after which unanimity is required.

3 The Eurasian Union's gravitational pull

Russia promotes the EEU as an organisation that can act as an economic alternative to the EU.¹¹ However, a good year after the Eurasian Union entered into force, this story is increasingly hollow, as the Russian economy is experiencing its worst recession since the 1990s. Many lobbyists and EU business elites point to the sanctions imposed on Russia after it annexed Crimea and stoked conflict in eastern Ukraine as a reason for Russia's economic crisis, and assert that they have imposed unfair costs on European business.¹² However, contrary to this line of reasoning, Russia's economic problems stem primarily from a high dependence on raw material exports (oil, oil products, and natural gas) and a general lack of competitiveness in other economic areas. This inherent fragility is made worse by institutional

⁵ Andrei Yeliseyev, 'EEU and EU: Similarities and Differences', *Belarusian Institute for Strategic Studies Eurasian Review* (n.d.): 2, http://www.academia.edu/13698493/The_Eurasian_Economic_Union_EEU_and_the_European_Union_EU_Similarities_and_Differences.

⁶ Art. 3 of the Treaty on the Eurasian Economic Union.

⁷ *Charter of Fundamental Rights of the European Union*, 2000, http://www.europarl.europa.eu/charter/pdf/text_en.pdf.

⁸ 'A Global Strategy on Foreign and Security Policy for the European Union - EU Global Strategy - European Commission', *EU Global Strategy*, accessed 1 June 2016, <https://europa.eu/globalstrategy/en/global-strategy-foreign-and-security-policy-european-union>.

⁹ Art. 4 of the Treaty on the Eurasian Economic Union.

¹⁰ Yeliseyev, 'EEU and EU: Similarities and Differences', 3.

¹¹ Strzelecki, 'The Eurasian Economic Union: A Time of Crisis'.

¹² 'EU's Tusk "Quite Sure" Russia Sanctions Will Be Extended', *RadioFreeEurope/RadioLiberty*, 26 May 2016, sec. Russia, <http://www.rferl.org/content/russia-ukraine-eu-tusk-certain-sactions-extended/27758654.html>; Janosch Delcker, 'Germany Blocks Out Allies' Wails over Russian Pipeline Love', *POLITICO*, 17 May 2016, <http://www.politico.eu/article/germany-shrugs-over-nord-stream-fuss/>; 'Gabriel Für Abbau Der Russland-Sanktionen', *Frankfurter Allgemeine Zeitung (FAZ)*, 25 May 2016, <http://www.faz.net/aktuell/wirtschaft/gabriel-fuer-schrittweisen-abbau-der-russland-sanktionen-14253181.html>.

weakness, high levels of corruption and unpredictable state interventions.¹³ The recession therefore did not come as a surprise. In 2013, the Russian economy was already experiencing stagnation, well before the crisis in Ukraine kicked off and before oil prices started to tumble.¹⁴ What the latter two factors did do, however, is make matters worse.

Soon after Russia's economy began to sputter, the crisis started to spread throughout the region. When the Russian Rouble depreciated, non-Russian goods suffered a competitive setback, forcing other EEU members to also devalue their own currencies in order to remain competitive. The results were widespread devaluations throughout the region. The Kazakh Tenge was devalued by 19% in February 2014, followed by another 23% after the government abandoned its attempts to prop up the currency and let it float freely instead. In 2015, the Tenge lost a whopping 45% of its value against the US dollar.¹⁵ Elsewhere in the EEU, the picture was equally bleak. In 2015, the Kyrgyz Som lost around 30% of its value against the dollar and the Tajik Somoni fell by 31%.¹⁶ The Belarusian Rouble also lost over 30% of its value against the dollar in 2015, and the Armenian Dram saw its value drop by 14.9%.¹⁷ Officially, the Uzbek Som only depreciated by 16%. However, a look at the black

market tells a decidedly different story. In 2015 alone, its rate against the dollar on the black market tumbled by well over 90%.¹⁸

Furthermore, with Russia's economy in a tailspin, exports from other EEU members to Russia have dropped significantly. Kazakh exports to Russia shrank by 32% in the first ten months of 2015, and car exports from General Motors' (GM) branch in Uzbekistan fell sharply. GM Uzbekistan reported a drop in exports of nearly 50% between 2014 and 2015.¹⁹ Beyond Russia's economic crisis, the harmonisation of import tariffs also contributed to a reduction in trade throughout the bloc. Russia – as the dominant power within the EEU – forced other countries to adapt their tariffs to the higher Russian level. In Kazakhstan, for example, this has had the effect that consumers now pay more for cars produced in Russia than for cars from South Korea or Japan that they purchased previously.²⁰ In Kyrgyzstan, a country whose GDP heavily relies on the re-export of Chinese and Turkish goods, the higher Russian tariff has caused a sharp increase in the prices for imports coming from these countries. After having joined the EEU on the premise that free access to the large regional market would provide new trade and economic opportunities, this was a tough pill to swallow.²¹ It is indicative of the lack

¹³ Edward Hunter Christie and Andreas Umland, 'How Important Would a Post-Sanctions Russia Be for EU Foreign Trade?', *Harvard International Review*, 3 June 2016, <http://hir.harvard.edu/how-important-would-post-sanctions-russia-be-for-eu-foreign-trade/>.

¹⁴ Marek Dabrowski, 'The Systemic Roots of Russia's Recession | Bruegel', 16 October 2015, <http://bruegel.org/2015/10/the-systemic-roots-of-russias-recession/>.

¹⁵ Jack Farchy, 'Kazakhstan Unrest Highlights Reform Conundrum', *Financial Times*, 6 June 2016, <http://www.ft.com/cms/s/0/34e688d4-2bbf-11e6-bf8d-26294ad519fc.html>; Jack Farchy, 'Currency Devaluation Places Kazakhstan Central Bank under Pressure', *Financial Times*, 15 September 2015, <http://www.ft.com/cms/s/0/48495ba8-579f-11e5-a28b-50226830d644.html>.

¹⁶ Franco Galdini and Elyor Nematov, 'Kyrgyzstan: Putin's Eurasian Economic Union and Its Discontents', *The Diplomat*, 20 May 2016, <http://thediplomat.com/2016/05/kyrgyzstan-putins-eurasian-economic-union-and-its-discontents/>; Reid Standish, 'How Tajikistan's President Extended His Term—for Life', *Foreign Policy*, 25 May 2016, <https://foreignpolicy.com/2016/05/25/how-tajikistans-president-extended-his-term-for-life-rahmon-is-migrant-imf/>.

¹⁷ Aliaksandr Kudrytski, 'Belarus Ruble Plunges to Record Low as Russia Counterpart Slides', *Bloomberg.com*, accessed 8 June 2016, <http://www.bloomberg.com/news/articles/2015-08-24/belarus-ruble-plunges-to-record-low-as-russia-counterpart-slides>; 'Armenia Central Bank Injects \$94 Million in Local Currency Market in Quarter One', *ArmBanks.am*, 1 June 2016, <http://www.armbanks.am/en/2016/06/01/98533/>.

¹⁸ Trend.Az, 'Uzbek Currency Depreciates versus USD by 16% in 2015', *Uzbek Currency Depreciates versus USD by 16% in 2015*, 5 January 2016, <http://en.trend.az/casia/uzbekistan/2476789.html>; Bruce Pannier, 'The First 40 Days: Uzbekistan's Tales of Success and the Reality on the Ground', *RadioFreeEurope/RadioLiberty*, 7 March 2016, sec. Qishloq Ovozi, <http://www.rferl.org/content/qishloq-ovozi-the-first-40-days-uzbekistan/27587417.html>; Putz Catherine, 'Cars, Currency, and the Uzbek Black Market', *The Diplomat*, 13 February 2016, <http://thediplomat.com/2016/02/cars-currency-and-the-uzbek-black-market/>.

¹⁹ Nate Schenkkan, 'A Perfect Storm in Central Asia', *Foreign Policy*, 22 January 2016, <https://foreignpolicy.com/2016/01/22/a-perfect-storm-in-central-asia/>; Putz Catherine, 'Explaining the GM Uzbekistan Scandal', *The Diplomat*, 18 May 2016, <http://thediplomat.com/2016/05/explaining-the-gm-uzbekistan-scandal/>.

²⁰ Anders Aslund, 'Putin Gets It Wrong Again: Eurasian Economic Union Hurts Russia', *Atlantic Council*, 1 February 2016, <http://www.atlanticcouncil.org/blogs/new-atlanticist/putin-gets-it-wrong-again-eurasian-economic-union-hurts-russia>.

²¹ Galdini and Nematov, 'Kyrgyzstan: Putin's Eurasian Economic Union and Its Discontents'.

of economic attractiveness of the EEU that the separatist entity of Transnistria, despite its political dependence on Moscow, now exports more to the EU than it does to countries belonging to the Eurasian Union, taking advantage of Moldova's AA with the EU, which allows tariff-free exports. In 2015, shipments to Russia from Transnistria declined by 7.7%.²² All in all, by 2015, trade between EEU members had dropped to \$45 billion. In the period from January-April 2016, a further drop of 18.4% was recorded compared to the previous year.²³

Russia's economic difficulties not only meant that integration with the Russian market would prove less attractive for EEU member states, it also meant that Moscow itself had less financial leeway to provide the funds that rendered integration attractive to the poorer member states. Illustrative in that regard was the cancellation of promised investments in hydro-electric plants in Kyrgyzstan. Problematic for the EEU is the fact that beyond economic incentives for integration, the organisation has little else to offer its members, since tackling corruption, strengthening the rule of law and regulatory reforms are not part of the Eurasian Union's mandate.²⁴

Another point of contention among EEU members are the sanctions Moscow imposed on the EU after Brussels placed sanctions on Russia owing to the country's annexation of Crimea and the stoking of conflict in eastern Ukraine. The fact that the Kremlin chose not to notify the member states of its intention to impose counter-sanctions did not sit well with the other members of the EEU.²⁵ The other member

states did not join Russia's counter-sanctions, which caused friction with Moscow. In a bid to minimise the impact of trade losses resulting from Russia's recession, Belarus and Kazakhstan started to re-export western food products, and European exporters were keen to strike deals with the two countries in order to circumvent the Russian ban.²⁶ Russia cracked down on this practice in early 2015, after which re-exporters switched tactics and resorted to falsifying countries of origin on illegal shipments.²⁷ In response, the Russian authorities forcibly destroyed tonnes of food. In a country where millions of people live below the poverty line and where memories of the siege of Leningrad still linger, this did not sit well with the population.²⁸ On the whole, Russia's counter-sanctions appear to have, in particular, hit Russia's own consumption and the country's own population, rather than its intended targets.²⁹ Most importantly, the ban on EU agricultural imports has hitherto not resulted in the EU lifting sanctions against Russia.

Finally, economic factors are not the only issue that plays a role in disenfranchising some of the EEU's members. When Armenia, after lengthy negotiations, decided not to sign the EU Association Agreement, and instead joined the EEU, it did so on the basis of promises that joining the bloc would reinforce the country's security vis-à-vis Azerbaijan – a country with whom Armenia is at war over the disputed Nagorno-Karabakh region.³⁰ However, the recent flare-up of hostilities in the disputed enclave and Russia's continued arms exports to Azerbaijan have shown the government in Yerevan that these security guarantees were, by and large, empty.³¹

²² 'Moldova: Separatist Transnistria Region Reorienting Trade from Russia to EU', *EurasiaNet*, 4 May 2016, <http://www.eurasianet.org/node/78636>.

²³ 'The Eurasian Economic Union: Power, Politics and Trade' (International Crisis Group, 20 July 2016), 10; 'Аналитические Материалы', *Eurasian Commission*, 2016, http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/analyt/Pages/default.aspx.

²⁴ 'The Eurasian Economic Union: Power, Politics and Trade', 13.

²⁵ Aleksandra Jarosiewicz and Ewa Fischer, 'The Eurasian Union-More Political, Less Economic', *Ośrodek Studiów Wschodnich Im. Marka Karpia*, 20 January 2015, <http://www.osw.waw.pl/en/publikacje/osw-commentary/2015-01-20/eurasian-economic-union-more-political-less-economic>.

²⁶ Strzelecki, 'The Eurasian Economic Union: A Time of Crisis'; Kenneth Rapoza, 'Here's What Putin's Counter-Sanctions Did to E.U. Exporters', *Forbes*, 17 April 2015, <http://www.forbes.com/sites/kenrapoza/2015/04/17/heres-what-putins-counter-sanctions-did-to-e-u-exporters/>.

²⁷ 'Why Russia's Import Ban Has Mostly Failed', *Stratfor*, 27 August 2015, <https://www.stratfor.com/analysis/why-russias-import-ban-has-mostly-failed>.

²⁸ Sarah Rainsford and Moscow, 'Russians Shocked as Banned Western Food Destroyed', *BBC News*, 7 August 2015, <http://www.bbc.com/news/world-europe-33818186>.

²⁹ Shaun Walker, 'Russians Despair at Food Destruction as Moscow Says It Is Having Desired Effect', *The Guardian*, 7 August 2015, sec. World news, <https://www.theguardian.com/world/2015/aug/07/russian-food-imports-destruction-moscow-desired-effect-waste-poverty>.

³⁰ Farhad Mammadov and Azad Garibov, 'Why Armenia's Allies Are Letting It Down', Text, *The National Interest*, (5 June 2016), <http://nationalinterest.org/feature/why-armenias-allies-are-letting-it-down-16455>.

³¹ Strzelecki, 'The Eurasian Economic Union: A Time of Crisis'.

FIGURE 2 CHINA'S SILK ROAD INITIATIVE. SOURCE: THE WALL STREET JOURNAL



4 The pull from the East: China's new Silk Road

In 2014, during a visit to Kazakhstan, Chinese President Xi Jinping launched his idea for the creation of a new Silk Road that runs from China to Europe. In November of that same year, Xi announced the creation of a \$ 40 billion Silk Road Infrastructure fund to boost connectivity across Asia.³² The Silk Road initiative has since been rebranded into the 'One Belt One Road' (OBOR) initiative, consisting of the land-based Silk Road Economic Belt and the 21st Century Maritime Silk Road (see Figure 2). The former represents a rail- and road network crisscrossing through Central Asia and the Middle East before reaching Europe.³³ The latter is the maritime component of the New Silk Road, which is designed to run from China's coast to Europe through the South China Sea and the Indian Ocean in one direction, and from China's coast through the South China Sea to the Pacific in the other direction. The Maritime Silk Road aims to connect major ports along its routes.³⁴ The Silk

Road Economic Belt is of greatest interest to the EEU, given that China's land corridor is designed to take shape within and across the territories of several EEU member states. Although Putin and Xi Jinping allegedly discussed using the Shanghai Cooperation Organization (SCO) as a platform for the integration of the EEU with China's Silk Road Economic Belt during the July 2015 SCO summit in Russia³⁵, there are a number of reasons to expect that this cooperation will not necessarily be very harmonious.

Owing to the Soviet legacy, Central Asia is traditionally considered to be Russia's 'backyard'. But, much has changed in the past fifteen years. Trade between China and the five post-Soviet Central Asian states grew from \$ 1.8 billion in 2000 to \$ 50 billion in 2013, making China the biggest investor in the region.³⁶ Although Russia still controls the majority of the energy exports emanating from Central Asia, its economic grip on the region is rapidly weakening. Russia's policy of buying oil and gas supplies at sub-market

³² Paul Carsten et al., 'China to Establish \$40 Billion Silk Road Infrastructure Fund', *Reuters*, 8 November 2014, <http://www.reuters.com/article/us-china-diplomacy-idUSKBN0IS0BQ20141108>.

³³ Catherine Putz, 'China Pushes One Belt, One Road in Central Asia', *The Diplomat*, 24 May 2016, <http://thediplomat.com/2016/05/china-pushes-one-belt-one-road-in-central-asia/>.

³⁴ Shannon Tiezzi, 'Can China Jump-Start Its Maritime Silk Road in 2016?', *The Diplomat*, 12 February 2016, <http://thediplomat.com/2016/02/can-china-jump-start-its-maritime-silk-road-in-2016/>.

³⁵ 'Putin and Xi Jinping Discuss Projects to Combine the Silk Road Economic Belt with EEU', *TASS*, 8 July 2015, <http://tass.ru/en/economy/806984>.

³⁶ Jack Farchy, 'China's Great Game: In Russia's Backyard', *Financial Times*, 14 October 2015, <http://www.ft.com/cms/s/0/d35d34ca-6e70-11e5-aca9-d87542bf8673.html>.

rates from Kazakhstan and Turkmenistan, only to sell them to its European clients at a profit, has prompted Astana and Ashgabat to court the Chinese as an alternative export market.³⁷

The lure of billions of dollars of investment for China's Silk Road Economic Belt is proving attractive compared against Russia's current economic difficulties and Moscow's trade restrictions on Western agricultural produce.³⁸ China views Russia – and the EEU as a whole for that matter – as one of the potential corridors of the Silk Road and as a unified customs area.³⁹ However, whether Russia will feature prominently in the Silk Road depends much on how Moscow behaves vis-à-vis China's forays into Central Asia. Other countries are keen to join the Silk Road. Xi Jinping's visit to Iran in January 2016 was illustrative, as Iran is a country eager to expand its outward relationships after the lifting of the sanctions against it. Iran, however, also gives China considerable hedging abilities vis-à-vis Moscow, as the potential centrality of Iran to the Silk Road Economic Belt effectively means that China gains the possibility of crossing Eurasia without ever going through Russia. Put differently, adding Iran could mean that Russia can be cut out of the route entirely.⁴⁰ A month after the visit to Iran, a direct train link between Ukraine and China saw the first 30-car container train conduct a test journey through Georgia, Azerbaijan and Kazakhstan to China.⁴¹

Whereas the EEU appears primarily set up to establish control over its members and prevent them from taking geo-

economic decisions deemed unfavourable by the Kremlin, the Silk Road Economic Belt, by contrast, is an initiative with a strong outward vision aimed at fostering trade ties. Nevertheless, the Silk Road project in itself is also explicitly geopolitical in the sense that fostering trade routes over land also has as much to do with reducing China's reliance on the maritime trade routes dominated by the US Navy and with establishing Chinese regional leadership in Asia.

Compared to the EEU, the Silk Road is much more successful at fostering economic integration in the region. It is the difference in emphasis, coupled with China's greater economic clout in Central Asia, which creates the risk that Russia's dominance over the former Soviet republics will be further undermined. This realisation also appears to have sunk in in Moscow, as illustrated by Putin's announcement of a vision for 'a great Eurasian partnership' in St. Petersburg in June 2016. Rather than counterbalancing China's Silk Road, and to camouflage the growing asymmetry in Russia-China relations, Moscow appears to be opting for a strategy of joining alongside a stronger partner.⁴²

5 Can the EU and the EEU cooperate?

In late November 2015, European Commission President Jean-Claude Juncker sent a letter to the Russian government in which he is stated to have asked Commission officials to draft new proposals on cooperation between the EU and the EEU.⁴³ The idea, which prompted the ire of Eastern European officials by sending encouraging signals to Moscow at a sensitive moment in relations⁴⁴, is nonetheless

³⁷ 'Rising China, Sinking Russia', *The Economist*, 14 September 2013, <http://www.economist.com/news/asia/21586304-vast-region-chinas-economic-clout-more-match-russias-rising-china-sinking>; Martha Brill Olcott, 'China's Unmatched Influence in Central Asia', *Carnegie Endowment for International Peace*, 18 September 2013, <http://carnegieendowment.org/2013/09/18/china-s-unmatched-influence-in-central-asia>; Jack Farchy, 'Map: Connecting Central Asia', *Financial Times*, 9 May 2016, <http://www.ft.com/cms/s/0/ee5cf40a-15e5-11e6-9d98-00386a18e39d.html>.

³⁸ Jack Farchy, 'New Silk Road Will Transport Laptops and Frozen Chicken', *Financial Times*, 9 May 2016, <http://www.ft.com/cms/s/0/e9d35df0-0bd8-11e6-9456-444ab5211a2f.html>.

³⁹ Marcin Kaczmarek and Witold Rodkiewicz, 'Russia's Greater Eurasia and China's New Silk Road: Adaptation instead of Competition | OSW', *OSW Warsaw*, 21 July 2016, <http://www.osw.waw.pl/en/publikacje/osw-commentary/2016-07-21/russias-greater-eurasia-and-chinas-new-silk-road-adaptation>.

⁴⁰ Raffaello Pantucci, 'China's New Silk Road Is Designed to Cut Russia Out of Eurasian Trade', *South China Morning Post*, accessed 18 March 2016, <http://www.scmp.com/comment/insight-opinion/article/1913441/chinas-new-silk-road-designed-cut-russia-out-eurasian-trade>.

⁴¹ John C.K. Daly, 'Bypassing Russia, Ukraine Becomes Another "Silk Road" Terminus', *The Jamestown Foundation*, 27 January 2016, http://www.jamestown.org/programs/edm/single/?tx_ttnews%5Btt_news%5D=45028&cHash=f26b1654a578b2b35fc044f3513d3141.

⁴² Kaczmarek and Rodkiewicz, 'Russia's Greater Eurasia and China's New Silk Road: Adaptation Instead of Competition | OSW'.

⁴³ Georgi Gotev, 'Juncker Opens the Door to EU-Eurasian Union Rapprochement', *EurActiv.com*, 20 November 2015, <http://www.euractiv.com/section/europe-s-east/news/juncker-opens-the-door-to-eu-eurasian-union-rapprochement/>; Andrew Rettman, 'EU Institutions Reach Out to Moscow', *EUobserver*, 20 November 2015, <https://euobserver.com/foreign/131193>.

⁴⁴ Andrew Rettman, 'Poland and Lithuania Rebuke Juncker on Russia', *EUobserver*, 17 December 2015, <https://euobserver.com/foreign/131528>.

interesting in and of itself. In its dealings with EU member states, Russia is often said to employ a strategy of 'divide and rule' whereby it either aims to weaken Brussels by playing off EU member states against each other, or by undermining EU cohesion and coherence as a whole.⁴⁵ In seeking to dismiss cooperation with the EEU out of hand, and instead seeking cooperation with its member states on a strictly bilateral basis, the EU could essentially be accused of engaging in the same practice for which it has denounced Moscow. Reaching out could also be a test of the extent to which Russia is genuinely interested in seeing the EEU establish ties with Western regional organisations.

There are, however, a number of reasons to believe that Russia may not be interested in pursuing meaningful cooperation between the EU and the EEU. First, recall how, in late 2013, Ukraine became the focal point of a tussle between Russia and the EU about whether or not Ukraine should sign the EU AA. When the Ukrainian President Viktor Yanukovich backed out of the agreement under pressure from the Kremlin, this sparked the Euromaidan protests, Russia's subsequent annexation of Crimea and the conflict in Eastern Ukraine. After a new government came to power in Kiev, the political provisions of the AA Agreement were signed on 21 March 2014. The Deep and Comprehensive Free Trade Agreement (DCFTA), which set forth the free trade provisions of the AA, was signed on 27 June 2014. The agreement is part of a series of Association Agreements signed with former Soviet States, including Moldova and Georgia.

In an ominous sign of what was to come, Russia banned imports of processed beef, horse meat, lamb, and pork from Moldova on the day that it ratified the DCFTA, citing concerns over African swine fever. Not surprisingly, processed

meat is one of Moldova's main export products to Russia.⁴⁶ Ukraine ultimately met a similar fate. Immediately after the signing of the free trade provisions of the AA, Russia placed pressure on the EU and Ukraine to alter the agreement and to have a say in when it would be implemented.⁴⁷ In support of its requests, Russia voiced a number of arguments. First, the Russian government alleged that if Ukraine entered into a DCFTA with the EU, Russia would find itself flooded with goods from the EU. Russian Prime Minister Dmitri Medvedev stated a need "[...] to protect our market and our producers and to prevent imports from other countries under the guise of Ukrainian goods".⁴⁸ This argument is invalid, however, given that goods exported to Ukraine from the EU (tariff free under the DCFTA) and sold on to the Russian market would still be regarded as made in the EU under World Trade Organization (WTO) rules, and thus, would be subject to the Russian import tariffs that apply to the EU. Russia also suggested that EU technical and product standards, which Ukraine would have to adopt under the DCFTA, would then also apply to products made by Ukrainian enterprises that sell products to Russia. According to the Russian government, this is harmful to bilateral trade. This argument, however, is equally false, as these technical standards would only apply to sales in the Ukrainian domestic market or to the EU market. That leaves Ukraine free to produce for export to Russia according to Russian standards.⁴⁹

On 5 May 2015, the EU announced that it would postpone the implementation of the DCFTA for a year in a bid to accommodate Russian concerns.⁵⁰ The abovementioned concerns set aside, one of the key sticking points was that Russia demanded that Ukraine adopt its phytosanitary standards. This would have meant that Ukraine would have had to honour the Russian food import ban that it

⁴⁵ Jamila Trindle, 'Divide and Conquer', *Foreign Policy*, 15 October 2014, <https://foreignpolicy.com/2014/10/15/divide-and-conquer-5/>; Michael Cecire, 'Divide and Conquer in Georgia', *Foreign Affairs*, 10 November 2015, <https://www.foreignaffairs.com/articles/georgia/2015-11-10/divide-and-conquer-georgia>; Alex Barker and Peter Spiegel, 'Ukraine PM Warns EU against Putin's Divide-and-Conquer Tactics', *Financial Times*, 19 March 2015, <http://www.ft.com/cms/s/0/413b977a-ce5d-11e4-86fc-00144feab7de.html>; Sijbren de Jong, 'Confuse, Divide and Rule - How Russia Drives Europe Apart' (Brussels: Institute for European Studies, VUB, March 2016), 1.

⁴⁶ Andrew Rettman, 'Russia Retaliates against Moldova's EU Treaty', *EUobserver*, 3 July 2014, <https://euobserver.com/foreign/124860>.

⁴⁷ Andrew Rettman, 'Russia Seeks New Veto on EU-Ukraine Pact', *EUobserver*, 10 July 2014, <https://euobserver.com/foreign/124933>.

⁴⁸ Hans von der Burchard, 'EU Bid to Appease Russia over Ukraine Deal Collapses', *POLITICO*, 21 December 2015, <http://www.politico.eu/article/ukraine-russia-fta-tade-eu/>.

⁴⁹ Michael Emerson, 'Russia's Economic Interests and the EU's DCFTA with Ukraine?', *EurActiv.com*, 25 June 2014, <http://www.euractiv.com/section/europe-s-east/opinion/russia-s-economic-interests-and-the-eu-s-dcfta-with-ukrain/>.

⁵⁰ 'EU to Postpone Ukraine Free Trade Pact to 2016', *EurActiv.com*, 5 May 2015, <http://www.euractiv.com/section/europe-s-east/news/eu-to-postpone-ukraine-free-trade-pact-to-2016/>.

had imposed on EU producers. Interestingly, an offer from German Foreign Minister Frank-Walter Steinmeier to sign a political statement on EU cooperation with the EEU as a way of accommodating Moscow stimulated no interest on the Russian side.⁵¹ Ultimately, the three sides failed to reach an agreement, and the talks collapsed in December 2015.⁵² On 1 January 2016, Russia hit Ukraine with trade sanctions, imposing new tariffs on Ukrainian goods and imposing a ban on imported Ukrainian food.⁵³

6 Opportunities for Europe to engage with the EEU

The manner in which Russia reacted to Moldova and Ukraine's signing of their respective DCFTAs goes a long way in showing the degree to which the Kremlin is interested in pursuing meaningful cooperation between the EEU and the EU. The fact that proposals from both Commission President Juncker and German foreign minister Steinmeier to explore cooperation between the two blocks have fallen on deaf ears is a tell-tale sign of the principal motivations behind Russia's creation of the EEU. First and foremost, the Eurasian Union appears to have been designed not with the aim of fostering real economic integration within the post-Soviet space, but rather with the primary objective of preventing the westward regional integration of post-Soviet states out of a concern of losing influence and control over former Soviet territories. This form of negative integration is well illustrated by Russia's retaliation against states that do not wish to tow the Kremlin line. Conversely, Russia's apparent refusal to treat the other EEU members as equal partners has caused numerous frictions within the Eurasian Union and made the other states wary of the Kremlin's intentions. The fact that the other EEU members have refused to support Russia in its conflict with Ukraine is illustrative in that regard.

Whether comprehensive cooperation between the EU and the EEU is possible one day rests firmly on the full implementation of the Minsk Agreement on Ukraine. However, it is clear that this prospect is remote at best. It is more realistic to assume that the Minsk Agreement will remain unimplemented and that Russia will continue to fuel the conflict in eastern Ukraine whenever it feels it is opportune to do so. Having said that, this situation does not automatically translate into an 'either/or question', whereby a country either belongs to the EU or to the EEU, and that there cannot be any meaningful interaction between the two.

On the contrary, Russia's economic downturn and the wider regional fallout have significantly eroded the EEU's attractiveness as a motor for economic integration. The growing disillusionment on the part of the individual EEU members about how the Eurasian Union has turned out for them should mean that there will be more willingness on their part to pursue a distinctly multi-vector foreign policy that seeks greater cooperation with both the EU, as well as China. Doing so would also strengthen the EEU member states' ability to form a counterweight to Moscow's dominance of the Eurasian Union, as well as of other areas.

Lastly, Russia's economic downturn has undermined the economic incentives for cooperation within the Eurasian Union, thus placing additional pressure on the EEU member states to reform their domestic economies instead. When it comes to these kinds of reforms, the EU has a much stronger track record than the EEU – let alone Russia – will ever have. If Europe and Sweden are smart, they will keep the door open and seek to emphasise this as part of the Eastern Partnership policy, as well as in their bilateral relations with EEU member states that are open to reforms.

⁵¹ Andrew Rettman, 'EU Talks Fail to Stop Russia Sanctions on Ukraine', *EUobserver*, 2 December 2015, <https://euobserver.com/foreign/131338>.

⁵² Burchard, 'EU Bid to Appease Russia over Ukraine Deal Collapses'.

⁵³ 'Russia Hits Ukraine with Trade Sanctions over EU Deal', *BBC News*, 21 December 2015, <http://www.bbc.com/news/world-europe-35150755>.

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