

From Competition to Compatibility

Striking a Eurasian balance
in EU-Russia relations

Tony van der Togt
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Clingendael Report



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Needless to say, the responsibility for any remaining errors and misjudgements in this report fully remains with the authors.

Executive summary

This Clingendael report deals with the geopolitical and geo-economic challenges posed to the European Union (EU) by the emergence of the Eurasian Economic Union (EEU) as a new form of 'competing regionalism', seeking its own (exclusive) space between the EU and other (Asian-based) forms of integration.

In our analysis, the EEU constitutes a primarily Russia-driven integration effort in the post-Soviet space, shaped by a rather outdated form of 'holding together regionalism' and based on old economic, social and cultural ties between Russia and the countries in its 'near abroad'. Russia's aims are very much linked to its present broader policies, characterised by strong geopolitical competition with the West (including increasingly with the EU in particular) in an effort to ultimately rewrite the rules by which the global order, seen in Moscow as overly dominated by the West, is governed. It was this renewed geopolitical competition that led to the Ukraine crisis and to the most serious deterioration in relations between Russia and the West since the end of the Cold War.

These Russian views appear not to be shared (or at least much less so) by the other EEU members, which are either more distant from the geopolitical logic of spheres of influence or simply the subjects of it. The Ukraine crisis has even led to new political divisions between Russia and other EEU member states, giving the latter more reason than ever to strengthen their preference for multi-vector policies, in which they hedge their bets in a primarily western (EU) or eastern (China) direction.

Such political divergences inside the EEU add to already existing internal inconsistencies and institutional weaknesses within the Eurasian Union, which is based on a form of top-down integration, where the main decisions are taken at the highest level, to be followed by sometimes weak implementation at the national level. However, in spite of all its weaknesses, this new EEU is likely to persist for at least a few more years, and the EU will thus have to formulate some answers as to how to deal effectively with the new challenges posed by this Russia-dominated organisation, especially in the "shared neighbourhood", but also in Central Asia.

A certain level of engagement with the EEU and its member states could even help re-establish some form of dialogue with Russia on the EU's broader relations with the Eurasian region. However, as long as the present Ukraine crisis continues, not too much should be expected on the political level from such a dialogue, as we expect the Kremlin's geopolitical views on the region to persist, at least in the short-to-medium term.

The main **geopolitical challenge** posed by Russia lies in its unwillingness to let outside partners (like the EU) have an impact on the modernisation of the economies and societies of states in the 'shared neighbourhood' by integrating them into the broader and better diversified European markets. At present, Russia seems unwilling to accept any pro-European choice on the part of post-Soviet states, unless it is in line with Russia's own relations with the EU, as shown most poignantly in the case of Ukraine. According to this view, the road to Brussels has to go via Moscow.

After the return of President Putin to the Kremlin in 2012, Russia chose not to continue adhering to the modernisation/transformation policies pursued under President Medvedev, and has deserted its previous course of closer approximation with EU standards, rules and regulations. In an effort to strengthen its 'polar' position as the centrepiece of its own new integration project, Russia has been putting strong pressure on the other post-Soviet states to choose Russia-led Eurasian integration instead of Brussels-led wider European integration. In doing so, it has framed recent developments as a 'battle' between two forms of regional integration in a '**competition of Unions**' based on fundamentally diverging principles; it has even presented this as some kind of 'civilisational choice' for the post-Soviet countries concerned.

A major consequence was that **new dividing lines** were drawn **across Europe**, with the countries of the EU's Eastern Partnership caught somewhere in the middle of what could be referred to as a '**strategic purgatory**'. As a result, Russia's geopolitical challenge in Europe has also acquired the features of a major **geo-economic challenge**. The EU, as a major economy and trading bloc, has a long-term strategic interest in finding ways to overcome the (new) constraints emanating from the emergence of these new (inter)regional rifts. The key challenge is how to overcome the new divides in the short term, not only by mending the currently very strained relations with Russia, but also by changing EU relations with the other post-Soviet states.

At the same time, **new dividing lines** threaten to appear **in Asia**, where China has plans for a **Greater Asian integration**, hinging on mainly economic initiatives such as the New Silk Road, which would bridge China with Central Asian, Eurasian and European economies. In that context, there may be opportunities for the EU to engage with Beijing in order to counter attempts to frame the new geo-economic developments as a geopolitical game of 'competing unions', in which everyone will end up losing out economically.

It remains to be seen whether Russia will eventually return to a more open policy of internal modernisation and restart working concretely on its earlier Greater European integration project 'from Lisbon to Vladivostok'. Presently, geopolitical considerations seem to dominate in Moscow. Therefore, although that may change in the medium to long term, economic arguments will currently have only a limited impact in the Kremlin and could even be used by Russia in an attempt to divide the EU on the issue of sanctions.

Accordingly, the Ukraine crisis as seen by Moscow will not be solved by any 'functionalist' dialogue through and with the EEU, although some of the negative consequences may be alleviated if the EU manages to achieve concrete results in its trilateral talks with Moscow and Kyiv. But for that purpose, the Commonwealth of Independent States (CIS) Free Trade Area (and its members) seem to be more important than the EEU. Ultimately, for Moscow this is a long-term game, still aimed at somehow forcing Ukraine back into Moscow's orbit, however unrealistic that may appear to Western observers.

Based on our analysis of the EEU and the policies of its different member states, starting with Russia, we envisage **three possible options** for the EU in dealing with the Eurasian Economic Union:

Full Engagement: This option, based on forging a new strategic partnership between the EU and Russia/Eurasian Union, is unrealistic in the present circumstances, as it would imply acceptance of Russia's predominance in its own orbit and its self-conceived right to act on behalf of the Eurasian Union as a whole. The EU would probably also risk having to give up active support to a number of those inside Russia who would like to return to the previous course of modernisation of Russia's economy and society based on liberal-democratic values and rule of law, as this would be perceived by Moscow as infringing on its own sovereignty. For the EU, it could imply giving up on its soft power agenda of promoting democratic values and human rights. Deprived of EU backing, Ukraine would have to comply with Russian demands and give up its pro-European choice, thereby negatively affecting the EU's credibility as a foreign policy actor – unable to influence the geopolitical course of events even in its own neighbourhood.

Tentative Compatibility: This strategy would enable Eastern Neighbourhood partner countries to keep their options open as much as possible, towards both EU and Russia: 'no choosing, no losing'. It would seek to find formulae under which those countries could have an Association Agreement plus a Deep and Comprehensive Free Trade Agreement (DCFTA) and still combine that with participating in an eastern CIS Free Trade Area (FTA), therefore preserving their multi-vector policies. This strategy would aim to establish and develop informal and more technical discussions between EU and EEU, so as to promote as much as possible harmonisation of standards and approximation with EU acquis. It would allow Eastern Neighbourhood partners to profit from a more differentiated bilateral approach, having their voices fully taken into account in the context of multilateral discussions, which would also involve the EEU as such. Ukraine should benefit from such a strategy, as direct Russian influence would be reduced and other less uncompromisingly isolationist voices, like that of Kazakhstan, would gain relatively more significant weight. Overall, this approach would create considerable opportunities for bridging some of the gaps emerging in the aforementioned context

of 'competing unions', while waiting for Russia to return to its previous course of modernisation and integration into the global economic and political order.

Competing Unions: This strategy would stipulate that the EU confront Russia geopolitically head-on and try to 'lock' Eastern partner countries as soon as possible into European and transatlantic institutionalised frameworks. It would also imply leaving the former strategy of giving priority to relations with Russia firmly behind and replacing it with an 'Eastern Partners first strategy'. That would require adoption of a far-reaching set of economic and financial policies aimed at promoting the integration of countries like Ukraine into the European marketplace and compensating them for any loss stemming from the resulting shrinking importance of Russian markets and the likely Russian retaliatory measures. Clearly, this strategy is highly unrealistic, at least in the short run, as the EU is unwilling to take on that burden and unable to wage such a geopolitical battle with Russia in light of its own internal weaknesses and the significant interests of many of its member states in their own bilateral relations with Russia.

In our view, **a strategy of 'Tentative Compatibility' is the most realistic** under the present circumstances. It provides a pragmatic, viable and cautious benchmark, aimed at bridging the gaps forming across new dividing lines as much as possible and keeping further options open for the future. It could foster the establishment of a platform for dialogue with Russia (and EEU member states), by delinking at least some of the more technical aspects of trade relations from the strained political relations caused by the Ukraine crisis.

Based on this strategy, our **recommendations** for the EU on dealing with the Eurasian Economic Union are as follows:

- In its new **European Neighbourhood Policy (ENP)**: combine multilateralism (which would also entail the development of new multilateral platforms) with a more differentiated bilateral approach; invite EEU member Kazakhstan to join ENP; encourage other key Eurasian actors such as Russia, China and possibly Turkey to participate in multilateral platforms for dialogue to overcome gaps between diverging and competing regionalisms; address the security implications of the presently 'competing unions' in the context of the Organization for Security and Co-operation in Europe (**OSCE**), including in the economic and environmental dimension.
- Engage the **Eurasian Economic Union** in informal and more technical discussions to look at closer approximation in standards, rules and regulations; in a similar way, discussions should be held bilaterally with the countries of the **CISFTA** to further explore compatibilities between DCFTAs and the CISFTA and options for a future 'Greater Europe from Lisbon to Vladivostok'; **EEU member states** should be able to participate alongside Russia and the EEU Commission on an equal basis to enable them to continue their multi-vector policies of 'no choosing, no losing'.

- Continue to work actively with EEU member state **Armenia** to explore possibilities for an 'AA-minus' (without a DCFTA) and subsequently offer such options to EEU members **Belarus** and **Kazakhstan** as well.
- Step up the strategic partnership with **China** to explore possibilities of linking the New Silk Road initiative to any Greater Eurasian integration prospects, including in the context of the Shanghai Cooperation Organization. As far as the latter is concerned, the EU should stimulate its evolution towards a more multifaceted platform, giving more weight to economic elements, and then opt for observer status as part of its more intensive cooperation with China (which could then be offered a similar status within a reformed ENP in return).
- All of the elements mentioned above should be taken into account, when developing a **revised EU Security Strategy** to be adopted in 2016.



1 The geopolitics of the Eurasian Economic Union

1.1 Introduction: a new game of unions?

In January 2015, Russia, together with Armenia, Belarus and Kazakhstan (Kyrgyzstan joined in May) launched the Eurasian Economic Union (EEU, or, in short, Eurasian Union¹). Loosely modelled on the European Union (EU), the Eurasian Union has a Moscow-based executive body (the Eurasian Economic Commission), a political body (the Supreme Eurasian Economic Council) and a court based in Minsk. This new Union builds on the previously developed Customs Union and strives for an internal single market, supported by free movement of people, capital, goods and services. Russian plans are even bigger and would include a broader political union and movement towards a financial union as well. All this is laid down in a massive 900-page treaty.

Given the multilateral qualities of this Moscow-led initiative, one would expect it to stir at least some modest applause within the EU. The EU has always encouraged regional cooperation and multilateralism across the world, from Asia (e.g., ASEAN) and Africa (the African Union), to Latin America (MERCOSUR). But the case of the new Eurasian Union was considered in a more negative light. At best, the Eurasian Union (and its predecessor the Customs Union) was largely ignored in the West, even before the Ukraine crisis. At worst, it was considered with suspicion as an artefact of Russia's never-ending nostalgia for the USSR, a new neo-imperialist project to become part of President Putin's historical legacy. Putin's claim that the Eurasian Union would become a 'powerful and attractive economic development centre, a major regional market [drawing] large-scale trade from Europe and Asia' certainly raised some eyebrows.² Putin's exultant statements gave rise to the question of whether Russia and other autocratic strongmen of the Eurasian Union were aiming to emulate the European Union or, instead, create a Soviet (Re-)Union.³

1 As will be spelled out further on in this report, we are aware of the political reasons behind the persistence of the 'economic' descriptor – therefore any use of 'Eurasian Union' as a synonym for the EEU is exclusively for the sake of brevity.

2 'Where Three is a Crowd', *The Economist*, 30 May 2014.

3 Michel, C. 2015. 'Even Vladimir Putin's Authoritarian Allies are Fed Up with Russia's Crumbling Economy', *New Republic*, 18 January, <http://www.newrepublic.com/article/120778/eurasian-economic-union-putins-geopolitical-project-already-failing> (accessed July 2015).

Some analysts predict an emerging geopolitical 'Game of Unions' between the EU on the one hand and the Eurasian Union on the other, both vying for influence in a shared strategic neighbourhood.⁴ Others originally foresaw a somewhat more hopeful future for the Eurasian Union (at least before the Ukraine crisis), arguing that 'a viable form of advanced economic integration, a worthy competitor to that offered by the EU, has emerged in the post-Soviet space', implying that 'the EU is no longer the only source of effective governance in the region'.⁵ This view is supported by some Russian think-tankers as well who, like Evgeny Vinokurov (head of the Eurasian Development Bank's own think tank), focus on the economic potential of closer cooperation among countries within the Eurasian region. However, especially after the Ukraine crisis, most Western observers claim that given Moscow's irredentism and its sinking economic and financial fortunes, the Eurasian Union is dead on arrival. Nate Schenkkan, for example, sees the Eurasian Union as Putin's personal 'vanity project' which 'will survive as another hollow post-Soviet multilateral institution celebrated with presidential summits but producing no progress toward its stated goals'.⁶

This indicates that, as always, the economic and political reality behind the Eurasian Union's flashy headquarters in Moscow and President Putin's rhetoric of a 'new epoch' of regional integration is both more complex and more mundane, as well as more uncertain. Since Ukraine decided against any relationship with the EEU project (in 2014) and now aspires to join both the EU and NATO, the Eurasian Union may well turn out to be a non-starter. As the second largest of the 15 post-Soviet states, Ukraine's membership of the Eurasian Union was considered crucial to give more multilateral credibility to the project, most importantly by offsetting Russia's dominance and by providing the Eurasian Union with stronger and more extensive links between energy producers in the East and those in the rest of Europe. Ukraine's strategic shift towards the West is Putin's biggest disappointment because (as Zbigniew Brzezinski famously argued) '[w]ithout Ukraine, Russia ceases to be a Eurasian empire'.⁷

Indeed, despite Russia's lingering geostrategic objective of using the Eurasian Union to curtail Western influence in what it still considers its 'near abroad', most member states mainly participate in order to benefit from the many incentives offered by Moscow (often

4 Popescu, N. 2014. 'Eurasian Union: The Real, the Imaginary and the Likely', *Chaillot Paper*, no. 132, <http://www.iss.europa.eu/publications/detail/article/eurasian-union-the-real-the-imaginary-and-the-likely/> (accessed July 2015).

5 Dragneva, R. and Wolczuk, K. 2012, 'Russia, the Eurasian Customs Union and the EU: Cooperation, Stagnation or Rivalry?', *Chatham House Briefing Paper*, 1 August, 14.

6 Schenkkan, N. 2014. 'Eurasian Disunion: Why the Union Might Not Survive 2015', *Foreign Affairs*, 26 December.

7 Quoted in Vitkine, B. 2014. 'Vladimir Putin's Eurasian Economic Union Gets Ready to Take On the World', *The Guardian*, 28 October.

in parallel to membership and on a bilateral basis), for example cheaper gas, loans, Russian investment and access to Russia's labour market. Russian attempts to include all of its Western partners in the 'near abroad' in the Eurasian Union succeeded only in the case of Armenia, the others (most prominently Ukraine, but also Moldova and Georgia) declining the offer and deciding on their own pro-European (i.e., EU) choice.

Putin's idea for the Eurasian Union is to become a Moscow-centred pole between Brussels and Beijing, but accession candidates further east such as Tajikistan and Uzbekistan now seem reluctant to join the Eurasian Union, and are instead strengthening their ties with China in the context of their own multi-vector policies. It is clear that even Putin's authoritarian allies are fed up with Russia's crumbling economy and realise that they have much more to gain – both economically and politically – from pivoting towards China or the EU (and in some cases towards both).

Despite all these caveats and complications, the Eurasian Union poses a significant policy challenge to the EU. This comes at a time when the EU's own strategy towards its eastern neighbours is under review, and has been heavily criticised as being both impotent and strategically naïve.⁸ Brussels' Eastern Partnership (EaP) has offered only few and limited instruments to tie several post-Soviet states to the EU through trade, and through economic and visa agreements. The question of what to do, therefore, becomes increasingly pertinent, even more so in light of the Ukraine crisis.

Furthermore, the existence of the Eurasian Union may also offer some opportunities to at least reopen some form of dialogue with Russia on broader trade relations, including with EaP countries like Ukraine. It also opens up the opportunity to include China as the most important eastern neighbour of the Eurasian Union in discussions on the economic future of the 'region in between', including by linking up with China's New Silk Road. In the long term, this could also lead to revival of the idea of a broader free trade area from Lisbon to Vladivostok, as originally proposed by President Putin in 2010.⁹ At the time, that idea was supported in the EU as well, especially in Germany. German Chancellor Angela Merkel still referred to this idea in her speech at the World Economic Forum in Davos, in January 2015.¹⁰

8 Lang, K-O, and Lippert, B. 2015. 'EU Option on Russia and the Eastern Partners', *SWP Comments*, no. 12.

9 "From Lisbon to Vladivostok": Putin Envisions a Russia-EU Free Trade Zone', *Der Spiegel*, 25 November 2010. <http://www.spiegel.de/international/europe/from-lisbon-to-vladivostok-putin-envisions-a-russia-eu-free-trade-zone-a-731109.html> (accessed August 2015).

10 Schumacher, E. 2015. 'Merkel praises EU, criticizes Russia at Davos', *Deutsche Welle*, 22 January. <http://dw.com/p/1EP8G> (accessed August 2015).

1.2 Scope and focus of this report

This Clingendael report examines the prospects of the Eurasian Union and asks what strategic impact a Russian-dominated bloc or alliance would have on the EU and its partners. One of the key questions hovering around the geopolitical debate is whether the countries in Eurasia will have to choose between the Eurasian Union and the EU, or whether both integrationist structures are somehow compatible. The EU's offer to Ukraine of an Association Agreement (initialled in March 2012) was interpreted by Russia as an infringement of its strategic 'near abroad' interests, setting the ball rolling towards Kyiv's Euromaidan revolution of February 2014. This suggests that Russia, at least at the time, considered this a zero-sum game. However, Nicu Popescu argues that Eurasian Union-EU 'competition' does not force countries in the region to make either-or choices. Instead, he suggests that, 'Dozens of states in the world have multiple free trade areas (...) and the EU offer of free trade [does] not constrain Ukraine's foreign policy trade choices.'¹¹ This raises the question how the EU should formalise its relationship with the Eurasian Union. Vladimir Chizhov, Russia's ambassador to the EU, claimed in January 2015, that 'Our idea is to start official contacts between the EU and the [Eurasian Union] as soon as possible (...) The EU sanctions [on Russia] are not a hinder [sic].' He suggested that Russia still aims to establish a 'free trade zone encompassing all of the interested parties in Eurasia'.¹² Clearly, the EU has much to gain from restoring its functioning relationship with Moscow, but at what price? Could cooperation between the EU and the Eurasian Union be a step towards normalising the West's relationship with Russia, and even mitigate the trend towards a geostrategic struggle for influence in their shared neighbourhood?

This report studies the formation of the Eurasian Union in the wider context of the rise of China and the development of new strategic alliances such as the BRICS (the grouping that includes Brazil, Russia, India, China and South Africa) and the Shanghai Cooperation Organization (SCO). Russia's efforts to strengthen its influence in Eurasia are part of a larger trend toward regionalism in what is sometimes billed as a 'new age of empires'.¹³ How many trading blocs will eventually emerge is unclear – but the change towards rising regions within a fragile multilateral trading system seems clear-cut and inescapable. Rationales for the rise of regionalism are a mix of economics and geopolitics. China's efforts to develop a New Silk Road linking Asia to Europe (through the Middle East and Central Asia) are an important part of that new dynamic.

11 Popescu, N., *op. cit.*, p. 38.

12 Rettman, A. 2015. 'Russia Calls For EU Talks With Newly Born Eurasian Union', *EU Observer*, 2 January. <https://euobserver.com/economic/127081> (accessed August 2015).

13 'Competing Regionalism – Patterns, Economic Impact and Implications for the Multilateral Trading system', 2007, *Intereconomics*, Forum, September/October, 236-59, and Verhofstadt, G. 2009. *Een New Age of Empires*, Amsterdam, De Bezige Bij.

Russian Foreign Minister Sergey Lavrov's remark that the Eurasian Union is a 'serious element of a bridge between Europe and the Asia-Pacific Region' should be understood in this geostrategic context.¹⁴ It implies that the development of the Eurasian Union should be analysed as one element of an institutional recalibration in the vast area between the EU and China that will reflect the new economic, political and military power realities of the main strategic players. What role the EU can (and should) play in the decade ahead in this broader context is another central element in this report.

The report is structured as follows: Chapter 2 surveys the historical trajectory of post-Soviet cooperation and integration, from the Commonwealth of Independent States (CIS) to the Eurasian Union. Chapter 3 offers an in-depth analysis of the Eurasian Union itself – its legal foundations, its institutional development (and future plans) and its decision-making procedures. Chapter 4 examines the current line-up of Eurasian Union members, and analyses Russia's strategy as well as the economic, political and strategic motives of other member states for joining this initiative and the consequences thereof. It also studies the prospects of this Union's engagement with the rest of Central Asia (Uzbekistan and Tajikistan), the Southern Caucasus (Georgia and Azerbaijan) and Moldova. We assume that a change in Ukraine's pro-EU choice is very unlikely in the short term, although some in Russia still cherish the hope that Ukraine's position might be reversed in the context of a broader settlement. Finally, we will look at some of the consequences of a renewal of the EU's Eastern Partnership and the possibility, or not, of working with Russia in that context. Chapter 5 shifts attention towards the role of China and the EU in Eurasia. Although not a member of the EEU, China's economic impact and strategic presence in Central Asia makes it a significant player in the region, whereas the EU's role is minor and waning, with seemingly very little prospects for improvement. Furthermore, China's New Silk Road plans also raise questions about the possibilities for (re-)linking competing integration projects in a greater Eurasian context. Could the EU somehow work with China to overcome new dividing lines, as Chinese interests do not fully coincide with Russian plans? Against this analytical backdrop, the final chapter offers insights into the reality and prospects of the Eurasian Union, and suggests three different policy options for the EU. This concluding chapter also considers the implications of future forms of Eurasian cooperation and integration for the Netherlands' EU Presidency in the first half of 2016.

14 Quoted in Dobbs, J. 2015. 'The Eurasian Economic Union: A Bridge to Nowhere?', *European Leadership Network*, 4 March.

2 Integration in post-Soviet space: from the CIS to the Eurasian Union

2.1 The Commonwealth of Independent States and the civilised divorce

The history of post-Soviet cooperation could be summarised as a Groundhog Day of disappointments and illusions. Time after time, new initiatives have come to nought, and declarations of good intentions have been betrayed by self-centred autocratic leaders. The Eurasian Union has a long pedigree and is the latest effort to integrate (part of) the post-Soviet space. The Commonwealth of Independent States (CIS) is the oldest integration framework in the region, emerging directly after the relatively peaceful disintegration of the Soviet Union. In December 1991, Russian, Ukrainian and Belarusian leaders met to disband the USSR, expressing their collective will to create a new commonwealth as its successor. The founding document of the CIS (signed on 21 December 1991 in Almaty by all former Soviet republics, excluding the Baltic states and Georgia) offered an ambitious, integrationist agenda. The CIS was supposed to develop a 'common economic space, common European and Eurasian markets and customs policy'.¹⁵ A few years later, however, the CIS had already lost political momentum. Instead of encouraging post-Soviet cooperation, it proved little more than (in the words of the Ukrainian President Leonid Kravchuk) an 'instrument of civilised divorce'.¹⁶ In itself, this was no mean feat. The bloody civil war in former Yugoslavia showed that strategic 'divorces' could go terribly wrong. Instead, the break-up of the USSR was relatively well managed and even the most difficult issues (like the future of the Crimea, and the status of nuclear weapons outside Russia) were resolved peacefully. However, civil wars in successor states (Georgia, Moldova and Tajikistan) flared up, and could only be (temporarily) resolved after Russian intervention, safeguarding Russian interests and giving Russia a foothold to continue influencing these newly independent countries.

Most Soviet successor states had ample reasons to keep the CIS alive for (what proved to be) at least another decade. Most notably, economic and cultural ties crafted during

15 *Charter Establishing the Commonwealth of Independent States (CIS)*, adopted 22 January 1993 Minsk, art. 4.

16 Quoted in Mazurin, M. 2001. 'Ten Years According to the People's Initiative', *Day*, 4 December. <http://www.day.kiev.ua/en/article/day-after-day/ten-years-according-peoples-initiative> (accessed August 2015).

Tsarist and Soviet times proved too strong to neglect. Most post-Soviet autocratic leaders were also keen to boost their image with photo opportunities at CIS summits, signing lofty declarations that existed only on paper. But political support for the CIS quickly dwindled, due to the diverging economic orientations of its members. When the post-Soviet economies began to recuperate from the initial shock of the break-up of the USSR, political elites simply lost interest in any further integration, turning the CIS into a political circus of ambiguity and backstabbing. The CIS formula of 'minimal involvement with a maximum number of members' clearly proved to be detrimental to profound and multifaceted integration.

As a result, several ad hoc cooperative plans among post-Soviet states cropped up, most notably the initiative by Kazakhstan's President Nursultan Nazarbayev (voiced in 1994) to establish a Eurasian Union. This was billed as a fully-fledged equivalent of the European Union, with strict membership criteria. As the proposal met only with lukewarm reactions, it was quickly shelved and followed by a more modest plan to establish a small-scale Central Asian Union (created in 1994, renamed as Central Asian Economic Community in 1998; see Table 1) with Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan as prospective members. In the end, only Kazakhstan and Uzbekistan decided to set up a free trade zone, whereas other Central Asian states either rejected the idea outright or kept their polite distance. Other initiatives included bilateral cooperation between Moscow and Minsk, launched with much pomp and circumstance (in 1996) as the Union State of Russia and Belarus. This Union State involved several quasi-supranational institutions as well as a customs union that would quickly prove unworkable and join the long line of failed post-Soviet initiatives. In 2000, Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan and, temporarily (from 2006 to 2008), also Uzbekistan made another attempt at regional cooperation by establishing the Eurasian Economic Community (EurAsEC), which proved to be the harbinger of the Eurasian Union.

2.2 Into a new millennium with the same old problems

Vladimir Putin's ascension to power in 2000 opened a new chapter in the story of Eurasian integration. Unlike his predecessor, Putin sees the integration of post-Soviet space as a means to restore Russia's lost glory, and has been willing to use a mixture of incentives, manipulation and coercion to achieve his geopolitical goals (see Chapter 4.2). In the first year of Putin's rule, the Eurasian Economic Community was founded. It was an elaborate and complex organisation, with an Interstate Council (of heads of state), an Integration Committee and Secretariat (as the main executive body), an Inter-Parliamentary Assembly and a court. From the start, Integration Committee decisions were made by a qualified majority voting in order to overcome the veto power of member states (apart from Russia, which could block decisions as it carried 40 percent of the vote). The new organisation was given the familiar task of crafting a customs union and a 'single economic space', this time with clear deadlines following a step-by-step plan.

The EurAsEC was later joined by Uzbekistan as a full member; Ukraine, Moldova and Armenia became observers.¹⁷

Despite Putin's efforts to rebuild the realm of Russian power, the EurAsEC quickly turned into just another phantom post-Soviet organisation. Political integration floundered completely, due to the suspicions (and even fears) of a renewed Russian appetite for hegemony and imperialism. Economically, the EurAsEC proved of little or no benefit to its members who were keen to diversify their trade away from Russia towards the EU and China. A parallel initiative emerged in 2003 to set up a 'single economic space' involving Russia, Belarus, Kazakhstan and Ukraine (which was not even a full member of the EurAsEC); however, this collapsed two years later with Ukraine's so-called Orange Revolution (2004-05). Although the EurAsEC was no direct precursor of the Eurasian Union, it did pave its way by preparing the political ground.

From 2006 onwards, Russia, Belarus and Kazakhstan (the three most engaged countries) found themselves at the 'hard integrationist core' of a stagnating EurAsEC. These countries, led by a trio of autocratic strongmen, decided to re-launch Eurasian integration with fewer participants and based on a shared economic need to take concrete steps towards a customs union. Although hardly a radical break with previous projects, the newly-established Customs Union (CU, formed in 2010) followed a strict, pre-approved schedule. This initiative had both economic and political motivations. The global economic crisis, which began in 2008, deeply affected the Russian economy, spurring a move towards regionalisation to create a quasi-protectionist bloc that could serve as a buffer to keep the negative consequences of globalisation at bay. The CU was also billed by President Putin as a strategic reaction to the EU's enlargement towards Central Europe (in 2004), the subsequent 'colour revolutions' in Ukraine, Georgia and Kyrgyzstan, and the EU's further encroachment in Eastern Europe through its European Neighbourhood Policy (ENP) and Eastern Partnership (EaP).¹⁸ Further Eurasian integration with the Customs Union at its core quickly became one of Putin's top priorities as returning president (as of May 2012).

As with most post-Soviet initiatives, the CU entailed a variety of new institutions, of which the Commission of the Customs Union (known since 2012 as the Eurasian Economic Commission) became the most important. The Commission's decisions were binding for all members, and thereby contributed to the elimination of existing trade barriers and the development of a system of common external tariffs. In 2012, member states upped the ante by announcing the creation of the Single Economic Space, comprising harmonised standards and regulations. The EurAsEC Court (mentioned

17 Dragneva, R. and Wolczuk, K., *op. cit.*, p. 19.

18 Council of Federation of Russia, 2009. 'Восточное партнерство': проблемы реализации и возможные последствия, 33-37, <http://council.gov.ru/media/files/41d44f243fdc22b87385.pdf> (accessed May 2015).

above) was made to good use as the much-needed conflict-resolution body of the CU. Protracted arguments between member states over decision-making rules marked their different visions of the *finalité politique* of the CU and the Eurasian Economic Community. In 2007, Kazakhstan's initial proposal to give each member one vote and take all decisions by simple majority was ultimately rejected in favour of a more sophisticated and, in fact, less ambitious scheme giving Russia *de facto* veto power.¹⁹ Furthermore, it was agreed to resolve all issues of principle by consensus. In practice, this arrangement led to a situation where consensual decision making prevailed, which explains the region's sluggish movement towards a genuine customs union.

2.3 The Eurasian Union: a step forward or back to the future?

On 1 January 2015, the Customs Union transformed into the Eurasian Economic Union (EEU, often simply referred to as simply the Eurasian Union). The next chapter will examine EEU institutions and ambitions in more detail. For now, it is important to point out the elements of continuity and change connecting previous integrationist efforts in the post-Soviet space with this new Union. As in the past, the main drivers of integration are economic necessity and political ambition. Russia's neo-imperialist aspirations in particular explain the push to make the CU a (moderate) success, and to use it as the foundation of (and even catalyst for) a more ambitious and comprehensive Eurasian Union. Three critical features of the Eurasian integration process (since 2007) present themselves.

First, Russia's strategy to create a union as quickly as possible by announcing pre-set deadlines has generally resulted in confusion and disappointment. Institutions were 'reformed' and a flurry of new regulations decreed, but usually before the appropriate preparatory stages were completed. As a result, almost all post-Soviet integration structures have been overwhelmed by continuous squabbles over decision-making procedures and spheres of competence between a swelling, unwieldy body of institutions. These institutions were supposed to perform the complex task of developing and managing an economic union (of sorts), without much experience in a political environment not used to supranational regulation. This explains the customary lack of concrete results and the lack of progress.

Second, Russia's geopolitical ambitions set it apart from all other member states, whatever the form and shape post-Soviet integration has taken so far. Although the Eurasian Union will be the most advanced form of regional cooperation the former Soviet bloc has seen, its members participate mainly for mundane economic and financial

19 Cooper, J. 2013. 'The development of Eurasian economic integration', in: *Eurasian Economic Integration: Law, Policy and Politics*, 21, eds. Dragneva, R. and Wolczuk, K., Edward Elgar, Cheltenham.

reasons, or because politically they have no alternative option but to play along with this Russian initiative in order to avoid problems in their bilateral relations with Moscow. Lower energy prices from Russian producers like Gazprom and Rosneft (offered by Russia in parallel and on a bilateral basis as a unified single market for energy within the Eurasian Union has been postponed to a later date) are enticing carrots, far outweighing the modest trade benefits that a strong economic union could reap. The removal of trade barriers within the CU has not advanced intra-bloc economic activity; since 2001, annual trade among CU members grew by a modest 1.5 percent.²⁰ Russian suggestions to beef up the Eurasian Union with provisions for a common currency, citizenship and a joint border force have been anathema to Kazakhstan and Belarus. Deputy Economy Minister Timur Zhaqsylyqov told reporters in Astana in April 2015 that 'Kazakhstan has a clear and consistent position on excluding the possibility of introducing a single currency within the framework of the Eurasian Economic Union.'²¹ Russia also dropped its proposals for a Eurasian Union parliament after Kazakhstan objected. Kazakhstan's President Nazarbayev made this clear by including the word 'economic' in the official name of the organisation, stressing that this new Eurasian endeavour was most certainly not a project aimed at promoting political integration.

Third, very few countries seem willing to join Russia's new integrationist initiative. Existing members have already proven themselves unwieldy allies of Moscow by, for example, obstructing Russia's proposal (in June 2014) for the Eurasian Union to block duty-free imports from Ukraine. Only Armenia, which is dependent on Russian economic and military support in its conflict with neighbouring Azerbaijan over Nagorno-Karabakh, is relatively compliant with Moscow's political demands. Without significant direct subsidies, Central Asian countries will not see any advantage to integration with the Eurasian Union; the same applies to all other Soviet successor states (see Chapter 4). And Russia's economic and financial perspectives after the Ukraine crisis, diminished by Western sanctions and even more by the downturn in oil and gas prices, are not very bright and would hardly enable Moscow to give fundamental budget support to poor and underdeveloped prospective members like Tajikistan. Against this background of continuity and change, one could argue that President Putin's plans are set up for failure. Russia's crumbling economy is less attractive to potential members than a buoyant China and developing closer cooperation and integration with the EU's single market. Putin's Crimean adventurism has also unveiled Russia's neo-imperial agenda, effectively dampening any political momentum the Eurasian Union may have had.

20 'The Other EU', *The Economist*, 23 April 2014.

21 Quoted in *RFE/RL*, 2015, 'Kazakhstan Rejects Moscow's Single Currency Proposal', 22 April, <http://www.rferl.org/content/kazakhstan-rejects-moscovows-single-currency-proposal/26972232.html> (accessed August 2015).

2.4 A highly uncertain future

The fact that this is a form of integration driven from the top down and based primarily on Russia's wishes, with the other EEU member states playing along only as far as they deem it to be in their own short-term interests, raises some pertinent questions about the future of this new institution. This is even more the case when seen against the background of the internal political trends in Russia, leading to more self-isolation, autarchy and a new form of holding together regionalism. Furthermore, in the short to medium term, succession struggles are to be expected in all of these autocratically governed EEU member states. Even in Russia, the jury is out as to how long the centre will hold under the present circumstances. All this leads to the conclusion that the future of the most ambitious post-Soviet integration project to date is highly uncertain. The political crisis around Ukraine, along with the economic and financial downturn in Russia, only add to this uncertainty.

Table 1 Regional integration initiatives and organisations in the post-Soviet space

INITIATIVE/ORGANISATION	PARTICIPANTS	STATUS
CIS (1991)	AR, AZ, BL, GE (withdrew 2008), KA, KY, MD, RF, TA, TU, UA, UZ	Active
Customs Union (1992)	BL, KY, TA, UZ	Abandoned
Economic Union (1993)	CIS members (except UA)	Abandoned
Free Trade Area (1994)	CIS members (except RF and TU)	Relaunched in 1999
Central Asian Union (1994)	KA, KY, UZ, TA (joined 1998)	Renamed Central Asian Economic Union (1998); Transformed into CACO (2002)
Customs Union (1995)	BL, KA, RF KY (joined 1997), TA (joined 1998)	Transformed into EurAsEC (2000)
Shanghai Five (1996)	China, KA, KY, RF, TA, UZ (joined 2001)	Transformed into SCO (2001)
GUAM (1997)	AZ, GE, MD, UA, UZ (joined 1999, withdrew 2005)	Active; renamed GUAM Organisation for Democracy and Economic Development (2006)
Free Trade Area (1999)	CIS members (except RF and TU)	Relaunched in 2011
EurAsEC (2000)	BL, RF, KA, KY, TA, UZ (joined 2006, withdrew 2008)	Terminated upon inception of EEU
SCO (2001)	China, KA, KY, RF, TA, UZ (India and Pakistan to join in 2016)	Active
CACO-Central Asian Cooperation Organisation (2002)	KA, KY, TA, UZ, RF (joined 2004)	Merged with EurAsEC (2006)

INITIATIVE/ORGANISATION	PARTICIPANTS	STATUS
Collective Security Treaty Organisation (2002)	AR, BL, KA, KY, RF, TA	Active
Common Economic Space (2003)	BL, RF, KA, UA	Abandoned
Eurasian Customs Union (2007)	BL, RF, KA	Active (within EurAsEC)
Free Trade Area (2011)	AR, BL,KA, KY, MD, RF, TA, UA	Active
Single Economic Space (2012)	BL, RF, KA	Active (within EurAsEC)
EEU (2015)	BL, RF, KA, AR, KY	Active

Adapted from Dragneva, R. and Wolczuk, K. (eds.) 2013. *Eurasian Economic Integration- Law, Policy and Politics*, Cheltenham, Edward Elgar

N.b.: AR: Armenia; AZ: Azerbaijan; BL: Belarus; GE: Georgia; KA: Kazakhstan; KY: Kyrgyzstan; MD: Moldova; RF: Russia; TA: Tajikistan; TU: Turkmenistan; UA: Ukraine; UZ: Uzbekistan.

3 The Eurasian Union: gaps between theory and reality

3.1 Legal foundations: setting the stage for confusion

The Eurasian Union's post-Soviet opacity becomes evident when one tries to read the organisation's founding legal documents. The Treaty of the Eurasian Economic Union (signed in Astana on 29 May 2014) set the stage for confusion by declaring that the law of the Union comprises the treaty itself, all international agreements within the Union and by the Union with third parties, as well as decisions and regulations emanating from the Eurasian Union's institutions. How could this possibly go wrong?

After the pompous signing ceremony in Astana, observers asked whether this new treaty actually changed anything, apart from the name of the organisation. Two of the Eurasian Union Treaty's four chapters (Chapter Two 'Customs Union' and Chapter Three 'Single Economic Space') were simply copied from existing agreements among the same members, with a first chapter added to rename existing institutions and agencies. Although the fourth chapter ('Transitional Provisions') offered vistas of deepening integration, these new initiatives were all built on the foundations of unfinished and/or failed integration efforts from the recent past (see Chapter 2 of this report). The Eurasian Union Treaty envisages cooperation and integration in a vast array of policy areas, including the liberalisation of the gas and oil market (an initiative deeply affecting Russia's interests, scheduled for 2025), the harmonisation of legislation in the financial sector, the creation of a financial market regulatory body and the liberalisation of the construction sector. Moreover, a common electricity market is planned for 2019, as well as a common market for pharmaceuticals (by 2016). The Eurasian Union Treaty also envisages intensive cooperation on the free movement of labour as well as agreement between member states on certain macroeconomic standards, including the level of inflation, budget deficits (3 percent of GDP), and a limit on foreign debt (50 percent of GDP).

Clearly, Eurasian Union members have taken for granted that the legal basis of their new institution has numerous gaps and inconsistencies, as it is built upon an existent ramshackle Customs Union.²² A quick overview of the decision-making procedures and competences of the institutions indicates the level of uncertainty of the new Union.²³

3.2 Eurasian Union structures: the vertical preserved

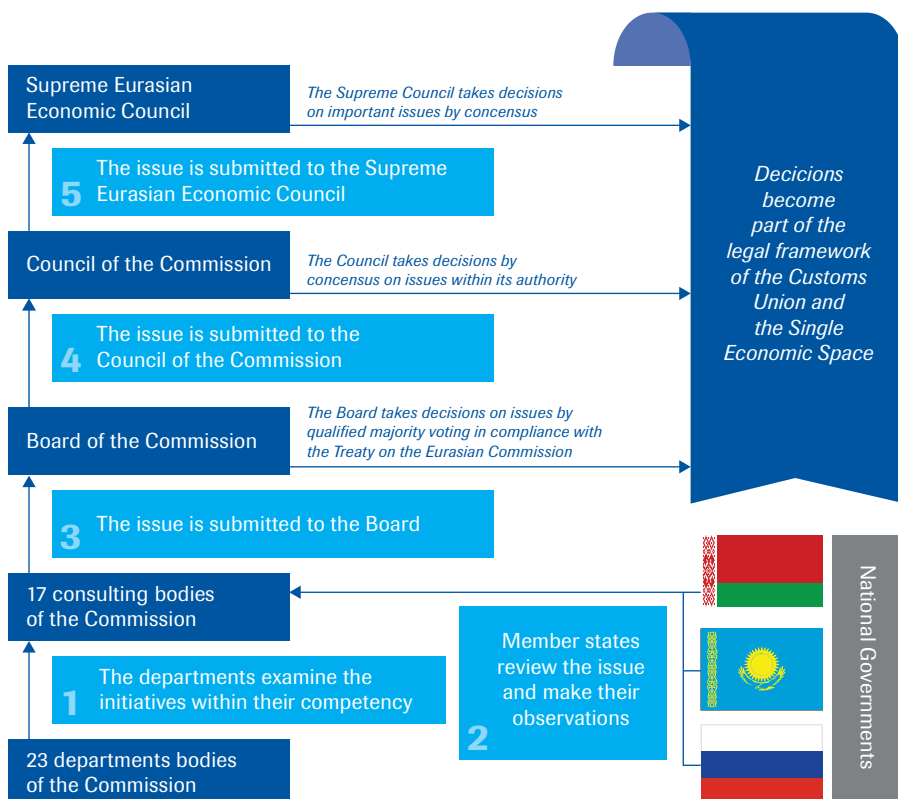
As indicated above, most Eurasian Union institutions are rebranded versions of existing Customs Union structures. The Supreme Eurasian Economic Council is the highest decision-making body of the new Union. Resembling the design of the EU's European Council, it comprises the heads of state of member states, assembles no less than once a year, and takes decisions by consensus. The Supreme Council takes all long-term, strategic decisions, including the appointment of members of the Court and the Commission (see below). The Supreme Council is the pinnacle of the Eurasian Union's power pyramid, and its decisions override those of the Commission and the Intergovernmental Council (see below).

The Intergovernmental Council is composed of the prime ministers of member states, taking decisions by consensus. The Intergovernmental Council serves as a link between the Supreme Council and a more technocratic Commission (see below). Still, the Intergovernmental Council can, in principle, overrule Commission decisions. The Eurasian Economic Commission is the primary executive body of the Eurasian Union, with permanent headquarters in Moscow. Like its namesake in Brussels, the Commission operates on a vast scope of policy areas, from tariffs, customs and technical regulations, to macroeconomic policy, labour migration and the financial market. As the flowchart of the decision-making processes in the Eurasian Union indicates, the Commission consists of a Board and a Council. The Board (composed of 12 representatives, three from each member state including Armenia plus two from Kyrgyzstan) is the most technocratic, non-political body within the Eurasian Union's flourishing bureaucracy. Its officials are (supposed to be) independent, not taking orders from their national capitals (who have appointed them into the Board). Decisions are taken by qualified majority (two-thirds of votes), except for so-called 'sensitive issues', a catch-all category defined by the Union's Supreme Council (article 18). Decisions on 'sensitive issues' are made by unanimity. The Council (of the Commission) consists of deputy prime ministers of member states; after the expansion, all its decisions will be made by unanimity.

22 Knobel, A. 2014. 'Eurasian Union: a Name Change or Something Bigger' (in Russian), *Forbes*, June 2, <http://www.forbes.ru/mneniya-column/gosplan/258949-evraziiskii-soyuz-smena-nazvaniya-ili-chto-bolshee> (accessed May 2015).

23 This task is becoming even more important, considering that the text of the Treaty on the EEU website can be found only [in Russian](#). Other documents referred to in this chapter (such as the EEU Court Statute) are appended to the treaty and are available via the link.

Chart 1 Decision making in the Eurasian Union



Source: Wikipedia

Decision making within the Eurasian Union mirrors the administrative systems of its member states, and is firmly centralised (or 'vertical'). This implies a top-down hierarchy, all the way from the Supreme Council to the Commission's administrative departments. Decisions taken by lower-level bodies may always be overruled by a superior organisation, and all unresolved, 'sensitive issues' are reserved for decision making at the highest political level. Apart from the Board, all decisions within the Eurasian Union are strictly consensus-based. This may well be workable with a limited number of members, but is bound to become more of a burden after future enlargement of the Union. For the time being, the course of integration largely depends on Russia's commitment to drive this process forward, its political will to put pressure on reluctant member states, and the extent of its economic and financial means to reward countries demanding compensation.

Regardless of these complications and caveats, the very creation of the Eurasian Union is bound to give the post-Soviet (re-)integration process some momentum, if only because it ought to improve the technocratic and technical competences of the organisation. Once political will at the top level is generated (still a big 'if'), Eurasian integration may well move forward steadily. Although the Eurasian Union's structure is vertical, it is also straightforward enough to avoid the endless proliferation of ambiguous and half-baked agreements such as those of the past. The achievements of the Customs Union and the Eurasian Union (which include the elimination of customs controls, tariffs and non-tariff barriers, the creation of common external trade tariffs, and the harmonisation of regulations and norms between member states) already demonstrate that the new set-up may work more or less efficiently, contingent upon enduring political will in all capitals (and Moscow particularly). The opposite is also true: without consensus at the highest political level, the Eurasian Union will remain toothless and unable to pursue its integrationist agenda.

3.3 'East-West' sanctions: the Eurasian Union ignored

One of the Commission's key functions is monitoring the implementation by individual member states of the Eurasian Union's legal provisions. In case of non-compliance, the Commission is supposed to notify the member state in question about the measures that need to be taken. The Commission is thereby set up to become the 'guardian of the treaties' (a role akin to the European Commission with the EU). In case of member state defiance, the Commission is to submit a complaint to the Eurasian Union Court (see below), a scenario that is yet to occur. Compliance with the Union's many rules and regulations is an issue of particular attention, as it is indicative of the new structure's robustness.²⁴ The recent so-called 'sanctions war' between Russia and the West (which took off after the Ukraine-cum-Crimea crisis in 2014) offers some insights into the Eurasian Union's power and future.

In August 2014, in response to Western sanctions against Russia's annexation of the Crimea and its support for separatists in Eastern Ukraine, Moscow imposed a series of countersanctions, comprising a range of agricultural products from the EU and the United States (as well as from Norway and New Zealand). These embargoes were unilaterally imposed by Russia without going through the formal motions of acquiring official permission from the Customs Union authorities. This demonstrated a clear lack of Russian commitment to the official objective of countering the West with a cohesive Eurasian response. President Putin was aware that these countersanctions would never

24 Dragneva, R. and Wolczuk, K. 2014. 'Eurasian Economic Integration: Institutions, Promises and Faultlines', *Geopolitics of Eurasian Economic Integration*, LSE Special Report, 10. <http://www.lse.ac.uk/IDEAS/publications/reports/pdf/SR019/SR019-Dragneva-Wolczuk.pdf> (accessed May 2015).

get the green light of the Customs Union's other members, who now saw themselves compelled to engage in the illegal re-export of Western goods (most notably through Belarus).²⁵

Despite initial claims from Eurasian Union leaders that the Union's rules of origin would be strictly enforced, Belarusian agricultural imports from the EU (and the US) soared – typically of 'non-Belarusian' products like salmon, shrimp and kiwis. These schemes of bypassing Russia's counter-embargo against the West through Belarus and Kazakhstan further undermined Moscow's authority. After several months of indecision, Russia countered (in November 2014) by announcing an official transit ban of these Western products. In a classical move, Russia's federal agricultural controlling agency declared that Belarusian meat and milk products were 'in violation of sanitary norms', and were hence prohibited from entering the Russian market. This revealed a fundamental flaw in the Customs Union (and later Eurasian Union) design, as phytosanitary norms were supposed to be harmonised among member states. Lacking an overarching controlling agency, Eurasian Union members were left to enforce existing rules in an arbitrary fashion, even in retaliation against each other if need be.²⁶ Belarus responded (in December 2014) by restoring customs controls on its borders, even though the rhetoric of adherence to the Customs Union rules continued unabated.²⁷

As late as March 2015, Commission member Vladimir Goshin disclosed that the Commission was in the process of preparing a draft agreement to regulate the consequences of unilateral sanctions imposed by one of its members (in this case Russia). Goshin suggested that there was no unity in the Commission on how to handle Russian countersanctions using existing Eurasian Union rules and regulations, pointing out that the Commission and Court (of the Eurasian Union) were consulting on a possible way out of this delicate and painful conundrum.²⁸ Still, the Commission did not publicly react to Moscow's fundamental challenge to the principles of the Customs Union. Even today, the conflict remains unresolved, as regular sharp pronouncements of Belarusian officials show.²⁹ Kazakhstan, which equally fell out with Russia, also regularly airs its discontent with Moscow's unilateral countersanctions against the West, and has at times resorted to open resistance. For example, when Rosselkhoznador

25 Knobel, A. 2014. 'The Impossible Trinity: How Russian Sanctions are Destroying the Eurasian Union' (in Russian), *Forbes*, 2 December. <http://www.forbes.ru/mneniya-column/gosplan/274627-nevozmoznaya-troitsa-kak-rossiiskie-sanktsii-razrushayut-tamozhennyi> (accessed May 2015).

26 *Ibid.*

27 'Not Caught – not a cheese' (in Russian), *Kommersant*, 9 December 2014.

28 'Disagreements of the member-states about the sanctions will be settled in court' (in Russian), *ej.by*, 6 March 2015.

29 'Kobyakov has expressed dissatisfaction with the work of the Eurasian Economic Commission' (in Russian), *Nasha Niva*, 7 February 2015.

(Russia's Federal Service for Veterinary and Phytosanitary Surveillance) enacted a ban against the import of Norwegian salmon to Kazakhstan in August 2015, the Kazakh Ministry of Agriculture refused to introduce it.³⁰ As one economic analyst told *The Astana Times*, 'Russian counter-sanctions in food products can be expected to, on balance, have an overwhelmingly negative overall impact on Kazakhstan through potential food price inflation and domestic supply risks[.]'³¹

3.4 The Eurasian Union Court: signs of life

The Court of the Eurasian Union is housed in a stately brick dwelling in Minsk's Kirova Street. This Court was not created from scratch, but is the successor of the Eurasian Economic Community (EurAsEC) Court. The EurAsEC Treaty was signed by (the presidents of) Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan in Astana on 10 October 2000. The EurAsEC Court was created much later and has functioned only since January 2012. The new Eurasian Court consists of eight judges (two from every member state except – for the moment – Kyrgyzstan), who have been appointed for a period of nine years; most present judges have a track record in the (former) EurAsEC Court.

The competences of the Eurasian Union Court are enumerated in Chapter 4 of its statute. Crucially, the Court can act on complaints not only from member states but also from private actors registered either within or outside the Eurasian Union. The Court's main task is to assure compliance with the rules and regulations adopted by Union authorities, a task that has proven extremely difficult given the rather poor track record of the Court's forerunners. The Court's decisions are legally binding in all member states, a novelty in a post-Soviet legal framework used to carefully guarded national sovereignty. Yet (and as usual), despite this new, ambitious start, the Court's powers have actually been curbed in comparison with its (EurAsEC) predecessor. For example, the Court lost the power to issue advisory opinions on issues pertaining to interpretations of Eurasian Union agreements. The new Court now shares with member states the authority to interpret the Eurasian Union Treaty and subsequent agreements. This undermines the Court's clout, especially as judicial branches in all Eurasian Union member states are still plagued by corruption and nepotism. This diminishes the chances for private actors to invoke Eurasian Union law in defending their interests in the national courts of Union member states. Furthermore, the Eurasian Union Treaty limits the scope and impact of the Court's decisions, which from the onset

30 See <http://365info.kz/2015/08/rybnye-sankcii-rossii-otkazalis-podderzhivat-v-kazaxstane/> (accessed September 2015).

31 Quoted in Michel, C. 2014. 'Russia Sanctions Hit Central Asia Hard', *The Diplomat*, 2 October, <http://thediplomat.com/2014/10/russia-sanctions-hit-central-asia-hard/> (accessed August 2015).

caps the Court's ability to extend its influence and strengthen the integrationist impulse within the organisation (which the EU's European Court of Justice has done with great enthusiasm and success).³²

The record of the Court so far has been mixed. It has avoided the dreaded scenario of becoming an instant 'ghost institution', as it has decided upon several cases in favour of a private actor against a member state. Over the past four years (as of May 2015), the EurAsEC and Eurasian Union Courts combined have taken only 21 decisions, 15 of which related to cases where a private company sued a Eurasian Union member state. Only in four cases did the Court rule in favour of a private claimant (three times in favour of a Russian company). In all the cases where an international suitor was involved – that is, Novokramatorsk Machine Building Plant (Ukraine), Angang Steel Co (China), Graphite India Limited and HEG Limited (India), and Volkswagen (Germany) – the Court ruled in favour of the Eurasian Union's Commission.³³

Clearly, the fact that the Court has ruled on occasion in favour of private companies is encouraging, indicating its independence. Still, most of these 'private' victories were achieved back in 2012-13, and no company based outside the Eurasian Union has so far won a case before the Union's Court. Given that most of these 'foreign' cases have been brought to the Court by companies from the BRICS countries and the EU, the question of the new Court's authority and neutrality becomes pertinent. Its track record remains mixed, but also short, which makes it premature to speculate on the Court's future.

It is, however, encouraging that post-Soviet leaders have decided to harmonise the regulation of technical procedures to a permanent professional bureaucracy within an established organisation like the Eurasian Union. It remains to be seen whether this modest supranational institution will hold its own in the face of disagreements between member states. Only if the political leaders of the Union can muster the collective will to sustain or even deepen Eurasian integration, will institutions like the Court establish their authority. At the same time, the (authoritarian) elites' political support for Eurasian integration remains contingent upon the domestic (economic) circumstances within all member states (and Russia in particular). In Chapter 4 we put forward a concise overview of the motivations and aspirations of existing Eurasian Union member states, and examine which other countries might join this Union, and why (or why not).

32 Borovikov, E. and Danilov, I. 2015. 'B2B: Balancing the Court of the Eurasian Economic Union', *The Moscow Times*, May 17. <http://www.themoscowtimes.com/article/b2b-balancing-the-court-of-the-eurasian-economic-union/517551.html> (accessed May 2015).

33 EurAsEC Court decisions may be found [here](#); EEU Court decisions [here](#).

3.5 Institutional weakness and intra-EEU convergence of standards, rules and regulations

The unclear division of competences between the supposedly supranational Eurasian Economic Commission and national institutions in EEU member states which are supposed to implement decisions raises questions for third parties about whom to address and with whom to work in the Eurasian Economic Union. This is even more the case where much depends on the political will of the leadership of member states, especially Russia.

Insofar as the Eurasian Economic Commission and its subordinate bodies work on (new) standards, rules and regulation within the Eurasian Union, it would seem useful for competent bodies within the EU to at least exchange information and attempt to avoid the emergence of deeper cleavages between EEU and EU in those fields. After all, the ultimate aim should be for the EU to stimulate approximation and convergence, in order to achieve less complicated trade relations.

However, as the Eurasian integration process is highly politicised, even more so when discussing Ukraine (as EU-Ukraine-Russia trilateral discussions show), prospects for a more formal and institutionalised dialogue between the EU and the EEU remain bleak. Only a fundamental change of policy in Moscow could improve this and lead to a return to a more constructive EU-Russia dialogue on the implementation of the road maps of the four 'Common Spaces' (especially the Common Economic Space) and the EU-Russia Modernisation Partnership, which at present seems to have been more or less given up.

4 The Eurasian Union: current and future membership

4.1 Introduction: 'With friends like these'

Russia has been the main driving force behind all initiatives to re-integrate the post-Soviet space; the new Eurasian Union is no exception. President Putin launched his plan during the campaign for his re-election in 2011 to highlight Russia's future place in the world as a bridge between the EU and China.³⁴ By allying with its closest partners, Moscow could establish itself as a new Great Power in a multipolar world order. Putin never indicated whether these 'close partners' shared his vision, and basically assumed that what was good for Russia would also be good for the other former Soviet states, and that Moscow could deal with Brussels or Beijing on their behalf.

This Russian post-imperial mentality of entitlement to (at least regional) Great Power status did not take into account the fact that more than 20 years have passed since the disintegration of the Soviet Union.³⁵ It reflects President Putin's view that the fall of the Soviet empire is 'the greatest geopolitical catastrophe of the 20th century'.³⁶ Over the past decades, the Soviet successor states have developed their own identity and sovereignty, which do not necessarily coincide with those of Russia. As far as possible, they all developed multi-vector foreign policies, connecting them to either the West (mainly the EU), or the East (mainly China); in some cases to both. Relations with Russia remained important, but were no longer the only links to the outside world, into which they gradually became more integrated. Twenty years has also proved long enough to develop their own identities and historical narratives about their place in the world, irrespective of what Russia thinks about their statehood.³⁷

34 Putin, V. 2011. 'A new integration project for Eurasia: The future in the making', *Izvestiya*, 3 October, <http://www.russianmission.eu/en/news/article-prime-minister-vladimir-putin-new-integration-project-eurasia-future-making-izvestia-3-> (accessed August 2015).

35 Lo, B. 2015. *Russia and the New World Disorder*, Washington DC, Brookings Institution Press.

36 Quoted from Putin, V. 2005. *State of the nation address to Parliament*, 25 April.

37 President Putin clearly indicated at a summit meeting with NATO leaders in Bucharest that he did not consider Ukraine a really independent state, just as later on he doubted Kazakhstan's independent statehood, prompting Kazakh President Nazarbayev to state that his country could withdraw from the Eurasian Union if its sovereign rights were not respected.

4.2 Russia: geopolitics meets economic reality

During his first term in office (2000-04), President Putin was mainly preoccupied with restoring internal order within the Russian Federation through the construction of a real *power vertikal*, economic and financial stabilisation (very much helped by rising energy prices), and building some form of a social contract with Russian citizens by which they would accept some limitations on political freedoms in exchange for a modicum of stability and economic growth. Gradually a new hybrid regime was established, in which people with backgrounds in security services and the armed forces (the so-called '*siloviki*') assumed a pre-eminent place and became oligarchs in their own right.³⁸ This new political elite aimed for a redeemed Russia, accepted as an equal partner by the US and the EU. To this end, Russia was still willing (at the beginning of the millennium) to accept closer integration into Euro-Atlantic structures, envisioning itself as part of a Common European Home (as originally articulated by President Gorbachev), based on shared norms and values.³⁹ Even as late as 2005, Russia agreed to cooperate with the EU on numerous so-called 'Common Spaces', linking Russia's economy and society more closely to European frameworks and aimed at approximation with EU norms and standards. As long as the 'near abroad' moved in the same direction as Russia, closer ties between these countries and the EU were not blocked by Moscow.

More than 10 years later, however, Moscow's position has markedly changed. Explicit anti-Western rhetoric is rampant in Russia, and the main debate is about the country's 'pivot to Asia' as part of a strategy to establish a multipolar world order with Russia as one of its dominant centres. Competition in Russia's 'near abroad' (what the EU tends to call the 'shared' or 'common neighbourhood') over Ukraine, has triggered a major crisis in the heart of Europe. Finding new common ground between the West and Russia has become one of the main challenges for the EU in its relationship with what used to be its main 'strategic partner' in the East. How did we ever get to this point? When did Russia start fundamentally changing its policies towards the West? And how do Russian plans for a Eurasian Union fit in this context?

Two developments have fundamentally changed Russia's perspectives on relations with the West, including the EU.

First, the so-called 'colour revolutions' starting in Georgia and Ukraine (2003-04), leading up to Ukraine's *Maidan* revolution of 2013-14. To Russia's political elite, the social revolutions are part of a US-led and EU-supported conspiracy, aimed at weakening Russia by toppling pro-Moscow regimes. Strategies to promote democracy and support

38 Soldatov, A. and Borogan, I. 2010. 'Russia's New Nobility', *Foreign Affairs*, Sept/Oct, 89(5); Dawisha, K. 2014. *Putin's kleptocracy – Who Owns Russia?*, New York, Simon & Schuster.

39 See for example Putin's speech at the German Bundestag in 2001.

for civil society in the region are considered the West's main instruments to weaken Russia's hold on its 'near abroad'. An increasing number of Russian policy makers even seem to believe that the West's ultimate aim is 'regime change' in Moscow itself. For example, Foreign Minister Sergey Lavrov argued in 2014 that, 'As for the concept behind the use of coercive measures, the West is making clear it does not want to force Russia to change policy, but wants to secure regime change.'⁴⁰

Since Russia started formulating its own concept of 'sovereign democracy' in 2006, Moscow has been working actively to counter all democracy-promoting activities by Western donors, most recently by adopting legislation forcing Western-financed NGOs to register as 'foreign agents' or allowing prosecutors to ban 'undesirable' foreign and international organisations from operating in Russia. Moscow realises (and seems to accept) that the West will not acknowledge Russia as a genuinely equal partner as long as it does not fully comply with Western notions such as liberal democracy and the rule of law. Russia's normative distance from the West has stimulated Moscow to invest more heavily in the Sino-Russian relationship (see below).

Second, Russia's failure to complete its political and economic transition (called 'modernisation' under President Medvedev) and integrate more fully into a globalised (albeit Western-dominated) world order, has led to widespread societal disappointment, and triggered large-scale demonstrations on the eve of Putin's return to the Kremlin in 2012. Russia's half-hearted attempts to bring its economic, political and societal system in line with the Western/EU mainstream (based on the rule of law), failed to convince most of the world that Russia was determined to play by the rules. The number of arbitration cases brought forward against Russia in the first few years of its membership of the World Trade Organisation (WTO), and Russia's subsequent flouting of a range of international legal obligations during the Ukraine crisis, changed the predominant Western view that Russia could eventually develop into a responsible regional and global player.

As long as the Russian economy remains mainly dependent on the export of energy resources, it is only logical that Russia tries to build on remaining ties with other former Soviet states, whose economies are often significantly outmoded and unreformed, and hence less competitive in today's global market. In its strategic backyard, Russia feels comfortable to play power games, using energy prices and labour regulations (important, given the value of remittances; see below) to manipulate the foreign policies of its regional 'partners', particularly the smaller ones. Membership of the Eurasian Union has forced these 'partners' to adopt Russia's higher external tariffs, agreed upon

40 Devitt, P. 2014. 'Lavrov accuses West of seeking 'regime change' in Russia', *Reuters*, 22 November. <http://www.reuters.com/article/2014/11/22/us-ukraine-crisis-idUSKCN0J609G20141122> (accessed August 2015).

when Russia entered the WTO (2012). From an economic perspective, internal Eurasian integration has proven much easier than modernising and integrating into the global economy, understandably so given how this is stimulated and controlled in a top-down manner by the largely autocratic establishments in the countries concerned.

As a result, competing regionalisms gradually became the second-best option, even when it meant a (temporary) withdrawal from a broader pan-European integration, for which the EU sets the rules whether Russia likes it or not. In the meantime, protectionism prevails in Russia and anti-Western food sanctions are partly used for import substitution policies. A deliberate policy of 'renationalisation of the elite' (making Russia less vulnerable to Western influence), stimulating re-investment of Russian capital, which has fled the country in the past decade, and studying closely China's efforts at controlling the internet all fit into a Russian withdrawal from Western-dominated economic and financial structures.

The West's growing scepticism about Russia's future prospects has, in turn, encouraged and emboldened the regime's existing anti-Western sentiments. Moscow's 'pivot to Asia' goes hand in hand with its current alienation from the US and the EU.⁴¹ More specifically, Russia's earlier anti-Americanism (as prominently displayed in President Putin's speech to the Munich Security Conference in 2007),⁴² has now been widened to include the EU as well. Moscow's anti-EU views are often framed within a discourse of 'clashing civilizations', where the EU's post-modernity challenges Russia's 'unique character' and its traditional values (increasingly used to bolster the present regime by attempting to ride the wave of Russian nationalism).

In 2013 President Putin argued that a 'serious challenge to Russia's identity is linked to events taking place in the world. Here there are both foreign policy and moral aspects. We can see how many of the Euro-Atlantic countries are actually rejecting their roots, including the Christian values that constitute the basis of Western civilisation.' This, Putin suggested, also explains why the project of establishing a Eurasian Union is so important: 'The 21st century promises to become the century of major changes, the era of the formation of major geopolitical zones, as well as financial and economic, cultural, civilisational, and military and political areas. That is why integrating with our neighbours is our absolute priority (...) The Eurasian Union is a project for maintaining the identity of nations in the historical Eurasian space in a new century and in a new world. Eurasian integration is a chance for the entire post-Soviet space to become an

41 Lo, B., *op.cit.*; Cadier, D. and Light, M. (eds.) 2015. *Russia's Foreign Policy. Ideas, Domestic Politics and External Relations*, Basingstoke, Palgrave Macmillan; Giles, K. et al. 2015. 'The Russian Challenge', *Chatham House Report*, June.

42 Putin, V. 2007. *Remarks at 43rd Munich Conference on Security Policy*, 12 February.

independent centre for global development, rather than remaining on the outskirts of Europe and Asia.⁴³

This explains why the choice of the EU by countries like Georgia, Moldova and, most recently, Ukraine, is considered a challenge to Russia's neo-imperial strategy and "civilisational" mission. This also largely explains Russia's renewed focus on 'holding together regionalism' and the importance of the Eurasian Union project.⁴⁴ This is also clearly formulated in Russia's Foreign Policy Concept (2013), where close ties with CIS partners are considered a key priority.⁴⁵ Russia, therefore, forced Ukraine and Armenia to choose between an EU-led European integration and a Moscow-led Eurasian integration.

Moscow's preferred narrative seems to be an emerging 'Game of Unions', although opportunities for compromise remain, most notably in the context of a Greater European free trade area (see Chapter 6 for further analysis).⁴⁶ By now pushing the Eurasian Union as a credible counterpart-cum-competitor of the EU, Russia has chosen (temporarily) the path of isolation, protectionism and stronger autarky in as far as this is still possible. All this seems to be accompanied by a neo-imperial 'gathering of former Russian or Soviet lands' and reconstituting previously integrated industrial complexes and structures dating from Soviet times. However, the key question for Russia is: will this centre hold, when will it come under stronger pressure from a society that has grown used to relatively good economic performance and stability? Protecting the present regime against such pressures becomes more important than liberalising the economy and society. And playing the nationalist and anti-Western card has become indispensable and inescapable, thus limiting Russia's foreign policy options even further.

Basically, Russia has come full circle from starting to become a post-imperial power, as described in Dmitri Trenin's book *The End of Eurasia*,⁴⁷ to an old-style neo-imperial power where Great Power considerations are more important than pursuing more open policies aimed at better adapting to the conditions of Bobo Lo's present 'new world disorder'. According to Lo, Russian foreign policy can only be effective if it adapts to changing conditions in a globalising world order. Otherwise, stagnation will undoubtedly follow.⁴⁸

43 Putin, V. 2013. *Speech at the Valdai Group plenary meeting*, 19 September <http://russialist.org/transcript-putin-at-meeting-of-the-valdai-international-discussion-club-partial-transcript/> (accessed August 2015).

44 Libman A., Vinokurov E. 2012. 'Holding Together Regionalism and Interaction of Functional Bureaucracies', *Review of International Political Economy*, 19(5), 867-894.

45 Light, M. 2015. 'Russian Foreign Policy Themes in Official Documents and Speeches: Tracing Continuity and Change', in eds. Cadier, D. and Light, M., *op.cit.*

46 Putin, V., *Izvestiya*, *op. cit.*; see also Merkel's Davos 2015 remarks: Schumacher, E., *op. cit.*

47 Trenin, D. 2002. *The End of Eurasia: Russia on the Border Between Geopolitics and Globalization*, Washington DC, Carnegie Endowment for International Peace.

48 Lo, B., *op.cit.*

4.3 Kazakhstan's choice for Eurasianism

Among the current members of the Union, Kazakhstan fully deserves the label of front-runner in the drive towards Eurasian integration.⁴⁹ Kazakhstan's longstanding president, Nursultan Nazarbayev, was the first to come up with the idea of a Eurasian integration project – as early as 1994 envisaging the creation of a Customs Union of post-Soviet states.⁵⁰ In his written work, Nazarbayev developed a rather unique Kazakh version of 'Eurasianism', comprising a vision of his country as a geostrategic bridge between East (notably China) and West (the EU). This version of Eurasianism is embedded in the notion of a 'multi-vector' strategy, aimed at guarding the country's independence and sovereignty, and legitimising the domestic and foreign policy goals of an autocratic but pragmatic political elite.⁵¹

Domestically, the notion of Eurasianism offered a set of values aimed at promoting post-independence integration and peaceful coexistence in a diverse country otherwise prone to fragmentation. The concept of a Eurasian identity was meant to have a 'significant calming influence on the tensions in society'. At the regional level, Kazakh Eurasianism aimed at fostering pragmatic cooperation with all relevant actors, ranging from key partners Russia and China to all other Central Asian countries. Over the years, Kazakhstan's multi-vector approach has gradually changed due to its 'pivot to China' (see below), which (as a corollary) has reduced its concerns about upsetting Russia. Relations with other Central Asian countries have remained largely unchanged, with Kazakhstan prioritising intra-regional cooperation while leaving the overt 'bullying' towards deeper integration to Russia's experienced leaders.⁵² Finally, unlike the rather adversarial Russian version, Kazakh Eurasianism proved compatible with a markedly pro-Western posture, leading to the steady development of relations with Brussels. Over the years, the EU has become Kazakhstan's largest trade partner and the strongest supporter of the country's imminent WTO accession.⁵³

Until recently, Astana's multi-vector strategy remained underdeveloped and economically ineffectual, as integration projects like the Central Asian Economic Union

49 Satpaev, D. 2015. 'Kazakhstan and the Eurasian Economic Union: The view from Astana', *ECFR Commentary*, 12 January. http://www.ecfr.eu/article/commentary_kazakhstan_and_the_eurasian_economic_union_view_from_astana395 (accessed June 2015).

50 Sultanov, B. 2015. 'Kazakhstan and Eurasian integration', *Eurasian Integration - The view from within*, 97-111, eds. Dutkiewicz, P. and Sakwa, R., Oxon, Routledge.

51 Mostafa, G. 2013. 'The concept of 'Eurasia': Kazakhstan's Eurasian policy and its implications', *Journal of Eurasian Studies*, July, 4(2), 160-170.

52 MFA-Republic of Kazakhstan, 2014. *Foreign Policy Concept for 2014 – 2020*. <http://mfa.gov.kz/index.php/en/foreign-policy/foreign-policy-concept-for-2014-2020-republic-of-kazakhstan> (accessed June 2015)

53 Nazarbayev, N. 2014. 'The Next Chapter in Kazakhstan-EU Relations', *The Wall Street Journal*, 7 October.

failed (mainly due to lacking economic complementarity) and global trade ties (with China and the EU in particular) advanced only at a sluggish pace. In contrast, economic re-integration with Russia was prioritised and considered a matter of state survival.⁵⁴ As mentioned above, Astana has always emphasised the exclusively economic nature of both the Customs Union and the subsequent Eurasian Union, teaming up with Belarus to counter Russian attempts at politicising integration. However, the reasons for joining with the projects were mostly (geo)political. First, in light of the potentially destabilising economic crisis and uncertainty about a post-Nazarbayev regime change, the Customs Union was seen as a powerful tool to enhance regime legitimacy via improved performance, with added potential to grant the powerful oil and gas lobbies cheaper access to Russian and Belarusian pipelines (a promise yet to be fully met). Moreover, the aforementioned multi-vectored approach was deemed unsuitable for properly defining a Kazakh 'civilisational' identity, hence increasing the appeal of a clear Moscow-bound integration strategy. Nevertheless, although Russia was chosen as the dominant foreign policy vector, the other strands – EU/Western and China/Eastern – remained alive (if quiescent), ready to resurface to redress any imbalance caused by the Customs Union/Eurasian Union allegiance.

Initial enthusiasm for Russian-led Eurasian integration, justified by the expected growth in trade and access to Russian pipelines, was soon replaced by disappointment after it became clear that the Customs Union also brought economic and political disadvantages.⁵⁵ Most notably, the common external tariff approximation process was tailored to Russian needs only and based on Russian tariffs agreed in the process of Russia's WTO accession. This resulted in a marked increase in Kazakhstan's trade barriers, the accumulation of significant trade imbalances with Russia, and damage to the country's small and medium-sized enterprises (SMEs). As a result, Kazakhstan trade with its Customs Union partners dropped by 20 percent in 2014, and trade with Eurasian Union members fell by 8 percent in January 2015.⁵⁶ Since food prices rose by a massive 23 percent, popular support for Eurasian integration remained modest, and even provoked the small nationalist opposition party to raise its voice against the regime, denouncing Nazarbayev for undermining Kazakh sovereignty. To many, neither the Customs Union nor the Eurasian Union lived up to their promises, at least not for the weaker, junior partners in the integration process. This understanding revamped Kazakhstan's commitment to its multi-vector strategy and hastened its pivot to China.

54 NB: Kazakhstan's ethnic composition upon independence: 40 percent Kazakh, 38 percent Russian; today 66 percent Kazakh, 22 percent Russian.

55 Kassenova, N. 2012. 'Kazakhstan and Eurasian Economic Integration: Quick Start, Mixed Results and Uncertain Future', *IFRI Russie.Nei.Reports*, no.14 (November), 18ss <https://www.ifri.org/sites/default/files/atoms/files/ifrikassenovakazandeurasianintegrationengnov2012.pdf> (accessed June 2015).

56 'Kazakhstan: Eurasian Union Troubles Obvious as Putin Visits Astana', *EurasiaNet.org*, 20 March 2015.

Russia's dire economic straits have accelerated this process.⁵⁷ The rouble crisis has driven many Kazakh enterprises out of business, as local buyers' preferences shifted towards cheaper Russian goods. As a result, bilateral trade has become imbalanced: over the past year, Kazakh imports from Russia rose by 7.3 percent, while exports to Russia dropped by 41.2 percent.⁵⁸ Bilateral trade has also plummeted; Russia's share in Kazakh trade has fallen from almost 50 percent in 1995, to 30 percent of today's imports and just 9 percent of exports.⁵⁹ Kazakhstan's WTO membership (which will finally become a reality some time in 2015) will only reinforce and accelerate the economic shift away from Moscow. However, some Russian companies seem to have shifted their main operations to Kazakhstan because of its better investment climate.

Politically, this strategic change became most visible with Kazakhstan's backing of Ukraine's territorial integrity and its public and official lack of support for Russia's neo-imperialist agenda. Despite these trends, it remains to be seen whether Kazakhstan can withstand Russia's continued push for deeper *political* integration within the Eurasian Union. For now, Astana still places its bets on a Eurasian multi-vector approach, built around a 'Grand Strategy' to develop and maintain peaceful ties with all relevant partners, in both West and East.⁶⁰

Kazakhstan's relations with China have traditionally been complex, but recent initiatives illustrate Astana's readiness to intensify ties with Beijing. A Special Economic Zone has been established in Yili (in China's Xinjiang region). This 200km² zone, located in an autonomous prefecture populated mainly by ethnic Kazakhs, is developing rapidly into a bilateral trade hub. This initiative is part of China's grandiose ambition to develop a so-called New Silk Road ('One Belt, One Road'), linking China to Europe through Central Asia and the Middle East. So far, Astana has secured Chinese investment in as many as 55 (mainly infrastructure) projects with a total value of US\$53 billion, as part of a drive to increase bilateral trade to US\$40 billion by the end of 2015 (partly supported by currency swaps on a bilateral basis).^{61, 62} Recent declarations on both sides emphasised

57 Kuszniir, J. 2015. 'Russia's borders: Moscow's long alliance with Kazakhstan is strong but not unbreakable', *The Conversation*, 20 January. <http://theconversation.com/russias-borders-moscows-long-alliance-with-kazakhstan-is-strong-but-not-unbreakable-36457#> (accessed June 2015).

58 Lillis, J., 2015. 'Kazakhstan and Russia Trading Punches in Import-Export Row', *EurasiaNet.org*, 16 April.

59 Observatory of Economic Complexity, *Kazakhstan*. <https://atlas.media.mit.edu/en/profile/country/kaz/> (accessed June 2015).

60 Mostafa, G., *op. cit.*, p. 169.

61 'Kazakhstan, China: Close Neighbours that Build Mutually Beneficial Ties', *The Astana Times*, 5 May 2015. <http://www.astanatimes.com/2015/05/kazakhstan-china-close-neighbours-that-build-mutually-beneficial-ties/> (accessed June 2015).

62 Tiezzi, S. 2015. 'China's Silk Road in the Spotlight as Xi Heads to Kazakhstan', *The Diplomat*, 8 May. <http://thediplomat.com/2015/05/chinas-silk-road-in-the-spotlight-as-xi-heads-to-kazakhstan/> (accessed June 2015).

the political and security benefits of closer ties, arguing, for example, that cooperation on counterterrorism is possible due to the countries' 'shared values.'⁶³

Table 2 Economic and political issues in post-Soviet space

	AA/DCFTA	EU visa-free travel	EEU	Quality of democracy	Corruption score	GDP per capita (euros)	Separatist questions
Azerbaijan	N	N	Y	Not free	126	6,000	Nagorno-Karabakh
Belarus	N	N	Y	Not free	119	5,800	None
Ukraine	Y	N	N	Partly free	142	3,100	Luhansk, Donetsk (Crimea)
Georgia	Y	N	N	Partly free	50	2,700	South Ossetia, Abkhazia
Armenia	N	N	Y	Partly free	94	2,600	Claim over Nagorno-Karabakh
Moldova	Y	Y	N	Partly free	103	1,700	Transnistria

Source: Knott in *EUROPP*, 1 June 2015⁶⁴

Although relations with China are most promising and likely to undergo dramatic change, it is the EU that has become Kazakhstan's first trading partner (US\$31 billion in 2014) and first foreign investor, representing over half of total foreign direct investment in Kazakhstan.⁶⁵ In January 2015, Kazakhstan became the first Central Asian partner to conclude an Enhanced Partnership and Cooperation Agreement with the EU. This new Agreement will replace the Partnership and Cooperation Agreement (PCA) in force since 1999. The Agreement's nine sections (dealing with issues such as political dialogue, shared foreign and security challenges, trade and business, as well as cooperation in the area of justice, freedom and security), constitute a significant upgrade to the previous document. Also, the 'provisional application' clause implies that the agreement will be *de facto* enforced even before formal ratification procedures are completed, which indicates Astana's willingness to drive relations with the EU forward. This move towards

⁶³ *Ibid.*

⁶⁴ Knott, E. 2015. 'Following the Riga summit, more realism is required over what the EU can offer its eastern partners', *LSE EUROPP*, June 1. <http://blogs.lse.ac.uk/euoppblog/2015/06/01/following-the-riga-summit-more-realism-is-required-over-what-the-eu-can-offer-its-eastern-partners/> (accessed June 2015).

⁶⁵ European External Action Service (EEAS), 2015. *Press release: EU and Kazakhstan initial Enhanced Partnership and Cooperation Agreement*, 20 January. http://eeas.europa.eu/statements-eeas/2015/150120_01_en.htm (accessed June 2015).

the EU is an integral part of Kazakhstan's multi-vector strategy, hedging against Russia's neo-imperialism and China's economic high-handedness. It also illustrates Astana's pragmatism and its desire to promote its image as an independent, responsible and dynamic international player.⁶⁶

4.4 The hesitant trio: Belarus, Armenia and Kyrgyzstan

Belarus

The role of Belarus in the regional integration process can best be described as 'reluctant bystander', revealing a lack of commitment to both a Russian-dominated Eurasian sphere and a liberal-democratic EU. Until the military conflict flared up in Eastern Ukraine, Minsk had cautiously conducted an *à la carte* approach towards both projects, prioritising its political ties to Moscow (i.e., the Union State), while maintaining 'technical' cooperation with its neighbours to the West. Russia's annexation of Crimea and the ongoing conflict in Ukraine has dramatically strengthened the security implications of Belarus' decision to join the Eurasian Union, turning it into an almost existential choice. Given Belarus' long-standing and close historical and cultural ties to former soviet states, this step seems rational. But behind the rhetoric of kinship, stands the main (and arguably only) trigger of Belarus' allegiance to the Eurasian Union, which is a quest for energy security and economic benefits. The Belarusian economy has been hit hard by the financial crisis, which does not make it easier to realise Minsk's self-proclaimed role as a 'Eurasian bridge', especially as the EU and the Eurasian Union remain worlds apart.

Russia's attempts to use the energy lever to control Belarus has had mixed results. Moscow annually negotiates bilateral energy duties with Minsk in order to keep its smaller neighbour in check.⁶⁷ But President Alexander Lukashenko has proven to be as hard-nosed and independent as his Kazakh counterpart, which became evident when Belarus effectively vetoed any reference to 'Eurasian integration' in the Eurasian Union's founding treaty, which now mainly calls for Eurasian *economic* integration.⁶⁸ Like Kazakhstan, Belarus prefers to keep its options open.

66 Tsertsvadze, T. and Axyonova, V. 2013. 'Trading values with Kazakhstan', *EUCAM*, no. 32. http://www.eucentralasia.eu/uploads/tx_icticontent/EUCAM-PB-32-Trading-values-KZ-EN_01.pdf (accessed June 2015).

67 Astapenia, R. 2015. 'Belarus and the Eurasian Economic Union: The view from Minsk', *ECFR Commentary*, January 7. http://www.ecfr.eu/article/commentary_belarus_and_the_eurasian_economic_union_the_view_from_minsk (accessed July 2015).

68 A remarkable shift away from his initial ruthless hostility to nationalism – see Wilson, A. 2014. *Ukraine Crisis- What it means for the West*, New Haven, Yale UP, 179.

But even the economic lure of the Eurasian Union is minimal to Belarus, given that Kazakhstan and Armenia make up for as little as 1.5 percent and 0.05 percent of its trade economy respectively.⁶⁹ What is more, the Customs Union has, due to the process of equalisation of prices, resulted in price hikes in several key consumer sectors, such as food and fuels. Russia's economic malaise has dented its image in Belarus, making Moscow's call to set up a currency union unappealing.⁷⁰ As a result, public support for Eurasian integration is dwindling, opening up opportunities for the EU to consolidate its image as a viable Western alternative to Moscow.⁷¹ Despite the ostensibly 'legal' incompatibility of the EU's Deep and Comprehensive Free Trade Agreement (DCFTA) and the (Eurasian) Customs Union, pragmatic opportunities now present themselves to broaden and deepen cooperation.⁷² The EU no longer seems to rescind from dealing with what it used to label the 'last dictatorship in Europe', and has now adopted a policy of pragmatic 'critical engagement', which could include more extensive participation by Belarus in the EU's reformed EaP.⁷³ Rather than insisting on promoting value-based reforms, the EU has already adopted a more technocratic and project-oriented approach towards Minsk, in the understanding that engaging with civil society (rather than the autocratic elite) is more likely to strengthen liberal democracy in the long run.

The example of Belarus indicates that the EU is aware of the region's penchant for 'cumulative integration', indicating that Brussels is ready to deploy tailor-made and contextualised policy tools to cater to a specific situation like Belarus.

Armenia

Armenia's sudden volte-face (in September 2013) from signing an Association Agreement with the EU, to joining the Russian-led Customs Union (and the subsequent Eurasian Union), indicates that Moscow still holds considerable economic and strategic sway in the Southern Caucasus. Prior to switching its allegiance, Armenia had made significant progress towards meeting the EU's high standards (especially in terms of 'legal approximation'), and had concluded the DCFTA negotiation stage faster than

69 Smok, V. 2014. 'Belarus and the EEU: caught between a rock and a hard place', [Opendemocracy.net](http://opendemocracy.net), 14 May.

70 Bisenov, N. 2015. 'Putin calls for EEU single currency, despite fierce Kazakh, Belarusian opposition', bne.eu, 20 March.

71 Korosteleva, E.A. 2014. 'The EU has successfully pursued a strategy of democracy promotion by technocratic means in Belarus', *LSE EUROPP*, October 6. <http://blogs.lse.ac.uk/europpblog/2014/10/06/the-eu-has-successfully-pursued-a-strategy-of-democracy-promotion-by-technocratic-means-in-belarus/> (accessed July 2015).

72 Kaža, J. 2015. 'EU Has 'Window of Opportunity' to Improve Belarus Relations, Says Latvian Minister', *The Wall Street Journal*, March 7.

73 Van Elsuwege, P. 2014. 'EU-Belarus relations: Coping with the reality of the Eurasian Economic Union', *KIMEP Law-files*.

both Georgia and Ukraine (see below).⁷⁴ Joining the Eurasian integration progress was judged unfavourable to Armenia's economic interests, as the Customs Union was bound to put burdens on a small, yet open economy. High external tariffs would arguably harm the country's buoyant IT sector and compromise its prospective WTO membership. More particularly, Yerevan was initially concerned that joining the Customs Union could exacerbate the situation in Nagorno-Karabakh, as establishing customs checks between Armenia and the break-away region would paralyse its economy and exacerbate an already bad relationship with Azerbaijan.⁷⁵

So why did Armenia choose the Eurasian path towards integration with Russia, rather than the route towards the EU?⁷⁶ The best, and probably only, answer can be found in Armenia's precarious security situation. As Mikael Melkonyan, an MP of the Prosperous Armenia Party, argued, 'membership in the [Eurasian Union] involves Armenia's national security. By opting for the [Eurasian Union] we, first of all, opted for our own security: Nagorno-Karabakh. Economically, it affords ample opportunities: a 170-million-strong market, fewer requirements as compared with the European Union and technical standards of quality, specifically for agricultural and processing sectors.'⁷⁷ To Armenia, Russia is both an ally (via military cooperation) and a challenge (via Russia's arms sales to Azerbaijan). But one thing is clear: Armenia is dependent on Moscow for its energy security (75 percent of its energy requirements), its trade (24.3 percent of its total trade) and its free access to Russia's labour market (remittances from Armenian nationals working in Russia make up 9.1 percent of the country's GDP).⁷⁸

To some, this process of 'proxification' to Moscow amounts to a *de facto* surrender by the country's leadership, the so-called Kocharyan-Sargsyan 'diarchy' that has ruled the

74 Delcour, L. and Wolczuk, K. 2015. 'Armenia is becoming an important test-case for relations between the EU and the Eurasian Economic Union', *LSE EUROPP*, 13 May. <http://blogs.lse.ac.uk/europpblog/2015/05/13/armenia-is-becoming-an-important-test-case-for-relations-between-the-eu-and-the-eurasian-economic-union/> (accessed July 2015).

75 Grigoryan, M. 2014. 'Armenia: Karabakh Question Clouds Eurasian Union Accession', *EurasiaNet.org*, 10 October.

76 Kostanyan, H. 2015. 'The Rocky Road to an EU-Armenia Agreement: From U-Turn to Detour', *CEPS Commentary*, 3 February. <http://www.ceps.eu/publications/rocky-road-eu-armenia-agreement-u-turn-detour> (accessed July 2015).

77 Quoted in 'No material benefits from Armenia's EEU membership yet, but legal framework available – Mikael Melkonyan', *Tert.am*, 5 June 2015.

78 De Micco, P. 2015. 'When Choosing Means Losing: The Eastern Partners, the EU, and the Eurasian Economic Union', *Study* - EP DG for External Policies.

country since 1998.^{79, 80, 81} It also begs the question how the EU could encourage Armenia to adopt a 'prudent and quiet exit strategy' from Eurasian integration. As the case of Belarus shows, Brussels may opt for a traditional public diplomacy approach, stepping up its involvement with Armenia's thriving civil society, thereby enhancing domestic trust in an EU-supported democratic transition. But, more structurally, the EU is engaged in some political soul-searching, asking 'what went wrong' in 2013 when Armenia rejected the EU's Association Agreement. The development of a new and more flexible, differentiated EaP Strategy is under consideration. The idea of a more 'modest', so-called 'AA-minus' deal (which would take into account Armenia's commitments to the Customs Union) was discussed at the EU's Riga summit in May 2015.⁸² Such a deal would develop sectoral mechanisms of enhanced cooperation with Yerevan, possibly encouraging other Eurasian Union members to expand their economic presence in Armenia. The case of Armenia indicates that the EU should develop a new EaP strategy, structured as a two- or three-tiered mechanism, capable of reaping maximum mutual benefits while avoiding damaging stalemates that will only wet Russia's neo-imperial appetite.

Kyrgyzstan

Kyrgyzstan joined the Eurasian Union a few months after its official inauguration (May 2015). Kyrgyzstan's GDP comprises a mere 0.3 percent of the Eurasian Union's total output.⁸³ This virtually negligible economic clout largely explains why Kyrgyzstan is unable and unwilling to pursue a (more or less) independent, 'multi-vector' foreign policy, and is inclined to go along with Russia's Eurasian geopolitical aspirations.⁸⁴

79 Wilson, A., *op. cit.*, p. 180.

80 Broers, L. 2015. 'Nagorno Karabakh: The benefits of being in the margins', *European Leadership Network*, 18 March. http://www.europeanleadershipnetwork.org/nagorno-karabakh-the-benefits-of-being-in-the-margins-_2557.html (accessed June 2015).

81 Giragosian, R. 2015. 'Armenia and the Eurasian Economic Union: The view from Yerevan', *ECFR Commentary*, 8 January. http://www.ecfr.eu/article/commentary_armenia_and_the_eurasian_economic_union_the_view_from_yerevan387 (accessed July 2015).

82 EUFOA, 2015. *Riga Summit strengthens EU-Armenia relations*, 23 May. http://www.eufoa.fr/newsroom/317/93/Riga-Summit-strengthens-EU-Armenia-relations/?cntnt01limit=4&cntnt01template=display_home&cntnt01options=3&cntnt01detailpage=collection-de-nouvelles&cntnt01orderby=item_date+DESC&cntnt01origid=67 (accessed July 2015).

83 Rickleton, C. 2015. 'Kyrgyzstan Signs Final Eurasian Union Treaty', *EurasiaNet.org*, 21 May.

84 Satke, R. 2015. 'Kyrgyzstan and the Eurasian Economic Union: The view from Bishkek', *ECFR Commentary*, 9 May. http://www.ecfr.eu/article/commentary_kyrgyzstan_and_the_eurasian_economic_union_the_view_from_bis3022 (accessed July 2015).

Moscow still considers its dominance in Central Asia as the best (and arguably easiest) way to compensate for its fading geopolitical influence on its western flank.⁸⁵

It is crucial to highlight that over 10 percent of Kyrgyzstan's 5.7 million citizens are migrant workers, making remittances from Russia and Kazakhstan a vital component of the country's economy (around 25-30 percent of total GDP). Fervent and vocal support for the Eurasian Union therefore comes naturally to Kyrgyzstan (at both elite and popular levels), as it basically assures the free movement of workers among all its members. Support for Eurasian integration is equally strong in the agricultural sector, even though integration-related reforms during the first transitional months into the Eurasian Union caused significant hardship. Russia and Kazakhstan have pledged around US\$300 million to help Bishkek during this difficult period, providing Kyrgyzstan with more resources to limit its 'economic absorption' into China's growing sphere of influence in Central Asia.⁸⁶ This should strengthen Bishkek's official narrative that Eurasian integration will create jobs and generate economic growth, if not now then at least in the near future.

Economic research nuances, and slightly clouds, this overly rosy picture. The Custom Union's higher tariffs are already affecting the influx of cheap Chinese imports, hurting the Kyrgyz retail sector. It also negatively impacts on communities in the country's south who depend on trade with (non-Union members) Tajikistan and Uzbekistan. This adds to Kyrgyzstan's already bleak economic prospects, which include a weak and vulnerable economy with rampant inflation (at around 10 percent). Moreover, critics warn that Eurasian Union membership limits an already miniscule room for foreign policy manoeuvre.⁸⁷ Little surprise, therefore, that public support for Eurasian integration has come under pressure, dropping from 74 percent in 2011 to just under 50 percent in 2014.⁸⁸

Like Armenia, Kyrgyzstan's main reason to join the Eurasian Union is a combination of security reasons and Russian subsidies. Russia accounts for 33 percent of Kyrgyzstan's imports and 13 percent of its exports, which, together with the massive influx of

85 Auelbaev, B.A., et al. 2015. 'Central Asia 2020- Four Strategic Concepts', *Kisi Report*, 10. <http://kisi.kz/en/categories/books/posts/central-asia-2020-four-strategic-concepts-report> (accessed July 2015). See also: Oliphant, C. et al. 2015. 'Central Asia at a crossroads', *Saferworld Report*.

86 Balci, B. and Kassimova, E. 2015. 'How Central Asian Republics Perceive the Emerging Eurasian Union', *Carnegie Endowment for International Peace*, 24 January. <http://carnegieendowment.org/2015/01/24/how-central-asian-republics-perceive-emerging-eurasian-union> (accessed July 2015).

87 Kosolapova, E. 2015. 'Kyrgyzstan's benefits from joining to Eurasian Union questionable', *Trend.az*, 12 May.

88 Rehm, S. 2015. 'As Kyrgyzstan Joins Russia's Eurasian Economic Union, Not Everyone's Happy', *The Moscow Times*, 6 May. <http://www.themoscowtimes.com/business/article/as-kyrgyzstan-joins-russias-eurasian-economic-union-not-everyones-happy/520296.html> (accessed July 2015).

remittances from Kyrgyz workers, add up to significant Russian political leverage over Bishkek. What is more, ethnic Russians account for 12 percent of Kyrgyzstan's population, and Moscow still operates a military base just outside the capital. Although not a political plaything, Kyrgyzstan certainly qualifies as a willing ally in Russia's geopolitical project in Central Asia.

4.5 Eurasia's fringes: from Tajikistan and Azerbaijan, to Georgia and Moldova

Tajikistan

Tajikistan has not yet joined the Eurasian Union, but membership may be a matter of time given the country's similarities with Kyrgyzstan: that is, a very weak economy, high dependence on labour mobility within the Union, and political susceptibility (if not vulnerability) *vis-à-vis* Moscow.⁸⁹ Around 50 percent of all Tajik working-age males live abroad, mostly in Russia, which explains why remittances constitute a whopping 49 percent of the country's GDP.^{90, 91} This umbilical cord ties the country to Russia's economic ups and downs. Recently, Tajik labour migration to Russia slowed down, as Moscow decided to place restrictions on working visas for non-Eurasian Union citizens. Last year, some 270,000 Tajiks were placed on a so-called 're-entry ban list', a patently deliberate move by Moscow to encourage Dushanbe to reconsider its aloofness towards the Union. Russia's clout also includes the military field, as the 201st Motor Rifle Division is in charge of patrolling the extremely volatile Tajik-Afghan border. Russia has made it clear that it 'wants to see Tajikistan in the [Eurasian Union]',⁹² and is spending significant time and resources to speed up ongoing accession negotiations.⁹³ It is therefore 'only a matter of time until Tajikistan bows to the inevitable'.⁹⁴

89 Balci, B. and Kassimova, E., *op. cit.*

90 Schottenfeld, J. 2015. 'Tajikistan's Russian Dream', *Foreign Affairs*, May 11. <https://www.foreignaffairs.com/articles/tajikistan/2015-05-11/tajikistans-russian-dream> (accessed July 2015).

91 Trilling, D. 2015. 'Tajikistan: Remittances to Plunge 40% – World Bank', EurasiaNet.org, May 26.

92 *Tass- Russian News Agency*, 'Russia wants to see Tajikistan in Eurasian Economic Union', 23 October 2014. <http://tass.ru/en/economy/756064> (accessed July 2015).

93 Eurasian Development Bank, 2013. *Economic Impact of Tajikistan's Accession to the Customs Union and Single Economic Space*, April. http://www.eabr.org/e/research/centreCIS/projectsandreportsCIS/Tajikistan_CU_SES/ (accessed July 2015).

94 Trilling, D., *op. cit.*

Azerbaijan

Azerbaijan is the only Eastern Partnership country that has refrained from formally joining either the EU's or Russia's 'sphere of integration'. Baku has not signed any agreement with the EU on free trade or cooperation, and has equally kept Russia at a distance by refusing to join the Customs Union. Azerbaijan's 'Grand Strategy' (as confirmed by President Ilham Aliyev's remarks at the 2014 Davos Forum) hinges on preserving a safe distance from both integration projects, while reaping benefits from maintaining pragmatic relations with both Unions without compromising the country's sovereignty.⁹⁵

Although Azerbaijan joined the CIS in 1993, it has never been a particularly active member, sticking to its position of a 'quiet distance' from all subsequent post-Soviet integration efforts. This room for manoeuvre and self-confidence is sustained by its (oil- and pipeline-based) wealth and economic growth, as well as its vast array of partnerships with countries outside the post-Soviet sphere.⁹⁶ For Baku, this strategy seems to work well, and domestic calls for a move to join the Eurasian Union remain modest and muted. Azerbaijan relies on oil for over 90 percent of its total exports and would have little to gain from joining the Customs Union. An argument has been made that some association with the Eurasian Union would offer Baku a means to defend the rights of its approximately 600,000 citizens working in Russia (whose remittances account for 1.3 percent of the country's GDP). However, this does not seem to outweigh the anticipated disadvantages, such as higher external tariffs and closer ties with a neo-imperial Kremlin.⁹⁷

For now, Azeri citizens enjoy visa-free travel within the Eurasian Union, even without membership. Its national tariffs and trade barriers can be managed independently from Moscow's commands inside the Customs Union, offering Baku more leeway to develop close ties with third countries, including Turkey and China. This specifically applies to Azerbaijan's oil industry, a crown-jewel it safeguards from outside interference. Finally, and on a more socio-political note, it should not be forgotten that Azeris blame Russia (and its support for Armenia) for the loss of 'their' territories in the Nagorno-Karabakh region. Baku would face a strong popular backlash should it decide to tighten its official

95 Nurullayev, R. 2014. 'Azerbaijan at cross-roads: European Union or Eurasian Union', *Strategic Outlook*, 28 December, <http://www.strategicoutlook.org/caucasus/news-azerbaijan-at-crob-roads-european-union-or-urasian-union.html> (accessed July 2015).

96 Kempe, I., et al. 2013. 'The South Caucasus Between the EU and the Eurasian Union', *Caucasus Analytical Digest*, no. 51, 17ss.

97 Walker, S. and Nardelli, A. 2015. 'Russia's rouble crisis poses threat to nine countries relying on remittances', *The Guardian*, January 18.

ties with an 'enemy of the nation' by a possible rapprochement towards the Eurasian Union, making this an unlikely scenario for the foreseeable future.

Georgia and Moldova

Similar choices have to be made by the last two countries examined in this section: Georgia and Moldova. Like Ukraine (see Chapter 4.6), both countries find themselves at the fringes of Russian power, facing the question of whether (and if so, how) free trade with the EU could be reconciled with a *modus vivendi* with Moscow that would entail a fruitful affiliation with the Customs Union/Eurasian Union.⁹⁸ With the collapse of the USSR, both countries adopted the well-known 'multi-vector' strategy, actively engaging with Russian as well as EU initiatives. In 1994, both Georgia and Moldova joined the CIS and subsequently signed Partnership and Cooperation Agreements with the EU. In the recent past, both countries have been regularly subjected to politically motivated Russian trade sanctions, stimulating their economic reorientation to EU markets.

In 2005, in a marked swing westward, Moldova adopted integration into the EU as its new strategic goal.⁹⁹ This did not, however, prevent it from joining the CIS Free Trade Area (CISFTA) in 2011, confirming Chisinau's understanding that the two zones of integration are not mutually exclusive. Georgia withdrew from the CIS at the outbreak of the war with Russia and its proxies in 2008, and has never signed up to the CISFTA. Still, and perhaps somewhat surprisingly, Georgia's bilateral trade agreement with Moscow remains in force. This demonstrates Russia's continued economic relevance in the region, overruling even ardent bitterness and strategic disputes. In recent years, both Moldova and Georgia have adopted pro-EU reform programmes, seemingly renouncing their multi-vector policies for a pivot towards the West. This process climaxed in June 2014, when both countries signed Association Agreements (anticipating the establishment of DCFTAs) with the EU, showing their independence in the aftermath of Russia's annexation of the Crimea.

Although a strategic surprise to many, that choice was based on an established track record of approximation towards the EU, illustrated by the European Integration Index for EaP countries, which recognises both countries as top performers in almost all relevant areas over the past few years.¹⁰⁰ Moldova is the front-runner in terms of visa

98 Della Sala, V. 2015. 'The EU and the Eurasian Economic Union: between partnership and threat?', in eds. Dutkiewicz P. and Sakwa, R., *op. cit.*, 168.

99 Eastern Europe Studies Centre, 2012. *Eurasian Union: A Challenge for the European Union and Eastern Partnership Countries*, December <http://www.eesc.lt/uploads/news/id459/Eurasian%20Union-a%20Challenge%20for%20the%20European%20Union%20and%20Eastern%20Partnership%20Countries.pdf> (accessed July 2015).

100 EAP, 2014. *What is the Eastern Partnership Index?*, <http://www.eap-index.eu/about> (accessed June 2015).

liberalisation (achieved in April 2014) and, despite still being plagued by high-level corruption, its National Action Plan on the implementation of the EU's Association Agreement has been well received. The same applies to Georgia, whose transition to a stable parliamentary democracy has been widely recognised, as is testified by high scores on key indicators of 'deep and sustainable democracy' (i.e., media freedom, party financing regulations, engagement with civil society, etc). As a result, Georgia is considered a success story among the EU's six Eastern Partnership countries.

The slow but steady drift towards the EU was motivated by the creation of the (Eurasian) Customs Union in 2010. It was readily foreseeable that, once incorporated into a Russian-led Eurasian Union (since 2015), the Customs Union would limit both countries' room for strategic manoeuvre, thereby compromising their independence. Economically, the 'choice for Europe' was straightforward and logical, given that a DCFTA with the EU unlocks a market of over 500 million prosperous consumers.¹⁰¹ The EU is already the main trading partner of both countries (Georgia: 26 percent, Moldova: 53 percent), as well as their number one foreign investor.¹⁰² Joining the EU's DCFTA is expected to generate significant economic growth for both countries (Georgia: plus 4.3 percent, Moldova: plus 5.4 percent). The costs of approximating the EU's trade rules and regulations have proven to be modest (or at least acceptable), also because the EU assists EaP countries to offset their transition costs.¹⁰³ Unfortunately, the political costs of a backlash from Russia have proven to be more difficult to anticipate and counteract. Moscow's tactics to complicate the EU-pivot of Moldova and Georgia are wide ranging and substantial (both economic and political), and its retaliatory measures are more immediate than the mid-term benefits of joining the EU project. This inevitably poses challenges for political elites in both countries who (in order to get elected) must make the benefits of their 'choice for Europe' tangible and immediate.¹⁰⁴

Georgia's embrace of a European future is bolstered by domestic support of well above 70 percent, strengthened by a marked pro-Western stance and a very strong strategic relationship with the United States and NATO. Respective Georgian governments have reduced their economic and energy dependence on Russia, shifting their focus to

101 EEAS, 2014. *Advantages of DCFTA EU-Georgia versus Customs Union*, January. http://eeas.europa.eu/delegations/georgia/documents/news/2014/dcfta_advantages_vscustomsunion_2014_01_en.pdf (accessed June 2015).

102 Tsereteli, M. 2014. 'Georgia and Moldova: Staying the Course', in *Putin's Grand Strategy: The Eurasian Union and Its Discontents*, eds. Starr, F.S. and Cornell, S., 133ss.

103 'EU vows to support Georgia in DCFTA implementation', *Agenda.ge*, 11 May 2015.

104 Schäffer, S. 2014. 'EU-Russian relations have been further strained by Georgia, Moldova and Ukraine's decision to sign agreements with the EU', *LSE EUROPP*, July 3 <http://blogs.lse.ac.uk/europpblog/2014/07/03/eu-russian-relations-have-been-further-strained-by-georgia-moldova-and-ukraines-decision-to-sign-agreements-with-the-eu/> (accessed July 2015).

oil-rich Azerbaijan, which now supplies the bulk of Georgia's energy needs. Russia's long-standing agricultural embargo (in force since 2006) has, somewhat paradoxically, resulted in a healthy diversification of Georgia's export markets, equally diminishing Tbilisi's dependence on Russia.¹⁰⁵ Nonetheless, Russia continues to wield significant clout over the Caucasian country. For example, remittances from citizens working in Russia account for some 4.5 percent of Georgia's GDP, turning Moscow's frequent threats to curtail labour mobility into a sword of Damocles. The Caucasus also remains an ethnic hotspot, fraught with pro-Russian ethnic minorities open to manipulation from Moscow. The long-standing Russian support for the "independence" of Georgia's breakaway regions of Abkhazia and South Ossetia remains an open wound and a constant reminder of Moscow's intentions in this part of the Caucasus.¹⁰⁶

Moldova has adopted a more circumspect and cautious pro-Western stance. Its economy remains closely connected to the post-Soviet space, making a reorientation away from Russia complicated. This has become especially clear as it has proven hard to compete in an exacting EU market.¹⁰⁷ Russia still accounts for 30 percent of Moldovan exports, and 16 percent of its imports. Even more importantly, Russia supplies 95 percent of Moldova's energy needs. To top things off, Moldovan workers in Russia send home over US\$1 billion in remittances every year, amounting to 9.3 percent of Moldova's GDP.¹⁰⁸ Because Chisinau's military capabilities are very modest, the spectre of a 'Crimea-style' destabilisation measure enticed by Russia's notorious 'little green men', has become very real.¹⁰⁹ In particular, Moscow's longstanding threat to officially recognise the independence of the break-away region of Transnistria (where most Moldovan industry is based) could further destabilise an already volatile region. Russia still maintains some 1,500 troops in Transnistria, a situation that has become unsustainable now that the region is squeezed between its two pro-Western neighbours (Ukraine and Moldova).

105 *Id.*, p. 7.

106 Antidze, M. 2015. 'Georgia condemns Russia, South Ossetia deal as step toward annexation', *Reuters*, 19 February. <http://www.reuters.com/article/2015/02/19/us-georgia-russia-iduskbn0l1nh20150219> (accessed June 2015).

107 Despite such obstacles, the reorientation efforts made by the government are starting to yield dividends, with exports to the EU growing by 22.5 percent in the first four months of 2014, while the CIS share shrank by 18.8 percent – see Cenusa, D. et al. 2014. 'Russia's Punitive Trade Policy Measures towards Ukraine, Moldova and Georgia', *CEPS Working Document*, no. 400, September, 7. http://www.ceps.eu/system/files/WD%20300%20Punitive%20Trade%20Measures%20by%20Russia_0.pdf (accessed June 2015).

108 De Micco, P., *op. cit.* p. 24.

109 Alexander, D. 2014. 'Top NATO Commander Concerned About 'Little Green Men' in Moldova', *Atlantic Council*, 17 September. <http://www.atlanticcouncil.org/blogs/natosource/top-nato-commander-concerned-about-little-green-men-in-moldova> (accessed June 2015).

Russia's pre-occupation with (Eastern) Ukraine seemed at first to offer a small window of opportunity to pressure the Transnistrian authorities to adopt the EU's DCFTA provisions, which are expected to become a tool of economic and societal modernisation. This could well pave the way for the restoration of Moldova's territorial integrity.¹¹⁰ Although Moldova's course towards the EU seems sturdy, its popular basis remains fragile: a recent survey indicates that some 44 percent of the population is pro-EU, whereas 40 percent favour Eurasian integration. The pervasiveness of Russian (state-controlled) media in Moldova is certainly (at least partly) responsible for this societal division.¹¹¹ A more concerted and effective EU-led public diplomacy campaign to 'win hearts and minds' therefore seems long overdue.¹¹² Unfortunately, recent corruption scandals have tarnished the image of the pro-EU government and given Russia a renewed opportunity to influence Chisinau's political course.

4.6 Ukraine: veritable borderland

Ukraine has tried to stay aloof from most post-Soviet integrationist initiatives, with mixed results. The country's strategic orientation (East or West?) has been uncertain since its independence, culminating in two revolutions, in 2004-05 the so-called 'Orange revolution', and, more recently, in 2013-14 the so-called 'Euromaidan revolution'. Ukraine joined the CIS at its foundation in 1991, but never ratified its charter (which *de facto* invalidated all CIS rules and regulations).¹¹³ Under President Kuchma (1994-2005), Ukraine's foreign policy course maintained a careful but delicate equilibrium between Russia and the West (including the EU and NATO), without committing itself to either side. Joining European integration was enshrined in Ukrainian legislation as an official foreign policy goal at the same time as ties with Russia were intensified.¹¹⁴ Ukraine also became an observer in the EurAsEC, which did not change the country's foot-dragging on all Russian post-Soviet integration proposals.

During the reign of pro-Russian President Viktor Yanukovych (2010-14), Ukraine's commitment to the EU was substantiated by its ambition to sign an Association Agreement in the framework of the EU's Eastern Partnership. Ukraine had already

110 Calus, K. 2015. 'Transnistria's Economy Going from Bad to Worse', *New Eastern Europe*, 23 January. <http://www.neweasterneurope.eu/articles-and-commentary/1462-transnistria-s-economy-going-from-bad-to-worse> (accessed June 2015).

111 EAP, *op. cit.*, p. 33.

112 Paul, A. 2014. 'Moldova - Heading into a hot autumn', *EPC Policy Brief*, 6 October. http://www.epc.eu/pub_details.php?cat_id=3&pub_id=4880 (accessed June 2015).

113 Formally speaking, Ukraine is not therefore a member but rather 'a founding and participating state'.

114 History of Ukraine – EU relations, MFA of Ukraine (in Ukrainian), accessible via: <http://mfa.gov.ua/ua/about-ukraine/european-integration/ua-eu-relations>.

signed the so-called 'Kharkov Agreements' with Russia (in 2010), where Kyiv agreed to extend Russia's lease of the Sevastopol naval base on the Crimea by 25 years (until 2042) in exchange for a substantial discount on Russian natural gas. The Yanukovich government faced considerable pressure from Moscow to join the Eurasian Union as a full member. Ukraine was compelled to make several concessions, and had already seen itself forced to join the CIS Free Trade Area in 2011 as well as to declare its commitment to the Eurasian Union, albeit as an observer.¹¹⁵ These hesitant baby-steps towards Eurasian integration were hardly sufficient for Russia, which increased pressure on Ukraine to make the final and irreversible choice of Russia and Eurasia. This seemed, at least at the time, an either-or choice between two competing integration projects. The EU also adopted the narrative that the Eurasian-centred Customs Union was incompatible with the DCFTA in the framework of its Eastern Partnership. As European Commissioner Stefan Füle put it: 'You cannot at the same time lower your customs tariffs as per the DCFTA and increase them as a result of the Customs Union membership.'¹¹⁶ However, the possibility of combining simultaneous membership of different free trade areas remains, as is clear from Ukraine's continuing membership of the CISFTA while having a DCFTA with the EU.

Numerous studies have examined whether Ukraine (and other post-Soviet states) really have to choose, or could instead opt for the best of both worlds. A 2012 study for the Carnegie Foundation suggested that hooking up to the EU would be best for Ukraine: initial costs of the obligatory reforms required by the DCFTA (most notably in the metallurgical sector), would be offset by Ukraine's enhanced access to the EU agricultural and industrial market.¹¹⁷ In contrast, Russian studies pointed at the significant advantages of joining the Eurasian Union.¹¹⁸ Even though President Yanukovich was closely connected to the pro-Russian industrial lobby in Ukraine, he remained hesitant to choose the Eurasian option, which seemed to prove that the economic and political benefits of 'joining Russia' were modest and risky. Only blatant intimidation by Russia (which promised loans and gas discounts if Ukraine were to

115 Ukrainian status in the EEU is currently unclear. Despite some indications in 2013 that it was going to get observer status (see: *RFE/RL*, 2013, 'Kyrgyzstan To Join Russian-Led Customs Union, Ukraine To Observe', 29 May. <http://www.rferl.org/content/kyrgyzstan-ukraine-russia-customs-union/25001114.html>), it has never really participated in the organisation.

116 Füle, S. 2013. 'Statement on the pressure exercised by Russia on countries of the Eastern Partnership', *European Parliament Plenary*, in Strasbourg, 11 September, 2.

117 Shumylo-Tapiola, O. 2012. 'Ukraine at the Crossroads: Between the EU DCFTA & Customs Union', *Carnegie Endowment- Russie.Nei. Report*, no. 11, April; Movchan, V. and Giucci, R. 2011. 'Quantitative Assessment of Ukraine's Regional Integration Options: DCFTA with European Union vs. Customs Union with Russia, Belarus and Kazakhstan', *German Advisory Group, Institute for Economic Research and Policy Consulting-Policy Paper*, November.

118 Ivanter, V. et al. 2014. 'Economic Consequences of the Creation of the Eurasian Economic Space and Ukraine's Joining It' (in Russian), *Eurasian Economic Integration*, February, 1(14), 4-26.

join the Customs Union and threatened an all-out trade war if it refused to do so), forced President Yanukovich to rescind from signing an already arranged Association Agreement with the EU in November 2013.

This turn of events set off an unprecedented crisis in Europe, giving rise to unresolved strategic challenges at the heart of the continent. It has also firmly pushed Ukraine on the path towards EU integration. In March 2014, the new Kyiv government relinquished Ukraine's presidency of the CIS and announced its plan to leave the organisation altogether. In December 2014, parliamentary debates remained indecisive on this matter, and concluded that Ukraine aims at 'bringing co-operation in the CIS framework to a minimum'.¹¹⁹ This ambivalent position towards the CIS illustrates Ukraine's unwillingness to alienate neutral post-Soviet states and moderate Russian allies (such as Belarus and Kazakhstan). Ukraine's strategy to obtain support from these countries is paying off: in September 2014, CIS officials rejected Russia's calls to expel Ukraine from the CISFTA.¹²⁰ Therefore, despite constant trade wars and trade skirmishes, Ukraine remains in the CISFTA.

Ukraine's trade with Russia has all but collapsed since the beginning of the conflict, due to deteriorating bilateral relations and significant economic problems in both countries.^{121, 122} Russia is bent on sanctioning Ukraine through the revocation of its CISFTA and by imposing a vast array of non-tariff barriers on Ukrainian goods. Although a (albeit ad hoc) *modus vivendi* on Russian energy supplies has been found by the new government in Kyiv in the context of trilateral (EU, Ukraine, Russia) discussions, Moscow still has significant economic leverage over Ukraine. For example, Russia is the main market for Ukrainian technological products, particularly for transport equipment, which represents 34 percent of Ukraine's exports to Russia (in 2013).¹²³ Even the most accessible EU market will not be able to compensate Ukraine for losing the Russian market in these strategic sectors. Even now, Ukraine's deep and continued economic crisis is largely due to the collapse of bilateral trade with Russia and the lack of Ukrainian competitiveness on the Western market. Russia also keeps pressure

119 'Ukraine and the CIS', *Den* (in Ukrainian), 16 March 2015; Ukrainian Mission to the CIS, *Participation of Ukraine in the CIS* (in Ukrainian), 2012. <http://cis.mfa.gov.ua/ua/ukraine-cis/cooperation> (accessed May 2015).

120 'Russia warns to exclude Ukraine from CIS free trade zone', *Xinhua*, 15 September 2014. http://news.xinhuanet.com/english/world/2014-09/15/c_133644835.htm (accessed May 2015); 'CIS says that there are no grounds to exclude Ukraine from the FTA', *Biznes-Vesti* (in Russian), 20 September 2014.

121 'Trade between Russia and Ukraine has decreased three times over the year', *RBK* (in Russian), 27 May 2015.

122 'Ukrainian exports decreased', *Radio Freedom* (in Ukrainian), 17 April 2015. <http://www.radiosvoboda.org/content/article/26962677.html> (accessed May 2015).

123 De Micco, P. *op. cit.*, p. 28.

on Kyiv by toughening its legislation regarding (Ukrainian) immigrant workers, which jeopardises the significant stream of remittances into Ukraine.¹²⁴ Russia also puts pressure on Ukraine's many oligarchs who have massive vested interests in Russia's energy companies. Since 2014, Moscow scrutinises the Russian branches of Ukrainian companies depending on the political profiles of their owners.¹²⁵ On the flip side, Russian enterprises in Ukraine get a similar treatment by the Kyiv authorities.¹²⁶ Further risks are connected with the unresolved status of the separatist territories in Eastern Ukraine and the possibility of their greater economic autonomy. Furthermore, the unresolved issue of Crimea's future will remain an open wound for decades to come.

Against this background, it is little surprise that Ukraine's future full implementation of an EU DCFTA has been a source of acrimonious disputes. Russia has voiced numerous concerns regarding the pending DCFTA, ranging from fears of falling export to Ukraine to the risk of the dumping of Ukrainian goods (pushed out by higher-quality European products) into the Russian market.¹²⁷ Russia has temporarily succeeded in making Kyiv and Brussels delay the implementation of the (economic part of the) Association Agreement between Ukraine and the EU until January 2016. After this concession on the part of Ukraine and the EU, Russia upped the ante and demanded that the Association Agreement be completely rewritten, taking Russian interests more fully into consideration. After this was refused, Russia seems to have accepted as a fact that the Association Agreement will enter into force as signed and ratified by EU member states. Although further postponement of this Agreement is unlikely, technical arrangements to satisfy some Russian demands are expected. It seems clear that by invading the Crimea and destabilising Eastern Ukraine, Russia has won a Pyrrhus victory and lost any chance it may have had to restore a solid, pro-Russian Eurasian 'pole'.¹²⁸ However, some in Moscow may still well harbour the idea that by putting pressure on Kyiv to accept a broad autonomy of separatist-controlled areas of Donetsk and Lugansk a broader settlement might be agreed, which will provide Moscow with the tools to further influence Ukraine's foreign policy orientation and somehow force this re-linking upon a reluctant Kyiv.

124 In 2014, Ukrainian remittances from Russia accounted for 36 percent of the total flow – i.e., 1.76 percent of Kyiv's GDP – see National Bank of Ukraine, *Remittances in Ukraine*, 2015. <http://www.bank.gov.ua/doccatalog/document?id=80651> (accessed August 2015).

125 For example, the confectionary factory of Petro Poroshenko in Lipetsk was the subject of a number of controversies during 2014.

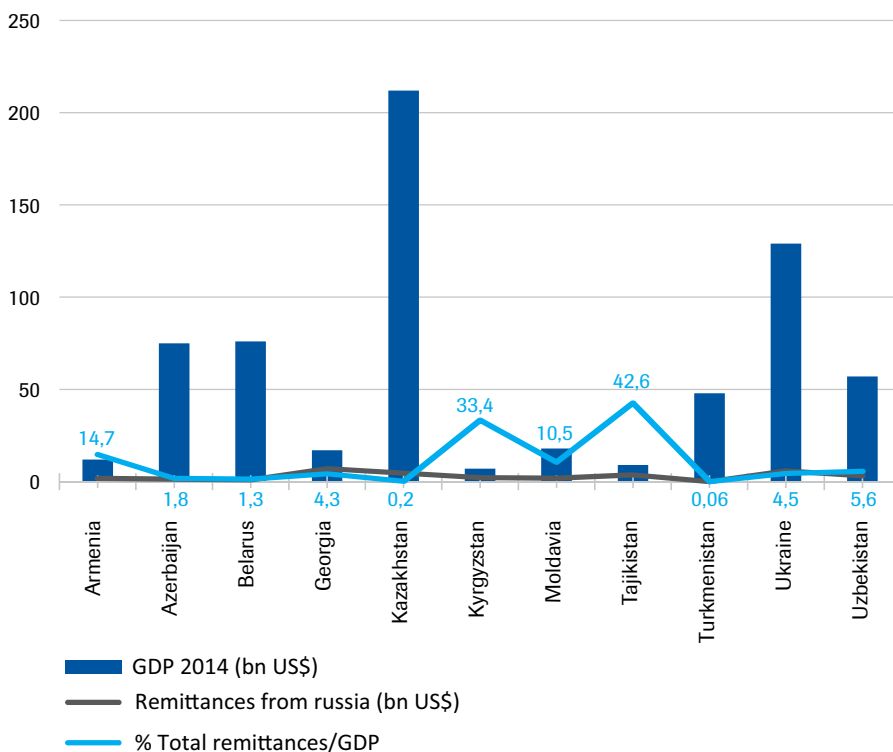
126 Ukrainian risks in case of dismantling economic relations with Russia are laid out in detail in the study 'Тупик борьбы интеграций в Европе' (Deadlock of integration struggle in Europe) prepared by the Eurasian Development Bank in 2014. It is available (in Russian) [here](http://www.edb.ru/files/File/ru/publ/2014/2014_026.pdf).

127 The detailed list of Russian claims and their critical analysis can be found in the following study by IMEMO (in Russian): http://www.imemo.ru/files/File/ru/publ/2014/2014_026.pdf.

128 Results of the latest Ukrainian opinion polling on this matter can be consulted [here](http://www.ips.ua/) (in Russian).

For the time being, Russia's bilateral trade relationship with Ukraine and Ukraine's continuing participation in the CISFTA seem to be more important points of departure for (trilateral) discussions on broader trade relations than Ukraine's eventual relationship with the Eurasian Union.

Figure 1 'Eurasian' countries' dependence on Russia



Sources: World Bank; Bank of Russia

4.7 Eurasian Union and Turkey

As Turkey has been offered a closer relationship with the Eurasian Union and is courted by Russia to develop closer energy and trade links on a bilateral basis, competition for influence in Central Asia and the Caucasus looks more important at the moment than any closer relationship between Moscow and Ankara. Turkey seems to look at the Eurasian Union primarily in terms of increased trade opportunities, energy relations

with Russia being pursued on a purely bilateral basis. Apart from its already very strong economic relations with the EU, Ankara also cherishes a close relationship with Azerbaijan and is eyeing further opportunities in the Caspian Sea region. Against this background, prospects for a closer and/or even more formal relationship between Turkey and the Eurasian Union do not seem very bright. Like many other third parties (including such different actors as Egypt and Vietnam), Turkey mainly seems to pay lip service to the ideals of this new integration project, hedging with other partners (like the EU) against greater Russian influence or even dominance in the neighbourhood. At the same time, Turkey is profiting from not taking part in EU sanctions against Russia by partly taking over market gaps left by European partners because of the Russian anti-EU sanctions.

4.8 EU-EEU relations: a more effective bilateral approach or a more formal multilateral relationship?

From its early origins Russian foreign policy has been dominated by strong bilateral relationships, especially with the greater powers of the world. In this light, relations with the EU have always been complicated for Moscow, due to a lack of understanding of the supra-national elements in the EU's character and its own strong preference for dealing with the bigger member states on a bilateral basis. In this respect, Berlin, Paris and Rome have always been more important to Moscow than Brussels.

Russian activity within post-Soviet multilateral organisations, like CIS but also the newly founded Eurasian Union, has always been combined with strong bilateral links with the capitals of partner countries concerned. In that way, Moscow could more easily put pressure on these newly independent countries and cajole or even force them to act according to its wishes. As indicated above, energy relations (not a part of the Eurasian Union), labour relations and security relations could all be used to influence 'partner countries', either through a Russian-dominated multilateral framework or on a bilateral basis.¹²⁹

For the EU, this could have a number of implications, both for its relations with Russia and for dealing with other post-Soviet states in the context of a new Eastern Partnership, but also when dealing with the Eurasian Union:

- the present neo-isolationist course in Russia can only be countered effectively if there is sufficient political will in the Kremlin to change course and return to a policy of working towards greater convergence of two – at present conflicting – economic and political systems;

129 Wilson Rowe, E. and Torjesen, S. (eds), 2009. *The Multilateral Dimension in Russian Foreign Policy*, Abingdon, Oxon and New York, Routledge.

- such a convergence, as was attempted previously on the basis of developing a Common Economic Space and a Partnership for Modernisation, would have a positive impact on the EU's relations with Eastern Partnership countries as well: it would reduce the likelihood of conflicting interests between the EU and Russia in the 'shared neighbourhood', as developments in Russia and the EaP countries would, in principle, move in the same direction, that is, approximation and convergence with the EU *acquis*;
- as long as Moscow does not change course, there are only limited possibilities for the EU to work constructively with Russia on more technical and non-political levels towards the realisation of common goals in the 'neighbourhood', be it in a trilateral framework (like EU-Ukraine, Russia) or with (Russia-dominated) multilateral organisations like the Eurasian Union¹³⁰;
- the EU could try to match the strong Russian preference for bilateralism by developing its own strong and differentiated relationship with the countries of the Eastern Partnership on a bilateral basis, offering them alternative options when Russia does not respect their sovereign (pro-European) choice;
- the EU could do the same by developing closer cooperation with Central Asian states, especially Kazakhstan, to encourage their own multi-vector approach and work with them in the context of multilateral frameworks (ASEM (Asia-Europe Meeting), and maybe in future even the SCO: see also discussion in Chapter 5 on EU-China), which could serve to overcome at least some of the new economic and financial dividing lines formed as a consequence of the Russian policy of competing regionalisms;
- when dealing with Russian-dominated organisations, like the EEU, the EU could well opt for working more closely with and through the other member states, asking for their opinions on and input in broader discussions with such organisations. As Russia has in the past succeeded in having some meetings with the EU in 'EU-plus' formats, the EU could put forward the idea that more formal and more political discussions with, for example, the Eurasian Union, should be held not only with the Eurasian Commission, but also with all EEU member states attending.

130 Evgeny Vinokurov offers some interesting suggestions for a possible agenda for what he calls a 'Mega Deal between the European Union and the Eurasian Economic Union'; published in full in *Russia in Global Affairs*, November/December 2014.

5 China and the EU facing Eurasian integration: strategies and interests

5.1 Introduction

Since the beginning of the millennium, China's foreign policy has shifted away from Deng Xiaoping's 'low-lying' doctrine towards a proactive and 'responsible' global engagement. Today, China is engrossed in a vast array of new and often ambitious initiatives and projects, of which the development of a New Silk Road is the best known. China's new-found self-confidence and activism has resulted in a strategic focus on Central Asia, making the process of 'Eurasian' integration a central plank of Beijing's foreign policy. The contrast with the EU's approach to this region could hardly be starker; while Brussels may be geographically far removed from Central Asia, the 'psychological' distance is even greater. Where China considers Central Asia and the process of Eurasian integration as a core element of its ambition to tie China to Europe (and the West in general), the EU (and all its member states) seemed for a long time to consider this region a peripheral concern, an area of which they tend to know little and care (if that is possible) even less.

This chapter examines the approaches of China and the EU towards Central Asia and asks what role the latter region plays in the shifting balance of global power and in the context of competing regionalisms: Greater European, Eurasian and Greater Asian. Although the upsurge of Eurasian integration (and the Eurasian Union in particular) plays a role only in the background, the vast policy gap between China and the EU is worth sketching out, if only to indicate why Brussels needs to pay attention to a region that is bound to gain in strategic importance. It could also indicate the need for broader dialogue with China in those areas where EU and Chinese interests do not coincide with Russia's geopolitical and geo-economic aspirations, including in the EU's Eastern Neighbourhood.

5.2 Sino-Russian relations: shifting balance in the axis of convenience

The axiom 'geography is destiny' certainly holds true for Central Asia, a region wedged between two competing great powers: Russia and China. For almost 40 years, Moscow and Beijing have competed in an often hostile relationship. However, since the late

1980s, a more cooperative Sino-Russian liaison has developed, culminating in a multidimensional 'strategic partnership' based on a shared commitment to establishing a 'global multipolar order'. A common interest in 'soft balancing' against a (still) dominant West explains this 'axis of convenience',¹³¹ as well as the need (especially for China) to limit external pressures in order to focus on both countries' internal challenges. Sino-Russian relations do not add up to an emerging 'anti-Western, antidemocratic alliance', as predicted by some analysts.¹³² Instead, cooperation between these two great powers is pragmatic, and therefore bound to change if their strategic interests collide. The growing asymmetry in this relationship is likely to make this 'axis' less 'convenient', particularly for the poorer and most discontented partner, Russia. The ensuing growing tension between Russia and China would thus put significant strain on their 'partnership', which is also coming to the fore in their approach towards Central Asia and their commitment to the process of Eurasian integration. In this context, they are often referred to as newly found 'frenemies'.

Russia's dwindling political and economic weight stands in stark contrast to China's growing self-confidence and global reputation.¹³³ Russia has faced Western sanctions since the Crimean invasion and the conflict in Eastern Ukraine, putting a dramatic end to the illusion that Russia could become part of the developed and globalised 'West'. As referred to in Chapter 4, the fact that its economy and society have not been modernised has led Russia to retreat into its Eurasian heartland, keen to re-establish there its identity and power base and develop its own pole between the West and China in the new multipolar world it envisages. Lacking the (economic and military) resources to control its periphery,¹³⁴ Moscow is making its own 'pivot' towards Asia, developing its ties with China as a veritable economic and financial lifeline to prevent the collapse of the Putin regime.¹³⁵ Putin's (personal) 'special relationship' with President Xi Jinping has helped to improve ties. Moscow also uses its relations with China to strengthen its case that it is hardly isolated in global affairs, despite being shunned by the West. At the height of the Ukraine crisis (in 2014), a US\$400 billion energy deal was signed between

131 Lo, B. 2008. *Axis of convenience*, Washington, DC, Brookings Institutions Press.

132 Schoen, D.E. and Kaylan, M. 2015. '9 Ways China And Russia Are Partnering To Undermine The US', *Business Insider UK*, 21 January. <http://uk.businessinsider.com/china-and-russia-are-partnering-on-an-unprecedented-scale-2015-1?r=US> (accessed May 2015).

133 Umland, A. 2015. 'How Sustainable Is a Sino-Russian Entente?', *Silk Road Reporters*, 18 May. <http://www.silkroadreporters.com/2015/05/18/how-sustainable-is-a-sino-russian-entente/> (accessed May 2015).

134 Trenin, D. 2015. 'Japan's Eurasian Challenge', *JapanUpClose*, May 12.

135 Gabuev, A. 2015. 'A 'Soft Alliance'? Russia-China Relations After the Ukraine Crisis', *ECFR Policy Brief*, 10 February. http://www.ecfr.eu/page/-/ECFR126_-_A_Soft_Alliance_Russia-China_Relations_After_the_Ukraine_Crisis.pdf (accessed May 2015).

China and Gazprom, as part of a broader mutual commitment to double bilateral trade by 2020 (to US\$200 billion p/a).¹³⁶

Russia seems to have accepted the 'reversal of fortunes' between both countries and is now keen to tap into China's massive financial resources.¹³⁷ China has much to offer, ranging from the US\$40 billion Silk Road Fund to the Asian Infrastructure Investment Bank (AIIB) and the BRICS New Development Bank (NDB). Over the past few years, Russia has had to accept its *de facto* role as China's 'junior partner', which has major implications for both countries' Eurasian policies.¹³⁸ However, China's recent economic and financial problems, leading to a devaluation of the renminbi and a veritable downturn of the Chinese stock exchange, have cast long shadows over the prospects of Russia's new financial lifeline. How far this might also affect China's broader New Silk Road plans remains to be seen.

5.3 China and the Eurasian Union: cooperation before competition

From a Chinese perspective, the strategic weight of Central Asia has risen steadily. As China looks for resources and markets in its proximity, Central Asia is a logical area of interest, particularly as it also constitutes a major transit route in China's New Silk Road initiative.¹³⁹ China seeks to expand its global outreach while preserving domestic stability, and the proximity of resource-rich yet far-from-stable countries to its restive westernmost province of Xinjiang certainly adds to such relevance. China therefore no longer blindly acknowledges Russia's claim to geopolitical hegemony over the region, based on its nostalgic notion that these countries are part of the post-Soviet space. China has boosted its bilateral engagement with all Central Asian countries, and overall trade has increased from US\$460 million in the early 1990s to US\$46 billion in 2012. These ballooning ties involve lucrative energy deals (mainly infrastructure for oil and gas transit with Kazakhstan and Turkmenistan), which have caused unease and growing concern in Moscow. Although under strain, the Sino-Russian relationship is unlikely to escalate from tension to conflict over Central Asia. Two main reasons present themselves.

136 Yu, B. 2015. 'The Shanghai Cooperation Organisation, China and Eurasian integration', in eds. Dutkiewicz, P. and Sakwa, R., *op. cit.*

137 Trenin, D. 2012. 'True Partners? How Russia and China see each other', *Centre for European Reform*, 13 February. <http://www.cer.org.uk/publications/archive/report/2012/true-partners-how-russia-and-china-see-each-other> (accessed May 2015).

138 Shi, Z. and Yang, C. 2015. 'China's Diplomatic Efforts to Promote Energy and Resources Cooperation Along the 'One Belt and One Road'', *CIIIS Reports*, 27. http://www.ciiis.org.cn/english/2015-05/22/content_7927814.htm (accessed May 2015).

139 Pantucci, R. 2015. 'Central Asia: the view from China', *ISS Alert*, no. 3, 23 January. <http://www.iss.europa.eu/publications/detail/article/central-asia-the-view-from-china/> (accessed May 2015).

First, Sino-Russian relations have become embedded in several institutions, ranging from the BRICS to the Shanghai Cooperation Organization (SCO). The SCO is of particular importance here, as (on top of China and Russia) all Central Asian countries (apart from Turkmenistan) are members. Set up in 2001, the SCO is a truly Eurasian organisation, aimed at economic, political and military cooperation. Together with the BRICS, as well as the China-driven AIIB (Asian Infrastructure Investment Bank) and the NDB (New Development Bank), Russia has ample opportunities to benefit from China's financial resources within this growing web of new institutions.

Map 1 China's New Silk Road initiative



Source: *The Wall Street Journal*, 9 November 2014

Second, the New Silk Road project offers a unique opportunity to tie Russia and China together through Central Asia. This new 'economic belt' plan was first announced by President Xi during his 2013 visit to Astana (Kazakhstan) and has subsequently been branded by some as a new 'Marshall Plan' for Central Asia and a central plank of China's elaborate strategy to embed its massive economic and financial power within a multilateral and institutionalised setting.¹⁴⁰ For China, the New Silk Road project brings a wide range of immediate benefits, most notably the 'lock in' effect of a resource-

140 Tiezzi, S. 2014. 'The New Silk Road: China's Marshall Plan?', *The Diplomat*, 6 November. <http://thediplomat.com/2014/11/the-new-silk-road-chinas-marshall-plan/> (accessed May 2015).

rich region through massive infrastructure projects. The positive spill-over effects for China's border regions are also advantageous.¹⁴¹ Russia's challenge is to strike a balance between benefiting from China's economic power while keeping at least a semblance of influence over Central Asia through a more-or-less institutionalised process of Eurasian integration.

The Eurasian Union should be examined against this background, bearing in mind (but stopping short of embracing) the arguments put forward by those considering the Eurasian Union as a Kremlin-led geopolitical answer to China's alleged hegemonic threat in the region. While the Eurasian Union may not be a fully-fledged competitor to the SCO, it certainly offers an alternative framework for regional cooperation that excludes China. The Eurasian Union's Common External Tariff, ostensibly aimed at boosting intra-Eurasian trade, can be seen as potentially very detrimental to Chinese businesses in the region. Although these trade-diversion effects exist, they have hardly changed Beijing's rather unfazed attitude *vis-à-vis* the Eurasian Union.¹⁴² This *laissez faire* approach is testimony to China's self-confidence in the region, based on the understanding that even a beefed up Eurasian Union (which remains an unlikely prospect) will not challenge China's already consolidated position as the most important trade partner to all Central Asian countries (apart from Uzbekistan). Studies indicate that the (potential) negative trade impact of the Eurasian Union's external tariffs is more relevant to Central Asia than to China. For example, since Kazakhstan joined the Eurasian Customs Union (now part of the Eurasian Union), its economy has become more inward looking: overall trade with non-Customs Union members decreased, harming Kazakhstan's opportunities to climb on the much-discussed 'global value chain' through comprehensive ties with more advanced economies. Interestingly, Central Asia's trade with China did not seem to suffer; in fact, exports have increased steadily.¹⁴³ Furthermore, as energy matters are excluded for the time being from the Eurasian Union integration process, China does not seem to be overly concerned with the EEU. After all, energy is one of the most important elements in China's relations with Central Asia, and Turkmenistan (one of China's other providers of gas outside Russia) delivers a growing amount of gas directly and will most probably stay out of the Eurasian Union anyway, at least for the foreseeable future.

141 Brugier, C. 2014. 'China's way: The new Silk Road', *ISS Policy Brief*, no. 14, 16 May. <http://www.iss.europa.eu/publications/detail/article/chinas-way-the-new-silk-road/> (accessed May 2015).

142 'Why China is unfazed by Russia's creation of a Eurasian Union', *World Review*, 17 July 2014. <http://www.worldreview.info/content/why-china-unfazed-russia-s-creation-eurasian-union> (accessed May 2015).

143 Heal, A. and Mladenovic, T. 2014. 'Kazakhstan's membership of the Eurasian Customs Union: Implications for trade and WTO accession', *ARTNeT Policy Brief*, no. 39, June. <http://artnet.unescap.org/publications.html#first> (accessed May 2015).

This largely explains why Russia's ambitions in Central Asia seem non-threatening to China, mainly as they remain non-starters. Chinese analysts label Russia's approach an expression of an 'obvious backyard mentality',¹⁴⁴ characterised by lofty ambitions aimed at boosting Moscow's prestige as a great power, but devoid of real economic capabilities. Russia's aim to maintain its 'sphere of interest' in Central Asia is considered old-fashioned, and a reflection of Putin's one-dimensional, 'realist' worldview aimed at building a polarised and multipolar global order.¹⁴⁵ Instead, China has moved on, embracing the New Silk Road as a non-exclusive initiative built on 21st century concepts like complex interdependence. As one Chinese observer argued, China's most prominent Eurasian project is a 'synthetic cross-regional cooperation initiative', and a 'multivariate and open process' with win-win outcomes.¹⁴⁶ The contrast (and, only superficially, paradoxical incompatibility) with Russia's (Eurasian Union) approach could hardly be starker.

In order to avoid suspicions and a possible backlash from Russia, China performs a delicate balancing act, strengthening economic ties in Central Asia while not marginalising Moscow. On the eve of Russia's giant May 2015 Victory Day parade, Presidents Xi and Putin signed no less than 32 bilateral agreements, including the construction of the Moscow-Kazan high-speed rail line. Russia will also receive access to resources from the Silk Road Construction Fund (US\$40 billion), mainly to develop its agricultural sector. Both countries also agreed on the creation of an experimental agricultural free trade zone, as well as a 'roadmap' for Sino-Russian cooperation in Central Asia comprising both Eurasian Union and New Silk Road projects.¹⁴⁷ Most importantly, a joint declaration was issued on the coming merger of the Eurasian Union and the New Silk Road initiative, with the SCO as the primary institutional centre working towards the development of a Eurasian Union-China free trade area.¹⁴⁸ This last element is a clear concession from Russia, which until recently saw the SCO as a security organisation and was bent on excluding active cooperation in the economic sphere.

144 Shi, Z. and Yang, C., *op. cit.*

145 Kaczmarek, M. 2015. 'China and Russia: Two Approaches to Integration', *The Diplomat*, 30 March.
<http://thediplomat.com/2015/03/china-and-russia-two-approaches-to-integration/> (accessed May 2015).

146 Yang, C. 2015. 'The Eurasian moment in global politics: a comparative analysis of great power strategies for regional integration', in eds. Dutkiewicz, P. and Sakwa, R., *op.cit.*

147 Doulikina, I. 2015. 'Russie – Chine : le bond de sept lieues', *Le Courrier de Russie*, 25 May.
<http://www.lecourrierderussie.com/2015/05/russie-chine-bond-sept-lieues/> (accessed May 2015).

148 Gabuev, A. 2015. 'Russia-China Talks: Silk Road Leads To Eurasia', *Carnegie Moscow Centre*, 15 May.
<http://carnegie.ru/2015/05/15/russia-china-talks-silk-road-leads-to-eurasia/i8vo> (accessed May 2015).

These proposals (admittedly still only on paper) confirm China and Russia's shared strategic interests in Central Asia and their commitment to avoiding animosity and conflicts. For China, the stakes are high, as stability in the region is essential in order to realise the much-touted transit route to Europe. The EEU's Customs Union reduces the number of 'trade borders' between China and the EU to just two. It is, however, in doubt whether Russia will be satisfied with keeping these emerging structures of Eurasian cooperation 'geopolitically neutral', as China seems to desire. Were the EU to change its tack and aim for closer ties with China *and* this emerging, new Eurasian framework, Russia may well balk and attempt to drag China into a more anti-Western faction. In our view, China would probably resist such efforts, due to its broader strategic interests in cooperating economically and financially with the West. In a more positive scenario, the EU's engagement could encourage a new, more cooperative Russian strategy towards its Central Asian neighbourhood and, *ipso facto*, avoid a confrontation between trade blocs. This could work even better, as such cooperation would not demand fundamental political and economic reforms from participating countries (as would be the case with a DCFTA with EaP countries) and would play to Central Asian sensibilities in their striving for multi-vector approaches in international orientation. For the EU, this could include cooperating more closely with China on the New Silk Road initiative and working with the SCO, insofar as that organisation acquires a greater role in stimulating economic and financial cooperation between its (Asian) member states.

5.4 The EU, China and Central Asia: limited involvement vs vast ambitions

Until the early 1990s, most European countries regarded Central Asia as an 'enigma'.¹⁴⁹ The first *European Union* delegation in the region was opened in 1994 in Kazakhstan, followed by the launch of a range of EU technical assistance programmes (like TACIS) resulting in numerous Partnership and Cooperation Agreements (PCAs) with all countries in the region, from 1996 onward. Still, the EU's engagement with Central Asia remains modest, mainly due to a general lack of interest but also due to a lack of understanding of the region's geostrategic importance. Several factors have spurred a modest strategic rethink within the EU regarding Central Asia's relevance.

The region's oil and gas reserves have made the 'safe export of Caspian energy a policy priority for the EU'. In the aftermath of the 9/11 attacks, fears of a dangerous spillover from Afghanistan put Central Asia firmly on Europe's security radar. After the EU's eastward enlargements (of 2004-07), and the ensuing development of the EU's neighbourhood strategy (ENP), Central Asia gained the somewhat ambiguous

149 Fenton, F. 2015. 'State of Play: The EU, Central Asia and the ENP', in: *The Neighbours of the European Union's Neighbours*, eds. Gstöhl, S. and Lannon, E., Ashgate, London.

geopolitical status of ‘neighbour of the neighbours’, acquiring some prominence on the EU’s foreign policy agenda. In 2005, the first EU Special Representative for Central Asia was appointed, resulting in an EU Central Asian Strategy two years later.¹⁵⁰ In that Strategy, the EU (predictably) aimed to promote regional stability and prosperity via the ‘development and consolidation of stable, just and open societies’. Frequent references to human rights, the rule of law, and democracy disguised the lack of broader strategic thinking within the EU *vis-à-vis* Central Asia, especially when taking into account the limited resources dedicated to EU policies towards this region.

Fortunately, a one-size-fits-all approach towards the region was turned down, and a more tailored toolkit was developed akin to the EU’s ENP ‘differentiated bilateralism’ approach.¹⁵¹ Arguably, the Strategy was the first clear sign of the EU’s readiness to become a more active player in what was often called the ‘new Great Game’. For a postmodern power like the EU, this did not come naturally, and remains a process in its infancy. The very notion of geostrategic competition over a territory (in this case Central Asia) with Russia, China and (in the background) the United States, is far removed from the EU’s comfort zone, which hinges on notions such as ‘soft power’ and ‘climate leadership’.

The EU’s Council Joint Progress Report (of its Central Asia Strategy, in 2008) was full of praise for its dialogue-based initiatives, singling out Kazakhstan as a ‘model for future “contractual relations” with other Central Asian countries’.¹⁵² However, apart from dialogue and engagement, no concrete progress was made towards the EU’s normative goals of human rights and the rule of law. As a result, the Strategy was criticised as an impractical, fundamentally top-down, elite-driven scheme, full of conflicting and unworkable goals. Although the EU did address the complete pre-1994 ‘policy void’ with numerous documents and the appointment of ‘Special Representatives’, no coherent, truly strategic EU policy approach emerged that could match (let alone challenge) the role played by either Russia or China in Eurasia.

150 Council of the EU, *The EU and Central Asia: Strategy for a new Partnership*, May 2007. <http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2010113%202007%20INIT> (accessed July 2015).

151 Del Sarto, R. and Schumacher, T. 2005. ‘From EMP to ENP: What’s at Stake with the European Neighbourhood Policy towards the Southern Mediterranean’, *European Foreign Affairs Review*, 10(1), 17-38.

152 European Commission, 2008. *Joint Progress Report by the Council and the European Commission to the European Council on the implementation of the EU Central Asia Strategy*, June. http://trade.ec.europa.eu/doclib/docs/2008/october/tradoc_141166.pdf (accessed July 2015).

In 2015, another attempt was made at revitalising the EU's Central Asian Strategy.¹⁵³ The June European Council adopted a document that acknowledged the rapidly 'altering geopolitical situation' in the region and the need to deal with 'existing regional synergies' (whatever that might mean). It also mentioned the need to improve the EU's differentiated approach, implicitly questioning the EU's natural penchant to look favourably on all moves towards 'multilateralism'. The EU was set to strike a careful balance between differentiated bilateral ties with Central Asian countries and support (where necessary) for regionalism and (supra-regional) multilateralism. The new EU Special Representative Peter Burian suggested that the 'revised strategy provides increased engagement with the region through more flexible cooperation formats and a budget for bilateral and regional cooperation formats of more than €1 billion, an increase of 56%'.¹⁵⁴

Yet the 2015 Strategy retains many structural defects. The EU's objectives and priorities remain fundamentally unchanged ('fostering the stable, secure and sustainable development of the region'). It also remains vague on the geopolitical dynamics within the region and ignores crucial institutional innovations like the SCO and the Eurasian Union. As far as the latter is concerned, the lack of a stronger strategic drive on the part of the EU stems from a rather deliberate policy choice made by virtually all the institutional branches of the Union,¹⁵⁵ given the ongoing tensions over Ukraine. The Eurasian Union is mostly seen as a brainchild of the Kremlin and the EU is unwilling to go beyond the current framework of technical dialogue and informal cross-institutional (mostly EEAS [European External Action Service]-Commission) 'ontological' discussions, fearing the unwanted legitimising side-effects that any step towards more comprehensive multilateral initiatives could have. Quoting a senior EU official,¹⁵⁶ as things stand now, the Eurasian Union is a 'non-factor' on the EU agenda, with bilateral relations with Russia dominating the scene for the foreseeable future. Therefore, it should come as no surprise, that the Eurasian Union and its role in Central Asia have not been taken into account in the context of the EU's Central Asia strategy. Apart from expressing a greater interest in Central Asia, the EU's strategy remains inadequate to support Europe's interests (and values) in a region of growing importance and to explore new possibilities of working with China and other regional actors like Kazakhstan to overcome dividing lines and competing regionalisms.

153 European Council, 2015. *Council conclusions on the EU Strategy for Central Asia*, June.

<http://www.consilium.europa.eu/en/press/press-releases/2015/06/22-fac-central-asia-conclusions/> (accessed July 2015)

154 Quoted in Witte, M. 2015. 'Revised EU Strategy Increases Budget, Flexibility in Central Asia Relations, Says EU Rep', *The Astana Times*, 1 July. <http://www.astanatimes.com/2015/07/revised-eu-strategy-increases-budget-flexibility-in-central-asia-relations-says-eu-rep/> (accessed July 2015)

155 Interviews with EU officials, Brussels, Belgium, 1 July 2015

156 *Ibid.*

Since the establishment of formal diplomatic ties between the EU and *China* in 1975, a complex and multifaceted dialogue-based architecture has emerged.¹⁵⁷ The 1985 agreement dealing with trade and economic cooperation remains at its core and has been festooned with a wide variety of political, societal and cultural arrangements. The EU's relationship with China is lumbered with the same normative keel as Brussels' ties with Central Asia, that is, based on the hope that economic exchanges will foster open and democratic societies.¹⁵⁸ The current architecture hinges on three main 'high-level dialogues' involving economics and trade (since 2009), a strategic partnership (2010), and societal engagement (2012). These three pillars underpin all annual EU-China summits, whose prestige has been bolstered by the launch of a Comprehensive Strategic Partnership and the subsequent (and very ambitious) EU-China 2020 Agenda for Cooperation (both agreed in 2013).

In its official dealings with China, the EU manages to almost ignore the role and position of Central Asia. In none of the eight documents signed at the past EU-China summits is the question of 'Eurasia' given attention. Moreover, the SCO is not deemed important enough to merit mentioning, which questions the EU's understanding of the most advanced multilateral framework in the region.¹⁵⁹ In contrast, Beijing recently indicated the value it places on the interplay between the SCO and its New Silk Road initiatives. At the BRICS Ufa summit of July 2015, India and Pakistan were (after the green light given by China) accepted as new SCO member states, reported as proving 'to the rest of the world that SCO is a truly open and equal platform (...) not an exclusive and ambitious China-led "military alliance"'.¹⁶⁰

China's strategic thinking is, however, not matched by the EU and its member states. Clearly, Europe's elites remain largely Atlanticist in their strategic mentality and struggle to envision new approaches to the ongoing eastward tilt of the global balance of power. Given the broad strategic gap between the EU and China, it is hardly surprising that (even after four years of high-level strategic dialogues) the EU-China partnership has failed to produce anything beyond lofty statements garlanded by some marginal initiatives (such as anti-piracy cooperation).¹⁶¹ Also, China's engagement in Europe

157 EEAS, 2015. *EU-China Dialogue Architecture*, February. http://eeas.europa.eu/china/docs/eu_china_dialogues_en.pdf (accessed July 2015).

158 Soto, A. 2012. 'A Central Asian Dimension of EU-China Relations', *ISPI Analysis*, no. 130, July, 3. http://www.ispionline.it/it/documents/Analysis_130_2012.pdf (accessed July 2015).

159 Yee, A. 2009. 'Engaging Central Asia: the EU-Shanghai Cooperation Organisation (SCO) axis', *East Asia Forum*, 7 November. <http://www.eastasiaforum.org/2009/11/07/engaging-central-asia-the-eu-shanghai-cooperation-organisation-sco-axis/> (accessed July 2015).

160 Kucera, J. 2014. 'What Does Adding India And Pakistan Mean For The SCO?', *EurasiaNet.org*, 7 October.

161 Berkofsky, A. 2015. 'EU-China Security Dialogue: Rhetoric Versus a Very Different Reality' <http://cogitasia.com/eu-china-security-dialogue-rhetoric-versus-a-very-different-reality/> (accessed July 2015).

seems to go mostly unnoticed to the majority of EU policy makers. For example, China's economic and financial interests in EU member states (including in the context of linking Hungary and Greece to the New Silk Road) and developing economic interests in Ukraine (at least before the crisis), have drawn little interest, let alone offered a basis for consultation and cooperation.

5.5 Broader EU-China dialogue and cooperation in a new world (dis)order?

As long as Russia continues on its present course of forming its own competing regional form of integration and attempting to enlist China in its efforts to form a broader anti-Western coalition, the EU could do much more towards closer cooperation with China to at least alleviate some of the negative effects of these Russian policies:

- China's own broader New Silk Road project offers areas of economic and financial cooperation, not only in Central Asia but also in central and eastern European countries, where Beijing's interests have been explicitly signalled.
- The EU could do more to work with China in the context of multilateral organisations as well. Just as EU member states have been joining forces with China in financial organisations like the AIIB, the EU could attempt to work with China in stimulating economic and financial cooperation with the SCO and SCO member states. Depending on further developments in the SCO, the EU even could at some stage envisage becoming an observer in that organisation.
- In this context, the EU could also start promoting technical assistance to overcome divisions in trade relations and could work towards closer approximation of standards, avoiding new trade barriers between competing regional integration efforts. As China has a much greater interest in collaborating with the West, including in financial and economic organisations, than in lining up with Russia in an anti-Western coalition, this seems to offer some positive prospects. Even in Russia, the prominent geopolitical expert Sergei Karaganov has recently suggested working with the EU and China together in a broader, Greater Eurasian context.¹⁶²

162 Karaganov, S., 2015, 'A Eurasian Solution for Europe's Crises', *Project Syndicate*, 16 September.

6 The EU's Eurasian Union challenge: provisional and controllable

6.1 From tragedy to farce

Karl Marx famously argued that 'History repeats itself, first as tragedy, second as farce.' The history of East-West trade and institutional ties is replete with examples that substantiate this claim. Since the founding of the USSR in 1922, the debate in the West has swayed between fully-fledged engagement and containment, with a broad field of ad hoc and unprincipled policy schemes in between. British Prime Minister Lloyd George argued in the 1920s that political engagement with the Bolsheviks was opportune, as it would bring 'civilisation through trade'.¹⁶³ Many Western countries adopted the opposite approach, claiming that a policy of excommunicating and blackballing the USSR was the only moral choice. During the Cold War, a similar debate ensued about the pros and cons of West Germany's *Ostpolitik* and the US approach of containment.

Clearly, the West's relationship with Russia has moved forward – from tragedy to farce. Although Russia is hardly the ideological and military enemy of the (still recent) past, the echoes of the Cold War and the commensurate policy reflexes in both West and East, are clearly noticeable. From a Western perspective, it is largely undisputed that Russia (and President Putin in particular) is to blame for this return to the bad old days of mutual distrust and recriminations, combined with a mounting threat of a new arms race and proxy wars in Europe and beyond. Europe's extreme right and left argue that the EU is (at least partly) at fault for this new East-West conflict, as it has unwisely tried to interfere in Russia's immediate strategic vicinity by offering an Association Agreement (AA) to Ukraine. In Russia, that blame is squarely laid on the West, which is said to be insensitive to Russia's legitimate geostrategic interests, using calls for democracy and reform as the main instruments to instigate social unrest and regime change (through so-called 'colour revolutions'), and NATO and EU enlargement as strategies to encroach upon Russia's borders. Russia's annexation of the Crimea and its support for 'rebels' in Eastern Ukraine have become critical evidence of Russia's move away from Europe and the West. This raises the classical (Russian) question as to the West's approach towards Russia: *chto delat i kakim obrazom* (or 'what is to be done and how?').

163 Van Ham, P. 1991. *Western Doctrines on East-West Trade: Theory, History and Policy*, Basingstoke, Palgrave Macmillan.

This Clingendael report has examined Russia's motives and arguments for launching a new regional institution, the Eurasian Union. Against the historical background of many previous efforts to develop post-Soviet integration, the new Eurasian Union exemplifies continuity rather than change. The Eurasian Union should be considered as just another Moscow-driven initiative to keep as much control as possible over what it still considers to be its 'near abroad'. Up until now, the EU has always adopted a strategic approach of encouraging multilateralism across the globe, assuming that intergovernmental cooperation on a regional scale would contribute to stability and set the stage for improved global governance. For this reason, the EU has been keen to develop institutional ties with a flurry of world-wide collaborative efforts, ranging from the African Union and ASEAN to MERCOSUR. However, until now the EU has not developed a clear-cut approach to the Eurasian Union, partly because it is a very 'new' institution but mainly because the EU's take on the Eurasian Union is part of its overall approach towards Russia, Eastern Europe, Central Asia¹⁶⁴, and, to a lesser extent, China. EU policies have been publicly scrutinised (particularly the Eastern Partnership), but have yet to be revamped and/or replaced by other, hopefully better, strategies. Simply embracing the Eurasian Union as a *prima facie* regional organisation (even when it supposedly attempts to mirror the EU itself), will therefore not work. Furthermore, its character seems to differ fundamentally from regional integration efforts in other areas of the world. Therefore, any new approach towards the Eurasian Union will (or at least should) be embedded in a new, comprehensive EU approach towards its eastern neighbours and the 'neighbours of those neighbours' or, in an even broader framework, one that includes China as a strategic partner.

For the EU, as a global actor in trade and finance, the main aim should be to work towards bringing together competing 'regionalisms' and overcoming new dividing lines. As such developments are closely related to internal developments in other regional and national actors, the EU should continue to support those forces working towards greater convergence of trading and financial systems, especially when based internally on further developing the rule of law and externally on acting in full respect of legally binding international obligations, as set out in the framework of the WTO.

This report suggests possible elements of a new EU approach. However, we consider they will be effective only if they form part of a long-overdue strategic overhaul of the

164 In HR CFSP Mogherini's (leaked) Issues Paper on relations with Russia for the EU Foreign Affairs Council of 19 January 2015, the same doubts on the EEU are articulated: "...some level of engagement with the Eurasian Economic Union (EEU) has been suggested. Eurasian integration is a major foreign policy initiative and priority of Russia, but also has a direct impact on the scope of the EU's economic relations with Russia's integration partners, such as Kazakhstan, Belarus and Armenia. Geopolitical and other considerations also need to be taken into account, including the non-negotiable principle of free choice for all partners in the common neighbourhood"; see: <http://blogs.ft.com/brusselsblog/files/2015/01/Russia.pdf>.

EU's place, role and policies in a rapidly changing geostrategic global environment. The suggested elements should be reflected in the EU's new Security Strategy – which is to be adopted by the middle of 2016 – and in a new, more differentiated, approach to the European Neighbourhood Policy (taking also into account partner states' relations with the 'Neighbours of the Neighbours'). For the EaP countries, this would also include dealing with their continuing dependence in their energy, trade and labour relations with Russia, as indicated in our present report.

In this report we have touched only briefly on energy relations, as this is currently not an area in which the EEU as such is a real player, unlike some of its constituent member states. Furthermore, we have not dealt with some of the broader security and defence aspects, which are also not within the competences of the new Eurasian Economic Union, although we fully understand that in Russia's geopolitical mind-set everything is interconnected. However, such aspects should be dealt with in the EU Security Strategy, in synergy with the more economic elements of relations with the EEU and its member states mentioned here.

In outlining the three options that we envisage as possibilities for the EU in dealing with the Eurasian Union, we will also indicate the contribution each option could make towards a settlement of the present crisis around Ukraine.

6.2 Three options, one choice

As the EU's most important eastern neighbour, Russia will always have an impact on EU interests in the prosperity and security of its neighbourhood and the wider European and Eurasian continent. Against this background, the EU basically has three options in its approach towards the new Eurasian Union, depending on how it structures its relationship with this Russia-dominated organisation. These options would always feature a mix of cooperative and confrontational policy elements, depending on whether Russia is considered a (strategic) partner or an isolationist or even neo-imperial power.

The first option is a strategy of '**Full Engagement**' based on a new 'strategic partnership' between the EU and the Eurasian Union (and Russia). This would *de facto* amount to a Russia-first approach, as most official institutional ties are likely to be conducted with and through Russia and/or Russia-controlled institutions. The second, a strategy of '**Tentative Compatibility**', would shy away from a new, full partnership and would instead opt for an ad hoc and more technical relationship, keeping dialogue and options open for times when there would be a better perspective for closer engagement. The third option is that the EU could go along with Russia's narrative of emerging '**Competing Unions**', adopting a competitive (and at times even combative) stance towards the Eurasian Union, embracing a tough geopolitical approach and openly

ving for spheres of influence, even challenging Russia in its direct vicinity and *de facto* forcing countries to choose between the two regional integration processes.

A strategy of *Full Engagement* would accept the logic of Lloyd George and the proponents of old-style German *Ostpolitik* of the benefits of complex interdependence, assuming that Russia is simply too large and too important to be isolated and ostracised. It assumes that although Russia is clearly in the lead and the *primus inter pares* within the Eurasian Union, closer cooperation with the EU would still offer (and hopefully even expand) room for political manoeuvre of its other members. To some, it may be the better choice, as the EU (and the West in general) has very limited options to influence the foreign policy choices of Russia and other EEU member states, accepting the current strategic division as a *fait accompli*. A new partnership would certainly be considered as a very opportunistic approach, accepting that Russia is to be dealt with as it is rather than how the West prefers it to be¹⁶⁵. This would also imply acceptance of Russia's present internal regime, which is driven by a more isolationist and anti-Western course and neglects those voices inside Russia pleading for more open economic engagement with the world at large along the lines of the different Modernisation Partnerships concluded under President Medvedev. It would also mean accepting Russia's present position on its own 'spheres of (exclusive) interest/influence', including on Ukraine, along with refraining from actively supporting those Eastern Neighbours that are making a clear pro-European choice and striving for the adoption of a liberal-democratic system based on the rule of law. For Ukraine, the only way out would be to fully accommodate Russian economic (and political) demands, dropping any European and/or transatlantic aspirations and building a relationship with the Eurasian Union as a full member or at least as an 'observer'. It would accept the limits in the EU's capabilities to think and act 'strategically', realising that within the EU there are (too) many different priorities and interests that need to be aligned before a much-needed new, comprehensive strategic approach could be devised and implemented, and that such priorities (migration, consolidation of the Euro) are more important than a sustained confrontation with Russia, who is also needed as a partner in other areas, like the Middle East. Finally, it would seriously damage the credibility of the EU as a foreign policy actor – unable to influence policies even in the 'shared neighbourhood' and being forced to a *volte face* in its relations with Russia, after having abandoned its previous "strategic partnership" because of Russia's aggressive policies towards Ukraine.

Policies based on *Tentative Compatibility* accept these limitations within the EU (and its member states), and acknowledge that 'something needs to be done' swiftly, satisfying the essential need for a common approach even in the absence of such a strategic overhaul. One of the elements of such an approach would be to investigate whether

165 Support for policies fairly close to "full engagement" can be found e.g. in: Krastev, I., Leonard, M., 2014, 'The New European Disorder', *ECFR Essay*, 20 November.

(and how) countries in the 'shared neighbourhood' of the EU and Russia can keep their options open, choosing the best of both worlds, out of either economic necessity or political choice. This would be a 'no choosing, no losing' strategy for the EU, based on the assumption (which is not yet a given) that countries can have a DCFTA with the EU and still remain part of some broader framework in the East, like the CISFTA. This could only work if the EU and Russia were both willing to step up their commitments to lower the many hurdles that prevent the harmonisation of standards, and if they were willing to take other practical steps towards greater systemic approximation and even leave open the possibility of a greater convergence in the future. Such a predominantly 'technical' dialogue between the EU and the Eurasian Union could be politically feasible, even in today's dire geopolitical circumstances. Moreover, as the EU's Association Agreements, the EEU and the CISFTA are supposedly all working within the WTO's existing legal framework, technical compromises and working arrangements seem altogether possible if the political will is there to move forward, including on the economic aspects of relations between the EU, Russia and Ukraine. Such an arrangement could at least partially satisfy the needs of those in Russia and other EEU member states who see their interests being best served by modernising the economy and society in order to better take part in a modern, globalised world order. For the EU, this would also imply that the Eurasian Union (as another Customs Union) will not be the only new partner in dialogue, but that simultaneously a dialogue will be started with all countries (including Ukraine) participating in the CISFTA, with the aim of exploring possibilities of working towards a broader pan-European free trade area of some sorts. For Ukraine, this could mean a broadening of the playing field, wherein Russian influence is diminished and other large (and more moderate) partner states, like Kazakhstan, could also make their views better heard.

The third approach would accept Moscow's narrative of emerging *Competing Unions*, with the EU embodying the postmodern world of post-sovereignty and the EEU the 'old' world of geopolitics and spheres of interest. This option assumes that the EU and its member states would be able and willing to confront Russia head on, accepting that they lack 'hard' security escalation dominance if and when things got out of hand (in which case the EU would need to depend even more closely on NATO and the US as ultimate guarantors of hard security interests on the European continent). However, it would also be based (at least partly) on the presumption that economically Russia is the lesser (even declining) power that can be influenced by tough economic and financial sanctions to eventually mend its ways and change its present revisionist and protectionist course. It assumes that the coming years will most likely decide the new dividing lines on the continent, and that the EU has a small window of opportunity to use the current strategic fluidity in Eastern Europe to entice countries to lean westward and give full support (also financially) to their pro-European policies. This approach would also entail the EU taking much greater responsibility towards Eastern Partnership countries, providing them with full economic and financial support in making the reforms work and reorienting their economies in a westward direction. As for Ukraine,

it would mean full acceptance of Kyiv as a European partner, potentially even offering EU membership in the longer term. Inevitably, this approach would lead to growing enmity with Russia – as Moscow would certainly enact retaliations against Ukraine and other pro-European states, seriously hampering their economic and energy security prospects, and possibly influencing in a negative way cooperation with the EU on other issues of common concern (like Syria, Iran, fighting Jihadism, etc).

We suggest that, on the basis of the pros and cons of the three options, **the EU has only one viable choice – a strategy of Tentative Compatibility**, based on the search for greater room for manoeuvre within the remit of technical cooperation initiatives. This could gradually lead to broader cooperation, depending on Russia's readiness for such an engagement (based on international law) in a more global context. In the meantime, options should be left open as much as possible and no irreversible decisions should be made over a future global configuration characterised by closed regional trading blocks. The idea is basically to keep the EU united and play the long game with Russia, displaying strategic patience and waiting for Russia to return to a more cooperative position, based on greater convergence between the two systems concerned. There is no reason for the EU to try to forge a normative compromise with Russia based on a sell-out of its own principles concerning an international world order based on respect for the sovereignty and territorial integrity of independent states and international legal obligations in general.

6.3 Overcoming strategic purgatory in a shared neighbourhood

As our analysis of the case of Ukraine indicates, it remains complicated to keep strategic options open and maintain a balance between two free trade-cum-customs unions as offered by both the EU and the Eurasian Union. When Ukrainian President Yanukovych, as most previous Ukrainian presidents had done before him in a similar multi-vector approach, tried to do exactly that, it eventually resulted in his downfall and set the dramatic process in motion of his country's discomfiture, as Russia had already formed its reinforced policy towards the 'near abroad': countries had to make an either-or choice between two fundamentally incompatible competing integration projects. The EU seemed to somewhat echo this narrative when European Commissioner Stefan Füle stated that, 'You cannot at the same time lower your customs tariffs as per the DCFTA and increase them as a result of the Customs Union membership.'¹⁶⁶ However, for the EU, the possibility of combining free trade unions always remained open and Brussels never forced any country to sign an Association Agreement (*cum* DCFTA). Whereas Russia threatened other Eastern Partnership countries with sanctions and a withdrawal

166 Füle, S. 2013. *Statement on the pressure exercised by Russia on countries of the Eastern Partnership*, European Parliament Plenary, Strasbourg, 11 September.

of trading and energy benefits, the EU accepted without any major problems Armenia's choice of not signing the DCFTA and adopting Eurasian Union membership.

For the EU, it remains the priority to develop a flexible and differentiated set of policies towards countries now residing in this strategic purgatory, in between the blunt reality of strong (geo)economic ties with Russia and the (still tentative) political desire to join 'Europe' or 'the West', even though the political trajectory to the end goal remains vague and thorny. The EU has wisely (if slowly) been adopting such an approach in its Eastern Partnership, gradually accepting that each partner country has its own idiosyncrasies, good and bad, and its own relations with Russia, which still – to varying extents – matter. Effective policies need to be tailor-made, not one-size-fits-all. This conclusion can already be drawn from the consultations and discussions so far on a renewed **European Neighbourhood policy**, based on the joint paper by the High Representative for the Common Foreign and Security Policy (CFSP) and the European Commission presented in March.¹⁶⁷ Furthermore, in the context of a new neighbourhood policy, possibilities could be explored for developing some multilateral regional platforms as well, which could engage interested 'neighbours of the neighbours', including Russia and Kazakhstan (and maybe even China).

Should this not work, another option might be for EU member states to raise the security implications of diverging regionalisms in Europe in the context of the OSCE's (Organization for Security and Co-operation in Europe) second pillar of economic and environmental security. This could also give more impetus for a broader discussion, involving all European and transatlantic partners, and would fit into the present discussions about renewed relevance of the OSCE.

Such flexibility should also be extended to the EU's approach towards the EEU and other multilateral frameworks like the CISFTA as well. A few examples highlighting some of the ongoing trends in EEU countries, and how they resonate with current debates in EU institutions and EU member states, would add further weight to our arguments in favour of the preferred more 'technical and less politicised option' (see table below for a summary). However, the big problem with this option (as with the others) is that it is Russia that is politicising the issue. There are clear limits as to how far technical answers can be given to political questions, as that ultimately depends on the willingness of the Kremlin to find a way out of its self-generated political quagmire.

Apart from a new multilateral track, the EU could also reinforce its bilateral approach towards EaP and EEU member states alike. As emphasised throughout this report, virtually all **Eurasian Union members** aside from Russia have, to varying degrees,

167 European Commission and HR of the EU for Foreign Affairs and Security Policy, *Joint consultation paper: Towards a new ENP*, March 2015.

been following a multi-vector foreign policy, keen on reaping the maximum amount of the unquestionable benefits stemming from doing business with the EU without triggering the retaliatory ire of Moscow. Indeed, they are generally willing to find policy arrangements to sidestep the objective incompatibility between the two (EU and EEU) Customs Unions and to retain as many options as possible to develop closer forms of cooperation and even systemic economic convergence at a later stage. In the case of **Armenia**, despite the last-minute turnaround against the DCFTA, Yerevan is nevertheless still showing its openness to strengthening its 'technical' ties to the EU, and experts and practitioners on both sides have been calling for the drafting of a new agreement between the EU and the Caucasian country. Such an agreement would take the form of an 'AA-minus', that is an Association Agreement leading to an FTA devoid of all the 'deep and comprehensive' (i.e., politically more sensitive) provisions. According to competent officials, the EU has completed a so-called 'scoping exercise' for a future agreement and negotiations are due to start as soon as possible. The discussion over the AA-minus provides evidence in favour of the technical compatibility strategy, which falls short of full engagement but at the same time rejects the dangerous (especially for the smaller Eurasian Union members) logic of Competing Unions. Similarly, the recently initialled enhanced PCA between the EU and **Kazakhstan** falls within the remit of a strategy seeking to selectively deepen bilateral relations, in line with the 'compatibility' option outlined above.

Moreover, improved technical compatibility might also be acceptable to **Russia** itself, as it could in the longer term leave open the option of a 'Greater European FTA' that, as proposed earlier by (then Prime Minister) Putin, could stretch 'from Lisbon to Vladivostok'.¹⁶⁸ That would especially be the case if, in the longer term, 'pro-modernisation' forces among Russian elites regained some of their earlier influence on decision making in the Kremlin. While the current geopolitical situation (also in light of the advanced transatlantic negotiations over the signing of TTIP) makes its realisation very unlikely, and would imply a fundamental change in Russia's present narrative of Competing Unions, it still seems to have some support among Russia's political and economic elite, although even one of its most prominent proponents, former Foreign Minister Igor Ivanov seems to have recently turned more pessimistic on its prospects.¹⁶⁹

168 Donahue, P. 2010. 'Putin Promotes Trade Zone From 'Lisbon to Vladivostok'', *Bloomberg*, 25 November. <http://www.bloomberg.com/news/articles/2010-11-25/putin-promotes-trade-zone-from-lisbon-to-vladivostok-update1> - (accessed August 2015).

169 For example, prominent think-tankers at RIAC (Russian International Affairs Council – see <http://russiancouncil.ru/common/upload/GreaterEurope17en.pdf>) and high-ranking political figures such as the Duma President Naryshkin and the Russian Ambassador to the EU Vladimir Chizhov (see <http://www.russianmission.eu/en/news/eurasian-economic-union-ambassador-vladimir-chizhovs-interview-euobserver>); see also: Ivanov, I., 2015, 'The Sunset of Greater Europe', speech at the 20th Annual International Conference of the Baltic Forum, 12 September.

Therefore, it could be argued that the extremely complex EU-Russian dialogue is being kept alive by more 'technical' discussions, leaving the broader and more political issues for later stages.¹⁷⁰

If the EU were to succeed in its discussions with Russia to broaden any dialogue between the EU and Eurasian Union to involve the other EEU member states on an equal footing, it would also address some of the latter's concerns about Russian-dominance and might make Russia somewhat more receptive to their ideas. Ultimately, this would be a good test-bench of the EU's ability to simultaneously combine multilateral and bilateral policies.

As far as the **Brussels-based EU policy debate** is concerned, it is first of all important to underline how very few concrete steps have been taken so far with regard to any EU institutional initiatives towards the Eurasian Union. Still, the dominant 'pulse' among EU officials seems to be decidedly leaning towards a strategy of Tentative Compatibility. The EU is in no hurry to institutionalise any form of full engagement with Moscow-led initiatives, considering the very high degree of politicisation attached to Kremlin-relevant issues in the wake of the Ukraine crisis. Such reticence also stems from the fact that Eurasian Union members (apart from Russia) are among the fiercest critics of such an approach, as they want to retain as much negotiation independence as possible without being ensnared in a multilateral framework that would increase their foreign policy vulnerability to Russia. At the opposite end of the strategy spectrum, there is also very little appetite in Brussels for overt regional competition, which should not come as a surprise given how much the EU has at stake when it comes to its Russia policy. Unlike the United States, whose energy independence from Moscow allows it to focus on Russian initiatives from a predominantly security standpoint (and therefore, as stated by Hillary Clinton in 2012, to 'dismiss' the Eurasian Union as a neo-imperialist reconstitution of part of the Soviet empire),¹⁷¹ the EU and its member states have to take into account a much broader array of economic and financial interests, and have much to gain from a more open approach that could lead to greater convergence of the two regionalisms.

Overall, it looks as if the Europeans are slowly growing into a more 'Chinese' way of conducting their Eurasian policies (see Chapter 5), increasingly relying on technical pragmatism and targeted bilateral deepening of ties with each relevant country in the region. Building on this 'Chinese' Eurasian approach, a good way to further bolster the compatibility strategy would entail stepping up cooperation with the SCO, which is

170 Support for a pragmatic approach seeking to avoid all-out bipolar confrontation rather than striving for normative convergence can also be found in Ivanov, I. 2015. 'The Sunset of Greater Europe', *RIAC*, 17 September.

171 Clover, C. 2012. 'Clinton vows to thwart new Soviet Union', *Financial Times*, 6 December. <http://www.ft.com/cms/s/0/a5b15b14-3fcf-11e2-9f71-00144feabdc0.html#axzz3jLlkaFen> (accessed August 2015).

lacking so far (see Chapter 5.4 above). EU-SCO relations should undergo a thorough revision aimed at improving coordination and collaboration on sectoral (i.e., 'technical') issues, so as to add a valuable multilateral platform to the range of engagement instruments at its disposal in the region. The facilitating role of the SCO could prove all the more significant in light of the recent 'softening' of Moscow's stance towards its expansion and economic upgrade, therefore further increasing its potential for the enhancement of EU 'actorness' in Eurasia.

This could be one of the elements of a more strategic discussion with China, aimed at closer cooperation with Beijing's New Silk Road initiative and based on Chinese interests in closer financial and economic cooperation with the EU, EU member states and even some Eastern Partnership countries. If the EU could ensure some role for China in any multilateral format of a renewed Eastern Partnership, China could in return give the EU a seat at the table (as an observer) in the SCO, to be centred less on security cooperation and more on economic and financial cooperation. By broadening the playing field to discuss issues in a Greater Eurasian context, ways could be explored to prevent any wider divergence between competing regionalisms. Such competition and confrontation might in the short term be in Russia's interests; they are certainly in neither EU nor Chinese interests.

Although most **EU member states** remain discreet about their preferred approach towards the newly emerged EEU, most signals indicate that a strategy of Tentative Compatibility is both feasible and likely. For example, during her speech at the 2015 World Economic Forum in Davos, German Chancellor Angela Merkel argued that **Germany** was 'ready to open talks about possibilities for co-operating in a collective trade area'. Germany's Minister for Economic Affairs and Energy Sigmar Gabriel further underscored the value of such a technical offer as a Western bargaining chip in ongoing negotiations with Russia.¹⁷² However, there are still fundamental doubts as to when the Kremlin will start to look at the present crisis from a more economic and financial perspective. At present, everything seems to be viewed through the prism of keeping the regime in power and any economic or financial argument appears to be trumped by security considerations. Maybe, in the longer run, sanctions and a continuation of slumping oil prices will force a fundamental Kremlin rethink. As things stand now, any discussion should be informal, technical and aimed at keeping options open for future renewed engagement.

172 'Merkel and Gabriel offer Russia free-trade agreement', *Deutsche Welle*, 23 January 2015. <http://www.dw.com/en/merkel-and-gabriel-offer-russia-free-trade-agreement/a-18211951> (accessed August 2015).

Support for more pragmatic dialogue with the EEU, Russia and EEU member states could also resonate in the **Netherlands**, the country that will hold the EU's rotating presidency in the first half of 2016. It would fit in with the present Dutch approach towards Russia, which combines a tough line on sanctions and reassurance of Central/Eastern European NATO partners with keeping open channels of communication and selective dialogue and engagement. It is also in line with the outcome so far of debates within the EU on Russia policy, a new Eastern Partnership and the new Central Asia strategy. What is still lacking is a broadening of the debate to discuss Greater Eurasian issues with Asian partners (first and foremost China) as well. That could be a separate building block for the EU's renewed European Security Strategy, to be agreed during the Dutch presidency next year.

Table 3 EU strategies towards the EEU

	FULL ENGAGEMENT	TENTATIVE COMPATIBILITY	COMPETING UNIONS
MAIN TENETS	<ul style="list-style-type: none"> – Complex inter-dependence scenario – Russia as a <i>primus inter pares</i> in Eurasia 	<ul style="list-style-type: none"> – Technical cooperation – Deepening of bilateral ties with EEU members 	<ul style="list-style-type: none"> – 'Spheres of influence' logic – Direct confrontation between postmodern EU and geopolitically 'old' EEU
MAIN POLICIES	<ul style="list-style-type: none"> – Development of a comprehensive EU-EEU strategic partnership 	<ul style="list-style-type: none"> – AA-minus – Enhanced PCAs – Free trade areas – Improved EU-SCO cooperation 	<ul style="list-style-type: none"> – Expansion of the CU – AAs/DCFTAs
ADVANTAGES	<ul style="list-style-type: none"> – Makes up for EU lack of geopolitical clout 	<ul style="list-style-type: none"> – Geopolitically viable – Best cost/benefit ratio – Improves EU 'actorness' 	<ul style="list-style-type: none"> – Conveys a 'strong' image of the EU
OBSTACLES	<ul style="list-style-type: none"> – EEU members are against – Damages the credibility of the EU as an actor 	<ul style="list-style-type: none"> – Difficult to decouple the technical side from the political implications of the issues 	<ul style="list-style-type: none"> – Dangerous for EEU (and EU) members (Russian retaliation) – EU unlikely to win in a new Great Game
EFFECTIVENESS RATIO (Achievement of EU goals/Feasibility)	<ul style="list-style-type: none"> – Low/Low 	<ul style="list-style-type: none"> – Medium/Medium 	<ul style="list-style-type: none"> – Medium/Very low

In conclusion, it is fair to say that our call for Tentative Compatibility with the Eurasian Union is pragmatic, viable and cautious. In general, such qualities reflect values much prized by politicians, and for good reasons. Although the Eurasian Union may not be 'dead on arrival', there are certainly few indications that it will go some way beyond its political infancy. Most likely, President Putin or one of his autocratic colleagues will find

ways to suffocate the organisation with bureaucracy and block its efficacy with national recalcitrance. This we know and can reasonably expect.

Still, in the coming years the EU will have to deal with the reality of the Eurasian Union's existence, using the few opportunities it offers for the EU's benefit and limiting its disadvantages. Full engagement is politically inopportune and strategically unwise; it would simply make the EU appear untrustworthy and would consolidate Russia's hold over its 'near abroad'. The EU should equally avoid a future of Competing Unions, not only because there are unlikely to be real winners in a new Great Game but also because the EU is notoriously bad at engaging in geostrategic competitions, due to its postmodern (and hence anti-realist) disposition.¹⁷³

Over the next few months, the EU and its member states should instead devise policy options in the context of both a renewed Eastern Neighbourhood policy and a more strategic engagement with China, which could at least partly bridge the gaps between the emerging competing regionalisms and ensure that options are kept open for closer cooperation and convergence in future. A smart combination of broader multilateralism and a more focused bilateral approach might just do the trick.

173 Interestingly, pro-compatibility views are also promoted by some US pundits arguing in favour of a compromising deal between Russia and the West, for the sake of short-term stability and peace, and in light of Moscow's long-term weakness. Such a deal would essentially shelve some of the West's more politically sensitive interests (e.g., NATO backing off from any expansionary projects in Eastern Europe, gradual lifting of the sanctions, etc.), and would entail proactive EU-Russia cooperation on the issue of compatibility between Ukraine's participation in both the EU and EEU projects (for further details see O'Hanton, M. and Shapiro, J. 2014, 'Crafting a win-win for Russia, Ukraine and the West', *The Washington Post*, 7 December).

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List of abbreviations

AA	Association Agreement
AIIB	Asian Infrastructure Investment Bank
BRICS	Brazil, Russia, India, China and South Africa
CFSP	Common Foreign and Security Policy
CIS	Commonwealth of Independent States
CISFTA	Commonwealth of Independent States Free Trade Area
CU	Customs Union
DCFTA	Deep and Comprehensive Free Trade Agreement
EaP	Eastern Partnership
EEU	Eurasian Economic Union
ENP	European Neighbourhood Policy
EU	European Union
EurAsEC	Eurasian Economic Community
NDB	New Development Bank
OSCE	Organization for Security and Co-operation in Europe
PCA	Partnership and Cooperation Agreement
SCO	Shanghai Cooperation Organization
WTO	World Trade Organization