

## The Customs Union and Eurasian Union: A Primer

*Richard Weitz*

Since becoming Russia's paramount political leader in the late 1990s, Vladimir Putin has consistently sought to place Moscow at the head of a multinational bloc of tightly bound former Soviet republics within an integrated legal and institutional framework. Ideological and pragmatic considerations have motivated Putin's integration drive. Some of these integration projects have proved more successful than others, but the general trend has seen narrowed but deeper integration over time. Russia appears to have benefited more than its partners from these projects, but determining precise costs and benefits is difficult since we are in the realm of counterfactuals, not knowing what developments might have occurred had countries pursued different policies. Now the Ukraine crisis could force Moscow to yet again modify its tactics, if not its overall strategy, in pursuit of Eurasian integration under Russian leadership.

### **Precursors**

The Commonwealth of Independent States (CIS), consisting of all the former Soviet Union (FSU) republics except for the Baltic countries, initially represented the most important Eurasian regional integration institution after the USSR's disintegration in 1991. The CIS initially played a useful role in facilitating a "civilized divorce" among its members. Putin himself praised the organization for "clearly help[ing] us to get through the period of putting in place partnership relations between the newly formed young states without any great losses and played a positive part in containing regional conflicts in the post-

Soviet area.”<sup>1</sup> After its first few years, however, the CIS has ceased exerting a significant impact on its members’ most important polices. Despite its lofty ambitions and the numerous economic, political, and security agreements its member governments signed, the CIS historically experienced difficulties securing implementation of many of them. While seeking to establish a common economic space for cooperation, including a free trade area and a FSU-wide customs union, the CIS never achieved sufficient supranational powers to compel compliance by the newly independent states. Perennial plans to reform its ineffective decision-making structures—most recently a collection of proposals adopted at the August 2005 summit—have failed to achieve much progress. By the 2000s, other FSU multilateral institutions began encroaching on the Commonwealth’s authority.

Beginning with Putin’s first presidential term, the Russian government has concentrated on pursuing deeper cooperation among those FSU countries most closely aligned with Moscow. For example, as discussed in detail in Pavel Baev’s contribution to this volume, Russia in May 2002 joined with Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Tajikistan in agreeing to transform the CST into a Collective Security Treaty Organization (CSTO).<sup>2</sup> Since then, the CSTO developed a comprehensive legal foundation and established several standing bodies: a Foreign Ministers Council, a Defense Ministers Council, the Committee of Security Council Secretaries, a secretariat in Moscow, a CSTO staff group, and the CSTO Collective Security Council, which consists of the members’ heads of state. The CSTO Permanent Council coordinates CSTO activities between sessions of the Collective Security Council. A CSTO Parliamentary Assembly Council also exists. In terms of military capabilities, the CSTO was designed to mobilize large multinational coalitions in wartime under joint command, but the recent focus of the CSTO has been on developing a Collective Rapid Deployment Force (CRDF), a high-readiness formation that engages in regular exercises, especially in Central Asia.

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<sup>1</sup> Vladimir Putin, “Annual Address to the Federal Assembly of the Russian Federation,” May 10, 2006, [http://www.kremlin.ru/eng/speeches/2006/05/10/1823\\_type70029\\_type82912\\_105566.shtml](http://www.kremlin.ru/eng/speeches/2006/05/10/1823_type70029_type82912_105566.shtml).

<sup>2</sup> V. Nikolaenko, “Collective Security Treaty: Ten Years Later,” *International Affairs* (Moscow), vol. 48, no. 3 (2002), p. 186.

Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan established a Eurasian Economic Community (EurAsEC; or EEC) in October 2000 after the CIS proved unable to achieve adequate economic integration or an effective customs union. Uzbekistan joined in 2006, while Armenia, Moldova, and Ukraine had observer status. The EurAsEC tried to align the economic and trade policies of the core countries that formed a unified Soviet economic system by reducing custom tariffs, taxes, duties, and other barriers to economic exchanges among them. According to the organization's website, the EurAsEC aims eventually to create a free trade zone, establish a common system of external tariffs, coordinate members' relations with the World Trade Organization (WTO) and other international economic organizations, promote uniform transportation networks and a common energy market, harmonize national education and legal systems, and advance members' social, economic, cultural, and scientific development. Its Interstate Council regulates trade and customs policies and coordinates national legislation. It also issues assignments and questions to the Integration Committee and the Court of Justice of the Community. The Interstate Council appoints a Secretary General as the organization's chief administrator. That person heads the Integration Committee's Secretariat, which drafts and analyzes resolutions and other communications issued by the Interstate Council. The Secretariat has departments for Economic Policy; Trade Policy; Budget, Taxation Policy and Currency; Finance Relations; Energy Policy and Ecology; Transport Policy and Market Infrastructure; Customs and Border Issues; Development in the Socio-Humanitarian Sphere; Legal; Logistics and Analytical; and Administration. The EurAsEC itself includes three specific Subsidiary Bodies: the Council on Border Issues of the EurAsEC Member States; the Financial and Economic Policy Council of EurAsEC Member States; and the Council of Ministers of Justice of EurAsEC Member States. The Integration Committee can convene meetings of various councils and commissions as needed, including an Education Council, a Council of Heads of Tax Services, a Healthcare Council, a Social Policy Council, a Culture Council, a Migration Policy Council, a Commission on Customs Tariff and Non-Tariff Regulation, and a Commission for Protection of the Internal Markets of EurAsEC Member States. The EurAsEC Commission of Permanent Representatives consists of members appointed by each EurAsEC government. The Commission acts as a go-between for the Community and each member and assists in the coordina-

tion of the other committees and subsidiary bodies. It also manages the EurAsEC's relations with countries having observer status within the Community as well as with other non-member countries and international organizations. The Interparliamentary Assembly (IPA) aims to coordinate members' national legislation and create a common legal foundation for integration. The IPA is composed of representatives delegated from the parliaments of each member. Russia has 42 representatives in the IPA, Belarus and Kazakhstan each have 16 delegates; and Kyrgyzstan and Tajikistan each have 8 parliamentarians. The IPA Bureau, consisting of two representatives from each member state, adopts resolutions by consensus and holds at least two meetings each year.<sup>3</sup> But the EurAsEC has proven to be a less effective institution than the CSTO. In particular, the EurAsEC's economic integration efforts have lost steam and failed to create effective multinational regulatory bodies.

### **The Eurasian Customs Union**

At the October 2007 session of the EurAsEC Intergovernmental Council in Dushanbe, Belarus, Kazakhstan, and Russia agreed to establish a trilateral Customs Union (CU) that would coordinate their economic, currency and migration rules on the basis of WTO principles.<sup>4</sup> The other three EurAsEC members—Kyrgyzstan, Tajikistan, and Uzbekistan—were excluded from the initial organization due to their low levels of economic development, though the first two countries have since expressed interest in joining. The members have since abolished many trade tariffs and customs controls between them while establishing some common tariffs against imports from non-member countries. The first phase of the CU began on January 1, 2010, with the introduction of a uniform external tariff based primarily on the tariff rates then prevailing in Russia. The members also abolished most internal duties and customs controls between their countries, creating free movement of goods. Furthermore, they agreed to allow their citizens freedom to travel among these countries carrying only an internal passport. On May 19, 2011, the CU parties signed a treaty that integrat-

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<sup>3</sup> EurAsEC, "EurAsEC Today," [http://www.evrazes.com/i/other/EurAsEC-today\\_eng.pdf](http://www.evrazes.com/i/other/EurAsEC-today_eng.pdf).

<sup>4</sup> "Russia, Belarus, Kazakhstan sign agreement moving closer to customs union," *Associated Press*, October 6, 2007, [http://www.iht.com/articles/ap/2007/10/06/asia/AS-GEN-Tajikistan-Ex-Soviet-WT.mc\\_id=rssap\\_news](http://www.iht.com/articles/ap/2007/10/06/asia/AS-GEN-Tajikistan-Ex-Soviet-WT.mc_id=rssap_news).

ed the WTO commitments of each party into the CU, which became especially important after Russia joined the WTO in 2013. While the Customs Union acts in many areas beyond the WTO, the latter's rules override any CU obligations when they conflict. The Court of the Eurasian Economic Community can resolve trade disputes among CU members. Since Russia's WTO accession, the EurAsEC Court's jurisdiction has expanded to include advising on whether a CU act violates WTO rules.<sup>5</sup>

On November 22, 2011, outgoing Russian President Dmitry Medvedev, Kazakhstani President Nursultan Nazarbayev, and Belarus President Alexander Lukashenko formally signed an agreement to integrate their economies into a Common Economic Space (CES). When the CES took effect on January 1, 2012, it had a combined population of 170 million people. They further created a Eurasian Economic Commission (EEC) as an executive body to manage the integration process. For example, it will have a special court for settling disputes.<sup>6</sup> The Commission consists of nine members, three from each country, one of whom serves as the chairman. The Commission decides its own budget, monitors implementation of legislation, and can refer violations to the Court. The 2011 Treaty also replaced the Customs Union Commission with a Supreme Eurasian Economic Council, which is a "regulating body" to support the functioning and development of the CU and CES. The Council ensures implementation of international treaties, issues non-binding instruments as recommendations, and has almost 200 areas of competence, ranging from customs, tariffs, non-tariff regulations, macroeconomic policy, energy, migration, and other policy areas. Whereas the Customs Union is predominantly intergovernmental, the Eurasian Economic Union is governed by supranational institutions. The Council engages with public bodies and agencies through Sectorial Advisory Committees in key areas such as on trade, technical regulation, taxation policy, etc.). It also works directly with business leaders and enterprises. A major task this year is to codify all relevant international agreements and legal documents

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<sup>5</sup> Office of the United States Trade Representative, "Report on Russia's Implementation of the WTO Agreement," <http://www.ustr.gov/sites/default/files/Russia-WTO-Implementation-Report%20FINAL-12-20-13.pdf>.

<sup>6</sup> Nino Evgenidze, "Threats of the Eurasian Customs Union on the way to European Integration: Georgian Perspective," *Open Society Georgia Foundation*, 2013, [http://www.osgf.ge/files/2013/publikaciebi%202013/Evrokavshiri\\_Eng.pdf](http://www.osgf.ge/files/2013/publikaciebi%202013/Evrokavshiri_Eng.pdf).

before the Eurasian Union enters into force, which is scheduled for January 1, 2015.

### The Eurasian Union

Although it has been several years since then Prime Minister Vladimir Putin first called for creating a “Eurasian Union” during his campaign to return to the presidency, there remains much uncertainty surrounding the Eurasian Union, even as its members are finalizing the treaty to launch the project next year. For example, the degree of functional integration and the geographical extent of the new union remain a work in progress. With respect to the former issue, Belarus, Kazakhstan, and Russia still differ on how much non-economic integration they want to see in a Eurasian Union. For example, in November 2013, Putin supported creating a Eurasian Union parliament, which has not been endorsed by the other members.<sup>7</sup> If Putin genuinely envisions a European Union-type alignment as a model, that would imply the need to create a single currency and an independent bureaucracy to administer and enforce the agreed rules and common economic policies. But Nazarbayev has insisted that the Eurasian Union would remain focused on economic cooperation while respecting members’ sovereignty.<sup>8</sup> Belarus and Kazakhstan have a history of challenging Russian preferences when their vital interests are at stake. Lukashenko vigorously fought with Medvedev and other Russian leaders to gain critical economic concessions to Belarus, whereas Nazarbayev has pursued a multi-vector policy in which Kazakhstan has developed close ties with China, Europe, and the United States. Kazakhstan’s regional integration efforts also aim to strengthen the autonomy of Central Asian states from the great powers.

Whether the new Eurasian Union will have a military dimension depends on the relationship it develops with the CSTO. All the current and planned members of the Customs Union also belong to the CSTO, but some future ones may not. Even if all members belonged to both organizations, the two bodies may remain distinct, as the EurAsEc and CSTO have been despite their overlapping

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<sup>7</sup> “Creation of Eurasian Union parliament deemed possible,” *ITAR-TASS*, November 20, 2013, <http://en.itar-tass.com/russia/708233>.

<sup>8</sup> “Ukraine crisis not to impact Eurasian integration processes – Kazakh President,” *Voice of Russia*, March 25, 2014, [http://voiceofrussia.com/news/2014\\_03\\_25/Ukraine-crisis-not-to-impact-Eurasian-integration-processes-Kazakh-President-3396/](http://voiceofrussia.com/news/2014_03_25/Ukraine-crisis-not-to-impact-Eurasian-integration-processes-Kazakh-President-3396/) 2013.

membership. Yet, the experience of the European Union is that an integrated political-economic bloc often is driven to pursue a military dimension even when another body, NATO in the case of the EU, exists to fulfil that function. Security considerations at least partly drive Putin's integration plans, including a desire to promote an integrated military-industrial complex among the former Soviet republics and perhaps the wish to unite the eastern Slav Orthodox Christian and the moderate Muslims of Eurasia against Islamist extremism as well as the European and Chinese civilizations.<sup>9</sup>

In addition to the questions surrounding the new body's power and functions, the Eurasian Union's future membership remains an open question. In September 2013, the government of Armenia walked away from years of negotiations on an Association Agreement with the European Union, opting instead to seek to enter the Customs Union. Besides whatever Russian pressure it experienced regarding this decision, Armenia has developed close ties with Russia in many sectors, including energy security, economics, and trade. Armenia's membership roadmap into the Customs Union and the Single Economic Space was signed on December 24, 2013. In March 2014, Putin said that Russia, Kazakhstan, and Belarus should begin preparing a treaty for Armenia's entry into the Eurasian Union.<sup>10</sup> Nevertheless, Kazakhstan and Belarus have had reservations, not least regarding Armenia's unresolved conflict with Azerbaijan, and the implications of membership for Armenian-occupied territories in Azerbaijan.

The Kyrgyz Republic has shown more hesitation in joining the new arrangements. Like their Armenian counterparts, the Kyrgyz would like more Russian economic assistance. They would also like to see Moscow relax restrictions on Kyrgyz labor migration to Russia, an important source of remittances. Furthermore, ties with Russia can help balance China's growing economic presence in Kyrgyzstan. But Kyrgyzstan's economic development may be too low to allow it to join the Customs Union and the Single Economic Space anytime soon. The Kyrgyz authorities consider the integration roadmap offered to them unre-

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<sup>9</sup> Ariel Cohen, "Russia's Eurasian Union Could Endanger the Neighborhood and US Interests," Valdai Club, June 25, 2013, [http://valdaiclub.com/russia\\_and\\_the\\_world/59580.html](http://valdaiclub.com/russia_and_the_world/59580.html).

<sup>10</sup> "Putin: Armenia fit to join Eurasian Economic Union," Public Radio of Armenia, March 5, 2014, <http://www.armradio.am/en/2014/03/05/putin-armenia-fit-to-join-eurasian-economic-union/>.

alistically rapid and demand large subsidies, various rule waivers, and other concessions from the existing members before joining.<sup>11</sup> Since wages in Kyrgyzstan are lower than in Kazakhstan and Russia, harmonizing the prices of goods with those states may trigger new economic and political instabilities in crisis-prone Kyrgyzstan. Nonetheless, in mid-April, Prime Minister Joomart Otorbaev said that joining was the “right step” and would provide important economic and social benefits.<sup>12</sup>

### Assessment

Moscow’s various integration proposals result from both ideological and pragmatic considerations. Although Russian proponents of Eurasian integration deny that they are trying to recreate the Soviet Union, Putin famously described the collapse of the USSR as the “greatest geopolitical catastrophe of the 20th century” in a nationwide television speech in April 2005.<sup>13</sup> Former Secretary of State Hillary Clinton described the Eurasian Union as Putin’s plan to “re-Sovietize the region.”<sup>14</sup> A belief in “Eurasianism” may also be encouraging some Russian leaders to seek to establish a Eurasian civilization under Moscow’s leadership independent of European or Asian civilizations.<sup>15</sup> Putin has in recent years frequently criticized what he sees as Western moral decadence manifested in such areas as tolerance for homosexuality. A 19<sup>th</sup> century spheres-of-influence view may also be shaping Moscow’s response. After the 2008 war with Georgia, then President Medvedev explicitly said that Moscow wanted a “sphere of privileged influence” in the former Soviet space. Russians see having control over the former Soviet republics as an imperative given these countries’ geographic proximity to Russia. Moscow clearly wants to keep these states from

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<sup>11</sup> Victoria Panfilova, “The Customs Union is bursting but not expanding,” *Vestnik Kavkaza*, October 27, 2013, <http://vestnikkavkaza.net/analysis/politics/46840.html>.

<sup>12</sup> “Kyrgyz PM Says Joining Customs Union Is ‘Right Step’,” RFE/RL’s Kyrgyz Service, April 17, 2014, <http://www.rferl.org/content/kyrgyz-pm-says-joining-customs-union-is-right-step/25352983.html>.

<sup>13</sup> “Putin Deplores Collapse of USSR,” *BBC News*, April 25, 2005, <http://news.bbc.co.uk/2/hi/europe/4480745.stm>.

<sup>14</sup> “Clinton Calls Eurasian Integration An Effort To ‘Re-Sovietize’,” Radio Free Europe-Radio Liberty, December 7, 2012, <http://www.rferl.org/content/clinton-calls-eurasian-integration-effort-to-resovietize/24791921.html>.

<sup>15</sup> Dmitry Shlapentokh, “Russia’s Foreign Policy and Eurasianism,” *EurasiaNet*, September 1, 2005, <http://www.eurasianet.org/departments/insight/articles/eavo80205a.shtml>.



aligning with the West, but perhaps Russian leaders also see Eurasian integration as helping dilute China's growing presence in the region.

Regardless of ideology, Russian policy makers have good reason to want to promote deeper integration within the former Soviet space. Due to their decades-long membership in the former Soviet economic system, the former Soviet republics share deep interdependencies between their national economies. Soviet planners would design plants and transportation networks that transcended administrative boundaries, with factories in one republic supplying key inputs to another, and with highly mobile labor resources in which workers were reallocated geographically to optimize production. Many Russian enterprises still receive critical supplies, have important markets, and otherwise have critical ties with the other former Soviet republics. The Russian government has only partly succeeded in reducing these interdependencies for the most critical production processes, such as those related to national defense. In this regard, their geographic proximity and shared borders have also meant that Russian national security policies often treat the other republics as their first line of defense, or at least as buffer states, against threats to Russia's south—as well as possible forward operating bases for Russian power projection.

Seeing the world in starkly competitive terms, Russian policy makers want to augment their own power resources (land, natural resources, people, industry, etc.) with those of other states to enhance their global influence and status. From Moscow's perspective, the former Soviet republics are the easiest ones to assimilate given their close location, already extensive economic and social ties with the Russian Federation, and weak links with competing powers (the West, China, Iran, etc.). Closer to home, Russian integration proposals seemed especially aimed at reining in those former Soviet states that have thus far remained outside Moscow's control, such as Ukraine, which in March 2007 began negotiating an enhanced Association Agreement with the EU, to replace the Partnership and Cooperation Agreement established in 1998. Russian officials have pursued traditional "sticks and carrots" policies to rein in these countries. For example, they offered Ukraine economic assistance and other benefits if it joined the Customs Union, while warning that Russia would raise trade barriers and take other protective measures against Ukraine if it established a free trade agreement with the EU. In summer 2013, Russia placed sanctions on selected

Ukrainian goods when Ukraine was close to signing an EU Association Agreement, but immediately rewarded the Ukrainian government in November 2013 with \$15 billion in credits and a 30 percent reduction in the cost of Russian natural gas when Ukraine suspended signing the agreement. The Eurasian Union would expand the economic influence Russia gains from the Customs Union but also augments with “soft power” resources such as deeper cultural and other ties as well as perhaps more diplomatic coordination among members. With a smaller number of members than the CIS, all of whose governments are favorably disposed toward Moscow’s leadership, the CSTO, EurAsEc, Customs Union, and Eurasian Union are more effective instruments for advancing Russia’s regional priorities than the CIS. The legislative and legal framework for the recent integration is more substantial than previously. Whereas the CIS has generated hundreds of vague, fragmented agreements that often remain unimplemented, the Customs Code, the Codified Agreement on the Customs Union, and the SEC have more detailed legal parameters and more authoritative bodies to resolve conflicts that arise in implementation. Even so, Moscow still dominates decision making within these organizations. Within the EurAsEC, Russia enjoys a 40 percent share in the voting and financial rights, whereas Kazakhstan, Belarus, and Uzbekistan only have 15 percent each, while Kyrgyzstan and Tajikistan control merely 7.5 percent each.<sup>16</sup> Moscow’s dominance of the CSTO results from Russia’s having the most capable combat units and the presence of Russian officers in key command and staff posts. Russia dominates the decision-making process within the Customs Union due to its having a majority of votes. Some provisions of the Customs Union clearly benefit Russia. For example, all revenues derived from the export of Russian crude oil to member states must be returned to Moscow, including value-added profits on products that Belarus and Kazakhstan refine and sell themselves. A February 2013 World Bank Poverty Reduction and Economic Management Economic Premise found that the Customs Union “creates an opportunity for Russia to expand its exports and its presence in Central Asia at the expense of exports from other

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<sup>16</sup> Sergei Blagov, “Moscow Signs Series of Agreements within Eurasian Economic Community Framework,” *Eurasia Daily Monitor*, February 5, 2008, [http://www.jamestown.org/edm/article.php?article\\_id=2372777](http://www.jamestown.org/edm/article.php?article_id=2372777).

countries, such as the European Union and China.”<sup>17</sup> Thanks to their interconnections and overlapping membership, Russia can leverage these linkages to advance its cross-cutting regional economic and security interests in Eurasia.

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<sup>17</sup> “What Promises does the Eurasian Customs Union Hold for the Future,” *Poverty Reduction and Economic Management Paper*, World Bank, February 2013, <http://siteresources.worldbank.org/EXTPREMNET/Resources/EP108.pdf>.