

Kazakhstan and Belarus: Buyer's Remorse?

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During his April 25, 2005 annual state of the nation address to Russia's Duma, Russian President Vladimir Putin noted, "First and foremost it is worth acknowledging that the demise of the Soviet Union was the greatest geopolitical catastrophe of the century."¹ Operating on this assumption, Putin has assiduously promoted political, economic and military ties between Commonwealth of Independent States (CIS) nations and advanced the Eurasian Customs Union (ECU) as being the prime mechanism for achieving increased fiscal collaboration, just as the Collective Security Treaty Organization (CSTO) is in military relations.

The original goal of creating the CIS was to ensure the sovereignty of the individual republics, but in the chaos of the USSR's breakup it became evident that the CIS signatories assumed that political independence could be accomplished without sacrificing a "unified economic space." Many of the *ad hoc* CIS arrangements were intended to coordinate monetary, customs, employment, tax, and investment policies. This occurred, however, as the new nations coped with innumerable economic issues related to the collapse of the USSR's centrally planned economy, including hyperinflation, disruption of traditional inter-republic trade, the search for new markets and the transition to freer market economies while attempting to establish autarkic national economies. These economic realities emerged with the Soviet successor nations quickly finding themselves at odds on a wide range of trade and security issues as they moved toward the market at different speeds with differing agendas, creating economic and political policy asymmetries and incipient conflicts with their CIS neighbors.

¹ "Poslanie Federalnomu Sobraniu Rossiyskoi Federatsii" [Address to the Federal Assembly of the Russian Federation], Moscow, April 25, 2005.

Fourteen years after the collapse of the USSR Putin remarked, “The CIS never had any super-tasks of an economic nature, any integration tasks in the sphere of economics.”² Nevertheless, since 1999 Putin has assiduously promoted closer economic ties between the USSR’s former republics.

Prior to the 2007 establishment of the ECU, there had been several largely ineffectual attempts to integrate the economies of the post-Soviet states. In September 1993, Russia proposed the Economic Union, a full Economic Union loosely modeled on the EU, to be achieved in progressive stages and to include all former Soviet republics save the Baltic States. In 1995, Russia proposed a Customs Union including Belarus, Kazakhstan, and Russia, the precursor of the ECU. In April 1996, Belarus and Russia became a Union state (originally, the Commonwealth of Belarus and Russia). In 1998, there was the attempt to create a Customs Union and Common Economic Space including Belarus, Kazakhstan, Kyrgyzstan, and Russia.

In 2000, Russia, Belarus, Kazakhstan, Kyrgyzstan, and Tajikistan founded the Eurasian Economic Community (EurAsEC). For Russia, Belarus and Kazakhstan, the EurAsEC would eventually provide the impetus for creating the ECU. In 2003, a Single Economic Space (SES) including Belarus, Kazakhstan, Russia and Ukraine was created. In the interim, Russia, Belarus and Kazakhstan signed a treaty establishing the ECU on October 6, 2007.

Three years later, the ECU took effect on January 1, 2010, and most tariff barriers were removed by July 2011 when the ECU Customs Code (ECU-CC) took effect. On January 1, 2012, the second stage of integration opened as the SES, or “the Customs Union and the Uniform Economic Area of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation” was officially adopted. In January 2015, the SES and the ECU will be formally combined and renamed the Eurasian Economic Union (EEU). Russia views both the ECU and EEU as vehicles for reintegrating the post-Soviet space, eventually including the former Soviet protectorate Communist countries that now fall within the sphere of the EU’s eastern neighborhood. Russia highlights the ECU’s and EEU’s economic benefits, whose ambitious institutional framework is explicitly modeled on the EU while offered as a modernizing alternative to it.

² “Press-konferentsiia po itogam rossiisko-armyanskikh peregovorov,” [“Press Conference following Russian-Armenian talks”], Erevan, March 25, 2005.

Eurasian Customs Union Impact on Economy

The ECU's economic potential is significant, as it represents a market of 165 million people, and a combined GDP of around \$2.3 trillion and an annual goods turnover of approximately \$900 billion.³ Russia accounts for 86 percent of the ECU's GDP and 84 percent of its population. Kazakhstan accounts for 8 percent of GDP and 10 percent of the ECU population, while the Belarusian economy and population both amount to approximately 5 percent of the total.⁴

In its *2012 Transition Report*, the European Bank for Reconstruction and Development listed probable short and long-term benefits of ECU increased regional economic integration. Accordingly, lower tariffs and the removal of Non-Tariff Barriers (NTBs) should increase trade and broaden consumer choice; increased market size would benefit producers within a regional integration grouping; exports would be expanded worldwide; and ECU member states would build cross-border production chains through leveraging one another's comparative advantages and subsequently exporting finished products beyond the ECU. Further, deeper ECU regional integration would assist member states in strengthening their economic and political institutions, while ECU integration could encourage the liberalization of service markets.⁵ Another notable element of the ECU is that citizens of the member states can work legally on the territory of one another's countries.

While the Russian and Belarusian media assiduously promote the ECU, in Kazakhstan questions have been raised about the disparities between the ECU member states' economies and populations. In May 2013 Kazakh political scientist and economist Mukhtar Taizhan advocated during an interview that Kazakhstan hold a referendum on withdrawing from the ECU, observing, "The sizes of the economies are very different. Russia's economy is 14 times larger than Kazakhstan's economy, with ten times the population. The Kazakh market

³ Francisco G. Carneiro, "What Promises Does the Eurasian CU Hold for the Future?," World Bank, February 2013, Number 108.

⁴ Arevik Mkrtchyan and Hinnerk Gnutzmann, "Mutual Protectionism? An Assessment of the Eurasian CU," European Trade Study Group, 2012, p.6.

⁵ Transition Report 2012: Integration across Borders, London: European Bank for Reconstruction and Development, 2012.

is only 7 percent the size of Russia's. It's like letting a schoolboy and a professional boxer into the ring."⁶

In the ECU's mutual trading relationships, energy resources are by far the most important export products, accounting for almost 50 per cent of the total exports, with machines, vehicles, chemical and metallurgical products being the second most important, followed by agricultural products.⁷

Highlighting concerns raised in the Kazakh media about the potential negative consequences of ECU membership, one of the most immediately noticed impacts of the implementation of the ECU was the rise of the import tariffs in Kazakhstan, as Kazakhstan's tariff structure was much lower than in Russia before the country joined the ECU. The direct impact of a higher external tariff on Kazakhstan and Belarus caused a substantial increase in the imports from Russia and the displacement of imports from both the EU and China. Kazakhstan's negative trade balance with Russia and Belarus increased from approximately \$8.5 billion in 2011 to almost \$11 billion in 2012, as more expensive Russian goods replaced cheaper imports.⁸

The World Bank estimated that during spring 2011, Kazakhstan lost about 0.2 percent in real income per year as a result of participation in the ECU.⁹ This was caused by Kazakhstan increasing its external tariffs to implement the common ECU external tariff, which increased Kazakh tariffs from an average of 6.7 percent to 11.1 percent on an unweighted basis (and 5.3 percent to 9.5 percent on a trade-weighted basis.). Many consumer prices rose in Kazakhstan as more expensive products from the Russian Federation and Belarus supplanted cheaper Chinese merchandise.

Disparities remain between the economies of the CU member states. While in 2013 all CU member states saw wages increase, according to the Eurasian Eco-

⁶ Maksim Tsoi, "Mukhtar Taizhan: Kyrgyzstan dolzhen otkazat'sia ot vstupleniia v Tamozhennyi soiuz," ["Mukhtar Tayzhan: Kyrgyzstan should refuse entry to the Customs Union"], *Vechernii Bishkek*, May 14, 2013.

⁷ Igor Belozerov, Gennadiy Brovka, Hans-Michael Wolffgang, "The Eurasian CU in transition," *World Customs Journal*, Vol. 7 (2013), No. 2, p. 94.

⁸ Arkady Moshes, "Will Ukraine Join (and Save) the Eurasian CU?," *PONARS Eurasia Policy Memo No. 247*, April 2013, Elliott School of International Affairs, George Washington University, Washington D.C.

⁹ "Kazakhstan in the CU: Losses or Gains?," World Bank, April 18, 2012.

conomic Commission, the salary growth rate was highest in Belarus, increasing by 37.0 percent over 2012 levels, with Kazakh monthly wages rising 7.5 percent and Russian wages 12.4 percent. Despite such progress however, the 2013 average monthly salary in Belarus was the CU's lowest—\$573, compared to \$714 in Kazakhstan and \$942 in the Russian Federation.¹⁰

Belarus has one negotiating card with Russia—its Soviet-era “Druzhba” oil pipeline, which transits nearly half of Russian oil exports to Central and Western Europe, over 70 million tons annually. In addition, Belarus also pumps westwards about 5 million tons of Kazakh oil annually. Belarus is an important purveyor of Gazprom gas, transmitting more than 44 billion cubic meters annually. In return, through subsidized oil and gas supplies, Belarus receives from 15–18 percent of its gross domestic product from Russia every year. In the past, Moscow has not been afraid to use its oil and natural gas exports in its disputes with its western neighbor; according to the Belarus National Statistics Committee, in 2011 the average price of Russian gas rose 41.5 percent over 2010 prices. In 2011 Belarus received 20.6 billion cubic meters of Russian gas, 29 percent of Gazprom's total CIS sales, running up massive debts in the process, so much so that in July 2011 Belarusian Prime Minister Mikhail Miasnikovich stated that Minsk was considering selling the country's Beltransgaz pipeline network to Gazprom.¹¹ While the situation eventually resolved itself, the friction between Belarus and Russia over energy transit continues to simmer below the surface.

Evolution of Government Positions on the Eurasian Economic Union Project

Russian President Putin has been a relentless promoter of increased ties within the post-Soviet space. In October 2011, then Prime Minister Putin wrote,

On January 1, 2012 begins a major integration project – the Single Economic Space of Russia, Belarus and Kazakhstan. The project is, without exaggeration, a milestone not only for our three countries, but also for all post-Soviet states. ...we propose a model of a powerful supranational union capable of becoming one of the poles of the modern world and play the role of an effective ‘link’ between

¹⁰ “Zarplaty v Belarusi rastut bystree, chem v Rossii i Kazakhstane” [“Wages in Belarus are growing faster than in Russia and Kazakhstan”], *Telegraf*, March 6, 2014.

¹¹ “Beltransgaz prodan Gazpromu” [“Beltransgaz sold to Gazprom”], *Gorad.by*, November 25, 2011.

Europe and the dynamic Asia-Pacific region. ...we proposed to the Europeans to think about creating a harmonious economic community from Lisbon to Vladivostok, a free trade zone and even more advanced forms of integration.¹²

During his December 12, 2013 “Presidential Address to the Federal Assembly” Putin further told his audience, “We are now entering a crucial stage in preparing the Eurasian Economic Union Treaty. We expect to have agreed on the Treaty’s text by May 1, 2014 and to have submitted it to the Russian, Belarusian and Kazakhstani parliaments by that time. Colleagues, I would ask you to prioritize this document and give it your consideration and support.”¹³

Kazakh President Nursultan Nazarbayev’s vision of an economically integrated post-Soviet space has never faltered. On October 25, 2011, he published a massive article, delineating his consistent support for post-Soviet economic institutions. The article, entitled “The Eurasian Union: from Idea to the History of the Future,” began by noting two significant imminent events—the 20th anniversary of the signing of the Almaty Declaration of the CIS and the implementation of the new Common Economic Space project on January 1, 2012.

After noting that the Almaty Declaration was his idea and convened at his insistence, Nazarbayev then commented that in September 1993, an agreement was signed on establishing an economic union—“but the centrifugal tendencies were stronger,” and little genuine progress was made. Nazarbayev wrote to all his colleagues in the Council of CIS Heads of State about developing a full draft Treaty on the Common Economic Space, “but it was not considered at the highest level.”

Nevertheless, five years later Nazarbayev noted that the impetus to closer economic integration continued, stating, “I always thought that Kazakhstan and Russia as the locomotives of Eurasian integration.” The growing integration was reflected in the macroeconomic effects of the CU. “In the first half of 2011 alone the total trade turnover of the three countries rose by one-third. It is pre-

¹² Vladimir Putin, “Novyi integratsionnyi proyekt dlia Evrazii — budushchee, kotoroe rozhdaetsia segodnia” [“A new integration project for Eurasia – a future that is born today”], *Izvestiia*, October 3, 2011.

¹³ “Poslaniie Prezidenta Federal'nomu Sobraniuu” [“Address to the Federal Assembly”], Moscow, December 12, 2013.

dicted that by the end of the year it will reach \$100 billion, which is 13 percent more than last year.”¹⁴

During a May 2013 meeting of the Supreme Eurasian Economic Council in Astana, attended by future EEU partners Putin and Lukashenko as well, Nazarbayev expressed his interest in limiting the EEU’s powers purely to economic issues, specifying that there were “no plans to give political functions (to the union) that would encroach on the states’ independence” and emphasized that the union was about “purely economic integration” based on “pragmatism and mutual advantage to all the states.”¹⁵

At the next Supreme Eurasian Economic Council meeting in Minsk, Nazarbayev further shifted his views away from total and unalloyed support of the EEU. Nazarbayev, Lukashenko, and Putin attended the October 24 meeting, along with Chairman of the Eurasian Economic Commission’s Board Viktor Khristenko, Armenian President Serzh Sargsyan, Tajik President Emomali Rahmon, Ukrainian President Viktor Yanukovich and Kyrgyz First Deputy Prime Minister Joomart Otorbaev. Nazarbayev’s concerns surfaced when he pointed out the unseemly haste of attempts to push the economic integration process too quickly, obliquely mentioning Russia and suggesting instead the settling of unresolved issues before moving further forward. Nazarbayev commented,

We should prevent the commission from violating the principles and regulations of the work. Sometimes the documents of the commission are submitted for approval a day before a decision should be made. I should also say that the Russian members of the Board take part in the sessions of the Russian government and get some guidelines there, although in line with our agreement, the Commission, the members of the Board should be independent from our governments. We need to finish working on the things that were formalized by the agreements. We signed the agreement on oil and gas transportation, but the matter got stalled, so did the work on railway rates and electric energy. Let us focus on that.

¹⁴ Nursultan Nazarbayev, “Evraziyskii Soiuz: ot idei k istorii budushchego” [“The Eurasian Union: from idea to future history”], *Izvestiia*, October 25, 2011.

¹⁵ “Nazarbaev: Evraziiskii ekonomicheskii soiuz budet zapushchen v 2015 godu” [“Nazarbayev: The Eurasian Economic Union will be launched in 2015”], *Rosbalt*, May 29, 2013.

Do we need to move forward without fulfilling our previous arrangements?
Who is chasing us? We have time.¹⁶

Nazarbayev's call for a moderate pace was a criticism of Putin's policies, which focused on inveigling Ukraine, Armenia and Kyrgyzstan to join the EEU at an accelerated pace.

Nazarbayev also proposed dissolving EurAsEC to avoid redundancy, because its functions were similar to the planned EEU, suggesting focusing instead on the expansion of the ECU, but he also complained that EurAsEC was dominated by Russia even if the commission was supposed to be independent, so why support proposals to increase its powers.¹⁷ Putin countered that "we cannot simply eliminate (EurAsEC), otherwise we will disrupt the legal basis of the Eurasian Customs Union. But we have to do something with it."¹⁸ Nazarbayev's criticism was clearly intended to thwart any attempts of Russia to dominate the EEU by sheer force of numbers or extend the EEU's mandate beyond the purely economic sphere, where all significant issues are to be resolved by unanimity amongst the three EEU states. Nazarbayev also touched upon the ECU's trade imbalances, which proved heavily advantageous to Russia, saying, "In January-July alone Russia exported goods to Kazakhstan three times more than imported. With Belarus this gap is eight times."¹⁹

Belarus President Alexander Lukashenko is also becoming less sanguine about the benefits that the CU would provide for Belarus. On October 1, 2013, Lukashenko during an interview expressed reservations about certain aspects of the CU agenda, noting that the issue of a common currency of the Eurasian integration project was irrelevant, that Russian politicians seeking political unifi-

¹⁶ "Nazarbaev kritikuet Rossiiu v sviazi s Tamozhennym soiuzom" ["Nazarbaev criticizes Russia in connection with the Customs Union"], Radio Azadlyg, October 26, 2013.

¹⁷ "Customs union summit exposes Kazakh and Belarusian unhappiness," Bank of Finland Institute for Economies in Transition, *BOFIT Viikkokatsaus*, 2013/44, November 1, 2013.

¹⁸ Arkady Dubnov, "Tamozhennyi soiuz: plus – Turtsiia, minus – Ukraina, Indiiia – v ume?," ["The Customs Union: plus - Turkey, minus - Ukraine, India - in the mind?,"], *Novosti*, October 25, 2013.

¹⁹ "Nazarbayev Urges to Eliminate Withdrawals, Restrictions in Customs Union," Kazakhstan embassy, Washington D.C., October 23, 2013.

cation was “unreal,” as Eurasian integration had an economic basis and that “political independence, sovereignty, stability of the state is the main thing.”²⁰

Opinions in Belarusian and Kazakh Society

In August 2012, the Konrad Adenauer Foundation conducted a round table in Almaty on the theme, “The European Union – the Eurasian Union, Experience and Prospects,” which was attended by prominent Kazakh and European political scientists and specialists. Reviewing public opinion polls, political analyst Eduard Poletaev found that 67 percent of Kazakh citizens advocated the creation of the Eurasian Union, while 48 percent of Russians believe that the Eurasian project lacks sufficient information to make informed decisions, fostering the perception that only the elites had access to sufficient material on the Eurasian Union.²¹

In 2012 the Eurasian Development Bank (EDB) conducted opinion polling of selected post-Soviet states on views of various Eurasian integration proposals and projects. In response to a query about attitudes towards the CU and its SES, 72 percent of Russians polled held a favorable view, along with 60 percent of Belarusians and 80 percent of Kazakhs participating in the survey.²² A similar 2013 EDB poll determined support levels for the CU as: 67 percent in Russia, 65 percent in Belarus, and 73 percent in Kazakhstan.²³

Despite Nazarbayev’s muted criticisms of the EEU, for more than a year some sharper denunciations of the EEU concept of closer economic integration with Russia are surfacing in Kazakhstan, even within Nazarbayev’s ruling Nur Otan party. Nur Otan Parliamentary deputy Murat Abenov has become a vocal critic of the wisdom of hastily entering the EEU. In a February 12 interview for the online publication *Kursiv.kz*, Abenov linked the tenge’s devaluation with Kazakhstan’s ECU membership, commenting, “where can we escape to from a

²⁰ “Interv'iu. Aleksandr Lukashenko” [“Interview. Aleksandr Lukashenko”], *24.kz*, October 2, 2013.

²¹ Botagoz Seidakhmetova, “Evraziyskii soiuz - proekt elit?” [“The Eurasian Union - a project of the elites?”], *New Generation*, August 30, 2012.

²² *Integratsionnyi barometr EABR 2012 Doklad No 4*, [The Integration Barometer 2012 EDB Report No 4,] St. Petersburg: Eurasian Development Bank, 2012, p.83; p.10.

²³ *Integratsionnyi barometr EABR 2013 Doklad No 6*, [The Integration Barometer 2013 EDB Report No 16,] St. Petersburg: Eurasian Development Bank, 2013, p.104; p.57.

submarine! In the ECU we are so attached to Russia that now we have to listen to everything that is happening there. If a neighbor sneezes, we now at the very least will get the flu.”²⁴

On March 4, a group of Kazakh civil society activists launched the “Anti-Eurasian Economic Union” movement with a press conference in Almaty. The activist organizers included Rukh Pen Til NGO head Zhanbolat Mamai and political analyst Aidos Sarym. Mamai stated bluntly that the Eurasian Economic Union is “a revival of the Soviet Union in a new format – a Putin format.”²⁵ Sarym noted that “in connection with recent events, in just a single day, Russia’s economy diminished greatly. Today we are talking about what perhaps is the beginning of a full-scale recession, with all facing the consequences. And to become hostages to Putin’s irrational policies, who international experts say has lost touch with reality, would be a suicidal step.”²⁶

A press release issued after the meeting explained that “above all, we are concerned that documents are being drafted in secret, behind closed doors, without open debate or public consultation,” adding that “Kazakhstan should strive to become a member of the World Trade Organization, as it would be advantageous to conduct open, equitable and free trade with 115 countries rather than with the two countries of the Eurasian Union.” The press conference concluded with the activists appealing to people to come to a rally on April 12 to protest and voice their opposition to EEU accession.²⁷

Russian Pressure and Levers

As the economic engine driving the ECU, Russia has immense influence over Belarus and Kazakhstan. Another significant element is Russia as the main weapons provider for its neighbors and regional military superpower, particularly as in 1992 both Belarus and Kazakhstan gave up their nuclear arsenals. The

²⁴ Askar Muminov, “SMI Zapada: Tamozhennyi soyuz obvalil tenge,” [“Western media: the Customs Union toppled the tenge”], *kursiv.kz*, February 14, 2014.

²⁵ Dzhoanna Lillis, “Putin ustroil proverku dlia partnerov po Evraziiskomu soiuzu na fone krymskogo protivostoyaniia?,” [“Putin gave a check to partners in the Eurasian Union against the backdrop of the Crimean conflict?”], *eurasianet.org*, March 6, 2014.

²⁶ “Antievraziyskie nastroeniia krepchaiut” [“AntieurAsian sentiment grows stronger”], *Sayasat*, March 5, 2014.

²⁷ “Protivniki evraziiskoi integratsii namereny provesti forum v Alma-Ate,” [“Opponents of Eurasian integration intend to hold a forum in Almaty”], *Regnum*, March 4, 2014.

economic preponderance of Russia within the ECU has significant potential for impacting both Belarus and Kazakhstan. Another element in Russia's arsenal of levers is its role as a primary transit corridor for Kazakh energy exports via the Caspian Pipeline Consortium and its domination of Eurasian rail networks, which China has begun to use to reach European markets.

But Russia's economy can negatively impact its neighbors. The ruble has lost almost 10 percent against the euro-dollar basket since the start of 2014. The ruble's decline in the wake of rising tensions with Ukraine in early March cost Russia's top 20 banks 216 billion rubles (\$5.9 billion).²⁸ On March 3, Russia's Central Bank intervened to slow the ruble's decline, spending \$11.3 billion.²⁹ The Central Bank's intervention was four times larger than the previous record set in September 2011. By early February the Russian ruble had lost 6.3 percent of its value since the beginning of the year and 15 percent from January 2013.³⁰ On February 11, Kazakhstan subsequently devalued the tenge by 19 percent, saying the Russian ruble's plunge to a record low put additional pressure on its currency.³¹

All three presidents restated their support for signing the treaty establishing the Eurasian Economic Union by May 2014, and did so at a ceremony in Astana on May 29. Yet the rapidly evolving political events roiling Ukraine impacted the politics surrounding the CU and EEU. Opening a session of the Supreme Eurasian Economic Council on March 5 in Moscow, attended by Lukashenko and Nazarbayev, Putin said of the crisis in Ukraine, "there might be a negative effect for the CU... so we should all think together on what needs to be done to protect our producers and exporters and work out parameters for cooperation with Ukraine. The extraordinary situation ... in Ukraine arouses serious con-

²⁸ "Poteri top-20 bankov pri oslablenii rublia na 20% sostaviat 216 mlrd rub" ["Losses of the top 20 banks from the weakening of the ruble by 20% amount to 216 billion rubles"], *Novosti*, March 4, 2014.

²⁹ "Rubl' pytalsia stabilizirovat'sia na fone vozrosshei aktivnosti TSB RF" ["The ruble attempted to stabilize itself on a background of increased activity by the Central Bank of the Russian Federation"], *Novosti*, March 5, 2014.

³⁰ Nariman Gizitdinov, Lyubov Pronina and Vladimir Kuznetsov, "Kazakh Devaluation Shows Currency War Stirring as Ruble Dips," *Bloomberg*, February 12, 2014.

³¹ "Ofitsial'nyy kurs dollara dostignet boleye 200 tenge – eksperty" ["The official dollar rate will reach more than 200 tenge – experts"], *Tengrinews*, February 11, 2014.

cerns. Ukraine is a key economic partner of the CU. ... Negative consequences for the CU market are also possible.”³²

The Crimean and Ukrainian crises have had had an effect beyond mere economic issues, as on March 6, the government advisory Civic Chamber of the Russian Federation urged the Russian government to simplify the process of acquiring citizenship for ethnic Russians living in former Soviet republics, issuing a statement noting, “We call upon the legislature of the Russian Federation to simplify to the greatest extent possible the process of granting citizenship of the Russian Federation to compatriots living in the former Soviet Union ...”³³ In contrast, another sign of how quickly citizenship concerns for Russians living in other former Soviet republics has evolved in light of events in Ukraine, on February 19 the Civic Chamber’s press service reported that the body for the first time discussed the draft federal law “On Amending Article 14 of the Federal Law ‘On Citizenship of the Russian Federation,’” which dealt primarily with investment issues related to those seeking Russian citizenship.

Civic Chamber Deputy Secretary Vladislav Grib stated that under the bill for obtaining Russian citizenship under a simplified, “fast track” procedure, foreigners will have to invest 10 million rubles (\$823,350) in underfunded sectors of the Russian economy.³⁴ Under current legislation, foreign immigrants must spend a year on a temporary permit, and then another five years with a residence permit, only after which one can apply for citizenship. Given that Kazakhstan’s population is 23.7 percent Russian, primarily concentrated in northern Kazakhstan, and that irredentist claims have been made since 1991 to annex the region and have reemerged since the Ukrainian crisis began, the issue injects an element of uncertainty into Russian-Kazakh relations.

This is also seen in recent developments in Ukraine. On March 7, the former head of the Crimean Tatar assembly Mustafa Jemilev said, “Our nation was

³² “Putin: Situatsiia na Ukraine mozhет privesti k negativnym posledstviiam dlia TS,” [“Putin: the situation in Ukraine could lead to negative consequences for the Customs Union”], *The Voice of Russia*, March 5, 2014.

³³ “Obshchestvennaia palata prizyvayet maksimal'no uprostit' protsess priyema v grazhdanstvo RF,” [“Public Chamber calls for simplifying the process for receiving Russian Federation citizenship”], *ITAR-TASS*, March 6, 2014.

³⁴ “Lishnikh nam ne nado” [“An expense we do not need”], *Press Service of the Public Chamber of the Russian Federation*, February 19, 2014.

once evicted by Russia from Crimea (in 1944), we do not want a repetition of this tragedy. So we turn for help to Ilham Aliyev, Abdullah Gül, and President Nursultan Nazarbayev. Do not leave your Crimean brothers and sisters in this difficult time. We require assistance from around the world. Russia is preparing again to expel us from Crimea.”³⁵

Possible Alternative Policies

There is an escalating struggle developing between the ECU and EU, with the latter remaining largely dependent on Russian goodwill, trade and its mineral and energy wealth. The emergence of the ECU means that the EU is not the “only game in town,” presenting a challenge to its strategy in Soviet successor states covered by its European Neighborhood Policy (ENP) and Eastern Partnership. Russia has been actively promoting the ECU as an alternative to the EU’s Association Agreement.³⁶ The CU’s gross domestic product however remains minor compared to that of the EU. According to the International Monetary Fund, in 2012 the CU GDP was \$2.3 trillion, compared with the EU’s \$16.6 trillion.³⁷

In 2013, Belarus-China bilateral trade exceeded \$3 billion, joint ventures are operating in both Belarus and China, and China has invested over \$5 billion in the Belarusian economy.³⁸

Belarusian bilateral trade pales in comparison to that of Kazakhstan’s rising economic ties with China, as China imports increasing amounts of Kazakh energy. Following an August 2013 meeting in Astana with Chinese Foreign Minister Wang Yi, Kazakh Foreign Minister Erlan Idrisov noted that in 2012 bilateral trade reached \$23.9 billion and that “We set an ambitious goal to increase this

³⁵ “Kryms ki tatory prosyat dopomohty Turechchynu, Kazakhstan ta Azerbaydzhan,” [“The Crimean Tatars are requesting help from Turkey, Kazakhstan and Azerbaijan”], *Zahidna informatsiina korporatsiia*, March 7, 2014.

³⁶ Rilka Dragneva and Kataryna Wolczuk, “Russia, the Eurasian CU and the EU: Cooperation, Stagnation or Rivalry?,” Chatham House Briefing Paper, Russia and Eurasia Program, London: August 2012.

³⁷ Naftali Bendavid, James Marson, Laurence Norman, “Russia, EU Take Different Tacks in Trying to Woo the Neighbors,” *The Wall Street Journal*, October 14, 2013.

³⁸ “Belarus' i Kitai pristupili k realizatsii strategii vsestoronnego strategicheskogo partnerstva” [“Belarus and China have begun to implement a strategy of comprehensive strategic partnership”], *Belteleradiokompaniia*, January 20, 2014.

figure to \$40 billion by 2015.”³⁹ The centrifugal impact of rising Chinese trade on the ECU remains to be seen, but it is certain to grow.

Outlook for the Future

For all the rhetoric, significant variants remain between the economies of the ECU member states. Belarus, in particular, is poor, with an average level of wealth per capita of \$5,000, on a par with many African nations. In contrast, Kazakhstan’s wealth per capita is roughly \$11,000; and 93.7 percent of Russia’s adult population has less than \$10,000 in wealth. Russia since 1991 has produced an unprecedented rise in financial disparity, with Russia’s 110 billionaires holding 35 percent of the country’s wealth, the highest rate of wealth inequality in the world.⁴⁰ Anthony Shorrocks of Global Economic Perspectives Ltd, one of the authors of *Global Wealth Report 2013*, observed that “the situation in Russia has no parallel.”⁴¹ The report noted that at a constant exchange rate, average wealth in Russia has shown “no sign of growth” since before the 2008 economic recession. It is unclear at this stage how these economic disparities will impact the ECU.

In the wake of the growing crisis over Crimea and the uneasy issues raised on issues of sovereignty and international law, President Nazarbayev has further refined his vision of the EEU’s responsibilities, both delineating its mandate to purely economic issues and the need for unanimity on all upcoming “questions” in the EEU. On March 25 on the sidelines of a nuclear security summit in The Hague, he addressed EEU issues during a press briefing, telling reporters,

Integration allows us to remove customs barriers and boost competitiveness. Therefore, we have a purely pragmatic interest – to develop our country, modernize the economy and increase the size of our GDP. As far as our political independence is concerned, this is sacrosanct, and Kazakhstan will not cede its sovereignty to anyone. We will voluntarily transfer some economic powers to supranational authorities however, as is done, for example, in the European Un-

³⁹ “Kazakhstan i Kitai uvelichat tovarooorot do 40 milliardov dollarov k 2015 godu” [“Kazakhstan and China will increase trade to \$40 billion by 2015”] Tengrinews, August 19, 2013.

⁴⁰ Jim Davies, Rodrigo Lluberasis, Anthony Shorrock, *Global Wealth Report 2013: The year in review*, Zurich: Crédit Suisse, 2013.

⁴¹ Alpert Lukacs, “Who Wants to Be a Russian Billionaire?,” *The Wall Street Journal*, October 9, 2013.

ion, where the Commission decides customs issues, regulates trade, tariffs, the transportation of oil and gas, electricity, railways and highways. All questions in our future union will be resolved by consensus. Final decisions will be made with the consent of all three states.⁴²

In the future, the greatest obstacle to the development of the ECU's domestic markets and foreign trade is likely to be legal uncertainty rather than economic risk. If the ECU is to become an economic area attractive for long-term foreign investors, the rule of law and system of justice must be firmly established, as foreign investors will only do business in ECU member states if they trust the decisions of public authorities and have effective appeal procedures.

For the moment, Belarus and Kazakhstan remain fundamentally committed to both the ECU and the EEU, but criticisms of the EEU's future powers have arisen in the past year from both nations, a situation that the Crimean crisis and subsequent Russian-Ukrainian relations have sharpened further. What impact increasingly divergent economies, different foreign policy agendas and rising Chinese economic power will have on the future shape and policies of the ECU remains to be seen.

It is increasingly evident that Russia's deteriorating relations with the West over its Ukrainian policies are causing concerns in Kazakhstan about possible collateral damage to its economy from U.S. and EU sanctions, forcing a reevaluation of the ECU's ultimate benefit to the Kazakh economy. Putin is seeking to use the ECU to mitigate the economic impact of Western sanctions on the Russian economy, a far cry from Nazarbayev's original vision of a voluntary trading bloc improving the economies of member nations. Concerns have risen to such a point that on August 26, in the course of a TV interview with Kazakhstan's Khabar channel, Nazarbayev said, "If the rules set forth in the agreement are not followed, Kazakhstan has a right to withdraw from the Eurasian Economic Union. I have said this before and I am saying this again. Kazakhstan will not be part of organizations that pose a threat to our independence. Our independence is our dearest treasure, which our grandfathers fought

⁴² "Brifing po itogam ofitsial'nogo vizita v Korolevstvo Niderlandy i uchastiya v rabote Sammita po yadernoy bezopasnosti v Gaage" ["Briefing on the official visit to the Kingdom of the Netherlands, and participation in the Nuclear Security Summit in The Hague"], official website of the President of the Republic of Kazakhstan, March 25, 2014.

for. First of all, we will never surrender it to someone, and secondly, we will do our best to protect it.”⁴³

Two days later, in response to a question asked at the All-Russian youth forum “Seliger-2014,” do we need to expect a Ukrainian scenario if Mr. Nazarbayev leaves the post of president?” Putin, after praising Nazarbayev as the originator and architect of the ECU and EEU replied, “he accomplished a unique thing. He created a state on a territory where there had never been a state. The Kazakhs had never had statehood.” Putin continued that Eurasian ideas of the ECU and EEU “... the Kazakhs have adopted it. That’s because they see it is good for them, good for the development of the economy, good in order to remain in the sphere of the so-called greater Russian world, which is a part of global civilization, good from the perspective of the development of manufacturing and advanced technologies, and so on. I am sure that this is how it will be in the medium-term and in the long-term perspective.”⁴⁴

While the future of both the ECU and EEU are unclear, it is obvious that they have not remained immune from the impact of the consequences of Russian foreign policy towards both the Ukraine and the West. Given Putin’s most recent pronouncement about the legitimacy of Kazakh statehood, there is little doubt that Nazarbayev and the Kazakh government will continue to evaluate for the foreseeable future the benefit of remaining so closely allied in the ECU and EEU with a nation whose confrontational foreign policy remains so at odds with that of Kazakhstan.

⁴³ “Kazakhstan may leave EEU if its interests are infringed,” Tengrinews, August 27, 2014.

⁴⁴ “Vserossiiskii molodozhnyi forum ‘Seliger-2014’” [“All-Russian youth forum ‘Seliger-2014’”], kremlin.ru, August 29, 2014.