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Ukrainian Crisis, Economic Crisis in Russia and the Eurasian Economic Union

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1. Introduction

Eurasian regionalism, which has been neglected by the scholarly literature for decades, seems to be gaining attention in the scientific literature (recent book-length treatments of the topic include Libman and Vinokurov 2012a; Vinokurov and Libman 2012; Dragneva and Wolczuk 2013; Vymyatina and Antonova 2014; Dutkiewicz and Sakwa 2015; LSE 2014, Molchanov 2015). This is partly linked to the emergence of a new generation of regional organizations in Eurasia: the Customs Union (CU) of 2010 and the Eurasian Economic Union (EEU) of 2015. These organizations are frequently discussed today from the perspective of the studies of Russian foreign policy (e.g., Rowe and Torjesen 2009; Savietz 2012), economic modernization (e.g., Hartwell 2013), internal politics (e.g., Jackson 2014; Obydenkova and Libman 2015) and political (e.g., Ismailov and Papava 2010; Moldashev and Hassan 2015a) and economic (e.g., Darden 2009) ideologies of post-Soviet countries, as well as changing shape of the global politics (e.g., Krikovic 2014). Some studies now put the post-Soviet organizations into the broader context of comparative regionalism (e.g., Hancock 2009; Moldashev and Hassan 2015b; Börzel and van Hüllen 2015; Dosenrode 2015). The extreme changes in Eurasia, associated with the onset of the Ukraine crisis in 2014, have certainly contributed to the growing attention to the EEU. At the same time, the crisis itself has massive implications for the development of this regional organization. These implications require thorough scholarly analysis.

The goal of this paper is to introduce a number of observations regarding the change of the trajectory of development of the EEU (if any) associated with the crises in Eurasia in 2014-2015: the political crisis in Ukraine and the economic crisis in Russia. These interdependent crises are ongoing as this paper is written (April 2015), and their future development is difficult to predict. Still, I attempt to offer a number of conjectures regarding the possible future implications of the crises on the EEU. They are based on an (in my opinion) highly realistic assumption that both crises are of a long-term nature and will shape the development of the region in the years to come. Therefore, also their effects on the EEU are likely to be persistent rather than of transitory nature. I should also acknowledge the existence of other possible crises or shocks, which could change the development of the EEU (for example, changing attitude of China or power shift in countries of Eurasia ruled by elderly leaders); these possible unpredictable events in the future could add to the complexity of the processes discussed in this paper.

The article is organized as follows. The next section presents the status quo of Eurasian regionalism and the advancement of the CU and the EEU. The third section looks at the political and military crisis in Ukraine and its implications for regionalism. The fourth section discusses the role of the Russian economic crisis in this context. The fifth section looks at how the crises have affected the major step in the development of the Eurasian regionalism – the signing of the EEU treaty in May 2014 – and attempts to offer a possible forecast of future developments. The last section concludes.

2. The status-quo of Eurasian regionalism

Regional integration in Eurasia is not a new phenomenon: its origins can be traced back to the collapse of the USSR. However, until recently, the effectiveness of regional organizations created in Eurasia remained limited. Most of them could be reduced to a set of ‘integration

rituals', when countries signed various agreements often without any intention to implement them (Libman and Vinokurov 2012a). Some argue that Eurasian regionalism has never been designed to promote integration, being a tool to peacefully resolve potential international conflicts associated with the collapse of the Soviet Union (Olcott 1996). There have been some exceptions: the sectoral cooperation in the infrastructural industries in the CIS (Libman and Vinokurov 2012b), some elements of cooperation in the Russia-Belarus Union and the Eurasian Development Bank, created in 2006 to promote regional cooperation. However, as a rule, Eurasian regionalism did not deliver any tangible results.

This situation strikingly changed after the Customs Union was established in 2010. It was created by the same countries, which already started a customs union in 1995 – Belarus, Kazakhstan and Russia, - but this time member states actually complied with their commitments. In particular, the Customs Union introduced three innovations. It created a common customs code and customs tariff, which became part of the legislation of all member countries. It delegated the decision-making in the area of trade to a supranational institution – originally the Commission of the Customs Union, and later the Eurasian Economic Commission (EEC). And it abolished internal customs checks at the borders of the CU countries, thus removing one of the major barriers for trade (Mktrchyan 2013). At the same time, the CU provisions did not imply the removal of non-tariff barriers between countries, which remained an important obstacle for trade (Tarr 2012). The subsequent Common Economic Space agreements of 2012 liberalized the movement of capital and labor and introduced some form of macroeconomic coordination between countries..

The fact that the Customs Union has actually been implemented has surprised observers and students of post-Soviet regionalism. However, the literature pays little attention to the reasons of this development. Most studies, looking at the Customs Union, concentrate their attention at the reasons Russia had to support it, mostly discussing the political rationals

behind the Russian decisions (for example, the willingness to counteract the European Neighborhood Policy and the Eastern Partnership) (Delcour and Kostanyan 2014). However, while this argument may explain why Russian interest in the Eurasian regionalism increased (in the past Russia frequently was a reluctant member of regional agreements in Eurasia), it does not explain why Belarus and Kazakhstan agreed to join the Union. There are two possible explanations one could offer. First, the Customs Union can be seen as an example of a ‘crisis-driven’ regional integration: Kazakhstan was massively hit by the global economic crisis in 2008, Belarus experienced its own currency crisis, and thus both countries assigned higher value to preserving economic ties within the post-Soviet space under crisis conditions and therefore supported the CU (Vinokurov and Libman 2014). Second, the CU could have, paradoxically, be driven by the fact that the economic interdependence in Eurasia decreased as opposed to the 1990s, when the Soviet legacy was still very strong. Libman and Vinokurov (2015) suggest that intermediate level of economic interdependence – contrary to the very high and the very low one – is particularly conducive for regional integration of non-democratic states. Still, the functioning of the CU and the logic of formation of this regional organization remain under-studied.

The CU was less than five years in existence when it faced two serious challenges affecting its leading country – the Russian Federation. First, the Ukrainian crisis entirely reshaped economic relations between Russia and the West, among other things, resulting in the imposition of the EU and US sanctions against Russia. Second, the collapse of the oil price massively affected Russian economy, which slid down into recession in late 2014 - early 2015. For other Eurasian countries, like Kazakhstan, the low oil price also constitutes a major risk for economic growth. In what follows, I will discuss the implications of both crises for the development of the CU and the way they affected the formation of the next step of Eurasian regionalism – the EEU.

3. Ukraine crisis

3.1. Internal dimension: risks and gains for the countries of Eurasia

The reaction of the members of the CU to the Ukraine crisis has been ambiguous. No country has openly supported Russian actions in Crimea or backed Russian attitude towards the conflict in Donbass. On the contrary, both Kazakhstan and Belarus invested substantial effort into positioning themselves as neutral intermediaries in the conflict. Belarus actually succeeded in this role, becoming the place where the Minsk agreements, as of now the most serious attempt to resolve the conflict, were signed. Belarus has repeatedly indicated its willingness to sustain economic ties to Ukraine, in spite of possible Russian economic threats. There have been numerous symbolic gestures and speeches by the president Aleksandr Lukashenka suggesting the willingness of his country to maintain friendly relations with the new Kyiv leadership. Kazakhstani leadership has been less vocal in expressing its opinion on Ukraine than the Belarusian one (it could be attributed to simple leadership style differences between two countries), but again repeatedly stressed the need for a peaceful resolution of the conflict.

Generally, there are three main consequences Ukrainian conflict is likely to have had in terms of political decisions of Eurasian countries concerning Eurasian regionalism, which are discussed in what follows.

1. The first, and the most fundamental consequence, is that now Belarus, Kazakhstan and other countries of the region need to reevaluate Russian actions and behavior. One of the key elements of the Eurasian regionalism from the very beginning of its existence has been the mutual recognition of the territorial integrity of participating countries. This was a necessary precondition for any form of cooperation in Eurasia: the international borders, which came into existence after the collapse of the Soviet Union, divided numerous ethnic groups. They created large Russian ethnic minorities in many countries, partly with strong

irredentist sentiments (which have never been encouraged or supported by Russia). In other cases (like Belarus) the majority of the population favored various forms of reintegration with Russia (in Belarus the Russian language still remains substantially more popular than the Belarusian, and was even gaining popularity during the independence, see Zaprudski 2007). This situation actually favored the rhetorical regionalism of the 1990s: by engaging in the integration rituals, post-Soviet countries pacified their Russian ethnic minorities (and, to some extent, larger groups of their population interested in integration), at the same time pursuing the nation-building projects (Libman 2011).¹ Both Aleksandr Lukashenka and Nursultan Nazarbayev of Kazakhstan have skillfully made the pro-integration rhetoric the key element of the strategy they pursued while strengthening their states and their nations (on the role of Eurasian regionalism in nation-building see Abdelal 2001; Cummings 2003; Hale 2008).

Over time, the problem of Russian irredentism became less pronounced; on the one hand, post-Soviet countries invested substantial effort into reducing it, but on the other hand, members of Russian ethnic minorities left or became assimilated. The reduction of risks associated with irredentism and higher perception of security of Russian foreign policy was one of the main reasons post-Soviet countries were ready to engage in the more intensive cooperation within the Customs Union (Libman and Vinokurov 2015). Still, already the five days war in Georgia challenged the stability of the informal conventions Eurasian regionalism was built upon. It is not a coincidence that not a single Eurasian country recognized the independence of Abkhazia and Southern Ossetia; Eurasian regional institutions, in spite of Russian effort, did not endorse Russian actions in Georgia (Spechler and Spechler 2009; Libman 2011). The war in Ukraine and the annexation of Crimea, however, created a much stronger challenge. First, Russia revived a conflict, which was perceived to be dormant or even resolved: Crimean irredentism was strong in early 1990s, but hardly played any role in

¹ This approach to regionalism is not unusual: in Africa one of the key principles of regionalism has been the mutual recognition of borders, which are as fragile there as in the post-Soviet space.

the 2000s. Thus, it has been shown that perceived decrease of the risks of irredentism was over-estimated. Second, Russia showed a much higher level of involvement abroad than in any previous case. Third, Russian leaders – at least in spring and summer 2014 – have frequently used the rhetoric of the so-called ‘ruskiy mir’, ‘Russian world’ consisting of members of diasporas worldwide (Zevelev 2014). This ‘ruskiy mir’ concept de-facto created ample opportunities for intervention in the internal affairs of any country with sizable Russian minorities – i.e., of any Eurasian country.

These developments obviously became a reason for concern for the neighbors of Russia. They decreased the willingness to engage in deeper forms of cooperation with Russia, which would make post-Soviet countries more dependent on ties to Russia. They also reassured post-Soviet countries that any form of cooperation with Russia should be purely economic: no political cooperation should be encouraged or accepted. Kazakhstan has followed this principle throughout the discussion on the Eurasian Economic Union and has adamantly insisted on its implementation in the final treaty.

2. At the same time, Ukrainian crisis created substantial problems for purely economic cooperation as well. To some extent, they were caused by the Western sanctions: now it became substantially more difficult to develop economic ties to Russia and at the same time to attract foreign partners. While the current (April 2015) level of sanctions does not have any direct consequences for the economic interaction of Eurasian countries, some forms of sanctions under discussion (for example, the exclusion of Russian banks from the international payment systems) would affect the Eurasian monetary settlements as well. The early forms of Eurasian regionalism in the 1990s included the idea of a payment union, necessary because of the lack of convertibility of Eurasian currencies. Since most Eurasian countries created functioning monetary systems, the idea of a payment union became obsolete. However, if Russia faced major Western sanctions in this respect, it would require

substantial adjustment from the Eurasian countries. It is worth noticing that Russia intensified the discussion of a currency union in Eurasia – an idea, which due to economic and political factors appears to be entirely unrealistic.

A more serious risk is associated with unilateral actions of Russia attempting to impose sanctions on other post-Soviet countries (Ukraine or Moldova) or apply counter-sanctions on the EU and the US. To some extent, Russia is using non-tariff measures (e.g., sanitary regulations) to introduce these sanctions. This is not a violation of the CU principles in form, although certainly a violation of the spirit of a customs union. However, Russia often mentions the opportunity of introduction of customs tariffs against Ukraine, if the Deep and Comprehensive Free Trade Agreement (DCFTA) this country signed with the EU were implemented. Belarus and Kazakhstan refused to support these customs tariffs – party to avoid the escalation of the conflict, and party (in case of Belarus) for purely economic reasons (Libman 2015b). Russia made it clear that it is ready to implement the restrictions unilaterally, which would be at odds with the Customs Union.

The food sanctions against the EU resulted in one of the most serious conflicts within the Customs Union. These sanctions, again, are a serious violation of the spirit of the CU (Knobel 2015). After the sanctions were introduced, there appears to be a massive increase of smuggling activity from the EU to Russia, using Belarus as the point of entry (Telegina 2015). Russia attempted to limit these informal and semi-formal imports, re-introducing checks at the Belarus border. It claimed to be particularly concerned with the transit of goods from Belarus to Kazakhstan. Belarusian leadership reacted with open dissatisfaction (Dobbs 2015). In addition to rhetoric, it responded with introducing its own restrictive measures, de-facto restoring customs control at the joint border and even blocking transit goods from Kaliningrad enclave to Russia. The conflict has never been fully resolved.

The fact that a leading country of an international organization violates the agreements in case it pursues certain matters to be of crucial importance is not new. Stone (2011) develops the theory of informal governance in regional organizations focusing on what he refers to as ‘manipulation’: the risk of abuse of the existing framework by the leading country. The key parameters are in this case the likelihood and the scope of this abuse. After the Ukrainian crisis, first, the likelihood of Russian unilateral actions became higher, since the ongoing conflict with the West remains an ultimate priority for the Russian leaders. Second, the scope of issues, which are attributed to this most sensitive area, also became larger. The economic relations between Russia and the West are now highly politicized and could become subject to mutual sanctions and counter-sanctions.² Also, Russian economic policy became more prone to protectionism (Libman 2014), also because of the economic crisis (which will be discussed in what follows). These developments increase the risks of non-compliance by Russia, which jeopardize the entire construction of the Eurasian regionalism and of the Customs Union.

3. While the previous two effects seem to have a negative influence on the prospects of the Eurasian regionalism, the third effect is not necessarily a problem for the future of the EEU. Under the current circumstances, Russia probably assigns higher value to keeping friendly relations to countries it is still capable to. It is also more interested in preserving the EEU for its symbolic importance: the existence of the EEU is perceived by the Russian leadership as a sign of Russian importance in the international relations and as an indication that the effort of the West to isolate Russia internationally does not succeed (another international grouping, which is valued by Russia for the same reasons, is the BRICS). The EEU has been an important element of the political program Putin suggested for his third term as the president; under the current circumstances its importance seems to go up. Therefore,

² It is worth acknowledging that it were the Western countries that started this politicization by focusing on sanctions as a response to the Ukrainian crisis.

Russia is likely to be more willing to make further concessions to the EEU countries to keep them in the Union (at least, at the level of formal agreements and integration rhetoric).

So far, the most obvious example of these new concessions has been Russian position towards regulating the oil export to Belarus. Crude oil exports have been one of the controversial issues in the development of the Eurasian regionalism for the last decade. Belarus is interested in obtaining Russian crude oil for its oil refineries, which mostly export their production to Europe. Russia, however, imposes export duties on crude oil to protect its own oil refineries. As a result, Belarus has always considered the abolition of these duties or the redistribution of the revenue from the duties as a precondition for any further integration steps. This issue has played a major role when the CU was initiated in 2010. In 2014, Belarus again put similar request, threatening not to sign the EEU treaty in May if its conditions were not fulfilled. The result of these negotiations has been a new settlement, giving Belarus substantial access to the revenue from oil duties. As for Kazakhstan, probably, the most significant evidence in favor of its growing bargaining power has been its ability to block the inclusion of any political aspects in the EEU treaty, which was originally supported by Russia. Even relatively harmless and symbolic institutions typically existing in most international organizations (like an inter-parliamentary assembly) were not established within the EEU due to a firm position of Kazakhstan.

3.2. External dimension: an EU-EEU dialogue?

In addition to the effects described above, which had a direct influence on the behavior of Eurasian countries and their attitude towards regionalism, there is also an important external dimension, which came into existence as the result of the Ukrainian crisis: the possibility of negotiations between the EU and the EEU, which is now seriously discussed in Europe..

The Eurasian regionalism has been a rare instance of regional economic cooperation, which has been almost entirely ignored by the European Union. While in most parts of the world the EU has eagerly promoted regionalism (Börzel and Risse 2009) (in fact, strengthening regional cooperation across the countries of the Eastern Partnership has also been one of the objectives of the EU), in Eurasia the EU did not demonstrate any interest in dialogue with the regional organizations (Libman and Furman 2015). It is difficult to provide a clear explanation to this attitude: it could be linked to the purely legal aspects (the EU is unable to conduct free trade negotiations with countries or alliances, which do not belong to the WTO – while Russia is a member of this organization, Belarus and Kazakhstan are not), to the perception of Eurasian regionalism as ‘disappearing’ and thus irrelevant legacy of the Soviet era or as a tool of Russian imperialism, or to the willingness to avoid competition in shaping the EU neighborhood. In any case, before 2014 any form of dialogue between the EU and the Eurasian regional organizations appeared to be impossible – in spite of the fact that the CU and especially the EEC mimic the EU in many important instances (Libman and Furman 2015).

The onset of the Ukrainian crisis changed this attitude. From 2015 on, the issue of negotiations between the EU and the EEU became frequent topic of discussion in the European politics, in particular in Germany. There seem to be two reasons why the EU-EEU dialogue is currently treated more seriously. First, some believe it to be a suitable reward for the Russian leadership to change its attitude towards Ukraine, particularly since it has been Putin himself who advocated a common economic space from Lisbon to Vladivostok. Second, the EU-EEU engagement could give a new forum to continue some form of economic dialogue with Russia even under current difficult circumstances, when many other formats of dialogue have been frozen and cannot be revived. Whether any of these perspectives is realistic, is debatable. In my opinion, treating the EU-EEU dialogue as a ‘carrot’ in Russia-

EU relations with respect to Ukraine is unlikely to produce any results, given the extreme importance Russia assigns to the perceived threats associated with the development in Ukraine, the general lack of interest of the Russian leadership towards trade liberalization and focus on protectionism and unclear outcome of any negotiations between two groupings, even if they were pursued. EU-EEU dialogue as a forum for discussions and solving specific economic issues in difficult times could be fruitful, particularly since countries like Kazakhstan and Belarus have a clear interest towards finding a reasonable way to sustain economic relations between Eurasia and Europe and would try to promote a cooperative approach. Since for the EU economic relations to Russia are still of crucial importance and have to be sustained and developed even in the current political environment, and most other dialogue formats, as mentioned, are on hold, there are obvious benefits for the European Union from initiating this dialogue as well. Furthermore, since the EEU is, even unlike other post-Soviet organizations, a highly a-political entity without any clear ideological guidelines and resolute focus on economic issues, engaging the EEU will not legitimize the Russian regime or will do so to the smallest extent possible of all other dialogue formats. While the dialogue will not solve the Ukrainian conflict, it could still contribute to achieving important economic goals of the EU and – in the long run – to the trust-building in Europe.³

As of now, it is unclear whether the EU-EEU dialogue will ever take place and in which form. If the situation in Ukraine calms down to a certain extent, such a dialogue would be more likely, but, of course, in no way certain. From the point of view of this paper, the most important aspect is the implications of this dialogue for the development of the Eurasian regionalism itself. Typically, when the EU engages in dialogues with regional organizations in other parts of the world, by the design of these dialogues it strengthens regional organizations and region-ness (for example, it has been typical for the EU-ASEAN dialogue,

³ The literature is, however, strongly divided on the issue of likelihood and gains of the EU-EEU engagement; hence, the view presented above are clearly not part of any consensus. See Popescu 2014; Moshes 2014; Krastev and Leonard 2014; Dragneva and Wolczuk 2015.

which played a certain role in ‘creating’ the South-East Asia region, see, e.g., Gilson 2005). In Eurasia, similar processes could occur. Furthermore, the EU-EEU dialogue would increase the value of the EEU for the member countries and, in particular, for Russia. From this point of view, the EEU-EEU dialogue would to some extent strengthen the perspectives of regional integration in Eurasia – though again, a lot of caution is required in evaluating the possibility and the prospects of such a dialogue.

4. Russian economic crisis

4.1. Crisis transmission

The political crisis associated with the conflict in Ukraine coincided with a major economic crisis in Russia. The fact that Russia is entering a period of economic slowdown was evident already in 2013, before the onset of the political crisis. In the fall 2014, declining oil prices have shifted the Russian economy into a recession. International sanctions probably amplified the negative effect of the oil prices, although clearly have not been the main reason for Russia’s economic trouble. Most importantly, the crisis in Russia seems to have substantial implications for the economic development of other states of Eurasia – which in turn is likely to affect the future of the Eurasian regionalism.

In the previous discussion, I have referred to the Eurasian regionalism as a case of ‘crisis-driven integration’, which became more likely due to the crisis of 2008-2011. The fact that crises can, generally speaking, promote regionalism, is not new to the literature (for a recent discussion see Lefkofridi and Schmitter 2015). In Eurasia, the main reason why crises have a positive impact on regionalism is the intensive economic ties between countries persisting from the Soviet era: it is more expensive for Eurasian countries to search for new trade partners and economic links than to keep the existing ties – therefore disintegration and search for alternative economic ties is more likely during the periods of growth and less likely

amidst the economic turmoil. However, at the same time, crises also increase demand for protectionism, especially if lack of reserves forces the countries to attempt to extract rents through unilateral trade restrictions and competitive devaluations of national currencies. During the crisis of 1998, this second effect dominated, making Eurasian regionalism less likely; in 2008-2011, key Eurasian countries (Russia and Kazakhstan) accumulated substantial currency reserves, and the decline of the oil price has been very short-term; therefore, the first effect (the willingness to preserve economic ties) dominated and the creation of the CU became possible (Golovnin et al. 2013; Vinokurov and Libman 2014). Furthermore, unlike 1998, when Russia was hit by the crisis relatively early and became the source of risks of other countries through the Ruble devaluation, in 2008-2011 Kazakhstan was hit before Russia, and the Belarusian crisis was out of sync with the crisis in Kazakhstan and Russia.

How does the situation look like from this perspective if we consider the development of the Russian crisis of 2014-2015? This time Russia is again the source of economic instability for its neighbors. Generally, it is possible to distinguish among five main channels of crisis transmission, which could be relevant for post-Soviet countries (Dabrowski 2015; Libman 2015a).

- The devaluation of the Russian ruble is changing the terms of trade with the post-Soviet countries, increasing the competitiveness of the Russian goods. Since many post-Soviet states are linked to Russia through long-term economic ties based on well-established technological complementarities and thus will not be able to find substitute markets outside Eurasia – especially since establishing new economic ties requires additional investments, and it is more difficult to implement them amidst an economic crisis.
- Remittances of labor migrants employed in Russia have become a major or an important source of revenue for the population of many countries of the region. The crisis is likely to

reduce the demand for labor force in Russia or at least shift the salaries of migrants downwards. As a result, the flow of remittances is likely to go down.

- Similarly, it is possible that the foreign direct investments by Russian companies, which played an important role in the past (EDB 2014a), could also go down in the years to come. It is not quite certain how the development will look like. During the crisis of 2008-2009, Russian FDI went down, but to a smaller extent than foreign direct investments from other countries (Golovnin et al. 2013). There are reasons to expect Russian FDI to be rather resilient to the crisis of 2015 as well. Other factors could also play a role: first, the options of Russian companies outside Eurasia could go down to a greater extent than in the region (e.g., because of international sanctions), and second, Russia could try to keep its investment presence in the region for political reasons. Still, there is a chance that FDI could become another channel of crisis transmission.
- Expectations of the population in Eurasian countries have been massively shaped by the developments in Russia. A crisis in Russia could cause currency panic or shifts in consumption in Eurasia as well: Belarus and Moldova experienced similar developments in late 2014 – early 2015. The reduction of the remittances flows could exacerbate this negative effect.
- Many international investors still perceive Eurasia as an integrated region, which they develop their strategy for. A crisis in Russia could cause investors to reduce their presence in the region in general. Again, as of 2015, this effect is likely to be much weaker than in the past (Golovnin et al. 2013), but it should not be neglected. It is probably more likely to affect portfolio investments; but also FDI may experience similar risks. In addition, many companies used Russia as a ‘springboard’ for entering the Eurasian countries in the past, but using Russian experience (and, possibly, Russian personnel). This option is likely to become less attractive in the future as well.

The extent of the crisis will determine the change of Russian reserves and the reserves of other post-Soviet countries. If the oil prices continue to be low, oil-rich exporters like Kazakhstan will face the problem of decreasing reserves and public revenue irrespectively of the crisis, but it will also increase their willingness to implement protectionist measures against Russia. Russia itself is likely to suffer significant reduction of budgetary revenue not only because of oil prices, but also because of the EU and the US sanctions. Thus, in both Russia and other countries of Eurasia the demand for protectionism is likely to go up, as opposed to the crisis of 2008-2009: this will certainly damage the perspectives of Eurasian integration.

4.2. Implications for Eurasian regionalism

The pressure of the crisis creates three major risks for the Eurasian integration. First, domestic economic problems are likely to make countries particularly willing to extract revenue by taxing cross-border transactions or by stimulating competitive currency devaluations to increase the exports. Second, countries could use protectionist barriers to defend their markets from the Russian goods. In case tariff or non-tariff constraints are imposed (in spring 2015 there has been discussion about Kazakhstan implementing this type of constraints, but as of this moment (April 2015) it has resulted in any action), it clearly runs contrary to the obligations within the CU and the EEU. In case national currencies are devaluated to match the devaluation of ruble, it leads to macroeconomic imbalances and again increases risks for regionalism. Third, the economic crisis is likely to increase the risks of manipulation and non-compliance by the key member of the Eurasian regional organizations – Russia, for which domestic challenges (e.g., dissatisfaction of the population) could become more important than meeting its obligations in the EEU. For other countries this problem is likely to matter as well.

From this point of view, one of the least predictable dimensions of the impact of the crisis on Eurasian integration is the possible change of public perception of Eurasian regionalism. Before the crisis, as the surveys by Eurasian Development Bank (EDB 2013, 2014b) show, Eurasian regionalism enjoyed general support in most countries of Eurasia. However, there have been many critical voices during this period as well, attributing economic difficulties countries faced to the ‘Russia-induced’ regional organization. During the crisis these critical voices could become more important. Public dissatisfaction could also focus not on the Eurasian regionalism itself, but rather on specific processes associated with economic integration in Eurasia. In Russia, for example, one could expect the public to become even more xenophobic than it was before and therefore willing to support restrictions on labor migration, which would contradict the interests of other Eurasian countries like Tajikistan, Armenia or Kyrgyzstan, for which their current or potential participation in the EEU is attractive precisely because of certain liberalization of labor migration.

In some countries of Eurasia an alternative strategy to what has been described above is subject to active discussion – precisely during the current crisis situation more active involvement in the EEU project could be seen as a tool to get access to the Russian market and to improve conditions for migrants (Gröne and Hett 2015). This outcome, probably, is more likely for smaller countries with limited outside options, which also have no domestic industry or economy they could try to protect or exports they could try to support through unilateral mercantilist policies. For larger countries (especially Kazakhstan) this approach does not seem to be likely, and it was primarily the cooperation between two large countries – Russia and Kazakhstan – which made the progress of the CU possible.

Summing up, economic crisis in Russia certainly increases risks for the Eurasian integration. It will make the large countries key to the integration project more protectionist and unwilling to accept free trade regime or uphold their obligations in the Eurasian

regionalism. While the importance of already established intra-regional economic ties will be larger during the crisis, these ties will also become crisis transmission channels from Russia to other Eurasian countries, making the idea of Eurasian integration even less popular. Finally, the crisis could potentially jeopardize the political stability of Eurasian countries - with unpredictable consequences for the region in general.

5. Outlook: EEU treaty and beyond

Our discussion suggested a rather gloomy picture of Eurasian regionalism. With the exception of the possible EU-EEU dialogue (which, as of now, remains a remote and uncertain perspective) and the greater willingness of Russia to accept political compromises with other states of Eurasia, most other factors suggest that Eurasian countries should become less willing and able to advance regional integration. From this point of view, three questions become important. First, should we expect formal disintegration of Eurasian regional organizations? Second, does the described development mean that Eurasia will return to the state of ‘ink-on-paper’ integration rhetoric? Third, are there any areas where in spite of these problems integration could develop in the years to come? We will look at these questions one by one.

Disintegration still remains an unlikely scenario for both advanced organizations like the EEU and shallow alliances like the CIS. As for the CIS, even countries like Ukraine value numerous technical agreements (e.g., about recognition of university degrees, pension status etc.), which are all linked to the CIS.⁴ The costs of participating in this organization are purely symbolic, so there is little need to support disintegration. As for the EEU, the effort invested by the member states in creating the organization and the sunk costs associated with it are too high to make formal disintegration an attractive solution. Besides, formal disintegration

⁴ RIA Novosti, 2015, 17 April

would probably be perceived as a public humiliation by Russian leadership and may cause negative response (e.g., economic pressure). Finally, leaders of almost all EEU members use the idea of post-Soviet integration as one of the tools legitimizing their rule – since they have done it for decades, it will not be easy for them to reverse course in this matter.

Deepening the scope of the EEU or expanding its membership is equally unlikely. As of now, five countries joined the EEU: Russia, Armenia, Kazakhstan, Belarus and Kyrgyzstan. It leaves only one possible candidate to the organization – Tajikistan, which is oriented towards Russia in its foreign policy and could benefit from even limited mobility of labor in the EEU. It is hardly imaginable that Ukraine, Moldova or Georgia will ever join the EEU – for political reasons, but also because their association agreements with the EU preclude them from undertaking such a step from a purely legal perspective (DCFTA is incompatible with the provisions of the CU). Azerbaijan, Uzbekistan and Turkmenistan opted for non-alignment and, given the controversies in the contemporary Eurasia, are unlikely to revise this decision – the only exception is Uzbekistan, where unexpected policy changes could occur after death of the current leader.

The perspectives of deepening the cooperation could be assessed based on the experience associated with signing the EEU treaty, which occurred already amidst the political crisis. The treaty was signed in May 2014 and basically represents a codification of the already existing CU provisions, as well as of the Common Economic Space (a set of agreements on factor movement liberalization and coordination of economic policies signed in 2012). Furthermore, the treaty suggests that in the future the EEU countries will liberalize a number of sensitive areas, including energy markets and medicines, liberalize trade in services and create a common financial supervision authority. These steps are not automatic and require further negotiations; there are good reasons to doubt that they will actually be implemented. Kazakhstani representatives made sure that no political integration provisions

were included in the EEU treaty – this policy, as mentioned, was consistently pursued by Kazakhstan already before the crisis. Belarus agreed to sign only in exchange for further indirect subsidies through redistribution of revenue from Russian raw oil export duties. Schenkkan (2015), looking at an earlier draft of the EEU treaty and the final version of the treaty, shows that all three member states introduced changes diminishing the capacity of the EEU and the scope of integration.

Thus, it looks like the countries of Eurasia have already achieved a plateau in their integration process – further deepening of the EEU is unlikely. It is very possible, however, that this plateau would be achieved without the crisis as well – for example, because countries would be too concerned to become politically dependent on Russia, because contradictions between members would be too large or because the credibility of new commitments would be too low. At the same time, already achieved level of regional integration within the EEU should not be under-estimated – customs unions with multiple additional provisions are a complex integration form, which only few regions of the world are able to implement. The central question and the point of debate for observers is whether this form will be de-facto sustained, or, while continuing to use integration rhetoric, Eurasian countries will return to the well-established approach of rhetorical cooperation.

There are two arguments against the expectation of purely rhetorical approach to regionalism – an empirical and a theoretical. Empirically, the negotiations of the EEU treaty show that countries actually take the agreement seriously, since they attempt to change it to limit the power of the EEU. If they treated the EEU as purely rhetorical, they would (as they did in case of the CIS) agree to any most ambitious integration scheme. Theoretically, the costs of dismantling the functioning cooperation are high, and it is not clear whether countries would accept them during a crisis. At the same time, there is also an argument in favor of a rhetorical approach: it could offer the countries the best combination between showing loyalty

to Russia and reducing Russian influence, which became much more threatening after the Ukrainian crisis started. In this way, countries would reduce to the same approach they used in the 1990s, when their sovereignty was uncertain and dependence on Russia was very high.

Most likely, one will observe a combination of both – some level of functional cooperation and some level of rhetorical cooperation. The proportion in which these two components will be mixed into the EEU will depend on the development of both crises I discussed in this paper, as well as whether the EEU will affect issues countries consider critically important. I have shown that for Russia such an issue has been the counter-sanctions against the EU. In the future, if Russia decides to impose sanctions against Ukraine, they could also become such an issue where violations of the EEU rules will be considered as acceptable. Other EEU countries have similar issues as well: for example, while the EEU indirectly stipulates that Armenia has to establish customs borders complying with the EEU rules at the border of Nagorny Karabakh (as the country was specifically required while joining the EEU), it is very unlikely that Armenia will actually do it – relations to Nagorny Karabakh are critical for this country.

6. Conclusion

It remains to summarize the key conclusions of this article. Both crises developing in Eurasia – the political crisis around Ukraine and the economic crisis in Russia – will have mostly negative implications for the EEU. Political crisis will make smaller EEU members more concerned about excessive Russian influence and dependence on Russia. Economic crisis will make countries willing to avoid transmission of economic problems from Russia, and at the same time will deplete these countries reserves and budget revenues, making them more inclined to use protectionist and mercantilist policies to generate additional revenue. At the same time, the crisis made it even more important for Russia to maintain the EEU – as a

result, Russia may be more willing to compromise and to accept demands of other member states.

The disintegration and the substantial expansion and deepening of the EEU are both very unlikely scenarios (possibly, even without both crises further advancement of the EEU were impossible due to political and structural constraints the countries of the region face). As of now, it seems likely that the EEU will maintain some level of functioning cooperation, while in some other areas it would shift into more rhetorical ‘ink-on-paper’ regional organization. If this will be the case, the EEU will remain an important and relatively advanced regional organization – while it cannot be compared with the EU in terms of the level of regional integration, it already has achieved quite a lot, so that just preserving it will make the EEU economically and politically relevant. But the extent to which rhetorical cooperation will dominate and the functioning cooperation will disappear is unclear.

Finally, one has to notice that the development of the EEU – as well as other processes in Eurasia – remains highly uncertain due to high uncertainty of the future path of both crises I discussed in this paper. Nobody is able to make clear predictions as to how crises will develop; and, therefore, any forecasts of the future of Eurasian regionalism (including those implemented in this paper) should be treated with caution.

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