



სტრატეგიული სწავლების და სწავლევითი უკომპიუტერო კვლევების ფონდი
GEORGIAN FOUNDATION FOR STRATEGIC AND INTERNATIONAL STUDIES

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OR THE EURASIAN ECONOMIC UNION**

VLADIMIR PAPAVA

EXPERT OPINION

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Introduction

A new Russian-Kazakh regional project, known as the Eurasian Economic Union (EAEU), commenced operation in 2015. Specifically, this means that, as of January 1, 2015, integrated economic processes between Belarus, Kazakhstan and Russia are governed by the Treaty on the Eurasian Economic Union. As of January 2, 2015 Armenia acceded to the EEU, followed by Kyrgyzstan on May 21. It is noteworthy that the concept of the expediency of such a union was put forward as early as 1994 by Kazakhstan's President Nursultan Nazarbayev¹.

Despite the fact that Georgia has long made its choice in favor of Europe (and Euro-Atlantic institutions)², talks on Georgia's rapprochement with Russia have recently reignited. On the one hand, this interest in rapprochement was sparked by the uncertainty arising in Georgian-Russian relations³, on the other – by the establishment and apparent launching of the EAEU.

In order to respond to the question on whether or not the EAEU will persuade Georgia to alter its European course, it is crucial to review the essence of the EAEU itself. It must also be stressed that ample literature is available on the European Union (EU) and the road towards its membership, while the EAEU is a much newer construct and intensive research into its workings is virtually underway at this moment.

On the Economic Model of Eurasianism

Following the 2011 announcement by the Russian President regarding the establishment of the EAEU⁴, some politicians and experts have perceived the event as the ultimate victory of Eurasianism in Russia.

Eurasianism, established in the 1920s, is one of the most powerful doctrines of the Russian geopolitical school, and is aimed at the institution of Russia's distinguished historical and cultural role in Eurasia⁵. Public interest in Russia developed around this theory in the 1990s following the collapse of the Soviet Union, when Russia began to seek an auspicious anti-Western, imperial, and integrative doctrine⁶ and Eurasianism was undergoing a significant modernization.

According to the Eurasianist economic model⁷, the market principle should not undermine ideocracy, or the ability of ideological fundamentals

to dominate social and political life. For Eurasianists, the market and private ownership belong to a pragmatically allowable and pragmatically advantageous realm, based on which they acknowledge “society with a market,” rather than “market economy.” Consequently, the objective of an Eurasianist economy is to maintain and develop all economic systems reflecting the cultural and historical path of the specific peoples living in Eurasia. Eurasianists prefer the “principle of possession” to the “principle of ownership.” In the first case, proprietors are to abide by their social responsibilities and focus on the welfare goals of society, rendering them accountable to society and the state. Additionally, the principle of possession envisions that the state should encourage domestic entrepreneurship and carry out a paternalistic policy, simultaneously applying mechanisms of tariff and non-tariff protectionism.

It is difficult to envisage how the economic model of Eurasianism can be implemented in practice in a country given the modern process of globalization underway worldwide. It is noteworthy that Russian economists have also recognized the incompatibility of the concepts of Eurasianism with the reality of the modern world⁸.

According to Eurasianists, the Eurasian economic community will establish a so-called independent “fourth zone” based on the principles discussed above, which will not only differ substantially from other gigantic economic zones – such as America, Europe and the Pacific – but also oppose them⁹.

It is noteworthy that, given the governance regime of Belarus, the country’s economy comes closest to exhibiting the features of the economic model of Eurasianism (such as “society with a market” and state ownership as a guarantor of achieving social welfare), while more or less successful market reforms have already been carried out in Armenia and Kazakhstan in particular, and at the initial stage of the post-Soviet era in Kyrgyzstan and Russia..

The principal goal of the EAEU at the current stage is to deepen the trade and economic integration of its member countries, which is in no way linked with the economic model of Eurasianism, even on a theoretical level. Moreover, this corollary applies not only to economic models, but to Eurasianism and the Eurasian Union in general¹⁰.

The Fundamental Mechanism and Difficulties of the EAEU

A key economic motif that facilitates the integration process of the EAEU is a *redistribution* mechanism for revenues from oil and gas. Specifically, no export duty is imposed within the EAEU; consequently, the price of a given resource is reduced by the amount of the export duty in contrast with the global price for said resource, which leads to domestic production subsidies. Export duties are collected only when commodities exit the borders of the EAEU, at which point some of the revenues to be received by Russia would be redistributed to the benefit of other member countries. As oil and gas comprise the main export product for Russia, it is the redistribution of the revenues received from these commodities that is a key economic motive for integration.

Even though the scheme on which the EAEU is based is economically unprofitable for Russia, it is a scheme that secures Moscow's imperial ambition of the gradual reanimation of the Soviet Union in its modernized form. This approach by Moscow towards the EAEU is not at all surprising, given the fact that it is on the basis of the consumption of energy resources¹¹ that Russia has set course towards geopolitics¹², rather than towards economic development.

Today, it is noteworthy that global prices on raw materials, especially on energy resources, are exhibiting a clear downward trend. Thus, the effectiveness of the redistribution mechanism outlined above is reduced.

As early as a few years ago, Russia considered the possibility of entering agreements on Free Economic Zones (FEZ) with certain countries (such as New Zealand¹³, Vietnam¹⁴, Israel¹⁵, India¹⁶ and the USA¹⁷) and regional associations (for example, ASEAN¹⁸, EFTA¹⁹ and the EU²⁰). On May 29, 2015 such an agreement was signed with Vietnam²¹, while negotiations with the remaining countries and regional associations have either been suspended or not yet initiated, due largely to political reasons.

According to the forecasts of Russian economists (covering the three founding members of the EAEU – Belarus, Kazakhstan and Russia), the conclusion of FEZ agreements, both in the short and long term, will result in economic benefits for the EAEU as a whole, as well as for Russia and Kazakhstan. Belarus will experience losses if the other party to a FEZ agreement is an economically developed country²². Armenia and Kyrgyzstan are most likely to find themselves in the same situation as

Belarus. Considering that all members of the EEU have the veto power, in order to prevent Belarus (and any other member country in the same situation) from exercising its veto power in case a FEZ agreement is signed, it is necessary to develop an internal redistribution mechanism benefiting Belarus (and similar member countries).

As a result of Russian annexation of Crimea and the armed conflict in Eastern Ukraine, as of the spring of 2014, the US (subsequently joined by other countries) imposed economic sanctions against Russia²³. This posed a new challenge to the EAEU, as the sanctions do not apply to its other member states.

As of August 2014, Moscow imposed so-called anti-sanctions²⁴, thereby counteracting the existing sanctions against Russia and banning the import of food products from the US, the EU, Australia, Norway and Canada.

Given that the sanctions are only imposed against Russia and do not apply to other member countries of the EAEU, the latter have not joined the anti-sanctions as imposed by Russia. Therefore, the goods banned by Moscow may still enter the territory of Russia from other EAEU member countries. This possibility is not ruled out by the common customs territory of the EAEU which includes all of its member countries.

The experience of imposing countersanctions has demonstrated that it is primarily Russia that has incurred losses.

It is clear that the existing situation fundamentally opposes the principle of the integrity of the EAEU's common customs territory. In effect, the imposition of countersanctions has prompted the division of the territory into two areas: that of Russia and that of the other EAEU member countries.

The probability that the other member countries of the EAEU will voluntarily join Moscow's anti-sanctions is low, as this would be economically unreasonable for these countries. If Moscow applies any mechanism of pressure to influence these countries, this will further undermine the already fragile foundations of the EAEU and raise questions about its future.

Moreover, it is notable that, if Moscow should use any form of pressure against the existing member states, this would scare away other countries that Moscow may consider potential new members of the EAEU.

Because of its political ambitions, it can almost be guaranteed that Moscow will not forfeit the countersanctions until the sanctions imposed against Russia are lifted.

Thus, it is now less likely that the existing system of “sanctions and anti-sanctions” will be altered at the expense of any compromise on the part of Moscow.

As a conclusion, it can be stated that the realization of the economic model of Eurasianism in the modern global world is a utopian concept, while the economic model of the EAEU in itself is not only unstable, but also inadequate. This has become most apparent against the background of the sanctions imposed against Russia and the anti-sanctions introduced by Moscow²⁵. This conclusion is reinforced by the fact that, in 2016, due to increasing pressure stemming from the sanctions, on the one hand, and the continuing downward trend in global prices on energy resources on the other, Russia’s economic turmoil is likely to deteriorate further²⁶.

The Economic Component of Georgia’s European or Eurasian Choice

When discussing which course is more suitable for Georgia, the European or Eurasian, one must take into account all possible factors, such as historical experience and prospects for development. The economic component is one of the most significant constituent parts of any interstate association, and calls for a particular examination.

It will not suffice to focus solely on the fact that Georgia was forcibly pulled into the USSR, and moreover, that it must not return to its ranks, modernized though they may be. It is essential to analyze the dangers that the country’s future may hold. This, in turn, calls for a more or less detailed examination of a range of issues.

First and foremost, the essential disparities between the EU and the EAEU must be emphasized. These disparities are rather substantial, and each distinction is discussed in detail below.

Purpose of Establishment. The *EU* was initially set up as an economic union, in other words, a union with the aim to promote the economic development of its member states. Although the *EAEU* contains the term “economic” in its title, this union, as noted above, is not so much a means of economic development as it is a tool that Moscow employs to maintain

and increase its political influence on the member states of the EAEU via an economic mechanism (namely, redistribution of revenues not in Russia's favor).

Current Economic Status. Despite the fact that some countries in the Eurozone are experiencing a crisis, the *EU* in its entirety (with the partial exception of several Eastern European countries) is an association of states with developed economies, while the *EAEU* comprises of post-Soviet countries complete with deficient market institutions and a technological lag²⁷. While the leading EU countries are post-industrial (in the classic sense of the term), the countries comprising the EAEU (as well as other post-Soviet countries, with the exception of the Baltic States) are *post-Soviet postindustrial*²⁸. This is not so much a result of the development, or lack thereof, of a high-quality service sector in these countries, as it is of the backwardness of industrial production²⁹. Consequently, while the EU is principally an alliance of economically developed countries, the EAEU is an association of countries with clear-cut institutional and technological backwardness.

Corruption Level. According to the results of Transparency International's Corruption Perceptions Index of 2014³⁰, Denmark was the least corrupt country in the EU, ranked first among 175 countries, while the most corrupt state in the EU was Romania, ranked 69th among the world's best. In contrast, the highest-ranking country in the EAEU is Armenia, which is 94th on the global scale, while the lowest-ranking countries are Russia and Kyrgyzstan, sharing the 136th position. For comparison, Georgia ranks 50th, which renders it more in compliance with the EU standard (the closest EU-member states are Latvia at 48, and the Czech Republic at 53).

The Complexity of Membership. A country's ambition does not solely suffice for it to become a member of the *EU*. It is imperative that an applicant country meet certain standards recognized by Brussels in areas such as democratic institutions, human rights, freedom of speech and expression, and market economy. Accordingly, only after an applicant country has met European standards in all of the fields listed above is the issue of EU enlargement to include the applicant placed on the agenda. In order to encourage rapprochement with the EU, Brussels has adopted special formats of cooperation – for instance, the European Neighbourhood Policy (ENP) instrument and the Eastern Partnership (EaP). Georgia is a participant of both formats³¹. It is through the application of the EaP framework that

Georgia has managed to successfully traverse the rather difficult path towards the achievement of the Deep and Comprehensive Free Trade Area (DCFTA) agreement³², as well as the EU Association Agreement³³.

Unlike the EU, the *EAEU* has virtually no complex preconditions for membership³⁴. On the contrary, Moscow's political aim is to expand the union in order to increase its political influence on member-states via economic leverage.

If the distinctive elements between the EU and the EAEU are summed up, it can be concluded that Georgia can more easily attain membership of the latter than the former. However, this evokes the logical question of why Georgia, as a country with a more or less EU-level standard of corruption, should enter the much more (approximately doubly) corrupt EAEU, which lags behind the EU in institutional and technological terms, and simultaneously serves Moscow's political objective to strengthen Russian control over the countries in its alliance via economic leverage. It is evident that the answer to the question will not be in favor of EAEU membership.

Moreover, it must also be emphasized that the so-called **"dimensional barrier"** for the EAEU is much more critical than for the EU. The renowned Russian economist, Ruslan Greenberg brings this issue into focus when comparing the Commonwealth of Independent States (CIS) with the EU³⁵. In particular, an alliance of countries is streamlined and the alliance itself has a higher chance of success when the dimensionality of the member countries is more or less comparable. When an alliance of countries is formed, the states concerned should make a decision on the areas where they are ready to relinquish part of their sovereignty in favor of the supranational governing bodies of the association. When the dimensionality of the countries is more or less analogous, reaching consensus on this matter is easier than when one country and its economy are several times larger in size than those of all the other constituents of the union put together. In this case, the largest country finds it difficult to imagine how it can be expected to yield a share of its sovereignty equivalent to that of much smaller states. As a result, this large country attempts to relinquish far less of its state sovereignty than it obligates the other smaller member states to surrender, thereby maintaining a dominant position in the association.

One of the reasons of the EU's success is also the fact that it consolidates relatively large and simultaneously dimensionally more or less

homogeneous countries, such as Germany, Great Britain, Italy and France, and relatively small but dimensionally comparable countries, such as Belgium, Ireland, the Netherlands, etc.

According to Greenberg, the “dimensional barrier” for the CIS was rather high, since the Russian economy accounted for 67-70% of the entire economy of the CIS. This barrier is even further increased when considering the EAEU, as Russia’s share constitutes over 82% of the entire economy of the Union³⁶.

Thus, the “dimensional barrier” is also a testament to the fact that the EAEU does not have a high chance for successful development. Then the question regarding whether or not Georgia should become a member of this Union becomes even less likely to secure a positive response.

EU membership cannot be a target for Georgia, rather, it is a means to achieve the objective by which the country’s population can live in dignity, democratic institutions are sufficiently developed, human rights are protected to the highest possible extent, the freedom of speech and expression is no longer restricted, and market economy is developed to a level conducive to developing the economic fundamentals necessary for a dignified quality of life. In order to achieve these objectives, Georgia should adopt and establish EU standards, which will ultimately bring the country closer to the EU.

Conclusion

The economic foundation of the well-known Eurasianist doctrine of Russian imperial thinking is not “market economy,” but rather “society with a market.” In the modern era of globalization, an alliance of countries on the basis of the Eurasianist economic model is close to impossible to establish, as, even in the post-Soviet countries where authoritarian rule has been instituted (with a few exceptions), preference is given to market economy rather than “society with a market.”

The newly established EAEU rests on a redistribution mechanism for oil and gas revenues, whereby Russia deliberately relinquishes a part of its due gains in favor of other member-states in order to not only induce economic interest to remain within the Union, but also to maintain and enhance its political influence via this economic output.

Western economic sanctions imposed against Russia as a countermeasure to the invasion and annexation of Crimea and the military and political support provided to the breakaway regions of Eastern Ukraine, as well as the retaliatory anti-sanctions levied by Russia against the West, have demonstrated the fragility and instability of the EAEU. This is primarily reflected by the fact that the EAEU member-states are not and cannot be economically congruent with Russia.

A comparison of the EU with the EAEU does not favor the later, as, in contrast with the former organization, the EAEU is far more corrupt, with underdeveloped market institutions, and an unequivocal delay in technological development.

Moreover, an impeding factor to the development of the EAEU is the so-called “dimensional barrier,” which prevents Russia from yielding a measure of its sovereignty to the Union’s supranational governance bodies identical to that which it desires the other member-states to relinquish.

Although attaining membership of the EAEU is much easier than that of the EU, the negative aspects described above ensure that this option holds no appeal for Georgia.

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