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Eurasian Economic Union

Figure 1. EAEU Member Countries



Source: Graphic by Hannah Fischer at CRS.

Background

The Eurasian Economic Union (EAEU) integrates several post-Soviet states into an economic union. Established in 2015, the EAEU includes Armenia, Belarus, Kazakhstan, Kyrgyzstan, and the Russian Federation (Russia).

The EAEU largely was a Russian-backed initiative, and it grew out of previous regional integration efforts, including the Commonwealth of Independent States, the Eurasian Economic Community, and the Single Economic Space. Perhaps the most significant precursor to the EAEU was the Customs Union (CU). Established in 2010, it included Russia, Belarus, and Kazakhstan. It led to a common external tariff (CET), tied to Russia's own tariff rates, as well as plans to develop a common customs policy. The EAEU emerged from the CU in 2015, but with two additional members: Armenia and Kyrgyzstan.

The EAEU eases cross border trade and labor migration, and aims to eliminate non-tariff trade barriers among member states. Like the CU, the EAEU has a CET and, as of the start of 2018, a common customs code. The rates are relatively high, but the CET was expected to decrease on average from about 10.9% in 2012 to 7.9% in 2020, in part because of Russia's accession to the World Trade Organization (WTO). In addition, Kazakhstan, Armenia, and Kyrgyzstan have received a number of temporary exemptions to the CET related to their own WTO membership commitments.

The EAEU is governed by several institutions. The *Supreme Council* comprises heads of state, including Russian President Vladimir Putin. The *Inter-governmental Council* convenes prime ministers, and the two-tiered *Eurasian Economic Commission* is the organization's day-to-day decision making body. An EAEU court is tasked with managing disputes, but its mandate is limited. Two other institutions, the Eurasian Development Bank and the Eurasian Fund for Stabilization and Development, support

the EAEU's integration efforts through regional lending and investment programs.

Economics or Geopolitics?

The EAEU boasts a combined GDP of \$1.5 trillion and represents a market of 180 million consumers. Initially, the Union achieved some important milestones by reaching a provisional agreement on common border regulations and establishing a CET regime. At the same time, the bloc has faced challenges advancing many of its critical goals, such as the development of a shared energy market.

Some observers suggest the Union's issues are common to all trade blocs. Other analysts argue the EAEU's challenges are related to the Union's political dynamics, especially Russia's outsized role in determining the organization's direction. For example, in 2016, Russia imposed trade restrictions on Ukraine without the consent of its EAEU partners. Such unilateral actions made evident the power imbalance within the EAEU.

Country Membership

The three largest EAEU members (Russia, Kazakhstan, and Belarus) negotiated the EAEU and its predecessor treaties over the course of the 1990s and 2000s. Armenia agreed to join the CU and eventually the EAEU in 2013; Kyrgyzstan signed an accession agreement in 2014. Moldova became the first Observer member of the EAEU in April 2017. Tajikistan is also considering membership.

Trade Agreements

An EAEU Free Trade Agreement (FTA) with Vietnam entered into force in 2016. Several other countries, including China, India, Iran, Mongolia, Singapore, and Turkey, have expressed interest in establishing FTAs with the EAEU. Probably the most significant of these would be an EAEU-China FTA, which could enable Chinese goods to transit duty-free across Eurasia to the borders of the EU. An agreement could also lead to even greater Chinese investment in Eurasian logistics and infrastructure.

Russia

Russia is the dominant member of the EAEU. It has around 75% of its total population and over 85% of its total GDP. However, only 5% of Russia's total trade is with EAEU member states.

According to observers, Russia pushed for the creation of the EAEU to entrench its influence in neighboring states and to increase its international standing. Russia was—and still is—mindful of EU influence and its possible expansion into Eastern Europe, as well as China's increasing influence in Central Asia. In recent years, Russia has tried to give the EAEU a more political, and not just economic, character, but other countries—especially Kazakhstan—have resisted.

EAEU members also have used their membership as leverage to extract economic concessions from Russia.

According to observers, Russia's unilateral actions, like its sanctions on Ukraine and other states, undermine the credibility of the organization. Still, many EAEU members rely on Russia's energy resources, security protections, and labor market. Some observers suggest that member states accept the need for membership in the EAEU but are not entirely committed to its success.

Kazakhstan

Kazakhstan plays an important role in the EAEU. It occupies a strategic location rich in natural resources. Kazakhstan, however, has had challenges in harmonizing its tariffs with CU and EAEU rates. In 2010, when the country joined the CU, it had to raise its tariff rates, causing an estimated 0.2% loss in real income per year. In 2015, when Kazakhstan joined the WTO, the country lowered its tariffs. As a result, many of its tariff rates are below those of other EAEU members. This has led to the establishment of mechanisms to prevent the re-export of certain goods from Kazakhstan. The Kazakh government pledged to harmonize its tariff rates, but talks are not expected to take place until 2024.

Kazakhstan also is concerned the EAEU will limit its other trade relationships, particularly with China, and it has been wary of Russian efforts to increase its influence through the EAEU. Some observers say that the Kazakh government views the Union as an institutional check on Russia.

Kazakhstan has been in trade disputes with other EAEU members. In October 2017, it tightened border controls with Kyrgyzstan and barred dairy imports from Kyrgyz companies after then-Kyrgyz President Almazbek Atambayev said Kazakhstan was meddling in Kyrgyzstan's elections.

Belarus

Belarus has participated in all Russian-led economic integration efforts since the fall of the Soviet Union. Belarus receives several benefits from its close relationship to Russia. In July 2017, Russia approved a \$700 million loan for debt restructuring. Russia also supplies almost all of Belarus' oil and gas at discounted prices. Belarus then sells refined oil products in Western Europe at a profit. President Alexander Lukashenko has often threatened to leave the EAEU when Russia seeks to impose higher energy prices, but Belarus has limited options and relies on Moscow's economic support.

Other issues have caused tensions between Russia and Belarus, particularly Russian counter-sanctions on Belarusians' re-export of goods from the West (mostly food products). This resulted in stricter controls and threats of Russian-imposed bans for non-compliance.

Armenia

In 2013, Russia reportedly pressured Armenia to join the CU—and in turn the EAEU—when Armenia was finalizing

an Association Agreement with the EU, which Armenia ultimately rejected. Some observers believe Russia threatened to re-consider the Russian-Armenian security alliance, which Armenia depends on given its unresolved territorial conflict with Azerbaijan.

Armenia does not share borders with the other EAEU members, and it was a member of the WTO when it joined the Union. Even though it had existing WTO obligations, it was expected to match the EAEU's tariff schedule. To smooth the transition, Armenia received exemptions from the EAEU, granting it a longer timeframe to harmonize its tariffs.

In September 2017, several Armenian parliamentarians proposed leaving the EAEU. They said the Union was holding back the economy and complicating trade deals with other countries. In December 2017, Armenia signed a Comprehensive and Enhanced Partnership Agreement with the EU. The deal does not include a free trade agreement, however, due to Armenia's EAEU commitments.

Kyrgyz Republic (Kyrgyzstan)

As one of the poorest and least developed countries in the EAEU, Kyrgyzstan has not fared well as a member state. Prior to joining the EAEU, it was a major re-export hub for western-bound Chinese goods. It has also been a WTO member since the 1990s. In the wake of EAEU entry, the country's re-export business has faced major declines.

Observers note that Kyrgyzstan's decision to join the EAEU was influenced by the country's dependence on remittances from migrant laborers in Russia. The World Bank estimates that, even with Russia's economic downturn, remittances made up 30% of Kyrgyzstan's GDP in 2015.

Table 1. EAEU Member Statistics (current USD)

	GDP	Per Capita Income	External trade	EAEU trade
Russia	\$1.3 tr.	\$9,720	\$429.6 bn.	\$26.8 bn.
Kazakhstan	\$133.7 bn.	\$8,710	\$48.3 bn.	\$3.9 bn.
Belarus	\$47.4 bn.	\$5,600	\$24.4 bn.	\$11.4 bn.
Armenia	\$10.6 bn.	\$3,760	\$3.6 bn.	\$393.9 m.
Kyrgyzstan	\$6.6 bn.	\$1,100	\$3.5 bn.	\$445.5 m.

Sources: World Bank (2016), Eurasian Economic Commission (2016). Per capita income indicates GNI per capita, Atlas method. External trade refers to total trade with all non-EAEU countries.

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