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RUSSIA'S INTEGRATION INITIATIVES: DILEMMAS FOR THE EUROPEAN UNION¹

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Russia's assertive efforts to promote the Eurasian Customs Union and Eurasian Economic Union (EEU), the most recent and most ambitious regional integration effort involving neighbouring post-Soviet countries, poses a fundamental challenge for the EU. On the one hand, the EU has been generally supportive of regional integration efforts in other parts of the world, based on the premise that such initiatives promote better political and economic relations regionally and also contribute to a gradual liberalization of trade relations globally. The EU engages in cooperation with other regional integration efforts such as ASEAN, Mercosur, and the African Union.² Observers note a strong element of emulation of the EU in the EEU design and structure (Furman and Libman, 2015; Dragneva and

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² See, for example, http://www.eeas.europa.eu/asean/docs/plan_of_action_en.pdf <http://ec.europa.eu/trade/policy/countries-and-regions/regions/mercosur/> http://www.eeas.europa.eu/delegations/african_union/index_en.htm

Wolczuk, 2015). However, many in the EU and its member states seem to view the EEU skeptically. One reason for this more ambivalent attitude has to do with the crisis over Ukraine, where Russian pressure on Ukraine to resist the EU-Ukraine Association Agreement and Deep and Comprehensive Free Trade Area (DCFTA) was based on the desire to draw Ukraine into Russia's own integration scheme. The most extreme variant of this viewpoint is to see the Eurasian Customs Union and the EEU as a geopolitical project to reconstitute something like a Russian (read Soviet) empire, or, in a less extreme variant, as a rival to EU influence in the region (Dragneva and Wolczuk, 2012, p. 9). Other concerns have to do with lack of clarity regarding goals of interaction between the EU and EEU, and perceived Russian dominance in the initiative, despite formal institutional protections for smaller members. Questions are also raised about the viability of the initiative both for economic reasons (e.g., inadequate complementarity of economies of the countries involved) and due to differing political objectives, evident since the Ukraine crisis has created additional cracks in its previous degree of unity (Furman and Libman, 2015, pp. 186-88). Even within Russia various viewpoints are present as to the relative weight of political and economic motivations for the project (Sakwa, 2015). At the same time, some analysts see the two integration projects as embodying 'differing sets of values, patterned behavior and strategic visions' (Korotseleva, 2015, p. 194). Western reactions to the EEU are reflective of underlying tensions in the EU-Russian relationship, which erupted in the Ukraine crisis. And certainly the current general freeze in relations poses additional obstacles to a positive trajectory in EU-EEU interaction.

It is worth stepping back from the poisoned political rhetoric and considering the issue from a more pragmatic policy perspective. Apart from the above-mentioned political interpretations, the EEU still poses several real dilemmas and choices for the EU. First, for Russia, at a high political level it represents an explicit turning away from the EU's definition of 'Europeanness', and poses the possibility of an alternate normative framework to govern not only relations between but developments within countries that the EU considers as part of its neighbourhood. Belarus, Armenia, Kazakhstan and Kyrgyzstan have joined, while other countries such as Ukraine, Moldova, Georgia, and Azerbaijan are, for various reasons, resistant to the EEU's overtures. Most important for the EU, however, is of course Russia itself, as the largest, most influential and most important trading and political partner of the EU in the region. While the EU insists that a normalization of relations cannot occur unless Russia desists interference in eastern Ukraine and facilitates fulfilment of the Minsk II agreements, Russia firmly maintains that a 'normalization', as represented by the status quo ante, is also not acceptable. This position reflects the Russian leadership's unambiguous rejection of a 'made in Brussels' definition of European integration and of what it means to be 'European'. In one sense this is not a new position, as Russia has, ever since it issued its 1999 strategy paper (Strategy, 1999) on relations with the EU, insisted on national sovereignty as the basis of relations. However previously, at least rhetorically, Moscow did not so much contest EU-Europe values as challenge their interpretation and application by Brussels. Furthermore, the goal of an integrated economic space, from Lisbon to Vladivostok, was previously very much in the Russian narrative. Russia's increasingly vocal promotion of this Eurasian integration project, however, implies a normative counterpoint to the EU in the European space. This requires a fundamental rethinking of assumptions that underlie Brussels policy toward Russia, as well as implications for those neighboring countries that are receptive to the Russian narrative. Most notable is the question of whether the EU should continue to insist on the universality of the EU-Europe normative frame or whether the EU should cede its position as the authoritative interpreter of European values, making room for alternative interpretations of Europeanness, in this way continuing to include Russia in the European civilizational discourse. The other option would be to embrace the 'Eurasian' definition, leaving Russia as only conditionally or partially within the sphere of European values.

A second dilemma for the EU posed by the EEU relates to trade and economic relations. An underlying assumption of the EU's approach to Russia has been that economic interdependence is a key tool for nurturing better political relations. This is in line with the fundamental rationale for European

integration itself. While the Ukraine crisis, with its cycle of economic sanctions and counter-sanctions, has already begun to undermine this logic, one can conclude that the EU's relatively restrained and deliberative response to Russia's actions regarding Crimea were strongly conditioned by the intensity of trade relations. Without that, tensions could have spiked more quickly and with graver consequences. There is still a very high level of trade interdependence between the EU and Russia, and despite talk of energy diversification in the EU and import substitution in Russia, this is likely to remain so. The question is whether to find a basis to rebuild lost ground or to accept a gradual slide that might be hard to reverse. If the logic of 'peace through interdependence' is sustained, then the former path must be chosen. With the transfer of some economic competencies from the national level to the EEU, Russian authorities insist that in a number of fields the only appropriate interlocutor for the EU, in many economic arenas, is the now the EEU, rather than the Russian Federation. However, it is not clear that obstacles to progress in economic cooperation with Russia that existed prior to the outbreak of the 2014 Ukraine crisis would be either mitigated or substantially worsened were the EU to commence negotiations with the EEU in areas of EEU competence. Opening this new avenue of negotiation might, in fact, change very little. Discussions between the EU and EEU would face many of the same issues as existed in the previous EU-Russia relationship. Russia and the EEU would likely resist regulatory convergence based on an EU norms in some areas or simply not implement them; Europe's protection of its agricultural producers is unlikely to change; and Russian protection of its key strategic sectors is also unlikely to weaken. Western concerns about the investment environment, in light of continuing high levels of corruption and uneven application of legal protections, are also likely to remain. On the other hand, some other EEU member states could be prepared to press for greater flexibility in negotiations, particularly Kazakhstan and possibly Armenia. The fact that one member of the EEU, Belarus, is not a member of the World Trade Organization is cited by EU officials as a further obstacle to EU-EEU trade agreements.

In fact a greater problem, as identified by experts in Russia, is the fact that Russian officials have little interest in a free trade zone with the EU because Russian firms would have trouble competing with EU producers. In and of itself a liberalization of trade would not necessarily promote innovation and diversification of the Russian economy, but could work to the disadvantage of some Russian producers. While Russia and other EEU partners would benefit from increased European investment, Western concerns about the investment environment, in light of continuing high levels of corruption and uneven application of legal protections, are also likely to remain. Thus, if formal relations between the EU and EEU are to be developed, they would need first to be broadly framed to ascertain interest from EEU partners, and to attempt to understand how any future partnership might promote modernization that encompasses concerns about innovation and investment of Russia and its EEU partners, on the one hand, and rule-of-law and governance issues that are of particular interest to Western firms and economic partners, on the other. Of course while mutual sanctions remain place, the whole endeavor remains unlikely.

Finally, the issue of how any such negotiations could affect countries that are included in the EU's Eastern Partnership policy is also a consideration for the EU. While conclusion of an Association Agreement and DCFTA with the EU would not, ipso facto, prevent them from remaining in the Commonwealth of Independent States' Free Trade Area (CIF FTA), in fact Russia has unilaterally suspended trade benefits associated with Ukraine's membership in the CIS FTA due to the activation of the EU-Ukraine DCFTA as of January 1, 2016 (Hille et al., 2015). On the other hand, countries which have decided to join the EEU (Armenia, Belarus, Kazakhstan, and Kyrgyzstan) would not be able to sign an FTA with the EU since it is not possible for a member of a customs union to deviate from terms of the customs union through conclusion of a free trade agreement with another external partner. Were the EU to commence direct negotiations with the EEU, the question would arise over the status of countries like Ukraine, Georgia, and Moldova, which have operative DCFTA's with the EU. These countries would be on the sidelines of any such negotiations but still (potentially or actually) subject to negative trade sanctions issued unilaterally by Russia. A fundamental issue for the EU and its

partners would be gaining agreement from Russia and the EEU to respect the choice of countries to refrain from joining either Customs Union without being pushed out of existing trade agreements. The failure of the Russia-Ukraine-EU trilateral talks over the months before December 2015 to come to agreement about Russia's objections to the Ukraine-EU FTA does not bode well for gaining such an agreement. However the fact that other members of the EEU, beyond Russia, have not agreed to the most recent Russian trade sanctions against Ukraine might mean that EU-EEU talks could put the cat among the pigeons. On the other hand, moving forward with such talks could appear to leave Ukraine and other EU partners marginalized.

There are no clear answers to these three dilemmas and no clearly correct choice. However, all three make evident that a return to the status quo ante, as Russian spokespersons contend, is not likely.

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