



## THE EURASIAN ECONOMIC UNION: PAST, PRESENT AND FUTURE

The Eurasian Economic Union (EEU) has gone through some difficult and challenging times before reaching its current stage of development. The Customs Union (CU) and Common Economic Space (CES) between Russia, Belarus and Kazakhstan could be considered as the key elements of the EEU as a regional integration project. The first document, which might be called as the first prerequisite to create the CU, was the Agreement on the Customs Union signed by Belarus, Kazakhstan, and Russia on January 20, 1995. However, due to various reasons the provisions of the adopted document, as well as the obligations arising from that instrument, failed to be implemented. One of the key reasons for the failure of the member states to form the CU was the inability of the parties to set aside differences and find common ground on the core issues related to harmonization of provisions of the agreements on exemptions from the free trade regime, which in turn led to new restrictions and obstacles. As a result, disputes that had arisen between the CU member states prevented them from reorganizing their customs services.

On February 26, 1999, in order to outline further steps to raise the effectiveness of economic co-operation, Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan signed the Agreement on the Customs Union and the Single Economic Space. Under the agreement, the following stages of integration were defined, without a specific time frame: the first stage – the full-scale implementation of the free trade regime; the second stage – the creation of the CU; the third stage – the creation of the Single Economic Space. Another important step towards deepening regional economic ties was taken in the capital of Kazakhstan, Astana, on October 10, 2000, when the heads of Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan signed the Agreement on the establishment of the Eurasian Economic Community (EurAsEC).

Since the EurAsEC had a favorable impact on economic cooperation contributing to an increase in mutual trade between the member states, in August 2006, Belarus, Kazakhstan and Russia decided to create the CU within the EurAsEC. During the regular meeting of the EurAsEC Inter-state Council held in the capital of Tajikistan, Dushanbe, in October 2007, the Commission of the Customs Union (CCU) was established with Russia having 57% of the votes, and Kazakhstan and Belarus having 21.5% of votes each. The dates of January 1, 2010 and July 1, 2010, when the necessary groundwork for launching the legal basis was

completed, are very important in terms of the establishment of the CU. Based on more than 40 international agreements, the Russia-Kazakhstan-Belarus CU came into force on January 1, 2010. At that time, the CU member states transferred their sovereignty in the tariff policy to the CCU, which was tasked with developing customs tariff and non-tariff regulations that have subsequently been put into practice for conducting trade relations between the three founding members and third countries. On July 1, 2010, the Common Customs Territory of Belarus, Kazakhstan, and Russia was established. Moreover, the meeting of the EurAsEC Interstate Council, which was the Supreme Governing Body of the CU, held in Astana on July 5, 2010, resulted in the signing of a package of documents, including the statement by the Belarusian, Kazakhstani and Russian presidents on the entry into force of the Customs Code of the CU starting from July 6, 2010. Further development of integration based on the CU was the formation of the CES. On January 1, 2012, 17 agreements that formed the legal basis of the CES entered into force.

As the next move, on November 18, 2011, in Moscow, the presidents of Belarus, Kazakhstan and Russia signed a set of documents, including the Declaration on Eurasian economic integration that allowed to move towards a new stage of integration with the ultimate goal of establishing the Eurasian Economic Union until 2015. As a result of the meeting, the parties signed the Agreement on the Eurasian Economic Commission (EEC), which became a new permanent regulatory body of the CU and CES and started functioning on February 1, 2012. Moreover, according to the agreement on the EEC, powers concerning the CU and CES were delegated from the EurAsEC Interstate Council to the Supreme Eurasian Economic Council (SEEC). During the meeting of the SEEC held in Moscow on December 19, 2012, the parties agreed that the draft of the Agreement on the EEU would be prepared by May 1, 2014. During the meeting of the SEEC held on May 29, 2014 in Astana, the presidents of Belarus, Kazakhstan and Russia signed the Agreement on the EEU. Furthermore, on October 10, 2014, during the meeting of the EurAsEC Interstate Council in Minsk, the member states signed the treaty terminating the EurAsEC. Moreover, at the meeting the Agreement on the Accession of Armenia to the EEU was signed, while the Agreement on the Accession of Kyrgyzstan to the EEU was inked on December 23, 2014, in Moscow.

Being an international organization for regional economic integration, the EEU provides free movement of goods, services, capital and labor, pursues coordinated and harmonized policy in the sectors determined by the international agreements within the union. According to the EEC, the total volume of trade between the EEU member states and third countries reached \$579.4 billion in 2015, with exports and imports amounting to \$373.9 billion and \$205.5 billion, respectively. The volume of mutual trade between the EEU member states reached \$45.7 billion in 2015. In 2016, mutual trade between the EEU member states declined to \$42.5 billion, which is a 6% decrease compared to 2015. The decrease was observed not only in mutual trade between the EEU countries, but also in the total trade volume with third countries. In 2016, total exports fell by 17.5%, or \$65.4 billion, while total imports reduced by 2%, or \$4.2 billion. Although the EEU could not provide the expected trade turnover increase in the first two years, the figures for 2017 are rather promising. For instance, in January-July 2017, the volume of mutual trade between Kazakhstan and other EEU members reached \$9.4 billion, which is a 34% increase compared to the same period of 2016. Exports totaled \$2.87 billion with a 37.5% increase, while imports reached \$6.5 billion with a 32.5% increase.

With regard to prospects for the future, the EEU has an open structure, and there is a possibility that new members will join the union in the coming years. The 2014 enlargement, when Armenia and Kyrgyzstan joined the EEU, showed that the union is open for further expansion in the future. In fact, due to high dependence on remittances from Russia, Tajikistan seems to be the next candidate for accession to the EEU.

To conclude, the main reasons for the formation of the EEU include strong economic interdependence due to common history and current economic strategies focused on the concept of Eurasian integration. Therefore, the creation of the union could be explained by both economic and political motives. Economic integration between the countries is a multi-stage process, and disputes on various topics still persist between the EEU member states. In addition, the devaluation of national currencies and the decline in consumer demand affect the economies of the member states. However, the member states have been able to deal with their problems through dialogue and compromises, and possible future issues and challenges can be addressed the same way.

## Politics, Foreign Affairs and Security

- The inauguration of the elected president of Kyrgyzstan was held in the Ala-Archa state residence in Bishkek. New head of state Sooronbai Jeenbekov replaced Almazbek Atambayev, who was constitutionally barred from seeking a second presidential term. In his inauguration speech, Jeenbekov pledged that he would fight corruption and continue the policies advanced by his predecessor.
- On the sidelines of the Eastern Partnership Summit held in Brussels, the high-ranking officials of the EU and six partner countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine) discussed prospects of reinforcing Eastern Partnership cooperation in a number of specific areas such as small and medium-sized enterprises, digital economy, broadband investments, and investments in transport, energy and infrastructure projects. Following the talks, the parties signed the joint declaration.
- During his official visit to Seoul, President of Uzbekistan Shavkat Mirziyoyev met with President of South Korea Moon Jae-in to discuss a wide range of issues related to long-standing bilateral cooperation between the two countries. As a result of the visit, the parties signed a number of agreements, including the agreement on cooperation in financing investment projects in Uzbekistan, the memorandum of understanding on cooperation in the issues of Uzbekistan's accession to the World Trade Organization, the cooperation program between the Ministries of Foreign Affairs of the two countries for 2018-2020.
- During the 5th Meeting of Secretaries of the Security Councils of the Commonwealth of Independent States (CIS) held in Moscow, the participants discussed relevant problems of regional cooperation in the light of modern challenges and threats to stability and security within the CIS space.
- During his official visit to Moscow, Foreign Minister of Japan Taro Kono met with his Russian counterpart Sergey Lavrov to discuss issues related to the strengthening of economic and investment cooperation, focusing on prospects of boosting bilateral trade.
- During his official visit to Tashkent, First Deputy Prime Minister of Kazakhstan Askar Mamin met with Prime Minister of Uzbekistan Abdulla Aripov to discuss expanding cooperation between the two countries in a number of areas, including agriculture, industry, security, and transport.
- During his official visit to Baku, Chairman of the Joint Chiefs of Staff Committee of

Pakistan General Zubair Mahmood Hayat met with Defense Minister of Azerbaijan Colonel General Zakir Hasanov to discuss military cooperation between the two countries, with special attention paid to strengthening fruitful bilateral ties, especially in the field of military education.

## Economy, Finance and Energy

- President of Uzbekistan Shavkat Mirziyoyev signed the decree on the allocation of 2 trillion soms (\$28.69 billion) to the oil refineries for importing oil and oil products. According to the decree, hydrocarbon raw materials imported by the country's enterprises are exempted from customs payments until January 1, 2020. For the same period, the oil refineries owned by the Uzneftmahsulot oil and gas company are exempt from income tax, with the targeted direction of released funds for the modernization of their capacities and the increase of production volumes.
- The State Duma of Russia passed the bill on the federal budget for 2018 and the planned period of 2019-2020. According to the bill, Russia's budget revenues will amount to 15.26 trillion rubles (\$256 billion) in 2018, 15.55 trillion rubles (\$260 billion) in 2019, and 16.3 trillion rubles (\$273 billion) in 2020. Budget expenditures are planned at 16.53 trillion rubles (\$277 billion) in 2018, 16.4 trillion rubles (\$275 billion) in 2019, and 17.15 trillion rubles (\$287 billion) in 2020. As a result, the federal budget deficit will total 1.3 trillion rubles (\$21.8 billion) in 2018, 819.1 billion rubles (\$13.7 billion) in 2019, and 870 billion rubles (\$14.5 billion) in 2020.
- According to Vitaly Markelov, the Deputy Chairman of the Management Committee of the state-owned gas producer of Russia, Gazprom, the company's gas supplies via the Nord Stream pipeline currently exceed the projected capacity by 10%. It was noted that the maximum daily volume of gas, or 164.7 million cubic meters, was delivered via the pipeline to northern Germany. It is expected that following the completion of the Nord Stream 2 pipeline's construction, gas supplies via Nord Stream 1 and Nord Stream 2 will double by 2019 to 110 billion cubic meters per year.
- The Government of Kyrgyzstan approved the draft law on the state budget for 2018 and the forecast for 2019-2020. Revenues of the budget in 2018 will amount to 142.6 billion soms (\$2.05 billion), or 26.5% of GDP, which is 15.7 billion soms (\$230 million) more compared to 2017. In 2018, the budget expenditures are expected at the level of 162.8 billion soms (\$2.34 billion), or 30.3% of GDP. Compared to the

current year, expenditures will grow by 12.7 billion soms (\$180 million).

- As part of the state visit of President of Uzbekistan Shavkat Mirziyoyev to Seoul, Uzbekistan and South Korea signed a total of 75 cooperation documents and agreements worth \$8.9 billion. In particular, the sides signed the agreements in the energy and oil spheres for \$2.29 billion, in the banking and financial spheres for \$2.7 billion, in construction and infrastructure development for \$1.7 billion. South Korea is one of the largest investors in Uzbekistan. As of January-October 2017, the trade turnover between the countries grew by 1.3 times up to \$1.1 billion.

## Society and Culture

- On the sidelines of the official visit of President of Azerbaijan Ilham Aliyev to Brussels, Azerbaijani Ambassador to Belgium and Luxembourg Fuad Iskandarov and government officials of Belgium, the Netherlands and Luxembourg signed an agreement exempting service passports holders from visa requirements.
- President of Russia Vladimir Putin signed the law on foreign media agent registration that allows the authorities to designate as foreign agents certain mass media outlets that operate in Russia but are funded from abroad. After acquiring this status, these media outlets will be subject to the restrictions and responsibilities, which are currently envisaged for non-governmental organizations labeled as foreign agents.
- Prime Minister of Kyrgyzstan Sapar Isakov signed a decree that requires all public officials of the country to know the Kyrgyz language at a basic level starting in 2019. Under the decree, state civil servants and municipal employees occupying the highest, senior and junior administrative positions are required to know the state language in the volume and at a level not lower than: Basic level (A2) – since 2019; Intermediate level (B1) – since 2020; Upper Intermediate level (B2) – since 2021. Starting March 1, 2018, mass mandatory testing of all state civil servants and municipal employees will be conducted.
- According to the Ministry of Finance of Kyrgyzstan, the 3rd World Nomad Games may cost more than 307 million soms (\$4.4 million) to the state budget of Kyrgyzstan. The Ministry of Culture, Information and Tourism will allocate 175 million soms (\$2.51 million) for the preparation of the event. 132.2 million soms (\$1.89 million) will be transferred to the State Agency for Youth, Physical Culture and Sports.