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THE EURASIAN UNION

AN INTEGRATION PROJECT UNDER THE MICROSCOPE

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"The biggest geopolitical disaster of the 20th century". This is how Russian President Vladimir Putin described the collapse of the Soviet Union in 1991. Even those who do not share this view cannot deny that it has hardly been clear sailing to turn a single economic space that had long been part of one state with extremely well-integrated industry and established trade flows into 16 separate nations. Since 1991 there have been many very different attempts to create international organisations in the post-Soviet area, which were motivated by both geopolitical and economic considerations. But they have all proved to be largely unsuccessful. The Commonwealth of Independent States (CIS), the Union State of Russia and Belarus, the Eurasian Economic Community – none of these have lived up to their promises and have all quickly become little more than committees with only very limited influence. In recent years, a new proposal has been tabled: the Eurasian Economic Union. This is to be established in a three-stage process. It is based on the Customs Union set up by Russia, Belarus and Kazakhstan in 2009 and which was joined by Armenia last year. The members of this Customs Union have removed tariffs on mutual trade and harmonised tariffs for non-members. They have also agreed to gradually ease other non-tariff trade barriers.

In 2012, the second stage was to create a single economic space to guarantee the free movement of goods, services, capital and labour among member states. It is then planned that the Eurasian Economic Union will enter fully into force on 1 January 2015. It will be similar to the European Union in many respects, including its stability criteria, which will resemble those set out in the Maastricht Treaty.

So is the Eurasian Economic Union just going to be another chapter in this ongoing history of misadventures, or is it really something new? This new project goes much further than its predecessors, at least in terms of the depth of the proposed integration. It also differs from its many antecedents through the creation of a much stronger institutional basis. For the first time in a post-Soviet integration project, it is proposed to set up wide-ranging and far-reaching institutions. Another new aspect is the way the project is being set up in line with international standards, partly as a result of Russia's entry to the World Trade Organisation in 2012. And above all, the real novelty is the fact that Russia has agreed to limit its own powers. The guiding light of this project has agreed that all member states should have equal voting rights, making Russia at best *primus inter pares*. However, its sheer size and economic power compared to the other members will ensure that Russia will still de facto assume the role of leader.

RUSSIA AND THE EURASIAN ECONOMIC UNION

Every year on 12 June, the Russian Federation celebrates Russia Day. Until 2002 it was known as Independence Day, a public holiday introduced by President Boris Yeltsin in 1994 to mark Russia's departure from the Soviet Union in 1991 and the emergence of the Russian Federation as an independent state. But it is a holiday many Russians have little cause to celebrate. Today, many still believe the decision to leave the Soviet Union and provoke its collapse was unnecessary and even harmful.

On 12 December 2013, Russian singer Oleg Gazmanov serenaded the Russian Federation's political elite with his song "Born in the USSR": "Ukraine and the Crimea, Belarus and Moldova, this is my land! [...] Kazakhstan and the Caucasus, the Baltic States too. [...] I was born in the Soviet Union, born in the USSR!"¹ This took place at the Kremlin on the occasion of celebrations to mark the 20th anniversary of the constitution of the Russian Federation.



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1 | "The Ministry of Foreign Affairs of Latvia condemned performance of the Song of Gazmanov about the USSR in the Kremlin", *Russian News*, 17 Dec 2013, <http://rupaper.com/post/13968> (accessed 22 Jan 2014).

Fig. 1

Overview countries described in this article

Source: Own presentation.

These are just two examples of Russia's difficulty in coming to terms with its loss of power and size in the wake of the collapse of the Soviet Union. So the various attempts to reunite the former Soviet Union may also be due to a desire to restore its former strength and area of influence – beginning with the establishment of the CIS, then the various customs unions and treaties and finally the Eurasian Economic Community. In the West, the Eurasian Economic Union project is also often viewed as another attempt by Russia to turn back the clock. But it could be a fatal mistake to dismiss this project so lightly.

The route to economic union

Some very concrete steps have already been taken towards building the structures of the future Eurasian Economic Union (at present still the Customs Union and the Single Economic Space, SES). The Council of the Eurasian Commission and its Board,² which both resemble the EU's structures, are already at work, as is the Court of the

2 | Eurasian Economic Commission, *Eurasian Economic Integration: Facts and Figures*, 2013, http://eurasiancommission.org/ru/Documents/broshura26Body_ENGL_final2013_2.pdf (accessed 22 Jan 2014).

Eurasian Economic Community. The necessary legal framework for the Customs Union of the three countries came into force in January 2010.

On 1 July 2010 the Commission was authorised to investigate the introduction of anti-dumping, countervailing and safeguarding measures by the Customs Union with regard to goods from third countries. On 1 July 2011 all border controls between Belarus, Kazakhstan and Russia were lifted. The Custom Union's regulatory framework, which contains more than 70 international treaties and over 900 regulations set by the Commission, entered fully into force at the end of 2011. With regard to the creation of the Single Economic Space, on 1 January 2012 17 agreements entered into force that must be implemented by 1 January 2015. On 5 July 2010 the member states signed the statute of the Court that governs the Court's organisation, responsibilities and procedures. The Court itself is based in Minsk and began its work on 1 January 2012.³ There is a clear qualitative difference compared to previous projects: treaties are being observed and a joint legal framework is being implemented, with potential penalties for non-compliance. In the event of disputes, the Court interprets the treaties signed by the member states and gives its independent verdict.



Elvira Nabiullina, then Russian trade minister, at a WTO conference in Geneva, 2011: Russia, member of a customs union with Belarus and Kazakhstan, since 2012 is a WTO member. | Source: Eric Bridiers, United States Mission Geneva, flickr ©©©.

3 | Court of Eurasian Economic Community, "История" (History), <http://sudevrazes.org/main.aspx?guid=6201> (accessed 22 Jan 2014).

It is worth noting that agreements on economic issues are obliged to comply with WTO conditions. Russia has been a member of the World Trade Organisation since 2012 and is therefore bound to comply with its guiding principle that all regulations within the Single Economic Space must conform to WTO rules. The two other partners are simply left to deal with these hindrances without enjoying the benefits of being WTO members. On the positive side, this situation could help them to modernise their economies.

The measures that have been taken so far to create a Single Economic Space as a step on the way to establishing the Eurasian Economic Union have been very pragmatic and have generally focused on economic aspects. They have aimed to harmonise standards, norms, rules and taxation. This is an important point, as this integration project is essentially a political project. After all, from an economic point of view, Russia is not exactly under pressure to drive this project forward.

Table 1

Russia's foreign trade with Belarus and Kazakhstan, in million U.S. dollars

Export	1995	2000	2005	2008	2009	2010
Total	14,530	13,824	32,627	69,656	46,811*	59,685
Belarus	2,965	5,568	10,118	23,507	16,726	18,058
Kazakhstan	2,555	2,247	6,534	13,299	9,147	10,796
Import	1995	2000	2005	2008	2009	2010
Total	13,592	11,604	18,996	36,607	21,818*	31,606
Belarus	2,185	3,710	5,716	10,552	6,718	9,816
Kazakhstan	2,675	2,200	3,225	6,379	3,697	4,478

* Including Georgia, which left the CIS in 2009.

Source: Russian Federal State Statistics Service, "Внешняя торговля Российской Федерации с государствами-участниками СНГ" (Foreign Trade of the Russian Federation with CIS member states), 2011, http://gks.ru/bgd/regl/b11_58/IssWWW.exe/Stg/d2/06-08.htm (accessed 22 Jan 2014).

If we look at the volume of trade between the three current member states, Russia, Belarus and Kazakhstan, particularly before they formed the Customs Union, we see that it comprises a very small proportion of their respective total trade volumes (Table 1). What is more, the three economies do not complement each other but indeed tend to find themselves in competition. For example, Kazakhstan, like Russia, is a major supplier of energy resources. Kazakhstan's economy, with a per-capita GDP of 9,070 U.S. dollars and the Belarusian economy, with a per-capita GDP of 5,819 U.S. dollars, are not exactly attractive partners that promise tangible market expansion for Russia (per-capita GDP of 10,710 U.S. dollars in Russia compared to 40,164 U.S. dollars in Germany).⁴

"An independent centre of global development"

President Putin himself has made it clear that his motivation for this integration project is largely of a geopolitical nature. On 3 October 2011 he published an article in the newspaper *Izvestia*, in which he outlined his ideas for the Eurasian Union: "We propose a powerful supranational association capable of becoming one of the poles in the modern world and serving as an effective bridge between Europe and the dynamic Asia-Pacific region."⁵ On 19 September 2013, Putin repeated his strategic view of the Eurasian Union: "Eurasian integration is an opportunity for the post-Soviet area to become an independent centre of global development rather than being on the periphery of Europe or Asia."⁶ In Moscow it is assumed that the establishment of common rules and standards within the Customs Union of Russia,

In Moscow it is assumed that the establishment of common rules and standards within the Customs Union of Russia, Kazakhstan and Belarus will aid the economic growth of these three countries.

- 4 | All figures from 2010. Cf. "GDP per capita", The World Bank, <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD> (accessed 22 Jan 2014).
- 5 | "Новый интеграционный проект для Евразии – будущее, которое рождается сегодня" (A new integration project for Eurasia – A future that is born today), *Izvestia*, 3 Oct 2011, <http://izvestia.ru/news/502761> (accessed 22 Jan 2014).
- 6 | "Путин: Евразийская интеграция позволит ее участникам не быть периферией Европы или Азии" (Putin: Eurasian integration will allow those involved to not be the periphery of Europe or Asia), *Voice of Russia*, 19 Sep 2013, http://rus.ruvr.ru/news/2013_09_19/Putin-Evrazijskaja-integracija-pozvolit-ee-uchastnicam-ne-bit-periferiej-Evro-pi-ili-Azii-2180 (accessed 22 Jan 2014).

Kazakhstan and Belarus will aid the economic growth of these three countries. The financial and economic crisis of 2008 also demonstrated to Russia the vulnerability of its economy and its extreme dependence on the global economic climate. A larger economic area can only be an advantage in this respect. The Russian president can also argue that it is important to be in a better position to counter the effects of global crises.⁷

The new institutional structures are not only designed to strengthen the economies of the post-Soviet area but also to create a stronger negotiating position.

When seen in this light, the Eurasian Economic Union project could serve to rekindle nostalgic yearnings for former greatness.

It can also rightly claim that the close and long-standing ties in this region provide a foundation for future cooperation. However, steps towards integration are being approached with a great deal of pragmatism, something that is particularly visible in the new institutional structures. These are not only designed to strengthen the economies of the post-Soviet area but also to create a stronger negotiating position. In the past, it has been difficult for Russia to negotiate with the EU as an individual country. The EU is obliged to demonstrate that its *acquis communautaire* is non-negotiable, as it is already the result of a compromise. The Eurasian Economic Union could allow Russia to use the same argument in future. It could also provide an opportunity for Russia to assert itself more strongly in the face of China. Despite all the criticisms it voices about the EU, Russia still views it as a more viable partner than its Chinese neighbours. This is why Moscow is seeking closer economic ties with the EU. Russian policy-makers are aware that the EU is the only partner that can assist with the country's urgent need for modernisation and diversification. At the official presentation of the Eurasian Union project, President Putin reminded his audience about the possibility of creating a single economic space and waiving visa requirements with the EU.⁸ But it is important for Russia to be treated as an equal partner in negotiations.

7 | "В. Путин: Борьба с кризисом помогут интеграционные связи" (Putin: Fighting the crisis will help integration ties), *RBC*, 25 Oct 2013, <http://top.rbc.ru/economics/25/10/2013/884987.shtml> (accessed 22 Jan 2014).

8 | Cf. n. 5.

The current developments within the Eurasian Economic Community have been welcomed by German and European businesses active in Russia. As far as they are concerned, an expanding market operating under the same rules can only be beneficial. This does not necessarily mean they agree with every single detail, but they are more concerned when they have the impression that the European Union is not talking to the new Eurasian Union. Businesses (particularly those based in Russia and CIS countries) are intensely interested in the developments taking place in the Eurasian Economic Space, and over recent months there has been a stream of academic publications on every aspect of the Eurasian integration project. However, at a political level, Germany and Europe have been keeping a critical, even seemingly indifferent, distance. The failed attempts by the EU and Ukraine to sign an Association Agreement in Vilnius in November 2013 even brought to light the zero-sum, confrontational mentalities that linger on both sides.

So there are many good reasons to take a positive approach towards efforts to create a Eurasian Economic Union. In the past, the EU has basically supported each and every attempt at integration around the world, including Mercosur in Latin America, the Andean Community, ASEAN in Southeast Asia and the African Union. Prosperous regions bring clear benefits to the global economy and hence also to the economies of Germany and Europe. But a strengthening of Russia's political integration with the Central Asian states would also be advantageous. The CIS countries in Central Asia border politically turbulent zones, so a harmonised regional foreign policy is also of great interest to the EU.

Much remains to be done before the official launch of the Eurasian Union on 1 January 2015. It is clear that the economic growth experienced by the Eurasian Economic Community in 2010 and 2011 has not continued. Between 2010 and 2011 internal trade increased by 33.9 per cent, whereas the figure dropped to just 8.7 per cent between 2011 and 2012.⁹ It therefore seems likely that

9 | Eurasian Economic Commission, *Eurasian Economic Integration: General Overview*, Feb 2013, 5, <http://eurasiancommission.org/ru/nae/news/Documents/as0103.pdf> (accessed 17 Dec 2013).

the increases in internal trade between member states had more to do with general recovery after the global economic and financial crisis than with the establishment of the new union.

One of the key questions will be to what extent the participating countries are prepared to give up their sovereignty. This will be a necessity if integration is to succeed. Russia's sheer size inevitably leads to considerable disparities. An initial step was made with the creation of the Eurasian Economic Commission as a supranational body with a board that makes decisions independently of the three governments. Each country has three representatives, all with equal voting rights. The independence of the Court of the Eurasian Economic Community also creates conditions that encourage equality. However, the Council of the Eurasian Economic Commission comprises the deputy prime ministers of the three countries. They have to reach their decisions via consensus, which provides Russia with a means to assert its dominance. This may be one of the reasons why other countries are hesitant about joining the Union. Kazakhstan and Belarus have also made it clear that they are not interested in a deeper political union that entails loss of sovereignty.¹⁰

A board member of the Eurasian Economic Commission has stated that there can be no successful regional integration without Ukraine. The economic potential of Ukraine makes it a desirable partner in the integration project.

The acid test for Russia will be what happens in Ukraine. For historical reasons, many Russians feel a close connection to their neighbours, but the economic potential of Ukraine also makes it a desirable partner in the integration project. Minister Tatiana Volovaja, a board member of the Eurasian Economic Commission, has clearly stated that there can be no successful regional

10 | See "Лукашенко дал развернутое интервью казахстанским государственным СМИ перед визитом в Казахстан" (Lukashenko gave an extensive interview with the Kazakh state media before his visit to Kazakhstan), *Imperiya*, 3 Oct 2013, <http://imperiya.by/news.html?id=117220> (accessed 18 Dec 2013). Belarusian President Alexander Lukashenko stressed in this interview: "The sovereignty and stability of the state – this is important. We must be sovereign, independent states." Cf. also Julian Cooper, "Die eurasische wirtschaftliche Integration nimmt Fahrt auf", Bundeszentrale für politische Bildung (bpb), 3 Jun 2013, <http://bpb.de/internationales/europa/russland/162285> (accessed 17 Dec 2013).

integration without Ukraine.¹¹ It would be a hard pill for Russia to swallow if Ukraine decided to take another route. As we saw in the weeks leading up to the summit in Vilnius in November 2013, Russia will do everything it can to get Ukraine on board.

There is another area of economic integration that is an explosive issue. The Russian Federation already plays host to large numbers of migrant workers from the Central Asian states. An economic community that eventually leads to the free movement of labour will increase these numbers still further, particularly as Russia is dependent on these workers. However, particularly in the major cities, the Russian people see things differently. Tensions are running high between Moscow's native population and the migrant workers. This is clearly becoming an election issue, as was demonstrated by opposition politician Alexei Navalny during the mayor elections in Moscow in September 2013. This gave a clear sign that there is an unresolved problem politicians need to address.



"Independent centre of global development"? Russia's President Putin (r.), with Ukraine's Prime Minister Azarov in Dezember 2013, is promoting the Eurasian Union. | Source: © Alexei Nikolsky, Ria Novosti / picture alliance.

11 | "Auf dem Weg zur Eurasischen Union", German Council on Foreign Relations, 2012, <https://dgap.org/de/node/22927> (accessed 22 Jan 2014).

More than a status symbol

The subsidies that Russia has to be prepared to pay out for this integration project cannot be hidden from the Russian people. The economic disparities between the member states will not disappear without financial aid. In addition to this, one must also consider the offers of financial assistance from Russia as motivating factors for countries, such as Belarus, to seek membership in the Eurasia Economic Union. No-one can predict whether these subsidies will also be borne by the public in the long-term. Albir Krganov, a member of the Russian Federation's Civic Chamber, at least made reference to the issue of political acceptance: "The Eurasian Union could form a foundation for the unification of the post-Soviet area in terms of economic and foreign policy. But it will be very difficult to implement this project without the support of the public."¹²

So far, President Putin appears to be serious about the Eurasian Economic Union. But he still needs to prove it. For the Russian Federation, this means being willing to offer its partners long-term support and giving up a certain amount of sovereignty. The Eurasian Union is not merely a status symbol – it demands a great deal of all the parties involved. In the foreseeable future it has to show that it will bring concrete benefits in order to maintain its degree of acceptance and potentially attract other countries to join. However, the European Union is more a positive than a negative role model, even as it is seen as a competitor.

KAZAKHSTAN AND THE EURASIAN UNION

The Central Asian state of Kazakhstan is keen to make it clear that the Eurasian Union was the brainchild of its president, Nursultan Nasarbáyev, who has been in power since Kazakhstan's independence over 20 years ago. In 1994,¹³ during an official visit to Russia, he gave a speech

12 | Cf. also "Press TV: Кризис в Европе добавляет шансы на успех Евразийского союза" (Press TV: The crisis in Europe adds to the chances of success of the Eurasian Union), *InoTV*, 10 Oct 2013, <http://inotv.rt.com/2013-10-10/Press-TV-Krizis-v-Evropе> (accessed 17 Dec 2013).

13 | Cf. Speech by the President of the Republic of Kazakhstan, Nursultan Nasarbáyev, to Lomonosov Moscow State University, Moscow, 29 Mar 1994, in: *Б.А. Ауелбаев, Президент Н.А. Назарбаев и Современный Казахстан*, *The Kazakhstan* ▶

at Moscow State University in which he floated the idea of a Eurasian Union in place of the CIS. He said it should be a kind of confederation within a harmonised political and economic framework. Seven years later, Vladimir Putin voiced his ideas about a Eurasian Union in the Russian newspaper *Izvestia*. Since then, it has been viewed as a Russian idea, something that is regarded in Kazakhstan as an indirect attempt by Russia to reimpose the old power structures of the Soviet era.

Multi-vectoral foreign policy versus coordinated foreign policy within the Eurasian Union

While Vladimir Putin is interested in political union, in Kazakhstan the emphasis is on economic integration. This is why dialogue in Kazakhstan revolves solely around a Eurasian Economic Union with no mention of the political aspect. The reasons for this lie in Kazakhstan's "multi-vectoral foreign policy" and in the president's keynote address in which he stated strong economic growth was an essential pre-condition for democratic change. The previous credo of a balanced foreign policy that was open to all sides gave the country an opportunity to work with a wide range of partners and, where necessary, sign bilateral agreements. It was always borne in mind that being party to an agreement should not compromise freedom of action within the framework of other existing agreements.

A first break from this foreign policy tradition and its willingness to compromise occurred as a result of the country's poor geographical position. Entry to the Customs Union in 2010 was seen as a litmus test for the establishment of a Eurasian Union and was undertaken with a view to opening up new export markets. Kazakhstan declared itself willing to adapt its customs regulations to suit the requirements of the other two member states – particularly Russia – in the hope of stimulating an economic upturn. However, this has not happened to the extent that was hoped. The additional 153 million people (in Russia and Belarus) the Customs Union brought to the market seemed to hold the promise that Kazakhstan would increase its

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exports to its partners. But in 2011 Kazakhstan's share of revenues within the Customs Union was only 20 per cent, and the following year it fell even further, to 17 per cent. Kazakhstan's exports to its partners dropped by 3.7 per cent, while imports of Russian and Belarusian goods increased by twelve per cent.¹⁴ Some tariffs on goods from non-member states were increased, which had a particular effect on the private sector¹⁵ and on small and medium-sized enterprises that had previously benefited from cross-border trade with Kazakhstan's neighbours.



Memorial in Astana honouring women who in soviet times were imprisoned for being married to a dissident: Kazakhstan has not forgotten the effects of foreign rule. | Source: ninara, flickr ©.

On 25 October 2011, President Nasarbayev responded, also in *Izvestia*, to Putin's article on the Eurasian Union and set out his vision for the project. He said integration within a Eurasian Union must be shaped by economic pragmatism. The Eurasian Union should be a union of states acting on the basis of the principles of equality, non-interference in the internal affairs of its members, respect for

14 | Cf. Larissa Tschernenko, "Таможенный союз надежд не оправдал" (Expectations on Customs Union were not met), *Forbes*, 18 Apr 2013, http://forbes.kz/process/expertise/tamojennyiy_soyuz_nadejd_ne_opravdal (accessed 15 Jan 2014).

15 | Cf. Dinmuhammed Kalikulov, "У Казахстана есть претензии к Таможенному союзу" (Kazakhstan has demands to Customs Union), *ВВС Україна*, 1 Apr 2013, http://bbc.co.uk/ukrainian/ukraine_in_russian/2013/04/130401_ru_s_kazakhstan_customs_union.shtml (accessed 22 Jan 2014).

sovereignty and the inviolability of national borders. He added that all decisions made by the Eurasian Union's supranational organs must take into account the interests of each and every member state. He believed a pre-condition for the establishment of the Eurasian Union was encouraging potential member states to take responsibility for the internal development of their political systems and too increase the effectiveness of their economic policies.¹⁶

This opinion piece makes it clear that President Nasarbajev is rejecting any relinquishment of national sovereignty within the Eurasian Union. From Kazakhstan's point of view, it has already spent too long within a Moscow-dominated state. Kazakhstan has very mixed memories of the Soviet Union. It has not forgotten the effects of this foreign rule, beginning with Stalinist resettlement policies and culminating in Russian nuclear testing on Kazakh soil.

From Kazakhstan's point of view, it has already spent too long within a Moscow-dominated state. It has not forgotten the effects of Stalinist resettlement policies and nuclear testing on Kazakh soil.

Since independence, Kazakhstan has enjoyed excellent economic growth. In 1994 per-capita GDP was just 400 U.S. dollars, whereas it has climbed to 12,116 U.S. dollars in 2012.¹⁷ The United Nations' Human Development Index gave Kazakhstan a value of 0.754 in 2012, confirming its good socio-economic development and placing it just behind Russia (0.788 in the same year).¹⁸ Kazakhstan is very proud of the progress it has made in this area. Its government also sets great store by being an equal negotiating partner. Although they have had some negative experiences with their northern neighbour, people still remember some positive aspects of the old relationship. This is not only because of the large Russian minority living in Kazakhstan (which at 22 per cent exerts a significant influence on the country's society and politics), but also

16 | Cf. Nursultan Nasarbajew, "Евразийский Союз: от идеи к истории будущего" (Eurasian Union: From an idea to the history of the future), *Izvestia*, 25 Oct 2011, <http://izvestia.ru/news/504908> (accessed 22. Jan 2014).

17 | Cf. "Kazakhstan: Economic Indicators", Trading Economics, <http://tradingeconomics.com/kazakhstan/indicators> (accessed 22 Jan 2014); n. 4.

18 | Cf. "Kazakhstan – Human Development Index – HDI", Country Economy, <http://countryeconomy.com/hdi/kazakhstan> (accessed 22 Jan 2014); "Russia – Human Development Index – HDI", idem, <http://countryeconomy.com/hdi/russia> (accessed 22 Jan 2014).

because of the administrative structures and educational ideals that are still very much tied in to Russian traditions. The Russian language continues to play a central role in education and administration. This is unlikely to change, despite efforts to strengthen Kazakh as the country's official language.

Nasarbayev has been accompanying the establishment of the Eurasian Economic Union with critical remarks. He particularly criticised Russia's insistence that it wants to create a political union.

The Kazakh leadership is keeping a close eye on the behaviour of Russia towards Kazakhstan and other potential members of the Eurasian Union such as Ukraine. Worried that big brother Russia will exert excessive influence or even totally dominate the Union, Nasarbáyev has been accompanying the establishment of the Eurasian Economic Union with critical remarks and at times only very reluctant approval. Recently he was highly critical of the barriers¹⁹ that need to be dismantled, mainly by his partners, in order to allow the Economic Union to function. He particularly criticised Russia's insistence that it also wants to create a political union.

Fluctuations in public opinion

Not surprisingly, polls show that the Russian minority in Kazakhstan is more in favour of integration as part of a Eurasian Union and a Eurasian Economic Union than the Kazakh majority and young people in particular. Ethnic Russians believe that a single economic space will facilitate the movement of labour, money and services. This group of supporters is balanced by the undecided and by opponents of the Eurasian Union, a group that particularly includes Kazakhstan's "national patriots".²⁰ The latter criticised Putin's words in *Izvestia* as being a sign of Russia's intention to build a new Russian empire along the lines of the Soviet Union.

People in the undecided group share the fears of the opponents, but also see that the country's economic opportunities lie in close economic ties with Russia and the CIS

19 | Cf. "Тройной компромисс" (Triple compromise), *Zeit*, 26 Oct 2013, <http://time.kz/articles/mir/2013/10/26/trojnoj-kompromiss> (accessed 15 Jan 2014).

20 | Cf. "Нам не нужен Евразийский союз!" (We do not need the Eurasian Union!), open letter, *Respublika*, 26 Aug 2013, <http://respublika-kz.info/news/politics/32236> (accessed 15 Jan 2014).

countries. They are worried about the increasing economic and political influence exercised by China on Kazakhstan and hope the Eurasian Union might help to better contain their eastern neighbour. This group categorically rejects a political union that could be detrimental to their national sovereignty. Different polls produce different results,²¹ but some 55 per cent are in favour of integration within a Eurasian Economic Union, while around 35 per cent are against and approximately ten per cent are still undecided. Evgeny Vinokurov, Head of the Centre for Integration Studies at the Eurasian Development Bank, has commented on the results of the various surveys, saying successful integration within the Eurasian Union depends on attracting the support of today's youth. He added that the growth in the Kazakh majority population, partly due to the return of the "Oralman" (ethnic Kazakhs who settled in other countries) and their high birth rate has had a negative impact on levels of approval for the Union. If the proportion of ethnic Russians in the population also falls, then – as long as there is no general change of attitude that affects all sections of the population – the number of people in favour of the Eurasian Union will also drop.

Regular headlines about violent attacks on Central Asian guest workers in Moscow provide an example of subjective perceptions of Russia's behaviour towards the former Soviet republics and have attracted strong reaction, particularly in social networks. Russia's controversial policies towards Ukraine appear in a similar light. The more Russia exerts political pressure based on its economic strength and the more often there is talk of discrimination against Central Asian guest workers, the more difficult it will be for President Nasarbayev to maintain or indeed build support amongst his people for the establishment of a Eurasian Union.

The more Russia exerts political pressure based on its economic strength, the harder it will be for President Nasarbayev to maintain support for the establishment of a Eurasian Union.

21 | Some of the percentages in this article are given in figures and some in general proportions (e.g. a third). Unfortunately it is not possible to access the original poll it refers to. Cf. "Каждый третий казахстанец против объединения страны с соседями" (Every third citizen of Kazakhstan against reunification with neighbors), *Nomad*, 15 Nov 2011, <http://nomad.su/?a=3-201111170027> (accessed 27 Jan 2014).

Nasarbayev is therefore walking a tightrope between domestic and foreign policy. On the one hand, he has to cope with the domestic situation while at the same time wanting to preserve the economic opportunities that would result from an expansion of the market for Kazakh products within a Eurasian Economic Union. It also remains to be seen whether, in the event of a decision to join the Eurasian Union, the member states will construct multilateral bodies governed by democratic decision-making mechanisms. If this is not the case, then government leaders' acceptance of the basic conditions of the Eurasian Union would be on shaky ground because they would not be backed up by a majority of people in the member states. The Union would be threatened with collapse every time one of the member states changed its government.

Kazakhstan currently has other attractive alternatives for economic integration, such as the U.S.-backed Greater Central Asia and New Silk Road projects and heightened cooperation within the free trade zone created by China's Shanghai Cooperation Organisation (SCO). Turkey also has a proposal on the table that harks back to the two countries' common roots which can be summed up with the term "Neo-Ottomanism".²² Nasarbajev himself mentions the Eurasian Union in the same breath as the option of creating a Central Asian Union.²³ In view of these other options and the reservations of Nasarbajev and broad sections of the Kazakh population, the imminent establishment of a Eurasian Union as proposed by Russia seems somewhat unlikely.

PROTESTS IN UKRAINE: EU ASSOCIATION AGREEMENT VS. CUSTOMS UNION WITH RUSSIA

Immediately after gaining independence in 1991, Ukraine began building closer ties with the EU. Over recent years there has clearly been growing support among the Ukrainian public for the country to take a more European direction, something that has been underscored by the

22 | Cf. "Константин Сыроежкин: США в Средней Азии переигрывают Россию" (Konstantin Syroezhkin: The U.S. outperform Russia in Central Asia), *Regnum*, 22 Aug 2012, <http://regnum.ru/news/1563518.html> (accessed 22 Jan 2014); Tschernenko, n. 14.

23 | Cf. Nasarbajew, n. 16.

mass protests that have taken place over recent weeks. However, there are still strong regional differences. A study by the Democratic Initiatives Foundation²⁴ has shown that 72.5 per cent of respondents in western Ukraine and 48.5 per cent in Central Ukraine are in favour of the country joining the EU. Only 8.2 per cent and 20.5 per cent respectively are in favour of joining the Customs Union with Russia, Kazakhstan and Belarus (Table 2).

Table 2

Attitudes of Ukrainians towards joining a regional union, in per cent

	West	Centre	South	East
We should join the European Union	72.5	48.5	30.7	21.4
We should join the Customs Union with Russia, Belarus and Kazakhstan	8.2	20.5	53.7	60.7
Don't know	19.3	31.1	15.5	17.9

Source: Democratic Initiatives Foundation, n. 24.

Table 3

Attitudes of Ukrainians towards joining a regional union, by age group, in per cent

	18 to 29	30 to 54	55 and above
We should join the European Union	64.2	47.7	32.9
We should join the Customs Union with Russia, Belarus and Kazakhstan	20.3	31.3	40.6
Don't know	15.4	21.0	26.5

Source: Democratic Initiatives Foundation, n. 24.

In southern and eastern Ukraine, the majority of the population (53.7 per cent and 60.7 per cent respectively) are in favour of joining the Russian-led Customs Union because of their history of cultural and economic ties with Russia. Age also has an influence on people's attitudes towards foreign policy. 64.2 per cent of people in the 18-29 age group are

24 | "Інтеграцію в ЄС українці вважають більш пріоритетною" (Ukrainian EU integration considered a priority), Democratic Initiatives Foundation, <http://dif.org.ua/ua/events/integretrnoyu.htm> (accessed 15 Jan 2014).

keen to join the EU, with only 20.3 per cent in this age bracket in favour of joining the Customs Union (Table 3). In the 55+ age group, the majority support Ukraine joining the Customs Union.

Table 4
Attitudes of Ukrainians towards joining a regional union, by party membership, in per cent

	All-Ukrainian Union Batkivshchyna	All-Ukrainian Union Svoboda	Communist Party of Ukraine	Party of Regions	UDAR Party under Vitali Klitschko
We should join the European Union	77.3	84.9	4.8	25.7	74.5
We should join the Customs Union with Russia, Belarus and Kazakhstan	11.4	2.7	92.9	61.4	15.6
Don't know	11.4	12.3	2.4	12.9	9.9

Source: Democratic Initiatives Foundation, n. 24.



Protests in the snow: After the Ukrainian government crushed hopes that it would soon be moving closer to the EU, protests in Kiev's Maidan central square began. | Source: © Jakov Devcic.

These different attitudes are also reflected among supporters of the various political parties. A clear majority of respondents who support the three opposition parties, Batkivshchyna, Svoboda and UDAR also support joining the EU rather than the Customs Union (Table 4). The reverse is true for followers of the two parties which support the Ukrainian government and President Yanukovich. The

parties are also correspondingly strong in the country's different regions. So it is clear that over time public attitudes are becoming increasingly pro-European, although views remain divided on this issue.

After the summit in Vilnius

In the midst of a dramatic economic and financial crisis in which the country found itself just months from bankruptcy, the Ukrainian government crushed the hopes of many Ukrainians that it would soon be moving closer to the EU by suddenly abandoning plans to sign the Association Agreement, a document that had already been prepared and initialled. Refusal to sign the Agreement took place in Vilnius on 29 November 2013.²⁵ This turnaround on EU integration led to demonstrations by hundreds of thousands of protesters across the whole of Ukraine. Notwithstanding gelid temperatures, the protests continued in Kiev's Maidan central square until 19 January. In reaction to the December protests, the Ukrainian government stated that it still intends to sign the Agreement. Deputy Prime Minister Sergei Arbutov is heading up a special group to renegotiate certain chapters and provisions in the Agreement with the EU. According to statements made by EU Commissioner Štefan Füle and President of the European Council Herman van Rompuy at the EU Summit on 20 December, their offer to sign the Association Agreement still stands.²⁶ The Ukrainian government then capitalised on this situation to highlight its need for financial aid to the tune of 20 billion euros.²⁷ The EU responded by making it clear that it is prepared to finance Ukrainian economic reforms, but not Ukrainian

The Ukrainian government highlighted its need for financial aid. The EU made it clear that it is prepared to finance Ukrainian economic reforms, but not Ukrainian debt.

25 | Cf. Gabriele Baumann, "Der Präsident der Ukraine wählt den Weg ins Nichts", KAS-Länderbericht, Konrad-Adenauer-Stiftung, International Office Ukraine, Dec 2013, http://kas.de/wf/doc/kas_36234-1522-1-30.pdf (accessed 22 Jan 2014).

26 | Cf. Štefan Füle, "EU-Ukraine: Association Agreement is an offer to the country and its people", European Commission, Brussels, 12 Dec 2013, http://ec.europa.eu/commission_2010-2014/fule/headlines/news/2013/12/20131212_en.htm (accessed 22 Jan 2014).

27 | Cf. "Mykola Azarov: Ukraine strives for better conditions of implementation of the Association Agreement", Ukrainian Government, 12 Dec 2013, http://kmu.gov.ua/control/en/publish/article?art_id=246916006 (accessed 22 Jan 2014).

debt.²⁸ Upon signing the Association Agreement, the EU would have been prepared to help Ukraine to quickly obtain a 20 billion euros bail-out from the IMF. Such a loan would be tied in with conditions such as raising gas prices to Ukrainian households and a proper valuation of the Ukrainian currency, the hryvnia.



Masks against teargas and signs of a protest that turns radical: In a street leading to the parliament, demonstrators have pried up cobblestones. | Source: © Jakov Devcic.

Russian President Vladimir Putin used the situation to build a sound foundation for his geopolitical interests – the establishment of closer ties between Ukraine and Russia. Since early December the Ukrainian government has intensified negotiations with Russia and is keen to hold trilateral talks between the EU, Ukraine and Russia. On 6 December Yanukovytch met with President Putin in Sochi on his return from an official visit to China. The two leaders agreed to extend a treaty on strategic partnership between Ukraine and Russia. This is designed to strengthen cooperation between the two states, particularly in the heavy industry sector and in aerospace technology. Further steps were taken at a meeting of the Ukrainian-Russian Council in Moscow on 17 December. It was agreed that Russia will give Ukraine financial aid totalling 15 billion U.S. dollars

28 | Cf. "Tombinski: EU may finance Ukrainian reforms, but not Ukrainian debts", *Kyiv Post*, 18 Nov 2013, <http://kyivpost.com/content/politics/tombinski-332006.html> (accessed 22 Jan 2014).

at an interest rate of five per cent, along with a significant reduction in gas prices. Initially, the gas price was dropped to 268.50 U.S. dollars per thousand cubic metres for a quarter, but the trade-off is that gas imports over the coming year alone must increase to 33 billion cubic metres. This will make Ukraine even more dependent on Russian gas supplies, and Russia's ability to adjust gas prices every quarter means it is always in a position to exert pressure on Ukraine. At a press conference on 19 December, Putin stated that Russia's bail-out of Ukraine is not tied to any conditions. He said the country was in dire financial straits and that Russia simply wanted to help its neighbour and "brother".

Although over recent weeks the focus has been on the bilateral treaty with Russia, this does not mean the Association Agreement with the EU will not be signed in the near future. Bankruptcy has been averted thanks to the Russian loan, and funds may even last until the presidential elections in 2015 and gain Yanukovich good ratings in the opinion polls. But without urgent reforms and the ongoing modernisation of the country's economy in line with EU standards, Ukraine will be unable to make progress in the medium-to-long term. Existing free trade agreements with the current members of the Customs Union guarantee smooth trading relations until mid-2014. Thus, from an economic point of view, the Eurasian Economic Union holds little attraction for Ukraine and is opposed by the majority of its population. In western Ukraine, which historically never belonged to Russia, there is unanimous rejection of joining the Customs Union. Membership of a Customs Union with Russia would also not be compatible with the Association Agreement and the accompanying free trade agreement, DCFTA. At present, it seems unlikely that Ukraine will join the Customs Union.

Without urgent reforms and the ongoing modernisation of the country's economy in line with EU standards, Ukraine will be unable to make progress in the medium-to-long term.

History of regional integration and bilateral agreements

The present legal framework for international trade between Ukraine and Russia, Belarus and Kazakhstan is covered by a series of bilateral and multilateral free trade

agreements and the WTO's legally-binding trade practices.²⁹ Between 1992 and 1994 Ukraine agreed bilateral free trade agreements with each of these three nations, which included the abolition of tariffs on mutual trade. The agreements primarily related to the trade of goods, while the service sector was excluded.³⁰ The CIS multilateral free trade agreement signed in October 2011 by Ukraine, Russia, Belarus and Kazakhstan (among others) also focused primarily on the removal of tariff and non-tariff barriers to the movement of goods.³¹ This accord replaced the bilateral free trade agreements that were in place between Ukraine and Russia, Belarus and Kazakhstan. The agreement made specific reference to WTO rules that align trade within the CIS to WTO conditions and open up the possibility of calling on the WTO's mediation mechanism.³²

Along with the free trade agreements that govern the movement of goods between the three countries, since 2010 the framework of the Customs Union has meant that Russia, Belarus and Kazakhstan have adopted a single tariff regime towards third countries. For example, they can levy import duties on goods that do not "originate from Customs Union member states, entail an increase of imports into the Customs Union and that harm or could harm the industry of the Customs Union members".³³ The members of the Customs Union could then use this instrument if

29 | Ukraine joined the World Trade Organisation (WTO) in 2008. Cf. "Member Information: Ukraine and the WTO", WTO, http://wto.org/english/thewto_e/countries_e/ukraine_e.htm (accessed 22 Jan 2014).

30 | Cf. 1993 free trade agreement between Ukraine and the Russian Federation, World Bank, 24 Jun 1993, <http://wits.worldbank.org/GPTAD/PDF/archive/russia-ukraine.pdf> (accessed 13 Dec 2013).

31 | Cf. Anders Åslund, "Ukraine's Choice: European Association Agreement or Eurasian Union?", *Policy Brief*, No. PB13-22, Sep 2013, Peterson Institute for International Economics, 5, <http://piie.com/publications/pb/pb13-22.pdf> (accessed 22 Jan 2014).

32 | Cf. text of the 2011 CIS free trade agreement, "CISFTA – Commonwealth of Independent States FTA", Economic and Social Commission for Asia and the Pacific (UNESCAP), <http://www.unescap.org/tid/aptiad/viewagreement.aspx?id=CISFTA> (accessed 22 Jan 2014).

33 | Cf. Veronika Movchan, "Die Ukraine und die Zollunion von Russland, Belarus und Kasachstan: würde sich eine engere Integration auszahlen?", bpb, 3 Jun 2013, <http://bpb.de/internationales/europa/russland/162295> (accessed 22 Jan 2014).

non-members such as Ukraine were to sign free trade agreements with third countries outside the CIS. In this respect, Ukraine would be at a disadvantage if it were not a member. Based on existing agreements, Ukraine has in the past enjoyed tariff-free access to the markets of the aforementioned three countries for most types of goods.³⁴ However some classes of goods are excluded. The countries try by means of trade protection measures to protect their markets for goods of particular strategic significance such as oil or timber.

Since gaining independence in 1991, Ukraine has signed 17 bilateral free trade agreements with other countries and multilateral agreements with EFTA and the CIS.³⁵ The Ukrainian government is currently negotiating other free trade agreements with countries such as Turkey, Singapore and Israel. If it should sign the Association Agreement (including DCFTA) with the EU, existing and future free trade agreements with other countries would not be affected. However, if it joined the Customs Union it would have to adapt all its existing 17 free trade agreements to fit in with its rules, as it would be obliged to adopt a common tariff regime towards third countries. In contrast, free trade zones tend to have an internal effect through abolishing tariffs, standards and quotas. As a result, Ukraine would no longer be able to act independently in terms of its trade policy. It would also have to enter into new negotiations with the WTO and its energy dependency on Russia would increase.

If Ukraine joined the Customs Union it would have to adapt all its existing 17 free trade agreements to fit in with its rules.

In May 2013 the Ukrainian government signed a memorandum that deepened cooperation with the Customs Union.³⁶ This gave Ukraine observer status in the Customs Union and allows it to attend all important meetings between

34 | Cf. "Ukraine muss sich zwischen West- oder Ost-Integration entscheiden", The German Association for Small and Medium-sized Businesses (BVMW), 2013, <http://bvmw.de/auslandsvertretungen/auslandsbueros/ukraine/informationen.html> (accessed 22 Jan 2014).

35 | Cf. Sayenko Kharenko, *Free trade agreements of Ukraine*, investUkraine, 2012, <http://investukraine.com/wp-content/uploads/2012/06/FTAs-of-Ukraine.pdf> (accessed 22 Jan 2014).

36 | Cf. "Ukraine and the Customs Union signed a Memorandum", Ukrainian Government, 31 May 2013, http://kmu.gov.ua/control/en/publish/article?art_id=246391353 (accessed 22 Jan 2014).

heads of state and government. With this observer status, Ukraine sent a signal to the members of the Customs Union that it finds it strategically important to continue developing its economic relations with them, but without entering into further legal obligations. It has allowed the Kiev government to keep the door open to membership of other regional integration initiatives such as the DCFTA with the EU.

In parallel to the Customs Union, in January 2012 the governments of Belarus, Russia and Kazakhstan announced the foundation of a Single Economic Space, which will enter into force in January 2015 as the "Eurasian Economic Union". In contrast to earlier alliances such as those within the CIS, this will involve much greater integration and the establishment of institutions in the EU mould.

Increased economic cooperation between the member states should be achieved by various measures, including the introduction of a single currency within the Eurasian Economic Union.

Experience with the institutional weakness of earlier unsuccessful projects has acted as a major inspiration for the idea of a union that is structurally more stable and that will be a "powerful supranational union". Earlier integration projects failed because individual states such as Ukraine consistently believed they posed a threat to their national economic interests.³⁷ Increased economic cooperation between the member states should be achieved by various measures, including the introduction of a single currency within the Eurasian Economic Union. There is talk of the union being expanded to include areas such as economic and financial policy, energy and transport policy and the free movement of goods, people and capital.³⁸

In February 2012 the Eurasian Economic Commission was set up as the successor to the Commission of the Customs Union between Russia, Kazakhstan and Belarus. As the sole regulatory institution of the Customs Union and the Single Economic Space, it alone has responsibility for

37 | Cf. Alexandra Polownikow, *Die Zollunion zwischen Belarus, Kasachstan und Russland – Motive, Entwicklungen und Perspektiven*, Stiftung Wissenschaft und Politik (SWP), Berlin, 2012, 4 et seq.

38 | Cf. *The Common Economic Space: the history of creation, institutional framework and the scope of coordinated spheres of activities*, Revera Consulting Group, 2013, http://www.economy.gov.by/dadvfiles/002045_125323_The_Common_Economic_Space.pdf (accessed 22 Jan 2014).

setting tariff and non-tariff trade barriers, the administration of the Customs Union and for technical regulations. The Commission also sets foreign trade tariffs and paves the way for decisions on macroeconomics, energy policy, monetary policy and immigration policy. The Council of the Commission consists of one representative from each of the member states, while the Supreme Council of the Eurasian Economic Commission is made up of heads of state and government. All these levels are involved in the decision-making processes of the Economic Commission.³⁹

Supporters of the Customs Union

The Customs Union has few influential supporters in Ukraine because of the lack of clear benefits the country would enjoy if it joined. The main opposition parties, Batkivshchyna and UDAR, are united in their pro-European orientation. The ruling Party of Regions has long been trying to carry out a balancing act between the two alternatives, until in the summer of 2013 it finally came out in favour of signing the Association Agreement. Ukraine did not make any clear statements in favour of the Customs Union. Once it became increasingly obvious that Ukraine was working towards signing the Agreement and was fulfilling EU requirements at lightning speed, relations between Moscow and Kiev cooled to the point that Russia began imposing bans on Ukrainian imports.

Once it became increasingly obvious that Ukraine was working towards signing the Association Agreement, Russia began imposing bans on Ukrainian imports.

The only remaining supporters of the Customs Union were the Communist Party. Their proposal that a referendum on entry should be held was rejected by Ukraine's Central Election Commission on 17 September 2013. Apart from the Communists, only one other group has been openly campaigning for Putin's integration project. This is the Ukrainian Choice organisation headed up by Viktor Medvetchuk, a loyal supporter of the Russian president. For weeks this organisation has been warning of the "threat" that the Association Agreement poses to Ukraine. All around the country there are posters warning that if the

39 | Cf. Permanent Mission of the Russian Federation to the European Union, "Eurasian Economic Commission", presentation, 5 Jul 2012, <http://russianmission.eu/en/news/presentation-eurasian-economic-commission> (accessed 22 Jan 2014).

country develops closer ties with the EU it will result in drastic price hikes, job losses for Ukrainians and the legalisation of same-sex marriage.

BELARUS AND THE EURASIAN ECONOMIC UNION – POLITICAL RENT-SEEKING RATHER THAN STRATEGIC DECISION-MAKING

Even though President Alexander Lukashenko may harbour a deep-seated nostalgia for the old Soviet Union, membership of the Eurasian Economic Union is not an affair of the heart for the Belarusian leadership but rather a sign of desperation. It was economic pressure rather than freedom of choice that forced Belarus to join the Single Economic Space in 2012. The Belarusian economy is highly dependent on cheap oil and gas from Russia and on more than one occasion the Kremlin has shown that it is prepared to use the supply of raw materials as a political weapon. This was again the case in 2010 when the Russian leadership were angered by the closer ties developing between Minsk and the European Union. On 1 January 2010 Russia imposed export duties on its crude oil deliveries to Belarus in contravention of the terms of the Customs Union that had been established one year earlier between Russia, Belarus and Kazakhstan.⁴⁰ On 8 December of the same year, President Medvedev announced that he would be prepared to drop the export duties in future, clearly in response to Lukashenko's agreement to join the Single Economic Space. The 17 documents formally establishing the Single Economic Space were signed that same day.⁴¹

The Belarusian economy is dependent on cheap oil and gas from Russia. More than once, the Kremlin has shown that it is prepared to use raw materials as a political weapon.

However, even cheap oil and gas supplies from Russia were not enough to stave off severe crisis in subsequent years. During the elections, Lukashenko had significantly relaxed

40 | However, Moscow stressed that the Customs Union did not preclude the levying of export tariffs. Instead, Belarus had levied export tariffs and had to share the income with Russia. It said that Belarus, not Russia, was defaulting on the agreement. Whatever the truth of the matter, the way things subsequently panned out suggests that Russia's actions had been politically motivated.

41 | Stephan Malerius, "The Long Shadow of the Belarus Presidential Elections – Procedures, Results and Political Fall-Out", *KAS International Reports*, 3/2011, 110-129, here: 113 et seq., <http://kas.de/wf/en/33.22146> (accessed 22 Jan 2014).

the hitherto restrictive policies on the financing of election gifts. The consequences of that action were not long in coming. Inflation rose quickly, reaching 109 per cent for 2011 as a whole, while the Belarusian ruble lost two-thirds of its value against the dollar.⁴²



Lenin statue in Minsk: President Alexander Lukashenko's deep-seated nostalgia for the old Soviet Union is only one reason for Belarus to participate in an Eurasian Union. | Source: Bolshakov, flickr ©.

At the same time, the brutal repression of the opposition in the wake of the 2010 presidential elections brought dialogue between Minsk and the European Union to an abrupt halt. At a time of severe economic difficulties, this left Russia as the only potential partner after the International Monetary Fund had refused help due to the lack of structural reforms to the Belarusian economy. And once again Russia helped out, this time in the shape of a three billion U.S. dollars anti-crisis loan and an agreement to provide cheaper deliveries of oil and gas.

As a result, Belarus now pays 165 U.S. dollars for 1,000 cubic metres of gas (previously 265 U.S. dollars), while the price of oil has fallen by 30 U.S. dollars per tonne

42 | Volha Dudko, "Belarus Economy: More Stable But Still Fragile", *Belarus Digest*, 30 Apr 2012, <http://belarusdigest.com/story/belarus-economy-more-stable-still-fragile-9072> (accessed 22 Jan 2014).

due to the lifting of import duties.⁴³ While gas is the most important source of energy for the country's own internal use, oil is also essential for the country's export activities. Petrochemical products from the reprocessing of crude oil imported from Russia currently account for two-thirds of Belarusian exports.⁴⁴ Russian oil and gas subsidies also account for some 16 per cent of the country's GDP (as at 2012).⁴⁵ However, Russia is also using the idea of union to pursue political goals aimed at exerting even more influence on Belarusian foreign and economic policy.⁴⁶

Economic opportunities and risks

In a TV interview in October 2013 Lukashenko said "There is now freedom for the economy and business. This means the economy is starting to function like a single state."

Despite the obvious political expediency behind Belarus' agreement to join the Customs Union and the Eurasian Economic Union, President Lukashenko never misses an opportunity to extol the economic benefits. In a TV interview in October 2013 he said "There is now freedom for the economy and business. This means the economy is starting to function like a single state."⁴⁷ However, the benefits of the Union are not quite as clear as Lukashenko would like to make out. For a start, any potential benefits of the Customs Union are likely to be found almost exclusively in the country's bilateral trade with Russia. Trade with Kazakhstan only amounts to one per cent of Belarus' total trade volume. And despite the fact that both countries are members of the Customs Union, there was not one single Kazakh business registered in any of the six

43 | Anna Maria Dyner and Natalia Ryabova, "Belarus in the CES: Advantages and Disadvantages of Economic Integration", *PolSKI Instytut spraw międzynarodowych, Policy Paper*, No. 24 (72), Aug 2013, 3; see also Yauheni Preiherman, "Belarus' Magic Oil Economy", *Belarus Digest*, 17 Apr 2012, <http://belarusdigest.com/story/oil-magic-belarusian-economy-8820> (accessed 24 Nov 2013).

44 | Dudko, n. 42.

45 | Balázs Jarábik, Alexei Pikulik and Andrei Yeliseyev, "Belarus and the Eurasian Union: Incremental Integration", *FRIDE Policy Brief*, No. 159, Jun 2013, 2.

46 | Aliaksandr Aleshka, "Russian Instruments of Economic Influence in Belarus and the Customs Union", *Bell. Belarus Info Letter*, No. 5, Vol. 35, 2013, 4-6, here: 4.

47 | "Лукашенко: Евразийский союз будет единым государством" (Lukashenko: Eurasian Union will be a single state), *NewsCom*, <http://newscom.md/rus/lukashenko-evrazijskij-soyuz-budet-edinim-gosudarstvom.html> (accessed 24 Nov 2013).

Belarusian free trade zones in spring 2012.⁴⁸ In its trade with Russia, Belarus does gain a benefit through the lifting of tariff barriers. However, while tariffs were largely harmonised in 2008, the dismantling of non-tariff barriers has so far been somewhat piecemeal.⁴⁹ On the plus side, there has been a significant rise in direct Russian investment.⁵⁰ Belarusian goods also now enjoy preferential terms on the Russian market and Russian demand for Belarusian consumer goods has also risen sharply.⁵¹ The trading volumes of the three countries involved have also seen a clear increase, climbing by 88 per cent to 44.75 billion U.S. dollars (2012) since the establishment of the Customs Union in 2010. However, it is unlikely that this increase is simply down to the lifting of trade barriers. Economic recovery after the financial crisis and the devaluation of the ruble in 2011 are the more likely reasons. This is supported by the fact that exports to the EU in 2011 and 2012 rose even more steeply.⁵²



Market hall in Minsk: For Belarus, any potential benefits of the Customs Union are likely to be found almost exclusively in the bilateral trade with Russia. | Source: Anthony Gherghetta, flickr, ©©.

There is no doubt that Belarus has reaped the benefits of deeper economic integration with Russia, Kazakhstan and other countries in the post-Soviet bloc because of its position as a transit country.⁵³ However, this has resulted

48 | Jarábik, Pikulik and Yeliseyeu, n. 45, 3.

49 | Folkert Garbe, "Belarus und die Eurasische Integration – Stand und Perspektiven", *Belarus-Analysen*, No. 13, 25 Jul 2013, 2-5, here: 3.

50 | Dyner and Ryabova, n. 43, 4.

51 | Garbe, n. 49, 3.

52 | *Ibid.*, 3 et seq.

53 | *Ibid.*, 5.

in the need for substantial reforms to the Belarusian economy, especially since Russia joined the World Trade Organisation in August 2012. This has forced the country to adopt a wide range of standards and its businesses are obliged to become more competitive. Belarus, which unlike Russia and Armenia is not a member of the WTO, has had to open up its economy to Russian goods and services under the terms of the Customs Union, and so is facing increased competition from Russian companies.⁵⁴ Russia is also proving to be more attractive than its Western neighbours when it comes to foreign investment.⁵⁵ In this respect, Belarus has effectively become a de facto member of the World Trade Organisation, but without the access to dispute settlement mechanisms that comes with official membership.⁵⁶

So far Lukashenko has refused to introduce consistent and effective economic reforms. 80 per cent of the Belarusian economy is still in the hands of the state and most companies are chronically in debt. In order to keep them up and running, banks are forced to issue cheap loans at significantly below market rates. This has resulted in a substantial current account deficit, high inflation and periodic devaluations of the ruble. However, it is precisely this set of circumstances that will not be allowed within the Single Economic Space. The rules of the Union, which have been closely modelled on the European Union's Maastricht criteria, only allow for a maximum annual deficit of three per cent, while the debt-to-GDP ratio is not allowed to exceed 50 per cent. Even more critical is inflation, which should not exceed 15 per cent per year according to the rules of the Single Economic Space, but which was over 59 per cent in 2012. The devaluation of the ruble can no longer be used as a means of stimulating Belarusian exports and, unlike in the past, the economy will therefore have to adjust to lower growth rates. While GDP grew by 3.2 per cent in the first half of 2012, the equivalent figure for 2013 was only 1.4 per cent.⁵⁷

54 | Jarábik, Pikulik and Yeliseyeu, n. 45, 3; see also Kamil Klysinski, "Consequences for the Belarusian Economy of Russia's Entry into the WTO", *East Week*, No. 29, Vol. 305, 2012.

55 | Dyner and Ryabova, n. 43, 5.

56 | Garbe, n. 49, 5.

57 | Dyner and Ryabova, n. 43, 4.

Unintended potential consequences

The Eurasian Economic Union may therefore turn out to be a major blow to Alexander Lukashenko's economic system and regime. Since 1994, the authoritarian leader has maintained his grip on power thanks to an unwritten social contract in which the people forego real participation in the political process in exchange for economic stability and low unemployment. Modernising the ailing state economy would require greater liberalisation and privatisation, effectively robbing Lukashenko of the opportunity to fulfil his side of the social contract. This is why he has so far refused to comply with demands from the EU and the IMF to carry out such reforms, and why, as previously mentioned, he opted to join the integration project initiated by the Russians. Now, ironically, the final blow to his economic system may actually come from Moscow.

The Belarusian people forego real participation in the political process in exchange for economic stability and low unemployment.

This, together with a reluctance to give up his despotic power, is what is stopping Lukashenko from agreeing to any deeper form of integration. In this respect, he has an ally in Nursultan Nazarbayev, the dictatorial leader of Kazakhstan. They are both taking advantage of the improved opportunities offered by the Eurasian Economic Union to thwart Moscow's integration efforts.⁵⁸ While the Customs Union gives the Russians over 50 per cent of voting rights, thus effectively granting them sole power to make major decisions, the institutions of the Single Economic Space actually have equal voting rights. Decisions also have to be made by consensus, so Russia is not in a position to make decisions that go against the will of the other members.⁵⁹

At the same time, however, dependence on Russia has continued to grow. While cheap oil and gas have reduced the pressure to modernise the Belarusian economy, freedom of movement has resulted in a growing number of Belarusian workers moving to Russia, which has been

58 | At the summit meeting of the three state presidents on 24 Oct 2013 in Minsk, for example. See Agata Wierzbowska-Miazga, "The Customs Union Summit: Crisis instead of Success", *Eastweek*, 30 Oct 2013.

59 | Jarábik, Pikulik and Yeliseyev, n. 45, 3.

suffering from a serious lack of skilled workers since 2008.⁶⁰ Demographic change is only likely to worsen the situation.

The fact that Belarus has so far reaped the benefits of closer ties with Russia is mainly because Putin tends to view the Eurasian Union as a political, rather than economic, project.

So far, the Customs Union and Single Economic Space have been unable to stop the outbreak of occasional trade disputes between Moscow and Minsk.⁶¹ The fact that

Belarus has so far reaped the benefits of closer ties with Russia is mainly because Putin tends to view the Eurasian Union as a political, rather than economic, project. Putin has been willing to pay a high price to consolidate integration within the post-Soviet bloc. As long as this continues to be the case, Lukashenko will be able to go on profiting from Russian subsidies, without necessarily feeling any substantial political pressure. We have to assume that this situation is likely to continue for the time being while Putin seeks to convince Ukraine to join the Eurasian Union. If the example of Minsk is anything to go by, Ukraine – which, alongside Russia, is a key country in the Kremlin’s integration plans – will certainly have all the advantages and none of the disadvantages of integration paraded before its eyes. Nothing is likely to change before the Ukrainian presidential elections in 2015.

If after these elections or at some point in the future Russia should decide that countries should start to fulfil their economic commitments – perhaps because geopolitical ambitions have taken a back seat to economic interests – then Minsk surely will pay the price for putting all its eggs in the Russian basket. It would no longer be able to avoid undertaking necessary and painful economic reforms unless it was able to find a way of reducing its dependence on its eastern neighbour. As a member of the Eurasian Economic Union, it is unlikely that Belarus would still have the option of forging closer ties with the EU, such as by signing an Association Agreement.⁶²

60 | Dyner and Ryabova, n. 43, 5.

61 | Garbe, n. 49, 3; see also Galina Petrovskaja, “Москва, Киев, Минск: обреченные на торговые конфликты” (Moscow, Kiev, Minsk: trade conflicts deplored), *Deutsche Welle*, 14 Jun 2012, <http://dw.de/p/15EMK> (accessed 22 Jan 2014).

62 | Jarábik, Pikulik and Yeliseyeu, n. 45, 2.

ARMENIA'S UNCERTAIN FUTURE

Serzh Sargsyan, the President of Armenia, attended the summit meeting of the Eastern Partnership (EP) at the end of November 2013 as an observer. Armenia had been negotiating the Association Agreement and Free Trade Agreement with Brussels for years but the documents that were due to be initialled in Vilnius had become obsolete two months earlier when, much to the surprise of the EU and the Armenian people, Sargsyan suddenly announced that Armenia was going to join the Russian-led Customs Union instead. This amounted to a major about-face for Armenia's future economic and political orientation and raised several key questions. What was the background to this unexpected decision? What can Armenia expect from membership of the Customs Union? What are the potential implications for regional security and Armenia's domestic policy?

There can be no doubt that Armenia's decision was due to pressure from the Kremlin. In explaining Armenia's choice, Sargsyan made it clear that security issues had been a key motivation. Alluding to the Collective Security Treaty Organisation (CSTO), which is also dominated by Russia, the Armenian president suggested that if a country is part of a military security system, it is not possible for it to then isolate itself from an economic space that includes the same countries. Armenia has been a member of the CSTO since it was established in October 2002 and Russia currently has 5,000 soldiers stationed at

a military base in the country. A few years ago, the Armenian government agreed that the base could remain until 2044 and also recently agreed to an increase in the number of troops. This means Russia can maintain a

military presence, not only in Armenia but in the Caucasus as a whole. Security has also been a major issue in the long-running Nagorno-Karabakh conflict with Azerbaijan, a country with rich deposits of raw materials and a much stronger economy. Azerbaijan's defence budget is almost as big as Armenia's total national budget and it recently took delivery of weapons shipments from Russia to the value of four billion U.S. dollars. Combined with the war rhetoric, Armenia views Azerbaijan's military potential as

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a serious threat to its security. Armenia's ability to act in foreign policy matters will continue to be limited as long as the Nagorno-Karabakh conflict remains unresolved.⁶³

Armenia is very reluctant to take the necessary steps towards resolving the conflict, but it has to pay a high price for the status quo. This includes geographical isolation: the conflict has led to its 1,000-kilometres-long border with Azerbaijan being closed, along with the border crossing to Turkey. This means that all its foreign trade, including energy supplies, have to go through Georgia and across the narrow border with Iran. As a result, the country's economy is highly dependent on Russia, which has one million Armenians living within its borders.

Russia is the Armenia's most important investor and trading partner. It is not just the energy sector that is controlled by Russia, but also large parts of Armenia's financial sector, transport network, telecommunications and raw materials industry. Armenia mainly obtains its Russian gas supplies via Georgia and also has a pipeline connection with Iran, which is administered for the most part by a subsidiary of the Russian gas company Gazprom. Russia recently used a selective increase in gas prices at a time of restricted Armenian-Iranian capacity as a means of applying pressure on Armenia. Gazprom raised its prices by 50 per cent in July 2013. Prior to that, Armenia had been paying the lowest price for Russian gas of any importing country in the CIS. The Gazprom decision resulted in increases in the cost of food and services, and a 50 per cent

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rise in the cost of travel on public transport led to widespread public protests. The declaration of intention to join the Customs Union followed hot on the heels of this period of unrest. As expected, during his latest visit to Armenia in early December 2013, Putin offered to once again lower prices from 270 to 189 U.S. dollars per 1,000 cubic metres of gas. However, according to the Armenian head of Presidential administration, this 30 per cent price reduction

63 | About the conflict cf. Canan Atilgan, "Der Konflikt um Berg Karabach: Neue Lösungsansätze erforderlich", KAS-Länderbericht, Konrad-Adenauer-Stiftung, 21 Jun 2012, <http://kas.de/suedkaukasus/de/publications/31403> (accessed 22 Jan 2014).

will not be passed on to the end consumer. Instead, the government has negotiated a deal with Russia that will see gas deliveries remain at the same price for five years. In exchange, Armenia has to agree to transfer its 20 per cent share in the gas distribution company ArmRusgasprom to Gazprom in exchange for cancelling its debts. As a result, the Russian company will now have total control of the market.

This dependence on Russia suggests that any Armenian administration finds its ability to take foreign policy action determined by Moscow. Membership of the Customs Union would signal the collapse of Armenia's foreign policy strategy, which has been described as the "politics of complementarity". This strategy – a reaction to the country's political and geographic isolation – has been a major balancing act. It is almost impossible to maintain equally good relations with all the actors in a region that is dominated by power politics. For Armenia, the challenge has always been to seek to build close relations with national or supranational actors, without effectively restricting its own room for manoeuvre or ability to act.⁶⁴ Against this backdrop, closer ties with European structures could only be reconciled with Armenia's foreign policy options if these were not interpreted by Russia as a policy shift. Until recently, the attitude of the Russian embassy in Yerevan towards Armenia forging closer links with the EU was an unequivocal "carry on" – or at least that is what the Armenian government believed. Clearly there has been a change of mind in the Kremlin with regard to the Eastern Partnership (EP), as evidenced by the increased pressure that Moscow has been applying recently to those EP countries that have been working on Association Agreements with the EU. Moscow has clearly used Armenia to issue a warning and the message is clear: Moscow does not welcome countries cosying up to Europe.

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64 | Alexander Iskandaryan, "Armenia-Europe – Minimizing Opportunity Costs", *The South Caucasus 2018 – Facts, Trends, Future Scenarios*, Konrad-Adenauer-Stiftung, Tbilisi, 2013, <http://kas.de/suedkaukasus/de/publications/35353> (accessed 22 Jan 2014).

What does the Customs Union mean for Armenia?

In early September 2013, Sargsyan and Putin signed a joint declaration of intent, which set out “all necessary steps” for Armenia’s future membership. It also spelled out the joint goal of greater economic integration for Armenia within the Eurasian region. The declaration also included Armenia’s intention to sign the whole package of agreements on the Customs Union. A first draft membership resolution was then adopted at the summit meeting in Minsk in October 2013. In the meantime, Armenia had drawn up a road map for establishing a coordinating commission and several sector-specific working groups to look into the compatibility of national legislation with the Customs Union. At the next summit meeting of members and accession states on 19 December 2013, Armenia will receive a detailed to-do list, which will include not only the necessary legislative amendments, but also the appropriate administrative changes that will need to be implemented. This process is due to be completed by early 2014. Accession negotiations and an agreement on the establishment of a Eurasian Economic Union should result in Armenia finally joining the Customs Union in May 2014.



Future partners in the Customs Union: Armenian President Serzh Sargsyan (r.) and Russia’s President Vladimir Putin in Yerevan, December 2013. | Source: © Sergey Guneev, Ria Novosti / picture alliance.

It was surely no coincidence that Putin chose to travel to Armenia immediately after the Eastern Partnership Summit in Vilnius with an offer to work more closely on economic, energy and military issues. A series of agreements were reached and promises made. Putin was not only prepared to make compromises on gas prices, but apparently a new agreement was also reached that would allow Armenia to buy Russian military equipment at special prices. It was also agreed that the project with Belarus aimed at developing joint air defence systems would be extended to include Armenia. According to the Russian president, this cooperation will improve the defence capacity of Russia and its partners and help to promote peace and stability in Eurasia. Putin also announced the establishment of a regional military force to be formed by Armenia, Belarus, Kazakhstan and Tajikistan.

The decision taken by Armenia on 3 September to opt for closer economic ties with Russia was effectively also a decision in favour of political union. Armenia's membership of the Customs Union – which could be ratified by the Armenian parliament as early as May 2014 – at first glance seems absurd, especially as Armenia has no common border with any of the other members of the Customs Union. However, this is not the only issue that calls into question the future success of a Eurasian economic union. It is doubtful that such a union would have any great economic potential for countries that continue to be extremely dependent on raw materials exports. This is especially true of Armenia. The country's economic structures remain largely underdeveloped, so the added value of the Customs Union for Armenia is likely to be very low, given that Russia is already its biggest trading partner. The fear is that Armenia will not be able to avoid the political integration that Moscow wants to follow on from the Customs Union.

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Implications for domestic policy and regional issues

For Armenia, the current situation means that democratic reforms are only likely if other ways can be found to maintain closer links with Europe. The main fear of Armenian experts is that the process of democratisation will be set

back. They expect a growing trend towards authoritarianism in the political decision-making process and a tougher stance towards civil society.⁶⁵ The EU and Armenia may have agreed in Vilnius that they would work on developing and strengthening their cooperation within the framework of the EP, but the trend in Armenia itself appears to be heading in the opposite direction. For example, Yerevan State University recently announced that it would no longer be financing the Masters programme Human Rights and Democratisation, a regional project sponsored by the Eastern Partnership. It would be a tragedy for the future democratic development of the country if cooperation with the EU were to lose its importance and the reform process allowed to stagnate.

In terms of security, the situation in the region is unlikely to change to any great extent. It is unlikely that the conflict with Azerbaijan will escalate, but there also seems little prospect of a solution on the horizon. The balance of military power in the region will continue to be dependent on Russia's day-to-day policies. With Russian soldiers stationed at its border crossings into Turkey and Iran, Armenia is already well on its way to losing control over its own borders. Any benefits to Armenia are likely to be small, short-term and uncertain. The promised additional Russian investment in the country is likely to end up in the pockets of Armenian oligarchs. And it is questionable to what extent trade with other Customs Union member states is likely to grow and what kind of effect this will have on Armenia's economic structure. It is also not clear what effect membership of the Customs Union and possibly later of the Eurasian Economic Union might have on relations with Armenia's neighbours – with Georgia, which initialled an Association Agreement with the EU in Vilnius, and with Azerbaijan, Iran and Turkey. The Russian Federal Agency for the Development of Border Facilities (Rosgranitsa) will open a representative office in Armenia early in 2014 in order to help modernise and potentially monitor border processes. Without common borders with Russia or any of the other member states of the Customs Union, Armenia's one-sided orientation towards Russia appears to be very

65 | Cf. Siranuysch Paryan, "Реальные плоды визита Путина" (Real fruits of Putin's visit), 1in.am, 5 Dec 2013, http://1in.am/rus/armenia_interview_38166.html (accessed 27 Jan 2014).

risky. Putin advisor Sergey Glazyev indirectly suggested as much recently when he compared Armenia to the Russian province of Kaliningrad.⁶⁶

CONCLUSION

At a presentation on the Eurasian Economic Union, Russian President Vladimir Putin spoke of the establishment of the "Eurasian Union" as being a goal for 2015. With a deliberate nod towards the EU, he made it clear that the new union should include political as well as economic aspects. Russia's support for this project is not divorced from thoughts of the past. But it marks a development that is characterised by Russia's determination to drive forward the integration of member states to the benefit of all concerned and ensure the success of the project. At the suggestion of the Russian president, the other much smaller countries will for the first time have a genuine opportunity to exercise a veto. However, the success of the project is not guaranteed. Firstly, there has to be some evidence that member states will actually benefit economically. There are still many questions about how best to harmonise the national economies of the various member states. Secondly, Russia's apparent willingness to limit its own powers must be proven to be consistent and long-term. This includes understanding that the process of national identity is now in full swing in the former Soviet republics and there is little appetite to once again relinquish their sovereignty.

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It will be particularly interesting to see how the relationship between the EU and the Eurasian Economic Union develops. The Eurasian Economic Union does in fact offer the possibility of closer cooperation with the EU, particularly because of the requirement for member states to adopt WTO standards, thus ensuring more compatibility with EU markets. On the other hand, the levying of import duties on the external borders of the Eurasian Economic Union will do nothing to stimulate trade with the Union's western neighbours. The common customs policy also prevents

66 | On the interview with Sergey Glazyev cf. Alexey Venediktov, *Echo of Moscow*, 7 Sep 2013, <http://echo.msk.ru/programs/beseda/1149900-echo> (accessed 27 Jan 2014).

countries from being members of both unions, as an EU Member State is obliged to allow the duty-free movement of goods from all other EU Member States and therefore would not be in a position to levy the import duties dictated by the Customs Union.

This is not to say that these problems are insurmountable. Given enough political will, the EU and the Eurasian Economic Community may be able to work out a compromise that is acceptable to both sides. However, the latest events involving Armenia and Ukraine have shown that there is an ongoing battle for influence and power. So far, no solution has been found that will allow an association with the European Union while at the same time maintaining the close economic ties with Russia that are so vital for both Armenia and Ukraine. Moscow has made it quite clear that if its neighbouring countries decide to opt for the EU, then it will view the decision as anti-Russian. The Kremlin has openly threatened serious economic consequences if this were to happen. This stance has clearly reaped positive results in the case of Armenia and Ukraine, though in the case of the Republic of Moldova it remains to be seen whether Russian threats will be backed up by punitive action.

One thing is clear – if in doubt, Russia will continue to play on its dominance. It will remain a difficult negotiating partner and hence the Eurasian Economic Union will also not be an easy partner that always only takes a pragmatic approach to economic issues. Although as a result the EU has a number of critical voices that are highly sceptical of cooperation with the Eurasian Economic Union, it would be a poor strategy for the EU to simply dismiss this integration project. It would be far better to identify areas where the interests of the two unions overlap and think about potential forms of cooperation. But of course – as with most things in politics – it is likely to be a long, slow process.

The article was completed on 19 January 2014.