

Which Way Forward for the Eurasian Economic Union?

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The consequences of NATO and EU enlargement have discouraged Eurasian political elites from using the EEU as a stepping-stone to the neo-liberal world economic system. Their economic and geopolitical interests have been infringed by Western policies as illustrated by the conflict in Ukraine. The EEU has reacted by turning inward and eastward and an alternative geo-political bloc is in formation. It is likely to form a nationally based administratively coordinated form of capitalism, which in turn might lead to greater international conflict.

“Periods of crisis are common in history. The characteristic feature of the [twenty year] crisis ... was the abrupt descent from the visionary hopes of the first decade to the grim despair of the second, from a utopia which took little account of reality to a reality from which every element of utopia was rigorously excluded [1]”. Here E.H. Carr was referring to the years between 1919 and 1939 and wrote these words just before Great Britain plunged into war with Germany, and consequently the Second World War engulfed the whole of Europe. Is history likely to repeat itself?

Following the dismantling of the Soviet European economic and political bloc in the early 1990s, politics promised utopian futures for both the winners and the losers of the Cold War. In the West, pundits and politicians echoed the rhetoric of Fukuyama’s ‘end of history’ discourse. In the post-socialist states, leaders and publics envisaged a return to Western values, a democratic peace and an advance to Western consumerism. By the end of the second decade, in the West the global financial crisis and the rise of austerity regimes, and in the East the widespread disenchantment with the political and economic settlement of the transition to capitalism, signalled the end of the post-communist utopias.

The vision for the decade after 2010 is one of greater tension and conflict epitomised by the confrontation in Eastern Ukraine. The reality is the advance of NATO and the EU to the borders of the Russian Federation, which it considers is a security threat.

The EU, once predicated on the goal of promotion of peace, has degenerated into a competitive trading bloc with an unquenchable appetite for enlargement. The cumulative effect of expansion into a supra-national state has outgrown the original conception and has reached imperial dimensions. As European Commissioner Jose Manuel Barroso put it in 2007: “We are a very special construction unique in the history of mankind. Sometimes I like to compare the EU as a creation to the organisation of empire. We have the dimension of empire. What we have is the first non-imperial empire. We have 27 countries that fully decided to work together and to pool their sovereignty. I believe it is a great construction and we should be proud of it”. [\[2\]](#)

Here he raises the spectre of the EU as an empire which exerts cultural, political, and economic hegemony.

Enlargement is predicated not on preserving the stability of the international order, but on the economic benefits to the EU of a larger market based on the values of the Washington consensus and a superior geopolitical position for NATO.

THE EURASIAN ECONOMIC UNION

Most commentators trace the rise of the EEU to the failure of the EU's eastern neighbourhood politics on the one side, and the incapacity of the CIS to create a common economic and political space on the other. The formation of the EEU is not just the extension of Russian foreign policy, but is favoured by the governments of Belarus and Kazakhstan; notably, President Nazarbaev first proposed the formation of a Eurasian Union in 1994.

Ironically, in its reaction to the development of the EU, the EEU has been guided by the EU's experience and likens itself to it. The EEU seeks the advantages of economies of scale provided by a larger market. It aspires to the EU's aims of the free movement within its territory of labour, capital, goods and services; it respects the free trade market principles of the WTO. It considers itself to be an area promoting peace and prosperity. This approach has found resonance in the writing of Western writers like Bjorn Hettne who have promoted the idea of a 'new regionalism', and envisage the development of economic and political blocs (like the EU) which can harmonise with the current hegemonic powers in the world economic system.

Different interpretations are placed on the EEU. Like the EU, underlying the formation of the EEU has been a wider political and geopolitical agenda which uneasily coexists with its free market economic principles. The policy of the Russian Federation under Putin and Medvedev entailed a major change towards the West which challenged some established Western assumptions. In the 2000 Foreign Policy Concept Russia's objectives were to preserve the sovereignty and territorial integrity of the country. It noted critically "a growing trend towards the establishment of a unipolar structure of the world with the economic and political domination of the United States".

The longer term intention of some Eurasianists is to further a quite different form of political organisation to that of the current neo-liberal world political economic order. It is a movement which is opposed to Western hegemony in a reactive rather than an aggressive sense.

There is a tension between a more neo-liberal approach in line with the current free market EU model and a Eurasian notion of state sovereignty, endorsed by the leadership of Russia, Kazakhstan and Belarus. Western policy influences internal political dynamics in support of one or the other. These standpoints underpin two alternative theoretical political and economic paths: first, a region within the hegemonic Western framework and second, the rise of a bipolar region.

THE EEU AS A REGION OF THE NEO-LIBERAL WORLD SYSTEM

President Putin, basing his argument on common membership of the WTO, has contended that both the EU and EEU would be able to forge a wider pan-European association to mutual advantage. As Sergei Lavrov, the Russian Foreign Minister, has declared it: "We must work for a union of unions, an alliance of the EU and the Eurasian Union". [3] This line of thinking would enable forms of collaboration from "the Atlantic to the Pacific Ocean". [4] The EEU would be built on the laws of the market and, most important of all, would be part of a Greater Europe. The EEU would become "one of the poles of the modern world and be an effective link between Europe and the Asian-Pacific region". [5]

These statements highlight one major dimension of EEU policy. The implementation of such policies would constitute a 'stepping stone' for the EEU to become a member of the existing international system. One possibility for future relations between the EU and EEU would be the acceptance of a multipolar Europe involving overlapping areas of autonomy, both within the EU

(along lines suggested by critics, such as David Cameron), and with other regional associations, such as the Eurasian Economic Community. Such a multi-stage and multi-pace EU would be conducive to internal cohesion as well as contributing to peace with the non-EU post-socialist states. The EEU would complement rather than threaten the hegemonic Western powers.

Neo-liberalism is like putty and can be manipulated into different forms; the EEU in subscribing to freedom of markets for the factors of production would present another association of neo-liberal states. It would moreover be shielded by its own boundaries, at least initially, from more powerful economic forces in the EU.

However, critics point out that markets have their own logic and would drive the EEU into the Western dominated neo-liberal world system. Even if regional associations start out as economic free trade areas, such as the European Free Trade Area, the economic dynamics lead to further integration.

The EU would have to temper its expansionist propensities to accommodate other regional interests and overlapping associations. The EU's democratic scope would have to shift from democracy promotion within states to pursue democracy between states (including those in its neighbourhood). This means making compromises with other states.

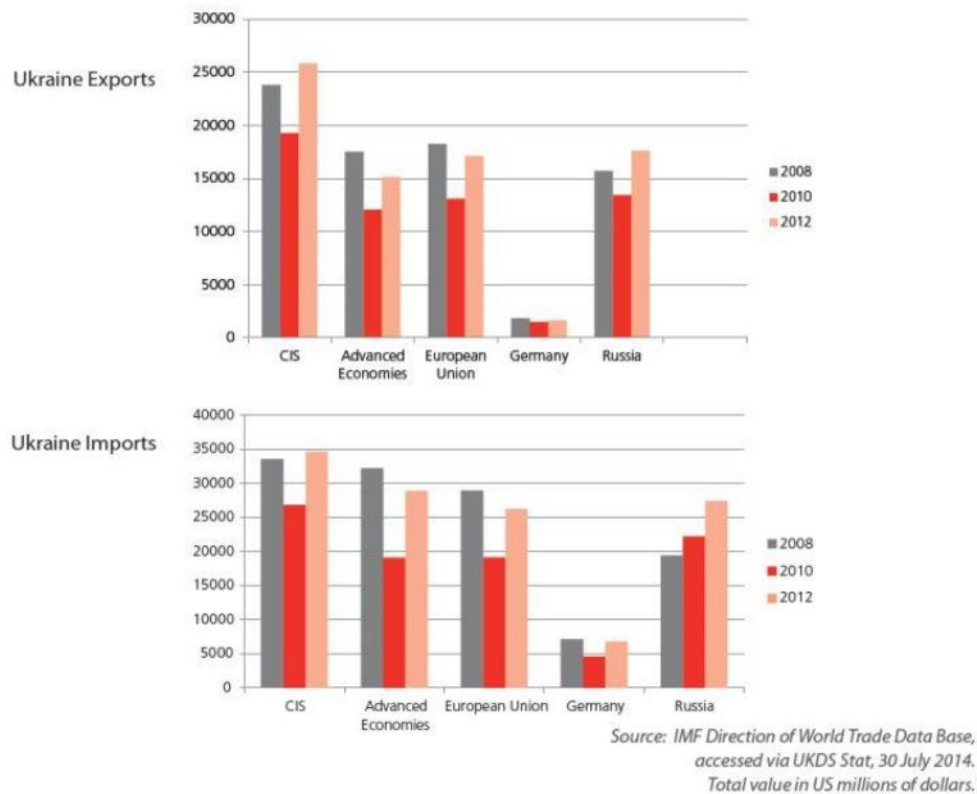
EU ENLARGEMENT: LESSONS FROM UKRAINE

The EU has been uncompromising in its attitude to Russia. Consider EU enlargement in relation to Ukraine. The DCFTA presented Ukraine with a choice (either the EU or the Eurasian course) as it was contended that two sets of rules could not operate in the EU economic space. [6] The objective is to realise the neo-liberal goals of the EU – the free movement of capital, commodities and people under conditions of market competition. The consequences of the agreements are intended to influence the political and economic arrangements of the neighbourhood states to make them compatible with the economic, political and legal norms of the EU. Potential benefits to partners come at considerable costs to other countries, particularly to former trading countries, in the east.

The effects of Ukraine's participation in the EU would have resulted in major disruptions of Ukraine-Russia trade. Regulations affecting production and service provision would also be brought in line with EU standards. Moreover, Ukrainian-EU agreements would have repercussions on relations with the ECU, which would nullify Ukraine's favourable links with Russia. Not only would Ukraine, when subjected to the EU market, experience more de-industrialisation, it would also have significant effects on Russia which has been Ukraine's most important single country trading partner.

As we see from Figure 1, in 2010 and 2012, Russia's exports to and imports from Ukraine were greater than all the EU countries combined and Russia-Ukraine trade was rising whereas with the EU it was declining.

Figure 1. Ukraine's Trading Partners: 2006-2012



It is true that a country cannot be a member concurrently of two free trade areas. There are however other possibilities of increasing levels of trade between the EU and Ukraine without the disruption of Ukraine-Russia commerce. The response of Russia has been to try to find some middle way to allow Ukraine to have economic trade relations with both blocs. Putin in November 2010 proposed the formation of associations which would promote a 'greater Europe' from Lisbon to Vladivostok. [7] As recently as January 2014, Russia suggested to Brussels the establishment of a Free Trade Area between the EU and the EEU. [8] While in the West such suggestions have either been ignored or rejected, they have some merit. If adopted, they might lead to something like the relationship of the European Free Trade Area to the EU. Negotiations between the EU and the USA over the TTIP are another example of how cooperation is possible between two commercial blocs (whether this agreement is desirable or not is a separate issue). Russian proposals have been dismissed by the EU and NATO. Both organisations have adamantly championed conditions which would not preclude membership of Ukraine in their respective associations at some future time. Consequently the Russian leadership is no longer inclined to accept the terms offered by the West, which it believes further the EU's hegemonic power. Policy then moves away from a complimentary 'stepping stone' towards a more autonomous bloc. The absence of a negotiated settlement enabling the entry of the EEU on acceptable terms into the dominant economic core, prompts the rise of an alternative and competing geopolitical alliance.

EURASIAN UNION AS PART OF AN ALTERNATIVE GEO-POLITICAL BLOC

Since the Ukrainian conflict, the Russian leadership has paid more attention to linkages with the Asian-Pacific area and to strengthening ties with groupings such as the SCO and the BRICS

(Brazil, Russia, India, China and South Africa) countries. The West's trade sanctions exercised against Russia and its retaliatory responses have had the effect of reinforcing the rise of a geopolitical bloc based on the EEU and the BRICS, especially China. While there is no challenge to American hegemony, these countries claim respect and recognition in the world community. Relations between the EEU and the EU will be overshadowed by the EEU's growing links to the east.

For countries in the semi-core of the world system, regionalism need not entail adopting the principles of neo-liberal globalisation. China, Russia, India, Brazil and Venezuela and constituents of regional groups – SCO, the ECU, MERCOSUR, and the Association of Southeast Asian Nations (ASEAN) – can strengthen their position against hegemonic powers.

I have used the term semi-core as it better captures the economic and political status of countries like Russia, China, India, and Brazil. Semi-core countries have their own transnational corporations, are hosts to foreign corporations and concurrently have their own national companies. The BRICS formed a New Development Bank in 2007 which is at least potentially an alternative to the World Bank. The growing power of their economic base gives such countries political influence and military power. While not matching the strength of the US, when combined these countries have considerable military power. Russia has been pushed further into the formation of a non-Western association of states. Many of these, though state-led and autocratic, provide a fundamental social and political stability in the countries concerned.

GOING FORWARD

The future relationship between the EU and the EEU is clouded by the contradictory values and interests within both geo-political blocs. As in the EU, the elites in member states of the EEU have different priorities. The EEU is a movement which is reactive – it is opposed to Western hegemony and seeks an equal and respected, rather than a dominant, place in the world community. It lacks any grounding in a political theory (comparable to Marxist class interest) to legitimate its superiority and, outside the area of Eurasia, it is not expansionary in vision. The ideology of Eurasianism is conservative and legitimates a capitalist framework. What kind of capitalism is yet to be established?

Eurasianism, as advocated by President Putin and his associates, is highly ambiguous. On the one hand, the EEU is considered to be an institution modelled on the EU with its concern for the free movement of goods, services, capital and labour. On the other hand, many of its advocates consider it to be a shift away from the hegemony of competitive markets to a state-led economy exerting significant degrees of control.

In its least radical form it would be a 'stepping stone' towards the existing neo-liberal global system, another regional neo-liberal bloc. While China as well as the Eurasian states are less exposed to global capitalist concerns and have a potential for internally state-led economic development, there are also neo-liberal interests derived from companies seeking profits from Western markets as well as politicians and intellectuals driven by liberal ideology. Russian writers, such as E. Vinokurov and T. Tsukarev, envisage the EEU's long term economic cooperation to lie with the EU and China [\[9\]](#) – they see Russia standing on the 'two legs' of the EU and China.

The EEU alone cannot mount a very serious economic challenge to the European part of the hegemonic core. Enlargement to include other former countries of the Soviet Union is limited politically and (excluding Ukraine) would not significantly enhance its power. Its share of global gross domestic product (GDP) is only 3.2 per cent; it has very few global companies to compete

with those in the economic core. A political realist would hope to join the latter rather than compete with it. An acceptance of neo-liberal market relationships would move the project towards inclusion in the present global system constituting a complimentary regional bloc to the EU.

But there is by no means a consensus, either within or between the countries forming the EEU, on the desirability of such a regional development. The tensions between the Russian leadership (particularly under President Putin) and leading Western trading nations are underpinned by significant differences of interest between Russia and the West.

To preserve a stable international order, the hegemonic Western powers will need to be more pluralistic and accommodating to the positions of others by adopting a more realist and less liberal internationalist political position. The EU political and economic elites who benefit most have to share their power with those who benefit least.

Politically, the West has pursued a policy of promoting electoral democracy within states, rather than encouraging democracy between states. The EEU's option to join the world system as a component part based on neo-liberal economic principles has been effectively closed off by Western policies.

Thus many among Eurasian political and economic elites look to an alternative, to a state-led economy set to become a political and economic counterpoint to the West. Such views are strengthened by the damaging political and social consequences of the enlargement of the EU, the debacle of the Eurozone and the crisis in Greece currently making the EU less of a body to be emulated by outsiders. Moreover, the history of post-Soviet economic development modelled on markets has led many to question the underlying principles of a market-led approach.

The EEU is more likely to evolve as a 'counterpoint', relying on greater state coordination and regulation economically and a top-down political system. Returning to Vinokurov and Tsukarev's analogy, the Chinese leg might well provide one firm base but the EEU will have to learn to stand more firmly on its own other leg. To build any significant alternative to the neo-liberal global order, the EEU will find it necessary to combine with semi-core countries, particularly the SCO and the BRICS. Such an economic alternative might prioritise economic development through administrative forms of collective economic coordination. It could provide the basis for a more pluralist and multi-polar world. E.H. Carr's rather pessimistic conclusion cited at the beginning of this might be replaced not by another utopia but an alternative bloc resting on an organised form of national capitalism. As following the twenty-year crisis, the danger here is that political and economic competition, if unrestrained, may lead to war.

POLICY RECOMMENDATIONS

1. The West should recognise that the EEU is not aggressive but reactive and has sought accommodation with the neo-liberal order.
2. The West should refrain from seeking hegemony over post-Soviet space and should move towards multi-polarity.
3. To secure the EU's aims of peace and security requires less democracy promotion within states and more democracy between states. ■

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Views expressed are of individual Members and Contributors, rather than the Club's, unless explicitly stated otherwise.

NOTES

- [1] Edward Hallett Carr, *The Twenty Years Crisis 1919-1939* (London: Macmillan, 1961), p. 224.
- [2] Jose Manuel Barroso, 'Remarks at a press conference on 10 July 2007', Euobserver, Brussels, 11 July 2007, [https:// euobserver.com/institutional/24458](https://euobserver.com/institutional/24458)
- [3] Sergey Lavrov, 'State of the Union' (14 August 2013), cited by Elena Korosteleva, 'The European Union and Russia', in David Lane and Vsevolod Samokhvalov (eds), *The Eurasian Project and Europe* (Basingstoke: Palgrave-Macmillan, 2015), p.195
- [4] Vladimir Putin, 'A new integration project for Eurasia: The future in the making', *Izvestia daily*, 4 October 2011.
- [5] Vladimir Putin, 2011.
- [6] Elena Korosteleva, 2015, pp.201-2.
- [7] Patrick Donahue, 'Putin Promotes Trade Zone From 'Lisbon to Vladivostok'', Bloomberg, 25 November 2010, [http:// www.bloomberg.com/news/articles/2010-11-25/putin-promotes-trade-zone-from-lisbon-to-vladivostok-upda...](http://www.bloomberg.com/news/articles/2010-11-25/putin-promotes-trade-zone-from-lisbon-to-vladivostok-upda...)
- [8] Sergey Lavrov, Speech of S. Lavrov to UN General Assembly, 27 September 2014, Available at: [http://www.mid.ru/ brp_nsf/](http://www.mid.ru/brp_nsf/)
- [9] Evgeny Vinokurov and Taras Tsukarev, *Agenda for the EEU Economy*, Valdai Papers, no 25 (Moscow: Valdai Discussion Club, 2015).

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