

## The Eurasian Union and the European Union Redefining their Neighborhood: The Case of the South Caucasus

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### Abstract

The European Union and the Eurasian Union both are having an impact on the future strategic development of Wider Europe. The three states of the South Caucasus are indicating low interest in joining the Eurasian Union, but at the same time it is not clear if the EU is able to offer a strategic alternative. Better defining Russian–EU relations should include a focus on new founding principles for Wider Europe, as well as an end to the current rivalry in the joint neighborhood, supplanted by cooperation and modernization. Solving the current negative perception of the South Caucasus should be seen as a litmus test.

### The South Caucasus Between Russia and the EU

2013 is a crucial year for redefining the European neighborhood between Russia and the European Union in general, and because of regional developments for the South Caucasus in particular. Since the downfall of the Soviet Union and the “big bang” eastern enlargement of the European Union in 2004, the countries that straddle East and West between the EU and the Russian Federation, and that once belonged to the Soviet Union, have become a strategic challenge for Russia, the EU and the countries themselves. Romania and Bulgaria are the latest countries to join the European Union, while other countries such as, first and foremost, Ukraine, but also Moldova and Georgia have expressed interest in joining the EU. The EU, suffering from a financial crisis that has become a crisis of integration, has not been able to offer more than a European neighborhood policy perspective. The further development of Wider Europe has depended very much on the political and economic transformation in the neighborhood countries.

On the other hand, Putin’s Russia considers the states of the former Soviet Union, whose collapse Putin characterized in 2005 as the greatest disaster of the 20<sup>th</sup> century, Russia’s so-called “near abroad.” Since Putin was re-elected to a third term in March 2012, his system has increasingly engaged in normative rivalry with the EU in the strategically undefined but shared neighborhood.<sup>1</sup> While the Commonwealth of Independent States never had much integration in the sphere of economics, the Eurasian Customs Union signed in 2007 and the Eurasian Economic Union, which is to be started in 2015, represent more of a strategic challenge for the EU in the post-Soviet neighborhood, as well as a strategic choice for the neighboring countries.

From the perspective of defining global power,

<sup>1</sup> Rilka Dragneva, Katarzyna Wolzok: *Russia, the Eurasian Customs Union and the EU: Cooperation, Stagnation or Rivalry*, Chatham House briefing paper, August 2012.

Ukraine, which is suffering from domestic political crises and depends on Russian energy, is seen as the test case for conflicts between Russia and the European Union. Each of the other neighboring countries is challenged to position itself in the struggle between the Russian and EU strategic offers. Domestic transformation is the crucial signal about a country’s choice. In this case, the countries of the South Caucasus have demonstrated individual success stories but remain political risks. The Russian–Georgian war in August 2008 showed how far the worst-case scenario can go.

The armed conflict of August 2008 was the most aggressive conflict between the Russian and Western presence in the joint neighborhood. For that reason, Georgia, Armenia and Azerbaijan can be seen as another test case of cooperation and/or stagnation of the EU’s neighborhood policy, and the Russian-driven Customs Union. The presidential elections in 2013 in all three countries of the South Caucasus are a further test of how they will develop within Wider Europe. Therefore the current process of connecting Armenia, Azerbaijan and Georgia with European institutions and actors requires more knowledge and background information to come to a differentiated assessment. Key questions to debate are whether the EU will be able to enlarge further or will be able to offer its European neighbors an attractive alternative. On the other hand, one has to see to what extent the Eurasian Union is an alternative, and, last but not least, which framework of integration offers more opportunities for the neighboring countries and what the countries of the South Caucasus can offer Wider Europe. The following sections will analyze the strategies of the different actors.

### Eastern Partnership. More For More, But No Way Beyond

Because of its previous success stories of deepening and enlarging integration, the European Union is the most important actor shaping the European neighborhood. Deepening European integration often results from devel-

opments in the European neighborhood. The Russian–Georgian war in August 2008 was a strategic wake-up call, indicating, in particular, the limits and challenges of the capacities of the EU’s external action. In creating the Eastern Partnership (EaP) as a response, for the first time in European eastern policy-making, an initiative developed under the leadership of a new EU member state (Poland) jointly with an old EU member state (Sweden), and in December 2008 the European Commission adopted their plan. Furthermore, the EaP differs from previous initiatives, such as the European Neighborhood Policy, European Neighborhood Plus, and the Eastern Dimension by concentrating exclusively on the eastern neighbors. The six EaP countries—Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine—are trying to overcome the threefold challenges of a political and economic transition and at the same time create a nation state. The eastern neighbors are also dedicated to joining the EU. Altogether this is a process requiring the interest and input of a broad spectrum of actors. At the same time, the European institutions have to propose new options of cooperation, but are unable to offer the gold medal of membership.

The EaP summit that takes place every second year assesses the current situation as well as providing future benchmarks. The founding summit took place during the Czech presidency in 2009 in Prague, followed by the Polish summit in 2011, and the upcoming Lithuanian summit in November 2013, which will be in Vilnius.

After its founding, the EaP has been caught up by shortcomings of transition in the neighboring countries. The European Commission viewed Ukraine and later Moldova as the European frontrunners, but both countries have been suffering from domestic crises and unable to meet European standards. Reacting to regional developments, the Commission decided to run EaP on the principles of “more for more.” Even if joining the Union is still on the agenda of some neighboring countries, supported by some EU member states as well, further enlargement of the Union towards its Eastern neighbors is prevented by the shortcomings of transformation and the lack of strategic offers from the EU that go beyond EaP. Nevertheless, EaP remains a strategic priority for EU external relations and one should see the Vilnius summit as the next signpost. The outcome of the third EaP Summit will be of crucial importance for EaP policy. Its success depends to a significant extent upon results of the EaP Road Map implementation.

### **Eurasian Economic Union. De-Colonization of the Soviet Empire**

Since the collapse of the Soviet Union in December 1991, Russia’s highest regional priority has been to build a new form of integration based on economic ties and geopo-

litical presence to strengthen Russia’s global influence. Throughout the period, the Russian government has had problems accepting the collapse of the Soviet Union and developing a strategy to de-colonize the Soviet empire. The first reaction was creating the Commonwealth of Independent States (CIS), which lacks mechanism of economic integration and quickly lost momentum and common tasks. Based on the negative CIS experience, Russia, Kazakhstan and Belarus have continued to work on integration projects mostly based on the EU and on a customs union. In 2000, when Putin took over political power, he initiated the Eurasian Economic Community. Despite the development of an institutional regime, old problems persisted. The legal framework remained fragmented, mostly based on bilateral agreements with Russia. It was no wonder that none of the South Caucasian countries joined the integration projects. With Putin gaining power, this development has been continuing. In July 2012 the Eurasian Economic Commission (EEC) replaced the Eurasian Economic Community.<sup>2</sup> In comparison with its predecessor, the Eurasian Economic Commission became more powerful based on common customs tariffs, a common customs code and a joint commission that has so far ratified 850 acts. However, economic cooperation within the Eurasian Economic Commission and joining the WTO became a contradiction of integration interests, though ultimately Russia decided in favor of joining the WTO.

Overall, the two integration scenarios, the EU and the EEC expressed regional and global interests. Since Russia did ultimately join the WTO, the contradiction was solved in favor of Russia having to fulfill WTO regulations. If the previous post-Soviet regional intuitions were asymmetric, allowing Russia to use its superior bargaining power, the ECU is the first step toward supranationalism. The votes in the Commission are weighted as follows: Russia, 57%, Belarus and Kazakhstan 21.5% each. Since certain decisions have to be taken by qualified majority, Russia needs another partner, but the two others cannot decide against Russia. The current idea is developing the EEC further into a Eurasian Economic Union, with the EEU modeled on the principles of the European Union. In economic terms the EEC has a certain attractiveness, but crucial points are unclear: processes of decision making as well as personnel responsibility.

From a political perspective, Putin has been using post-Soviet integration as an instrument for demonstrating global political power, as well as economic integration to overcome the trauma of the breakdown of the

2 Alexandra Powlochnikow: Die Zollunion zwischen Belarus, Kasachstan und Russland – Motive Entwicklungen und Perspektiven, SWP Arbeitspapier FG 5, 2012, Nr. 01.

Soviet Union without clearly defining the game of integration. Furthermore, the EEC is the vehicle through which Russia increasingly engages in normative rivalry with the EU in the so-called “shared neighborhood” and in bilateral relation with the EU. Since the EU–Russia summit in June 2012 in St. Petersburg, Putin has been setting a precondition to advance negotiations between the EU and the EEC, which would have an impact on EU trade relations with Russia. The EU lacks contact persons in the EEC. That would also mean that the EU has to create new principles to sign a founding agreement with Russia, which has a strong impact on the European neighborhood. On the occasion of the December 2012 EU–Russia summit in Brussels, Tatiana Valovaya, representing the Eurasian Economic Commission supported by Russia’s ambassador to the EU, Vladimir Chizhov, suggested that it would only be possible to create a “common economic space” between the EU and the Eurasian Union, and not between the EU and Russia.

The system Putin is offering the Eurasian Union is an integration project as an alternative to the EU’s neighborhood policy.<sup>3</sup> While the EU is offering the Deep and Comprehensive Free Trade Agreement, Russia is promoting short-term economic benefits such as cheaper gas. Nevertheless, the neighboring countries seem savvy enough to realize that the principal benefactor would be Russia, and therefore are prepared to go through the long haul with the EU, which would bring bigger economic gains and more room for political maneuver, including a European institutional perspective and economic integration into the world market.

### The Position of the South Caucasus Countries

In general terms the three countries of the South Caucasus are part of the undefined strategic area between the EU and Russia. The future development of Wider Europe depends on the attractiveness of the Russian and European offers, as well as on the self-definition of the European neighborhood countries. The criteria include the progress and failure of democratic transformation, and the self-identification of networks of the political and economic elite. The brand of economic integration is less attractive in the South Caucasus than in Central Asia or the Western CIS countries, such as Ukraine or Belarus, because in the South Caucasus Russia’s political and cultural presence is getting weaker: ethnic Russians make up less than 2 percent of the population in each country of the region; Russian education is increasingly less attractive, with both Azerbaijan and Georgia

implementing state education programs to support overseas education in U.S. and European universities. Russian as the “lingua franca” lost its importance in favor of regional languages and/or Western foreign languages. Armenia is the only case where Russian is still widely spoken. Because of the strong impact of Western funding offering academic options to study abroad, the new generation of thinkers in the South Caucasus is increasingly westernized in terms of cultural and educational affiliation, and is consequently much less interested in Russian contacts.<sup>4</sup>

Georgia sees the Eurasian Union as a reunion of the Soviet Union. Economic integration is used as expressing Russian pressure to increase its power. Furthermore, the consequences of the August war, such as having no diplomatic relations and the imposition of trade blockades, made the EAU a non-starter for Georgia. At the same time, the EU has not been able to offer more than the principles of Eastern partnership, so far not perceiving Georgia as a front runner of the six Eastern Partnership countries, and remaining concerned about the ethno-territorial conflicts in Abkhazia and South Ossetia. One still has to observe the results and impact of the upcoming presidential elections, which might bring the current Prime Minister Bidzina Ivanishvili to the top office. Even if Ivanishvili is expressing interest in “normalizing relations” with Russia, his foreign policy priority is still Euro-Atlantic integration. Therefore he will not limit his room for maneuver by joining the EAU.

The political elite of Azerbaijan has little confidence in the EAU, not seeing many benefits for Azerbaijan, but at the same time not being interested in damaging relations with Russia.

Armenia is heavily dependent on Russia, but in economic and sometimes even political terms there is interest in European integration. As a result, the Armenian elite is divided between the opposition, which wants less dependence on Russia and more integration with Europe, and the ruling elite, acknowledging dependence on Russia, but interested in European financial aid. Broadly speaking, the Armenian interest in the EAU is more concentrated on the potential geopolitical impact of solving the Nargorno-Karabakh conflict. However in the run-up to presidential elections, Russian-backed politicians supported Putin’s idea.

The reality in the South Caucasus illustrates bottlenecks to the Eurasian Union based on a mixture between the Putin system’s interest in rebuilding economic cooperation guided by Russia among the members of the former Soviet Union, and Putin’s intention to increase Rus-

3 Vladimir Putin: Novyi integratsionnyi proekt dlya Evrazii – budushchee, kotoroe rozhdetsya segodnya, Izvestiya, 3.10.2012

4 Zaur Shirriye: Russia pushes for Eurasian integration across CIS. Today’s Zaman/ Universal, 26.7.2012.