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WILL THE EURASIAN UNION DETERMINE THE FUTURE OF BELARUS?

There were quite a few integration projects launched in the post-Soviet space since the fall of the USSR but there is no doubt that the Eurasian Union is the most serious and ambitious project. Russia, being the main driving force for the deeper integration, has serious ambitions to create a completely functioning economic space. In her eyes, it should become an equal choice compared with the European Union for countries that are stuck between East and West for the last 20 years.

However, as Eurasian Union integration project, which is currently in state of Customs Union, launched in 2010, is driven by Russia, it becomes the main decision-maker of the fate of the other two participating states – Belarus and Kazakhstan – as well. Many experts state that participation in the Eurasian Union will shut the doors down for any further agreements with the EU. Thus, Russia will gain more and more instruments to decide how Belarus should act both internally and externally.

Andrei Yeliseyeu in his article “What Eurasian integration brings to Belarus” gives brief review on history of the birth of Eurasian Customs Union. Later, the author takes four dimensions to look at the issue of Belarus participation in the integration project. Finally, A. Yeliseyeu concludes that even though some benefits are gained from this participation, the deepened dependence on Russia is dangerous for the future of Belarus.

In the second article “Russian Instruments of Economic Influence in Belarus and the Customs Union” Aliaksandr Aleshka argues that emergence of the Customs Union in 2010 showed that economic integration was chosen as the best possible way of integrating the post-Soviet space. However, motivation is a mix of deeper political, international and economic reasons. Author gives the main strategic interests of Russia and shows the impact of its instruments towards Belarus.

Vytautas Keršanskas, Editor

WHAT EURASIAN INTEGRATION BRINGS TO BELARUS

Andrei Yeliseyeu

The idea of Eurasian Union, as the most ambitious integration project launched in the post-Soviet space since 1991, undoubtedly entails considerable changes for Belarus. Since the project is still in its early stages, one should be cautious in drawing far-reaching conclusions. Despite this, some key projections for Belarus can be outlined. It should also be noted that an obviously beneficial factor in the short term may turn out for the worse in the medium- or long-term perspective, and vice versa. Before coming to a review of some costs and benefits of the Eurasian project for Belarus, its history and plans are briefly outlined.

Customs Union and Common Economic Space on the way to Eurasian Union

The idea of the Eurasian Customs Union (ECU) traces its history to 1995, when a treaty on the formation of a customs union between Russia, Belarus and Kazakhstan was signed. However, this initiative remained on paper only, as did many other cooperation initiatives among the ex-

Soviet states. In mid-2010, the Customs Union Code finally entered into force in the three states and the existence of a common customs tariff was declared. Ambitions of the trio did not stop there. The Common Economic Space (CES) was launched as of 1 January 2012, and the CES member states are committed to launching the Eurasian Union (EAU) On 1 January 2015.

This is a very tight deadline for a genuine single market in goods, services, labour force and capital to emerge. However, it would be erroneous to consider the whole Eurasian project declarative. Russia is committed to pushing its idea forward, and the project is high on the political agenda in the member states. It also enjoys recognition abroad, as negotiations on free trade agreements with New Zealand, the EFTA states and some other countries show.

There are still many exemptions in the Eurasian Economic Community and no genuine freedom of movement of goods and labour force, not to

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Dependence of Belarus on Russia's economic support, though bringing easy money to the economy, makes it too vulnerable.

mention the other two freedoms (services and capital). To date, only two thirds of goods enjoy freedom of movement inside the EurAsEC Customs Union. Various barriers, as for example in the trade in alcohol and tobacco, medical equipment, agricultural products, etc. are still in place. Hundreds of exemptions, special trade measures and reference rules to national legislation are encountered in the legal base of the Customs Union and the CES.

However, at the meeting of the Supreme Eurasian Economic Council in May 2013, the leaders of the trio confirmed their intention to launch the EAU by 2015, and signed, among other documents, decisions on a common macroeconomic and agricultural policy with a detailed description of common steps to be undertaken. Competition, energy, transport and finance are just a few of the many spheres that the CES bodies take care of. Moscow offers access to cheap energy and requires no political conditionality. The Russia-led integration project seems quite attractive for a number of post-Soviet ruling elites. Official Minsk as a strategic long-standing ally of Moscow had no other choice than to follow Russia's offer to be engaged in closer integration.

External rent flows vs. Overdependence on Russia

Removal of tariff limitations by Russia in the oil and gas sphere and decentralisation of Russia's energy market are much expected consequences of the Eurasian Union by official Minsk. High actual growth in the GDP of Belarus in the last decade was secured not by the rise in competitiveness of the national economy, but by a mixture of exogenous (Russia's cheap energy sources, a booming demand in Russia and CIS countries and a price increase in global raw materials markets) and temporal (domestic demand increase fuelled by the growth in incomes and injections of cheap loans into the economy with) factors. The consequences of the world economic crisis and the severe economic crisis of 2011 showed clear limitations of the former Belarusian economic model. Further increases in domestic demand entail big risks and Russia's economic support is no longer capable of securing stable economic growth. A steady supply of at least 22 million crude (either Russia's or Kazakhstan's) oil at Belarusian refineries annually, along with the removal of tariffs and the distribution of export duties on oil and oil products, which are exported outside the EAU, among the member states, would make the levels of external rent higher. In the gas sphere, Gazprom reliance on Belarus is rising too, as it plans to construct two additional gas storage facilities in Belarus by 2020.

On the other hand, such dependence of Belarus on Russia's economic support, though bringing easy money to the economy, makes it too vulnerable.

Low gas prices and the resale of refined products produced from Russian crude oil keep the Belarusian economy afloat. Belarus's reliance on Russia in the nuclear sphere only adds to the overdependence of Belarusian energy on the eastern juggernaut. The Astravets nuclear station is financed by a Russian loan and constructed with Rosatom technologies. As a result, Belarus became infamous for being an EU eastern neighbour that does not take any meaningful steps to diversify its energy supply portfolio. As EU Energy Commissioner Günther Oettinger said in late 2012 on his visit to Moldova "it is clear that whoever leaves the Energy Community indirectly leaves the partnership with the EU. It becomes the next Belarus".

Yet this energy dependence does not mean the absolute subordination of the Belarusian elite to the Kremlin. The former is well aware of its own leverage over the latter, sometimes resorting to clear blackmail and threats to "go westward". In terms of a realistic theory of international relations, Lukashenka has never pursued a genuine balancing policy between the EU and Russia, but has been involved in a clear bandwagoning strategy. Official Minsk aligns itself with a strong eastern adversary and closely cooperates with him in security matters in exchange for the latter's economic and political support. From this perspective, overdependence (but a mutual dependence, too) on Russia is not real news, but further Eurasian integration will continue the trend and will make it even more apparent.

Road towards Association Agreement with the EU blocked vs. Indirect approximation with EU standards

Once a member of the EurAsEC Customs Union, not to mention the EEC or EAU, the country cannot proceed towards conclusion of the Association Agreement (AA) and the DCFTA with the EU. Ukraine, which became a battleground between the two big players' projects, is a good example. Not that official Minsk really expected to move towards the Association agreement with the EU, as it does not even have a valid Partnership and Association Agreement. Still, the choice of Eurasian integration apparently makes advancement of relations with the EU towards the AA impossible.

With this in mind, paradoxical as it may seem, Belarus adopts European standards in a number of fields through its participation in the Eurasian projects. *First*, to some extent, the CES legal base is developed in compatibility with the EU's. The free trade agreement between the CIS countries is largely based on WTO principles and partly on EU technical standards (i.e. competition policy), too. According to the 2012 SME Policy Index, assessed by the OECD, the European Commission, European Training Foundation and the European Bank for Reconstruction and Development, Bela-

The choice of Eurasian integration apparently makes advancement of relations with the EU towards the AA impossible.

rus leads the Eastern Partnership countries in the area of *standards and technical regulations*. Experts maintain that this advancement was possible because Belarus has aligned its infrastructure in the area of sanitary and phytosanitary rules through the EurAsEC Customs Union.¹ **Second**, the Treaty on the Functioning of the Customs Union in the Multilateral System of November 2011 ensured that the WTO rules-based regime would prevail over the provisions of the Customs Union. Therefore, the Customs Union legislation is made consistent with modern international norms.

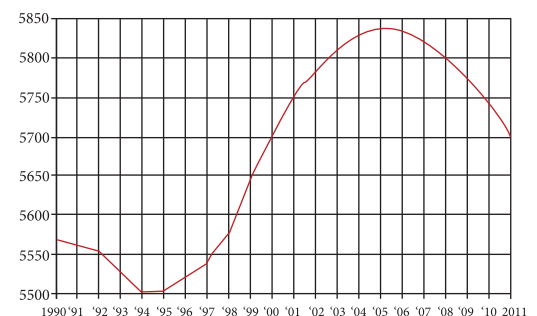
Long-term trade creation vs. Immediate market share decrease

The Customs Union and a deeper integration of its member states is expected to create positive effects on their GDPs by rising sectoral output and increasing trade flows between each other. This assertion is refuted by some estimates that claim that the CU would be a GDP-reducing framework in which the negative trade-diversion effects surpass positive trade-creation ones.² In any case, trade creation after harmonisation of tariffs and limitations of various trade barriers requires time. Meanwhile Belarusian industry has already suffered due to the decrease in demand as a result of Russia's membership of the WTO. Since Belarus accepted Russia's commitments on market access for goods, a certain "compulsory trade liberalisation" has occurred³ and caused a drop in exports as competitiveness in Russian (and domestic!) markets increased. In May 2013, Belarusian deputy minister Semashka publicly bemoaned this consequence of Russia's membership of the WTO. In order to minimise the adverse effects, Belarus sometimes resorts to erecting additional barriers for foreign (Russian included) businesses on the domestic market. At the moment, the Eurasian Economic Commission is reviewing several complaints from Russian businesses about such obstacles to competition from the Belarus side.

Migration: Safety valve vs. Deficit in specialists

During the last decade Belarus benefited largely from the open Russian labour market, as the Belarusian economy produced few new jobs while its labour force was growing. Since the mid-90s Belarus has enjoyed a so-called *demographic ben-*

efit that was caused by a steep decrease in fertility in the early 90s and a change in the age structure accompanying it. Starting from 1994, the working age population was rising and the demographic burden was steadily declining up to 2008. Since then however, the picture has reversed, and a decrease in the labour force followed making the demographic burden heavier. This trend has already created a deficit in some specialties in the Belarusian labour market, from construction to medicine. Taking into account that the gap between Belarusian and Russian wages is widening and the demographic situation in Belarus is steadily getting worse, further shortages in a number of specialties in the Belarusian labour market are inevitable.



The graph depicts the number of able-bodied citizens of working age in Belarus in 1991-2011. Source: National Statistical Committee.

Conclusion

Belarus's Eurasian saga is a good example of the divergence between immediate interests of a ruling elite and long-term national interests. As has been already noted in the introduction, Eurasian integration brings a number of conflicting outcomes for Belarus. Some negative short-term consequences for the economy may turn out to have a positive effect in the long run. For instance, the shock from the "compulsory trade liberalisation" that Belarusian industry experienced after Russia's accession to the WTO creates an incentive for enterprises to modernise and enhance their competitiveness.

Conversely, the allegedly positive effect on the economy in the short and medium term may have adverse and even deleterious effects in the long run. In times of constant growth of the labour force, labour migration to Russia was seen by Minsk as a safety valve and still remains such to a limited extent. With a changing demographic pattern as a result of the evolving age structure, labour mobility between Belarus and Russia brings new challenges to the Belarusian labour market and social system. Overdependence on Russian external rent, in general, and in energy matters, in particular, risks leaving eventual post-Lukashenka Belarus incapable of making truly effective decisions that serve national interests.

¹ OECD/ (2012), SME Policy Index: Eastern Partner Countries 2012: Progress in the Implementation of the Small Business Act for Europe, OECD Publishing.

² de Souza, Lucio Vinhas. 2011. An Initial Estimation of the Economic Effects of the Creation of the EurAsEC Customs Union on Its Members. © World Bank, Washington, DC, <https://openknowledge.worldbank.org/handle/10986/10114>

³ See: Russia's Accession to the WTO: Implications for Belarus' Trade and Industries. Irina Tochitskaya. German Economic Team Belarus, IPM Research Center. Policy Paper Series [PP/01/2012].

Russian Federation is able to significantly increase its long-term economic and political influence in the Region and its partner-countries have the opportunity for greater access to the Russian market and certain political benefits.

RUSSIAN INSTRUMENTS OF ECONOMIC INFLUENCE IN BELARUS AND THE CUSTOMS UNION

Aliaksandr Aleshka

Russian strategy in Belarus and the Customs Union

Emergence of the Customs Union between Russia, Belarus and Kazakhstan in 2010 and the subsequent implementation of the fundamental principles of this Union evidence the fact that the Russian authorities have chosen economic integration as the main strategic direction for co-operation with their neighbours. Numerous unsuccessful attempts at political integration with Belarus have proven to Russia that its post-Soviet neighbours are very much afraid of too great a growth of Russian political influence, which undermines the power of the local authorities. At the same time, the neighbouring countries are strongly attracted to deeper economic cooperation with the growing Russian market. In such conditions, emergence of the Customs Union between Russia, Belarus and Kazakhstan satisfies both sides: the Russian Federation is able to significantly increase its long-term economic and political influence in the Region and its partner-countries have the opportunity for greater access to the Russian market and certain political benefits.

It is important to understand that the foundation of the Customs Union (CU) is not the economic motivation of its members, but rather a complex mix of political, international and economic reasons. For the Russian Federation, which is a dominant decision-maker in the CU, economic cooperation with Belarus and Kazakhstan does not play any vital role. Sure enough, Russia receives a large number of economic benefits from the CU, but its strongest motivation stems from geopolitical reasons. One of President Putin's major international projects is gradual extension of Russian economic and political power over the post-Soviet region. This project of Eurasian integration is planned to be the largest achievement of Putin's foreign policy: by the end of his third term in 2018, the Eurasian Union is supposed to be functioning without major problems and may include more than three member states. In this long-term project of Eurasian integration, the Customs Union plays a decisive role, as it will determine the success of the whole Eurasian project.

In order to avoid the mistakes made during integration with the Republic of Belarus in the 90s the Russian authorities have committed themselves to a gradual and long-term multi-step integration, making sure that they receive a solid result at each

step, and that each step corresponds to the well-defined interests of the Russian Federation. This mix of political, geopolitical and economic interests determines all of Russia's long-term strategy towards Belarus.

Strategic interests of the Russian Federation in the Republic of Belarus until 2015:

1. Assurance of active participation of Belarus in future integration projects with Russia (the Eurasian Union, 2015).
2. Complete control over the foreign policy of Belarus.
3. Subordination and predictability of Belarusian authorities in their relations with Russia.
4. Smooth economic and social development of Belarus – avoidance of deep economic and social crises, which may have unpredictable political consequences in the country.
5. Economic synchronisation between Belarus and Russia: gradual reduction of the number of economic barriers between the two countries (favourable conditions for Russian imports and investments in Belarus).
6. Limitation of direct and indirect economic support for Belarus to the optimal level (minimisation of expenses with the preservation of certain economic benefits for Belarus in order to avoid a deep social and economic crisis in the country, which may result in unpredictable political consequences for Russia).
7. Further development of a single labour market within the Customs Union: large-scale migration of a qualified labour force to the Russian Federation.

Russian Instruments of Economic Influence in Belarus and the Customs Union

The decision to enter into the Customs Union was very difficult for the Belarusian authorities and was made only after several months of open political, economic and media conflict between the two countries. Membership of Belarus in the Customs Union with Russian and Kazakhstan opens several effective channels for Russian influence in the country, and what is even more important, it significantly changes the character of this influence. Even before the Customs Union, the Belarusian economy had been extremely dependent on the Russian Federation, but membership in the CU gave Russia specific instruments with which to use this dependency. These instruments may

Mix of political, geopolitical and economic interests determines all of Russia's long-term strategy towards Belarus.

In future years, in order to support the functioning of the Belarusian socio-economic model and to avoid the risk of radical political changes in the country, Russia will continue to provide Belarus with a rather large volume of crude oil, comparably low gas prices and unrestricted access to its market for Belarusian exports.

be useful for the Russian authorities, as Belarus has very often not willingly implemented its economic obligations to the integration partners.

The foundation of the Customs Union is implementation of three blocks of policies: elimination of intra-bloc tariffs, common tariff policy and elimination of non-tariff barriers.¹ The CU members have achieved some progress in these areas, but the large number of problems and contradictions between the states show that this organisation does not function as a real customs union.² At the present moment, Belarusian and Kazakh authorities have enough political power to oppose the most unfavourable requirements of the CU, but it is unclear whether they will be able to continue such a policy after 2015.

It is important to note that the CU is only one of the elements of Russian economic influence in Belarus. The Customs Union directly or indirectly affects the following vital issues for Belarus: the price of Russian oil for the Belarusian market, oil export duties, conditions for Belarusian export and import from Russia and the value of Belarusian custom duties for imported goods. Significant changes in Belarusian policies concerning these issues after joining the CU have had very controversial effects on the Belarusian economy. In these terms, the CU rules provoke three major contradictions between Belarus and Russia:

1. *The volume of crude oil imported from Russia and the level of oil export duty paid to the Russian budget:* Belarus insists on the large volume of imported oil and minimal oil export duty. The Russian Federation intends to supply Belarus with rather large volumes of oil, but dramatically decreases the revenues of the Belarusian export of oil-refined products by imposing high oil-export customs duties.

2. *Different conditions for Belarusian export and import from Russia:*

Over a very long period of time, the Belarusian authorities have been lobbying intensively for the most favourable conditions for Belarusian export to Russia and have been almost ignoring the effects of Russian imports on the country's domes-

tic market.³ Today, Belarus continues to be the number two trade enemy for Russian exports in the World (after the EU), although it is gradually withdrawing these limitations under pressure from the CU.

3. *Customs control over the border with the EU:*

Despite the necessity of implementing the same customs policy, the Belarusian authorities try to continue to follow (unofficially) their own rules at custom offices along the borders with the EU and Ukraine. Generally, the Russian and CU custom requirements are more open than the Belarusian customs policy on the ground. This contradiction may grow as Russia continues the liberalisation of its international trade as a consequence of its WTO membership.⁴

The Russian Federation is actively using all other available instruments of economic influence on Belarus besides the leverage of the CU. In the table below, I present a description of these instruments, together with the ideal expectations of the Belarusian side and the presumable behaviour of the Russian Federation. Proceeding from the strategic interests of Russia in the Republic of Belarus, these instruments may be divided into two parts: the first part is aimed at continuation of economic support for Belarus and the second is intended for pressurising the Belarusian government in order to make it fulfil its CU obligations and accelerate economic synchronisation between the two countries.

| Ultimate interests of the Republic of Belarus | Russian Position | Presumable behaviour of the Russian Federation |
|---|------------------|---|
| 1. Import of 22–23 million tonnes of crude oil | Compromise | Delivery of significant volume of oil to Belarus – from 18 to 22 million tonnes |
| 2. Minimal export duties for oil refined products | Pressure | Introduction of export duties for oil products favourable for Russia |
| 3. Low level of gas prices (ideally, Russian domestic price) | Compromise | Favourable gas price for Belarus, slightly higher than the domestic Russian price |
| 4. Unlimited access to Russian financial support and credit resources | Pressure | Considerable limitation of direct financial subsidies to Belarus. Allocation of credits and loans for specific economic projects and market reforms |
| 5. Limitation of Russian import to Belarus at certain sensitive areas | Pressure | Gradual liquidation of Belarusian limitations for the Russian import |

¹ Steven Blockmans, Hrant Kostanyan, and Ievgen Vorobiov, "Towards a Eurasian Economic Union: The challenge of integration and unity", CEPS Special Report, No. 75, 2012, http://www.europarl.europa.eu/meetdocs/2009_2014/documents/d-ru/dv/dru_2013_0320_03/dru_2013_0320_03_en.pdf

² Shumylo-Tapiola, O. (2012), "The Eurasian Customs Union: Friend or Foe of the EU?" Brussels: Carnegie Europe. http://carnegieendowment.org/files/customs_union.pdf

³ Iwona Wisniewska, "The Customs Union of Belarus, Kazakhstan and Russia: a way to strengthen Moscow's position in the region", ISPI Analysis, No. 146, 2012.

⁴ Kamil Klysinski, "Consequences for the Belarusian economy of Russia's entry into the WTO", East Week, 29 (305), 2012, <http://www.osw.waw.pl/en/publikacje/eastweek/2012-09-12/consequences-Belarusian-economy-Russia's-entry-wto>

| | | |
|--|------------|--|
| 6. Possibility to influence the value of custom duties in order to protect domestic producers | Pressure | Decisive role of Russia in CU decision-making with minimal consultations with other partners of the Union |
| 7. Unlimited access of Belarusian exporters to the Russian market | Compromise | Broad access for Belarusian exporters to the Russian market is guaranteed by major principles of the CU |
| 8. Full control of Belarusian authorities over strategic and most profitable enterprises | Pressure | Gradual extension of access of Russian investors to Belarusian assets |
| 9. Migration of unemployed and dissatisfied citizens to Russia, but avoidance of large-scale migration of qualified labour force | Pressure | Development of a single labour market, strong economic interest of Russia in large-scale migration of skilled and unskilled labour force from Belarus. |

Conclusions

The first group of instruments of the Russian economic influence delivers the vital economic resources for general support of Belarusian economic system. It is a voluntary and conscious payment of the Russian Federation for its geopolitical and military interests in Belarus as well as for the consistent loyalty of the Belarusian authorities to Russia. In future years, in order to support the functioning of the Belarusian socio-economic model and to avoid the risk of radical political changes in the country, Russia will continue to provide Belarus with a rather large volume of crude oil, comparably low gas

prices and unrestricted access to its market for Belarusian exports.

The second group of economic instruments is aimed at the promotion of the long-term economic and political interests of Russia in the country. First of all, there is the pressure on the Belarusian authorities to implement specific reforms, which would bring the Belarusian economy up to the standards of the CU. Russia is looking forward to a gradual decline in the dependency of Belarus on its direct financial subsidies as well as to the removal of barriers for Russian exports and investments to Belarus. The existence of such barriers for Russian producers and investors in Belarus is not a crucially important issue because of the actual small size of the Belarusian market. At the present time, one of the major economic benefits coming from cooperation with Belarus is the real exodus of skilled and unskilled labour force, immigrating to Russia. In conditions where there is a serious lack of labour resources in Russia, half a million Belarusian labour immigrants create significant contribution to economic growth in the Russian Federation. The Russian authorities are aiming to put gradual and long-term economic pressure on Belarus, which will cause significant changes in the structure of the country's economy by the year 2015.



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