

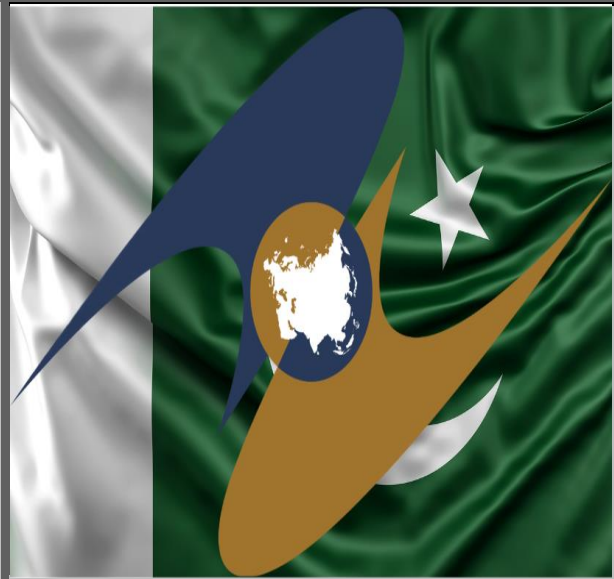
EURASIAN ECONOMIC UNION & PAKISTAN

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August 15, 2023

(Views expressed in the brief are those of the author, and do not represent those of ISSI)



Recent developments in the international arena indicate some major shifts in global affairs. One of the key trends discernible in these shifts is the emergence of multipolarity and growing regionalism around the world.

There are several examples illustrating the increasing strength and salience of regionalism, e.g. organisations/ unions such as the Shanghai Cooperation Organisation (SCO), Conference on Interaction and Confidence Building Measures in Asia (CICA), African Union (AU), and the European Union (EU), to name a few.

Notably, since the onset of the Russia-Ukraine conflict, the Eurasian Economic Union (EAEU) is one regional organisation being researched and widely discussed by political analysts and experts of international relations.

Background:

EAEU, widely viewed as a consequence of the dissolution of the Soviet Union (SU) and Russia's response to EU overtures is "an international organization for regional economic integration."¹

EAEU's main objectives are to '*comprehensively upgrade, raise the competitiveness of and cooperation between the national economies, and to promote stable development in order to raise the living standards of the nations of the Member-States.*' And it plans to achieve these objectives by

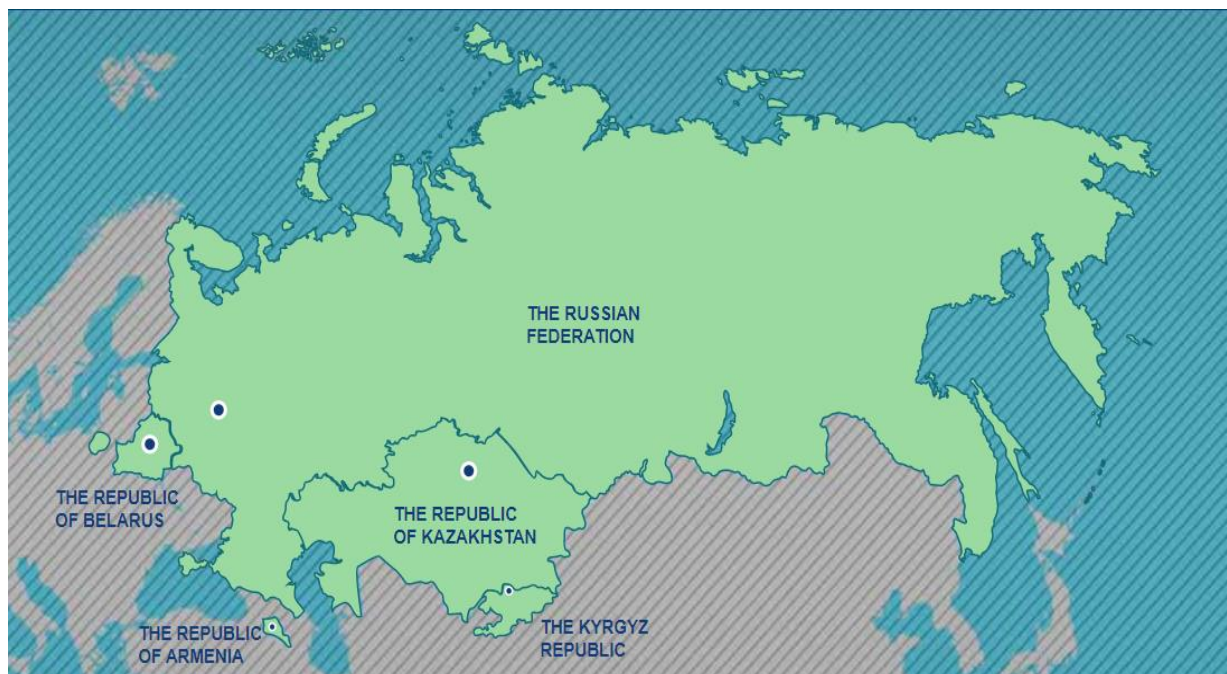
¹ "About the Union," *Eurasian Economic Union*, .
<http://www.eaeunion.org/?lang=en#about>

*"ensuring free movement of goods, services, capital and labour, pursue coordinated, harmonized and single policy in the sectors determined by the Treaty and international agreements within the Union."*²

After the dissolution of the Soviet Union in 1991, the economies of the post-Soviet republics experienced severe economic turmoil finding it difficult to adjust to the evolving new system. The demise of the Soviet Union resulted in the severance of many productive economic relations among these countries.. Therefore, Russia made attempts to preserve the common economic space, at least for a transitional period.

The first such attempt was the creation of the Commonwealth of Independent States (CIS) in 1991 and various other initiatives outside of the CIS that included: a proposal for the creation of the Eurasian Union; establishment of the Eurasian Economic Community (proposed in 1995), created in 2010 - also known as Eurasian Customs Union; and the formation of Single Economic Space in 2012.

Later, after the annexation of Crimea by Russia in February-March 2014, the Treaty on the Eurasian Economic Union was signed to establish the EAEU in Astana on May 29, 2014. While the Treaty was signed in 2014 it came into force on January 01, 2015, to formally establish the EAEU with 5 members including, Russia, Belarus, Kazakhstan, Kyrgyzstan and Armenia.



² Ibid.

*EAEU Member States*³

However, owing to the current economic situation that has emerged post Russia-Ukraine conflict, efforts to expand EAEU's foreign economic relations well beyond the borders of its member states have increased considerably, especially by Russia.

The 'Article 7'⁴ of the *Treaty of the Eurasian Economic Union (EAEU)* provides the legal framework through which the EAEU can enter into agreements and initiate economic cooperation with other states that are not members of the Union via the "Agreements of the EAEU with Third Parties" clause.

Article 7 of the Treaty clearly states that the procedure to establish international cooperation of the Union with any third party will be decided by the Supreme Eurasian Economic Council, only after the determination of the international treaty (internal consensus between all Union member states) within the EAEU. It is under this Article, that the EAEU has been reaching agreements on economic cooperation with third parties, that are not members of the Union.

Currently, EAEU is directly engaged in economic cooperation with multiple countries in the Asian, Eastern European and MENA region.

China signed an FTA (Free Trade Agreement) with EAEU in 2018. This FTA is operational on selective basis, which apparently works in favour of EAEU as help in containing China's overwhelming export strength from making significant ingress into the EAEU zone and avoiding trade imbalance.

EAEU's first FTA with a third party was with Vietnam, an ASEAN (Association of Southeast Asian Nations) member state, in 2015. Moreover, an *interim* FTA for the establishment of a free trade area between Iran and the EAEU was initially signed in May 17, 2018 (for three years) which entered into force in October 27, 2019. This interim FTA was extended till October 2025 during a meeting of the Supreme Eurasian Economic Council in December 10, 2021 with the intent that a final agreement will be reached by the time of its expiration.

Furthermore, the EAEU is currently discussing FTAs with several other countries namely Serbia, Türkiye, Israel, Egypt, and Singapore. Negotiations were also underway with Moldova (which is also an EAEU Observer). However, the talks have stalled for several years.

³ "EAEU Member-States," *Eurasian Economic Union*, About the Union, <http://www.eaeunion.org/?lang=en#about-countries>

⁴ "Treaty on the Eurasian Economic Union", Eurasian Economic Union (EAEU), accessed on August 05, 2023. https://www.wto.org/english/thewto_e/acc_e/kaz_e/wtacckaz85_leg_1.pdf

In addition, India is another country with which the EAEU has been actively pursuing talks for an FTA. The negotiations were hampered due to the onset of the COVID pandemic in 2020. In particular, given that the EAEU was seeking to explore prospects for third country cooperation in the Central Eurasian region, Russia has always actively advocated for India's admission to the Union. Both countries are looking to address access and tariff concerns in their bilateral trade as well as trade imbalance. Bilateral trade volume between India and Russia crossed their intended goal of \$30 billion by 2025 and reached \$45 billion in February 2023.

India is also in favour of an FTA with the EAEU which would enhance trade relationship not only with Russia but with other Union member states as well (which is also growing each year).

A joint statement to launch FTA negotiations between India and EAEU was signed back in June 2017. Currently, India and Russia have reached the stage of "advanced negotiations" with regards to an FTA.⁵

Structure and Functioning of the EAEU:

The structure and make-up of the EAEU resembles that of the European Union but without similar strong supranational institutions and a single common currency. Four main institutions of the EAEU make up the governance framework of the organisation:

1. *Supreme Eurasian Economic Council* - as the name indicates, it is the main body of the Union and consists of Heads of States of the EAEU member countries. All the important decisions of strategic nature are taken by the Council
2. *Eurasian Inter-Governmental Council* - this body consists of Heads of Government of the EAEU member states
3. *Eurasian Economic Commission (EEC)* - the main regulatory body of the Union. Its main tasks include fostering the conditions to support the operation and development of the Union and drafting proposals for economic integration within the Union⁶
4. *Court of the Eurasian Economic Union* - responsible for ensuring uniform application of the EAEU Treaty (2014) and others by members of the Union and its bodies

⁵ Tullka Bishnoi, "India, Russia engage in FTA Talks involving Eurasian Economic Union", NewsOnAir, published on April 19, 2023.
<https://newsonair.com/2023/04/19/india-russia-engage-in-fta-talks-involving-the-eurasian-economic-union/>

⁶ "Governance," *Eurasian Economic Union*, About the Union,
<http://www.eaeunion.org/?lang=en#about-administration>

Furthermore, the Union offers 4 freedoms to its member states namely:

- a. barrier-free trade of goods
- b. barrier-free trade of services
- c. barrier-free trade of capital
- d. barrier-free trade of labour

During the recent St. Petersburg International Economic Forum (SPIEF) in June 2023, discussions were held about working on a fifth freedom, which focuses on knowledge.⁷

Regulations aiming at reducing technical trade obstacles among member states form the basis of the EAEU common market. The Customs Union, which has established a system for the free movement of goods inside the EAEU, facilitates economic integration. The Customs Code enables member states to harmonise and standardise their national trade regulations. With third parties, the EAEU strives to maintain a uniform foreign trade strategy. Within this framework, nations are expected to implement standard regulations, tariffs, anti-dumping policies, and other safeguards for their local markets. There are still certain exceptions, such as those required by the World Trade Organisation (WTO).

Potential of the EAEU:

The potential of the EAEU is immense and the economic indicators are highly positive. As per EAEU's Statistical Yearbook 2022 that presented trade statistics of the Union till the year from 2017 till 2021,⁸ the Gross Domestic Product (GDP) of EAEU member states stood at approximately \$2.06 trillion, 7.3% more compared to 2017.

⁷ "Session Attendees Discussed Multi-Polar World Order And Coherence In International Trade Issues At SPIEF-2023," Eurasian Economic Union, Eurasian Economic Commission, June 16, 2023, <https://eec.eaeunion.org/en/news/uchastniki-sessiy-na-pmef-2023-obsudili-voprosy-mnogopolyarnosti-i-svyazannosti-v-voprosakh-mezhduna/>

⁸ "Eurasian Economic Commission - Statistical Yearbook 2022," *Eurasian Economic Union*, December 05, 2022, http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/econstat/Documents/Stat_Yearbook_2022.pdf

Mutual trade in goods within the EAEU reached \$73.1 billion in 2021, a 33.6% increase since 2017; while foreign trade with third countries (outside the Union) in 2021 increased by 33.5% amounting to \$988.2 billion.. The amount made up 2.7% of the total international export volume.⁹

EAEU's industrial production in 2021 was estimated at \$1.4 trillion (it amounted to 2.2% of the total industrial production of the world) and agricultural output reached \$138.5 billion.

In the energy sector, EAEU's oil production was estimated at 611.7 million tonnes, gas production at 818 million cubic meters and power generation at 1335.3 million kilowatt hours.

The manufacturing industry of the EAEU also fared considerably well with steel production standing at 84 million tonnes and cast iron production at 54.9 million tonnes.

Moreover, EAEU's agricultural production amounted to \$170.6 billion. While 190.6 million tonnes of grain and leguminous crops and 49.6 million tonnes of dairy were produced by EAEU member states.

However, as a caveat, it should be considered that since the onset of the Russia-Ukraine conflict, Russia has been targeted by unprecedented economic sanctions by Western countries (particularly the EU and the U.S.). The economic indicators and output potential of the EAEU might have contracted significantly because Russia has been the highest contributor of commodities out of all the EAEU member states. In addition, another member of the Union, Belarus, have also been subjected to a similar sanctions regime for supporting Russia against Ukraine, which would also have contributed to the contraction of the Union's overall output potential.

Pakistan and the EAEU:

With its positive economic indicators and output/ production potential, the EAEU represents a sizeable portion of the global economy. While Pakistan, being the fifth most populous country in the world¹⁰ and an emerging economy, has immense potential for economic growth, can prove to be a significant market for EAEU exports and vice versa.

Economic engagement and commercial collaboration can create a symbiotic relationship between Pakistan and the EAEU which would not only help in strengthening and growth of Pakistan's economy along with pivoting to geo-economics, as envisaged in the Comprehensive National

⁹ "General Information", *Eurasian Economic Union*
<http://www.eaeunion.org/?lang=en#about-info>

¹⁰ "Population – Pakistan", *World Bank*,
<https://data.worldbank.org/indicator/SP.POP.TOTL?locations=PK>

Security Policy of Pakistan (NSP)¹¹ but it will also help the EAEU expand its exports and outreach to South Asia and beyond.

Pakistan has shown interest in expanding its economic relations with the EAEU members despite not being a member of the organisation. Regarding the potential for a Free Trade Agreement (FTA) or a Preferential Trade Agreement (PTA) to ease commerce between Pakistan and the EAEU member states, conversations and negotiations have taken place between Pakistan and the EAEU but no concrete outcomes have been achieved so far in this regard.

Opportunities and Challenges

For Pakistan, joining the EAEU or having active economic or commercial engagement with its member states will present opportunities as well as challenges that need to be assessed pragmatically.

Potential benefits for joining or economically engaging with EAEU for Pakistan include:

1. *Increased Trade:* Pakistan would have privileged access to a market of more than 180 million people if it became a member of the EAEU. It might result in greater trade volume and market diversity for Pakistani goods and services abroad.
2. *Investment Opportunities:* Pakistan's infrastructure could be developed, technology could be transferred, and jobs could be created if Pakistan joined the EAEU.
3. *Economic Integration:* Pakistan could gain from economic integration with EAEU members, which could encourage regional value chains, boost productivity, and promote economic cooperation in industries including manufacturing, energy, and agriculture.
4. Access to essential resources, cutting-edge technologies, and knowledge might be made possible by cooperation with EAEU nations, aiding Pakistan's economic and technological advancement.
5. By engaging with the EAEU states, particularly Russia, Kazakhstan and Belarus, Pakistan can acquire cheap energy, metals, agricultural products and heavy machinery at affordable rates.

¹¹ "National Security Policy of Pakistan 2022-2026," *National Security Division of Pakistan*, February 2022, <https://dnd.com.pk/wp-content/uploads/2022/01/National-Security-Policy-2022-2026.pdf>

6. Engagement with EAEU, in the backdrop of the transformation of the global economy, Pakistan can use this to its advantage by synergizing efforts with EAEU member states to comprehensively modernize, cooperate and increase the competitiveness of national economies in the regional context which can become an indisputable competitive advantage.
7. The global financial system is currently undergoing extreme stress, and bodies like the World Trade Organisation are likewise confronting difficult issues in terms of sanctions pressure, import/export restrictions, technological transfers, etc. Therefore, it makes sense and is realistic for countries like Pakistan to re-evaluate their strategic orientation as stakeholders in the global economy. Pakistan can, therefore, maintain its comparative economic security in the current global environment by cooperating with parallel mechanisms like the EAEU.
8. Moreover, economic engagement between Pakistan and EAEU can prove beneficial for regional integration, cohesion and enhanced economic cooperation, especially among developing and emerging economies.
9. Pakistan's engagement with the EAEU member states can provide the impetus for Pakistan to create liaison and improve existing engagement with other regional and extra-regional organisations such as the Shanghai Cooperation Organisation (SCO) and BRICS since EAEU is already increasing trade.¹²
10. *Knowledge Corridor*: By signing Memoranda of Understanding (MoUs) or Cooperation Protocols between Pakistani higher education institutions and think tanks with those in the EAEU, member states will aid in enhancing the exchange of knowledge, research, ideas and understanding.

On the flip side, joining the EAEU or economic engagement would also entail some considerations and potential challenges that include:

1. *Tariff and Non-Tariff Obstacles*: Pakistan will have to negotiate and harmonise its trade policies with those of the EAEU members, including tariffs and non-tariff barriers. Addressing ongoing disputes over trade and maintaining fair competition for local businesses may be part of this process.

¹² "Eurasian Economic Union-BRICS Turnover Increases by 60 Pct," TeleSUR, May 25, 2023
<https://www.telesurenglish.net/news/Eurasian-Economic-Union-BRICS-Turnover-Increases-by-60-Pct-20230525-0013.html>

2. Aligning legislation and standards with those of the EAEU is necessary for Pakistan to enhance trade integration. This might call for considerable changes and reforms in several industries, including manufacturing, services, and agriculture, which in a country like Pakistan can be time-taking and an arduous task.
3. *Economic Disparities*: In terms of size, structure, and stage of growth, Pakistan's economy is very different from that of the EAEU members. During the integration process, it may be difficult to close these gaps and provide fair advantages for all partners.
4. *Political and Geopolitical Considerations*: Pakistan's current international partnerships and connections may be affected by its membership in the EAEU. The decision to join would need to be carefully considered in relation to the nation's overall foreign policy goals and regional dynamics.
5. Member states frequently place restrictions on agricultural products from other countries within the Union and since Pakistan's main exports consist of agricultural products; this can be a serious problem for Pakistan which can negatively impact its trade with other member states and hamper its smooth integration as well.
6. It has been observed that coordination and harmonisation with third countries are lacking in the EAEU. Pakistan, after joining the EAEU, will have to determine whether its trade agreements with other nations, groups, and organisations, such as the U.S., EU, and WTO, do not conflict with EAEU requirements and do not impose any trade restrictions on other commercial partners which can be detrimental for Pakistan otherwise.
7. For taxes, there is no overarching regulatory structure. Protectionism in several commercial sectors is on the rise while industrial cooperation is minimal.
8. At the Union level, there is lack of significant resources which results in lack of mutual investments and favours the inflow of funds externally such as that from major powers like the U.S. and China. This dynamic negatively impacts EAEU's *raison d'être* - to create regional economic integration and cohesion with minimal external influence.
9. To provide seamless trade and transit between Pakistan and EAEU member states, the physical infrastructure required is still lacking and will need significant investment to be realised. Additionally, the situation in Afghanistan still presents a significant barrier to the success of any such connectivity and commercial engagement with the region. This is something which needs to be factored in by Pakistan before engaging with EAEU.

10. Furthermore, Russia is the most dominant member and the largest contribution (in the production of commodities) to the EAEU's economy; hence the organisation's prospects depend on the Russian economic condition. Currently, Russia is facing unprecedented economic challenges due to sanctions and economic isolation. Therefore, weighing the pros and cons for its short and long-term economic and political interests will have to be factored in by Pakistan.
11. Also, Russia mainly allocates its resources to bilateral projects and since Pakistan is already bilaterally engaged in economic cooperation with Russia, Islamabad will have to carefully evaluate the value added and new dividends to be accrued from engaging with EAEU.
12. The current orientation of several EAEU members is gradually shifting which can significantly impact the integration and cohesion of the organisation such as that of Armenia and Kazakhstan. Both countries are now trying to engage more with the Western world and have also evidently developed differences with Russia (the main member of the EAEU) owing to some political and strategic matters.
13. If Pakistan decides to engage with EAEU, it might face difficulties where Armenia might put up some hurdles. Pakistan has no diplomatic relations with Armenia and the two countries also have differing views on multiple political and strategic matters including the Nagorno-Karabakh region.
14. In addition, there are as yet no truly trans-Eurasian corporations or common Eurasian projects launched or initiated under the EAEU umbrella and there are also questions about the strength of EAEU's regulatory framework, which are the backbone of any multilateral forum. These factors would need to be seriously considered while taking a final decision.

Conclusion:

The EAEU has made considerable progress over the years since its inception and can help Pakistan better reinforce its shift to geo-economics. At the same time, Pakistan needs to be cognizant of the current geopolitical landscape before taking any decision regarding joining or closely engaging with the EAEU. The assessment has to be made on a pragmatic basis.

The decision-makers have to keep in mind that EAEU is a unique organisation in terms of its trans-regional nature but has yet to achieve true economic integration along the lines of the EU. Various member states of the EAEU continue to have differing visions for this new partnership within the

Union and EAEU member states' trade with external partners – especially China – is rising faster than with other members of the Union.

Moreover, since Pakistan has good bilateral relations with all EAEU members at a bilateral level (except Armenia), especially with Russia and Belarus, it may make more sense to pursue relations bilaterally at this stage rather than via enhanced engagement under the EAEU. Also, Russia has immense economic weight within the EAEU and if Pakistan joins the Union, the integration process as well as trade balance will be highly favourable for Russia rather than Pakistan, as compared to Pakistan-Russia bilateral trade relations where the imbalance is still not that significant due to the low level of commercial activity at the moment.

Furthermore, in the presence of a political, economic and security platform like the SCO, it needs to be evaluated as to what added value Pakistan's deeper engagement with the EAEU offers as it consists of almost the same member states and Pakistan is already a member of the SCO.

In conclusion, engaging the EAEU has its advantages as well as challenges. For Pakistan, the decision to join the Union should be based on a pragmatic assessment of core foreign policy goals, national capabilities, relevance to economic, trade and commercial interests and the evolving state of play within EAEU.