ARMENIA AND THE EAEU

Vaagn Khachaturian

June 2020
Introduction

The Eurasian Economic Union (EAEU) is a relatively new integrated association. It has existed as a Customs Union (CU) since 2011, and as an Economic Union since 2015. The primary purpose of the Union is to help its member countries realize the potential of economic relations within the region, modernize their domestic economies, and create the conditions enabling them to enter global markets. Creating a single market for goods, services, capital and labor is a fundamental component of the Eurasian integration process. The EAEU already has infrastructure in place to facilitate economic integration: the EAEU Court, the Eurasian Development Bank, and the Eurasian Stabilization and Development Fund. The creation of political institutions (such as a parliament) is not on the agenda.

The primary international legal act establishing and supporting the activities of the EAEU is the Treaty on the Eurasian Economic Union, which was signed on May 29, 2014, by the presidents of the member countries of the CU and the EES [Eurasian Economic Space] at a meeting of the Supreme Eurasian Economic Council. The Treaty took effect on January 1, 2015. Armenia joined the union effective January 2, and the Republic of Kyrgyzstan signed the accession agreement in May.

The Treaty on the EAEU consists of 680 pages, of which the Treaty itself is 100 pages, and the rest is 33 annexes to it.¹

The process of Armenia’s accession to the EAEU

After declaring the Republic of Armenia (RA) a sovereign state and creating the necessary government institutions, the most important challenge was to transform the Armenian economy. Political sovereignty needed to be reinforced with economic sovereignty. The collapse of the Soviet Union had a ruinous effect on the economies of all the countries in the Union. The early 1990s were a period of profound, lengthy economic crisis for Armenia as well. The disruption of the traditional trade, economic, and cooperative ties was especially painful for industries like chemicals and machine-building, which relied heavily on imported raw materials and exports of their products. The closing of transportation links and the severe energy crisis further exacerbated the difficulty of the transition period for a country that was not prepared for it. As a result of these and other internal factors, from 1990 to 1994 the country’s economy went through a period of persistent decline in all key macroeconomic indicators. GDP fell by 70%, and the average monthly inflation rate rose from 24% in 1992 to 48% in 1993. Tough economic policies put a stop to the economic downturn in late 1994 and

¹ Treaty on the EAEU, 2014: https://docseaeunion.org/ru-ru
early 1995, starting a trend toward economic growth. In 1994 GDP grew by 5.5%, and the monthly inflation rate was 28.3%. For 1995 these indicators were 5.4% and 1.9%, respectively, and the budget deficit was 10% of GDP, compared to 26% in 1994. However, it must be noted that, since the fall of the Soviet Union, Armenia has always pursued liberal policies, and economic liberalization has been the basis of its reform efforts. Its foreign trade regime has also been open and quite liberal, which enabled Armenia to obtain WTO membership in a comparatively short time, in 2003.

With time, Armenia, like the other countries of the former Soviet Union, established political and economic relations both with individual countries and with various political and economic unions and associations. Armenia was especially successful in building relationships with the European Union (EU). And when the EU presented its new integration plan – the Eastern Partnership – for Belarus, Ukraine, Moldova, and the three countries of the Southern Caucasus (SC), Armenia joined the project eagerly, and within five years, by September 3, 2013, it was deemed to be working successfully with European institutions and ready to sign the agreement on the Deep and Comprehensive Free Trade Area (DCFTA) with the European Union, along with Ukraine, Moldova, and Georgia, in November 2013 in Vilnius.

However, on September 3, 2013, the situation took a 180-degree turn. In Moscow, following a meeting between Russian President Vladimir Putin and Armenian President Armen Sargsyan, Armenia announced that it was ready to join the Customs Union (CU) and then take part in the formation of the EAEU. Prior to this, joining the CU had never been discussed in Armenia. On the contrary, everyone assumed it was impossible to join the CU, because Armenia had no common borders with any of the CU member countries. In Brussels, Prime Minister Tigran Sargsyan said: “There is no precedent in the world of countries without common borders forming a customs union. This means that Armenia cannot be a member of the CU. We are certain that we will become a full-fledged member of the free trade agreement with the EU.”

In the EU, the Armenian president’s announcement caused shock. “We are waiting for an explanation from the Armenians,” was the response from Brussels. The European politicians believed “the Kremlin simply forced Armenia to make this decision.” In February 2018, President Sargsyan made this statement in Berlin: “When we began the negotiations with the EU, our Russian partners, our allies, knew about this. Our European colleagues were also aware that we were involved in negotiations.

---

2 https://www.lragir.am/ru/2011/03/17/18024/
3 https://expert.ru/2013/09/5/ts-a-ne-es/
4 https://expert.ru/2013/09/5/ts-a-ne-es/
to join the EAEU, which was then the Customs Union. We thought this was possible. But when the
principle of ‘both-and’ was replaced with the principle of ‘either-or’, we were unable to sign this
agreement” (the Association Agreement with the EU in the Eastern Partnership program, which
Belarus, Ukraine, Moldova, Armenia, Azerbaijan, and Georgia were expected to join). He continued:
“We even offered to sign only the political portion of the agreement (without the Agreement on the
Deep and Comprehensive Free Trade Area with the EU), but our European partners rejected this idea.
Just a week later, though, a similar agreement was signed with Ukraine. We fully understand the
relative capabilities of Armenia and Ukraine, the role of Armenia and Ukraine, but still this was
strange,” he said, while also thanking his European colleagues for continuing the process of
integrating Armenia into Europe.

President Sargsyan’s decision was dictated by political necessity. This issue has been discussed
for a long time at various levels of society. For example, political scientist Sergey Minasyan, in an
article entitled “Armenia Keeps on Balancing: Between the European Union and the Eurasian
Economic Union”, wrote: “Ultimately, Armenia’s decision to join the EAEU was not an economic
decision so much as a political decision, based on security considerations.”

President Sargsyan’s position failed to convince the segment of the Armenian public that saw
European integration as a way to address the country’s problems and an impetus for serious political
and social transformation. They believed the decision to join the Customs Union was contrary to
everyone’s interests: the interests of the public, the government, and even the oligarchy. And they
feared it would bring Armenia’s protection of fundamental liberties and development of civil society
down to Russia’s level.

A portion of the political elite and a large part of the public had an idiosyncratic position on this
matter: they were not supporters of President Sargsyan; on the contrary, for a long time they had been
political opponents of the authoritarian regime and had fought for democratic change in the country.
But on this issue, they were reconciled to the decision to join the Customs Union. Viewed objectively,
Armenia had no choice, it could not break its political and economic relationships with Russia. After
the collapse of the Soviet Union, Armenia gradually became more vulnerable and dependent on Russia
in areas like military cooperation, supplies of energy, and private transfers. Private transfers, which are
still very important to the economy, representing about 15% of GDP, came mainly from Russia, which

6 Ibid.
7 Sergey Minasyan, Armenia Keeps on Balancing: Between the European Union and the Eurasian
accounted for 60-80 percent of total receipts. In 2013, of total receipts of $2.3 billion, $1.7 billion came from Russia; in 2019, receipts totaled $1.96 billion, with $1.45 billion coming from Russia.\(^8\) In foreign trade, Russia’s share fluctuated between 25 and 30 percent. For example, foreign trade totaled $5.96 billion in 2013, of which Russia’s share was $1.44 billion, or 24.3%. In 2019, of total foreign trade volume of $8.1 billion, Russia accounted for $2.2 billion or 27.1%.\(^9\)

Of course, at that time Armenia had no desire to harm its relationship with the EU. But in 2013 the EU insisted on getting its way, which meant either/or. With time, the EU softened its position and found a unique way to continue working with Armenia, which led to the signing of a new document. From the perspective of the integration processes, the Armenian economy has several distinguishing characteristics:

1. Its status as an exclave in relation to the Customs Union and the virtual economic blockade by Turkey and Azerbaijan.
2. Strong dependency on Russia.
3. Small volumes of trade with the other members of the EAEU apart from Russia.
4. A significant share of money transfers from migrant workers and the diaspora (15% of GDP in 2019, according to the Armenian Statistics Committee).
5. By virtue of membership in the WTO, customs tariffs have been lower with third countries compared to the countries in the Customs Union.
6. Structural differences in the economy compared to oil-producing nations like Russia and Kazakhstan.

In the short period from September 2013 to October 2014, Armenian representatives negotiated with their partners in the Customs Union on the basic terms of membership. A special commission was formed, consisting of seven working groups and led by the prime minister. They worked on a plan of action for Armenia to join the Customs Union. This effort was initiated by Armenia. The working groups included agency officials, members of parliament, experts, representatives of the business community, and relevant public organizations – the Union of Manufacturers, the Union of Employers, the Chamber of Commerce and Industry, and the Consumer Rights Society.

After the meeting of the heads of state of the four countries in Minsk, where the declaration on Yerevan’s intent to join the Customs Union was signed, a working group was formed to work out the details of Armenia’s accession to the CU. This working group included representatives of all four countries. Soon after this, a roadmap was developed for Armenia. It contained 20 chapters and included

\(^8\) Data from the Central Bank of the Republic of Armenia, https://www.cba.am/am/SitePages/statexternalsector.aspx
\(^9\) Data from the Central Bank of the Republic of Armenia.
over 260 actions, 150 of which had to be completed before the country would be admitted to the CU. The plan of action was divided into two groups. The first group dealt largely with harmonizing commercial laws and regulations to facilitate entry into the CU. The second group covered a wider range of issues, addressing EES matters like macroeconomic policy, competition, agriculture, and other issues. The most important actions required by the roadmap were completed on time, and by July 2014 a draft treaty on Armenia’s accession to the EAEU was ready.

The treaty and accompanying documents were drafted with the active participation of representatives of civil society and social organizations like the Union of Manufacturers and Businesses of Armenia (UMBA), the Republican Union of Employers, and others. They were members of working groups. Representatives of EAEU agencies were also heavily involved. There were joint working sessions and various events (both closed and open to the public), including conferences and meetings with interested professional and social organizations. The views expressed during these discussions were taken into consideration in the adoption of the final decisions.

To report on the work done and the results of their discussions, several times per year the Eurasian Commission and the Government of Armenia jointly held conferences and seminars for interested persons, organizations, and journalists, in which they described the outstanding issues that posed challenges to economic integration. This tradition continues to this day. The rapid progress of Armenia’s integration is explained not by haste, but by a high level of institutional readiness in the country’s economy to meet the requirements of the union. Experts from the Eurasian Commission noted that, several years before applying to join the Customs Union, Armenia implemented deep and highly successful economic reforms and worked to make its laws and regulations consistent with international standards. As a result, Armenia was ready to join the EAEU when the time came.

**Concessions by the EAEU**

It was important for Armenia to receive temporary privileges. The treaty on the EAEU granted special terms and benefits to Armenia for the transition period, which was defined as five years. A list of tariff preferences and exclusions under the EAEU’s SCT [Single Customs Tariff] was also made. Armenia’s beneficial rates of import customs duties were preserved for such commodity groups as motor vehicles, food products, pharmaceuticals, petroleum products and fertilizers. Goods for military purposes as well as civil airplanes and helicopters were exempted from import customs duties. In the area of technical regulation, the rule remained in effect for one year that entrepreneurs in Armenia had the right to choose whether to operate under EAEU law or national law. Certain technical regulations
would continue to apply for even longer periods (technical regulations on machinery and equipment for
two years after the effective date of the treaty; on automobile roads for four years; on wheeled vehicles
for five years). Life also became easier for migrant workers from Armenia. Armenian citizens could
work anywhere in the union without restriction under employment contracts and could visit any EAEU
country for 30 days without registering. Armenia had a liberal foreign-trade regime, with two tariff
rates on imports (0% and 10%), duty-free exports, and no trade quotas. Licenses for import, export, and
local production were required only when necessitated by health, environmental, and safety
considerations. Imports of goods into Armenia were subject to an ad valorem customs duty of 0% or
10%. The 10% rate applied to consumer goods and luxury items. The average rate in the Customs
Union countries (7.6%) exceeded Armenia’s (3.5%). A comparison of the rates of import customs
duties in the CU and Armenia in four categories of the foreign economic activity commodity
nomenclature showed that the rates were the same for 128 items, which is 10% of the total number.\textsuperscript{10}

In order to join the Customs Union, Armenia had to raise the level of protection in its customs
tariffs significantly, which tends to reduce budget deficits and reorient trade.

Armenia applied an import customs tariff that was one of the lowest among WTO members. Its
MFN (most favored nation) rate was 2.7% (in the CU it was 7.6% in 2013, 6.9% in 2014, and 6% in
2015). Armenia did not use tariff quotas, 73% of tariff lines were not subject to duties, and the 10%
duty applied to nearly all of the rest. Armenia’s weighted average bound tariff was 8.5% (compared to
10% in Russia).\textsuperscript{11} As a result of the negotiations, Armenia was given the right, for a limited period and
for a separate list of goods imported from third countries, to set lower customs tariffs than provided by
the Customs Union. A so-called transition period was established for Armenia: for five years it had the
ability to import goods on the previous terms – a 5 or 10 percent tax on a certain category of goods,
including about 900 goods out of 7000 items.

For 60% of over 11,500 goods, customs duties were higher in the EAEU than in Armenia, for
about 14% it was the opposite, and for about 230 goods tariffs in the EAEU were more than 50%
higher. In light of this, Armenia was granted temporary privileges for certain sensitive products.
Accordingly, the customs duties on the 775 most sensitive products are scheduled to be gradually
moved to the single EAEU rates by 2022.

\textsuperscript{10} A. A. Tavadyan. Armenia and the Customs Union: Assessing the Economic Effect of Integration. Report No. 20-2013, p. 19
A more intensive unification of customs duties was planned beginning in 2019, when uniform rates were planned to be introduced not only on industrial goods, but on consumer goods as well. By 2022, new and higher customs duties will take effect in Armenia for a wide range of products, including cattle, rice, flour, various textiles, medical equipment, minerals and chemicals, fertilizers, metal alloys, etc.

In March 2020, after consulting with the members of the union, the collegium of the EEC extended for one year the privileges on 647 ‘sensitive’ goods, such as meat, cooking oil, medications and raw materials for them, and precious metals. This will result in savings of about $30 million for Armenian consumers.

Effects of joining the CU-EAEU for domestic companies

The unexpected decision to join the CU-EAEU also took the business community by surprise. Like the rest of the country, it had been preparing to adapt to EU conditions. However, the market of the Customs Union, especially the Russian market, was not unfamiliar to the many manufacturers that were exporters and importers. About 90% of exports from Armenia to the EU countries are raw materials, mainly copper and molybdenum ore. Exports to the Russian Federation show a diametrically opposed picture. Here 92% of exports are industrial products – textiles, food, alcoholic beverages, etc. The makeup of exports to the other EAEU countries is similar.

Representatives of the business community were actively involved in the drafting of many regulatory documents, and they were members of the government’s working groups on the EAEU. To coordinate this work, a new department was created – the Ministry of International Economic Integration and Reform.

Business was concerned about the handling of technical regulations. On this issue it was decided that for two years, Armenian businesses could operate according to the national laws. For most EAEU goods, the two-year period began to run on January 1, 2016, but for some goods, such as furniture and wheeled vehicles, the new requirements would become binding in 2019 and 2022, respectively. In the transition period, it is possible that, along with EAEU goods, goods imported or manufactured in Armenia will circulate in accordance with the requirements of national law. Goods for which the national law imposes no safety requirements have a transition period of one year.

The transition periods made it easier for Armenian producers, especially small enterprises and importers, to prepare for the new business environment. When Armenia joined, the union already had 34 technical regulations in effect, so an unusual decision was made: when Armenia joined the EAEU,
Armenian businesses were given the right, for a certain period, to choose which rules they preferred to apply.

The decision to eliminate the 30% export duty on energy resources and rough diamonds was very important. An analysis of the economic benefits of joining the EAEU showed that the additional economic effect for Armenia was 2.2%, of which 1.4% was due to low prices on energy resources: “Low hydrocarbon prices save Armenia about $140 million per year.”12 With regard to the domestic market, no drastic changes occurred. Local manufacturers received fairly substantial competitive advantages over importers from third countries, due to the introduction of new, higher import tariffs on certain goods and services. This generally affects sectors of the economy that have potential for growth in Armenia (agriculture, food, and light industry). Naturally, changes in the structure of the market were to be expected upon joining the Customs Union. However, this did not happen. There are not yet many new players on the market from the EAEU, and some players from third countries have left. At the micro level, the economy has gradually adapted to the new circumstances, and the new opportunities to do business in the EAEU space have begun to bear fruit. It is no coincidence that industrial production in Armenia grew by 9% in 2019. Production has increased in 11 out of 14 manufacturing sectors.13 Trade volume with Russia exceeded $2 billion in 2019. Russia is still Armenia’s biggest trading partner. This level was achieved largely due to membership in the EAEU and duty-free trade with Russia, and through it with other countries in the union. The data shown below (see Table 1 and Figure 1) confirm that after Armenia joined the EAEU, its economy continued to develop successfully. However, the data also reveal that Armenia’s economy has become more dependent on the political and economic situation in Russia. As the table shows, after the sanctions were imposed on Russia in 2015, the growth of Armenia’s economy slowed, and the same trend can be seen in foreign trade volume, investment, and private transfers.

<table>
<thead>
<tr>
<th>Table 1. Armenian economic data for 2013-2019 (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
</tr>
<tr>
<td>Investment, FDI net flows, of 271.2</td>
</tr>
</tbody>
</table>

which:

<table>
<thead>
<tr>
<th></th>
<th>Russia</th>
<th>Transfers, of which:</th>
<th>Russia</th>
<th>Trade volume, of which:</th>
<th>EAEU</th>
<th>Russia</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>58.6</td>
<td>102.5</td>
<td>75.3</td>
<td>-54.7</td>
<td>124.6</td>
<td>33.0</td>
<td></td>
</tr>
<tr>
<td>Transfers, of which:</td>
<td>2,302.3</td>
<td>2,123.6</td>
<td>1,631.7</td>
<td>1,532.9</td>
<td>1,756.5</td>
<td>1,784.9</td>
<td>1,958.6</td>
</tr>
<tr>
<td>Russia</td>
<td>1,727.9</td>
<td>1,554.9</td>
<td>1,008.6</td>
<td>896.9</td>
<td>1,064.9</td>
<td>1,049.6</td>
<td>1,055.6</td>
</tr>
<tr>
<td>Trade volume, of which:</td>
<td>5,864.6</td>
<td>5,971.7</td>
<td>4,724.6</td>
<td>5,065.2</td>
<td>6,334.8</td>
<td>7,388.0</td>
<td>8,154.1</td>
</tr>
<tr>
<td>EAEU</td>
<td>1,562.8</td>
<td>1,478.7</td>
<td>1,218.3</td>
<td>1,401.1</td>
<td>1,773.6</td>
<td>1,991.0</td>
<td>2,292.3</td>
</tr>
<tr>
<td>Russia</td>
<td>1,359.3</td>
<td>1,431.2</td>
<td>1,187.3</td>
<td>1,358.3</td>
<td>1,716.8</td>
<td>1,925.7</td>
<td>2,213.0</td>
</tr>
<tr>
<td>Exports, of which:</td>
<td>1,478.7</td>
<td>1,547.3</td>
<td>1,485.3</td>
<td>1,791.7</td>
<td>2,237.7</td>
<td>2,412.4</td>
<td>2,630.4</td>
</tr>
<tr>
<td>EAEU</td>
<td>351.4</td>
<td>324.2</td>
<td>236.3</td>
<td>393.9</td>
<td>557.2</td>
<td>688.5</td>
<td>760.9</td>
</tr>
<tr>
<td>Russia</td>
<td>334.1</td>
<td>308.3</td>
<td>225.9</td>
<td>374.5</td>
<td>543.6</td>
<td>665.8</td>
<td>734.5</td>
</tr>
<tr>
<td>Imports, of which:</td>
<td>4,385.9</td>
<td>4,424.4</td>
<td>3,239.2</td>
<td>3,273.5</td>
<td>4,097.1</td>
<td>4,975.5</td>
<td>5,513.8</td>
</tr>
<tr>
<td>EAEU</td>
<td>1,152.5</td>
<td>1,154.8</td>
<td>1,032.6</td>
<td>1,007.9</td>
<td>1,216.4</td>
<td>1,302.5</td>
<td>1,531.4</td>
</tr>
<tr>
<td>Russia</td>
<td>1,025.2</td>
<td>1,122.9</td>
<td>942.4</td>
<td>983.8</td>
<td>1,173.2</td>
<td>1,259.9</td>
<td>1,478.5</td>
</tr>
</tbody>
</table>

Compiled by the author using data from the Statistics Committee of the Republic of Armenia (armstat.am) and the Central Bank of the Republic of Armenia (cba.am).

**Figure 1.** Data on the Armenian Economy for 2013-2019 (USD million)
**Government Policy**

The effectiveness of the EAEU will depend largely on how its institutions take root and how smoothly its members and management bodies work together. Part three of the Treaty on the EAEU governs the functioning of the single economic space within the Union and covers a very broad spectrum of coordinated policies of the member states in various areas (see figure 1).\(^\text{14}\) Of particular note is the fact that the national governments have the ability to influence any decisions, they have a veto, and in most cases decisions are made by consensus.

![Diagram of Treaty Sections](image)

**Fig. 2.** Sections of the Treaty on the EAEU governing the single economic space  
Source: Center for Integration Studies, Eurasian Development Bank.

One of the main factors that determines the success of any integration project is the ability to create conditions in which the indicators of macroeconomic development of its member states are sound and converging (moving closer together). The Treaty on the EAEU\(^\text{15}\) obligates its member states...
to implement a coordinated policy on exchange rates (article 64) and a coordinated macroeconomic policy with the following “convergence criteria” (articles 62 and 63):

- national debt should not exceed 50% of GDP;
- the yearly deficit of the consolidated public sector budget should not exceed 3% of GDP;
- the overall yearly rate of inflation (consumer price index) should not exceed the inflation rate in the member state by more than 5%.

One of the indicators used to compare the condition of the economies in various countries is GDP and GDP per capita. Over the past five years, a gap has remained in levels of GDP per capita by purchasing power parity (PPP) between Belarus, Kazakhstan, and Russia on the one hand, and Armenia and Kyrgyzstan on the other. Kazakhstan and Russia are essentially on the same level by this indicator. Belarus is in the middle and does not show a trend toward convergence with the general European level, unlike the Republic of Armenia (see Graph 1, Fig. 3).

Graph 1 – GDP per capita by PPP in the EAEU member states (2014–2018, USD)\(^{16}\)

\(^{16}\) Compiled by the author using World Bank data, https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD
An EEC study comparing the degree of integration of various regional economic blocks showed that the EAEU increased its macroeconomic convergence from 56% in 2014 to 59% in 2017. This is less than the 91% in the EU, but more than in the ASEAN (33%) and the MERCOSUR (34%). The further progress of Eurasian integration depends on the success of “integration from below” – growth in mutual trade in goods and services, cross-border investment, and humane rules on labor migration. This is possible only when there are uniform “rules of the game” in the EAEU economy and exclusions from the common market are eliminated. Convergence requires single, common financial and currency markets, identical monetary policies, equal access to quality education and medical care, a common anti-monopoly policy, etc.

**Tax revenues**

Before joining the union, Armenia’s economic policy differed from the Customs Union’s in that customs duties in Armenia did not exceed 10 percent, while in the CU the average customs rate was 2.7 times higher. Joining the CU automatically generated additional financial flows into Armenia’s budget.

According to a report by the accounting chambers of the EAEU members, in 2018 they collected a total of $12.3 billion in import customs duties, an increase of $667.3 million or 5.7% over

---

17 Compiled by the author using data from the Statistics Committee of the Republic of Armenia.
Data from the Government Revenue Committee of the RA indicate that in 2019, Armenia sent 63 billion 422 million drams, or about $133 million, to the EAEU countries and received from EAEU countries 75 billion 369 million drams, or $158 million. Armenia has always taken more from the common till that it has put in. According to the above-referenced report, in 2018 Armenia collected 54,366,141.9 thousand drams, or $114.455 million, in import customs duties, distributed among the countries as follows (USD million):

Republic of Armenia – 1.396  
Republic of Belarus – 5.219  
Republic of Kazakhstan – 8.075  
Republic of Kyrgyzstan – 2.175  
Russian Federation – 97.590

Receipts of import customs duties in 2018 from the member states totaled 71,870,244.2 thousand drams, or $151.306 million, of which the amounts received from the various countries were:

Republic of Belarus – $7.892 million;  
Republic of Kazakhstan – $8.533 million;  
Republic of Kyrgyzstan – $2.769 million;  
Russian Federation – $132.112 million

In 2014, the following rules for distribution of import duties were established (see Table 2).

| Table 2. Rules for distribution of import customs duties of the EAEU countries, % |
|-------------------------------------------------|-----------------|-----------------|
| Republic of Armenia                              | 2014 – May 29   | 2014 – December 23 |
| Republic of Armenia                              | 1.11            | 1.220           |
| Republic of Belarus                              | 4.56            | 4.560           |
| Republic of Kazakhstan                           | 7.11            | 7.055           |
| Republic of Kyrgyzstan                           | 1.9             | 1.900           |
| Russian Federation                               | 85.32           | 85.265          |

Compiled by the author from information in the report

The total amount of import customs duties received by the member states in 2018 was USD 12,296.2 million, compared to USD 11,628.9 million in 2017, an increase of USD 667.3 million or 5.7%. In 2018 the Republic of Armenia received USD 151.307 million in import customs duties from

---

member states. The balance of payments between Armenia and the member states was positive by USD 38.247 million. Deposits into the dedicated account for import customs duties in 2018 were:

- In the Republic of Armenia - $114,455
- In the Republic of Belarus - $639,247
- In the Republic of Kazakhstan - $633,218
- In the Republic of Kyrgyzstan - $224,985
- In the Russian Federation - $10,696,221

**Effect of joining the EAEU on business, economic, and trade relations**

After the decision to join the CU-EAEU, Armenia kept its political and economic relationships with all countries and organizations, especially the WTO and the EU. The EU respected Armenia’s sovereign choice. Later, the member countries of the EU directed the European Commission to negotiate with Armenia on a new agreement, envisioned as a sort of advanced partnership agreement. The agreement will give Armenia broad discretion to choose its priorities for deeper cooperation with the EU in areas that are compatible with its integration into the EAEU. First and foremost, these areas are strengthening democracy and the rule of law, reforming government administration, and consolidating market institutions (infrastructure to ensure the quality of goods, protection of copyright, customs issues, protection of competition, the government procurement system, etc.) according to WTO principles.

We must acknowledge that today the EAEU, with its GDP of $1.5-2 trillion, GDP by PPP of $4-5 trillion, and population of 183 million people, is not a self-sufficient market. It represents only 2.5% of world GDP. Therefore, any attempts to build “Fortress Eurasia” are suicidal.

The process of drafting free trade agreements with countries outside the EAEU began back before the Treaty on the EAEU officially took effect. Free trade zones are a classic mechanism for building mutually beneficial foreign-trade relations with partner countries.

In practice, Armenia is continuing to build new relationships both within the EAEU and beyond it. The EAEU has signed memoranda of cooperation with the ASEAN, MERCOSUR, the Pacific Alliance, the Andean Community, and the CIS. There are plans to sign a similar document with the

http://old.ach.gov.ru/activities/control/%D0%9E%D1%82%D1%87%D0%B5%D1%82%20%D0%A2%D0%B0%D0%BC%D0%BE%D0%B6%D0%B5%D0%BD%D0%BD%D1%8B%D0%B5%20%D0%BF%D0%BE%D1%88%D0%BB%D0%B8%D0%BD%D1%8B%2020200210-2.pdf
African Union. The EAEU has a temporary agreement that will lead to a free trade zone with Iran and an Agreement on Trade and Economic Cooperation with China that took effect in October 2019. It has free trade zone agreements with Vietnam and Singapore, and a similar agreement with Serbia is being prepared for signature. Comprehensive development of cooperation between the EAEU and its neighbors in the CIS remains the top priority.

**Conclusion**

Clearly, despite the successes of the EAEU in a number of areas in these first five years, the economies of the member countries are not yet experiencing stable growth. The many natural and artificial barriers to integration seem inevitable given the current scale and structure of the countries’ economies, the degree to which they are interconnected with the world economy, and the insufficient level of coordination in developing their economic potential and regulatory institutions. The process of forming common markets in individual sectors is going very slowly. Mutual trade as a percentage of total trade in goods of the EAEU countries in 2014-2018 was 13-17%, which is significantly below the minimal threshold of stable integration of 25%. Cross-sectoral trade is dominated by fuel and raw materials; therefore, since cooperation within the production sector is weak, we should not expect a significant increase in the share of mutual trade volume.

The main challenges of integration are:

1. To move away from the economic model in which Russia is the center of gravity of the integration process in the EAEU

Integration in the EAEU is developing under a gravitational model, the center of gravity in which is the vast Russian market. This gives that market significance both as the driving force of integration and as a force that affects the condition and growth of the domestic economies of the other countries in the economic block. Expectations of growth in trade effects are the cause of great concern in the EAEU. Rapid trade integration of Russia with its partner countries has not actually occurred since the EAEU was formed, despite the significant potential of the Russian economy. The main reasons for the slow pace of convergence include:

- the similarity in the type of goods exported by Russia compared with its main trading partners in the EAEU (Kazakhstan’s exports are dominated by virtually the same groups: primary mineral products, minerals, ores and metals, and grains; with Belarus it has in common agricultural products, machinery and equipment, and consumer goods);
— the nature of Russian investment in the countries of the union (most investment is made in extractive industries, raw materials, and infrastructure) does not further integration by increasing cooperation in manufacturing; Russian investment does not take advantage of the existing technological potential and is focused on short-term projects;

— the strategy of import substitution is directed only toward the domestic market (driven by the large size of that market) and is based mainly on price competitiveness, which is achieved due to the devaluation of the Russian ruble;

— the heightened risks due to the unfavorable geopolitical situation involving Russia and the lack of a coordinated position with its partners in the EAEU, which try to use the restrictive sanctions against Russia to extract additional commercial benefits, provoking Russia to implement countermeasures to protect its national interest; this certainly slows the pace of trade integration between the countries and increases the risks of gray-market imports into Russia;

— the fact that the Russian economy is weighted toward raw materials and insufficiently incorporates science and technology also causes economic integration to lag.

2. Supranational bodies are bureaucratic and ineffective;

3. There is a lack of real joint infrastructure projects oriented toward spurring cooperation in manufacturing and supporting domestic producers in the EAEU member states;

4. There are insufficient incentives for contacts among experts, businesspeople, and average citizens to generate informal “grassroots” integration as a foothold to support formal integration at the macro level.

In addition, there are several substantial factors that are holding back further progress in integration within the EAEU:

— Differences in economic potential, the structure of the economy, the level of economic development and standard of living, and the nature and extent of market reforms;

— Differences in the speed of the integration processes, and difficulties faced by member states in performing certain obligations undertaken within the EAEU;

— Differences in addressing issues of interaction with the other countries and imports and exports.
The structure of the Eurasian Economic Union does not yet support a functioning replenishment cycle. This refers not only to its asymmetry, given that the Russian economy accounts for 87% of the EAEU’s GDP, but also to the fact that the EAEU is based on extractive industry and primary production. The share of manufacturing in the GDP of the EAEU by value added barely exceeds 12%. Such a structure is characterized by a low level of cross-sector cooperation among countries and a low level of mutual trade in goods (14.5%). The common market is not yet operating, and all members of the union basically see the union as a way to address their own problems. Further development of the EAEU and deeper integration are impossible without a common financial market, coordinated currency regulation, and harmonization of national laws. For this reason, when any unstable situation arises, the member states try to resolve their problems outside the union. This is what happened when the West imposed harsher sanctions on Russia and when problems arose between Russia and Belarus.

However, even with all of these difficulties, Eurasian integration in its current form is already producing substantial macroeconomic benefits for the members of the union. Integration is contributing to growth in mutual foreign trade, equalization of economic development and prosperity, lower prices and higher demand for goods, and greater competition in the common market of the EAEU. Eurasian integration is improving the daily lives of people through access to educational opportunities in the partner countries, mutual approval of academic programs and recognition of diplomas, easier procedures for registering and obtaining medical care, etc. In December 2019, a pension agreement was signed. Under the new system, years worked in one of the other countries count toward pension eligibility, and retirees can receive payments from other pension systems.

Armenia’s integration into Eurasia is based mainly on political factors, which place the country’s national interests at the forefront. The economic factor also plays an important role, but in making decisions the country’s leadership is guided primarily by political considerations and the specific issues of national security that are intertwined with them. At the same time, Yerevan is actively trying to maintain warm relations with another integration block – the European Union. Despite the severe crises in Russia’s relationship with the West, Russia is sanguine about Armenia’s involvement with the EU. As the Russian expert Sergey Markedonov noted: “By virtue of its framework agreement with Brussels, Yerevan could become an additional platform for dialog between Russia and the EU.”

---

**The EAEU or the EU: Results of one public opinion poll**

Unfortunately, there are very few sociologists in Armenia who conduct public opinion polls and release reliable results. Traditionally, the Armenian public treats poll results with a healthy dose of skepticism and caution, and pollsters are often accused of bias. Recently the ARP Group published its study on economic integration for 2019. ARP Group is one of the few organizations that has been systematically studying public opinion since 2014 in order to identify the preferences and trends of its citizens regarding the European Union and the Eurasian Economic Union. A similar survey was conducted over the period 2014-2017, involving 1200 respondents (with a margin of error of +/- 2.8% and a confidence interval of 95%). According to the study, the views of Armenia’s residents on economic integration break down as follows\(^\text{22}\) (see Graph 1):

**Graph 1. Preferences of the Armenian public on economic integration (according to surveys by APR Group)**

The current preferences are:
- EAEU – 20%;
- EU – 30%;
- “Both-and” integration, i.e. EAEU and EU – 30%
- Opposed to integration in the EU and the EAEU – 6%;

Undecided – 14%.

As the graph shows, public support for integration in the EAEU did not exceed support for European integration until 2014 and 2015. In 2016, support for Armenia’s integration in the EAEU dropped sharply, which we believe was due to the four-day escalation in Nagorno-Karabakh in April. At that time one of the most prominent topics in the media was Russia’s sale of heavy armor and offensive weapons to Azerbaijan and the lack of clear support for Yerevan by Minsk and Armenia’s other allies in the Collective Security Treaty Organization. In 2017-2019, the changes were mainly related to rearrangements in the Government of Armenia, for example in 2018 the decline in support was linked to the decision by the incumbent president, Serzh Sargsyan, to extend his term in office.

The ARP Group surveys referred to above show the following trend in perceptions of Russia in Armenia in recent years:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Friendly / positive</td>
<td>61%</td>
<td>77%</td>
<td>72%</td>
</tr>
<tr>
<td>Hostile / negative</td>
<td>11%</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>Neutral / no answer</td>
<td>28%</td>
<td>19%</td>
<td>22%</td>
</tr>
</tbody>
</table>

Looking at attitudes toward integration into the EU and the EAEU, we see that the generation from 18 to 45 years of age is more supportive of integration into the EU (36% on average), while those older than 46 tend to favor the EAEU (21.5% on average). The level of support among respondents for integration with both unions is consistently high (30% in total). This odd “duality” in public opinion between those looking to the “north” and the “west” has been observed for many years (as noted above, this is also reflected in foreign trade indicators). Unlike some other post-Soviet countries (Georgia and Ukraine), where the “either-or” view predominates among both the public and the elite, citizens of Armenia look to follow both paths of integration and have no desire to sacrifice the relationship with Russia in order to please other countries or groups of countries. Overall, this view (supporting a military and political alliance and economic partnership with Russia and also a positive dialog with the West and other countries) is confirmed by surveys conducted in the country by European and American organizations.

We should also recall that in October 2017, Armenia signed a Comprehensive and Expanded Partnership Agreement (CEPA) with the EU, which is not yet effect because it has not been ratified by the parliaments of all member countries. Armenia still operates under the preferential trade regime
GSP+ with the EU, which allows it to export over 7000 goods to the countries of the European Union. Of them, 3300 are subject to a zero rate and 3900 have reduced rates.

Notwithstanding all the problems, the current administration does not intend to change its foreign policy, as Prime Minister Nikol Pashinyan stated on September 26 in his address to the UN General Assembly: “Russia is our key strategic partner and ally. Georgia and Iran are our strategic neighbors. We have a strategically important agenda and partnership with the European Union and its member countries.” Turkey is still seen as a threat to Armenia, and the declared “partnership” with NATO and the EU provide no security guarantees whatsoever.
**Annex 1.**

**Analysis of Data from the Caucasus Barometer Poll**

A survey by another organization, the Caucasus Research Resources Center, which has been conducting periodic public opinion polls twice per year since 2004 under the name Caucasus Barometer, presents a rather different picture (see Fig. 1 and Fig. 2). While in 2011 62% of those surveyed totally or somewhat supported Armenia’s entry into the EU, by 2017 that number had gradually declined to 28%.

Fig. 1. To what extent would you support Armenia joining the EU?23

![Survey Results Chart]

Regarding the survey results on Armenia joining the EAEU, it should be noted that no such polls were conducted before 2013, because as indicated above, this issue was not under discussion before that time in the country. In 2013, 42% of those surveyed fully or somewhat supported Armenia joining the EAEU, and in 2017 this figure remained the same at 42%. In 2015, support for joining reached 52%, but the events of April 2016 involving the four-day escalation in Nagorno-Karabakh changed the mood of the Armenian public, which had expected the EAEU countries to take some action, but those hopes were in vain.

---

Fig. 2 To what extent would you support Armenia joining the EAEU?24

- Fully support
- Somewhat support
- Partly support and partly oppose
- Somewhat oppose
- Fully oppose
- Don’t know/undecided

24 https://www.errc.am/en/barometer/
Annex 2

Activities of the Union of Manufacturers and Businessmen (Employers) of Armenia under the auspices of the EAEU

The Union of Manufacturers and Businessmen (Employers) of Armenia (UMBA) has been actively involved in the drafting of and discussions about the documents on Armenia’s accession to the Customs Union and the EAEU. Before this, the UMBA, along with other nongovernmental organizations, had participated in the drafting of documents within the Eastern Partnership program.

As mentioned above, the process of Armenia joining the EAEU began with the statement by the Armenian president on September 3, 2013, that the country was ready to join the Customs Union. In the short period from September 2013 to October 2014, authorized government agencies of the Republic of Armenia (RA) negotiated with their partners from the Customs Union on the basic terms, to ensure that the RA would benefit from joining the Union. A special commission was formed, consisting of seven working groups under the leadership of Prime Minister Tigran Sargsyan. They worked on a plan of action for Armenia to join the Customs Union. This was initiated by the Armenians, without waiting for any official steps to begin working out all the issues involving the Customs Union. After a meeting of the heads of state (Armenia, Russia, Kazakhstan, and Belarus) in Minsk, when the declaration on Yerevan’s intention to join the Customs Union was signed, the decision of the Supreme Eurasian Council called for the creation of a working group on Armenia’s accession. This working group was to include representatives of all four countries. Soon after this, a roadmap was developed for Armenia, which was approved by the Supreme Council of the EAEU on December 24, 2013. The roadmap was a comprehensive plan of the actions necessary for Armenia to join the Customs Union and the EAEU. It consisted of 20 chapters and included over 260 actions, 150 of which had to be completed before Armenia could join the Customs Union. The plan of action was divided into two groups.

The first group dealt largely with harmonizing commercial laws and regulations to facilitate entry into the CU. The second group covered a wider range of issues, addressing matters related to the single economic space like macroeconomic policy, competition, agriculture, and other issues. The most important actions required by the roadmap were completed on time, and by July 2014 a draft treaty on Armenia’s accession to the Eurasian Economic Union was ready.

The treaty and accompanying documents on Armenia’s accession to the EAEU were drafted with the active participation of representatives of civil society and social organizations like the Union of Manufacturers and Businesses of Armenia, the Republican Union of Employers, and others.

The rapid progress of Armenia’s integration is explained not by haste, but by a high level of institutional readiness in the country’s economy to meet the requirements of the union. Experts from the Eurasian Commission noted that, several years before applying to join the Customs Union, Armenia implemented deep and highly successful economic reforms and worked to make its laws and regulations consistent with international standards, in preparation for signing the agreement of association with the EU. The EAEU itself was created based on the best practices of successful
international trade and economic associations, including the European Union. As a result of these efforts, Yerevan was able to emulate European structures. Therefore, when the time came to join the Eurasian Union, Armenia was basically already prepared. EEC officials remarked that “from the start Armenia had a high level of both customs and technical regulation. Upon joining the EAEU, the country met the strict requirements that exist within the Customs Union and the EES, and on some items even exceeded them. For example, on small business.”

In the preliminary discussions during the drafting of various documents related to the agreements on all sectors of the economy, the Government of Armenia sought input from many organizations, including the UMBA. In turn, the UMBA, calling on the experience of its members and the opinions of the expert community, gave its recommendations and comments on all documents to be adopted by the EAEU. This practice continues today.25

The EAEU is also interested in working with nongovernmental organizations. To coordinate this work within the Union, in 2015 a Business Council was formed, consisting of the Union of Manufacturers and Businesses (Employers) of Armenia, the Union of Nonprofit Organizations “Confederation of Industrialists and Entrepreneurs (Employers)” of the Republic of Belarus, the “Atameken” National Chamber of Entrepreneurs of the Republic of Kazakhstan, the Kyrgyz Union of Manufacturers and Businesses, and the Russian Union of Manufacturers and Businesses, for the purpose of expanding the processes of integration throughout the Eurasian Economic Union.

The agreement creating the Business Council stated that:

1. The Business Council is a permanent advisory body of business groups of the member states of the Eurasian Economic Union that:
   
   – is not a legal entity and operates on a voluntary basis;
   – is open to business associations of countries that are members of the Eurasian Economic Union;
   – is governed in its activities by the international agreements comprising the treaties and laws of the EAEU.

2. The objectives of the Business Council are:

   – to develop a coordinated position of the business communities of the EAEU member states in their interactions with the bodies of the Eurasian Economic Union;
   – to establish direct contacts and dialog among business groups in the EAEU member states and get them involved in cooperation on a wide range of business issues;
   – to facilitate the development of trade and economic relationships and industrial and financial cooperation within the EAEU, and to enhance the competitiveness of the national economies;

to identify barriers, exclusions, and restrictions on mutual access to the markets of the member states in the formation of the Single Economic Space of the EAEU;

to engage the business communities of the member states in implementing projects in various sectors of the economy in the EAEU member states.

For more information about the activities of the Union of Manufacturers and Businesses of Armenia within the EAEU framework, please visit its official website, http://umba.am, where many documents and materials about its work within the EAEU may be found.