

# *The Customs Union:*

*A Resurgence of Soviet Unity  
or Just Another Failed  
Regional Initiative?*

**Erica  
Marat**

## **Abstract**

*Formed in 2007, the Russia-Belarus-Kazakhstan Customs Union has gained traction since 2010. Although it is too early to say whether the Union is doomed to fail like other similar regional agreements or whether it represents a Soviet-style resurrection of inter-state economic links, for Russian Prime Minister Vladimir Putin, the grouping's architect, the customs union has already become an instrument of both regional and international politics. Union membership is regarded as an indicator of political alignment with and support of Russian leadership in the post-Soviet space. Ukraine, Kyrgyzstan, and Tajikistan are pressured to join the club. The Union implemented several key trade agreements and is expanding further into the post-Soviet space, but its members remain divided on a number of policies. With that, the Customs Union also poses serious challenges to Russia and Kazakhstan's bid for the WTO membership. Furthermore, the Union forces Russia to relax some of the retaliatory trade bans Moscow imposed in 2006 on Georgian products. Since the Customs Union is designed to erase trade barriers among its members, Georgian products banned in Russia will inevitably make their way to the Russian market once they pass through intermediary countries that have not imposed similar trade bans.*

---

\* Dr. Erica Marat is an adjunct professor at the American University in Washington, DC.

Four years after the Russia-Belarus-Kazakhstan Customs Union officially entered into force, it remains unclear whether Moscow's trade initiative is doomed to fail like other similar regional agreements or whether it represents a Soviet-style resurrection of inter-state economic links. The union's mission statement declares that the countries have banded together to lift customs levies and establish uniform trade regulations across the territory of its member-states. But already the three members are split on a number of policies, and Moscow appears to be using the Customs Union mostly for its own political purposes. Either of these trends could undermine the new regional formation in the long-term.

Formed in 2007, the Russia-Belarus-Kazakhstan Customs Union has gained traction since 2010. The Union has implemented several key trade agreements and is expanding further into the post-Soviet space. Trade among the union's members has grown by 8.4 percent since 2007. When representatives of the Customs Union members met in Astana for a summit in July 2010, Russian President Dmitry Medvedev announced that the former Soviet states are integrating on economic issues at a pace faster than the development of the European Union. "We are moving with a greater speed," he said, reminding that it took over 30 years for Europe to do what it took Russia, Belarus, and Kazakhstan to do in

only three.<sup>1</sup> Indeed, today the Union works on behalf of the 170 million people living in the three members, its website boasts.<sup>2</sup>

---

*Russia has more to lose with the current Customs Union. The Union de facto entrusts Belarus and Kazakhstan – and potentially Kyrgyzstan and Tajikistan – to guard its international borders with Eastern Europe, China, and Afghanistan.*

---

Moscow easily convinced Belarus and Kazakhstan to support the idea of a common market. Belarus's isolated economy is deeply dependent on Russian credits, and President Aleksandr Lukashenka's domestic political support is contingent on his relations with the much larger neighbor. Kazakhstan, on the other hand, has a diversified economy that would only benefit from solid political ties with Moscow. Unlike Belarus, Kazakhstan's biggest trade partner continues to be the European Union, and the country is also expanding its economic cooperation with China and the United States. Furthermore, Kyrgyzstan, which depends on Russian gas deliveries, has agreed to join the union in January 2012, while Ukraine's current, pro-Moscow leadership has proposed collaboration with the Customs Union in a special "3+1" format.

---

<sup>1</sup> Vitaly Kamyshov, "Tamozhenny soyuz v ozhidanii Kyrgyzstan i Tadzhikistana", *Svobodanews.ru*, July 5, 2011.

<sup>2</sup> As stated on Custom's Union's official website <<http://www.tsouz.ru>>, last accessed on August 25, 2011.

---

*Russia's financial losses as a result of Customs Union regulations further speak to the Union's political purpose. For the year prior to the Customs Union enactment, Russia listed 18.5 billion roubles (633.8 million USD) in customs duties.*

---

For Russian Prime Minister Vladimir Putin, the grouping's architect, the customs union has become an instrument of both regional and international politics. In the post-Soviet space, membership in the Union is perceived as an indicator of political alignment with Russia and support for its leadership. Similar economic and political unions in the region that did not include Russia quickly folded. In 2005 Kazakhstan President Nursultan Nazarbayev proposed creating a Central Asian Union that would ease customs levies and boost regional economic cooperation.<sup>3</sup> This initiative, although informally supported by Kyrgyzstan and Tajikistan, was snubbed by Uzbekistan and quickly abandoned. Another regional union – GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova) – formed in 1997 as a counterbalance to Russia's influence within the Commonwealth of Independent States but never yielded substantive results either.

Russia has more to lose with the cur-

rent Customs Union. The Union de facto entrusts Belarus and Kazakhstan – and potentially Kyrgyzstan and Tajikistan – to guard its international borders with Eastern Europe, China, and Afghanistan. But once trucks loaded with goods cross the Kyrgyz-Kazakh border, they are free to go to any destination in Russia or Belarus. This makes it easy to trade goods and lifts the financial burden on importers, but it also allows smugglers to spread their activities in a more liberal environment than pre-Union conditions allowed. According to recent studies, corruption at the Kazakh-China border has created a huge black market; and, for the right price, border guards will turn a blind eye toward illegal activities. For example, in 2008 Kazakhstan's customs bureau recorded 3,000 trucks passing through the Khorgos checkpoint. However, China counted 36,000 trucks crossing the border. It must take a considerable bribe to make border guards miss that many large vehicles.<sup>4</sup> Moscow is apprehensively cautious because nearly 80% of Russian imports come from China and relaxed border control might cause an influx of cheap and illegal goods.

Russia's financial losses as a result of Customs Union regulations further speak to the Union's political purpose. For the year prior to the Customs Union enactment, Russia listed

---

<sup>3</sup> "Nazarbaev Keeps Plan for Central Asian Unity Alive", Institute for War and Peace Reporting, April 18, 2007.

<sup>4</sup> Richard Orange, "Kazakhstan: Russia Worries that Customs Union Outpost is Smugglers' Paradise", Eurasia Net, February 11, 2011.

18.5 billion roubles (633.8 million USD) in customs duties.<sup>5</sup> According to the Russian leadership, however, although the country might suffer from lost taxes in the short-term, in the long run the Union should help diversify the Russian economy and allow it to move away from dependence on exports of energy resources. Some Russian companies and banks were interested in the Customs Union as a way to access state-owned properties in Belarus that are slated to be privatized soon.<sup>6</sup> The Union's durability will be in question until some of these predicted gains are realized.

### **Eurasian Customs Union vs. WTO**

When the Customs Union came into force in 2010, there were concerns that Russia's bid for WTO membership would be compromised. By then Moscow had been trying to join WTO for 16 years, and the limited support it had accumulated collapsed after the Russian war with Georgia in August 2008. As president and now as prime minister, Putin has often accused the West of using possible WTO accession to manipulate his country.<sup>7</sup> Instead, after Georgia vetoed Russia's bid for membership in 2009, Putin announced that Russia would join the WTO indirectly, as part of this cus-

toms union.<sup>8</sup>

Since the WTO rarely accepts regional customs unions as members, there was little reason to believe that Putin's initiative would succeed. Yet two years later, when Kyrgyzstan and Tajikistan considered joining the Union, the Russian leader's latest plan to resurrect former Soviet ties seemed even more possible.

It remains to be seen whether Putin will continue to promote the Union's value as a regional political institution in the future. Indeed, if Putin is elected president again in 2012, he will likely shift his focus to constructing an anti-Western political alliance among the former Soviet republics. This political union will not prevent Kazakhstan from pursuing a balanced foreign policy, but it will certainly remain a powerful instrument for Moscow to influence the policy decisions of smaller countries like Kyrgyzstan and Tajikistan.

As it stands now, Russia has better chances of becoming a WTO member largely because of U.S. support for an invitation. Georgia has now indicated that it will not veto Russia's bid for membership.<sup>9</sup> Russia's chances of joining the organization grew in 2011 as a result of the "reset" policy between Washington and Moscow. If Russia and Kazakhstan join the WTO, they will likely do so as indi-

5 "Customs Union costs Russia", *The Moscow News*, August 22, 2011.

6 Andrew Kramer, "Russia and 2 Neighbors Form Economic Union", *The New York Times*, July 5, 2011.

7 Prime minister is quoted in this video <http://www.youtube.com/watch?v=U4AsUz7z0AU>, last accessed on August 29, 2011.

8 Jonathan Lynn, "WTO in Confusion after Russia's Custom Union Plan", *Reuters*, June 18, 2009.

9 "Ministr ekonomiki Gruzii: 'Vstuplenie Rossii v VTO nam vygodno'", *Komsomolskaya Pravda*, August 29, 2011.

vidual countries and not as a union. The WTO will offer much greater trade opportunities for both countries than the Customs Union could possibly do. Potential WTO membership would make the union economically unattractive for both Russia and Kazakhstan.

### Georgia and Ukraine

Ironically, the Customs Union forces Russia to relax some of the retaliatory trade bans Moscow imposed in 2006 on Georgian products such as “Borjomi” mineral water and wine. Since the Customs Union is designed to erase trade barriers among its members, Georgian products banned in Russia will inevitably make their way to the Russian market once they pass through intermediary countries that have not imposed similar trade bans. Although Belarus has imposed sanctions on Georgian products, Kazakhstan freely sells Georgian wines and mineral water.<sup>10</sup>

According to Customs Union regulations, if one member-state imposes a ban on certain imports, other members must follow suit. This provision could become a major impediment to the Customs Union’s internal cohesion. Unlike Russia, Kazakhstan has sought to boost economic exchange with Tbilisi, creating a joint \$300 million investment fund in 2006.<sup>11</sup>

10 “Onischenko obespokoen: granitsy Tamozhennogo soyuza otkryty dlya gruzinskogo vina i mineral’noy vody”, *Newsru.com*, May 5, 2011.

11 David Gelashvili, “Georgia Interested in Economic Stability of Kazakhstan”, <<http://www.newcaucasus.com>>.

Before the Customs Union came into force, Putin called on member states to refrain from exporting goods into countries where they are banned. The Russian leader specifically mentioned Georgian beverages.<sup>12</sup> However, a year later, the Russian government admitted that Georgian exports are likely to penetrate the Russian market via the Union. The Customs Union thus undermines the potential efficiency of Kremlin policy instruments deployed against regional adversaries. Thanks to the CU, Georgia is gradually regaining its market share in Russia.

Ukraine, a WTO member increasingly following a pro-Russian foreign policy, has been careful to maintain good relations with the Customs Union members. President Viktor Yanukovich has said that Ukraine is interested in collaborating with the Union but a full membership would undermine the country’s current benefits derived from serving as a transit state for Russian gas.<sup>13</sup> The Ukrainian president suggested collaborating with the Customs Union in a “3+1” format. It is yet unclear what exactly Ukraine means with this formula, but Russian President Medvedev rejected the idea outright. According to Medvedev, Russia will only accept Ukraine as a full member.

March 26, 2011.

12 “Putin zakroet Tamozhenny soyuz dlya ‘problemnykh’ tovarov”, *Lenta.ru*, January 27, 2011.

13 “Yanukovich: Neobhodimo iskat’ kompromissy v sotrudnichestve Ukrainy s TS”, <<http://www.rbc.ua>>, August 26, 2011.

## Kyrgyzstan and Tajikistan

If the Customs Union really were about economic integration, then why would Russia and Kazakhstan, two large countries that share a 7,000 mile-border, have interests in Kyrgyzstan or Tajikistan? For Kazakhstan, the Customs Union is more a symbol of good neighborly relations with Russia rather than of economic integration. The main reason that Kyrgyzstan and Tajikistan have shown interest in joining the Customs Union is that Russia is the main destination for their countries' labor migrants. An estimated one million migrants from each of the two countries currently live in Russia as labor migrants. Their collective remittances comprise almost half of those countries' annual GDPs. Furthermore, both countries depend on Russian gas exports to run their factories and heat their homes. The Russian energy giant Gazprom enjoys a near monopoly in these countries, supplying up to 90% of their fuel.

In early 2010 Kyrgyzstan Prime Minister Almazbek Atambayev announced that Kyrgyzstan would join the Russia-Belarus-Kazakhstan Customs Union. This odd decision appears to have been based on political, not economic, priorities, and it came shortly after his deputy Omurbek Babanov returned from a trip to Moscow.<sup>14</sup> As the only Central Asian country with WTO membership, Kyrgyzstan already has greater ac-

cess to global trade than the Customs Union can offer. Later this year, Atambayev and Babanov hope to secure the posts of president and prime minister respectively and they need Russia's political support. By joining the Customs Union, Kyrgyzstan would voluntarily submit to Russia's political will.

---

*If the Customs Union really were about economic integration, then why would Russia and Kazakhstan, two large countries that share a 7,000 mile-border, have interests in Kyrgyzstan or Tajikistan?*

---

As a WTO member for over a decade, Kyrgyzstan already has much lower import and export tariffs than the Customs Union discounts. The WTO facilitated Kyrgyzstan's emergence as a transit zone for Chinese goods and an exporter of locally manufactured clothing. Furthermore, the WTO helped Kyrgyzstan to diversify its imports, significantly decreasing its dependence on Russia and Kazakhstan. These two factors aided the rise of a local class of small- and medium-sized entrepreneurs who import goods from China, Turkey, and India and resell them to traders from other Central Asian states. According to estimates by the Kyrgyz research institute "Poekt buduschego," more than 800,000 traders in Kyrgyzstan benefit from such re-exports, a sig-

<sup>14</sup> [www.akipress.kg](http://www.akipress.kg), April 11, 2011.



nificant level for a population of 5.5 million. Russia and Kazakhstan are the primary markets for roughly 90 percent of those traders.<sup>15</sup>

However, according to Minister of Economic Regulations Uchkun Tashbayev, Kyrgyzstan has no choice other but to join the Russian-led Customs Union. Tashbayev believes that both Moscow and Astana have been increasing customs tariffs for non-members, making it harder for Kyrgyz entrepreneurs to re-export Chinese goods to Kyrgyzstan's neighbors.<sup>16</sup>

By joining the Customs Union, Kyrgyzstan would, in effect, agree to play by Russia's customs rules and regulations. Russia's average tariffs amount to roughly 10 percent, whereas Kyrgyzstan's are half that due to its WTO membership. Bishkek is thus trapped, unable to raise its tariffs for Russia without violating its WTO obligations. Russia, meanwhile, keeps its import tariffs high and export tariffs low to shield local manufacturers from external competition. For non-Customs Union countries like Kyrgyzstan, this means price increases for most goods imported from Russia and Kazakhstan. Union members will also increase prices for commodities imported from Europe and the Middle East, including cars and consumer technologies.

"Joining the Customs Union is

needed first of all for Kyrgyzstan... Membership in the organization will strengthen the [Kyrgyz] republic's external borders and improve the working and living conditions for the nearly 500,000 [Kyrgyz] citizens working in Russia and Kazakhstan", Atambayev said.<sup>17</sup> However, it is unclear exactly how membership in the Customs Union would affect Kyrgyzstan's labor migrants.

In 2009, then-President Kurmanbek Bakiyev also promised to join the Customs Union. Bakiyev confidently declared that settling the more than 10,000 contradictions between the WTO regulations and those of the union would take only a short time. Bakiyev made his pledge to enter the Customs Union at a time when Moscow was very critical of his policies. In particular, Bakiyev had declared that he wanted to expel U.S. forces from the Manas airbase in Bishkek, only to quickly change his mind after conveniently securing a \$2 billion credit from Moscow and an increase in lease payments for the base from the United States. Meanwhile, the WTO provides an opportunity for fair economic competition between China and Western powers in Kyrgyzstan. Although China has largely ignored WTO statutes, experts claim that the organization can potentially serve as a platform for collaboration, as Beijing is also a member.<sup>18</sup>

<sup>17</sup> [www.tsouz.ru](http://www.tsouz.ru), April 11, 2011.

<sup>18</sup> "Strengthening Fragile Partnership: An Agenda for the Future of the U.S.-Central Asia Relationship", Institute 2049, February 2011.

<sup>15</sup> [www.ictsd.org](http://www.ictsd.org), May 2010

<sup>16</sup> [www.akipress.kg](http://www.akipress.kg), April 11, 2011.

Moscow can manipulate energy deliveries to ensure Kyrgyzstan's political compliance. In spring 2010, Russia swiftly increased tariffs for fuel exports, adding additional strain on President Bakiyev's already struggling regime. Moscow explained its decision to raise levies by saying that contrary to their agreement which stated that Kyrgyzstan would use Russian fuel for domestic purposes, the Kyrgyz side supplied Russian fuel to the US Transit Center at Manas airport in Bishkek. However, fuel levies were accompanied with other types of pressures against Bakiyev's regime, including a smear campaign by the pro-Kremlin media.

Weeks after the Customs Union went into force, gas prices increased sharply in Kyrgyzstan, and gas stations limited purchases to only 10 liters of fuel per vehicle. Gas prices reached almost 1 USD per liter (up from 85 cents), a considerable cost for the locals. Some Bishkek residents began traveling to the Kyrgyz-Kazakh border to fill their fuel tanks.

The Customs Union could have an indirect influence on Kyrgyzstan's energy market. The energy market might have received a boost from the Union, and Kazakhstan's trade with Russia takes precedence over exports to non-member states. For Atambayev, one of Russia's biggest proponents in Kyrgyzstan, a new energy deal with Moscow is vital for his political future. Enjoying some support for northern Kyrgyzstan in his bid

---

*The Customs Union could have an indirect influence on Kyrgyzstan's energy market. The energy market might have received a boost from the Union, and Kazakhstan's trade with Russia takes precedence over exports to non-member states.*

---

to become president, he faces strong competition from southern candidates, especially from the leader of the Ata-Jurt Party, Kamchybek Tashiyev. Over 80 candidates have registered to run for the presidency on October 30th. Although most of them are unknown to the wider public, they will likely reduce Atambayev's support throughout the country.

Seeking to ensure steady gas supplies from Russia, Tajikistan also considered applying to the Customs Union in 2010. A year later, however, Dushanbe hesitated to join for a number of reasons.

First, until Kyrgyzstan joins the Customs Union in 2012, Tajikistan does not share common borders with any of the Union's members. The country imports most goods from Russia through Uzbekistan, which shows no interest in joining the Russia-led group.

Second, by becoming a Customs Union member, Tajikistan would lose up to 46 percent of the revenue it currently receives from customs levies.<sup>19</sup>

---

<sup>19</sup> "Zhiteli Tadjikistana hotyat voiti v Tamozhenny soyuz", *Regnum.ru*, July 4, 2011.



Finally, Tajikistan would be forced to increase fees on goods coming from China and Turkey, the country's two leading trade partners.<sup>20</sup> Instead, Tajikistan's Foreign Minister Khamrokhon Zarifi said his country is more interested in joining WTO because two of its neighbors – China and Kyrgyzstan – are members.

If Tajikistan joins the Customs Union, Russia will have the right and responsibility to station its border guards at the Tajik-Afghan border to control all cargo passing through to the union's border. According to Moscow Tajikistan's military lack enough capacity to prevent transit of drugs through the border.

Russian guards are already posted at the Kyrgyz-Kazakh border to check trucks crossing that border. Since withdrawing from the Tajik-Afghan border in 2004, Russia has been trying to reestablish its military presence in the country.

Indeed, in August 2010 the speaker of the lower house of Russia's parliament, Boris Gryzlov, argued that Russia must reinstall its troops in Tajikistan to control drug trafficking throughout the region. The Russian politician proposed introducing visas for Tajik migrants to Russia, should Dushanbe refuse to welcome Russian border guards. According to Tajik officials, Russia plans to station up to 3,000 troops in Tajikistan.<sup>21</sup>

20 "Tadzhikistan ne toropitsya vstupit' v Tamozhenny soyuz, predpochitaya VTO", *Newsru.com*, July 18, 2011.

21 Alexander Sodiqov, "Moscow Blackmails Dushanbe to

## Conclusions

While Russian leadership in former Soviet states is increasing, the Customs Union can only have a limited effect. Other Russian-led initiatives have been similarly supported by regional players, only to fizzle out later. For example, the Collective Security Treaty Organization, which includes Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan, was unable to persuade its members to follow Moscow's lead and recognize Abkhazia and South Ossetia's independence.

A range of political motives are hidden behind the Customs Union's economic facade. Belarus, whose economy is largely dependent on Russian subsidies, had to join Moscow's latest grouping in order to preserve these subsidies. The Customs Union should further boost trade relations between Russia and Kazakhstan. From Moscow's perspective, Kyrgyzstan's chaotic and unpredictable political landscape would be easier to control by placing the country inside the union framework.

Finally, Moscow is hoping to entice Tajikistan into joining the union in order to provide legitimacy for re-deploying Russian troops to the Tajik-Afghan border.

The Union might crumble due to internal strain between Russia and Belarus. Both countries have seen

*Return to the Afghan Border*", Jamestown Foundation, August 16, 2011.

dramatic worsening of their bilateral relations. President Lukashenko has made it clear that he does not support the Customs Union's political initiatives. Rather, he agreed to join Moscow's new arrangement because it is economically beneficial for his country.