

Uzbekistan and the Eurasian Economic Union: Pros and Cons

Key Messages

- Uzbekistan's prospects of joining the Eurasian Economic Union (EAEU) has been one of the most debated themes at the end of 2019.
- EAEU membership presents opportunities and challenges, especially in terms of geopolitical implications, and could become divisive for the country's establishment in the aftermath of December 2019 elections.
- Apart from material advantages, the EAEU makes sense in the perspective of balancing regional relations in front of Chinese inroads into Central Asia under the Belt and Road Initiative (BRI).
- Tashkent's membership would profoundly change the profile of the EAEU. If Uzbekistan coordinates with Kazakhstan, the organisation can become the core of larger Central Asian integration.
- The process of accession will be a long one and derailments can happen along the road, as it happened with previous post-Soviet integration initiatives.

The Economic Significance of EAEU for Uzbekistan

With the new political course of action since 2016, the country has an increasing economic interaction with Russia: trade has increased 20 percent during last year and 12 percent in the first six months of 2019, and the two sides are running big-scale projects in the energy sphere.

Entering the EAEU would mean further removing trade barriers, so that Uzbek core products, such as automobiles and textiles, can access Russian and other EAEU markets. This would fit Uzbek plans to reinforce the export-oriented sectors of the national economy.

The same positive effects could be expected from resolving the inconsistencies in the foreign economic laws of Uzbekistan and the other EAEU members, especially regarding those concerning livestock and veterinary standards affecting agricultural products and beverages. The EAEU is gradually enforcing a comprehensive regime of technical and safety requirements. This means that if Uzbekistan decides not to join EAEU, the exporters will need to overcome the obstacles imposed by tight regulations and sanitary quarantine controls. This is however, a minimal part of the Uzbek export¹.

In addition, the EAEU has signed and is working towards a number of preferential free trade agreements with many countries such as Serbia, Israel, Iran, Singapore, Vietnam, China, Cuba, Egypt and Thailand, which can lead to more opportunities for exporting Uzbek goods.

The government expects certain advantages in terms of transit, given that, because of the situation of Afghanistan and Iran, the route through Kazakhstan and Russia remains its main connection with the rest of the world. The EAEU has partially opened internal customs borders and, over the previous year, it claims it has improved internal cross-border procedures and goods-release periods towards a "one-window" system². Within the EAEU framework, the logistical problems that Uzbekistan is now facing would be substantially reduced. A case in point is the Chernayevka-Zhibek-Joly border crossing point, the main link between Uzbekistan and Kazakhstan (hence, all of Northern Eurasia) that today is constantly overloaded by trade traffic.

At this stage, the main beneficiaries from Uzbekistan's accession to the EAEU will be its the large population

¹ For data we used the Observatory of Economic Complexity (<https://oec.world/en/profile/country/uzb/>).

² Petrosyan, A. R. (ed.), "Eurasian Economic Integration – 2019", Moscow: Centre for Integration Studies, Report 52, Eurasian Development Bank, 2019, 132 pp.

of migrant workers in the territories of the Union countries. About two million in Russia alone, these people are currently confronted with a number of administrative hurdles. Within the EAEU this bureaucratic red tape would be lifted and immigration will be eased, on terms Kyrgyz workers are already enjoying. It is assessed that this would result in an estimated yearly saving of 500 USD per person, which would be also significant in terms of migrants' remittances. In 2018, remittances from Russia to Uzbekistan amounted to \$3,963 billion, the highest value among Central Asian countries³, and this would further increase with accession.

According to Uzbek economist Yuli Yusupov, another advantage Uzbekistan would gain from joining the bloc is the improvement of its market mechanisms. Nowadays, the informal influence of monopolistic blocs controls much of the Uzbek economy by pushing for high tariffs and imposing other nontariff barriers on imports. On the other hand, the EAEU is a rule-based organization, modelled on the European Union's experience. Therefore, it requires all member states to change a number of internal regulations and, to reform their legal systems and bureaucracies to adapt to the Union's directives. The EAEU executive body, the Eurasian Economic Commission, prepares treaties aiming at harmonization and improvement of legislation of the members, while at the same time developing a competition policy to ensure equal conditions in the markets of the Single Economic Space. Indeed, in 2018, all EAEU member states rose in the 'Ease of Doing Business' ranking. Thus we could expect that, in the process of integration, Uzbekistan will receive a layer of modern legislation based on international best practices. This in turn will improve the quality of the management and the transparency of the national economy balancing the power of informal industry groups.

The Potential Risks of Joining EAEU for Uzbekistan

Formal entrance into the organization can also present risks for Uzbekistan. Firstly, Uzbekistan's diversified national products have been so far protected by high-tariff customs. As it happened in Kazakhstan and Kyrgyzstan,

during the first stage, a strong influx of consumer goods of higher quality from Russia and Belarus could impact the highly protected Uzbek market and local producers will suffer⁴, this may also have political implications. At the same time, the continuous depreciation of the national currency could provide effective protection, offsetting the possible negative impacts of trade liberalization.

There is consistent imbalance in Uzbek mutual trade with Russia and Kazakhstan. Already, out of more than four billion US dollars of annual trade between Russia and Uzbekistan, only a little more than one billion US dollars comes from Uzbek export to Russia. However, if remittances received from both countries are added to the trade balance, the situation changes.

Overall, after the initial agreement among Russia, Belarus and Kazakhstan, the EAEU enlargement only had to deal with small countries such as Armenia and Kyrgyzstan. With its demographic and economic dimensions. Uzbekistan will bring to the table qualitatively new errands since the organization will have to seriously revise its management structure and internal established norms and rules⁵.

In practice, participation in the EAEU has not prevented the emergence of trade skirmishes between the members, who have at times accused one another of violating the Union's rules using nontariff measures and protectionism. This has already happened during the crisis between Kyrgyzstan and Kazakhstan in October 2017. Belarus also constantly accuses Russia of creating artificial obstacles to the export of its products.

In such cases, the EAEU Court has not shown enough power to enforce decisions over the disputing sides. Accordingly, Tashkent has no guarantee that in the future its products also will not face similar restrictions⁶.

Geopolitical Implications

Among the disadvantages of Uzbekistan joining the EAEU, the geopolitical factor stands prominent. The Uzbekistan government has made remarkable efforts over the years to build an international position of equi-distance from external powers. Many EAEU critics depict the bloc as a Russian attempt to consolidate

³ Mirzabaev F., "Uzbekistan Offers Assistance To Its Migrant Workers, Only A Fraction Takes It", CABAR.asia, June 24 2019; <https://cabar.asia/en/uzbekistan-offers-assistance-to-its-migrant-workers-only-a-fraction-takes-it/>

⁴ Bakozoda K., "Uzbekistan i EAES: politicheskaya motivatsiya ili ekonomicheskie soobrazheniya?", *Ozodi*, October 09, 2019; <https://rus.ozodi.org/a/30208197.html>

⁵ Pritchkin S., "Yevraziyskiy ekonomicheskiy soyuz raskolol Uzbekistan", *Nezavisimaya Gazeta*, November 24, 2019; <http://ng.ru/dipkurer/2019-11->

⁶ Satpayev D., "Zachem Uzbekistan zamanivayut v EAES?" *Forbes.kz*, October 10 2019; https://forbes.kz/finances/integration/zachem_uzbekistan_zamanivayut_v_eaes/

its influence among former Soviet States having in mind strategic more economic considerations⁷.

Given the current confrontation between Moscow and Western countries, the functioning of the EAEU has been questioned as well. Political risks for the members may also incur from EAEU increasing contacts with Iran. This may result in sanctions being exposed to the entire organization. Overall, as stated by many national experts, Uzbekistan risks increased Russian influence in the region.

Uzbekistan could enjoy much of the advantages that may emerge from joining the EAEU even only in the framework of a bilateral relationship with the Russian Federation (RF). Over the last two years, relations between Moscow and Tashkent have improved dramatically in a number of spheres. Mutual trade is growing (19% only in the first half of this year); special agreements have also been made to regulate migrants' flows and the amount of Russian investment in Uzbek economy is on the rise as well. In addition, as WTO members, Russia, Kazakhstan and Kyrgyzstan have to introduce reduced tariffs (6-6.7% for agricultural products 12-10 for industrial). Against such background, Uzbek formal EAEU membership could appear as redundant in comparison to a reinforced bilateral pact. However, Russia does not seem to want this. Uzbekistan's decision to quit the Eurasian Economic Community, the EAEU predecessor, a decade ago was also not welcomed by Russia.

In addition, membership in the EAEU may lead to Tashkent getting closer to the Collective Security Treaty Organization (CSTO), the main post-Soviet security bloc, whose membership (also suspended unilaterally by Uzbekistan in 2012) is overlapping with the EAEU. Fears are that as a result, Uzbekistan policies will become subject to increased Russian control. The fact that the perspective of accession was announced by the chairwoman of Russian Federation Council on visit in Tashkent, has reinforced suspicions that the process could be on the whole non-transparent.

The EAEU is indeed backed by Russia as an instrument to structure relations between post-Soviet countries. However, the country does not aim at controlling the domestic politics of its neighbours, but rather needs to make sure that they do not align with other

regional blocs of power to work against the interests of Russia⁸. If such a Russian interest can create problems in the relations with Western partners, it may coincide with the concern of Uzbekistan and other Central Asian countries to keep in check Chinese inroads into regional affairs. In this sense, Uzbekistan's membership in the EAEU will enhance the organization's capacity to balance the Chinese presence, so to make the Belt and Road Initiative (BRI) lean toward Central Asian interests.

In light of Afghanistan's instability, the government may seek Russian partnership to manage border security. In face of these strategic risks, membership in the EAEU-CSTO compact seems to be reasonable security insurance for Uzbekistan.

The EAEU, Central Asian and Global Dimensions

When talking about Eurasian integration into Central Asia, a parallel issue is the lack of an alternative integration format at the regional level. Starting its new political course three years ago, Uzbekistan strived to re-animate attempts at regional integration, which were already in the agenda of President Islam Karimov since the first years of independence. However, it seems that after early enthusiasm during the first summit of the regional leaders in 2018, Central Asian perspectives face hurdles, as shown by the long delay organizing the follow-up summit in Tashkent this year. In modern history of Central Asia, regional relations often are shaped by external powers.

At the same time, the entrance of Uzbekistan could decidedly reinforce a Central Asia dimension within the EAEU itself. With its 33 million people and a developed economy, Uzbekistan admission would help to moderate EAEU's internal imbalance (where Russia accounts for 85% share of GDP and population). EAEU- Uzbek accession could assist in creating a second centre, apt to balance the Russian centripetal forces and potential Great Power ambitions. This is especially the case if Uzbekistan works with Kazakhstan, who also is sensitive about any threat to its national sovereignty⁹. This Central Asian EAEU epicentre would then grow stronger in the probable eventuality that Tajikistan would follow.

⁷ Tolipov F., "History Repeats Itself: Uzbekistan's New Eurasian Gamble", CACI Analyst, November 22, 2019; <http://cacianalyst.org/publications/analytical-articles/item/13596-history-repeats-itself-uzbekistans-new-eurasian-gamble.html?fbclid=IwAR09LVjrNioSfoOiT5LSw93IHclN3Xg7aPcjFTGBv4GgZs5V75FShvW6Gk>

⁸ Perović J., "Russia's Turn to Eurasia", Zurich: Center for Security Studies, Policy Perspectives, 6 (5), August, 2018; https://css.ethz.ch/content/dam/ethz/special-interest/gess/cis/center-for-security-studies/pdfs/PP6-5_2018.pdf

⁹ Indeo F., "Uzbekistan ed Unione Economica Euroasiatica: un mutamento epocale nella politica estera di Tashkent?". *Eurasian Business Dispatch Newsletter*, n. 55, October 30 2019; <http://eurasianbusinessdispatch.com/ita/archivio/Uzbekistan-ed-Unione-Economica-Euroasiatica-un-mutamento-epocale-nella-politica-estera-di-Tashkent--di-Fabio-Indeo-713-ITA.asp>

The administration supported the idea that WTO accession should be a priority for the country. However, this task is even more ambitious than EAEU accession as it requires many economic policy reforms. At the same time, for Uzbekistan EAEU could be a “WTO accession light”, as the country would incorporate the EAEU’s generally WTO-compatible external trade regime.

Theory and Practice

As can be seen, the issue of Uzbekistani accession to the EAEU is very complex and controversial. The pros and cons of this perspective have been actively discussed since the start of the course of reforms. A new ad hoc inter-ministerial expert group was recently introduced suggesting how a thorough analysis is still lacking. At the same time, the official “Concept of comprehensive socio-economic development of the Republic of Uzbekistan until 2030”, released later in October, only mentions the EAEU in relation to the expansion of foreign trade, in parallel to “several other countries”, while over the 2022-2025 period it only foresees a “sequential study of the country's entry” into the Union can take place¹⁰.

This suggests that the accession will not be a fast process and may take years. The same is happening in Tajikistan, which has been in this “studying” phase for several years already. Over this period, the pace of trends within the EAEU will determine Uzbekistan’s decision. If the norms and regulations established will boost the economy of the member countries, then Uzbekistan will be encouraged to become a member in order not to be cut off from its main neighbors and partners.

A turning point may be the next visit of President Mirziyoyev to Russia, expected in February 2020. Then, Uzbekistan could obtain the status of observer, already granted to Moldova in 2017. This would be a temporary solution, while different national mechanisms continue to thoroughly assess the pros and cons of full membership.

In any case, even a formal pledge for admission does not automatically result in the actual membership. A professor of economics remarked, entering the CIS Free Trade Zone in 2015, the government agreed to a number of harmonization measures to be adopted before 2020. At the end of 2019, only few have been implemented. The same result might occur with regards to the EAEU. By this way, the government would

grant Moscow the prestige of its formal membership to the bloc, while in practice, a number of licensing, import quotas, and other restrictions on imports could be left in place as the country may not be ready for resulting shocks.

Conclusion

Assessing the cons and pros of Uzbekistan’s accession to EAEU will not be stress-free since the issue is prone to be used in internal political disputes, especially following the December 2019 elections. Following the October announcement, the leader of Milliy Tiklanish (“National Revival”) Party, Mr. Alisher Kadyrov criticized the idea of Uzbekistan joining the EAEU¹². After decades of robust nationalist rhetoric, there are constituencies strongly opposed to any challenge to sovereignty. The issue could be sensitive since reform fatigue may embolden opponents of economic reforms.

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¹⁰ Ministry of Economy and Industry, “Kontseptsiya kompleksnogo sotsial'no-ekonomicheskogo razvitiya Respubliki Uzbekistan do 2030 goda”, October 22 2019; <https://regulation.gov.uz/document/8839>

¹² “Lider parlamentskoy partii raskritikoval ideyu vstupleniya Uzbekistana v EAES”, Fergana Agency, October 10, 2019; <https://fergana.agency/news/111594/>