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The War in Ukraine and the Eurasian Economic Union: View from Armenia

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Abstract

This paper analyzes the impact of the Ukraine war on Armenia's situation in the Eurasian Economic Union (EAEU). I argue that the Russia–Ukraine war and the ensuing deterioration of relations between the West and Russia have, with one notable exception, significantly limited Armenia's capacity to instrumentalize the Eurasian agenda to its political and economic advantages. The study will show that this new challenge has, by and large, been due to the huge asymmetry in economic power between Russia and other EAEU member states.

The war in Ukraine has triggered a series of massive economic sanctions against Russia and counter-sanctions against the West that have had an unprecedented impact on the world economy. They have heavily affected not only the targeted countries, but also those unrelated to the economic war. Among members of this group of states are those that have entered into close economic partnership with Russia within the framework of the EAEU. Established in 2014 and joined by Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia, the EAEU enjoys the highest level of economic integration in the post-Soviet space. The sanctions that have been imposed on Russia and Belarus over the war in Ukraine have seriously challenged the Eurasian project, as the EAEU's task is now not only to consolidate its integration efforts, but also to offset or at least to mitigate the blow of the economic war. This article will look at the impact of the Russia–Ukraine war on the EAEU from Armenia's perspective. Specifically, it will examine the repercussions of the war for Armenia as an EAEU member state.

The Ukraine War and Armenia: Trapped by the Great-Power Confrontation

Armenia embarked on its Eurasian integration journey in 2013, when President Serzh Sargsyan famously announced Armenia's intention to join the Customs Union of Belarus, Kazakhstan, and Russia (RFE/RL's Armenian Service, 2013). The establishment of the EAEU and Armenia's accession thereto came at a time when large-scale demonstrations in Kyiv (known as the "Euromaidan") had shaken the political landscape in Ukraine and the Russian–Ukrainian conflict over Crimea and Donbas had just begun to unfold. Given its economic and security dependence on Russia, Armenia has suffered from both the first and second waves of confrontation in the Russia–Ukraine conflict. Although the anti-Russian sanctions in 2014 were by no means comparable to those in 2022, they still had a palpable impact on Armenia's economy (Ter-Matevosyan, 2014,

p. 16). After a couple of years of economic growth, Armenia was hit by two new shocks: the Covid-19 pandemic and a devastating new war with Azerbaijan in autumn 2020. The country's GDP contracted by 7.4%, resulting in the worst economic decline since 2008 (World Bank, n.d.). No sooner had Armenia started to recover than it had to address the consequences of yet another crisis: the Russian invasion of Ukraine in February 2022. The war and ensuing Western sanctions against Russia have imposed a new set of challenges on Armenia as an EAEU member.

Political Repercussions

As a newcomer to the club of international organizations, the EAEU was in need of partnerships with countries and peer integration projects across the world. The EAEU needed to build a reputation as a reliable partner, get a firm say in the economic life of the Eurasian continent, and smooth its internal integration process via trade agreements with other actors. Since its very first year of membership, Armenia has been keen to serve as a bridge between the EAEU and its (potential) partners and a promoter of the EAEU's international affairs. For instance, it has positioned itself as a state that could connect the EAEU with the EU and Iran and has contributed to the conclusion of a free-trade agreement between the EAEU and Singapore (Galstyan et al., 2021).

Russia's war against Ukraine and massive Western sanctions against Russia have weakened Russia's economic and political position within post-Soviet Eurasia and in the world, thereby jeopardizing the EAEU's ability to operate as an established actor in international relations and to expand its list of partners. Given the huge asymmetry in economic power and the size of consumer markets between Russia and other members of the organization, the main driver behind other countries' or institutions' interest in establishing cooperation with the EAEU has been the desire for preferential trade agreements with Russia and/or better access to its market. Hence, states that have joined the sanctions

and been highly critical of Russia will hardly be motivated to sign cooperation agreements with the EAEU, while those that have stayed neutral may become more cautious and reevaluate the political and economic costs and benefits of such deals.

This will affect Armenia in two major ways. First, it will make Armenia's ambition of becoming a bridge-builder between the EAEU and other actors a more difficult task to accomplish. Second, the confrontation between Europe and Russia will, unsurprisingly, rule out institutionalized cooperation between the EU and EAEU. An ally of Russia, Armenia has sought close partnership with the EU, especially on issues related to the economy and modernization. It is the only EAEU member state to have upgraded its relations with the EU by signing a Comprehensive and Enhanced Partnership Agreement (CEPA) in 2017 (Ministry of Foreign Affairs of Armenia, 2017). As part of a shared neighborhood that has increasingly become an object of EU–Russia rivalry, Yerevan hoped the relations between its two major partners could be improved via EAEU–EU dialogue. This dialogue already seemed unlikely with the onset of the Ukraine crisis in 2014, but the Russia–Ukraine war of 2022 has made it simply impossible.

The war in Ukraine is also endangering the depoliticized nature of the EAEU. When the union was being established, it was highly important to its smaller members to limit integration to economic issues and not to cede part of their political sovereignty to the emerging supranational union. In fact, highlighting the unacceptability of political integration, Kazakhstan insisted on calling the new international organization “Eurasian Economic Union” instead of “Eurasian Union” (Staeger & Boboceca, 2018, p. 48). The EAEU itself has repeatedly stated that it pursues only economic goals (Eurasian Economic Commission, 2019a; 2019b). However, since the beginning of the war, members of the Eurasian Economic Commission have denounced anti-Russian sanctions: these statements may create or deepen a negative image of the EAEU—and by extension of its member states—in the West (TASS, 2022; Eurasian Economic Commission, 2022). For Armenia, the EAEU member state with the closest relations with Europe, this reality may create unease in its Western policy.

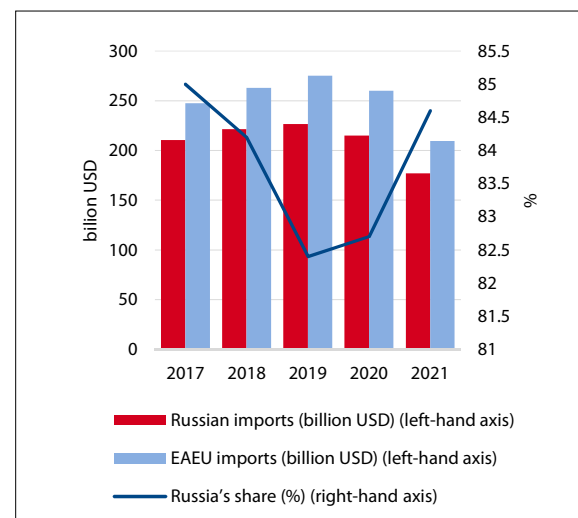
Economic Repercussions of the War

Economically, the war in Ukraine will damage Armenia's strategy of using EAEU membership to attract investments. Since joining the EAEU, Armenia has been building itself an image as a state that offers potential foreign investors access to a market with 180 million people (Office of the President of Armenia, 2016).

Through its membership of a large economic space, Armenia hoped to compensate for the small size of its market and thus inject much-needed investments into its economy. As Russia constitutes four-fifths of the EAEU's population, Armenia expected to secure investments from companies that would be interested in entering the Russian market. However, as long as the trade war between Russia and the West continues, Armenia's investment policy will face additional challenges: American and European companies, at least, cannot currently be lured by the prospect of privileged access to the Russian market.

The economic confrontation will also affect the EAEU's external trade and hence Armenia's revenues from import duties. Armenia receives around 1 percent of the EAEU's overall import duties, which, given the small size of its economy, is an important source of income (Правительство Республики Армения; Евразийский Экономический Союз, 2018, p. 25).

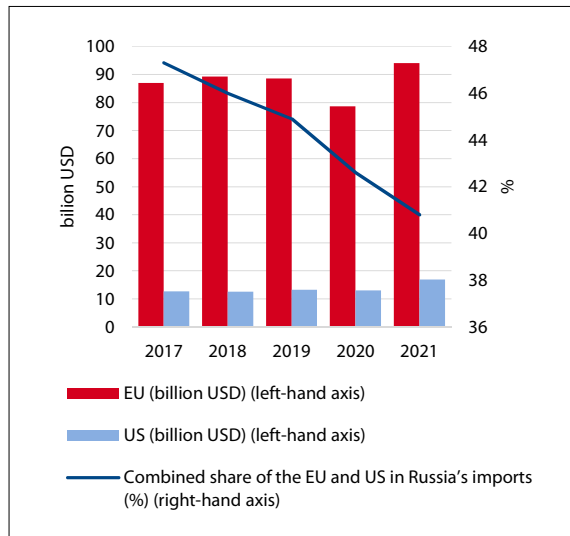
Figure 1: Russia's Share of EAEU Imports from Third Countries



Source: Statistics Department of the Eurasian Economic Union; see also Table 1 on p. 10

As Figure 1 above and Table 1 on p. 10 show, over the last five years, more than 82 percent of the EAEU's imports have been destined for Russia, meaning that the overwhelming majority of the EAEU's import duties have always been generated by Russia's trade with non-EAEU states.

Figure 2 overleaf and Table 2 on p. 10 demonstrate the importance of the EU and the US for the Russian economy. In the same period, Russian imports ranged between 91 and 110 billion USD—and despite a steady decline, the combined share of these two actors still stood at 40 percent in 2021. The Russia–Ukraine war will inevitably cause a decline in this trade volume, which will in turn reduce the amount of import duties received by EAEU members, including Armenia.

Figure 2: Russian Imports from the EU and the US

Source: Statistics Department of the Eurasian Economic Union; see also Table 2 on p. 10

The Influx of Russians: A Blessing in Disguise?

Despite all the economic and political challenges listed above, the great-power confrontation over Ukraine has had a positive impact on Armenia's economy in one particular case. The anti-Russian sanctions have stimulated massive emigration of Russian citizens, with Armenia a top destination for these émigrés. As of September 2022, 50,000 Russians had moved to Armenia (CivilNet, 2022), producing a huge wave of economic activity in the country, especially in the service sector. Thus, in the second quarter of 2022, Armenia's GDP grew by 13 percent, which was hardly expected at the time the first massive anti-Russian sanctions were adopted (ARKA,

2022). Forecasts of GDP growth highlight the unexpectedness of this economic boom: several weeks into the Russia–Ukraine war, the Central Bank of Armenia expected Armenia's economy to grow by only 1.6 percent in 2022, whereas by June it was predicting 4.9 percent growth (RFE/RL, 2022). The EAEU has significantly simplified the movement of people within the union, making it easier for citizens of member states to move and work in other EAEU member states. EAEU membership has thus provided Armenia with a competitive advantage compared to other major destinations for Russian migrants like Georgia, Turkey, and the United Arab Emirates.

Conclusion

As in 2014, the Russia–Ukraine conflict in 2022 and ensuing confrontation between the West and Russia has posed challenges for the EAEU and its member states. As a member of this integration project, Armenia is facing both political and economic consequences. Politically, the war has reduced or at least clouded the prospects of Armenia becoming a bridge-builder for—and a gateway to—the EAEU. On top of this, it has increased the risk that the West will view the EAEU in a (more) negative light—a viewpoint that may also extend to Armenia. Economically, the war and anti-Russian sanctions have endangered Armenia's attractiveness as a country with privileged access to the EAEU's huge market and affected direct financial revenues from the EAEU. At the same time, EAEU membership has facilitated the immigration of tens of thousands of Russians to Armenia, which has helped the country not only to minimize the economic shock of the Ukraine war, but even to record surprisingly high economic growth.

About the Author

Erik Davtyan is an Assistant Professor in the Department of International Relations and Diplomacy at Yerevan State University and a Visiting Professor in the Faculty of Political Science at the University of Iceland. He is a former visiting scholar at the Department of Political Science, Friedrich Schiller University Jena, and the Center for Eastern European Studies, University of Zurich. His research focuses on small state theory, the foreign policy of South Caucasus states, theories of international relations, and foreign policy analysis.

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Table 1 Russia's Share of EAEU Imports from Third Countries

	2017	2018	2019	2020	2021
Russian imports (billion USD)	210.2	221.2	226.6	214.8	177.0
EAEU imports (billion USD)	247.3	262.8	275.0	259.8	209.3
Russia's share (%)	85.0	84.2	82.4	82.7	84.6

Source: Statistics Department of the Eurasian Economic Union

Table 2: Russian Imports from the EU and the US

	2017	2018	2019	2020	2021
EU (billion USD)	86.9	89.2	88.6	78.6	94.0
US (billion USD)	12.6	12.5	13.2	13.0	16.9
Combined share of the EU and US in Russia's imports (%)	47.3	46.0	44.9	42.6	40.8

Source: Statistics Department of the Eurasian Economic Union