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Push for Customs Union Turns Friends to Foes

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British Prime Minister David Cameron took umbrage last week when President Vladimir Putin's spokesman Dmitry Peskov allegedly ridiculed Great Britain as a "small island." But Russia and Britain suffer from similar ailments: their inability to overcome their glorious imperial past and adjust to the modern world. Their minds are too 19th-century, but Russia far more so.

By pushing its plan to build a political Eurasian Union of neighboring states, the Kremlin is digging itself even deeper into a neo-imperialist hole, presumably to appeal to Russian nationalist sentiments. It is on an offensive to expand this entity of unwilling allies. This costs Russia large amounts of money, harms its economy and alienates the country from the rest of the world. Russia's immediate aim is to hinder Ukraine, Moldova and Georgia from signing free trade agreements with the European Union at its summit on the Eastern Partnership in Vilnius in late November. The Kremlin proceeds with threats and sanctions rather than trying to attract anybody.

Since Russia is comparatively protectionist, any country that joins the current Customs Union is compelled to raise its custom tariffs, which leads to trade diversion that reduces economic welfare. Since nobody wants to join voluntarily, Russia has to pay costly subsidies to any potential member. Ironically, the post-Soviet countries with the best relations with Russia are probably Estonia, Latvia and Lithuania because they have never joined any of Russia's post-Soviet alliances.

Nobody is closer to Russia than Belarus. Through subsidized oil and gas supplies, Belarus receives from 15 percent to 18 percent of its gross domestic product from Russia every year. Even so, Belarussian President Alexander Lukashenko's populist economic policies put the country in financial jeopardy in 2011. Russia had to bail it out with a financial package of some $20 billion over three years. Yet with huge and unjustified wage increases, Lukashenko has driven his country into a new financial crisis while refusing to sell enterprises to Russia. At present, Belarus and Russia have entered a trade war within the Customs Union.

No post-Soviet leader is a finer diplomat than Kazakh President Nursultan Nazarbayev. Given his country's great dependence on its northern neighbor, Nazarbayev always tries to get along with Russia. But its entry into the Customs Union hit Kazakhstan hard. It almost doubled its customs tariffs, compelling the Kazakh middle class to purchase substandard Russian cars rather than freely imported ones. Its tariff raises will block Kazakhstan's almost consummated membership of the World Trade Organization. Even Nazarbayev has put his foot down and said there will be no Eurasian Union.

On Tuesday, Putin called Armenian President Serzh Sargsyan to the Kremlin. Without warning, Putin and Sargsyan announced that Armenia would join the Customs Union. This looked like straightforward Russian blackmail. Since the ceasefire with Azerbaijan in 1994, Armenian troops occupy one-fifth of Azerbaijan's territory, but Azerbaijan has taken off economically thanks to oil and Armenia has become comparatively weaker. Russia guarantees Armenia's security, but recently it has also sold large volumes of arms to Azerbaijan.

Presumably, Putin told Sargsyan that Armenia had to join the Customs Union instantly. Otherwise, Russia would no longer guarantee Armenia's security. The Customs Union makes no

sense for geographically isolated Armenia, and it now has to abandon a comprehensive free trade agreement it concluded with the European Union in July.

Moldova has also concluded a free trade agreement with the EU and Russia's nationalist Deputy Prime Minister Dmitry Rogozin paid a visit. In his usual malicious fashion, he warned that the people in Transdnestr, which is occupied by Russian troops, might oppose an agreement with the EU. He also suggested the Moldovans might freeze this winter if they signed their EU agreement, implying that Russia may turn off its gas supply again. Needless to say, Moldova is hastily building a gas pipeline from Romania and is adamantly sticking to the EU.

Russia's main Eurasian battlefront is with Ukraine, which is the most important country at stake and the frontrunner in EU integration. In November 2011, Ukraine concluded negotiations with the EU on a deep free trade agreement and it has also concluded a political

Association Agreement with the EU. Both are supposed to be signed in Vilnius in November.

Ukrainian President Viktor Yanukovych's problem has been that the EU demands that Ukraine complies with European values. Until recently, it appeared as if he preferred to stay above the rule of law and keep former Prime Minister Yulia Tymoshenko in prison, but suddenly everything has changed thanks to Russia's offensive.

In July and August, Russia started a trade war against Ukraine. It picked key Ukrainian tycoons as its victims, gradually broadening its attack. In late July, Putin seemingly went to Ukraine just to insult Yanukovych, offering him nothing. He has resorted to standard Russian nationalist slurs, such as calling Russians and Ukrainians "one people" with "a common language."

Moscow is threatening Kiev with severe trade sanctions if Ukraine signs its agreements with the EU. Putin's economic adviser, Sergei Glazyev, said: "By signing an Association Agreement with the European Union, Ukraine would be depriving itself of its sovereign right on all issues of trade policy that we have handed over to the Customs Union. For us, Ukraine would stop being a strategic partner because it would be disappearing as an international partner, as an entity under international law because it will have to agree with all its actions on trade with the European Union."

Suddenly, Ukraine has no choice but to accept the EU demands, and Yanukovych understands that. "For Ukraine, association with the European Union must become an important stimulus for forming a modern European state," he said in his Independence Day speech last month. On Thursday, the Ukrainian parliament adopted a major reform package, including constitutional changes of the judicial system.

Today, only one important EU demand remains to be fulfilled: the release of Tymoshenko. Considering how concerned Yanukovych is about Russian aggression, her release has suddenly become plausible.

The Customs Union is a disaster for all involved, but most of all to Russia, which it isolates. Economically, its protectionist collection of semi-developed countries keeps all these economies back. Politically, Russia's relentless aggression to bring countries into its union turns potential friends into foes. In various ways, Russia has to pay for the costs it causes others, leaving it with the bill. Nobody suffers more from the Customs Union than Russia.

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