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INSTITUTE OF INTERNATIONAL RELATIONS AND POLITICAL SCIENCE
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Michael Belafi
Second Year

**Small States and the Eurasian Economic Union:
Armenia and Kyrgyzstan Compared**

MASTER'S THESIS

Advisor: Konstantinas Andrijauskas

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Summary

In English-language academic journals and news articles, the Eurasian Economic Union is often portrayed as a Russian reintegration project focused more on power, and much less on economics. In these assertions, the accession of small states like Armenia and Kyrgyzstan are often seen as being non-voluntary, with the results being that they will suffer economically. By using liberal intergovernmental theory, this work sets out to account for small state accession to the EAEU through a rationalist and liberal-economics based framework.

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List of Abbreviations

EAEU	Eurasian Economic Union
ECU	Eurasian Customs Union
EU	European Union
CET	Common External Tariff
CIS	Commonwealth of Independent States
CSTO	Collective Security and Treaty Organization
DCFTA	Deep and Comprehensive Free Trade Area
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
HDI	Human Development Index
IMF	International Monetary Fund
IR	International Relations
PPP	Purchasing Power Parity
WTO	World Trade Organization

Introduction

The creation of the Eurasian Economic Union (EAEU) in 2015 ushered in a new era of post-Soviet integration in the region, and this time it took on a distinctly economic identity. That being said, many in the West have seen this development as just another attempt by Russia to secure power in the post-Soviet space. In 2012, when speaking on the burgeoning Eurasian Economic Union, then Secretary of State Hillary Clinton called the proposals “a move to re-Sovietise the region” and added that “it’s going to be called a customs union, it will be called Eurasian Union and all of that... But let’s make no mistake about it. We know what the goal is and we are trying to figure out effective ways to slow down or prevent it.”¹ This animosity towards the EAEU has continued, and many observers and scholars in the West cannot look past the geopolitical to even consider the potential economic rationale of the Union.

The specific question to why Armenia and Kyrgyzstan joined the EAEU is overshadowed by the more general realist views of the Union as a geopolitical-regionalist ambition of Russia. Basic assumptions follow that: no country wants to join willingly, nations are instead coerced; that economic integration and regional growth are distant secondary motives to Russia’s reestablishment of power; and that economic growth due to the EAEU will be mild at best. These views are well asserted in the English-language literature. This is why the research question that I set out to answer is: ***How does a rationalist liberal economics-based approach account for integration into the Eurasian Economic Union, and have there been economic benefits for Armenia and Kyrgyzstan in joining?***

The crucial aim of this work is to rationalize Armenia and Kyrgyzstan’s accession to the EAEU in a liberal-economic based framework. The supportive aim of this work will then be to conduct research on various economic indicators that will help us understand if the two countries have benefited from joining the Union or not and will allow us to better understand why other small states may choose to join the EAEU.

The overall aim of this thesis is therefore focused on demonstrating how you can account for states accessions to the EAEU in a rationalist, and liberal-economics’ based point of view. It is

¹ Charles Clover, “Clinton vows to thwart new Soviet Union,” Financial Times, December 7, 2012. <https://www.ft.com/content/a5b15b14-3fcf-11e2-9f71-00144feabdc0>.

not meant to say the EAEU is the best option, nor that strategic and military concerns are not important, nor does it look to fully understand the ongoing integration process of the EAEU.

Western Literature on Eurasian Economic Union

Beginning in 2013, there was a flurry of academic writing about the negative aspects of the future EAEU. Here is just a very small sampling of some general assumptions that were made and are still being made. An early detractor of the project was Alexey Malashenko, former chair of the Carnegie Moscow Center's Religion, Society, and Security Program. In 2014, after the signing of the treaty that gave birth to the EAEU, Malashenko stated that "although the word 'economic' figures prominently in the organization's title, no one doubts the treaty's political component," and went on to describe Russia's main goal as making Belarus and Kazakhstan more dependent on them, while further eluding to the fact that the whole Union was probably not economically viable.²

The 2014 book 'Putin's Grand Strategy: The Eurasian Union and Its Discontents' is another example of emphasising the political aspects over the economic. One of the chapters authors, Richard Weitz, even eludes to Russia's intentions probably being aimed at recreating the Soviet Union in a different form.³ Though the book provides a significant amount of economic data, the authors generally conclude that the economic effects of the Union will be relatively small, or even negative. Perhaps one of most sensationalist articles on the EAEU came from the young scholar Samir Balakishi, who wrote that the reason the EAEU was created was due to Vladimir Putin being "determined to cement Moscow's hegemonic status in the near abroad, particularly in the South Caucasus," and further describing the EAEU as "mainly an anti-Western civilizational project" with the sole aim of balancing against the United States and the European Union, and not necessarily being an economic union at all.⁴

Harvard professor Bruno S. Sergi took a slightly more balanced approach between the economic and geopolitical aspects of the EAEU. Sergi stated that "Russia's greatest aim... was to restore

² Alexey Malashenko, "The Problems for the Eurasian Economic Union Are Just Starting," Carnegie Moscow Center, June 5, 2014. <https://carnegie.ru/commentary/55805>.

³ S. Frederick Starr and Svante E. Cornell, ed. Putin's Grand Strategy: The Eurasian Union and Its Discontents (Washington D.C.: The Central Asia-Caucasus Institute, 2014): 36.

⁴ Samir Balakishi, "Eurasian Economic Union: Russia's New Foreign Policy in the South Caucasus." Maastricht School of Management Working Paper No. 2016/1 (2016).

[its] economic influence on the post-Soviet space,” but also that the EAEU is Russia’s best attempt to date “to recreate a superpower in the region under more modern political outlook and economic strengths.”⁵ From his 2015 perspective, Sergi admits that the economic aspects of the Union are hard to tell, but states that the creation of the union is impressive, and serves as “a powerful illustration of what Putin has envisioned for the post-Soviet space as the Union has been partially motivated by Russia’s goal of self-aggrandizement.”⁶

Looking at works that specifically deal with the economics of Armenia and Kyrgyzstan, the results yield a somewhat more balanced outcome, though the political aspects of the EAEU and the belief that the economics of the Union are not viable tend to still be the majority. The Center for Strategic and International Studies issued an extensive study on Armenia within Eurasia in 2016. Though the study is somewhat neutral on the economic aspects, it warns that “Moscow provides Yerevan a lifeline... but at the price of keeping Armenia almost wholly in its orbit,” while also emphasizing that “Armenia has strategic and economic dependence on Russia.”⁷ A World Bank report from 2014 took a more critical view of EAEU accession. Part of the report was dedicated to looking at the potential economic effects, and the conclusion pointed to negative value for trade creation outside the EAEU, marginal trade increase within the EAEU, and a generally negative impact due to a new tariff system.⁸ The World Bank report was also suggestively named “Armenia: A Cloudy Outlook.”

In the case of Kyrgyzstan, most scholars focus on remittances and the re-export trade. An International Monetary Fund (IMF) report on Kyrgyzstan from 2016 deals specifically with remittances. The report demonstrates that although remittances are important to the country, they are a volatile source of wealth and that the long-term effects of remittances are highly debated. The IMF concludes that remittances will either elevate poverty, boost consumption, and enhance investment opportunities, or remittances will cause dependence, cause bad allocation of capital, or generate an appreciation of the real exchange rate that could harm the tradable goods sector

⁵ Bruno S. Sergi, “Putin’s and Russian-led Eurasian Economic Union: A hybrid half-economics and half-political “Janus Bifrons”,” *Journal of Eurasian Studies* 9 (2015): 54.

⁶ Sergi, “Putin’s and Russian-led Eurasian Economic Union,” 60.

⁷ Andrew C. Kuchins, Jeffrey Mankoff, and Oliver Backes, *Armenia in a Reconnecting Eurasia: Foreign Economic and Security Interests* (New York and London: Rowman & Littlefield, 2016): 42.

⁸ World Bank Group, “Armenia: A Cloudy Outlook,” *Armenia Economic Report* no. 6, (2014): 21.

and the countries competitiveness.⁹ Anna Alekseyeva stresses similar realities on Kyrgyz remittances, demonstrating that out-migration has caused a serious ‘brain-drain’ in Kyrgyzstan, especially in the less developed south of the country, which strips the nation of the most important segment of its population, therefore stunting the economy.¹⁰ In essence, Alekseyeva is therefore taking the stance that remittances are not good for Kyrgyzstan in the long run. All that being said, the IMF report estimated that about 29% of Kyrgyz Gross Domestic Product (GDP) came from remittances in 2014, and nearly all those remittances come from Russia; not something a country can ween itself off of overnight.¹¹

The other significant industry is that of re-export. The industry was based on the fact that due to having low tariffs, Kyrgyz merchants would import cheap goods from China, skirt export tariffs by labelling the products as Kyrgyz-made, and then re-export them mostly to Russia, making profit on the margins. Matteo Fumagalli points specifically to the hike in tariffs that occurred when joining the EAEU, and estimated that joining the EAEU would jeopardize the major re-export market that Kyrgyzstan depends on, and lead to a loss of jobs, wealth, and possibly social order, all for the chance at future benefits that he does not think will pan out.¹² Fumagalli also eludes to a desperate and frustrated situation in Kyrgyzstan, stating “Bishkek’s elites have evidently run out of options and made the final push towards the Eurasian Union” as they had no other choice.¹³

Though academic studies have tilted towards prognosing the economic benefits of the EAEU as mild at best, elevating the strategic aspect of the Union to levels disproportionate to the economic, and generally seeing the members of the organization as unwilling pawns in a Russian game, the mainstream English-language news articles have been even more dramatic in these assertions. For example, a Foreign Policy article from 2015 entitled “Putin’s Eurasian Dream Is Over Before It Began,” stated that “nothing about the plan will work,” and that “the economic bloc will likely fail to deliver on its promises of breathing new life into its members’ industries

⁹ Claire Gicquel, et Al., “Kyrgyz Republic, Selected Issues,” IMF Country Report 16, no. 56 (2016): 35-36.

¹⁰ Anna Alekseyeva, “Kyrgyzstan and the Eurasian Economic Union: implications for migration,” *Perspectives on Central Asia* 5 (2014): 10.

¹¹ Gicquel, et Al., “Kyrgyz Republic, Selected Issues,” 34.

¹² Matteo Fumagalli, “Kyrgyzstan 2014: The painful march towards the Eurasian Union as the lesser evil?” *Asia Maior* 25, (2014): 5-6.

¹³ *Ibid*, 6.

and stimulating much-needed economic growth.”¹⁴ Another article in *The Diplomat* from 2017 claimed that there “is little to inspire confidence that the Eurasian project is capable of delivering on its grand promises,” and that the EAEU “may well be the most disappointing post-Soviet group extant,” which is quite a claim.¹⁵ Since these points of views are quite pervasive amongst the most read English-language foreign policy oriented news on the matter, than these views can be assumed to be the most common amongst casual observers of the EAEU.

Small States

On the matter of small states, there is some debate on what exactly these are. The World Bank currently defines a small state as a nation with less than 1.5 million citizens.¹⁶ The Singapore ‘Forum of Small States’ however classifies small states as having a population less than 10 million, therefore encompassing half the world’s nations.¹⁷ The best definition of small states however comes from an early work of the esteemed international relations theorist, Robert O. Keohane. Keohane breaks the world into 4 categories: ‘System Determining’ states play a pivotal role in world politics and can act alone on the world stage, ‘System Influencing’ states cannot dominate the world on their own, but can significantly influence events, ‘System Effecting’ states can expect to influence the world when in alliance with others, and ‘System Ineffectual’ states can do very little to influence the system-wide forces that affect them.¹⁸ Keohane further states that “a psychological dimension must therefore be added for the sake of clarity as well as in recognition of the fact that ‘objective reality’ does not determine a state’s behavior directly,” and goes on to define a small state as “a state whose leaders consider that it can never, acting alone or in a small group, make a significant impact on the system.”¹⁹ Or as Keohane’s contemporary, Robert L. Rothstein put it, for a country to be a ‘small state’, it must think of itself

¹⁴ Reid Standish, “Putin’s Eurasian Dream Is Over Before It Began,” FP, January 6, 2015. Accessed November 7, 2018. <https://foreignpolicy.com/2015/01/06/putins- Eurasian-dream-is-over-before-it-began/>.

¹⁵ Standish, “Putin’s Eurasian Dream Is Over Before It Began.”

¹⁶ The World Bank, “World Bank Group Engagement with Small States: Taking Stock.”

<http://www.worldbank.org/en/country/smallstates/publication/engagement-with-small-states-taking-stock>.

¹⁷ Lee Kuan Yew School of Public Policy, “The Forum of Small States awaken.”

<https://lkyspp.nus.edu.sg/gia/article/the-forum-of-small-states-awaken>.

¹⁸ Robert O. Keohane, “Lilliputians' Dilemmas: Small States in International Politics,” *International Organization* 23, no. 2 (1969): 296.

¹⁹ Keohane, “Lilliputians' Dilemmas”, 296.

as such.²⁰ According to these views, I determine that Armenia and Kyrgyzstan fit very well into the category of small states, and nearly all countries that the EAEU is realistically targeting for potential expansion are small states as well.

Research Problem & Goals and Aims

The research problem fundamentally derives from the fact that the majority of English language literature that revolves around the EAEU takes on a realist and geostrategic narrative, and overlooks, is dismissive of, or segregates to second-class status, the aspect that potential economic gains play on the decisions of these countries to join the Union. Furthermore, Russia is generally seen as the all controlling power in the region, and the small states of Armenia and Kyrgyzstan in particular, are not seen as rational actors whatsoever, but rather as nations who do not have a free will and are so influenced and controlled by Russia that they essentially have no decision-making abilities of their own. In this sense, most realist-based works about Eurasian integration lack a basic tenant of realism: that all states are rational actors.

Therefore, the main goal of this work is to give a more balanced view of the economic realities of the EAEU by examining Armenian and Kyrgyz accession, as well as to treat these nations as rational actors on the world stage, and not pawns in a game. In this regard, the main question being asked is: How does a rationalist liberal economics-based approach explain integration into the Eurasian Economic Union? Supplemented by the other main concern: Have there been economic benefits for Armenia and Kyrgyzstan in joining the EAEU?

A secondary question of concern for this work, and something that other scholars should further build on, is: What can the integration of Armenia and Kyrgyzstan tell us about the potential further integration of small states into the EAEU?

Once again, the overall aim of this thesis is to show that you can look at countries accessions to the EAEU in a rationalist, and liberal-economics' based point of view. It is not meant to say the EAEU is the best option, or that strategic and military concerns are not important (they are). Also, in demonstrating that the overall economic benefits for the two countries have so far been

²⁰ Robert L. Rothstein, "Alliances and Small Powers (New York and London: Columbia University Press, 1968), 21.

mostly good, I am attempting to show relevant economic indicators that point to this being a fact, and not necessarily why or how the EAEU has made the economy better.

Hypotheses & Methodology

After having conducted my initial research, and looked into the raw data for both Armenia and Kyrgyzstan, the ideas I have drawn would lead me to believe that:

- 1) Armenian and Kyrgyz accession to the Eurasian Economic Union can be seen through a rational liberal economics-based approach, and
- 2) The overall economic benefits of joining the Eurasian Economic Union have been mainly positive for Armenia and Kyrgyzstan

Furthermore, another interesting point of research that I believe will be fully borne out during my research, and which may prove interesting to some for further examination, is that:

- 3) After integration into the Eurasian Economic Union, Armenian and Kyrgyz economic dependence on Russia will not have significantly increased.

The methodology chosen for conducting this research is a Comparative Case Study, that will be qualitative. Though part of the thesis will deal heavily with government issued statistics on various economic indicators, I am not building any sort of statistical model, and this quantitative data will be looked at descriptively. The two cases being compared are of course Armenia and Kyrgyzstan, but within these cases the comparisons will be specifically made between 1) alternatives in regard to joining the EAEU, 2) domestic preference formation followed by the interstate-bargaining and their outcomes, and 3) a variety of economic indicators that will point to the success or failure of EAEU accession to date. Therefore, the dependant variables in this study will be both Armenia and Kyrgyzstan, while the independent variables will be the economic indicators that show if accession has been a success or not.

The specific dates being looked at are 2012-2018. The latter date is used to account for the most recent data possible, and the former date was chosen due to its importance in that it was not only

the year that Armenia and the EU started to negotiate the Deep and Comprehensive Free Trade Area agreement (DCFTA), but it was also the first year that Armenia and Kyrgyzstan had fully recovered from the global recession of 2008-2009. Therefore, most economic data from before the year 2012 would be distorted until as far back as 2007. Some economic events and data from early 2019 may be included when appropriate, as are some relevant statistics from 2011.

Furthermore, Armenia and Kyrgyzstan are being compared because not only are they the two smallest members of the EAEU, but they also have the most similar economies, they are the only two countries not bordering Russia, and they are the two members that joined after the original three Customs Union nations of Russia, Kazakhstan and Belarus. Aside from simply an Armenian-Kyrgyz comparison, within each respective section each country will casually be compared to relevant small states that are outside of the EAEU. This is done mostly to put each country's economic data into perspective, but it is also done to demonstrate the economic statistics of small states within the EAEU against small states outside of the Union.

1. Analytical Framework

The analytical framework will be split into 4 chapters. The first will introduce the theoretical background, my chosen theory, followed by a brief overview of post-Soviet integration organizations. The second will deal with Armenia, beginning with their recent history with Russia, their bargaining position, their bargaining outcome, and the economic results of Armenia being in the EAEU. This will then be followed by the third chapter, which has the same topics as the previous, but focused instead on Kyrgyzstan. Following this will be the fourth chapter which will give a comparison of Armenian and Kyrgyz accession and economic results.

1.1. Theoretical Background

When dealing with a theoretical model that focuses on regional integration, most scholars will see themselves following a theory that was first developed to explain the integration process of the European Union (EU), and which is now used broadly to explain other cases of regional integrations. Before choosing a specific theory, the overarching question that one must first answer is: do we believe the Eurasian Economic Union is supranational, or intergovernmental?

The key difference between supranational and intergovernmental derives from how integration is perceived. Supranationalists would argue that in most cases, the institutions that the member states set up will be self-reinforcing, and will lead to further integration that will be out of the member states control, and that these changes will have a transformative impact on the identity of member states.²¹ On the other hand, intergovernmentalists believe that integration should be, and is, in the hands of the member states alone, and only they will choose the speed and character of further integration.²² In this case, I would place Armenia and Kyrgyzstan firmly in the intergovernmental camp, as will be further demonstrated below.

The two dominant integration theories are Neo-Functionalism, and Intergovernmentalism. Neo-functionalism was theorized in 1958 by Ernst Haas. Neo-functionalism came from the supranational school of thought, and believes that economic integration is self-sustaining, and provides the theory of ‘spillover’ as explanation.²³ Spillover is explained as the initial steps toward integration triggering “endogenous economic and political dynamics” that lead to further cooperation.²⁴

There are two types of spillover, functional spillover and political spillover. Functional spillover “occurs when incomplete integration undermines the effectiveness of existing policies, both in areas that are already integrated and in related sectors of the economy, thereby creating pressure for deepening and widening policy co-ordination.”²⁵ Functional spillover is economic, and it is said to reflect the connected nature of today's economies, in which government intervention in one sector engenders economic distortions elsewhere. Political spillover on the other hand, “occurs when the existence of supranational organizations sets in motion a self-reinforcing process of institution-building” and requires technocratic oversight by supranational authorities who inevitably gain a certain measure of autonomous initiative and push further integration.²⁶

²¹ Frank Schimmelfennig and Berthold Rittberger, “Theories of European Integration: assumptions and hypotheses” in *European Union: Power and Policy-Making* (London: Routledge, 2006): 75.

²² Schimmelfennig and Rittberger, “Theories of European Integration,” 75.

²³ Ernst B. Haas, *The Uniting of Europe*, (Stanford: Stanford University Press, 1958).

²⁴ Andrew Moravcsik, “Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach,” *Journal of Common Market Studies* 31, no. 4 (1993): 474-475.

²⁵ Moravcsik, “Preferences and Power in the European Community,” 475.

²⁶ *Ibid.*

The concept of intergovernmentalism was developed as an explanation for European integration which responded to the perceived weaknesses in neo-functionalism.²⁷ Intergovernmentalism was created by Stanley Hoffman in 1965, and Hoffman rejected the idea that supranationalism would be an “automatic apparatus that because of economic interests would lead to integration,” and believed instead that states themselves controlled the process of regional integration.²⁸

Intergovernmentalism is a variant of rationalist institutionalism and the main assumption is therefore ‘rational choice,’ which would say that actors calculate the utility of alternative courses, and choose the one that maximises their utility the most. Rationalist institutionalism then seeks to explain the creation and design of international institutions as a “collective outcome of interdependent rational state choices and intergovernmental negotiations in an anarchical context.”²⁹ Within intergovernmentalism, Hoffman also reflects on the fact that integration will not occur in areas of so called ‘high politics’ because they touch on key aspects of state sovereignty, like security and foreign affairs, and therefore there is no unity between states on such issues.³⁰

Intergovernmentalism is described as having some main tenets, which Andrew Moravcsik used as the foundation to create his own theory, liberal intergovernmentalism (more on that later). First, Intergovernmentalism is described as being a variant of rationalist institutionalism in international relations theory specifically tailored to explain European integration.³¹ Second, that European integration is close enough to general international politics, and the European Union is sufficiently like other international institutions, that it can be beneficially studied and explained in an IR perspective.³²

The third fundamental is a rationalist framework, “which entails a general explanatory program and basic action-theoretic assumptions.”³³ The core ‘action-theoretic assumption’ is rational choice: actors calculate the utility of alternative courses of action and choose the one that

²⁷ John McCormick, *Understanding the European Union*, (Basingstoke: Palgrave Macmillan, 2008), 11.

²⁸ Stanley Hoffmann, *The State of War: Essays on the Theory and Practice of International Politics*, (New York: Praeger, 1965).

²⁹ Schimmelfennig and Rittberger, “Theories of European Integration,” 76-77.

³⁰ Stanley Hoffmann, “The European Process at Atlantic Crosspurposes,” *Journal of Common Market Studies* 3, no. 1 (1964): 90.

³¹ Schimmelfennig and Rittberger, “Theories of European Integration,” 76.

³² *Ibid*, 77.

³³ *Ibid*, 76.

maximises their utility under the circumstances. Rationalist institutionalism in IR theory then seeks to explain the establishment and design of international institutions as a “collective outcome of interdependent (‘strategic’) rational state choices and intergovernmental negotiations” in an anarchical context.³⁴ Fourth, Moravcsik would describe intergovernmentalism as generally assuming that governmental preferences are “exogenous”. This means that they are not formed or changed in the course of international negotiations, or by international institutions; Governments enter negotiations with predefined interests and leave them with the same interests.³⁵

1.2. Liberal Intergovernmentalism Theory

When it comes to the ‘state centric’ views of intergovernmentalism – where states preferences are the key determinant in further integration – we can see that intergovernmentalism is heavily influenced by the realist school of international relations. This of course comes from a key principle of realism: that states are the main actors in international politics, and that they act in an anarchic environment.

Intergovernmentalism was mainly created to counter neo-functionalism, but as time went on and as the EU continued to be formed, both theories began to be outdated. This is where liberal intergovernmentalism came into play. The theory was created by Andrew Moravcsik in 1991, and he continued to build on his theory well into the 2000s. Moravcsik puts forward the theory that European integration since 1955 has three essential characteristics: 1) a liberal version of the development of national preferences, 2) an intergovernmental explanation for the relative bargaining power of states, and intergovernmental bargaining theory, and 3) institutional choice supported by the desire to increase the credibility of interstate commitments.^{36 37} Moravcsik agrees with intergovernmentalist theory that integration does not “supersede or circumvent” states wills, but it instead reflects on it.³⁸ Therefore, where liberal intergovernmentalism differed from intergovernmentalism was in the emphasis of the domestic interests over the national, and it

³⁴ Ibid, 77.

³⁵ Schimmelfennig and Rittberger, “Theories of European Integration,” 77.

³⁶ Jay Crush, In what ways does liberal intergovernmentalism differ from traditional intergovernmentalism?, (Kent: University of Kent, 2013): 3.

³⁷ Andrew Moravcsik, The Choice for Europe: Social Purpose and State Power from Messina to Maastricht, (Ithaca: Cornell University Press, 1998), 9.

³⁸ Moravcsik, The Choice for Europe, 4.

is here where Moravcsik invokes a ‘liberal commercial’ or ‘pluralist’ approach with regards to national policy preference formation.”³⁹

On the matter of high and low politics, Moravcsik rejects this notion, and he explains it through a ‘two-level game theory’ introduced by Robert Putman. As this theory goes: states both engage in the domestic sphere, where domestic groups pursue their interests by pressuring the government, and at the same time in the international sphere, where the state adopts these pressures as the national interest (after aggregating the various positions) to satisfy domestic groups.⁴⁰ Therefore, following the liberal commercial-pluralist approach, Moravcsik says that these groups “compete for political influence” through “domestic political conflict” and then “new policy alternatives are recognized by governments” and adopted as the national interest.⁴¹ ⁴² Moravcsik further argues that “there is no hierarchy of interests” and that instead of revolving around high and low politics, national interests reflect issue specific areas of concern to various domestic (societal) constituents.^{43 44}

While rejecting Hoffmann’s distinction between high and low politics, Moravcsik offers a new explanation of intergovernmental bargaining. Moravcsik takes a realist style approach when stating that the results of intergovernmental bargains are “shaped by the relative power of nation-states.”⁴⁵ However, where he differs is that he believes that overall power is not the main factor, but instead bargaining power is issue specific, and is determined by the relevant issue and area of integration.⁴⁶ Therefore, a state that wants integration the most, may be the most willing to give the most concessions to see that integration happen.⁴⁷

Regarding the creation of institutional choice, Hoffman’s realist inspired intergovernmentalist approach would say that states would only transfer powers to supranational institutions if they

³⁹ European Studies, “Intergovernmentalism & Liberal Intergovernmentalism,” Accessed May 8, 2019. <http://hum.port.ac.uk/europeanstudieshub/learning/module-4-theorising-the-european-union/3-intergovernmentalism-liberal-intergovernmentalism/>.

⁴⁰ Robert Putnam, “Diplomacy and Domestic Politics: The Logic of Two-Level Games,” *International Organisation* 42, no. 3 (1988): 432.

⁴¹ Jay Crush, In what ways does liberal intergovernmentalism differ from traditional intergovernmentalism?, 5.

⁴² Moravcsik, “Preferences and Power in the European Community,” 481.

⁴³ Moravcsik, *The Choice for Europe*, 6.

⁴⁴ Jay Crush, In what ways does liberal intergovernmentalism differ from traditional intergovernmentalism?, 5.

⁴⁵ Moravcsik, *The Choice for Europe*, 7.

⁴⁶ Schimmelfennig and Rittberger, “Theories of European Integration,” 82.

⁴⁷ Ibid.

would receive “net gains in autonomy and influence” in return.⁴⁸ Moravcsik instead argues that power transfers to supranational institutions are done to reap the rewards won in the bargains, and pass on the enforcement of these potentially beneficial or unbeneficial agreements to a higher authority.⁴⁹

1.3. A History of Post-Soviet Integration

A primary goal of Russia is to maintain their place as one of the world’s great powers. And it is said that “the issue of (re-)integration of the post-Soviet space emerged exactly when new Russia emerged itself.”⁵⁰ This was clearly laid out by President Putin in a 2003 during a speech to the Duma where he stated that “Russia’s historic fate over these thousand and more years” was to maintain “a state spread over such a vast territory and preserving a unique community of peoples while keeping up a strong presence on the international stage.”⁵¹ The scope of post-Soviet integration is quite broad, and overlaps significantly. This integration began literally at the moment the Soviet Union ceased to exist.

The Commonwealth of Independent States (CIS) agreements were signed in Minsk in December 1991, and then again in Moscow in January 1992.⁵² Following this, there were further agreements in 1993 and 1994 for CIS states (which de facto or de jure included every former Soviet state except the three Baltic nations at the time) to create an economic union, and lead to a common economic space.⁵³ It is widely seen as a failure of Russia to have successfully turned the CIS into an actual free trade zone, instead of the mostly symbolic organization which the CIS is today.

A slightly more substantive post-Soviet integration organization is the Collective Security and Treaty Organization (CSTO). On May 15, 1992, most members of the CIS signed the CSTO

⁴⁸ Ibid, 83.

⁴⁹ Moravcsik, *The Choice for Europe*, 3.

⁵⁰ Evgeny Vinokurov, “Russian Approaches to Integration in the Post-Soviet Space in the 2000s,” in *The CIS, the EU and Russia: The Challenges of Integration*, edited by Katlijn Malfliet, Lien Verpoest, and Evgeny Vinokurov, (London: Palgrave Macmillan, 2007): 22.

⁵¹ David Svarin, “The construction of ‘geopolitical spaces’ in Russian foreign policy discourse before and after the Ukraine crisis,” *Journal of Eurasian Studies* 7 (2016): 131.

⁵² Vinokurov, “Russian Approaches to Integration in the Post-Soviet Space in the 2000s,” 26.

⁵³ Ibid.

treaty which “obliged the signatories to assist each other against external aggression.”⁵⁴ Russia saw the organization as a way to stay militarily relevant in the former Soviet states, and the various former Soviet states saw the organization as advantageous due to the collective security framework, the promises by Russia to “respect their national sovereignty, territorial integrity, and control of the military assets that they inherited from the Soviet era,” as well as to keep their access to Russia’s arms and military technology.⁵⁵ In 2002, a number of CSTO nations signed a new treaty which remained much the same as the old, but aimed to increase cooperation and interoperability, making it more of a North Atlantic Treaty Organization type organization, than just a simple military alliance.⁵⁶ Although the CSTO is seen in the West as no more than “a Russian-led organization that supports Moscow’s drive to strengthen its influence in the former Soviet Union,” it has achieved a good degree of cooperation and practical functionality on the matters of counter-terrorism, peacekeeping, interoperability, and harmonization of members doctrine.⁵⁷ The CSTO can therefore be considered as one of the better examples of post-Soviet integration organizations.

The latest post-Soviet integration project preceding the EAEU, and the most relevant to this work, is the Eurasian Customs Union (ECU) and the earlier Eurasian Economic Community. The ECU was created in 2010 by Russia, Belarus, and Kazakhstan, and at the time demonstrated a big leap forward in post-Soviet regional integration in regard to economics.⁵⁸ This economic project had been in the works since 1996, yet for many years the negotiations were stalled. The ECU’s objective was to establish a ‘Single Economic Space’, and this was somewhat achieved.⁵⁹ The ECU (and the EAEU which it grew into), are heavily based on an EU framework. The ECU set up a Commission, whose main task is to ensure the proper functioning and development of

⁵⁴ Richard Weitz, *Assessing the Collective Security Treaty Organization: Capabilities and Vulnerabilities*, (United States Army War College, 2018): 2.

⁵⁵ Weitz, *Assessing the Collective Security Treaty Organization*, 3.

⁵⁶ Weitz, *Assessing the Collective Security Treaty Organization*, 3.

⁵⁷ *Ibid*, 4.

⁵⁸ Katharina Hoffmann, “Eurasian Union—a New Name for an Old Integration Idea,” *Russian Analytical Digest* No. 112 (2012): 3.

⁵⁹ Hoffmann, “Eurasian Union—a New Name for an Old Integration Idea,” 3.

the ECU at the supranational level;⁶⁰ various ministries (either within the commission itself, or as a separate body), an associated development bank, and other intergovernmental organs.

Though this was a substantial feat in post-Soviet integration, not all of the associated nations were fully willing to give up national rights in certain sectors, and therefore full integration was hindered.⁶¹ Nonetheless, the ECU was an important step in regional economic integration, and led directly to the creation of the EAEU, which is continuing on this integrationist path today.

2. Armenia

In this section we will look at Armenia within the EAEU. This will begin with a comprehensive look at Armenia's relations with Russia, their bargaining position, the outcome of the bargaining, then their actual economic results.

2.1. Recent Armenian-Russian Relations

A unique feature about Armenia is that, unlike the former countries of the Eastern Bloc and the Baltic states, or to a lesser extent countries like Moldova and Georgia, Armenia did not “follow a clear path towards integration with the European Community, and continued to take advantage of the existing infrastructure, legal standards and economic ties with Russia.”⁶² This of course, was due to war. Since the collapse of the Soviet Union, Armenia, and the Caucasus region in general, have been stuck in a state of frozen conflicts. In Armenia's case, the country had a war with Azerbaijan following the breakup of the Soviet Union over the region of Nagorno-Karabakh.⁶³ This conflict is still unresolved to this day and plays a significant role in the relations Armenia has with Russia. Since the accession to power of Vladimir Putin in 2000, “Russia has committed to a long-term effort to restore something like its traditional dominant status [in Armenia, and in

⁶⁰ Igor Krotov, “Customs Union between the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation within the framework of the Eurasian Economic Community,” *World Customs Journal* 5 No. 2 (2011): 130.

⁶¹ Hoffmann, “Eurasian Union—a New Name for an Old Integration Idea,” 3.

⁶² European Parliament. Pasquale De Micco. Policy Department, Directorate-General for External Policies. *When choosing means losing: The Eastern partners, the EU and the Eurasian Economic Union*. Brussels: 2015.

⁶³ R. Craig Nation, “Russia and the Caucasus,” *Connections* 14, No. 2 (2015): 2.

the Caucasus overall].”⁶⁴ And because Armenia sees Russia as a guarantor of the country’s peace in a hostile neighbourhood, Russia wields a lot of influence over Armenia, and the country is by far the closest to Russia in the region.

On the economic front, remittances from Armenian workers in Russia play a large role in the Armenian economy, Russia dominates the energy industry in Armenia as well, and about 80 % of the Armenian pipeline system and national gas company are owned by Russia’s Gazprom.⁶⁵ Russia also owns controlling interest in various important sectors of the Armenian economy including railways, mining, telecommunications and the previously mentioned energy infrastructure sector.⁶⁶

On the strategic front, it is well known that Russia is the primary supplier of arms to both Armenia and Azerbaijan, but Russia has played a more political and social role when it comes to Armenia, positioning themselves as Armenia’s primary diplomatic supporter, and as a sort of ‘big brother’.⁶⁷ Armenia and Russia have “significant historical and cultural ties, and their positions on most international issues are closely aligned.”⁶⁸ The Russians also have a permanent military base in Armenia’s second largest city, Gyumri, where they station 5,000 soldiers,⁶⁹ and “on several occasions Russian officials have hinted that if Azerbaijan opts to use military force against Armenia, Russia will intervene on its behalf.”⁷⁰

It is therefore quite clear that Russia holds a dominant position within the Armenian economy, and it is said that “as long as Armenia feels threatened by Azerbaijan it will remain strategically dependent upon Moscow.”⁷¹ It is also claimed by some that “Russian pressure linked to the economic and security situation in Nagorny-Karabakh made the signing [of the DCFTA] impossible” for Armenia.⁷² This therefore leads us to the question: if Armenia is so wholly

⁶⁴ Nation, “Russia and the Caucasus,” 2.

⁶⁵ Heidemaria Gürer, “Return to Babel: The Race to Integration in the Southern Caucasus,” *Connections*, 14, No. 2 (2015): 102.

⁶⁶ Nation, “Russia and the Caucasus,” 9.

⁶⁷ Nation, “Russia and the Caucasus,” 8.

⁶⁸ *Ibid.*, 9.

⁶⁹ Gürer, “Return to Babel: The Race to Integration in the Southern Caucasus,” 102.

⁷⁰ Nation, “Russia and the Caucasus,” 9.

⁷¹ *Ibid.*

⁷² Gürer, “Return to Babel: The Race to Integration in the Southern Caucasus,” 102.

dependant on Russia for its economy and security, why would the Armenians even bother trying to negotiate with the EU in the first place?

2.2. Armenian Bargaining Position

When Armenia abandoned its long-negotiated treaty with the EU, many in the West were swift to claim that this was all due to overwhelming Russian pressure, and that it was a terrible choice for Armenia. Armenia however did not join the Eurasian Economic Union (EAEU) because of Russian pressure alone, but due to real economic benefits that it perceived it could get from Russia in return for joining the EAEU, as well as underlying strategic necessities. We know that liberal intergovernmentalist theory would stress that national governments take international positions based on the pressure they garner from groups in their society. These domestic groups influence the government, and the government then aggregates all the public opinions to come up with one national policy. It is important then to look at what groups in the Armenian society thought about the Eurasian and EU course.

First, we will look into what the public perception of the EAEU was within Armenia. According to Eurasian Development Bank Integration Barometer data from 2013, about 67% of Armenians supported integration, and only 5% completely opposed it.⁷³ Polling by more neutral sources also revealed a positive opinion, but maybe not as enthusiastic as the Eurasian Development Bank's data would lead you to believe. A Gallup poll in 2017 reveals that 42% of Armenians believe the EAEU is beneficial, while only 17% believe it does the country harm. Another large segment of the population within the Gallop poll is neutral on the matter.⁷⁴

Aside from the opinion polls, the Armenian political and business elite were always leaning towards the EAEU, even when negotiating with the EU. In 2013, the Armenian President at the time stated that due to the fact their other CSTO partners were joining the EAEU, it would be “unfeasible and inefficient to stay away from the relevant geo-economic area,” and that it was a “rational decision” to eventually join the EAEU.⁷⁵ Much of the Armenian business class also

⁷³ Anthony Rinna, “Yerevan's Choice: Armenia and its Integration into the Eurasian Customs Union,” *Iran & the Caucasus* 18, No. 4 (2014): 396.

⁷⁴ Gallup, “Eurasian Union More Benefit Than Harm to Member States,” Accessed 5 November 2018. <https://news.gallup.com/poll/231383/eurasian-union-benefit-harm-member-states.aspx>.

⁷⁵ Vahram Ter-Matevosyana, et al. “Armenia in the Eurasian Economic Union: reasons for joining and its consequences,” *Eurasian Geography and Economics* 58, no. 3 (2017): 340.

supported the U-turn in Armenia's integration process, due to high standards and tougher competition in the EU market that Armenian products would struggle to confront, despite lower tariffs.⁷⁶ In essence, Armenia's elites were thoroughly entrenched in a system that benefited them, and were therefore adverse to any possible change. The political cost of conforming to EU demands would be higher in Armenia than in some other EU aspiring nations and, more particularly, "EU requirements related to human rights, the rule of law and good governance are unattractive to the incumbent authorities".⁷⁷ In fact, Russia knew of these extra costs Armenia would have to undertake to conform to EU standards, and they offered some Armenian companies the permission to export meat and other food to Russia before Armenia even became part of the EAEU.⁷⁸

If, for obvious security, economic, and political reasons, the Armenian elite always intended to go the way of the EAEU, then why did they go through long-term and in-depth negotiations with the EU? This can again be explained by liberal intergovernmentalism and its intergovernmental bargaining theory.

Trade interdependence between Armenia and the EU was not the strongest, Armenia at the time did not even fully use up its existing export quota under the enhanced General System of Preferences agreement.⁷⁹ However, after many months of negotiations, Armenia was on the precipice of signing the DCFTA, and would have received tangible benefits. When negotiating the DCFTA, the EU's main promises came in the form of future economic growth through increased trade between Armenia and Europe, along with various reforms that would have helped grow the economy. These promises of reforms and future gains came with a substantial €1-3 billion worth of foreign direct investment, but most of this would have been in the form of grants for the "development of democratic institutions."⁸⁰

Armenia's situation is generally presented as a nation that was about to take an EU-centered integration course, but at the last second "Russia forced Armenia to reverse its initial decision,"

⁷⁶ Ter-Matevosyana, et al. "Armenia in the Eurasian Economic Union, 351.

⁷⁷ Laure Delcour & Kataryna Wolczuk, "The EU's Unexpected 'Ideal Neighbour'? The Perplexing Case of Armenia's Europeanisation," *Journal of European Integration* 37, no. 4 (2015): 494.

⁷⁸ Laure Delcour, "Multiple external influences and domestic change in the contested neighborhood: The case of food safety," *Eurasian Geography and Economics* 57, No. 1 (2016): 49.

⁷⁹ Delcour & Wolczuk, "The EU's Unexpected 'Ideal Neighbour'," 495.

⁸⁰ Rinna, "Yerevan's Choice," 397.

and that “Russia’s strategic use of Armenia’s security vulnerability in regard to Azerbaijan...forced Yerevan’s hand.”⁸¹ Instead, I present a case in which Armenia knew full well the security and strongly Russian-economic linked situation it was in, and used the DCFTA negotiations A) to actually join if they could, but more realistically, B) to get concessions out of Russia where they could in the process of joining the EAEU, which they determined they would probably have to do for rational economic and security reasons anyways. In this regard, though Armenia cannot be seen as making choices that are completely free of outside interference, since Russia certainly tried to influence their decision, it can be seen as Armenia being a rational actor and using the opportunities that it has to maximize their utility the most.

In short, Armenia had a tangible option on the table (DCFTA), and would have received large amounts of foreign capital and other benefits. The Armenian elites were quite satisfied with the EAEU, and the public was not opposed to it as well. Armenia therefore used its bargaining power to extract large concessions from Russia, because even though Armenia knew all along that the only realistic option was to move towards Russia, it first wanted Russia to sweeten the deal because Armenia had leverage on it, and Russia wanted Armenia to integrate more than Armenia wanted to themselves. This narrative provides a sense of rationalism to a situation that is often described as Armenia blindly following a path towards EU integration, while at the same time knowing that in the end, they had no choice.

In short, Armenia did what they thought was best based on domestic two-level input and used the DCFTA as a bargaining chip to get concessions from Russia. Armenia was therefore not a pawn in the game, they were an active player.

2.3. Armenian Bargaining Outcome

When Armenia suddenly abandoned its long-negotiated treaty with the European Union, and signed the customs-union deal with Russia, it came as quite a shock to many observers. As I have detailed above however, this surely did not come as a shock to the top echelons of the Armenian government, who would have known this was coming all along. The question is, what did Armenia receive from its strong bargaining position?

⁸¹ Rilka Dragneva and Kataryna Wolczuk, *The Eurasian Economic Union Deals, Rules and the Exercise of Power*, (Research Paper, Chatter House, 2017): 9.

For starters, the Russian state-owned rail company promised to invest up to \$500 million in a rail connection to Russia through Georgia, and southwards into Iran.⁸² This is meant to end the geographic isolation that Armenia contends with due to the fact that it is physically separated from Russia, its main economic and security partner. This rail deal would also connect the country better with Iran, a large market to its south which could bring further economic benefits. Although this rail link is very likely to not be fully built, due to Georgia opposing the rail link going through its country, the possibility of Armenia being better connected to Iran is still significant.

Aside from the railways, Gazprom bought full control of the indebted state-run gas companies of Armenia, Russia's Rosatom, a state nuclear power company, announced its intention of helping to extend the life of Armenia's outdated Metsamor nuclear power station, and Rosneft, a Russian state-controlled oil company, announced plans to build a synthetic rubber plant in Armenia.⁸³

Russia and Armenia also quickly signed a deal to cancel export duties on oil and natural gas products, which was intended to reduce the amount that Armenia paid on energy by \$140 million annually.⁸⁴ Russia also quickly eliminated customs duties on about 900 commodity groups, rough diamonds being one of the most important, and this saved Armenia another \$60 million.⁸⁵ These \$200 million in annual savings amounted to about the same value that the EU suggested the Armenian economy could grow by yearly if it signed the DCFTA agreement.⁸⁶

In 2014, talking to an Armenian audience in the Czech Republic, former Armenian President Serzh Sargsyan even expressed the importance of these measures in his reason for joining the ECU over the EU agreement, saying that the signing of the DCFTA would have tripled gas and electricity prices in the country, claimed Armenian cognac would not have met EU requirements and Armenia would therefore lose a key industry, and further stated that "we are organically tied to the economy of the CIS countries; this is the reason for going to the Eurasian Union. We

Rinna, "Yerevan's Choice," 400.

⁸³ European Union. European Parliament. When choosing means losing The Eastern partners, the EU and the Eurasian Economic Union. Brussels: Directorate-General for External Policies, 2015. 54.

⁸⁴ Rinna, "Yerevan's Choice," 399.

⁸⁵ Ter-Matevosyana, et al. "Armenia in the Eurasian Economic Union, 349.

⁸⁶ Ibid.

clearly understand that the economic relations in Europe are 20–30 years ahead, but what should we do, to sign FTA and increase poverty in the country?”⁸⁷

Finally, as a consequence of joining the ECU and then the EAEU, Armenia had to adopt the common tariff numbers, which were much higher than they had before. This technically put Armenia in breach of its World Trade Organization (WTO) commitments; but the Union has been slowly lowering its tariffs year by year, from 10% in 2012 to 8.7% in 2014 (Armenia’s was only 3.6% in 2011).⁸⁸ If Russia follows its WTO commitments, then their tariffs, and therefore essentially the tariffs of the EAEU, should be at an average rate of 7.6% by 2020.⁸⁹ This problem however is mostly offset by the fact that Russia has offered to provide Armenia with subsidies to compensate for losses deriving from WTO members ‘compensation claims’, and those promises were also matched by deals and investments in key industry sectors.⁹⁰

By 2017, 47% of all investments in Armenia were from Russia, and Russia did increase its foreign direct investment in Armenia.⁹¹ This clearly indicates that Russia came through with their promises, to some degree, of investments to boost the economy. What Armenia’s accession to the EAEU, and the bargaining results demonstrate, is foremost that Armenia had a strategy. They calculated the utility of alternative courses, and they choose the one that maximised their utility the most, both when it came to strategic concerns, and economic realities.

Though this section looked at how Armenia was able to use intergovernmental bargaining to gain concessions from a much more powerful state, and shows that their actions were motivated by, among other things, rational economic realities, it cannot explain to us if the EAEU has been an economic success for Armenia so far. For this, we must look at the data.

2.4. Armenia in the EAEU: An Economic Success?

There are a number of different barometers that can be used to assess accession to the EAEU, both economic and other. In the case of Armenia, we look at exports, overall trade (and who they are trading with), GDP/Gross National Income (GNI) per capita, and GDP annual growth,

⁸⁷ Ter-Matevosyana, et al. “Armenia in the Eurasian Economic Union,” 350.

⁸⁸ European Union. When choosing means losing, 53.

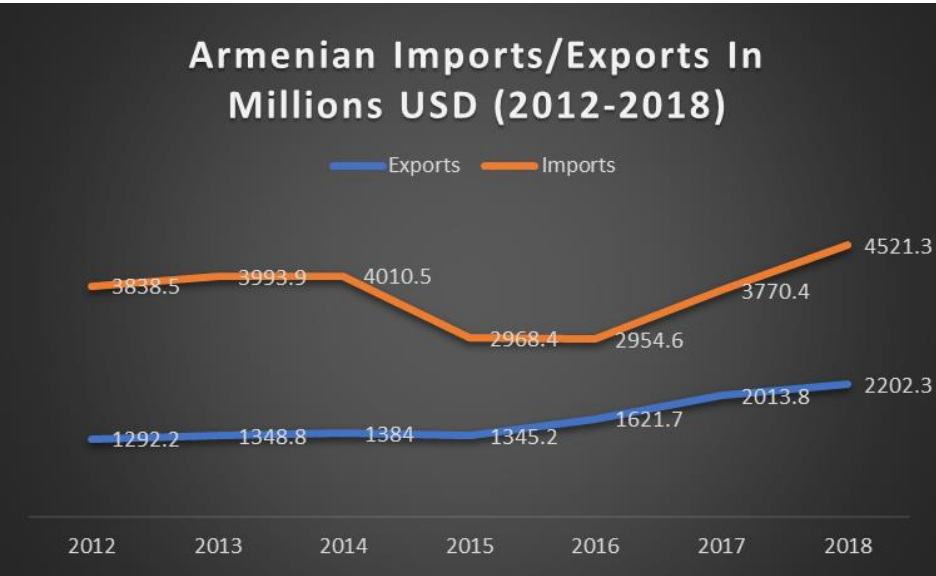
⁸⁹ United States. 2017 Report on the Implementation and Enforcement of Russia’s WTO Commitments. Washington D.C.: The United States Trade Representative, 2017.

⁹⁰ European Union. When choosing means losing, 53-54.

⁹¹ Ter-Matevosyana, et al. “Armenia in the Eurasian Economic Union, 352.

Human Development Index (HDI), Foreign Direct Investment (FDI), and remittances. In some cases, Armenia is shown in comparison to Georgia and Moldova. It is not the purpose of this work to directly compare Armenia with these countries, but in many cases it is useful to see Armenia’s growth in comparison to similar countries outside the EAEU. Therefore, they act as a visual reference, and we can see Armenia’s progress relative to other similar nations. Georgia and Moldova are chosen as comparable countries because they are both post-Soviet nations, like Armenia; they have similar populations; they are geographically in a relatively similar location (the wider Black Sea region); they have similar economies; and all three nations had the opportunity to join either the EAEU or the DCFTA.

Figure 1 Aside from the investments that Armenia received for taking the Eurasian path (and having a good bargaining position), we must now observe if there have been positive economic outcomes from Armenia’s decision to join the EAEU. First, we will examine Armenian exports. The EAEU has attained quick “economic integration, achieving the free movement of goods, capital and people faster than its model and rival, the European Union.”⁹² It should be noted though that the EAEU is not a fully integrated common market yet, but still it has provided Armenia with an opportunity to sell their products much easier, and they seem to have taken advantage of this.



As can be seen from Figure 1, Armenian exports have seen a steady rise since 2015.⁹³ Nearly half of Armenia’s exports are mining based – copper ore, gold, refined aluminum, diamonds, etc. – and these

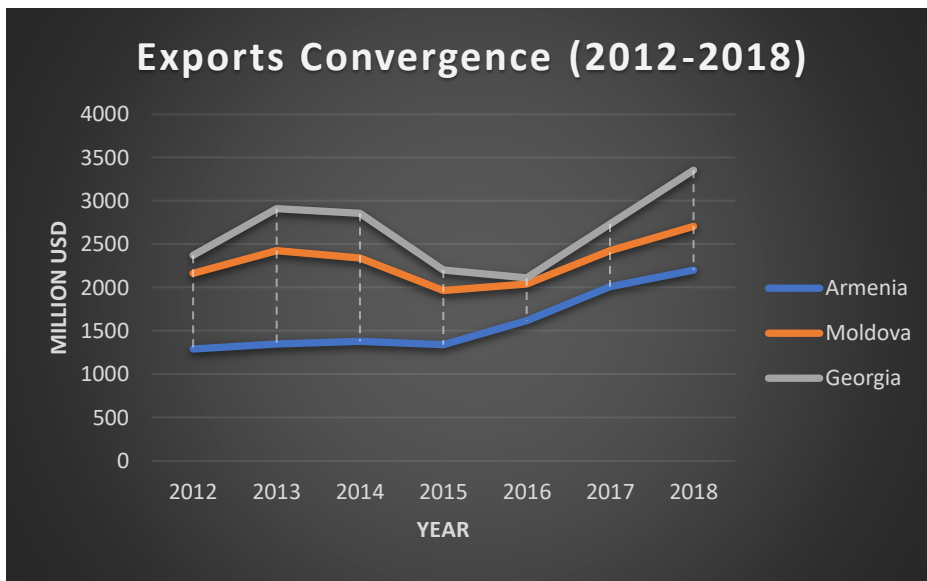
⁹² Martin Miszerak, “Eurasian Economic (dis)Union,” Financial Times, January 29, 2019. <https://www.ft.com/content/8402741a-2319-11e9-8ce6-5db4543da632>.

⁹³ Armenian Government, “Statistical Committee of the Republic of Armenia,” accessed December 1, 2018. <https://www.armstat.am/en/>.

products mainly go to Europe; but there has also been growing demand for Armenian luxury products, such as cigarettes and jewelry, which mostly flow to Arab markets, or hard liquors and wine, which overwhelmingly goes to Russia.⁹⁴ This does not tell the full story though. Due to the Russian financial crisis, Armenia’s local currency, like currencies of other countries that are heavily integrated with Russia’s economy, suffered significantly.

Armenia’s currency, the Dram, decreased in value by about 15% in late 2014, and has not recovered since.⁹⁵ Therefore, considering the Dram is at a much lower value compared to the

Figure 2 USD since 2014/15, and Armenian exports valued in USD are nearly double what they



were 3 years ago, than this is proof of real economic improvements due to the EAEU. It should also be mentioned that major commodities, like copper, have not significantly risen in value in these years, reinforcing the fact that Armenia is simply

exporting more goods.⁹⁶

It is the case however that although Armenian exports are rising, as seen in Figure 2, they are essentially keeping pace with Moldovan exports, but are converging at a slower pace with Georgia, who signed the DCFTA.⁹⁷

⁹⁴ Observatory of Economic Complexity, “Armenia,” accessed April 14, 2019. <https://atlas.media.mit.edu/en/profile/country/arm/>.

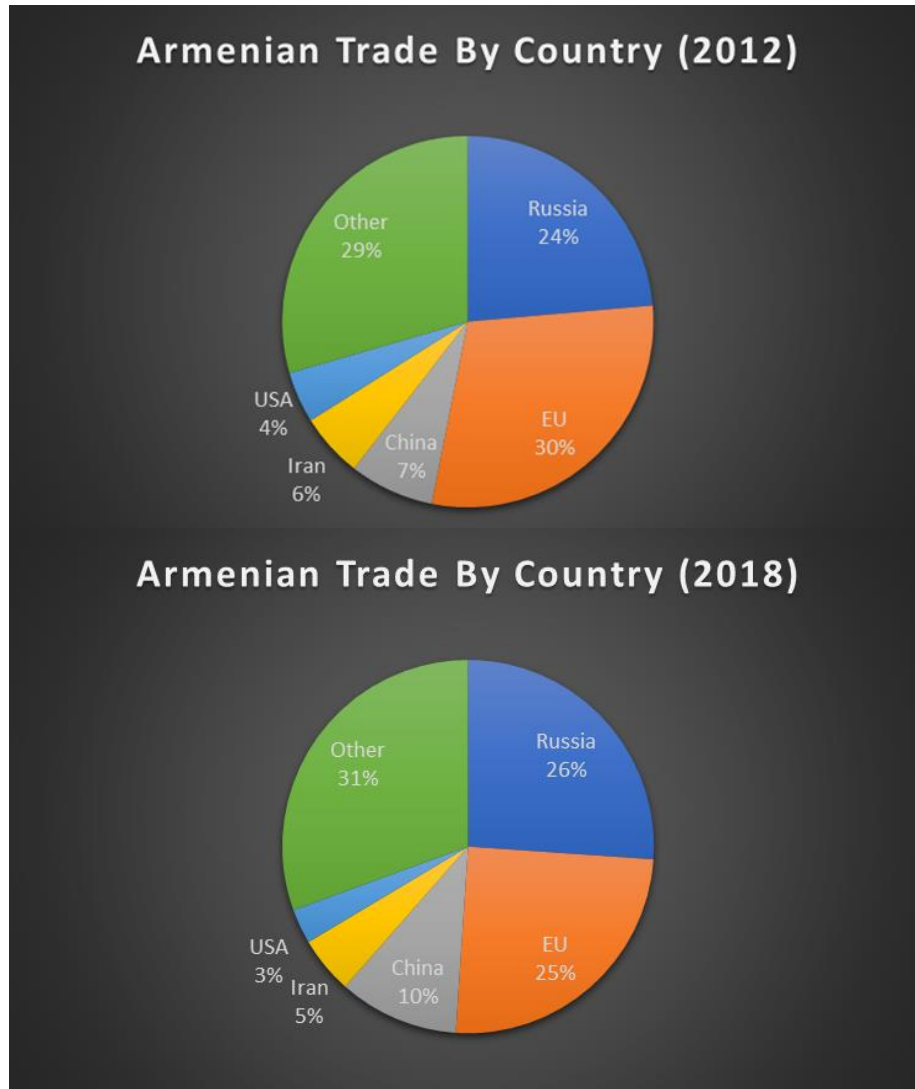
⁹⁵ European Union. When choosing means losing, 56.

⁹⁶ Markets Insider, “Copper,” Accessed May 1, 2019. <https://markets.businessinsider.com/commodities>

⁹⁷ Armenian Government, “Statistical Committee of the Republic of Armenia.”

Another interesting observation that can be seen in the charts below, is that although Armenian exports and imports have been rising, there is no strong trend to indicate that Russia is dominating trade with them. In fact, between 2012 and 2018, Armenian

Figure 3

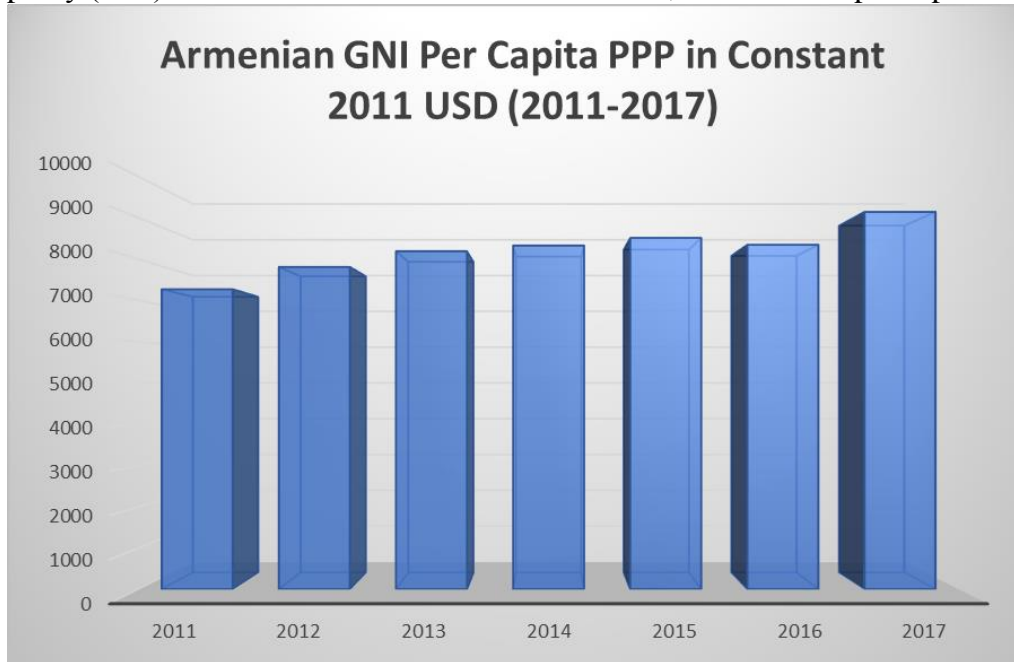


trade has risen much more between the rest of the world than it has with Russia and other EAEU countries. Though trade with the EU has decreased (in relative terms, but not in overall dollar values), Armenia has increased trade with China, and has great potential to grow their trade with Iran and other middle east nations, considering there will soon be an EAEU-Iran and EAEU-Egypt trade deal.⁹⁸

Figure 4

⁹⁸ "Eurasian Economic Union Finalizes FTZ Agreement With Iran," Financial Tribune. December 7, 2018. <https://financialtribune.com/articles/domestic-economy/95464/eurasian-economic-union-finalizes-ftz-agreement-with-iran>.

When it comes to GNI, Armenia has also made good progress while being inside of the EAEU. According to the World Bank – whose most recent data on GNI per capita in purchasing power parity (PPP) in constant 2011 ‘International Dollars,’ – Armenian per capita income in



purchasing power is growing at a steady, but not remarkable, rate. The increase between 2011 and 2017 has brought the GNI per capita from \$7271, to

Figure 5

a total of \$9144 in 2017.⁹⁹ Other studies on Armenia GDP per capita PPP in current USD terms, show a continued rise for Armenians in 2018, and projected rises in 2019 as well.

On the matter of yearly GDP growth for the Armenian economy, the country has also done fairly well. As you can see below in Figure 6, Armenia has at times been the fastest growing of the three economies (Armenia, Georgia and Moldova). But overall it has mainly kept pace with the two DCFTA economies. Between 2012 and the official projected growth rates for 2019, the World Bank indicates that Armenia grew at an average annual rate of 4.3%, which was faster than the average growth rate of Moldova during the same period, at 3.68%, and slightly higher than Georgia, at 4.27%.¹⁰⁰ Therefore, it is fair to state that since 2012 Armenia has had a faster

⁹⁹ World Bank Group, “GNI per capita, PPP (current international \$),” Accessed April 20, 2019. https://data.worldbank.org/indicator/NY.GNP.PCAP.PP.CD?locations=AM&year_high_desc=true.

¹⁰⁰ World Bank Group, “GDP growth (annual %),” Accessed April 22, 2019. <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>.

growing economy than the two DCFTA nations, and the EAEU surely plays some part in this.

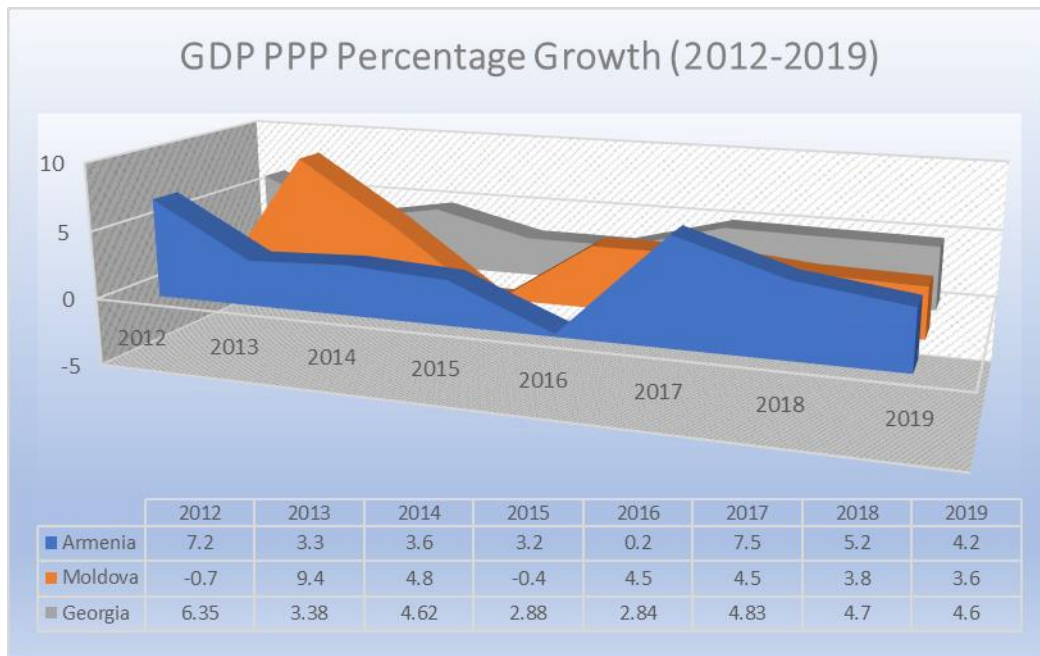


Figure 6

Another important metric to look at when it comes to demonstrating broad-based economic and societal growth is HDI. HDI is a tool that the United Nations (UN) uses to measure so called ‘national development’. National development “does not only [measure] income per capita, as has long been the practice, but also [measures] health and education achievements.”¹⁰¹ Health is measured by life expectancy, and education is measured by mean years of schooling and expected years of schooling. Therefore, HDI is a good metric to measure the full scope of a society’s growth in their standard of living. This data reveals that Armenia has consistently increased their score every year between 2012 and 2017 (the most recent year available), from 0.737 to 0.755, which ranks them in 83rd place in the world overall, after an increase of two spots during those years.¹⁰² In regards to HDI growth, joining the EAEU has certainly not hindered Armenia’s growth in this respect so far, and may even have helped.

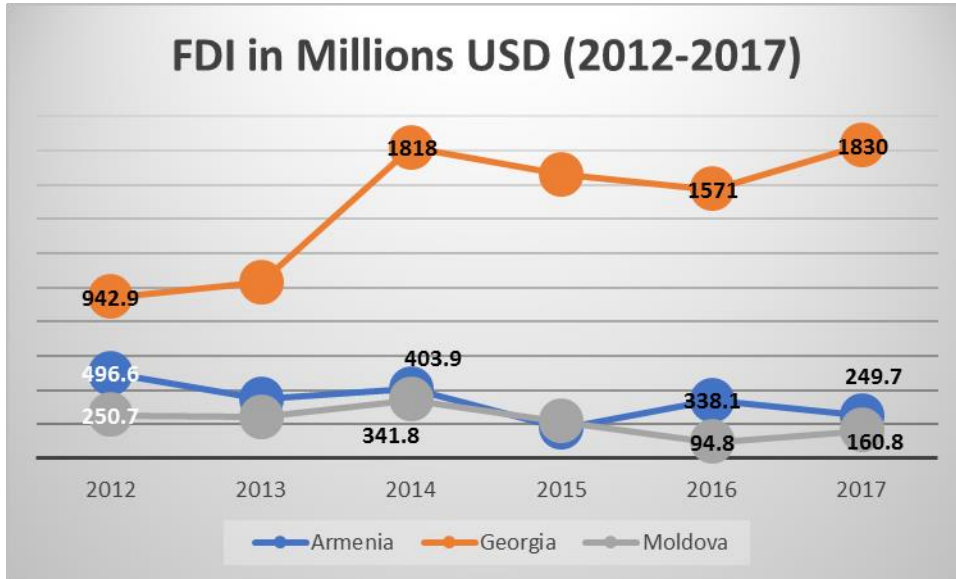
In regard to FDI, Armenia has not fared as well. FDI invested into Armenia on a yearly basis has been relatively consistent, yet there has been no significant increase in FDI after Armenia joined

¹⁰¹ United Nations Development Programme, Human Development Indices and Indicators: 2018 Statistical Update, (New York: By the United Nations Development Programme, 2018): 1.

¹⁰² United Nations Development Programme, Human Development Indices and Indicators, 23.

the EAEU. However, as mentioned in previous sections, there are many proposed Russian investments in the works, and for Armenia’s relatively

Figure 7

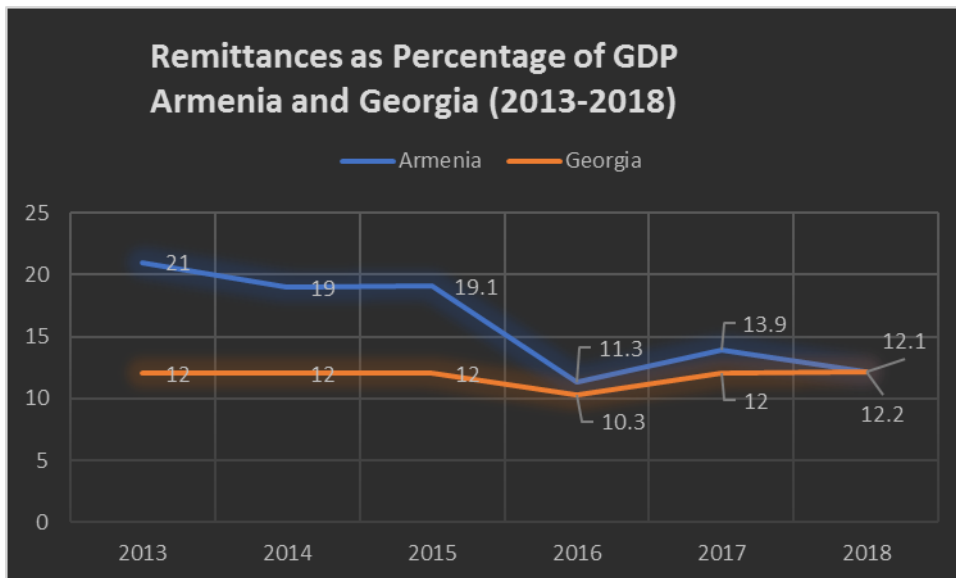


small population, their rate of FDI is certainly not bad. Armenian FDI inflows have consistently outperformed Moldova, yet they fall well short of Georgia.¹⁰³

Remittances as a percent of GDP have been an interesting trend for Armenia since joining the EAEU. Armenia has historically relied quite heavily on remittances, and much of that money comes back from Armenian workers in Russia. In 2013, before Armenia joined the

Figure 8

EAEU, remittances made up about 20% of GDP.¹⁰⁴ In 2015 this number fell to 19.1%,¹⁰⁵ and by 2018 it was down to



¹⁰³ The World Bank, “Foreign direct investment, net inflows (BoP, current US\$),” Accessed April 17, 2019. <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD>.

¹⁰⁴ World bank, Migration and Development Brief 24, (Washington D.C.: The World Bank Group, 2015): 19.

¹⁰⁵ Knomad, Migration and Remittances Recent Developments and Outlook (2015), (Washington D.C.: The World Bank Group, 2015): 22.

only 12.1%.¹⁰⁶ This is an interesting trendline, which may result from the fact that the Armenian economy has actually been performing quite well within the EAEU, and the need for workers to go to foreign countries to bring home good salaries has significantly reduced. As seen in Figure 8, Georgia's remittance levels are about the same as they have been. Moldova, not shown in the chart, still has very high remittance levels, estimated at 16.1% of GDP in 2018. Moldova has been left out of the chart due to skewed data resulting from Moldovans easy access to Romanian passports (and therefore the right to work anywhere in the EU).¹⁰⁷ In this case it was more accurate to simply compare Armenia and Georgia.

Overall, the totality of these specific indicators, which give a broad macro overview of the Armenian economy, seem to be pointing in a positive direction. It is fair to conclude that the EAEU has at the very least not hindered Armenian economic growth, and it would be more realistic to conclude that, so far, the EAEU has been an overall success in regard to Armenia. This lends credence to the argument that Armenia had a deliberate strategy when it came to negotiating entry into the DCFTA and the EAEU, and chose Eurasian integration for rational, and in part, liberal-economic based realities, that its domestic sphere chose.

3. Kyrgyzstan

In this section we will look at Kyrgyzstan within the EAEU. This will begin with a comprehensive look at Kyrgyzstan's relations with Russia, their bargaining position, the outcome of the bargaining, then their actual economic results.

3.1. Recent Kyrgyz-Russian Relations

Kyrgyzstan is a small, poor, and landlocked nation situated between Kazakhstan, China, Tajikistan, and Uzbekistan. Even by Central Asian standards Kyrgyzstan is a poor nation, where one-fifth of the population lives on less than \$3.10 per day.¹⁰⁸ After leaving the crumbling Soviet Union, Askar Akayev became president and was first seen as a liberal democrat.¹⁰⁹ Akayev was

¹⁰⁶ Knomad, Migration and Remittances Recent Developments and Outlook (2018), (Washington D.C.: The World Bank Group, 2018): 17.

¹⁰⁷ Knomad, Migration and Remittances Recent Developments and Outlook (2018), 17.

¹⁰⁸ Roman Mogilevskii, James Thurlow & Adeline Yeh, "Kyrgyzstan's Accession to the Eurasian Economic Union: Measuring Economy-Wide Impacts and Uncertainties," University of Central Asia, Working paper 44 (2018): 6.

¹⁰⁹ New East network, "Post-Soviet world: what you need to know about Kyrgyzstan," The Guardian, June 9, 2014. <https://www.theguardian.com/world/2014/jun/09/-sp-post-soviet-world-need-to-know-kyrgyzstan>.

deposed in a violent 2005 “revolution”, and Kyrgyzstan has had a remarkably unstable presidency by Central Asian standards since then, and the country has been characterized by outbreaks of ethnic violence.¹¹⁰ Kurmanbek Bakiyev became president after the 2005 “revolution”, but was considered too close to the Americans by the Russian government, and he was also overthrown in a more violent second “revolution” in 2010; Bakiyev was then replaced by Roza Otunbayeva for a short period of time, but she was considered too liberal in the eyes of the Russian government, though she helped turn Kyrgyzstan from a Presidential to a Parliamentary Republic, and helped restore a truer version of democracy.¹¹¹ Starting with the election of Almazbek Atambayev in 2011 for a six year term, the country has been more stable, but is still plagued by poverty, and remains heavily influenced by Russia.

3.2. Kyrgyz Bargaining Power

As has been mentioned before while dealing with the Armenian case, liberal intergovernmentalism states that national governments will take international positions based on the pressure they garner from groups in their society. In essence, these domestic groups influence the government, and the government then aggregates all of the public opinion to come up with one national policy. In the case of Kyrgyzstan, there was not a lot of aggregating to be done because, based on public opinion and on stated aims of the Kyrgyz government, the path seemed fairly clear-cut and uncontroversial for many years.

The idea of Kyrgyzstan wanting to be in the ECU or EAEU was never exactly a secret. As early as 2011 President Atambayev first announced that the country would certainly join the Customs Union in the future.¹¹² President Atambayev has repeatedly stated that joining the ECU/EAEU is a necessary step for the country to take, but achieving a deal that the Kyrgyz liked was not easy.¹¹³ The closeness of Kyrgyz elites to Russia, the willingness of Kyrgyz politicians to bring the country into the various Eurasian integration projects, and the lack of choice that Kyrgyzstan had, certainly did not give the country a good bargaining position. But Kyrgyzstan’s interest for

¹¹⁰ New East network, “Post-Soviet world.”

¹¹¹ Craig Murray, “Kyrgyzstan: Death, dictators and the Soviet legacy,” The Telegraph, June 17, 2010. <https://www.telegraph.co.uk/news/worldnews/asia/kyrgyzstan/7834619/Kyrgyzstan-Death-dictators-and-the-Soviet-legacy.html>.

¹¹² Fumagalli, “Kyrgyzstan 2014: The painful march towards the Eurasian Union as the lesser evil?,” 3.

¹¹³ “Kyrgyz President Says Customs Union Membership Necessary,” Radio Free Europe Radio Liberty, October 27, 2014. <https://www.rferl.org/a/atambaev-customs-union-kazakhstan-russia-belarus-2015-joining/26659007.html>.

the EAEU did not simply come from nothing. The initial record of the Eurasian Customs Union was excellent. From 2010-2012 trade between Russia, Belarus and Kazakhstan had increased by 40%.¹¹⁴ And it was no small matter to have a chance to be part of a trading group that included nearly 180 million people, and right on Kyrgyzstan's doorstep. The options for Kyrgyzstan may have been slim, but this was an enticing offer.

On the matter of lacking choice, Kyrgyzstan had no real alternative to ECU/EAEU membership, nor did the country ever contemplate exiting Russia's geopolitical-economic orbit.¹¹⁵

Furthermore, neither the Kyrgyz elites nor the general public were split on the decision of further integration with Russia. On the eve of the final accession agreements with the EAEU in 2015, Kyrgyz opinions were skewed heavily in favour of Eurasian integration, and polls showed that Kyrgyzstan had the highest level of popular support for the EAEU, at 86%.¹¹⁶ Furthermore in 2015, another poll by Gallup found that about 79% of Kyrgyz citizens supported the policies of Russia.¹¹⁷ These facts certainly did not help Kyrgyzstan in their bargaining position.

Another lack of bargaining power came from the fact that Kyrgyzstan is security dependent on Russia. The Russian government is funding most of Kyrgyzstan's military reforms, Russia has troops deployed throughout the country, and Russia essentially has indefinite agreements for military bases in various parts of Kyrgyzstan, including an airbase outside of the capital.¹¹⁸ Kyrgyz determined accession to the ECU/EAEU also came at a time when all other influence in the country was disappearing. For a time, Kyrgyzstan hosted over 1,000 American and coalition forces in a large airbase just outside of the capital, and sought to expand their ties with non-Russian actors in the region.¹¹⁹ However, after 13 years, multiple renegotiations of the base's rent, and mounting pressure by Russia to get the Americans out, as well as decreasing interest of the Americans remaining in the region, the base was closed in 2014.¹²⁰ This once again left

¹¹⁴ European Union. When choosing means losing, 52.

¹¹⁵ Fumagalli, "Kyrgyzstan 2014: The painful march towards the Eurasian Union as the lesser evil?," 12.

¹¹⁶ Diana T. Kudaibergenova, "Eurasian Economic Union integration in Kazakhstan and Kyrgyzstan," *European Politics and Society* (2016): 107.

¹¹⁷ Sabir Abdumomunov, "Gallup: В Кыргызстане доминирует влияние Кремля," *Gezitter*, June 17, 2015. Accessed May 4, 2019.

https://www.gezitter.org/politic/40920_Gallup_v_kyrgyzstane_dominiruet_vliyanie_kremlya_/.

¹¹⁸ Fumagalli, "Kyrgyzstan 2014: The painful march towards the Eurasian Union as the lesser evil?," 9.

¹¹⁹ *Ibid*, 10.

¹²⁰ *Ibid*.

Russia as the only main actor in the region. Furthermore, Kyrgyzstan also lacks a strong local media. Kyrgyz media is almost wholly controlled by Russian state-linked media, and the Kyrgyz government cannot count on its local media to support it over Russian narratives.¹²¹

The few bargaining chips that Kyrgyzstan did have over Russia were the fact that they knew that Russia was attempting to expand their Eurasian integration project as fast as possible, as well as the fact that Kyrgyzstan does have a growing trade flow with Russia. By 2013, Russian-Kyrgyz trade turnover reached \$2.3 billion, up from only \$500 million in 2005; but during that same time China overtook Russia as Kyrgyzstan's largest trade partner, and maybe Russia believed they could get more out of this relationship economically.¹²²

3.3. Kyrgyz Bargaining Outcome

From the start of the negotiation process Kyrgyzstan demanded a special deal for their entry. The Kyrgyz government asked for special free trade zones for their major re-export bazaars, or a \$1 billion development fund to smooth the transition from a re-exporting nation to one inside a customs zone, plus a further \$215 million to bring their border infrastructure up to date.¹²³ This special deal was veraciously opposed by Kazakhstan.¹²⁴ Kazakhstan objected specifically to the special free-zone status of the main bazaars, calling it “a ‘one-legged’ membership,” because it would have allowed Kyrgyzstan to continue to bring in cheap Chinese goods for re-export to Kazakhstan, which would have undermined the customs union and local Kazakh manufacturing.¹²⁵

When the EAEU treaty was officially signed in May 2014, it was determined that Kyrgyzstan would not become a founding member in January 2015, but Russia instead gave Kyrgyzstan 182 points in which they needed to change legislation to bring themselves in compliance with EAEU standards, and promised to create a \$500 million fund to ease their accession.¹²⁶ This however was an agreement in principle and lacked any actual outline or details. We do however know that

¹²¹ Ibid, 8-9.

¹²² Andrew C. Kuchins, Jeffrey Mankoff, and Oliver Backes, *Central Asia in a Reconnecting Eurasia—Kyrgyzstan Evolving Foreign Economic and Security Interests*, (Washington D.C.: Center for Strategic and International Studies, 2015): 12.

¹²³ Fumagalli, “Kyrgyzstan 2014: The painful march towards the Eurasian Union as the lesser evil?,” 6.

¹²⁴ Ibid.

¹²⁵ Ibid.

¹²⁶ Ibid, 7.

in 2014 Gazprom bought Kyrgyzgaz for \$1 (and all of the substantial debts), and Gazprom promised to keep the supply of gas flowing to Kyrgyzstan and to upgrade Kyrgyzstan's energy infrastructure with a \$609 million investment in the first 5 years.¹²⁷ It should be noted that Russia often promises big investments, but has a history of not delivering on them in Kyrgyzstan.

Another indicator that undermines the idea that Kyrgyzstan got anything from Russia for joining the EAEU is the fact that Russia routinely gives money, writes off debt, or announces large investments in Kyrgyzstan. As recently as March 2019, when President Putin was visiting Kyrgyzstan, it was announced that “the Russian government decided in March to provide \$30 million of non-repayable assistance to support the state budget [of Kyrgyzstan],” and this preceded the intended signing of a \$1.2 billion deal to invest in mineral resource exploration and the a \$1.5 billion hydropower cooperation agreement.¹²⁸ Overall, the one day trip yielded \$6 billion in deals, as well as the expansion of two Russian military bases – though it fell short of the \$12 billion number that was expressed earlier in the year.¹²⁹ Furthermore, Russia has consistently written off debt as a way to keep Kyrgyzstan happy, as well as economically viable. In 2017, Russia wrote off \$240 million in debt, and that increases the number to around \$700 million since 2005.¹³⁰

Though Kyrgyzstan had very little bargaining power going into negotiations with Russia, they had expressed many times their willingness and desire to join. Kyrgyzstan was also described various times, even by its leaders, as having no other alternative. Though this might not be a desirable economic position to be in, what it does concretely show is that Kyrgyz politicians calculated the utility of alternative courses – the only real alternative being to not join the newly formed EAEU – and choose the one that they believed would maximize their utility the most, namely, to join. This was done rationally, and mostly for economic reasons.

¹²⁷ Kuchins, Mankoff, and Backes, *Central Asia in a Reconnecting Eurasia—Kyrgyzstan Evolving Foreign Economic and Security Interests*, 13.

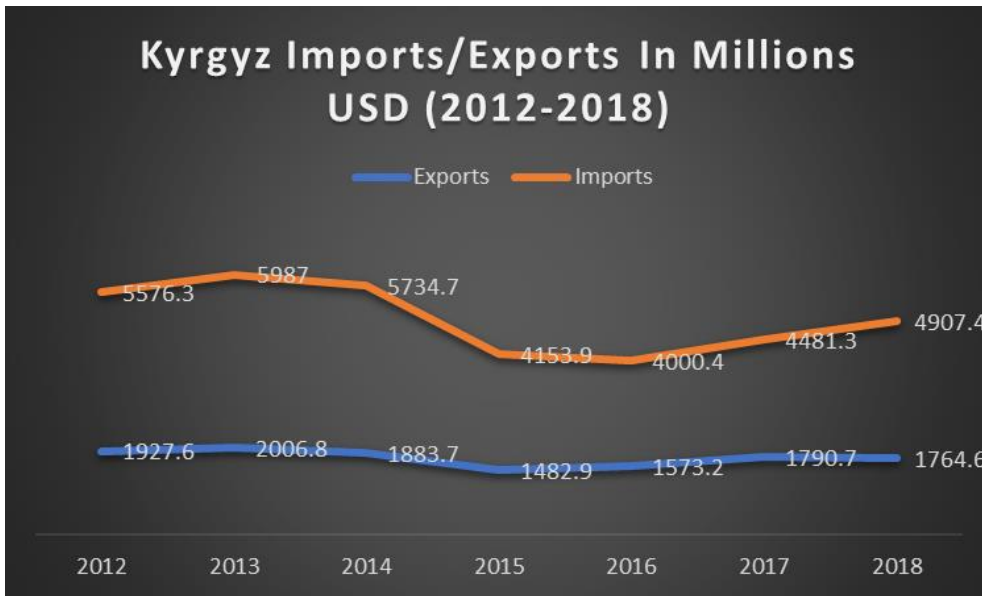
¹²⁸ “Russia Gives Kyrgyzstan \$30M Grant as Putin Visits Key Regional Ally,” *The Moscow Times*, March 28, 2019. <https://www.themoscowtimes.com/2019/03/28/russia-gives-kyrgyzstan-30m-grant-as-putin-visits-ally-a64986>.

¹²⁹ “Kyrgyzstan: Putin visit brings lavish deals and vows of a bright future,” *Eurasianet*, March 29, 2019. <https://eurasianet.org/kyrgyzstan-putin-visit-brings-lavish-deals-and-vows-of-a-bright-future>.

¹³⁰ “Россия списала Киргизии долг в \$240 млн,” *Interfax*, June 20, 2017. <https://www.interfax.ru/business/567392>.

3.4. Kyrgyzstan in the EAEU: An Economic Success?

Similar to the case of Armenia, for Kyrgyzstan we will look at exports, trade (and who they are trading with), GNI per capita, GDP annual growth, HDI, FDI, remittances, and the re-export business. Kyrgyzstan is sometimes shown in comparison to neighboring Tajikistan to help put its growth into perspective. Tajikistan is chosen because it is similar to Kyrgyzstan in nearly all



ways, including in population, geography, economy, etc. Tajikistan is also chosen because unlike Kyrgyzstan, it is not a member of the EAEU.

Figure 9

Like in the case of Armenia, we will now examine some important economic indicators to see if

Kyrgyzstan has benefited economically while being inside the EAEU. First, we will look at Kyrgyzstan's exports. Trade within the EAEU accounted for about 42 per cent of Kyrgyzstan's total trade even in 2015 when it joined.¹³¹ As we can see from Figure 9, Kyrgyzstan's exports have not seen any growth since joining the EAEU. In fact, they seem to have retracted. In looking at Kyrgyzstan's exports however, it is important to examine the effect that the EAEU has had on Kyrgyzstan's re-export business before making judgements on the positive or negative effects of the EAEU itself.

For a long time, Kyrgyzstan has been a major transit hub between China and Russia. Due to EAEU rules of origin, Chinese-made goods were already subject to EAEU common tariffs. Therefore, there should theoretically have been no changes once Kyrgyzstan joined the EAEU and were within the Common External Tariff (CET) system. However, Kyrgyzstan had actually been undervaluing imports from China for years, and labelling Chinese-made goods as Kyrgyz-made goods to avoid the higher re-export tariffs that Russia would have levied on them.¹³² Essentially, Kyrgyz would use their country's low tariff system to import Chinese goods, label them as Kyrgyz goods, and then use the preferential trading partnership to resell these goods into the Russian market, making profit on the margins. Even better would be to smuggle the goods across the mostly unwatched Kazakh-Kyrgyz border and into the CET area, and make an even larger profit that way.¹³³ In 2011, China recorded exporting 428,000 tons of clothing goods into Kyrgyzstan, at a value of \$3.6 billion, but Kyrgyzstan on the other hand, recorded imports of only 313,000 tons from China, with a value of only \$300 million.¹³⁴ Therefore, this shows there was a massive re-export scheme going on.

One study measured the effect of EAEU tariff changes on Kyrgyz trade and it was estimated that accession would reduce total imports, divert trade to other EAEU countries, and cause GDP to decrease.¹³⁵ However, in order to compensate for the projected loss, the EAEU would direct a proportionally large amount of pooled-tariff revenues to Kyrgyzstan. Therefore, it was estimated that Kyrgyzstan would receive "an additional \$63 million in the year immediately following

¹³¹ Dragneva and Wolczuk, *The Eurasian Economic Union Deals, Rules and the Exercise of Power*, 9.

¹³² Mogilevskii, Thurlow & Yeh, "Kyrgyzstan's Accession to the Eurasian Economic Union," 9.

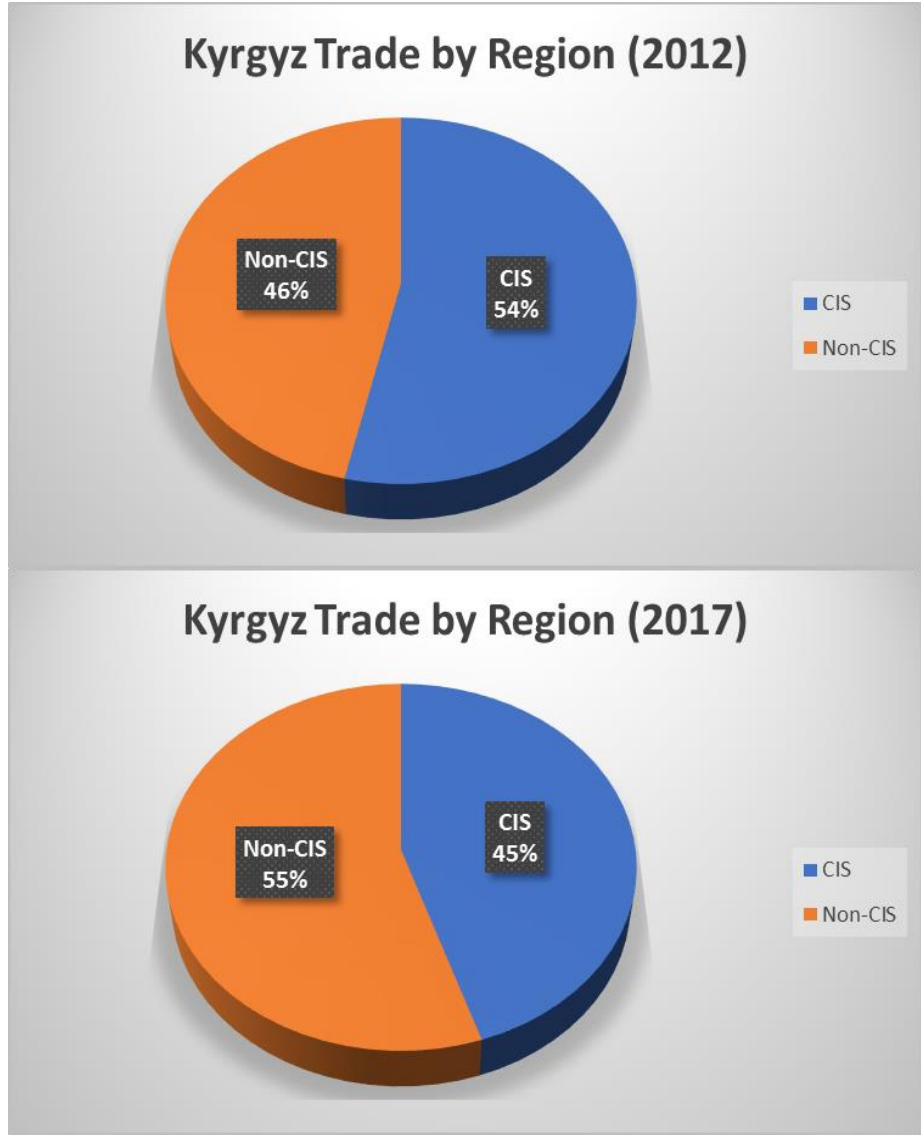
¹³³ *Ibid.*

¹³⁴ *Ibid.*

¹³⁵ *Ibid.*, 8.

accession (i.e., tariff revenues of \$175 million with the formula versus \$112 million without it). This is essentially a transfer from other EEU member states to Kyrgyzstan.”¹³⁶ In this sense, the export decrease might not be showing the full picture in relation to the Kyrgyz national budget, and the overall wellbeing of the economy.

What is nearly impossible to tell however, is what amount of Kyrgyz re-exports prior to the 2015 EAEU accession were being relabelled as Kyrgyz-made goods, and then



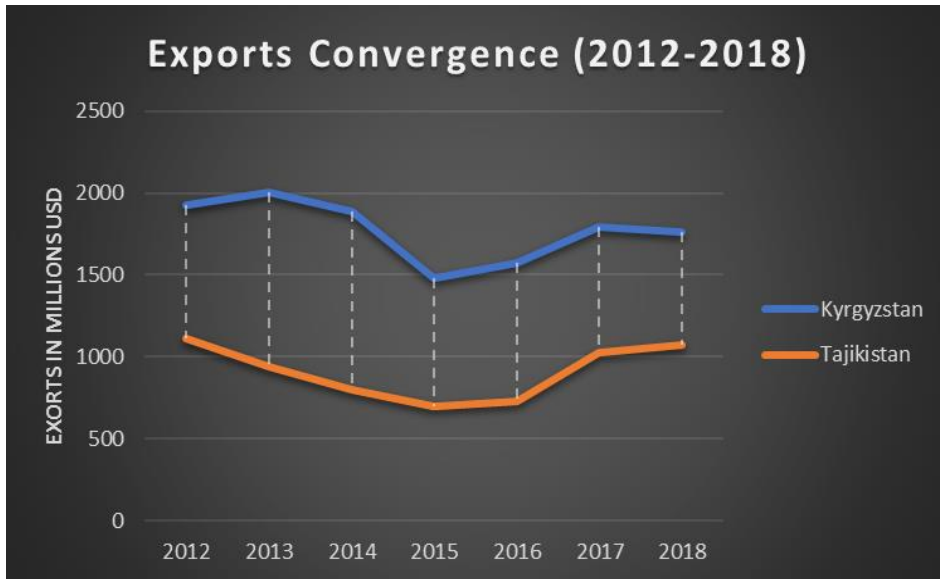
being recorded in the official export stats. This could make up for the nearly \$450 million drop in export value between 2013 and 2015. Though this could also be due to the fact that Kyrgyzstan’s export values are extremely dependent on commodities (copper, iron, cotton, and various precious metals, especially gold, make up about 60% of exports), and the combination of these price fluctuations are the result of erratic export numbers.¹³⁷

¹³⁶ Ibid.

¹³⁷ Observatory of Economic Complexity, “What does Kyrgyzstan export?” Accessed April 15, 2019. https://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/kgz/all/show/2017/.

Figure 11

Another interesting aspect to note, is that between 2012 and 2017 Kyrgyzstan did not show an increase in total trade turnover with Russia (See Figures 10 & 11). Unfortunately,



official Kyrgyz statistics only measure trade with CIS nations, and the rest of the world, but what we can see by this is a nearly 10% increase in trade with non-CIS nations over this short period.¹³⁸

However, non-Kyrgyz

government statistics point to the fact that between 2012 and 2017, Russia has increased as an export destination by 1% (to 14% of total exports), and has decreased as an import destination by 3% (to 23% of total imports).¹³⁹ Also, in the region overall we can see that Kyrgyz exports have not significantly grown since joining the EAEU, and instead have even narrowed relative to Tajikistan, a country not in the EAEU.¹⁴⁰

Figure 12

When it comes to per capita GNI PPP growth measured in constant 2011 'international dollars', Kyrgyzstan has also not performed well. That being said, they have shown a consistent increase over the years, going from \$2,610 in 2011 to \$3,255 in 2017 (a nearly 25% increase) and with continued projected growth in the 2018 and 2019 numbers.¹⁴¹

¹³⁸ Kyrgyz Government, "National Statistical Committee of the Kyrgyz Republic," Accessed April 12, 2019. <http://stat.kg/en/>.

¹³⁹ Observatory of Economic Complexity, "Where does Kyrgyzstan import from?" Accessed April 15, 2019. https://atlas.media.mit.edu/en/visualize/tree_map/hs92/import/kgz/show/all/2017/.

¹⁴⁰ Kyrgyz Government, "National Statistical Committee of the Kyrgyz Republic."

¹⁴¹ World Bank Group, "GNI per capita, PPP (current international \$)."

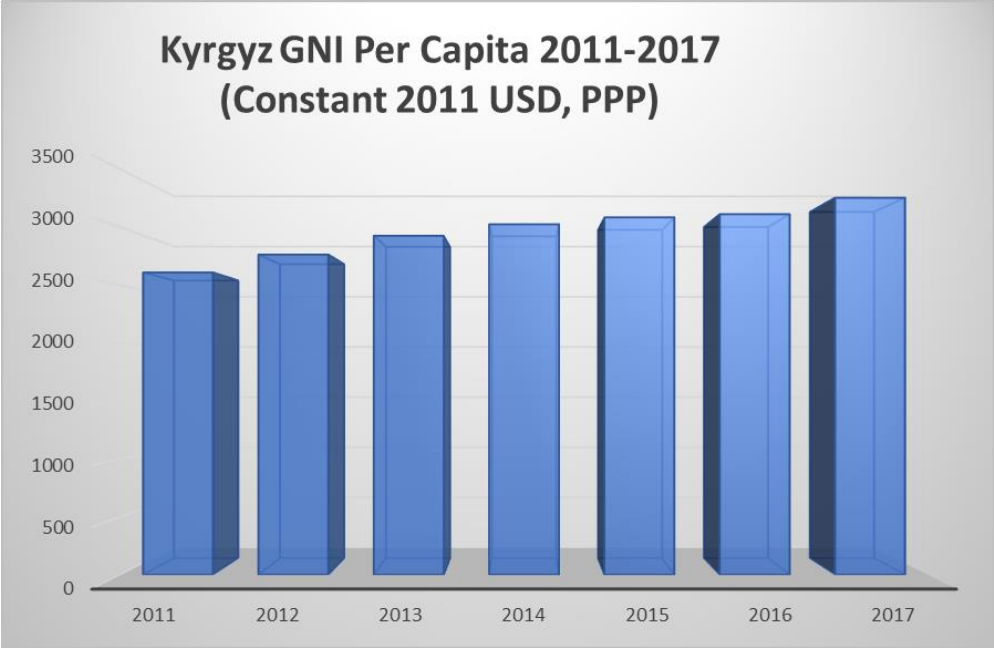
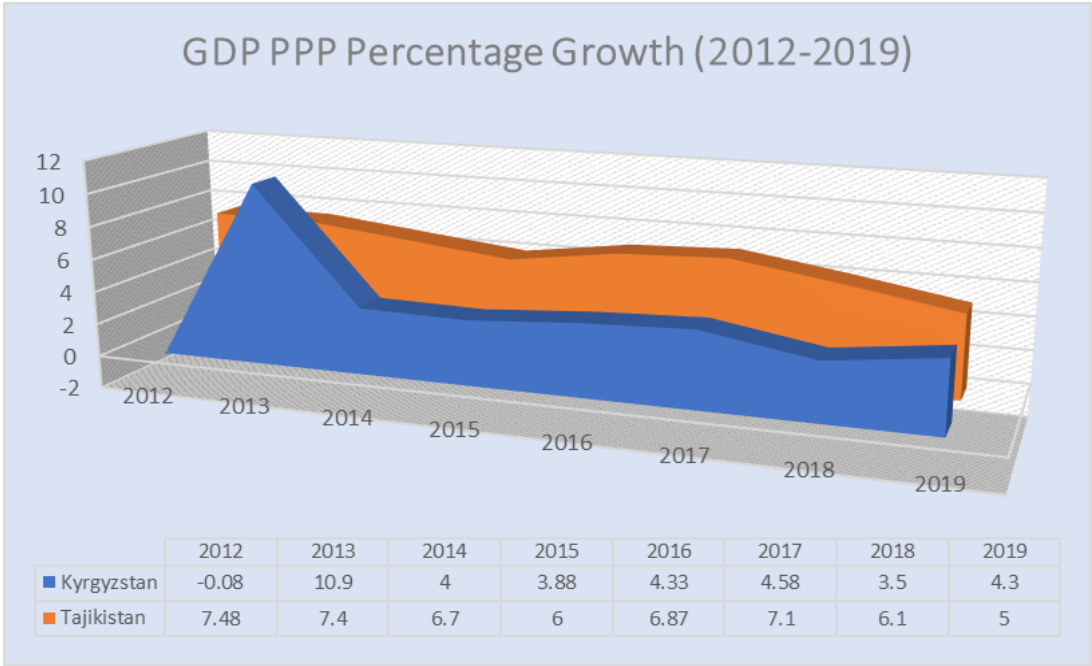


Figure 13

One aspect of concern however is the fact that although Kyrgyzstan’s GDP has been consistently growing, it has not reached levels of growth that neighbouring

Tajikistan is experiencing while being outside of the EAEU, and while being at about the same level of wealth overall (\$3,690 GNI per capita vs \$3,255 for Kyrgyzstan).¹⁴² Between 2012 and the projected growth rate in 2019, the Kyrgyz economy has expanded by a yearly average of 4.42% (4.11% since joining the EAEU), and Tajikistan has grown at an average of 6.58%, which



¹⁴² World Bank Group, “GNI per capita, PPP (current international \$).”

is a very significant difference in GDP growth over time (see Figure 14 below).

Something that Kyrgyzstan has seen steady, but slow growth in, is its HDI rating. As has been explained above in the Armenian section, HDI is a good measurement of not only per capita GDP growth, but also of societal wellbeing in terms of health and education. In this regard, between the years 2012 and 2017, Kyrgyzstan has seen its rating increase from 0.649, to 0.672.¹⁴³ Although there has been an increase, Kyrgyzstan has not surpassed any other nation on the list, but has done much better than Tajikistan, which fell 4 places in that time.¹⁴⁴

In regard to FDI, Kyrgyzstan has done fine, though once again there is much room for improvement. Kyrgyzstan's FDI in 2015 and 2016 are substantial for a country of its size and

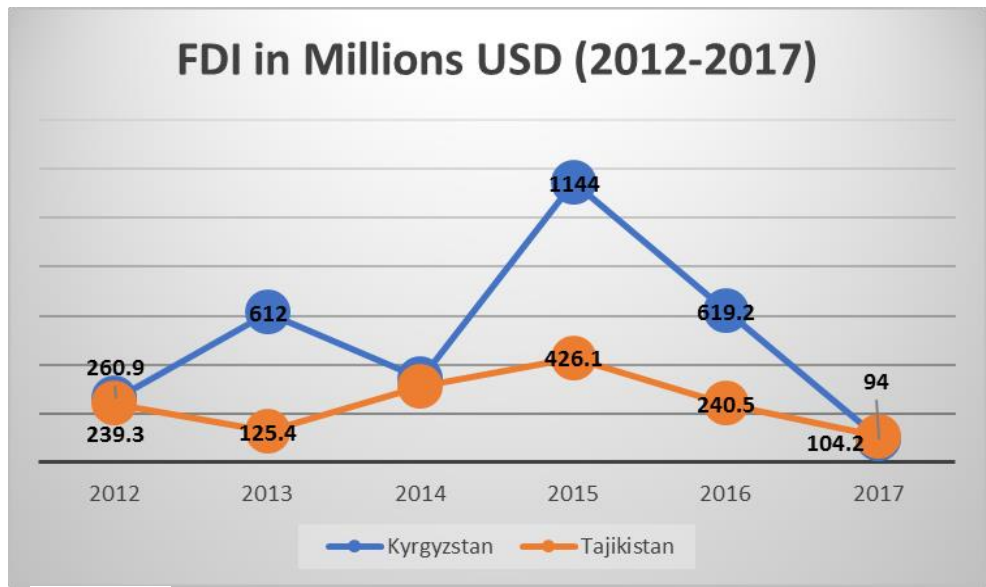


Figure 15

wealth, but these seem to be mostly stemming from promised Russian investments for joining the EAEU.¹⁴⁵ FDI numbers for the years 2018 and onwards are not available at the

moment, but if we take the already mentioned news into account, Kyrgyzstan may

¹⁴³ United Nations, Human Development Indices and Indicators: 2018 Statistical Update, 2.

¹⁴⁴ Ibid.

¹⁴⁵ The World Bank, "Foreign direct investment, net inflows (BoP, current US\$)," Accessed April 17, 2019. <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD>.

be seeing significant investments in its mining, hydropower, and various other area in the near future, to the tune of \$6 billion.¹⁴⁶ Tajikistan on the other hand has continuously lagged behind Kyrgyzstan in investments, though by 2017 the numbers narrowed to near even. If the investment deals that Kyrgyzstan and Russia signed come true, then this would be a huge improvement for Kyrgyzstan, and may indicate real value from EAEU membership. As well, one of those deals is for the building of a hydroelectric dam, and if realized, it could radically transform the energy situation in Kyrgyzstan, spur further economic growth, and might actually lead Kyrgyzstan to become an energy exporter. One good sign of this happening is that, due to a change in leaders and a new economic and foreign policy, Uzbekistan is in favor of the building of these up-stream dams.¹⁴⁷

One of the most fundamental reasons for Kyrgyzstan joining the EAEU was to allow their citizens the free and unhindered ability to work in Kazakhstan and Russia. Remittances are fundamental to the Kyrgyz economy. In 2015, at the time of accession to the EAEU, remittances made up 30.3% of Kyrgyzstan's economy, while in neighbouring Tajikistan it made up 36.6%.¹⁴⁸ In the previous year, remittances made up an even more staggering 43 percent of Tajikistan's GDP, and 30 percent in Kyrgyzstan.¹⁴⁹ However, after accession to the EAEU in 2015 Kyrgyzstan started to see the benefits of having preferential working abilities in Russia compared to the Tajiks. As of 2018, Kyrgyzstan's GDP is made up 33.6% from remittances, while in Tajikistan this has slumped to only 31%.¹⁵⁰

¹⁴⁶ "Russia Gives Kyrgyzstan \$30M Grant as Putin Visits Key Regional Ally."

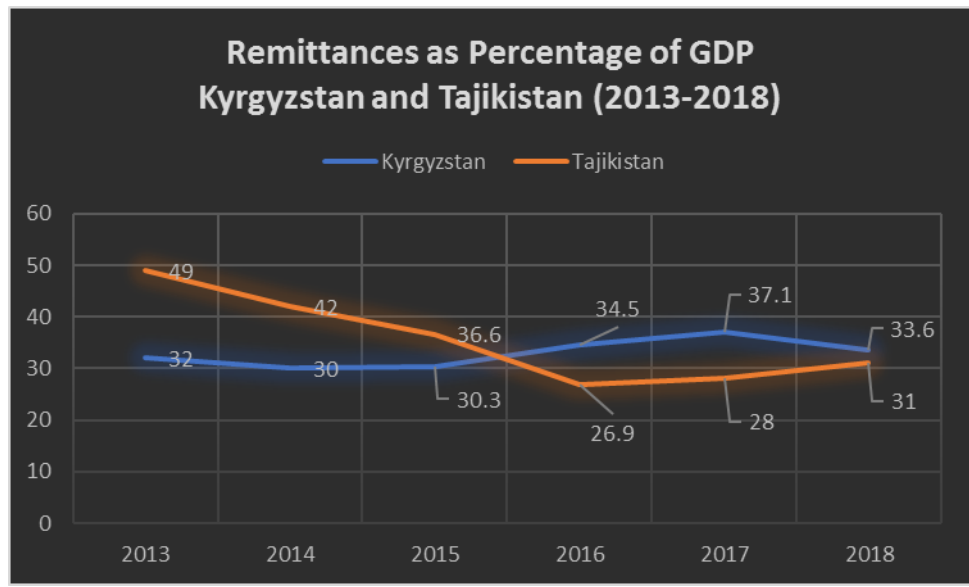
¹⁴⁷ Catherine Putz, "Putin in Kyrgyzstan: A Tiny Base Expansion and a Hydropower Agreement" *The Diplomat*, March 29, 2019. Accessed May 7, 2019. <https://thediplomat.com/2019/03/putin-in-kyrgyzstan-a-tiny-base-expansion-and-a-hydropower-agreement/>.

¹⁴⁸ Knomad, *Migration and Remittances Recent Developments and Outlook (2016)*, (Washington D.C.: The World Bank Group, 2016): 22.

¹⁴⁹ Knomad, *Migration and Remittances Recent Developments and Outlook (2016)*, 39.

¹⁵⁰ Knomad, *Migration and Remittances Recent Developments and Outlook (2019)*, Washington D.C.: The World Bank Group, 2019): 22.

There has been a clear indication that Kyrgyzstan is benefiting remittance wise, from being an EAEU member. Kyrgyzstan has “one of the highest rates of reliance on labour migration in the



world, [and]the membership of the EAEU created more favourable conditions for migrants from Kyrgyzstan than from non-members, such as Uzbekistan and Tajikistan.”¹⁵¹ The World Bank

even indicates that in 2018 there was an “increased volume of temporary cross-border workers”

Figure 16

into Russia due to higher infrastructure spending, and that “the simplification of procedures for foreigners to work in Russia stemming from Eurasian Economic Union membership” was a driving force behind increased remittances to Kyrgyzstan.¹⁵² In fact, before the upturn in the Russian economy, when migrant jobs were less needed, Kyrgyz remittance earnings were even better compared to Tajikistan. In 2016 for instance, Kyrgyzstan reported remittances made up 34.5% of their GDP, while in Tajikistan it was only 26.9%.¹⁵³ It should be noted that both Kyrgyzstan and Tajikistan are near or at the top of the world rankings for percent of GDP by remittances, and though this is not necessarily an envious economic position to be in, it is a vital necessity for these countries, and the EAEU seems to be giving Kyrgyzstan an edge in this regard.

Based off of remittances alone, one may conclude that EAEU accession has been an overall benefit to Kyrgyzstan, even if the country does not have full access to the common market yet.¹⁵⁴

Aside from the boost that has come from remittances, and a decent increase to the amount of FDI

¹⁵¹ Dragneva and Wolczuk, *The Eurasian Economic Union Deals, Rules and the Exercise of Power*, 9.
¹⁵² Knomad, *Migration and Remittances Recent Developments and Outlook (2019)*, 28.
¹⁵³ Knomad, *Migration and Remittances Recent Developments and Outlook (2017)*, Washington D.C.: The World Bank Group, 2017): 3.
¹⁵⁴ Dragneva and Wolczuk, *The Eurasian Economic Union Deals, Rules and the Exercise of Power*, 9.

that Kyrgyzstan has received, most other economic indicators have shown small but steady growth in the Kyrgyz economy. This should lead one to believe that although the EAEU has caused some difficulties for Kyrgyzstan, the overall union has been somewhat beneficial, and being outside of it would clearly not be a plus.

4. Armenia and Kyrgyzstan Compared

From the data I have presented so far, one can see that although the EAEU has by no means been an economic windfall, there is strong data to show that joining it will not result in complete stagnation either. On the contrary, in many regards the EAEU plays a significant role in improving certain aspects of each country's economy. And although Russia may have created the Union for majority political reasons, with some commentators pointing to the fact that by 2016 the EAEU accounted for only 5% of Russia's trade, this does not mean that other nations, like Armenia and Kyrgyzstan, did not join largely for economic reasons.¹⁵⁵

The final thing that we must now be look at, is how Armenian and Kyrgyz results compare to each other, why the outcomes are the way they are, and what this means for other small states looking to potentially join the EAEU. In this case we will first compare the bargaining positions and outcomes, and then once again compare exports, overall trade, GNI/GDP and GDP growth, HDI, FDI, and remittances.

The significant difference between Armenian and Kyrgyz accession happened right at the start. Armenia was able to use their strong leverage from their DCFTA agreement to reap hefty rewards when it came to cheaper energy, special customs duty and export agreements with Russia, and strategic investments flowed into the country right away. All of this gave Armenia an economic boost that it was able to build on and has since significantly improved their economy. Kyrgyzstan on the other hand, had very little leverage over Russia, and therefore was not able to obtain the best bargaining outcome. Though they also received some concessions right away, most investments that would have really spurred the Kyrgyz economy were only signed in 2019, and they will have to wait many more years for these to be completed. In this sense, because Kyrgyzstan really wanted and needed to join, it was not a priority for Russia to focus on making their accession as good as they had to make it for Armenia.

¹⁵⁵ Ibid, 7.

On the matter of exports, Armenia has certainly outshined Kyrgyzstan. In this case, Armenia benefited greatly from being within a common market where they were able to significantly increase their exports and diversify their export partners. Many of the EAEU free trade agreements have helped with this. Armenian exports have also essentially kept pace with their former DCFTA partners, Moldova and Georgia, giving credence to the fact that the EAEU does not hurt export creation. In the case of Kyrgyzstan, the loss of their re-export business has hampered export growth overall, and official Kyrgyz export numbers over the past years can be described at best, as flat. Kyrgyz exports however remain higher than Tajik exports, and the differential between the two remains mostly constant.

Finally, it should also be mentioned that both Armenia and Kyrgyzstan face problems when it comes to exporting goods due to their geographic location. Armenia is wedged in-between Turkey and Azerbaijan, two nations with which it has very poor relations, and which it effectively cannot trade with.¹⁵⁶ In the case of Kyrgyzstan, the country is very mountainous, which does not help with easy trade flows. In this regard, Armenia has so far benefited much more from the EAEU than Kyrgyzstan when it comes to exports.

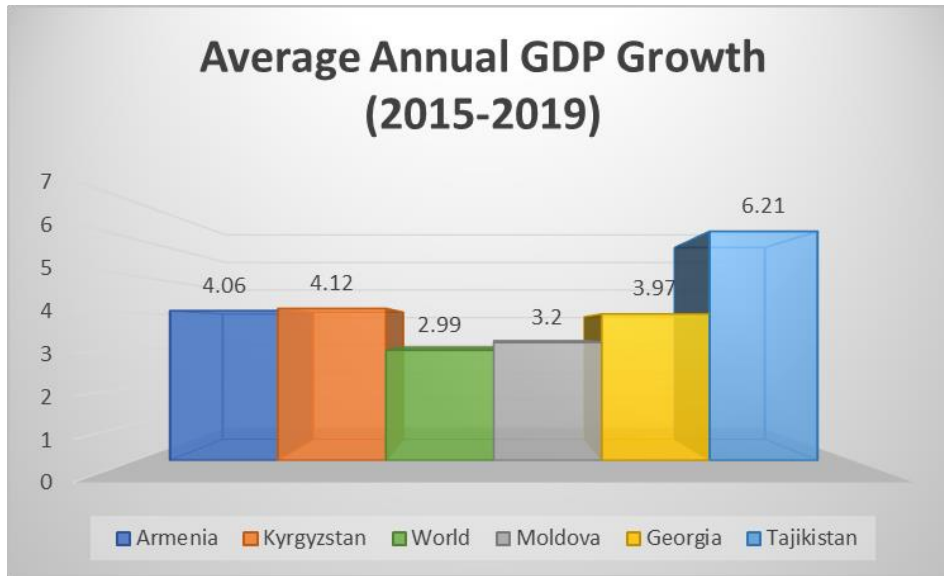
Another interesting matter to note, is that both nations have experienced an overall diversification of trade. One common trope about the EAEU is that the economies of the countries that join will be locked into Russian trade forever, and that this will harm growth. Though it is true that Russia is a very important trade partner, both nations statistics have demonstrated that imports from Russia have decreased, exports to Russia have increased, and the amount of trade with Russia as a percent of total trade is either down, or only marginally up. This should be a strong indication to other nations looking to join the EAEU that the organization is more than simply attaching yourself to Russia.

Aside from the increase of internal trade that the EAEU provides to its members, which was claimed to have risen 38% in 2017, the EAEU also provides small states like Armenia and Kyrgyzstan access to free trade deals they would otherwise not be likely to negotiate on their own.¹⁵⁷ Initial free trade agreements that the EAEU has concluded are those with China and

¹⁵⁶ Republic of Turkey Ministry of Foreign Affairs, "Relations between Turkey and Armenia." Accessed May 8, 2019. <http://www.mfa.gov.tr/reasons-between-turkey-and-armenia%20.en.mfa>.

¹⁵⁷ "Eurasian Economic Union Trade Up 38%," Russia Briefing. April 17, 2017. Accessed April 30, 2019. <https://www.russia-briefing.com/news/eurasian-economic-union-trade-38.html/>.

Vietnam, and it is claimed that the EAEU is on the brink of concluding free trade deals with Egypt, Iran, India, Singapore, Israel, and more.¹⁵⁸



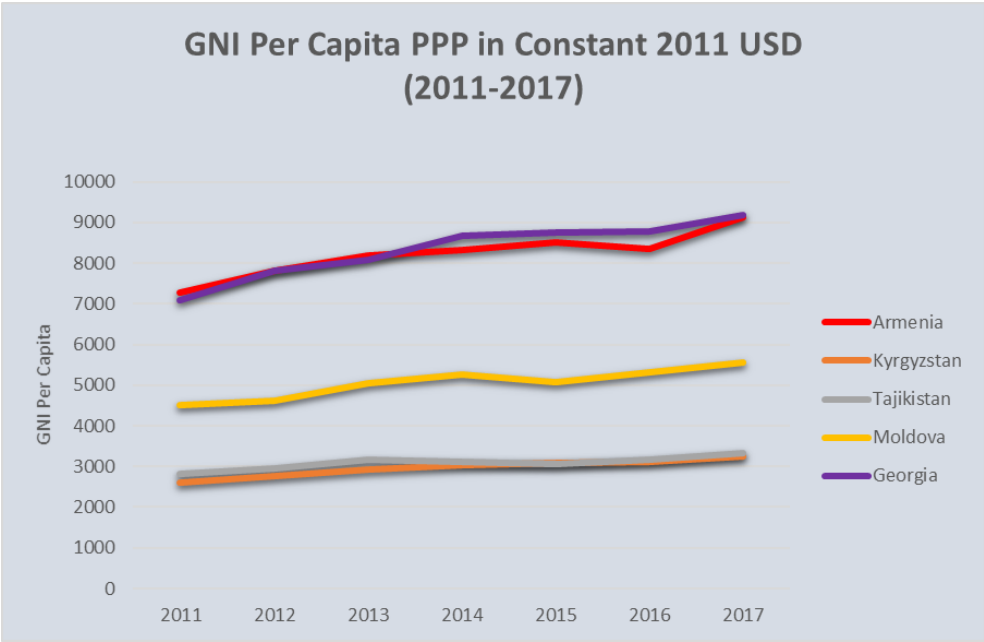
On the matter of GNI and GDP annual growth, both nations have fared relatively well. According to the previously presented World Bank statistics, both nations have grown significantly faster

Figure 17

than the world average between 2015 and 2019 (where official projected growth rates are used). Kyrgyzstan has grown slightly faster than Armenia, but essentially the two countries are growing at the same rate. As well, both Armenia and Kyrgyzstan have grown at rates that are slightly better than the two DCFTA nations, though slower than Tajikistan. Once again this shows that both countries have benefited from the EAEU.

When looking at per capita GNI PPP at constant 2011 dollars, Armenia and Kyrgyzstan once again appear to have done well. As seen from the chart below, Armenia and Georgia, as well as Kyrgyzstan and Tajikistan, have essentially been shadowing each other's GNI numbers between 2011 and 2017. In the case of Armenia, it is safe to say that, in the short term at least, the EAEU has been just as good for it in terms of GNI growth as the DCFTA has been for Georgia.

¹⁵⁸ Chris Devonshire-Ellis, "China-Russia Great Eurasian Partnership on Development Track as EAEU Agree to Regional Free Trade," The Silk Road Briefing, February 12, 2019. Accessed April 30, 2019. <https://www.silkroadbriefing.com/news/2019/02/12/china-russia-great-eurasian-partnership-development-track-eaeu-agree-regional-free-trade/>.



In the case of Kyrgyzstan, though its southern neighbour Tajikistan has shown faster GDP growth while being outside the EAEU, on the matter of GNI, the two countries have

Figure 18

grown at a nearly identical pace, with Tajikistan once again having a very slight edge. At the very least this should indicate that the EAEU has certainly not hurt Kyrgyz growth, though at the same time it must be said that EAEU accession did not give Kyrgyzstan any sort of large boost; at least not when it comes to GNI PPP calculations, which is the most conservative of all the per capita calculation.

In this regard, if we look at GDP PPP per capita, instead of GNI, the International Monetary Fund in 2018 actually shows Kyrgyzstan at an 11.1% advantage over their Tajik neighbours; and if we look at the nominal GDP per capita based on current exchange rates, the same study shows a staggering 34.8% advantage for Kyrgyzstan.¹⁵⁹ Therefore, under this statistic we can see that Kyrgyzstan being within the EAEU has had an impact, yet certainly not as much of an impact as Armenia has had, as can be witnessed in Figure 18 by the flatness of the Kyrgyz line, and the sharp upward trend of Armenia, which is probably powered by increased exports.

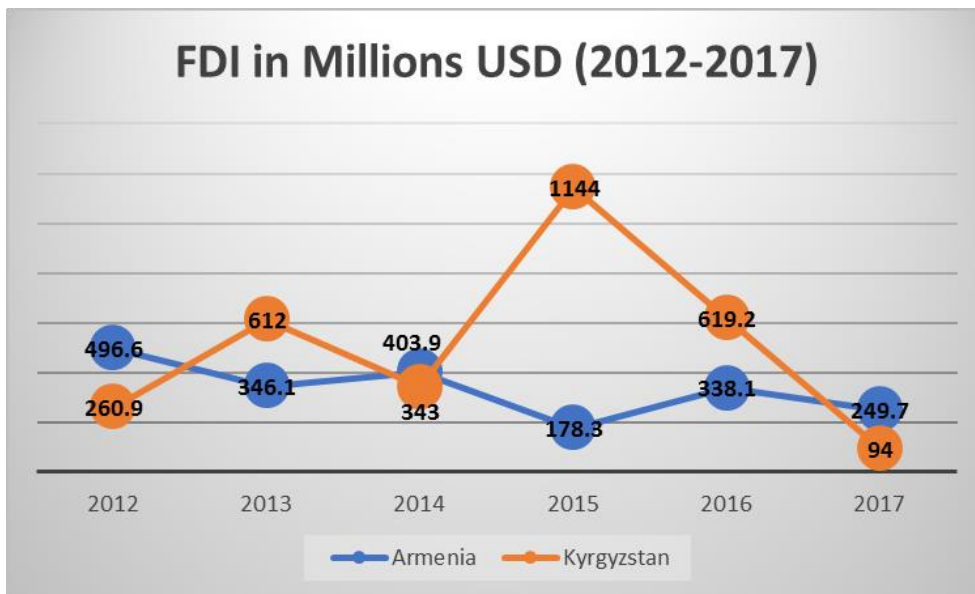
On the matter of HDI, the two countries have shown steady, but mixed results. Between 2012 and 2017, Armenia experienced an HDI rise of 2.38%, which allowed them to surpass two positions in the world and rank them in 83rd place. Kyrgyzstan has risen at a rate of 3.44%, but

¹⁵⁹ International Monetary Fund, "Report for Selected Countries and Subjects." Accessed May 1, 2019. <https://www.imf.org/external/pubs/ft/weo/2019/01/weodata/weorept.aspx?>

remains in the same spot as 2012, 122nd place.¹⁶⁰ This shows that although Kyrgyzstan’s HDI is growing at a faster pace than Armenia, it is however only growing at a rate comparable to its compatriots at that lower level of development, whereas Armenia is growing faster relative to its higher position. For reference, Georgia grew at 3.84%, overtook seven position, and is ranked 13 places ahead of Armenia in 70th; Moldova grew at 2.28%, but lost three positions, falling to 112th; and Tajikistan rose by just 1.23%, and fell to 127th place.¹⁶¹ All this to say, that the EAEU has seemingly not hindered social and economic growth, and although Armenia and Kyrgyzstan have both reported good growth it is Armenia that has once again prospered more.

Figure 19

On the matter of Foreign Direct investment, both nations have experienced mixed results. Armenia has had somewhat consistent inflows of FDI, while Kyrgyzstan’s



have been erratic. Overall however, Kyrgyzstan has received nearly \$1.1 billion more in FDI inflows between 2012 and 2017. This may seem like Kyrgyzstan is benefiting much

more from investments than Armenia is, even though Armenia should have received the more advantageous deal. But total inflows of FDI do not tell the whole story. If we look at annual FDI inflows on a per capita basis based on 2017 population statistics, then Armenia received an average of \$686.43 per inhabitant between 2012 and 2017, while Kyrgyzstan received only \$508.36, about 25% less.¹⁶² For further reference, Tajikistan received only \$161.95 between those dates, Moldova \$322.37, and Georgia the clear winner at \$2,261.

¹⁶⁰ United Nations Development Programme, Human Development Indices and Indicators, 23.

¹⁶¹ Ibid, 23-24.

¹⁶² United Nations, “Total Population by sex (thousands).” Accessed May 2, 2019. <https://population.un.org/wpp/DataQuery/>.

And finally, on the matter of remittances, an interesting trend can be witnessed. As we have seen, Armenian remittances have dropped from 20% of GDP in 2014, to as little as about 12% in 2018. Whereas in the case of Kyrgyzstan, remittances have jumped from as little as 30% to as high as 37%. In this regard, both have actually done well, but in different ways. Armenia's accession to the EAEU has seen the country's economy improve to a point where remittances are less needed and has become less dependent on them than their DCFTA counterparts Georgia and Moldova. In the case of Kyrgyzstan, a country still highly dependent on remittances, accession has allowed them to gain a special advantage among migrant labourers in Russia, and has seen them surpass Tajikistan, a country that used to have the better outcomes. Therefore, EAEU accession has affected both countries remittance habits in a positive way.

Conclusion

The main objective of this thesis was to demonstrate how a rationalist liberal economics-based approach can account for integration into the EAEU, and if there have been economic benefits for Armenia and Kyrgyzstan in joining. We can conclude that both Armenia and Kyrgyzstan joined the EAEU for rational liberal-economics based reasons, among others, after going through a process in which various groups in society expressed their wishes, the ideas were aggregated, the utility of alternative courses were considered, and the EAEU was chosen because they believed that it would maximize their utility the most. As well, it has been demonstrated that by no means have either of the nations presented been forced to join the EAEU, and they did so on their own accord for rational reasons.

By no means was this study trying to present accession to the EAEU as a solely economic decision – there were clearly security and strategic reasons for nations to join – nor was the goal of this study to look at how EAEU integration works, nor to suggest that the EAEU is necessarily the best option. This work has taken a significantly different view on the accession to the EAEU of both Armenia and Kyrgyzstan though, and treats them as rational actors on the world stage.

What was clear in 2013-2015, was that the majority of English-language publications, both scholarly and journalistic, focused mainly on the geopolitical and strategic aspect of the Union. This work has therefore been particularly important in the fact that it presents a new narrative on small state accession to the EAEU. The English literature on the topic generally relegated both Armenia and Kyrgyzstan to states that did not have free will in their decision-making process, as

well as a general belief that the EAEU was not economically viable was widely presented. Through the use of liberal intergovernmental theory, and through the presentation of relevant economic statistics, this new narrative is factually achieved.

This has been done by demonstrating how liberal intergovernmentalist bargaining theory was effectively used by Armenia, and how Kyrgyzstan could not replicate these results. In essence, Armenia used their DCFTA leverage to bargain for a better initial outcome than Kyrgyzstan, and those initial benefits are part of the reason that Armenia has done economically better overall. Due to Kyrgyzstan's need and desire to join the EAEU, and because they had no real alternative except for staying out, Kyrgyzstan was not able to bargain for the best initial outcomes. This has partially led to Kyrgyzstan not receiving the aid and reforms they need to substantially transform their economic situation. That being said, they have still done relatively good economically.

What can also be clearly concluded is that although the EAEU has not led to an economic miracle in these states, the early results based on various economic indicators that were presented show fairly good economic growth, though Armenia has clearly done better. Also, in many ways EAEU accession has led to better economic results than their DCFTA or non-EAEU neighbours, which is somewhat surprising.

The initial hypotheses were mostly correct in assuming that Armenian and Kyrgyz accession to the Eurasian Economic Union could be seen through a rational liberal economics-based approach, which it has been demonstrated it can. And that the overall economic benefits of joining the EAEU have been mainly positive for Armenia and Kyrgyzstan, which they have. A secondary hypothesis also presumed that after integration into the Eurasian Economic Union, Armenian and Kyrgyz economic dependence on Russia would not have significantly increased. This so far seems somewhat to be the case as well. Kyrgyzstan has decreased their trade turnover with Russia relative to the rest of the world, and Armenia has only slightly increased theirs. However, Russia owns much more assets in both countries than it used to.

Georgia, Moldova and Tajikistan have throughout this work been used comparisons to put the economic growth of Armenia and Kyrgyzstan into perspective. A secondary aim of this research, and a prime topic for future research, is assessing the viability of further small states joining the EAEU. Aside from the three states already mentioned, other small states that have been suggested as potential candidates are Mongolia, Azerbaijan, Turkmenistan and Serbia. The most

likely candidates however are Tajikistan and Mongolia, with Moldova being the prime swing-state. In this regard, what can be said about this topic is that although the EAEU seems to be a decent choice economically, the key to having the most advantageous accession is to first have economic integration choices.

Though Russia surely wants to expand the Union, they will certainly not give nations whatever they want to join. This can be seen in the Kyrgyzstan case. If a nation wants to get the best results out of accession, they should first demonstrate a situation in which they have flexibility over their economic integration choices and use this bargaining power as a tool to extract the most value out of accession negotiations. Moldova would seem to be a prime candidate for this strategy, and Tajikistan seems to have very little options besides the status quo. I can make no clear judgement on Mongolia, and this would be an excellent topic for further research by other scholars. It will be interesting to see the long-term economic results of the EAEU, but as for now, we must conclude that they are positive, and that small states can be seen as joining the Union for rational liberal-economics based reasons.

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Confirmation

I confirm that I am the author of submitted thesis: *Small States and the Eurasian Economic Union: Armenia and Kyrgyzstan Compared*, which has been prepared independently and has never been presented for any other course or used in another educational institution, neither in Lithuania, or abroad. I also provide a full bibliographical list which indicates all the sources that were used to prepare this assignment and contains no un-used sources.

Michael Belafi

Signature