Russia signs trade deal with former Soviet republics amid growing regional tensions

Niall Green
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Russia signed a free-trade agreement with seven other former Soviet Republics October 19. The deal, which will remove tariffs from a range of goods, was announced by Prime Minister Vladimir Putin in St. Petersburg.

Joining the Russian-led scheme are Ukraine, Belarus, Kazakhstan, Armenia, Kyrgyzstan, Moldova and Tajikistan. The deal will have to be ratified by the parliaments of all eight countries.

Putin, who has announced he will stand for the Russian presidency next year, claimed that the free trade agreement was a "fundamental pact" that will make the region's economies "more competitive."

"We are opening up our markets to each other, which means that goods will be brought in to our markets at lower prices," Putin said. "This, in turn, will provide better conditions for starting new joint enterprises."

The deal replaces a much looser agreement signed, but not ratified by several of the countries, in 1994. Putin claimed that three other ex-Soviet republic—Azerbaijan,TurkmenistanandUzbekistan—are considering joining the free trade group.

The importance of Ukraine's participation in the free-trade deal was made clear by Russian president Dmitri Medvedev, who visited the country on the eve of the signing in St. Petersburg. Speaking to an economic forum in Donetsk, in eastern Ukraine, Medvedev declared, "We must do everything so that our cooperation doesn't weaken but gets stronger. Today's reality is that not only states but also so-called cross-border and regional associations are becoming influential economic players."

The inclusion of Ukraine in the free-trade deal is seen as a step toward Kiev joining the Russian-led customs union with Belarus and Kazakhstan (with Kyrgyzstan expected to join soon).

Ukraine's Prime Minister Mykola Azarov announced in St. Petersburg that his government would explore the "technical regulations" involved in joining the Russian-led customs union.

The inclusion of Ukraine in the free-trade deal is viewed by Moscow as something of a coup over its rivals in the European Union (EU), which has been struggling to establish a free-trade agreement with the government in Kiev for many months.

A so-called "association agreement" would see tariff and travel restrictions lifted between Ukraine and the 27 member states of the EU. Expected to be implemented by the end of the year, the agreement has been stalled by internal divisions within the EU, whose member states are adopting increasingly nationalist and protectionist measures in the face of the European sovereign debt crisis and the general contraction of the continent's economy.

Placing further doubt over the EU-Ukraine trade agreement, the EU has reacted angrily to the recent imprisonment of Yulia Tymoshenko, the former prime minister of Ukraine.

Tymoshenko was found guilty of abusing government office while negotiating an energy deal with Russia in 2009 and faces additional charges of defrauding the state of $400 million in the 1990s.

EU officials condemned the trial and conviction of Tymoshenko as "politically motivated," and postponed a planned visited by Ukraine's President Viktor Yanukovich to Brussels, where he was due to conduct talks on the free-trade deal.

A spokesman for EU foreign policy chief Catherine Ashton said that Yanukovich's visit had been delayed in order to encourage Kiev to "make progress in ensuring the rule of law and the independence of the judiciary."

Tymoshenko, one of the leaders of the Western-backed "Orange Revolution," had sought closer ties with the EU and the United States, though in recent years she also made political overtures to the Kremlin.

Despite the tensions over the Tymoshenko case and the trade agreement signed in St. Petersburg, EU membership remains a key policy goal of the Ukrainian government. Yanukovich is attempting to strike a balance between Russia and the EU, following the breakdown of relations with the Kremlin caused by the "Orange Revolution."

However, deep division between the Russia and Ukraine remain over the supply and pricing of natural gas. A temporary deal struck between Yanukovich and the Kremlin in 2010 for the provision of gas will soon expire, with Kiev expected to fight Russian efforts to ramp up prices.

The Ukrainian government wants to reduce its imports of Russian gas from the current 40 billion cubic meters per year to 27 billion cubic meters, and to lower the price to $230 per cubic meter. Russia is pushing to increase the cost of natural gas closer to the world market price of $415 per cubic meter.

During his visit to Ukraine, Medvedev issued a warning that the Yanukovich government should not attempt to "torpedo existing contracts," after Kiev threatened to take the dispute to international arbitration.

The issue of natural gas supplies from Russia to Ukraine is also a concern for the EU. With much of central Europe's energy supplies coming from Russia, a renewal of the energy dispute between Kiev and Moscow that caused several gas shortages in Central Europe in 2009 could deal a further blow to the fragile regional economy.

For this reason, the International Monetary Fund, which has already provided funds to Ukraine in exchange for structural reforms, has demanded that Kiev agree to a new gas deal with Russia before it releases the next tranche of its $15.6 billion bailout.

However, Moscow has strengthened its bargaining power over Ukraine now that the North Stream gas pipeline directly connecting Russia and Germany has come online. At the official opening of the pipeline in September, Putin declared, "We are slowly and surely turning away from the dictates of transit states"—a direct warning that Moscow can turn off the spigots to Ukraine and other eastern European countries without impacting on the more lucrative trade with Germany.

The rivalry between Moscow and Brussels over the economic and strategic orientation of Ukraine is symptomatic of growing tensions between the major powers, which have been intensified by the recent growth of protectionist economic policies and the resort to militarism.

The NATO-led war against Libya was aimed, in large measure, at advancing the position of US and European corporations at the expense of their rivals in Russia and China. Moscow and Beijing had billions of dollars worth of contracts with the deposed Gaddafi regime. The new "rebel" regime brought to power by the US, France and Britain has already indicated that contracts signed during the Gaddafi years will be nullified or renegotiated, providing a bonanza for Western companies at the direct expense of Russian and Chinese interests.

Russian influence in Central Asia is also under pressure from China, which has emerged as a major economic power and aid donor in the region, and the United States, whose war in Afghanistan is aimed at securing a foothold near the energy-rich Caspian Basin. Meanwhile, the European powers and the US are developing oil and natural gas pipelines from the Caspian to the Mediterranean to bypass Russia's pipeline network.

The progress Moscow has achieved in creating a trade bloc in the former Soviet region stands in stark contrast to the failure to ease trade and travel restrictions between Russia and the EU. Despite trade between the two blocs standing at over $240 billion in 2010, efforts at replacing their Partnership and Cooperation Agreement, signed over a decade ago, with a more comprehensive economic framework have ground to a halt.