

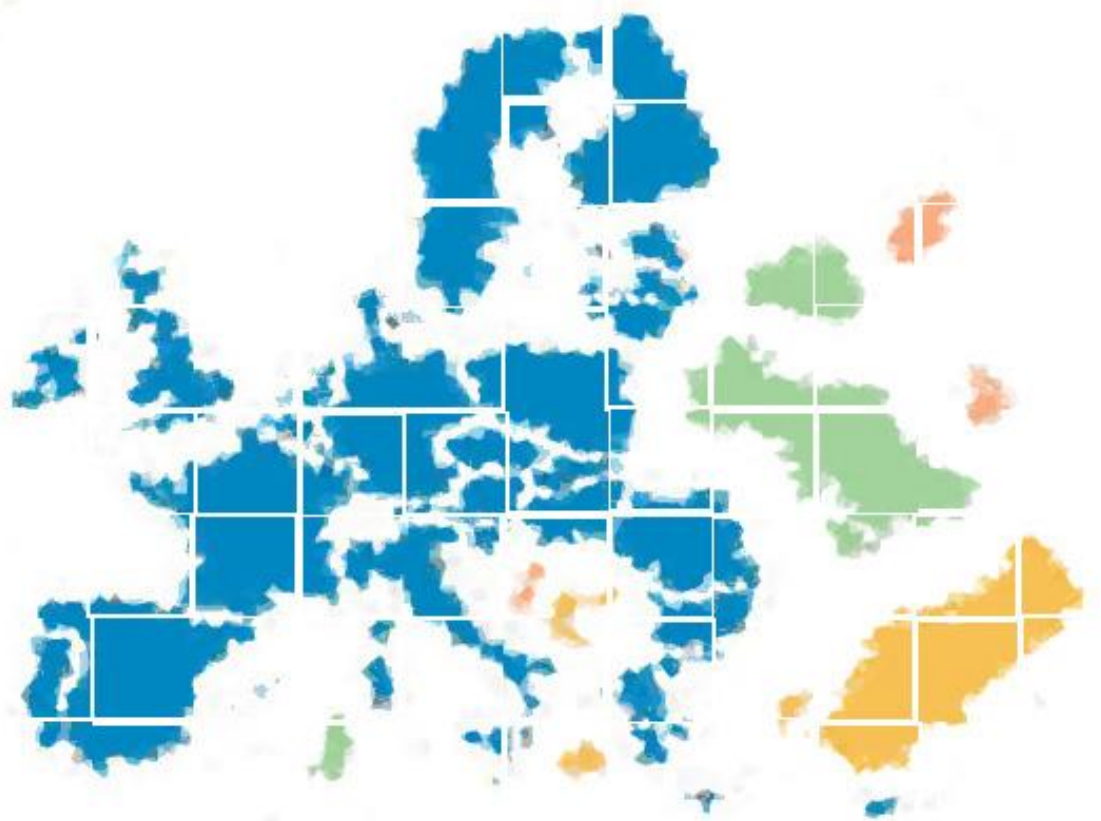
EU Frontiers

Policy Brief

No. 23

“A Strategy for Russia” - Russian Foreign Policy and Global Positioning in the Next Decade

Edited by Annamária Kiss



November 2017

Center for European Neighborhood Studies

The Center for European Neighborhood Studies (CENS) is an independent research center of the Central European University (CEU) located in Budapest, Hungary. Its main goal is to contribute to an informed international dialogue about the future of the European Union in the world, while capitalizing on its Central European perspective and regional embeddedness.

The strategic focus of the center is academic and policy-oriented research on the place and role of the European Union in its rapidly changing and increasingly volatile neighborhood. Through its research, CENS seeks to contribute to the understanding of the environment where the EU, its member states and partners need to (co)operate, and it aims at supporting the constructive development of these relations by providing opportunities for discussion and exchange. The center’s geographic focus areas are Central and Eastern Europe, the Western Balkans and Turkey, Eastern Europe, the South Caucasus and Russia.

EU Frontiers

The ‘EU Frontiers’ publication series aims to provide an account of actors and developments along the enlargement frontiers of Europe. It fills an academic gap by monitoring and analyzing EU related policies of the broad Central – and Eastern European region, studying the past and evaluating the prospects of the future. Furthermore, it follows and gives regular account of the EU Enlargement process both from an inside and an applicant perspective.



This report has been produced with the kind support of the Friedrich-Ebert-Stiftung Budapest. The opinions expressed in this report are those of the authors.

About the authors

András Deák is Head of Research Group “Economics of Globalization” at the Institute of World Economics, HAS, Budapest. He received his Diploma (MA) and his Doctorate (Ph.D.) in International Relations, in 1997 and 2003, respectively, both from the University of Economic Sciences, Hungary. His research fields cover economic processes in the Post-Soviet space, integration into the world economy and energy policy in particular. His activities include foreign and energy policy analysis, political and corporate consultancy on Hungarian and some civil activities in energy conservation.

Samuel A. Greene is Director of the Russia Institute at King’s College London and senior lecturer in Russian politics. Prior to moving to London in 2012, he lived and worked in Moscow for 13 years, most recently as director of the Centre for the Study of New Media & Society at the New Economic School, and as deputy director of the Carnegie Moscow Center. His book, *Moscow in Movement: Power & Opposition in Putin’s Russia*, was published in August 2014 by Stanford University Press. He holds a PhD in political sociology from the London School of Economics and Political Science.

András Rácz is Associate Professor at the Department of International Studies at the Péter Pázmány Catholic University in Budapest. After finishing Veres Péter High School in Budapest, he received an M.A. in History at Eötvös Loránd University, Faculty of Humanities, and another M.A. in Political Science at the Faculty of Social Studies, both in 2004. He defended his Ph.D. in History in 2008. During his graduate and post-graduate studies he was granted various scholarships and studied in the United States, Latvia, Lithuania, Poland and Belarus. Between 2004 and 2006, he held a scientific grant at the Teleki László Institute, Centre for Foreign Policy Studies. Since 2009, he has been working at the Strategic Defense Studies Center of Zrínyi Miklós National Defense University. He has acquired teaching experience at Pannon University and Kodolányi János University of Applied Sciences. His research fields of interest are the foreign, security, and defense policies of the post-Soviet states and the foreign and security policy of Hungary. Besides Hungarian, his mother tongue, he is fluent in English and Russian, and has an intermediate knowledge of German as well.

Tony Van der Togt is on secondment from the Netherlands Ministry of Foreign Affairs (MFA) since September 2014. Before joining the Clingendael Institute he held different positions in the Netherlands MFA, both in The Hague and at Dutch representations abroad, dealing with Eastern Europe and Central Asia. He established the first Netherlands Embassy in Kazakhstan and served as Dutch Chargé d’Affaires a.i. in Almaty from 1995-98. At the Ministry he worked on Eastern Europe and Central Asia in several functions, including Head of Eastern Europe/Central Asia Division from 2000-2005. He worked at CFSP-department from 1998-2000, including as Acting European Correspondent and was Special Advisor on OSCE from 2005-2008. Most recently, he served as Dutch Consul-General in St Petersburg (2008-2011) and Special Representative for the Netherlands-Russia bilateral year in 2013. Tony van der Togt studied

“A Strategy for Russia” – Russian Foreign Policy and Global Positioning in the Next Decade

contemporary history and international relations at Amsterdam Free University, Radboud University Nijmegen and Leiden University. He wrote his MA-thesis on organisational changes in the Dutch Ministry of Foreign Affairs in reaction to new international developments in the period 1945-1974 (Nijmegen, 1983). Apart from earlier articles and papers on Dutch-Central Asian relations, Russian foreign policy and EU-OSCE relations, he recently wrote an overview and analysis of the history of bilateral Dutch-Russian relations 1942-2013, in: N.Kraft van Ermel/J.S.A.M. van Koningsbrugge, *Nederland en Rusland, een paar apart? 400 jaar Nederlands-Russische betrekkingen (The Netherlands and Russia, a special couple? 400 years Dutch-Russian relations)*, Groningen 2013.

Sergei Utkin since 2016 heads the Strategic Assessment Section at the Primakov Institute of World Economy and International Relations (IMEMO), Russian Academy of Sciences. He is also since 2016 the Head of Foreign and Security Policy Department at the Moscow-based Centre for Strategic Research. In 2012-2016 he worked at the Centre for Situation Analysis, Russian Academy of Sciences, now merged with IMEMO. In 2006 - 2013 he worked at IMEMO, where his last position was Head of Section for Political Aspects of European Integration. He holds a PhD in political science (international relations), which he received at IMEMO in 2006 for a thesis on Common Foreign and Security Policy of the EU. In 2002 he graduated from the Moscow Pedagogical State University, School of History. His research is focused on the foreign and security policy of the EU, the EU's relations with Russia and the US, Russia's foreign policy in the Euro-Atlantic area.

Russia’s Foreign Policy: The Challenge of the Future

by Sergei Utkin

A confrontation between Russia and the West is neither natural nor eternal. Those trying to prove the opposite resemble market analysts who can easily explain the logic of price fluctuations in the past, and extrapolate this logic into the future, thus sounding realistic, but may completely fail in their assessment. There is still a chance that the guess that they make may happen to be correct, meaning that confrontation remains one of the options. But we have to be aware that this option is not the only one, and that other scenarios may also be supported by a good set of arguments. Much of this essay will be devoted to the arguments which suggest that Russia and the West could go along in a cooperative manner, while the risks of a conflictual relationship will also be addressed.

The world has changed

As one hears about the Ukraine crisis, or tensions in the Baltics and the critical attitude in Europe relating to presumably uncivilised Russia, it seems like the regional political arena has returned to where it was some five hundred to three hundred years ago. This fits well with the realist pattern of international relations theory, which suggests the nature of this power struggle has not changed since antiquity.

However, we do not live in the world of the 16th or even the 20th century. Never before has the world’s population skyrocketed to 7.5 billion people, a number that will keep growing for some time. Never before have we had access to levels of technology, education and prosperity for large groups of people comparable to what we witness today. Many of these dramatic changes show little or no respect for state boundaries. The governmental policies, apart from in a couple of extreme cases, have only a limited amount of influence over market forces that bring innovation, modern goods and management practices to all corners of the world.

Communication creates miracles - one can physically get to almost any habitable place in a matter of 24 hours, and might even find this excessive, since a high proportion of business and human interaction can be done globally, 24/7, with the help of the internet. Governments may still try playing defence, securing their ability to establish and control borders in the digital world, but most of these attempts will fail in the longer run. The alternative to those borders is not necessarily chaos, or a unipolar control provided by the strongest state, which will itself find its powers increasingly challenged and limited by global trends beyond its control. The true alternative must be increasing international cooperation to establish rules in trade, communication, management and transparency that are respected by everybody.

Russia is no exception to these trends. If perceived as a standalone power of the past, it will keep being challenged demographically by the Asian giants, economically by both the East and the West, militarily by the West,

the East, and the South. Looking at a changed world with optics which haven't been adjusted accordingly is a dangerous exercise. On the other hand, if Russia contributes cooperatively to global rules-setting endeavours, and uses the unique leverage provided by modern technology and the global economic environment, it will establish itself as one of the key players in this new, more stable and more prosperous world of tomorrow.

Global Europe

It is not the first time in history, but perhaps the first time in more than 500 years, when Europe does not have a decisive advantage over the rest of the world in technology, infrastructure, and education. The progress achieved in this regard by other parts of the world relies heavily on Western experience and know-how but it will not stop there. The old ideas of copyright happen to be ineffective today and will be even less effective tomorrow, when innovation will spread in purely digital form and be implemented through automatization, and 3D-printing will become globally available and ever more capable. Europe will be just one of many areas where the high quality of living and access to modern services and infrastructure will be taken for granted. There is no reason to think that in the longer run there will necessarily be a critical divide in this regard between the European Union members and the EU's direct neighbours, or other front-running states. At the same time, most probably the EU will remain amongst the most important economic powerhouses of the world, if it manages to overcome the risks of collapse that are mostly related to its internal imbalances.

Even the most optimistic forecast of Russian future development does not promise that the country could take a stand equal or close to China, the US or India in demographic and economic terms. But whatever forecast one refers to, the country would remain the largest and most populous state of Europe, unless it will be specifically denied the ability to perceive itself and act as a European state. Russia's cooperative participation in the coordination of European policies could increase Europe's global abilities. Even all the states of Europe combined, including Russia, face the risk of lagging behind other regions in their development dynamics. If they fall prey to this risk, this will most likely happen because they would be unable to overcome old and new regional animosities and tensions, and will devote their attention and resources to a tug-of-war rather than joint efforts.

One of the advantages that the US, China or India will have by default, which Europe will have to work on, is a common economic and regulatory space. Even in the EU, the abolition of excessive barriers in this regard remains unfinished, and the EU's policies may lead to increased external barriers for some of its partners, including neighbours. A temptation is high to use the external border as a bulwark against chaos but it may ironically happen to act as an impediment for mutually beneficial interactions.

Evolving friendships

The tendency to extrapolate the trends we are witnessing today does not only concern conflicts and other deplorable developments, it also concerns good things that many would be willing to keep intact. For many countries of

Europe, the EU and NATO framework happened to be an idea that worked just fine, serving their national purposes of state-building, development and security priorities. But despite the fact that various forms of economic integration and defence cooperation can be found around the world, most of the world’s rising powers do not seem inclined to repeat the Euro-Atlantic pattern. The historic constellation, in which the EU and NATO became the rails that determined the path for a number of nations, a number which grew rapidly, is in itself running out of steam. This does not mean that the achievements of European integration and the North-Atlantic Alliance should be denied or reversed. On the contrary, they helped to create an unprecedented level of policy coordination that will continue to play its role in the longer run.

In the meantime, in the world of the future the EU/NATO membership will not work as a panacea against chaos and misery. Even those countries already involved in those organizations would not be willing to live in a world increasingly troubled apart from the safe haven of the EU and NATO – it would be all but impossible to guard against external threats in such conditions. The future will rather bring about multiple centres of growth that would rarely spread across whole countries but rather be centred around the largest cities. Some of these centres will be in EU/NATO member states, some not, and some economies of the EU/NATO could easily fail to address future challenges and will be marginalized in comparison with the non-EU/NATO growth hubs. We have already witnessed the first signs of these developments with the growing global importance of huge Asian cities, and other frontrunners will follow. It may happen that, for a big EU city, its business and even political ties to Shanghai or Moscow will be more important than the old cosy relationship to direct neighbours in the EU. This will not substitute decision-making in the EU but would create new levels of interaction that would make occasional confrontation between global centres of growth more costly and undesirable for a significant number of powerful actors.

New age of foreign policy

When we think about foreign policy, ghosts of the past often keep haunting us, helped by all kinds of recent developments that revive historical parallels, often negative and worrisome. People born and raised in the 20th century are both afraid of and accomplice to carrying the risk assessments from their younger years across into the next millennium. Some human mistakes indeed get repeated from one generation to another, but it is also evident that hardly any generational changes remain simply a repetition of past experiences. Foreign policy, as with any other field of human activity, would have to adjust to the changing world, sometimes unwillingly.

Foreign policy experts like to discuss power struggles, making attempts to analyse world leaders’ mindset and counting in military balances. They are often much less inclined to focus on economic matters, leaving them to the experts in the field, and assuming that in the end political rationale of power and influence trumps economic rationale. This may remain the logic not only of the discourse but also of the decision-making in a number of nations. And

given the global trends described above, this may push those nations on the wrong path that will multiply tensions, increase the economic costs and create room for others, who are more flexible and focused on economic benefits and innovation, to progress and outpace the usual leaders.

The refocusing of foreign policy to the economy would not mean forgetting abruptly about past concerns and making a U-turn on earlier adopted goals. It would rather go the way of adjustment that would lead us to a significantly different global world of the future in comparison to a world, where this adjustment wouldn't be made. Among other things the adjustment would mean that in any conflictual relationship, the economic downsides of it will be taken into account much more seriously. This would also require a boost of economy-related skills among diplomats and other foreign policy-folks.

Today we see the changes made to the world of foreign policy by modern communication. It makes many of the developments faster, more transparent, and often riskier, with more potential to cause offence. Foreign policy may hardly be the primary concern for most people, but for them it turns into a soap opera, entertainment, that tells stories about rival princes and epic battles. As the world is coming of age, foreign policy will have to be ever less of a scene for scary fairy tales, and more of a tool used to construct the international links necessary to support and boost economic growth and technological development.

Russia will keep changing

The idea that Russian foreign policy is returning to the archetypes of either the Soviet Union or the Russian Empire is appealing to many in its simplicity and may provide a certain kind of strange nostalgia. In the years to come, we may indeed see arguments that the proponents of this concept will use to prove their point. In the longer run, however, Russia, as any other country, will not be able to ignore the changing global trends. The actual tension between Russia and the West, as well as Russia and some of its neighbours, shouldn't make us forget that in many respects Russia is more involved in global interaction than ever before in history. The opportunities for people from all over the country to travel, communicate and contribute to transnational business endeavours are unprecedented. These opportunities may only be used by a minority of Russians that do not determine the course of Russian public policies as of today. But these are the grassroots of the countries' future.

Making adjustments to policy priorities and methods, would not mean that any disagreements between Russia, its neighbours and the West would become thing of the past, but they will have to ensure that ever fewer steps would be made to the detriment of economic development, and that the idea of a civilizational cleft separating Russia and Europe would be no less strange than the idea of a wall cutting the city of Berlin in two is today.

Between Trump and a Hard Place: The European Foreign Policy Outlook for Russia

by Samuel A. Greene

Overview

With the possible exception of Brexit, there is no greater challenge on the European foreign policy horizon than that posed by Russia. In the short to mid-term, Europe does not have sufficient leverage to affect the structure of the Russian policy field, nor can it draw the United States into effective collaboration on the Russian ‘front’. Both the Russian and American agendas are fundamentally driven by domestic logics, which will be impervious to European influence for the foreseeable future. Europe must thus focus on securing its own interests and on affecting the mid- to long-term cost-benefit analysis for Russian policymakers, while putting in place policy pathways with which Washington will be able to reengage once the US returns to international relations in a coherent and constructive manner.

Russian Domestic Politics

The strong expectation is that Vladimir Putin will be reelected to another six-year term as president in March 2018; although Putin himself has maintained a degree of ambiguity on the question, there is nothing in the available evidence or the historical record to suggest that he will not stand, and if he does stand there is no plausible scenario in which he loses (barring a large-scale mass uprising, of which there is, as of this writing, no indication, and for which even Putin’s most ardent opponents have little evident desire).

Putin’s reelection, however, will result in an almost immediate reduction in his de facto ability to govern the country. Given the constitutional limitation of the president to two consecutive terms, Putin’s fourth presidential inauguration will launch the country into immediate speculation – and back-room competition – over the question of who will succeed him in 2024, much as did his second inauguration in 2004. Given that the real power of the Russian president rests not in the formal authority of his office, but in his informal ability to arbitrate conflicts over the allocation and redistribution of rents, the uncertainties created for Putin by the question of succession have the potential to be particularly debilitating: the political and economic elite will be on the lookout not simply for minor changes in the policy environment, but for radical shifts in distributional outcomes for the elite themselves.

Unlike in a more institutionally structured political environment, the incentive for Putin, then, is to avoid providing predictability to his elite constituents, in order to prevent the emergence of coalitions that could bind his hand as the country moves towards 2024. Any forward information he provides about who will succeed him will immediately mobilize competing camps, seeking either to position themselves for benefit or, if that looks

impossible, to push Putin into changing his mind. Even if a successor is not named outright, any significant policy or political shifts – cabinet reshuffles included – will be interpreted as a signal, again provoking elite mobilization for and against the presumed outcome. To keep the elite focused on Putin rather than on their own strategies, any signals sent in one direction will need to be balanced with equally credible signals pointing in the opposite direction; the appointment of members of one camp to important posts will need to be offset by the appointment of their opponents to positions of equivalent power. Thus, we should expect the Kremlin not only to maintain strategic ambiguity about the succession, as was the case in the lead-up to Dmitry Medvedev’s election in 2008, but also to avoid meaningful structural reforms.

Russian Foreign Policy

In this context, observers should expect the Kremlin to maintain its current foreign policy stance for the foreseeable future, for at least two reasons. First, the Presidential Administration’s political operatives have come to understand geopolitical confrontation – including both war and sanctions – as an important contributing factor to the stability and public legitimacy of the current president. Historically, Putin’s political team has pursued an approach to public politics best summed up as, “if it’s not broke, don’t fix it”. It is a risk-averse stance, which only engages in large-scale experiments with public opinion when prior approaches have demonstrably lost their value. The ‘rally around the flag’ that boosted Putin’s public support after the annexation of Crimea and the intervention in Donbas remains robust, and the Kremlin will not want to undermine it even after the elections; the Kremlin, after all, is well aware that Russia is not a classical electoral democracy, and thus that legitimacy must be maintained even between electoral cycles.

The second reason to expect foreign policy continuity relates to the Kremlin’s relationship with the elite, many of whom are reportedly growing increasingly frustrated both with the limitations imposed by geopolitical conflict and with the government’s inability to pursue the kinds of reforms that might restore more robust growth to the economy – and thus reenergize the rent flows on which they depend. Putin’s extraordinary public support makes him much more difficult to challenge, particularly if that challenge comes from an elite that is broadly seen as corrupt and less than patriotic. But sanctions – particularly in their financial aspect – bind the elite powerfully to the Kremlin in ways that were not present when there was a freer flow of liquidity from the West. The fact that most major corporations and all regional governments must now channel their capital requirements either through the Ministry of Finance or the Central Bank of Russia gives the Kremlin leverage it has never before enjoyed. This, too, Putin will be loath to forfeit.

There are, however, significant costs to the Kremlin, alongside these benefits. While the economy, after two years of deep recession, has returned to growth, the growth is anemic and uncertain. The burden of household, corporate and sub-national government debt is growing, even as capital

investment, consumption and disposable income remain flat (at best), suggesting that the cost even of just standing still is becoming increasingly difficult to bear. While the federal government’s fiscal position remains comparatively strong – deficits are small by global standards, and the sovereign debt burden is low – the risks to macroeconomic and fiscal stability are mounting, and the tools available to the government for maintaining an even keel are gradually diminishing.

There is, as a result, a very real need for Moscow to restore access to cost-effective sources of liquidity, which means reopening broad access to European capital markets. Within a reasonable amount of time after the March 2018 presidential election, the Kremlin will likely begin to seek a pathway to the lifting – or at least limitation – of financial sanctions. Given the value of sanctions for domestic politics and the entrenchment of pro-sanction sentiment in Western policy establishments, the Kremlin will continue to see full normalization as both implausible and undesirable. But even if financial sanctions themselves are not lifted, the Kremlin will press for a less expansive interpretation and a relaxation of the pressure exerted by the US Treasury on banks’ compliance departments, so that at least some major Russian borrowers can return to the market.

In this context, Russia’s proposal will likely be for a more robust freezing of the conflict in the Donbas. To this end, Moscow is already seeking to establish fuller control over the players on the ground, so that violence can be more effectively managed. Reducing casualties along the line of control and stabilizing the humanitarian situation in the region may be expected to reduce the need for European policymakers in particular to maintain pressure on Russia. However, Moscow will consider the permanent resolution of the conflict – including the full restoration of Ukrainian sovereignty – too high a price to pay, even for the significant relaxation of sanctions. Not only would normalization cause certain political risks at home (including the emergence of a disaffected nationalist constituency that would feel abandoned by the Kremlin), but it would result in a loss of leverage over Kyiv, which, in many respects, was the purpose of the operation to begin with.

The American Stance

It is, perhaps, ironic that an American administration that many feared would be too friendly towards Russia has devolved into one incapable of doing almost anything at all on the Russian front. Beset by accusations of corruption and collusion involving Moscow, the Trump Administration cannot attempt significant cooperative engagement with Russia. Neither, however, is it in a position to find a creative way forward in one of the world’s most significant structural relationships. Given violent clashes of Russian and American interests in both Ukraine and Syria, it is troubling that there is no scope for engagement on strategic arms control, the disposition and monitoring of conventional forces, or more general confidence-building measures.

The tenor of the public debate in Washington now is such that even Trump’s eventual successor – whether a post-impeachment or post-resignation Republican administration, or a post-election Democratic administration – will also have very little room for maneuver. While the challenges posed by Russia are real, Capitol Hill and the American newsmedia have both been drawn into a discourse that is increasingly untethered from deep factual analysis. As a result, it becomes virtually impossible to prioritize threats and evaluate the effectiveness of responses, and there is little reason to believe that the discussion will revert to more ‘normal’ state even when Trump departs.

Thus, for the foreseeable future the path of least resistance for policymakers on both sides of the aisle in Washington will be to reduce the Russian relationship to rhetoric; the reputational risks of engaging in any open-ended negotiation with Russia are almost incalculably high, and the political dividends to be reaped are almost inevitably negligible. Those within the American foreign policy community who do have both expertise and a genuine interest in a productive (if confrontational) agenda vis-à-vis Russia are increasingly marginalized.

A final irony in the American context, however, is that the overwhelming focus on rhetoric risks obscuring slippage when it comes to actual policy implementation. For Russia’s purposes, the effective relaxation of sanctions does not require a revision of published policy, but merely a change in the approach to enforcement. The US Treasury, for example, regularly provides guidance to financial markets about how expansively to interpret the risk of sanctions non-compliance; a narrowing of this guidance concerning Russian interests could in and of itself have a significant impact on Russia’s access to liquidity – and thus the cost imposed by sanctions – without ever showing up on Congressional radar screens. Given the proximity of many Trump Administration officials to Russian financial interests and the Administration’s apparent willingness to “do business” more generally, this is a risk that should not be discounted.

Europe’s Options & Opportunities

Europe’s options in this context are limited. The domestic logics that are shaping both Russian and American policy are not easily altered by external forces and cannot be brought up fruitfully at any negotiating table. But the limitations this places on European policymaking are, in some ways, advantageous: a narrower focus forces a concentration of resources on those fields where progress can be made and/or where the costs of failure are highest – and those are exactly the fields where Europe’s interests are greatest.

Although conversations have emerged about Russian intervention in British, French and German electoral processes – and while the evidence for at least some level of interference is strong – the European debate has not yet devolved into the kind of paralyzing discourse on Russia that has developed in the US. Moving forward, it will be important for European policymakers to continue to focus on those Russia-related threats and challenges that are tangible, rather than on those that are notional. There are, of course, no

shortage of tangible challenges and threats involving Russia on the European horizon, but four seem most prominent:

- (1) Ukraine, including the ongoing war in Donbas and the political and economic destabilization of the country as a whole;
- (2) Geopolitical and geo-economic competition over the Eastern neighborhood and the resulting destabilization of the region;
- (3) The cross-border effects of ‘kleptocratic’ governance and related threats to the integrity of European institutions; and
- (4) Energy security and the consolidation of European policy objectives in the hydrocarbon sphere.

Ukraine

In Ukraine, Europe should focus on two mutually reinforcing policy objectives. The first is to maintain and – if necessary – ramp up the costs imposed by the ongoing Donbas conflict on Russia. This does not necessarily mean further expansion of the sanctions regime, although that might also be an effective tool, particularly if violence in the region is not, in fact, reduced. The reality is that Russia’s fiscal and economic position is such that the mere preservation of the current structure and enforcement of sanctions, particularly financial sanctions, will impose a steadily growing ‘tax’ on Russia as the country’s liquidity contracts and cost of capital rises.

After some 25 years of experience in Transnistria, Abkhazia and South Ossetia, however, European policymakers can have no illusions about Moscow’s approach to conflict resolution in the post-Soviet space. The maintenance of so-called ‘frozen conflicts’ allows the Kremlin to impose a unilateral tax on governments in the region that choose to pursue domestic or international policy agendas that run counter to Russia’s perceived national interests; the maintenance of these conflicts also afflicts states with insoluble problems of corruption and nationalist mobilization, feeding on trafficking and other aspects of conflict entrepreneurship. In the early 1990s, it might have seemed a reasonable solution to settle for a temporary cessation of hostilities, purchasing humanitarian improvements at the cost of reduced sovereignty. In 2017, however, the cost-benefit analysis of such a bargain must be evaluated in a different light.

Thus – and this is the second ‘Ukrainian’ policy objective for Europe – by making the reduction of sanctions contingent not on the cessation of hostilities, but on the full restoration of Ukrainian sovereignty, Europe can simultaneously make maximum use of its ability to ‘tax’ Russia’s foreign policy, while reducing Russia’s ability to ‘tax’ Ukrainian policymaking.

The Eastern Neighborhood

Europe’s Russian ‘front’ is not limited to Ukraine, however. The geopolitical and geo-economic competition that drew Russia and Europe into war in Ukraine extends across the Eastern neighborhood. Throughout the region, Russia remains opposed to the extension or approximation of European institutions – including those that govern trade and competition – and Moscow’s acquiescence to the conclusion of Deep and Comprehensive

“A Strategy for Russia” – Russian Foreign Policy and Global Positioning in the Next Decade

Free Trade Agreements with Moldova and Georgia seems more tactical than strategic.

Indeed, Moscow may be calculating that the DCFTAs will contribute to their own demise, due to the fact that – like most of Europe’s approach to Central and Eastern Europe over the past three decades – they front-load the pain of reform for partner governments and back-load the economic gain. The European Commission should thus evaluate opportunities for its current DCFTAs with Ukraine, Georgia and Moldova to be adjusted, such that EU export markets for the signatories could be opened up earlier, bringing more benefit more quickly both to governments and citizens, and thus increasing the resilience both of the agreements themselves and the states that signed them.

Rule of Law and Energy

Closer to home, European policymakers – including both in Brussels and in national capitals – are recognizing that the ‘kleptocratic’ rentier arrangements that structure politics in Russia and most of the post-Soviet space are enabled by access to European institutions; indeed, the ability of ‘oligarchs’ to protect their fortunes in Europe reduces demand for the rule of law at home. This relationship, however, is increasingly understood to be destructive for the rule of law in Europe itself, where it distorts legal practice, property and financial markets, and introduces unwelcome patronage opportunities into domestic political competition. Without wanting to reduce access to strong European institutions for those Russian citizens who genuinely need and deserve their protection, Europe can and should press ahead with beneficial ownership registries and other rule of law initiatives.

Similarly, Europe can and should insist on the rule of law in its energy markets. While recognizing that Russia – and particularly Russian gas – is an important and even desirable part of Europe’s energy mix, the structure of that reliance cannot be allowed to impede the realization of Europe’s broader energy objectives. Specifically, this means holding the line on unbundling and on the common gas market – not so much as a measure against Russia, but as a measure to underpin productivity, competitiveness and eventual decarbonization across the European economic area.

An Eye Across the Atlantic

As long as the United States remains the backbone of NATO – and thus of European security – there can be no lasting progress on the Russian ‘front’ without American involvement. In an era where that involvement is unlikely (and perhaps undesirable), however, Europe has both an opportunity and a responsibility to lay the foundations for Washington’s eventual return to a constructive engagement with international relations. First and foremost, this means opening up meaningful track-two dialogue on strategic arms control, conventional forces and confidence-building in the European theater, and perhaps more broadly. Reaching an understanding with Russia at this stage is, alas, likely to prove impossible. Reaching comprehension of Russia’s interests, capabilities and intentions is, on the other hand, imperative.

Wither or Return to the West? An Analysis of the New Russian Peacekeeping Proposal on Eastern Ukraine

by András Rácz¹

The present paper intends to overview the strategic implications of Russian President Vladimir Putin’s recent proposal on deploying United Nations peacekeepers to Eastern Ukraine. Besides this offer, a number of other, similarly important moves demonstrating Moscow’s firm control over the separatists, thus implicitly the Kremlin’s ability to facilitate a compromise will also be studied. Hence, this paper is analyzing one concrete scenario built on the calculus that the present, increasingly cooperative attitude of Moscow towards the conflict settlement reflects a real intention of engagement. In other words, the question is not whether this cooperative behavior continues, but if it does so, then what are the foreseeable implications for Russia’s relations with the West.

The study is composed of three chapters, and follows a generally inductive approach. First, the new Russian proposals and actions related to the conflict settlement in Eastern Ukraine are described. Thereafter, in the second part the foreseeable strategic implications of them are examined. The paper ends with a short, concluding part.

The Ukrainian geographical and personal names mentioned in the text are transliterated to English based on the original Ukrainian versions.

I. Is Russia’s policy on Eastern Ukraine Changing (Again)?

The situation of the Donbas, and the probable Russian strategy behind has changed many times since the war broke out in 2014. As can be reconstructed from the events, Russia has had at least four different strategic finalité-s in mind relating to Ukraine since 2014. In the very beginning, Moscow aimed at restoring the rule of former president Viktor Yanukovich by the help of a Russian military intervention. However, when it turned out that this was not a realistic ambition, there was a plan to repeat the Crimean scenario by generating pro-Russian separatism in various parts of Ukraine, thereby either destabilizing the whole country, or repeating the Crimea scenario, thus occupying and annexing certain parts of the country. When the pro-Russian uprisings turned out to be a lot weaker than expected and the resistance from the Ukrainian state a lot stronger, then came the so-called “Novorossiya” scenario, i.e. to set up a quasi-state in the occupied parts of the Donetsk and Luhansk regions not under the de facto control of the Ukrainian government. Thereafter, when this also turned out to be unrealistic, the “Novorossiya” project was declared dead in May 2015, and since then the Russian strategy has aimed at keeping the occupied Donbas inside Ukraine, thereby shaping and influencing the strategic choices and the political situation of Ukraine from within. However, as neither Russia, nor Ukraine was ready to move

¹ The views presented here are solely of the author’s own, and all errors possibly remaining in the text are solely the author’s responsibility.

forward with the implementation of the Minsk agreements, the conflict has stabilized at low intensity level, with no settlement on the horizon.

The prolonged war – aptly described by Lawrence Freedman as a limited war² – has already inflicted substantial human, material and military losses to Ukraine, and keeps doing so as long as Russia is maintaining its support to the separatists. Meanwhile, political and economic consequences of the EU and U.S. sanctions, combined with the low oil prices had a substantial negative effect on Russia’s economy, questioning the long-term sustainability of the Russian political system in its present form. Serious voices in Russia, for example, Alexey Kudrin and the Center for Strategic Research, as well as the Russian International Affairs Council, have been arguing for improving the ties with the West.

At present there are signs indicating the Russia’s strategy on Eastern Ukraine might be changing again, altogether for the fifth time. Hence, there is a need to take a closer look at these factors.

1. Putin’s proposal on UN peacekeeping mission in Ukraine

On 5 September 2017 Russian President Vladimir Putin proposed that UN peacekeepers could be deployed to Eastern Ukraine to assist the work of the OSCE observers in implementing the Minsk agreement. Even though Putin’s proposal itself was quite brief and non-specific, it is noteworthy that the Russian expert community immediately started to elaborate on the details of a possible UN mission. An analysis written by Andrey Kortunov, published by the Russian International Affairs Council³ suggested that neither Russian, nor Ukrainian, nor should NATO troops be members of the future peacekeeping mission. Instead, neutral European countries could put together the necessary staff. Another piece, following basically the same logic of keeping NATO countries out of the operation, proposed that besides neutral European countries, India and China could be key contributors to a possible UN mission.⁴ It is worth noting that since September the Russian expert discussion on the details of a peacekeeping operation has continued and is still reflecting upon the actual developments of the negotiations.⁵

² Freedman, L.: Ukraine and the Art of Limited War. *Survival*, Vol. 56, p. 7-38, available: <https://www.iiss.org/en/publications/survival/sections/2014-4667/survival--global-politics-and-strategy-december-2014-january-2015-bf83/56-6-02-freedman-6983> , last accessed 26 November 2017.

³ Kortunov, A.: *The Price of Peace: the Parameters of a Possible Compromise in Donbass*, Russian International Affairs Council, 2 October 2017, available: http://russiancouncil.ru/en/analytcs-and-comments/analytcs/the-price-of-peace-the-parameters-of-a-possible-compromise-in-donbass/?sphrase_id=3381282 , last accessed 26 November 2017.

⁴ Studin, I.: *How China and India Can Keep the Peace in Ukraine*, Russian International Affairs Council, 25 September 2017, available: http://russiancouncil.ru/en/analytcs-and-comments/columns/digest/how-china-and-india-can-keep-the-peace-in-ukraine/?sphrase_id=3381282 last accessed 26 November 2017.

⁵ Kortunov, A.: *Will Donbass Live to See The UN Peacekeepers?*, Russian International Affairs Council, 11 December 2017, available: <http://russiancouncil.ru/en/analytcs-and-comments/analytcs/will-donbass-live-to-see-the-un-peacekeepers/> last accessed 14 December 2017.

Though the Putin proposal was received with considerable reservation in the West,⁶ one needs to see that this suggestion seems to be serious from the Russian side.⁷ Though details are yet missing, the intensity of the Russian policy discourse relating to the proposal, as well as the U.S.-Russia background negotiations conducted on the matter,⁸ indicate that this time Moscow truly prefers to get away from the present, unfrozen but stable conflict and find a functioning solution, indicating an intended change in the Russian strategy.

2. Putin’s proposal on exchange of prisoners.

Following this, on 15 November 2017 Putin openly supported a proposal made by pro-Kremlin veteran Ukrainian politician, Viktor Medvedchuk about facilitating a prisoner exchange between the Ukrainian government and the separatists. The interesting and particular element in Putin’s action was that he openly admitted that he could talk to the separatist leaders in order to facilitate the prisoner exchange.⁹

This remark indicated a significant change to Russia’s earlier, rigid non-involvement narrative about the conflict in Ukraine, as Putin admitted that he has contacts to Alexander Zakharchenko and Igor Plotnitsky, de facto leaders of the Donetsk and Luhansk, respectively. Putin probably kept his promise, because right next day, on 16 November both separatist leaders agreed to exchange their prisoners with ones held by the Ukrainian government.¹⁰ Putin kept up his involvement in facilitating the prisoner exchange even thereafter: on 14 December he called all sides to complete the operation before New Year.¹¹

3. Change of power in Luhansk

⁶ See, for example, Pifer, S.: *Test Putin’s Proposal for UN Peacekeepers*, The Brookings Institution, 13 September 2017, available: <https://www.brookings.edu/blog/order-from-chaos/2017/09/13/test-putins-proposal-for-u-n-peacekeepers/>, last accessed 26 November 2017.

⁷ Unlike the planned fake peacekeeping operation that was prepared in August 2014 to conceal the Russian military intervention. Though the plan was never realized, that time many reports emerged about Russian military vehicles bearing peacekeepers’ markings. See, for example, Russia Denies Military Vehicles Entered Ukraine, *The Guardian*, 15 August 2014, available: <https://www.theguardian.com/world/2014/aug/15/russia-denies-ukraine-vehicles-military>, last accessed 26 November 2017.

⁸ Interview with a competent experts, Moscow, September 2017.

⁹ Putin said: „*I will do all I can and speak with the leadership of the Donetsk and Lugansk republics.*” President of Russia: *Vladimir Putin supported Viktor Medvedchuk’s proposed prisoner exchange between Ukraine and Donetsk and Luhansk republics*, 15 November 2017, available: <http://en.kremlin.ru/events/president/news/56095>, last accessed 26 November 2017.

¹⁰ After speaking with Putin heads of LPR and DPR agreed to prisoner exchange with Ukraine, *UA Wire*, 16 November 2017, <https://uawire.org/after-talks-with-putin-lpr-and-dpr-leaders-support-the-idea-of-exchanging-prisoners-with-ukraine>, last accessed 26 November 2017.

¹¹ Associated Press: Putin calls for swift Ukraine prisoner swap, *Kyiv Post*, 14 December 2017, available: <https://www.kyivpost.com/ukraine-politics/associated-press-putin-calls-swift-ukraine-prisoner-swap.html>, last accessed 26 November 2017.

The third factor to be analyzed is the change of power that took place in the so-called Luhansk People’s Republic in the end of November. After a few days of struggle, Igor Plotnitsky resigned¹² and was replaced by the “republic’s” former Minister of State Security Leonid Pasechnik. The conflict was related mostly to internal tensions between Luhansk separatists, as well as between Russia’s security elites de facto controlling the region.¹³

From the perspective of the conflict settlement it is noteworthy that Moscow exercised considerable restraint in managing the matter, and refrained from escalating the situation in any way. Neither was the old Novorossiia idea renewed by formally uniting the two separatist entities, nor were Donetsk separatists allowed to take de facto control over Luhansk. Instead, by appointing Pasechnik, the Kremlin secured its full control over Luhansk, but without changing the regional balance either between the two separatist entities, or between the Donbas and Kyiv. All in all, the Kremlin’s decision not to escalate could be interpreted as an additional sign of readiness for negotiating a settlement.

II. Strategic implications

First and foremost one needs to note that the settlement process will surely not be quick, first due to the upcoming presidential elections in Russia, and thereafter due to the Ukrainian presidential elections taking place in Spring 2019. It is highly unlikely that Moscow would allow Ukrainian President Petro Poroshenko to have already concrete settlement results before the next Ukrainian presidential elections. It is more probable that Russia will use its cooperativity in the settlement process as leverage during the campaign, by promising more results in case a more Moscow-friendly presidential candidate wins.

If the above described trend, i.e. Russia’s increasingly cooperative attitude to the settlement of the conflict in Eastern Ukraine continues, both the EU and the United States will need to start serious, operative discussions on at least three problems of international strategic importance. The three strategic issues to be analyzed are the following.

1. International security guarantees damaged, but cooperation in peacekeeping is necessary

Since 2014 the very fundamentals of the post-Cold War European security order have been seriously damaged. By the annexation of the Crimea, Russia violated its own commitment to guarantee the sovereignty and territorial integrity of Ukraine. Moscow took up this obligation several times: for example, in the Belovezhskaya Pushcha agreement in 1991, then in the Budapest Memorandum in 1994 and also in the Russia-Ukraine Friendship

¹² Separatist Leader in Ukraine’s Luhansk Resigns Amid Power Struggle, *RFE/RL*, 24 November 2017, available: <https://www.rferl.org/a/ukraine-russia-luhansk-separatist-leader-plotnitsky-resigns/28875414.html>, last accessed 26 November 2017.

¹³ Indicating probably the victory of the Federal Security Service (FSB) over the military intelligence, i.e. Main Intelligence Directorate (GRU): Donbass Coup D’état - an Analysis, *The Warsaw Institute*, 4 December 2017, available: <https://warsawinstitute.org/donbass-coup-detat-analysis/>, last accessed 14 December 2017.

Treaty in 1997. Regardless, Russia still decided to attack Ukraine and annex part of its territory.

This has been the first case in post-Cold War Europe, when international borders were changed unilaterally, by using (both overt and covert) military force. The Crimea events have global implications as well: many states might think that the overall value of international security guarantees has decreased significantly after 2014. Hence, many capitals might come to the conclusion that the only guarantee on which a state that feels itself threatened may rely on is developing its own deterrence capabilities, meaning, in practice, weapons of mass destruction.

Among such circumstances, there is an essential need for the U.S., the EU and their European partners to think about a new security framework for the wider Europe, where such cases of aggression cannot happen without serious, meaningful repercussions for the aggressor. Paradoxically enough, even though seeking a new European security order, of which Russian would have been an integral part, has been a long-standing project of Russian foreign policy, the aggression against Ukraine made it less likely that Russia would get an institutionalized role in European security than ever before.

However, if the proposed UN peacekeeping mission will really be launched, it will de facto result in a close security cooperation between Russia and the West, due to the key role Russia has been playing in the whole Donbas conflict. This contradiction, i.e. international security guarantees violated by Russia in Ukraine, while cooperating with Russia in running a peacekeeping operation in Ukraine, will indeed not be easy to manage in the present environment determined by the general lack of trust.

2. Decoupling the Donbas from the Crimea and the question of sanctions

Any meaningful progress in the conflict settlement in Eastern Ukraine would imply that the gap between the situations of the Crimea and the Donbas becomes even wider. The illegal annexation of the Crimea is not recognized by any UN member states except Russia, and while the situation in the peninsula is calm, and de jure the Crimea belongs and will belong to Ukraine, de facto the territory still remains a disputed one. It is unlikely that there would be any change in the status of the Crimea any time soon. Meanwhile, if the present co-operative attitude of Russia over the Donbas continues, and a real chance arises for a functioning, though unquestionably long and cumbersome settlement, the difference between the current statuses of the Crimea and the Donbas will grow.

The real challenge is that Russia's cooperation will need to be rewarded by the West in some way. At present, Russia's primary interest vis-à-vis the EU and the U.S. is to get the sanctions lifted, particularly the ones targeting the financial sector and defense industry. Consequently, this is the demand Russia is most likely to make, in exchange for permitting the settlement of the Donbas conflict.

The strategic problem is that if the EU and the U.S. – or, actually even if either of them – accept the Russian demands and agree to lift the sanctions which are hitting Russia the hardest, then only the few and relatively weak sanctions introduced right after the Crimea will remain in place. Neither of

these early punitive measures have done much harm to Russia, and particularly not compared to the later sanctions that affect the financial and military sectors. As demonstrated actually by the events in Eastern Ukraine in spring and summer 2014, none of the early, Crimea-bound sanctions have been strong enough to deter Russia from launching further aggression.

Hence, if the West agrees to lift the most serious sanctions in exchange for the settlement of the conflict in Eastern Ukraine, then Moscow might come to the conclusion that in exchange for a few years of economic hardships, the West basically digested the illegal annexation of the Crimea, because most sanctions against Russia would be lifted in exchange for the Donbas settlement, and the remaining sanctions would be too weak. In other words, such a scenario would let Russia basically get away with the illegal annexation of the Crimea. What will indeed worry not only Ukraine, but also Russia's other neighbours is that such a development might actually even encourage Russia to launch future actions of geopolitical adventurism.

The strategic dilemma is, whether a settlement in Eastern Ukraine is worth giving Russia the impression that the illegal annexation of the Crimea is de facto acknowledged by the West, even though de jure recognition will obviously never take place. However, if the critical sanctions do not get lifted, Russia might not be motivated to permit any change in the currently frozen status of Eastern Ukraine at all, thus the limited war would prevail.

3. Reconstruction of Eastern Ukraine

The third problem to be considered is the future reconstruction of the war-torn Donbas and the question of how to finance it. Foreseeable complex tasks include first and foremost demining and clearing the territory of the unexploded ordnance (UXO) remained after the years of fighting. At present, landmines and UXO pose the most serious threat to the population of territories close to the frontline. Clearing the territory is the absolute prerequisite of any reconstruction activities. Taking into account the massive costs of demining, it is highly unlikely the Ukraine alone would be able to conduct this operation in any reasonable timeframe, thus international assistance will be necessary.

Thereafter may follow the restoration of infrastructure, public services and housing, which would allow the return of the internally displaced persons (IDPs) by providing them with shelter, jobs, health care and education. In a later phase, after arable lands could also be cleared of explosives, agriculture could also start again.

The costs of rebuilding cannot be accurately calculated at present. Estimates vary greatly, from 1.5 billion USD to even 15 billion.¹⁴ In March 2017 the Ukrainian Ministry for Temporarily Occupied Territories published a draft program of the reconstruction of the Donbas for the period of 2017-

¹⁴ Cohen, J: How to Rebuild Eastern Ukraine, *Foreign Policy*, 14 December 2016, <http://foreignpolicy.com/2016/12/14/how-to-rebuild-eastern-ukraine-donbass/>, last accessed 26 November 2017.

2020.¹⁵ This plan calculated with spending 1.8 billion USD; however, the costs forecasted apply only to those territories of the Donbas that are at present under government control. When it comes to the temporarily occupied parts of Donetsk and Luhansk regions, even the proper assessment of the war damage is missing, simply due to the lack of necessary access to the territory. Hence, foreseeable costs of the reconstruction of the whole Donbas will surely exceed the 1.8 billion USD presently planned by the Ukrainian government.

In addition to the question of which international donors would contribute to the reconstruction of the Donbas, a secondary, nonetheless, still important issue arises, namely whether and how to involve Russian capital, be it from the state or private. Taking into account the close economic contacts the pre-war Donbas had with Russia, it is perfectly logical to open up the possibility for Moscow to participate in the reconstruction, preferably in a multinational framework; for example, through the UN.

Due to the high corruption risk unfortunately still present in the Ukrainian public administration, international financial assistance for the reconstruction would need to be implemented together with substantial international ground presence as well, in order to properly assess and monitor how foreign financial resources will be spent. Hence, if Russia will contribute to financing the reconstruction, it is highly advisable to also get Russian experts involved in the international assessment and monitoring.

III. Conclusion

Russia’s increasingly cooperative attitude towards the conflict settlement in Ukraine indicates that Moscow does not intend to wither away from the West, or to leave the conflict as prevailing and unfrozen as it presently is. Instead, both the demonstrative actions (for example, the call for the exchange of prisoners) and the concrete proposals (like the one on the UN peacekeeping forces) indicate that Russia is still aiming to improve its relations with the West.

If the above-mentioned calculus on the possible timing of a compromise is right (i.e. surely not before the presidential elections in Ukraine), this timeframe allows the West to have enough time for substantial, strategic, detailed thinking about the problems enumerated above. However, though no breakthrough will happen quickly, this shall not be a reason for any delay. Instead, the available time (approximately 1.5 years) should be used wisely, in order to get ready for concrete action once the opportunity opens up.

¹⁵ Kozak, M.: Ukraine is getting down to reconstructing the Donbas, *Central European Financial Observer*, 8 March 2017, <https://financialobserver.eu/cse-and-cis/ukraine/ukraine-is-getting-down-to-reconstructing-the-donbas/>, last accessed 26 November 2017.

„Post-Soviet Turns to the East” - Are there any conjunctions with the EAEU?

By András Deák

The foreign policy and economic turn of Russia („povorot na vostok”) and its implications for post-Soviet economic integration has been widely debated in policy and academic circles. This is partly a consequence of the EuroMaidan and the collision of the two integration models in Ukraine, namely the DCFTA in the framework of EU Eastern Partnership and Kiev’s potential accession into the Eurasian Economic Union (EAEU), advocated by Moscow. Ukraine was the „Apple of Discord” between the Russia and the West, thus it is reasonable to expect some structural changes in Moscow’s Eurasian policy as a result of its new foreign policy orientation. Nonetheless, this paper argues that the short-term economic consequences of Russia’s Eastern turn will be moderate on the EAEU. This is partly due to the fact that both Russia’s and the region’s turn towards the East started much earlier, and had progressed significantly by the time of the crisis. Its implications will definitely be less significant than in other fields, like foreign, defense or even cultural policy.

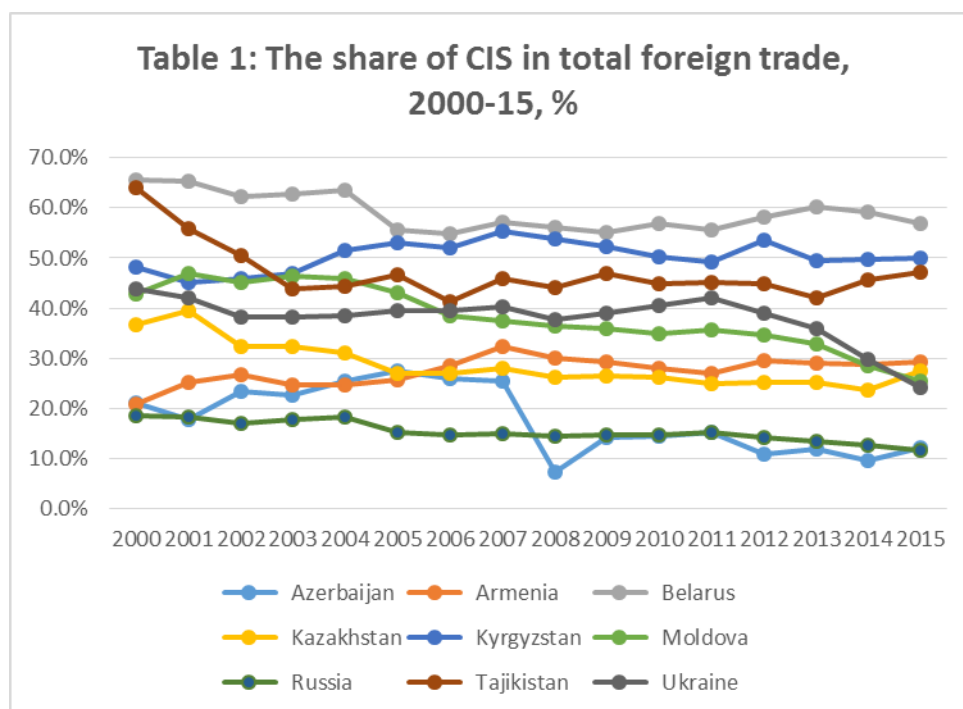
Mutual trade within the CIS region dropped dramatically in the depression of the 1990s and continued to gradually decline in the growth years of the 2000s. Nonetheless, the spread between the respective intra-CIS trade shares is rather large, ranging from the high watermark Belarus (56.9% in 2015) to the lowest level of Russia (11.6%). On a comparative basis, these indicators are significantly less than in the EU itself: in the early 2010s the average share of EU internal trade in all cross-border trade was around 62%, while in the CIS region it fell below 25% before the 2008 crisis. Furthermore, the Eurasian Economic Union does not represent a cooperation of the most integrated. This is all the more true for Russia, which has assymmetric relations with all its partners in the Eurasian region. For Russia foreign trade with CIS constitute slightly more than one-tenth of its total turnover, while in terms of iFDI the aggregated CIS level would be only at ranked 21st on the list of foreign investors.

These two features could theoretically constrain economic policy making in a number of cases. Potentially, common levels of custom could divert trade - the single market envisaged by 2025 could change investment considerably, or even labour movement patterns. Putting EAEU in the centerstage of its trade policy, Russia could do considerable damage to its other relations. In reality, the implications of the introduction of common customs tariffs are marginal compared to Russia’s WTO-obligations, with the latter prompting a decrease in average tariff levels from 13% to 5.8% by 2020¹⁶. Thus, EAEU seems to be a formation not at the cost of Russia’s overall foreign economic

¹⁶ Shepotylo–Tarr (2012): Shepotylo, Oleksandr–Tarr, David G.: Impact of WTO Accession and the Customs Union on the Bound and Applied Tariff Rates of the Russian Federation. In: World Bank – Policy Research Working Paper, 6161. (2012).

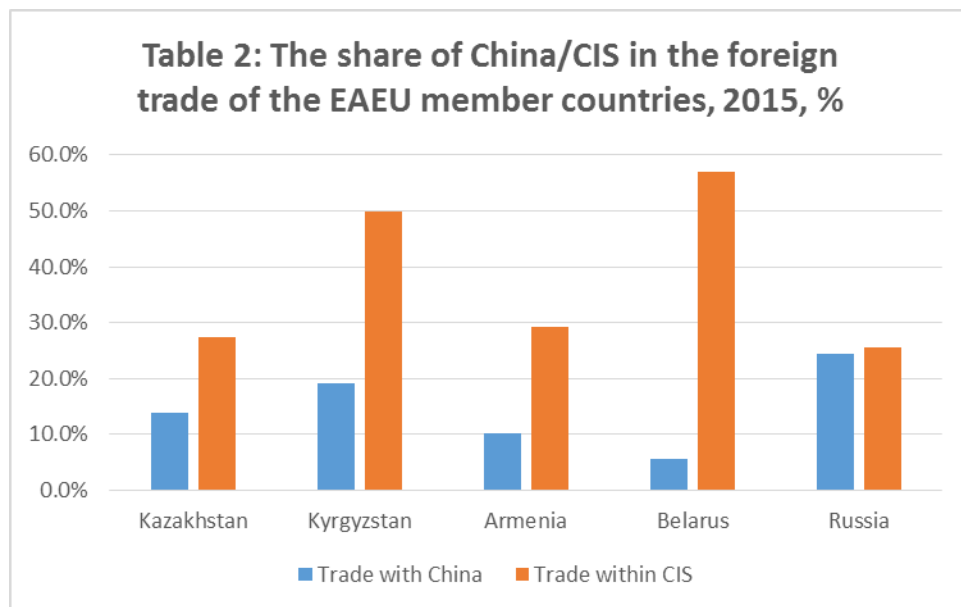
“A Strategy for Russia” – Russian Foreign Policy and Global Positioning in the Next Decade

ambitions, the common policies are usually adjusted to the existing patterns of relations. On the contrary, the low trade shares within the CIS region mean that Moscow can somewhat separate this sector from its mainstream foreign economic policy and equip it with some „political or geostrategic exclusivity”. For Russia, issues related to its own economic orientation were separable from its economic ambitions in the CIS region.



Source: Interstate Statistical Committee of the CIS

East Asia, especially Chinese and other cheap exporters used to take highly competitive positions with CIS producers in some industrial sectors in the late 1990s, early 2000s. In industries like textiles, clothing, pharmaceuticals, and other manufactured goods sectors, Eastern exporters pushed out Eurasian products. By the early 2010s the product structure of Chinese imports became more similar to those of the Western countries, presenting a challenge to trade relations with developed nations. This was a bit of relief for CIS trade, as it seems, its steep declining phase has been over. By now, East Asia’s weight in Eurasian foreign trade has become comparable to the that of the CIS.



Source: Interstate Statistical Committee of the CIS, Russian Customs Statistics

At the same time these countries have parallel relations to East Asia and often take competitive positions with regard to one other. Even members of the Eurasian Economic Union do not coordinate their bilateral economic relations. This is most visible on the export side, especially in the field of oil and gas sectors. Chinese SOEs actively engage countries with major upstream potential, like Turkmenistan, Kazakhstan or Russia and bargain for access to upstream assets. Chinese-Turkmen gas export deals since 2007 created an almost decade-long delay in Gazprom’s Chinese export projects and deteriorated its bargaining position remarkably. It was Putin’s political intervention and the drama in Russian-Western relations that pushed negotiations from a deadlock, and resulted in a contract in May 2014. Understandably, Chinese SOEs can take advantage of this competition for Eastern markets. They often get long-term contracts in „loans-for-oil/gas” schemes and in almost all cases they get access to deposits. Russia is not an exemption in this regard: CEFC China Energy Company Ltd. has a 14.2% stake in Rosneft, CNPC and the Silk Road Fund has a 29.9% in Yamal LNG. What is more, Chinese capital can even influence domestic power relations. Rosneft’s rise since 2003 has been financed and supported through its Chinese nexus, while eastward gas exports seems to be becoming the way for Russian export liberalization (at the current stage at least in LNG). The latter has been never achieved by Europe.

All these processes have little direct impact on the Eurasian Economic Union. At the same time the „Eastern turn”, especially in relation with China may raise some sensitive issues especially in the longer term future. The most common issue is „Moscow’s jealousy”, its effort to keep out external challengers from the post-Soviet space. In this regard Russia faces a number of constraints. Most importantly its own „Eastern turn” after 2012, especially after 2014 gives little credibility to its prohibition policies in regards of other, regional Eastern ambitions. The Chinese nexus and its relevance in global governance adds a good deal of Russian tolerance in CIS matters. Thus

Russia tries to „multilaterize” the Eastern, especially the Chinese relations of its Eurasian partners. The Shanghai Cooperation Organization (SCO) was designed to manage soft security threats with the inclusion of regional countries and the two major powers. More recently and closer to the economic agenda, Russia and China signed a bilateral statement on the „conjunction” between EAEU and the „Silk Road Economic Belt” initiative, aimed at avoiding competition between the two. On this basis many scholars believe, that Russia and China will be able to maintain a „modus vivendi” in the region and agree together (S. Karaganov; T. Bordachev; S. Feng; T. Van). Russia also initiated a Comprehensive Eurasian Partnership on a strictly inter-governmental basis in June 2016 to put the broadly taken Eurasian economic landscape on a more liberalized footing. Vladimir Putin clearly stated: „*Our partners and we think that the EAEU can become one of the centres of a greater emergent integration area.*”¹⁷ This atmosphere is in sharp contrast with the Western CIS trends, where the integration dilemma between the EU and the EAEU was to a great extent responsible for social and economic crises.

Nonetheless, the more important question is how the growing leverage of East Asian economies will transform (or conserve) structures and institutions in the post-Soviet space. In the 1990s the transformation and the reforms were mainly implemented under Western models, FDI, trade and prosperity was awaited from Europe and the US. Currently local patterns show a growing similarity with East Asian models, elite preferences favor Eastern solutions. In many ways the Chinese nexus is a „system-building coalition”¹⁸, like the German-Soviet relations in the 1970s. Economic transactions are more concentrated, conducted between national champions, deeply entrenched in politics and characterized by some sort of SOE-likemindness. Arrangements are complex with many political, financial and strategic components and the potential benefits for corporate and other elite stakeholders exceed simple profitability considerations. While the nature of EU-CIS business relations has changed a lot in the last thirty years, current East Asian economic settings preserve many features of these old business and strategic regimes.

The Eurasian Economic Union was designed on the model of the European Union. Its structures, institutions, decision making system copied the existing Western models with necessary modifications to the post-Soviet reality. Now Russia and some Central Asian states have been obviously distancing from their past European satellite-path. In 2016 Russian imports from APEC exceeded those from the EU for the first time, and it is only a matter of time to see a similar trend in exports. Does this change of orientation and spirit challenge the feasibility of an EU-clone, supranational project? Can it survive in the gravity of East Asia and its implications for domestic stakeholders? Are the structural underpinnings of the EAEU strong enough to make it

¹⁷ *Russia to Create Comprehensive Eurasian Partnership*, Internet: <https://www.strategic-culture.org/news/2016/06/21/russia-create-comprehensive-eurasian-partnership.html> [26. November 2017].

¹⁸ P. Högselius: *Red Gas - Russia and the Origins of European Energy Dependence*, Palgrave Macmillan, 2013, p.5.

“A Strategy for Russia” – Russian Foreign Policy and Global Positioning in the Next Decade

survive in the changing environment? The first test for these questions may come in 2025, when the EAEU single market is to be created.

Russia’s plans for a Greater Eurasia: perspectives for the Eurasian Economic Union to enhance connectivity with the EU and China

by Tony van der Togt

Introduction

In recent years the construction of a *Greater Europe* “from Lisbon to Vladivostok” has no longer been considered a realistic prospect for reconnecting Russia with the EU in the near or mid-term future. Although informal contacts between the European Commission and the Eurasian Economic Commission have contributed to the development of ideas on a possible future convergence of both forms of regional integration¹⁹, no breakthrough on a broader Free Trade Area or other common spaces of cooperation can be expected as long as Russia’s conflict with the West remains unresolved.

Therefore, at the St Petersburg International Economic Forum in 2016 President Putin presented the idea of a *Greater Eurasia*²⁰ as an alternative concept for Russia and the Eurasian Economic Union to act as building blocks in a broader form of transregional integration, connecting with Asian partners such as China while remaining open to reconnecting with the EU as well. While reactions from the European side were lukewarm, Beijing envisaged some economic opportunities, as this new Russian concept could pave the way for closer cooperation and integration of the Eurasian Economic Union (EAEU) with China’s own Belt and Road Initiative. However, as Anna Kuznetsova argued in a recent article, “the success of Russia-China collaboration in Eurasia will essentially depend on the future progress of Eurasian integration, as well as on the ability to provide an agreement to co-develop the EAEU and the Belt initiative with concrete and mutually beneficial projects”²¹.

Against this background, this paper will analyse some of the important factors which will determine the perspectives for further internal integration within the EAEU and for the relations between the EAEU and its member states and their most important external trading partners: the EU and China.

¹⁹ Vinokurov, E. (et al.), (2016), Challenges and Opportunities of Economic Integration within a Wider European and Eurasian Space. Synthesis Report, published by IIASA, Vienna: <http://pure.iiasa.ac.at/13982>.

²⁰ Putin, V.V., Transcript speech SPIEF (2016): <http://en.kremlin.ru/events/president/news/52178>.

²¹ Kuznetsova, A., Greater Eurasia: Perceptions from Russia, the European Union, and China, (September 2017) for Russian International Affairs Council: <http://russiancouncil.ru/en/analytics-and-comments/analytics/greater-eurasia-perceptions-from-russia-the-european-union-and-china/>.

Perspectives for future development of the EAEU

Two elements are particularly important for the future development of Eurasian integration, as embodied in the EAEU: whether the current institutional weaknesses can be effectively addressed and how far individual EAEU member states are willing to subscribe to Russia’s more geopolitically inspired ideas for broadening and deepening Eurasian integration in its present configuration.

The 2015 Clingendael Report on the Eurasian Economic Union already identified a number of *internal institutional weaknesses* inside the EAEU (“holding together regionalism”, “top-down integration”), not only resulting in a restriction of integration to a limited number of areas, but also leaving it to individual member states to determine how far they could claim exceptions to more integrated and coordinated policies²². A recent study by the Eurasian Development Bank also underlines the need to address these weaknesses and strengthen internal integration, before moving on to deeper Free Trade Agreements with external partners²³. Along the same lines, with regard to the incoming Russian EAEU Chairmanship in 2018, Timofei Bordachev recently proposed to formulate a new intergovernmental action plan to overcome these structural weaknesses, as the Eurasian Economic Commission (EEC) “enjoys extremely limited powers and this prevents it from promoting integration properly. In fact, the EEC cannot go beyond simple tariff issues when negotiating with external partners. While modern bilateral and multilateral trade agreements imply a focus on non-tariff restrictions and investment regulation, the EEC is bound by treaty provisions and the EAEU countries’ unwillingness to give it new authority”.²⁴

However, in the present political circumstances, individual EAEU member states have strongly *differing views on the prospects for further Eurasian integration*, both in those areas which have already been agreed in principle (including on a common energy market in 2024) and on closer economic and financial cooperation and ultimately integration within the EAEU. In all forms of integration in the post-Soviet space from the earlier CIS to the more advanced EAEU, individual member states have been unwilling to subscribe fully to Russia’s geopolitically inspired concepts of a Russia-dominated broader and deeper integration and have consistently attempted to formulate their own individual multi-vector foreign policies in an attempt to limit their dependence on Russia and the Russian economy.

Therefore, Eurasian integration remains incomplete, which has presented opportunities for individual EAEU member states to cooperate more closely with external partners in areas not covered by the EAEU. The most

²² Van der Togt, T., Montesano, F. and Kozak, I., (2015) From Competition to Compatibility. Striking a Eurasian balance in EU-Russia relations. Clingendael Report: www.clingendael.org.

²³ Vinokurov, E. (et al.), (2017), *EvrAziyskiy Ekonomicheskiy Soyuz*, Center for Integration Studies, Eurasian Development Bank, St Petersburg:

<https://eabr.org/en/analytics/integration-research/cii-reports/eurasian-economic-union/>

²⁴ Bordachev, T. (2017), What went wrong with Eurasian integration and how to fix it: comment for Valdai Discussion Club: <http://valdaiclub.com/a/highlights/what-went-wrong-with-eurasian-integration/>

important example of such closer cooperation outside the EAEU framework is Armenia’s recently signed Comprehensive and Enhanced Partnership Agreement (CEPA) with the EU. In a comprehensive analysis of this agreement Hrant Konstanyan and Richard Giragosian reveal that an Armenian proposal “to include a so-called carve-out clause in the agreement that would allow Armenia to opt out of the commitments enshrined in CEPA in areas where the Eurasian Economic Union might make new provisions” was rejected by the EU, making it more difficult for the EAEU to move forward without taking Armenia’s new commitments towards the EU into account²⁵. Internal conflicts within the EAEU concerning the implementation of Russian sanctions policies and recent trade conflicts between Kazakhstan and Kyrgyzstan further add to the existing centripetal tendencies inside the EAEU. In this context, Kazakhstan has signed its own Enhanced Partnership Agreement with the EU and even Belarus is now considering signing an agreement with the EU on “partnership priorities”. Constructive relations with the EU, including in trade and investment, remain an important counterweight for EAEU member states in balancing their traditional dependence on Russia.

Furthermore, in a number of areas, including IT, e-commerce and services, external partners could give individual EAEU member states *better prospects for modernisation*, offering companies opportunities in broader and more competitive European or Asian markets. If Russia’s objective in Greater Eurasia is to compete successfully in a future “Free Trade Asia scenario”, as developed in the Valdai Discussion Club’s recent report for the regional conference “Looking Ahead: Russia and Asia in the Next 20 Years”²⁶, Russia will have to renew its efforts at modernising its economy and society. Some recently formulated proposals for Russian foreign policies in the short to medium term underline the importance of such a modernisation for any realistic repositioning of Russia in the global arena, based on a strong and competitive economic base²⁷. This would also apply to Russia’s position inside the EAEU: only with a modernised economic base would the Russian economy be able to act as an engine of growth for Eurasian economies at large and effectively counter centripetal tendencies, based on better business opportunities outside the EAEU. Andrey Devyatkov indicates this as well in

²⁵ Kostanyan, H., Giragosian, R. (2017), EU-Armenian Relations: Charting a Fresh Course, CEPS, Brussels: <https://www.ceps.eu/publications/eu-armenian-relations-charting-fresh-course>

²⁶ Bordachev, T. (et al.), (2017), A Look into the Future: Scenarios for Asia and Russia in Asia in the Next 20 Years. Valdai Discussion Club Report, Moscow: <http://valdaiclub.com/a/reports/look-into-the-future-asia/>

²⁷ Timofeev, I. (2017), Theses on Russia’s Foreign Policy and Global Positioning (2017-2024), Center for Strategic Research and Russian International Affairs Council, Moscow and also: Miller, A. and Lukyanov, F., Restraint Instead of Assertiveness: Russia and a New Era in World Politics: <http://www.iai.it/en/eventi/restraint-instead-assertiveness-russia-and-new-era-world-politics>

his contribution to a recent RIAC working paper on EAEU Development Prospects up to 2025²⁸.

In Central Asia, Russia’s plans for a Greater Eurasia are challenged by China’s “*Belt and Road Initiative*”, with its own dynamics and geopolitical consequences. Although the EAEU has recently signed an agreement on closer cooperation with the Belt and Road Initiative, the restricted character of this agreement only reinforces protectionism inside Eurasian markets, which at the moment are not ready for wider competition with Chinese products. Infrastructure projects, especially in transport, are continuing and improving Eurasian connectivity, but are highly dependent on Chinese financing and take place mainly on Chinese conditions. As such, the EAEU-China agreement leaves the door open for individual EAEU member states, such as Kazakhstan, to make their own arrangements with China. Since non-EAEU member states, such as Uzbekistan and Turkmenistan, are also developing their own cooperation with the Chinese initiative, economic developments in Central Asia and especially the rise of China will undermine any future prospects for broadening or deepening integration within the EAEU in this region. Whether this will open up prospects for closer cooperation and integration between Central Asian states, both EAEU members and non-member states, remains to be seen, but recent improvements in the relationship between the regional powers of Kazakhstan and Uzbekistan could point in that direction²⁹.

In brief, the centripetal tendencies inside the EAEU seem dominant at present, as closer integration prospects are lacking and other opportunities outside the EAEU are more attractive to individual EAEU member states, whether situated in Europe or in Asia.

Some preliminary conclusions on perspectives for (re)connecting with the EU or with China

Prospects for Russia’s plans for a Greater Eurasia, based on further integration inside the EAEU and closer cooperation and integration with its main economic and financial partners – the EU and China – in the more distant future do not look bright under the present circumstances. However, two key factors in particular could lead to a more optimistic scenario:

- a resolution of the current conflict on Ukraine and improvement of Russia’s relations with the West could also enable renewed efforts for the modernisation of the Russian economy. As a recent CER policy paper on EU-EAEU-China relations rightly concluded, “the missing leg

²⁸ Devyatkov, A. The EAEU’s International Ties up to 2025 (2017) in: RIAC Working Paper EAEU Development Prospects up to 2025:

<http://russiancouncil.ru/en/activity/workingpapers/eaau-development-prospects-up-to-2025/>

²⁹ Gussarova, A., Aminjonov F., Khon, Y., (2017), The Eurasian Economic Union and the Silk Road Economic Belt. Competition or Convergence? Implications for Central Asia, CAISS/FES, Almaty: <http://library.fes.de/pdf-files/bueros/kasachstan/13620.pdf> and Qoraboyev, I., Moldashev, K., The Belt and Road Initiative and Comprehensive Regionalism in Central Asia in: Mayer, M. (ed.), (2018), Rethinking the Silk Road. China’s Belt and Road Initiative and Emerging Eurasian Relations, Palgrave Macmillan, London

of the triangle is a productive relationship between the EU and Russia”³⁰;

- a further increase of China’s economic footprint across Eurasia towards the EU. As more shared trade and financial interests develop between China and its European and Eurasian partners, an enhanced role for China in stabilisation and in fostering economic development in Greater Eurasia could gradually develop into a strategic game changer, impacting both China-Russia relations and EU-China relations. Without modernisation of the Russian economy, Russia runs the risk of developing into China’s junior partner, mainly providing raw materials and energy resources and acting as a transit country for China to wider European markets.

Against this background, one has to conclude that Russia’s ideas for a Greater Eurasia can only be realised if Russia is able not only to modernise its own economy and society but also to stimulate the modernisation of its Eurasian partners. Only then can the EAEU constitute a building block for further Greater Eurasian integration. Otherwise, the EAEU will remain what it constitutes at present: a protectionist customs union, unable to develop further and unable to counter the centrifugal inclinations of its own member states.

³⁰ Bond, I., (2017) The EU, the Eurasian Economic Union and One Belt, One Road. Can they work together? Centre for European Reform, London:
http://www.cer.eu/sites/default/files/pb_eurasian_IB_16.3.17_0.pdf

EU Frontiers - Policy Brief No. 23

November 2017

**Edited by
Annamária Kiss**

**Contributions by
András Deák, Samuel A. Greene, András Rácz,
Tony van der Togt, Sergei Utkin**

**“A Strategy for Russia” - Russian Foreign Policy and Global
Positioning in the Next Decade**

**Published by the
Center for European Neighborhood Studies
Central European University**

**Nádor utca 9, 1051 Budapest, Hungary
Phone: 0036-1-327-3000x2391; E-mail: cens@ceu.edu
Responsible publisher / Series editor: Péter Balázs
ISSN 2498-7875**

