



The Geopolitics of Eurasian Economic Integration

SPECIALREPORT

SR019 June 2014



Editor

Dr David Cadier

Managing Editor

Luc-André Brunet

IDEAS Editor-in-Chief

Dr Nicholas Kitchen
IDEAS.reports@lse.ac.uk

Creative Director

Indira Endaya

Cover image source

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➤ Executive Summary

David Cadier

The recent crisis in Ukraine cast a spotlight on those countries located between Russia and the EU, a region that had long existed beneath the radar of international politics. Indeed, even its name remains indeterminate: the term 'post-Soviet' is too encompassing (it could also designate Estonia or Tajikistan) while the notion of 'Eastern Europe' has long lost any geographical anchor. Instead, this space is often named after regional powers' attempts to shape it: as the EU's 'Eastern Neighbourhood' or as Russia's 'Near Abroad'. The new region-building endeavour pursued by Russia through Eurasian integration frameworks is a crucial development in this regard.

On the 29 of May 2014, Russia, Belarus and Kazakhstan signed the Treaty establishing the Eurasian Economic Union (EEU), which extends the provisions of the existing Eurasian Customs Union (ECU) and comes into being in 2015. This integration regime has been lauded by Russian President Vladimir Putin as a new, better version of the European Union, and castigated by US Secretary of State Hilary Clinton as a new form of the Soviet Union. This report shows that it is neither. The EEU is a modern and far-reaching attempt at economic integration, but one that is weakened by internal and conceptual contradictions. What was designed as a geo-economic framework is increasingly becoming a geopolitical issue. In attempting to counter the influence of the EU's alternative integration regime (the Eastern Partnership), Russia has shifted its diplomacy from persuasion to coercion, and Moscow is increasingly resorting to using the EEU as a foreign policy tool. The countries of the *entredoux* – literally, something placed between two things – are being forced to face to a geopolitical choice they had been trying to avoid, or at least to defuse. Divisive domestic politics, separatism, structural dependencies and the economic and political calculations of internal actors are key factors mediating and complicating their choice. This report focuses on these issues that are too often overlooked in the debate on Russia-EU regional competition.

Reviewing the architecture and content of the ECU, Rilka Dragneva and Kataryna Wolczuk show that there is something genuinely new about this Eurasian integration format: it is based on advanced and substantive customs legislation and it has put in place a complex set of institutions. They also highlight systemic fault lines, such as the top-down drive for integration, the insufficient attention paid to reforming domestic institutions, and the growing geopoliticisation of the project at the expense of economic rationalisation. In their historical review of Russia's integration policies in Eurasia, Timofei Bordachev and Andrei Skriba emphasise this geopolitical component. They argue that the EEU has been developed in reaction to the 'colour revolutions' movements and to EU neighbourhood policies, with the overarching objective of reasserting Russia's great power status by consolidating its regional influence.

In this context, the countries of the region stand at different junctures: Belarus is a member of the EEU while Armenia has announced it will become one. Moldova, Georgia and Ukraine, by contrast, are due to sign an Association Agreement (AA) with the EU, a move that would rule out joining the EEU at a later stage. Yet many uncertainties remain with regard to these positions, and careful analysis of the local situations guards against binary and definite characterisations. All of these states exhibit a degree of ambivalence with regard to the two competing integration regimes.

Balázs Jarábik and Anaïs Marin argue that, rather than being genuinely committed to EEU integration, Belarus has adopted an 'extractive posture'. Minsk sees its membership as a way to obtain economic subsidies from Russia and to, potentially, turn the country into an attractive hub (notably for Western investors). As Laure Delcour explains, Armenia's decision to join the EEU is above all driven by security considerations and by various structural economic dependencies on Russia. Despite this, Yerevan has adopted a constrained and reluctant 'declarative' attitude towards Eurasian integration, and has continued to insist on a (doubtful) complementarity with the EU economic regime.

For Moldova, Florent Parmentier emphasises that while the government has clearly opted for association with the EU, it faces internal pressure from the opposition and separatist forces, as well as external pressure from Russia. A referendum where 98 percent voted in favour of joining the EEU was organised in the autonomous region of Gagauzia, and signing the AA with the EU might entail the complete loss of Transnistria. In Georgia, the majority of the population leans towards the EU and diplomatic relations with Russia have been profoundly strained, particularly since the 2008 military conflict. Thornike Gordzadze nonetheless notes that paradoxically the new government has adopted a more favourable discourse towards the EEU out of domestic political calculations, notably to reach out to the conservative base of its electorate and to weaken the main opposition party.

Ukraine stands out as both the most pivotal and the most polarised state in the region. Susan Stewart provides an authoritative account of the political and military crisis that made headlines over the last few months. She demonstrates how a geopolitical choice forced on a divided and poorly governed country led to a dramatic turn of events and to increased polarisation. Right up until his regime's demise, Viktor Yanukovich tried to play Russia and the EU off against one another in an attempt to maximise economic rewards.

The EU's Eastern Partnership and the new Eurasian integration formats will – in themselves and by competing – greatly shape the futures of the countries of the *entredoux*. In this report's concluding contribution, which assesses the structuring effects of this rivalry on region-building, David Cadier argues that the Ukraine crisis has made ambivalent and balancing strategies increasingly impossible to sustain. Moscow's resort to coercive measures and its growing geopoliticisation of Eurasian integration formats has changed the nature of this competition, and has prompted the EU to accelerate its own offer. Countries of the region thus find themselves forced to choose between Russia and the EU, a choice that several of them have long sought to avoid for fear of placing their territorial integrity at risk. While these internal divisions are unlikely to dissipate in the short run, the coterminous expansion of the two regional frameworks will inaugurate to the end of the *entredoux* as we know it. ■

> Contributors

TIMOFEI BORDACHEV is Director of the Centre for Comprehensive European and International Studies at the Higher School of Economics (HSE) in Moscow, and an Associate Professor in the Faculty for World Economy and International Affairs at HSE.

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DAVID CADIER is a Teaching Fellow in International Strategy and Diplomacy at LSE IDEAS and in the International Relations Department at the LSE. Previously, he was a researcher/visiting scholar at CERI-Sciences Po, at the Centre for Transatlantic Relations at SAIS Johns Hopkins University, at the Prague Institute of International Relations, and at the Fletcher School of Law and Diplomacy. His research interests lie in foreign policy analysis, Central and Eastern Europe and EU-Russia relations.

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LAURE DELCOUR is Scientific Coordinator and researcher for the EU FP7 project 'Exploring Security-Democracy Nexus in the Caucasus' (CASCADE) at the Maison des Sciences de l'Homme in Paris. She is also a Visiting Professor at the College of Europe and a Senior Research Fellow at the Institut de Relations Internationales et Stratégiques (IRIS).

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RILKA DRAGNEVA is a Senior Lecturer in Law at the School of Law, University of Birmingham. She researches regional integration, the EU's external policy, legal reform and rule of law with reference to Eastern Europe and Eurasia. Her latest focus is on the Eurasian Economic Union, particularly its architecture, and its internal and external (neighbourhood, EU, WTO) implications.

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THORNIKE GORDADZE is an associate researcher at the Centre for International Research and Studies (CERI) at Sciences Po and a Senior Advisor at the French Institute of Higher National Defence Studies (IHEDN). He is a former Deputy Minister of Foreign Affairs of the Republic of Georgia and a former State Minister for European and Euro-Atlantic Integration. He has been the Chief-negotiator for Georgia on the Association Agreement and the Deep and Comprehensive Free Trade Agreement (DCFTA) negotiations with the EU.

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BALÁZS JARÁBIK is a visiting scholar at the Carnegie Endowment for International Peace and an associate fellow at the Central European Policy Institute. Jarábik worked with Pact, Inc. in Kiev to build its presence as one of the largest international non-governmental organisations in Eastern Europe and remains linked to the organisation as project director. Prior to joining Carnegie, Jarábik was an associate fellow at FRIDE in Madrid.

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ANAÏS MARIN is a political scientist specialising in post-Soviet and border studies. She is co-editor of the Belarus section of online journal *Regard sur l'Est* (Paris). Previously, she worked at the Belarus desk of the Finnish Institute of International Affairs (Helsinki), before establishing herself in Warsaw as an independent expert.

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FLORENT PARMENTIER is currently lecturer at Sciences Po, Paris. His research interests include the EU and its neighbours, energy politics and soft power studies. He has recently published (with Didier Chaudet and Benoît Pélopidas) *When Empire meets Nationalism* (Ashgate, 2009) and in late 2014 will publish *Les chemins de l'Etat de droit* (Presses de Sciences Po).

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ANDREI S. SKRIBA is Junior Research Fellow at the Centre for Comprehensive European and International Studies at the National Research University–Higher School of Economics in Moscow.

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SUSAN STEWART is Deputy Head of the Eastern Europe and Eurasia Research Division at the German Institute for International and Security Affairs (SWP) in Berlin. She specialises in Russia's relations with its post-Soviet neighbours and the foreign and domestic policy of Ukraine, as well as the EU's Eastern Partnership initiative.

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KATARYNA WOLCZUK is Deputy Director of the Centre for Russian, European and Eurasian Studies (CREES) at the University of Birmingham. Her research interests are: 1) relations between the European Union and the post-Soviet states in Europe and 2) Eurasian economic integration and its implications for the EU. Her recent publications include *Eurasian Economic Integration: Law, Policy, and Politics*, co-edited with R. Dragneva (Edward Elgar, 2013).

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➤ **The Geopolitics of
Eurasian Economic
Integration**

➤ Eurasian Economic Integration: Institutions, Promises and Faultlines

Rilka Dragneva and Kataryna Wolczuk

When a new initiative for forming a customs union between Russia, Belarus and Kazakhstan was announced in August 2006, there was little indication that this restart of Eurasian integration would differ from previous ineffective post-Soviet projects. Yet it soon became clear that there was something different about this initiative: the political statements were followed by fast action, backed by an improved institutional and legal framework which took into account international rules and practice, with Russia's regional hegemony apparently constrained by a system of multilateral institutions. In short, this appeared to be a new-style project with the ambition of delivering tangible benefits to its members while becoming a pole of attraction in the neighbourhood and a viable alternative to the European Union. This contribution discusses the key instruments and dimensions of integration, or its 'institutional formula', and asks whether the promise behind the claim has been realised. As the project seeks to develop into the Eurasian Economic Union, we argue that there are important institutional and systemic faultlines that circumscribe its effectiveness.

The Customs Union (CU) between Russia, Belarus and Kazakhstan was formally launched in July 2010. This was preceded by intensive work in negotiating a common external tariff, providing common customs regulations and developing common decision-making and regulatory bodies. Indeed, the reality of the customs union today is impossible to ignore. At the same time, the economic integration agenda quickly expanded with the creation of a Single Economic Space (SES). The idea was first discussed in 2009 and was launched in January 2012, accompanied by partial institutional reform to facilitate it. Some aspects of the SES are to be realised only gradually (e.g. in relation to the free movement of capital), but significant progress on other issues has been made (e.g. the development of common technical standards and other measures to eliminate non-tariff barriers to trade). These developments, importantly, were rooted in an institutional formula offering improvements on previous integration efforts.

These achievements have often been overlooked in a policy context increasingly overtaken by geopolitical considerations. Nevertheless, the progress so far raises some important questions. To what degree does the institutional and legal framework of the Eurasian project provide a constructive framework for integration and development? To what extent and in what ways does the Eurasian project take into account the systemic challenges of the political and economic regimes in the CU's member states and the power distribution in the region, with Russia's hegemony being particularly pertinent in this regard? These questions are especially salient in view of the pending 'deepening' of the Eurasian project into the Eurasian Economic Union (EEU) as well as its 'widening' to new members, Armenia being the most immediate candidate. We examine these issues below.

THE COMMON LEGAL SPACE AND REGULATION

As has already been noted, the most evident progress in the Eurasian project has been in relation to the CU. This development was made possible to a large extent by the adoption of an improved legal framework. A range of international agreements containing the various elements of common customs regulations were signed, the most important being the Customs Code of the CU adopted in November 2009. Provision was made for these agreements to enter into force simultaneously across the CU, thus avoiding previous problems of uneven application.¹ Significantly, the Code replaced the domestic legislation of member states by becoming the law in relation to CU matters. The Code was described as a piece of modern customs legislation simplifying customs requirements and implementing the provisions of key international conventions in the field.² Finally, unlike previous integration regimes, the CU and SES provisions developed alongside Russia's accession to the WTO in August 2012.³ The undertaking was made for existing as well as future agreements to comply with the WTO regime, even in the case of non-WTO members, and for WTO law to prevail over any conflicting CU provisions.⁴

In addition to international agreements, the common law of the CU and SES is contained in the decisions of the Supreme Eurasian Economic Council, the body in charge of strategic decision-making at the level of heads of state and government, and the Eurasian Economic Commission, which is the permanent regulator of integration. The Commission has played a particularly important role in the whole project, being the beneficiary of extensive delegation in the areas of common customs policy and cooperation within SES. Its decisions are required to be officially published and upon their entry into force become directly binding on the member states, thus signalling the strong supranational features of the regime.⁵ The Commission is composed of a Council, operating at the level of deputy heads of government, and a Collegium, consisting of independent professionals.⁶ In contrast to previous permanent regulatory bodies, the Commission has been conceived as a developed international bureaucracy, endowed with extensive financial resources and staffed with experienced professionals, thus potentially contributing to a better quality of regulation.

At the same time, an effort has been to style the Commission as a business-friendly body. Provision was made for greater public input and business engagement with the Commission's work. The departments of the Commission operate in consultation with 17 Consultative Committees focusing on specialised areas of cooperation. They consist of civil servants, business representatives or experts nominated by the respective national governments.

1 Protocol on the procedure for entry into force of the international agreements directed to forming the treaty basis of the Customs Union of 6 October 2007.

2 E.g. see 'Otvety na naibolee chasto zadavaemye voprosy otositel'no osushtvleniia VED v usloviakh Tamozhennogo soiuz'a', <http://www.tks.ru/practicum/2010/06/01/01>. Accessed 4 April 2014.

3 The timing of Russia's accession to the WTO and the founding of the CU was a matter of some controversy with the initial plan of entering the WTO as a single bloc replaced in favour of individual accession negotiations. The assurance of the compatibility of the commitments within the CU to Russia's WTO obligations was critical in Russia's accession process. See R. Connolly, 'Russia, the Eurasian Customs Union and the WTO', in R. Dragneva and K. Wolczuk (eds.) *Eurasian Economic Integration: Law, Policy and Politics*, (Cheltenham: Edward Elgar, 2013). While its tariff implications for the remaining CU members were subject to some debate and adjustment, the legitimacy and supremacy of the substantive rules of the WTO were not in question. Thus, the supremacy of the WTO *acquis* strengthens the rule-based nature of the CU legal order.

4 Treaty on the Functioning of the Customs Union in the multilateral trade system of 19 May 2011.

5 Treaty on the Eurasian Economic Commission of 18 November 2011.

6 The Collegium consists of nine members, or Ministers, three from each member state, appointed by the Supreme Eurasian Economic Council. These appointments are formally subject to professional qualification and independence requirements. The departments of the Collegium are staffed on an open, competitive basis, drawing on personnel in related ministries in the member states. See J. Cooper, 'The Development of Eurasian Economic Integration', in R. Dragneva and K. Wolczuk (eds.) *Eurasian Economic Integration: Law, Policy and Politics*, (Cheltenham: Edward Elgar, 2013).

Given the status and scope of the Commission's decisions, a very important institutional development has been the provision of judicial control over its decisions and actions. In particular, commercial actors were given the right to appeal such decisions and actions before the Court of the Eurasian Economic Community.⁷ After much delay the Court was finally set up in 2012 and, significantly, its decisions were defined as binding. In its short life, the Court has proved to be active and not averse to ruling against the Commission.

However, despite the noted improvements, the legal regime remained fragmented and complex, lacking clarity and predictability and attracting strong criticism from the business community.⁸ In response, a revision of the Code was undertaken, accompanied by the codification of the treaty basis of the Customs Union and the SES as part of the preparation for the Eurasian Economic Union. While the streamlining and simplification of the legal basis is extremely welcome, the quality of this reform process is not necessarily to be taken for granted, as will be discussed further below.

DOMESTIC IMPLEMENTATIONS

As argued above, the CU and SES were underpinned by investment in the provision of a common body of substantive law, embodied in international agreements and the decisions of the bodies of integration. This investment, however, is not paralleled by sufficient attention to the institutional/organisational practices and domestic capacity in applying that law.

In principle, the alignment of domestic law and the CU/SES law is ensured, firstly, by the direct effect of the decisions of the common bodies on domestic law, and secondly, by the constitutional status of international agreements in domestic law, especially their supremacy over any conflicting provisions. Yet, clearly, the legal basis of the ever more complex economic integration agenda requires the implementing actions of a range of state bodies. This is the area where the credibility of the commitment to the project, as well as the domestic capacity for its implementation, are severely tested.

A noteworthy development has been that the Eurasian Economic Commission has been vested with the power to monitor the implementation of the agreements forming the treaty basis of the CU and SES. If there are grounds to believe that a member state is not implementing these, the Commission notifies it of the need for mandatory compliance within a reasonable period of time. If this does not produce results, the Commission can ultimately lodge a complaint with the Court of the Eurasian Economic Community. It is currently difficult to gauge the practical effectiveness of the monitoring powers of the Commission and its ability to rise to the challenge. Given the priority of preparing the Treaty on the Eurasian Union, codifying legislation as well as discharging its core regulatory duties, there has not been much spare capacity for, and therefore attention given to, monitoring.

The organisation, capacity and accountability of domestic administrative agencies, not unlike the case of other regional integration groupings, remain primarily a domestic affair. Other groupings, like the EU, contain or rely on the rule of law and good governance as an explicit aspect of the common project. So the strength of regional institutions is to a large degree a function of the level of political and economic development of the member states. In other words, the success of regional institutions ultimately depends on the quality of political and economic governance in the participating states.

⁷ Treaty on the application of commercial subjects to the Court of the Eurasian Economic Community in relation to disputes within the Customs Union of 5 July 2010.

⁸ R. Dragneva, 'The Legal and Institutional Dimensions of the Eurasian Customs Union' in R. Dragneva and K. Wolczuk (eds.) *Eurasian Economic Integration: Law, Policy and Politics*, (Cheltenham: Edward Elgar, 2013).

In that respect, poor governance characterising the current and prospective member states – Russia, Belarus, Kazakhstan and Armenia – presents a severe test to the effective functioning of the union as a rules-based regime pursuing deep economic integration. Certainly, there are important differences between the member states: Belarus is largely free of low-level corruption, whereas Kazakhstan has the most business-friendly regulatory framework.⁹ Nevertheless, there are important similarities: in all four countries policy-making and preference-formation are highly centralised at the top of the political establishment with the presidential institution being the main locus of power. This means that the objectives and visions of the presidents and the existing system of power (so-called *vertikal*) are primary determinants of the country's participation in Eurasian integration. Even if there is full commitment from the presidents, the sheer speed and scope of integration make its implementation unrealistic without broader fundamental reform and the modernisation of domestic institutions. This is a major faultline within the project.

As it is, new rules tend to be followed because the presidents have consented and given orders to adhere to them rather than because of the importance of complying with rules as an institutional characteristic of the rule of law in the member states. In that respect, the integration regime reproduces the domestic style of governance. In practice this means that it is those with access to the presidents who are most likely to influence the pace and degree of domestic implementation. In such a personality- and relationship-dependent context, the modernisation of domestic institutions – especially when they directly infringe on the vested interests of those close to the presidents – is unlikely to happen.

Indeed, it is possible to see that dominant business interests in the respective member states (primarily organised in the influential national business associations, which in some countries, are the only such body and is sponsored by the government) have been given privileged access to the key decision-making bodies of the CU and SES. The role of the 17 Consultative Committees in the work of the Commission has already been mentioned. A further step was taken in December 2012 when the Commission set up a Consultative Committee with the Belarus-Russia-Kazakhstan Business Dialogue with the task to provide input into the strategic direction and development of the CU/SES.

The importance of domestic factors has been recognised by some architects of the project. One argument expressed by a senior member of the Eurasian Economic Commission is that the very fact of having a modern framework based on open markets will lead to regulatory competition in favour of countries with better governance and increased pressure to remove administrative barriers across the CU.¹⁰ While the argument is valid, this is a slow and uncertain option. Decades of transition experience in Eastern Europe have shown that economic liberalisation in itself, even with new laws on the books, does not nurture rule of law instincts in market actors, nor is it powerful enough to overthrow the deeply embedded *sistema* (system) of informal relations, corruption and oligarchic business.

⁹ N. Kassenova 'Kazakhstan and Eurasian economic integration: quick start, mixed results and uncertain future' in R. Dragneva and K. Wolczuk (eds.) *Eurasian Economic Integration: Law, Policy and Politics*, (Cheltenham: Edward Elgar, 2013).

¹⁰ Authors' Interview, Moscow, 19 March 2014.

CONSTRAINTS ON SOVEREIGNTY AND HEGEMONY

One of the persistent features of post-Soviet integration has been the reluctance of member states to sacrifice their newly-won sovereignty in favour of binding common arrangements. Accordingly, regional institutions were strictly intergovernmental and weak. Even when commitments were undertaken, they were rarely implemented. This dynamic was complicated owing to the hegemonic position of Russia in the region. Asymmetry has been a strong feature of integration and was invariably reflected in the institutional arrangements (for example, in the decision-making rules of the permanent regulators preceding the Eurasian Economic Commission where the distribution of weighted votes and the required majorities always ensured Russia's dominant position).

The launch of the CU and especially the SES, however, introduced limitations on both sovereignty and asymmetry. First, the power of the common bodies, the Eurasian Economic Commission in particular, to issue directly binding decisions has already been mentioned. Second, the lower tier of the Commission, the Collegium, was empowered to decide by a two thirds majority, thereby meaning that a country could be outvoted. In a break with previous practices, votes are allocated on a 'one country-one vote' principle, thus for the first time making it possible for Russia to be outvoted in the Collegium. Third, in the event of a dispute involving a member-state before the Court, the decision of that Court is binding on the member state. Thus, a ruling against Russia should bind Russia.

Upon closer inspection, however, this change in formal design is not as radical as it may seem. Firstly, sensitive decisions are placed not with the Collegium, but instead with the upper tier of the Commission, the Council, which decides by consensus. If the Commission Council cannot reach consensus, the matter is brought before the Supreme Eurasian Economic Council which also works by consensus. Secondly, any member state can request the revocation of any decision of the Collegium within 10 days of its adoption. In any event, a head of government may bring before the Supreme Council any decision of the Commission before it has entered into force. Finally, while the decisions of the Court are deemed to be binding, there is no guaranteed enforcement of those decisions.¹¹ The Statute of the Court provides that if there is no implementation within a given period of time, the aggrieved party can turn to the Supreme Council, or in other words, seek a high-level, political remedy.

Thus, existing arrangements do not include an irreversible delegation of decision-making on any issue or a rule-based restriction on the commitment of member states if they deem it to be contrary to their interests. Clearly, much depends on the actual commitment to implementation and compliance, formulated by and directed from the highest level of policy-making. But it is also evident that the flexibility of commitment remains prized. Given the massive asymmetries between Russia and other post-Soviet states, Russia has not needed to pool sovereignty with smaller and weaker partners, and has asserted its superior bargaining power using a variety of means, such as bilateral 'energy diplomacy' vis-à-vis Belarus.¹² This tendency, as recent geopolitical developments in Ukraine show, is unlikely to diminish in the least. Russia's partners, in turn, have reasons to be reluctant to cede excessive powers to such a grouping. Ultimately, to placate concerns over sovereignty as well as to achieve the greater geopolitical goal of region-building, some concessions towards the smaller member states have been made at the formal level. They are likely to be retained in the new EEU.

¹¹ Most decisions of the Court to date have concerned acts of the Commission, which has complied with the rulings made. It is yet to be seen how a member state will behave in a ruling against it, especially if sensitive issues are concerned. As the only inter-state dispute related to the Customs Union shows (i.e. the complaint filed by Belarus against Russia's export tariffs on oil and petrochemicals in 2011), it was ultimately dealt with not by judicial but diplomatic means.

¹² For example, while unable to secure the concessions on export tariffs and taxation within the Customs Union, Belarus signed the Customs Code in July 2010 after Russia threatened to cut energy supplies to Belarus. See M. Frear 'Belarus: Player and Pawn in the Integration Game' in R. Dragneva and K. Wolczuk (eds.) *Eurasian Economic Integration: Law, Policy and Politics*, (Cheltenham: Edward Elgar, 2013).

Asymmetries in the bargaining power of the member states undoubtedly remain a pivotal feature of the integration regime. Given the nature of dependencies, Russia will retain the last say in determining trade-offs, at least with regard to Belarus and Armenia. For example, as energy remains outside the multilateral framework, Belarus will continue to be highly sensitive to bilateral bargaining with Russia. Similarly, Armenia's security and economic dependencies on Russia are likely to limit any divergence from the Russian position (something already demonstrated by the Armenian position on the annexation of Crimea). Thus, even if the official discourse of 'equality' of partnership within the EEU is maintained, these dependencies render formal, treaty-related constraints on asymmetry of lesser relevance.

DEEPENING INTEGRATION

The Eurasian integration project has undergone rapid development from the launch of the Customs Union in 2010 to the Eurasian Economic Union currently planned for 2015. The analysis of the development of integration shows that its directions, scope and time frame are decided *a priori* at the highest level of policy-making. These tend to be preferences driven primarily by political or geo-political considerations, formulated at the peak of political power (the so-called *vertikal*) in the respective member states. This combination of top-down and rapid nature of the integration process has several important implications for the viability of the project.

First, even if politically or geopolitically motivated this is a project with huge economic consequences. Yet there is little evidence that economic rationalisation has determined the pre-scripted scope and pace of integration. There is very little economic justification or evaluation of respective 'integration steps' before they are taken. In fact, given the overlap and multiplicity of processes, such an evaluation is likely to be highly problematic and inaccurate. Certainly, there has been no comprehensive cost-benefit analysis in individual member states. Some analysis has been undertaken by the Eurasian Development Bank, yet it has focused specifically on the potential expansion of the Union. Furthermore, the origin of Eurasian integration cannot be traced to 'domestic coalitions' favouring modernisation, thus offering little evidence of bottom-up demand by domestic state and economic actors in the member states.

Second, the top-down drive of the project means also that its legitimacy and sustainability have become closely connected with the personality of the respective leaders promoting it. Apart from the obvious vulnerability to leadership changes, which the nature of political regimes at present minimises, the success of integration becomes dependent on perpetuating those political regimes.

Third, the fast development of integration with tight, politically-driven deadlines also has important implications for the quality of regulation. There are few signs of thorough deliberations on the justification, desirability and functionality of the regulatory templates that are being adopted at such a rapid pace. The reference to ready-made regional and international models certainly reduces *ex ante* costs, yet does not guarantee *ex post* effectiveness, as evidenced by decades of worldwide experience in legal transplants from international to domestic law. Especially over the last couple of years, attention has been directed at negotiating a new comprehensive treaty on the EEU as well as codifying the legal basis of the CU and SES, discharging core regulatory duties and preparing for enlargement. The scale of the task is enormous not only because of the breadth of the agenda but also due to the state of the pre-existing legal regime, which is characterised by fragmentation and incremental development, with numerous cross-references and grey areas. Thus, the fast and top-down integration formula carries a high risk of being decoupled from officially proclaimed goals and actual achievements.

EXPANDING THE UNION

In parallel to the deepening of integration, the expansion of the Union has been pursued vigorously. However, it is highly indicative that it is Russia who has favoured simultaneous widening and deepening of the integration regime, whereas other member states, particularly Belarus and Kazakhstan, have been much less vocal on expansion.

Even though the Kazakh leadership enthuses over the Eurasian project in domestic debates, in interactions with his Russian and Belarussian counterparts, President Nazarbayev stresses the importance of ensuring that the regime lives up to expectations and delivers economic benefits for the existing member states. The Kazakh motivation to join the Eurasian regime is predominantly political, but it is clear that the economic implications cannot be neglected, especially as large parts of the business community in Kazakhstan have been adversely affected by higher tariffs, which seems to favour Russian producers. Belarus is not preoccupied with enlargement either. Belarus's interest is actually in maintaining the Eurasian regime as a relatively exclusive club thereby enhancing the relative importance of Belarus for Russia. However, despite the low priority of enlargement for Belarus and Kazakhstan, neither of them appear to object to Russia's quest for expansion and, most importantly, to the means by which this is to be achieved.

Russia has strong geopolitical motives for bringing new members in, not least to contain the influence of the EU vis-à-vis such countries as Ukraine, Armenia and Moldova. However, the expansion has been problematic. Only two Central Asian states, Kyrgyzstan and Tajikistan, expressed an interest in joining the ECU on a voluntary basis and only one of them, Kyrgyzstan, is actually negotiating accession. However, it is recognised that the country is far from able to take on the commitments related to participation in the EEU single market. It is not only the general weakness of domestic institutions but also the fact that Kyrgyzstan is unable to secure its borders which makes the country's accession to the customs union alone a very ambitious goal. In economic terms, Kyrgyzstan would add little and indeed the participation of such an economically weak and institutionally underdeveloped country is regarded by many as a liability for the Eurasian project.

The accession of Armenia, which is progressing faster, provides further insights into the 'mechanics' of enlargement, as outlined in Laure Delcour's contribution in this report.¹³ However, it also raises two important interrelated issues:

First, the quest to admit new members before the actual union is well established and consolidated carries significant risks. In many respects, it replicates the problems observed in the progress of integration: the generation of many regulations with insufficient attention paid to implementation in the prospective member states. Thus the lopsided nature of integration – observable in the existing member states – will be replicated in the new ones. With regard to new members, this problem is compounded by a lack of diffusion networks with officials trained and familiar with the newly developed regulatory templates.

Second, the type of 'invitation' also undermines the credibility of commitment with regard to Armenia. The top-heavy, secretive discussions between the Russian and Armenian presidents, which resulted in the decision on Armenia to join the Eurasian regime in September 2013, were not preceded by any debates inside the country on the economic justification and rationale for such a move. Inside the country, Armenia's accession is regarded as a security decision rather than a commitment to participate in the common regulatory regime as evidenced by the limited interest amongst the domestic state and non-state actors in the content of the roadmap on Armenia's preparations for accession. Russia's clear geopolitical interest in securing Armenia's membership is matched by and reflected in the strength of Armenia's security motives. While this combination accounts for Armenia's U-turn, it casts doubt over the genuine commitment to the formally proclaimed goal of integration, namely the creation of a single market.

¹³ pages 38-45

The deployment of SES/EEU as a foreign policy tool by Russia thus has important longer-term implications for the viability of the project, especially given the weak credibility of commitment amongst the member states. It could be argued that the more geopolitical the project becomes for Russia, the less attention will be paid to its economic underpinnings and rationale amongst the other member states. This is another significant faultline.

CONCLUSION: BETWEEN INTEGRATION AND GEOPOLITICS

The Eurasian project has increasingly been seen as Putin's attempt to remedy the collapse of the Soviet Union and reassert Russia's role as a geopolitical leader and its status as a great power. Accordingly, much of the legal and institutional content of the CU and SES has been overlooked, including the important domestic implications of its existence. This content, we argue, contains elements which distinguish it clearly from previous regional integration initiatives in the post-Soviet space. This regime – and certainly the CU at its core – is not likely to disappear. International and domestic businesses are already affected by it – from customs clearance and food safety certification to anti-dumping proceedings.

Yet, it is also clear that the corpus of rules of the regime remains firmly embedded in and dependent upon the dominant political and economic systems of the member states. The integration project is also critically tested through a process of fast and simultaneous deepening and widening. This poses significant questions about the effectiveness and sufficiency of the steps taken at the level of formal design.

Importantly, Russia's policy towards Ukraine has become an important stress-test for the new integration regime. So far, the position that Belarus, Kazakhstan and Armenia have taken on Crimea suggests that the SES is a pliant tool for Russian foreign policymaking. But it will be the sensitive issue of the formal recognition of Crimea as a legitimate subject of the Russian Federation that will indicate the extent to which membership of the EEU translates into compliance with the geopolitical interests of the dominant state.

Moreover, Russia has indicated its willingness and determination to 'punish' Ukraine as well as other countries, such as Moldova and Georgia, for pursuing closer economic integration with the EU through Association Agreements. However, with the SES/EEU, Russia's ability to use some of their instruments, such as the application of anti-dumping duties, is constrained by the fact that these are now clearly competencies of the SES/EEU as a whole.¹⁴ So it remains to be seen whether the current and prospective member states will agree on the adoption of punitive duties vis-à-vis other post-Soviet states.

Nonetheless, using the SES/EEU as a geopolitical device is unlikely to be a cost-free policy without consequences for the integration project at large. On the one hand, it will underline the hegemonic position of Russia within the bloc, thereby triggering sovereignty sensitivities in the member states. On the other hand, if the other member states, such as Belarus and Armenia, comply with Russian geopolitical preferences on the external trade relations with non-member states, it is likely that these states may demand pay-offs and concessions for their 'geopolitical loyalty' within the common economic regime. With particular interests prevailing, this would weaken the viability of the proposed single Eurasian market, even though the project is unlikely to be abandoned any time soon. Notwithstanding all the achievements and improvements in the macro-design, it remains to be seen whether the project will share the fate of other 'virtual' integration projects in the post-Soviet space. ■

¹⁴ The trade restrictions imposed on Ukraine by Russia in the summer of 2013 were applied on a bilateral basis and no acts were adopted by the Customs Union as a whole, although some discussions are likely to have taken place. Belarus and Kazakhstan imposed some restrictions on Ukrainian exports on a bilateral basis but on a lesser scale than Russia.

➤ Russia's Eurasian Integration Policies

Timofei V. Bordachev, Andrei S. Skriba

The Eurasian economic integration regime is a new attempt by Russia and other countries of the region to create a new association, not through conquest, but by building common institutions and norms. After the collapse of the Soviet Union, Russia needed to adjust to new geostrategic realities, and to find new ways of promoting its interests in its immediate periphery. At the same time, during the 1990s the Russian government and state authorities attempted to act as if the country still had a leading role in world politics, seeking to influence the crisis in Yugoslavia and to show that the country's economic malaise need not translate into the deterioration of its military power and diplomatic clout.

Many of these actions have sought to 'soft-balance' the United States – now the sole, and in its self-image, 'unique', superpower. The first half of the 1990s was marked by Russian attempts to establish friendly relations with the US, even if Moscow had to accept the role of junior partner. However, in the mid-1990s, the Russian policymakers came to the conclusion that Russia could never become a full and equal member of the Western community. Moreover, they interpreted NATO expansion as a sign that the West has not abandoned its Cold War strategy of containment.

As a result, Russian policy shifted. Moscow opposed NATO's decision to bomb Serbia in 1999, leading to a significant cooling of relations with the West. From this period onwards, dialogue and cooperation on a range of issues became increasingly difficult, as Moscow sought to resist what it saw as the West seeking to dictate its will internationally. Yet it became clear that Russia was too weak both economically and politically to rebuild its disintegrated empire and swiftly return to great power status. Nevertheless, Russia remained dissatisfied with the role of junior partner to the West, and endeavoured to progressively regain its erstwhile influence.

THE LONG ROAD BACK TO (RE)INTEGRATION

Russia's relegation from global to regional power is interpreted in Moscow as directly following from the loss of territories and allies that the collapse of the Soviet Union entailed.¹ In the late-1980s, Russia lost the majority of its allies of the former Warsaw Pact as Communist governments were forced from power. At the same time, and even more significantly, Russia was shaken by internal conflicts (both political and military) and eventually lost more than 20 percent of the territory it controlled in the Soviet Empire, almost half of the population of the USSR, and several important geostrategic assets (including Crimea and resource-rich regions of Caucasus and Central Asia). Fourteen sovereign states were created (or recovered independence) in Eastern Europe, the Caucasus and Central Asia. A much-weakened Russia was thus faced with the task of forging a new place in the world, and particularly in the Eurasian region.

¹ <http://news.kremlin.ru/news/20603>

In this context, one strategy was to try to regain political control over former Soviet states, and to reassert Russia's claims to regional hegemony. However, Russian authorities made very few attempts to do so, and the countries of the Commonwealth of Independent States (CIS) created in 1991 were not uppermost in Russia's foreign policy thinking. Though official discourse persistently presented the CIS region as the priority of Moscow's diplomacy, in reality European and, soon after, Asian dimensions, have been of much greater importance. In the 1990s Russia was satisfied with a CIS structure that simulated intensive political dialogue, something that was perceived positively by the electorate and improved the image of state authorities. In reality Russia's influence in the post-Soviet space remained limited to the mediation of a few military conflicts (Nagorno-Karabakh, Transnistria), and even then only succeeded in freezing them and maintaining the status quo, rather than establishing lasting settlements.

However, the price of supporting that political dialogue was high. Despite the serious economic difficulties Russia was experiencing during 1990s, as part of a number of bilateral agreements with CIS states Russia committed itself to discount prices for its raw material exports (including energy products), whilst leaving its market, the largest in the CIS, open for import goods that were not competitive enough to enter Western markets.² So, in CIS and integration formats (the Union State of Russia and Belarus, for example), economic components *de facto* prevailed over political ones, and again not in favour of Russia.

Indeed, the main priorities of Russian foreign policy at that time lay outside its neighbourhood. The government was actively fostering relations with Western European states and the US, as if in an attempt to fill the vacuum of the previous decades. This trend was further reinforced by a number of internal processes (including economic liberalisation, privatisation and structural reforms) that brought Russia much closer to the West than to its post-Soviet neighbours. Thus during the 1990s it was with *Western* partners that Russia sought integration and cooperation, to the detriment of its historical and economic links to the CIS-countries.

This uncommon situation began to change in the early 2000s as the Russia-EU relationship became increasingly zero-sum. There had been little progress on issues of potential cooperation from the late 1990s, as a multitude of talks and meetings failed to lead to any results. The Russian government, who sought to approach the dialogue with the EU as a conversation of equal partners, lacked understanding about the prospects of these relations. Neither side discussed the institutional forms of their possible economic and political rapprochement.

At the same time, the Western powers embarked on a more determined policy course in Eastern Europe, seeking to expand both the EU and NATO to the states of the former Soviet Union. These 'enlargements' were perceived by the majority of Russian leaders as threatening to Russia's economic interests, political influence and military security. EU enlargement negotiations at the time encompassed ten states, including five Eastern European countries – Czech Republic, Hungary, Poland, Slovakia and Slovenia – and three former USSR countries – Estonia, Latvia, Lithuania. All would eventually be admitted in 2004. NATO extended its influence to the east as well: in 1999 Hungary, Poland and the Czech Republic were accepted as new members of the organisation, followed by Bulgaria, Latvia, Lithuania, Romania, Slovakia, Slovenia and Estonia in 2004.

While Russia may have felt helpless to prevent the enlargement of the Western economic, political and military space, in the early part of the decade it was acquiring the means to change its role of a minor partner in the dialogue with the EU and US and pursue a more independent foreign policy. Rising energy prices generated increased state revenues, allowing Moscow to begin to restore the economic damage of the 1990s. More importantly, the growing expenditures of other countries on oil and natural gas turned Russia into an important energy actor, not only regionally, but also globally.

² Agreement on relations in the field of trade and economic cooperation (14 February 1992); Agreement on the principles of the customs policy (13 March 1992); Treaty on Economic Union (ES) (September 24, 1993); Agreement on the establishment of a free trade area (FTA) (15 April 1994); Agreement on the Customs Union and the Common Economic Space (16 February 1999).

The combination of its perceived exclusion from Western decision-making and the energy boom meant that, at the beginning of the 2000s, Russian policymakers came to the view that great powers do not dissolve in some other integration projects, but forge their own. Seeing little prospect for political cooperation (or some form of economic integration) with Western partners, the Kremlin began to shift its foreign policy priorities and worked to re-establish Russia's political influence in the post-Soviet space. This was confirmed in the Foreign Policy Concept of the Russian Federation, issued in 2000, in which 'ensuring conformity of multilateral and bilateral cooperation with the member states of the Commonwealth of Independent States' became the country's key regional priority³.

REINTEGRATION EFFORTS

Initially, in the early 2000s, Russia embarked on a bout of backstage diplomacy in an attempt to 'bring back' the 'lost' states. It employed economic accords concluded back in the 1990s that were favourable first and foremost for the CIS states, but not Russia, and tried to ask for a certain political alignment after given economic benefits.⁴

Other reintegration instruments were also proposed by the Russian government, some of which even implied that some of the new independent states might become part of Russia. Such a scenario was suggested by Putin to Belarusian President Alexander Lukashenko in 2004 as an alternative to a Union State of Russia and Belarus.⁵ At the same time, Moscow sought to institutionalise cooperation in the economic and defence spheres, initiating two regional organisations: the Eurasian Economic Community (EurAsEC) and the Collective Security Treaty Organization (CSTO).

Despite these initiatives, it quickly became obvious to the Russian authorities that the political elites of the CIS states were not only unwilling to move closer to Russia and create common integration formats, but were actively attempting to avoid the restoration of Russian influence. Some of the CIS countries that possessed enough internal resources and were economically independent from Russia (e.g. Kazakhstan, Azerbaijan) were able to accomplish this more successfully than others, which nonetheless sought to diversify their economic ties in order to decrease their dependence on Russia (e.g. Belarus, Ukraine).

As a result, in 2002-2003 Russia began a process of elevating geo-economics in its foreign policy, in order to prioritise economic interests over issues of ideology and history in its relations with the CIS states. In particular, unable to extract any political dividends from its economic subsidies to neighbouring states, Russian leaders started to gradually increase prices for oil and natural gas, and revise the terms of bilateral trade and economic agreements. What was simplistically perceived in the West as Russian economic 'pressure' on the post-Soviet countries was therefore not purely political, but was seen by Russian policymakers as a way to redress the imbalance of earlier accords.

The policy of reducing subsidies for post-Soviet countries was reflected in President Putin's rhetoric of separating 'flies and cutlets'.⁶ This meant that Russia was still ready to pay a price for reintegration, but only if such a reintegration actually took place. In other words, Moscow was no longer prepared to believe the promises of post-Soviet leaders, and was to cease providing economic support unless it could see concrete returns on that investment.

3 <http://www.fas.org/nuke/guide/russia/doctrine/econcept.htm>, <http://www.scrf.gov.ru/documents/99.html>

4 These previously provided economic benefits included free access of goods from the CIS countries to the Russian market and the ability to import Russian resources. The latter has become especially significant since the beginning of the 2000s, due to the rise in world prices for oil, natural gas and other raw materials. Many CIS countries have been able to import these resources at prices below global market level, with the consequence that Russian companies and the state budget (which receives export duties) lost income.

5 <http://kommersant.ru/doc/451190>

6 In Russian, this phrase means 'to deal with each class of problems separately'.

However, efforts towards the reintegration of the post-Soviet space soon started to come up against non-economic challenges. A decade of independence had established democratic norms in many CIS states, and Russia, having supported authoritarian political regimes in the region, was not viewed as an acceptable integration centre, especially in comparison with the EU. The antipathy towards Russia within some political parties was so strong that once in government some were only too willing to let bilateral relations with Russia deteriorate. This was the case for instance in Ukraine under Yushchenko, even though a large number of Ukrainians didn't support his plans to join the EU and NATO,⁷ and the Ukrainian economy suffered from the breakdown in relations with the Kremlin.⁸ There were other examples: in Georgia, President Saakashvili's opposition to Moscow eventually culminated in the Russo-Georgian war of August 2008, which saw Georgia lose a substantial part of its territory (the provinces of South Ossetia and Abkhazia). In Kyrgyzstan, President Bakiev, having intensified military cooperation with the US at the expense of ties with Russia, was deposed after a popular revolt.

In the view of Russian policymakers, the EU – Russia's main competitor in the region – sought to capitalise on this context. Democratisation processes within the post-Soviet space and the anti-Russian sentiment among some political forces were seen by the EU as an opportunity to further reinforce its presence in the East. Driven primarily by Poland and Sweden, who saw a greater EU interest in Eastern Europe as a way to play a greater role in the organisation, a series of free trade agreements sought to bring the EU and the post-Soviet countries closer together. These instruments were united in the 'Eastern Partnership' initiative launched in 2009 and designed to facilitate cooperation between the EU and six post-Soviet countries (i.e. Azerbaijan, Armenia, Belarus, Georgia, Moldova and Ukraine).

However, the EU was not ready to subsidise transitional post-Soviet economies to any substantive degree, not least since several of its member states were experiencing financial difficulties at that time. However, the EU was able to provide significant technical support, providing advice on political and economic reforms, approving countries' applications to join the World Trade Organization and assisting in securing IMF stand-by loans. Even authoritarian Belarus, which had strong economic ties with Russia and very poor political contacts with European countries, joined the Eastern Partnership, viewing it as a promising balancing mechanism against Russian influence in the region.

REACTIVE INTEGRATION: THE EURASIAN UNION

It's difficult to say for sure what direction Russian policies towards the region would have taken if the EU hadn't launched the Eastern Partnership. Although Russian authorities were obviously unhappy with the anti-Russian rhetoric of some of the new leaders in the post-Soviet space, Moscow nevertheless tried to have a dialogue with those countries and to find a balance of interests.⁹ Yet following the outbreak of the so-called 'colour revolutions' (Orange in Ukraine, Tulip in Kyrgyzstan and Rose in Georgia) and the formation of anti-Russian governments in Ukraine and Georgia, Russia shifted its regional policy in the 2006-2010 period. Interpreting Western policies as an attempt to undermine regional countries' political links with Russia, the Kremlin felt compelled to create an integration project of its own, with a strong structure to guarantee Moscow's influence over its old allies. Throughout the 2000s, the EU had steadily increased its criticism of Vladimir Putin's regime in areas such as human rights and freedom of the press, fuelling the perception that the Eastern Partnership was an anti-Russian initiative that could push Russia outside Europe and turn it into

7 See the following poll data: http://www.uceps.org/ukr/poll.php?poll_id=726; http://www.uceps.org/ukr/poll.php?poll_id=751; http://www.uceps.org/ukr/poll.php?poll_id=387; http://www.uceps.org/ukr/poll.php?poll_id=305.

8 Most notably, Moscow increased prices for Russian natural gas exports to Ukraine.

9 For example, before 2008 – 2009 Russia had regular contacts with Georgia and Ukraine on presidential and governmental level.

an ordinary Asian country.¹⁰ The new integration initiative was thus intended to avoid a scenario in which Russia lost the European post-Soviet space (Eastern Europe and Caucasus) and ended up confined as a junior partner of the European Union.

Thus Russia not only wished to maintain and strengthen its control over the post-Soviet area, it also *had* to do that in response to the changing regional situation. Whilst economic pressure could restore the balance of interests between Russia and its neighbours, it also increased the danger of destabilising political regimes and potentially bringing anti-Russian forces to power. Consequently, the key issue for Russia was how to simultaneously defend its interests and create a basis for reintegration of the post-Soviet space without losing it completely.

This dilemma prompted Moscow to pursue two courses of action. Whilst Russian leaders maintained economic and political dialogue in the framework of existing institutions – insisting for instance that the CIS should be preserved despite all the discussion about its ineffectiveness – at the same time Russia abandoned all efforts to develop those same institutions. The CIS was allowed to remain a weak forum, designed only for discussions of pressing issues among heads of state, and comparable to the British Commonwealth as an essentially ceremonial organisation for countries sharing common history, language and traditions. In time the EurAsEC also proved to be inefficient. Of the Eurasian integration formats of the 1990s, only the CSTO remained pertinent at the beginning of the 21st Century.¹¹

Instead, Russia sought to build a fundamentally new integration regime – the economic union of Eurasian independent states, or Eurasian Economic Union. In 2010 a Customs Union encompassing Belarus, Kazakhstan and Russia was launched, and in 2012 the same three countries created a Common Economic Space. In May 2013, Kyrgyzstan and Ukraine announced that they would cooperate with both organisations, and in September 2013 Armenia stated its intention to join the Unions as the fourth member.

Russia's new Eurasian policy since the late 2000s can be described in the following terms:

1. The creation of new institutions that give proper weight to Russian interests and make Russia's partners respect concluded agreements.
2. An emphasis on the economic dimension of cooperation.
3. Adherence to the principle of equality. In the Eurasian Economic Commission – the supreme regulatory body of the Customs Union and the Common Economic Space – all the member states have equal number of votes. There is no guarantee though that with the deepening of integration this principle will not be altered.
4. Preserving subsidies and other economic and commercial preferences for the countries participating in Eurasian integration, in exchange for reciprocal economic, diplomatic or military concessions.
5. Placing economic pressure on states that adopted an anti-Russian stance ('energy wars' with Ukraine in 2008-2009, limited trade with Georgia from 2008-2013) or that refused to participate in Eurasian integration (trade limitations for Ukraine in 2013, Kyrgyzstan in 2009). Prices for Russian resources to these countries have been increased to market level, while their access to the Russian market was limited and tightened.

¹⁰ <http://vz.ru/news/2014/4/11/681602.html>

¹¹ http://www.eabr.org/general/scripts/stat.php?doc=/general/upload/docs/publication/magazine/no1_2011/n1_2011_2.pdf

This new Eurasian integration strategy failed to bring Russia any significant economic benefits, and there are no guarantees that such benefits will materialise in the future. Yet for Moscow, Eurasian *economic* integration is first and foremost a *political* project. This means that Russia's Eurasian policy must be understood in a much wider context than Eurasian integration itself. It enables Russia's claims to great power status in the world, ensures its regional security, and creates new opportunities for strengthening its influence and control over post-Soviet territory. Eurasian integration has therefore become a key objective in the new 2013 Foreign Policy Concept of the Russian Federation, which explicitly pledges 'to support the Eurasian economic integration process... towards the transformation of the Eurasian Economic Community and the establishment of the Eurasian Economic Union'.¹²

REGIONS AND (GREAT) POWERS

In Russian policymakers' understanding of international relations, great power status has never been directly connected to economic performance or national welfare, but is instead conferred by the ability to use national power to enforce Russian interests. Regional influence is a prerequisite for this view. Yet some major obstacles stand in the way of the prospects of Eurasian integration as an instrument to augment Russia's international standing. The elites of the former Soviet states, including those in Russia, are extremely egotistical. Eurasian integration is often characterised by reference to memories of the Soviet era: some support integration by appealing to a 'glorious past' (which becomes ever less appropriate with every change in government); others see in it the spectre of a 'prison of the people' (a view which is actively exploited by external opponents).

Also, the public mood in Russia is changing: a growing arrogance is emerging, along with indifferent and even negative attitudes to the neighbours with whom Russia shares a common historical destiny. Many Russian intellectuals and politicians prefer to dissociate themselves from the former Soviet countries and call for the introduction of visa barriers, especially against countries of Central Asia that are in difficult economic and political situations. From a domestic political perspective, these calls are both convincing and timely. But in terms of global economic competitiveness, integration is the only viable option for Russia. It is necessary to create more efficient and better governed labour markets, and to release regional economies from the grip of organised crime. Those who call for visa regimes neglect the fact that Russian economic influence in the region is itself coming under challenge from Beijing, and that the countries of the region increasingly have a choice to make between Chinese and Russian business interests.

CONCLUSION

In the last few years Russia has proceeded to reconceptualise its neighbouring region from post-Soviet to *Eurasian*. Russia's new Eurasian policy seeks to create a new form of integration with the CIS countries (and potentially with other countries as well), culminating in the launch of the Eurasian Economic Union in 2015. This policy was triggered by the 'colour revolutions' of the early 2000s and developed in reaction to the EU's regional policies in order to consolidate Russia's position as a great power.

However, the future of Eurasian integration is uncertain. The project leaves Russia reliant on two states – Belarus and Kazakhstan – that have been governed by authoritarian regimes for the last twenty years and which have had little policy stability on integration issues. This casts a shadow on the viability of the Eurasian integration project as whole. It makes Eurasian integration – which is central to the image of their country – Russian elites want to project – potentially vulnerable from within.

¹² http://www.mid.ru/brp_4.nsf/0/76389FEC168189ED44257B2E0039B16D

In this context, the main challenge that Russia faces today is the risk that its authoritarian partners will only selectively participate in the integration process. Yet Russia has no option but to proceed with these states: alternative pro-Russian political forces in post-Soviet states simply do not exist. Over the last two decades Russia has expended too much energy cultivating links with existing authorities while it should have attempted to develop its soft power and make itself more attractive for business and a new generation of citizens in CIS countries.

The impasse between Russia and the West following the Ukraine crisis is likely to lead Russia to intensify its efforts to consolidate the institutional and legal foundations of integration in order to ensure the success of the Customs Union and Eurasian Economic Union. To ensure that anti-Russian forces do not take power in Minsk, Russia should meet its Belarusian and Kazakh partners halfway and transfer as much regulatory activity as possible to the supranational level. Today, the prospects for deeper Eurasian integration remain limited, while widening its scope depends on the internal political development of post-Soviet countries. Russia should nonetheless work towards these ends through a series of steps.

First, Russia should step up talks with Armenia and Kyrgyzstan. It should also support the transfer of responsibility for many trade and economic issues (including those related to Ukraine) to the Eurasian Economic Commission. At the very least, Russia should involve the Commission's chairman in all meetings conducted by Astana, Minsk and Moscow with foreign partners at the highest level. It is also time for Moscow to stop positioning the Eurasian project exclusively as a foreign policy initiative of the Russian Federation.

In Crimea, Russia has shown that it can defend its interests with an iron fist, if necessary. This is a convincing argument for Russia's reliability as an ally and seriousness as an enemy for the country's partners in Eurasia and further afield.¹³ But alongside its hard power, Russia needs to invest in soft power in order to become a more attractive integration centre. The creation of certain quasi-governmental organisations such as the Gorchakov Fund, which has a mission to advertise Eurasian integration, is a first step in this direction. Yet so far these attempts have met with little success, and former Soviet states continue to look for an alternative to the Eurasian project.

Yet for all the challenges Eurasian integration faces, by launching this project Moscow passed a point of no return. Russia has demonstrated that it is ready to relinquish the ideological legacy of the Soviet past, but at the same time has signalled that it will fight for the return of its great power status and the influence lost at the end of the 20th Century. Regaining geopolitical control over the post-Soviet space through the Eurasian project is thus more a means than an end in itself. The region and the world should hope that the progress of institutional and legal structures will help to make this regulative integration a genuine one. ■

¹³ For example, Lukashenko said in April 2014 that the EU had abandoned Ukraine in the Crimea crisis, and characterised Russia as Belarus' only ally. <http://news.tut.by/politics/394925.html>; http://naviny.by/rubrics/politic/2014/04/22/ic_news_112_435061/

➤ Ukraine

Susan Stewart

The situation in Ukraine is clearly in flux. It is obvious that the current ruling elite under Interim Prime Minister Arsenii Yatseniuk and recently-elected President Petro Poroshenko has quite different positions on the Eurasian integration formats than their predecessors under Prime Minister Mykola Azarov and President Viktor Yanukovich did. Furthermore, with Russia blatantly intervening – militarily and otherwise – in Ukrainian affairs and potentially placing the existence of the Ukrainian state in jeopardy, it is difficult to see how the Ukrainian elite could be at all attracted to these formats in the future, dominated as they are by Russian actors and a Russian agenda.

Nonetheless, structural dependencies on and interests in Russia are built into the Ukrainian political, economic and social landscape. These are not going to disappear unless Ukraine disintegrates into multiple parts, in which case separate analyses for each component would need to be made. In this contribution I assume that the Crimean peninsula, while still legally a part of Ukraine, will remain outside Ukrainian control for the foreseeable future. Crimea will be treated here as having been incorporated by force not only into Russia, but thereby into Putin's 'Eurasian project' and will therefore not be addressed in this contribution.

I further assume that the remainder of Ukraine will stay under the control of the central government in Kiev, even if this seems to be a daring assumption at the time of writing, when a motley assortment of 'separatists', many of them from Russia, have acquired control of parts of the Donetsk and Luhansk regions and are assisting Russian officialdom in creating a narrative which claims chaos and denial of rights to ethnic Russians and/or Russian-speakers in Eastern Ukraine. It currently appears unlikely that Russia is poised to intervene militarily, since it has allowed certain pretexts for doing so to pass unutilised, and has begun a withdrawal of troops to their barracks. However, Russia's goal of keeping Ukraine unstable in order to discredit the central leadership in the eyes of the Ukrainian and Russian populations, as well as of the West, remains unchanged. Although Russia also has effective economic levers at its disposal, which it has been activating, a scenario involving a military component cannot be completely ruled out for the future, particularly because economic instruments may not function as quickly and effectively as Russia desires as a result of Western assistance.¹

As the post-Yanukovich situation is still quite new, I will preface my analysis of current events with a brief assessment of how the Eurasian integration formats initiated by Russia were viewed by political and economic elites in Ukraine during Yanukovich's presidency. The bulk of the contribution will, however, be devoted to investigating what recent developments – both with regard to internal Ukrainian politics and society and concerning the Russian annexation of the Crimea – will mean for the evolution of Eurasian integration.

¹ By all indications, there is already a covert military component to Russia's intervention in Ukraine, in the form of 'little green men' (Russian soldiers without insignia) in some of the Eastern regions.

UKRAINE UNDER YANUKOVYCH

Yanukovich's presidency was characterised by ambivalence towards both Russia itself and the Eurasian integration formats the Russian leadership increasingly sought to impose on Ukraine. At the beginning of Yanukovich's term, the conclusion of the 'Kharkiv Agreement' inclined many observers both inside and outside Ukraine to label Yanukovich as pro-Russian. The agreement, concluded in April 2010, included as its major components a significant discount on the price of Russian natural gas sold to Ukraine in exchange for an extension of the lease of the Crimean ports housing Russia's Black Sea Fleet until 2042 (instead of 2017, as previously agreed). In addition, in the early phase of the Yanukovich presidency, the Ukrainian parliament, dominated by Yanukovich's Party of Regions, passed a law on the principles of domestic and foreign policy which declared Ukraine a non-aligned state.² This removed the threat (from a Russian perspective) of Ukraine becoming a NATO member in the foreseeable future. Thus Ukraine was seen to be taking a clearly pro-Russian stance by numerous analysts.

At the same time, however, Yanukovich did not give up on the country's relationship with the EU. While negotiations on an Association Agreement, which had begun during the Yushchenko presidency, were at first difficult under Yanukovich – with the EU gaining the impression that Ukraine was either unable to or uninterested in pushing the process forward – the talks eventually gathered momentum and the text of the agreement was finalised in autumn 2011. Simultaneously, though, the EU began to be increasingly concerned with Ukraine's apparent lack of commitment to values such as democratic governance and rule-of-law, which were enshrined in the political sections of the agreement.³ This concern led to pressure on the Yanukovich regime to demonstrate its commitment, in particular by addressing the issue of 'selective justice' in the case of former Prime Minister Yulia Tymoshenko, who had been tried and imprisoned for her role in concluding a treaty on deliveries of natural gas from Russia with Gazprom (with the blessing of the Russian government). This pressure did not abate until the Eastern Partnership summit in Vilnius in November 2013, during which Yanukovich refused to sign the agreement despite various last-minute concessions offered by the EU. It appears that in exchange for the signature the EU would have been willing not only to forego its insistence on immediately freeing Tymoshenko but also to agree to a certain package of promises regarding future financial assistance for Ukraine.

Yanukovich clearly demonstrated that he was most comfortable prolonging the uncertainty prevalent in the Kuchma period with regard to Ukraine's foreign policy orientation and playing Russia and the EU off each other to gain benefits for Ukraine (and for the ruling clique in particular) from both sides. While negotiating with the EU he also entered into a CIS Free Trade Agreement and agreed on a limited form of observer status for Ukraine within the Russian-dominated Customs Union.⁴ The lack of preparation undertaken by Ukrainian political leaders and the bureaucracy in the months prior to the Vilnius summit indicates that implementation of the Association Agreement, had it been signed, would have been patchy at best. This is due in part to the lack of political will by Yanukovich and his cronies, who saw the Agreement as an additional card to play in negotiations with Russia, and in part to the inadequate professionalism of the Ukrainian bureaucracy, which is simply not equipped to deal with the complex tasks contained in the DCFTA. While attempting to play

2 For more information on both the Kharkiv Agreement and Ukraine's non-aligned (or non-bloc) status, embedded in an analysis of Ukrainian foreign policy since 1994, see Serhiy Kudelia, 'Ukraine's Credibility Gap as a Perennial Foreign Policy Problem,' Johann Pucher and Johann Frank (eds.), *Strategie und Sicherheit 2012: Der Gestaltungsspielraum der österreichischen Sicherheitspolitik*, Vienna: Böhlau-Verlag, 2012, http://www.academia.edu/1510447/Ukraines_Credibility_Gap_as_a_Perennial_Foreign_Policy_Problem (accessed 12 June 2014).

3 For the most clear and detailed expression of this concern, see the Council Conclusions of 10 December 2012, http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/EN/foraff/134136.pdf (accessed 12 June 2014).

4 See e.g. 'Ukraine closer to Customs Union?', an analysis of the Centre for Eastern Studies (OSW), Warsaw, 5 June 2013, <http://www.osw.waw.pl/en/publikacje/analyses/2013-06-05/ukraine-closer-to-customs-union> (accessed 12 June 2014).

games with both the EU and Russia, Yanukovich further weakened the already damaged Ukrainian economy by allowing his supporters to plunder state coffers by means of corrupt public procurement schemes and other equally problematic methods.⁵ He thereby reduced the attractiveness of Ukraine to its partners in East and West and thus significantly impaired his own bargaining power.

Thus in the run-up to Vilnius, faced with strong Russian economic pressure (see below), Yanukovich was not in a position to accept an EU offer which did not promise him immediate financial relief. Rather, he succumbed to Russian pressure in exchange for an eventual offer of carefully dosed credits and investments,⁶ without, however, committing himself (at least publicly) to intensifying relations with the Customs Union or the Single Economic Space. In some ways Yanukovich's decision ran counter to his own interests and those of both his clan ('the family') and most influential Ukrainian oligarchs. These businesspeople were (and are) not interested in increasing their dependence on Russia, whose own oligarchs are as a rule financially much stronger than their Ukrainian counterparts and keen on obtaining attractive Ukrainian assets. Correspondingly, most Ukrainian oligarchs were not excited about Ukraine joining Eurasian integration formats which would have placed Russia in a better position to dominate Ukraine both economically and politically. However, the majority of oligarchs have diversified holdings, with interests in Russia as well, so they were (and are) not necessarily wholehearted supporters of the Association Agreement with the EU either.⁷

Therefore, on the level of both the political and economic elites there was a fundamental ambivalence towards not only Russia, but also the Customs Union and the emerging Eurasian Economic Union. This was echoed within Ukrainian society, although here the split was largely geographical, with the inhabitants of the Eastern and Southern regions supporting entry into the Customs Union/Eurasian Union much more strongly than those in the West, with the Central regions occupying a middle position.⁸ Despite repeated Russian attempts, notably by Putin's adviser Sergei Glazyev at the elite level and by Viktor Medvedchuk with his 'Ukrainian choice' campaign targeting Ukrainian society,⁹ it was apparent that as late as summer 2013 Yanukovich was counting on signing the Association Agreement with the EU while continuing to interact with the Eurasian integration formats on some level below that of membership. The Association Agreement was to be used as a means to increase Yanukovich's bargaining power with Putin by demonstrating that Ukraine could pursue a closer relationship with the EU as a viable alternative to Russia and its Eurasian agenda.¹⁰

5 See e.g. Susan Stewart, 'Public Procurement Reform in Ukraine: The Implications of Neopatrimonialism for External Actors,' *Demokratyzatsiya* 21/2, Spring 2013, 197-214.

6 For the specifics see Carol Matlack, 'Ukraine cuts a deal it could soon regret,' Bloomberg Businessweek, 17 December 2013, <http://www.businessweek.com/articles/2013-12-17/ukraine-cuts-a-deal-it-could-soon-regret> (accessed 12 June 2014).

7 For an excellent analysis of, *inter alia*, the Ukrainian oligarchs and their relationship to foreign economic policy, see Elena Gnedina and Evghenia Sleptsova, 'Eschewing Choice: Ukraine's Strategy on Russia and the EU,' *CEPS Working Document*, 13 January 2012, <http://www.ceps.eu/book/eschewing-choice-ukraine%E2%80%99s-strategy-russia-and-eu> (accessed 12 June 2014).

8 For a detailed analysis of foreign policy attitudes and the reasons behind them undertaken by the Razumkov Centre in Kiev, see http://www.razumkov.org.ua/eng/files/category_journal/Zhrnl_EC_2013_e_site_rdc_94-132.pdf (accessed 12 June 2014). See in particular pages 112-113 for the regional breakdown of attitudes towards the Customs Union and the EU.

9 This campaign has consisted of advertising in the form of billboards and media coverage supporting Ukrainian accession to the Customs Union. It has been run by former parliamentarian and head of the presidential administration (under Leonid Kuchma) Viktor Medvedchuk, who is close to Putin and was rumoured to be Putin's preferred choice as the next Ukrainian president. However, Medvedchuk has never enjoyed very high support in the Ukrainian populace. See <http://ukrainianweek.com/Politics/54398> (accessed 12 June 2014).

10 For an outstanding analysis of the calculations of the various actors in the run-up to the Vilnius summit, see James Sherr, 'Ukraine and Europe: Final Decision?', Chatham House Programme Paper, July 2013, http://www.chathamhouse.org/sites/default/files/public/Research/Russia%20and%20Eurasia/0713pp_sherr.pdf (accessed 12 June 2013).

THE RUN-UP TO THE VILNIUS SUMMIT AND THE ROLE OF THE MAIDAN

However, starting in August 2013 Russia began to take actions which eventually altered Yanukovich's calculations. The massive problems Russia created on the border for Ukrainian exports entering Russia, as well as the credible threats of further actions to damage the economic side of the relationship should the Association Agreement be signed, made clear that the price of that agreement would be much higher than Ukraine had previously believed.¹¹ Since the benefits of the Association Agreement would be felt only in the medium to long term, while the *de facto* economic sanctions by Russia would have an immediate and strongly negative impact, the Ukrainian economy, weakened as it was by external factors as well as by the corrupt domestic elite, was not in a position to withstand severe short-term damage.

Thus Yanukovich and the Azarov government began an unsuccessful attempt to gain last-minute promises of massive financial assistance from the EU. When it became clear that this assistance would not be forthcoming on the scale desired, Yanukovich refused to sign the Association Agreement and entered into a deal with Vladimir Putin instead. While initial loans from Russia offered the promise of tiding Yanukovich and his cronies over for a few months – and possibly until the next presidential election scheduled for March 2015 – the terms of the loan and of the accompanying gas price discount clearly indicated that Russia had the upper hand.¹² This decision thus propelled Ukraine into a state of increased dependence on Russia, making it more likely that entry into the Customs Union/Eurasian Economic Union would eventually become inevitable. In the end, therefore, the actions of the Ukrainian political and economic elite targeted solely at ensuring their own enrichment ended up dictating the country's foreign policy orientation.

Yanukovich's failure to sign the Association Agreement triggered the major social protests now referred to as 'the Maidan'. These protests quickly went beyond the issue of Ukraine's relationship to the EU and became a struggle against the corruption practiced by the ruling regime and against Yanukovich as the personal embodiment of that regime. With this broader agenda the protests attracted people from all geographical areas of Ukraine, and smaller 'Maidans' sprang up in other major cities as well. However, the most active protesters were to be found in the Western regions, and this fact – along with the starting point for the protests (the unsigned Association Agreement) – alienated a good number of Ukrainian citizens in the East and South, who shared neither the nationalist agenda of some of the more visible protesters nor the goal of a significantly closer relationship with the EU. The Maidan thus contributed to the existing polarisation within the country regarding foreign policy orientation. It also made it impossible for Yanukovich to overtly pursue any kind of rapprochement with the Eurasian integration formats advocated by Russia. In the context of his multiple meetings with Putin, which were largely shrouded in secrecy, official Ukrainian sources repeatedly stated that joining the Customs Union was not on the agenda.

¹¹ See e.g. Roman Olearchuk, 'Russia accused of triggering trade war with Ukraine,' *Financial Times*, 15 August 2013, <http://www.ft.com/cms/s/0/99068c0e-0595-11e3-8ed5-00144feab7de.html> (accessed 12 June 2014).

¹² For example, the gas price was to be re-negotiated every three months, giving Russia the opportunity to punish Ukraine for bad behaviour by reducing or abolishing the discount, as has in fact now occurred. See Svetlana Burmistrova and Natalia Zinets, 'Russia raises gas prices for Ukraine by 80 percent,' 4 April 2014, <http://uk.reuters.com/article/2014/04/04/uk-ukraine-crisis-gas-idUKBREA330C520140404> (accessed 12 June 2014).

THE INTERIM GOVERNMENT AND DEVELOPMENTS IN THE EAST

Once Yanukovich had fled the country, the situation changed radically, but the polarisation remained and indeed increased, at least between the ruling elite and parts of Ukrainian society. The closest supporters of Yanukovich either fled as well or disappeared from the Ukrainian political and business scene. Other, less central figures, such as many MPs from the Party of Regions, simply switched sides and began to support the new government, revealing the tendency of many actors to 'go where the power is' rather than adhering to any particular political agenda. The government, formed by a new parliamentary coalition in consultation with then-Acting President Oleksandr Turchynov (simultaneously the Speaker of Parliament), sees itself as transitional and is composed of members of the Fatherland and Svoboda parties as well as numerous ministers with no party affiliation, including three prominent Maidan activists. This government was immediately denounced by Russia as illegitimate and therefore impossible to accept as a negotiation partner. Unsurprisingly, the government is strongly opposed to taking part in any Eurasian integration formats and very much in favour of drawing as close as possible to the EU, as evidenced by Interim Prime Minister Yatseniuk's signature on the political part of the Association Agreement in March 2014.

Not only did the new government express zero interest in the Eurasian integration formats initiated by Russia, it also took a series of steps (along with the parliament) which further alienated those in the Eastern and Southern regions already deeply sceptical of the Maidan and the profound changes in the Ukrainian political landscape it had brought about. The most widely registered of these was the almost immediate decision of the parliament to revoke a change to the language law passed under Yanukovich which allowed those regions with 10 percent or more ethnic minority population to use the minority language alongside Ukrainian on an official level within the region. Although practically this change had had little effect and Russian is in fact very widely used in the East and South, this signal nonetheless unnerved many Russian speakers. Then-acting President Turchynov vetoed the law and it did not come into force, but this failed to reassure those concerned.¹³

In addition, the absence of obvious representatives of Eastern and Southern interests in the government, and in particular the prominent role assigned to Svoboda, a rightist party with strong Ukrainian nationalist tendencies, deepened the cleavage between substantial segments of the Eastern and Southern population and the ruling elite. Measures taken or proposed to deal with the flow of Russian protesters being sent (or coming voluntarily) to Eastern Ukraine to stir up pro-Russian sentiment – such as making the border less porous, introducing visas, or banning certain media coming from Russia – only intensified the belief of numerous citizens that the new government would bring about a serious deterioration in relations with Russia. One aspect of these relations involves the question of Ukraine's participation in Eurasian integration, which is supported by a majority of the population of Eastern and Southern Ukraine.¹⁴ Polls taken since the Russian annexation of Crimea still show 40 percent support or more for Ukraine joining the Customs Union in the Eastern and Southern regions, and a full 70 percent in favour in the Donbas area (Donetsk and Luhansk regions).¹⁵

¹³ For more on the law and the language issue more broadly, see Dominique Arel, 'Double-Talk: Why Ukrainians Fight Over Language,' *Foreign Affairs*, 18 March 2014, <http://www.foreignaffairs.com/articles/141042/dominique-arel/double-talk> (accessed 12 June 2014).

¹⁴ In November 2013 51% of the population in the Southern and 61% in the Eastern regions were in favour of accession to the Customs Union. See 'Poll: Ukrainian public split over EU, Customs Union options,' 26 November 2013, <https://www.kievpost.com/content/ukraine/poll-ukrainian-public-split-over-eu-customs-union-options-332470.html> (accessed 12 June 2014).

¹⁵ The results of this poll, which was conducted jointly by the 'Rating' Sociological Group and the International Centre for Policy Studies, can be found at: <http://ratinggroup.com.ua/products/politic/data/entry/14087/> (accessed 12 June 2014).

There has thus been a shift in recent months, since Yanukovich fled Ukraine and a so-called transitional government was established, along with an acting president. Whereas before both the Ukrainian elite and the society were characterised by ambivalence regarding both foreign policy orientation in general and participation in Eurasian integration formats in particular, there is currently a definite gulf between the ruling elite and part of the population. While the elite is clearly pursuing rapprochement with both the EU and the larger 'West' – meaning not only the United States and other individual states but also traditionally Western-dominated institutions such as the IMF – many inhabitants of the East and South continue to prefer both a close relationship with Russia and Ukrainian membership in Eurasian integration formats such as the Customs Union. These preferences, which have been stable in past years, are based on structural factors which are difficult to alter in the short or even medium term, although visible EU assistance for problematic sectors in the Eastern and Southern regions could contribute to reshaping public attitudes. As for the oligarchs, most of whom are based in the East, they are reorienting themselves after the departure of Yanukovich. While some, such as Ihor Kolomojs'kyj, have clearly positioned themselves on the side of the current government, others, and in particular Ukraine's richest and most influential oligarch, Rinat Akhmetov, have remained more ambivalent.

The structural factors mentioned above are numerous. First, some Ukrainian employers, primarily in the field of heavy industry, are largely dependent on trade and cooperation with Russian partners to survive. Thus a certain number of jobs depend on this cooperation continuing. This industry is concentrated in the Eastern regions in particular.¹⁶ Second, a significant number of Ukrainian citizens, often from the East, work in Russia, either seasonally or year-round.¹⁷ Should the Ukrainian-Russian relationship remain as problematic as it is currently, new bureaucratic hurdles could put their jobs in jeopardy. Third, many, if not most, inhabitants of Eastern Ukraine have relatives and/or friends in Russia whom they visit or whom they receive in their own homes. Should the border regime be changed to involve visas, or even external passports (up to now internal passports have sufficed), such visits could become more complicated. It thus appears unlikely that preferences in favour of further developing relations with Russia (including the Eurasian integration formats) will change in the short to medium term. However, support for these formats seems to be predicated less on the benefits they will bring and more on the negative consequences the rejection of them might entail for the overall Ukrainian-Russian relationship.

These factors, combined with the actions taken by the transitional government as described above, create fertile soil for Russian intervention in Eastern Ukraine. It should, however, be stressed that the situation is quite different from that in Crimea along a variety of parameters and that in past years support for separatism in the East has been marginal at best.¹⁸ We now turn to a brief review of the consequences of Russia's occupation and annexation of the Crimean peninsula for the future Ukrainian approach to the Customs Union and Eurasian Economic Union.

16 For ties e.g. in the military sector, see Charles Recknagel, 'Complex Ties: Russia's Armed Forces Depend on Ukraine's Military Industry,' Radio Free Europe/Radio Liberty, 28 March 2014, <http://www.rferl.org/content/russia-ukraine-military-equipment/25312911.html> (accessed 12 June 2014).

17 It is difficult to find reliable statistics on this migration, since much of it is likely to be illegal or at least informal. However, for a general overview, see Yulia Florinskaya, 'The Scale of Labour Migration to Russia,' Russian International Affairs Council, 13 September 2013, http://russiancouncil.ru/en/inner/?id_4=2343#top (accessed 12 June 2014).

18 For a useful analysis of the complex situation regarding identity and attitudes in the Eastern regions, see Joanna Fomina, *Language, Identity, Politics: The Myth of Two Ukraines*, Policy Brief, Institute of Public Affairs/Bertelsmann Foundation, April 2014, http://www.bertelsmann-stiftung.de/cps/rde/xbcr/SID-CAC3946B-E717251D/bst/xcms_bst_dms_39664_39665_2.pdf (accessed 12 June 2014).

IMPLICATIONS OF THE CRIMEAN CONFLICT

The circumstances of Russia's invasion and occupation of Crimea, as well as of the illegal referendum conducted under Russian auspices and the ensuing annexation of the peninsula by the Russian Federation are well-known and will not be reviewed here. The implications of these events for Ukrainian current and future involvement with Eurasian integration formats are multiple. For one thing, the Ukrainian-Russian relationship has deteriorated in the extreme. Normal diplomatic relations are impossible as long as Russia refuses to accept the new Ukrainian leadership as a legitimate partner. While Russia has agreed to 'respect' the outcome of the 25 May presidential elections, it has fallen short of explicitly recognizing Poroshenko as Ukraine's legitimate president, although the Russian ambassador to Ukraine did attend his inauguration. There are some signs that a dialogue may now be possible on some levels, but for the moment these appear to be more tactical moves than a reflection of a change in Russian ruling elite attitudes. For its part, Ukraine will have difficulty establishing any kind of productive dialogue with a neighbour that has occupied part of its territory and massed armed forces at its Eastern border, as well as contributing to a destabilization of the Donbas, which may have disastrous consequences for the country's further development.

Economic relations are still at least partially intact. However, the Russian side has intermittently raised customs issues on the border, slowing some types of trade.¹⁹ Also, some forms of cooperation and Russian investment in Ukraine are in jeopardy or have already been eliminated, for example in the military sphere. Economic ties to the Crimea have largely been severed, and travel between the mainland and the peninsula is increasingly restricted, with Crimean residents under pressure to accept Russian citizenship.²⁰ So far people-to-people contacts and worker migration from mainland Ukraine to Russia have not been called into question, but measures such as the introduction of visas have been discussed by both sides, and the Ukrainian government is struggling with how to prevent further Russian combatants intent on fomenting unrest in Eastern Ukraine from entering the country, not to mention dealing with those already present. None of these developments speak in favour of Ukrainian interest in Eurasian integration formats any time soon, dominated as these formats are by Russia and requiring as they do a lowering of barriers to trade, labour and capital across participating countries. Rather, the reorientation of Ukraine away from Russia in a number of sectors appears likely.

For another thing, the loss of Crimea means that the balance of political preferences within Ukraine will shift somewhat away from the East and South and towards the West and Centre. This will reduce the number of supporters of Eurasian integration formats significantly, although the dissatisfaction of many citizens in the East, as well as the levers of influence Russia has on Ukraine, will nonetheless require the president and government to attempt to come to some kind of arrangement with the Russian leadership in order to allow for a more or less stable environment for pursuing reforms. Finally, in the medium term, the way political and economic developments evolve in Russian-controlled Crimea will influence how Ukrainians view association with Russia, especially the inhabitants of the Eastern and Southern regions. This in turn can either increase or diminish support for the Customs Union and the Eurasian Economic Union, since these formats are closely associated with Russia in the eyes of the Ukrainian public.

¹⁹ See e.g. Alec Luhn, 'Trade war over Crimea looms as Russia closes Ukrainian-owned sweet factory,' *The Guardian*, 20 March 2014, <http://www.theguardian.com/world/2014/mar/20/trade-war-crimea-russia-closes-ukraine-sweet-factory> (accessed 12 June 2014).

²⁰ On the citizenship issue see Natalya Krainova, 'To Be Russian, or Not to Be Russian? Crimean Residents to Decide on Citizenship,' *The Moscow Times*, 20 March 2014, <http://www.themoscowtimes.com/news/article/to-be-russian-or-not-to-be-russian-crimea-residents-to-decide-on-citizenship/496499.html>; Christian Weisflog, 'Fremd in der eigenen Stadt,' *Neue Zürcher Zeitung*, 15 April 2014, <http://www.nzz.ch/aktuell/international/auslandnachrichten/fremd-in-der-eigenen-stadt-1.18284204> (both accessed 12 June 2014).

CONCLUSION

Ambivalence towards Eurasian integration formats among the Ukrainian ruling elite under Yanukovich has largely given way to aversion within the current political leadership. In some cases this negative attitude was present before (e.g. in the case of the Svoboda party), but to some extent it is pragmatic, as today's Ukrainian leaders see more extensive support under more tolerable conditions coming from the West. What is more, Western assistance is viewed as a bulwark against further Russian encroachment. Even if there were interest on the part of the Ukrainian elite, any sort of engagement with the Customs Union is impossible as long as the Russian leadership refuses to interact with its counterparts in Ukraine on a systematic basis. This may change with the assumption of the presidency of Petro Poroshenko, but at the time of writing (five days after his inauguration) it is too early to tell whether there will be a qualitative shift in the Russian approach. On the societal level, the population remains split, largely along geographical lines. These differences with regard to foreign policy orientation have been further polarised by both the influence of the Maidan and the transitional government on the one hand, and the intervention by Russia in the Crimea as well as (to a lesser but still effective extent) in Eastern Ukraine on the other.

The initial approach of the transitional Ukrainian government and acting president towards Russia was pragmatic, seeking good relations based on mutual equality.²¹ Poroshenko also appears to be prepared to pursue dialogue, although he is unwilling to compromise on issues of Ukrainian sovereignty and territorial integrity. However, Russia's occupation and annexation of Crimea have placed the relationship on a hostile footing and indeed brought the two countries to the brink of war. In this situation the Ukrainian leadership is hardly likely to consider closer cooperation with Russian-dominated Eurasian integration formats in any way attractive, particularly given a viable Western alternative. Indeed, these formats play almost no role in the current Ukrainian political and media discourse. Certainly the situation in Ukraine is currently quite unstable in a number of ways, and it is unclear how things will develop on the domestic and international fronts even in the near future. However, it appears that Russian actions, in particular concerning the Crimea, but also in the run-up to the Vilnius summit, represent a clear shift away from persuasion and towards coercion with regard to Russia's neighbours, in terms of both their relationship with Russia itself and their participation in the Customs Union and emerging Eurasian Economic Union. Despite continuing support for close relations with Russia in Eastern and Southern Ukraine, this shift in Russian methods has alienated many, if not most, on both the elite and societal levels in Ukraine and has damaged – perhaps irreparably – the standing of the Eurasian integration formats Russia has been seeking to promote.

Despite the fundamental unattractiveness of these formats, a scenario in which Ukraine moves closer to or even joins the Eurasian Economic Union cannot be completely ruled out. Should the reform processes now being launched by the government in Kiev fail to gain traction, Ukraine could lose Western support, as has happened before when IMF loans were halted in response to Ukrainian inaction. If this occurs, Ukraine may be too weak to resist Russian pressure to ally itself with its Eurasian integration formats. Thus much depends on the determination of segments of the Ukrainian elite and society to carry out genuine and consistent reforms, as well as on the ability of external actors to support this process in an informed and effective manner. Judging from previous Russian behaviour, the Kremlin will attempt to thwart positive political and economic developments in Ukraine, which will make Ukrainian efforts to reach a compromise with Russia simultaneously less tolerable and more necessary. However, Kiev is currently not in a strong enough position to negotiate an arrangement with Moscow that would allow Ukraine to pursue a stable and sensible path of development while retaining its sovereignty. Because of this, the ability of Western actors to keep channels of communication with Russia open while insisting on changes in Russia's approach to its neighbours will be a crucial factor in shaping the future of both Ukraine and the Eurasian integration process. ■

²¹ See 'Turchynov promises neighbourly relations with Russia', Interfax, 24 February 2014, <http://www.interfax.com/newsinf.asp?id=483150> (accessed 12 June 2014). See also an op-ed by Turchynov in the *New York Times*: 'Kiev's Message to Moscow: Ukraine's President Rebuffs Russian 'Imperialism'', 11 March 2014, http://www.nytimes.com/2014/03/12/opinion/ukraines-president-rebuffs-russian-imperialism.html?_r=0 (accessed 12 June 2014).

➤ Belarus

Balázs Jarábik and Anaïs Marin

Belarus is Russia's only formal ally, and Russia will continue its policy of subsidising the Belarusian economy.¹ Yet two decades of privileged cooperation across political, military and economic sectors, has not led to genuine integration but has instead cemented an overarching Belarusian dependency on Russia. Lukashenka's regime, leveraging Belarus's symbolic and strategic importance for Russia, has successfully extracted a high price for Belarus's loyalty, while seldom having to deliver on its commitments. However, whilst Russia will continue to keep Belarus's beleaguered economy afloat, the annexation of Crimea and the subsequent Western response – seen as weak in Minsk – have altered Lukashenka's strategic calculus. Belarus is no longer balancing between the EU and Russia, but hedges between integrating economically with the Eurasian Union and being absorbed in the so-called Russian World. Belarus, along with Kazakhstan, signed the Eurasian Union Treaty on 29 May 2014, but Minsk will press to keep its privileges and avoid transferring powers to any kind of supranational body, should this entail abandoning sovereignty to Russia. Even as geopolitics in the region evolves, Minsk will try to continue extracting rent benefits from its transit situation for Russian hydrocarbons exports, allowing Lukashenka's regime to continue delivering services to Belarusians, enhancing its chances of survival in the face of both internal collapse and Russian pressures.

Three years after the Treaty on the Customs Union (CU) of the Eurasian Economic Community was signed on 19 May 2011 in Minsk, Belarus signed the Treaty setting up the Eurasian Economic Union to be launched on 1 January 2015.² From the Belarusian viewpoint, however, many provisions of the 2009 Customs Union Treaty are still not being implemented. Technical and practical aspects of implementation are subject to (dis)agreements. The most important issue for Minsk is that the major commodity traded by the three countries – namely energy – remains outside of the free trade principle. But Minsk's aim remains to trade its support for Putin's plans for economic reintegration of the post-Soviet space for the highest possible price. This extractive geopolitics has been the trademark of independent Belarus since Stanislav Shushkevich's regime after 1993. Against the background of the Ukrainian crisis, however, Minsk lacks the room for manoeuvre to continue its hard bargaining stance vis-à-vis Moscow.

Belarus and Kazakhstan's economic and strategic calculus has changed by the Ukraine Crisis. Seeking closer association with the EU is likely to provoke Russian recriminations that Brussels appears disinclined to resist. And while both countries retain a long-term interest in upgrading the SES into a fully-fledged economic union, for its part Russia is reluctant to go that far, preferring to continue to leverage its relative strength bilaterally. In this sense, the EEU agenda involves incrementally increasing political costs to reducing economic returns. Belarus's position is an unpalatable one, as it seeks to avoid having to choose between an EU that won't defend its integration project as far as potential new members, and an EEU that provides little in the way of economic benefit in return for geopolitical concessions.

¹ Russia gives \$2 billion credit to Belarus, 9 May 2014, 5th Channel (Ukraine) <http://www.5.ua/svit/item/383419-rosiia-dast-bilorusi-kredyt-u-rozmiri-usd2-mlrd>

² Belarus wont block creation of Eurasian economic Union, Reuters, 9 May 2014 <http://www.reuters.com/article/2014/05/09/russia-belarus-unions-idUSL6N0NV1ZX20140509>

THE ECONOMIC SITUATION

Alexander Lukashenka has made his signing up to Putin's Eurasian integration project conditional on Moscow's lifting of the requirement that Belarus return to Russia the customs duties it levies on the export of oil products transformed in Belarusian refineries from Russian crude oil. For the past four years, Belarus and Kazakhstan have argued that such limitations to free trade of energy products be removed among all three CU member states. So far, Russia has consistently ignored its partners' claims for an integrated energy market, preferring the annual renewal of *ad hoc* bilateral deals and *post hoc* money transfers: Belarus received a \$2 billion loan from Russia for signing up to the EEU.³ The Eurasian Union Treaty does confirm that external customs duties will gradually converge and internal ones be fully lifted. Yet Moscow has announced and will maintain that, if pushed to satisfy Minsk's claims, as well as Astana's (for customs-free transit of Kazakh oil via Russian pipelines), it will compensate for the estimated \$30 billion per year loss that changing the current schemes will entail for the Russian budget by raising taxes on mineral extraction. In other words, Russian oil producers are likely to pass this additional cost on to final consumers, whether Russian or Belarusian.⁴

The main worry for Belarus, given its dependence on trade with – and subsidies from – Russia, is the slowing down of the Russian economy. This has had a chilling effect on Belarus's GDP growth and industrial production levels, which had already plummeted following the 2008-9 crisis. According to the Belarusian statistical office Belstat, industrial production in February 2014 was down seven percent compared to the previous year. Due to a lack of foreign and especially Russian demand, BelAZ, one of Belarus's flagship manufacturing companies and a world leader in the production of haulage and earthmoving equipment, has reduced its production.⁵ Belarus has been bailed out by Russia in difficult circumstances before, but the looming recession in both economies makes such a rescue less likely and casts a shadow over the future prospects of the Eurasian Economic Union more broadly.

Russia's integration scheme also requires that officials in Minsk commit to implementing reforms towards the liberalisation of export-oriented sectors of its still mainly state-controlled economy.⁶ Following Russia's formal entry into the World Trade Organisation (WTO) on 22 August 2012, WTO rules became part of the Customs Union legal system, entailing a number of new, often painful obligations for Belarus. Several industrial sectors are scheduled to undergo long-delayed privatisations.⁷ State subsidies in the agro-industrial complex, a deeply embedded feature the post-Soviet Belarusian economy, are also expected to be gradually limited. In compliance with the 2010 agreements, Minsk is expected to cut the level of state support to the agricultural sector by 40 percent over six years – from 18 percent of the gross value of produced agricultural commodities in 2010 to 10 percent in 2016.⁸ This major shift may serve to challenge the foundations of Belarus's paternalistic social contract and its centralised management of the economy, creating real risks for the survival of Lukashenka's regime, should the reduction indeed occur.

3 Neil Macfarquhar, Russia and 2 Neighbors Form Economic Union That Has a Ukraine-Size Hole, 29 May 2014. <http://www.nytimes.com/2014/05/30/world/europe/putin-signs-economic-alliance-with-presidents-of-kazakhstan-and-belarus.html>

4 Olesia Astakhova, Denis Pinchuk 'Interview: MinFin RF gotovitsya k novomu nalogovomu manevru v nefteotrasli k 2015 goda', *Reuters business and economic news*, 13 March 2014, <http://ru.reuters.com/article/businessNews/idRUMSEA2C02L20140313?pageN=undefined&pageNumber=2&virtualBrandChannel=0&sp=true>

5 'Analytical note: monitoring of the economic security situation (February 2014)', *Belarus Security Blog*, uploaded on 21 March 2014, <http://www.bsblog.info/analytical-note-monitoring-of-the-economic-security-situation-february-2014/>

6 According to official figures, 70 percent of the economy remains under state control and directors of major state-owned enterprises are appointed and dismissed by the President himself.

7 The government announced the opening of the capital of over 60 of the biggest State companies, half of which Russian investors covet and will seek to appropriate (such as Integral, MAZ, the Minsk Wheel Tractor Plant MZKT, Grodnoazot, possibly the Mozyr oil refinery), although Lukashenka has set too high a price for these assets so far. Repeatedly announced and systematically postponed, the transfer of these companies to private hands, and their subsequent restructuring, might become unavoidable as Lukashenka's room for manoeuvre, bargaining and blackmailing the Kremlin keeps on shrinking.

8 Agreement on common rules of state support of agriculture, signed in Moscow on 9 December 2010, ratified by the Law of the Republic of Belarus 216-3 of 28 December 2010. In fact, the agreement prohibits national support that distorts by more than 10% the level of mutual trade in agricultural products with another CES member states. Belarus successfully negotiated a deadline extension until 2016 for gradually reducing its level of state support to agriculture to this 10% threshold.

Whilst Belarus's economic downturn can hardly be blamed on the Customs Union, the economic benefits of its membership are hardly apparent. Evidence suggests a trend towards trade diversion, rather than multiplication, among the three member states: mutual trade is falling in many sectors, whereas individual member states' bilateral trade with China continues to grow. Trade between Belarus and Kazakhstan has stagnated at around \$900 million for the past three years,⁹ while Russia-Belarus figures suggest¹⁰ that Belarusian products are not competitive, aside from a limited number of items.¹¹ This increases Belarus's reliance on subsidies from Russia. Minsk's fear that this support may be stopped, or that new, more demanding conditions be attached to it, has led it to seek new markets and foreign investors from outside of the Customs Union, a task made difficult by Belarus's stagnating competitiveness and low labour productivity.

BALANCING SOVEREIGNTY AND INTEGRATION

Since the collapse of the Soviet Union, Belarus has proven to be an omnipresent, albeit unreliable, partner in Russia's 'holding-together integration' projects.¹² Belarus is part of the CIS, the CSTO, the bipartite Union State of Russia and Belarus and the tripartite Customs Union of the Common Economic Space. Yet the country has never been fully and genuinely committed to integration. In fact, whenever planned cooperation entailed the transfer of aspects of national sovereignty to some supranational institution – as would have been the case in the event of establishing a joint currency for the Union State – Minsk has backpedalled.¹³ In addition, since the second half of the 2000s, Belarus has been courting the West with promises of democratic reforms, a manoeuvre designed to push up the bidding for Belarus's loyalty in Moscow.

Opinion polls suggest that Belarus's balancing act is popular at home. The share of respondents opposing the unification of Belarus with Russia has constantly risen since June 2012, except in the spring of 2013.¹⁴ As of December 2013, polls showed a historically low 23.9 percent in favour of unification with 51.4 percent against it. However, this antipathy does not precipitate support for a (hypothetical) accession of Belarus to the EU: for the past three years Belarusians' position has remained unchanged, and equally divided, with 36-38 percent 'for' and a similar share 'against' joining the EU. When offered a choice between unification with Russia and joining the EU, 35 percent reply in favour of the former, 45 percent for the latter, and about 20 percent remain undecided. At the same time, another survey revealed that Belarusians would accept as a matter of pragmatism a *de facto* absorption by Russia: a staggering 70 percent of respondents would support a single state with Russia 'on the condition that the move contributes to the improvement of the economic situation in the country'.¹⁵

The Belarusian regime has always rejected Russian proposals to transfer aspects of its sovereignty to any kind of supranational institution. Even in case of agreeing on the EEU, Minsk is unlikely to accept losing control over any of the major macroeconomic policy instruments that have allowed the regime to conduct an autonomous economic and social policy. Whilst negotiating the terms of its participation in Putin's Eurasian integration project, Belarus has continually endeavoured to keep the door to Western markets open. Minsk has repeatedly requested that the EU recognise and treat the Customs Union as an equal partner. This would effectively de-politicise the EU28's economic relations with Belarus, a long-time goal of Lukashenka's foreign

9 Alexander Sinkevich, 'Parad deval'vatsii ukhudshit pozitsii belorusskikh eksporterov', Regnum 17 February 2014.

10 See the data of the World Integrated Trade Solution (World Bank) at <http://wits.worldbank.org/CountryProfile/Country/BLR/Year/2012/TradeFlow/Import>

11 Chubrik, Alexander, IPM presentation at the 3rd Belarus Reality Check, Non paper, upcoming

12 On this notion of post-Soviet regionalism as 'holding together integration', see Alexander Libman & Evgeny Vinokurov *Holding-Together Regionalism: 20 Years of Post-Soviet Integration*, MacMillan, 2012.

13 Worsening of relations with the West could put Russian ruble in front for the Eurasian Union, cf. <http://www.vedomosti.ru/politics/news/24804671/andrey-kostin-rossii-pora-perejti-na-raschety-v-rublyah-so#ixzz2xitxgW3L>

14 See the data for the question by independent pollster ISEPS 'If a referendum on the unification of Belarus and Russia was held today, how would you vote?'. <http://www.iiseps.org/analitica/559>, uploaded 8.10.2013.

15 Belarus Institute for Strategic Studies, Geopolitical Preferences of the Belarusians: A Too Pragmatic Nation?, April 2013, Minsk http://belinstitute.eu/sites/biss.newmediahost.info/files/attached-files/BISS_SA07_2013en.pdf

policy, which has attempted to secure the lifting of EU sanctions against his regime without fulfilling Brussels's conditions for normalising relations, namely the release and rehabilitation of political prisoners. Informally, the official Belarusian argument that a more pragmatic stance would be mutually beneficial is met positively in several EU capitals. Belarusian business is already very well implanted in neighbouring EU countries such as Lithuania and Latvia, whereas trade links with Germany (5.88 percent of Belarus's total trade flows in 2012), Poland (almost 3 percent), Italy (2 percent)¹⁶ or the Netherlands – through which Belarusian exports of oil products are shipped en route to North American markets – are also vitally important for Belarus's balance of payments. This is why Belarus insists on presenting itself as a potential bridge between the Eurasian (and potentially the Chinese) markets on the one hand, and EU customers on the other.

Building on this bridge metaphor, the Belarusian government created a new rhetorical concept – the 'integration of integrations'. This was developed in parallel to a new strategic partnership with China, whose flagship project is the Chinese-Belarusian Industrial Park near Minsk. The idea is to turn Belarus's industrial base into an assembly line for Chinese products to be exported on to Russia and Kazakhstan, but also with the expectation that EU markets will be the final destination in a more distant future. However, the level of FDI from China has turned out to be much lower than the Belarusian authorities expected, after Chinese partners decreased the promised sum from \$30 billion to little over \$5 billion.

MINSK'S VIEWS AND EXPECTATIONS

Belarus's participation in Eurasian integration is driven mainly by three sets of factors. First, Moscow's continuing subsidies to Belarus's economy drive political support for the Eurasian project. By presenting itself as a loyal partner, Belarus hopes to secure leverage in its negotiations with Russia on other issues: geopolitical loyalty is the bargaining chip that Minsk trades for economic concessions.¹⁷ As one analyst notes, 'Minsk has taken a highly instrumental approach, with integration traditionally exploited as a means to an end, rather than a goal in itself'.¹⁸ Belarus's approach to economic liberalisation, which is a necessary corollary to further integration within the Eurasian Union, boils down to allowing Russians to invest in the privatised companies whilst retaining control over their management. At the same time, some small but innovative private businesses have managed to grow despite the unfavourable local circumstances.¹⁹ The second, and equally important, motive impelling Belarus to join the Customs Union is the belief that it could help turn Belarus into a competitive transport and logistics hub able to service trade flows between Asia and Europe. This hope builds on Belarus's main, if not only, comparative advantage over the two other CU member states – a reputedly lower level of corruption and crime, which would make Belarus the most attractive country in which to fulfil customs clearance.²⁰ Third, institutional deepening of cooperation within the Eurasian Economic Union will improve the attractiveness of its member-state economies for Western investors, thereby facilitating technology transfers and, ultimately, the modernisation of Belarus's economy. However, given the unwillingness to engage in genuine structural reforms, such modernisation remains a distant prospect.

16 Gross trade data and shares available here: <http://wits.worldbank.org/CountryProfile/Country/BLR/Year/2012/TradeFlow/Import#>

17 Russian media evaluated the total amount of direct and indirect subsidies granted by Russia to Belarus – in the form of price discounts, rebates and other 'presents' to various social groups and companies – to no less than \$ 50bn during the period 1991-2010 alone. On energy subsidies specifically, cf. Belarus Reality Check 1st Non Paper, December 2012, p.3 www.eesc.lt/uploads/news/id515/Belarus_Reality_Check__December_2012.pdf

18 Matthew Frear 'Belarus: player and pawn in the integration game', in Rilka Dragneva & Kataryna Wolczuk, *Eurasian Economic Integration: Law, Policy and Politics*, Elgar, 2013; draft here: https://www.academia.edu/3861913/Belarus_Player_and_Pawn_in_the_Integration_Game

19 Paradox of Belarusian business: Aggression of authorities is the best motivator, EuroBelarus, Minsk, 2 February 2014, <http://eurobelarus.info/en/news/economy/2014/02/02/paradox-of-belarusian-business-aggression-of-authorities-is-the-best-motivator.html>

20 This argument has been repeated by several Belarusian officials during interviews conducted by one of the author in Minsk in April 2014.

BELARUS IN THE CUSTOMS UNION: A BALANCE SHEET

The expected added value of integration is manifold for Belarus – yet it remains largely unsatisfied.²¹ The amount of FDI (from China or the EU) has not risen significantly since Belarus joined the CU at the time of the global economic downturn. Moreover, easier access to the Russian market facilitated by the ECU framework caused more Russian products to flow in Belarus, as Belarusian goods were not able to compete with those of other ECU members – even Kazakhstan.²² Despite this, Belarus is generally believed to be the CU member-state that, so far, has benefited the most from joining the Customs Union.

Customs conditions for trade did improve in some sectors while others faced serious limitations. The inability of its bureaucrats to negotiate CU regulations that would be more favourable for its own economic actors meant Belarus could not stop the Eurasian Commission from imposing certain technical standards, non-tariff barriers and customs exemptions which ultimately harm Belarus's producers and consumers. This concerns, for example, alcohol, tobacco and pharmaceutical products. Harmonisation of the common external customs tariff has led to severe price hikes on some imported goods, such as automobiles. Although Belarus secured advantageous duties on the export of its dairy products to Russia, the free circulation of another Belarusian commodity that traditionally enjoyed a wide market share throughout the former Soviet Union – women's lingerie – has recently been subject to export limitations, officially on technical grounds.²³ And Belarusian alcoholic products – beer and vodka – enjoy less favourable distribution conditions in Russia than their Ukrainian competitors do.

Whereas gas transport policy will remain a national prerogative of each Customs Union member state, the activities of other natural monopolies such as oil pipelines and electricity distribution are to be gradually integrated, that is to say regulated by principles and rules determined in accordance with the tripartite agreements signed in late 2010 with Russia and Kazakhstan.²⁴ According to these accords, Belarus is supposed to stop subsidising some deficit-making industries – a move which, with or without the subsequent sale of state assets to private investors, is likely to jeopardise production and employment in some of Belarus's flagship companies.²⁵

The Customs Union and Common Economic Space have led to the institutionalisation of new, multilateral mechanisms for dispute management, which Belarus has learnt to use in order to seek legal solutions to its recurring trade disputes with Russia. Eurasian integration is creating a codified framework that is more able to constrain and restrict Russia's domination of its smaller partners.²⁶ Initially seen as an empty shell, the EurAsEC Court, which formally started functioning in 2012, has clarified Belarus's rights and obligations with regards to both its trading partners within the CES and the Eurasian Economic Commission. Given the derogations of sovereignty that the decisions of this new supranational body – expected to acquire more prerogatives when the Eurasian Union Treaty enters into force on 1 January 2015 – may entail, it remains to be seen whether the Court will be fully accepted by Lukashenka's regime.

21 Irina Tochitskaya, 'The Customs Union between Belarus, Kazakhstan and Russia: Economic Implications for Belarus', *Belarus Info Letter (BELL)*, Vilnius: EESC, 5(15), June 2010, p. 4-7.

22 At the same time the trade with Ukraine has shown constant growth and was over \$6bn in 2013 <http://www.blackseagrains.net/novosti/belarus-ukraine-trade-over-6bn-in-2013>

23 'V Kazahstane zapretili kruzhevnoe belio', 16 February 2014, <http://news.nur.kz/302626.html>

24 *Agreement on common principles and rules of regulation of the activities of natural monopoly entities* signed in Moscow on 9 December 2010, ratified by the Law of the Republic of Belarus 205-3 of 28 December 2010. Cf. Revera Consulting Group 'The Common Economic Space: the history of creation, institutional framework and the scope of coordinated spheres of activities', Minsk, May 2013, 27 p., http://www.economy.gov.by/dadvfiles/002045_125323_The_Common_Economic_Space.pdf; p. 13.

25 Some of Belarus' key companies are connected to potash (Belaruskali, Azot) and refineries (Mozyr and Novopolack).

26 'Eurasian Economic Integration: Rhetoric and Reality', summary of expert round-table discussion held on 18 July 2013 at Chatham House, <http://www.chathamhouse.org/sites/default/files/public/Research/Russia%20and%20Eurasia/180713summary.pdf>

As far as the free movement of people is concerned, Belarusian migrants living in other CIS or Customs Union states enjoy a relatively good level of legal and social protection. Since 2006, a bilateral treaty ensures Belarusian and Russian citizens equal rights to freedom of movement and residence in both countries. However labour migration trends are less positive, and further integration within the Eurasian Economic Space is unlikely to improve the situation. Belarus is unable to retain its qualified workers, who prefer to emigrate to Russia in search of better-paid jobs. At the same time, Belarusian public opinion is reluctant to open the Belarusian labour market to foreigners. According to a poll conducted by IISEPS in December 2013, 39 percent of respondents disapproved of Lukashenka's call to Russian workers to come and seek permanent residence in Belarus, while only 23.8 percent supported it.²⁷

With an average monthly nominal salary of \$579 – 40 percent lower than in Russia and 20 percent lower than in Kazakhstan – Belarus offers a comparatively cheap labour force. In the context of the Single Economic Space, this wage differential enhances Belarus's attractiveness for CU and foreign investors but has a negative impact on Belarus's demographic profile. The wage gap between Belarus and neighbouring countries widened as a result of the 2011 currency crisis and the subsequent devaluation of the Belarusian rouble. This created additional incentives for economic emigration. Although reliable data on migration is scarce in Belarus, several studies have shown that labour emigration, dominated by the younger and most educated segments of the population, has been growing over the past couple of years. This 'brain drain', the main destination of which is Russia, is not being compensated for by immigration flows, which are composed of less qualified workers.²⁸

Some of the most interesting developments in the economic sector are not actually linked to the Customs Union framework. The government's efforts to attract FDI by offering preferential conditions for new businesses in Special Economic Zones (located near its borders) has 'opened doors' to Belarus for Western investors, who until the 2010s entered CIS markets only via Russian or Baltic entry points. Ranked much better than its CU partners on the World Bank's 'Doing Business' rating (63rd out of 189 countries),²⁹ Belarus has managed to divert some FDI inflows traditionally captured by Moscow, including Russian reinvestment flows originating from EU countries such as the UK, Cyprus and Austria. For instance, in the dynamic IT servicing and outsourcing sector, Belarus is now the world's 13th most attractive destination for FDI. Yet according to foreign investors, Belarus's comparative advantages over Russia for doing business – low levels of corruption and crime, a strong payment culture and a cheap qualified labour force – do not compensate for uncertainty as to future economic development and the country's relations with Russia, nor for the unpredictable nature of the legal-administrative environment.³⁰

27 Actual Trends for December 2013, as published by the Independent Institute of Socio-Economic and Political Studies NISEPI, <http://iiseps.org/trends/11>, published on 6 January 2014.

28 Alexander Chubrik & Aliaksei Kazlou 'Country Study: Belarus', conducted as part of the research commissioned by the European Commission on *Costs and Benefits of Labour Mobility between the EU and the Eastern Partnership Partner Countries*, 6 December 2012, http://www.case-research.eu/sites/default/files/Belarus%20country%20study_final.pdf; esp. p. 26-27 and table p. 41.

29 Ranking benchmarked to June 2013. <http://www.doingbusiness.org/rankings>

30 Cf. Kari Liuhto 'Experiences of Finnish firms operating in Belarus – Balancing between profits and political peculiarities', Electronic Publications of the Pan-European Institute (University of Turku), 4/2014, http://www.utu.fi/en/units/tse/units/PEI/reports/Documents/Liuhto%204_2014.pdf.

CONCLUSION

The adoption of a common Customs Code and the abolition of internal customs borders has led to greater mobility of goods, services, capital and labour. However, 600 types of goods are exempt,³¹ and dozens of other categories of goods and services are subject to non-tariff barriers (NTB). In fact, one-third of all product types are still not covered by the freedom of movement principles. These restrictions to free trade are a cause of much consternation in Minsk.³² Yet the major source of discontent for Minsk concerns the right to keep customs duties on the export of oil products refined in Belarus from Russian crude oil in its own budget, as it does for other products exported to third countries – a request that has still not been met by Moscow.

These disagreements have given Belarus the opportunity to make its own requests for exemptions and extended transition periods for harmonising its legislation with Customs Union requirements, notably when it comes to complying with WTO regulations. Minsk has attempted to maintain and extend protectionist exemptions to the freedom of circulation rules and to preserve loopholes and non-tariff barriers allowing for non-compliance.³³ By limiting the circulation of capital, as well as services, Belarus hopes to protect vulnerable sectors of its economy from Russian competition.

There is little doubt that officials in Minsk – who have already negotiated a four-year delay for implementing WTO rules limiting subsidies to the agro-food sector, the source of the majority of regime supporters – will eventually find a way of not complying with these demands. At the same time, Belarus is likely to continue its 'you can invest, but we manage' policy communicated openly to both Russia and the Europeans.

The Ukraine crisis caused shockwaves in Belarus, too. But even though some pundits believe Belarus would like to turn its back on the Eurasian Union project,³⁴ the reality is that it has nowhere to go. Belarusians' perception that Maidan was an illegitimate process that caused chaos consolidated the regime's position at home. Even the opposition now sees Lukashenka as the last rampart able to prevent the country's absorption by Russia.

In fact, the Ukrainian crisis opens the door for Belarus to revive certain contracts with Russia that the new leadership in Kiev will not honour, for example the crucial and profitable defence industry.³⁵ The key task for Minsk remains to keep Moscow at bay whilst Russian subsidies continue to flow, at the same time as it reforms its traditional (state) institutions to continue deliver services amidst the economic slow-down. This is not an easy task, but Belarus has been there before. ■

31 According to the President of the Eurasian Economic Commission Viktor Khristenko, the Customs Union still has about 600 exemptions that restrict the free movement of goods, services, capital and labour force inside the union. See <http://belarusdigest.com/story/ukraine-can-help-belarus-exemptions-eurasian-economic-union-17393>

32 Agata Wierzbowska-Miazga 'The Customs Union summit: crisis instead of success', *OSW Analyses*, 30 October 2013, <http://www.osw.waw.pl/en/publikacje/analyses/2013-10-30/customs-union-summit-crisis-instead-success>

33 Exemptions are sought in the following sectors in particular: education, science, culture, public health, state procurement, passenger's transport and, partly, agriculture are important for Belarus. *Kommersant*, 12 February 2014

34 Andrew Wilson, 'Belarus wants out', *Foreign Affairs*, 20 March 2014, <http://www.foreignaffairs.com/articles/141048/andrew-wilson/belarus-wants-out>

35 See Yauheni Preiherman, Ukraine can help with Belarus exemptions in the Eurasian Economic Union, *Belarus Digest*, 8 April 2014, <http://belarusdigest.com/story/ukraine-can-help-belarus-exemptions-eurasian-economic-union-17393>

➤ Armenia

Laure Delcour

While Armenia is widely perceived as one of Russia's closest allies, its attitude toward Russia-led policies is actually much more complex than it appears at first glance. Since the early 1990s, Russia has provided Armenia with what the country needs most in light of its geopolitical situation: security. Yet Armenia's over-reliance on Russia actually increases the country's vulnerability. Therefore, from the beginning of the 2000s, Armenia has increasingly sought to diversify its foreign policy and to enhance international integration, especially with the EU. Nonetheless, the country's quest for complementarity has stumbled against Russian pressures, which resulted in President Sargsyan's decision to join the Eurasian Customs Union. While this choice overshadows persistent interrogations in Armenian society, the country is caught in a de facto security trap. This is because the quest for protection at all costs has actually led Armenia to become increasingly, if not entirely, dependent on Russia.

In the post-Soviet space, Armenia is widely perceived as one of Russia's closest allies. Clearly, since the collapse of the Soviet Union, the country has been Russia's key partner in the South Caucasus. The two countries are linked by close military cooperation as well as substantial trade and migration flows. Over the past two decades, Armenia has taken part in all Russian-led regional initiatives in the post-Soviet area, especially (given the geopolitical context of the country) security schemes such as the Collective Security Treaty Organisation (CSTO). In September 2013, President Sargsyan announced that Armenia would also join the far-reaching economic integration scheme recently set up by Russia, the Eurasian Customs Union (ECU) launched in 2010 and the Single Economic Space formally created in 2012.¹ This decision only seems to confirm that Russia remains Armenia's sole strategic ally.

Nonetheless, Armenia's attitude towards Russia is much more complex than this geopolitical closeness suggests. Over the past four years, the country has also substantially reformed itself in line with EU templates and rules under the Eastern Partnership.² President Sargsyan's decision to join the Russian-led ECU was made public only a few weeks after the country completed negotiations with the European Union (EU) for an Association Agreement and a Deep and Comprehensive Free-Trade Area (DCFTA).

Armenia's compliance with EU demands under the Eastern Partnership suggests that the country has sought to develop closer links with other partners in addition to Russia. Furthermore, the commitments that have recently been undertaken by Armenian authorities vis-à-vis Russia overshadow persistent tensions and doubts within parts of Armenian society as to the regional integration option selected by President Sargsyan.

What, then, underpins the partnership between Armenia and Russia? What factors explain Armenia's membership in Russian-led organisations, and more specifically, what are the reasons behind its Eurasian choice? To what extent do Armenian elites and the general public agree with President Sargsyan's decision to join the Customs Union?

¹ See: Rilka Dragneva, Kataryna Wolczuk (eds), *Eurasian economic Integration. Law, Policy and Politics*, Cheltenham, Edward Elgar, 2013.

² See: Laure Delcour, Kataryna Wolczuk, "The EU's Unexpected 'Ideal Neighbour'? The Perplexing Case of Armenia's Europeanisation", forthcoming.

This contribution explores Armenia's perception of Russia and reception of Moscow's policies, including the recent regional integration initiatives. It argues that Armenia's attitudes towards Russian initiatives are in essence shaped by the country's key security issue, the Nagorno-Karabakh conflict, which has ultimately driven Yerevan's engagement with Russia, resulting in a security trap.

A STRATEGIC YET ASYMMETRICAL ALLIANCE: ARMENIA'S OVER-RELIANCE ON RUSSIA

Over the past two decades, Russia has provided Armenia with what the country needs most in light of its geopolitical situation: security. Armenia is indeed confronted with a particularly challenging regional environment stemming from the conflict with Azerbaijan over Nagorno-Karabakh, which started before the collapse of the Soviet Union.

This unresolved conflict has structured Armenia's foreign policy since the country's independence and continues to pose an essential threat to Yerevan.³ In fact, Armenia's security situation has significantly deteriorated in the 2000s because of two interrelated factors. First, the conflict's settlement mechanism (the OSCE Group of Minsk) yields little progress, and tensions around the contact line have exacerbated over the past few years. Frequent clashes and casualties there may result in an 'accidental war'.⁴ This would be a considerable challenge for Yerevan, as the balance of power between Armenia and Azerbaijan has drastically shifted since the early 1990s. Growing oil revenues have not only fuelled Azerbaijan's impressive economic growth, but also Baku's massive military spending. While over the past decade all three South Caucasus countries have markedly increased their defence budget, the rise has been particularly dramatic in Azerbaijan – from \$175 million in 2004 to \$2.46 billion in 2009⁵ and \$3.7 billion now, with an average annual increase of approximately 50 percent. In 2011, Azerbaijan's spending on defence exceeded Armenia's entire national budget.⁶ A second cause of Armenia's deteriorating security situation is its growing isolation, a result of the 1990s conflict that has only grown deeper as a consequence of regional developments in the 2000s. After the war that followed the USSR's collapse, Armenia gained control of the Nagorno-Karabakh enclave and a part of Azerbaijani territory. However, due to the conflict, the country's borders with two of its four neighbours have been closed since the beginning of the 1990s. By breaking up trade and energy flows and disrupting transport links, the blockade imposed by Azerbaijan and Turkey has only aggravated Armenia's landlocked situation.⁷ This has made Armenia even more vulnerable to external shocks, a weakness which was exposed by the 2008 conflict between Russia and Georgia when the major transit route for Armenia's trade was disrupted.

In a context in which Armenia has to address major regional threats in order to ensure its survival, Russia has been viewed as the sole guarantor of the country's security. The special relationship between Moscow and Yerevan has been built around military cooperation, with Russia offering both bilateral and multilateral security guarantees. These apply only to the territory of Armenia and not to Nagorno-Karabakh. However,

3 'The key issue of the National Security of the Republic of Armenia is the settlement of the Nagorno Karabakh conflict.' Republic of Armenia, National Security Strategy, approved at the session of National Security Council at the RA President office on January 26, 2007.

4 International Crisis Group, 'Armenia and Azerbaijan: Preventing War', *Europe Briefing* No.60, 8 February 2011.

5 Richard Giragosian, 'Armenia's National Security : External Threats, Domestic Challenges', in: Annie Jafalian, *Reassessing Security in the South Caucasus*, Farnham: Ashgate, 2009, p.53.

6 In 2011, Armenia's and Azerbaijan's defence budget totalled respectively 4.1% and 6.2% of their GDP. Source: Tracey German, 'Introduction to the Nagorno-Karabakh Security Situation', European Parliament workshop 'Nagorno-Karabakh: Security Situation', June 2012, http://www.europarl.europa.eu/meetdocs/2009_2014/documents/sede/dw/sede200612expertsresentations/_sede200612expertsresentations_en.pdf. See also 'Aliyev Highlights Baku's Boosted Military; Yerevan Concerned', Radio Free Europe/Radio Liberty, 24 March 2014, <http://www.rferl.org/content/azerbaijan-military-buildup-armenia-aliyev/25028461.html>; and International Crisis Group, op.cit., p.5.

7 Richard Giragosian, op.cit. p.59.

both Russia's military presence in Armenia (with the 102nd military base located in Gyumri and an airbase at Yerevan's Erebuni Airport) and Yerevan's CSTO membership are viewed as strong deterrents against Azerbaijan initiating operations against Nagorno-Karabakh. While these would certainly spill over into the territory of Armenia,⁸ under CSTO provisions other members (primarily Russia) would have to defend Armenia in the event of military aggression. This explains why Armenia has been such an active participant in CSTO activities. Being the sole CSTO member who might be directly involved in a conflict,⁹ the country strongly favoured the creation of a Collective Rapid Reaction Force (CRRF) that was created, among other things, to repulse military aggression.

However, the role of Russia as a security provider comes with a price. At first glance, the close military cooperation between Moscow and Yerevan seems to be mutually beneficial. While Russia is the guarantor of Armenia's security, the latter country has played a pivotal role in maintaining Russia's influence in the South Caucasus since the collapse of the Soviet Union and especially since the early 2000s. In this regard, the alliance has proven especially important over the past decade, with Azerbaijan pursuing a multi-vector policy between Russia and the West and Russia's relations with Georgia sharply deteriorating under the presidency of Mikheil Saakashvili. The alliance with Armenia is thus key to achieving Russia's objectives in the region, especially with a view to preventing the expansion of Turkish and American influence. Nonetheless, the strategic partnership between Moscow and Yerevan is fundamentally asymmetrical. Russia has used its position as security provider as leverage to strengthen its dominance in other sectors. Moscow is not only the country's protector, but also the major provider of energy resources and the main investor in Armenia, with investment flows amounting to \$3 billion in 2012.¹⁰ Whereas the European Union, not Russia, is Armenia's largest trading partner,¹¹ Yerevan is dependent on Russia in strategic economic sectors, such as energy, communication and transportation. This is reflected in both Russia's share in Armenia's imports, which is almost twice the EU's,¹² and Russia's ownership of Armenia's few strategic assets.¹³ In addition, while not homogeneous and consisting of several waves, the large Armenian diaspora living in Russia¹⁴ provides yet another instrument of Russian influence.

Migrants' remittances to Armenia significantly contribute to the Armenian economy: they totalled \$839.1 million in 2010 – approximately 9 percent of the country's GDP¹⁵ – and 90 percent of those come from the Russian Federation.¹⁶

While stemming from historical links, Moscow's overwhelming economic presence is also the result of a number of Armenian concessions in response to Russian pressure. For instance, in 2003 the country handed over five strategic assets to Russia as payment for its debt.¹⁷ A few years later, in exchange for a reduction in energy prices, the Armenian government agreed to concede to Russia the majority stake in the Tabriz-Yersakh gas pipeline, which otherwise could have reduced the country's dependence on Russian energy sources.¹⁸

8 Sergei Minasyan, "Look Not a Gift Tank in the Muzzle", *Russia in Global Affairs*, 15 April 2013. <http://eng.globalaffairs.ru/number/Look-Not-a-Gift-Tank-in-the-Muzzle--15937>

9 Ibid.

10 Sergey Minasyan, "Russian-Armenian Relations: Affection or Pragmatism?", *PONARS Eurasia Policy Memo* No. 269, July 2013.

11 The EU's and Russia's share in Armenian trade are respectively 29.6% and 23.5%. Source: European Commission DG Trade, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113345.pdf

12 Armen Sahakyan, "Threading the Needle: Armenia's Policy towards the EU and the EAU", April 2013, <http://www.europeaninstitute.org/EA-April-2013/threading-the-needle-armenias-policy-towards-the-eu-and-the-eau.html>.

13 In 2008, Armenian Railways awarded a concession to Russian Railways which established South Caucasus Railway as a wholly owned subsidiary. Russian investors also play an important role in telecommunications, e.g. with shares in mobile operators VivaCell-MTC and ArmenTel-BeeLine. Finally, the Metzamor nuclear plan, which accounts for approximately one third of Armenia's energy needs, is managed by the Russian United Energy Systems (UES) group. See Narek Galstyan, "The Main Dimensions of Armenia's Foreign and Security Policy", *NOREF Policy Brief*, March 2013; Bertelsmann Transformation Index, *Country Report Armenia*, 2006.

14 While the last Russian census recorded approximately 1.2 million Armenians living in the Russian Federation in 2010, it is estimated that the actual figure exceeds 2 million.

15 Other estimations give a much higher figure, ranging between 20 and 30% of GDP.

16 Lili Karapetyan, Liana Harutyunyan, *The Development and the Side Effects of Remittances in CIS Countries: the Case of Armenia*, CARIM-East Research Report 2013/24.

17 Ian McGinnity, *Selling its Future for Short: Armenia's Economic and Security Relations with Russia*, Claremont McKenna College, 2010, pp.7-8.

18 Ibid., p. 5.

As a consequence of such concessions made to Moscow, Armenia is deeply sensitive to any deterioration of Russia's economy. Armenia's fragility was exposed during the global financial and economic crisis, with a shrinking of GDP of more than 14 percent in 2009 and a decrease in remittances of 30 percent.

The special relationship between Armenia and Russia thus reveals paradoxes. Clearly, Armenia views Russia as the major ally necessary to preserve its territory from threats in a very challenging region. Ultimately, Russia is viewed as the protector of Armenia's existence as a sovereign state. However, Armenia's over-reliance on Russia's energy resources and investments (stemming from Russia's leverage on security issues), as well as on remittances from migrants living in the Russian Federation, actually erodes the country's independence and increases its vulnerability.

COMBINING A RUSSIAN SECURITY UMBRELLA AND A EUROPEAN MODEL OF DEVELOPMENT: THE LIMITS OF ARMENIA'S QUEST FOR COMPLEMENTARITY

In this context, the question is whether Armenia's geopolitical isolation leaves the country with options other than a multifaceted dependence on Russia. From the beginning of the 2000's Armenia has increasingly sought to diversify its foreign policy and to enhance its international integration with a view to reducing its vulnerability. The quest for 'complementarity', identified as a fundamental principle of Yerevan's diplomacy,¹⁹ involves pursuing the strategic partnership with Russia while simultaneously enhancing partnerships with other actors involved in the South Caucasus, including primarily the EU, but also Iran, the US and NATO.

Clearly, the Russian Federation is still seen as the country's security guarantor. Both military cooperation with Russia and participation in the CSTO remain the cornerstones of Armenia's security strategy. This is reflected in the commitments undertaken by Yerevan over the past few years. In 2012, Armenia held a CRRF exercise on its territory for the first time which tested elite units by simulating a response to an aggression against a member state. In a similar vein, Armenia agreed in 2010 to extend the lease on the Gyumri base, which is home to S-300 anti-aircraft missiles and Mikoyan MiG-29 fighters and where approximately 3,000 Russian soldiers are stationed until 2044. In exchange, this agreement provides Armenia with guarantees against general threats to the country's security. Yet Armenia has simultaneously sought to intensify its cooperation with NATO since the early 2000s, for example with the conclusion of Individual Partnership Action Plans which lay out priorities for democratic, institutional and defence reforms, the participation of Armenian troops to peacekeeping operations such as the Kosovo Force and to the International Security Assistance Force (ISAF) in Afghanistan, as well as regular meetings at the highest level.

Nonetheless, it is primarily with the European Union that Armenia has applied the principle of complementarity. This is because of two interrelated factors: first, the growing need for the modernisation of the Armenian economy at the end of the 2000s and second, the perceived legitimacy of the EU's offer in this regard.²⁰

Modernisation emerged as an imperative in light of the country's increasing vulnerability at the end of the last decade. The conflict between Georgia and Russia raised a sense of urgency in Yerevan about the need to loosen the grip imposed by the Turkish and Azerbaijani blockades. Nevertheless, the failed rapprochement with Turkey a few months later put an end to Armenia's hopes to diversify its economic partners and transit routes in the short run. The global economic and financial crisis of 2009, which severely affected the country, was yet another factor prompting structural reforms with the view to reducing economic fragility.

19 Statement by Vartan Oskanian, Minister of Foreign Affairs, 25 May 2000 <http://www.mfa.am/en/speeches/item/2000/05/25/eapc>; National Security Strategy, op.cit

20 Laure Delcour, Katarzyna Wolczuk, "The EU's Unexpected 'Ideal Neighbour'? The Perplexing Case of Armenia's Europeanisation", op.cit.

In this context, it is important to note that Armenian authorities never viewed Russia as a potential partner in the modernisation process. Instead, Armenia has clearly selected the 'European model of development'²¹ to carry out far-reaching reforms, as illustrated in President Sargsyan's discourse:

'We have stated more than once that European direction is our priority. In recent years, we have registered considerable success in that area. European Union has not only become one of our most important partners in the world but also plays a significant role inside Armenia, assisting us in the implementation of the reforms and in strengthening economic and overall stability of the country'.²²

Given the perceived legitimacy of European templates, Armenia considered the EU's enhanced offer under the Eastern Partnership with great interest and a consensus emerged amongst domestic actors regarding the benefits of closer relations with the EU. Armenia's interest in EU templates did not remain purely declarative, but translated into an extensive adoption of EU standards. Since 2010, when negotiations were launched for an Association Agreement with the EU, the country has undertaken substantial reforms in line with EU demands on legal approximation. Whereas it was initially considered a laggard in the EU's neighbourhood policy, Armenia actually caught up and quickly completed the negotiations for a DCFTA. Yet Armenia is a case of silent Europeanisation. Unlike some other Eastern partners, it was not vocal in highlighting its achievements in the sphere of European integration and never expressed any membership aspirations. Clearly, this is because of the strategic alliance with Russia: 'We are not in a position to yell: 'EU!' because of our security situation.'²³ Whereas the country viewed the security partnership with Russia and the adoption of EU reform templates as compatible, it kept a low profile given Russia's increasing irritation at the EU policies in the Eastern neighbourhood.

However, Armenia's hopes of achieving complementarity (albeit silently) between the two poles of its foreign policy were short-lived. While the country continued implementing reforms in line with EU standards, it became increasingly aware of the Union's limitations in terms of providing security. The Safarov case²⁴ in particular was a blow to Yerevan's perceptions of the EU and, for that matter, of NATO. Clearly, Armenia realised that decisions by some EU Member States could – even if unintentionally – bring additional insecurity without triggering any condemnation by the bloc.²⁵ This again brought the alliance with Russia to the forefront.

Yet in 2013, with the EU's Eastern Partnership about to deliver its first results at the Vilnius summit and Armenia moving significantly closer to the Union, Russia started increasing its pressure for the country to join the Eurasian Customs Union – an option initially ruled out by Yerevan.²⁶ Russia's simultaneous use of three different yet equally powerful levers (i.e. demographic drain through the programme 'Compatriots Living Abroad', reactivated in 2012;²⁷ massive arms sales to Azerbaijan in spring 2013, followed by Vladimir Putin's visit to Baku in August; and an increase of gas prices by 50 percent in July 2013) significantly affected Armenia. While the country still attempted to preserve a diplomatic balance by signing a non-binding Memorandum of Understanding with the Eurasian Economic Commission in April 2013, it ultimately had little choice but to accommodate Russian requirements.

21 The "adoption of a European model of development" was explicitly mentioned in Armenia's 2007 National Security Strategy.

22 President Sargsyan, speech before the plenary meeting of the 20th Congress of the European People's Party (EPP), Marseille, 7 December 2011, accessed on 30 December 2011

23 Interview with a civil society expert, Yerevan, November 2011.

24 An Azerbaijani officer, Ramil Safarov, brutally murdered an Armenian lieutenant with an axe in Hungary in 2004 and was imprisoned there until 2012, when Hungary decided to extradite him to Azerbaijan. Safarov received a hero's welcome upon returning to Azerbaijan. He was pardoned by Azerbaijani president Aliyev despite contrary assurances made to Hungary, promoted to the rank of major and given an apartment and over eight years of back pay. Armenia reacted by suspending ties with Hungary.

25 The EU expressed its concern, but did not condemn either Hungary's decision or Aliyev's move. See statement by the spokespersons of EU High Representative Catherine Ashton and Commissioner Stefan Füle on the release of Ramil Safarov, 3 September 2012, A389.

26 See e.g. Garen Arevian, "Armenia Again Rules Out Entry into Russian Customs Union", <http://www.accc.org.uk/armenia-again-rules-out-entry-into-russian-customs-union/>

27 This programme is based on a 1999 Federal Law considering everyone who ever held a Soviet passport as a "compatriot". Hayk Hovhannisyan, "As Armenia Moves Closer to the EU, Russia is Taking Advantage of the Country's Economic and Geopolitical Vulnerabilities to Maintain its Influence", LSE, 2013.

President Sargsyan's decision to join the ECU put an end to Armenia's quest for complementarity, since DCFTAs and ECU are mutually exclusive. Nonetheless, this decision was a surprise not only to the EU, but also to the Armenian elites. Whereas the president justified his decision with the need for a consistent foreign policy based upon coherent alliances,²⁸ the move has received a mixed reaction within Armenian society. The clear-cut choice announced on 3 September actually overshadows persistent interrogations about the country's regional integration strategy.

BETWEEN 'DECLARATIVE EURASIANISATION'²⁹ AND TOTAL SUBMISSION?

Clearly, it is Armenia's multifaceted dependency on Russia which prompted the country's engagement with the Eurasian Customs Union at the end of 2013. Nonetheless, the depth and width of this engagement still need to be ascertained. Indeed, both the perceptions of Russia within Armenian society and the reception of its policies are more complex than suggested by the 3 September U-turn.

In essence, Russia is widely seen as the security guarantor by the general Armenian public, whereas there is little knowledge of the European Union and its Eastern Partnership. Negotiations with the EU were conducted with small groups of experts, with hardly any explanations of their consequences and benefits to the population. This explains why President Sargsyan's decision did not raise any massive protests in Armenia. To many, it seemed natural to join the economic integration scheme initiated by Moscow, since Armenia is already a member of the Russian-led security organisation.³⁰ However, perceptions are different among NGOs and, to some extent, in those parts of the Armenian administration engaged in the EU integration process.³¹ Both stress that joining the ECU will only increase dependence on Russia, whereas the Association Agreement/DCFTAs would have brought substantial benefits for Armenia. Clearly, in the medium to long term these would have strengthened the country's economy and also its geopolitical situation, *inter alia* by offering leverage vis-à-vis Turkey. While they are well aware of the challenges with which the country is confronted (be they demographic, economic or geopolitical), Armenian NGOs also put forward domestic political factors (i.e. sharp polarisation and growing political tensions in a non-competitive political system dominated by oligarchic groups) to account for President's Sargsyan U-turn.

The actual scope and impact of this U-turn over the long term still need to be assessed. Whereas they have never publicly expressed doubts as to the regional integration path selected, Armenian authorities' discourse is still very much in line with the complementarity principle, even though the country is less vocal about it. In his speech at the Eastern Partnership summit in Vilnius, almost three months after his decision to join the ECU was made public, President Sargsyan clearly emphasised the role of EU templates for Armenia:

'Building and strengthening Armenian nationhood upon European model has been the conscious choice of ours, and that process is hence irreversible. Our major objective is to form such mechanisms with the European Union that on the one hand would reflect the deep nature of our social-political and economic relationship, and on the other – would be compatible with other formats of co-operation'.³²

28 'Participating in one military security structure [i.e. CSTO] makes it unfeasible and inefficient to stay away from the relevant geo-economic area'. President of the Republic of Armenia, <http://www.president.am/en/press-release/item/2013/09/03/President-Serzh-Sargsyan-working-visit-to-Russian-Federation/>

29 See Kataryna Wolczuk, 'Ukraine's Policy towards the European Union: A Case of 'Declarative Europeanization'', *EUI RSCAS Working Papers*, No. 2004/15, 2004.

30 Perceptions of Russia, including its attitude vis-à-vis Armenians, were however drastically altered after an incident involving an Armenian in a car accident near Moscow in summer 2013.

31 Author's interviews in Yerevan with civil society experts and civil servants, February 2014.

32 President of the Republic of Armenia, Speech at the third Eastern Partnership Summit, Vilnius, 29 November 2013, <http://www.president.am/en/press-release/item/2013/11/29/President-Serzh-Sargsyan-speech-at-the-third-Eastern-Partnership-summit/>

While the DCFTA offer is no longer on the table for Armenia, evidence from ongoing negotiations also suggests that the country is not eager to join the Customs Union, even though formally major steps have been undertaken with the adoption of a road map in December 2013 and the approval of the corresponding action plan for implementation in January 2014. The country has actually requested exemptions from customs duties on 900 commodity groups during talks on ECU accession. This huge number (more than twice as many as Kazakhstan) reflects Armenian concerns about the economic consequences of ECU accession. As openly emphasised by then-Prime Minister Tigran Sargsyan, the average import customs duty is 2.4 percent in Armenia, while it is three times as much in the ECU; joining may therefore cause a price increase in Armenia. In addition, as noted by the Prime Minister, Armenia will have to reconsider its World Trade Organisation commitments, which entail starting negotiations with the WTO.³³

To what extent, then, will Armenia be able to safeguard some degree of independence vis-à-vis Russia? At this stage, the number of exemptions which will be effectively granted for ECU accession is not clear, and these are merely temporary mechanisms. In addition, the energy agreement signed on 16 January 2014 only tightens Russia's stronghold over Armenia's energy sector, with the cession to Gazprom of the remaining shares in Armenia's gas distribution company (now called Gazprom Armenia) and a commitment to buy exclusively from Russia until 2043 in exchange for lower gas prices and repayment of only half of Armenia's energy debt. Finally, Armenia's position over the referendum in Crimea³⁴ (whereas Yerevan had not recognised the independence of Abkhazia and South Ossetia) only seems to confirm the country's increasing dependence on Russia. Clearly, Armenia's stance is primarily connected to the Nagorno-Karabakh issue: according to President Sargsyan, the referendum in Crimea was 'yet another example of the realisation of peoples' right to self-determination through a free expression of will'.³⁵

33 'We have to monitor our business competitiveness in CU – Armenia PM', <http://news.am/eng/news/201568.html>, 28 March 2014.

34 Together with Russia, Belarus and 9 other countries such as Syria and Venezuela, Armenia voted against a UN resolution on the territorial integrity of Ukraine declaring Crimea's recent secession vote invalid.

35 'Sarkisian Appeals to 'Brotherly' Ukraine', <http://news.am/eng/news/201623.html>, 29 March 2014.

CONCLUSION

As illustrated by its recent position on Crimea, Armenia's foreign policy is filtered through the prism of the Nagorno-Karabakh conflict. While there may be nuances within the country as to both perceptions of Russia and foreign policy strategy, the priority given to Nagorno-Karabakh raises little debate. In essence, it is the conflict which makes Armenia seek closer ties with Russia. Armenia's creeping strategy of complementarity between a Russian security umbrella and a European model of development has thus stumbled against its overarching foreign policy priority.

Armenia's actual involvement in the Russian-led integration schemes is not clear for the time being. Clearly, this is connected with the transformation of the Customs Union into a Eurasian Economic Union. Nonetheless, while the commitment to join Russian-led regional economic initiatives *de facto* rules out a wide-ranging engagement with the European Union, the authorities' discourse is still ambiguous, as shown by President Sargsyan's reference to the irreversibility of the European model at the Vilnius summit.

Yet the hope of retaining some degree of complementarity in foreign policy seems to be illusory. The quest for protection at all costs has led Armenia to become increasingly dependent on Russia – a dependence from which, despite attempts to diversify its foreign policy, Armenia has not been able to escape. Standing together with Russia on the Crimean issue is likely to result in both greater regional isolation and a tighter Russian grip. Clearly, as illustrated by a recent speech of its ambassador to Yerevan, Russia uses Armenia's foreign policy agenda to extend its influence in the country.³⁶ Armenia is thus caught in a security trap with its sovereignty shrinking. Its fate crucially hinges on the future of Russian-led initiatives and on the balance of power between Russia and other actors in the region. ■

³⁶ 'We will thwart any aggressive interference in the internal affairs of friendly states carried out under the pretext of spreading ideas alien to our minds and hearts'. 'Choking Embrace: 'Mother' Russia says won't tolerate 'outside interference' in friendly countries', <http://www.azatutyun.am/content/article/25354286.html>

➤ Moldova

Florent Parmentier

Under the current governing coalition ('Alliance for European Integration', AEI), Moldova has been portrayed as the 'success story' of the EU's Eastern Partnership (EaP) programme: the country has become both more politically plural and economically successful, with an impressive 8.9 percent GDP growth in 2013. Yet many actors in Moldova – whether in Chisinau, in the autonomous region of Gagauzia or in the separatist entity of Transnistria – appear attracted to Russia's Eurasian Customs Union (ECU) project. In this context, although Moldova's leadership remains committed to closer integration with the EU, Russia has several levers at its disposal in the country.

Whilst the current Moldovan elites prefer European integration to the ECU, this strategic orientation is challenged by both internal and external factors. The key economic structures of Moldova, including trade relations and the need for modernisation, explain the pro-EU inclination of the elites in Chisinau. At the same time, the ECU is appealing for several domestic actors that have been traditionally close to Russia: the main opposition party supports joining the ECU, while the autonomist southern region of Gagauzia organised a referendum on this issue in February 2014. These domestic actors are unlikely to be game-changers, but Transnistria and Russia might be, particularly with the Ukraine crisis having highlighted the political sensitivity of integration projects. While not formally independent from Moldova, Transnistria is supported in substantial measure by Moscow and acts in coordination with the Kremlin. Alongside leveraging its influence in Transnistria, Moscow has resorted to direct pressure (e.g. trade restrictions) to discourage the Moldovan government from engaging in a trade agreement with the EU. The decisions of Moldova's leadership with regard to economic integration have therefore taken a deeply political turn.

MOLDOVA'S ECONOMIC OPTIONS

Key Characteristics of the Moldovan Economy

Moldova is a landlocked country, approximately the size of Belgium, located between Ukraine and Romania. In assessing the potential attractiveness of the ECU regime for Moldova, it is necessary to assess the structural characteristics of its economy and examine the extent to which they tie the country to Russia and other CIS states, in particular labour migration, agriculture and the industrial sector.

First, outward labour migration has had a serious effect on the socio-economic stability of the country since the mid-1990s. It is estimated that around 600,000 - 700,000 Moldovans work abroad temporarily or permanently.¹ As a result, remittances account for a significant share of GDP – about 23 percent in 2011.² The two main destinations for migrants are the CIS countries (around 50 percent go to Russia)

1 Valeriu Mosneaga, "The Labor Migration of Moldovan Population : Trends and Effects", *Socius Working Paper*, n.3, 2007, <http://pascal.iseg.utl.pt/~socius/publicacoes/wp/wp200703.pdf>

2 Alexandru Stratan, Marcel Chistruga, Victoria Clipa, eds., 'Development and side effects of remittances in the CIS countries: the case of Republic of Moldova', *CARIM-East Research Report 2013/25*, <http://www.carim-east.eu/media/CARIM-East-RR-2013-25.pdf>

and Western Europe (where Italy takes more than 25 percent).³ Although the geography of Moldovan labour migration has diversified over the last few years, Russia remains the largest single country for Moldovan workers abroad. This represents a potential source of vulnerability in Chisinau's relations with Moscow, as any Russian decision to expel or restrict Moldovan workers would have a real impact on family budgets and could undermine Moldovan economic growth.

Within Moldova agriculture accounts for 13.1 percent of GDP and 27.5 percent of the workforce, representing a crucial sector for Moldova's economy.⁴ Here too the CIS countries are structurally important: they are the main export destination for Moldovan agricultural products, especially fresh fruit and vegetables. There are few alternatives to address this vulnerability: in an economy noted for its low productivity, Moldovan agriculture is particularly poor, and poverty is far more widespread in the Moldovan countryside than in the cities. Rural development therefore represents a crucial challenge for the Moldovan economy.

The industrial sector, accounting for 19.8 percent of GDP and 13.1 percent of the workforce, is also affected by the CU, although Moscow's direct influence is limited: Russia accounted for only nine percent of FDI (equity capital stock) in Moldova in 2012.⁵ It is nevertheless more present in the Transnistrian region, where Russian investors have taken control of the most important industrial enterprises, including the metallurgical pumps and cement factories in Ribnita, the hydroelectric plant in Cuciurgan and engineering and construction facilities in Bender.⁶

Trade Relations

Yet although Russia and the CIS countries are of clear importance to several key sectors of Moldova's economy, the configuration of its trade relations tends to push Chisinau towards the EU. During the early 1990s, Moldova was considered a leading reformer in the CIS, particularly on issues of trade, which enabled an early accession to the WTO in 2001. These reforms and the subsequent unilateral trade preferences granted by the EU led Moldova to re-orient its exchanges towards European markets. According to the European Commission, the EU is Moldova's largest trading partner with 54 percent of its total trade.⁷

That said, the Moldovan economy has important and established trade links with CIS markets, even if their shares are proportionally in decline: it exports wines and liqueurs, medicines and fruits, and imports gas and oil. Energy stands out as the most sensitive structural dependency: Moldova is entirely reliant on imports of Russian natural gas, and Gazprom owns a 50 percent share of the Moldovagas Company, which holds the monopoly rights to import natural gas. In this regard, a decrease in the price of gas is one of the few efficient 'carrots' that Russia can deliver, given the decreasing influence of its market for Moldovan exporters.

Despite these links to the CIS, the overall configuration of Moldova's trade relations would mitigate against joining the ECU. According to the Moldovan economist Valeriu Prohniitchi, a Moldovan accession to the ECU would likely be associated with a threefold increase in customs duties, and probably lead to a national currency appreciation, implying a rise of production costs and a worsening of Moldovan exports' competitiveness.⁸

³ GDP figures are for 2012, labour force figure are for 2011. 'Frequently Asked Questions – Moldova, Migration, Trafficking', *IOM Moldova*, February 2014, http://www.iom.md/attachments/110_faqiomeng2014.pdf

⁴ For the figures on GDP and workforce, see *CIA World Factbooks*, <https://www.cia.gov/library/publications/the-world-factbook/geos/md.html>

⁵ Ludmila Isacov, Marina Soloviova, Dumitru Nederita, "FDI statistics in the Republic of Moldova: recent data and challenges", *National Bank of Moldova*, 5 March 2013, [http://www.bnm.md/files/index\(3068\).pdf](http://www.bnm.md/files/index(3068).pdf)

⁶ Victor Chirila, "Why a Strategic Partnership between Moldova and Russia Is Not a Realistic Option?", 24 January 2013, http://2013.europa.md/images/dox4download/societatea_civila/2013-01_vchirila_rm-russia_report.pdf

⁷ Website of the European Commission, <http://ec.europa.eu/trade/policy/countries-and-regions/countries/moldova/>

⁸ Valeriu Prohniitchi, 'Strategic Comparison of Moldova's Integration Options: Deep and Comprehensive Economic Integration with the EU versus the Accession to the Russia-Belarus-Kazakhstan Customs Union', Expert Grup, Economic Analysis and Forecast Paper NR 3/2012, 7/6/2012, p.9.

The AEI was formed in the aftermath of the 'April protests' of 2009 (also known as the 'Twitter revolution'), and was swiftly distinguished by its pro-European reformist politics (along with its opposition to the Party of Communists (PCRM)).⁹ Thus the current government, and Moldovan elites more generally, have clearly opted for economic integration with the EU rather than with the ECU. Chisinau is scheduled to sign an Association Agreement (AA) with the EU on the 27th of June of this year.¹⁰

The government's choice stems from its agenda of economic modernisation and the improvement of its business climate. Although economic integration with the EU requires demanding domestic reforms, it serves to instrumentalise the government's preferred policies and is perceived to offer tangible benefits, including in financial terms. By contrast, membership of the ECU comes with neither comparable requirements nor similar rewards.

A major impediment to Moldova's economic development lies in its lack of administrative resources and the weakness of its governance structures. The AA process offers financial and technical assistance towards the approximation of EU standards (*acquis communautaire*), and so is seen by elites as a way for the country to gradually adopt a legal and institutional framework that reflects best practice whilst avoiding the harassment of foreign investors by tax authorities or political and bureaucratic interest groups. The framework of the ECU doesn't require such structural reforms: it is less demanding in terms of in the short run, but also probably less fruitful in the medium term.

Although the AEI has opted for economic modernisation, the task will not be accomplished overnight. Corruption remains a major issue for Chisinau, with Moldova ranking 102nd in the Transparency International Corruption Perception Index of 2013.¹¹ The Global Competitiveness Report 2013-2014 highlights the deficiencies in transport infrastructure: Moldova ranks only 68th for the quality of its rail system, 116th for air transport, 138th for ports and 148th for roads out of 148 countries.¹² Similarly, the Logistic Performance Index Moldova ranks 109th out of 160, sandwiched between Liberia and Bolivia.¹³ In short, Moldova still has a lot of room for improvement in these domains before it reaches EU standards.¹⁴

Overall, the economic rationale for joining the ECU is not clearly substantiated for Moldova: the configuration of its trade relations as well as the modernisation agenda of the current government makes the EU a better fit. Nonetheless, many of the expected benefits from economic integration with the EU will only be realised in the medium to long term. In the meantime, the country faces real difficulties in terms of economic development, infrastructure and the efficiency of its governance. This may present opportunities for a domestic challenge to the European choice of the current government in favour of a short-term rapprochement with the ECU.

9 It is now composed by three ruling parties, sharing a clear pro-EU line: the Liberal Democratic Party (LDP), the Democratic Party (DP), and the Liberal Party (LP). However, because of internal rivalries, a political deadlock occurred, as a very important political crisis lasted from January to June 2013. In this process, Prime Minister Vlad Filat was replaced by his Foreign Minister, Iurie Leanca. Hence, the political balance between them remains fragile. In early 2014, it is probably less the collapse of the coalition than the defection of three or four deputies that threatens the AIE, at a time when it faces Russian pressure. See David Rinnert, 'The Republic of Moldova in the Eastern Partnership. From "Poster Child" to "Problem Child"?', *Friedrich Ebert Stiftung*, August 2013.

10 <http://www.dw.de/eu-to-accelerate-ties-with-georgia-moldova/a-17635281>

11 'Corruption Perception Index 2013', *Transparency International*, 2013, <http://www.transparency.org/cpi2013/results>

12 'The Global Competitiveness Report 2013-2014', *The Global Economic Forum*, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf

13 'Logistic Performance Index (LPI) Report: The Gap Persists', *World Bank*, 20 March 2014, <http://www.worldbank.org/en/news/press-release/2014/03/20/logistics-performance-index-gap-persists>

14 Nicu Popescu, 'Про вектор перестройки', *Kommersant*, 25 November 2013, <http://www.kommersant.md/node/22928>

DOMESTIC SUPPORT FOR EURASIAN INTEGRATION

Political Opposition

The Moldovan party system is traditionally less polarised on economic issues than on geopolitics: schematically, the right is close to Romania (to the extent of occasionally promoting a union between Moldova and Romania) and largely pro-EU; the left is more generally pro-Russian. Given this context, the competition between the EU's and Russia's regional integration programmes was bound to be internally divisive. The current government remains dedicated to economic integration with the EU, but at the same time, in an attempt to secure popular support for its policies, it has sought to avoid alienating the more pro-Russian segments of society.

Staying true to this tradition of geopolitical polarisation, Moldova's Party of Communists (PCRM), currently the main opposition force, favours joining the ECU. Led by former President Vladimir Voronin, Moldova's largest single party (and the only major one to secure multi-ethnic support) is well organised and electorally efficient: in recent elections, it obtained 49.5 percent in April 2009 (60 deputies), 44.7 percent in July 2009 (48 deputies) and 39.3 percent in November 2010 (42 deputies). The party has a realistic chance of obtaining a majority in the forthcoming election in late 2014.

Yet the PCRM's position on the ECU is not as clear-cut as meets the eye, and should the PCRM win the election, a radical U-turn on the issue of ECU membership and Moldova's foreign policy more broadly is not necessarily to be expected. It should be remembered that the PCRM's geopolitical preferences have changed over time. In 2001 it was elected on a platform of rapprochement with the Russia-Belarus Union; yet by 2005 it had rallied to the banner of pro-European integration, after distancing itself from Moscow in 2003-2004. And whilst the party's programme for the next elections includes a preference for joining the ECU, the party has largely remained equivocal on the subject, including on the issue of whether to hold a referendum on joining the ECU. The call for such a national plebiscite came not from the PCRM but from the Party of Socialists, a small party whose leader is a former member of the PCRM, and in Balti, Moldova's second largest city, the Communist mayor decided not to hold a local referendum on the ECU. The PCRM's ambiguous stance may stem from the fact that public opinion is divided on the topic. According to a poll conducted in November 2013, 43 percent of the Moldovan population are in favour of joining the ECU while 44.7 percent support integration with the EU.¹⁵ Voronin's rhetoric reflects this uncertainty, claiming that CEU membership can pave the way for EU integration – in total contradiction with official European discourses.¹⁶

The Gagauzia Referendum

A referendum on the ECU was organised in Gagauzia, an autonomous region in Southern Moldova that is home to about 160,000 inhabitants (4.4 percent of Moldova's population), who are mainly Orthodox Russian-speakers of Turkish descent. The Autonomous Territorial Unit of Gagauzia (ATUG) negotiated its status in December 1994: it has its own Parliament and its governor, Mikhail Formuzal, is a *ex officio* Minister of Moldova's government.

¹⁵ In a referendum on the accession of Moldova to either the EU or to the CU, 43 percent would vote for the CU and 44.7 percent for the EU in November 2013. 'Barometer of Public Opinion', *Institute for Public Policy*, November 2013.

¹⁶ In his words, 'the EU is a voluntary union, but they exert pressure on the former Soviet countries. Our road to the EU goes only through the Customs Union, which is an effective and verified way. Moldova is not ready for the European Union'. See 'Vladimir Voronin: Our road to EU goes only through Customs Union', *Allmoldova.org*, 26 November 2013, <http://www.allmoldova.com/en/moldova-news/1249057225.html>

In general terms, the Gagauz elites – as well as the population – are more favourable to Russian initiatives than the political elites in Chisinau. For historical and linguistic reasons, the Gagauz are close to Russia culturally and see Russia as a positive player. This is reflected through their desire for greater autonomy within the Republic of Moldova, where they see a close relationship with Russia as a way to maintain a certain degree of autonomy from Chisinau, and in particular to prevent a union with Romania. The local political elites have constantly sought to shield themselves from the influence of the centre, and should Moldova and Romania unite they have secured the legal right to call a local referendum on self-determination.

For the Kremlin, Gagauzia is a lever to influence Moldovan politicians. Yet the Gagauz influence in Chisinau should not be overestimated: they are not very well represented in Parliament, since Moldova's constitution does not allow ethnically-based political parties and the electoral system is formed by one single electoral district.

It was in this context that a referendum on the ECU was organised in Gagauzia on 2 February 2014. Considered illegal by Chisinau, it asked whether Moldova should seek closer ties with the ECU or with the EU. The result saw an overwhelming majority (98 percent of a 70 percent turnout) vote for ECU membership over the EU. This locally initiated referendum constitutes a clear signal in favour of the CU. The questions asked concerned the preferences for European integration, closer ties with Russia or whether Gagauzia should seek independence from Moldova in case of reunification.

In organising the referendum Formuzal appeared to play the Russian card to attract future voters and gain leverage vis-à-vis Chisinau when dealing with the ECU. The Russian ambassador in Moldova Farit Muhametshin had supported the idea of a local referendum, and was funded by Yuri Yakubov, a Russian businessman who claims to have roots in Gagauzia.¹⁷ However, he justified his decision in economic terms: 'I think that for the next 10 years it is in our interest to be in the customs union. I think that would enable us to modernize our economy, secure reliable markets for our goods'¹⁸.

It is indeed true that the Russian Embassy has showed a 'special interest' in Gagauzia as well as in the Taraclia district, an area 65 percent populated by Russian-speaking Bulgarians and geographically close to Gagauzia. Based on the referendum's results, Russian authorities are now in a position to exploit the 'popular will' argument, and can extend it by supporting other local referendums in northern region of Moldova or Transnistria. Oazu Nantoi, a renowned Moldovan expert critical of Moscow, puts it bluntly: 'Gagauz authorities are some faithful executants of Moscow, while the Communist Party is accomplice in the attack on the constitutionality of the Republic of Moldova.'¹⁹

17 Dumitru Minzarari, 'The Gagauz Referendum in Moldova: A Russian Political Weapon?', *Eurasia Daily Monitor*, Vol.11, issue 23, 5 February 2014.

18 Valentina Ursu, Diana Raileanu, 'Concerned About EU Integration, Moldova's Gagauz Region Holds Disputed Referendum', RFE/RL, 2 February 2014, <http://www.rferl.org/content/moldova-gagauzia-eu-referendum/25249087.html>

19 'Overwhelming support for Russia-led Customs Union in illegal referendum in Moldova's Gagauz region', *Moldova.org*, 3 February 2014, <http://www.moldova.org/overwhelming-support-russia-led-customs-union-illegal-referendum-moldovas-gagauz-region/>

DIRECT PRESSURE: RUSSIA AND TRANSNISTRIA

Transnistrian separatism and the ECU

Much more than the domestic actors presented above, the issue of Transnistrian separatism represents a real constraint on Moldova's foreign policy and a direct lever for Russia. It is likely to be a key variable on the issue of regional integration in particular. Known as '*Pridnestrovskaya Moldavskaya Respublika*' in Russian, Transnistria is located between the left bank of the Dniestr and the eastern Moldovan border with Ukraine, and is home to half a million people. It unilaterally declared its independence from the Republic of Moldova in September 1990, which prompted a small-scale conflict concluded by the ceasefire in July 1992. Transnistria officially remains part of Moldova, a 'frozen conflict' that has not been settled despite a negotiation under the aegis of the Organization for the Security and Cooperation in Europe (OSCE), a failure mainly rooted in Russia's continuing support for Transnistria.

Under the presidency of Igor Smirnov (1991-2011), Transnistria developed a whole set of institutions, including in terms of economic governance: it has created its own legislation, currency and a central bank. Given the very limited size of its domestic markets, the local economy largely relies on remittances and export-oriented industrial plants (which export to both the West and CIS countries and which generate half of the region's GDP).²⁰ It is also heavily dependent economically on direct and indirect subsidies from Russia. One study found that Russia was financing up to 80 percent of the Transnistrian budget, including pensions, food supplies and other *ad hoc* subsidies. Moscow also provides Transnistria with privileged energy prices, which feeds into the local population's positive image of Russia. Transnistria consumes over two-thirds of the gas provided by Gazprom to Moldova.²¹ This energy situation grants Moscow with another kind of lever: since it doesn't legally recognise the independence of the separatist entity, Russia is pressuring Moldova with the burden of Transnistria's energy debt (estimated at around \$3 billion in 2012).²² Beyond the economy, Russia also has a strategic and diplomatic grip over Transnistria. The Fourteenth Russian Army is stationed in the province as peace-keepers, Russia has opened a consulate and Tiraspol has pursued an active 'passportisation policy' (delivering around 150,000 Russian passports).

Given this context, it is no surprise to find that Transnistria has generally aligned with Russia's position on geopolitical matters, and the ECU is no exception. In December 2011, Transnistrian voters chose a new president to replace Igor Smirnov, Yevgeny Shevchuk, who seemed more pragmatic and constructive in his cooperation with Moldova and EU actors. Nonetheless, Transnistria's foreign policy remained unchanged under Shevchuk.²³ Transnistria's Foreign Minister, Nina Shtanski, has explicitly prioritised economic and political integration with the ECU, ruling out any practical possibility of unification with Moldova unless Chisinau joins the ECU as well.²⁴ But since Transnistria is not an internationally recognised state, it cannot currently be a party to international treaties and thus join the ECU independently.²⁵

20 Kamil Calus, 'An aided economy. The characteristics of the Transnistrian economic model', *OSW Commentary*, n.108, 14 May 2013, http://www.osw.waw.pl/sites/default/files/commentary_108.pdf

21 Kamil Calus, *op. cit.*

22 "The Transnistrian issue: Moving beyond the status quo", *European Parliament*, October 2012, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/224472/evidence-stefan-woff-the-transnistrian-issue.pdf

23 See Marcin Kosienkowski, *Continuity and Changes in Transnistria's Foreign Policy after the 2011 Presidential Elections* (Lublin, The Catholic University of Lublin Publishing House, 2012).

24 Kamil Calus, 'Expectations and Reality Collide in Tiraspol', *New Eastern Europe*, 9 June 2013, <http://www.neweasterneurope.eu/interviews/755-expectations-and-reality-collide-in-tiraspol>

25 'Transnistria cannot join Russia's Customs Union, analyst', *Moldova.org*, 7 January 2013, <http://www.moldova.org/transnistria-cannot-join-russias-customs-union-analyst-234765-eng/>

After having largely ignored the conflict until 2003, the EU has progressively adopted a policy of supporting Moldova's territorial integrity, notably by introducing sanctions toward separatist leaders. In 2006, the EU set up a civil operation, EUBAM (European Union Border Assistance Mission) in order to combat transnational organised crime, enhance the border management and customs cooperation capacity of Ukraine and Moldova, and force Transnistrian economic actors to register with the authorities in Chisinau.²⁶ Russian policy toward Moldova has continued to vacillate between two options: pushing for the independence of Transnistria, or using it as leverage on Moldovan political actors. This dual diplomacy allows Moscow to maximise its influence in both Chisinau and Tiraspol: so far, neither the Duma nor the Russian Presidency has been prepared to recognise the independence of Transnistria.

Blocking Moldova's EU Accession

Russia's policy towards Moldova is unambiguous: Moscow is determined to include Moldova within its ECU, and has sought to prevent Moldova signing the AA through political, economic and diplomatic means.²⁷ Russia has been using the PCRM, Gagauzia and especially Transnistria, towards that end. In early September 2013, Dmitry Rogozin, Russia's Deputy Prime Minister and Special Representative to Transnistria, a politician known for his nationalist rhetoric, threatened that the signing of an AA would jeopardise the future of Transnistria as a region of Moldova.²⁸ The Ukrainian crisis has signalled the implications of Russia's opposition to Moldova's potential accession. On 17 March 2014, the speaker of the Transnistrian parliament urged Russia to annex his region, and in the following days Rogozin first declared that Transnistria was under 'blockade' by Ukraine,²⁹ before announcing a 'serious and large-format' meeting of all agencies to offer assistance.³⁰

Russia has also been using direct economic pressure to influence Moldova's choice. The Russian authorities imposed a ban on wine imports from Moldova in September 2013, after the Russian consumer-protection agency declared Moldovan wine dangerous for consumption.³¹ The embargo began two months before the Vilnius Summit, which hardly seems to be a coincidence. Beyond wine, and as noted above, another tool to pressure Moldovan leaders is energy. However, whilst it is a strong argument in the short term, Moldova has taken steps to become less dependent on Russia in the medium term: it joined the European Energy Community in May 2010, and has finally begun to build a gas interconnector with Romania to ease its dependence on gas imports from Russia.

Moldova's key vulnerability to Russia probably concerns its migrant workers, given their economic weight. An estimated 170,000 Moldovans work in the Russian Federation, roughly two thirds in the construction sector in Moscow and Saint Petersburg. Obviously, a mass return of its migrants would unavoidably lead to serious economic difficulties, with a sharp increase of unemployment and the loss of remittances; according to Moldova's National Bank, transfers from Russia accounted for 68 percent of total remittances in 2013.³²

26 Florent Parmentier, "The ENP Facing a de facto State. Lessons from the Transnistrian Question", pp.203-216, in Laure Delcour, Elsa Tulmets (eds.), *Pioneer Europe? Testing European Foreign Policy in the Neighbourhood* (Baden-Baden, Nomos, 2008).

27 'Basescu met Timofti in Iasi: Russian Federation won't stop here, suggests Crimea is just an episode of a sequence', *Actmedia*, 20 March 2014, <http://actmedia.eu/daily/basescu-met-timofti-in-iasi-russian-federation-won-t-stop-here-suggests-crimea-is-just-an-episode-of-a-sequence/51195>

28 'Russia threatens Moldova over its EU relations', *Euractiv.com*, 3 September 2013, <http://www.euractiv.com/europes-east/russia-keeps-threatening-neighbo-news-530198>

29 'Russian government to tackle "isolation of Transnistria" on Thursday', *Moldova.org*, 18 March 2014, <http://www.moldova.org/russian-government-tackle-isolation-transnistria-thursday/>

30 Valentina Ursu, Robert Coalson, "Amid Russia – Ukraine Crisis, Moldova's Fault Line Quaver", *RFE/RL*, 20 March 2014, <http://www.rferl.org/content/moldova-russia-ukraine-worries/25304033.html>

31 'Why has Russia banned Moldovan wine?', *The Economist*, 25 November 2013, <http://www.economist.com/blogs/economist-explains/2013/11/economist-explains-18>

32 'Aproape 70% din transferurile din strainatate au provenit din Rusia, în 2013', 24 February 2014, <http://www.trm.md/ro/economic/aproape-70-din-transferurile-din-strainatate-au-provenit-din-rusia-in-2013>

CONCLUSION

While the Moldovan governing elites made a choice for closer relations with the EU and appear to be on the way to signing an Association Agreement in late June, internal and external opposition to this dynamic might jeopardise this outcome.

Any analysis should rely on four basic premises. First, Moldova's future integration with the EU is more dependent on the country's ability to conduct domestic structural reforms than on the 'geopolitical will' of the EU institutions. Second, Russia retains significant leverage over Moldova. Third, the regional context in Ukraine is a very destabilising factor for Chisinau, as it weakens the position of the Moldovan state vis-à-vis Russia. Fourth, Tiraspol might react to the signing of the Association Agreement by unilaterally declaring its independence and asking for recognition by Moscow.

These premises imply four potential scenarios: 'EU integration and territorial disintegration', 'End of the AIE coalition and separatism', 'Cooperative EU integration' and 'Reintegration through CU'.

- *'EU integration and territorial disintegration'*: the 'EaP frontrunner' would effectively trade the signing of the AA for the complete loss of Transnistria.
- *'End of the AIE coalition and separatism'*: the process of European integration is blocked, for instance through the collapse of the incumbent coalition. In the meantime, Transnistria's separatism is encouraged by Moscow.
- *'Cooperative EU integration'*: in a sign of goodwill towards the West, Russia facilitates the reintegration of Transnistria into Moldova – allowing it to retain some influence on the country – while tolerating Moldova's closer association with the EU.
- *'Reintegration within ECU'*: Russia proposes a deal in which it supports reintegration between Moldova and Transnistria (comparable to the 'Kozak memorandum' of 2003) in exchange for Moldova's accession to the ECU.

While the Moldovan authorities are engaged in their bid to sign the AA at the end of June 2014, the question remains how Russia will react, and how it might use the Transnistria lever in particular. The first scenario – 'EU integration and territorial disintegration' – remains the most probable at the time of writing, though the process of disintegration can take many forms, from de jure recognition by Russia to de facto functional integration in the CU. Chisinau will hope to foster regional integration with the EU while preserving a territorial status quo (avoiding a formal recognition of Transnistria); whether it will be able to do so depends on Moscow. ■

➤ Georgia

Thornike Gordzadze

The Eurasian Union, Vladimir Putin's lifetime geopolitical project, has long been considered highly undesirable in Georgia. For the previous United National Movement (UNM) government that ruled the country between 2004 and 2012, Russia represented Georgia's number one foe, a military aggressor that occupied its northern provinces of Abkhazia and South Ossetia. This strategic conflict was reinforced by a clash of values: the 'Rose Revolution', the pro-Western movement that brought Mikheil Saakashvili to power was Putin's constant target, illustrated by the 2008 invasion and numerous destabilisation attempts.¹ The very few open supporters of Russia in Georgian politics were considered marginal, even extreme voices, and accused of being Kremlin stooges and the 'fifth column'. Their access to the media was limited and their members could only express their views in three or four tabloids ignored by the elite. This narrative has changed significantly since the parliamentary elections of October 2012 and the victory of the opposition 'Georgian Dream' (GD) alliance, led by the oligarch Bidzina Ivanishvili, who made his fortune in Russia in the 1990's.

In September 2013, the new Prime Minister told a journalist enquiring about his vision for the Eurasian Union that Georgia should consider the option.² A few weeks earlier, after meeting with his Armenian colleagues, Ivanishvili had announced that Armenia's foreign policy was a good example for Georgia of how a small country of the region could balance its interests between the West and Russia.³ This rhetorical shift has prompted a good deal of commentary in Georgia and beyond. The UNM and its supporters saw in the Prime Minister's comments confirmation of Mr Ivanishvili's pro-Kremlin inclinations. Inside the governing coalition there was confusion: the pro-Russians couldn't believe the change could be so dramatic and swift, whereas the pro-Western Republicans hoped that it reflected the billionaire's lack of experience in international politics.⁴ For their part, foreign observers debated whether these declarations were a genuine harbinger of a change of direction in Georgian foreign policy.

No other official statements supporting the idea of joining the Eurasian Economic Union (EEU) have followed, but the government has nonetheless cultivated a certain ambivalence with regard to the EU and Russia's respective regional integration plans.⁵ On the one hand, the new government has remained committed to its predecessors' endeavours to conclude an Association Agreement (AA) with the EU and to seek NATO membership. The signing of the AA,

¹ The former Georgian president Mikheil Saakashvili had relentlessly denounced Russia's regional policies and repeatedly emphasised that Putin described the end of the Soviet Union as the worst geopolitical catastrophe at the very first meeting of the two presidents in yearly spring 2004.

² Ivanishvili declared on Georgian National TV: 'I'm keeping a close eye on it [the Eurasian Union] and we are studying it. At this stage we have no position yet. If in perspective we see that it is in our country's strategic interest, then, why not?' 'Georgia PM says 'why not?' on Eurasian Union', *euobserver*, 04/09/2013. <http://euobserver.com/foreign/121315>

³ Armenia has abandoned the project of signing an Association Agreement with the EU and announced that it would instead join the Eurasian Union.

⁴ The Republican Party with its 9 MPs (including the head of the Parliament) and one minister in the government is considered as the most pro-Western political group inside the GD coalition. Their alliance with GD is often used by the latter as an argument against the accusations of their sympathies towards Moscow. Besides the Republicans, Ivanishvili's coalition includes the Free Democrats (right), the National Forum (far right), the Social-Democrats (post-Soviet left), Industrialists (former Soviet 'entrepreneurs') and the Georgian Dream party itself (populist, with high percentage of sport and cinema celebrities).

⁵ A good illustration of this ambivalence was the publication of an opinion paper published in *Wall Street Journal* the 29 May 2014 by Georgia's EU and Euro-atlantic integration minister Alex Petriashvili, who belongs to a pro-Western wing of the government. His article made a clear case for Georgia's integration in NATO but was followed by the following note: 'The opinions expressed are solely those of the author and not necessarily those of the Georgian government', see <http://online.wsj.com/articles/to-halt-putin-bring-georgia-closer-to-nato-1401390640>

which includes a Deep and Comprehensive Free Trade Area (DCFTA), will be announced on 27 June 2014. Yet on the other hand, Tbilisi has continued to issue statements that these foreign policy goals are to be attained with the consent of Russia. 'Convincing Russia' that Georgia's membership in NATO is not in conflict with Moscow's interests has been one of the government's most consistent diplomatic refrains.⁶

The new Georgian leadership's insistence on the compatibility of the Russian and EU/NATO agendas has been challenged by the crisis in Ukraine and the growing tensions between Russia and the West. In spite of what some have described as the 'tectonic changes'⁷ provoked by the crisis, the Ivanishvili administration remained wedded to a twin policy of rapprochement with the EU and NATO conducted in parallel with the normalisation of relations with Moscow.⁸ The Georgian leadership has adopted a low profile on Ukraine, limiting itself to expressing the hope that both sides would show restraint and regretting the violence that took the lives of 100 people during the clashes in the Maidan.⁹ Officially this cautious attitude is justified by the desire not to upset Russia, an attitude severely criticised by the opposition UNM, who now claim that the future of Georgia is also to be decided in Kiev.

This contribution assesses whether the rhetoric policies of the Ivanishvili government¹⁰ constitute a substantive change in Georgia's policies towards Russia. The current government's belief, that if Georgia ceases to be problematic for Russia-West relations it would bring more Western (German and French) sympathy and support for the country, remains to be confirmed. On the one hand, the governing party has been using the issue of relations with Russia to differentiate itself from – and attempt to weaken – the UNM. On the other hand, to strengthen popular support for its policies, the new government increasingly needs to rely on those segments of Georgian society that are more inclined to support Russia. However, the correlated change in diplomatic attitude towards Moscow is unlikely to either make Russia shift its position on the occupied provinces (Abkhazia and South Ossetia), or to prevent Georgia from signing an Association Agreement with the EU.

REDUCED CONFRONTATION

The recent declarations of the government ought first and foremost to be placed in the context of Georgian domestic politics. One of the key political motivations of the ruling coalition led by the GD has been to render the UNM as weak as possible and prevent it from returning to power. The new authorities have attacked the former government on its record on Russia in particular, making it an increasingly polarizing issue for the political class. During the election campaign and after its victory, the GD has accused the UNM of having destroyed Georgia's links with Russia and having provoked the Russian military intervention in 2008. The GD government then went even further, accusing the previous leadership of assisting and training the 'Chechen terrorists' fighting a guerrilla war against Russia in the North Caucasus.¹¹ The new authorities also reversed a number

6 President Margvelashvili told the Interfax news agency as late as the 15 February 2014 that 'Georgia must try and convince Moscow that its membership in NATO wouldn't menace Russia' (see www.interfax.ru/r/titles/94434521/georgias-nato-membership-wouldnt-menace-russia-president).

7 See for instance: Adam Michnik, 'Putin's impunity', *Gazeta Wyborcza*, 19/03/2014. http://www.ms.gov.pl/en/news/they_wrote_about_us/0_putin_s_impunity_an_article_by_adam_michnik_editor_in_chief_of_polish_daily_gazeta_wyborcza

8 See President Margvelashvili's interview with Radio Free Europe on 25th of April 2014. <http://www.rferl.org/media/video/georgia-president-margvelashvili/25362972.html>

9 Some individuals from the GD made statements in favour of the new Ukrainian government (including the head of the Georgian Parliament, the Republican Davit Usupashvili), whereas others distinguished themselves by more pro-Russian attitudes (e.g. GD MPs Tkemaladze, Volski). The vice-prime minister and former football player Kaladze stated that the Maidan events were limited to Hrushevskii street in Kiev only. By contrast, the UNM's support for Ukraine is unanimous and many of its members showed up at Maidan standing side by side with the anti-Yanukovich demonstrators. This probably increased the Georgian government's mistrust in new Ukrainian leadership, augmented by the fact that the new Ukrainian authorities appointed several Georgian advisors from UNM government. The minister of interior, Mr Tjikaidze has even declared that the most important threat to the stability in Georgia was the remake of the Ukrainian scenario.

10 The current head of government is the 31 year old Irakli Gharibashvili, but Mr.Ivanishvili, who officially doesn't have any public position, remains the effective decision maker.

11 In spring 2013, the newly appointed ombudsman Ucha Nanuashvili corroborated Russian claims about the former government helping Chechen fighters with weapons and logistics. <http://www.rferl.org/content/georgia-chechen-militants-allegations-saakashvili-denial/24970927.html>

of the previous government's policies, notably choosing to label as 'political prisoners' and grant amnesty all the individuals imprisoned or charged under the UNM for 'espionage in favour of the Russian Federation', including the persons arrested in 2011 for the attempt to blow-up the fences of the US embassy in Tbilisi.

Ivanishvili also made it his policy to adopt a less confrontational foreign policy stance towards Russia. The new government has fired 18 ambassadors for their 'political loyalty' with the previous government, including experienced diplomats serving in key capitals (including Washington, Brussels, London, Paris, Berlin, Rome and Beijing) and in important international organizations (UN, OSCE, Council of Europe). Even more substantively, it has downplayed its insistence on the fulfilment of the 2008 'six-points' cease-fire agreement as well as the active 'non-recognition policy of Georgia's Ministry of Foreign Affairs (MFA).¹² However, this new approach did not lead Russia to relax its position on the occupied provinces, and the Georgian MFA has recently become more active in seeking Western support to arrest the process of 'borderisation' – the unilateral and often arbitrary building up of fences and barbed wires around the regions of Abkhazia and South Ossetia – by Russian forces. Thus in spite of the less confrontational attitude adopted by the new government, eighteen months on the Kremlin's attitude towards Tbilisi remained almost unchanged. Moscow's anti-Georgian rhetoric has softened as the strong ideological opposition frequently raised by the previous Georgian government has disappeared, and Russia has lifted its previous embargoes on Georgian wines and mineral water.¹³ But Russia's military occupation in Abkhazia and South Ossetia has continued unabated, and the Kremlin continues to insist Georgia accept 'the new reality' on the ground, meaning the 'independence' of two former provinces. Moscow hasn't stopped 'borderisation' and didn't reciprocate Georgia's decision to introduce a visa-free regime for Russian citizens.¹⁴ More recently, Russian MFA spokesman Alexander Lukashevich made a statement on Georgia's AA agreement with the EU, which shows little change in Moscow's attitude towards Tbilisi's foreign policy orientation. On May 22 he declared that 'it is very important to understand consequences to which the upcoming signing of the Association Agreement between Georgia and the EU on 27 June may lead... It concerns both our bilateral [Russian-Georgian] relations and financial-economic consequences, which we will have to elaborate by taking into account Georgia's joining the EU [Association] Agreement.'¹⁵

Georgia is an important country for Russia's geopolitical strategy. It is the key to the Southern Caucasus, and having the country under its control would also allow Moscow to have a firmer grasp on the North Caucasus. It would establish a territorial continuity with Russia's sole ally in the South Caucasus, Armenia. Bringing Tbilisi under Moscow's influence would also make possible a direct territorial link between Russia and Iran, an important ally for the Kremlin in the Middle East.¹⁶ And last and not least, control over Georgia would transform oil and gas rich Azerbaijan into a 'geopolitical island' with no land connection with Turkey and Europe. Thus isolated, Azerbaijan might automatically fall under Russian influence, endangering Europe's policy of diversification of energy supplies and putting under Moscow's control an important alternative energy supply route from the Caspian Sea to European markets.

12 After the conflict of August 2008, the Georgian MFA had been actively engaged in a policy of countering Russia's check book diplomacy, by which Moscow made numerous attempts to 'buy' the recognition of South Ossetian and Abkhaz 'independence' by the states from Oceania, Latin America/Caribbean and Africa. Mr Ivanishvili declared in one of his multi hour TV appearances, that 'before the whole ministry (the MFA) was organised around the non-recognition issue. Maia (Panjikidze – the new minister) has entirely changed this, she reorganised everything' (see Ivanishvili's interview in April 2013 aired simultaneously on four main TV channels).

13 The import of the Georgian wine, mineral waters and other foodstuffs was banned in Russia in 2006. It was a clear retaliation measure against the arrest and the subsequent deportation to Russia of four Russian embassy employees, accused of sabotage and spying.

14 This initiative of the previous government became effective in March 2012.

15 See the transcript of Lukashevich statements: <http://www.civil.ge/eng/article.php?id=27256>

16 The Iranians have announced the project of building a railway axis to the Armenian border. If completed, the only missing link between Iran and Russia will be Georgia. Georgia has however been favouring an East-West railway project: Baku-Tbilisi-Kars, connecting Azerbaijan (and possibly in the future the Central Asia) with Turkey and Europe.

In spite of Georgia's significance, over the last months Moscow has put less pressure on Tbilisi than it has applied either to other countries of the region or to Georgia in the past. First, Russia is absorbed with the conflict in Ukraine, which remains the most important country in the region for Moscow. Second, it might well be that the Kremlin considers that the low profile adopted by the current Georgian government with regard to EU-Russia regional competition is the best it can hope for in light of the anti-Russian sentiment of Georgian public opinion.

PUBLIC OPINION

Indeed, a strong majority of Georgian society favours integration with the West and remains deeply hostile to Russia. According to the latest opinion polls conducted by the National Democratic Institute (NDI) in April 2014, 65 and 60 percent of Georgians would like to see their country as member of the EU and NATO respectively, numbers that are only slightly diminished compared to previous years. Only 16 percent would consider Eurasian Union membership, with more than 50 percent believing Russia is a serious threat to Georgia, a further 32 percent describing it as a threat and just 13 percent assured that Moscow doesn't represent any threat for the country.¹⁷ In light of these figures, abandoning the AA process with the EU or Georgia's bid for NATO membership would be detrimental for the GD, reinforcing the UNM, with its longstanding pro-Western orientation and hostility towards Russia. Thus, while softening its diplomatic attitude towards Moscow and avoiding taking conspicuous positions on the Eastern Partnership-Eurasian Union rivalry, the current government has nonetheless remained committed to the Association process with the EU. Indeed, Tbilisi's position vis-à-vis the EU has been strengthened by the Ukraine crisis: Brussels has become more active in the region as a consequence of events in Kiev and has considerably accelerated the process towards signing Georgia's AA and DCFTA. By contrast, Russia's ability to promote EEU membership for Georgia is limited. Georgian public opinion remains implacable, and the recent history of conflict between the two countries demonstrates that Moscow has been forced to rely on punitive measures rather than positive incentives to secure Georgian acquiescence to its interests.

Georgia's membership of the EEU is thus contingent on Russia's ability to shape societal attitudes. Yet improving Russia's standing among the Georgian public might not be as unthinkable as it was a couple of years ago. A fairly significant proportion of Georgians remains nostalgic for the Soviet Union. This group includes those left behind by the liberal economic reforms undertaken by the previous government, as well as those who enjoyed relatively decent living standards under the USSR thanks to their involvement in various shadow economic activities (Georgia was among the most corrupt soviet republics).¹⁸ In addition, and as in other post-Soviet countries, the conservative religious (orthodox Christian) electorate tends to have a positive image of the soviet past and doesn't necessarily see Vladimir Putin as a threat.¹⁹ This conservative vote was key to the GD's electoral victory in 2012 and remains an important support base for its policies. The conservative electorate is particularly opposed to the UNM, which it regards as too liberal and 'Westernised', and accuses of betraying traditions and challenging the church.

¹⁷ See <http://agenda.ge/news/13616/eng>

¹⁸ Georgia was heavily corrupt in the 1960's, even by Soviet standards, and the level of corruption reached its climax after independence under the second term of Edward Shevardnadze. According to the Transparency International Corruption perception Index, Georgia was ranked 127th among the 133 countries surveyed in 2003. The situation dramatically improved under Saakashvili: Georgia is now ranked 55th in 2013. See: <http://cpi.transparency.org/>

¹⁹ As the main ideological focus of the Kremlin is now the battle for conservative values, such as the defence of traditional family against the moral decay of the West, officially accused of promoting 'sexual perversion', many conservative orthodox Christians consider Moscow as the ultimate barrier against overall spread of the LGBT behaviour. The nostalgia for the USSR has curiously merged with the most conservative religious attitudes and beliefs.

After the victory of the GD, the Church and the anti-Western social groups became more active in the country and have required more privileges from the government. The marginal, openly pro-Kremlin NGOs have flourished, such as 'Eurasian Institute', or 'Irakli the II association'²⁰ and many exiled pro-kremlin activists made their triumphal return to the country. Entirely invisible during a decade, mainly because of a tacit consensus among the main media resources strongly supported by the ruling party of that time, the UNM to block their access, since the change of the government, these politicians became frequent guests of political talk-shows and made their arguments in favor of Putin's Russia and against EU and NATO heard by everyone. Such a groups have managed to organise several pro-Russian rallies in Tbilisi (one in support of Russia's annexation of Crimea) and even if these events were attended by a small number of participants, the very fact of their occurrence was unthinkable a year and half ago.²¹ These groups managed to secure their access to the public sphere by putting their ideas at the service of the current government's political battle against the opposition.

The church, already extremely rich and influent under Saakashvili, has gained even greater leverage on policy on education, justice, rights of minorities and even foreign policy. The church's presence has become more and more visible at schools, universities and courts, as well as a range of governmental structures and agencies. Orthodox dignitaries are frequent guests in the Parliament of Georgia, where they seek to influence the legislative process. On 17 May 2013 a small rally organised by LGBT NGOs dedicated to the international day against homophobia was attacked by a counter demonstration organised by the Orthodox Church of Georgia, with authorities unable to prevent the violence in the central avenue of the capital.²² The state and the judiciary also failed to condemn or prosecute the perpetrators of the violence, despite significant video and audio evidence of concrete church representatives involved in the beating.²³ A month later, following a request from the Georgian Orthodox Church, the Police dismantled a minaret in a predominantly Muslim village in the south of the country, on the dubious pretext of some fiscal problem. During parliamentary debates on the 'anti-discrimination law', a requirement from the EU in the process of negotiations on visa liberalisation, the church and pro-Russian organisations acted as cheerleaders for the Kremlin's discourse on the 'ocean of perversion' represented by the West, disseminating disinformation about 'the teaching of homosexuality at schools' and 'the legality of paedophilia and incest' in Europe.

The coalition has its hands tied with these groups, because of their proportional weight amongst the GD electorate. While Ivanishvili did criticise the church after the violence surrounding the 17 May rally, many GD members, including MPs and ministers regard the head of the Georgian Orthodox church as the supreme authority of the country. Relatively good results for openly pro-Russian political parties in the 15 June local elections is another matter of concern. Nino Burjanadze's 'United Georgia' and David Tarkhan-Mouravi and Irma Inashvili's 'Alliance of Patriots'²⁴ respectively gained ten and six percent of the vote. Some observers believe that the emergence of these forces is in the political interests of the GD, which would benefit from the emergence of a third political force, rather than having the UNM as its sole opponent.²⁵

20 See the website of one of these associations, the Eurasian Institute: <http://www.geoeurasia.org>

21 <http://www.trust.org/item/20140327112528-4j7i1/?source=search>

22 http://www.nytimes.com/2013/05/18/world/europe/gay-rights-rally-is-attacked-in-georgia.html?_r=0

23 The archbishop Lakob, a close associate of the Patriarch, emerged as the leader of the counter rally and later in the afternoon has celebrated a 'victory mass' in the Trinity cathedral. Georgian TV channels diffused video footages showing orthodox priests attacking the LGBT rally and their supporters.

24 Created in 2013, 'the Alliance of Patriots' is the most pro-Russian and the most radical party, focusing on anti-Western, anti-Turkish and anti LGBT positions. Rather than targeting the ruling coalition as a whole, their criticisms are mainly focused on the UNM and the liberal wing of the parliamentary majority (namely Republicans).

25 As the analytical newsletter [civil.ge](http://www.civil.ge) recently pointed out: 'When in April, 2013 PM Bidzina Ivanishvili was asked if he saw possibility of emergence of a third political force in the country, other than GD and UNM, he responded that he had such a desire and called on Nino Burjanadze's party, former foreign minister Salome Zourabichvili's party, as well as the Alliance of Patriots of Georgia to become more active on the political scene.' <http://www.civil.ge/eng/article.php?id=27395>. Similarly, commenting the results of the last local elections, PM Gharibashvili hailed the 'emergence of new political forces on the political scene' (TV statement of the PM 16 June 2014).

For its part, Moscow has been attempting to reach out to these segments of Georgian society, promoting positive images of the USSR and presenting Russia as the guardian of Christian morality in the face of a decadent Europe. These policies could be accompanied by a loose and vague promise of the 'possible reunification of Georgia' with its provinces of Abkhazia and South Ossetia in some form of confederation. Of course, such a promise (so far not officially made) hardly sounds credible given the pattern of Russia's policies in its 'near abroad. But when skilfully articulated via media and some civil society organisations, it can at worst increase popular support for Russia and divide the ruling coalition between the pro-Russian and the minority pro-Western segments.²⁶ At best, the pro-Western parties will lose their battle and leave the government. Abkhazia and South Ossetia constitute another lever for Moscow. *De facto* occupied by Russian forces, these regions, unlike Crimea, are not annexed officially by Russia. Moscow might consider offering to drop any annexation plan in exchange for Georgia's renouncement of integration with the EU/NATO.

Recent developments in Abkhazia, where the *de facto* leader Aleksandr Ankvab was ousted in a bloodless coup by a more radical pro-Russian forces confronting him on the issue of 60,000 ethnic Georgians still living in Abkhazia, shows that the situation in the region is highly volatile. Ankvab had been an uneasy proxy for the Kremlin. On several occasions he tried to avoid following Russian orders, for instance on land and real estate issues or on the building of a strategic road between Sukhumi and Cherkesk, which is in the Russian Caucasus. Most importantly, he was in favour of granting Abkhaz passports to the Georgians living in (and constituting the majority of) the southern district of Gali – a plan that was precipitated his downfall. Given this context, Moscow supports the expulsion policy of Ankvab's ousters, in an attempt to force Georgia to abandon its pro-Western foreign policy.

CONCLUSION

The current government has not delivered a major shift in Georgia's foreign policy towards Russia, though it has amended Tbilisi's diplomatic posture in its dealings with Moscow. This has been prompted first by considerations linked to domestic politics: the need of the ruling coalition to distinguish itself from the previous government and to appeal to the conservative, anti-Western segment of its electorate. The GD government also believed that the change of rhetoric towards Moscow would dramatically improve relations with Russia. Yet the Kremlin's policies in Abkhazia and South Ossetia, and Moscow's official statements about the Georgia-EU Association Agreement demonstrate that Moscow doesn't intend to correct its positions to any significant degree. At the same time, Ivanishvili and Gharibashvili's administration has remained committed to signing an AA with the EU and to pushing for NATO membership for Georgia. The majority of the Georgian population supports such integration with the West rather than with Russia, and this is even true for about half of GD voters.

The ruling coalition, seemingly obsessed by its political rivalry with the UNM, has directed its policy and strategy choices towards that fight, which included courting conservative forces within the country and the Orthodox Church in particular. Conscious that only a clear change in societal attitudes could lead Georgia to amend its geopolitical course, Moscow's tactical focus has been to reach out to these conservative groups. Russia could also attempt to lever its position in Abkhazia and South Ossetia to influence Tbilisi's decision making. In response, the EU should deploy its soft power and engage more profoundly with Georgian society, including with the progressive part of the Georgian Orthodox Church. ■

²⁶ The political parties such as Nino Burjanadze's Democratic Party – United Georgia, the newly created 'Patriotic Alliance' and some of the components of the Georgian Dream coalition (industrialists, some individual members of the GD party), openly support the Russian position. Individual politicians rehabilitated by the current government, several journalists, experts and think-tankers previously banned from the mainstream media because of their open support for Russia, are back on air, along with some newly created TV channels, including Obiektiv TV, TV3, Imedi TV (the latter was given back to the family of the deceased oligarch Patarkacishvili who was prior to 2008 the main pro-Russian politician of Georgia).

➤ Eurasian Economic Union and Eastern Partnership: the End of the EU-Russia *Entredeux*

David Cadier

The competition between the EU's and Russia's economic integration regimes has had a structuring effect on regional politics. The Eurasian Economic Union is both a reaction to, and appears to have drawn great inspiration from, Europe's transformative power. Yet since Brussels and Moscow's respective region-building endeavours are directed at the same group of countries, this competition has often been framed as a geopolitical struggle between two blocs. The situation on the ground has been much less binary. Several states have attempted to avoid becoming locked into an 'either-or' choice that could be costly domestically. However, the Ukraine crisis has altered the parameters of this structuring competition. The shift from persuasion to coercion in Russia's strategy towards the countries of the *entredeux* – literally, 'something placed between two things' – reflects the failure of Moscow's transformative power. In so doing, the crisis has created a configuration in which navigating between the EU and Russia while keeping each at bay will prove increasingly difficult.

When examining the origins and content of Russia's Eurasian integration formats or when studying the reactions of countries in the region to them, the EU is often present in the background. The fact is that Russia's Eurasian Economic Union (EEU) and the EU's Eastern Partnership (EaP) are largely targeted at the same group of countries – Russia's 'near abroad' is also the EU's 'Eastern neighbourhood'.¹ This difference in denominations does not proceed from discrepant translations; it is more profoundly the mark of two competing region-building endeavours. Through their respective programmes, Russia and the EU attempt to shape the economic, administrative and, to some extent, political structures of the states of their common neighbourhood, albeit by different means and with differing records of success.

This configuration of competing regionalisms has implications for the policies and identities of Russia and the EU, but most profoundly for the region of the *entredeux* itself. The competing regionalisms prompt the following three questions. (1) How did the EU model and its regional offer (EaP) influence the development of the EEU? (2) What are the terms of EEU-EaP competition? And (3), what are the consequences of this competition for regional politics?

REACTION

Although the post-Soviet space has been a region of importance for Russia throughout the post-Cold War era, analysis of the origins and of the content of the EEU reveals something specifically new about this project. Compared to the Commonwealth of Independent State (CIS) for instance, the Eurasian Customs Union (ECU) and the Single Economic Space (SES) represent far-reaching attempts to put in place the legal foundations for economic integration. These frameworks were conceived and deployed

¹ The six Eastern Partnership countries are: Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine.

by Russia in parallel to other instruments (including building a 'strategic foothold' by acquiring energy infrastructure; investing in key sectors of these countries' economies; and reinforcing its military presence) in a broader context of deeper and more targeted engagement in the region as of the second half of the 2000s.²

This renewed engagement has been prompted by both opportunity and perceived necessity. On the one hand, the Russia's economic clout had grown much stronger in the 2000s, largely as a result of the rise in the price of hydrocarbons. On the other hand, Moscow had grown increasingly wary of what it saw as the West's creeping involvement in the region, and of the gradually developing ties between countries of the post-Soviet space and European regional organisations. Vladimir Putin's interpretation of the 2004 Orange Revolution in Ukraine, which he saw as covertly sponsored by the West, kick-started Russia's endeavour to consolidate its positions in the region.³ Shortly after, while the question of NATO membership for Georgia and Ukraine was put to bed following the Russo-Georgian war of 2008, the EU enhanced its presence in Eastern Europe through its neighbourhood policy. Through the European Neighbourhood Policy (ENP), the EU offers market access, financial aid and visa facilitations to partner countries in exchange for the conduct of domestic reforms. Viewed another way, by exporting its norms, values, and regulations through this policy, the EU hopes to transform its environment, as it successfully did in the framework of the enlargement process.⁴ In a number of ways, the development of the EEU can be seen as a reaction to this transformative power of the EU.

First, the development of the EU's and Russia's regional programmes has been connected in time. The ENP was launched in 2004: with the accession of Central and Eastern European (CEE) countries that same year, the EU had gained a new Eastern border with the post-Soviet space, a region with which it had had few links up to that point.⁵ These new member states – Poland first and foremost – supported and contributed to the development of a specific Eastern dimension within the ENP, the Eastern Partnership initiative (EaP), which was launched in May 2009. By the same logic that Germany had supported their accession, the CEE countries were now eager to see the Europeanisation and stabilisation of their periphery.

Russia's renewed and developed engagement in the region is, for its part, usually dated to around 2006, having been substantially triggered by the 2004 Orange Revolution in Ukraine. The first talks around the establishment of the ECU began in 2007, and the plan to upgrade it into a Eurasian Union was presented by Vladimir Putin in a press article published in early October 2011, two weeks before the Second Eastern Partnership Summit held in Warsaw.

Second, Moscow responded to the launch of the EaP with the strongest possible condemnation.⁶ The vehemence of this reaction is particularly notable considering that the EaP was mainly providing a regional structure for a set of bilateral programs and instrument that already existed in the framework of the ENP. A modest and eminently bureaucratic initiative, the EaP was certainly different in nature and scope from the other targets of Russian diplomatic rhetoric at the time, namely NATO's tentative enlargement to Georgia and Ukraine, or the US Ballistic Missile Defence project of the late 2000s. In this sense, the EaP was the first EU policy met by Russian policy-makers by a level of rhetoric usually reserved for NATO.⁷

2 Ben Judah, Jana Kobzova and Nicu Popescu, *Dealing with a post-BRIC Russia*, London: European Council for Foreign Relations, November 2011, pp. 27-29.

3 Dmitri Trenin, 'Russia's Spheres of Interest, not Influence', *The Washington Quarterly*, Volume 32 no 4, 2009, pp. 3–22

4 David Cadier, 'Is the European Neighbourhood Policy a substitute for enlargement?', in Luc-André Brunet (ed.), *The Crisis of EU Enlargement*, LSE IDEAS Report, November 2013.

5 Although they were part of the USSR, the Baltic States are traditionally not included in the denomination 'Post-Soviet space'.

6 'Russia's Lavrov lashes EU over new 'Eastern Partnership'', *EUbusiness*, 22 March 2009.

7 Russian policy-makers vehemently criticised EU policies during the Orange Revolution in Ukraine. It can be argued however that these condemnations were directed at the West more broadly and in a crisis situation while the EaP is a pure EU initiative launched in a non-crisis context.

Certainly, rhetorical logics and the traditional tactic of mirroring of critiques should not be ignored when attempting to account for such reaction: just as Moscow had reacted to EU criticisms of the human rights situation in Russia by denouncing the treatment of Russian-speaking minorities in the Baltic states, its condemnation of the EaP as a 'sphere of influence policy' can be seen as a response to some European commentators' characterisation of Russia's post-imperial behaviour in the shared neighbourhood. Similarly, Moscow's longstanding strategic approach to this region as a necessary buffer zone could also be mentioned. The presence of NATO troops in the Eastern neighbourhood remains a red line for Russian policy-makers, and they might at a stretch have feared that, as with the CEE countries, deeper association with the EU could be the prelude to NATO membership.⁸

More profoundly though, the denunciation of the EaP should in fact be read as a realisation on the part of Russian policy-makers of the EU's transformative power. By exporting its rules, norms and standards, the EU has the potential in the long run to transform the political and economic structures of the countries of the neighbourhood, although this potential is far less developed in the framework of the ENP than it is through the enlargement process. This recognition of this transformative potential is confirmed by the fact that Russia has subsequently endeavoured to develop its own transformative power along similar lines. Without entering the controversy of how and whether Europe's transformative power is actually threatening to Russia, it can be noted that Moscow's has sought to emulate it.

Third, the institutional design of the ECU and the SES seem, at least in part, to have been modelled on the EU. The ECU system of institutions – with a Council in charge of decision-making and composed of heads of state, a Commission acting as a regulatory body and as gate-keeper of economic integration, and a Court providing judicial control of the Commission's decisions and actions – clearly echoes the structures of the EU. In fact, in the article where he first articulated his Eurasian Union project for the public, Vladimir Putin explicitly acknowledges this legacy: the EEU is presented as 'drawing on the experience of the EU' and the SES as aiming to 'adapt the experience of the Schengen Agreement'.⁹

In sum, the context and modalities of development of the Eurasian economic integration regimes tends to indicate that they have been conceived in significant deal in reaction to, and drawing inspiration from, the EU's transformative power. While attempting to foster integration in the post-Soviet space had been pursued by Russia through various formats in the past, the emphasis of the ECU and EEU on market integration through harmonisation of norms, standards and regulations testifies to the influence of the EU model. Indeed, these new regimes appear to proceed from a belated recognition on the part of Russian policy-makers of the power of regulatory and market norms, and of the need for contemporary global powers to be able to rely on regional blocs built around such norms.¹⁰

In this sense, the EU influenced not only the conception of the ECU and EEU but also, more broadly, the structure of regional politics, by shifting it onto the terrain of norms and economic integration, and apparently leaving behind traditional strategic considerations. The configuration of EU-Russia relations in the common neighbourhood thus evolved towards geo-economic rivalry. However, as the Ukraine crisis has illustrated, Russia will progressively depart from this template and increasingly seek to 'geo-politicise' the EEU.

⁸ It should be emphasised though that the EaP is nowhere close to offering membership to partner countries and that some CEE countries have joined NATO before the EU.

⁹ Vladimir Putin, 'New Integration Project for Eurasia: A Future which is Being Born Today', *Izvestiya*, October 2011.

¹⁰ *Ibid.* Putin explicitly recognised that the 'complicated, 21st century world' requires 'new political and economic foundations'.

COMPETITION

By colliding geographically, these two region-building endeavours were bound to affect one another and to have a structuring effect on regional politics: the fact that the EEU and the EaP are destined to the same countries contributed to create a configuration of competition. Competition need not automatically lead to conflict; how it plays out depends on the discourses and practices of the actors involved. Whilst the parallel co-deployment of the ECU and EaP alternatives has often been framed as a zero-sum game between two blocs, the reality on the ground has not always corroborated this representation.

A clear incompatibility exists between the two regimes on the issue of customs tariffs. A state could not, at the same time, be a member of the ECU and sign a Deep and Comprehensive Free-Trade Agreement (DCFTA) with the EU: the ECU regulations require member states to have common tariffs with external actors while DCFTAs establish privileged tariffs between the signatory and the EU.¹¹ In theory, various degrees and stages of association exist within the EaP and, to a lesser extent, with regard to the ECU: states can conclude intermediary agreements (e.g. on visa facilitation) with the EU short of signing a DCFTA, and states could potentially cultivate cooperation with the ECU without being a full member (e.g. observer status). However, these two regimes have not been made compatible, and neither Russia nor the EU has taken any meaningful steps to do so. Despite this, several states have sought to avoid making a definite, either-or choice with regard to these two structures (or at least attempted to downplay that choice), either because they were hoping to reap some benefits from balancing one regional power against the other, or because the issue was too polarising domestically.

In Ukraine, Viktor Yanukovich had been cultivating ambiguity with regard to the two alternative frameworks, obtaining observer status in the ECU but at the same time negotiating the signing of an AA with the EU. The former President had made the Ukraine's strategy to 'balance' the EU's and Russia's offer against one another, in an attempt both to preserve the country's independence and to maximise the potential rent from its geopolitical association. Belarus, although always closer to Moscow, also sought for years to balance between Russia and the EU. While a member of the ECU, it has consistently tried to extract subsidies from Russia for its adherence to the project, while at the same time continuing to reach out to European economic actors whenever it can.

Armenia's policy of 'combinability' also testifies to a will to preserve some room for manoeuvre between the two regimes and a reluctance to be irremediably confined within the ECU framework, even though Armenia is set to join it. Yerevan's 'declarative eurasianisation' posture seems to be accompanied by what could be labelled an 'undeclared europeanisation' pattern.¹² In Moldova and in Georgia, two countries that are scheduled to sign an Association Agreement (AA) with the EU in late June 2014, some internal actors have been advocating the opposite EEU choice out of domestic politics calculus.

Beyond the fact that some states in the region have been attempting to escape binary choices, the true nature and actual possibilities of the EaP and the EEU contradict the picture of a geopolitical struggle between two cohesive blocs, akin to a 'new Great Game' as it is sometimes represented in some media. First, the EU's transformative power through the ENP, while significant, is largely undirected and can hardly be specifically activated as a pro-active foreign policy tool.¹³ The EU can choose to accelerate its AA offer, but it remains

¹¹ Signing a DCFTA is the highest stage of association with the EU a partner country can reach in the framework of the EaP. DCFTAs are usually contained in broader Association Agreements (AA) concluded bilaterally between the EU and the partner country.

¹² Laure Delcour's contribution in this report

¹³ David Cadier, 'Eastern Partnership vs. Eurasian Union? The EU-Russia competition in the shared neighbourhood and the Ukraine crisis', *Global Policy*, forthcoming October 2014.

for the partner country to accept it. Second, country analysis reveals that the interaction of Russia's and EU's influences on the ground is more complex than traditional binary characterisations suggest: these influences are not always cohesive or all-encompassing. The literature examining ENP-induced policy change in the Eastern neighbourhood finds for instance that change is above all policy-specific and happens regardless of membership prospects or of the degree of asymmetric interdependence with the EU or Russia.¹⁴ In other words, rigid categorisation dividing the countries of the region between pro-European and pro-Russian are misleading: one state may access to EU demands in one policy area but not others, and this regardless of its structural relationship with Brussels or Moscow. Finally, overly focusing on EU-Russia competition often leads one to overlook the strategic, political and economic preferences and calculations of domestic actors, which remain key variables in mediating national positions vis-à-vis the ECU and the EaP.

Nevertheless, what was not necessarily a zero-sum game competition became one by virtue first of being framed as such, and more substantively following the developments of the Ukraine crisis. A few months after the launch of the EaP in 2009, and therefore well before any country was close to signing an AA with the EU and before the ECU had even been established, Russia's Deputy Foreign Minister Alexander Grushko denounced the EaP for forcing states of the region to 'choose' between the EU and Russia.¹⁵ More recently, some European commentators have called on the EU to step-up in the 'geopolitical game' imposed by Russia in the Eastern neighbourhood.¹⁶ More importantly than these narratives, the practice of actors, and in this case of Russia, altered the parameters of competition when Moscow started using coercive measures to pressure countries, and Ukraine in particular, not to engage in close association with the EU.

COERCION

The on-going Ukraine crisis illustrates the evolution of this regional competition as well as its potential consequences. On the one hand, the structural choice put to Ukraine contributed to the weakening and polarisation of the country (although this choice cannot be read as having caused the crisis alone). On the other hand, Russia has departed from the geo-economic competition template and resorted to coercive diplomacy and interference, paving the way for an increasingly 'geopoliticised' EEU.

The imposition of trade restrictions on Ukraine and Moldova in the summer of 2013 marked a shift in Russia's strategy. As the Ukraine crisis unfolded, Russia's actions constituted a clear shift away from persuasion and towards coercion of the countries of the common neighbourhood.¹⁷ More than securing their accession to the ECU, Russia's coercive diplomacy has been directed at preventing them from engaging in close association with the EU. This was transparently the case when Moscow imposed trade restrictions on Ukraine and Moldova in the run-up to the Vilnius Summit, as both countries closed in on an AA with the EU.¹⁸ The fact that Russian policy-makers came to feel so threatened by this prospect that they felt not alternative but to resort to such nakedly coercive measures, reinforces the sense in which Moscow's fear of the EU's transformative potential has driven its strategy in reaction to it.

14 See for instance: Julia Langbein and Tanja Börzel, 'Introduction: Explaining Policy Change in the European Union's Eastern Neighborhood', *Europe-Asia Studies*, Vol. 65 no. 4, 2013, pp. 571–580.

15 Cited in: 'Europe's bear problem', *The Economist*, 25 February 2010.

16 See for instance: Jan Techau, 'Why the Eastern Partnership Is Crucial for the EU and the West', *Carnegie Europe blog*, 10 September 2013.

17 Susan Stewart's contribution in this report. By comparison, Kazakhstan was not coerced into joining the ECU. It joined the organisation out of economic and political motivations and contributed to shape its development. See: Julian Cooper, 'The Development of Eurasian Economic Integration', in: Dragneva, R., Wolczuk, K. (Eds.), *Eurasian Economic Integration Law, Policy and Politics*. Edward Elgar Pub. Ltd., 2013, pp. 15–33.

18 Furthermore, to this day Moscow has not resorted to coercive measures to force Azerbaijan to adhere to the ECU. In the case of Armenia, as the report's chapter highlighted, Russia exerted pressure on Yerevan and exploited its structural security weakness but did not resort to coercive measures.

To what extent then was the Ukraine crisis fuelled by the configuration of competing regionalisms described above? This structure certainly affected all the actors involved. In a way, raising the rent for his country's regional association and playing Russia and the EU off against one another allowed Yanukovich to postpone much-needed reforms, thus further fuelling popular discontent. The prospect of Kiev signing the AA with the EU led Russia to impose trade restrictions on an already weak Ukrainian economy, and the eventual rejection of the AA by the Yanukovich administration sparked the first protests. Similarly, it could be argued that the configuration of structural rivalry led the EU to misread not only the preferences and intentions of the Ukrainian executive (i.e. whether Yanukovich would sign) and population (i.e. Maidan movement) but also the interests and dispositions of Russia (i.e. how far was Moscow ready to go on Ukraine).

It would be wrong, however, to claim that this configuration of regional competition was the sole cause of the crisis or that a similar outcome is necessarily to be expected in other countries. While Kiev's planned, discouraged, and eventually discarded signing of the AA certainly served to catalyse the crisis, the dramatic turn of events that followed ought to be put in sequence – from the Maidan protests to the fall of Yanukovich and the annexation of Crimea – as well as in context – paying attention to the strategic and symbolic importance of Ukraine for Russian policy-makers compared to other countries of the region. The protests, while initially prompted by the rejection of the AA, grew considerably bigger and more determined after the police had repressed them; they became less about allegiance to either the EU or Russia than they were about denouncing a corrupt and inefficient political executive. The fall of Yanukovich and of the Azarov government was the tipping point in Moscow's coercive diplomacy strategy, after which it shifted gear from economic pressure to a military operation in Crimea and using unrest in the East of Ukraine. In other words, the specifics of the Ukrainian context and of Russia's actions should not be overlooked when assessing the consequences of EU-Russia competition and attempting to draw parallels with other countries of the region.

What the recent crisis revealed are critical shifts in Russia's policies towards the region. The developments in and around Ukraine confirmed a move from persuasion to coercion of neighbours about to engage in close association with the EU, as well as the growing instrumentalisation of the ECU as a foreign policy tool. Moscow has attempted to generate diplomatic solidarity among the current and prospective members of ECU in support of its position and actions in Ukraine. The issue of the official recognition of the annexation of Crimea will constitute a crucial test in this regard. This growing 'geopoliticisation' of the EEU may have consequences for the cohesion of the project as a whole, by leading members to look beyond economic integration and seek to preserve their sovereignty more closely.¹⁹ That Russia has chosen to resort to coercive diplomacy, and in particular, employ the kind of escalatory measures it did in Ukraine, is evidence of the failure of Russia's attempt to mirror the EU's transformative power in its neighbourhood.

More generally, this crisis and this new strategy have altered the parameters of the regime competition described above. This is likely to have lasting consequences for the region. The next country to join the ECU, Armenia, has been convinced not by the prospects of economic benefits, but by the security offer delivered directly by Moscow. Belarus has read the Ukraine crisis both a sign of Western weakness and as a potential risk to the stability of its political regime – it has little option but to consolidate its position in the EEU (even though membership, which comes with few real economic rewards, has been made more politically demanding) while seeking all the time to avoid compromising its sovereignty. The EU has accelerated its association offers to Georgia, Moldova and Ukraine – these three countries are set to sign an AA with the EU on the 27th of June 2014. In other words, the balancing strategies between Russia in the EU pursued by some capitals before the crisis have now been made impossible and the structural choices they were keen to avoid is now upon them. This might mark the end of the EU-Russia geopolitical *entredoux* as we know it. ■

19 Kataryna Wolczuk and Rilka Dragneva's contribution in this report

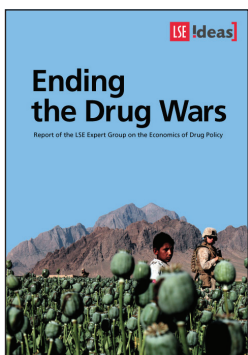


Enlargement is widely hailed as the EU's most successful foreign policy tool. Over the past four decades, the European Community (which became the European Union in 1993) managed to transform itself from a club of six Western European democracies to the world's largest economy, encompassing 28 countries and half a billion people. The recent financial crisis, however, has given rise to doubts about the viability and the attractiveness of the EU model. In this context of soft power crisis, the EU has a policy problem, that, according to Günter Verheugen, 'the enlargement process now lacks any strategic orientation'. Enlargement faces daunting challenges both internally and with respect to its neighbours. If the EU hopes to revive its most successful foreign policy tool, it must reconsider why it has been successful in the past and integrate these lessons to develop a new strategy.

Over the last five years Southern Europe has experienced widespread economic, political and social upheaval of almost existential proportion. Greece, Italy, Spain and Portugal, stricken by the Eurozone crisis and the aftershocks of the Arab Spring, face uncertain futures. This report examines the challenges confronting Southern Europe and seeks to explore the potential benefits the countries of the region could gain if they cooperated more closely and developed common policy responses.



The report confirms the need for 'more Europe', but recognises that further integration requires interconnected initiatives and holistic approaches. First, Southern European countries must overcome their reluctance to using the existing mechanisms of the EU. In parallel, Northern European countries must avoid exacerbating the North-South divide and show a fuller appreciation of the wider benefits of a prosperous Southern Europe to the whole of the EU.



In 2012 IDEAS released the Governing the Global Drug Wars Report. It represented a far reaching examination of the historical evolution of the international drug control system and discussed potential options for reform. It concluded that 'no serious scholar questioned' that international drug control efforts had largely failed. Further it concluded that the current strategy was making the situation worse in many important respects, ranging from human rights to socio-economic development.

Following this report, the Expert Group on the Economics of Drug Policy was created to produce a thorough and independent economic analysis of the current international drug control strategy. It aims to provide the hard economic evidence required by policy makers to make sound tactical and strategic decisions as they pursue a more effective approach to managing global drug issues.

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