

# Managing the Retreat

## Can Russia Adapt to the Emergence of Intermediate Europe?

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At the beginning of Russian President Vladimir Putin's second term, the analytical community was full of expectations that Moscow's policy toward its post-Soviet neighbors would become more assertive. Inside Russia, a somewhat unusual coalition combining *derzhavniki*, dreaming about the restoration of Russia's great power status, and newly-born liberal imperialists, wishing to convert political leverage into property, felt very self-confident. The coalition pushed the administration toward actions to regain Russia's influence in the former USSR.

The results of Russia's activism, however, were very different from those that were sought. Moscow moved from one political defeat to another. Most painful was the fiasco of Russia's failed interference in the Ukrainian presidential elections of 2004, but serious blows were suffered elsewhere as well. Russian businesses got no closer to acquiring property in Belarus, and Minsk did not concede any of its sovereign prerogatives for the sake of advancing the stagnating project of Russian-Belarusian integration. In 2005, Russia could not affect the outcome of parliamentary elections in Moldova, nor the parliament's reelection of Vladimir Voronin, once considered pro-Russian but now out of favor for seeking western assistance to settle the conflict in Transnistria, as president. Also in 2005, Russia agreed to withdraw its military bases from Georgia, a move it had been resisting for years, by 2008. Even in the tiny unrecognized republic of

Abkhazia, totally dependent on Russia economically, Moscow could not bring to power the presidential candidate it favored.

In the aftermath of these events, the situation on Russia's western borders and, to some extent, in the Caucasus changed qualitatively. Russia lost its ability to block unwanted developments, while the influence of Western actors, in particular the European Union, grew considerably. In fact, it can even be argued that Georgia, Moldova, Ukraine, and, to some extent, Belarus constitute an emergent new entity: Intermediate Europe or Europe In-Between. Certainly these states will not be ready for full-fledged integration into Euro-Atlantic structures for some time, but they will also be less subject to Russia's claim to be the post-Soviet world's center of gravity, or even its most influential player.

It is too early to determine whether Russia has recognized this new reality and rethought its policies accordingly. Top Russian diplomats often say publicly that no one has a monopoly in the post-Soviet space. At the same time, they continue to assert that nothing in the region can be done without Russia or against it. The combination of these two assertions leaves space for different interpretations of Russia's actual reassessment. Practice, however, may be a bit more telling. So far, one can speak only about shifting accents, not mature and irreversible trends. Still, some changes can be discerned and need to be explained.

### **What Moscow Has to Admit...**

Several relatively new factors currently limit Russian policy choices in the region and negatively affect the effectiveness of its policy.

Perhaps the major challenge is that the motivation of its neighbors to remain integrated with Russia is decreasing, and whatever motivation does exist often does not extend beyond economic cooperation and humanitarian ties. Only 35 to 40 percent of Ukrainians consider Russia the main foreign policy priority for Ukraine. Even in Belarus, with its state-controlled media, only 15 percent of the population supports a union state with Russia, while at least half the population has consistently supported membership in the EU since 2002. Nearly half of Belarusians are against the introduction of the Russian ruble as the Belarusian currency.

The reason for this change is that Russia does not look like a success story to the people of the region. It has lost its status as the champion of regional democratization. It is leader neither in speed nor in quality of economic growth; other countries of the Commonwealth of Independent States (CIS) have had more impressive results. Its social and political ills, including Chechnya and the constant threat of terror attacks, are well-known. Unlike the USSR with its communist ideology, or the tsarist empire with Pan-Slavism and Orthodoxy, today's Russia does not have an ideational project that could have international appeal. The slogan of preserving or restoring old ties, although it often makes practical sense, is

not a promising program for the future. To the elites, and even more to the average people, Russia cannot offer anything it has not offered before.

Second, the enlargement of the EU, and its physical presence on the borders of Ukraine, Belarus, and perhaps soon Moldova, is a factor of utmost significance. While the EU is highly reluctant to recognize the potential for countries of the region to become EU members, the EU will be involved in regional affairs much more than before through its European Neighborhood Policy (ENP). Both a push by the EU's new central European members and the pull of the new neighbors themselves will make increasing interaction—and even gradual partial integration—inevitable. For Russia, the emergence of this alternative center of gravity has an important implication. Earlier, Russian policy could be based on the assumption that no other actor could replace Russia's organizing capacity and ability to ensure regional stability. According to this logic, Russia could not withdraw without the countries of the region facing all sorts of risks. This assumption was tacitly accepted by its neighbors, which made Moscow's claim for domination at least somewhat legitimate. Now an alternative, which is how the EU is seen in the region regardless of its actual policy, has appeared.

Third, the political instruments that Russia has at its disposal are inadequate. Russia's carrots are not appreciated, and its sticks seem not to be feared. Russian economic subsidies (in the form of cheap energy and remittances by guest workers) were taken for granted for years. These subsidies served as a type of compensation for political loyalty and formal recognition of Russia's leading role. However, Russia's economic levers are limited. Cutting energy supply to transit states such as Ukraine and Belarus is not possible without jeopardizing exports to European countries. Closing the labor market for migrants would inflict a lethal blow on some growing sectors of Russia's economy, the construction industry in particular. Protectionism against imported goods might work against specific countries, but trade wars would generally go against the interests of Russian businesses, which have invested heavily in most of the countries in the region.

The value of Russian support as a resource in disagreements with Western countries has also diminished. Some capitals do not seek it, while others count on receiving it automatically thanks to Russia's instinctive inclination to play a zero-sum game in the region. Russia is less able to exploit frozen conflicts (in Abkhazia, South Ossetia, Nagorno Karabakh, and Transnistria) for political purposes. Respective central governments do not expect much from Russian mediation, and elites in breakaway entities (except, perhaps, Transnistria) feel less need to rely on Russian protection after fifteen years of de facto independence. Pro-Russian sentiments in eastern Ukraine cannot be converted into a secessionist movement, as local leaders clearly prefer to deal with Kyiv rather than Moscow.

### ... And How It Reacts

After the Orange Revolution in Ukraine, Moscow can no longer ignore how its strengths and weaknesses in the region have changed. Several changes in policy have been made.

First, Russia seems prepared to minimize economic subsidies. The most telling example is Gazprom's intention to move from the current system of providing natural gas at subsidized prices (\$50 per thousand cubic meters [tcm]) in exchange for transit through Ukraine, to monetary payments and world prices (\$170-180 per tcm). Even if Ukraine raises its transit prices as a result, it will still have to pay an estimated \$1.7 billion more for Russian gas. In addition, Gazprom will apply the same prices to the transit of Ukraine-bound gas from Central Asia through Russia. Diversifying transit routes by constructing a North European gas pipeline to Germany through the Baltic Sea (a new project due to be completed by 2010) will give Russia greater freedom of maneuver vis-à-vis all transit states and, most probably, lower transit prices.

From a perspective which holds reintegration among post-Soviet states to be a primary goal, introducing world energy prices (and ending other forms of preferential economic relationships) is a very risky move. Once this is done, the strongest remaining incentive to remain close to Russia will disappear. Therefore, there may be doubts as to when, and how far, Russia is ready to go in this direction. Nonetheless, the discontinuation of the privileged treatment of several of Russia's western neighbors is likely. Russia's current leadership is pragmatic and can conclude that if subsidies do not guarantee Russia political domination in the region, maximizing economic gain is the second most satisfactory outcome.

Practical recognition of Russia's weakening role in Intermediate Europe is reflected in Russia's growing activism with regards to Central Asian states, particularly Kazakhstan. Tracing the number of top-level contacts between Russia and Central Asian leaders in 2005 demonstrates that the region is rising on the Russian scale of foreign policy priorities. This makes sense for several reasons. First, Moscow has found the EU to be a difficult partner, whether in bilateral relations or in their common neighborhood. Therefore, its EU policy (known as "Russia's European Choice") was put on hold, if not totally abandoned. Further rapprochement with the EU is problematic because it depends too much on Russia's acceptance of democratic values, unlikely for the moment. In its relations with Central Asia, as well as with China, democratic values are irrelevant. Moreover, internal political processes in Russia are more similar to those in Central Asia than those in Ukraine, and the ruling elites understand each other well. In Central Asia, no state is going to question Russia's leadership. They need Russia for geopolitical, economic, and security reasons, and, in some cases, even seek Russia's mediation in their own intra-elite conflicts. In other words, in Central Asia the court still

agrees that Russia is king, giving Moscow a certain moral satisfaction. Last but not least, economic cooperation, particularly with Kazakhstan, still promises to bear fruit.

A new strengthening of ties between Moscow and Minsk seems inevitable. Despite all its frustration with Aleksander Lukashenko, the Kremlin cannot afford for a variant of the Orange Revolution to occur in Belarus. After a decade of an exclusive relationship with Minsk, the loss of Belarus would not only further weaken Russia's international posture, but it would also damage the internal political situation for Putin's regime on the eve of 2008 elections. Russian commentators have suggested that during his trip to Moscow in July 2005, Lukashenko secured the Kremlin's approval to run for a third term, probably even ahead of schedule.

### **Possible Implications**

These trends have not yet become firm policy. More clarity will emerge within the next year or so, depending first of all on political developments in Ukraine. If Ukraine's systematic transformation continues, the development of Russian policy along the lines analyzed above is more likely. If Ukraine interrupts its democratic evolution, and the situation in the country after the parliamentary elections of March 2006 begins to resemble that of the last years of the Kuchma regime, marked by pervasive corruption and restricted possibilities for change, Russia could also return to its pre-2004 policies.

If democratic reforms advance in Ukraine, a number of conflicts in Russian-Ukrainian relations may arise, following the rise of tension in the economic sphere. If Russia uses its economic lever, however, Ukraine cannot simply reciprocate. In addition to its energy dependence, Ukraine is more dependent on Russian markets than Russia is on Ukrainian ones. Ukraine might bring the status of the Black Sea fleet to the negotiating table (there is a precedent, with the current deal based on an exchange of Ukrainian debt for Russian basing rights) and even threaten to demand the Russian fleet's early withdrawal. The situation in Crimea could be destabilized, and negotiations on the maritime border might stall.

If Russia were to reduce its regional economic subsidies, the price shock would shake fragile regional economies, with their obsolescent industries unable to compete in world markets. Western countries could then be tempted to implement conditionality policies, combining financial aid with economic modernization and the democratic transformation of the region. Otherwise, assistance would in all probability be misused.

Were this to transpire, the Russian-Western relationship might become even more complicated. However, a change in relations is unlikely, as official Russian and Western attitudes on Belarus are already polarized and Russia's ability to change the position of its Central Asian partners on the United States' military presence in the region remains limited.

