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# CENTRAL AND EASTERN EUROPE

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Russian foreign policy in Central and Eastern Europe in the post-Cold war period followed the track of the evolution of its general foreign policy strategy. After the Second World War countries of Central and Eastern Europe were either Soviet republics or fell under the sphere of interests of the USSR. The following dissolution of the socialist bloc and the Soviet Union itself resulted in fundamental geopolitical changes in the region, erasing the solid military and political frontier that divided Europe on the borders of the GDR, Czechoslovakia and Hungary. New states took shape out of what was left of former socialist republics. The region became split and uneven politically. Moscow itself was no longer a political center for Central and Eastern Europe. It became the capital of a remote state that had no common borders with most of the Eastern European countries. Russia–NATO relations that used to be the basis of the continental politics lost their sense of certainty, having opened up room for experiments. Russia faced the challenge of shaping its foreign policy afresh, taking into consideration the changing environment on its western border.

The geopolitical configuration of Central and Eastern Europe is what makes this region especially important for Russian foreign policy. Its intermediate position in between Russia and the Euro–Atlantic makes it an arena for either cooperation or rivalry between the two power centers on the continent. Metaphorically put, this region may serve as a bridge over the chasm between Russia and NATO, or it may become a battlefield for the two. Apart from security concerns, there is also a factor of gas and oil transit via this territory, which explains Moscow's interest to ensure the safety of energy supply through Eastern to Western Europe, where its end consumers are.

Scholars of Russian foreign policy in Central and Eastern Europe largely disagree on its motives and goals. The key disagreement is between two approaches. One group of scholars argues that Russian policy inherently aims for expansion encouraged by imperial complexes (McFaul, 1998; Sherr, 2013; Umland, 2016) or ethnic and nationalist impulses (Rutland, 2014; Zevelev, 2014; Motyl, 2016). The other group believes that Moscow's primary concern is to ensure its national security and protect its values (Bogaturov, 2007; Mearsheimer, 2014; Tsygankov, 2015; Graham, 2017). Academic debates on issues of Russian foreign policy today are overly politicized. It is not clear how soon the academic sphere will break free from the

extremes of the emotional load that is caused by the major conflict between Russia and the West over Ukraine.

### **Regional context: integration and disintegration in Central and Eastern Europe**

There were different opinions on the end of the Cold War among the contemporaries, but these events undoubtedly came as a big shock. Formerly, all the countries in the region were integrated in economic, political and military spheres. The idea to preserve these ties had a positive response among the new Central and Eastern European states, especially with the establishment of the EU in Western Europe and the signing of the NAFTA agreement. In the early 1990s, international integration was perceived as inevitable. Russia expected to be a part of new European processes, yet was marginalized and later viewed as a threat.

The first result that came out of these integration experiments in the region was the Visegrad Group of Czechoslovakia, Poland and Hungary (February 1991). The member-states of the Group did not share a truly complex interdependence with each other. Within Soviet rigid hierarchical structures satellite states normally developed close ties with the leader of a bloc, but rarely did they have dependency among themselves. After the Socialist bloc was dissolved, its former members could hardly use their recent experience. Still, each of these countries had learnt from the socialist commonwealth how to cooperate within the framework of common interests. This experience influenced the perception of goals and means of European integration by the countries in the region. The Visegrad Group members proclaimed that the core aim of their integration project was joining the EU and NATO structures and refraining from formal institutionalization of the Group. Later on, the Visegrad countries demonstrated their inability to jointly assert their common interests in a united Europe. Russia was not focused on what was going on in the former socialist countries, but was irritated by their desire to join NATO and the EU.

Gravitation towards the West as a new center of power brought to life new forms of cooperation institutions in the post-Soviet space. They kept emerging in the shape of GUAM (Organization for Democracy and Economic Development for Georgia, Ukraine, Azerbaijan and Moldova), the Community of Democratic Choice and the Eastern Partnership. Yet only the latter managed to formulate a clear cooperation program, and it did little to fit with the real goals of the post-Soviet countries' elites.

The Eastern Partnership's grand architect was the Polish Foreign Ministry, which meant to make the program an extension to the European Neighborhood Policy. Building close ties between the EU and several former USSR member-states, namely Belarus, Ukraine, Moldova, Armenia, Azerbaijan and Georgia, was officially proclaimed the goal of the Partnership. The program defined by the European Commission included administrative reforms, training of state officials, measures to fight corruption, and development of civil institutions and independent media in the post-Soviet member-states. Other dimensions of the program included harmonization of the legislation of these states with that of the EU and establishment of free trade zones with the countries within the Partnership later – when they joined the WTO. European politicians expected that Western business would become an alternative for Russian state-controlled companies in the region, while the EU good governance programs would help eliminate corruption and weaken Russian influence. Other goals concerned diversification of energy sources and organization of their transit and supply bypassing Russia. In the long-term perspective, the program headed towards integration with the EU energy market. Liberalization of the visa regime between the EU and the Partnership member countries was another goal, so was the plan to take measures to curb illegal migration.

Moscow perceived the Eastern Partnership as potentially destabilizing, aiming to eliminate Russia's influence in the European part of the post-Soviet space by hindering Russia's own initiatives, such as the Union State of Russia and Belarus, Eurasian Economic Community, and Collective Security Treaty Organization. However, European and US diplomacy dismissed Russia's concerns over its inevitable decline of influence in the region.

Because of escalating rivalry between Russia and the West in the post-Soviet space, a series of clashes and crises emerged. A new frontier between the two gravity centers in Europe emerged, but this time it was of a political and economic nature, and its borders were closely adjacent to the Russian borderline. The countries that found themselves on the split line were especially fragile with their inexperienced elites and exacerbating instability caused by Russian-Western rivalry over them. Because of the EU's meddling, Russian attempt to settle the crisis in Transnistria (The Kozak Memorandum) failed in 2003. In 2005, Russia and the EU acted in support of the two opposing sides of the conflict in Ukraine's Maidan. Then in 2008 Georgia seemed to be trying to pull Russia and the US into confrontation on its territory when it tried to solve its problem of the two separatist republics by force. The culmination was the 2014 Ukrainian crisis, which was brought about by Western efforts to push Viktor Yanukovich's administration into signing Association Agreements with the EU first and then to refrain from the use of force in the public unrest in Kyiv. Western activity in integrating post-Soviet countries was no longer associated with restructuring. It now became a destabilizing factor in the region. Despite its clear reluctance to respond to escalation, Russia had to join the zero-sum game that the West had started with its expansion in Central and Eastern Europe (Charap and Colton, 2017).

### **Evolution and goals of Russian foreign policy in Eastern Europe**

After the end of the Cold War, Russian foreign policy towards Central and Eastern Europe developed in three stages (Bogaturov, 2007).

In 1991–1996 Russia tended to identify its national interests with those of the West and refrained from setting its own priorities in foreign policy. For Central and Eastern European countries it meant Moscow's voluntary rejection of the integration legacy of the Warsaw Pact and Council for Mutual Economic Assistance, and reluctance to hinder Western plans to engage former socialist and post-soviet republics in its own integration projects. Russia did not oppose the 1993 US 'democratic enlargement' doctrine mistakenly considering itself among its beneficiaries. Moscow also supported establishment of new states on the territories of former Yugoslavia, in some cases pioneering the process. This approach reached its culmination with Russian support of NATO's intervention in Bosnia in 1995, which generated strong opposition to the Kremlin inside the country. By the mid-1990s, there was a strong sense of frustration and disappointment in Russia. The Western support for President Boris Yeltsin's controversial victory in the 1996 elections convinced the Russian elites that the EU and the US were willing to turn a blind eye to democracy to ensure a desired outcome.

In the meantime, the post-Soviet republics were trying to balance themselves between Russia and the US. For instance, Georgia launched a military cooperation program with the US, while Azerbaijan signed important contracts with Western companies to develop its oil fields. Increasingly, Russia perceived these developments through a security lens. The NATO-launched Partnership for Peace program in 1994 was meant to preserve cooperation with Russia, but the alliance was also actively developing military cooperation with other countries of Central and Eastern Europe preparing for another round of NATO enlargement. Russia opposed the process as aiming to isolate it, but was too weak to stop it. Feeling betrayed by

his Western partners, at the Budapest meeting in December 1994 Yeltsin predicted the beginning of a 'cold peace' in Europe (Yeltsin, 1994), while the Russian military was discussing the idea of targeting Russian rockets at new members of the Alliance in case of its enlargement. In May 1995 Russia signed a separate partnership program with the Alliance hoping to develop a stronger voice in bargaining with NATO, but in practice accepting its further enlargement. In return for Russia's softening its position, Washington promised Russia assistance with joining the WTO and G7, as well as developing a basis for further Russia-NATO relations.

The new period of Russian foreign policy was marked by an increased vigor in asserting national interests. In 1996 a realist-minded Russian statesman Eugeny Primakov became the new Foreign Minister. He never doubted the importance of relations with the West, but not at the expense of Russia's national interests. Russia began to develop its own integration projects. In 1997 it signed the Treaty on friendship, cooperation and partnership with Ukraine, completing the process of normalization between the two countries. Russia also signed an agreement on establishing the Union State with Belarus. On October 10, 2000 Moscow signed the treaty establishing the Eurasian Economic Community with Belarus and Kazakhstan as additional members. The organization became the first success of Russian integration efforts, paving the way for its transformation into the Eurasian Economic Union in 2014.

Russian diplomacy continued to oppose NATO's enlargement. In order to make it more costly for the West, the Kremlin predicated its support on establishing special relations with Russia, restricting the number of candidates for the Alliance's membership to a minimum, placing limitations on arms deployment on new members' territories, and providing guarantees for non-deployment of nuclear weapons in these states. Other developments that affected Russian foreign policy at the time were the Alliance's intervention in Yugoslavia in 1999 and Afghanistan in 2001 and US intervention in Iraq in 2003. Following the Iraq invasion under the false reasoning of Saddam Hussein's plans to produce bacteriological and nuclear weapons, Moscow became convinced that US intervention in the affairs of the post-Soviet countries was highly likely, although the color revolutions came unexpectedly. Overall, it resembled the events of the late 1980s in Central and Eastern Europe when US political intervention destroyed the fragile trust between the US and Russia after the end of the Cold War.

The third stage of Russian foreign policy started in the mid-2000s and was based on a favorable economic performance. In 2006, during the meeting with Foreign Ministry officials, President Vladimir Putin called for Russia's political influence in the world to be adjusted in accordance with its newly acquired economic opportunities (Putin, 2006). The significant effect of the new approach for Central and Eastern European countries was in Moscow's yearning to decrease its dependence on transit oil and gas routes through unstable countries to Western Europe. Construction of the Nord Stream pipeline and plans to construct a similar pipeline in the Black Sea objectively reduced – although not eliminated completely – the transit value of the routes via Ukraine, Moldova and Belarus.

Paradoxically, the growing interdependence between Russia and Western European countries in the energy sphere did not help to ease their tensions over Eastern Europe. On the contrary, the tensions continued to be exacerbated by the EU pressuring the countries that were planning to sign the Association Agreement with the Union. Ukraine proved to be the most fragile and susceptible to this pressure. At the decisive moment, its leadership was paralyzed by the demands of Western politicians to refrain from using force against the armed protesters. The 2014 Ukrainian crisis became the greatest challenge to Russian foreign policy in Central and Eastern Europe. Russia was the last to revise its policy, and only after the EU and the US had expressed their support for the coup d'état in Kyiv.

### **Frozen conflicts and security issues**

During the last years of the USSR, several serious ethnic conflicts emerged, and their scale was growing. Former Yugoslavia presented an even more depressing situation. None of the sides in a series of national conflicts had the capability to take over, and none was ready to admit its defeat. Pessimists saw the Yugoslavian scenario as one of the possibilities for Russia – if the worst were to happen. Due to both local reasons and Russia's role, the post-Soviet space registered a record number of frozen conflicts, as well as unrecognized or partially recognized states – Nagorno-Karabakh, Transnistria, South Ossetia and Abkhazia.

Even though in the early 1990s the Russian leadership lacked a clear political course, the overall logic in Russian actions was to curb ethnic conflicts and prevent their spreading to Russian territories. In particular, in the Caucasus, Russia assisted Azerbaijan in building its own military, yet at a later stage helped Armenia to preserve a military balance in the region.<sup>1</sup> Azerbaijan soon lost its military superiority. The Armenian forces' success in the Battle of Kalbajar had two important outcomes. First, it preconditioned involvement of the international community, and second, it created conditions for both sides to become interested in negotiations. Ceding to pressure, Levon Ter-Petrosyan approved the peace plan that was confirmed to Russia, the US and Turkey. The situation stabilized, and the conflict was frozen for years to come.

The Defense Ministry became the most active of Russian players in the Caucasus at that time. In the Transnistrian conflict the Russian army's role was even more noticeable. Major-General Aleksander Lebed, the Commander of the 14th Army stationed in Transnistria, was partly responsible for that. His appointment was due to his personal relations with the then Defense Minister, Pavel Grachev, and his experience in managing escalations of ethnic conflicts. He had broad powers in Transnistria, and had the right to take almost any decisions. On the night of June 8, 1992, when Moldovan and Romanian troops were on the offensive, General Lebed ordered a strike which caused the deaths of 2,500 people. This made Moldova join the negotiation table. Later on, Moldovan President Mircea Snegur tried to stop General Lebed's transfer from Transnistria to make him stay as a 'guarantor of stability in the region' (Lebed, 2000).

In 2003 an effort of political conflict settlement was made. The Moscow-advocated Kozak Memorandum provided for the confederalization of Moldova, and Russia was to become the guarantor of this status with Russian peacekeeping troops deployed in Transnistria for 20 years to protect military warehouses. Russia aimed to bring Transnistria back to the Moldavian state, but with broad autonomy. This would give Moscow the opportunity to have more power over Kishinev and leverage the Moldovan leadership in case of emergency. Russia's principal role in conflict resolution without any Western mediators would be evidence of Russian leadership in the post-Soviet space. Yet, the EU's involvement made Kishinev decline Moscow's offer.

In late February 2006, Kishinev halted another round of negotiations on the Transnistrian conflict, which was one of the reasons for the crisis in Russian-Moldovan relations. One of the outcomes was a ban on Moldovan wine products imported to Russia. However, the relations between the two countries soon returned to normal after the two leaders met in November 2006. Some believe that Vladimir Voronin promised Vladimir Putin that Moldova would remain neutral and refuse to join NATO. This would grant the Moldovan authorities a reason not to unite with Romania, and at the same time help keep their hands free in relations with Russia, who had always felt unsafe about Transnistria's status (considering its Russian and Ukrainian population). As for Transnistria itself, there was no will to unite with Moldova, neither among the elites, nor among the majority of its population. And so they all expressed great concern over Moscow's plans to bring the unrecognized republic back into the Moldovan state.

Today's status of Moldovan-Transnistrian relations is not so much of a conflict, rather a political alienation. When Igor Dodon came to office in late 2016, Moldovan and Russian policies became more coherent on many issues, including Transnistria. Nonetheless, it does not imply that the chances to overcome the alienation between Kishinev and Tiraspol are now higher. To this end, there has to be some motivation to integrate Transnistria both from the part of the Moldovan president and the elites, which they lack so far. At the same time, there has to be a force in Transnistria interested in integration with Moldova, and this is lacking so far as well, even if this integration were to happen under the most favorable conditions for Tiraspol. The Transnistrian leadership in this respect is adamant.

Another important security issue for Russia was NATO's enlargement to the East. In October 2014, Russian Foreign Minister Sergey Lavrov said that Transnistria would have the right to political self-determination in case Moldova abandoned its neutral military and political status. Russia never used to doubt the Moldovan territorial integrity in the Transnistrian conflict. But balancing between the East and the West in the face of global Russia-Western confrontation will inevitably lead to the internal destabilization of Moldova, similar to what happened in Ukraine in February 2014.

The Ukrainian civil war is a typical example of a postponed conflict development. The new Kyiv authorities, who came to power as a result of the coup in February 2014, have abandoned the strategy of balancing between Russia and the West. Thus, they rejected the concept of Ukraine being a multinational state located between the two centers of power. The core logic of the new Kyiv government was to take advantage of the historic chance to 'turn the country to the West' at all costs, even if it would lead to the country splitting.

Western interference in Ukrainian domestic affairs during Euromaidan made Moscow think that the goal of these actions was to harm Russian interests by means of granting Ukraine NATO membership and pushing out the Russian fleet from Crimea. The US leadership's comments that Russian actions in Crimea and Donbass caught it by surprise, left many in Moscow suspicious. In reality, Russian interests both in Crimea and Ukraine had been articulated to Europe and the US on more than one occasion. And it is not unreasonable to believe that the Russian message was received by the US government. Reports in February and May 2008 by the US embassy in Moscow published on Wikileaks contain a clear analysis of the Russian stance on Ukraine:

GOR [Government of Russia] officials publicly and privately do not hide that their endgame is the status quo. Russia has accepted Ukraine's westward orientation, including its possible accession to the EU and closer ties with NATO, but NATO membership and the establishment of a U.S. or NATO base in Ukraine remain clear redlines. Ideally, Russia aims to secure a written neutrality pledge from Ukraine.

*(Russell, 2008)*

The other report forecasts possible Russian reaction:

Experts tell us that Russia is particularly worried that the strong divisions in Ukraine over NATO membership, with much of the ethnic-Russian community against membership, could lead to a major split, involving violence or at worst, civil war. In that eventuality, Russia would have to decide whether to intervene; a decision Russia does not want to have to face.

*(Burns, 2008)*

Based on these facts, Moscow dismisses the possibility that the US was unaware of the probable consequences of their support for the coup in Ukraine. High-ranking officials as well as President Putin himself ('Meeting on Military Planning Issues', 2014) have repeatedly said that the US was deliberately trying to push Russia to protect its interests in Ukraine in order to drag it into a debilitating conflict. One can argue that Ukrainian NATO membership was off the table at that time, yet it is far more important the way the ordinary Ukrainians perceived it in 2014. Euromaidan proponents were advocating for the 'European future', which implies Ukraine's accession to NATO and the EU, while their opponents resisted the Western influence and called for protecting Russian-Ukrainian ties.

The issue of Ukrainian membership of NATO remains a subject of deep disagreement in Ukraine even after the Crimean cessation and the outbreak of the civil war in Donbass. According to Kyiv International Institute of Sociology, in September 2016 39% of Ukrainians were in favor of joining NATO, 31% of respondents were against it and the other 30% were in doubt or would refrain from voting were a referendum to take place ('Geopolitical Orientations of the Ukrainian Population', 2016).

In 2014 the new Ukrainian authorities held eight joint training sessions with NATO (with only three in the previous year), and soon after the civil war started became recipients of arms assistance from Alliance countries ('Kiev: postavki oruzhii NATO', 2014). In 2015 the arms supply to Ukraine was no longer a secret, when the US introduced a special clause to the state budget to provide it.

In 2017 350 million USD was provided for that cause. The situation became even more complicated with the Ukrainian leadership lacking the desire to settle the conflict. There are several reasons for this. Kyiv is not ready to integrate territories with a pro-Russian population and is not capable of providing financial assistance to restore the destroyed economy of Donbass. Furthermore, it yearns to find excuses for the catastrophic effects of its economic policies and to postpone reforms, but at the same time it wants to keep receiving economic support from Western countries. In the meantime, the West keeps pressing Russia to fulfil the Minsk Agreements, abstaining from addressing Kyiv with similar demands ('Minsk agreement', 2015).

With the warring sides unready for de-escalation, the West refraining from pressing Kyiv authorities and little alternative to the use of force, it is safe to say that the conflict will continue for years to come.

### **Economic interdependence issues**

Before the 2014 Ukrainian crisis, there was deep economic interdependency between Russia and the post-Soviet republics. This granted Moscow broad opportunities in foreign policy. After the crisis this interdependence was considerably decreased, but remained significant. The evolution of economic ties in the region shows in which cases there is a strategic vision of the future for relations, and in which cases merely a tactical rivalry over its influence with other powers.

After the Ukrainian Orange revolution in 2005 many of the post-Soviet elites decided to revise their relations with Russia, because they were convinced that its influence was fading. Many of the anti-Russian outbursts were rather provocative. Georgian President M. Saakashvili was the most prominent of such offenders. However, his conduct could hardly be considered completely irrational. As well as other politicians in Eastern Europe, he was counting on US support. This made him believe that anti-Russian rhetoric would receive approval in Washington and that if the Kremlin chose to respond in a harsh manner, his country would become a beneficiary of broader US military assistance. Washington watched his actions with understanding, but considered that in order to achieve true success in the post-Soviet space the



country should fundamentally transform its political institutions, its elites, economic model and mentality. To this end, the US thought a nationalist project and alienation of all connections with Russia to be inevitable. At the same time, it gave Washington leverage to influence political processes in the region and create spots of tension in relations with Moscow.

Russia's economic leverage, however, was considerable. Economic pressure to ensure political loyalty has become a new element of Russian foreign policy since the mid-2000s. Moscow recognized the vital dependence of its neighbors on exports to Russia. For example, approximately 80% of Georgian and Moldovan wines went to the Russian market. Russia was the recipient of 35.8% of total Moldovan exports, most of which was wine products, and this made Russia one of the most important trade partners for Kishinev. In March 2006 Russia introduced a ban on importing Georgian and Moldovan wines based on sanitary requirements. The ban on Moldovan wine imports was lifted in autumn 2006, and in spring 2013 restrictions were halted for Georgian products (as a result of 2012 Georgian parliamentary elections, the government of Bidzina Ivanishvili came to power).

Russian trade restriction measures proved to be inefficient as a method of political pressuring, and considerably decreased the level of mutual economic interest and business loyalty to the idea of cooperation with Russia. In cases where the level of economic interdependency was initially high, Moscow usually refrained from pressuring its partners. These were cases when economic pressuring would not be sufficient for the country to experience real losses, or when it could lead to a symmetrical response and serious accusations of non-market policies. In situations of this kind, Russian policy was especially cautious. In certain cases, the Russian leadership started crediting or establishing preferential regimes for neighboring countries in exchange for loyalty. Preferential regimes and hidden subsidy mechanisms are especially convenient, because they allow flexibility in varying the level of support. These policies provided for an informal and selective attachment of major economic actors, especially those close to the authorities, in neighboring countries. An example of a hidden subsidy mechanism is in the transit of sugar, which has long been a major part of Belarussian exports to Russia, yet was purchased mainly from other countries.<sup>2</sup> Later on this was the strategy applied by Belarussian companies after Russia introduced restrictive measures on agricultural products from the EU. Today, Belarus still serves as an exporter of some European products to Russia.

Ukraine is a special example of the inefficient policies of Moscow in post-Soviet states. In its relations with Kyiv it has always preferred hidden subsidy mechanisms over debt schemes. Ukraine used to press for non-market principles in negotiations on gas prices with Russia. It was the last of the post-Soviet republics to start market relations with Gazprom in the gas sphere. Up until 2006, Russia sold gas to Ukraine at the extremely low price of 40–50 USD per cubic meter, and Ukraine received it in far greater volumes than what Germany and Italy together received from Russia. According to Russian estimates, in 1991–2013, because of the low gas prices, Ukraine managed to save more than 82.7 billion USD (Medvedev, 2014). Meanwhile the Ukrainian debt to Gazprom kept on growing, presaging crises of gas transit to the EU (2006 and 2009). Moscow's yearly subsidies in the form of gas price discounts, loans, submitting orders and functioning of the preferential trade regime, at the cost of Russian production, totaled 10–12 billion USD (Medvedev, 2014).

Before the coup in Kyiv, Russia was the major creditor to Ukraine. However, the total of the state and government-guaranteed debt seems insignificant compared to the share of Russian commercial companies in the Ukrainian debt market, which used to be 20% (Papchenkova et al., 2015). The majority of these companies were banks that bought Ukrainian government bonds. Ukrainian bonds equaling 3 billion USD with a due date of late 2015 made up a considerable part of the state's debt. Being the key creditor, Russia had all the capabilities to trigger a

default in Ukraine, for the loan in 2013 was preconditioned by an early repayment obligation in case of external debt exceeding 60% of GDP (in summer 2015 it amounted to 96.5%). Russian President Putin noted in May 2015, that ‘in response to the request made by Ukraine and [the] IMF we will not use this right in order not to make the difficult situation for our partners and neighbors even worse’ (‘Meeting with the Members of the Russian Government’, 2015).

In 2013 Russia was the biggest trading partner of Ukraine (27.3%), while total trade turnover with the EU was only a little higher (31.2%). Although 2014 witnessed a major plunge in bilateral trade turnover by 40.2%, the growth in turnover with the EU by 12% obviously could not cover all the losses. Russian orders submitted to Ukrainian producers by the Russian Ministry of Industry and Trade in spring 2014, equaled 15 billion USD (8.2% of Ukrainian GDP), but in the last three years it has reduced tremendously. Apart from the political motives, the reduction was caused by a general decrease in Ukrainian industrial production, the destruction of Donbass’ industry, a substantial growth in metallurgical exports to China (an important share of total Ukrainian exports) and the fall of the ruble, which raised the competitiveness of Russian products.

Russian companies used to submit orders for hundreds of industrial enterprises that worked together with Russian corporations on high-technology production of space rockets, ships, aircraft, helicopters, turbines and so on. Industrial production had been an important sphere of Russian-Ukrainian interdependence, especially in the military-industrial complex. Of samples of Russian arms and military equipment, 186 – including aircraft, helicopters, ships and rockets – used to have parts produced in Ukraine. The consequences of export restrictions for the Ukrainian high-technology industries will be tremendous. Russia, in its turn, has to carry out an urgent revision of its rearmament program by 2020. Moscow plans to overcome its technical dependency on Ukrainian produced components by 2018 (‘Rogozin poobeshchal zameshchenie’, 2015).

Critics of Russian policy towards Ukraine believe that Moscow aims to undermine the Ukrainian economy by dragging it into war and provoking capital flight from Ukraine (Bentzen, 2015). It would be true were it not for the fundamental economic interdependency, which makes Russia interested in Ukrainian stability. These ties are so strong that even the war in Donbass has very limited influence. Approximately 50% of Russian gas exports to the EU go through Ukraine, and security of this transit is Russia’s vital interest, at least until the launch of the alternative route of a Black Sea pipeline.

In spite of the existing crisis in bilateral relations, important ties in finance and energy between Russia and Ukraine remain in place. The European market is not capable of substituting the Russian one in the short term. Unlike Moldova and Georgia, taking up a small niche in the European market will not be enough for Ukrainian producers. The size of the Ukrainian economy requires a massive market for its output. However, Ukraine’s production competitiveness is low, and European producers and politicians are not ready to reduce their share in the common market. This produces certain obstacles, and they are already evident today.

Notwithstanding the tremendous drop in bilateral trade, Russian banks continue to play an important role in Ukraine’s financial system. Three of them were in the top ten Ukrainian banks in terms of assets before the crisis, and today they maintain their position. They keep to their investment policies, and even managed to achieve some growth as compared to 2013 (6.8%). Considerable flows of Russian money come to Ukraine via Cyprus. There has been a recent decrease from 33.4% to 25.6%, mainly because of the performance of portfolio investments.<sup>3</sup>

Russian capital is still largely represented in Ukraine’s electricity distribution networks. VS Energy International company owns 27 regional electricity providers. In addition, since 2014, Ukraine has been buying 1,500 megawatts of electricity from Russia with a total electricity consumption of 26,000 megawatt.

In the sphere of atomic energy, Russia and Ukraine have been strategic partners for decades. Ukraine inherited 4 atomic energy stations with 15 energy blocs from the Soviet Union (including the Zaporizhia Nuclear Power Plant – the biggest in Europe), with fuel coming from Russia. Construction of a fuel factory was planned in the Ukrainian Kirovograd region with Russian assistance; however, after the crisis erupted, the project has been paused. Instead, Ukraine started to experiment with using US fuel in the Soviet-era atomic energy blocs in the country's energy stations. Earlier there were experiments to replace Russian fuel with US fuel in Ukraine and the Czech Republic, and this turned out to be unsafe from a technological point of view. This pushed the Ukrainian authorities to seek agreements with Russia on nuclear fuel deliveries in 2015–2016.

In December 2014 Russia also started supplying Ukraine with 50,000 tons of coal per day without advance payment, based on internal Russian prices. Thus, Ukraine managed to escape the energy crisis in the winter of 2014–2015. In essence Russia acted as a mediator between the warring sides and sent Kyiv the coal it bought from Donbass. The deal, most probably, became part of the secret agreement on Ukrainian energy supplies to Crimea (in 2014–2015 Crimea received 70% of its electricity from Ukraine).

Despite the troublesome Russian-Ukrainian relations in the energy sphere, Ukraine remains an important consumer of Russian gas, oil and oil products. In 2014 the Ukrainian gas market consumed 42.6 billion cubic meters (bcm) of gas, thus becoming the fourth biggest market in Europe after Germany (86.2 bcm), Britain (78.7 bcm) and Italy (68.7 bcm). In 2015 consumption declined to 30.93 bcm ('Potreblenie gaza v Ukraine', 2015). The Russian gas share in total Ukrainian consumption in 2013 reached 85%, but since 2014 Kyiv has been decreasing the share coming from Russia and moved to reverse Russian gas deliveries from Slovakia, Poland and Hungary. Since 2016 Ukraine has stopped direct gas purchase from Russia and has been buying it in the EU, which does not change its origin but implies a different payment system.

Transit risks are still significant. The Ukrainian pipeline system is in a deplorable state and demands large investment for its reconstruction. Rather than providing such investment, Russia hopes to launch the Nord Stream-2 pipeline. The security of automobile and railway transportations is also being questioned, as are cargo transportations via Ukrainian ports. Russia needs to change the routes of its goods supplies to Central and Southern Europe. In 2015 construction of a railway was started, which will bypass Ukrainian territory to deliver goods between the Russian cities of Belgorod, Voronezh and Rostov-on-Don ('RZhD i Minoborony', 2015). Judging by the pace of construction, a political decision on this matter has been made.

The logic of transport communication development in Russia dictates avoiding transit through territories of post-Soviet republics. This strategy was not formed as a direct result of a Russian-Western conflict; however, the circumstances when it took shape are very much like the situation today. In 1999 Latvia, Lithuania and Estonia were among the first to join the EU's oil embargo against Yugoslavia, which was imposed in violation of the UN Charter. This was a clear sign that in critical situations Russia will no longer decide on the end points of its oil exports that go through these countries' territories – the US will. In the early 2000s Russia started shifting its transits to its ports. Huge investments in Russian port infrastructure made it possible to reduce cargo transit from Russia via Baltic ports, replacing them with the Russian ones of Ust-Luga, Primorsk and Novorossiysk. It is a tendency that will continue in the future.

Migrant labor is another vital sphere of Eastern European economies. Russia is the main destination for labor migrants from Moldova, Ukraine, Georgia and Belarus. The total amount of migrants in Russia is approximately 10 million people, one-third of them illegal migrants. Despite potentially tremendous losses, the new Ukrainian authorities have proposed lifting the current visa-free regime with Russia. Ukraine's withdrawal from the common labor market

will affect 6 million seasonal workers and almost 400,000 highly qualified specialists. By Russian estimates, Ukrainians may lose approximately 11–13 billion USD a year (7% of GDP) if they stop working in Russia. The EU will have to absorb millions of Ukrainian workers because the current Ukrainian leadership has set the shift of the destination for migrant flow towards Europe as one of its goals.

## **Conclusion**

Over the past 20 years Russian foreign policy in Central and Eastern Europe has lived through dramatic transformations. It has taken shape in conditions of shrinking geopolitical interests and a disastrous economic situation in the country. Short of the possibility opposing Western expansion to post-socialist countries, Moscow remained a passive observer for a long time. In the second half of the 2000s, Russian foreign policy gained a new momentum and found most Eastern European countries either deeply integrated into the EU and NATO structures, or willing to be a part of them.

The greatest achievement of Russian policy in Central and Eastern Europe is mostly a successful upgrade of the system of economic relations with the region. Bilateral agreements and new integration projects took the place of CMEA and the socialist bloc with its internal economic dynamics. Moscow has managed to decrease its dependency on transit countries and transform the economic chains inherited from the USSR, taking its internal market interests into account. Russia has finally formulated its own interests in foreign policy and has taken to asserting them.

Ukraine turned out to be a weak link in the foreign policy of Russia. Moscow failed to draw it towards its integrational projects. The separation process between the two closely connected economies, which had been planned with a long-term perspective in mind, was disrupted by the coup d'état in Kyiv in 2014. Threatened by the loss of vital interests, Moscow had to take drastic measures that cost it a lot in reputational and economic terms.

The future of Russian policy in Central and Eastern Europe depends to a great extent on the outcome of the Ukrainian crisis, whose perspectives are vague in the long term. Kyiv's adamant stance makes the realization of the Minsk Agreements highly unlikely. Russia will aim to normalize relations with Ukraine by halting politically motivated economic assistance and shifting trade and production relations onto a new non-preferential basis. In prospect is a pragmatism of ties that may lead to a recovery in relations and lead the way towards a tripartite trade regime between Russia, Ukraine and the EU. The EU has not yet come to realize the amount of yearly contributions that the stabilization of Ukraine will require if it is to come out from under Russian tutelage, and is not prepared to appropriate such funds. When the EU feels a tangible threat to its energy security, only then will the impulse towards the conclusion of a deal arise.

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## **Notes**

- 1 Chapter 19 returns to Russia's role in the Caucasus.
- 2 According to Belarussian customs service, in the first 6 months (January-June) of 2016 sugar export reached 187,000 tons, of which 160,000 tons went to Russia and 20,000 tons went to Ukraine. Raw sugar import equaled 234,000 tons, main importers were Brazil (121,000 tons) and Cuba (113,000 tons).

See: 'Sugar export and import in Belarus, January-June 2016', 2016, ПРОДУКТ.БЫ, 31 August. Available from: <http://produkt.by/news/eksport-i-import-sahara-v-belarusi-za-yanvar-iyun-2016-goda>.

- 3 Estimates by 1 April 2016. See 'Priamyie investitsii v Ukrainu vyrosli v 3 raza' [Direct Investments to Ukraine Increased by 3], 2016, Ministry of Finance of Ukraine, 17 May. Available from: <http://minfin.com.ua/2016/05/17/19237670/>.

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