

More Stick, Less Carrot: Russia's Policy Towards Ukraine Following Recent Events

By Arkady Moshes, Helsinki

It was widely believed in Western analytical circles that Ukraine's choice about whether or not to accede to the Russia-led Customs Union (CU) would be a key factor defining the success or failure of Eurasian integration, in both economic and geopolitical terms. The current crisis in Russian–Ukrainian relations will soon reveal whether this assumption was right or wrong.

Admittedly, at the moment, one can hardly predict in what direction Moscow's thinking concerning the future of the CU will evolve, and whether the Kremlin will still treat it as a priority or not. After the annexation of Crimea, a substantial change in approach cannot be ruled out. The goal of post-Soviet reintegration (i.e. a restoration of ties between at least several former Soviet republics, allegedly beneficial to everyone), could be replaced, in the long-term, with a “gathering of (ethnic) Russian lands”. If this were to happen, Moscow's willingness to push further and financially support Eurasian integration would probably diminish, while the concerns and hesitations among Russia's partners would increase.

The Customs Union will not disappear. The reality on the ground is that Russian–Belarusian–Kazakhstani economic relations have been transformed since the CU entered into force in 2010, and there is no way back. The trilateral economic union will most likely be created in some form in 2015. Yet, further progress in moving towards the four economic freedoms or in enlarging the union is not guaranteed.

However, not counter-intuitively, for Ukraine and Russian–Ukrainian relations this new uncertainty about the future of the CU does not change much. Moscow's objective *vis-à-vis* Ukraine was, and remains, keeping the latter in its sphere of dominant influence. Eurasian integration was an instrument, not an end in itself. If this instrument has not worked, others will be employed, and there are plenty to choose from.

The difference is that when offering Ukraine membership in the CU, Moscow was demonstrating its willingness to emphasize carrots rather than sticks, and essentially pay for Ukraine's geopolitical loyalty. Now, and for the foreseeable future, the balance in its approach will move towards sticks.

Russian economic leverage over Ukraine is enormous by definition—let alone the risk of a military invasion in Eastern Ukraine—and the resolve to use it seems to have grown in recent months. Moscow has already

announced that it will discontinue the discounted price for gas that Ukraine used to receive in return for leasing a naval base in Sevastopol to Russia. As a result, the gas price is expected to rise to 500 USD per one thousand cubic meters, which would be approximately 60 percent higher than what Germany pays for the same gas.¹ If Ukraine leaves the CIS, it will no longer enjoy the free trade regime of the Commonwealth. In addition, Russia can simply stop Ukrainian exports on the border at will.

In relation to this earlier calculus, however, it should be pointed out that in the case of Ukraine's economic collapse, those Russian businesses which invested heavily in Ukraine would suffer as well, and that for this reason Moscow might show restraint. But, at the moment, it may be easier for Moscow to compensate Russian businesses for their losses directly.

Unfortunately, the ability of the new Ukrainian authorities to face this challenge remains in doubt. The internal unity, transparency, professionalism of and, above all, popular support for the new government are not guaranteed. At this moment, it is difficult to understand how Moscow and Kyiv will conduct negotiations at all, as the Kremlin does not recognize the current Ukrainian government, while the former private channels of communication have been largely broken.

The signing of a political association between Ukraine and the EU will—in the short term—serve more as an irritant for Russia, than as a resource for Kyiv. Europe is extremely reluctant to go into real, non-rhetorical clashes with Russia. It is ready to spend some cash, but will hardly make substantial sacrifices unless the annexation of Crimea is followed with similar actions in other parts of Ukraine—or Moldova, for that matter.

The struggle for the future of Ukraine is intensifying. Since independence, Russia has been ready to respect or at least tolerate Ukraine's balancing act between Russia and the EU, which explained the acquiescence to Ukraine's refusal to accede to the Customs Union under Viktor Yanukovich. This postulate does not seem to hold any longer.

See overleaf for information about the author and further reading.

¹ On 3 April 2014, Gazprom raised the price of gas for Ukraine by US\$ 100 to 485,50 US\$ per 1000 cubic meters.

About the Author

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Further Reading

- Arkady Moshes, "Europe's Disillusionment with Russia", *PONARS Eurasia Policy Memo* No. 284, August 2013, <<http://www.ponarseurasia.org/article/new-policy-memo-europes-disillusionment-russia>>
- Arkady Moshes, "Will Ukraine Join (and Save) the Eurasian Customs Union?", *PONARS Eurasia Policy Memo* No. 247, April 2013, <<http://ponarseurasia.org/memo/will-ukraine-join-and-save-urasian-customs-union>>
- Arkady Moshes, "A marriage of unequals: Russian-Ukrainian relations under president Yanukovich", in St. Meister (ed.) *Economization versus Power Ambitions. Rethinking Russia's policy towards post-Soviet states* (DGAP-Schriften zur Internationalen Politik. Nomos, 2013, pp. 59–72).

ANALYSIS

Eurasian Integration: A Viable New Regionalism?

By David Lane, Cambridge

Abstract

The project of a Eurasian Union can be considered as a response to the consequences of neo-liberal globalisation, which led to economic and moral decline in the countries forming the Commonwealth of Independent States. It is part of a more general movement in world politics towards regionalisation. Possible developments are discussed in terms of three scenarios: isolation from the world economy; a 'stepping stone' to further integration in the world economy; and a more autonomous 'counter-point' within the world economy. The third variety would only be possible with concurrent stronger linkages to the BRICS countries and the Shanghai Cooperative Organisation.

After the disintegration of the Soviet Union, COMECON and the Warsaw Pact, the Central European societies and, later, the former Baltic republics of the USSR returned to their European home by entry into the European Union. The remaining states of the USSR adopted market economies and became exposed to the world economic system. They remained in a loose association, the Commonwealth of Independent States, which regulated a number of common activities (such as air traffic control) and weakly promoted symbolic forms of attachment, but had no effective economic and political powers.

A belief that the backwardness of the state-socialist societies was due to their separation from the international economic system drove policy makers across central and eastern Europe and the post-Soviet space

to enter global markets. The neo-liberal globalised system has led to the greater porousness of state borders to allow the market to flourish and, consequently, the nation-state has lost powers. The central European, post-socialist, New Member States of the European Union are bound to the European Union by its comprehensive conditions for membership, though they are to some extent shielded by its social provisions and have free movement of people within its borders.

The CIS countries, however, were unable to compete in the open world system of competitive capitalism and were confronted economically and politically by Western powers, successfully pursuing their own geopolitical interests through market mechanisms. Consequently, the former republics of the USSR experienced economic decline, rising levels of inequality and poverty.