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Third powers in Europe's east

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THIRD POWERS IN EUROPE'S EAST

Edited by Nicu Popescu and Stanislav Secieru

*with contributions by Ozlem Demirtas-Bagdonas, Thomas S. Eder, Arzu Geybulla,
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Introduction: What are third powers up to in Europe's east?

Nicu Popescu and Stanislav Secrieru

Much of the analysis of foreign policy trends in the EU's eastern neighbourhood is framed through a binary prism of how Russia and the West interact, cooperate or compete in this region. While it is true that the EU, US and Russia are often the most important players with which most post-Soviet states have to engage and contend, other powers and players also influence regional developments in ways that affect EU as well as Russian interests and priorities. A comprehensive understanding of how such 'third' players engage with the region has hitherto been lacking. This *Chaillot Paper* seeks to address this gap by looking at how a set of third powers – China, Turkey, Iran, the Arab states and Israel – interact with Ukraine, Belarus, Moldova, Georgia, Armenia and Azerbaijan.

Relations between most of the Eastern Partnership countries and third powers have been visibly intensifying in recent years: this trend applies to almost the entire set of bilateral relations examined in this publication. Trade, diplomatic and even security links (or concerns) have been deepening across the board. China, Turkey, Iran and many Arab states are all a bigger presence in the region than was the case a decade ago. None of them is anywhere near matching the role played by the EU, US or Russia, but the trend towards increased engagement is discernible.

This trend is driven by, on the one hand, the growing economic and foreign policy ambitions of the third powers, and on the other by the Eastern Partners' eagerness to expand their economic, financial or diplomatic links with powers other than the EU, US or Russia. The EU's neighbours want to diversify their foreign policy options and broaden their economic horizons as much as possible and engagement with 'third powers' is part of a strategy to achieve that end.

This *Chaillot Paper* explores these broader mega-trends, while also taking account of the variations and exceptions to these trends. The publication is divided in two parts: the first deals with how the 'third powers' see the region, while the second part

presents the reverse perspective, i.e. how the EU's neighbours see the 'third powers'. Admittedly, the concept of 'third powers' is a rather elastic one. In theory, the category could include India, Brazil, South Africa, Indonesia or any other regional power. However, in line with the parameters of this study, this publication only focuses on those 'third powers' which are geographically close to Eastern Europe (including the Southern Caucasus),¹ as well as on China given the phenomenon of China's rise and the ongoing spread of Chinese influence across the contemporary world.

The rise of 'third powers' in the eastern neighbourhood

The first part of this *Chaillot Paper* consists of chapters which examine how 'third' powers and players see Eastern Europe, and what place the states of the Eastern Partnership (EaP) occupy in the foreign policy, security or economic priorities of these powers. Acknowledging the growing prominence of **China** in the international arena, the volume starts with two chapters dedicated to Chinese approaches to the EaP states. The first, authored by Thomas S. Eder, explores China's growing presence across the region, and examines how this is driven by a combination of internal and external factors. On the one hand, Chinese foreign policy has emerged out of the shadow of Deng Xiaoping's injunction to 'keep a low profile' in international affairs and 'not claim leadership'. On the other hand, a politically assertive but economically weak Russia has increased the demand among the EaP states for China to have a bigger footprint in the region. The author portrays Beijing's policy as a double-edged sword, which may strengthen regional states by allowing them to hedge against excessive dependence on powerful neighbours by developing economic connections with China, but may also undercut the EU's conditionality through the provision of loans and grants free of governance benchmarks.

The second chapter on China, authored by Michal Makocki, is specifically dedicated to how the region fits into the Belt and Road Initiative, China's flagship foreign policy endeavour. The author provides a detailed assessment of what the Chinese government presents as a purely economic project designed to build bridges between Europe and Asia. Although, in theory, the revival of the Silk Road promises investments in transport infrastructure, more revenues from transit services and the diversification of trade, it remains to be seen how the initiative will play out in reality. The Chinese authorities have not been very specific about the details of the project so far, and doubts

¹ In this publication the term 'Eastern Europe' is used to denote the post-Soviet states of Belarus, Moldova and Ukraine, as well as the South Caucasus countries Armenia, Azerbaijan and Georgia.

have been expressed in some quarters about the prospects of its implementation. The chapter also highlights that while the project is described exclusively in economic terms, if implemented thoroughly the Belt and Road Initiative is likely to strengthen Chinese political leverage and thus may lead to power shifts in the region.

In her contribution on **Turkey**, Ozlem Demirtas Bagdonas explains how Ankara's geopolitical and economic interests have rendered its policy towards the region cautious rather than assertive. In its engagement with the countries of the region Turkey is not seeking to build a zone of influence, but is primarily motivated by pragmatic interests, seeking to diversify its exports market and avail of new investment opportunities. The Turkish approach to some EaP countries is often a function of its other foreign policy priorities, such as relations with Russia, the EU, or its posture *vis-à-vis* the war in Syria. Thus, Turkey's engagement with the region is characterised by a policy of 'pragmatic ambiguity' which leaves room for it to pursue its interests but also for tactical retreats when deemed necessary.

In the chapter on **Iran**, Ariane Tabatabai points out that the centre of gravity of Tehran's foreign policy in the region lies in the South Caucasus. Iran has long-standing historical as well as bilateral economic links with its immediate neighbours in the South Caucasus. Iran perceives the region as ripe with economic opportunity (particularly in the energy and tourism sectors) but also as a source of potential threats (due to the possibility of another outbreak of war in Nagorno-Karabakh, the spectre of Azeri separatism, and Iran's fears *vis-à-vis* US security relations with Georgia and Azerbaijan). The three other EaP states (Ukraine, Belarus and Moldova) occasionally figure on Iran's agenda and there is some room for progress in trade relations, but this outcome hinges on the prospects of Iran's broader commercial opening to the world.

In the next chapter Julia Lisiecka analyses the interaction between the **Arab states** and the EaP states. This is of course a complex matrix, since the actors involved comprise more than twenty states. Moreover there are significant contradictions, and even conflicts, between the Arab states themselves. And of course there is no unitary 'Arab' power, but rather a set of Arab players. Some clear trends do nevertheless emerge from this potential analytical cacophony. One is the swift erosion of the strong military, educational and economic links that existed between some Arab countries and the Soviet Union and which were bequeathed to the states that emerged after the dissolution of the USSR in 1991. The civil wars in Syria, Libya and Yemen (which all had relatively strong exposure to the post-Socialist states) have in many cases dealt a lethal blow to these privileged links inherited from the Soviet era. This trend has been accompanied by rapidly growing financial, diplomatic and people-to-people exchanges between the Gulf States and some EaP states, partly driven by a desire to limit Iran's regional clout.

In her chapter on **Israel**, the same author explains how the country's engagement with the EaP states is underpinned by a 'multi-vector' foreign policy which aims to break into new markets, expand international support and keep Iran's regional ambitions in check. Over the last decade, Israel has successfully fostered a close partnership with Azerbaijan, its main trade partner and arms exports client in the region. Otherwise, however, Israel's policy towards the EU's eastern neighbours has so far been characterised by a careful balancing act between its desire to expand economic ties on the one hand and on the other the need to avoid stepping on Russia's toes in what it regards as its own backyard.

The eastern neighbours' quest for options

The second part of the *Chaillot Paper* reverses the perspective, zooming in on each of the EU's eastern neighbours and explaining how relations with third powers fit into their foreign policy and economic strategies.

One of the most complex cases is **Ukraine**, explored here by Hanna Shelest. Prior to the 2014 conflict with Russia, the country had not substantively developed a set of partnerships with 'third powers'. Since then Ukraine has not only intensified its engagement with the West, primarily, but also with as many 'third powers' as possible. Ukraine's relations with China, Turkey, and some Arab states have predominantly been oriented towards trade and the economy, especially in the technical-military and agricultural spheres. In 2016 the volume of Ukraine's exports to the third powers analysed here was more than twice as large as the volume of its exports to Russia. Kyiv's partnerships with 'third powers' are envisioned to serve several objectives: access new markets, attract new investments, pursue energy diversification, as well as marshal support for the non-recognition of Russia's annexation of Crimea, respect for the rights of Crimean Tatars and the restoration of Ukraine's territorial integrity. And while most of Ukraine's diplomacy is still focused on interactions with the EU and US, Ukraine is keen to develop its relations with 'third powers' as a way to boost its resilience *vis-à-vis* Russia among others.

In her chapter on **Belarus**, Anaïs Marin shows how the Belarusian economy, propped up by hefty financial subsidies and privileged access to the Russian market, prospered until the mid-2000s. But as Russia became more assertive and less generous, Minsk sought to counter-balance its overdependence on Moscow by engaging with the EU. However, perceiving the EU's democratic conditionality as a threat to its own domestic political system, Belarus set its sights on cooperation with non-European powers, such as China, Iran, the Gulf States and Turkey. Such interactions with 'third powers' do not challenge Russia's dominance in Belarus, but still provide Minsk with some room for manoeuvre and a stronger bargaining position.

By virtue of its small size and geographic location, **Moldova** has the least developed set of relations with the third powers analysed in this publication. Nevertheless, even in Moldova economic and diplomatic links with China, Turkey and the Arab states

have been on a visible upward trajectory. Vadim Pistrinciuc argues in his chapter that the on-and-off trade embargos imposed by Russia over the past decade have forced Chisinau to search for economic opportunities with 'third players'. Among these, Moldova's closest relations are with Turkey which is not only an important trading partner and tourist destination but also plays a stabilising role in Chisinau's relations with the Turkic-speaking Gagauz minority in Moldova. Otherwise China has become a major export market for Moldovan wine. The country has also been reaching out to the Gulf States by opening its first embassy in the Middle East (in Qatar) and looking for investments and new trade links.

In her chapter on **Georgia**, Ekaterine Zguladze shows how deteriorating relations with Russia in the mid-2000s left Georgia with no choice but to seek support everywhere it could – East, West and South. Georgia was the first country in the EU's eastern neighbourhood to undertake highly proactive efforts to boost links with Turkey, the Arab states, China, Israel and Iran by courting investment, abolishing visas and seeking to forge closer ties with these third powers in an endeavour to offset tensions in its relations with Russia. As a result of these efforts, Georgia has built an intimate strategic partnership with Turkey. Furthermore, Tbilisi has sought to re-launch relations with Tehran by positioning itself as Iran's gateway to trade in Europe. Georgia also aims to engage in the Chinese Belt and Road initiative, and not only in the hope of reaping economic benefits. Tbilisi perceives Chinese investments as providing an additional protective bulwark against Russia's pugnacious foreign policy in the region. Georgia's 'pivot' to the Gulf States pursues a combination of economic (boosting exports and attracting investors) and diplomatic (marshalling support for the non-recognition of Abkhazia and South Ossetia) goals too. The author concludes that the range of Georgia's international engagements weakens Russia's leverage and may moreover reinforce the EU's objectives as long as Tbilisi does not backtrack on its democratic commitments.

In his chapter on **Armenia**, Richard Giragosian argues that the country's foreign policy is often described in terms of 'complementarity', as it strives to combine two contradictory external orientations, namely towards Russia and the West. Hence, engagement with 'third powers' is also a way to offset, as much as possible, Armenia's overdependence on Russia and create more room for manoeuvre in its relations with the EU. Russia's increasing arms exports to Azerbaijan and the short war that took place in Nagorno-Karabakh in April 2016 forced Armenia to pursue foreign policy diversification even more actively. As relations with Turkey are frosty at best, the only other actors with which Armenia can engage are Iran and China.

In the final chapter in this section Arzu Geybullu explains that **Azerbaijan** has traditionally pursued a multi-directional foreign policy, guided by the key considerations of the importance of its natural resources and its geographical position. While hydrocarbons, which represent the country's main source of revenue, drive Azerbaijan to look for new export markets, its geostrategic location between three regional powers (Russia, Iran and Turkey) shapes its security outlook. The EU is Azerbaijan's most important trading partner. But Baku increasingly leverages oil and gas exports to counter the EU's attempts to introduce values-based elements in

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bilateral relations. In this game, Turkey remains a vital player as it serves as a transit corridor for bringing Azerbaijan's gas and oil to Europe. As Iran emerges out of relative isolation, Azerbaijan is trying to reboot relations with Tehran. Meanwhile the potential of economic engagement with China remains underexplored. The author highlights how negative economic growth has motivated Baku to engage with the Gulf States to secure cash flows in an effort to offset the effects of the economic crisis which has beset the country since the global fall in oil prices in 2014-15.

The concluding chapter, by Nicu Popescu and Stanislav Secieru, tries to make sense of this panoply of diverse relations between more than two dozen states. The common trend for all is that the role of 'third powers' has been growing, although mostly from a low base. It seems that for now the EU's eastern partners are more than happy for this trend to continue and strengthen.

The supply side: third powers' approaches to the EU's eastern neighbourhood

CHAPTER 1

Chinese approaches to the eastern neighbourhood

Thomas S. Eder

Introduction

China has fundamentally reoriented its foreign policy since 2014.¹ The new Chinese president Xi Jinping has centralised decision-making, restructured institutions, and proposed a much more ambitious vision for China's international role. Among other things, Xi wants China to pursue economic integration in 'Greater Eurasia'.² This activist approach is intended to help China sustain strong economic growth, expand political influence abroad, and protect broadly defined security interests, including the stability of (semi-)authoritarian governments.³

Clearly, the states of the EU's 'Eastern Partnership' initiative do not constitute a priority for Beijing in terms of its foreign policy goals.⁴ There is no 'regional strategy' policy paper for Eurasia or any part thereof – such as exist for the EU or Africa – nor do these states rank prominently in China's overall trade and investment statistics.

China's presence in the Eastern Partnership (EaP) states has however picked up in recent years, which can usually be attributed to secondary interests it wishes to pursue. China does not have substantive interests in the region apart from in Ukraine, which has in recent years become a major food supplier to China. In terms of economic goals, China wants to increase exports to the EU and Russian markets by producing goods in EaP states. Moreover, Beijing's Belt and Road Initiative drives economic integration through trade facilitation: the hope is that a first free trade

1 See for example Ministry of Foreign Affairs of the People's Republic of China, *Speech by Xi Jinping at the Central Conference on Work Relating to Foreign Affairs in Beijing*, 29 November 2014. Available at: http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1215680.shtml.

2 'Greater Eurasia', in this context, describes everything from the Asia-Pacific to the Atlantic. In this chapter the term 'Eurasia' will be used for the successor states of the Soviet Union except the Baltic States.

3 State Council of the People's Republic of China, White Paper, *China's Policies on Asia-Pacific Security Cooperation*, 11 January 2017. Available at: http://english.gov.cn/archive/white_paper/2017/01/11/content_281475539078636.htm.

4 The states are Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

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agreement (FTA) will lead to a domino effect within a regional free trade strategy and stimulate infrastructure development in 'Greater Eurasia', while large loans increase political leverage. Beijing anticipates that new arms sales will open up the Eurasian market to Chinese exporters and help build security ties.

China's progress in the region has important implications for both the EU and Russia, which will be discussed through the following case studies, presented in order of the respective countries' trade volumes with China in 2016.

Ukraine

Ukraine's importance as a global grain producer and exporter means that it figures prominently in Beijing's food security strategy. China has reduced its reliance on US agricultural producers over the last three years. While Brazil and Argentina have become leading soya bean suppliers, Ukraine has overtaken the US as top exporter of corn to China.⁵

While China was Ukraine's third-largest goods trade partner in 2016 (with a trade volume of €5.9 billion), far behind the EU but following closely after Russia, overall investment has been marginal and partly delayed as projects set to be undertaken in areas now controlled by Russia could no longer be realised. Investment interest is mostly concentrated on agriculture, including the lease of large tracts of Ukrainian farmland for crops to be exported to China. One high-profile project is the joint production of Chinese Hongdu L-15 light attack aircraft equipped with jet engines from Ukraine's Zaporozhye Motor Sich.⁶ What distinguishes Ukraine – which also provided China with its first aircraft carrier – as a partner in this field is its willingness to share technological know-how on weapons systems that China cannot yet source domestically. Long-planned infrastructure projects, however, such as a high-speed train from central Kyiv to Boryspil Airport, have not materialised.

As far as consequences for its relations with Russia are concerned, Beijing has had to tread a finer line in its dealings with Ukraine than with other regional countries. At the time of the Russian-Ukrainian war, Beijing expressed understanding for the Russian position, but reiterated its commitment to the principles of territorial sovereignty and inviolability of borders – a very sensitive topic for China due to the issue of Taiwan's status. No decision on Ukraine's request to join the 16+1 mechanism, a sub-regional forum for Central Eastern Europe-China relations, has been taken. Further delays are likely, while China aims to carefully uphold good relations with both Moscow and Kyiv. Beijing's announcement of 'strategic partnerships' with Ukraine

5 Niu Shuping and David Stanway, 'China orders over 600,000 ton Ukrainian corn, snubs U.S. supplies', *Reuters*, 17 March 2015. Available at: <http://www.reuters.com/article/us-china-corn-ukraine-idUSKBN0MD05W20150317>.

6 John C. K. Daly, 'China to Build Hongdu Light Attack Aircraft in Ukraine Next Year', *Jamestown Foundation-Eurasia Daily Monitor*, vol. 12, no. 224, 15 December 2015. Available at: <https://jamestown.org/program/china-to-build-hongdu-light-attack-aircraft-in-ukraine-next-year/>.

and Belarus should not be overestimated, as China has about ten categories of such relations covering at least 80 countries.⁷ Hierarchies are not entirely clear, but the fact that the two Eastern European nations share their 'mid-level prestige' ranking with smaller EU countries such as Denmark and Ireland is revealing in this regard.

When it comes to Ukraine's *rapprochement* with the EU, Beijing has criticised the mode of political transition to the current pro-Western government, but has readily adapted to and seeks to profit from the new situation. Popular demonstrations and revolutions are of course anathema to the Chinese authorities. Good relations with Kyiv have been maintained, however, and Chinese analysts view the EU-Ukraine Deep and Comprehensive Free Trade Area (DCFTA) agreement as having potentially positive implications for China. The adoption of EU sanitary and phytosanitary standards makes Ukrainian agricultural products more reliable and thus attractive. In parallel with the EU, China has come in to provide Ukraine with alternatives to the Russian export market and Russian imports more broadly. Availing of the DCFTA, especially after a potential future China-Ukraine FTA is concluded, Chinese companies might also produce goods destined for the European market in Ukraine.

Belarus

China has so far struggled to avoid giving the impression that most countries in the region are of importance to it merely as transit territory towards Europe. The Chinese government therefore alludes more frequently to plans to create employment opportunities and support greater local participation in the value chain. The establishment of joint industrial parks is symbolic in this respect.

The 'Great Stone Industrial Park' near Minsk International Airport was the first joint industrial park agreed with China in the region (2010). Progress is slow, however, and the completion of related infrastructure work was only announced in December 2016. The hope is that tax incentives, a more liberal legal regime on foreign ownership, and ample Chinese financing, will attract businesses and investors that will mainly produce goods for export to the neighbouring Russian and EU markets.⁸

Economic relations have, however, been dominated by very substantial Chinese tie-in loans and particular interest in potash fertilisers. China already ranks high among Belarus' external goods trade partners (accounting for €2.3 billion in 2016), although Chinese companies have invested little in the country. Belarus had

7 Interviews with scholars both at the Chinese Academy of Social Sciences and at Tsinghua University confirmed that neither the existence of some form of a 'strategic partnership' nor the frequency of visits should be taken as primary indicators of the importance of a relationship to the Chinese leadership.

8 Great Stone Industrial Park, website: <http://www.industrialpark.by/>; Nong Xuemei, 'Characteristics and Limiting Factors of China-Belarus Trade Cooperation', *Russian, Central Asian and Eastern European Market*, no. 3, 2013, pp. 91-99 [In Chinese].

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trouble absorbing Chinese loans – it used about a third of the \$15 billion on offer until 2015 – and might struggle to repay them. Usually these are long-term loans allocated to specific projects, where most materials and equipment must be sourced from Chinese companies.

China's political *rapprochement* with Belarus has gone further than with any other country in the region. Although a member of the Eurasian Economic Union (EAEU), Belarus's relations with Moscow have suffered a relative downturn, and Minsk has increasingly reached out both to the EU and China. It has joined 16+1 summits as an observer⁹ – unlike Ukraine and Moldova – while China has emerged as a debt-financing alternative to Russia and high-level state visits have become more frequent. Beijing will remain careful, however, not to upset intra-EAEU dynamics or broader Russian sensitivities. EU interests might be harmed by Chinese financial support allowing the Lukashenka regime to further ward off Western pressure to embark on political reforms.

Georgia

China's vision for economic integration includes a drive to conclude additional free trade and investment treaties. They are designed to afford Chinese exporters and investors better market access, help increase interdependency and consolidate asymmetric economic linkages. Should third countries also liberalise the relevant legal regimes between them, Chinese producers in the region can benefit as well.

Georgia plays a crucial role in China's regional free trade strategy. It recently became the first Eurasian country to sign an FTA with China.¹⁰ Beijing wants this step to fulfil three functions. First, it demonstrates that China can successfully conclude free trade agreements with Eurasian states that are perceived as beneficial on both sides.¹¹ Second, the FTA will help Chinese companies take advantage of the EU-Georgia DCFTA. Chinese materials and component parts will be more easily imported into Georgia. A certain amount of value must then be added or a certain amount of materials originating in Georgia included in the final product, to comply with rules of origin in the EU-Georgia FTA, and use it to re-export to the EU.¹² Thirdly,

9 Other observers to 16+1 summits have been representatives of EU institutions, the EBRD, Greece, Austria and Switzerland.

10 Ministry of Commerce of the People's Republic of China, 'China and Georgia Conclude FTA Negotiation Substantially', *China FTA Network*, 9 October 2016. Available at: http://fta.mofcom.gov.cn/enarticle/chinageorgiaen/chinageorgiaennews/201610/33362_1.html.

11 On Chinese hopes of a domino effect with this FTA serving as a model for other Eurasian countries, and Georgia granting China 'market economy status' see e.g. Bao Yan and Cui Riming, 'Studying the Establishment of the China-Georgia Free Trade Area under the Framework of the "The Silk Road Economic Belt"', *Journal of Liaoning University*, no. 1, 2017, pp. 51, 56 [In Chinese].

12 Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Georgia, of the other part (signed 27 June 2014, entered into force 1 July 2016) ('EU-China Association Agreement'), Articles 5 and 6, and Annex II to Protocol 1, *UNCTAD – Investment Policy Hub*. Available at: <http://investmentpolicyhub.unctad.org/IIA/country/223/treaty/3104>.

the FTA will allow China to solidify its position as an important trade partner for Georgia and increase Beijing's influence on Tbilisi. In 2016, goods trade already stood at €648 million (slightly behind Russia), whereas Beijing mostly imported copper ore and wine from Georgia.

Private Chinese companies have driven progress on investment volumes. One of the largest single investors in Georgia is the Urumqi-headquartered 'Hualing Group', which is private, but mostly state-funded. Within a broad portfolio, 'Hualing Tbilisi Sea New City' (a residential district to include hotels, malls, a hospital and schools), 'Basisbank' (in which the Group has a 90% stake), and 'Kutaisi Free Industrial Zone' (with tax and regulatory incentives), are the largest investment projects. Amounting to \$310 million, \$70 million, and \$43 million respectively, these projects contribute to Chinese investments totalling more than half a billion dollars in Georgia.

When the Russian-Georgian war broke out in 2008, echoing its position *vis-à-vis* Russia's military intervention in Ukraine in 2014, China voiced understanding for 'historical complexity' and Russia's purported perception of NATO containment efforts, but refused to recognise the independence of South Ossetia and Abkhazia.

Armenia

Another important aspect of China's foreign policy shift is its more assertive positioning as a security actor. Beijing wants to use exports of its ever-more sophisticated arms, joint exercises and a network of multilateral frameworks to build international trust and influence.

Armenia became the first country in the region to purchase sophisticated Chinese weapons systems (AR1A missile systems) in 2013, after Yerevan had criticised Russia for delivering similar weapons to Azerbaijan. Next to drone sales to Kazakhstan and missile sales to Turkmenistan, this deal will open up the Eurasian market to Chinese producers, and thus reduce the market share of hitherto dominant Russia. Armenia had already been the first country in the South Caucasus to purchase Chinese arms in 1999, and has stepped up military cooperation with China, having signed an agreement in 2017 whereby Armenian army officers will receive training from Chinese military instructors.

Within the Shanghai Cooperation Organisation (SCO), Armenia has dialogue partner status, and an intensification of relations has been mooted, i.e. Armenia becoming an observer or even full member of the organisation. Armenian troops, meanwhile, have previously observed the SCO's counterterrorism exercises. The increasing expansion of Chinese co-led security frameworks and support for semi-authoritarian governance may buttress Russia's position, while complicating Western influence through EU and NATO neighbourhood and partnership programmes.

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China's growing economic position in the country – it is already a strong number three in terms of goods trade volume (€412 million in 2016) – can, however, further reduce Armenia's dependence on Moscow. Beijing's interest is concentrated on raw materials like iron ore, copper, sulphur and marble, while its exports are diversified. Chinese investors are involved in the restoration of thermal power plants and the chemical industry.¹³

Moldova

Moldova is the second step in China's regional free trade strategy. The two countries signed an MoU on the launch of FTA negotiations in late December 2017.¹⁴ Once again, Beijing seeks to profit from an Eastern Partnership state's DCFTA, and might support increasing EU-Moldovan economic interdependence by producing goods in Moldova destined for the European market.

Moldova's goods trade volume with China has not reached €400 million (€369 million in 2016), and Chinese interest in Moldovan products has remained mostly limited to wine. Partly forced to seek markets further afield by Russia's imposition of sanctions against them, Moldova and Georgia have both been successful in securing a new and lucrative wine market in China. Beijing has thus shown that it is happy to help countries offset losses incurred by Russian sanctions and to profit in the process. Investments by Chinese companies have been limited. One notable initiative was China Shipping Container Lines' introduction of a direct service between the Moldovan container port of Giurgiulești (on the Danube close to the Black Sea) and Chinese ports in 2015.

Chisinau has shown an interest in joining the 16+1 mechanism and otherwise strengthening policy coordination with China. As with Ukraine, however, China has put off taking any decision on this in order not to ruffle Moscow's feathers. Chinese officials have been critical of large protest movements and subsequent pro-Western policy turns, but as in the cases of Georgia and Ukraine, Beijing refuses to endorse Russia-supported separatism.

13 Ma Xiaohua, 'Chinese-Armenian Relations in Recent Years', *Chinese and Foreign Entrepreneurs*, no. 2, 2015, pp. 265-269 [In Chinese].

14 Ministry of Commerce of the People's Republic of China, 'China and Moldova Officially Launch the FTA Negotiations', *China FTA Network*, 29 December 2017. Available at: <http://fta.mofcom.gov.cn/list/chinamoldovaen/chinamoldovaennews/1/encateinfo.html>.

Azerbaijan

The development of transport, energy and telecommunications infrastructure is intimately associated with Chinese plans for economic integration in ‘Greater Eurasia’. For Beijing, such infrastructure is vital to enable Chinese goods to reach the European market more quickly, while all-around connectivity will foster economic development.

In late 2016 the China-initiated Asian Infrastructure Investment Bank (AIIB) approved a substantial loan to Azerbaijan – at \$600 million the biggest ever for the bank – for the construction of the Trans-Anatolian Natural Gas Pipeline (TANAP) project. While Turkey is the host country for the AIIB project, the pipeline will deliver gas from Azerbaijan to the EU.¹⁵ The project thus actively contributes to EU energy security goals, while diminishing Russian influence. The AIIB, a multilateral development bank, was set up in 2015 to leverage Chinese input into larger multilateral infrastructure funding for Asia. With its vote in favour of the project as the bank’s largest shareholder, China has demonstrated that it supports stronger regional connectivity even where it means that raw materials flow west. At the same time, strengthened relations with Azerbaijan can facilitate Chinese companies’ access to oil fields and refinement projects there, such as national energy giant SOCAR’s ‘Oil-Gas Processing and Petrochemical Complex’ near Baku.

The potential for more substantial economic ties between China and relatively rich Azerbaijan has not yet been realised (China’s share of Azerbaijan’s external goods trade is still below 3%, amounting to €334 million in 2016). Investment levels are also lagging. Here more than elsewhere, however, there is top-down support from Beijing for expanded investment and a strong presence of large state-owned enterprises (e.g. PetroChina, Sinopec, Huawei). Interests are focused on oil and gas extraction and refinement, telecommunications, and the modernisation of Soviet-era hydro- and thermal power plants.

Azerbaijan, like Armenia, is a dialogue partner of the SCO, and intensifying the relationship has been mooted in this case as well, which may detract from cooperation with Western security frameworks. As Azerbaijan is not a member of the Russian-led Collective Security Treaty Organisation (CSTO), the SCO may actually constitute a more relevant obstacle to NATO ‘Partnership for Peace’ cooperation, for example.

15 AIIB, ‘Azerbaijan: Trans Anatolian Natural Gas Pipeline Project (TANAP) to be co-financed with the World Bank (WB)’, approved 21 December 2016. Available at: <https://www.aiib.org/en/projects/approved/2016/trans-anatolian.html>; The World Bank, ADB, EIB and EBRD also support TANAP. The pipelines will be filled with natural gas from the Shah Deniz 2 field in the Caspian Sea near Baku. A second project was approved in June 2017. The AIIB will provide a \$114 million loan for the Batumi Bypass Road Project in Georgia, co-financed with the Asian Development Bank.

Chinese influence on the world between Moscow and Brussels

Russian economic dominance over most of the Eastern Partnership states is ending. Following their Association Agreements with the EU, states refusing to enter the Russian-led EAEU find another promising free-trade partner in China, which is closing in on Russia as the region's second-largest goods trade partner.¹⁶ Moreover, Ukraine has found another buyer for its agricultural produce, Belarus another sponsor, and Armenia another supplier of sophisticated weapons systems, while Chinese infrastructure connectivity goals help Azerbaijan compete for the EU energy market. Russia, meanwhile, has only remained a dominant economic partner for Belarus.

All regional governments actively seek out China as a partner that might help to hedge against Russia, or whose engagement in the region, due to Beijing's close relations with Moscow, might even provide some implicit deterrence. Importantly, though, China's support for the continuity of (semi-)authoritarian governments in the region, and agreement to 'coordinate' its Belt and Road Initiative with the EAEU, are at the same time very much in line with Russian interests.

China alternately espouses and challenges European interests in the region. Chinese trade experts have voiced support for harmonisation with EU standards, especially on food safety. Private Chinese companies have been attracted by legislative improvements to the investment climate (partly) induced by the EU (e.g. in Georgia). With its investment in TANAP, the AIIB aids EU energy security. Potential SCO observer status for Armenia and Azerbaijan, however, would hinder Euro-Atlantic security cooperation.¹⁷ Countries like Belarus, moreover, might slide into a debt trap that undermines stability. More broadly, Chinese loans and state-led investment threaten to undermine reform conditionality and democratic accountability sought by the EU. If however European leaders pursue a nuanced approach that takes account of different Chinese actors and stakeholders, China's growing presence can be leveraged to support Europe's interests in the region.

¹⁶ In 2016, China accounted for a share of about 5-10% of all regional states' external goods trade, except Azerbaijan. See European Commission, DG TRADE, *Statistics*: <http://ec.europa.eu/trade/policy/countries-and-regions/statistics/>.

¹⁷ Belarus is already an SCO observer. Regarding Armenia and Belarus the bigger obstacle is of course their membership of the Collective Security Treaty Organisation (CSTO).

CHAPTER 2

China, the new Silk Road and the EU's eastern neighbourhood

Michał Makocki

Introduction

China's regional approach to the EU's neighbourhood is shaped by its flagship Belt and Road Initiative. Reviving the image of the ancient Silk Road, through this massive infrastructure project Beijing aims to re-connect Europe and Asia and to link China to markets in Europe and beyond. This has inevitably attracted the attention of countries in Eastern Europe and the South Caucasus, which in ancient times contained key transit and trading posts before the land routes were gradually superseded by maritime routes which proved faster and more economical. China-backed overland routes boost expectations among these countries of tangible benefits such as new infrastructure construction, transit fees, modernisation of the trade sector, improved connectivity with China's booming market and ultimately enhanced geopolitical significance. Chinese engagement is also welcomed as it helps diversify Eastern Partnership (EaP) countries' trade relations beyond their traditional markets, in particular the Russian market. Or so the Chinese slogan promises. Too often Chinese plans lack concrete details: doubts over their implementation, feasibility and viability abound. And most importantly, China's official slogans focus on economic benefits but gloss over the geopolitical reality of the new routes which may potentially alter the balance of power in the region. This chapter firstly describes the implications of China's Belt and Road project for the EU neighbourhood, then goes on to examine the region's responses to the initiative and, finally, attempts to gauge the geopolitical consequences of the project, with a focus on Russia and the EU.

The Belt and Road Initiative

The Belt and Road Initiative (BRI), initially known as ‘One Belt One Road’, is Beijing’s flagship economic diplomacy project, unveiled by President Xi Jinping in 2013. Chinese plans focus on the development of a network of economic corridors through the Eurasian landmass. Most visibly this will involve building extensive infrastructure but ultimately China aims to boost trade, investment and financial cooperation as well as people-to-people exchanges between countries that lie along these routes.

Figure 1: Belt and Road Initiative in Eurasia

Existing and planned rail routes



Data: Wall Street Journal

China’s goals are not altruistic: the BRI is part of an effort to change the Chinese economic model thanks to increased openness and commercial expansion and to improve its strategic position in the global competition with the US. The initiative is to a large extent a repackaging of Chinese companies’ already substantial overseas expansion launched under the previous ‘Going Out’ policy initiated by Jiang Zemin. The goal is to boost regional integration through increased connectivity thanks to new infrastructural links such as roads, railways, fibre-optic cables and pipelines. China does have considerable resources at its disposal to execute its plan and has been creating additional instruments and multilateral agencies to support this venture, most notably the Asian Infrastructure Investment Bank (AIIB) and Silk Road Fund. Infrastructure, the most visible part of the plan, is but one of the cooperation priorities collectively referred to by China as the ‘five connectivities’; the others are policy coordination, local currency settlement, trade facilitation and people-to-people contacts. But it is new infrastructure and economic corridors that dominate the initial activities and responses to the BRI.

Eastern Europe and the Caucasus will be a key focal point for Chinese expansion under one of the two main prongs of the BRI: the Silk Road Economic Belt, an overland route to Europe (as opposed to the maritime route promoted, confusingly, as the 'Silk Road Maritime Road'). One of the key aims of the Silk Road Economic Belt is to develop regions in the west of China, which have long been marred by ethnic conflicts, and foster political stability thanks to increased economic prosperity. As such, Chinese projects will give priority to China's direct neighbourhood – Central Asia. But links to Central Asia will not make sense if they do not extend to the Middle East and Europe, including through EaP countries.

Since the launch of the initiative, the focus has been on the trajectory of the corridors, vaguely defined in the initial proposals and often with little clarity provided by official announcements. It was not until October 2016 – a full three years since the initiative was formally announced – that China finally published a detailed plan for the overland railway routes.

The plans feature the following routes:

- **The northern route** which runs along the Trans-Siberian railway and splits at Moscow either towards the Baltic ports or towards Belarus and the EU. This is a traditional Europe-Asia railway route which was operational long before the Chinese initiative was launched;
- **The central route** goes through Kazakhstan, Russia and Belarus to link up to the European markets – there are already functioning train connections on the existing railway lines but the route requires the upgrading of border crossings between China and Kazakhstan;
- **The southern route** which presents two options:

The Trans-Caspian route, which after crossing through Kazakhstan runs through the Caspian Sea and the Caucasus. The corridor's capacity is being upgraded through the construction of new ports (in Anaklia on the Georgian Black Sea coast), expansion of the existing ones (in Baku and Aktau, on the Caspian Sea) and improved regional railway links (such as the Baku-Tbilisi-Kars railway which will connect Azerbaijan and Georgia to the Turkish rail network and further on to European railways). However, these projects are undertaken independently of China and without Chinese funding;

The land connection through Kyrgyzstan, Uzbekistan, Turkmenistan, Iran and through Turkey to Europe. This route is under a big question mark due to the necessity of constructing a railway connection between China and Kyrgyzstan – an expensive project which is not aligned with Kyrgyzstan's domestic priorities.

It is important to note that despite these plans, rather than limiting itself to a closed set of routes, China aims to be part of infrastructure construction irrespective of

whether the projects fit or not with the political vision underpinning BRI, as long as these allow Chinese companies to access new markets and export their production (over)capacity in such infrastructure-related industries as cement, steel, glass and aluminium.

Viability of the Chinese plans

China's lofty ambitions regarding the BRI require a reality check however. Land-based logistical connections will never be able to compete with maritime transportation in terms of cost and capacity. Due to the capacity constraints (a sparsely populated and economically under-developed landmass, especially in Central Asia), the proposed infrastructure links may never make it off the drawing board. That is especially true for those corridors which require costly infrastructure construction. In contrast, those corridors which are based on the existing infrastructure may have better chances of success, although they too may never be financially viable. Their current successes are guaranteed by lavish Chinese subsidies.

In 2016 1,700 trains travelled from China to Europe via the northern and central corridors carrying around 150,000 containers. The pace of development has been impressive, especially given the fact that few if any trains passed along the central route before 2011. Chinese projections are that the volume will triple by 2020 to 500,000 containers. However, from the perspective of overall trade volumes between Europe and China (22 million containers in 2014), Chinese successes in overland logistical corridors may not be as transformative as the official narrative appears to suggest. The Chinese project has generated legitimate enthusiasm among railway operators who are happy to see the revival of the overland railway cargo routes and among companies ready to adapt their supply chains to the new market opportunities presented by the BRI, but the new corridors will not affect the overall trade balance between the land and maritime routes. To illustrate, one large cargo ship can carry up to 18,000 containers, so the current annual flows amount to no more than eight additional cargo vessels. However, the mood is buoyant in the transit countries, including in the EaP region, attracted by the prospect of the increased flow of transit fees, which would stimulate investments in their outdated infrastructure. We will now examine the countries' responses to the Chinese project.

Reactions in the region

Belarus has acquired (together with Russia and Kazakhstan) a pivotal role for the Chinese corridors. Proximity to the European market gives Belarus an edge in attracting Chinese investments, sought not only because of their economic value but also because they offer a coveted source of diversification from the dominant economic partnership with Russia. China has invested in the creation of the Great

Stone China-Belarus Industrial Park, which is supposed to support joint production and logistics hubs. Few companies have actually made use of the park so far, but direct connections to Shenzhen (China's innovation hotspot on the border with Hong Kong) may change that.

Ukraine's geographical position rivals that of Belarus but the conflict with Russia means that China has adopted a cautious attitude towards the country. Ukraine offers the shortest route between China and Europe (through Kazakhstan, Rostov and Donbass) but due to continued hostilities in Donbass as well as Russia's transit ban, China has until recently suspended sending its cargo through Ukraine to Slovakia and further on to Europe. The conflict between Ukraine and Russia has also derailed other potential investments from China. Before the annexation of Crimea China was planning to build a deep-sea port in Crimea, a plan which was obviously forestalled by Russia's annexation of the peninsula. Currently other Ukrainian Black Sea ports are being discussed as alternatives for Chinese investments but without any concrete results at this stage.

Ukraine's signature of a Deep and Comprehensive Free Trade Area (DCFTA) agreement with the EU offers significant opportunities for cooperation with other countries, including China, but until the conflict subsides and Russia lifts its transit ban there is little scope for increased cooperation with China. Ukraine's key objective in its engagement with the Chinese Silk Road initiative will be to find an alternative supply route which would circumvent Russia. A trial train project was launched immediately after the imposition of the Russian transit ban to transport Ukrainian cargo to China via the Trans-Caspian corridor but it never became fully operational. In terms of infrastructure investments, Ukraine's upgrading needs are substantial but so far the experience with Chinese projects has been discouraging. A Chinese loan for the construction of a high-speed rail link between central Kyiv and Boryspil airport has been linked with corruption under the Yanukovych administration and had to be renegotiated.

Azerbaijan is being forced by low commodity prices to diversify its economy beyond its traditional reliance on hydrocarbon exports and welcomes the opportunities offered by the Chinese project. Infrastructural improvements in the port of Baku have taken place, helping establish regular connections with Kazakhstan's Caspian port of Aktau. With the recent opening of the Baku-Tbilisi-Kars (BTK) railway, the corridor will be able to rely on a connection from the Azeri Caspian coast through Georgia and Turkey to the European railway network. However, expectations of significant cargo flows from China have to be assessed against their business rationale. The Trans-Caspian corridor is more expensive than other Chinese routes as it involves a number of points where cargo has to be shifted from trains to vessels or vice versa, thereby increasing the overall costs. It is also interesting to note that Azerbaijan has suddenly acquired importance on the crossroads not only of East-West but also North-South routes, as it is primed to be a transit point along the so-called North-South Transport Corridor linking Russia with Iranian ports (however, substantial investments are still necessary on the Iranian portion of the railway, to

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be financed with Azeri loans). Whether any of these corridors brings Baku benefits beyond not-so-substantial transit fees, will depend solely on Azerbaijan as it firstly needs to build its industrial base virtually from scratch. Chinese investments and the outsourcing of Chinese overcapacity may indeed facilitate this.

Georgia has quickly grasped the potential offered by trade diversification and signed a free trade agreement with China. Together with the DCFTA with the EU, it offers an attractive regulatory package for Chinese investors looking for facilitated access to the EU market. It is also working to improve logistical connections with both of its trading partners. In particular the above-mentioned Baku-Tbilisi-Kars railway link and new port on the Black Sea coast in Anaklia (built by a Georgian-American consortium) will be pivotal.

Moldova and Armenia seem to have been largely left behind by the Chinese initiative. China Shipping Group has launched container services in Giurgiulesti, the only Moldovan port on the Danube. But other than that Moldova does not present much interest to China in terms of the BRI. Similarly, connections through Armenia do not seem to offer much added value for China.

Eastern promises...

The Belt and Road project holds two major promises for the EaP countries. First, expanded trade relations with the world's second-biggest economy will lead to trade diversification. Many countries in the region suffer from tense relations with Russia, which leverages its trade policies for political purposes. Moscow has for example imposed a transit ban on Ukrainian goods. In 2006, at a time of deteriorating relations with Moldova and Georgia, it banned imports of wine from both countries. It may also suspend trade benefits attached to the Commonwealth of Independent States' Free Trade Area (CIS FTA) or use sanitary and phytosanitary rules to impede access to its market, even for members of the Eurasian Economic Union (EAEU). From this perspective, the Chinese market offers significant potential for diversification. However, while growing in importance, China's share of the region's trade remains small (for example, in 2016 Ukraine's trade with China amounted to €5 billion or 8% of Ukraine's total trade). The significance of the Chinese market may change with the improved transport connections. Geopolitically, the Trans-Caspian route in particular offers a way to circumvent Russia, thwarting any future attempts by Moscow to use the transit ban against any of the EaP countries.

The second promise of the Belt and Road initiative is that of increased investments in infrastructure. However, Chinese investments may not be a silver bullet for EaP countries' infrastructure deficit. China's model of infrastructure deals is less attractive than that of the EU, which involves grants rather than loans, especially under the Neighbourhood Investment Facility.

...and challenges

The initiative also presents certain challenges. The EaP countries will need to make sure they do not serve as mere transit points but rather are able to use the new corridors to increase their market share in China. For the time being, the fastest growing market will be the EU, with China possibly trailing even behind the US and Turkey. This will justify prioritisation of scarce domestic resources for infrastructure connections with Europe rather than China. Also it is important to remember that customs and trade facilitation often brings faster and much cheaper improvements in logistical efficiency than costly infrastructure investments. On another note, improved connections with China will increase imports and, hence, competition among domestic producers. If such competition compels them to move up the value chain, so much the better, but it might trigger economic dislocation.

Chinese pragmatism is double-edged. While China helps Ukraine circumvent Russian transit bans, Chinese companies have shown interest in building a bridge between annexed Crimea and the Russian mainland. Chinese investments in separatist territories in the region may further fuel conflicts. Beijing's own *rapprochement* with Moscow may limit China's potential to play a positive role in the neighbourhood. For example, Russia forced China to formally acknowledge Russia's role in the post-Soviet space and agree to consider the 'interests of Russia during the formulation and implementation of Silk Road projects'.¹ China has already demonstrated that it will respect Russia's perceived sphere of influence and displayed reluctance to invite interested countries such as Ukraine and Moldova to join the so-called 16+1 platform for cooperation between China and the EU.

For the EU, the Chinese initiative is also a double-edged sword. Firstly, China may aim to tap into Caspian energy resources and compete with the EU for access to them. Chinese energy companies have been cooperating with Turkmenistan to develop offshore gas deposits and have built a network of pipelines from the region to China. Secondly, the Chinese project may bring economic growth and help build the region's resilience. But that will only happen if Chinese projects are placed on a sustainable footing, do not undermine EU reforms and do not facilitate corruption.

Conclusion

It remains to be seen if China's ambitious project will bring the benefits to the region that Beijing has often promised. Transit countries enjoy little value added. Fear of dependence on Russia drives many countries to welcome connections to China's market. But multiple corridors will mean that ultimately it will be China who will maintain the geopolitical leverage thanks to the ability to switch between them

¹ Press Statement following Russian-Chinese talks, 20 May 2014, Kremlin, President of Russia, Summit Declaration May 2014. Available at: <http://en.kremlin.ru/events/president/transcripts/21047>.

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whenever conditions so dictate. Also China's growing economic presence, coupled with skilful diplomacy, may eventually herald mounting political influence in the region. This would add a new layer of complexity to an already complicated political landscape.

CHAPTER 3

Turkish approaches to the EU's eastern neighbourhood

Ozlem Demirtas-Bagdonas

Introduction

Russia's annexation of Crimea and intervention in Ukraine in 2014 once again exposed the faultlines between the policies of the EU and Russia in their common neighbourhood. As the EU calls for a more muscular approach towards Russia after the Ukraine crisis, the way in which the Eastern Partnership (EaP) countries align their positions has assumed increasing importance, as has the involvement of third players and how this affects the regional balance. In this context, as a country that continues accession negotiations with the EU but maintains strong economic ties with Russia, Turkey is an important regional actor, whose geopolitical positioning can potentially alter the *status quo* in the region. The rising tide of euroscepticism in Turkey, as well as the recurrent crises with Russia since the beginning of the Syrian conflict, also means that Ankara's position is not a straightforward one. Given Turkey's historical aspiration to serve as a role model for the countries in the region, and its ambition to be an energy hub and to play an increasingly central role in developments in its immediate neighbourhood, it is important to assess the nature of Turkey's involvement in the region, as well as its influence. Accordingly, this chapter addresses the following questions: (i) what are Turkey's policies and objectives in the region?; (ii) what are the main areas of Turkey's involvement?; (iii) how does Turkey's involvement in the region affect the policies of the EU and Russia?

Turkey's policy towards the region

Turkey's level of engagement in the region has changed over time and across countries. Ukraine, Georgia, and Azerbaijan have been the most important partners for Turkey in terms of trade and investment, while relations with Armenia have never been strong. In general, Turkey's involvement has been predominantly economic,

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rather than political, cautious and balanced rather than interventionist, and overshadowed by the presence of other actors despite the ambitious discourse propagated by Turkish leaders. This has remained the case even during the heyday of Turkey's hegemonic claims concerning its neighbouring regions.

Turkey's presence in the region was only marginal before the 1990s. The dissolution of the Soviet Union and the end of the Cold War provided Turkey with greater opportunities to develop a sphere of its own economic and political influence in what was once the Soviet space. Ankara's active foreign policy agenda was overshadowed, however, by the conflicts over Nagorno-Karabakh, Abkhazia and Chechnya. At the beginning of the 1990s, Turkey undertook various multilateral initiatives in the Black Sea region, as well as in the South Caucasus and Central Asia, which aimed at creating common economic policies, developing a unified political stance towards the conflicts in the region, and increasing economic, political and security cooperation. Turkey held summits with the Turkic-speaking countries and launched the Black Sea Economic Cooperation (BSEC) initiative in 1992, and later the Black Sea Naval Cooperation Task Group in 1998. At the time, Turkey's political discourse reflected Ankara's ambitions to dramatically expand its sphere of influence, as Turkish politicians were hailing the geographical area stretching from the Adriatic Sea to the Great Wall of China as the 'Turkish World'. As these regional initiatives fell short of evolving into a regional economic/security organisation capable of creating common policies and acting as a peacekeeper/peacemaker in the conflicts in Turkey's immediate vicinity, Turkey channelled its efforts towards bilateral agreements that facilitated Turkish investments, trade and energy cooperation. The political discourse based on the projection of Turkish grandeur had also vanished by the mid-1990s, and has not resurfaced since.

This is curious, given Turkey's bolder actions in the Middle East and the AKP's claims to great power status for Turkey, a trend which has become more marked in the past decade. Despite its geographical proximity and the strategic importance of the region for Turkey's economic and energy interests, the Eastern Partnership countries have been eclipsed by the Middle East, or more generally, the 'Muslim World' on Turkey's foreign policy map, in terms of Turkey's hegemonic ambitions and immediate agenda. While Turkish officials frequently remind other regional actors of 'their limits' and Turkey's 'legitimate rights' in the Middle East, for example, this policy and diplomatic style does not extend to Turkey's northern neighbourhood, where Turkey does not make similar civilisational and/or hierarchical claims based on common heritage.

Likewise nationalism has not played a major role in Turkey's relations with the countries in the region, with the exception of Azerbaijan and Armenia. Moldova, Georgia, and Ukraine have a sizeable number of Turkic-speaking people, and the Caucasian diaspora in Turkey has actively lobbied for Turkey's further engagement in the Caucasus. Turkey financed a cultural centre and a library in Gagauzia (Moldova), among other projects, and it sees Gagauzia, Crimea and Abkhazia as important markets for Turkish exports and businesses.

Turkey's policies towards Moldova, Ukraine and Georgia have nevertheless not been based on the provision of support for ethnic brethren at the expense of the territorial integrity of these countries. Turkey has also refrained from a pro-liberal political agenda and has maintained its neutral stance towards the regimes, irrespective of their political character. Devoid of its ideational content, Turkey's policy towards the EaP countries has been primarily pragmatic, and in line with its capabilities relative to the EU and Russia.

Turkey's objectives and presence in the region

Since the late 1990s, Turkey has been primarily preoccupied with the development of projects for the transportation of Caspian oil and gas to Europe via pipelines running through Turkish territory. Turkey is almost totally dependent on external supplies of natural gas and oil, and imports more than 50% of its natural gas from Russia. Turkey has thus been keenly interested in the East-West energy corridor, both in order to diversify its energy sources, and as a reflection of its pro-Western policy. On the other hand, its rising energy consumption, and the continuing dependence on Russia, has made it an imperative for Ankara to diversify its energy suppliers and forge links with other countries while maintaining its energy cooperation with Moscow so as to ensure a stable supply of gas and oil. In the early 2000s, the Turkish government set a new goal of becoming a key regional energy hub both for the energy providers in the East, as well as for the consumers in the West. The already functioning Baku-Tbilisi-Erzurum gas pipeline and the Baku-Tbilisi-Ceyhan oil pipeline, as well as the Trans-Anatolian Pipeline (TANAP) project, which will transport Azeri gas to Europe through the Trans Adriatic Pipeline (TAP), contribute to this goal. At the same time, Turkey has collaborated with Russia on the Blue Stream and other Russia-backed pipeline projects that bypass Ukraine. Turkey's support for these pipeline projects is not only related to its geopolitical objectives and consumption needs. The Turkish state-owned energy companies TPAO and BOTAS are partners in most of the projects that pass through its territory, and TPAO also owns substantial shares in Azerbaijan's projects.

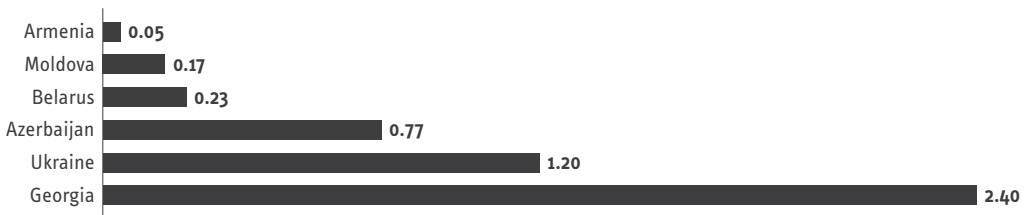
An equally important objective of Turkey's foreign policy towards the region has been to diversify its trade partners and find alternative markets for Turkish businesses, among which the construction and telecommunications sectors have been the most important. Despite the fact that the Middle East dominates the Turkish foreign policy agenda for mostly security reasons, 30% of Turkey's foreign direct investment (FDI) lies in Eurasia, while only 3% is in the Middle East, according to the Foreign Investment Index of 2016, which was jointly prepared by the Foreign Economic Relations Board (DEIK) and Deloitte. None of the EaP countries are among the top 20 foreign trade partners of Turkey, with the exception of Ukraine, which ranks 18th among Turkey's import partners. However, Turkey's trade with the countries in the post-Soviet space has increased since the 1990s and as a result of visa-free regimes (Georgia, Ukraine), and free-trade agreements (Georgia, Ukraine, and Moldova). Turkey is among the top ten trading partners for the EaP countries, and

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is Georgia's number one trading partner. Many visitors from the region also boost Turkey's tourism sector, especially since the eruption of the Syrian conflict, and more recently when relations between Turkey and Russia became strained after the SU-24 incident in October 2015. Finally, the EaP countries have constituted an important alternative to Western markets for Turkey's access to defence technology. Turkey recently turned to Ukraine, for instance, after Austria restricted the technological support it had provided for Turkish tanks. This would have been an unlikely port of call back in the 1990s.

Figure 2: Arrivals from Eastern Partnership countries to Turkey

million visitors, 2017



Data: Turkish Statistical Institute (TUIK)

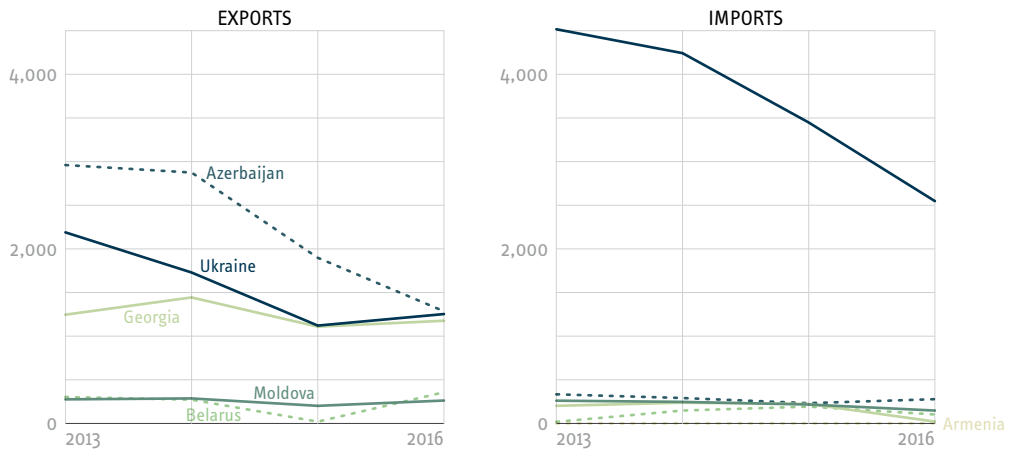
The disruption in Turkish-Russian relations has certainly accelerated Turkey's engagement with the EaP countries. It might have been expected that the resumption of relations after Turkey's apology to Russia in June 2016 made Turkish overtures to Ukraine, Moldova, and also Belarus less urgent. Yet, official visits by the Turkish President accompanied by a delegation of Turkish business leaders, even after the resumption of dialogue with Russia, suggest that Turkey's economic engagement in the region is not temporary. Thanks to the free trade agreement signed with Ukraine, it is expected that the trade volume between the two countries will rise to \$20 million by 2020. Similar optimistic forecasts are also made in relation to Turkey's trade with Belarus and Moldova, as well as regarding the share of Turkish investments in both.

Admittedly, Turkey's level of engagement has not been the same in all of the EaP countries. While Ukraine has been an important trading partner, Turkey has the greatest economic clout in Georgia and the strongest bonds with Azerbaijan, as exemplified by the 'one nation, two states' motto, which is officially endorsed in both countries. In 2010, Turkey also established the High-Level Strategic Council with Azerbaijan, thus elevating their relations to the strategic level. Although cultural affinities between the two countries have been an important factor in this, the economic dimension of their relationship is also notable, despite the fact that there is no free trade agreement between them. Besides their energy cooperation, Turkey is the most important market for Azeri investments and the top investor in Azerbaijan. Most Turkish investments in the region are concentrated in Azerbaijan,

Georgia and Ukraine. As the graph shows, these are also the countries with which Turkey conducts most trade among the EaP countries. Turkey is also an important economic partner for Abkhazia, and provides a major source of development aid for Gagauzia (Moldova), Crimea, as well as Adjara and Javakheti (Georgia).

Figure 3: Turkey's trade with the Eastern Partnership Countries

\$ m



Data: Turkish Statistical Institute (TUIK)

At the other end of the spectrum lies Armenia, with which Turkey has closed borders since 1993 as a result of Armenia's occupation of seven Azerbaijani districts surrounding Nagorno-Karabakh. Turkey has since then sided with Azerbaijan on the matter, demanding Armenia's withdrawal, and participated in various energy (Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum pipelines) and transportation (Baku-Tbilisi-Kars railway) projects that have bypassed Armenia. Important diplomatic initiatives were undertaken in 2009 in order to open the border and facilitate economic relations between both countries. However, domestic pressure and intensive lobbying from Baku curtailed these efforts, as the sensitive issue of Nagorno-Karabakh returned to haunt the negotiating table. Apart from this issue, contrasting narratives about the 'Armenian genocide' serve as another source of discord between Turkey and Armenia.

Turkey's military cooperation with the countries in the region has also varied from country to country, and been limited, given Turkey's NATO commitments and wariness of Russia. The defence industry has been an important component in Turkish-Azeri trade relations, and is increasingly becoming so also in Turkey's trade with Ukraine. Turkey has conducted joint anti-terrorist operations with Ukraine and Georgia in the context of the Black Sea Force, and with Ukraine in the context of Black Sea Harmony, which was initiated by Turkey in 2004. Turkey also conducts military exercises with Azerbaijan, and with Ukraine, which are the only joint manoeuvres Turkey has undertaken in the region. This has never evolved into

active military engagement, let alone an overt stance – with the exception of the Nagorno-Karabakh issue – regarding the hot/frozen conflicts in the region, as seen in Turkey's circumspection *vis-à-vis* the Russian-Georgian War in 2008, the ensuing conflict in Eastern Ukraine after 2013, and Russia's annexation of Crimea in 2014.

As regards its political involvement in the region, Turkey's behaviour is perhaps most akin to that of China, as it is primarily interested in enhancing opportunities for business and trade, rather than creating a zone in its own image. That is why it has traditionally refrained from taking a stance during the political tensions or elections in the region, although this seems to be changing, especially since the Gezi protests of 2013, which increased the sense of insecurity on the part of the AKP government *vis-à-vis* the domestic opposition. While Ankara has focused its efforts on stemming the opposition and preventing further large-scale anti-governmental protests in the country since then, it has been increasingly wary of similar protests in Turkey's surrounding region. The resumption of the conflict with the PKK and the strengthening of the PYD in northern Syria have also added to Ankara's security concerns. However, Turkey's sense of regime insecurity reached its peak with the coup attempt of 15 July 2016. Even though Turkey does not have sufficient political clout to be able to exert influence over political developments in the EaP countries, it seems to be expecting a clear sign of political solidarity especially in the wake of the failed coup attempt. Just as it had put pressure on the countries in the region to hand in suspected PKK members in 1999, it has similarly expected loyalty when it demanded the closure of the Gulen schools in the region following the foiled coup attempt. As yet, Azerbaijan and Georgia have been the only countries to accede to Turkey's request, while others have refused to follow suit. It was in this context that messages of solidarity with the Turkish government were issued during the official visits that followed the event. For example, although Georgia did not immediately agree to shut down the Gülen-affiliated schools in the country, Georgian Prime Minister Kvirikashvili was the first foreign leader to visit Turkey after the coup attempt, while the Georgian President Margvelashvili expressed Georgia's 'support to the democratically elected government of Turkey, and personally to President Erdogan.' Ankara clearly welcomes such gestures. Nevertheless, it is unlikely that failure to express such solidarity will cause significant harm to relations, given Turkey's economic interests in the region.

The impact of Turkey's presence on the EU and Russia

So how does Turkey's engagement in the EaP countries affect the policies of the EU and Russia in the region? Turkey's presence in the region cuts across different geopolitical orientations. With the exception of Armenia, Ankara's policies have been geared towards increased economic cooperation with all of the countries within the EU's Eastern Partnership, regardless of their choice to sign Deep and Comprehensive Free Trade Area agreements (DCFTAs) with the EU (Moldova, Ukraine), or join the

Russia-backed Eurasian Economic Union (Belarus, Armenia), or preference to do neither (Azerbaijan). Turkey has provided support for the EU's Neighbourhood Policy without directly challenging Russia's 'Near Abroad' policy. This ambiguity has meant that Turkey's efforts have been limited to the economic area and to facilitating its economic presence in the region. Nevertheless, there are certain areas where this ambiguity has inescapably affected the policies of both the EU and Russia.

In general, Turkey is supportive of the European Neighbourhood Policy (ENP) in contributing to the stability and the economic development of the countries concerned through its multilateral initiatives, FDI, and Turkish International Cooperation and Development Agency (TIKA) projects. The EU's incentives for reforms in the EaP countries also facilitate Turkish investments in the region. Turkey plays an important role in the EU's energy security, not only by virtue of its geostrategic location at the intersection of the pipelines that constitute the Southern Gas corridor, but also by participating in the relevant projects. Turkey's policies towards the frozen conflicts are also in line with the EU's policy of 'engagement without recognition'. While Turkey supports the territorial integrity of Moldova, Georgia, Azerbaijan, and Ukraine, it also contributes to the economic development of Gagauzia, Abkhazia, Nagorno-Karabakh and Crimea, via trade, TIKA projects, and financial support. On the other hand, Turkey's policies may be considered to weaken the EU's policies in the region in some ways. First, the loans Turkey provides to the countries in the region are not conditioned upon reforms in certain areas, which essentially conflicts with the ENP's 'more for more' principle. Secondly, Turkey's participation in the Russian-proposed alternative projects to the Southern Gas Corridor clashes with the EU's objective of diversifying its energy sources. Lastly, Turkey's continued trade relations with Russia, after the latter's annexation of Crimea, may be argued to have mitigated the effectiveness of the EU's sanctions against Russia.

Turkey's increasing presence has also had a mixed effect on Russia's policies in the region. Despite its preoccupation with the territorial integrity of the countries in the region, Turkey has preferred not to actively or directly challenge Russia's acts of intervention. Instead, Turkey chose to exploit the situation either by continuing its economic relations with Russia, as in the case of the Ukraine crisis, or by increasing its economic presence in the country on which Russia put economic pressure, as in the case of Georgia. Consequently, it benefited both from the EU's sanctions against Russia, thus increasing its economic importance for Russia, and from Russia's sanctions against Georgia, thus emerging as the top investor and exporter in the country. Similarly, Turkey was eager to reap the benefits of the Russia-Ukraine crisis by showing support for the Russian-proposed energy projects that bypass Ukraine, despite its participation in the Southern Gas Corridor projects, which directly clash with Russian interests.

This pragmatic ambiguity largely results from Turkey's interest in maintaining its relations with both the EU and Russia. Crises in relations might trigger more aggressive behavior on Turkey's part, challenging the policies of either Russia or the EU, and thus disrupt the present balance of power in the region. The continuing

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significance of both the EU and Russia for the Turkish economy, however, means that it is unlikely that Turkey will launch a direct challenge against either of them. The drift towards authoritarian rule and the rise in euroscepticism in Turkey render any concrete progress in the accession negotiations unlikely. Yet, given the level of interdependence and common interests between the EU and Turkey in the region, any challenges from Ankara are likely to be limited to reprimands or rebukes, as any drastic shift in its foreign policy orientation would also be detrimental to Turkish interests. Similarly, as the recent crisis between Turkey and Russia over the downed Russian military plane showed, moves against Russia are also not likely to yield any significant benefits for Turkey. Given the disparity between the policies of Turkey and Russia towards the frozen conflicts in the region and the ensuing Syrian war, tensions are inevitable, despite their recent *rapprochement* after the Turkish apology in June 2016. However, Ankara's continuing energy dependence on Moscow, the importance of the Russian market for Turkish businesses, the large share of Russian visitors in the Turkish tourism sector, as well as Russia's involvement in Syria are some of the factors that increase the political and economic costs involved in a clear challenge against Russia's policies. As this calls for caution on the one hand, and further diversification in Turkey's foreign policy partners on the other, Turkey's attempts at expanding its presence in the region are likely to intensify in the absence of a direct challenge to the present *status quo*. That is why pragmatic ambiguity seems likely to characterise Turkey's policy in the region for some time to come.

CHAPTER 4

Iranian approaches to the EU's eastern neighbourhood

Ariane Tabatabai

Introduction

Among the EU's Eastern partners, the countries of the South Caucasus are of particular significance for the Islamic Republic. Over the years the region has presented Iran with both opportunities and challenges, yielding a number of historically important and close partnerships, while also pitting Tehran against competitors. For centuries, the Persian Empire experienced some of its most significant conquests and defeats there. Today, the region is becoming even more complex for Iran to navigate: in addition to the continued presence of traditional players – like Russia and Turkey – others, like Israel and Iran's Gulf Arab neighbours, are also increasingly involved there.¹ Moreover, tensions between the two sides of the Persian Gulf have grown since the nuclear talks (2012-15) leading to the signing of the Joint Comprehensive Plan of Action (JCPOA). Despite all this, Iran is the only country in the South Caucasus' immediate neighbourhood to actively maintain official relations with all three countries there, and preserving these relations is of the utmost importance to it. Moreover, the JCPOA opened the door for more economic exchange between Iran and its northwestern neighbours – although the election of President Donald Trump and his refusal to recertify the JCPOA in October 2017 have cast a shadow over the agreement's future. Ultimately, Iran's main objective in the region is to 'maintain stability and expand parallel ties with all countries.'²

1 Joshua Kucera and Emil Sanamyan, 'Will the great Gulf game spill over into the Caucasus?', *Eurasianet*, 9 June 2017. Available at: <http://www.eurasianet.org/node/83926>.

2 Author interview with Iranian official, (email), 12 June 2017.

South Caucasus on Iran's foreign policy map

Armenia

Armenia is Iran's most important partner in various key areas – along with Oman.³ Tehran seeks to build comprehensive relations with the country. But in recent years, its primary focus has been on boosting economic and business ties, as its main national priority has become economic recovery. And for Armenia – which has been the subject of an economic blockade by two of its neighbours, Azerbaijan and Turkey, for three decades – Iranian economic recovery, and resulting prospects for more business, present a critical opportunity.⁴ For example, the two countries are working to establish a number of joint working groups, both bilateral and multilateral. These include an Armenia-Russia-Georgia-Iran business chamber, which would serve to facilitate communication and coordination between businesses and the legislative and executive branches in the respective countries.⁵ On a bilateral level, various industry sectors in both countries have held talks and the two capitals have sought to eliminate 'procedural barriers' impeding Iranian-Armenian trade and business.⁶ For example, the two countries are establishing a free economic zone in Meghri, Armenia, close to the Iranian border. To facilitate the development of the free trade zone and to draw on the potential of the region's historical sites to attract tourism, the two countries are looking to create the Aras-Meghri joint cooperation office.⁷ These ventures are receiving support from the business communities in both countries.⁸

Armenia is an optimal business partner for Iran. European and other Western businesses and investors are now struggling to re-enter the Iranian market. This is because in addition to a number of constraining internal and external factors – including the opacity of the Iranian economy and remaining sanctions – they no longer have a presence in or knowledge of the Iranian market. But the existence of a substantial Armenian population and Armenian businesses in Iran, along with

3 Author interviews with senior Iranian official, New York, September 2017.

4 Gayane Abrahamyan, 'Could Russia spoil Armenia's Iranian investment dreams?', *Eurasianet*, 17 July 2015. Available at: <http://www.eurasianet.org/node/74286>.

5 'Armenia-Russia-Iran-Georgia business chamber to be established – Invest Armenia', *Armenpress*, 12 May 2017. Available at: <https://armenpress.am/eng/news/890403/armenia-russia-iran-georgia-business-chamber-to-be-established--invest-armenia.html>.

6 'Procedural barriers for exporting Armenian products to Iran to be settled: MoU signed', *Armenpress*, 31 May 2017. Available at: <https://armenpress.am/eng/news/893040/procedural-barriers-for-exporting-armenian-products-to-iran-to-be-settled-mou-signed.html>.

7 'Iran, Armenia to Establish Joint Coop. Office', *Mehr News Agency*, 5 November 2017. Available at: <https://en.mehrnews.com/news/129214/Iran-Armenia-to-establish-joint-coop-office>.

8 'Armenia and Iran to establish joint working group in agriculture field', *Armenpress*, 23 May 2017. Available at: <https://armenpress.am/eng/news/891939/armenia-and-iran-to-establish-joint-working-group-in-agriculture-field.html>.

the close links between the two countries, make the country a viable and important partner for Tehran.⁹ Another key benefit for Iran of doing business with Armenia stems from the 'preferential tax treatment for Iranian commerce to operate and export to Armenia.'¹⁰

Azerbaijan

Iranian-Azerbaijani relations have been extremely close historically and partly because of that remain rather complex. The two countries (along with Bahrain and Iraq) are among the only four countries in the world where a majority of the population is composed of Shia Muslims. In Iran itself, up to 25% of the population is Azeri, with key political, religious, literary, business and sports figures among them. This includes figures at the highest echelons of political power, such as current Supreme Leader Ali Khamenei. The absolute majority of Azeris in Iran display loyalty to the Iranian state and many are very nationalistic. As a result, separatist sentiments are very marginal, although they still affect relations between the states of Azerbaijan and Iran to some extent.

Iran's relations with Azerbaijan are marked alternately by conflict and cooperation. Tehran generally views Baku's intentions with a degree of suspicion. As a result, Iran-Azerbaijan relations are rarely devoid of tensions. Iran regards Azerbaijan as encouraging separatism in its East and West Azerbaijan provinces, including by labelling them 'Southern Azerbaijan' – a designation used by Azeri nationalists/separatists, but which has also appeared in government-sanctioned textbooks. Azeri separatism, albeit lacking substantial popular support in Iran, has grown in recent years and a full-blown movement for Azeri autonomy would be a critical shock, even a potentially fatal one, to the Iranian state. Nevertheless, the Iranian authorities believe that Azerbaijan's long-term policy is to fuel separatist sentiment among Iranian Azeris.¹¹ Territorial tensions are not limited to land, however. They also extend into the Caspian, where Iran rejects some of Azerbaijan's claims.

This has an impact on the international partnerships of both countries. Iran views Azerbaijan as pursuing a dual-track policy: political and economic cooperation with Tehran, conducted in parallel with growing ties with key Iranian adversaries, in particular Israel and the Gulf Arab States.

Today, Israel is a critical trade partner for Azerbaijan. Tel Aviv is becoming an important military supplier for Baku, while the latter has become a key energy supplier for the former.¹² And Azerbaijan has tried to present itself as a pro-Western state, in contrast

9 Author interviews, Tehran, 2009-14.

10 Richard Giragosian and Tornike Sharashenidze, 'Engaging Iran: Implications for the South Caucasus', The European Council on Foreign Relations, Wider Europe Forum, 18 September 2015. Available at: http://www.ecfr.eu/article/commentary_engaging_iran_implications_for_the_south_caucasus4022.

11 Author interviews with Iranian experts, (email), June 2017.

12 Gili Cohen, 'Azerbaijan's President: We've bought almost \$5 billion in Israeli military goods', *Haaretz*, 14 December 2016. Available at: <http://www.haaretz.com/israel-news/premium-1.758897>.

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to its southern neighbour. As a result, the West has at times leveraged it as a bulwark against the reactionary and anti-Western Islamic Republic.¹³ Hence, Azerbaijani President Ilham Aliyev was in attendance when US President Donald Trump visited Saudi Arabia in May 2017, where he and members of his administration employed highly belligerent rhetoric against Iran.¹⁴ Tehran believes that if an 'Arab NATO' does indeed materialise, Azerbaijan is likely to be involved in it in some capacity.¹⁵

Despite multiple foreign policy ambiguities, economic cooperation between Iran and Azerbaijan is quite substantial. Baku faces something of an economic quandary *vis-à-vis* Tehran: it is an oil producer, and therefore stands to lose from Iran's reemergence as a key exporter. Nevertheless, some avenues for cooperation between the two countries also exist in energy. For example, Baku granted Tehran access to its infrastructure – the Baku-Tbilisi-Ceyhan pipeline, in particular – to export its oil. For its part, Iran offered to carry out swap deliveries of Azerbaijani oil to the Persian Gulf. The two countries are also eyeing further cooperation in the energy sector in the Caspian.¹⁶

Chief among the two countries' aligned interests is the creation of a transit corridor that would connect the Persian Gulf and the Indian subcontinent to Europe. The president of Iran's railway company has met with his Georgian and Azerbaijani counterparts to discuss the launch of the 'South-West Transport Corridor', as it is known. Once launched, the corridor would considerably reduce the time needed to transport cargo from the Persian Gulf and India to Europe, which currently takes 30-40 days.¹⁷ Moreover, Iran is a critical component of Aliyev's goal of transforming his country into a 'European transport, trade, and logistics hub'.¹⁸

The two countries, along with Russia, have also outlined a number of other shared interests at the highest level, leading to the signature of the 'Baku Declaration', by Aliyev, Rouhani, and Vladimir Putin – these include countering terrorism, human trafficking, organised crime, arms smuggling, and drug trafficking.¹⁹ Iran is also planning to build several industrial plants in Azerbaijan.

13 Eldar Mamedov, 'Iran nuke deal would be mixed bag for Azerbaijan', *LobeLog*, 21 April 2015. Available at: <https://lobelog.com/iran-nuke-deal-would-be-a-mixed-bag-for-azerbaijan/>.

14 'Islamic world, including Azerbaijan, accepted Trump's ultimatum and enters in his Coalition of Conscience, a coalition of those who believe in God of Nations', Azerbaijan Business Center, 21 May 2017. Available at: <http://abc.az/eng/interview/275.html>.

15 Author interviews with Iranian officials and experts, (email), June 2017.

16 'Tehran, Baku plan extended energy cooperation: Deputy oil min.', *PressTV*, 4 August 4 2015. Available at: <http://www.presstv.ir/Detail/2015/08/04/423240/iran-azerbaijan-Irans-Oil-Minister-Bijan-Zanganeh-Azerbaijans-Minister-of-Economic-Development-Shahin-Mustafayev->

17 'Georgia, Iran & Azerbaijan to launch South-West Transport Corridor', *Georgia Today*, 8 June 2017. Available at: <http://georgiatoday.ge/news/6727/Georgia%2C-Iran-%26-Azerbaijan-to-Launch-South-West-Transport-Corridor->

18 Eldar Mamedov, 'An Azerbaijani front against Iran? Central Asian relations in the Age of Trump', *Muftah.org*, 7 February 2017.

19 'Azerbaijan, Iran, Russia sign Baku Declaration', *Mehr News*, 9 August 2016. Available at: <http://en.mehrnews.com/news/118753/Azerbaijan-Iran-Russia-sign-Baku-Declaration>.

The two countries have also started to extend their joint efforts to the military realm. In October 2017, they held their first joint defence cooperation meeting – although the working group had been established in 2015. Aliyev has also admitted to purchasing weapons from Iran, which seeks to become a defence supplier in its own right in its neighbourhood.²⁰

Ultimately, Iran's relations with Azerbaijan are a key area in which the Islamic Republic's ideology takes a backseat to national security and interests.²¹ Indeed, Iran has long seen Christian Armenia as its top partner in the region, despite Azerbaijan being a Shia-majority country. Likewise, despite being able to leverage Shia Islamists to poke Aliyev in the eye, Iran has so far refrained. More revealing yet, the country has 'remained silent on the continuing arrest and harassment of Shiite activists, declaring it to be Azerbaijan's internal affair.'²²

Georgia

Iran needs to tread carefully in its dealings with Georgia, as it needs to balance several key interests there.

On the one hand, the country wants to preserve good relations with Georgia and has a lot to gain from these ties. And the Georgians also have an interest in this. Successive Georgian presidents since the end of the Cold War have viewed Iran as too important to ignore, and at the height of the political and economic isolation of Iran, which coincided with the 2008 war between Tbilisi and Moscow, the Georgians embraced Iranian investment.²³ Moreover, for Georgia, the nuclear deal presented another opportunity: Iran could become a competitor with Russia as an energy supplier. And Tehran generally wants the region to be stable, an objective that Tbilisi shares.²⁴

On the other hand, both countries' relations with two major powers hinder their ability to expand their relations. Iran tries to tiptoe around Georgian issues, as it does not want to step on Russia's toes. For its part, Tbilisi has to be careful to navigate its relations with Iran without alienating the United States. As a result, both sides try to balance their shared political and economic interests and respective ties to major powers.

20 Zaur Shiriyev, 'Iran and Azerbaijan Boosting Military Ties', *Eurasianet*, 1 November 2017. Available at: <http://www.eurasianet.org/node/85806>.

21 Author interview with Iranian official, email, 12 June 2017.

22 Eldar Mamedov, op. cit in note 18.

23 Richard Giragosian and Tornike Sharashenidze, 'Engaging Iran: Implications for the South Caucasus', ECFR, 18 September 2015.

24 Ibid.

Some areas of cooperation between the two countries (and other key regional players) have also emerged in recent years. For example, the two countries, joined by Russia and Armenia, are aiming to synchronise their power grids by 2019, thereby facilitating electricity exchange.²⁵

Iran and the EU's other eastern neighbours: Ukraine, Moldova, Belarus

The EU's other eastern neighbours do not feature prominently among Iran's foreign policy priorities. However, the country has ties with all three and has sought to increase trade and cooperation in a number of areas.

The collapse of the first round of nuclear talks, led by the EU, in 2005 took a toll on Iran-Ukraine relations. For over a decade after that, the two countries had limited exchange. But after the JCPOA was concluded and sanctions lifted, the Ukrainian foreign minister paid a visit to Tehran. The two countries have discussed expanding bilateral trade and signed Memorandums of Understanding (MoUs). The areas where the two countries are currently working together or where they have discussed future cooperation include transportation, energy, and agriculture.²⁶ The JCPOA also facilitated some trade with Belarus. In 2017, Iran reportedly delivered its first major cargo of crude oil to Belarus, using the Port of Odessa in Ukraine. The tanker carried 600,000 barrels of oil – roughly 80,000 tons of oil. Belarus looked to Iran for oil, following the lifting of sanctions and after Russia cut crude oil exports to the country by six million tons in 2016.²⁷ Similarly, Iran and Moldova have also discussed expanding their relations. Moldovan President Igor Dodon visited Tehran in early 2017 and discussed the strengthening of political and economic ties between the two countries. Specific areas of cooperation the two countries seek to boost include energy, transportation, banking, and agriculture.²⁸

The lifting of sanctions and the arms embargo – provided the JCPOA's implementation continues and the International Atomic Energy Agency verifies Iranian compliance –

25 'Tehran, Yerevan mull energy cooperation', *The Financial Tribune*, 25 November 2017. Available at: <https://financialtribune.com/articles/energy/76752/tehran-yerevan-mull-energy-cooperation>.

26 'In the first half of 2016/17 MY, Iran became the leader of Ukrainian corn purchases', *The Iran Project*, 29 April 2017. Available at: <http://theiranproject.com/blog/2017/04/29/first-half-201617-iran-became-leader-ukrainian-corn-purchases/>; 'Zangeneh: Ukraine wants transit of Iranian oil, gas to East Europe', *The Iran Project*, 1 August 2016, available at: <http://theiranproject.com/blog/2016/08/01/zanganeh-ukraine-wants-transit-iranian-oil-gas-east-europe/>; 'Ukraine keen on boosting energy ties with Iran', *The Iran Project*, 18 May 2017, <http://theiranproject.com/blog/2017/05/18/ukraine-keen-boosting-energy-ties-iran/>.

27 'Iran delivers first oil cargo to Belarus', *PressTV*, 24 March 2017. Available at: <http://www.presstv.ir/Detail/2017/03/24/515484/Iran-delivers-first-oil-cargo-to-Belarus>.

28 'Moldovan President, Iranian FM hold talks in Tehran', *Tasnim News Agency*, 12 February 2017. Available at: <https://www.tasnimnews.com/en/news/2017/02/12/1326507/moldovan-president-iranian-fm-hold-talks-in-tehran>.

can also open the door to some level of defence cooperation between these countries in the future. Ukraine transferred some air-launched cruise missiles to Iran in the early 2000s and Belarus was reportedly planning on selling the Iskander-M tactical missile system to Iran in 2009.

However, overall, Iran's relations with Ukraine, Moldova and Belarus remain much less developed and the volume of trade and level of exchange much less substantial than with the South Caucasus, Russia, and the EU – all of which are top Iranian priorities.

Iran and other regional powers: the EU and Russia

Iran and the EU share a number of interests in the region, but also have a few points of divergence.

Neither Iran nor the EU wants to see the frozen conflict resume in Nagorno-Karabakh. In fact, when in April 2016 Azerbaijani and Armenian forces clashed and the international community became concerned that these clashes would escalate, Brussels and Tehran issued statements with similar content and language.²⁹ This is not unsurprising, as Iran shares the EU's interest in avoiding a new escalation of the frozen conflict. This is partly due to the direct impact another war would have on Iran's own security, especially in the aforementioned border areas – where mortars had reportedly landed on the Iranian side in April 2016 – as well as Iran's geographical position in the middle of several highly volatile areas: Iraq to its West, Afghanistan to its East, and its own tensions with the Gulf Arabs, and the Gulf Arabs' own internal tensions.³⁰ To add to this, the growing instability in the region facilitated the so-called Islamic State's ability to successfully perpetrate terrorist attacks in Tehran in June 2017. Moreover, with an unpredictable White House in Washington, Tehran is increasingly concerned about the future of the nuclear deal and escalation in the Persian Gulf,³¹ which would greatly impact its ability to bring the economic relief the Rouhani government has promised the Iranian people.

Here, Iran can be an asset for the EU. Not only does Tehran share Brussels' interests in the region, it also has the political capital, as well as long-standing historical and cultural ties, necessary to be effective. Indeed, the country has good working relations with all major players in the conflict, not least with Azerbaijan (despite Baku perceiving Tehran as being pro-Yerevan) and Armenia, but also Russia and Turkey.

At the same time, Tehran's interests also align with those of Moscow. Both sides want to remove foreign influence, especially Western influence, and US influence in

29 Eldar Mamedov, 'Nagorno-Karabakh: Chance for EU-Iran engagement', *LobeLog*, 5 April 2016. Available at: <https://lobelog.com/nagorno-karabakh-chance-for-eu-iran-engagement/>.

30 Ibid.

31 Author interviews with Iranian officials, New York and email, 2016-17.

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particular, from what they see as their shared backyard. And the Caspian Summits, which they lead, have served to highlight this objective. But Tehran also has complex calculations to make when it comes to Moscow's presence in the region. Indeed, Iran wants to pursue its core revolutionary ideal of pursuing an economic and foreign policy that is independent of that of the Kremlin. At the same time, it also wants to preserve these relations without rocking the boat. Hence, it works 'officially and unofficially' with Russia in the region.³² And this can be an impediment to EU interests in this part of the world.

This is not to say that there are no tensions between Iran and Russia. Fundamentally, neither side trusts the other. In fact, the two countries' cooperation in the region often plays out against a backdrop of deep distrust. After all, during the nineteenth century, Iran suffered two of the most significant defeats in its modern history at the hands of the Russians in the South Caucasus, giving rise to a wave of anti-Russian sentiment which culminated in the ambassador and staff at the Russian legation in Tehran being massacred by a mob in 1829. And Russian activities, particularly in Georgia, have served to destabilise the region, which impedes Iranian objectives to create a more intertwined political and economic environment with its northern neighbours.

³² Author interview with Iranian official, (email), 12 June 2017.

CHAPTER 5

Arab approaches to the EU's eastern neighbourhood

Julia Lisiecka

Introduction

For the Arab states, Eastern Europe and the Southern Caucasus rank low on the list of geopolitical priorities.¹ Nonetheless, despite modest trade exchange and lack of political synergy or clear prospects for cooperation, the relationship between the two regions retains a certain importance. In the past, Arab socialism, anti-Western sentiments and an authoritarian outlook made many Arab regimes natural allies of the Soviet republics. Links established in the Soviet period fostered cooperation in the export of agricultural products and arms in the 1990s, further reinvigorated by people-to-people contacts, the presence of sizeable diaspora communities and tourism. Over the last decade, these links have been overshadowed by the growing economic and political profile of the Gulf monarchies. The numbers speak for themselves: nine out of ten Gulf State embassies in the Eastern Partnership (EaP) countries were opened over the last ten years. Cooperation with the Gulf brings a promise of new sources of fuel, capital and export markets, as well as allies able to support territorial claims in the international arena. For the Gulf States, the region serves as a bridge to Europe and Russia, and even more importantly, as yet another domain of competition with another regional power – Iran. This chapter provides an overview of the EaP countries' relations with the Arab states and aims at explaining this shift, while also identifying the main linkages between the two regions, and assessing their impact.

¹ Here the term 'Arab states' is used to denote the following countries: Algeria, Bahrein, Egypt, Jordan, Iraq, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates (UAE), Yemen.

Traditional alliances and diasporic ties

Having gained independence from the USSR in the early 1990s, the EaP countries inherited from the Soviet period close ties with Syria, Iraq, Egypt and Libya, based on arms sales subsidised by the Soviet Union, and also bolstered by scholarship programmes which fostered people-to-people exchanges. Indeed, the arms deals concluded by two major EaP countries – Ukraine and Belarus – still largely reflect this Soviet legacy. In the past decade, Iraq has remained Ukraine's seventh-largest export market for arms (although it has imported no weaponry from Ukraine since 2014), while the country also exports military equipment to Algeria, Yemen, Egypt, Jordan and Morocco.² Importers of Belarusian arms over the last decade similarly include Yemen and Syria (prior to the Syrian war and also to the war in Yemen), as well as Iraq and Libya.

Other traditional links between the EaP countries and the Middle East have their origins in sizeable diasporas in the region. The Armenian population in the Middle East is estimated at up to 300,000, with approximately 160,000 Armenians in Lebanon, accounting for 4% of the Lebanese population, and about 120,000 are estimated to have lived in Syria (around 60,000 in Aleppo alone) before the beginning of the Syrian conflict.³ Consequently, until the Arab Spring changed the geopolitical calculus, Armenia cherished its good relations with Lebanon and Syria, while both countries remain the only Arab League members to recognise the Armenian Genocide. In 2016 Lebanon was the fifth source of foreign direct investment (FDI) in Armenia, while in 2006 (before the last war between Lebanon and Israel) Lebanon accounted for the largest share of investment among all countries contributing to FDI in Armenia.⁴ The Armenian community in Lebanon is also represented in the political arena, with six (out of 128) seats in the National Assembly allocated to the Armenian minority. Established in the nineteenth century, the socialist-nationalist Armenian Revolutionary Federation (ARF, also known as Tashnag) is the most prominent Armenian political party present in Lebanon, sitting in the parliament as part of the March 8 alliance. Two Armenians serve as ministers in the current Lebanese government, and the importance of the Armenian community in the Levant is reflected in its high-level participation in politics, from Nubar Pasha, the first Egyptian Prime Minister, to former Lebanese President Émile Lahoud.

While the influence of the Armenian diaspora could not be matched by other EaP countries, Azerbaijan has the greatest cultural proximity to the Middle East. Azerbaijan's predominantly Muslim population fosters cultural and social links with the Arab world. Yet, it is also the sectarian divide, with the Muslim majority split

2 Stockholm International Peace Institute (SIPRI), 'Trends in International Arms Transfers, 2016', SIPRI Fact Sheet, February 2017. Available at: <https://www.sipri.org/sites/default/files/Trends-in-international-arms-transfers-2016.pdf>.

3 CIA, *The World Factbook*. Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/le.html>.

4 International Monetary Fund (IMF), Coordinated Direct Investment Survey, 'Access to Macroeconomic and Financial Data', 12 November 2017. Available at: <http://data.imf.org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5&ss=1482331048410>; and Michael B. Bishku, 'The South Caucasus Republics and the Muslim Middle East: Political and economic imperatives', *Mediterranean Quarterly*, vol. 21, no. 3, summer 2010.

between 65-70% Shiite, and 35-30% Sunni communities, which makes Azerbaijan particularly vulnerable to the influence of regional powers. Iran has long been involved in financing Azeri religious organisations, triggering concern in Baku, where the government responded by closely monitoring Islamist groups and banning the Islamic Party of Azerbaijan in the 1990s. Baku's fears have been further strengthened by the spectre of increased sectarian strife in the context of the Syrian war.

For Ukraine, relations with the Arab countries have long been dominated by the export of wheat. Ukraine exported \$4.1 billion worth of agricultural products to the Middle East region in 2015 alone (out of a total export value of \$15 billion), primarily cereals and oilseeds.⁵ 44% of Ukrainian wheat is exported to the Middle East: Arab states buy 87% of Ukrainian barley and 41% of the country's corn. Consequently, Egypt is Ukraine's third export partner, while Saudi Arabia is its ninth export destination.⁶ In this context, Ukrainian grain is believed to have been a factor in the chain of events that led to the political upheaval that erupted across the Arab world in 2011. The severe drought that struck Russia and Ukraine in 2010 contributed to sudden fluctuations in cereal prices. Given that about half of Egypt's population is dependent on wheat subsidies for consumption of bread, the increased food prices fuelled widespread discontent, reflected in Arab Spring slogans calling for 'bread, freedom and justice'.

Indeed, it was the Arab Spring, and subsequent Syrian conflict, which caused the most profound shift in the relations between the EaP countries and the Arab states. Firstly, it reduced trade volumes between the traditional partners. Secondly, it undermined the links between the diaspora communities: since the beginning of the Syrian war over 20,000 Syrians (many of them of Armenian origin) have fled to Armenia – a large number given Armenia's population of 3 million. Since the outbreak of the uprisings, EaP countries have found themselves in a political limbo – anxious to distance themselves from the discredited regimes, manoeuvring not to upset Russia and Iran, while leveraging their strategic position to acquire new political capital.

The emerging player: the Gulf monarchies

While the Arab Spring undermined the existing linkages, it also accelerated the emergence of the Gulf as a new player in the region. Several other factors contributed to these dynamics – Russia's expansionist policy in Europe's East which forced Eastern European and Caucasus states to look for new partners; the Gulf States' drive for economic diversification; and the emerging regional rivalry of the Gulf Cooperation Council (GCC) countries with Iran.

5 Chatham House Resource Trade Database. See: <https://resourcetrade.earth/data?year=2015&exporter=804&importer=mea&category=1&units=value>.

6 European Commission., DG Trade, 'European Union, Trade in goods with Ukraine'. See: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113459.pdf.

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The case of Belarus is exemplary. Its traditional partner – Iraq – had to be abandoned in the wake of the 2003 Iraq war, its ties with Iran suffered due to international pressure and embargos, while relations with Libya, Syria and Egypt deteriorated during the Arab Spring. The United Arab Emirates (UAE), Qatar and Oman were happy to replace traditional partners of Belarus in the region through investment and the arms trade. The sudden push for closer cooperation with the Gulf became evident, as a new embassy was opened in Qatar in 2014 to complement the one in Kuwait. ‘Qatari Island in Europe’ – a grandiose real estate investment project, which so far has not materialised – became the symbol of the new *rapprochement*. Although so far none of the Arab states have become a major trade partner of Belarus, the importance of the Gulf monarchies continues to grow steadily: imports of Saudi Arabian products, consisting primarily of machinery and equipment, increased over the last 5 years at a rate of around 2.5%, while trade with Belarus’s traditional partners in the Middle East (Syria and Iran) decreased.

Since the conflict with Russia in 2008, Georgia has also been looking to strengthen its ties with the Gulf, first initiated during Saakashvili’s presidential term with promises of large-scale projects in Western Georgia. Georgia opened an embassy in Qatar in 2012, but it was the establishment of a diplomatic mission in Saudi Arabia in 2015 which gave impetus to the cooperation. In 2016 alone trade with the GCC increased by 30%, and tourism by 116%. These developments were also accompanied by a surge in foreign direct investment at a time when Georgia was hit by an economic crisis due to its conflict with Russia. UAE’s Ras al Khaimah Investment Authority (RAKIA) declared that it planned to invest about \$2 billion in the country, making the Gulf state the biggest investor in Georgia in 2008 and 2009. RAKIA and Abu Dhabi Group also acquired a major share of the Georgian Co-Investment Fund (GCF) established in 2013. In the first quarter of 2017, UAE’s presence remained vital for the Georgian economy as it represented the fourth source of FDI: trade links were further reinforced by an Agreement on the Promotion and Reciprocal Protection of Investment signed between Georgia and the UAE in March 2017.⁷

Gulf states have also shown increasing interest in Azerbaijan, which hopes to attract investors to cover the budget gap resulting from the decline in oil revenues and the devaluation of its national currency, which took place twice in 2016. The same year Qatar and Azerbaijan signed a number of agreements reinforcing economic cooperation, and introducing a simplified visa regime. Visa rules for all GCC citizens were eased by Azerbaijan, Georgia and Armenia (although the latter made an exception for Saudi Arabia). As the GCC countries increasingly look for agricultural land which could be acquired abroad to ensure the food security of their populations, Ukraine’s rich and fertile farmlands, although so far under sale moratorium, have also become of interest to the Gulf investors, who have got involved in long-term lease schemes, and set about acquiring local agricultural trade and manufacturing companies. The Gulf could also serve as a potential energy supplier to Ukraine. Cooperation in the field of oil and gas has gained particular importance since 2014, despite an

7 National Statistics Office of Georgia, ‘Foreign Direct Investments’. See: http://www.geostat.ge/index.php?action=page&p_id=2231&lang=eng

unsuccessful investment venture by Ukraine's Naftogaz in Egypt. In comparison to other EaP countries, Armenia has so far developed little cooperation with the Gulf as Saudi Arabia does not recognise the state due to its conflict with Azerbaijan. Nevertheless, while Iraq remains Armenia's third export partner (accounting for 8.3% of total exports), UAE is its ninth export and tenth import partner.⁸

The emergence of the Gulf as a new player in the East Europe and Caucasus region has also been reflected in the arms market – a natural development given that Saudi Arabia and the UAE are the world's biggest arms importers. As Ukraine has increased its volume of major arms exports, aiming to capture 3% of the world arms sales market, it is actively looking for new customers. Ukraine's cooperation with the Gulf in the defence sector was initiated by an agreement with the UAE on military and technical cooperation signed in 2015. One consequence of this was a deal on the joint production of transport planes by Ukraine's Antonov aircraft company and UAE's King Abdulaziz City for Science and Technology (KACST). Similarly, in February 2017 UAE's offset authority Tawazun Economic Council signed an undisclosed agreement with the State Military-Industrial Committee of Belarus, accompanied by several weapons deals.⁹ Finally, as Georgia attempts to develop its own arms industry, the first two sales contracts of Georgia's state defence company Delta went to Saudi Arabia and UAE.¹⁰

For the GCC, 'rediscovering' the EaP countries has become an element of a larger geopolitical strategy to curtail the influence of Iran, perceived by the Gulf Arab States as their main rival. For Azerbaijan and Belarus, initiating cooperation with the GCC shows a pragmatic turn in foreign policy, as the respective regimes seek capital necessary for the functioning of their states. Close traditional links with Iran serve in this case as a 'bargaining chip' attracting the interest of the Gulf. For Georgia and Moldova, the Deep and Comprehensive Free Trade Area (DCFTA) agreement that both countries have signed with the EU further increases their attractiveness to the Gulf investors.

Cautious partners in the international arena

Membership of the Eastern Europe and South Caucasus countries in a number of international organisations facilitates their relationship with the Arab states. Belarus and Azerbaijan are members while Armenia and Ukraine are observers of the Non-Aligned Movement, which includes all Arab countries. Azerbaijan is also a member of the Organisation of Islamic Cooperation (OIC) and receives financing from the Saudi Arabia-based Islamic Development Bank (IDB). Armenia is an observer of the League of Arab States. This involvement is largely motivated by attempts to

8 European Commission., DG Trade, 'European Union, Trade in goods with Armenia'. See: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113345.pdf.

9 'Can Belarus keep a strong position on the global arms markets?', *Belarus Digest*, 13 March 2017. Available at: <http://belarusdigest.com/story/can-belarus-keep-strong-position-global-arms-markets-29382>

10 'Georgia signs deal to sell guns to UAE', *Eurasianet*, 1 June 2016. Available at: <http://www.eurasianet.org/node/79031>

strengthen economic ties and the quest for political support in territorial conflicts. Short of becoming allies, the EaP countries and the Arab states often seek mutual support on the basis of reciprocity. Azerbaijan successfully exploited these relations in the context of the Nagorno-Karabakh dispute, when in 2008 the country passed a UN resolution on its territorial integrity demanding the withdrawal of Armenian forces, despite the opposition votes from major international players, including the US, Russia and France. Yet, with the exception of Saudi Arabia which to this day refuses to recognise Armenia, most of the Arab states choose neutrality. This cautious approach has characterised Arab states particularly with regard to the Russian intervention in Crimea, as most of the countries in the region abstained or were absent during the vote on the March 2014 UN General Assembly Resolution 68/262 in response to Russia's annexation of Crimea. Some analysts suggest that the tacit approval of the Kremlin's actions in Crimea boosted the confidence of the Syrian regime, and thereby heightened the proxy aspect of the Syrian conflict.

The stance of the Eastern European and South Caucasus states *vis-à-vis* developments in the Middle East has also been overwhelmingly restrained, particularly since participation in the 2003 invasion of Iraq brought them little tangible benefits. Georgia, Ukraine, Armenia, Azerbaijan and Moldova had all deployed troops in Iraq, albeit the first two most substantively, representing the third and fourth largest contingents respectively. Armenia and Belarus have made more modest troop contributions to the UNIFIL peacekeeping mission in Lebanon.

The impact of the Arab presence in the region

The emerging linkages with the GCC are a new development in the foreign policy of the EaP states, which until the late 2000s sought primarily to replicate the Soviet experience in the Middle East. By engaging with the Gulf States, Minsk, Baku, Kyiv, Yerevan, Chisinau and Tbilisi reveal their increasingly pragmatic approach and willingness to explore alternative sources of investment, fuel and sales markets, hoping these new relations could also provide an antidote to the political and economic pressure being brought to bear by their immediate neighbours.

Nonetheless, strengthening relations with the Arab states could prove a double-edged sword, entangling South Caucasus and Eastern Europe countries in the conflict between Iran and the Gulf States. Moreover, given Russia's growing ambitions in both regions, attempts to diversify sources of investment and trade could elicit a harsh response from the Kremlin. With Kyiv and Tbilisi drawing some parallels between Russian engagement in Crimea and Syria, Arab countries are still wary of engaging in what they perceive as a Russian sphere of interest.¹¹ Consequently, the steady increase in trade and investment is unlikely to be coupled with political

11 President of Ukraine official website. 'Petro Poroshenko at Munich Security Conference: The only way to stop the aggressor is our solidarity', 13 February 2016. Available at: <http://www.president.gov.ua/en/news/petro-poroshenko-na-myunhenskij-konferenciyi-yedinij-zasib-z-36727>

initiatives which might directly challenge the *status quo*. As such, the Arab presence in the region, while supportive to the EU's Eastern Partnership policy in increasing energy security and economic development, could also undermine the European Neighbourhood Policy's 'more for more' principle, providing sources of funding with no conditionality attached on democratic governance.

However, where reforms are likely to ameliorate the economic climate and stability by fighting corruption, introducing e-governance or improving institutional efficiency, the Gulf countries could become the EU's partners on the ground. For the remaining countries of the Arab world, strengthening cooperation between the EU's east and south could provide invaluable lessons on maintaining a balance in a neighbourhood prone to rivalries and the meddling of regional powers. As both neighbourhoods compete for EU attention and financial support, their shared experiences may create a unique potential for bilateral cooperation.

CHAPTER 6

Israeli approaches to the EU's eastern neighbourhood

Julia Lisiecka

Introduction

Israel's presence in the Eastern Partnership (EaP) countries reflects a multipolar approach in Israeli foreign policy. Its key objectives in Eastern Europe and the South Caucasus include expanding trade links, while garnering support in the international arena and exploring means to counter Iranian influence in the neighbourhood. Azerbaijan remains Israel's key strategic partner in the region, both as a sales market for the Israeli defence industry and as the country's biggest oil supplier, but even more importantly, as a Muslim-majority state bordering Iran. The other EaP states remain of secondary importance to Israel, and although diaspora links generate some mutual opportunities, Tel Aviv is wary of any activities in the region which could undermine its relations with Moscow. Not only geopolitics, but also economic calculus explain this approach: trade exchange with all six EaP countries is equivalent to less than 40% of Israel's trade with Russia. Attempts by the EaP countries to improve their relations with Israel despite diverging political interests are revelatory of their increasingly pragmatic approach towards the Middle East.

A public secret: strategic partnership with Azerbaijan

Although Azerbaijan and Israel are reluctant to publicly discuss mutual ties and retain distance in international fora, Israel's 'new periphery' foreign policy strategy and pragmatic interests bring Tel Aviv closer to Baku than to any other country in the region. Intensive trade between the two countries, particularly in the field of defence and energy, serves as the main pillar of the relationship: Israel is Azerbaijan's fourth export partner and eight trade partner. The strategic depth of these economic relations is determined by the crucial value of the commodity: Israel buys around

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40% of its oil from Azerbaijan. Economic cooperation has accelerated over the last few years, with Israeli exports to Azerbaijan having increased by more than 30% from 2015 to 2016. Israel's Prime Minister Benjamin Netanyahu travelled to Baku in December 2016, marking the first visit of an Israeli Prime Minister to Azerbaijan in almost 20 years. The visit was accompanied by the signing of four cooperation agreements, with special attention given to the energy sector. Besides already existing oil imports, Israel could soon share Azerbaijan's gas facilities to export its gas to European markets via Turkey using the Trans-Adriatic Pipeline (TAP). Certain symbolic gestures also attest to good mutual relations: Azerbaijan is for instance one of the very few Muslim-majority countries to commemorate International Holocaust Remembrance Day.¹

Besides its crucial role as an oil supplier, Azerbaijan's cultural and geopolitical proximity to Iran renders it a key strategic partner for Israel as the latter country seeks to consolidate political and security gains. While Tel Aviv perceives Iran as the main security threat, Baku is also concerned about Tehran's growing influence in the region, and the potential exacerbation of sectarian tensions and animosities which could undermine the regime's relative stability. Consequently, over the last decade Israel has become a major arms exporter to Azerbaijan, second only to Russia, while Baku is the second-biggest customer for Israeli arms, purchasing artillery systems, communications and intelligence-gathering equipment, as well as drones. Azad Systems, a joint venture between Israel's third-largest UAV manufacturer, Aeronautics Defence Systems, and the Azeri defence ministry which was established in 2011, assembles and manufactures the Israeli company's UAVs. For Baku, the influx of military technology and equipment is of particular interest in the context of the Nagorno-Karabakh conflict. Azerbaijan hopes also that relations with Israel will translate into closer cooperation with Jewish lobbying organisations in the United States, which could counter the influence of the Armenian diaspora.

The arms deals with Israel alarm Iran, which believes they effectively bring Israeli military technology to its doorstep. This is further exacerbated by media reports of a quiet political understanding allowing Israeli military to access Azerbaijani air bases.² Given this situation, Azerbaijan remains reluctant to further publicise its relations with Israel, postponing a decision to open an embassy in Tel Aviv, despite the Israeli Embassy in Baku having been established back in 1993. The attitudes of the Azerbaijani public to Israel have also remained ambiguous. Despite the fact that some 30,000 Jews live in Azerbaijan, and that Israel is home to an estimated 70,000 Azerbaijani Jews, tourism and people-to-people contacts have so far remained relatively insignificant.

1 'Top aid to Azerbaijan President: Israel important strategic partner', *The Jerusalem Post*, 27 January 2015. See: <http://www.jpost.com/Israel-News/Top-aid-to-Azerbaijan-president-Israel-important-strategic-partner-389060>

2 'Azerbaijan allows Israel to use its air bases near Iran border', *Israel Hayom Newsletter*, 29 March 2012. See: http://www.israelhayom.com/site/newsletter_article.php?id=3718.

Balancing act: Ukraine and Georgia

Russian ambitions towards Ukraine and Georgia complicate Israel's relations with both countries. Tel Aviv is careful not to undermine its fragile ties with Russia by getting entangled in regional conflicts. Consequently, Israel's relations with **Ukraine** were negatively affected by Tel Aviv's decision not to join sanctions against Russia after its annexation of Crimea. Israel was absent at the 2014 UN vote on Crimea, while Ukraine abstained or was absent for most of the key votes regarding the status of Palestine. After Ukraine's unusual vote in favour of the 2016 UN Resolution condemning Jewish settlements in the West Bank, Tel Aviv withdrew an invitation it had previously extended to Ukraine's new prime minister to pay an official visit to the country.

Nonetheless, Ukraine remains of importance to Israel, which is home to an estimated 500,000 Ukrainian immigrants. The tensions were hence quickly defused, and the visit of Volodymyr Groysman eventually took place in May 2017. In fact, the election of Groysman, the first Jewish prime minister of Ukraine, although not unusual for a country with a Jewish community still comprising some 360,000 people, has been interpreted in Israel as a new opportunity for closer cooperation. As mayor of Vinnytsia, Groysman attracted Israeli capital to the city, a move which could be reproduced at state level as currently intensive discussions are under way on a bilateral free trade agreement, primarily focusing on agriculture, the high-tech sector and medicine.³ The improving relations are also visible in the tourism sector, with over 250,000 Ukrainians travelling to Israel annually – over twice the volume recorded five years earlier – and a similar number of Israeli tourists visiting Ukraine. People-to-people contacts and economic cooperation have been growing since visa-free travel was introduced in 2011, and in 2016 Israel was Kyiv's tenth export partner.

Israel's accommodating attitude to Russia has also impacted its relations with **Georgia**. Although during the 2008 conflict the Israeli Ministry of Foreign Affairs issued a statement affirming its recognition of Georgia's territorial integrity, it has also largely scaled back formerly robust military cooperation with Tbilisi. In the early 2000s, Israel supplied Georgia with weapons and military training, including drones, military equipment, shells, rockets and various electronic systems. Deals were partly facilitated by Georgia's then defence minister, Davit Kezerashvili, a dual citizen of Israel, who was later charged with corruption.

Despite Israel's reluctance to further strengthen military and political cooperation, Tbilisi has so far managed to retain its good relations with Tel Aviv, notwithstanding the attempted assassination of Israeli diplomats in Georgia in 2012. In early 2017, Israel's President Reuven Rivlin visited Tbilisi, reaffirming his country's willingness to improve cooperation in the economic sphere. In 2013 the countries agreed on a

³ Ministry of Foreign Affairs of Ukraine, 'Fifth Round of negotiations on the Free Trade Agreement between Ukraine and Israel was held in Tel Aviv', 9 March 2017. Available at: <http://mfa.gov.ua/en/news-feeds/foreign-offices-news/55449-u-tely-avivibulo-provedeno-tretij-raund-peregovoriv-z-ukladennya-ugodi-pro-vilynu-torgivlyu-mizh-ukrajinoju-ta-izrajilem>.

visa-free regime, which increased tourism: in 2016 around 100,000 Israelis travelled to Georgia, representing a 57% increase as compared to 2015.⁴ While the Jewish community in Georgia is relatively small, estimated at around 4,000, around 30,000 Georgian Jews live in Israel. Georgia's strategic importance lies also in the fact that over half of Israel's oil imports, which come from Azerbaijan and Kazakhstan, pass through the Baku-Tbilisi-Ceyhan (BTC) pipeline.

At the fringes of Israel's foreign policy: Moldova, Belarus and Armenia

With stable yet modest trade and political relations, **Moldova** remains at the fringes of Israel's foreign policy. The most famous Israeli *émigré* from Moldova, Avigdor Lieberman, who serves as Israel's defence minister and the leader of the secular-nationalist Yisrael Beiteinu party, has been involved in a dialogue with Chişinău's elites, signalling Israel's interest in trilateral cooperation with some European countries. Although Moldova is the only EaP state besides Armenia not to recognise Palestine, it maintains diplomatic relations with the Palestinian Authority by pursuing a policy of neutrality, and expressing full support for the Quartet principles. In November 2017, Moldova's Prime Minister Pavel Filip visited Israel, discussing cooperation in the fields of agriculture, energy, and the economy.

About 120,000 migrants from **Belarus** live in Israel, and many Israeli politicians such as Shimon Peres, Chaim Weizmann or Menachem Begin immigrated to Israel from areas which now lie within Belarusian borders. Through a visa-free agreement signed in 2014 and meetings of the joint trade and economic cooperation committee both countries seek ways to increase trade, avoiding mutual criticism in the international arena. This cooperation has been attributed to political proximity between Alexander Lukashenko and Avigdor Lieberman, who visits Minsk regularly, both in a private capacity and formerly as minister of foreign affairs. Lieberman has also opposed the 2003 and 2016 closures of the Israeli embassy in Belarus as a cost-saving measure, and the decision in both cases was retracted within several months.

Despite potential mutual interests in the energy sector, among the EaP countries, **Armenia** has the least developed relations with Israel. The Armenian diaspora in Israel is relatively small, counting some 12,000 people, mostly inhabiting the historic Armenian Quarter of Jerusalem's Old Town. The frosty relations can largely be attributed to Armenia's closeness with Iran and Israel's declarative support to Azerbaijan. During the clashes that erupted in Nagorno-Karabakh in 2016, Avigdor Lieberman, in his role as Israel's foreign minister, blamed Armenia for the conflict. Some tension also derives from Israel's refusal to recognise the Armenian genocide, although a shift on this position is possible, given the announcement of the Knesset's

⁴ 'Georgia and Israel – a long history of diplomatic relations', *Agenda.GE*, 10 January 2017. Available at: <http://agenda.ge/news/72923/eng>

Education, Culture and Sports Committee in 2016 that it recognised the genocide and urged the government to follow suit. Trade between the two countries has been dominated by the diamond industry, which accounts for a major share of exports for both countries. At the same time, Armenia also remains the only one of the EaP states not to maintain official relations with the Palestinian Authority. Viewing the status of Nagorno-Karabakh as analogous to the Palestinian case, Yerevan believes that recognition of Palestine could set a precedent for the secessionist claims of the unrecognised republic of Nagorno-Karabakh which it supports. However, as long as the Palestinian government refuses to recognise the enclave's status as an independent republic, Yerevan refuses to consider Palestine as an independent state.

Implications for Europe

Israel remains Azerbaijan's key partner in the arms and oil trade, yet mutual relations have recently been put to the test. Reports of Israeli authorities suspending the export licence of a drone manufacturer due to an investigation by the Israeli police into the company's alleged involvement targeting the Armenian military in July 2017 reflect an inherent tension in Tel Aviv's policy towards Baku. While close cooperation and arms deals might serve some immediate interests, Israel is likely to avoid further entanglement in regional conflicts which could undermine its relations with Europe and Russia.

Apart from Azerbaijan, Israel's impact on EaP countries remains limited, reflecting the moderate importance of the region in Israeli foreign policy. Nevertheless, growing Israeli investment, enhanced by people-to-people ties, could potentially contribute to the diversification of EaP economies and provide an additional counterbalance to the influence of major regional players.

The demand side: the EU's eastern neighbours' approaches to third powers

CHAPTER 7

The third powers and Ukraine

Hanna Shelest

Introduction

For the last four years, Ukrainian foreign policy has been wholly focused on the European and Euro-Atlantic dimensions. This has often negatively influenced its relations with other countries, where it has failed to demonstrate a strategic vision and proactive approach. While cooperation with the US and resistance to Russian aggression have ranked high on its list of priorities, Ukrainian interaction with such regions as the Middle East or China has been unsystematic and lacking in coherence.

For almost a decade, Ukraine's relations with third countries were either essentially reactive or dictated by the policies of its main strategic partners. As a result, by 2016, Ukraine had not substantively developed bilateral relations with many countries. While Ukraine's previous approach of pursuing a dual foreign policy orientation (reaching out to both the EU and Russia) gave way to a drive towards European integration, relations with third countries were formulated separately and reflected several basic goals and motivations: the economisation of foreign policy, energy diversification and, since 2014, the quest for support in the face of Russia's attempted annexation of Crimea and illegal actions in Eastern Ukraine, human rights violations committed against Crimean Tatars and ethnic Ukrainians in Crimea, and the restoration of Ukraine's territorial integrity.

Turkey

In the last few years, Turkey has emerged as one of Ukraine's leading partners. Although in the past, it had always been an important trade and economic partner, developments in the political and security sphere since 2014 have significantly upscaled the level of relations between the two countries. Despite ups and downs in EU-Turkey and Russia-Turkey relations, in which Ukraine at times risked becoming

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a hostage to their political agendas, the two countries have managed to increase their cooperation. Back in 2014, Ankara actively supported the Crimean Tatars, but was not very vocal about Moscow's annexation of Crimea, and did not want to join European sanctions against Russia. This cautious and restrained position might be explained by the long-term vision shared by both Ankara and Moscow that the Black Sea belongs to their natural sphere of influence: Turkey is aware that spoiling relations with Russia would lead to greater EU and NATO involvement in regional affairs as well as jeopardising trade and economic relations between Moscow and Ankara (in particular energy cooperation, tourism and agriculture, and projects for the construction of new nuclear plants).

However, the situation changed dramatically at the end of 2015, when the downing of a Russian military warplane by the Turkish airforce led to a severe deterioration in Russia-Turkey relations. Ukraine availed of the opportunity to enhance political, economic and military dialogue with Turkey, and this resulted in the signing of a substantial number of agreements and contracts. These included: a Joint Declaration following the Fifth Meeting of the High-Level Strategic Council between Ukraine and Turkey, where special attention was paid to security and defence cooperation, as well as to the predicament of the Crimean Tatars in the wake of Russia's annexation of Crimea,¹ and an agreement between the governments of Ukraine and the Turkish Republic providing for the free transfer of surplus military property (including battle suits) from the Turkish armed forces to the Ukrainian military (March 2016). A Memorandum between the Ministry of Education of Ukraine and the Higher Education Council of Turkey was also signed, allowing for the joint training of specialists in strategic spheres, such as aviation, nuclear energy, the space industry, etc (March 2017).

It is important to note that even after relations between Moscow and Ankara improved in summer 2016, the thaw in Russian-Turkish relations did not have a concomitant negative impact on the increasing cooperation between Ukraine and Turkey.² Today, the range of projects on the bilateral agenda is quite broad and varies from creating joint enterprises in the defence and space industry sectors to common use of gas pipeline infrastructure, cooperation in the nuclear energy sphere, conducting joint naval and military exercises, exchanging information and sharing experience in countering terrorism.³

In 2015, the two presidents announced their goal to reach \$10 billion trade turnover by 2023. While 2017 demonstrated a 20% increase in trade, the signing of a free

1 'Спільна Декларація за результатами П'ятого засідання Стратегічної ради високого рівня між Україною і Турецькою Республікою' [Joint Declaration at the conclusion of fifth meeting of the High-Level Strategic Council between Ukraine and the Turkish Republic], Embassy of Ukraine in Turkey, 10 March 2016. Available at: <http://turkey.mfa.gov.ua/ua/press-center/news/45521-spilyna-deklaracija-za-rezulytatami-pjatogo-zasidannya-strategichnoji-radi-visokogo-rivnya-mizh-ukrajinoju-i-tureckykoju-respublikoju>

2 Foreign Policy Council 'Ukrainian Prism', *Ukrainian Prism: Foreign Policy 2016*, 2017, p. 105. Available at: <http://prismua.org/en/ukrainian-prism-foreign-policy-2016>.

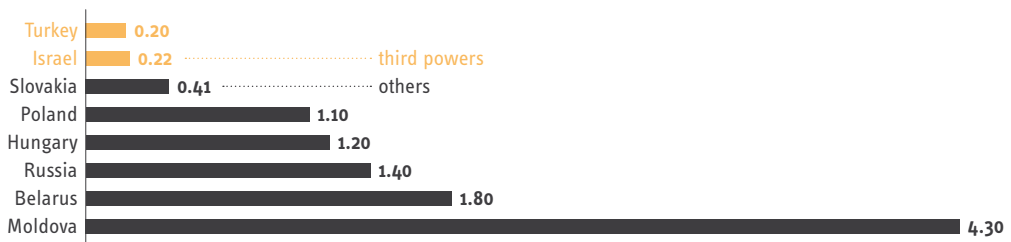
3 Yevgenia Gaber, 'Ukraine and Turkey in A New Security Environment: Bringing Credibility to Strategic Partnership', *UA: Ukraine Analytica*, no. 2, 2016. Available at: <http://ukraine-analytica.org/ukraine-and-turkey-in-a-new-security-environment-bringing-credibility-to-strategic-partnership/>

trade area agreement between the two states has remained a key priority.⁴ While the initial goal was to complete the agreement by 2016, consultations are still taking place, with agricultural quotas among several difficult issues yet to be resolved in the negotiations, which are however entering the home stretch.

Ukraine already enjoyed a visa-free regime with Turkey, and since summer 2017, citizens of both countries can cross each other's borders using internal biometric IDs. This will not dramatically influence tourist numbers (currently around one million Ukrainians visit Turkey annually), but, nevertheless, it is further evidence of the high level of trust that has been built up between the states. People-to-people contacts have also intensified due to the Crimean Tatars issue, where Turkey plays a significant role. The report entitled 'The Situation of Crimean Tatars since the Annexation of Crimea by the Russian Federation', released in June 2015 by an unofficial delegation of Turkish members of parliament,⁵ attracted a lot of attention as no other delegations was allowed to visit Crimea. Ankara's assistance in securing the release of two prominent members of the Crimean Tatars' *Mejlis* from a Russian prison in October 2017, demonstrated both in Ukraine and in Turkey (where 4 million Crimean Tatars live) the positive role that Turkey can play in this context.

Figure 4: Ukraine's top foreign visitors

million visits, 2017



Data: State Statistics Service of Ukraine

In 2016-2017, when relations between the two countries deepened significantly, Ukraine found itself faced with the difficult prospect of taking sides in the developing crisis in EU-Turkish relations. As Ukraine needs Turkey as a reliable security partner in the Black Sea region and as an ally in protecting Crimean Tatars' rights, it seems likely that Kyiv will refrain from getting involved in any rows between the EU and Turkey for as long as possible.

4 'Ukraine and Turkey agreed to intensify cooperation for a substantial increase in trade turnover', Official website of the President of Ukraine, 9 October 2017. Available at: <http://www.president.gov.ua/en/news/ukrayina-ta-turechchina-domovilisya-aktivizuvati-spivpracyu-43826>

5 'Report shows Russian violation of Crimean Tatars' rights', Anadolu Agency, 16 June 2015. Available at: <http://aa.com.tr/en/world/report-shows-russian-violation-of-crimean-tatars-rights/36012>

China

China has always remained a predominantly economic partner for Ukraine. In the crisis in and around Ukraine, Beijing has also remained aloof, preferring not to intervene in regions beyond its own sphere of interest in Asia and not to jeopardise relations with Moscow. Therefore, in March 2014, China abstained during the UN General Assembly vote on the territorial integrity of Ukraine, and in 2016 voted against the UN General Assembly resolution on human rights violations in Crimea. Despite the fact that at all bilateral meetings the Chinese have officially confirmed respect for the territorial integrity of Ukraine, there have been incidents such as the case of the Chinese company Jiangsu Hengtong Power Systems, which violated laws by providing high-voltage energy cables and staff for the construction of an underwater 'power bridge' between Russia and Crimea in 2015. As a result, a criminal investigation has been launched in Ukraine against the company and its personnel,⁶ but this has not impacted on the political dialogue between the states.

After some intensification of relations in 2015, political and interagency dialogue with China entered a long-term hiatus. Only a significant bilateral interest in business and trade opportunities and the potentially important geostrategic position of Ukraine in the One Belt One Road project keep these relations from stagnating entirely.⁷ In the case of the Belt and Road project, the interests of Ukraine and the EU coincide. At the same time, Beijing is hesitating to invite Ukraine to join in the 16+1 format (Eastern European states + China). This is for at least two reasons: a desire to concentrate on developing relations with the EU member states, and the perception that Ukraine has recently attached more value to its relations with Japan, due to Japan's readiness to provide Ukraine with political, humanitarian, technical and economic assistance, while China has preferred to engage in economic relations exclusively. It is also noteworthy that both Russia and Belarus are actively promoting themselves as main hubs and transit points for the One Belt One Road (on the alternative route bypassing Ukraine). However, in this situation China, despite its avowedly apolitical approach to the project, is carefully considering the risks due to the sanctions that the EU imposed against Russia following the Russian-Ukrainian conflict. Moscow has already tried to introduce a land blockade for transit goods from Ukraine to China, which was partially overcome by the introduction of the multimodal container train project on the Ukraine-Georgia-Azerbaijan-Kazakhstan-China route.⁸

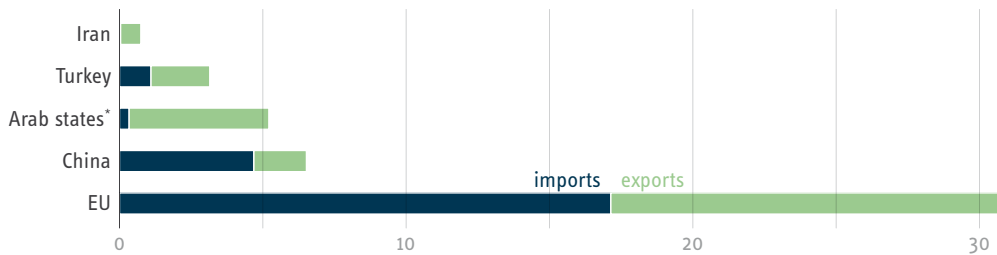
6 Olena Makarenko, 'Can Russia completely supply Crimea with power? Four facts to make your own conclusions', Euromaidan Press, 28 November 2015. Available at: <http://euromaidanpress.com/2015/11/28/can-russia-completely-supply-crimea-with-power-four-facts-to-make-your-own-conclusions/#arvlbdata>

7 Foreign Policy Council 'Ukrainian Prism', *Ukrainian Prism: Foreign Policy* 2016, 2017, p. 85.

8 'Feature: Ukraine-China cargo train on Silk Road opens up prospects for trade promotion', *Xinhua*, 1 February 2016. Available at: http://news.xinhuanet.com/english/2016-02/01/c_135062009.htm.

Figure 5: Ukraine's trade with the EU and third powers

2016, \$ bn



* Here the term 'Arab states' is used to denote the following countries: Bahrain, Egypt, Jordan, Iraq, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Syria, Tunisia, UAE, and Yemen.

Data: 'Export-import of Ukraine with foreign states in 2016', State Statistics Service of Ukraine, 2017.

Both Beijing and Kyiv have a strong interest in cooperation in the agriculture, transport, and trade and investment spheres, but are hesitating to intensify such collaboration. Since 2014, China has been seen in Ukraine as a possible substitute for Russia, in terms of big infrastructural projects and for cooperation in the agricultural sphere. Meanwhile in 2015 China was among Ukraine's five biggest trade partners, accounting for approximately 33% of Ukrainian exports to the Asia-Pacific region, and 57% of imports from the region.⁹ In terms of general trade turnover, China accounted for 8.6%. In 2013, it was just 3.9%; however, Ukraine's overall trade turnover with other countries in absolute numbers was twice as big. The main exports from Ukraine are ore (32%), grain (30%), fats and oils (26%), whereas Ukraine's main imports from China are electrical equipment (22%), and boilers and machinery (17%).¹⁰ Kyiv's hopes of attracting extensive Chinese investment have remained unfulfilled as the Chinese share in total Ukrainian FDI is less than 1%. Military cooperation is also on the agenda, with China in certain years ranking as the third-biggest importer of Ukrainian weapons, being mostly interested in engines and aircraft (especially a deal on manufacturing the Antonov An-225 *Mriya*, the biggest carrier in the world).¹¹

Arab states

While Ukraine has had a long history of contacts with many Arab states (since Soviet times), it has never prioritised these countries in its foreign policy. Never having formulated a clear Middle East policy, Ukraine also found itself in competition with Russia in the 1990s-2000s. Ukraine was seen as a new state without a historical connection to the region, but at the same time its products, equipment and universities were well-known in many Arab states. Russia, in its turn, had long-term relations

⁹ Foreign Policy Council 'Ukrainian Prism', *Ukrainian Prism: Foreign Policy 2015*, 2016, p. 30.

¹⁰ 'Trade-economic cooperation between Ukraine and China', Embassy of Ukraine to China, 2016. See: <http://china.mfa.gov.ua/en/ukraine-cn/trade>.

¹¹ Benjamin Zhang, 'China and Ukraine are going to build the largest plane in the world', *Business Insider*, 1 September 2016. Available at: <http://www.businessinsider.com/china-ukraine-build-antonov-an-225-2016-9>

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with the political elites in many Arab states, although the dominance of the Soviet past has sometimes proved to be a complicating factor. So Russia and Ukraine have become competitors in the Middle Eastern military equipment and arms sales market, as well as for big infrastructural projects and energy resources.

Ukraine's two-year involvement in Iraq (2003-2005) did not bring significant benefits to the country, apart from raising its political profile. Having contributed the fourth-largest contingent of troops (up to 1,600 military) to the international peacekeeping operation, the Ukrainian authorities expected new military contracts and involvement in the reconstruction projects in Iraq to follow. Even more importantly, they hoped that this would lead to an improvement in Ukraine-US relations (previously overshadowed by several scandals, including the unproven allegation that Ukraine sold a sophisticated Kolchuga radar system to Iraq). However, Kyiv's high expectations of new contracts have not been fulfilled, with only a few signed, and one of the biggest having failed. This was a deal concluded in late 2009, whereby Ukraine would provide Iraq with \$2.5 billion worth of weapons and military equipment.¹² However, problems began to emerge as early as 2011,¹³ amid revelations of Ukrainian corruption, the sabotage efforts of some pro-Russian Ukrainian top officials, competition between Russia and Ukraine for the delivery of BTR-4 armoured personnel carriers (APCs)¹⁴ and allegations of a Russian smear campaign aimed at discrediting Ukraine.

Being able to pursue a policy based on economic pragmatism without any political conditions attached is what distinguishes Ukrainian relations with the Arab states from its relations with Europe. While before the Arab Spring, Egypt, Libya, Iraq and Lebanon featured among Ukraine's main partners, Ukraine subsequently shifted its attention to the Gulf monarchies. For example, no meetings of the joint Ukrainian-Egyptian Intergovernmental Commission on Economic and Scientific-Technical Cooperation have taken place since 2010. Due to the security situation, the number of Ukrainian tourists visiting Egypt, for example, has dropped, while agricultural products and black metal have remained Ukraine's main export goods. Around \$2 billion of the trade turnover with Egypt in 2016 demonstrated a significant positive balance for Ukraine.¹⁵

Arms and aircraft sales, investments and energy links, and agriculture have always been among the key areas for cooperation with Gulf States. In November 2017, a new impetus was given to this cooperation by the visit of the President of Ukraine to Saudi Arabia (the first such visit in 14 years) and the United Arab Emirates (UAE). As a result, Ukraine and the UAE agreed to introduce a visa-free regime, and step up

12 'Ukraine OK's \$2.5 billion arms deal with Iraq', *NBC News*, 9 December 2009. Available at: www.nbcnews.com/id/34350862

13 Anna Babinets, 'Ukraine's mysterious exit from the arms trade', *Open Democracy*, 22 February 2011. Available at: <https://www.opendemocracy.net/od-russia/anna-babinets/ukraine%E2%80%99s-mysterious-exit-from-arms-trade>

14 Alex Shulga, 'Ukrainian armored personnel carrier BTR-4 – a headache for Russian “defence industry employees”', *Defence Blog*, 1 June 2017. Available at: <http://defence-blog.com/army/ukrainian-armored-personnel-carrier-btr-4-a-headache-for-russian-defence-industry-employees.html>

15 'Export-import of Ukraine with foreign States in 2016', State Statistics Service of Ukraine, 2017. Available at: <http://ukrstat.gov.ua/>

cooperation in the space industry sector,¹⁶ while Ukraine and Saudi Arabia agreed on participation in privatisation projects, Saudi investments in agriculture, and cooperation in the information and educational spheres.¹⁷ Aircraft manufacturing is a key aspect of the military-technical cooperation with Saudi Arabia, where Ukraine's Antonov aircraft-manufacturing company together with Saudi KACST and Taqnia Aeronautics agreed on joint production of An-132D (initially in Ukraine with a later phase of manufacturing to be moved to Saudi Arabia). The new priorities set for cooperation with the Gulf States are the space industry, military-technical cooperation, aircraft manufacturing, and investments, especially in the agriculture and energy sectors. Moreover, in the context of these agreements both Saudi Arabia and the UAE pledged support to the Crimean Tatars and the territorial integrity of Ukraine.

The issue of Islamic networks is less of a preoccupation for Ukraine than is the case in Europe. While naming the so-called Islamic State as a threat to international security in its National Security Strategy, Ukraine is not involved in international projects countering it, *inter alia* because Ukraine has not been confronted with the influx of migrants from the Middle East and North Africa that the EU has experienced in the past few years. Syria is the only security issue that features in the Ukrainian political discourse and negotiations between Ukraine and European leaders, but this is mostly in the context of Russia's involvement in Syria and parallels between the Russian military intervention in Donbass and Syria. Here cooperation is possible, as the Ukrainian security forces and intelligence services possess experience and information that can be useful for planning future European activities in Syria. Recently a report of the Security Services of Ukraine was presented in Brussels, giving details of crimes committed by Russian private military companies in Donbass and Syria.¹⁸

Iran

Iran has never featured prominently on the Ukrainian foreign policy agenda. Back in 1998, Ukraine cancelled its participation in the construction of the Bushehr nuclear plant (under US pressure), thereby opening the door for Russian involvement, and closing the door on what would have been the biggest Ukrainian project in the region.

Since then, Ukraine has mostly fallen in with American policy towards Iran or correlated it with its own nuclear-free status and non-proliferation policy. As a result, it was only in 2016, after the lifting of international sanctions, that Ukraine resumed

16 'President: Negotiations with UAE Prime Minister yielded important results', Official website of the President of Ukraine, 2 November 2017. See: <http://www.president.gov.ua/en/news/na-peregovorah-z-premyer-ministrom-uae-dosyagnuto-vazhlivih-44250>

17 'Ukraine and the Kingdom of Saudi Arabia signed a series of documents on cooperation', Official website of the President of Ukraine, 1 November 2017. See: <http://www.president.gov.ua/en/news/ukrayina-ta-korolivstvo-sauidivska-araviya-pidpisali-nizku-do-44222>

18 'The Ukrainian report concerning RF private military companies' crimes was presented in Europarlament', Security Services of Ukraine, 19 October 2017. Available at: <https://ssu.gov.ua/en/news/1/category/2/view/4032#.ccaY3CJ3.dpbs>.

its cooperation with Iran, including restarting the Intergovernmental Ukrainian-Iranian Joint Commission on Economic and Trade Cooperation, which had been frozen for 12 years. Ukraine is mostly interested in economic and energy cooperation with Iran. Here Ukraine and the EU are neither competitors nor partners as the long period of sanctions left a vacuum that still needs to be filled.

Despite the Russian-Iranian tandem in the Syrian crisis, Iran chose a more careful position *vis-à-vis* Russia's military intervention in Ukraine. In March 2014 the Iranian representative was absent from the vote in the UN General Assembly backing the territorial integrity of Ukraine and not recognising any change in the status of Crimea, but in 2016, after Kyiv lifted sanctions against Iran, Tehran officially expressed support for the territorial integrity of Ukraine.¹⁹

In the present situation where Donald Trump is again calling for Iran to be internationally isolated, while the EU will most probably continue with the policy of engagement, Ukraine will face a difficult choice. Considering its current economic interests, Kyiv will most probably align with the European position. The main argument in this case will be Iran's stance *vis-à-vis* its nuclear programme, as for Ukraine this issue was the most important in terms of the application of sanctions.

Conclusion

In the political sphere, Ukraine's relations with third countries generally have little impact on EU-Ukrainian cooperation, due to the ultimate goal of the European integration of Ukraine and the hopes that Kyiv has invested in the potential of the Association Agreement. Chinese investments in the country can sometimes compete with those of the EU; however, Beijing is not aspiring to a political or security involvement, so spheres of interest can be shared with the EU. Cooperation with Iran and the Arab states is too marginal at the current stage to influence Ukraine's foreign policy agenda, despite the latest agreements and initiatives with Saudi Arabia and the UAE.

None of the third players that are engaged with Ukraine, with the exception of Russia, is trying to undermine the leading role of the EU in Ukrainian politics. While economic projects may become an issue of competition in the future, none of the regional actors whose role has been analysed here have any aspirations to influence in the political sphere. Internal political dynamics and political competition are likely to be the biggest factors preventing closer EU cooperation with Ukraine. From Kyiv's

¹⁹ 'Minister of Foreign Affairs of Ukraine met with the President of Iran Rouhani', *Ministry of Foreign Affairs of Ukraine*. 29 May 2016. Available at: <http://mfa.gov.ua/ua/press-center/news/48020-ministr-zakordonnih-sprav-ukrajini-pavlo-klimkin-zustrivsia-z-ministrom-zakordonnih-sprav-islamsykoji-respubliki-iran-mohkhamadom-zarifom>.

point of view, intensified cooperation with other regions is instrumental to its strategy of diversification of its economic and energy policies, expanding the geography of Ukrainian exports, as well as a necessity to build strong international support to counter Russia's annexation of Crimea and aggressive actions in Eastern Ukraine.

CHAPTER 8

The third powers and Belarus

Anaïs Marin

Introduction

Over the past decade Belarus has sought to diversify its contacts with the outside world, deepening in particular relations with countries beyond both the post-Soviet space and Western Europe. In 2010 these so-called ‘third countries’ were the destination of 10% of Belarus’s total exports, and the country’s active pursuit of economic diplomacy has ensured a steady growth of this share since then. These new trading and diplomatic partners have come to play a crucial role in the regime’s ‘multi-vector’ foreign policy and survival strategy.

This chapter provides an overview of Belarus’s relations with China, Iran, some Arab states (Syria, the United Arab Emirates, Qatar) and Turkey, examining the significance of each partnership for Belarus’s international strategy and how their emergence on the political playing field affects Belarus’s relations with Russia and the EU.

A geopolitical balancing act

A legacy of the common Soviet past, the Belarusian economy is structurally highly dependent on Russia, especially in terms of hydrocarbon supplies. This economic and energy dependence on Russia seriously constrains Belarus’s freedom of political manoeuvre. Only when relations with Moscow were at their worst (eg. during the so-called ‘gas wars’) did Minsk seek to establish closer cooperation with Western democracies. Given the EU’s conditionality policy, *rapprochement* with the Union comes at a cost that Belarus’s authoritarian regime is unwilling to pay however.

Against this backdrop, realist pragmatism has led Minsk to seek alternative partnerships with three objectives in mind: (i) diversifying energy supplies (in order to offset the country’s dependence on imports from Russia); (ii) seeking hard currency

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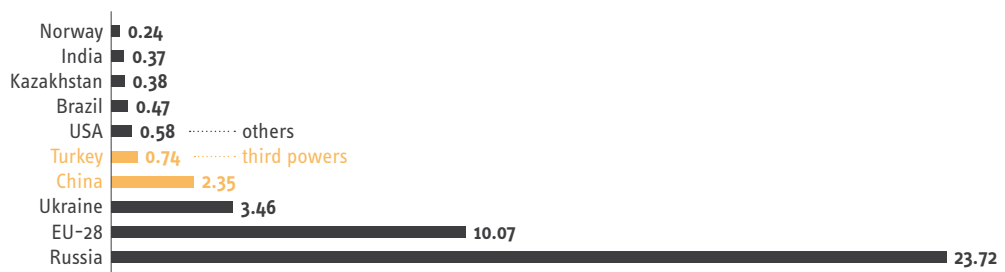
incomes (export revenues, FDI inflows, credits) to compensate for Russia's shrinking financial support; and (iii) forging alliances with potential supporters at the UN as a way of overcoming international isolation. No third player can simultaneously meet all three objectives; yet each of them is, in its own sphere, a useful partner for Belarus.

China: a strategic partner

China is undoubtedly Belarus's major partner among the 'third players' category, both in economic and diplomatic terms. Bilateral ties with Beijing have proved to be particularly durable and stable; China has ranked among Belarus's top ten trade partners since the 1990s, and mutual trade turnover in 2016 reached almost \$4 billion. Since 2009 a pro-China lobby within the Belarusian government has propagated the idea that China could replace Russia as Belarus's financial and geopolitical patron.

Figure 6: Belarus' biggest trading partners

trade in goods, 2016, € bn



Data: DG TRADE

President Lukashenka assumes that China shares Belarusian values due to the countries' common communist roots. Both have a preference for strong state governance while defending similar norms in the sphere of international relations – respect for territorial integrity, non-interference in domestic affairs, peaceful conflict resolution, etc. Mutual political trust stems from Minsk's adherence to the 'One China' principle (non-recognition of Taiwan and Tibet) and from Beijing's condemnation of Western sanctions against Lukashenka's regime. At the UN China and Belarus systematically support one another.

In 2013 China signed a Comprehensive Strategic Partnership agreement with Belarus. A much awaited leap forward for Minsk, this upgrade of the relationship is not an exceptional phenomenon however: under Xi Jinping China has multiplied strategic partnerships with Eastern and Central European countries to promote its One Belt One Road (OBOR) project. One of the land segments of China's New Silk Road runs across Belarus, whose transport and logistics infrastructure China has pledged to modernise.

Yet from a Chinese viewpoint Belarus does not offer a sufficiently business-friendly environment. The bulk of Chinese credits and investments remains ‘tied’: funds must be used mainly for purchasing Chinese products and services, thereby limiting their benefit for the wider Belarusian economy. In spite of a favourable investment and tax regime, the China-Belarus Great Stone Industrial Park for example has failed to become a high-tech hub: it mostly attracts Chinese companies producing cheap, low-quality products for other markets. Even the BelGee joint-venture established with Minsk Automobile Plant (MAZ) for assembling Geely cars in Belarus has proved to be a disappointment: Belarusian technological input remains minimal, spare parts must be imported, and cars are destined to be sold elsewhere in the Eurasian Economic Union (EAEU).

One field where relations match the high level of political trust is military-technical cooperation. China helped Belarus develop its first totally home-made weapon, a multiple missile-launcher named ‘Polonez’, in record time: this has been in use in the Belarusian army since late 2016 and is also available for export. Even though most of the components are believed to be Chinese, Belarus provided the chassis, guidance systems and high-tech optoelectronic equipment. Its range (200 km, to be expanded in the future), high precision and capacity to hit eight targets simultaneously makes Polonez a potential substitute for ‘Smertch’ or ‘Grad’ missiles on short distances. Hence acquiring it has relieved Belarus of the need of purchase such missile launchers from Russia, which has consistently refused in recent years to supply the Belarusian army for free (or without ‘geopolitical compensation’). Chinese support potentially enables Belarus to also challenge Russian products in their traditional export markets, several countries including Ukraine having expressed an interest in purchasing Polonez.

Iran: a new Venezuela for Belarus?

Belarus’s relations with Iran made the headlines in the mid-1990s when Russia, after joining the international sanctions regime against Tehran, was first suspected of using Belarus as a ‘grey’ intermediary for illegal arms sales to Iran. Shady export schemes were exposed but such allegations were never conclusively proven however. Belarus indeed sold tanks to Iran in 2000-2002, but assumptions that it delivered Iskander-M tactical missile systems or S-300 surface-to-air missiles to Iran in violation of the sanctions regime all turned out to be unfounded.

Bilateral cooperation picked up in the mid-2000s following the reciprocal presidential visits of Lukashenka and Ahmadinejad, whose friendly personal ties and common anti-Western views facilitated dialogue. Yet trade remained limited and unbalanced, with Belarusian exports – of potash fertilizers and synthetic fibres mainly – accounting for 75% of total trade. Originally set for 2004, the goal of mutual trade turnover worth \$100 million was reached in 2010 only. Investment flows also remained fairly limited, or short-lived.

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In May 2007, for example, Iran granted Belarus greater access to its oil reserves (at the Jofeir oil field). This was the first big energy project to be undertaken abroad for Belarus; yet in spite of an Iranian state loan granted two years later Belarusneft failed to extract the agreed upon quantities of crude oil, and withdrew in 2011. This marked the beginning of a continuous decline in bilateral cooperation. As Iran has never pursued a consistent foreign economic policy towards post-Soviet countries, Belarus has been the main initiator in this relationship. The international opprobrium that greeted both regimes in 2011 prompted Minsk to distance itself from the Iranian 'rogue' state.

Only following the lifting of international sanctions against Tehran did bilateral energy cooperation resume: on 23 March 2017 Belarus received its first cargo of Iranian crude oil (80,000 tons), dispatched by rail to the Mozyr oil refinery via the Odessa port in Ukraine – the same supply route that was used in 2010-11 for bringing in Venezuelan oil. Since it was announced in October 2016 the deal has served as a useful bargaining chip in Minsk's negotiations with Moscow over oil and gas issues, helping Lukashenka secure concessions from Putin in that field.

Arab states: focus on defence cooperation

Whereas until the late 2000s Belarus tended to befriend fellow pariah regimes in the Middle East (Iraq, Iran and Libya for example), in recent years it has responded positively to invitations for *rapprochement* from conservative, pro-Western Gulf monarchies and long-term rivals or enemies of Iran, Belarus's traditional ally in the region.

Cooperation in the military and defence fields has dominated Belarus's relations with Arab states ever since the 1990s, when Belarus was flooding the Middle East and Africa with Soviet-era weapons. Belarus was for a long time the second-largest supplier of weapons to **Syria**, a key customer and partner in the region. Following Bashar al-Assad's visit to Minsk in July 2010 official business contacts were established with the Army Supplies Bureau of Syria. Since the Arab Spring Belarus has sought to distance itself from Damascus however. For example, it snubbed Hugo Chavez's 2010 proposal for a tripartite anti-US coalition involving Venezuela, Syria and Belarus at the level of foreign ministers. Stressing Belarus's neutrality pledge and its membership of the Non-Aligned Movement, Minsk has also refrained from siding with Moscow in the Syrian conflict.

Only relations with the **United Arab Emirates** and **Qatar** give Belarus an opportunity to compensate for its trade deficit with other third countries. Both are key destinations for the goods and services exported by the Belarusian military-industrial complex. The trade surplus with these micro-states is also due to Belarus's export of steel products, off-road dump trucks, woodwork and construction materials, but also foodstuffs (halal dairy and meat products).

Bilateral relations focus on military-technical cooperation however, with Belarus providing specialised training for military and Interior Ministry troops and occasionally taking part in joint exercises. Rumour has it that BelTechExport (BTE), the Belarusian arms control agency targeted by Western sanctions between 2011 and 2016, partly relocated to the UAE in order to protect its financial assets and to continue supplying weapons to conflict zones in the region, including to Libyan militias (apparently with the West's tacit agreement).

In a February 2016 report the Dubai Chamber of Commerce ranked Belarus as the most active Commonwealth of Independent States (CIS) business partner in the Persian Gulf – ahead of Russia. Belarus encouraged business contacts by easing visa requirements and allowing Qatar Airways to operate up to 143 yearly flights between Doha and Minsk.

Cooperation is expanding to new fields too – transport logistics, space technologies (Belarus is involved in the UAE's Mars exploration programme), winter sports and culture. The UAE takes part in the Christmas hockey tournament organised yearly by the Belarusian presidency, while referees in the first Gulf Ice Hockey Championship held in Doha in January 2016 were all Belarusians. Qatar has clearly included Belarus in its global investment strategy, as symbolised by the construction of a 5 star Marriot Hotel that opened in 2016 in Minsk.

Turkey ... in the shadow of Moscow

In contrast to its relations with other third players, Belarus's cooperation with Turkey is more developed in the trade and economic field than at the political level. In spite of good mutual understanding between Alexander Lukashenka and Recep Tayyip Erdoğan, diplomatic relations between the two countries remain in the shadow of Ankara's relationship with Moscow.

Yet Turkey ranks among Belarus's top 10 trading partners. In 2016 mutual trade turnover peaked at almost \$600 million, mainly due to Turkey's exports to Belarus, thereby confirming Lukashenka's belief that Belarus can serve as an entry point into the EAEU for Turkish goods. Their sudden influx however is mainly due to the fact that Belarus served as a re-export platform for circumventing Russian sanctions against Turkish food products following the downing of a Russian warplane in November 2015. The prospect of the normalisation of Russian-Turkish relations might well put an end to this trade scheme.

Turkey is nonetheless likely to remain a key investor in Belarus, especially in the fields of space industry, road and rail transport (with the building of the Viking route linking Turkey to Lithuania via Ukraine), telecommunications, construction and the textile industry. Several Belarusian companies are investing in Turkey too: Belneftekhim is expanding its petrochemical distribution network, whereas MAZ, Gomselmash and BelAZ are planning to open assembly plants in Turkey.

Impact on Belarus's relations with traditional players

A Slavic brother and ex-Soviet brother-in-arms, Belarus is expected to remain overwhelmingly loyal to Russia. Yet in multiplying connections with third players, albeit for pragmatic rather than ideological reasons, Belarus often successfully outplays Russian pressures and especially its oil and gas diplomacy. This irritates Moscow greatly: when they bear fruit, alternative partnerships contribute to consolidating Belarus's international autonomy. Moreover, military cooperation with third players such as China indirectly challenges Russia's geopolitical supremacy in its very backyard, and potentially Russia's market shares too.

Another source of concern for Moscow is the possible emergence of a North-South corridor linking Belarus to Caspian (Azerbaijani) and Middle Eastern energy suppliers. Should the 2017 oil deal with Iran prove to be more than a spot transaction, the subsequent reopening of the oil pipeline linking Ukraine to Belarus could well reignite Russian fears of a political alliance along a Baltic-Black Sea axis.

As for the EU, the impact of Belarus reaching out to third players is twofold. For one, it relieves Belarus of the necessity to comply with Western liberal norms and standards, since technologies and loans from these countries come with no democratic conditions attached. On the other hand, Lukashenka's bid to make his regime more presentable, albeit at the expense of Belarus's traditional partners in the region such as Iran, illustrates that his foreign policy is guided by opportunism, not ideology. Belarus's ongoing *rapprochement* with pro-Western Arab states thus forces Brussels to acknowledge Minsk's efforts to distance itself from Russia's geopolitical games in the Middle East.

CHAPTER 9

The third powers and the Republic of Moldova

Vadim Pistrinciuc

Introduction

Moldova's foreign policy orientation has traditionally been shaped by the 'East-West dilemma', as the country navigated between competing Western and Eastern spheres of influence. Therefore, the bulk of Moldova's energy and diplomatic resources were channeled towards fostering relations with Russia and the EU. Third powers have rarely featured prominently in Moldova's foreign policy calculations, and therefore until recently their role has been rather peripheral. With the exception of Turkey, regarded as a stabilising factor in the south of the country, Moldova did not pursue a coherent long-term policy towards these other powers – notably Iran, China, the Arab states and Israel. However, in recent years Moldova has sought to diversify its international economic engagements. The government in Chisinau has begun to pay more attention than before to the regional powers to the south of the country and further to the east. Sporadic efforts to deepen relations with third actors have delivered some results, but are still far from being translated into solid multilateral partnerships. This chapter aims to trace how Moldova's approach towards third actors has evolved in recent years and to what extent these new players are having an impact on relations with Russia and the EU.

Third players in Moldova's foreign policy

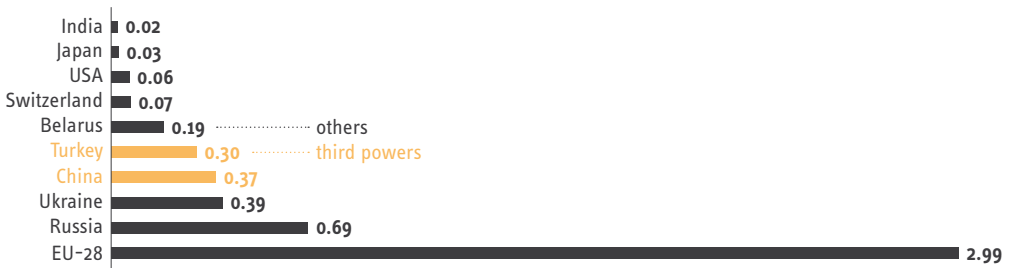
After the dissolution of the Soviet Union, Moldova inherited close economic ties with three neighbouring states: Belarus, Russia and Ukraine. Russia is Moldova's main trade partner in the east. Over the last decade, however, Moldova has in parallel rapidly developed and deepened economic relations with the EU, with Romania being Moldova's most important trading partner among the EU member states. Trade volumes with the EU have far outpaced economic exchanges with Russia. In 2016 Moldova's trade turnover with the EU reached 54.7%, while its trade with

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Russia dropped to 12.7%. Among the third regional powers, Moldova traditionally enjoyed close economic and social ties with Turkey. But lately, the authorities in Chisinau have taken measures to reach out to other actors further afield in the Middle East and Asia, by opening embassies and diplomatic missions in the region and developing economic links.

Figure 7: Moldova's biggest trading partners

trade in goods, 2016, € bn



Data: DG TRADE

Moldova's efforts to diversify its commercial partnerships have been driven by several factors. In 2014 Moldova concluded an Association Agreement with the EU, as part of which a Deep and Comprehensive Free Trade Area (DCFTA) was established. The accord opened new trade opportunities, and not only with the EU, as the implementation of EU standards may facilitate penetration of previously unexplored markets to the south and east. Moldova has also enjoyed a visa-free travel regime with the EU since 2014 which has provided the government with an additional argument to push for similar regimes with third countries. This has naturally led also to the opening of new flight connections. The quest for new markets has also been motivated by Russia's mounting pressure on Moldova over the last several years, as a result of which Moldova's access to the Russian market has been significantly curtailed. Moreover, the war in Ukraine and sanctions enacted by the EU against Russia, have affected Moldova's two important trade partners. These developments have had a negative impact on the Moldovan economy. Moldova has been trying to attract foreign investment and third powers have been regarded as potential sources of capital in this regard. In addition to economic factors, domestic politics has also played a role. Internal political competition has to some extent defined the geography of state visits and encouraged Moldovan politicians to seek new openings beyond the traditional East-West axis.

Turkey – more than just a trade partner

Turkey is a third actor with a long-standing presence and interest in Moldova. For Chisinau, partnership with Ankara is important in many ways. Although the

relationship between the two countries is underpinned by strong economic cooperation, Turkey is more than just a significant trading partner. In the early 1990s Ankara was instrumental in defusing secessionist claims in the southern region of Moldova populated by the Gagauz, an ethnically Turkic, Orthodox Christian minority. Since then Moldova has welcomed the projection of Turkey's soft power in the form of scholarships, cultural programmes and development aid in the Autonomous Region of Gagauzia in the hope that this will dilute Russia's influence there. The Turkish International Cooperation and Development Agency (TIKA), which has been active in Moldova since 1994, has implemented more than 300 projects improving access to potable water, healthcare and education, and the development of sports infrastructure and agriculture in the Autonomous Region of Gagauzia. The amount of funds allocated via TIKA in 2009 made Gagauzia the region with the highest Turkish foreign aid per capita. Thus, Turkey plays an important developmental role in the region, which traditionally has been considered to be much poorer than the northern or central part of Moldova.

Turkey has sought to use its soft power in the region not only to upgrade infrastructure and revive local language and traditions, but also to encourage the population of Gagauzia to be loyal citizens of Moldova. The government in Chisinau has welcomed Turkey's presence in order to counteract Russia's spoiling tactics in the south of the country. Turkish officials visiting Moldova have always made a point of paying visits to the region and have called on the Gagauz people to learn not only their own language but also that of the state in which they live. The Moldovan authorities enlisted Turkey's support to transmit pro-European messages in the region, which is heavily Russian-oriented. While publicly supporting Moldova's integration with the EU, Turkey had at the same time demonstrated a certain degree of pragmatism by engaging with politicians representing the entire political spectrum in the country. For instance, in 2017 the ruling Justice and Development Party (AKP) signed an inter-party cooperation agreement with the Socialist Party of Moldova – the pro-Russian party of the president Igor Dodon. Turkey has thus signalled that it is ready to work with whoever is in power in Chisinau. As EU-Turkey relations sour it cannot be ruled out that in its outreach towards the Gagauz Turkey will downplay the benefits of Moldova's integration with the EU and instead focus more on the cultivation of local language and traditions. But even such a shift will still play into Moldova's hands, as the Russian language is still largely used as the *lingua franca* in the region, including in official settings.

The government in Chisinau was among the first in the region to condemn the Turkish military coup attempt of 15 July 2016. Replicating the pressure it brought to bear on other states, Turkey called on the Moldovan authorities to close down educational institutions sponsored by the Gulen movement. There are five such institutions in Moldova (run by the Turkish foundation 'Orizont'): established 23 years ago, they are widely recognised to be among the best secondary schools in the country. In 2016 pupils from Orizont schools brought home 26 out of 33 medals won by Moldova at international science competitions. The closure of these schools would inevitably trigger protests by parents and a public outcry. Hence, Moldova's government has been reluctant so far to heed pressure from Ankara in this regard.

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The political relationship between the two countries is sealed by economic ties with roots going back to the 1990s. Turkish entrepreneurs were among the first foreign investors who came to do business in Moldova in the 1990s. As a result there are 1,126 Turkish-capitalised companies in Moldova spanning the tourism, services, agriculture and construction sectors. Turkey is also among the first destinations of Moldova's 'shuttle traders' bringing cheap mass-produced goods from Turkey which they then resell at the local markets. Since then economic ties have grown rapidly. In 2016, Turkey was Moldova's fifth import partner and fourth export market. In Moldova's overall trade turnover Turkey occupies fifth position (accounting for 5.5% of overall trade). In 2015 Moldova and Turkey signed a free trade agreement which has been in force since October 2016. This has further deepened bilateral trade. In the first half of 2017, Moldova's exports to Turkey increased by 48%.¹

Bilateral trade has boosted people-to-people exchanges. Mixed marriages, the Gagauz diaspora in Turkey and tourism are three factors which drive intersocietal relations. The Turkish Mediterranean coast is very popular among Moldovan holidaymakers. When Moldova and Turkey lifted visa requirements for short-stay visits in 2014, this had an immediate impact by increasing the number of Moldovan tourists in Turkey from 57,000 in 2013 to almost 70,000 in 2015. But as the EU lifted visa restrictions too, while Turkey experienced the failed coup attempt and a series of terrorist attacks, the flow of tourists from Moldova towards Turkey dried up in 2016. Nevertheless, in the first half of 2017, 33% of holidaymakers from Moldova chose Turkey's coastal resorts as their destination. Chisinau and Ankara are currently exploring the possibility of concluding an agreement to simplify visa-free travel (using internal ID cards instead of passports).

Inviting the Chinese dragon to dance

Moldova has made several attempts to foster closer relations with China. The governing Communist Party of Moldova (2001-2009), relying on ideological affinities with Beijing, sought to make overtures in this direction in line with its intention of pursuing a multi-vector foreign policy. In 2001 the first and hitherto only visit of a Chinese head of state took place when Jiang Zemin visited Moldova. President Voronin returned the favour in 2003. Reciprocal high-level visits have invigorated bilateral trade exchanges, people-to-people contacts and inter-party cooperation. The Chinese government has annually provided 20 scholarships for Moldovan students. At the same time, the Chinese Communist Party has forged closer links with and provided assistance to the Communist Party of Moldova. Bilateral trade has grown overall due to an increase in Moldovan imports from China. The leadership in Chisinau has sought to negotiate loans for the development of infrastructure, but so far these attempts have not borne fruit.

1 National Bureau of Statistics of the Republic of Moldova, see: <http://www.statistica.md/>; GlobalEdge, 'Moldova Trade Statistics', see: <https://globaleedge.msu.edu/countries/moldova/tradestatats>.

The 2009 change of power in Chisinau opened a new chapter in bilateral relations. In spite of the government's pro-European orientation, the governing coalition stepped up efforts to engage with one of the fastest-growing economies in the world. The government aimed to gain access to the Chinese market for Moldova's exports, and attract investments and grants from China. These were not aimed to substitute the EU, but rather to counter the effects of Russia's economic sanctions against Moldova and secure additional funding for domestic development. China has responded in a pragmatic way, shifting swiftly from its former privileged relationship with the Communist Party of Moldova towards constructive relations with pro-European governing parties.

As a result, since 2010 members of Moldova's pro-European parties have participated in exchange programmes and study trips organised by the Chinese. Moldova's governing parties have developed bilateral party links with the Communist Party too. Projecting its soft power in Moldova, China opened a Confucius Institute at the Free International University of Moldova in 2009. Currently, more than 600 students study the Chinese language at this Institute. It is also worth noting that the Chinese government have twice (in 2011 and 2017) made donations of equipment to Moldova's armed forces (e.g., minibuses, ambulances, truck refrigerators, electricity generators and spare parts). As Moldova's defence budget is among the lowest in the region, these donations represented a significant contribution to improving Moldova's military logistical capacities. China also offered a grant of \$5 million for the acquisition and installation of speed cameras in Moldova. This was the first road traffic monitoring project to be undertaken in Moldova.

The real success story for Moldova however was gaining improved access to the Chinese market for its wine exports. In 2010 alone, exports of Moldovan wine to China increased seven times compared to the previous year. According to Chinese import data, Moldova was one of the top performers in wine imports in 2016.² Whereas in 2014 Moldova exported 1.8 million litres of wine to China, in 2016 the figure reached 3.8 million litres. The 2016 results compared to the previous year represent a 66% growth in wine exports. The value of Moldovan wine exports in 2016 (measured in USD) grew by 97.5% compared to 2015. This achievement was mainly due to an intensive marketing promotion campaign carried out successfully with the assistance of the Chinese authorities. As a result, in 2016 Moldova exported more wine to China than to Russia (3 million litres). Despite the spectacular success of Moldova's wines on the Chinese market, the trade balance still heavily favours China however. In 2016, China was Moldova's third import partner (9.8%) and ninth export market (0.7%). In Moldova's overall trade turnover China holds fourth position (6.8% of overall trade). To improve its trade balance with China, Moldova needs more success stories similar to its wine exports. Hence, the Chinese market remains an opportunity waiting to be fully tapped.³

2 'China wine import data (January to August 2016) – the large still dominated while Georgian and Moldova wines led the growth', *Chinawinebusiness.com*, 13 October 2016. See: <http://www.chinawinebusiness.com/single-post/2016/10/13/China-Wine-Import-Data-January-to-August-2016--The-Large-Still-Dominated-While-Georgian-and-Moldova-Wines-Led-The-Growth>

3 National Bureau of Statistics of the Republic of Moldova. See: www.statistica.md.

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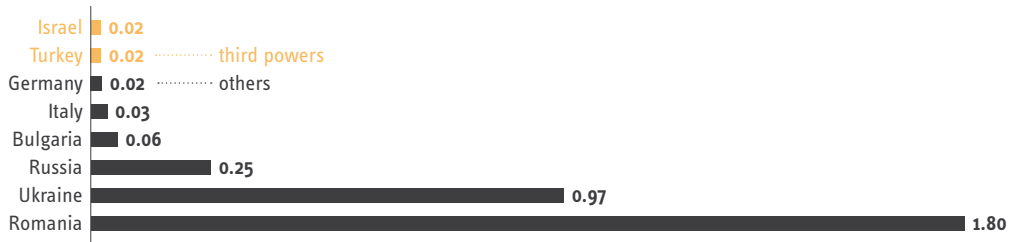
Not everything has gone smoothly in bilateral relations though. Moldova's dreams of contracting Chinese loans for implementation of infrastructure projects (e.g. to upgrade the country's road network) have been dashed. The Moldovan authorities discovered that loans offered by China are more expensive than those offered by the EU, the European Bank for Reconstruction and Development (EBRD), World Bank or European Investment Bank (EIB). Negotiations on the loans with China have therefore not advanced very far. On another note, in 2013, reportedly under the pressure of the Chinese government, the activities of the Falun Dafa-Falun Gong foundation in Moldova were banned. The court's ruling was based on the fact that the foundation used a symbol similar to the Nazi swastika. But in 2015 the case was debated by the Constitutional Court of Moldova, as a result of which the foundation's legal status was restored and the previous court decision overturned.

Testing waters in the Middle East

The Middle East has never been high on Moldova's foreign policy agenda. Societal relations rather than official contacts have traditionally served as a bridge and driver of relations between Moldova and the countries of the region. After the collapse of the Soviet Union, Jews from Moldova massively migrated to Israel, while students from Arab countries came to study in increasing numbers (particularly at the faculty of medicine) to the independent Republic of Moldova.

In the Middle East the most positive and dynamic bilateral relations that Moldova enjoys are with the State of Israel. Both have established reciprocal diplomatic representations. Moldova has an embassy and three consulates in Israel, which is an exception in terms of Moldova's otherwise sparse representation in the region. It is estimated that 80,000 Israeli citizens have roots in Moldova, among them Avigdor Lieberman, the current minister of defence. Some former citizens have preserved personal connections with or initiated business ventures in Moldova. At the same time, many Moldovans have taken up work in Israel, mainly in the construction sector. This process was facilitated by a bilateral agreement on the temporary employment of Moldovan citizens in Israel. As a result, the official number of Moldovan workers in Israel grew from 1,000 in 2012 to 13,000 in 2016. In reality this figure might actually be much higher. Consequently, remittances from Moldovans employed in Israel have increased as well. In the first half of 2017, 16% of all remittances to Moldova came from Israel. In 2014, Israel lifted visas for Moldovan citizens travelling to the country for a short-term stay. Subsequently, the number of Moldovan tourists visiting Israel went up by 57%, although in absolute terms numbers are still insignificant. There is also a growing influx of tourists from Israel to Moldova. Between 2006 and 2016, the number of Israeli tourists visiting Moldova more than doubled (from 1,112 to 2,417). Although data show that in 2016 and the first half of 2017, Moldova's exports to Israel increased, nevertheless their share in overall trade turnover is below 1%.

Figure 8: Moldova’s top foreign visitors
million visits, 2017



Data: National Bureau of Statistics of the Republic of Moldova

Moldova’s only other diplomatic representation in the region was opened in Qatar in 2015. This is the first Moldovan embassy in the Persian Gulf aimed at attracting foreign investment in infrastructure projects and to open up the regional market for local agro producers. In 2015, in the midst of the fruit and vegetable embargo imposed by Russia, Moldova sent a first shipment of 20 tons of apples to Qatar. The volume of exports is therefore far from significant. Relations with the United Arab Emirates (UAE) were given new impetus in 2013 when Flydubai launched a direct connection to Chisinau. Flights however were suspended in 2015, although they might be resumed in March 2018. In 2017 the Moldovan government announced its intention to open an embassy in Abu Dhabi and a consulate in Dubai. Chisinau also hosted the UAE-Moldovan Business Forum in February 2017. The event brought together about 100 Moldovan companies and over 20 companies from the UAE. These initiatives however need to be followed up if they are to deliver tangible results.

Moldova has not invested capital in the region, with one exception. In 2013, Moldova made overtures to establish and develop economic relations with the Kurdish region of Iraq. The main driver behind this *rapprochement* was the fact that the Moldovan oil company ASCOM was active in this area. Kurdish officials made a private visit to Chisinau and met representatives of the Moldovan government. These investments in high-level diplomacy paid off. In 2013, the regional government of Kurdistan awarded the Komet Group (controlled by ASCOM) the right to explore two oil fields in the region. In 2014, as a result of the war in Iraq, the company was forced to evacuate its personnel and suspend drilling activities. In 2017 Moldova returned to Iraq but as an exporter rather than as an investor. Trans-Oil Group which owns two factories in Moldova (in Balti and Ceadir-Lunga) concluded a contract for the delivery of sunflower oil with Iraq’s Ministry of Defence for an annual value of \$25 million. Iraq has thus become the biggest market for sunflower exports from Moldova.

The current legal framework for bilateral relations between Moldova and Iran includes 14 agreements. But the potential of this legal framework has not been substantively utilised so far. According to the State Registration Chamber data, in 2016 there were only 30 enterprises with Iranian capital in the Republic of Moldova. Bilateral investments and trade exchanges are negligible. In 2017 the President of Moldova

visited Tehran twice, on the occasion of the Women's World Chess Championship and to attend President Rouhani's inauguration ceremony. During short meetings held on the margins of these events, the two presidents promised to reinvigorate relations and discussed the possibility of opening embassies in both countries. However, in addition to bilateral interests, these visits provided President Dodon with the opportunity to score some domestic political points. In Tehran the Moldovan president met Russia's Deputy Prime Minister Dmitry Rogozin who ahead of his visit to Moldova had been declared *persona non grata* by the Moldovan government. Therefore, the Moldovan president's trip to Teheran served two collateral objectives as well: to deliver a riposte to the executive in Chisinau who had barred the Russian official from visiting the country, and to reconfirm Moldova's Russian-centric foreign policy orientation.

What does it mean for the EU and Russia?

Relations with the EU, Russia and immediate neighbours are the priority for Moldova and will remain so for the foreseeable future. Chisinau's attempts to secure alternative sources of financing from third actors have not been successful so far. Either the terms of the loans offered are too expensive or the investment climate in Moldova is unfavourable for entrepreneurs coming from afar. The EU will continue to play the role of the main international donor and source of investments in Moldova.

Among third actors only Turkey stands out as a veritable third power in Moldova. Turkey's contribution to the stability and development of the Autonomous Region of Gagauzia is in line with EU objectives too. The DCFTA with the EU has facilitated the deepening of commercial relations between Ankara and Chisinau. The visa-free travel arrangement with the EU was also conducive to the liberalisation of the visa regime between Moldova and Turkey. Therefore, the EU and Turkey are to a large extent complementary actors in Moldova.

Moldova's emerging foreign economic engagements with third actors may help to absorb the costs of Russia's economic statecraft. Growing exports to China and the increasing volume of remittances from Israel indicate evolving trends in this direction. If Moscow continues to use 'economic sticks' whereas Moldova invests methodically in economic diplomacy with third actors, Russia's economic leverage over the country might diminish substantially in the coming decade.

CHAPTER 10

The third powers and Georgia

Ekaterine Zguladze

Introduction

Georgia has seen major changes in its foreign and economic policy since 2005, when it took a strong pro-European, pro-NATO stance and sought to rebrand itself as an aspiring Western-type democracy and corruption-free stronghold in the region rather than part of Russia's backyard. At a certain point, domestic policy in Georgia became entirely subservient to foreign policy: all domestic policy initiatives were undertaken with the aim of strengthening Georgia's foreign policy goals. Whether this worsened the relationship with Russia or whether it was the already deteriorating relationship with Russia that forced Georgia to turn towards the West is a 'chicken or egg' type of question. However, as tensions built up, in response to Russia's political, economic and energy sabotage Georgia reached out not just to the obvious alternatives to Russian patronage (the US and the EU) but also to new potential partners. What Georgia offered was a business-friendly environment, transparent, quick and efficient administrative procedures, as well as extremely liberal travel regulations for potential investor and tourist market countries – including even Iran.

Georgia's ambitious self-positioning and reform drive enabled the country to survive the 2008 war with Russia politically and economically, and this legacy has also allowed the current government (elected in 2012) to assume a more low-key foreign policy posture, rarely undertaking bold new initiatives in this domain. There are pros and cons to such an approach, the immediate danger being that the less prominently Georgia features on the international radar screen, the more it risks losing its safeguards against Russian economic, energy and political dominance. In the longer run, the challenge seems to boil down to the question of what political direction Georgia wants to go in. Should it continue on its current liberal Western-oriented trajectory or return to the policies of the Shevardnadze era when it touted its strategic value as a 'transit route' for oil and gas pipelines? Meanwhile, the world has changed and policies towards Turkey, Iran, China and Russia have also changed. Latterly, the West seems to prioritise stability in Georgia and in the region at large over

the strengthening of democracy. But for Georgia, democracy and Western standards are potentially the key to stability and definitely crucial assets in dealing with third players. This chapter illustrates how Georgia interacts with various international actors and examines the role of certain third countries in this interplay.

Turkey – A partner Georgia cannot afford to lose

Traditionally, Georgia was not a foreign policy priority for Turkey: in many respects Ankara followed Moscow's lead when it came to dealing with the country. Turkish companies' preference for direct trade and sea links with Abkhazia rather than going through official Georgian customs channels was often an issue between the countries; however Georgia was not too vocal about its grievances, considering the importance of maintaining a constructive partnership with Turkey, its only NATO member neighbour. This trend might be changing, however, in the light of new Turkey-Russia dynamics and given the fact that Georgia-Azerbaijan-Turkey trilateral cooperation, which was previously limited to energy and infrastructure projects, is now expanding into military and security sector initiatives. A recent meeting of the three defence ministers of the respective countries, resulting in a new military cooperation memorandum, has attracted a certain amount of international attention, especially in Armenia. However Georgia's diplomacy, and provision of access to Russia through its territory, sometimes at a cost to its own interests, has allayed Armenian concerns at least for now. After the Baku-Tbilisi-Ceyhan (BTC) pipeline and the Baku-Tbilisi-Kars (BTK) railway this could be the third major trilateral initiative in the region.

Politics aside, geographically and economically Georgia has been more connected to Turkey than to any of the other third players. Georgia and Turkey have enjoyed a passport-free travel regime since 2011 and Batumi airport is used as a shared facility by both countries. Tbilisi International Airport has been managed by the Turkish operator TAV for over 20 years now. Turkey ranks among Georgia's biggest FDI investors (behind Azerbaijan), investing substantially in communications, energy, transport, infrastructure, real estate and the textile industry.

Turkey has been Georgia's top trading partner for over two decades. The countries signed a free trade agreement in November 2007, which Georgia was eager to initiate as it sent out an important political, and not just economic, signal domestically for the war-torn country. Since then Turkish imports of Georgian goods have nearly doubled, peaking in 2014 (\$1.7 billion); however, Georgia's exports to Turkey remain problematic due to technical barriers to trade (TBT) – for example the volume of Georgian wine exports to Turkey is well below the market quota. However, Georgia's Deep and Comprehensive Free Trade Area (DCFTA) with the EU is opening up new opportunities: in the near future, Georgia is expected to import more textile materials from Turkey for the production of apparel and export to the EU as a growing number of Turkish businesses is investing in the construction of garment

factories in Georgia. This is due to the recent signing of a trilateral agreement activating ‘diagonal cumulation’ between Georgia, Turkey and the EU, enabling clothing manufactured from Turkish fabrics to qualify for the ‘made-in-Georgia’ label (and therefore exemption from import duty).

On 19 July 2016, right after the failed military coup in Turkey, the Georgian prime minister was the first high-level politician to make an official visit to Ankara. Although the visit had been planned well before the events that occurred on the night of 15 July, Turkish officials hailed it as a historic visit with symbolic and political significance, citing it as evidence that Georgia was a stalwart partner in difficult times. The visit was also noted in the West, where it was stressed that it had been scheduled before the coup took place. Good relations with Turkey are critically important to Georgia, not only for economic but also for political reasons and last but not least because of human dynamics – there is a large Georgian diaspora in Turkey, while the Adjara region, in the southwest of Georgia, bordering Turkey’s northeastern Black Sea region and formerly a part of the Ottoman empire, is home to a sizeable Muslim population and is highly dependent on Turkish trade and tourism. Georgia has so far managed to keep up appearances without compromising its strategic interests with either Turkey or the EU, but the ‘disappearance’ of an Azerbaijani opposition journalist in the streets of Tbilisi in May 2017, has raised questions – is Georgia genuinely prepared to uphold the Western values to which it aspires, as well as critical regional alliances?

Iran – towards warmer relations?

Georgia has played it safe in many regards and has traditionally allied with the US and EU when it came to Iran-related policies. However, having to look ahead considering its complex geopolitical location and constant energy diversification challenges, the country has in recent years sought to forge closer ties with the Islamic Republic. Soon after its first energy and market ‘war’ with Russia, Georgia liberalised its visa regime with Iran (along with other countries) and tentatively reached out to develop economic ties. Tbilisi revoked visa-free entry for Iranians in 2013, but with the excuse that it had met all EU visa liberalisation requirements it renewed the visa-free regime with Iran in 2016. The underlying political context is understood by the two countries. Iran has made it clear (via its embassy or informal visits of Iranian officials in 2016) that it does not perceive Georgia’s pro-Western goals as threatening; on the contrary Georgia’s *rapprochement* with the West is perceived as presenting certain mediation opportunities for Iran.

Georgia’s exports to Iran have been growing steadily throughout the last decade, increasing eightfold in 2016 (from \$6 million to \$47 million). Nevertheless, Georgia has a negative trade balance with Iran. Georgia’s imports from Iran dropped during the 2008 war with Russia and the global financial crisis: these subsequently increased and peaked in 2013, but have declined since again. In 2007 its main exports constituted wood, machinery, iron and steel and electrical equipment. Ten years later, wood and

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metal are still among its primary exports, but the re-export of vehicles and export of meat and of synthetic filament yarn have gained in importance. Glassware, plastics and mineral fuels rank among the top imports from Iran. Tbilisi has always had to contend with criticism from Europe and the US on this issue. Georgia has on occasion frozen the bank accounts of Iranians under pressure from the US. None of Georgia's sixteen banks transfer money to Iran, nor do they accept transactions from Iran. On the other hand registering a company fully or partially owned by an Iranian is not problematic; it is also relatively easy for Iranian passport-holders to open bank accounts in Georgia.

International transfers are swiftly processed: banks' risk departments monitor these kinds of transactions, but they do not stop transfers if the businesses concerned are legally registered. Facilitating such transactions, which mainly involve small and medium-sized enterprises, provides enhanced opportunities for attracting more FDI from Iran.

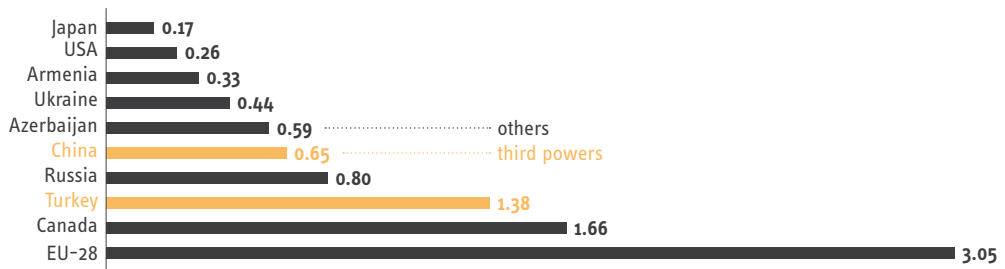
Following the lifting of Western sanctions against Tehran in January 2016 the EU has shown renewed interest in Iran as part of its energy diversification strategy. Georgia is a key transit point on the European energy route and the risks that Georgia took in pursuing economic relations with Iran nearly a decade ago may now pay off. Recent mutual high-level formal and informal visits have highlighted interest on both sides. Iranian officials have openly indicated that they welcome EU activity in the region and that closer ties between Georgia and the EU are good for Iran both politically and economically.

China – a growing presence

Georgia has had trade relations with China since it gained independence from the Soviet Union and China has been among Georgia's top five trade partners since 2012, with exports to China having increased twentyfold since 2007 (from \$8 million to \$170 million), while imports increased 2.6 times (from \$206 million to \$550 million). Nevertheless, Georgia's foreign trade balance with China is extremely negative. Georgia is the second Eurasian country to have signed a free trade agreement (2017) with China: Tbilisi hopes that this will increase the competitiveness of value-added Georgian products like wine and foodstuffs which rank among its top five exports and that it will also benefit from the elimination of import tariffs. But realistically, Georgia may have insufficient commodities (both in terms of quantity and quality) to really change the dynamics. The main goods that Georgia has imported from China over the years have been machinery, electrical equipment, furniture and plastics. Exports are dominated by raw materials like copper, aluminium and ore.

Figure 9: Georgia's biggest trading partners

trade in goods, 2016, € bn



Data: DG TRADE

China's new assertive foreign policy, as showcased by its ground-breaking Silk Road initiative, is quietly but steadily changing things. Chinese-Georgian relations have been strengthening year by year, but now China is showing renewed interest in Georgia, due to its strategic location on the Silk Road route from China to Europe and its potential to become a regional transport and energy hub, despite having been left out of Beijing's Silk Road plans completely in the early stages. While Russian sanctions, the EU's mixed views on the One Belt One Road (OBOR) initiative, and Georgia's favourable business environment may all have contributed to Beijing's change of heart, ultimately the most likely explanation lies in China's pragmatic calculation that infrastructure costs were lower in Georgia than for example in Belarus or Hungary, and because of the importance of the recently launched Baku-Tbilisi-Kars (BTK) railway. All major infrastructure developments in Georgia have now been aligned to serve the BTK railway route, linking Central Asia and China to Europe via Georgia. This route is 15 days shorter than the sea route and the first consignment of goods shipped via this route was delivered in December 2017. The Anaklia deep-water sea port which is currently under construction is also designed to serve this purpose. Therefore, cargo turnover between China and Europe is expected to increase significantly. For Georgia this is an opportunity to boost the economy and create jobs, but also a potential chance to increase its autonomy from Moscow, which is bound to look unfavourably on Chinese interest and engagement in the country.

Relations with Arab countries

Right after the 2008 war with Russia, as part of its endeavour to lobby for the policy of non-recognition of its occupied territories, Georgia intensified its relationships with third countries and quickly opened diplomatic representations worldwide and in Arab countries first of all, thereby becoming the only small nation which has diplomatic relationships with every single country in the world (minus those few that have recognised the independence of its occupied territories). The minimum

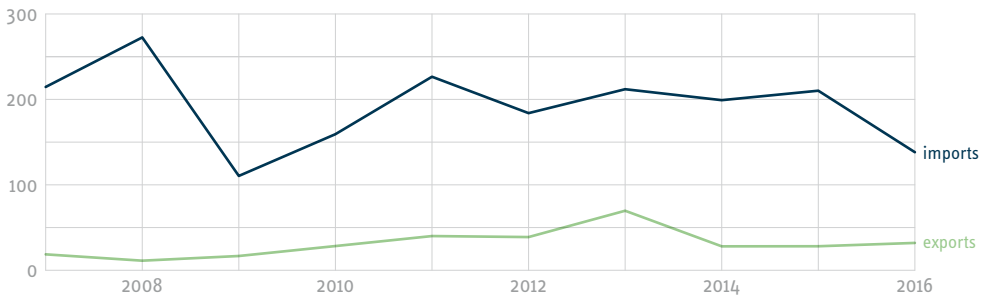
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result achieved was that these countries agreed to abstain from voting in the UN on Georgia-related resolutions. However, developments in recent years have changed the perspective of some countries in this respect as well. For the past three years now Saudi Arabia has voted in favour of resolutions on the non-recognition of Georgia's occupied territories and in 2017 Yemen followed suit.

Currently, Arab countries only play a relatively minor role in Georgia's economy. Most noteworthy is the United Arab Emirates (UAE), despite a negative trade balance. Georgian exports to the UAE have almost doubled since 2007 (from \$18 million to \$32 million). Imports plummeted during the 2008 war with Russia, then increased in the following years and dropped again sharply in 2016 (\$214 million in 2007 and \$138 million in 2016).

Figure 10: Georgia-Ukraine trade

2007-2016, \$ thousand



Source: International Trade Centre (ITC), Trade Map data based on UN COMTRADE Statistics 2007-2016. See: www.intracen.org/marketanalysis

Georgia still imports electrical equipment, vehicles and machinery from the UAE, but wood has been substituted by essential oils and raw materials necessary for Georgia's growing apparel industry. Exports to the UAE were dominated by the re-export of vehicles, copper, machinery, wood and electrical equipment in 2007. In 2016, re-export of vehicles was still to the fore, followed by the export of gold, electrical equipment, meat and machinery. The UAE is one of the most difficult countries with which to trade without intermediaries, and it is therefore essential to resort to the services of a local agent or distributor. Trade regulations are highly bureaucratic, and further complicated by onerous technical barriers to trade (TBT). Georgia does not have a special trade regime with the UAE and pays established import duties in full (those that apply to all WTO members).

Georgia's most competitive products are alcoholic beverages and there are import restrictions on these in the UAE (with minor exemptions for Dubai). Otherwise Georgia's exports are slowly gaining momentum. Some foodstuffs like lamb, honey, hazelnuts and fruit juices have a certain competitive advantage, as does mineral water, if marketed properly. Georgia has been actively promoting its export opportunities at the annual Gulfood trade fair in Dubai for the past several years.

Arab airlines like Fly Dubai and Qatar Airways which offer direct flights to Tbilisi have helped to promote both trade and tourism in the region.

Figure 11: Georgia’s top foreign visitors
million visits, 2017



Data: Georgian National Tourism Administration

Conclusion

Georgia’s deepening engagement with third parties, especially Turkey, Iran and China, has not gone unnoticed by Russia. It could be in the EU’s interest to support Georgia in its new partnerships, to ensure a diversity of interests in the region and bolster Georgia’s democratic and free market orientation.

Georgia had a vision – go West – and an idea – to position itself as a pro-Western, business-friendly, corruption-free environment for all third players and partners. As a small country with no noteworthy natural resources, it has attempted to capitalise on its strategic geographical location and open and liberal business environment, characterised by transparency and minimal bureaucracy. Having invested extensively in infrastructure as well as services and advertising over a decade, it had built up a reputation as a country that was equally welcoming to Armenians, Azeris, Iranians, Israelis, Turks, Arabs, Russians and Europeans alike. Various initiatives, like simpler visa regimes, liberal gambling laws, or the redevelopment of the coastal resort of Batumi, aimed at attracting tourists and investors from countries that had certain international difficulties or safety concerns. As a result tourism has been growing steadily and impressively, as well as economic and political relations with these new partners. Georgia, with its investor-friendly business and tax environment, had thus become an attractive FDI destination.

However, over the last few years a certain unsettling trend has emerged, as less foreigner-friendly legislation (i.e. restrictions on land acquisition by non-nationals or foreign-owned companies) has been introduced. The American Chamber of Commerce and other foreign investment bodies have voiced growing dissatisfaction with such policies and practices. Against this backdrop, Russian media sources are suspected of instigating disinformation/propaganda campaigns against Turkish, Iranian, Chinese and other investors as Georgia’s cooperation with these countries

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intensifies. Indirectly this is also anti-Western propaganda. Challenges to Tbilisi's authority are often stealthily timed to cause maximum embarrassment and damage to Georgia. Recently for instance, Russia has yet again moved its occupation line in Samachablo (South Ossetia) deeper into Georgian territory, so that it is now only 400 metres away from Georgia's main east-west motorway and critical transport/energy infrastructure. The government in Tbilisi is reluctant to openly challenge Russia about this creeping 'borderisation' of Georgian territory or to draw international attention to what is going on. After all, in the past Georgia has been accused of engaging in provocative rhetoric. The situation has become more complex in the light of local elections held in October 2017, during which the ruling party played on populist and nationalist sentiments and sought to downplay the risk of Russian occupation of Georgian territory turning into outright annexation, in order not to scare voters.

The government is clearly in a quandary and is reluctant to aggravate tensions with Russia. Faced with this difficult situation, Georgia is unfortunately not only downplaying Russian actions but now also appears to be downplaying its own Western aspirations and indeed values. If this continues, third parties, who are already reluctant to forge political links with Georgia at Russia's expense, will naturally revert to treating Georgia as a mere transit corridor, thereby pushing the country back into Russia's sphere of influence.

CHAPTER 11

The third powers and Armenia

Richard Giragosian

Introduction

The strategic trajectory and policy choices of the European Union's eastern neighbours have been increasingly driven by much more than calculations of the likelihood of a confrontation between Russia and the West. Rather, these eastern neighbours have also demonstrated a dynamic degree of strategic adaptation based on a bolder calculus of 'third party' interests and involvement that goes far beyond a narrow focus on Russian-Western relations. Thus, for both the EU and its eastern neighbours, engaging third party players, such as China, Iran, Turkey and the Arab states, to cite the most notable examples, may be the primary determinant of both national security and regional stability.

In Armenia's case, this takes the form of a quest for balance, or 'complementarity', in foreign policy, aimed at bridging the inherent contradiction between the 'strategic partnership' with Russia and more pro-Western aspirations. Surprisingly, this geopolitical balancing act is most evident in the area of Armenian defence reform, where cooperation with the West and NATO's Partnership for Peace (PfP) programme was significantly deepened, despite Armenian membership of the Russian-dominated Collective Security Treaty Organisation (CSTO) and Eurasian Economic Union (EAEU). Perhaps less surprisingly, Armenia's reorientation towards the West is part of a strategic policy to offset its mounting over-dependence on Russia, as the limits of that security 'partnership' have become ever more obvious, especially in the wake of the April 2016 'four day war' over Nagorno-Karabakh.¹

¹ Richard Giragosian, 'The Nagorno-Karabakh conflict: Ceasing fire is not a ceasefire', European Politics and Policy (EUROPP) Blog, London School of Economics and Political Science, 11 April 2016. Available at: <http://blogs.lse.ac.uk/europpblog/2016/04/11/the-nagorno-karabakh-conflict-ceasing-fire-is-not-a-ceasefire/>

Armenia's security paradox

Despite Armenia's efforts to diversify its foreign policy and economic options, its room for manoeuvre has been significantly constrained by its conflict with Azerbaijan and complicated relations with Turkey. Largely driven by security imperatives connected with the unresolved Nagorno-Karabakh conflict and the enforced closure of Armenia's borders with Turkey and Azerbaijan, Armenia was compelled to turn to Russia in the early 1990s. While this strategic orientation to Russia was understandable given the circumstances, positioning itself within the Russian orbit inevitably incurred costs and concessions for Armenia. Over time, Armenia steadily mortgaged its sovereignty and freedom to Russia, culminating in a dangerous degree of over-dependence on Moscow, evident in Russia's acquisition of or predominance in several key sectors of the Armenian economy, including energy, telecommunications, mining and the railway network, as well as control over the external borders with Turkey and Iran.

In return for this strategic partnership with Russia, Armenia received discounted weapons and military equipment from Moscow, the security 'guarantee' deriving from its membership of the Russian-led CSTO, and a protective military 'umbrella' by virtue of its hosting the only Russian military base in the region. For the past several years, however, and especially in the wake of the violent flare-up in Nagorno-Karabakh in April 2016, Armenia has gradually come to recognise both the limits of its security partnership with Russia and the unreliability of its CSTO alliance partners. Armenia's disillusionment that its alignment with Russia has brought it very little in return was only exacerbated by a belated yet acute awareness of the asymmetry in the relationship and arrogance from the Russian side, whereby Armenia's subservience was increasingly taken for granted. This realisation that Armenia was very much the 'poor relation' in this security partnership not only fuelled a deepening crisis in Armenian-Russian relations, but also forged a determination to seek new strategic alternatives and greater balance by looking to other players and 'third party' actors.

Seeking strategic alternatives

An essential early element in this new determination to seek strategic alternatives was to overcome the setback Armenia suffered when it was forced to sacrifice its Association Agreement with the EU, after Moscow brought pressure to bear on Yerevan in 2013.² As a result of that decision, Armenia not only surrendered its chance to secure significantly closer relations with the EU and a stronger position within the EU's Eastern Partnership programme, but it was also compelled to commit to joining the Russian-dominated Eurasian Economic Union (EAEU). Despite the lack of a border with any of the other EAEU members and meagre trade with the bloc beyond Russia, Armenia was forced to artificially redirect its natural trade orientation.

2 Richard Giragosian, 'Armenia's Strategic U-Turn', European Council on Foreign Relations (ECFR) Policy Memo, ECFR/99, April 2014. Available at: www.ecfr.eu/page/-/ECFR99_ARMENIA_MEMO_AW.pdf

By the time of its subsequent accession to the EAEU in early 2015, however, it was apparent that the damage to Armenia was considerably less than initially feared, as a set of some 800 Armenian products were exempted from the bloc's significantly higher import duties regime. And without Ukraine, the viability of the EAEU itself was increasingly in doubt. In this context, Armenia was able to avail of a rare 'second chance' to regain European confidence and restore relations, signing a new EU-Armenia Comprehensive and Enhanced Partnership Agreement (CEPA) in Brussels in November 2017.³ Nevertheless, this 'second chance' is inherently less beneficial than the prior Association Agreement and lacks many of the more significant trade advantages that were included in the earlier Deep and Comprehensive Free Trade Area (DCFTA) agreement.⁴

Armenia's 'pivot to China'

Despite the obvious constraints of Armenia's over-dependence on Russia, as reflected in the scaled-down provisions of the CEPA signed between Armenia and the EU, there have been steady and stealthy gains in Armenia's pursuit of strategic alternatives. And beyond the largely successful recent 'second chance' to restore the country's relations with the EU, Armenia has also significantly deepened ties to China. Although the pace of closer Armenian-China relations has accelerated in recent years, Chinese interest and engagement in Armenia is not necessarily a new or novel development. For example, China has provided substantial economic aid to Armenia every year since 1999, totalling \$37 million in 2012-2014 alone, bolstered by an \$11 million grant provided in 2013 for the construction of a Chinese school in the Armenian capital Yerevan.⁵ In 2012, in a more traditional gesture of Chinese 'soft power', Beijing also donated some 250 Chinese-manufactured buses for use in the public transport system in Yerevan. This was more recently followed by the donation of 200 new ambulances to Armenia in May 2017.

In terms of bilateral trade, Armenia has also embarked on a low-profile effort to reach out to China, designed to quietly seek an alternative to over-dependence on Russia while not provoking Moscow's ire. This has also been surprisingly successful, as China recently emerged as Armenia's second-largest trading partner, as bilateral trade increased to some \$480 million in 2015 according to official Armenian statistics. This endeavour was driven by a series of high-level visits, with the Armenian president

3 For more, see: 'New EU-Armenia Deal Initialed in Yerevan', Radio Free Europe/Radio Liberty (RFE/RL) Armenian Service, 21 March 2017. Available at: <https://www.azatutyun.am/a/28382482.html>; Hrant Kostanyan and Richard Giragosian, 'EU-Armenian Relations: Seizing the Second Chance', Centre for European Policy Studies (CEPS) Commentary, 31 October 2016. Available at: www.ceps.eu/publications/eu-armenian-relations-seizing-second-chance

4 Richard Giragosian and Hrant Kostanyan, 'EU-Armenian Relations: Charting a fresh course', Centre for European Policy Studies (CEPS), Commentary, 15 November 2017. Available at: www.ceps.eu/publications/eu-armenian-relations-charting-fresh-course

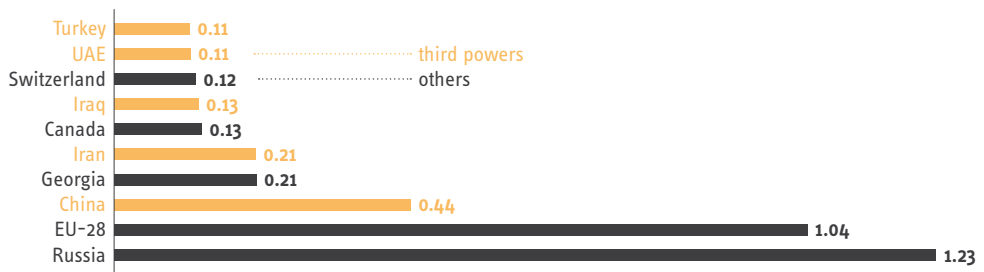
5 'Construction of \$15 million worth Chinese school in Armenia to begin this year', Arka News Agency, 7 April 2016. Available at: http://arka.am/en/news/society/construction_of_15_million_worth_chinese_school_in_armenia_to_begin_this_year/

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meeting Chinese President Xi and Premier Li Keqiang in March 2017, and outlined in a five-page joint declaration matched by the signing of a dozen agreements to 'deepen bilateral cooperation in a wide range of areas, including law-enforcement, tourism, education and energy.'⁶

Figure 12: Armenia's biggest trading partners

trade in goods, 2016, € bn



Data: DG TRADE

Armenia also sees a strategic opportunity from China's new Belt and Road Initiative (BRI) project, which offers access to a globalised trade network through a revitalised 'Silk Road' and, more crucially, a chance of enhanced 'connectivity' and trade integration. More broadly, the initiative also offers an important new opportunity for Armenia to deepen inter-connectivity and develop infrastructure. And beyond the region's network of energy pipelines and transport projects, it also promises a focus on 'soft infrastructure', such as new digital networks and fiber-optic pipelines. Ironically, Armenia's membership in the Russian-dominated EAEU may offer an advantage. More specifically, as an EAEU member state, Armenia can offer a degree of dual access, for the BRI to attract interest from other EAEU members using Armenia as a platform, and also to widen its reach by utilising Armenia as a bridge into much larger markets and to link to the bigger Russian transport networks.

Yet one of the most important elements of Armenia's strategic 'pivot to China' is not limited to trade or infrastructure. The emergence of a more robust military and security relationship with China stands out as an equally significant achievement for Armenia. More specifically, despite its security partnership with Russia, Armenia has been able to escape the confines of that orientation and has forged a new military-security relationship that includes the procurement of weapons systems and cooperation in the field of military education and training. Since the late 1990s, for example, Armenia has received multiple-launch rocket systems from China and in a deal brokered in 2011, purchased more sophisticated Chinese weapons systems. At the same time, arrangements whereby Armenian officers study in Chinese military institutions were further developed by a new agreement in April 2017

6 Emil Danielyan, 'Chinese Leader Seeks Closer Ties with Armenia', Radio Free Europe/Radio Liberty (RFE/RL) Armenian Service, 23 May 2016. Available at: www.azatutyun.am/a/27753149.html

for the expansion of military education programmes to include Chinese military instructors to conduct courses and training seminars in Armenia for the mid- to senior-level officer corps.⁷ While still more limited than the much deeper ties to Russia, this new agreement with China in the field of military education, coupled with similar efforts undertaken with NATO, is an important achievement, capable not only of providing the country with a crucial security alternative but also of enhancing Armenia's strategic significance in Russian eyes.

Armenia-Iran: shared isolation and mutual need

Armenia has long maintained a stable and friendly relationship with its southern neighbour Iran. Since attaining independence, Armenia has both prized and prioritised close bilateral relations with Iran, in large part driven by the landlocked country's extreme geographic vulnerability, as both Azerbaijan and Turkey closed their borders with Armenia in the early 1990s. Over time, while Armenia sought to overcome the isolation resulting from the Azeri-Turkish blockade of its eastern and western borders, Iran was increasingly valued as a vital alternative trade and energy link. On a strategic level, for Armenia, with two of its four borders closed, Iran offered an important opportunity to minimise dependence on Georgia as its primary external trade route. From the Iranian perspective, Armenia stood out as Iran's only stable neighbour, especially given instability in Afghanistan and Iraq, and more recently, in Syria. And for both Armenia and Iran, the bilateral relationship was based on a shared sense of isolation and a deepening degree of mutual need.

Although there is a long history of close relations between Armenia and Iran, Armenia's strategic approach towards Iran has been rooted more in practical necessity than historic ties. Through the 1990s, this practical foundation for closer Armenian-Iranian relations deepened, as Iran pursued a cautious policy of neutrality over the Nagorno-Karabakh conflict, despite its seemingly more natural affinity with fellow Shi'ite neighbour Azerbaijan, and as both Iran and Armenia were further isolated by the exclusion of both countries from the most important regional development project, the Baku-Tbilisi-Ceyhan (BTC) pipeline.

In more practical terms, however, such as in the area of trade, Armenian-Iranian relations have been both limited and marginal. Although bilateral trade stood at just slightly more than \$275 million in 2015, the Armenian government plans to initiate several strategic projects aimed at deepening relations in the wake of new opportunities arising from the easing of sanctions and re-emergence of Iran as a more active player in the region after the West's landmark 2015 nuclear deal with Tehran. The Armenian projects include the creation of a 'free economic zone' along the southern border with Iran, which is aimed at leveraging Armenia's membership in the EAEU by offering Iranian products duty-free status for re-export through

⁷ Emili Danielyan, 'Armenia to Deepen Military Ties With China', Radio Free Europe/Radio Liberty (RFE/RL) Armenian Service, 14 April 2017. Available at: www.azatutyun.am/a/28430829.html

Armenia to Russian and other EAEU markets. Armenia also plans to expand its role as a transport hub, focused on improving road and rail links to offer Iran greater connectivity between the Persian Gulf and Black Sea ports in order to reach European markets.

Beyond the planned expansion of trade ties, Armenia is also prioritising energy links with Iran, with the construction of a new \$120 million power transmission line by 2019 connecting the two countries' electrical grids, thereby greatly increasing the volume of Armenian electricity exported to Iran. The planned transmission line would be the third such deal, and would expand the potential for existing swap-based trade, whereby Armenia pays for imports of Iranian gas by providing seasonal supplies of electricity to northern Iran in return. But the energy sector is the most difficult and daunting sector for the further development of bilateral relations. With Armenia importing about 80% of its gas from Russia's Gazprom, or about 2 billion cubic metres (bcm) of gas annually, the existing natural gas pipeline from Iran to Armenia remains marginal, providing a mere 500 million cubic metres of Iranian gas to Armenia. Any further expansion of Armenian energy ties to Iran will be closely scrutinised in the Kremlin, as Moscow will clearly seek to maintain Armenia's dependence on imports of Russian gas. This was also the case when Russia successfully pressured Armenia to accept a reduced diameter of the 141-kilometre Iran-Armenia gas pipeline, thereby imposing an obvious limit to any competition for Russian gas, and making any re-export of gas impossible.

Despite these obvious challenges and inherent constraints, there is a potential opportunity for Armenia to extract greater leverage from its role as a potential 'bridge' or 'platform' for engaging Iran.⁸ And as a member of the EAEU, Armenia can now offer Iran access to markets much larger than its own, as well as capitalising on its position as a conduit for greater Western commercial entry into Iran. Yet once again, the real determinant of just how far or how quickly Armenia can develop and deepen its ties with Iran will depend on Russia's reaction.⁹

The outlook for Armenia-Turkey

Despite the longer-term benefits to be derived from engaging Iran, the possible 'normalisation' of relations with Turkey offers Armenia much more immediate and concrete gains. And although official state-level engagement has remained suspended in the aftermath of the signing of two groundbreaking diplomatic protocols by the Armenian and Turkish foreign ministers in October 2009, as Turkey backed away from their implementation once Azerbaijan sought to block efforts at 'normalisation',

8 For more, see 'Armenia could be "bridge" if Iran opens to the world', *Oxford Analytica Daily Brief*, 12 November 2015; Richard Giragosian and Tornike Sharashenidze, 'Engaging Iran: Implications for the South Caucasus', European Council on Foreign Relations (ECFR) Commentary, 18 September 2015. Available at: www.ecfr.eu/article/commentary_engaging_iran_implications_for_the_south_caucasus4022#

9 Richard Giragosian, 'Armenia as a bridge to Iran? Russia won't like it,' *al Jazeera English* commentary, 30 August 2015. Available at: www.aljazeera.com/indepth/opinion/2015/08/armenia-bridge-iran-russia-won-150830063735998.html

there are renewed signs of optimism. This sense of opportunity stems from the Armenian government's still valid 'policy of no-preconditions', which effectively removed any linkage between the 'normalisation' of relations with Turkey and either the Armenian genocide issue or the Nagorno-Karabakh conflict. Equally importantly, it is rooted in the imperative for Ankara to resume diplomatic engagement with Yerevan as a crucial step to meet broader Turkish strategic aspirations of regional power and influence.¹⁰ Yet even in the light of such renewed optimism, the outlook for the normalisation of Armenian-Turkish relations remains largely dependent on domestic politics in Turkey, and increasingly hostage to the personal political calculations of President Erdogan.¹¹

Conclusion

Overall, Armenia faces a daunting set of challenges and crises. Within a broader regional context, it remains vulnerable to more dynamic shifts, ranging from the implications of Russian confrontation with the West to spillover from the war in Syria and the related impact of Russian, Turkish and Iranian strategies. More critically, the ultimate test of Armenia's policy of 'complementarity' will be how successfully Yerevan can implement its new strategy of overcoming isolation and over-reliance on Russia, while averting a crisis with Moscow and orchestrating a true 'reset' in relations.¹²

Beyond the challenges of geographic isolation and geopolitical crises, however, the most pressing imperative for Armenia is to build resilience. Currently the country's vulnerability stems from domestic shortcomings, ranging from institutional weakness and entrenched corruption to a lack of legitimacy rooted in insufficient democracy. In this context, institutions matter more than individuals and offer the only avenue for Armenia to leverage the peril of its geography into the promise of its geopolitical opportunities.

10 Fatih Çekirge, 'Reopening talks with Armenia', *Hürriyet Daily News*, 26 July 2016. Available at: www.hurriyetdailynews.com/reopening-talks-with-armenia-.aspx?pageID=449&nID=102076&NewsCatID=508

11 For more, see Richard Giragosian, 'The aftermath of the failed coup: Implications for Turkish foreign policy', *Agos*, 22 July 2016. Available at: www.agos.com.tr/en/article/15982/the-aftermath-of-the-failed-coup-implications-for-turkish-foreign-policy

12 'Armenia's Delicate Balancing Act', Royal United Services Institute (RUSI), *Newsbrief*, vol. 36, no. 2, March 2016, pp. 16-18.

CHAPTER 12

The third powers and Azerbaijan

Arzu Geybull

Introduction

Azerbaijan's role in the international arena is largely defined by its vast hydrocarbon resources and its geostrategic location. As a result, for years the country's foreign policy was predicated on successfully exploiting these two key assets. At home, overt reliance on energy reserves and the economic benefits accruing from these allowed Baku to maintain tight control over resource revenues entering government coffers as well as to clamp down on any form of dissent. Over time this led to high levels of corruption, widespread repression of opponents of the regime and the muzzling of independent media voices.

Abroad, hydrocarbon exports were used to pursue a balanced foreign policy with a number of international players, culminating in Azerbaijan's decision to join the Non-Aligned Movement in 2011. Baku stayed out of both Western and Russian-led economic or security organisations. In the meantime, successful bargaining of the country's geography and resources also allowed for transactional partnerships with Western actors who often chose to overlook the country's internal undemocratic dynamics partly as a result of the practice of what the European Stability Initiative described as 'caviar diplomacy' in a report it issued in 2012.

By the year 2000 it became evident that despite its interest in attracting foreign investments while signing major energy deals, Azerbaijan had no intention of carrying out genuine reforms in the fields of democracy and human rights. The criticism by international rights watchdogs to which the country has been continually subject only attests to the fact that Azerbaijan's efforts to attract Western investments and petrodollars is not matched by a commitment to uphold democratic values. But as long as Brussels was satisfied with a partnership where energy outweighed human rights considerations, Azerbaijan was also happy to stay in the game. In the history of relations between Azerbaijan and the EU, clearly Azerbaijan has called the shots

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to some extent. Indeed it could be argued that nothing has undermined the EU's conditionality more than the EU itself and its choice to prioritise the stability of energy supplies and security over challenging the ruling regime's repressive and authoritarian policies.

Current indicators certainly attest to strong energy ties between Azerbaijan and the EU. The EU remains Azerbaijan's number one trading partner, representing 51% of Azerbaijan's total trade, while Turkey is Azerbaijan's biggest FDI investor, followed by the UK. The EU is also Azerbaijan's biggest export and import market, accounting for 65% and 33% shares respectively. But while 98% of EU imports from Azerbaijan consist of oil and gas, Azerbaijan supplies only 5% of the EU's oil demand according to European External Action Service (EEAS) data.

Trade volumes with players like China (0.33%), Iran (1.23%), Turkey (4.04%), UAE (0.33%) and Saudi Arabia (0.01%) are nowhere near these numbers. It is worth taking a closer look at each of these individually in order to provide an accurate assessment of relations between Azerbaijan and its respective partners and their impact on the region at large.

One nation, two states: Turkey and Azerbaijan

Following the dissolution of the USSR and the declaration of independence by the former Soviet republics, Turkey's relations with most of these states took a new turn. Starting in 1991, Ankara viewed this new geography as an opportunity to project itself as a strong partner among its Euro-Atlantic allies. The ties between Turkey and much of the post-Soviet countries were not limited to inter-governmental partnerships but involved expanding ties among civil society organisations too. It has been argued that Ankara's interest in expanding ties to the Caspian Sea region was twofold: to weaken the influence of both Russia and Iran and to strengthen the regional roles of these countries.¹

The current relationship between the two states goes back to the early years of Azerbaijan's independence and the accession to power of Abulfaz Elchibey, leader of the country's Popular Front. When Elchibey declared Azerbaijan a secular nation much of the ideology underpinning his vision was adopted from Turkey. Throughout his short-lived presidency, which lasted only a year, Elchibey promoted Turkish values. In the space created by the incumbent leader at the time, Turkey moved to fill the religious and ideological vacuum left by Russia following the dissolution period. Positive perceptions of Turkey within Azerbaijan helped to build economic and political ties as well.

¹ Carlo Frappi and Azad Garibov, *The Caspian Sea Chessboard: Geo-political, Geo-strategic and Geo-economic Analysis*, Istituo per gli studi di politica internazionale (ISPI), Milan, September 2014.

Since then, relations between the two states have gone through ups and downs. In 2008 Turkey's 'football diplomacy' with Armenia angered Azerbaijan's leadership as well as the country's opposition circles. The visit of the then Turkish president, Abdullah Gül, to Yerevan to watch a friendly football match between the two countries triggered a wave of criticism. Tensions were later defused by Gül's visit to Baku after the game, where he reassured the Azerbaijani government that Turkey would always be on its side.

Azerbaijan was supportive of rising anti-Gülen sentiment which was already becoming evident in 2013. It was following the visit of then Prime Minister Erdogan to Azerbaijan in April 2014 that authorities promptly shut down a network of schools linked to the Gülen movement, regardless of the fact that they were among some of the best schools in the country. In 2016 Azerbaijan ordered the closure of remaining Gülen-affiliated educational establishments that had begun operating shortly after Azerbaijan's independence and which had quickly gained a reputation in the country for the quality of education they provided. Similarly, a television station and a newspaper were shut town for alleged ties to the Gülen movement.

But diplomatic sympathies were not mutual. In the wake of the Turkish downing of a Russian jet in November 2015, Turkey hoped for Azerbaijan's support in the ensuing spat between the two countries but was disappointed when Azerbaijan chose to stay neutral in the dispute even if it did offer to act as a mediator. While President Aliyev was polite and conciliatory in his attitude to the Turkish prime minister, the former was careful in the language he used, and avoiding mentioning Moscow. Clearly Baku was anxious not to step on the Kremlin's toes on this occasion. Azerbaijan promised however to invest billions in the Turkish economy which was suffering the consequences of the deterioration of relations with Russia.

Economically Azerbaijan relies heavily on Turkey as a transit point for transporting Azerbaijan's hydrocarbon supply to Europe. Azerbaijan also supplies 12% of Turkey's gas imports and is the country's third main gas supplier after Russia and Iran. In the meantime, Turkey continues to support Azerbaijan's territorial integrity.

Azerbaijan's ties with Turkey in the field of energy supply play an important role in diversifying Turkey's energy sources but also provide an alternative to Russia which has become increasingly vital given current diplomatic challenges. The Trans-Anatolian pipeline (TANAP) project is viewed in Ankara as crucial in achieving much-needed diversification. Aside from reducing Turkey's dependence on Russia, TANAP also offers new export/import routes through its Trans-Adriatic Pipeline (TAP) connection running from Turkey's border with Greece to southern Italy. Once full infrastructure is in place, Turkey's reliance on Russia might drop by 40% by 2026.

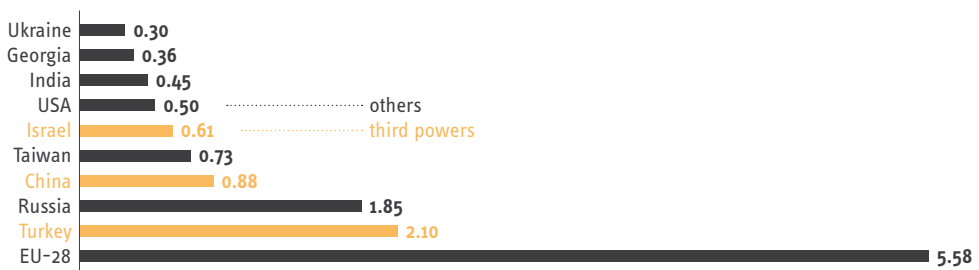
China and Azerbaijan: 25 years on

In terms of political, economic or social influence, China has not had a significant impact on Azerbaijan, and has not demonstrated much interest in deepening political relations with the country, at least for the time being.

On 2 April 2017, Azerbaijan and China marked the 25th anniversary of diplomatic ties between the two countries, the development of which had been fostered by the then President Heydar Aliyev following his first visit to China in March 1992. The anniversary was marked at the Confucius Institute which was established in 2011 at Baku's University of Languages as part of an endeavour to strengthen cultural ties between the two countries.

China was among the first Far East countries to recognise Azerbaijan's territorial integrity and it opened an embassy in Baku in 1992. In the years since then, both sides have exchanged official visits, and signed some 50 agreements. According to Azerbaijan's State Customs Committee, trade turnover between Azerbaijan and China reached \$641.39 million in January-September 2016. China's (albeit limited) engagement in Azerbaijan appears to be driven by overwhelmingly economic rather than political considerations. But as, under the aegis of the Belt and Road Initiative, China looks at shifting from maritime trade routes to a combined land-sea commercial superhighway, Azerbaijan has come to play a crucial role in its balancing act between West and East. This brings the two countries even closer to each other and creates common ground between them, as they share similar development strategies, placing enormous importance on interconnectedness and outward-looking foreign and trade policies.

Figure 13: Azerbaijan's biggest trading partners
trade in goods, 2016, € bn



Data: DG TRADE

However, China's role in the country as a strategic partner remains minimal. The souring of relations in 1999 after the Chinese sold eight Typhoon multiple rocket systems to Armenia relegated discussions of any deeper partnership to the sidelines while the continued absence of significant Chinese investments attests to the

peripheral level of relations to this day. This is especially true when compared to China's economic relations with other Caspian littoral neighbours like Kazakhstan or Turkmenistan where projects focus on exploiting gasfields, the construction of new onshore pipelines and the exploration of offshore oil and gas fields.

Reports of a similar sale of weaponry from China to Armenia in 2013 seem to have been overshadowed by the 'One Belt, One Road' initiative or 'Silk Road Economic Belt' initiative championed by China in 2013 and signed as part of a Memorandum of Understanding by President Ilham Aliyev during his visit to China in 2015, signalling a new phase in relations.² The Belt comprises six economic corridors connecting five Central Asian countries, Iran, the Persian Gulf, Transcaucasia, Turkey and the Saudi Arabian peninsula. For China, Azerbaijan plays an important role in the Belt and Road project as it offers the shortest route from China to West Asia.

However, three factors will determine Azerbaijan's role in the Belt and Road Initiative. According to a study by the China Institute of International Studies,³ these are: (i) the completion of the Baku-Tbilisi-Kars (BTK) railway, also known as 'the Iron Silk Road'; (ii) the openness of the North-South transport corridor through Azerbaijan; and (iii) the increased demand of relevant countries for land-based transportation.

In August 2015, the first container train from China arrived at Baku's newly-constructed International Sea Trade Port via the Trans-Caspian international transport route in a record 6 days. Authorities in Azerbaijan are expecting to transport an estimated 300,000 to 400,000 containers annually by 2020 given the current pace of trade, and therefore have expectations that the Chinese will invest in greater infrastructure, thereby strengthening Baku's role as a transport hub.

However, it is still too early to make predictions about Chinese influence over Azerbaijan-EU or Azerbaijan-Russia relations. In contrast to its relations with Russia, Kazakhstan and Uzbekistan, China's ambivalent interests in the region indicate that solid ground for strategic relevance as well as deeper commercial engagement has yet to be established. Much work yet needs to be done in improving transportation links and adjusting transit fees in order to boost trade with China, barring a significant surge in commodity prices.⁴ Moreover, Georgia's relations with Russia, Azerbaijan's conflict with Armenia, and turbulent domestic Turkish politics all affect China's relations with regional players in the Caucasus.

2 Emil Sanamyan, 'China in the Caucasus', *The Diplomat*, 6 February 2016.

3 'Azerbaijan in the Silk Road economic belt: a Chinese perspective', China Institute for International Studies, 30 August 2016.

4 Dong Yan, 'China's strategy in the Caucasus', Foreign Policy Research Institute, 3 April 2017.

Azerbaijan and Iran: from maritime borders to ideological enmity

Although relations between Azerbaijan and its southern neighbour Iran have commonly been described as 'fraternal', a series of events in recent years has tested the solidity of the relationship between the two countries. The lowest point in bilateral relations occurred in 2001 when Iranian military ships contested the presence of an Azerbaijani research vessel conducting oil exploration in the Caspian Sea, which Iran saw as trespassing on its territorial waters, given that the two countries are at odds over the division of the Caspian Sea. It was claimed that, in a show of strength, Iranian jet fighters violated Azerbaijani air space, an allegation which Tehran refuted. The standoff ended with the intervention of Turkish military jets, but relations remained sour in the aftermath of this incident, especially as the Iranian leadership considered Azerbaijan to be too Western-oriented and disagreed with Baku's growing partnerships with Western oil companies. Baku's engagement with NATO and the US military and the country's economic and military ties with Israel were an added source of irritation for Tehran.⁵

Frustrations were not entirely one-sided, however. Baku suspected Iran of funding religious groups active in Azerbaijan, which the country's leadership considered a threat to its secular model of governance. Mistreatment of the Azerbaijani minority living in Iran, the arrest of Azerbaijani poets in Iran, and Tehran's criticism of Shimon Peres' visit to Azerbaijan in June 2009 triggered a wave of inflammatory statements which only marred relations further. (Tehran does not recognise the state of Israel and in a recent meeting between President Ilham Aliyev and Supreme Leader Ayatollah Ali Khamenei in Tehran, the Supreme Leader spoke disparagingly of Israel, describing it as a 'Zionist regime' that was trying to weaken relations between Iran and Azerbaijan).

While Khamenei might be critical of Azerbaijani-Israeli *rapprochement*, Azerbaijan is still Israel's strongest ally in the Muslim world. Ironically, both Azerbaijan and Israel are antagonistic towards Iran and Azerbaijan's ties with Jewish groups give Baku a chance to counterbalance the influence of the Armenian diaspora in the US. Israel, on the other hand, fears closer ties between Tehran and Baku in the light of recent developments concerning Iran's nuclear programme.

In a 2012 interview with the BBC, Azerbaijani academic scholar Leila Alieva (unrelated to the ruling family) described Azerbaijan's perception of Iranian Islamic influence as 'a threat to the very nation state'⁶. The same year, 22 Azerbaijani citizens were arrested in relation to what Baku claimed was a planned attack on the Israeli and American embassies in the Azerbaijani capital.

5 Fariz Ismailzade, 'A breakthrough in Iran-Azerbaijan relations', *The Central Asia-Caucasus Analyst*, 19 February 2016.

6 'Why Azerbaijan is closer to Israel than Iran', *BBC News*, 12 August 2012.

This however changed with the election of President Rouhani. The new Iranian President's first trip to Azerbaijan in 2015 was accompanied by a business forum where entrepreneurs from both countries discussed at length future economic ties between the two states.⁷ A window of opportunity opened. In April 2017, during a visit to Mazandaran, President Rouhani spoke commendingly of relations with Azerbaijan, hinting at new developments in business contacts and bilateral trade.

And yet, Iran's emergence as a potential regional energy player (its estimated gas reserves are 30 times greater than Azerbaijan's 1,200 billion cubic metres, while it has an estimated 158 billion barrels of proven oil reserves) poses serious challenges to Azerbaijan, despite years of efforts by Baku in this field of regional cooperation, not to mention the country's much-vaunted geostrategic importance for other regional powers as a bulwark against a hostile Iran. The possibility of Iran joining Europe's energy diversification plans and playing a key role in keeping oil prices low is a further source of grievance to Azerbaijan. There is also talk of Georgia importing oil from Iran via Armenia, which if fulfilled would end Azerbaijan's monopoly on gas imports too.⁸

Azerbaijan is set to continue paying close attention to Iran-Russia relations, knowing that Moscow continues to court Tehran in the aftermath of the nuclear deal brokered by the Obama Administration. Russia is interested in building economic ties with Iran, especially as sanctions imposed by the West against Russia are set to continue. Azerbaijan is also aware that Iran and Russia share a common anti-Western agenda and seek to challenge Western influence in the region at large. Russia is also set on resolving the issues surrounding the demarcation of the Caspian Sea. Although this would be an unlikely partnership, Azerbaijan could potentially play the Iran-Russia-Azerbaijan alliance card in order to exert pressure on the EU, thereby taking a step back from the West. However, given that the EU constitutes Azerbaijan's largest export market, such manoeuvring is unlikely.

Azerbaijan and the Arab states – alternative sources of financial support

A major new port – dubbed 'the Jewel of the Caspian' – constructed in Alyat is one of the direct outcomes of Dubai's emphasis on developing relations with Baku. But Aliyev's turn to the Arab world in search of cooperation is not accidental. Due to plummeting oil revenues, and with Azerbaijan's currency dipping to an unprecedented low and being devalued twice in 2015, Azerbaijan was forced to cut down on much of its lavish expenditure, including its notorious 'caviar diplomacy' and other forms of lobbying Western states and the EU. Given these circumstances, it was only a matter of time before Azerbaijan was forced to turn to major lending organisations. But who

⁷ Fariz Ismailzade, op. cit. in note 5.

⁸ Thomas de Waal, 'Azerbaijan's perfect storm', Carnegie Europe, 19 January 2017.

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would lend to Azerbaijan when the country's economy obviously required immediate and drastic reforms? Especially when such reforms would imply challenging the monopoly on power of a handful of families who are running a country for their own personal profit and aggrandisement.

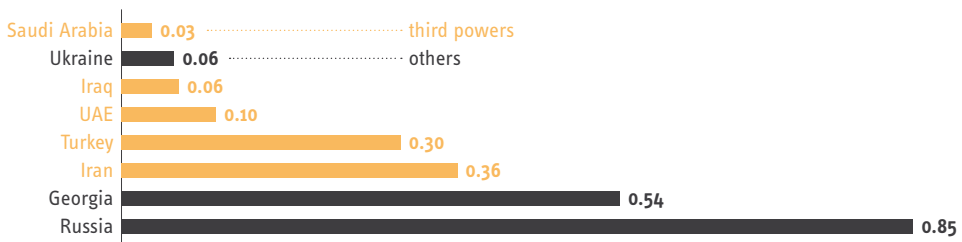
Against this backdrop it is not surprising therefore that, following a meeting between Ilham Aliyev and the Emir of Qatar in March 2016, the two leaders signed eight documents that would pave the way for creating an 'economic bridge' between the two countries.

Baku hosted the first Azerbaijani-Arab business forum in October 2017 with the participation of some 300 businessmen from the Arab world. In April of the same year, Azerbaijan also created the 'Cooperation of Azerbaijan and Arab Countries' public association. Both the forum and the association were part of President Aliyev's initiative to declare 2017 the Year of Islamic Solidarity in Azerbaijan. Baku also hosted annual Islamic Solidarity games in May 2017.

Azerbaijan has also witnessed an influx of Arab tourists following the introduction of a simplified visa regime for citizens of Qatar, Oman, Saudi Arabia, Bahrain, Kuwait and other countries.

Figure 14: Azerbaijan's top foreign visitors

million visits, 2017



Data: Ministry of Culture and Tourism of Azerbaijan

A partnership between Azerbaijan and the Arab states would mostly have an impact on Baku's relations with Israel as opposed to Russia and the EU. Nevertheless it is an alliance worth keeping an eye on, especially *vis-à-vis* the ongoing war in Syria, the Israeli-Palestinian conflict and Azerbaijan's ties with Russia which is actively engaged in the war in Syria, as well as in view of the country's close strategic ties with Israel.

Conclusion

Azerbaijan's regime has always practised a carefully balanced 'multi-vector' foreign policy. From Baku's perspective, the EU is just one of a number of regional actors that the country has successfully manipulated by leveraging its hydrocarbon resources and its geography.

But this carefully balanced game has become harder in the past few years. Following Russia's military intervention in Ukraine and the resulting confrontation with the West, and accompanying drop in oil prices, Azerbaijan has found itself facing a far more complex security environment in the region at large not to mention challenges at home due to the weak currency and growing domestic discontent.

The Azerbaijani national currency was officially devalued twice in 2015, the banking system found itself in the throes of a severe financial crisis while the entire business environment was so badly hit that the country's credit rating was downgraded by international rating agencies. The ruling elite's otherwise strong patronage system was damaged as a result. The absence of checks and balances only played into the hands of the leadership which was quick to point the finger elsewhere, close down ministries and reshuffle government positions in the Ministry of National Security, Ministry of Transportation and Ministry of Communications.

And yet, the Azerbaijani leadership tried hard to reassert itself as a regional player in the face of Iran's nuclear deal, Russia-Turkey tensions, the war in Syria and its own financial crisis. As one commentator has put it, 'Baku seeks to maintain its strategic value for the West while not significantly alienating Russia, whose state structure has increasingly served as a model for Azerbaijan'.⁹

Azerbaijan is clearly careful not to antagonise Russia. This was visible during the crisis between Ankara and Moscow following the downing of the Russian fighter jet in November 2015, when Turkey hoped its 'brother' Azerbaijan would take sides with Turkey in the stand-off between the two countries. Instead, Baku proposed to mediate between the two countries, subtly distancing itself from its friend.¹⁰

Russia also continues to play a significant role in the ongoing Nagorno Karabakh conflict as a mediator at the negotiating table and given that it has a military base in Armenia. In 2013, fearing Russia's reaction if Azerbaijan moved forward with the EU Association Agreement, Baku halted the discussion with the EU, proposing instead an alternative agreement. Officially the authorities in Baku rejected the EU's proposal on the grounds of Azerbaijan's territorial integrity being removed from the agreement.

9 Leila Alieva, 'Quo vadis Azerbaijan? The country's growing challenges', Heinrich Boll Stiftung, South Caucasus, 1 April 2016.

10 Eldar Mamedov, 'Turkish-Russian tension creates quandary for Azerbaijan', *Eurasianet*, 30 November 2015

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The recent scandal over Azerbaijan's International Bank suspending its payments on some liabilities has heralded a new unsettled phase in Azerbaijan's relations with the outside world, especially as its financial institutions have been hit hard and this has jeopardised its already fragile international reputation. Azerbaijan's dismal record on human rights and freedoms does nothing to improve the situation. Given the pace of events evolving within the country it is hard to say at this stage whether any of its neighbours or long-standing partnerships can save the country from economic and political collapse.

That being said, in light of the deterioration in relations between Azerbaijan and the West in recent years, reflected in anti-Western rhetoric among government officials and Western criticism of the fast-deteriorating situation in the country regarding human rights and democratic freedoms, Azerbaijan has been forced to rethink its relations with Russia *vis-à-vis* the Eurasian Economic Union (EAEU). Clearly, Azerbaijan is entering a new phase of politics where the rules of the game are changing fast, and in the coming years it is going to have to navigate increasingly choppy foreign policy waters. It will be up to its leadership to start making decisions that will not just have an impact in the short term but provide long-term solutions to a country on the verge of crisis.

Conclusion: The new powers on the (eastern) block

Nicu Popescu and Stanislav Secrieru

The states to the east of the EU have often been dubbed the ‘common’, ‘overlapping’ or ‘shared’ neighbourhood of both Russia and the EU. Much of their foreign – and even domestic – policies have been analysed through a narrow prism focused on how Russia-Western competition in the region shapes these countries. It is important to acknowledge that Russia, the EU and US are the most important foreign policy partners of the Eastern Partnership (EaP) states. They are these countries’ main diplomatic, security and trading partners, and occupy most of their foreign policy bandwidth. That is of course an important part of the story, but it is not the full story. This *Chaillot Paper* has sought to shed some light on the new landscape constituted by the foreign policies of the EU’s eastern neighbours – Ukraine, Moldova, Belarus, Georgia, Armenia and Azerbaijan – and how they interact with China, Iran, Turkey, the Arab states and Israel. Two main trends have emerged from this multi-country analysis.

The rise of ‘third powers’

The first trend is the perceptible rise in the presence of ‘third powers’ in the region over the last decade. The increasing visibility of most of these powers in world affairs is a global trend, and Eastern Europe is no exception to this. This rise is often from a low base, but it is incontestable nonetheless. China, Turkey and Qatar are at the forefront of this evolution, but the trend applies to virtually all the third powers analysed in this publication. This rising presence manifests itself in various forms: the opening of embassies and the exchange of diplomatic visits, increased trade and investment, direct flight connections, student exchanges, infrastructure projects, arms sales, and cultural diplomacy. Over the past two decades most of these powers have gone through a period of strong economic growth and consolidation, with the result that their foreign policy ambitions have risen correspondingly. In the case of those powers that did not experience such rapid economic expansion, security imperatives have pushed them to be more pro-active in looking for new friends and partners, as is the case of Iran and partly Israel. This has led to two consequences:

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the acquisition of greater resources and an appetite for greater engagement in international affairs. The foreign policy horizons and ambitions of these 'third powers' have been expanding, something which has not gone unnoticed by the Eastern Partnership states.

There are of course significant variations between states as different in size and geography as China, Iran or Israel. Some of them have ventured into the region for the first time, others have returned to areas that they formerly controlled centuries ago. But irrespective of the historical baggage they bring, most of the third powers analysed in this report are more present in the EU's eastern neighbourhood than they were a decade or two ago.

The second trend is driven by a persistent demand from the EU's eastern neighbours themselves for greater foreign policy diversification. For various reasons and to various extents they all want to develop diplomatic and economic – and sometimes security – links to 'third powers'. From their perspective the more partners they have, the merrier. As there are significant political or geographical constraints in Belarus's and Armenia's relationship with the EU and US, the two countries are looking at the 'third powers' as a way to offset their deep dependence on Russia. Azerbaijan adroitly defends its foreign policy autonomy against both Russia and the EU by playing multi-vectoral games in the region. Georgia, Moldova and Ukraine, all of which have been targeted by a series of Russian trade embargos over the last decade, and whose economic relations with Russia remain difficult, seek to develop relations with 'third powers' to partly compensate for trade losses. And this happens across the board: in the fields of diplomacy, security partnerships, trade and human contacts.

Mercantilist motives

The primary key for understanding the rise of 'third powers' in the EU's eastern neighbourhood is trade. Both sets of actors are primarily driven by economic motives. And it is in this sphere that the dynamic of increased engagement is most visible.

Almost in all cases Russia's economic coercion has incentivised neighbours to seek closer ties with 'third' parties. Russia's active opposition (which took the form of trade restrictions) against the Association Agreements between Georgia, Moldova, Ukraine and the EU, has forced the countries concerned to explore alternative business and investment opportunities. As Russia imposed restrictions on imports of Ukrainian agricultural products, China became the principal non-European destination of corn exports from Ukraine; it also opened its market to Ukrainian dairy products in 2015. After Moscow placed an embargo on alcoholic beverages from Moldova, the country started to successfully market its wines in China. As a result in 2016 China imported almost as much Moldovan wine as Russia imported from the country in the same year.

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The push towards diversification is equally strong among Russia's formal allies, such as Belarus or Armenia, who try in this way to gain more room for manoeuvre. Belarus has sought to purchase crude oil from Iran in order to get a better deal in the midst of a rift over oil imports from Russia. Both countries are sometimes happy to return commercial favours to the third powers, and make money in the process. After Russia restricted access to its market for Turkish fruit and vegetables in 2015, Belarusian agricultural imports from Turkey surged in 2016, propelling Turkey among the top ten trading partners of Belarus. Most of these goods were then re-exported to Russia, thus helping Turkey circumvent Russia's punitive measures.

China's Belt and Road Initiative (BRI) has caught the interest of virtually all the EaP states and they are busy thinking of how they can benefit most from this mega-project. Their hope is to be able to tap as much as possible into Chinese capital investment for infrastructure development. Despite the high hopes raised by the BRI, engagement with China has also given rise to disappointment however. Belarus's attempts to build a high-tech hub with Chinese support have so far not paid off. Moldova discovered that China's loans are more expensive than those offered by the West. But such local setbacks do not change the overall outlook for China's profile in the region: that of a rising economic and diplomatic power whose presence is generally welcomed. It also perceived as a vast and lucrative market which local producers are eager to access.

Besides China, the EaP countries have striven to establish and multiply links with the Gulf States and Israel. They have expanded their diplomatic presence, selectively liberalised visa regimes and initiated economic forums to reach out to business communities in the respective countries. In recent years Georgia, Moldova and Ukraine have significantly liberalised their visa policies towards Turkey, China, the United Arab Emirates (UAE) and Israel. These Eastern Partners either abolished visas, or introduced electronic visas or visas on arrival for these 'third powers'. For example tourist flows between Georgia and the Gulf States more than doubled in 2016 alone. They also try to promote their agricultural exports in the wider Middle East region (hoping to at least partially substitute the Russian market). In 2017 Iraq became the biggest import market for Moldova's sunflower oil. Remarkably, in 2016 Ukraine exported as much to Russia (12% of its exports) as to Egypt, Saudi Arabia, Iraq and Tunisia taken together (8%, 2%, 1% and 1% respectively).

The Gulf States are cautiously reciprocating these overtures by opening new diplomatic offices, launching direct flights, accommodating the incoming labour force or investing in lucrative joint projects. For example, in 2008 the UAE-based Dhabi Group entered the Georgian market, where it has invested extensively in the real estate, banking and telecommunications sectors. While the scale of collaboration is not breath-taking, the upward dynamic is clear.

Another emerging feature is a cautious re-engagement of the EaP countries with Iran. While Armenia aims to deepen existing economic ties with Tehran, Azerbaijan and Georgia are also prudently exploring avenues for more intensive economic cooperation with their southern neighbour (and former overlord). Moreover, Belarus,

Moldova and Ukraine have shown interest in reviving ties with Iran for pragmatic economic reasons. Iran is perceived as a source of energy and a potential market for agricultural exports. Ukraine tripled its corn exports to Iran in the last year, while Belarus is on the point of setting up the joint production and assembly of combine harvesters and tractors in Iran.

The political context

Increased trade links have been matched by a deepening of political links as well. In the last decade there has been a clear rise in the frequency of diplomatic contacts between the EU's neighbours and the third powers. The number of embassies has grown, mutual visits by senior officials have taken place more frequently, and even some sensitive security cooperation has started to take root.

The growing constellation of partnerships between the EU's eastern neighbours and the third powers analysed in this publication serves plenty of strategic purposes for the actors involved. Military cooperation with China allows Armenia and Belarus to modernise their armed forces, and is part of a rearguard battle to dilute their excessive dependence on Russia. China has sold advanced missile systems to Armenia and helped Belarus to design domestically-produced multiple-missile launchers. For Belarus and Azerbaijan, 'flirting' with other powers is not only about profit-making, but also about offsetting traditional EU and US criticism of their human rights record.

On a conceptual level, Israel, as a country contending with a hostile security environment, increasingly serves as a role model for Ukraine's top military brass. At the same time, Ukraine strives to offset its greatly disrupted military cooperation with Russia by engaging in joint production projects with the Gulf States. For instance, Ukraine has partnered with the UAE to produce An-132 and An-70 transport planes. Ukraine's aeroengine manufacturer Motor Sich, until recently a dominant supplier of helicopter engines for the Russian military, stopped selling engines to Russia and is now betting on joint engine production with China. In January 2016 Georgia won a contract to supply the Saudi army with armoured medical evacuation vehicles. Belarus is also eyeing opportunities for military exports and new projects in the space industry with the Gulf States. Last but not least, for Armenia and Azerbaijan relations with Iran are primarily an issue of security. Iran provides access to the Azeri exclave of Nakhichevan, while for Armenia Iran is a vital transit corridor for oil and food supplies should the conflict over Nagorno-Karabakh escalate again.

Geopolitics in flux

The geopolitical effects of the growing presence of ‘third powers’ in Eastern Europe are somewhat double-edged. Whereas the third powers sometimes compete against each other (particularly Iran versus Israel and some Gulf states in the South Caucasus), the repercussions of their increased presence in the region have so far not been significant.

The ‘third powers’ are quite unconflictual *vis-à-vis* both Russia and the West. They often tend to have a superficially ‘Russia first’ approach. Their muted reaction to Russia’s annexation of Crimea in 2014 was a good indicator of their careful diplomatic tiptoeing around complex Eastern European tensions. Turkey’s low-key response takes into account not only the worsening conditions of the Crimean Tatars since Russia’s annexation of the peninsula, but also the ongoing war in neighbouring Syria where since 2015 Russia has seized the military initiative. When in late 2015 Russian-Turkish relations became severely strained after Turkey downed a Russian military aircraft, Turkey suddenly increased its engagement with Ukraine. But when Russia and Turkey mended fences eight months later, Turkey equally quickly lost interest in its partnership with Ukraine. A similar sensitivity to Russian concerns may be traced in Israel, which scaled down military cooperation with Georgia in the aftermath of the 2008 Russian-Georgian war. Apparently for similar reasons, China has been reluctant to add Ukraine and Moldova to the 16+1 initiative which brings together Central and Eastern European countries and China.

However, even though they are not bent on challenging Russia openly, the cumulative effect of their trade, diplomatic links, and investments amounts to a continuous erosion of Russian power in these formerly Soviet republics. The third powers may not engage in overtly anti-Russian rhetoric or activities, but nonetheless they do help the EU’s eastern neighbours diversify their foreign policy orientation and in the process even further dilute the contours of what was once a Russian sphere of influence. At the same time, from a Russian perspective, the rise of third powers – economic or political – is seen as less problematic, and perhaps even more desirable than the prospect of the EU and US gaining ascendancy in the region.

When it comes to EU interests in the region, the rise of third powers does create some local problems for the conduct of bilateral policies. For example it decreases the already slight leverage that the EU has when it comes to supporting minimal democratic standards in Azerbaijan or Belarus. But this issue in any case has been deprioritised for quite some time, irrespective of the role of third powers. At the same time, some of the third powers have started imposing their own political agenda. China has been pressing local governments to restrict the activities of organisations banned in China (primarily the Falun Gong movement), whereas Turkey has been pursuing Gülenist schools and networks throughout Eastern Europe, even though most of the countries in the region had nothing against the presence of such

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schools, which moreover have a reputation for high academic standards. Beijing's and Ankara's efforts in this regard have not been universally successful. Moldova and Ukraine refused to close down the Turkish schools, or to restrict the activities of the Falun Gong organisation.

A bigger question mark will hang over some of the EU's trade and economic interests in the region. In 2017 Georgia signed and Moldova launched free trade talks with China, in a bid to supplement their existing free trade area with the EU. Both countries might hope to position themselves as springboards for Chinese producers seeking to access the EU market. While it is too early to know how this will work out, and whether that could create problems for the political economy of their relations with the EU, this will be one of the things to watch. At the same time part of the EU's core interest in the region is to see its eastern neighbours consolidate – economically and politically. If trading with third powers helps them achieve that, such collaboration can only serve to advance the EU's objectives in the region.

Annexes

Abbreviations

AIIB	Asian Infrastructure Investment Bank
AKP	Justice and Development Party (<i>Adalet ve Kalkınma Partisi</i>)
bcm	billion cubic metres
BRI	Belt and Road Initiative
BSEC	Black Sea Economic Cooperation
BTC	Baku-Tbilisi-Ceyhan pipeline
BTK	Baku-Tbilis-Kars railway
CEPA	Comprehensive and Enhanced Partnership Agreement
CIS	Commonwealth of Independent States
CSTO	Collective Security Treaty Organisation
DCFTA	Deep and Comprehensive Free Trade Area
EAEU	Eurasian Economic Union
EaP	Eastern Partnership
EBRD	European Bank for Reconstruction and Development
EEAS	European External Action Service
ENP	European Neighbourhood Policy
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GCC	Gulf Cooperation Council
ID	Identity card
JCPOA	Joint Comprehensive Plan of Action
MoU	Memorandum of Understanding
NATO	North Atlantic Treaty Organisation
OBOR	One Belt One Road Initiative
PfP	Partnership for Peace
PKK	Kurdish Workers' Party (<i>Partiya Karkerên Kurdistanê</i>)
PYD	Democratic Union Party (<i>Partiya Yekîtiya Demokrat</i>)
SCO	Shanghai Cooperation Organisation
SOCAR	State Oil Company of the Azerbaijan Republic
TANAP	Trans-Anatolian Pipeline
TAP	Trans-Adriatic Pipeline
TBT	Technical Barriers to Trade
TIKA	Turkish International Cooperation and Development Agency

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UAE	United Arab Emirates
UAV	Unmanned aerial vehicle
UN	United Nations
UNIFIL	United Nations Interim Force in Lebanon
USD	United States Dollars
USSR	Union of Soviet Socialist Republics

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