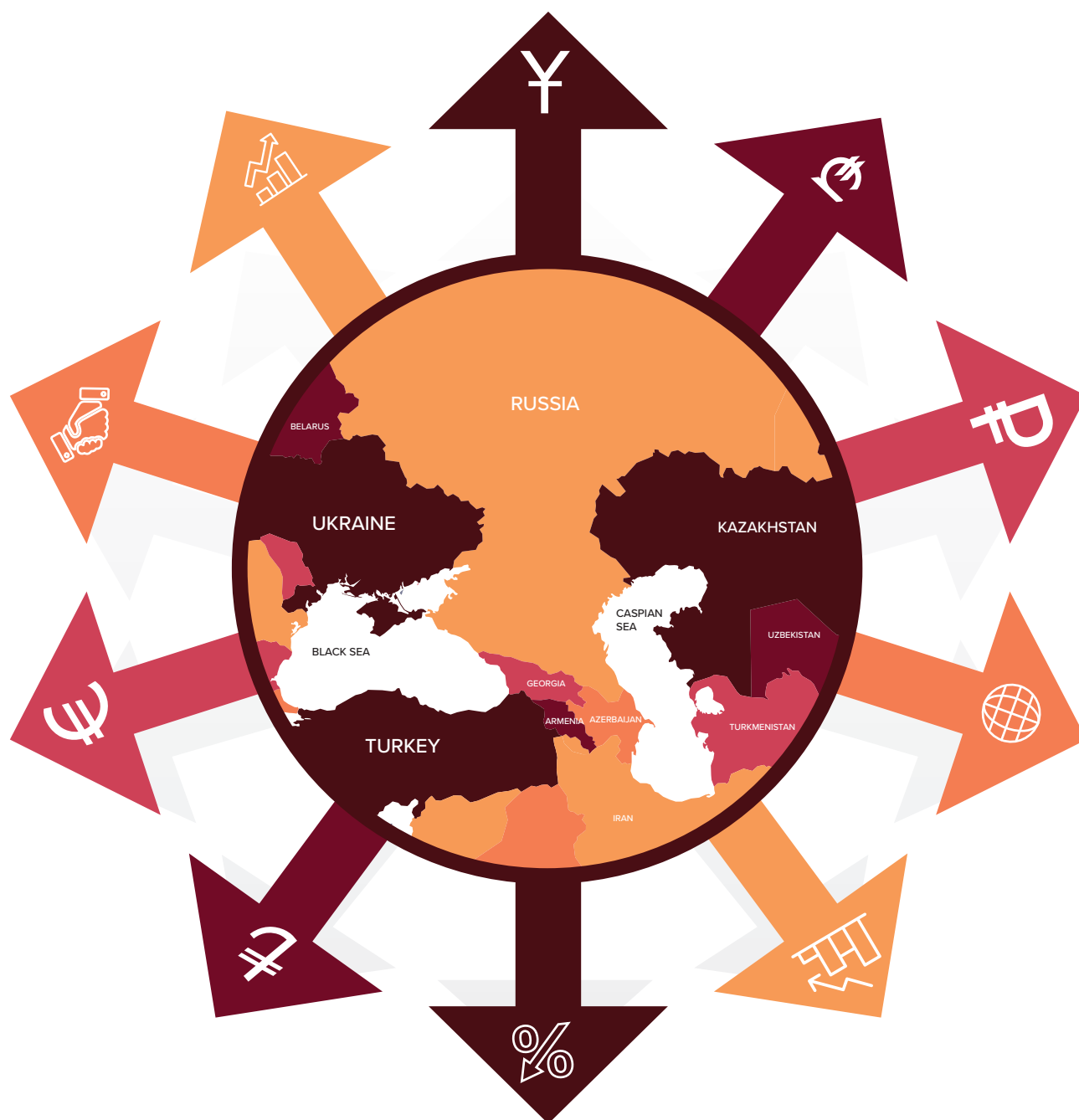




IN THE CROSSFIRE:

THE IMPACT OF WEST-RUSSIA TENSIONS ON POST-SOVIET STATES

Maria Shagina





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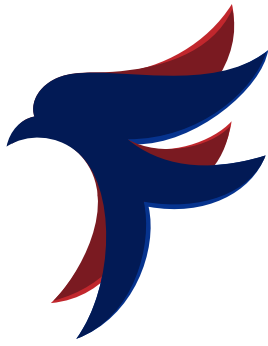
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IN THE CROSSFIRE: THE IMPACT OF WEST-RUSSIA TENSIONS ON POST-SOVIET STATES

Executive Summary

How have countries in the post-Soviet space responded to the intensified clash between the Russian Federation and the West since 2014? Russia's annexation of Crimea and its war in eastern Ukraine forced post-Soviet states to re-evaluate their foreign policy orientations and economic relationship with Russia. Due to their geopolitical vulnerability, members of the Eastern Partnership and the Eurasian Economic Union took a careful stance on the Ukraine crisis, siding fully neither with Western sanctions nor with Russia's counter-sanctions. Placed between Russia and the West, these states rewired their political allegiances and reinforced their long-standing multi-vector policy. To mitigate the destabilizing economic effects, post-Soviet states opted for a strategy of diversification, pivoting to third countries and altering previously Russia-centric trade structures, labor migration, and remittance flows. The new geopolitical reality has shown the limitations of the European Union's and Russia's leverage over the region, while a gradual rise of third powers has given post-Soviet states more ability to balance West and East.

STUCK IN THE MIDDLE



Pro-EU demonstration in Kyiv, Ukraine, November 2013. (Evgeny Feldman)

In late 2013, civic unrest in Ukraine ushered in a new period of tension between the Russian Federation and the West, ending the post-Cold War status quo in Europe. Ukraine's decisive pivot to the West left Russia feeling insecure and cornered, leading it to annex Crimea and to become involved in a hybrid war in eastern Ukraine. In response to Moscow's destabilizing actions in Ukraine, the United States and European Union responded with sanctions. Following the U.S., the EU introduced a package of Russia/Ukraine-related sanctions, ranging from diplomatic measures and individual restrictions (asset freezes and visa bans) to a comprehensive ban on Crimea and economic sanctions targeting Russia's finance, energy, and defense sectors. Russia retaliated, imposing its own counter-sanctions—a ban on agricultural purchases from the West. The intensification of great-power contestation in Europe has become a negative-sum game, leaving the states in the region vulnerable.

Caught in the tug-of-war between Russia and the West, post-Soviet states have had to adapt to a new geopolitical and economic reality. Placed between two power centers, they were particularly exposed to the crossfire of sanctions. The

breakdown of regional geopolitics forced them to re-evaluate their foreign policy orientations and trade structures towards a more assertive Russia. This report evaluates how tensions between Russia and the West impacted geopolitical and economic dynamics in the region. It examines how the Eastern Partnership (EaP) countries (Republic of Armenia, Republic of Azerbaijan, Republic of Belarus, Georgia, Republic of Moldova, and Ukraine) and the Eurasian Economic Union (EAEU) members (Armenia, Belarus, Republic of Kazakhstan, and Kyrgyz Republic) navigated through the stalemate and coped with the collateral damage stemming from Western and Russian sanctions. This report concludes by summarizing overall political shifts and new economic trends in the region and elaborates on the implications of the EU's and EAEU's power projections in the shared neighborhood.

SANCTIONS SOLIDARITY: FROM SELECTIVE SUPPORT TO NON-ALIGNMENT

In response to escalating tensions in Ukraine, on March 23, 2014, the United Nations General Assembly adopted non-binding Resolution 68/262, declaring the Russian-orchestrated Crimean referendum invalid and reaffirming Ukraine's territorial integrity. The resolution called for UN member states not to recognize any change in the status of the Crimean peninsula and its capital Sevastopol. Eleven countries voted against the resolution, and 58 abstained. Among them, Armenia and Belarus voted against the UN declaration, Kazakhstan abstained, and Kyrgyzstan was absent during voting. While EAEU members remained on the fence, Moldova and Georgia, as leading states in the EaP, unequivocally supported the UN declaration.¹

Regardless of their institutional alignments, EaP and EAEU member states—apart from Ukraine—took a cautious stance vis-à-vis the EU sanctions on Russia and Russia's counter-sanctions. Despite Moldova's and Georgia's pro-Western orientations, both states did not fully align with the EU's sanctions. Chisinau's and Tbilisi's backing of the EU's Common Foreign and Security Policy (CFSP) Decisions was selective and dependent on the type of sanctions (see, Figure 1). While Georgia fully aligned with the Crimea sanctions, Moldova only supported measures related to the misappropriation of Ukrainian state assets. Moldova and Georgia abstained from backing the EU's asset freezes, travel bans on Russian officials, and its economic sanctions on Russia. Such reticent behavior can be explained by fear of Russian retaliation.

Both have faced Russian military pressure in the past and are still weakened by unresolved frozen conflicts in Transnistria, South Ossetia, and Abkhazia. Chisinau and Tbilisi fear potential escalation in their respective breakaway regions, where Moscow has significant clout. Moldova's and Georgia's non-alignment policies were specific to the Russia-related measures. In the past, both countries demonstrated high compliance rates with EU declarations.² Their selective alignment with the EU's decisions reflected domestic dynamics. By aligning with the Crimea sanctions, Georgia was keen to bring attention to its own disputed territories. Moldova's support of the EU's misappropriation of Ukraine's stolen assets reflected concerns about the country's high-profile banking scandal, in which some \$1 billion was stolen from the nation's banking system.

Facing open confrontation with Russia, Ukraine no longer feared retaliation and fully sided with the EU's restrictive measures. Since 2015, Kyiv invariably aligned with the EU CFSP Council Decisions on Russia, as EU sanctions bolstered Ukraine's interests in increasing economic pressure on Russia and rallying international support for stronger measures. The alignment with such non-binding decisions, however, represented a low-cost option, as the main onus was borne by the European private sector. In contrast, Ukraine's own sanctions were less sharp. Whereas by September 2014 the West imposed sweeping sectoral sanctions, Ukraine adopted its own measures only in 2015, limiting them to asset freezes and travel bans. Showing reluctance to bear significant costs, Ukraine's

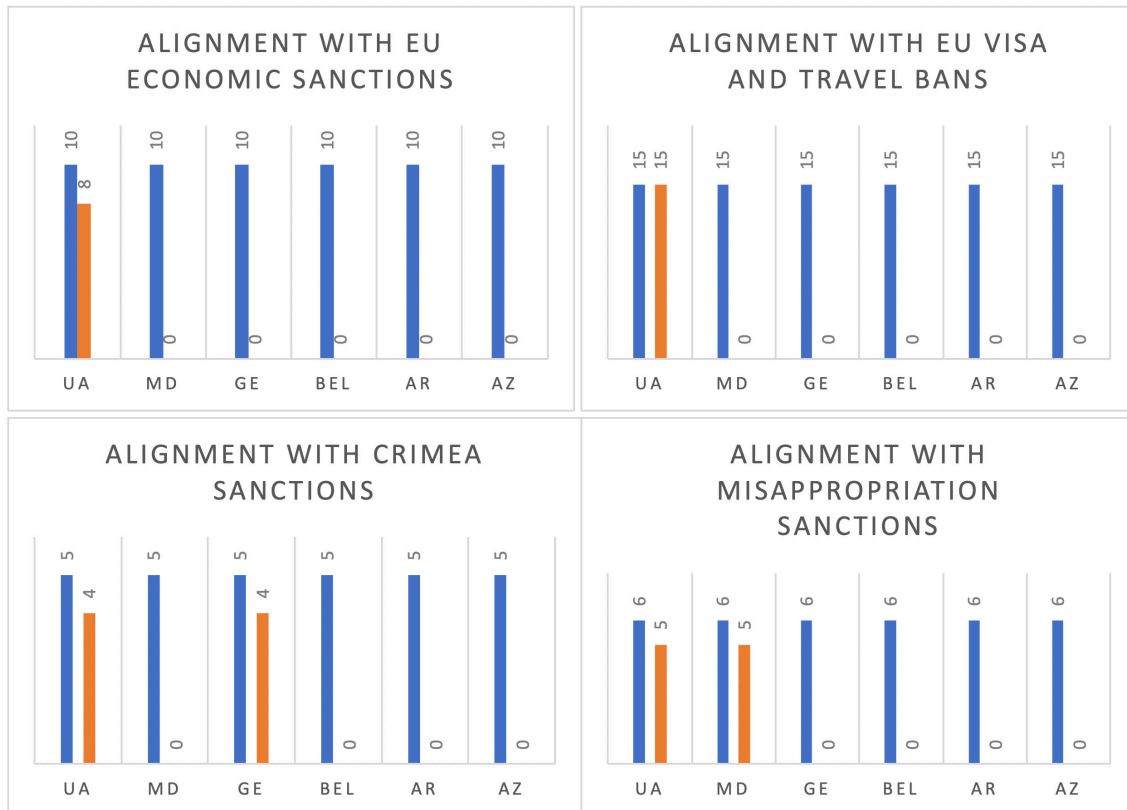
1 "General Assembly Adopts Resolution Calling upon States Not to Recognize Changes in Status of Crimea Region," United Nations, 27 March 2014, <https://www.un.org/press/en/2014/ga11493.doc.html>.

2 In 2017, Moldova and Georgia aligned with 70% and 56% of the EU declarations, respectively, while in 2018, the degree of compliance amounted to 75% and 53%.



Despite Moldova's and Georgia's pro-Western orientations, both states did not fully align with the EU's sanctions. Chisinau's and Tbilisi's backing of the EU's Common Foreign and Security Policy (CFSP) Decisions was selective and dependent on the type of sanctions.

Figure 1. Eastern Partnership States and Their Positions on the European Union's Russia Sanctions



*Blue line measures alignment with EU sanctions; Orange measures alignment with EU Common Foreign and Security Policy Statements.

Source: EU's Foreign Policy Declarations, European Council; and Elin Hellquist, "Either with us or against us? Third-country alignment with EU sanctions against Russia/Ukraine," *Cambridge Review of International Affairs*, vol. 29, no. 3 (2016), pp. 997-1021.

sanctions list delicately omitted Ukraine-linked Russian oligarchs and their businesses entities.³

At the same time, all three countries conformed with the EU's General Declarations on Russia, as no restrictive measures were attached to these statements. Chisinau, Tbilisi, and Kyiv fully supported the declarations on Russia's illegal annexation of Crimea, its responsibility for the downing of the Malaysian Airline Flight MH17, the "elections" in the Donetsk People's Republic and the Luhansk People's Republic, and the incident in the Sea of Azov.⁴

As members of the EaP, Belarus, Armenia, and

Azerbaijan rejected the EU's invitations to join the CFSP Declarations. In contrast to Ukraine, Moldova, and Georgia, all three pursue a less Western-oriented foreign policy and often use dialogue with the West as a counterweight against Russia. In addition, being part of the Russia-led EAEU, Belarus and Armenia had shown the lowest level of compliance with the EU's foreign policy declarations in the past. In 2017-2018, Armenia complied with 15% and 40% of the EU foreign policy declarations, respectively.⁵

Similarly, other EAEU member states did not side with Russia's counter-sanctions. Retaliating against the West's targeted sanctions, Russia hoped for

³ Maria Shagina, "Ukraine's inconsistent sanctions policy towards Russia," *New Eastern Europe*, 18 October 2018, <http://neweastern-europe.eu/2018/10/18/ukraines-inconsistent-sanctions-policy-towards-russia/>.

⁴ For context, see, the EU's General Declarations, <https://www.consilium.europa.eu/en/press/press-releases/>.

⁵ European Commission, Progress Reports 2017, 2018.

political support from members, but none of them backed Moscow's ban on agricultural imports.⁶ Additionally, Russia unilaterally introduced trade restrictions on Ukraine, which violated the principles of its customs union and common market policies. Because Russia's counter-sanctions were imposed without consent from Belarus and Kazakhstan, the EAEU's founding members, it contradicted the principle of equal representation enshrined in the EAEU's decision-making bodies.⁷ Since the Ukraine crisis, Russia increasingly has become selective in complying with the rules of its own organization, leaving other EAEU members wary of Moscow's hegemonic inclinations.⁸ Russia's disregard of the common rules and willingness to impose collateral damage on neighbors made EAEU members skeptical of further integration.⁹

Russia repeatedly sought support for its coordinated measures through the EAEU Intergovernmental Council, but to no avail. Armenia, Belarus, Kazakhstan, and Kyrgyzstan continued trade relations with Russia-sanctioned Western and Ukrainian companies, leading to growing internal frictions within the union. Retaining their neutral positions, other EAEU members considered the standoff between Russia and the West as not "their war."¹⁰ Having joined on the premise of economic integration—not a political union—Belarus and Kazakhstan opposed Moscow's coordinated sanctions, which they viewed as economically harmful and deleterious to relations with the West and Ukraine. To pressure EAEU members, Russian authorities applied economic leverage, introducing trade embargoes based on sanitary and phytosanitary norms and re-instating customs controls. To de-escalate the

situation, an informal compromise was struck not to profit from Russia's agricultural ban. Member states were welcome to replace Western imports of food products banned by Russia's retaliatory measures, but were not allowed to profit from the re-exports of counterfeited products. All countries acquiesced to this decision, preferring it to the establishment of a coordinated sanctions mechanism. Yet, with insufficient monitoring, member states were unable to fully stop the sanctions circumvention in their territories. Kazakhstan and Belarus notably profited from Russia's ban, turning into the main gates for prohibited items from the EU and Ukraine.

The non-alignment of the "in-between" states with the EU's and Russia's restrictive measures demonstrated the limits of Brussels' and Moscow's influence in the shared neighborhood. EaP and EAEU states favored a neutral position, preferring to defend their national interests. Apart from Ukraine, other states distanced themselves from the conflict. Their careful support for Ukraine was limited, often perceived through the lens of their own political sensitivities and economic vulnerabilities vis-à-vis Russia.

⁶ In a similar way, other EAEU states did not support Russia's unilateral sanctions against Turkey in December 2015 in response to the shooting down of a Russian plane on the Turkish-Syrian border.

⁷ Rilka Dragneva and Kataryna Wolczuk, "The Eurasian Economic Union. Deals, Rules and the Exercise of Power," Chatham House, 2017; pp. 11-12.

⁸ "The Eurasian Economic Union. Power, Politics and Trade, Europe and Central Asia," Report No. 240, International Crisis Group, July 2016; p. 12.

⁹ Rilka Dragneva, "The Eurasian Economic Union: Putin's Geopolitical Project," Foreign Policy Research Institute, October 2018, p. 25.

¹⁰ Dzhannar Tulindinova, "Eto ne nasha voyna? Dolzhen li Kazakhstan podderzhat rossiiskie sanktsii v otnoshenii Zapada" [Is this our war? Does Kazakhstan have to support Russian sanctions towards the West], Informationno-analiticheskiy zentr, 26 September 2018, <https://ia-centr.ru/experts/zhanar-tulindinova/eto-ne-nasha-voyna-dolzhen-li-kazakhstan-podderzhat-rossiyskie-kontrsanktsii-v-otnoshenie-zapada/>.

MAINTAINING NEUTRALITY: COUNTRIES' POSITIONS ON THE UKRAINE CRISIS

Armenia

Until the Crimean referendum, the Armenian government maintained a neutral position regarding civic protests in Ukraine and urged participants to resolve the standoff through dialogue. Later, when the referendum was condemned as illegal, then-President Serzh Sargsyan expressed that it was “yet another example of the realization of peoples’ right to self-determination through a free expression of will.”¹¹ Armenia employed a tit-for-tat voting tactic. Ukraine long has voted against Nagorno-Karabakh’s rights for self-determination in the United Nations. From Yerevan’s point of view, the Crimea precedent gave Nagorno-Karabakh, a disputed territory between Armenia and Azerbaijan de facto controlled by Armenian ethnic majority, an opportunity to establish itself as a republic. The new post-revolutionary government remained tacitly aligned with Russia on the Crimea issue.

Azerbaijan

Alongside with Georgia and Moldova, Azerbaijan condemned the Crimean referendum, confirming its support of Ukraine’s sovereignty and territorial integrity. The latter was strongly emphasized as a principle that is pivotal for the Nagorno-Karabakh conflict. Drawing parallels between the two conflicts, the Azerbaijani government was wary of the Crimea scenario in its own disputed area. Being less vulnerable to Russia’s pressure

due to its energy wealth, Baku could keep a safe distance from Moscow in comparison to other post-Soviet states. However, as Russia still exerts substantial influence over Nagorno-Karabakh, the government was forced to adopt a more neutral position on the Ukraine crisis. Employing a non-irritation policy, Baku generally avoided any statements on the conflict and scarcely covered it in the public debates. Balancing between the two power centers, Azerbaijan sought to maintain good relations with Russia, while at the same time trying to retain amicable contacts with the West and the new government in Kyiv.¹²

Belarus

Belarus’ official position was marked by a series of ambiguous and contradictory statements. First, the government said that it supports Ukraine’s territorial integrity, opposes the idea of federalization of Ukraine, and is ready to cooperate with the new government in Kyiv. Later, however, President Alexander Lukashenko acknowledged that Crimea is “de facto” part of Russia and that the Ukrainian authorities are partially responsible for the unfolding conflict due to the country’s weak economy and rampant corruption. Naming Russia a strategic partner, Lukashenko stated that if Belarus were forced to choose sides, it always would choose Russia. Balancing between Russia and the West, Belarus was preoccupied with strengthening its statehood to forestall the repetition of the Ukrainian scenario, whereby Russia intervenes on the premises of protecting the Russian-speaking population.¹³

11 “Armenia sides with Russia over Crimea,” *The Economist Intelligence Unit*, 25 March 2014, http://country.eiu.com/article.aspx?articleid=121660396&Country=Armenia&topic=Politics&subtopic=F_3.

12 Shahin Abbasov, “Azerbaijan: Potential Benefits and High Risks,” in Alina Inayeh, Daniela Schwarzer, and Joerg Forbrig (eds.), *Regional Repercussions of the Ukraine crisis. Challenges for the Six Eastern Partnership Countries*. Europe Policy Paper 3/2014 (Washington, D.C.: The German Marshall Fund of the United States), pp. 13-14.

13 Yauheni Preiherman, “Belarus: The Pragmatism of An Allegedly Close Ally of Russia,” in Alina Inayeh et al. (eds.), *Regional Re-*



President of Ukraine Volodymyr Zelenskyy met with the first President of Kazakhstan Nursultan Nazarbayev during a working visit to Japan in October 2019. (president.gov.ua)



Left to right: EU High Representative for Foreign Affairs and Security Policy Catherine Ashton, Russian President Vladimir Putin and Belarus President Alexander Lukashenko before a meeting in Minsk on August 26, 2014. (Viktor Drachev/Flickr)

Georgia

Then-President Giorgi Margvelashvili issued a statement condemning the annexation of Crimea and calling on the international community “not to allow a new conflict in Europe.” Russia’s actions in Crimea were perceived through the lens of the Russo-Georgian war in 2008 and fear of a Crimea-like scenario in Abkhazia and South Ossetia, Georgia’s breakaway regions. Georgia’s reactions were divided along the party lines. While the Georgian opposition reacted with an unequivocal disapproval of Russia’s Ukraine policy, the government led by Georgian Dream, which won on a promise of normalizing relationships with Russia, was cautious in using confrontational rhetoric and adopted a soft line towards Russia.

Kazakhstan

The Ukraine crisis had an unsettling effect on Kazakhstan. On one hand, the Euromaidan movement fueled concerns of potential civic unrest in the country. On the other hand, Russia’s aggression in Ukraine and Vladimir Putin’s remarks about Kazakhstan’s sovereignty sparked fears of a potential Crimea scenario in Kazakhstan, which has a sizeable community of ethnic Russians. Following the example of other countries, Kazakhstan distanced itself from the conflict and offered to act as an independent negotiator between Moscow and Kyiv. Balancing between the two, then-President Nursultan Nazarbayev called Ukraine “a close friend and partner in politics and the economy” while visiting Kyiv, but also expressed “understanding” for “Russia’s position, protecting the national minority rights in Ukraine” when in Moscow.¹⁴

Kyrgyzstan

The Kyrgyzstan Foreign Ministry called for peaceful resolution and condemned “all acts aimed at destabilizing the situation in Ukraine.”¹⁵ The statement criticized the actions of the former Ukrainian authorities, which led to “today’s crisis and the deaths of dozens of innocent people.” Later, Kyrgyzstan took a more conciliatory stance and integrated Russia’s view on the situation, stating that the Crimean secession was “the will of an absolute majority.” In the media, the Ukraine crisis was scantily covered and was mainly discussed in the context of Russia’s economic problems, which also impacted Kyrgyzstan.

Moldova

The Moldovan government strongly supported Ukraine’s sovereignty and territorial integrity, calling the annexation of Crimea a “very dangerous development” and underlining the importance of Western sanctions as a deterrent against Russia’s further encroachment in the region. Chisinau’s firm backing of Kyiv was driven by the fear of a Crimea scenario in Transnistria, a Russia-dominated breakaway region between Moldova and Ukraine. After 2016, Moldova’s position was influenced by its new Russia-leaning prime minister, Igor Dodon. Dodon infamously named Crimea part of Russia and emphasized the necessity “to restore friendly relations and a strategic partnership” with Moscow. Since 2019, a new pro-European coalition government, which emerged after an “anti-oligarch” revolt, continued the policy of normalization.

percussions of the Ukraine crisis, p. 18.

14 Murat Sadykov, “Central Asia Leaders Cautious After Russia Annexes Crimea,” *Eurasianet*, 25 March 2014, <https://eurasianet.org/central-asian-leaders-cautious-after-russia-annexes-crimea>.

15 Gabrielle Tetrault-Farber, “CIS Countries Neutral on Crimea Annexation,” *Moscow Times*, 18 March 2014, <https://www.themoscowtimes.com/2014/03/18/cis-countries-neutral-on-crimea-annexation-a33105>.

COLLATERAL DAMAGE AND NEW OPPORTUNITIES

A combination of low oil prices, the ruble's devaluation, and economic sanctions have had a negative impact on Russia's economy. In 2014, the country's gross domestic product (GDP) dropped by some 2.5%, foreign direct investment (FDI) declined by 50% year-over-year (y-o-y), while capital outflows amounted to \$152 billion in that year alone.¹⁶ The economic slowdown had negative effects across the post-Soviet space, given other countries' deep economic links with Russia. Declining trade, capital outflows, exchange rate volatility, reduced labor migration, and dwindling remittances were the collateral damage. In the EAEU, Russia's recession reduced its total trade with union partners by about \$15 billion y-o-y in 2015. The sharp devaluation of the Russian ruble made exports from other post-Soviet states more expensive, negatively affecting intra-regional trade.¹⁷ The economic fallout, thus, lessened the value and viability of the union and wrecked Russia's image as the "economic engine" in the region.¹⁸

Depending on the degree of economic dependence on Russia, countries were affected differently. Among EaP members, Ukraine's economy suffered the most. Between 2014 and 2016, Ukraine's nominal GDP contracted by almost half in U.S. dollar terms. Currency depreciation and strong capital flight compounded the precarious situation.¹⁹ War-related damages, estimated at \$7-8 billion in 2014, added to Ukraine's deep

recession. Ukraine's coal mining, metal, and machine-building industries, concentrated in war-torn areas, were hit hard, causing a decline in industrial production. Disruptions in trade between Moscow and Kyiv, fueled by mutual trade embargoes and disputes over energy prices, further aggravated the situation.²⁰

Within the EAEU, Belarus and Kyrgyzstan suffered the greatest economic costs, as they were most reliant on the Russian market and on intra-union trade.²¹ For Belarus, the economic recession caused a decrease in export revenues. For Kyrgyzstan, Russia's economic recession meant a lower appetite for investment. Bishkek experienced the starkest Russian capital outflow in the region. Prior to joining the EAEU, Russia had promised \$1.2 billion in direct grants to cushion Kyrgyzstan's membership costs and lavish investments in its hydropower project. Heavily dependent on Russia's labor market, Kyrgyzstan was especially vulnerable to the dwindling remittances from Russia. The share of personal remittances plunged by 28% y-o-y in 2014, fully recovering only in 2018 after Bishkek's accession to the EAEU.²²

More unintended consequences stemmed from Western sanctions. Due to a ban on technology transfers to Russian unconventional energy projects, several projects in the region were postponed, including cooperation between Russia's Lukoil

¹⁶ See, for example, Iikka Korhonen, "Sanctions and counter-sanctions – What are their economic effects in Russia and elsewhere?" Bank of Finland, 2/2019.

¹⁷ "The Eurasian Economic Union," International Crisis Group, p. 13.

¹⁸ Dragneva and Wolczuk, "The Eurasian Economic Union," p. 12.

¹⁹ Timothy Ash et al., "The Struggle for Ukraine," Chatham House, October 2017, p. 40.

²⁰ Amat Adarov et al., "How to Stabilise the Economy of Ukraine," The Vienna Institute for International Economic Studies, 15 April 2015, p. 13.

²¹ Veronika Movchan and Michael Emerson, "The Eurasian Economic Union's problematic customs union," Swedish International Development Cooperation Agency, 11 January 2018, p. 8.

²² József Lang, "Central Asia: the crisis of the migration model and its potential impact on the EU," *OSW Commentary*, Number 237, 25 April 2017, p. 2.



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and Gazprom and Kazakhstan's KazMunayGaz on the Caspian Sea.²³ Western sanctions increased reputational risk for regional companies. For example, the Kazakh subsidiary of ArcelorMittal terminated contracts with GazpromNeft, fearing sanctions risk.²⁴ Armenia may face sanctions for acquiring military equipment from Russia, which the U.S. can sanction under the Countering America's Adversaries Through Sanctions Act (CAATSA).²⁵

In addition to Western sanctions, additional collateral damage came from the Russia-Ukraine trade embargoes. In 2016, Russia banned the transit of Ukrainian products through its territory, which affected Kazakhstan, Kyrgyzstan, and Moldova. Due to the high transaction costs and lengthy delivery times, the transit ban caused a significant decrease of Ukrainian exports to Kazakhstan and Kyrgyzstan. The alternative route via the Trans-Caspian corridor increased the transportation costs by about 60%.²⁶ Similarly, Russia's restrictive measures increased costs for Moldova, as Ukraine remains the major transit route for the Moldovan products destined to Russia. Russia-Ukraine mutual travel restrictions also affected Moldova's aviation market. After Ukraine imposed a travel ban on Russian airlines, Russian Aeroflot and S7 Airlines, which previously dominated Moldova's market, faced a decreased market share.

While sanctions caused damage to some sectors, they created opportunities for others. Kazakhstan and Belarus profited from some of Russia's trade restrictions. With the absence of customs controls, Minsk and Nur-Sultan (formerly Astana) became the main gates for channeling sanctioned food products from the West. Similarly, taking advantage of Russia's embargoes on Moldova

and Ukraine, Belarus profited from the re-export of Moldovan fruit and vegetables, Ukrainian dairy products, and coal from the Donbas to Russia. Azerbaijan profited from the Russia-West tensions by offering alternative gas routes and sources for the EU. Portraying itself as a reliable supplier, Baku offered gas deliveries from its Shah Deniz field to alleviate Central and Eastern Europe's dependence on Russian gas.²⁷

23 Peter Leonard, "Economy and Sanctions Detail Russia's in Central Asian Investments," *Eurasianet*, 28 January 2016, <https://eurasianet.org/economy-and-sanctions-detail-russias-central-asian-investments>.

24 "Maslo vroz [Oil]," *Kommersant*, 16 July 2019, <https://www.kommersant.ru/doc/4032603>.

25 Joshua Kucera, "Armenia Wonders: Are We at Risk From US Sanctions," *Eurasianet*, 21 February 2018, <https://eurasianet.org/armenia-wonders-are-we-at-risk-from-us-sanctions>.

26 Veronika Melkozerova, "As Russia blocks Ukraine's trade corridors, focus shifts to Silk Road," *KyivPost*, 11 May 2017, <https://www.kyivpost.com/business/russia-blocks-ukraines-trade-corridors-focus-shifts-finding-modern-silk-road-routes.html>.

27 Anar Valiyev, "The Ukraine crisis and Implications for Azerbaijan," *Caucasus Analytical Digest* No. 67-68, 23 December 2014, p. 13.

POLITICAL NAVIGATION: REINFORCING MULTI-VECTOR FOREIGN POLICY

Because Russia's neo-imperialist behavior revived security concerns in the region, obtaining political assurances became the major priority for the "in-between" states. Navigating between East and West required cautious balancing and political acumen. Depending on the states' vulnerability to Russia, the degree of their balancing varied.

Russia's recurrent geopolitical and economic leverage provided Moldova, Georgia, and Ukraine a powerful reason to embrace European integration. All three states strengthened their relations with the EU by signing Association Agreements (AA) and Deep and Comprehensive Free Trade Areas (DCFTA), which established a common framework for economic integration and political cooperation. Their long-standing multi-vectorism has been replaced by a pivot to the West. Nevertheless, Russia remained a crucial player politically and economically. Moldovan and Georgian leaders embarked on a gradual normalization of their relationship with Russia. To prevent the rupture of diplomatic relations, Moldova enhanced political engagement with Russia.²⁸ Moldova pursued a special relationship with the EAEU and acquired an observer status in 2018. Similarly, Georgia took a pragmatic approach of establishing less confrontational relations with Russia, subsequently leading to a relative improvement in their economic ties.²⁹ Russia's aggression in Ukraine naturally changed Kyiv's attitude to its larger neighbor, shifting from strategic partner to aggressor-state. The ratification of the AA and DCFTA as well as

reinforced cooperation with the North Atlantic Treaty Organization (NATO) indicated Ukraine's strategic pivot to Europe. With Volodymyr Zelensky's victory, a comedian-turned-president who defeated his incumbent President Petro Poroshenko in the 2019 presidential election, Ukraine's new political elites have emphasized their European aspirations, but also started to toe a more moderate line towards Russia to achieve progress in conflict resolution.³⁰

Although Belarus and Kazakhstan officially pledged strategic alliances with Russia, both countries were ready to pivot to the West if political and economic imbalances with Moscow started to re-appear. Distancing themselves from the conflict in Ukraine, Minsk and Nur-Sultan posed as mediators in the Minsk Agreement II, a hasty peace deal to halt atrocities in eastern Ukraine, and encouraged greater cooperation between EaP and EAEU.³¹ To offset overdependence on Russia, both revitalized their relations with the EU. While Belarus entered a phase of "sustainable normalization" and "critical engagement," Kazakhstan signed an Enhanced Partnership and Cooperation Agreement and reinforced its relationship through energy cooperation. At the same time, being members of the EAEU, the two states were hard-nosed negotiators and managed to keep their influence over the institutional development of the union.³²

As the countries most vulnerable to Russia's pressures, Armenia and Kyrgyzstan struggled

28 Stanislav Secieru, "The Crimean Annexation: What It Means for Moldova," *RUSI News Brief*, 19 May 2014.

29 Nicu Popescu, "Why Georgia's Lessons for Russia Don't Apply in Ukraine," *Carnegie Moscow Center*, 13 February 2018, <https://carnegie.ru/commentary/75483>.

30 Mathieu Boulège and Leo Litra, "Understanding Volodymyr Zelenskyi's Foreign Policy Priorities for Ukraine," Chatham House, 25 June 2019.

31 Tony van der Togt, Francesco S. Montesano, and Iaroslav Kozak, "From Competition to Compatibility. Striking a Eurasian balance in EU-Russia relations," Netherlands Institute of International Relations Clingendael, October 2015, p. 43.

32 van der Togt, Montesano, and Kozak, "From Competition to Compatibility," p. 36.

to navigate through the political turbulence. Dependent on Russia in terms of security and economics, this power asymmetry left Armenia and Kyrgyzstan with few options in pursuing a multi-vector foreign policy. For these small and resource-poor states, the Ukraine crisis demonstrated that cooperation with Russia was a geopolitical necessity. After the outbreak of the war in Ukraine, Armenia radically changed the cost-benefit calculations of its political allegiances, abruptly abandoning negotiations with the EU and joining the Russia-led union.³³ Then, the repeated escalation in Nagorno-Karabakh in 2014-2016 led Armenia to question its Russia-centric security strategy and triggered the moderate revitalization of a European vector.³⁴ Yerevan signed a Comprehensive and Enhanced Partnership Agreement, but kept a low profile to pre-empt Russian retaliation. Similarly, Kyrgyzstan prioritized ties with Russia. As Kyrgyzstan is highly reliant on Russia as its major security provider and as a top destination for its migrants, Moscow maintained significant political leverage over Bishkek. Perceiving the EAEU as a counter-balance to the People's Republic of China's growing influence, Bishkek reluctantly joined the union. Having no viable alternatives, Kyrgyzstan's decision to join the EAEU was seen as "choosing the lesser of two evils."³⁵

As the least dependent on Russia, Azerbaijan could retain its multi-vector foreign policy more easily. Re-evaluating its strategic priorities after the Ukraine crisis, Baku abandoned its anti-Western rhetoric and re-engaged with the EU. Brussels offered pragmatic engagement without vocal criticism on the country's lack of democracy, and upgraded Azerbaijan's status, declaring it a strategic energy partner. At the same time, Russia occupied a pivotal role in Azerbaijan's security

policy. For Baku, Russia remains a key player in Nagorno-Karabakh that might help resolve the conflict.³⁶

While EaP countries strongly embraced their European and Euro-Atlantic aspirations, EAEU members felt coerced into continued engagement with Russia. Apart from Ukraine, all states sought to distance themselves quietly from the Russia-West standoff. The new geopolitical disorder impacted the EU's and Russia's engagement strategies with the region. The EU prioritized stabilization in its relationships with neighbors and softened its criteria for closer cooperation. Employing a more pragmatic and differentiated approach, the EU opened new forms of differentiated engagement, no longer fixated on "one-size-fits-all" cooperation. Having failed to garner allies' support, Russia was compelled to cave to EAEU members' demands over the union's institutional development and to tolerate their continuous engagement with the West and Ukraine. Belarus and Kazakhstan increased their bargaining positions vis-à-vis Russia by securing more favorable membership rights and obtaining tangible payoffs for their participation in the union. For example, due to Russia's "oil tax maneuver"—the change in tax legislation in the oil sector, which would cost Belarus \$1 billion in losses—Lukashenko linked the resolution of the issue with his approval of the EAEU treaty. Minsk ratified the EAEU documents, but included a reservation clause, allowing the country to defy the treaty obligations if Russia does not lift all "barriers, limitations and exemptions" that are harmful for Belarus.³⁷

33 Laure Delcour and Katarzyna Wolczuk, "Armenia is becoming an important test-case for relations between the EU and the Eurasian Economic Union," *LSE Blog*, 13 May 2015, <https://blogs.lse.ac.uk/europpblog/2015/05/13/armenia-is-becoming-an-important-test-case-for-relations-between-the-eu-and-the-eurasian-economic-union/>.

34 Anahit Shirinyan, "Armenia's Foreign Policy Balancing in an Age of Uncertainty," Chatham House, March 2019, p. 22.

35 Catherine Putz, "A 'Blurry' Union: Kazakhstan and the Eurasian Economic Union," *The Diplomat*, 18 February 2016, <https://the-diplomat.com/2016/02/a-blurry-union-kyrgyzstan-and-the-eurasian-economic-union/>.

36 Zaur Shiriyeu, "Azerbaijan's Relations with Russia. Closer by Default?" Chatham House, March 2019, p. 10.

37 Yauheni Preiherman, "Belarus Threatens to Spoil the Inauguration of the Eurasian Economic Union," *Belarus Digest*, 8 October 2014, <https://belarusdigest.com/story/belarus-threatens-to-spoil-the-inauguration-of-the-eurasian-economic-union/>.

A STRATEGY OF DIVERSIFICATION

The spillover from Russia's economic slowdown forced post-Soviet states to improve regional cooperation. Improved relations with countries such as the Republic of Turkey, State of Israel, Arab states, and China have been instrumental in the post-Soviet states' strategy of strengthening economic resilience and of enhancing their bargaining position vis-à-vis Russia and the West.

Economic Diversification with the EU

Russia's on-and-off trade embargoes of Moldova, Georgia, and Ukraine incentivized the countries to diversify trade.³⁸ In 2018, 40% of Ukrainian exports and 70% of Moldovan exports were sent to the EU, amounting to €17 billion worth of Ukraine's exports and €1.6 billion worth of Moldova's exports. The abolition of trade barriers under the DCFTAs opened new market opportunities for Ukrainian and Moldovan exports. At the same time, Russia's share plummeted below 8% for the two countries—€3 billion worth of Ukrainian exports and €165 million worth of Moldovan exports were directed to Russia in 2018.³⁹ Similarly, Moldova's and Ukraine's labor migration patterns shifted to the EU. By 2019, Russia ceased to be the primary destination for Moldovan and Ukrainian migrant workers, replaced by Israel and Republic of Poland as the new top destinations.⁴⁰ In contrast, Georgia managed to preserve its economic relations with Moscow, making Russia among the

top destinations for Georgian products. Between 2012 and 2017, Georgian exports to Russia increased 900%, and Russia's share in total Georgian exports increased sharply to 13% (€370 million) in 2018.⁴¹ Even Azerbaijan and Kazakhstan took measures to deepen their economic ties with the EU. In each case, the EU represented the countries' largest trading partner, amounting to over 50% in Azerbaijan's (€8.9 billion) and in Kazakhstan's (€26 billion) exports in 2018.⁴²

In addition to diversifying trade and migration flows, post-Soviet states sought to reduce energy dependence on Russia. Since 2016, Ukraine stopped the imports of Russian gas, relying on reverse gas flows from Slovak Republic, Poland, and Hungary. With the EU's financial assistance, Moldova launched the Ungheni-Chisinau pipeline to access Romanian gas and diversified its electricity supplies away from Russian providers. Georgia expanded energy imports from Azerbaijan, while Armenia conducted negotiations with the Islamic Republic of Iran to enhance its energy security. To diminish its dependence on Russian energy, Belarus reduced its imports of Russian petroleum products and is slated to increase imports from Iran. Only Kyrgyzstan strengthened its energy ties with Russia, allowing Gazprom to acquire a controlling stake in KyrgyzGaz.

38 To punish Moldova, Georgia, and Ukraine for signing and ratifying the AAs and DCFTAs, Russia periodically employed a series of trade restrictions on the basis of alleged sanitary and phytosanitary violations. See, for example, Denis Cenusa, Michael Emerson, Tamara Kovziridse, and Veronika Movchan, "Russia's Punitive Trade Policy Measures towards Ukraine, Moldova and Georgia," CEPS Working Document No. 400, September 2014.

39 European Commission, Trade in goods with Ukraine, June 2019, https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_ukraine_en.pdf; and European Commission, Trade in goods with Moldova, June 2019, https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_moldova_en.pdf.

40 Madalin Necsutu, "Israel overtakes Russia as source of Moldovans' remittances," *Balkan Insight*, 7 May 2019, <https://balkaninsight.com/2019/05/07/israel-overtakes-russia-as-source-of-moldovans-remittances/>.

41 European Commission, Trade in goods with Georgia, June 2019, https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_georgia_en.pdf.

42 European Commission, Trade in goods with Azerbaijan, June 2019, https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_azerbaijan_en.pdf; and European Commission, Trade in goods with Kazakhstan, June 2019, https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_kazakhstan_en.pdf.



(Adobe Stock)

Pivot to Third Powers

Reaching out to third powers, EaP and EAEU members sought to expand their economic horizons beyond Russia or the West. Although the EU and Russia retain substantial influence, third powers, such as China, Turkey, Iran, Israel, and the Arab states, have significantly increased their presence in the region.⁴³ Since the launch of Belt and Road Initiative (BRI), China's ambitious infrastructure investment strategy, Ukraine, Belarus, and Kazakhstan gained in importance as the shortest transit routes to Europe; their economic relations intensified as a result. For Ukraine, this has been instrumental in alleviating the losses from economic disruption with Russia. In 2019, China became Ukraine's largest single-country trading partner—a place which was traditionally occupied by Russia. In the

first quarter of 2019, Ukraine's trade with China amounted to \$2.5 billion, while trade with Russia lowered to \$2.3 billion.⁴⁴ Talks on a free trade agreement between the countries have begun, with a stated aim of reaching \$20 billion in the total trade by 2023. Belarus' ties with China have been increasing, and, in 2018, their total trade amounted to more than \$3.5 billion. Recently, Belarus started exporting meat and dairy products to China. Similarly, China's presence in Kyrgyzstan has increased dramatically. In 2016, Chinese exports to Kyrgyzstan totaled \$1.6 billion, nearly double the value of Russia's, while China owns nearly half of Kyrgyzstan's foreign debt—\$1.7 billion of the \$3.8 billion total in 2018.⁴⁵

China has showed particular interest in post-Soviet countries' defense and energy sectors. Keen on obtaining access to former Soviet military technology, Beijing attempted to acquire

43 Nicu Popescu and Stanislav Secieru, "What are third powers up to in Europe's east?" in Nicu Popescu and Stanislav Secieru (eds.), *Third powers in Europe's east* (EU Institute for Security Studies, Chaillot Paper No. 144, May 2018), p. 5.

44 National Bank of Ukraine, External Sector Statistics 2019, <https://bank.gov.ua/doccatalog/document?id=19208312>.

45 Stefan Hedlund, "China finds investment in Kyrgyzstan a risky necessity," *Geopolitical Intelligence Services*, 11 April 2019, <https://www.gisreportsonline.com/china-finds-investment-in-kyrgyzstan-a-risky-necessity,economy,2843.html>.

an equity stake in Motor Sich, a leading Ukrainian manufacturer of engines for missiles, helicopters, and jets. China helped Belarus develop its first homemade weapon, the Polonez missile-launcher. Available for export, the weapon has sparked interest from other post-Soviet countries. The recent advancement of China's military technology industry may challenge Russia's role as a traditional arms supplier in the region.⁴⁶ China already has an upper hand in producing traditional components as well as modern military-use telecommunication parts. The Soviet origin of Chinese military equipment and their affordable price make it particularly appealing to post-Soviet states. For example, in September 2018, Kazakhstan purchased a Y-8 series aircraft, a copy of the Antonov An-12, from China. In the energy sector, China pledged nearly \$1 billion for Kyrgyzstan for the construction and modernization of electricity transmission lines and another \$1 billion for the modernization of three airports, including the Manas International Airport.

Regional Cooperation

Facing the common challenges posed by Russia's expansionism, Moldova, Ukraine, and Georgia intensified cooperation to reinforce their resilience. Moldova and Ukraine boosted their economic ties, advanced cooperation on border management along Transnistria, and declared plans to deepen cooperation in the energy and aviation sectors. With Georgia, Ukraine signed a declaration on strategic partnership to consolidate international support for the de-occupation of their territories and to pursue their European and Euro-Atlantic aspirations. Economic cooperation with the EaP laggards, Armenia, Azerbaijan, and Belarus, also intensified. Azerbaijan's state oil company SOCAR invested \$160 million in Ukraine's energy market, while Belarus lifted trade restrictions against Ukraine and allowed hryvnia-denominated payments for Belarusian non-petroleum exports. Within the EAEU, Kazakhstan pledged to cover electricity shortages in Kyrgyzstan after Russia withdrew its investments from the country's hydropower plant.

⁴⁶ Marin, "The third powers and Belarus," p. 73.

A MULTI-VECTORED FOREIGN POLICY



President of Kazakhstan Kassym-Jomart Tokayev and Chinese President Xi Jinping in Beijing, September 2019. (akorda.kz)

Caught in the crossfire between Russia and the West, the post-Soviet states have faced a serious test of their multi-vector foreign policies and economic vulnerabilities. They sought to increase their room for maneuver in relations with Russia, trying not to antagonize the Kremlin or to derail diplomatic relations with the West and Ukraine. The post-Soviet states demonstrated their skill in balancing external powers and using third parties to offset collateral damage. Wary of political and economic costs associated with restrictive measures, EaP and EAEU member states did not fully align with EU sanctions or Russia's counter-sanctions. Their partial-alignment demonstrated a desire to focus on their national interests.

On the other hand, their non-alignment demonstrated the limits of Brussels' and Moscow's influence over their shared neighborhood. Fearing Russia's retaliation, the EaP countries could not give carte blanche approval to the EU, offering selective alignment at best.⁴⁷ Russia's counter-sanctions, meanwhile, provided a test of Moscow's commitment to rules-based

interactions with its union members. Keeping some distance from both West and East, the post-Soviet states enhanced their bargaining positions vis-à-vis Brussels and Moscow. As a result, the EU softened its cooperation criteria, offering a differentiated approach, while EAEU members obtained favorable concessions in exchange for their loyalty to Moscow. Russia had to adjust its approach towards other members, repackaging the EAEU as "an equal, collective, and positive-sum enterprise."⁴⁸ It remains to be seen how the EU's laxer criteria for engagement will affect Brussels's values-based policies or how Russia's initiative of economic integration will square with Moscow's hegemonic inclinations in the future.


Looking to escape the Russia-West dichotomy, EaP and EAEU states have sought alternative partners in search of political and economic support. Filling the vacuum, third powers have strengthened their presence in the region. Their rise in terms of political influence and economic clout will have consequences for both the EU and Russia. The third powers' growing visibility reinforces the status quo in the region,

⁴⁷ Hellquist, p. 1011.

⁴⁸ Bobo Lo, *Russia and the New World Disorder* (London: Chatham House/Washington, D.C.: Brookings Institution Press, 2015), p. 63.

as their financial assistance often comes without democratic standards. As a result, this may diminish the EU's leverage and hinder its efforts to promote good governance. For Russia, the economic rise of third powers, particularly China, may become a thorn if economic influence spills over into security cooperation—an area that traditionally has been Russia's sphere of privileged interest.

A combination of balancing and limited engagement between the EU and EAEU may be beneficial for the stabilization of the shared neighborhood. As the Ukraine crisis demonstrated, the incompatibility between “European choice” and “Eurasian choice” posed the insurmountable challenge for the “in-between” states. To alleviate the negative spillover effects, the EU should devise a strategy for co-existing with a more assertive Russia and set workable red lines for the time being. Openness to dual membership and to various forms of cooperation with both sides would provide flexibility for post-Soviet states' interaction with the two integration projects, which will be necessary to reduce heightened tensions.

As Armenia and Kazakhstan showed, the EU's differentiated approach opened the door to a broader process of approximation between the projects. It offers a new opportunity to test the compatibility of Brussels's and Russia's integration strategies, demonstrating that the “integration game” need not necessarily be “zero-sum.” Conversely, EAEU member states should push for a more robust institutional development to strengthen the union's multilateral rules-based framework with genuinely symmetric relations. Despite the EAEU's inherent flaws, the union offers its member states an opportunity to engage with Russia on a more equal footing, which will help to constrain Moscow's actions and shift them from the military realm to the economic sphere.⁴⁹ 

49 Ivan Krastev and Mark Leonard, “The New European Disorder,” *European Council on Foreign Relations*, November 2014, https://www.ecfr.eu/page/-/ECFR117_TheNewEuropeanDisorder_ESSAY.pdf.

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