



# Interdependencies of Eastern Partnership Countries with the EU and Russia: Three Case Studies

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Kamil Całus, Laure Delcour, Ildar Gazizullin, Tadeusz Iwański, Marta Jaroszewicz, and Kamil Klysiński

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# Interdependencies of Eastern Partnership Countries with the EU and Russia: Three Case Studies

Kamil Całus, Laure Delcour, Ildar Gazizullin, Tadeusz Iwański,  
Marta Jaroszewicz, and Kamil Klysiński

## Abstract

Asymmetric interdependencies with Russia have been identified as a key factor influencing domestic change in response to EU policies in Eastern Partnership (EaP) countries. As argued in the literature, interdependencies can either facilitate or constrain EU-demanded change, depending on whether they are associated with EaP countries' sensitivity or vulnerability to Russia's policies. In this paper, we provide a systematic mapping and process-tracing of interdependencies in three EaP countries (Belarus, Moldova and Ukraine) and four key sectors (trade, migration, energy and security). We further explore Russia's use of interdependencies and attempts at issue-linkage between the above sectors. Finally, we scrutinize domestic elites' responses to Russia's strategies. Drawing upon the distinction between sensitivity and vulnerability, we seek in particular to identify the conditions under which Russia's policies effectively incentivize or disincentivize the political elites in EaP countries to engage with the EU's and Russia's policies. We find that Russia's attempts to link issues (even if to varying degrees across countries and sectors) effectively undermined further integration with the EU in those cases where policy alternatives were too costly for the incumbent elites. By contrast, Russia's use of nexuses between different policy sectors have facilitated or even supported integration with the EU when the latter offered an affordable alternative to the EaP countries.

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## Introduction

*Ildar Gazizullin, Laure Delcour and Marta Jaroszewicz*

In this set of case studies on Belarus, Moldova, and Ukraine, we explore the extent and nature of interdependencies across the areas of migration, energy, trade and security, in which countries face significant sensitivities and vulnerabilities. We focus on issue-linkages that external partners apply and how they affect national policies and domestic actors in the three countries. We also study how partner countries respond to these issue-linkages. Finally, we suggest some ways in which interdependencies may facilitate or undermine the transformation of social orders in these three countries.

We use Keohane and Nye's broad definition of interdependence as "situations characterized by reciprocal effects among countries or among actors in different countries" (1977: 8) as well as their differentiation of sensitivities, vulnerabilities and issue-linkages, and draw on an application of this framework to study policy change in EaP countries (Ademmer 2015).

'Sensitivity' reflects the size of effects caused to a state from the outside without changing existing policies. In other words, it addresses the question of how quickly changes in one country bring costly changes in another, and how great the cost of the subsequent effects is. Therefore, sensitivity refers to the pressures faced by an actor as a result of another's actions, when there has been no change in its own policies. For example, such pressure can be characterized by the speed and magnitude of the impact that a major increase in the price of an imported commodity has on budget revenues and household incomes of the importing country, provided that this commodity has a high share in the import structure, and that the country does not look for alternative commodities or suppliers.

'Vulnerability' reflects the costliness of policy alternatives and their availability. Therefore, it refers to the costs faced by an actor as a result of the actions of other actors after it has changed its own policies. In other words, a state is highly vulnerable if alternatives to the given policy framework are not available at acceptable costs (Keohane and Nye 1977). Following the example of increased import prices, the extent of vulnerability is determined by the cost of finding substitutes to the imported commodity, alternative suppliers, or by negotiating a better price. There is a link between these two types of interdependencies: for instance, the analysis of vulnerabilities can inform a country's policies on avoiding sensitivities.

We use the notion of 'linkage strategies', a term coined by Keohane and Nye (1977), to detect strategies whereby an actor ties one policy area to another policy area. It helps to model situations in which a stronger party exercises its leverage over a weaker counterpart, as well as situations in which such a seemingly weaker party exploits vulnerabilities emerging from mutual interdependence to increase its bargaining power vis-à-vis a seemingly stronger counterpart.

The interdependence nexus therefore emerges when actors apply issue-linkage by exploiting vulnerabilities, trading benefits or imposing costs across more than one area. For instance, although both Ukraine and Russia have exploited their mutual interdependence in the energy area (dependence on gas imports and gas transit respectively) to achieve their objectives, they have also practiced issue-linkage across other areas, for instance

when Russia tied gas price discounts to the extension of the presence of the Russian Black Sea fleet base in Crimea.

The scope of linkage strategies is, however, constrained by the fact that they tend to provoke conflict, or “counter strategies, the focus of which may be military or [...] economic” (Keohane and Nye 1973: 160). Frozen conflicts in the EaP region are often being used and/or can trace their origin to issue-linkage strategies used by the involved parties. The deadlock between the reviewed countries has sometimes been mediated by a third party – often the EU. At the same time, the EU frequently faces sensitivities itself, resulting from possible consequences of conflicts or disagreement between the two countries involved, such as migration inflows or energy supply interruptions.

Such effects or situations of interdependence are used to analyse the role and behaviour of domestic actors in each of the countries vis-à-vis the European Union (EU) and the Russian Federation. Both regional powers represent natural centers of gravity for all Eastern Partnership (EaP) countries, given the sizes of their economies and their geographical location. Existing interdependencies are further reinforced or weakened by two competing regional regimes, as represented by the Eurasian Economic Union (EAEU) and the EU’s offer of Association Agreements (AA), including Deep and Comprehensive Free Trade Areas (DCFTAs). Other external partners, such as Turkey or China, play a less important role in terms of interdependencies. Yet, EaP countries sometimes rely on these countries to decrease their vulnerabilities to the EU or Russia.

Issue-linkage applied in the context of the three EaP countries often occurs through formal bilateral or multilateral agreements involving Russia and the EU, especially in the areas of trade, energy and migration. Maggi (2016: 1, 2) suggests three possible issue-linkage situations, using the examples of international agreements:

1. “enforcement linkage”: a violation of an agreement in area A is punished with sanctions in area B;
2. “negotiation linkage”: agreements in areas A and B are negotiated jointly (i.e. in the context of a single bargain), as opposed to separate bargains;
3. “participation linkage”: the threat of sanctions in area A is used to encourage participation in an agreement in area B.

In practice, issue-linkage strategies have a hybrid nature and actors tend to change or merge the types of strategies referred to above.

Informal negotiations between the domestic elites of the EaP countries and their external partners can often supplement or even override existing agreements or negotiations. This is not necessarily due to poorly designed dispute settlement mechanisms, but rather as a result of the pervasiveness of business and state capture in the EaP countries and Russia. It is therefore not uncommon that domestic actors use the public sphere or other non-conventional methods to link issues and signal threats or rewards.

The application of issue-linkages can lead to situations of extreme vulnerabilities, i.e. when there are very limited or costly policy options available, or when even the survival of the government itself is threatened (Ademmer 2015: 7). Resulting changes in the policy-making space in which domestic actors operate often speed up or prevent social transformation. In other words, it is during these moments that an external actor’s strategy can have lasting implications, when the country either capitulates and succumbs to the demands of the external actor or chooses to pursue costly policies to increase its capacity to withstand external pressure.



Finally, issue-linkage does not need to result in a zero-sum game or be viewed as necessarily hostile in nature. Costs and benefits associated with linkage strategies tend to be unevenly distributed across sectors and actors and might have a neutral effect at the national level. Evidence from international trade negotiations shows that institutionalized issue-linkage facilitates the liberalization of sensitive sectors such as agriculture, especially when the negotiating countries can achieve mutual gains from greater trade opening in industry and services (Davis 2014).

To better understand the nature of interdependencies in EaP countries we used quantitative data available from international organizations and EaP countries. We combined the analysis of quantitative data with a review of the literature and semi-structured interviews. We interviewed a total of 58 respondents, originating from the expert and NGO community, the private sector and government in each of the three countries (see Table 1). The interviews were conducted between June and July 2017 in the three capitals (in Ukraine interviews were conducted in Odessa as well). For the sake of the interviewees' anonymity, the affiliation and the name of interviewees are not disclosed.

*Table 1. Number and categories of interviewees in each of the case countries*

	<b>Overall number of interviewees</b>	<b>Non-government academic institutions and media*</b>	<b>organizations, Business representatives</b>	<b>Government representatives</b>
<b>Belarus</b>	14	10	3	1
<b>Moldova</b>	21	18	-	3
<b>Ukraine</b>	23	18	-	5
<b>Total</b>	58	46	3	9

\*This is a broad category and also includes representatives from academic institutions and media that are funded by the government.

Source: Authors.

Based on a data and literature review, as well as interview results, we focus on four areas in the following case studies, in which all three countries face sensitivities and vulnerabilities:

1. Trade in goods, services and capital flows: Sensitivities tend to emerge from high trade openness and high trade concentration, e.g. in the area of agriculture;
2. Energy imports, exports and transit: As in trade, sensitivities and vulnerabilities are determined by overdependence on the exports or imports of energy and energy consumption patterns;
3. Security, especially with regard to regional conflicts, militarization and arms trade: Sensitivities could be characterized as the costs of the potential or frozen conflicts, or the necessity to keep peacekeeping or military presence in EaP countries;
4. Labour and forced migration, and related flows of remittances: Countries become sensitive based on the scale, ease and destination of movement of its citizens, be it labour migrants or refugees.

Each of the following case studies consists of three parts. They start by mapping each country's interdependencies with Russia and the EU. On the basis of this mapping, they analyse key nexuses between different issue areas. Each section concludes with summarizing the main findings.

Our findings highlight a baffling diversity in terms of interdependencies, issue-linkage strategies by external actors and domestic responses by EaP countries. Whether the ruling elite accepts the issue-linkage strategy of

an external actor or chooses instead to engage in a (costly) policy alternative varies substantially across both countries and sectors.

We identify (formal and informal) practices and vested interests of the local elites as key explanatory factors for such varied domestic responses. In essence, the local elites have sought to gain concessions through bargaining with external actors. For instance, the fact that over the past 25 years, Moldova has not managed to decrease its energy dependence on Russia may be explained only when taking into account the Moldovan elites' informal businesses connections with the leadership of Transnistria. In a similar vein, the 2010 decision of the Ukrainian government to extend the lease of its Black Sea Fleet Base in Crimea to Russia until 2042 can only be understood through the prism of business concessions of certain Russian oligarchic groups towards the Ukrainian oligarchic group represented by former Ukrainian President Viktor Yanukovich.

We also highlight Russia's agility (based upon a long-standing experience) in exploiting existing interdependencies with EaP countries and applying issue-linkage strategies. Security has emerged as Russia's preferred leverage and has repeatedly been used in connection to energy or trade. This is linked with the fact that security interdependencies with Russia have only expanded since the independence of Belarus, Moldova and Ukraine. The deployment of military bases and the unresolved conflicts provide Russia with local proxies. By contrast, the EU has made limited use (if any) of issue-linkage strategies. This is because it does not exploit existing sectoral interdependencies with EaP countries, even though these are expanding (especially with Ukraine and Moldova). Instead, the EU relies upon sector-specific conditionality as a basis for further expansion of links with and integration of EaP countries. Despite the lack of an issue-linkage strategy, we identify the EU's offer as another factor influencing EaP countries' response to Russia's policies. Ultimately, EaP countries are less likely to change their policies in the areas where the EU is not in a position to offer any alternative, e.g. security. However, the EU's ability to offer alternative options may also evolve in conjunction with Russia's strategies and EaP elites' determination to change their policies. Recent energy developments in Ukraine offer a case in point: while this option had been discussed within the EU for almost a decade, it was only after Russia's annexation of Crimea and actions in Eastern Ukraine that the Ukrainian authorities decided to decrease their country's energy dependence on Russia by relying on EU gas supplies and introducing rules to govern the domestic energy market.

## Moldova

*Laure Delcour and Kamil Catus*

From the very beginning of its independence, Moldova has remained highly interlinked with, and deeply dependent on, its international partners. For many years now, an extensive network of interdependencies has tied Moldova to Russia. These interdependencies are both economic (including infrastructure) and societal, as well as cultural (including language). They are the natural consequence of about fifty years of common history, between 1940 and 1991, when contemporary Moldova was part of the Soviet Union, and (to a lesser extent) over a century (between 1812 and 1918) when its territories belonged to the Russian Empire. While the importance of Russia for Moldova has reduced noticeably in recent years (partly as the result of Russia's punitive measures vis-à-vis Moldova), the country still represents a key trading partner for Chişinău, dominates in the energy sector, remains the main destination for Moldovan labour migrants and plays a decisive role in the Transnistrian conflict. As a result of a widespread exposure to Russian media, Moldova is also largely under the Russian influence at the grassroots level. At the same time, in recent years (and especially since the political changes in 2009, which brought pro-European political parties to power) links between Moldova and the European Union (EU), and in particular Romania, have clearly developed and grown stronger. The share of EU member states in Moldova's trade balance is increasing steadily; the reinstatement of Romanian citizenship for part of the Moldovan population is contributing to the increase in Moldovan labour migrants in the EU; and energy interdependencies are likely to expand as a result of Moldovan-Romanian energy projects.

This case study scrutinizes Moldova's interdependencies with both the EU and Russia and their effects. It analyses how external actors use their ties with Moldova, and especially the nexuses between issue areas, in order to incentivize (or disincentivize) domestic actors to engage in their integration frameworks, e.g. the Association Agreement (AA) offered by the EU, the Russia-driven Eurasian Economic Union (EAEU) and/or to follow their policy priorities. In doing so, the case study also looks at the Moldovan elite's response to the use of interdependencies as stimuli or pressure.

### 1. Interdependence with the EU and Russia

Drawing upon international indexes and statistical data, this section charts Moldova's interdependencies with external actors in four key areas: trade, migration, security and energy. It investigates the nature and scope of these interdependencies, as well as patterns of evolution over time.<sup>1</sup> In doing so, it looks specifically at Moldova's interdependencies with the EU and Russia.<sup>2</sup> Based upon the quantitative assessment of interdependencies, the section selects nexuses between them for an in-depth analysis.

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<sup>1</sup> As a part of this paper, it was not possible to systematically trace patterns of evolution since the collapse of the Soviet Union. This is due to the fact that some of the data was missing until 1995-98 (depending upon the issue considered). Therefore, we focus on the period 2000-16 for which we have comprehensive data, with references to the late 1990s whenever possible.

<sup>2</sup> Admittedly, Moldova has developed various links with other countries (e.g. China, Turkey). However, these are not as important, long-standing and multifaceted as Moldova's interdependencies with the EU and Russia. For instance, while Moldova trades with China and Turkey, these countries only play a limited role in other interdependencies, e.g. security.

### 1.1. Trade interdependence

Moldova's high trade openness indicates that the country's interdependencies with external players are strong and play a crucial role for the country's economy. Over the past twenty years, despite significant variations, the ratio of imports and exports to the gross domestic product (GDP) has constantly been above 100, as shown in figure 1 below. This means that the country imports and exports more than it produces, and therefore acts as a trade hub. Such a high degree of openness, however, makes Moldova dependent on trade ties with its major suppliers and clients.

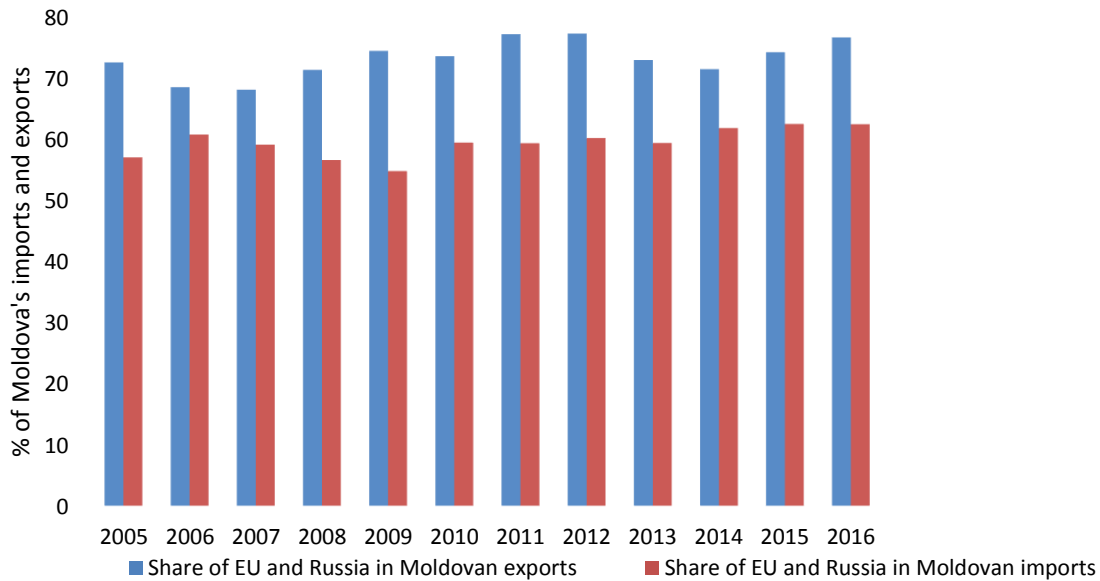
Figure 1. Moldova's trade openness



Source: EU-STRAT database, based on World Bank data 1995-2015.

The trade partner concentration data confirms that Moldova is highly sensitive to any change in trade flows with its major partners. Since the collapse of the Soviet Union, Russia and the EU have consistently ranked as Moldova's key trading partners. Together, they account on average for 73 % of Moldovan exports and 59 % of imports during the period of 2005-16.

Figure 2. Trade partner concentration, 2005-16: Share of Russia and the EU in Moldova's trade



Source: Authors' compilation, based on National Bureau of Statistics of the Republic of Moldova (2017).

However, Moldova's trade with its two major partners highlights substantial differences in terms of its nature, scope and evolution.

Russia has traditionally been a key trading partner for Moldova. Both countries belong to the free trade zone within the Commonwealth of Independent States (CIS). Mineral fuels (mostly natural gas) account for about 75 % of imports from Russia (Embassy of the Russian Federation to the Republic of Moldova 2017). The Russian market has long been a major destination for Moldovan agricultural products, in particular fruits (60-70 % of Moldovan fruits, above all apples) and preserved food and wines (about 30 % of Moldovan wine production). On average, Russia has traditionally accounted for about 50 % of Moldovan exports. It is worth mentioning, though, that over half of Moldovan exports to Russia are in fact re-exports (Popa 2015: 8).<sup>3</sup> This means that Moldova is used as an intermediary country for foreign companies trading with Russia.

Overall, trade with Russia reflects a discontinuous pattern of evolution. In fact, trade relations between Moldova and Russia have been shaped by several factors, which were not only of economic, but also – to a large extent – political nature. Between 2005 and 2013 (with the exception of 2008), Russia ranked first among Moldovan export partners. In this period, the Russian market accounted for from around 17 % of total Moldovan exports (2006 and 2007 respectively) to almost 32 % (2005) (National Bureau of Statistics 2017). This is despite the fact that exports to Russia shrank in 2006 (after Russia introduced an embargo on Moldovan wines). The Russian market ceased to be the first destination of Moldovan exports after 2013, when Russia introduced a series of bans on Moldovan products<sup>4</sup> and decided to cancel trade preferences for imports of 19 categories of products<sup>5</sup> (Caľus 2014a; Cenusa et al. 2014). At the end of 2014, Moldovan exports to Russia shrank by 33 % in comparison

<sup>3</sup> 58 % in 2014, as compared to 29 % for the totality of Moldovan exports to other countries (Popa 2015: 8).

<sup>4</sup> Russian bans were introduced between September 2013 and July 2014 on Moldovan wines, processed pork meat products, canned vegetables and fruits (Cenusa et al. 2014).

<sup>5</sup> Russia cancelled zero duties for 19 categories of commodities, including wine, meat, vegetables, fruit and grains, thus suspending provisions of the Russia-Moldova CIS Free Trade Agreement signed on 18 October 2011 (Cenusa et al. 2014: 6).

to 2013. Overall, from 2005 to 2016, Russia's share in Moldovan exports was reduced almost threefold (from 31.8 % in 2005 to 11.4 % in 2016).<sup>6</sup>

Figure 3. Moldovan exports to, and imports from the Russian Federation, 2005-2016 (thousand USD)



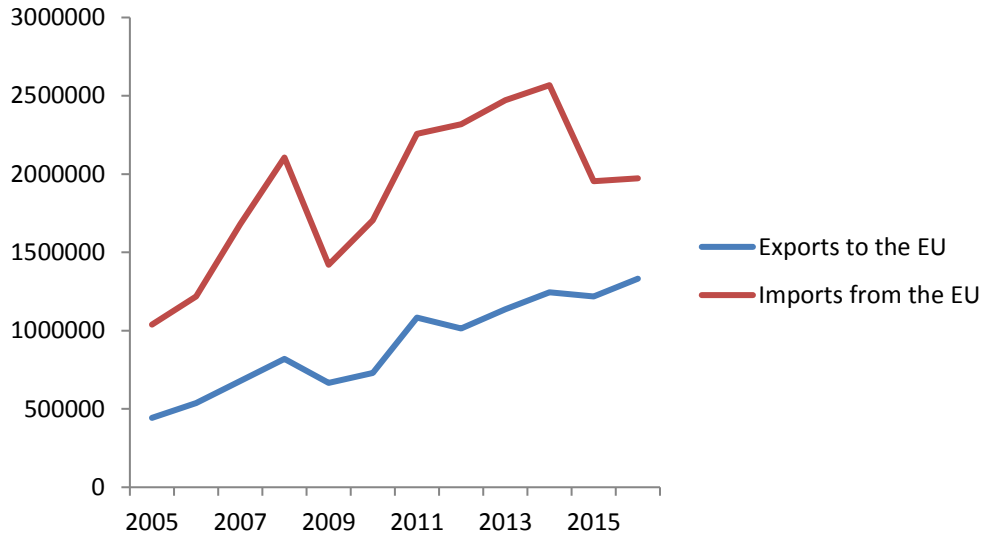
Source: National Bureau of Statistics of the Republic of Moldova (2017).

By contrast, since the mid-2000s trade with the EU has followed a rather continuous trend, as indicated in Figure 4. The structure of trade also differs from Moldova's trade with Russia. Moldova exports textiles, fruits, vegetables and foodstuff, as well as machinery to the EU, while it primarily imports industrial products from the EU (European Commission 2017). Both Moldovan exports to the EU and imports from the EU have substantially increased over the past twelve years. The relatively low level of trade with the EU in the early 2000s, Moldova's choice in favour of European integration at the end of the 2000s and (crucially) the need to diversify markets after Russia's trade bans carry substantial weight to explaining the increase of trade flows with the EU. Imports from the EU temporarily plummeted as a result of the global economic and financial crisis in 2008-09 (which hit Moldova severely) and Moldova's financial crisis in 2014-15, yet they have almost doubled in 2016 as compared to 2005. Over the past decade, Moldovan exports to the EU have almost tripled. EU trade instruments vis-à-vis Moldova contribute to explaining this trend. In 2006, the EU granted Moldova Generalized System of Preferences (GSP+) trade preferences and Autonomous Trade Preferences in 2008. As reflected in Figure 4 below, the introduction of these trade instruments was followed by a substantial increase in Moldovan exports. However, the EU's decisions to cut the tariff on Moldovan fruits and to increase tariff-free quotas for Moldova's fruit products in response to Russia's punitive measures in August 2014 (Cenusa et al. 2014: 6), as well as the provisional entry into force of the Deep and Comprehensive Free Trade Agreement (DCFTA) in September 2014 have not translated into a sharp increase of Moldovan exports to the EU in the first year of its validity (in 2015 imports to the EU actually decreased by over 2 % in comparison to 2014). This is because many Moldovan producers were not yet able to meet the stringent sanitary and phytosanitary standards required by the new agreement and needed more time to adjust. Further progress towards meeting the EU standards was achieved in 2016, as signalled by the increase in exports to the EU (by almost 10 %). Therefore, the decline in trade with

<sup>6</sup> Source: Authors' compilation, based on National Bureau of Statistics of the Republic of Moldova (2017).

Russia and the simultaneous opposing dynamics with the EU result in the EU (primarily Romania) now being the first market for Moldovan products.

Figure 4. Moldovan exports to, and imports from the EU, 2005-16 (thousand USD)



Source: National Bureau of Statistics of the Republic of Moldova (2017).

This is reflected in the evolution of the EU's share in Moldova's trade. Regarding Moldovan imports, the EU's share has only moderately increased (from 45.3 % in 2005 to 49 % in 2016). However, it has substantially grown if one considers Moldovan exports (from 40.6 % in 2005 to 65.1 % in 2016) (National Bureau of Statistics of the Republic of Moldova 2017). In fact, the EU's share in Moldova's exports has markedly risen since 2013, as a consequence of Russia's punitive trade measures that have led to a sharp decrease in Russia's share of Moldovan exports.

Therefore, the analysis of trade data reveals a high sensitivity to interdependencies with both Russia and the EU, yet at different points in time. Three turning points can be identified, all three of them originating from Russia. While the first turning point derives from an external shock (Russia's economic crisis), the second and third ones result from Russia's policies. In the 1990s, owing to the legacies of the Soviet period, Moldova was tightly interdependent with Russia. However, the Russian financial crisis in 1998 put the Moldovan economy at risk<sup>7</sup> and thereby served as a first warning of the need to explore other markets, one of which was the EU. A second turning point came in 2006, following the Russian embargo on Moldovan wine<sup>8</sup>. This quickly translated into a marked increase of Moldovan exports to the EU, as shown in Figure 4. The third shift has occurred since 2013, when Russia introduced multiple trade bans and cancelled trade preferences in retaliation to the EU-Moldova DCFTA. In fact, these measures have had counter-productive effects from Russia's perspective: as a consequence, Russia's share in Moldovan trade (whether imports or exports) is now modest (approximately 14 % and 12 %, respectively). However, the decrease in trade interdependencies with Russia has come hand in hand with

<sup>7</sup> In the 1990s, over half of Moldovan exports went to Russia. Source: Authors' interview with a Moldova expert, Chişinău, June 2017.

<sup>8</sup> The official reason behind the introduction of an embargo was the alleged poor quality of Moldovan wines delivered to the Russian market. In practice, however, the decision of Russian authorities was political and was meant to punish Moldova for its policy towards the Transnistrian region.

stronger links to the EU, which has *de facto* substituted Russia as the major export market for Moldovan products. Moldovan authorities are well aware of their increased sensitivity to the EU market and they support a trade diversification policy in order to mitigate any potentially negative consequences stemming from trade concentration.<sup>9</sup> Moldova has signed a free trade agreement with Turkey and launched consultations on possible negotiations for similar agreements with Egypt and China (publika.md 2016). In addition, in an attempt to support the Moldovan president in the run-up to the 2018 parliamentary elections, Russia has recently authorized access to its market for some Moldovan vineyards, thereby paving the way for increased trade flows (which, in turn, may provide Russia with a renewed leverage over Moldova). Nevertheless, whether relaxed access to the Russian market will translate into enhanced trade flows remains to be ascertained. Improved access to the Russian market has so far been granted selectively, e.g. to companies from Gagauzia. Should it be extended to companies from all across Moldova, its effects would be uncertain given that many Moldovan producers remain wary of the Russian market, which is regarded as unreliable. Whatever its implications on bilateral trade flows, improved access to the Russian market comes with political strings attached to it: in particular, the companies that can access the Russian market are expected to play an active role in funding the campaign of the Socialist Party for the 2018 elections.<sup>10</sup>

## 1.2. Migration interdependence

The Republic of Moldova ranks among the countries with the highest rates of labour migration in the world. According to Border Police data, on 31 December 2015, the amount of Moldovans currently residing abroad was approximately 753,800 (IOM 2016), i.e. over 20 % of the country's population. This is despite the fact that emigration has substantially decreased in recent years: 6663 persons emigrated in 2009 as compared to 2374 persons in 2014, a decrease by 64 % (Ibid). One in three families declares that at least one family member is earning a living outside the country;<sup>11</sup> this figure goes as high as 52 % in some other studies. While the conflict that erupted in Transnistria in 1992 caused a first wave of emigration (primarily to Ukraine and Russia), the key factor behind emigration since independence has been the country's extreme poverty and lack of job opportunities (Ibid 2003). Over the past two decades, Moldova has had the lowest GDP per capita in Europe.<sup>12</sup> Since the 1990s, remittances have been a powerful tool to stimulate local socio-economic development, while also remaining a stable source of income for families of those away. In fact, due to very low wages and relatively high living costs, remittances from migrant workers are often a key part of household budgets. Therefore, labour migration is an important driver of economic growth. At the same time, only a very limited amount of these remittances is invested in business. Once they reach Moldova, 58.9 % of remittances are used for consumption, 19.6 % for savings and 22.2 % in investments (mostly in real estate, renovations and education rather than in business). Only 12.2 % of migrants plan to invest the saved remittances in their own businesses; this is due to both the lack of funds and information on business creation (CIVIS/IASCI 2010). According to the official data originating from the National Bank of Moldova (2016: 40), migrants send about 1.1 to 1.6 billion USD annually

<sup>9</sup> Authors' interview with employee of the Ministry of Economy of the Republic of Moldova, Chişinău, June 2017.

<sup>10</sup> Authors' interviews with Moldova experts, Chişinău, June 2017.

<sup>11</sup> This data originates from the Nexus Moldova project. The survey was conducted between May and August 2013 on a sample of 20,850 households in Moldova (Nexus Moldova 2013).

<sup>12</sup> Between 1990 and 1992, the GDP of the young Republic of Moldova shrank by as much as 35 %. As the political situation stabilized in the following years, the shrinking of Moldova's economy slowed down, but the downward trend could not be reversed. The country's GDP continued to decline rapidly (with two relatively small rises in 1995 and 1997) until 1999, at which point it corresponded to a mere 33 % of the 1990 figure. Moldova was also struggling with a serious inflation problem, which in 1999 climbed to the highest levels since the end of the Transnistria war (39.3 %).

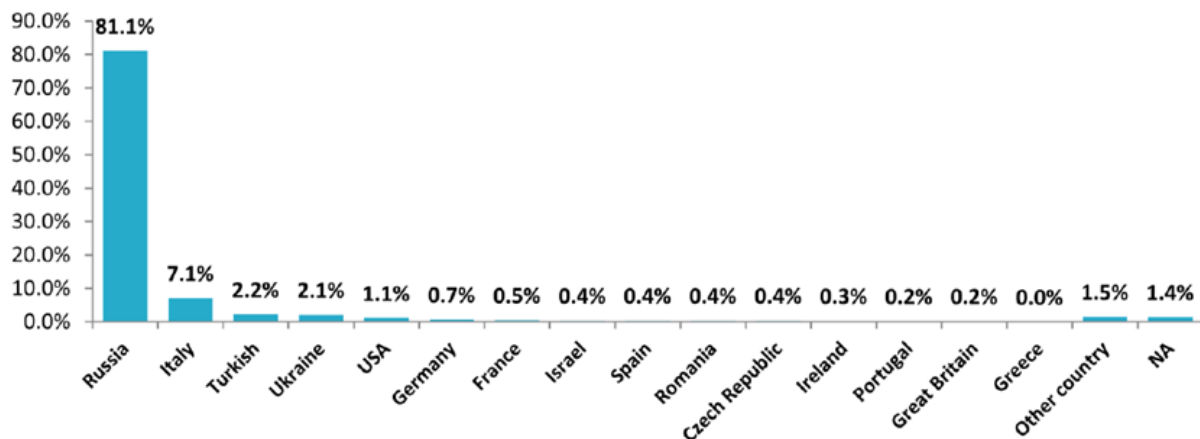


back home, which accounts for about 21-26 % of Moldova's GDP<sup>13</sup>; according to some other sources, remittances make up 22.3 % of the country's GDP (Migration Policy Centre 2013: 3). This suggests that Moldova is highly sensitive to any evolution of migration flows that would stem from changes in the regulatory framework of the main destination countries of Moldovan migrants.

The EU and Russia are key countries of destination for Moldovan migrants. However, in contrast to the trade area, Moldova also has tight interdependencies with a third external actor, namely Ukraine.<sup>14</sup>

Over 60 % of Moldovan migrants are working in Russia. These are mostly men from Moldovan rural areas, who, once in Russia, work in the construction sector (74 % of male migrants work in this sector, MMVD/South-East Europe 2014). The relatively low expenses for travel, visa-free entry into the Russian territory and knowledge of the Russian language are the key factors behind Russia's predominance as a receiving country. On average, migrants stay 1.8 years in Russia; however, Moldovan labour migration is characterized by a marked seasonal nature (as illustrated by Figure 5 below), with a large number of migrants working in Russia returning to Moldova during the winter when demand for labour in the construction sector shrinks (Ibid). Thus, Russia is the primary destination country for seasonal migration. In 2012-14, up to two-thirds of Moldovan total remittances came from migrants working in Russia.<sup>15</sup>

Figure 5. Countries in which Moldovan migrants have carried out seasonal work in 2012



Source: Nexus Moldova 2013: 7.

The EU is also a key destination for Moldovan labour migrants, who work primarily in Italy (about 25 %), France, Portugal, the United Kingdom, Greece and Romania (around 1-3 % each of the total number of migrants). This is despite the fact that access to the EU is more difficult due to the labour visa requirements. Compared to migrants in Russia, those in the EU are older and have a higher education level; on average, they also stay longer in the EU than in Russia.<sup>16</sup> Given the strong gender split in patterns of labour migration, migrants to the EU are mostly women working in services to private households, e.g. housekeeping or elderly care. 31 % of Moldovan female migrants work in Italy, where the share of women among the total Moldovan migrants is over 70 % (Ibid).

<sup>13</sup> National Bank of Moldova (2016: 40).

<sup>14</sup> In 2014, one quarter of Moldovan labour migrants worked in Ukraine (IOM 2016).

<sup>15</sup> Ibid.: 65.

<sup>16</sup> 28.2 % of migrants working in the EU stay between 3 and 5 years (Biroul Național de Statistică 2009).

Table 1. Number of migrants and distribution by age

	EU 27	Russia
<b>Number of migrants (thousand)</b>	91.5	195.5
<b>Average age</b>	37	34
<b>Share of young migrants (15-24 years)</b>	16.6	23.1

Source: Biroul Național de Statistică 2009: 7.

As was the case for trade, the analysis of migration data reveals a high sensitivity to interdependencies with both Russia and the EU. Despite the fact that Moscow is tightening its policy toward labour migrants, migration interdependencies remain stronger with Russia, as shown both by the larger number of migrants and the bigger share of remittances. These provide the basis for a strong Russian leverage over Moldova. However, in contrast to the trade area, no significant turning point could be identified in migration patterns. This is also because of the lack of comprehensive and reliable data over time (owing, among other reasons, to the lack of control over the country's eastern border).

### 1.3. Security interdependence

Over the past 25 years, Moldova has remained strongly dependent on the Russian Federation for the settlement of the Transnistrian conflict, in which Russia's 14<sup>th</sup> Army played a crucial role in the early 1990s<sup>17</sup>. Russia still has a military presence in the country, through two formally separate structures. The first one is the Operational Group of Russian Forces (OGRF) stationed in Transnistria<sup>18</sup>, which is a successor of the former 14<sup>th</sup> Army. The second one is the contingent of peacekeeping forces, which cooperates with Moldovan and Transnistrian soldiers within the Joint Control Commission. While the activity of the peacekeeping forces is in general accepted by the Moldovan authorities, the OGRF presence in Transnistria is regarded as unlawful in Chișinău. Over the last two decades, Russia has declared its will to pull out its forces from the Moldovan territory on numerous occasions, however this withdrawal has never materialized.<sup>19</sup> Recently, the deployment of foreign forces and the existence of troops (in that case, Transnistria's) controlled by a foreign state were assessed as unconstitutional by Moldova's Constitutional Court as they violate the country's neutral status (Moldova's Constitutional Court 2017); however, this decision has no practical effects. Russia also supports the breakaway region economically and politically. For Russia, Transnistria is a strategic outpost to prevent further expansion of Western organizations in Russia's near abroad (Wolff 2012).

However, there are limitations to Russia's influence over Transnistria. First, Russia has failed to secure a favourable (to its own interests) settlement of the conflict in 2003 (Beyer and Wolff 2016: 336). This resulted from the rejection by the then Moldovan President Vladimir Voronin of the Kozak memorandum prepared by Russia – a move that had important implications, as it also led to a greater involvement of the EU in the negotiations for settling the Transnistrian conflict. Second, in 2011 the election of Evgenyi Shevchuk as *de facto* leader of the breakaway region was another blow to Russia, as Shevchuk defeated the Moscow-backed candidate Anatoly Kaminski. This suggested potentially greater independence from Moscow, which however did not

<sup>17</sup> About the conflict, its origins and course see King (1999).

<sup>18</sup> OGRF consists of about 1200 soldiers (European Parliament Research Service 2016).

<sup>19</sup> For example, in 1999 during the Istanbul OSCE Summit, Moscow committed "to complete withdrawal of the Russian forces from the territory of Moldova by the end of 2002" (OSCE 1999).

materialize during Shevchuk's mandate.<sup>20</sup> Third, as a consequence of the annexation of Crimea and military intervention in Eastern Ukraine, Russia can no longer use Ukraine as a transit territory for its troops and supplies *en route* to Transnistria.<sup>21</sup> In 2014, the Moldovan side also decided to limit access to Transnistria via Chişinău airport for specific categories of Russian troops, namely OGRF soldiers (Caţus 2014b). In addition, the introduction of joint border controls between Moldovan and Ukrainian border guards and customs officers (currently effective for one checkpoint and planned for 12 additional checkpoints at the border between the breakaway region and Ukraine) is likely to have a significant economic impact on Transnistria. The Moldovan authorities are also considering the introduction of limitations to the mobility of Transnistrian officials, who – should these measures come into force – would have to receive permission from the Moldovan side to travel outside the country (Newsmaker.md 2017).

Nevertheless, Russia's influence on Transnistria and the resulting leverage over Moldova remain considerable, not least because of the role played by the breakaway region in Moldova's energy interdependencies. In recent years, Russia has also sought to use Gagauzia as a pressure point over Moldova with a view to undermining integration with the EU. It has done so politically by supporting the organization of a referendum on the Eurasian Customs Union (ECU) in 2014 (with 98 % of voters in favour of joining the ECU) and interfering in the election of the new governor of Gagauzia, elected in March 2015 (Delcour 2017). Russia also backs the autonomous region economically, as it allows products from Gagauzia to access its market while maintaining sanctions for products from the rest of Moldova.

By contrast, the EU's role in the Transnistria conflict is more limited. Like the United States, the EU is an external observer in the 5+2 negotiations that also gather Moldova, Transnistria, Russia, Ukraine and the Organization for Security and Co-operation in Europe (OSCE). Some EU member states, primarily Germany (through the Meseberg process) have also been active in attempting to solve the conflict, even if with limited success. In essence, the fact that the EU abolished the role of a Special Representative for Moldova (in contrast, for instance, to the Special Representative for the South Caucasus and the crisis in Georgia) speaks volumes about its involvement at the highest political level.<sup>22</sup> It indicates that the EU still plays a limited political role in the conflict settlement. Nevertheless, the EU has contributed to influencing the conflict environment through the EU's Border Assistance Mission to Moldova and Ukraine (EUBAM). Launched in 2005, this mission (organized by the European Commission with the participation of customs and border guards from EU member states, Ukraine, and Moldova) has helped the Moldovan authorities gain control over the Transnistrian segment of the Ukraine–Moldova border. The recognition of Moldovan customs documents by Ukraine has fostered the registration of Transnistrian companies in Chişinău in order to be able to export to Ukraine (Beyer and Wolff 2016: 342-343). The EUBAM approach has also guided the recent setting up of joint border controls by Moldova and Ukraine.

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<sup>20</sup> While the fact that the Moscow-backed candidate lost the election signalled some limitations to Russia's influence over the Transnistrian population, it did not limit Russia's control over the Transnistrian administration. In the months that followed his election, Shevchuk turned out to be utterly loyal to Moscow.

<sup>21</sup> In 2016, Ukraine offered to open a corridor on its territory if Russian troops pull out from Transnistria (UNIAN 2016).

<sup>22</sup> The position of Special Representative was last held by Kalman Mizsei until February 2011. The EU Delegation took over part of the tasks, including a conflict and needs assessment and confidence-building as well as infrastructure projects (Wolff 2012).

Therefore, the analysis of Moldova's security interdependencies reflects a strong, yet progressively eroding vulnerability to Russia's policies. Since the conflict in Transnistria erupted, Moldova has been bound to Russia for its settlement. Nevertheless, changes in the regional environment as a result of the conflict in Ukraine provide an opportunity for Moldova (in cooperation with Ukraine) to enhance its control over Transnistria.

#### 1.4. *Energy interdependence*

Energy interdependencies also highlight a strong vulnerability to Russia, with no evidence of erosion despite attempts to strengthen links to the EU.

Since independence, Moldova has been almost totally dependent on imports of energy and energy resources. The country imports 97 % of its energy. In fact, Moldova probably faces the toughest energy situation among the EU Eastern Partnership countries, given both the country's lack of indigenous resources and its landlocked situation (Christie et al. 2012). In total, energy and electricity constitute about a quarter of Moldovan imports. Over the past 25 years, the Russian Federation (through Gazprom) has been the only supplier of natural gas to Moldova. This is key in light of the relatively high share of gas (about 40 %, National Bureau of Statistics 2016) in Moldovan energy consumption. The situation of the Moldovan power sector is only slightly better: about 75 % of Moldovan electricity demand is covered by sources located either abroad (Ukraine) or in Transnistria. The power plant located in the breakaway region is controlled by Russia (Surugiu 2012), more specifically by the Russian state-owned corporation Inter RAO UES. No classic power plant can produce a significant amount of electricity on the territory controlled by the central authorities. The only local sources of electricity are three Combined Heat and Power Plants (CHP), which are only able to cover one-fifth of the country's demand (without Transnistria). Since these CHPs are also supplied with gas, their operation depends on the supply of gas from Russia. As compared to gas and electricity, suppliers of liquid fuels are more diversified: while one quarter of imports originates from post-Soviet countries (i.e. Belarus, Russia), the majority (75 %) comes from EU countries (mostly Romania) (ANRE 2017).

This brief overview of interdependencies in the energy sector indicates that Moldova is still heavily dependent on Russia. Moreover, in contrast to Belarus and Ukraine, energy interdependencies with Russia are highly asymmetrical, given that Moldova is not an important transit country of Russian gas to the EU. In essence, patterns of energy interdependencies have not significantly changed over the past 25 years. For instance, while initiated a number of years ago, attempts to develop electrical grid connections with Romania have not materialized. As a result, links with the EU remain limited, with the exception of liquid fuels.

On the basis of the mapping of Moldova's interdependencies with the EU and Russia, we select the following two nexuses for an in-depth analysis:

- First, we analyse the critical connections between interdependencies in the energy sector, on the one hand, and in the security area, on the other hand. As demonstrated above, in these two areas Moldova is almost entirely dependent on Russia, while the EU plays a minor role (if any). In addition, patterns of interdependence have not significantly changed over the past 25 years in these two policy areas, even though this may change in the security area as a result of the conflict in Ukraine. Therefore, we hypothesize that the more Moldova is dependent on Russia in specific policy areas, the more likely Russia is to link these areas in order to maximize its leverage over Moldova.

- Second, we analyse the trade-migration nexus as the least likely case of issue-linkages to be used by Russia, given that Moldova is strongly interdependent with both the EU and Russia in these two areas.

## 2. Nexuses across issue areas

Drawing from interviews conducted in Moldova, this section examines whether and how external actors have tied one policy area to another (issue-linkage) as a bargaining tactic in order to incentivize or disincentivize Moldova to engage in their integration frameworks and follow their policy priorities. For each of the two selected nexuses, the case study also analyses the response of Moldovan elites to attempts at issue-linkage. The section argues that only Russia has made use of issue-linkage, while the EU has relied on different tactics (e.g. sectoral conditionality)<sup>23</sup> to encourage Moldova to comply with its templates and norms.

### 2.1. *The energy-security nexus*

The critical connections established by Russia between energy and security find their roots in the early 1990s, more specifically in the privatization process in Moldova and in the Transnistrian conflict. The combination of these factors explains Russia's strong and continuous leverage (whether direct or indirect) over Moldova.

After the Republic of Moldova became independent, the whole energy industry, including the natural gas and electricity infrastructure built during the Soviet times, went under the control of the new constitutional authorities. This included the entire gas transportation branch, transit and distribution of natural gas, as well as electric power plants located within the internationally recognized boundaries of Moldova. However, as a result of the privatization of the gas infrastructure and subsequent decisions by the Moldovan authorities in the sector, Gazprom JSC obtained 50 % of shares in Moldovagaz JSC, a subsidiary company that was set up in 1998. This enabled Gazprom to control the decisions taken within Moldovagaz, while the Moldovan government, with 35 % of shares, had only limited power (Cenuşa 2017: 53). This transfer of ownership was assessed as fraudulent (Parlicov et al. 2017: 6) and had major consequences for the country's energy security. Through Moldovagaz, Moldova became even more dependent on the Russian Federation as a single supplier of energy resources. This is because Moldovagaz has a monopoly on gas supplies from the Russian Federation to Moldova; it founded Moldovatransgaz, the country's sole transmission system operator, and it controls approximately 70 % of the distribution system (Cenuşa 2017: 54). This strong concentration, in turn, created political dependence on Russia. As a consequence, the interference of external actors in the decision-making process has become a common practice in Moldova (Parlicov et al. 2017: 8).

Moreover, after Chişinău lost control of the Transnistrian region, part of the energy infrastructure went under the control of the separatist authorities and implicitly of the Russian Federation. Therefore, the Transnistrian conflict only adds to Moldova's dependence on Russian or Russia-controlled energy sources. In 2015, about

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<sup>23</sup> Similarly to issue-linkage, the use of conditionality is made possible by the existence of asymmetries; it is, therefore, a bargaining tactic to obtain concessions from partner countries. However, EU conditionality differs from issue-linkage operated by Russia in that 1) the EU does not connect issue areas, but instead makes compliance with EU sector-specific demands a condition for further overall progress in EU-Moldova relations; 2) the conditions spelt out by the EU are transparent and stable. Crucially, this paper does not analyse the EU's conditionality because (unlike Russia's issue-linkage) it is not based upon existing interdependencies, but instead offers the perspective of closer links in exchange for the adoption of sectoral norms and standards.

85 % of energy consumed in Moldova came from outside the area controlled by the Moldovan authorities, including 80 % of electricity originating from Transnistria and 100 % of gas purchased from Gazprom JSC through Moldovagaz JSC, which is *de facto* a subsidiary company of the former (Parlicov et al. 2017: 7). Furthermore, resulting from the contractual scheme introduced in the 1990s and still implemented, Russian natural gas is supplied (*de facto* free of charge) to the left bank of the Dniester river and used both by households and economic agents from the separatist region (Parlicov et al. 2017). Thus, the debt associated to Transnistrian gas consumption (nearly six billion USD) only grew following the actions of the Transnistrian authorities. For years, these authorities have not paid for the gas delivered on the basis of the contract with Moldova, but consumed in the break-away region. Yet the debt accumulated by the Transnistrian region is accounted for as Moldovagaz' debt to Gazprom and in fact makes up 90 % of Moldova's total energy debt. Crucially, its amount (approximately six billion USD) exceeds 80 % of Moldova's GDP (Cenuşa 2017: 51). Thus, this debt enables Russia to keep Moldova under its influence by subsidizing the Transnistrian economy through generating fiscal revenues and economic advantages for local industries. Indirect subsidies deriving from unpaid Russian gas account for about 35 % of Transnistria's budget, while cheap gas makes Transnistrian products more competitive on external markets (Cenuşa 2017: 52). Therefore, energy is a major leverage for Russia to perpetuate the Transnistrian conflict.

Crucially, Russia's control over the totality of gas supplies and 50 % of the transmission network enables the Kremlin to pull the strings in Moldova as a whole (Cenuşa 2017: 48). Over the past 25 years, Russia has repeatedly exploited Moldova's energy dependence to exert political pressure on Chişinău with a view to influencing its policy choices in line with Russia's own interests. In recent years, it has done so aiming to undermine further integration between Moldova and the EU, especially in the energy area. In 2011, a long-term gas supply contract for Moldova expired. Since then, the country has purchased gas on the basis of annual short-term annexes, which has increased its vulnerability to Russia's requirements and pressure. Up until 2017, Russia consistently refused to sign a new long-term contract, conditioning it to Moldova abandoning the implementation of the EU's third energy package, which Chişinău agreed to implement in May 2010 when Moldova became a member of the European Energy Community. According to the provisions of the package, the distribution, sale, and production of gas should be carried out by distinct companies (Surugiu 2012). Therefore, the implementation of these regulations would result in dividing the Moldovan national gas operator into two separate companies and in establishing an independent gas transmission operator, which could deprive Russia of its monopoly. However, Gazprom unexpectedly agreed on 30 December 2016 to extend the current contract by three years. This decision strengthens the position of Moldovan President Igor Dodon. In addition, it is likely that Russia will exert further pressure on Chişinău to abandon the third package that Moldova has committed to implement by 1 January 2020 (which coincides with the expiration of the new gas agreement). Last but not least, the preservation of favourable gas prices for Moldova reduces the motivation of Moldova's political elites to become independent from Gazprom by expanding their connections with Romania.

In fact, the successive governments in Chişinău have failed to provide the country with energy security. This was largely related to the fact that the ruling elites benefitted (also financially) from their participation in non-transparent, corrupt models in the energy sector. Such rent-seeking behaviour would not have been possible, had the suppliers been changed or the transparency of the whole system secured. This is because Gazprom's subsidiary company, Moldovagaz JSC, is tightly connected to Moldova's political elite, i.e. members of the government and the Parliament, and top-level officials (as well as the separatist administration in Tiraspol, Parlicov et al. 2017: 8). The first steps aimed at limiting dependence on Russian supplies were taken only after

the Alliance for European Integration came to power in 2009 and continued with the successive coalitions. These steps have been rather ineffective, however, and have not brought the Russian energy monopoly to an end thus far. An example of such ineffective measures was the construction of an interconnector, Iasi-Ungheni, which was meant to enable gas supplies from Romania to Moldova and to provide this country with up to 100 % of its gas consumption. Although the interconnector itself was commissioned in August 2014 (with a two year delay), its current capacity is symbolic (in 2015 about 1 million m<sup>3</sup> of gas was sent via this interconnector, reflecting 0.1 % of the country's demand, Economica.net 2017).

In fact, it seems that part of the Moldovan elite also derives concrete financial benefits from corrupt arrangements with the leadership of Transnistria, Moldova's energy provider (Parlicov et al. 2017). For instance, a major source of electricity supply for Moldova is Moldavskaya GRES power plant, located in the Transnistrian separatist region and owned by the Russian state power company InterRAO JES. Buying electricity from this supplier is, however, unfavourable from the perspective of Chişinău for both economic and political reasons. First of all, Moldavskaya GRES, whose sole client remains Moldova, is one of the main tax payers in Transnistria. This means that selling energy to Chişinău *de facto* helps maintain the separatist authorities in Tiraspol. In addition, this power plant uses natural gas, which is obtained from Gazprom, but for which Transnistria does not pay. By buying electricity from Moldavskaya GRES, Moldova contributes to fuelling the Transnistrian gas debt, which means that in practice it pays double: first for the electricity purchased from the Transnistrian power plant and (as the debt is rising) for the gas itself.

Therefore, actions by the Moldovan elites do not allow for a decrease in Moldova's dependence on Russia. This is why membership of the European Energy Community (effective since 2010) has not translated into ambitious sectoral reforms. For instance, the law "About natural gas" adopted in May 2016 requires free access to the national transmission system; however, some of the provisions included in the secondary legislation<sup>24</sup> may favour MoldovaGaz (which founded the sole transmission operator, Moldovatransgaz) at the expenses of newcomers to the gas market (Cenuşa 2017: 54). In essence, the non-transparent management of the energy sector in Moldova (which derives from the vested interests of local players) only strengthens Russia's stranglehold over the country.

Thus, like other Eastern Partnership countries (e.g. Armenia and Georgia, see Ademmer 2015), Moldova is vulnerable to Russia as alternative policies (in this case, increased links with the EU) would be too costly for the incumbent elite. This vulnerability is further exacerbated by Russia's use of linkages with the Transnistrian conflict.

## 2.2. *The trade-migration nexus*

In recent years, Russia's use of incentives and disincentives has become increasingly attached to its regional integration project, the EAEU. Since the EAEU's predecessor, the ECU, was launched in 2010, Russia has employed rewards and punitive measures to influence post-Soviet countries' engagement in deep economic integration schemes or, failing that, to retaliate against their choice to follow alternative pathways. Therefore, over the past four years Russia has tried to make Moldova's engagement in a DCFTA with the EU more costly by introducing issue-linkages with the migration area.

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<sup>24</sup> For instance, in the regulation on access to gas transmission networks and congestion management which was adopted in December 2016.

In 2014, Russia started using migration to retaliate against Moldova's decision to sign the AA/DCFTA offered by the EU. Just after the AA was initialled at the Vilnius Eastern Partnership summit, Russia introduced (from 1 January 2014) restrictions on migrants from the CIS (including Moldova). These restrictions bear potentially costly implications for Moldova, given the country's strong dependence on Russia for labour migration. According to these, Moldovan migrants are now able to stay in Russia for only 90 days over a 180-day period. Prior to the introduction of changes in Russia's migration law, Moldovan citizens had to leave the territory of the Russian Federation for a period of at least 24 hours, before being able to return to Russia for another 90 days. In addition, the amendments brought to the Russian Federal Law on the Legal Status of Foreign Citizens introduced both administrative liability for foreign citizens who violate Russian migration legislation and mandatory state fingerprint registration of foreign citizens who apply for a license to work (Ademmer and Delcour 2016).

Russia's harsher policy resulted in cases of expulsion of Moldovan citizens, while the threat of future massive expulsions loomed large over Moldova.<sup>25</sup> These incidents were very well covered by Russian media (which is very popular in Moldova) and were used to influence Moldova with the view to reversing its deep economic integration choice. This was made especially clear after the EAEU was launched in 2015. Indeed, the EAEU Treaty provides for free movement of people (together with free movement of goods, services and capital), thereby creating substantial incentives for EAEU citizens to work in the Russian Federation.<sup>26</sup> By contrast, the introduction of a harsher migration policy for other CIS countries is meant to convey a message about the costs of non-accession to the EAEU. Therefore, in recent years Russia's migration policy has become increasingly differentiated depending upon the countries' engagement with deep economic and trade integration schemes.

In essence, with the introduction of stricter rules for Moldovan labour migrants, Russia has meant to send a clear signal to Moldovan elites with a view to deterring them from further integration with the EU.<sup>27</sup> The Russian authorities have also sought to empower the political actors opposing the EU, such as the Party of Socialists (which emerged as the single largest political party in the November 2014 elections) in favour of cancelling the AA signed with the EU. In the context of deep political polarization in Moldova, the leader of the Party of Socialists, Igor Dodon, used Russia's shift in migration policy in his electoral campaigns and established a clear link between the Moldovan authorities' signature of the AA and Russia's stricter rules. Clearly, the fact that massive deportations had not yet taken place gave additional strength to this narrative. This was presented as a leverage that Russia could use or not, depending on Moldova's future domestic political choices (and their impact on the country's foreign policy orientation): "They [the Russian authorities] created this problem [the threats of massive deportations of Moldovan migrants from Russia] for the socialist opposition to solve it".<sup>28</sup>

The linkage operated by Russia between threats of deportations of Moldovan citizens, on the one hand, and Moldova's rapprochement with Moscow and the EAEU, on the other hand, became explicit after Igor Dodon was elected president in November 2016. When Dodon came to power, Russia used the labour migration leverage to

<sup>25</sup> Authors' interview with employee of the Ministry of Foreign Affairs of the Republic of Moldova, May 2017.

<sup>26</sup> Employers are allowed to hire workers from other EAEU countries without a work permit, and workers can stay in the host country as long as they have a valid employment contract (Schenk 2015).

<sup>27</sup> However, it is worth underlining that approximately half of Moldovan migrants working in the Russian Federation originally come from Transnistria. Therefore, what Russia meant to be a punitive measure against Moldova's signing of the AA/DCFTA has (perhaps paradoxically) had an impact on the Russian-supported break-away region of Transnistria as well.

<sup>28</sup> Authors' interview with Moldova expert on migration, Chişinău, June 2017.



increase his popularity in a context of deep political polarization in Moldova. During one of his first visits to Moscow after being elected, Dodon was promised that the Moldovan residents who had violated Russian immigration laws (but did not commit any crimes on the Russian territory) would be granted the right to apply for amnesty (Rossiyskaya Gazeta 2017). Crucially, Russia's relaxed pressure on Moldova came shortly before President Dodon announced that his country would be seeking observer status in the EAEU (Seenews 2017).

However, Russia's use of issue-linkages between trade and migration encounters limitations that derive from the specific structure of opportunity for Moldovan labour migrants. In fact, Moldova's sensitivity to Russia's pressure is mitigated by the existence of an alternative for migrants, i.e. the EU. On 28 April 2014, the EU lifted the Schengen visa requirement for Moldovan citizens (for travel up to three months). Given that the visa-free regime does not include the free movement of workers, this had only limited effects on labour migration. Nevertheless, the fact that a large number of Moldovan citizens hold a Romanian passport enables them to work legally in the EU. In fact, the Romanian policy to restore citizenship to former Romanian citizens (and their descendants) who lost it against their will has contributed to increasing labour migration from Moldova to the EU. This policy targets the inhabitants of the territories that belonged to Romania before 1940, i.e. Bessarabia (the current Republic of Moldova without Transnistria). From the official perspective of the Romanian authorities, these actions are designed to correct what Romania regards as a historical injustice, i.e. the forced deprivation of Romanian citizenship for inhabitants of Bessarabia after it was annexed by the Soviet Union. As a result of this policy, from 1991 to 2013, around 400-500,000 Moldovans applied for Romanian passports. Crucially, Romania does not require applicants to renounce their Moldovan citizenship or move to Romania. Therefore, the citizenship policy of an EU member state offers an alternative that can be explored individually by Moldovan citizens. This "natural regulation"<sup>29</sup> also decreases the need for a specific strategy in response to Russia's actions on the part of Moldovan elites.

Thus, Moldova is sensitive (and not vulnerable) to Russia's use of linkages between trade and migration because of the existence of different options for both trade and migration flows. In the case of trade, such a diversification has gradually taken place since the end of the 1990s. It was triggered by shocks resulting from Russian crises or embargoes, while in the case of migration it stems from the existence of an alternative (Romania), which *de facto* decreases Moldova's sensitivity to Russia's migration policies.

### 3. Section conclusion

On the basis of the mapping of existing interdependencies in four issue areas, this case study identified instances of issue-linkage by external actors and analysed the conditions under which they effectively incentivize or disincentivize the Moldovan political elite to engage with the EU's and Russia's policies.

Our mapping of interdependencies reveals a contrasted picture across the four selected areas. In two of these, energy and security, Moldova has been vulnerable to Russia's policies (even if to varying degrees), given the absence of alternative options. In addition, patterns of interdependencies have not significantly changed since the country became independent. In contrast to energy and security, the two other issue areas, trade and migration, highlight more balanced links between Russia and the EU. Moreover, the trade interdependencies

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<sup>29</sup> Authors' interview with international expert on migration, Chişinău, June 2017.

have substantially evolved over the past two decades. This has primarily resulted from Russia's policies. Russia's repeated use of punitive trade measures (starting in 2006) was instrumental in Moldova's diversification of trade flows toward the EU, thereby reducing sensitivity to Russia's policies.

Our study of issue-linkages reveals an extensive use of critical connections between policy areas by Russia in order to sway the policy choices of domestic actors in favour of Russia's interests. This substantial use of issue-linkages (premised on Russia's deep and multifaceted interdependencies with Moldova) is in contrast to the EU's approach, which favours sector-specific conditionality as a prerequisite to closer links with Moldova.

We find that Russia's use of issue-linkages has yielded opposite effects in the two cases under scrutiny in this case study, namely energy-security and trade-migration. Two factors carry substantial weight in accounting for the effectiveness (or lack thereof) of Russia's strategy. First, issue-linkage is more effective in the absence of any policy alternative for Moldova. For instance, with the introduction of harsher migration rules, Russia failed to successfully retaliate against Moldova's decision to sign the AA/DCFTA because of the existence of an alternative destination for labour migrants, namely the EU. Second, we identify the vested interests of local elites as a key factor behind resistance to policy alternatives. This is the case for energy, where rent-seeking practices of the elite prevent the effective exploration of policy alternatives (as these would be too costly for the elite) and thereby increase vulnerability to Russia's use of linkages with security issues. Therefore, the hypothesis formulated in the first section of this case study is only partially confirmed: it is not primarily the existence of policy alternatives (or lack thereof) that shapes the outcomes of issue-linkages, but, crucially, domestic elites' perceptions of, and interests in, these alternatives. This calls for further investigation of the factors behind domestic responses to external actors' use of interdependencies.

## Belarus

*Kamil Kłysiński, Marta Jaroszewicz, and Ildar Gazizullin*

Belarus is an example of a country that is strongly interconnected with Russia, which greatly influences both its foreign and internal policy. With some exceptions over the last two centuries, Belarus as a country has been largely contained within the Russian or Soviet economic, political, military and cultural space (Kłysiński and Żochowski 2016)<sup>30</sup>. Russia has become an exclusive supplier of energy, a key export market, and the main source of loans to Belarus since its independence in 1991. As a consequence of the strong economic interconnectedness and perceived high social costs to make rapid changes in the existing political-economic system, in the first half of the 1990s the Belarusian authorities decided to keep prioritizing bilateral relations with Russia. The re-integration of the two countries began when Alexander Lukashenko was elected president in 1994. The establishment of the Union State of Russia and Belarus in 1999 was an important milestone in this process.

However, there has been ongoing tension between Russia's strive towards full control of its Western neighbour and Minsk's defence of its room for manoeuvre, as well as the Lukashenko regime's will to extract rents from participating in Russian integration initiatives (Kardaś and Kłysiński 2017). President Lukashenko has also frequently delayed or even blocked further integration due to the risk of total subordination to the interests of Russia and the consequential threat to his own personal power. As a result, the Union State is still to a large extent a virtual establishment that functions only in the areas where the two parties have managed to reach an agreement. Similarly, a lack of trust between the leaders of the member states is blocking further integration in the Eurasian Economic Union (EAEU), a major Russian integration project in the region.

Given the priority of Eurasian integration in Belarus's foreign policy, its relations with the European Union (EU) have not progressed as they have for other Eastern Partnership (EaP) countries. Minsk has not declared aspirations to join the EU or the North Atlantic Treaty Organization (NATO). However, the numerous misunderstandings with Moscow and growing pressure from the Russian authorities have prompted Belarus to greater openness and cooperation with the EU and other external actors. Therefore, Minsk views the EU as a potential political and economic counterweight to its expansive Eastern neighbour. One of the pillars of Belarusian foreign policy is the tactic of fluctuation between East and West, which has been referred to as "multi-vector" policy (Shadursky 2016).

This case study scrutinizes Belarus's interdependencies with Russia and the EU and analyses how external actors use their ties with Belarus, and especially the nexuses between issue areas, in order to incentivize (or disincentivize) domestic actors to support their policy priorities. It also looks at the responses and reactions of the Belarusian elites to those interdependencies. The case study concludes that strong interdependencies in relations with Russia have been gradually reducing the policy opportunities Minsk can resort to, next to the overall background of the unwillingness of the Belarusian ruling elite to implement internal reform.

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<sup>30</sup> There was a short period during the Second Polish Republic in 1918-39 when the present Western Belarus was part of Poland.

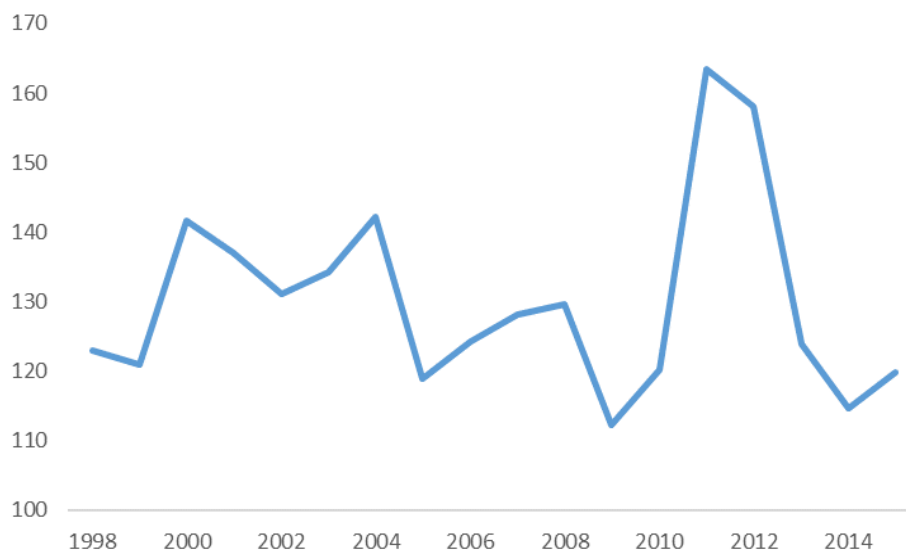
## 1. Interdependence with the EU and Russia

In this section, the interdependencies between Belarus and Russia are analysed in the four sectors of security, trade, energy and migration. Belarus exhibits strong asymmetric interdependences vis-à-vis Russia in all four sectors, however, the extent to which Russian actions in practice increase Belarus's sensitivities and what the Belarusian perception is varies between sectors, as well as whether Belarus displays an interest in looking for alternative solutions. The interdependencies with the EU are also included in the analysis whenever relevant. The analysis draws on data for the years 2000-16 – the period with best data availability – and interviews with national experts. Interdependencies with other actors, such as China, are not included. Despite growing importance of third actors for Belarus, their impact on Minsk compared to Russia and the EU is marginal.

### 1.1. Trade interdependence

Belarus has been an open economy over the past 20 years (see Figure 1), which points to the importance of foreign trade for its national economy and for the relations with its trading partners.

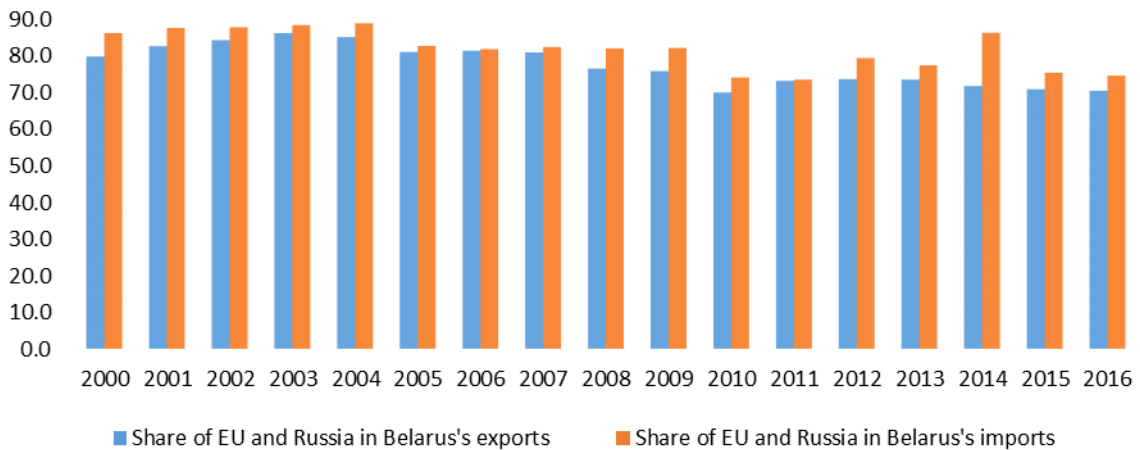
Figure 1. Belarus Trade Openness (%)



Source: Author's compilation, based on World Bank data (2017).

Both the trade openness index and the trade partner concentration data indicate that Belarus is highly sensitive (in terms of bearing costs) to any change in trade flows with its major partners. Since the collapse of the Soviet Union, Russia and the EU remain Belarus's key trading partners. Together, they account on average for 77 % of Belarusian exports and 81 % of imports during the period of 2000-16 (see Figure 2, World Bank 2017).

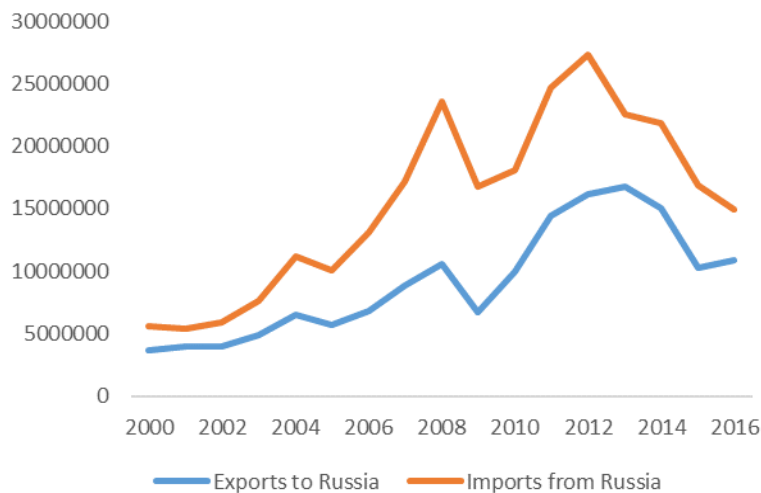
Figure 2. Trade partner concentration, 2000-16: Share of Russia and the EU in Belarus trade (%)



Source: Authors' compilation, based on World Bank data (2017).

Belarus's interdependence with Russia is particularly strong. While Russia and the EU have somewhat similar shares in exports (41 % and 36 % respectively), Russia is a much more important trade partner for imports (59 %), compared to 22 % for the EU. Exports to Russia are dominated by machinery (mainly tractors, trucks, buses and agricultural machinery), agro-food products and refinery products. On the other hand, imports are dominated by primary energy and energy products, as well as components used in the production of Belarusian machinery and equipment (Belarus State Statistics Committee 2017). A large number of industries in Russia and Belarus maintain strong horizontal linkages since Soviet times. The geographically close Russian market continues to be the major export destination for Belarusian industry, with very limited options for alternative markets. For example, in some sensitive sectors of the Belarusian economy, such as the food industry, the Russian market accounts for more than 80 %. Over the period of 2014-17, Belarusian exports of food products have increasingly included sanctioned products from the EU member states (Novopashyna 2017). Finally, the supply of gas and oil from Russia is an equally important factor shaping Russian-Belarusian trade, which largely determines Minsk's trade dependence on Moscow.

Figure 3. Belarusian exports to, and imports from the Russian Federation, 2000-16 (thousand USD)



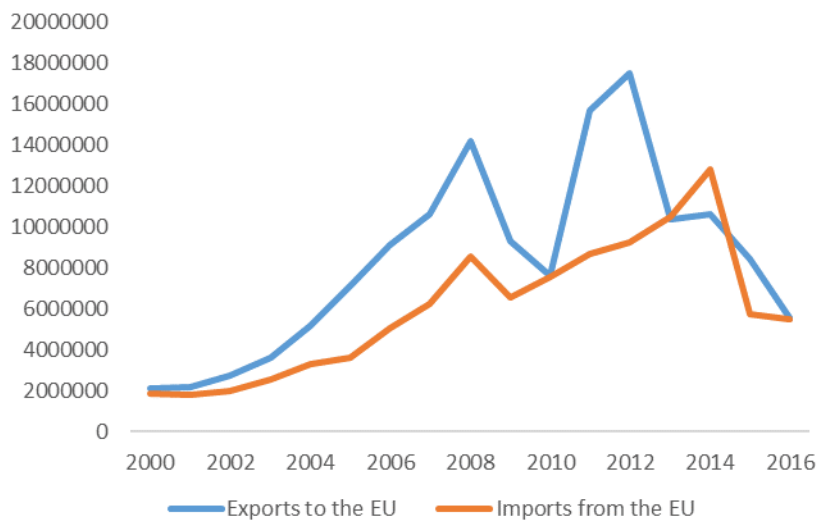
Source: Authors' compilation, based on World Bank data (2017).

Despite Belarus's membership in the Union State and the EAEU, there is still no common market based on the free movement of goods and services and numerous trade exemptions proliferate (Dragneva and Wolczuk 2017). A subject of disappointment for Minsk is also the decline in trade since the very existence of the union (1 January 2015) between its members. In the first year of the union, trade fell by 25.5 % and in 2016 by 6.7 % (Eurasian Interstate Committee 2017). While this could indicate a reversal in the negative trend, it is still a long way to go in reaching the full potential of a customs and economic union (common energy prices, no transport limitations, and removal of most of the trade exemptions).

Belarus frequently resorts to protectionist policies, even to a greater degree than Russia. Highly protectionist policies by Minsk are coupled with heavy regulation of the economy and a large share of state-owned enterprises (EBRD 2016), particularly when compared to other post-Soviet states. This undermines the global competitiveness of the Belarusian national economy and makes it vulnerable to Russia's trade policy.

The EU is the second most important trading partner of Belarus and its share in Belarusian trade has fluctuated around 30-40 % of exports and about 20 % of imports over the period of 2000-16 (World Bank 2017). The absence of any close trade cooperation, e.g. in the form of a Deep and Comprehensive Free Trade Area (DCFTA), and the low competitiveness of most Belarusian goods (Kalinina 2017) mean that trade is generally limited to a select group of products: petroleum products produced in two Belarusian refineries using Russian oil and, to a lesser degree, nitrogen and potassium fertilizers. The majority of Belarusian fertilizers are shipped to non-European markets, mainly to China, Brazil and India.

Figure 4. Belarusian exports to, and imports from the EU, 2000-16 (thousand USD)



Source: Authors' compilation, based on World Bank data (2017).

The structure of trade with the EU and Russia highlights the basic problem of Belarusian exports, which is poor diversification and the prevalence of commodities in exports. Given the significant openness of the Belarusian economy, it depends on several relatively unstable factors: prices and demand on the global oil and fertilizer markets, and the economic situation in Russia. Finally, access to the Russian market is heavily dependent on the good will of the Kremlin, rather than on competitive and free trade.

The Belarusian authorities have attempted to decrease the sensitivities, by aiming at modernizing domestic manufacturing and developing new economy sectors, such as IT. The declared purpose of these policies has been to diversify Belarus's exports: the government programme stipulates that each of Belarus's foreign trade priority areas – the EU, Russia and non-European countries – are to account for around 30 % of exports (Belarus Council of Ministers 2016). The implementation of these plans has however proven to be slow and fragmented in the authoritarian state, largely due to the centrally planned economy (Kłysiński 2017a).

The vulnerabilities of Belarusian authorities (in turning to or choosing from available policy options) emerge from the infant market institutions and low flexibility/efficiency of internal markets (e.g. the labour market) due to heavy government involvement in the economy. Economic cooperation with external partners (also as part of the policy to diversify away from Russian markets) tends to be determined by the availability of partners with similar political systems, such as China or Venezuela.

Economic growth over the period of 2009-14 in Belarus was mainly due to the number of *ad hoc* exogenous factors, including under-priced Russian energy supplies, rather than the result of increased competitiveness following structural reforms. This results in continued high sensitivities to Russia's benevolent bilateral economic and energy policy. At present, however, such remaining incentives from Russia (discounts for the price of natural gas, preferential imports of oil products, subsidized loans, and preferential access to markets) do not seem to be sufficient to sustain the previously strong economic growth of the national economy.

## 1.2. Migration interdependence

Belarus's sensitivity in the area of migration arises from the growing trend of outbound migration of highly qualified individuals to the EU and even larger temporary labour migration to the Russian market, coupled with the negative demographic trends in Belarus. The absence of systemic modernization of the social security system, education, and, above all, the rigid labour market makes Belarus increasingly vulnerable to both Russia and the EU. The barrier to such reforms is the unwillingness of the Belarusian elites to lose control over the sectors that could result from transition to more liberal economic and political systems.

Belarus is a country of large migration outflows; however, due to the scarcity of statistical data and the lack of sociological research, very little is known about this phenomenon. Although official statistics report that Belarus is a positive net migration country, alternative research results tend to suggest the opposite. According to available estimates, almost 700,000 Belarusians left the country permanently after the dissolution of the Soviet Union, including ethnic repatriation by Jews, Germans and other minorities (Zagorets and Zagorets 2011).

From the mid-1990s to 2011, migration outflows were rather moderate. However, even modest volumes of permanent outward migration (several thousand people per year), coupled with a constant natural population loss<sup>31</sup> and an increase in demographic pressure since 2008, pose a significant challenge for the country. Temporary labour migration, which increased after the 2011 economic crisis, created a deficit of high skilled labour in a number of sectors, but has eased unemployment and contributed to the inflow of remittances from migrants (Jaroszewicz and Lesińska 2014).

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<sup>31</sup> Total population declined from 10.2 million in 1993 to 9.5 million in 2013 (Belarus State Statistics Committee 2017).

Neighbouring Russia and Poland significantly increased their migration attractiveness for Belarusians between 2006-16 by simplifying procedures for obtaining citizenship for some categories of Belarusians (Russia as part of removing barriers within the Union State). According to Eurostat (2017), at the end of 2015 there were 140,000 Belarusian citizens holding residence permits in the EU, mostly in Poland (80,000) and Germany (18,000). Belarus tends to have negative net migration with Western European countries, the United States, and Canada, but a positive external migration balance with the post-Soviet states. Temporary labour migration of Belarusians to the EU has remained rather limited, while labour migration flows towards Russia have increased (Belarus State Statistics Committee 2017). However, Polish data appears to contradict the Belarusians statistics. In the past years, a visible part of Belarusian labour migrants started reorienting themselves from Russia towards Poland. According to data from the Polish Ministry of Family, Labour and Social Policy, in 2016 the number of Belarusian nationals registered by Polish employers under the simplified work scheme stood at 23,400. The number of permissions issued in 2017 was twice as large, i.e. 58,046. This is a substantial increase considering that the number of registered permissions for Belarusians in the whole year of 2015 was just 5599 (Ministry of Family, Labour and Social Policy of Poland 2018).

Official statistics seem to underestimate the figures for temporary labour migration dramatically. They count only those migrants who have signed agreements with foreign employers via official employment agencies. Official data as presented in the Belarus State Statistics Committee (2017) is likely to considerably underestimate the number of labour migrants: surveyed households reported about 56,000 labour migrants in 2012 and 64,000 in 2013. Some give even larger assessments of migrants – up to 500,000-700,000 – on the Russian labour market, which is largely believed to account for 80-90 % of all Belarusian labour migrants<sup>32</sup>. Russian statistics on Belarusian labour migrants are incomplete because Belarusian migrants are not registered in foreign population statistics, due to the fact that they are citizens of the Union State.

In June 2017, the European Commission and Belarus concluded a final version of a readmission agreement, which is pending final signature. If signed, it will be accompanied by a visa facilitation agreement. The mobility partnership agreement was signed earlier in October 2016 (European Commission 2016). Under the agreement, measures will be launched to increase cooperation in the areas of legal and labour migration, asylum and the protection of refugees, prevention of and combating irregular migration including smuggling of migrants and human trafficking, as well as maximizing the development impact of migration and mobility. However, due to the hesitance of Belarusian authorities to open further channels of mobility for Belarusian citizens, cross-border cooperation between Belarus and the EU has not been fully implemented, as Minsk decided not to ratify local border traffic agreements with Poland and Lithuania.

### 1.3. *Security interdependence*

Belarus's interdependencies in terms of security are determined by its military alliance with Russia, which is primarily based on the strategic importance of Belarusian territory for Russian interests as perceived by the Russian elites. From the Kremlin's point of view, Belarus is the only real safeguard of its Western defensive flank that borders on several NATO countries (Poland, Lithuania and Latvia)<sup>33</sup>. Hence, in a purely military sense, Russia views Belarus to be crucially important for the defence of the Moscow and Kaliningrad regions from possible

<sup>32</sup> For example, in 2006 the Head of the Ministry of Interior's Migration and Citizenship Department presented a number of 150,000-300,000 labour migrants (Charter97 2017).

<sup>33</sup> Authors' interviews with security experts, Minsk, July 2017.



Western aggression<sup>34</sup>. Therefore, Russia continues to provide comprehensive (economic and military) support to Belarus in exchange for its alliance. Belarus accepts this approach and has been using the support from and the alliance with Russia for its state-building and economic development (Konończuk 2008; Deyemord 2008).

Close military cooperation between Russia and Belarus manifests itself in both multilateral and bilateral formats. Since 1993, Belarus has been a member of the Moscow-dominated Collective Security Treaty Organization (CSTO). Minsk participates – both at the political and military level – in the CSTO’s Collective Operational Reaction Force. In addition, there are more than 30 Russian-Belarusian agreements, including a 1995 agreement setting out the rules for the operation of two Russian military installations in Belarus: the missile defence system of the two states in Hancewicze (near Baranavichy in the Brest region) and a Russian naval communications centre in Wileyka (northern part of the Minsk region), responsible for the management of a Russian nuclear submarine mission. Other agreements govern the coordination of border troops (including the protection of the external border of the Union State) and special services.

Cooperation between the two armies is guided by the common Russian-Belarusian Defence Policy Concept, institutional cooperation within the College of the Ministries of Defence of the Russian Federation and the Republic of Belarus, and the Regional Army Group (RAG), established on the basis of agreements from 1997-98. Based on the RAG, strategic military exercises have taken place on the territories of both countries since 2006, alternately code-named West or Homeland/Alliance Shield. An important aspect of the military cooperation between the two countries is the Joint Regional Air Defence System established by a 2009 agreement. Cooperation in this area covers a broad range of areas, from coordination of staff and joint air missions to cooperation among defence companies and training for soldiers from both armies. Bilateral military cooperation is politically affirmed within the Union State of Belarus and Russia.

Furthermore, the Belarusian armaments sector cooperates closely with Russian partners. This is due to both Soviet-era traditions and the developed forms of cooperation, as well as to the extensive use of equipment manufactured in Russia or in the Soviet Union by the Belarusian army. On the other hand, Belarusian armaments factories in selected production categories are strategically important for the Russian defence industry. These include navigation devices, pilot systems, satellite and space communications, antennas, radios and optical devices and for some of them there are no alternative suppliers (Alesin 2017).

Belarus has been struggling for years to use the military alliance to obtain supplies of modern military equipment from Russia at preferential prices or even free of charge, such as Iskander ballistic missiles or modern SU-30SM fighters, for example. Belarus’s military expenditures have been modest and the country has not been able to modernize its armed forces on its own. Moscow has occasionally responded positively, however, using this to force the Belarusian authorities to agree to the deployment of Russian military bases in Belarus (specifically the airbase at Bobruisk).

The consistent opposition of Belarusian elites to hosting the Russian military has been one of the important points of contention in the latest period of bilateral relations. This evidence may suggest a lack of trust towards the larger and stronger ally experienced by the Belarusian authorities. A number of disputes between Russia and Belarus over the scope of control over the joint military policy delayed the implementation of the RAG by several

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<sup>34</sup> Authors’ interviews with security experts, Minsk, July 2017.

years. As a result, it was only in 2013 that the first commander, Belarusian General Oleg Dvigalev, was appointed. Belarus always insists on a certain degree of parity in leading joint institutions<sup>35</sup>.

Russia's aggressive policy towards Ukraine, and in particular the annexation of Crimea and supporting armed groups in Eastern Ukraine, has prompted Minsk to attempt to reduce its high vulnerability to the Kremlin. It has done this by expanding political and security dialogue with the EU and selected EU member states, albeit without making any substantial changes to the foreign and security policies it pursues in practice. For instance, during 2014-16, Minsk started promoting the image of Belarus as a neutral country, striving for peace in Eastern Europe<sup>36</sup>. The effectiveness of these actions is, however, limited, because of gradually expanding military cooperation with Russia, which places Belarus not only in the ranks of Moscow's closest military allies, but in some aspects as a part of an integrated Russian security system. In this regard, though these attempts at neutrality are appreciated, Belarusian diplomacy is not able to convince other international partners, including the EU and United States, to acknowledge Belarus as being a genuinely neutral player in the Russian-Ukrainian conflict.

Russian influence on Belarus's defence policy is particularly evident in comparison to the modest and largely procedural cooperation between Minsk and NATO. The embassies of NATO member states located in Minsk rotate as NATO contact missions (the Estonian embassy had this position in 2017). Although Belarus has been participating in the Partnership for Peace program for many years, Minsk has never aspired to join NATO and has expressed no interest in a more advanced form of cooperation.

#### 1.4. *Energy interdependence*

Belarus faces high vulnerability in its dependence on the supply of primary energy from Russia. In the case of gas, Russian supplies constitute nearly 100 % of domestic consumption, and dependence in this area is further enhanced by the fact that Gazprom has been the sole owner of the Belarusian gas pipeline network since 2011. Furthermore, Gazprom owns the Yamal transit gas pipeline running through Belarus. A large part of the Belarusian industrial sector (primarily nitrogen or potassium plants) uses gas in its production cycle. Moreover, as much as 90 % of Belarus's electricity is produced in gas-powered thermal power plants. Therefore, the consumption of gas in Belarus is relatively high for a state with less than 10 million citizens and fluctuates around 20 billion m<sup>3</sup> of gas per year.

Fluctuations in gas prices significantly impact the profitability of the Belarusian industrial sector, which is largely obsolete and energy intensive. Consequently, the conditions under which Russia supplies gas to Belarus have been one of the key subjects for negotiations between Minsk and Moscow for many years. As in the case of some other gas importing countries, the Kremlin uses this instrument to put pressure on the Belarusian authorities. The amount of energy subsidies to Belarus (e.g. due to preferential gas prices) is decreasing<sup>37</sup>, since the global energy prices went down and domestic gas prices in Russia increased. Minsk continues to be dissatisfied with Russian energy export prices, which continue to be higher than Russian domestic prices, pointing to the timetable

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<sup>35</sup> Authors' interviews with security experts, Minsk, July 2017.

<sup>36</sup> Authors' interview with a Belarus expert, Minsk, July 2017.

<sup>37</sup> The 2017 rate of 130 USD per 1000 cubic meters for Belarus is around 70 % of the price paid by Germany (which is considered to be the benchmark in Europe for Russian gas prices) (Elliot 2016).

for establishing a common electricity market (by 2019) and gas, oil and petroleum market (starting 2025) (Eurasian Economic Union Treaty 2017).

Belarus is also dependent on Russia in the oil sector, with 90 % of its oil coming from Russia (Belarus State Statistics Committee 2017). One advantage for Minsk is – unlike in the gas trade – its full control over the system of oil pipelines, both internal and transit.<sup>38</sup> Since Belarus does not produce much of its own oil (up to 1.6 million tons of which is exported), both Belarusian refineries (in Novopolotsk and Mozyr) are completely dependent on Russian supplies. The level of imports from Russia ranges from 18 to 24 million tons per year. In 2015, up to a quarter of all export revenues came from the sale of Belarusian oil products, resulting in a high interdependence in the petrochemical sector.

Minsk made several attempts in recent years to decrease dependence on supplies of Russian oil, but was not able to find a viable alternative (for both gas and oil) to Russian supplies due to significant discounts Moscow provides to Minsk. At the same time, many such attempts, e.g. to import oil from Venezuela or from Azerbaijan, have been rather an element of Belarus's bargaining strategy during negotiations with Russia on the terms of supply, rather than credible policies to diversify energy imports.

The recent surge in Russian oil export prices has again prompted the Belarusian authorities to resume their diversification efforts, based on cooperation with the Ukrainian port of Odessa to import oil (Bohdan 2016). The surge in prices results largely from the reform in Russia of taxation rules for oil extraction known as the "tax manoeuvre" (PwC 2014). As a result, Belarus could *de facto* lose its current preferential treatment and would have to pay a price close to the market value of Russian oil. So far, it is not clear whether this attempt will decrease Belarus's vulnerability towards Russia.

Even more difficult (or even impossible) is the diversification of gas supply, especially since Belarus does not currently have its own gas pipelines and has not taken any steps to liberalize its gas market. As a result, the Belarusian authorities are just left with the option of reducing the share of gas in the electricity production. This is expected to be achieved after the operationalization of a nuclear power plant, which has been under construction for several years (Kłysiński and Menkiszak 2012). In this case, however, only the technology used to produce energy will be diversified, because the nuclear fuel for the plant will also be supplied from Russia.

The EU has little influence on the energy policy of Belarus and is in no way an alternative to Russia as a provider of oil supplies, despite it being a major import destination for up to 70 % of Belarusian petroleum products (Belarus State Statistics Committee 2017).

## 2. Nexuses across issue areas

Have Russia and the EU tied one policy area to another (issue-linkage) as a bargaining tactic, in order to incentivize or disincentivize the takeover of external policy priorities? Drawing upon interviews conducted in Belarus and a review of the relevant literature, this sub-section analyses Minsk's responses in this regard. We

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<sup>38</sup> Two Belarusian state-owned companies, Polocktransneft Druzhba and Homeltransneft Druzhba, are responsible for the maintenance and operation of the Belarusian oil pipeline system, and they are also responsible for the Belarusian section of the Druzhba Russian oil transit pipeline from Russia to the EU.

argue that Russia has made use of issue-linkage to keep Belarus a part of its security space, while the EU has not utilized this tactic. At the same time, because Belarus tends to be a close and loyal ally of the Russian Federation, issue-linkage actions usually create conflict and may lead to unintended consequences for the external actor. Russia tends to use this instrument vis-à-vis Belarus much more rarely than, for instance, Ukraine.

Moreover, while there are clear linkages between security and overall economic and energy cooperation, analysis of the explicit usage of issue-linkage strategies is constrained by the fact that bilateral political interactions between Moscow and Minsk are rather closed due to the autocratic system of governance in both countries and informal negotiating format in which Russia tends to pursue its policy goals vis-à-vis Belarus. Under those specific conditions, the Belarusian elite represents a specific group of individuals selected by the president. Most of decision-making is made individually by the president, who is not willing to limit his power. This implies that the decision-making process related to the acceptance of Russian issue-linkage actions or the search for an alternative solution is actually made by one person, often without any publically accessible traces.

The authoritarian nature of leadership in Moscow and Minsk means that the response to interdependencies between Belarus and Russia is personalized, despite the high level of institutional cooperation between the Russian and Belarusian bureaucracies. Both President Lukashenko and President Putin have been named national leaders (fathers of the nation) and enjoy equally high popular support of (40-80 %), according to national polls (BDG 2016; Nardelli et al. 2015). Both leaders have been communicating with each other for over 15 years and are key actors, initiating or reacting to sensitivities. The level of trust between leaders, however, has its highs and lows, with the recent Ukraine crisis in particular undermining trust.

Somewhat paradoxically, one could argue that Belarusian elites are not as vulnerable to external pressure and internalizing the costs of exploring alternative policy options: chances of dominant elites losing an election because of a “costly” policy are very low given the country’s highly personalized and authoritarian political system (Eke and Kuzio 2000). This is based on the power and charisma of the president ruling since 1994, mass propaganda, a selective system of repression, and the modified welfare state. This implies that there is very little political competition. Furthermore, the Belarusian leadership seems to have managed to direct a significant amount of rents from preferential cooperation with Russia (in energy and trade) in order to sustain the relatively high living standards of its population, which also results in high popular support for President Lukashenko. However, the recent period of slowed economic growth and related deterioration of living standards has increased the level of mistrust and disappointment with public authorities (Kłysiński 2017b: 2).

The fear of any essential changes in a very integrated and comprehensive authoritarian political system in Belarus has effectively blocked the development of all previous and current dialogue between the EU and Belarus. The EU has tried several times to use available leverages (for example, loans, investments, grants for projects and access to technology) and presented proposals (such as the 'non-paper' of 2008; EU Delegation 2008), or a more recent proposal known as the 'Road map' (Belarusian Yearbook 2016). However, these proposals have not been influential enough to incentivize Lukashenko to start reforms. On the contrary, Minsk has pursued a selective approach and its policy towards the West has been aimed at obtaining as many concessions as possible in exchange for minor steps in the area of human rights protection or the normalization of the political situation in the country, in a broader sense. Therefore, interdependence between Belarus and the EU remains insignificant.

Russia uses the instrument of energy subsidies to bolster its political influence and promote the Union State (where Moscow has a clearly dominant position). The disagreements between Minsk and Moscow over the rules of cooperation and oil and gas prices provoke regular disputes. However, they are usually settled within the at least partial acceptance by Russia of the core Belarusian interest, particularly the rent-seeking aspirations of the ruling elite.

The Russian-Belarusian energy dispute, which escalated at the beginning of 2016 (over the terms of oil supplies), seems to have been sorted out in April 2017 in the context of the security-energy nexus. In early 2016, Belarus, referring to its EAEU membership, concluded that it was entitled to internal Russian gas prices, which were much lower than those offered to foreign buyers. As a result, since January 2016, Minsk has paid a price it unilaterally reduced. The Russian side did not accept this argumentation, and so the debt was accumulating at a regular rate. Russia, in an attempt to force Belarus to pay this debt, has since June 2016 reduced oil supplies to Belarusian refineries from the total planned annual volume of 24 million tonnes to 18 million tonnes. Furthermore, more issues were added to the catalogue of disagreements between Minsk and Moscow, such as the status of the border between the two countries, border control procedures and access to the Russian market for Belarusian food products (above all meat and dairy products). In addition to this, the Moscow-controlled Eurasian Fund for Stabilisation and Development froze further availability of the credit facility offered to Belarus worth US\$2 billion. However, after several months of disputes, Belarus and Russia reached an agreement with some concessions on the Russian side, including returning to the oil supply volume of 24 million tonnes annually for Belarus and offering Belarus loans worth a total of US\$1.6 billion. On the other hand, Belarus agreed to sign the Customs Code of the EAEU and to re-pay Russia the debt of US\$726 million in full (Kardaś and Kłysiński 2017).

Moscow was also interested in consensual resolution of the energy dispute due to the then upcoming joint Belarusian-Russian military exercise 'Zapad' and the need to ensure Belarus's cooperative involvement. Therefore, Belarus seems to be the net beneficiary from the strong interdependence with Russia in the security sector, instrumentalizing its strategic role for Russia's security and benefiting from economic and energy cooperation in return, especially as Minsk has no aspirations to join either NATO or the EU's political and economic integration initiatives.

Moreover, the significance of Belarus for Russia has increased since Russia's 2014 annexation of Crimea and initiation of the armed conflict in Donbas. Since 2014, Russia has demanded that Minsk fully support Moscow's position regarding Ukraine, NATO and the West, and Russia's military expansion onto Belarus's territory, including a military base as well as participation in border guard forces and infrastructure. Even if in public discourse President Lukashenko has taken a mostly neutral position towards Russian aggression in Ukraine<sup>39</sup>, in practice, the situation regarding the main security issues between the two countries has not changed. Both sides seem to have a common understanding of 'red lines' and avoid crossing them, and in general Minsk does follow Russia's security and foreign policy in the region.

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<sup>39</sup> Mostly neutral, since Belarus tends to support Russia's stance during UN votes, which means that Belarusian "neutrality" is quite limited due to close cooperation with Russia.

### 3. Section conclusion

Over time, Belarus's interdependence with Russia in the area of energy, migration, security and trade has grown. Belarus's limited foreign policy options, its domestic political authoritarian system, and its outdated centralized economy make it unable to balance Russian influence by attracting an inflow of foreign investments or by increasing the competitiveness of its domestic businesses. Relations with the EU are seen by the Belarusian leadership as the only available way to at least partially balance its interdependence with Russia. Yet, cooperation with the EU is constrained by fear of Russia's potentially negative reactions to such cooperation. In addition, relations with the EU are constrained by the unwillingness on the part of Belarus to reform its political and economic system in line with liberal-democratic norms and standards promoted by the EU in its neighbourhood.

At the same time, over the analysed period of 2000-16, Minsk (or its dominant elites) has been the net beneficiary (in economic terms) of Russia's issue-linkage policy. Moscow has made significant concessions in terms of energy prices and economic cooperation to sustain its security interests in Belarus and to keep its political loyalty.

Unlike the EU, Russia does not demand domestic reforms in return or as a precondition for deeper economic cooperation, but political loyalty above all both at the personal level between the two leaders and under the framework of forming the Union State. Perhaps exactly because Minsk's loyalty is not questioned in Moscow, Belarus enjoys a certain degree of freedom in deviating from Moscow in its foreign policies if compared to other EaP countries, e.g. continuing economic cooperation with Ukraine, not recognizing separatist authorities in the region, and being able to re-export sanctioned products from the EU to Russia.

Given the strong vulnerability of Belarus, Moscow could in principle decrease the price it pays for Minsk's loyalty (i.e. the amount of energy or economic subsidies to Belarus). Moscow, however, does not seem to be interested in cutting such subsidies. One of the reasons for this is the Union State model, supported by Moscow, which implies that Minsk has the right to enjoy the same (favourable) internal energy prices and state assistance as a typical Russian federal unit. The ultimate price Minsk might have to pay for these benefits would be to further give up its sovereignty in terms of independent foreign and security policy.

The authoritarian nature of governance in Belarus limits the options Minsk has for decreasing its sensitivities to Russian economic support. Modernization of the economy and opening the country for foreign investors is perceived by President Lukashenko as undermining Belarusian sovereignty. Minsk's delays in introducing comprehensive market reforms and the weak competitiveness of its economy have made it more vulnerable to Russian policies across major areas of bilateral cooperation. The lack of political competition, however, tends to decrease vulnerabilities in terms of no criticism from the domestic opposition when choosing policy options. In other words, President Lukashenko does not have to take into account other domestic actors when bargaining with Russia and/or introducing unpopular domestic policies.

Economic interdependence between Belarus and Russia is institutionalized via membership in the Union State and the EAEU. On the one hand, this limits the role of the EU as the potential mediator in conflicts (similar to Russia-Ukraine energy disputes) or as the supporter of reforms to address vulnerabilities. On the other hand, participation in joint institutions with Russia seems to give Minsk some bargaining power and access to some limited dispute settlement mechanisms vis-à-vis Russia.

Therefore, the "multi-vector" policy, named as one of the pillars of Belarusian foreign policy, cannot be as fully utilized as it is by other EaP countries. Bilateral agreements with countries with similar political regimes, such as China, have become one of the few politically feasible ways for decreasing vulnerability to Russia (e.g. by diversifying investments and trade). Belarus cannot fully take advantage of multilateral unions (customs and economic, security, and defence) to protect its interests against Russia, although it may be reaping benefits from having a joint negotiating position with Russia in multilateral fora.

All of this leads to the conclusion that Belarus is highly dependent on Russia in almost all areas that are crucial for an independent state. However, Belarus still is and probably will benefit from being strongly independent in the security sector, as well as instrumentalizing and capitalizing on its strategic role for Russia's security policy in Eastern Europe. Although Minsk's interdependence with Russia in security has grown over time, Belarus has managed to develop strategies which allow its elites to be compensated for its concessions and loyalty to Russia.

## Ukraine

*Tadeusz Iwański, Marta Jaroszewicz, and Ildar Gazizullin*

Since Ukrainian independence in 1991, Russia has been the main centre of gravity for political and economic actors in Kyiv. The dissolution of the Soviet Union was costly for Ukraine's economy and society. Russia and Ukraine had been strongly bound by the proximity of cultures, their common Soviet statehood, trade, and the like-mindedness of the nomenclature. It was the change from intra- to inter-state relations in the spheres of trade, energy, population movement and security that were the main challenges for the newly independent Ukraine. It is against this background that Russia has been seeking to rebuild a common political, economic, and security space with Ukraine.

The nature of the interdependencies between Ukraine and Russia and Ukraine and the European Union (EU) has changed dramatically since February 2014. The Revolution of Dignity transformed the balance of political power in Ukraine: the Maidan protestors endowed the elites with a strong mandate to pursue pro-European reforms in Ukraine. Russian military aggression in Crimea and Eastern Ukraine has largely discredited Eurasian economic integration in Ukrainian society (Rating Group 2016) and the narrative of Russian-Ukrainian Slavic brotherhood. The Kremlin's decision to use its military power in Ukraine undermined the issue-linkage strategies applied by Russia for over two decades across the issue areas of trade, energy, migration and security, aimed at anchoring Ukraine in Russia's zone of influence.

This case study scrutinizes Ukraine's interdependencies with Russia and the EU and analyses how external actors use their ties with Ukraine, and especially the nexuses between issue areas, in order to incentivize (or disincentivize) domestic actors to support their policy priorities. It also looks at the responses of the Ukrainian elites to those interdependencies. In this case study, we study how interconnectedness with Russia and the EU reduces or increases policy options for Kyiv.

As the analysis will illustrate, with the decision to annex Crimea and support 'separatists' in Eastern Ukraine, Moscow has reverted to linking benefits from energy and economic cooperation with concessions in the area of security. The 2014 conflict also made the Ukrainian elites resort to socially and economically costly policy options to reduce its strong interdependence with Russia. At the same time, while the level of interdependence of Ukraine with the EU seems to be on the rise, this may not necessarily compensate for the costs associated with the dramatically changed nature of Ukrainian vulnerability towards Russia.

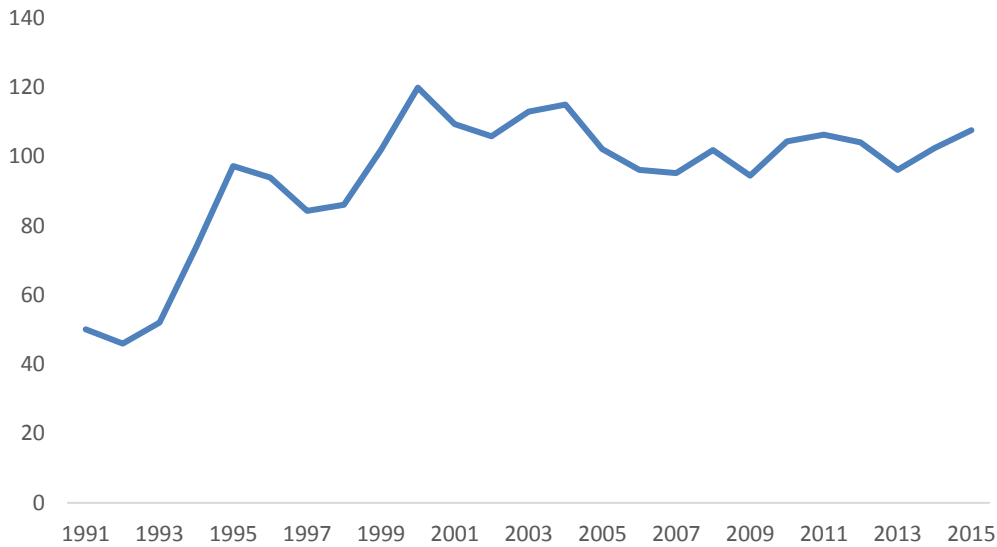
### **1. Interdependence with the EU and Russia**

#### *1.1. Trade interdependence*

The Ukrainian economy remains deeply dependent on the global economic situation and fluctuations in foreign trade, given its relatively high openness. The Trade Openness Index for Ukraine (trade as the share of GDP) has been close to 100 over the period of 2005-15 (see Figure 1).



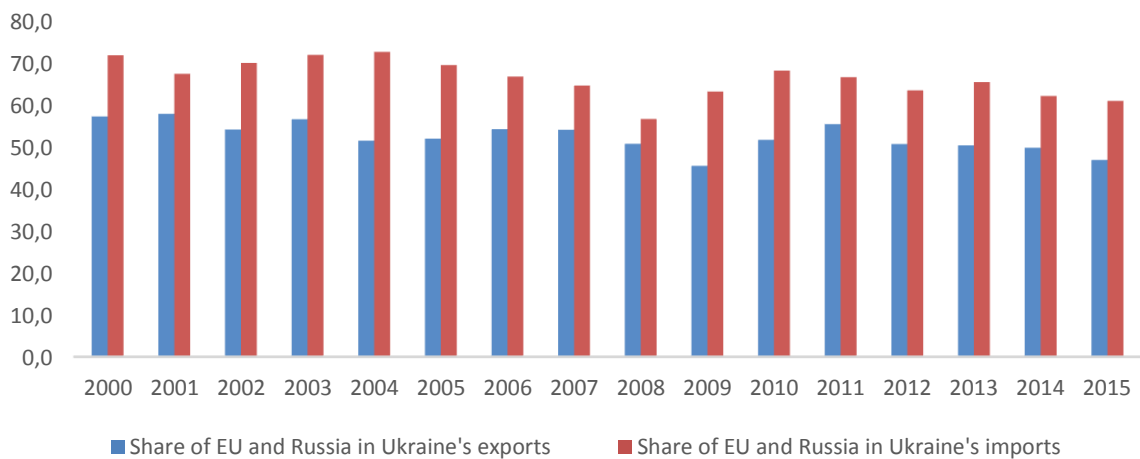
Figure 1. Ukraine's trade openness (%)



Source: World Bank (2017).

According to the trade partner concentration data, Ukraine is sensitive to changes in trade flows with its major partners – Russia and the EU. Both partners accounted on average for 52 % of Ukrainian exports and 62 % of imports during the period 2000-2015.

Figure 2. Trade partner concentration, 2000-15: Share of Russia and the EU in Ukrainian trade (%)



Source: Authors' compilation, based on State Statistics Service of Ukraine (2017).

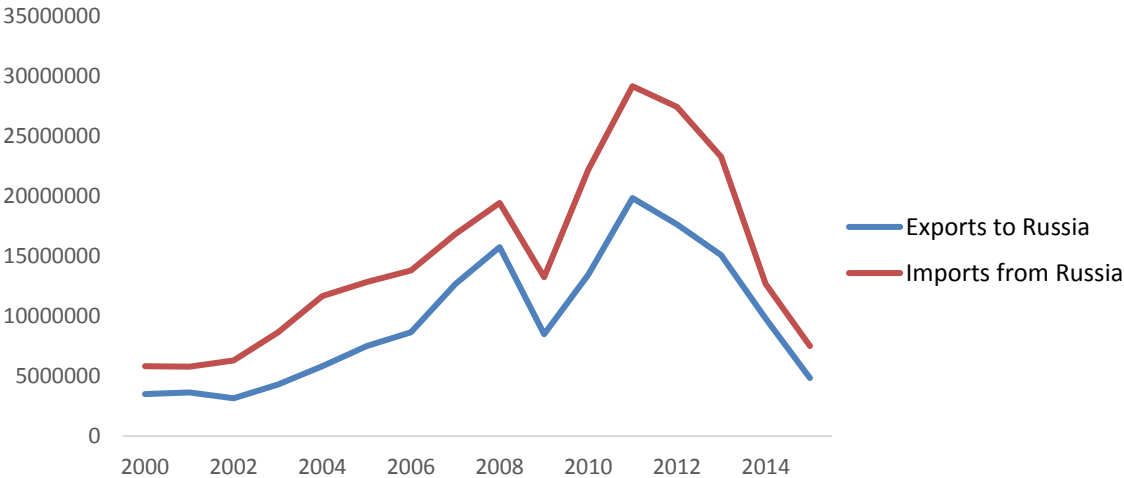
In 1991, the trade turnover with Russia and other members of the Commonwealth of Independent States (CIS) was dominant, while the exports to European markets were only being developed. Over time, Ukraine expanded its trade with more partners, which resulted in some reorientation from the ex-Soviet Union countries.

By 2000, the structure of Ukraine's foreign trade had stabilized and diversified: two-thirds of trade fell to the Commonwealth of Independent States (CIS) and the EU and one third to the rest of the world. This situation, with some minor changes, lasted until 2014. The general trend was characterized by a decline in Russia's share

in foreign trade and an increase in the share of the EU. At that time, Ukraine did not join the Moscow-controlled Customs Union nor did it take effective steps to enhance economic cooperation with the EU.

Until 2014, trade with Russia was perceived as crucial for the Ukrainian economy. Not only was Russia's share in Ukrainian exports high (27-30 % between 2004 and 2013, according to State Statistics Service of Ukraine 2017), but the northern neighbour was also a key recipient of many Ukrainian products from sectors such as machinery (i.e. railway engines), which were not competitive on markets outside the CIS. The conflict in 2014 resulted in a drastic trade reduction – both in exports and imports – particularly due to Moscow’s trade restrictions and Kyiv’s decision to reduce gas imports from Russia.

Figure 3. Ukraine's exports to, and imports from Russia, 2000-15 (thousand USD)



Source: Authors’ compilation, based on data of the State Statistics Service of Ukraine (2017).

Ukraine’s trade with the EU has also fluctuated, largely following regional and global shocks. As seen in Figure 4 below, there have been two periods of rapid decline in trade – in 2009 (global financial crisis) and the past few years, linked with the war in Eastern Ukraine. However, trade with the EU has not decreased as much as trade with Russia has.

Figure 4. Ukraine's exports to, and imports from the EU, 2005-16 (thousand USD)



Source: Authors' compilation based on data of the State Statistics Service of Ukraine (2017).

## 1.2. Migration interdependence

Ukraine is dependent upon emigration of its labour force, driven by poverty and low wages. After the dissolution of the Soviet Union, migration had a mainly ethnic/repatriation character: millions of ethnic Jews, Germans, Russians and other ethnicities left Ukraine moving either by themselves or via official repatriation schemes like those organized by Germany and Israel. According to official data of the State Statistics Service of Ukraine, around 2.5 million Ukrainians left the country permanently in the period of 1992-2004, meaning that they were de-registered in Ukraine by the Ministry of Interior (Jaroszewicz and Szerepka 2007).

In later periods, Ukrainians tended to prefer temporary labour migration, for which reliable data is lacking. A national census could provide some new estimates, however, the last one was conducted in 2001 and the new one planned for 2011 was re-scheduled to 2020 (Cabinet of Ministers 2015). Therefore, in the case of Ukraine, sociological surveys seem to be the best statistical instrument for capturing migration dynamics, particularly of the significant segment of Ukrainian migrants abroad who stay and/or work there in an irregular manner.

The Labour Migration Survey (LMS) 2012 indicated that 1.2 million people (3.4 % of the population in the age bracket of 15-70 years) either worked or were looking for a job abroad in the period from January 2010 to June 2012 (ILO 2013). This number was lower than the 1.5 million individuals, reported to be working abroad between 2005 and 2008, according to the LMS 2008. The share of migrants in the labour force fell from 5.1 % between 2005-08 to 4.1 % between 2010-12. In that period, about half of those Ukrainian migrants were working in Russia, while the other half of surveyed migrants chose destinations in the EU. According to LMS 2012, 602,500 migrants (51 % of surveyed labour migrants) either worked or were looking for work in the EU, with the highest share of Ukrainian migrants in Poland, Italy and the Czech Republic. The number of migrants in Russia declined by 43.2 % to 511,000 from 2010 to 2012 (Betliy 2014: 158-181).

The annexation of Crimea by Russia and the emergence of the armed conflict in Eastern Ukraine radically changed the dynamics and nature of migration from and in Ukraine. At the same time, economic factors remain decisive

in shaping migration flows. The armed conflict in Eastern Ukraine and the break-down in relations with Russia have strongly exacerbated the country's economic crisis. In recent years, not only has international migration from Ukraine intensified, but also internal migration, as well as asylum seeking. An intensification of migratory movements from Ukraine in the past two years and the re-orientation of migratory flows towards the EU result from the decrease of migration to the Russian Federation (Sushko et al. 2016).

Moreover, the interdependence with the EU has also changed due to the growing attractiveness of Poland. Ukrainians have always been a strong immigrant group in Poland, but in the last two years that domination has become particularly visible. Since 2014, Poland has experienced a large inflow of Ukrainian migrants, to an extent not witnessed since the dissolution of the Soviet Union. Due to statistical shortcomings, it is not possible to assess the exact number of Ukrainian citizens living in Poland. Contingent on the type of status – there is, for instance, greater demand when it comes to different types of short-term stays – in 2014-15 Poland saw a several-fold increase in the number of residence and work permit applications requested by Ukrainian citizens. For instance, according to data collected by the Office for Foreigners, there are 127,000 Ukrainian citizens who hold residence permits in Poland as of June 2017 (Central Statistical Office of Poland 2017). A much bigger number is observed when it comes to temporary labour migration. In 2016, Poland issued as many as 1.2 million permits allowing Ukrainian citizens to work temporarily in Poland (Ministry of Family, Labour and Social Policy of Poland 2016).

A growth in temporary, circular migration to Poland is mainly related to the significant deterioration of the economic situation in Ukraine and the eruption of the conflict (as a factor undermining the hopes for a quick recovery in the economic and political situation in Ukraine) as well as growing significance of Ukrainian migration networks in Poland. It is difficult to predict what the future migration trends will be, whether the current migrants will settle down in Poland permanently or decide to emigrate further. Some of these migrants may also return to Ukraine when the economic and security situation stabilizes (Jaroszewicz and Piechal 2016).

Ukraine's level of interdependence with Russia in the area of migration has increased over 2014-16, as Moscow relaxed the rules for Ukrainian nationals residing in Russia between January-August 2015 in order to enable Ukrainians' escape from being drafted to the army. Russian President Vladimir Putin has claimed that more than one million Ukrainians of draft age have stayed in Russia (BBC 2015). Russia has also accepted most of the asylum seekers<sup>40</sup> from Eastern Ukraine. The annexation of Crimea created a problem of dual citizenship for the residents of the peninsula, which in a way has also increased the interdependence of Russia and Ukraine in this area. Similarly, the EU visa lifting for Ukrainian citizens that came into effect in June 2017 will likely increase people-to-people contacts between Ukraine and countries of the EU.

### 1.3. *Security interdependence*

Ukraine's security sector has historically been highly interdependent with Russia. Unlike in trade, where Ukraine has managed to diversify the export geography, interlinkages at the level of the military industrial complex have

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<sup>40</sup> As most of these people have not applied for refugee status, this information is based on various estimates. According to the government sources in receiving countries (UNHCR 2016), the total number of Ukrainians seeking asylum or other forms of legal stay in neighbouring countries at the end of 2016 stood at 1,481,377, with the majority going to the Russian Federation (1,154,212) and Belarus (148,549). In other neighbouring countries, 286 Ukrainians sought asylum in Moldova, 80 in Romania, 71 in Hungary and 26 in Slovakia. As of 1 September 2017, since the beginning of the crisis, in the top five receiving countries of the EU there were 7967 applications for international protection in Germany, 7267 in Italy, 5423 in Poland, 3176 in France and 2742 in Sweden.

remained strong since the Soviet times. This has led to sensitivities in this area for Russia and Ukraine as both are mutually dependent on selected key supplies (e.g. helicopter engines) (Samus 2014). The Russian Black Sea Fleet Base in Crimea, representing the largest presence of Russian military outside its territory since early 1990s<sup>41</sup>, has been viewed as a major sensitivity by Kyiv (and Moscow). However, the reduction in Ukraine's armed forces and the military budget until 2014, failure to reform the security sector and lacklustre cooperation with the North Atlantic Treaty Organization (NATO) all tend to indicate that Kyiv has downplayed the need for security sector reforms and security alliances in consideration of the potential financial and political costs of such. The EU has never played a strong role in the security area for Ukraine: most of the cooperation has taken place under a NATO framework, while trade in arms between Ukraine and the EU has been insignificant.

Apparently, the Ukrainian elites have not taken the threats in the area of security vis-à-vis neighbouring states (e.g. Russia) seriously. First, the risk of ethnic-based interstate conflicts within the country and with the neighbouring states was perceived as relatively low (Perepelytsa 2003), although it was common in other Eastern Partnership (EaP) countries, such as Azerbaijan and Armenia. These conflicts often undermined the power of the national authorities from within and increased sensitivities toward neighbours (e.g. Russia), either by creating a dependence for ensuring peace or by confrontation as adversaries. Ukraine faced no violent ethnic clashes in the 1980s or early 1990s unlike most other post-Soviet states, even though Ukraine is a multi-ethnic country, with sizable minority populations that have strong national identities (Russians, Crimean Tatars, Hungarians, etc.). Second, Ukraine has received formal assurances from the major regional powers (the United Kingdom, the United States and the Russian Federation) under the Budapest Memorandum to protect its sovereignty and territorial integrity after giving up its nuclear weapons in 1994. The memorandum went as far as to stipulate protection from economic pressure against Ukraine (Council on Foreign Relations 1994)<sup>42</sup>.

With hindsight there have been incidents highlighting Ukraine's sensitivities toward Russia in the security area. First, Crimean political elites and civil society have demonstrated strong separatist tendencies since the early 1990s, which was openly supported by Russian politicians. In 1992, the Crimean parliament endorsed its own constitution, which contradicted the Ukrainian legislation as well as Ukraine's Constitution (endorsed in 1996). After a series of consultations between Kyiv and the Crimean authorities, Crimea adopted a new constitution in 1998, which confirmed its special autonomous status within Ukraine.

Second, the Tuzla island incident from 2003-05 was the first (recent) territorial dispute between Ukraine and Russia over the territory around Crimea. Although it did not result in an open conflict, there has also been no final settlement. A somewhat similar dispute over the period of 2004-09 between Ukraine and Romania over Zmeinyi island in the Black Sea has been resolved at the International Court of Justice by identifying the respective border of economic territories of both states around the island (International Court of Justice 2009). Third, the Transnistria conflict has been directly affecting Ukraine as the neighbour of the breakaway region. In fact, Ukraine tended to ally with the countries affected by Russia's support for the frozen conflicts, specifically within the GUAM Organization for Democracy and Economic Development<sup>43</sup>. Hence, the 2008 war in Georgia,

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<sup>41</sup> The total number of Russian navy and other personnel was between 12,000-25,000, with the next largest base being in Tajikistan (about 7000), and Syria coming in third (PolitRussia 2016). The numbers do not account for the representatives of the private military organizations and the so-called volunteers fighting in Ukraine and Syria.

<sup>42</sup> Belarus and Kazakhstan received similar assurances as other signatories of the Budapest Memorandum.

<sup>43</sup> GUAM was established in 2001 and comprises of Georgia, Ukraine, Azerbaijan and Moldova.

for instance, targeted Ukraine's partner in the region and should have increased the sense among Ukrainian elites of the country's own sensitivity to Russia in the security area.

The security policy and the reform of the Ukrainian army were not prioritized after the Orange Revolution in 2004, which brought to power politicians with a clear pro-EU rhetoric. Furthermore, Russia's aggression towards Georgia in August 2008 undermined Kyiv's plans for pursuing the Membership Action Plan (MAP) with NATO: the NATO member states decided to refuse the MAP (Radio Free Europe/Radio Liberty 2008). Although NATO claimed that it supported Ukrainian and Georgian applications for the MAP at the meeting of the North Atlantic Council in Bucharest on 3 April 2008, the Georgian-Russian war in August 2008 was one of the factors underscoring NATO's decision for both Georgia and Ukraine. Further talks were held in December 2008, but no agreement was achieved. The outcome resulted from the strong opposition from Russia, the Georgian-Russian war, and overall lack of support from the US.

Ukrainian political elites at that time were initially hesitant to strongly condemn the Georgian war, while the opposition, represented by Viktor Yanukovich's Party of the Regions, stressed the need for cooperation with Russia and openly undermined the importance of closer relations with NATO. Consequently, Yanukovich kept formal cooperation with the EU and NATO at a low intensity level from 2010-13. In July 2010, Kyiv ceased to pursue the NATO MAP in favour of the so-called Non-Aligned status. Trust-based relations with the West in the security area were arguably undermined by the authoritarian style of Yanukovich's government, including the persecution of political opponents (e.g. the imprisonment of ex-Prime Minister Yulia Tymoshenko), and the *de facto* state capture by the so-called Yanukovich family (Matuszak 2012).

The reinstatement of Ukraine's intention to pursue integration with NATO and the EU (Radio Free Europe/Radio Liberty 2008) was to a great extent an element of internal political struggle. One of the reasons was that NATO accession has never been supported by the majority of the population (unlike EU integration): 40-60 % of Ukrainians were against NATO accession (Ray and Esipova 2014).

The swift annexation of Crimea by Russia in 2014 and the subsequent seizure of part of Eastern Ukraine undermined the sovereignty of Ukraine and clearly increased Ukraine's sensitivities towards Russia. The 'Minsk Agreements'<sup>44</sup> from September 2014 and February 2015 have brought a military de-escalation of the conflict in the Donbas. Yet, the conflict became protracted. In addition, Crimea has become highly militarized by Russia, further perpetuating Ukraine's sensitivity vis-à-vis Russia.

Sensitivities in the security field are high for Ukraine, given the number of casualties and high economic losses resulting from the conflict. Ukraine's vulnerability has been high as well, due to the obvious asymmetry compared with Russia in terms of military capabilities: the Ukrainian army would not be able to wage a regular war with Russia over a prolonged period. The Ukrainian military response in Eastern Ukraine – unlike the passive reaction two months earlier in Crimea – could be viewed as a change in response towards limiting the dependence on Russia<sup>45</sup>. The military response has been termed an Anti-Terrorist Operation to avoid a range of negative implications of *de jure* warfare. Similarly, Russia decided to portray the breach of Ukraine's sovereignty both in

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<sup>44</sup> The Minsk agreements made in 2014 and 2015 aim at implementing a peace road map to end the conflict in Eastern Ukraine. Ukraine, Russia, France, and Germany are the major parties of the Minsk process.

<sup>45</sup> Authors' interviews with Ukrainian governmental officials and security experts, Kyiv, June 2017.

Crimea and in Donbas by public referenda, albeit deemed illegal by the international community, instead of scaling to a full-fledged military aggression (though elements of military warfare did occur as well)<sup>46</sup>.

The choice and availability of options to address Russian aggression for the new government were determined by the ambivalent reaction of both the political elites (including oligarchs) and the general population to increased sensitivities to Russia. Public opinion was strong on the need to respond to Russian aggression: e.g. Ukrainian voluntary battalions were formed and played the role of a regular army in Eastern Ukraine at the onset of the conflict, and the new government risked facing another wave of public demonstrations if it did not react<sup>47</sup>. However, part of the population, especially in Eastern and Southern Ukraine, did not see Russia as a threat, as many had pro-Russian sentiments and continued to perceive the Maidan protests in a negative way. The loss of parts of Eastern Ukraine to 'separatists' was ambivalent for the new elites, who came to power after the Revolution of Dignity: politically, the region had been voting for the Yanukovich party and its business supporters. The economic importance of the region was recognized, but with reservations, given the significant state subsidies it required, the low competitiveness of its industry and its strong dependence on the Russian market<sup>48</sup>.

The Ukrainian authorities have taken a number of steps to reduce interdependence with Russia in the security area since the conflict began: Kyiv broke off military cooperation between the two security services, and prohibited trade cooperation within military industrial cooperation with Russia (though such trade continues to some extent, especially for dual purpose goods). In April 2014, Kyiv imposed temporary restrictions for Russian males aged 16-60 years on crossing the Ukrainian border. There are ongoing debates in the Ukrainian Parliament on whether to impose a visa regime for Russian citizens<sup>49</sup>. In addition, starting in 2014, Kyiv took a more decisive stance towards implementing the NATO-Ukraine Annual National Program.

Western support increased the room for manoeuvre for Kyiv in its response to the sensitivities caused by the Russian threat. Ukraine received diplomatic support (sanctions against Russia until the Minsk Agreements are upheld) and military support (military training and advice, counter-intelligence cooperation). Kyiv also declared NATO membership as the ultimate goal of cooperation with the Alliance.

However, Ukraine remains vulnerable to Russia's destructive actions in the areas of hard and soft security, namely:

- Hostile actions in strategic transport and energy infrastructure, including cybercrime and cyberwar: e.g. breaking into the information systems of the Ukrainian state and financial institutions, as well as energy facilities, which have proved to have very weak protection (Robertson and Riley 2016).
- Low intensity military conflict in Eastern Ukraine (controlling the 500km border) without clear prospects of solution and risk of a relapse into a full-blown military conflict.

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<sup>46</sup> Russia seems to have adopted a reverse-asymmetrical warfare against Ukraine, publicly presenting its involvement in Ukraine as a political/financial reaction to Western-backed illegitimate regime change. Moscow has been supporting guerilla type warfare in Eastern Ukraine, only with the occasional use of regular Russian forces, enough to match or slightly overmatch the Ukrainian offensive/resistance (Tallis 2015).

<sup>47</sup> Authors' interviews with Ukrainian governmental officials and security experts, Kyiv, June 2017.

<sup>48</sup> Authors' interviews with Ukrainian governmental officials and security experts, Kyiv, June 2017.

<sup>49</sup> Starting from March 2015, Kyiv issued a ruling that Russian citizens can enter Ukraine only with international passports (before that Russian passports were a sufficient document). The draft bill of introducing a visa regime between Russia and Ukraine was submitted to the Ukrainian Parliament in February 2016. However, the final decision has been being delayed (Censor.net 2017).

- Alleged attempts to induce ethnic conflicts in the Odesa and Zakarpattia oblasts via the so-called “National Council of Bessarabia” (Kosienkowski 2015) and “Republic of Subcarpathian Ruthenia” (Rekawek 2017: 36) respectively.

#### 1.4. *Energy interdependence*

The scope of energy interdependence between Ukraine and Russia has been particularly high, although both countries have taken steps to reduce their mutual dependencies over time (Wolczuk 2016). After the collapse of the Soviet Union, Ukraine was dependent on supplies of energy including oil and nuclear fuel from Russia, which it received below market prices, but it was natural gas that was the most politicized energy issue. Russia, for its part, depended on Ukraine as a transit country for most of its gas exports to the EU. Hence, Kyiv and Moscow face sensitivities stemming from the terms for gas imports and gas transit, and vulnerabilities from the fact that the respective other party may exploit alternatives to gas imports and transit to replace or bypass Russia or Ukraine, respectively.

Until the 2004 Orange Revolution, the gas cooperation was relatively stable, with the Ukrainian elites benefiting tremendously from the gas trade, which became a source of fortunes for most of the oligarchic groups in Ukraine (Balmaceda 2013; Olszański 2003). Such payoffs from the murky gas import schemes were the main reason for the lack of reforms in the Ukrainian energy sector until 2014. The share of imports from Russia accounted for up to 75 % of Ukraine’s total energy imports (State Statistics Service of Ukraine 2017). The other reason for keeping special import arrangements (low gas and energy prices) was to share some of the resulting surplus with the population for electoral purposes. Since Soviet times, Ukrainians expect the state (on the national and local level) to be responsible for providing affordable residential services (water, district heating, gas and electricity). This is despite the fact that most of the housing stock as well as major utility providers have been privatized since independence. This perception has been sustained by the governments’ heavy and ineffective regulation of prices (and competition) in the sector to compensate for the absence of an effective (targeted) social assistance policy (Von Hirschhausen 2003).

Over the past 20 years, Russia and Ukraine’s interdependence in the gas sector has decreased. Moscow made efforts to gradually reduce its dependence on Kyiv, primarily by launching the Nord Stream and projecting the South Stream gas pipelines, which bypass Ukraine. This had to do with the fact that despite numerous attempts, Russia was not able to acquire ownership of the Ukrainian gas transportation network. Russia has also announced plans to supply its natural gas to non-European markets (e.g. China), as well as considered other gas transportation modes, such as liquefied natural gas (LNG).

Ukraine’s vulnerability to Russian gas imports was reduced as import prices went up and alternatives to Russian gas became economically more viable and logistically possible. This development started already under President Yanukovich and in the absence of an effective national energy security policy. The loss of control over parts of Eastern Ukraine also meant that the country’s biggest and most energy intensive industrial companies had to reduce or stop gas consumption, which had a sizable impact on the local gas demand. Finally, steps to liberalize the Ukrainian gas market (aligning the energy policy with the energy *acquis* of the EU) contributed to a less corrupt and more professional management of the state-owned company Naftogaz Ukrainy, and to a greater gas market competition.



Ukraine's role in gas transit also decreased for both Russia and the EU, following the European Commission's confrontation with Gazprom over the company's compliance with the European energy and antimonopoly legislation starting in 2011, and more diversified gas supplies to the EU and individual member states in Eastern Europe.

As a result of the spike in Russian gas prices in 2010, Ukraine became increasingly sensitive, as the high prices made public finances and the competitiveness of the national economy deteriorate. High domestic gas prices, however, sent a powerful signal to Ukrainian businesses, making many gas-replacing projects economically viable (unlike before, when such incentives were weak). Major Ukrainian business groups and other companies that had energy-intensive assets started using different strategies:

- 1) Replaced natural gas with other fuels, mostly with coal. E.g., in 2012, the Ministry of Energy and Coal Industry of Ukraine signed an agreement with the China Development Bank for a 3.6 billion USD loan for the financing of gas-to-coal conversions and the construction of coal gasification plants (Ignatov 2015). Many of the business groups increased investments in bio fuel (in agriculture) and renewable energy such as wind and solar, which was also supported by the favorable state policy of feed-in tariffs.
- 2) Got direct access to gas production, either by acquisition of private companies or by obtaining government permits to explore gas (Sherbyna 2012).
- 3) Imported gas directly from the EU and Russia, e.g. by such companies as OsthemGroup and Metinvest in 2012.
- 4) Increased energy efficiency: in 2011 some efficiency gains have been recorded in mining due to better resource utilization (Berger 2013).

The Yanukovich government attempted to decrease its dependence on Russian gas; the most notable decision was to invite major oil companies, such as Shell and Chevron among others, to invest in exploration of unconventional gas in Ukraine in 2013. The decision to open such a strategic sector as energy to large international investors was unprecedented and can be compared in scale to the demonstrative sale of a large still mill, KrivorizhStahl, to Arcelor Mittal in 2005. The interviewed experts named lack of technology in Ukraine to explore unconventional gas without external support and political brokerage from the US in bringing investors as among the conducive factors. Eventually, the attempt did not result in increased gas production, since investors withheld exploration – mainly because of the drastic fall in the global energy prices, and commercially unsatisfactory results of initial drilling. Exploration of non-conventional gas in Ukraine was faced with public protests, as it was the case in other countries. However, it has been suggested that the strong public opposition to gas exploration was financially backed by Russia and that many of the non-government organizations mobilized to resist gas projects in the East have been active in supporting the separatist movement in the Spring of 2014<sup>50</sup>.

In 2011, Ukraine became a member of the European Energy Community, thereby obligating itself to implement the EU energy legislation, which was an important step to decreasing dependence on Russia. By the end of 2013, however, Kyiv had not made significant progress in reforming its gas market. Similarly, the EU itself did not provide the country with support in the face of growing Russian pressure and undertakings to bypass Ukraine with new transport routes (plans of the Nord and South streams) (Wolczuk 2016).

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<sup>50</sup> Authors' interview with economic experts, Kyiv, June 2017.

The 2014 conflict with Russia forced Ukraine to reduce its dependence on Russian gas and energy supplies. The stakes of the gas reform and substituting gas imports from Russia have been especially high, given the level of the countries' interdependence, but also because of a legal dispute between Gazprom and Naftogaz (mutual claims were made in excess of 30 billion USD). According to Olearchyk (2017), Ukraine received a positive verdict at the Stockholm Arbitrage Court indicating a successful decrease of sensitivity to Russia in this area. The new government started off reform of the gas market in 2015, which helped it to utilize the alternative gas import routes and reverse flows from the EU and reduce the gas imports from Russia. In 2015, about 60 % of imported gas was transported from the EU, while in 2014 the number was about 25 % (Naftogaz Ukrainy 2017).

This option was feasible also due to the fact that Ukraine has made initial steps in liberalizing its gas market under the Energy Community Treaty. Schemes to import gas from the EU were tested in 2012. The role of the EU in assisting Ukraine in this move in 2014 has been important: first, in backing the member states involved (e.g. Slovakia), which were hesitant to directly confront Gazprom in this matter as many of these member states had long-term contracts with Gazprom, which, in turn, made full compliance with the EU third energy package problematic. There were also doubts on Ukraine's credibility to import such large amounts of gas. Second, the EU provided financial assistance (directly or via international financial organizations) to support reforms and to back up gas imports of the Naftogaz Ukrainy.

The impact of businesses and political groups on corporate and national policy-making in the gas sector and energy policy in general tends to decrease. The newly appointed management team of Naftogaz Ukrainy quickly moved ahead with the gas market reforms that previously had been blocked<sup>51</sup>. Among other things, this became possible after the arrest and detention of the influential Ukrainian businessman Dmytro Firtash in Austria, following US-backed allegations. The influence of Mykola Martynenko, head of the energy committee at the Parliament, on national and corporate energy policy was constrained as well after a formal investigation of alleged corruption was launched against him by the National Anti-Corruption Authority. On the other hand, attempts of the government to re-establish greater control in the oil sector and subsequent disputes with the Privat business group has not resulted in a change of the status quo. Finally, the Ukrainian government made a controversial decision to incentivize the Ukrainian thermal power stations by increasing regulated prices for them. The so-called "Rotterdam+" formula for setting prices developed by the energy regulator has been referred to as the biggest corruption scandal in Ukraine since 2014, as it was largely benefiting a private DTEK group<sup>52</sup>.

The government also significantly increased residential gas prices. A negative social response from the population followed (this was what deterred similar decisions in the past), but was partially offset by a safety net policy (energy subsidies), funded from tax revenues originating from increased gas prices. The decision to increase household prices also enabled removal of most of the pricing distortions on the wholesale gas market. This contributed to greater transparency as there were less incentives to re-sell gas designated for households to industrial consumers and competition resulting from the reduced price difference between residential and industrial consumers (Rozwalka and Tordengren 2016).

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<sup>51</sup> Aside from the capture by business interests, resistance to reform from Naftogaz Ukrainy is due to the negative implications of liberalization for the incumbent energy company. Therefore, it is very rare (and is not expected) that the dominant energy company (in this case Naftogaz) would support liberalization of the gas market.

<sup>52</sup> Authors' interview with energy experts, Kyiv, June 2017.

Since 2014, Ukraine has been breaking links with Russia in other spheres of cooperation in the energy sector as well (Iwański and Sarna 2017). Particularly, imports of nuclear fuel from Russia have been further reduced and replaced with American-Japanese fuel, and Kyiv has made progress in building the Central Spent Fuel Storage Facility (World Nuclear News 2017).

Ukraine's dependence on the oil imports from Russia was low already before the 2014 crisis in bilateral relations, as oil products have been imported from Belarus and the EU member states. At the same time, dependence on oil imports are not indicative of Ukraine's vulnerability, as oil markets are relatively competitive with easily available options for substituting suppliers.

Meanwhile, Ukraine has become more dependent on Russia in coal and coal-based electricity generation since 2014 (Iwański and Sarna 2017). Ukraine faced a deficit of anthracite coal<sup>53</sup>, mined exclusively in the regions of Eastern Ukraine that came under the control of the pro-Russian separatists. This brought about a deep crisis in the Ukrainian power sector, the most severe since the early 1990s, and forced Ukraine to import anthracite coal and electricity. To mitigate the risks of blackouts, at the end of 2014 Ukraine had to sign a one-year contract with a Russian energy company, RAO UES, to import electricity. The Kremlin agreed, given that supplies to Ukraine were conditional on Kyiv continuing deliveries of electricity to the already annexed Crimea. Once both contracts expired in December 2015, Ukraine resigned from the Russian energy supplies, and almost simultaneously stopped deliveries of electricity to Crimea (Sadowski and Strzelecki 2015). However, Kyiv remains sensitive to disruptions of coal supplies from non-government controlled territories and coal imports in general.

## 2. Nexuses across issue areas

This sub-section examines whether Russia and the EU have tied one policy area to another, i.e. engaged in issue-linkage, such as bargaining or blackmail tactics, in order to incentivize or disincentivize policy choices in Ukraine. Drawing upon interviews conducted in Ukraine and secondary literature, we analyse Kyiv's response to such issue-linkage strategies in selected areas. We argue that in line with its policy to ensure its strategic security interests in Ukraine (Bukkvoll 2016), Moscow increased the stakes in 2013 by offering large and immediate economic payoffs to the political elites (as well as posing threats), conditioned on blocking the signing of the Association Agreement (AA) with the EU.

The initial response of President Yanukovich was to succumb to Russian pressure, which included both short-term benefits and threats targeting the elites. In contrast, the alternative EU AA was linked to costly reforms in the short-term, while the related benefits of greater economic cooperation, trade and rule of law, were largely long-term in nature. However, the Ukrainian population protested against this decision under what was called the Revolution of Dignity, and effectively empowered the elites to block closer ties with Russia and pursue the AA with the EU instead.

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<sup>53</sup> This variety of coal is fired in seven out of fourteen Ukrainian thermal power plants. The coal-based power generation has the second largest share after nuclear-based power in the electricity production in Ukraine.

## 2.1. *The security-energy nexus*

Russia has linked security and energy issues to ensure its security interests in Crimea, as well as to block Ukraine's alliance with NATO and economic integration with the EU. The so-called 'gas hook' has for a long time been one of Russia's crucial leverages over Ukraine, emerging in bilateral tensions periodically when needed. Ukraine's dependence on gas imports from Russia was used not only to extend the lease of the Black Sea Fleet Base in Crimea from 2017 to 2042, but also to ensure Ukraine's non-alliance with NATO, and eventually the reversal of integration with the EU in 2013<sup>54</sup>. Ukrainian political and business elites benefited directly from the murky gas trade schemes or indirectly as owners of energy-intensive businesses (Balmaceda 2013), but were also able to win popular support by sustaining low energy prices for households.

Ukraine has been exploiting the linkage as well, by utilizing Russian vulnerabilities: first, Russia has had no feasible alternative to relocate the fleet elsewhere (annexation of Crimea was eventually chosen by Moscow as a costly option to reduce sensitivity vis-à-vis Kyiv), especially given the looming expiration of the fleet lease agreement, and, second, there has been no feasible and immediate alternative to fully replace the Ukrainian transit route in exporting gas to Europe.

The defeat of the Russian-backed candidate Yanukovich in the turbulent presidential election of 2004/05 and the rise of pro-Western forces in Kyiv made Russia enhance its linkage strategy in Ukraine. In autumn 2005, Gazprom demanded a three-fold and then a five-fold increase in gas prices for Ukraine (Radio Free Europe 2005), and in January it cut off supplies to Ukraine altogether.

The goal of the escalation was to present Ukraine in the EU as an unreliable transit partner, discredit the 'orange' authorities within the country and thus enhance the prospects of Yanukovich's Party of the Regions ahead of the parliamentary election scheduled for March 2006<sup>55</sup>. Russian claims to charge higher prices had an economic rationale behind them as well: there was a significant increase in global oil prices, which increased Russia's bargaining power. The gas dispute was settled in an opaque way by introducing the intermediary company RosUkrEnergo, benefiting the political establishments in both countries (Matuszak 2012).

At that time, the EU did not offer Ukraine any tangible framework that would have incentivized structural reforms in the gas sector. Ukraine acceded to the European Energy Community Treaty only in February 2011 (prior to that having obtained an observer status in 2006). However, already in 2012 the Ukrainian government representatives complained that the membership has not helped Ukraine to increase its energy security vis-à-vis Russian energy blackmail (Lyubashenko 2012).

Russian dominance in Ukraine's gas sphere increased with the signing of a ten-year gas contract in January 2009 as a result of another dispute over gas supplies and transit. It is most likely that Yulia Tymoshenko had to agree to unfavourable terms, such as re-export restrictions or 'take or pay' formula, in exchange for Russia's neutrality in the presidential election campaign in 2010 – however, she ended up losing to Viktor Yanukovich<sup>56</sup>.

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<sup>54</sup> Authors' interview with a Ukraine expert, Kyiv, June 2017.

<sup>55</sup> Ibid.

<sup>56</sup> Ibid.

Yanukovich's presidency marked a watershed in Ukraine's response to the linkage of energy and security issues. The newly elected president signed the Kharkiv Accords in April 2010, with awareness that low gas prices were crucial for the Ukrainian economy, which was hit hard by the 2008-09 global crisis, especially due to weak global demand and low prices for its steel and chemical products. By doing so, Kyiv extended the stationing of the Russian Black Sea Fleet in Crimea until 2042 in exchange for a discount on imported gas price (Pirani et al. 2010). Yet, the resulting gas prices have still been relatively high, above the market price. However, Moscow refused to renegotiate a more favourable gas contract for Kyiv, linking concessions to Ukraine's engagement in Eurasian economic integration.

The result of the Kharkiv Accords was that Ukraine lost its leverage over Russia in the energy area and this predetermined Kyiv's security dependence on Russia for the next four years. The agreement allowed more Russian intervention in shaping Ukrainian security policy by a clear rapprochement in the security area between the two countries.<sup>57</sup> In May 2010, additional documents were also signed, including a resumption of cooperation between secret services, more intense cooperation in the military industrial complex, and in the common defence of borders. Among other things, this resulted in a large-scale infiltration of the Ukrainian army and secret service personnel<sup>58</sup>. In 2013 Ukraine hosted a joint military exercise of the Russian and Ukrainian sea fleets in Crimea (Farwater Mira or Peace Fairway), just a few weeks before the exercise Sea Breeze, dominated by NATO countries in the region.

## 2.2. *The security-trade nexus*

Moscow has been insisting that Ukraine rejects the Deep and Comprehensive Free Trade Area (DCFTA) with the EU as part of the AA, with the threat of renouncing the free trade accords Ukraine currently enjoys with Russia and other CIS countries. Even though both free trade areas could coexist, Russia perceives the DCFTA as a threat to its regional trade initiative, the Eurasian Economic Union (EAEU) (Kościński and Vorobiov 2013). Despite the attempts of the EU to mediate between Ukraine and Russia during these negotiations, no compromise was reached, as Russian objections were politically driven.

As early as August 2013, Russia introduced restrictions on imports from Ukraine (mostly on food products), and in December 2013 it proposed a loan of 15 billion USD to dissuade President Yanukovich from signing the AA with the EU at the summit in Vilnius. The first tranche of three billion USD was received and later disputed by Ukraine in an international court.

In 2014, Kyiv fulfilled one of Euromaidan's key demands by signing the AA. It was also a step toward gaining political and economic support from the West after Russia's military aggression and the economic breakdown in Ukraine. Russia continued applying its linkage strategy to Ukraine to deepen the economic crisis by expanding trade restrictions and to destabilize the country politically in the security area with the conflict in the East. Combined with turbulence in gas deliveries to Ukraine since mid-2014, it contributed to a rapid decrease in the bilateral trade with Russia. At the end of 2016, Russia's share of Ukrainian exports dropped to 9.3 % and imports to 12.7 % in Ukraine's trade balance (State Statistics Service of Ukraine 2017). Shrinking trade volumes negatively affected the Ukrainian economy and the GDP growth slowed down: the two packages of trade restrictions

<sup>57</sup> Authors' interviews with economic experts, Kyiv, June 2017.

<sup>58</sup> Ibid.

imposed by Russia in January 2016 could account for 1.3 percentage points of GDP loss (Giucci et al. 2016), but it also decreased vulnerabilities in trade with Russia.

Due to the provisional implementation of the DCFTA with the EU and a number of autonomous trade preferences introduced in April 2014 by the EU, i.e. increasing tariff-free import quotas for a number of Ukrainian products (Giton 2017), Ukraine has somewhat increased exports to the EU from 3.7 % in 2016 to 24.5 % in the first quarter of 2017.

### **3. Section conclusion**

Since the 2014 eruption of the conflict in the east, Kyiv has been empowered – due to public support and assistance from the EU and other international partners – to use a wide set of policy options to decrease dependence on Russia. As a result, the Russian share in trade, energy, and migration decreased, though sensitivity to the Russian security threats and involvement in the conflict has increased.

Until recently, Ukraine has been bound to Russia by a high degree of sensitivity, especially in the area of trade and energy. A substantial increase in the import gas prices (starting from 2010) highlights Kyiv's high sensitivity to changes in energy prices and its high vulnerability in terms of options available to decrease its energy dependence. Similarly, Kyiv has been sensitive concerning Russia's access to its markets for its exports of food products and machinery.

Russia has used Ukraine's dependence in gas supplies and trade by linking these to promoting its security and political objectives, particularly with regard to the stationing of the Black Sea Fleet in Crimea, Ukraine's non-alliance with NATO, as well as Russia's economic integration initiatives in the region. For instance, Russia withheld existing free trade with Ukraine by imposing trade restrictions for Ukrainian exports after 2014, following Kyiv's advancement with the Association Agreement (AA). Though Moscow explained these steps by the threat of the AA to its economic interests, arguably, Ukraine's European integration progress was viewed as a civilizational and security threat, that is, the West (in a broad sense) and NATO, respectively, coming too close to Russia's border.

Overall, Ukraine and Russia reduced their vulnerabilities in the energy sector over the analysed period of 2000-16. Kyiv managed to diversify away from Russian gas imports, while Russia increased gas supplies, bypassing Ukraine's transit system.

The interdependence of Ukraine with the EU has increased as a result of attempts to move away from Russian energy supplies and markets. It remains to be seen what the overall results will be – whether Ukraine will further increase its interconnectedness with the EU in the four key areas. The mediating role of the EU in the Ukraine-Russia disputes has been critical both in the energy and trade areas. Furthermore, the financial and political support from the West, including the EU, is more than ever conditional on structural reforms being implemented by the new authorities in Ukraine. As a result, Ukraine became more sensitive to the EU policy. Over time, the EU member states have also become the main destination countries for Ukrainian labour migrants, which means in practice that the effect of the Russian policy of issue-linkage between migration (the threat of expelling Ukraine's citizens) and the other sectors (trade or energy alike) has decreased. Currently, Russia refrains from

applying such policy instruments out of concern that it might further antagonize Ukrainian society and discourage the Ukrainian labour force from coming to Russia.

Ukraine's civil society also played a decisive role in expanding the policy space to respond to sensitivities: first, through the Revolution of Dignity, and then, by establishing volunteer networks (such as the Reanimation Package of Reforms or organizations that supply medical and military supplies to the army fighting in the east), which supported or shadowed key government institutions between 2014-16.

The post-2014 policy response in the energy and other sectors has been accompanied by changing and/or limiting the impact of some oligarchs linked with former President Yanukovich. On a national scale, the relative importance of 'traditional' oligarchs linked to chemical and steel industries, as well as coal and energy was reduced due to the loss of control over the parts of Eastern Ukraine and the change of the government after the Revolution, with political and business figures representing agriculture and food becoming somewhat more important as reflected in the trade structure. At the same time, the change of elites was not a drastic one, as many of the major business groups retained their influence and the new government demonstrated the persistence of vested interests (Solonenko 2016).

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## **The EU and Eastern Partnership Countries An Inside-Out Analysis and Strategic Assessment**

Against the background of the war in Ukraine and the rising tensions with Russia, a reassessment of the European Neighborhood Policy has become both more urgent and more challenging. Adopting an inside-out perspective on the challenges of transformation the Eastern Partnership (EaP) countries and the European Union face, the research project EU-STRAT seeks to understand varieties of social orders in EaP countries and to explain the propensity of domestic actors to engage in change. EU-STRAT also investigates how bilateral, regional and global interdependencies shape domestic actors' preferences and scope of action. Featuring an eleven-partner consortium of academic, policy, and management excellence, EU-STRAT creates new and strengthens existing links within and between the academic and the policy world on matters relating to current and future relations with EaP countries.

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