

Svetlana Pakhomova

Economic coercion and foreign policy:
Evaluating the success of Russian
bargaining with Ukraine, Belarus
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Bibliografische Information der Deutschen Nationalbibliothek

Die Deutsche Nationalbibliothek verzeichnet diese Publikation in der Deutschen Nationalbibliografie; detaillierte bibliografische Daten sind im Internet über <http://dnb.dnb.de> abrufbar.

Dissertation, 2019 angenommen von der Philosophischen Fakultät der Universität Siegen

Impressum

Umschlaglayout: *universi* – Markus Bauer M.A.

Druck und Bindung: UniPrint, Siegen

Siegen 2020: *universi* – Universitätsverlag Siegen

www.uni-siegen.de/universi

Gedruckt auf alterungsbeständigem holz- und säurefreiem Papier

ISBN 978-3-96182-064-1

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(Hinweis: aus datenschutzrechtlichen Gründen fehlt in der Onlineversion Appendix 2 – Interviews)

List of Abbreviations

AEI	Alliance for European Integration
Bcm	Billion cubic meters
CIS	Commonwealth of Independent States
CSTO	Collective Security Treaty Organization
CU	Customs Union
DCFTA	Deep and Comprehensive Free Trade Area
EEC	European Economic Community
ENP	European Neighbourhood Policy
EurAsEC	Eurasian Economic Community
fsQCA	Fuzzy-set Qualitative Comparative Analysis
GTS	Gas Transportation System
IMF	International Monetary Fund
Mcm	Million cubic meters
NIS	Newly Independent States
PCA	Partnership and Cooperation Agreement
PCRM	Party of Communists of the Republic of Moldova
PPCD	Christian Democratic People's Party (Partidul Popular Creștin Democrat)
QCA	Qualitative Comparative Analysis
SES	Single Economic Space
Tcm	Thousand cubic meters
UGS	Underground Storage Facilities

Introduction

Foreign policy analysis can hardly dispense with entailing the issue of punitive measures, since instruments of economic statecraft have become a prominent component of international interaction. The debate on the effectiveness of economic coercion is as long-standing as the reliance on sanctions as a recognised foreign policy tool. Recurring doubt about their overall utility, expressed already in early studies¹, has neither lessened the scholarly interest in evaluating the sanctions outcomes, nor inclined the policymakers to cease exploiting economic leverage at their disposal. Attempting to solve this paradox, recent literature has concentrated on investigating the factors that contribute to the efficacy of coercion attempts. Having examined a bulk of possible determinants of success², comprising regime characteristics, issue specifics or multilateral involvement, to name a few, the latest research did not produce a general consent on the issue. Although the verdict is no longer overwhelmingly critical of this policy instrument, the lack of agreement on the efficiency of imposing economic costs still persists due to largely mixed and partly inconsistent implications. Less interested in engaging in the existing controversy, the current study is more preoccupied with the particular case of the Russian Federation and its relationship with the neighbouring states. Building on the contemporary findings, the following research is not driven by potential generalizability of the obtained results, but rather chooses the comparable uniformity of the post-Soviet space, focuses on Russian foreign policy objectives in the region and tests its ability to reach them by economic means.

Russian foreign policy represents a popular scholarly puzzle, encouraging many to trace its remarkable development throughout the last decades and attempt to understand the dimensions of underlying decisionmaking. Frequently portrayed as erratic and unpredictable,

¹ See e.g. K. Knorr (1975) *The Power of Nations: The Political Economy of International Relations*. Basic Books, New York; J. Barber (1979): Economic Sanctions as a Policy Instrument. *International Affairs*, 55(3): 367-384; G. Hufbauer et al. (1990): *Economic Sanctions Reconsidered*. Institute for International Economics, Washington, DC; R. Pape (1997): Why Economic Sanctions Do Not Work. *International Security*, 22(2): 90-136

² See e.g. R. Brooks (2002): Sanctions and Regime Type: What Works, and When? *Security Studies*, 11(4): 1-50; S. Allen (2005): The Determinants of Economic Sanctions Success and Failure. *International Interactions*, 31(2): 117-138; D. Lektzian and M. Souva (2007): An Institutional Theory of Sanctions Onset and Success. *The Journal of Conflict Resolution*, 51(6): 848-871; L. Dean and E. Niou (2004): A Theory of Economic Sanctions and Issue Linkage: The Roles of Preferences, Information and Threats. *Journal of Politics*, 66(1): 25-42; A. Ang and D. Peksen (2007): When Do Economic Sanctions Work? Asymmetric Perceptions, Issue Salience, and Outcomes. *Political Research Quarterly*, 60(1): 135-145; N. Bapat and C. Morgan (2009): Multilateral Versus Unilateral Sanctions Reconsidered: A Test Using New Data. *International Studies Quarterly*, 53(4): 1075-1094; E. McLean and T. Whang (2010): Friends or Foes? Major Trading Partners and the Success of Economic Sanctions. *International Studies Quarterly*, 54(2): 427-447

but at the same time attributed with growing assertiveness, Russia's international behaviour underscores an array of competing ideas and explanations for its external actions. Two most prominent discourses highlight geopolitical and ideological underpinnings. The former approaches Moscow's foreign policy from the viewpoint of its national interests, upholding the enduring perception of Russia as a revisionist actor with resurgent great-power ambitions.³ Attested especially at the regional level, Russia's geopolitical thinking is, thus, seen as the foundation of its interactions with the fellow ex-Soviet states, the area of strategic privileged interests. The latter perspective points out the need to appreciate civilizational aspects of Russian decisionmaking and opts for an identity-driven assessment of its foreign policy choices that signify the ambition of spatial control and hegemonic influence in the region.⁴ Within this context, the identity of uniqueness underpins Russian opposing standing towards both European and Asian vectors, thus supplementing Moscow's geopolitical concerns in the neighbourhood as driving force behind its international behaviour.

No matter which paradigm is emphasised, there is broad consensus that by early 2000s the formulation of Russia's strategic interests as well as the corresponding national identity has largely been completed and mostly maintained its shape till the current day. The consequent reassertion of foreign policy ambitions brought continuity to the corresponding goals and methods of their pursuit. In this respect the ascribed Russian overriding determination to impose own terms over the former Soviet territory goes hand in hand with forceful diplomacy and coercive connotations.⁵ Whereas there is an established general connection between Russian foreign policy agenda and the tools of economic statecraft, especially in relation to the Commonwealth of Independent States (CIS) countries, scholarly attempts to empirically analyse the effectiveness of Russian strategy have been rather rare.

³ See e.g. R. Donaldson et al. (2019): *The Foreign Policy of Russia*. Routledge, New York; J. Mankoff (2011): *Russian Foreign Policy: The Return of Great Power Politics*. Rowman & Littlefield, Lanham; J. Hedenskog et al. (2013): *Russia as a Great Power: Dimensions of Security under Putin*. Routledge, London; E. Wilson Rowe and S. Torjesen (2008): *The Multilateral Dimension in Russian Foreign Policy*. Routledge, London;

⁴ See e.g. A. Sergunin (2016): *Explaining Russian Foreign Policy Behavior: Theory and Practice*. ibidem, Stuttgart; A. Tsygankov (2019): *Russia's Foreign Policy: Change and Continuity in National Identity*. Rowman & Littlefield, Lanham; I. Neumann (2016): *Russia and the Idea of Europe: A Study in Identity and International Relations*. Routledge, London

⁵ See e.g. M. Freire and R. Kanet (2012): *Russia and its Near Neighbours*. Palgrave Macmillan, New York; R. Maness and B. Valeriano (2015): *Russia's Coercive Diplomacy*. Palgrave Macmillan, New York; B. Lo (2003): *Vladimir Putin and the Evolution of Russian Foreign Policy*. Blackwell, Oxford; B. Nygren (2008): *The Rebuilding of Greater Russia: Putin's Foreign Policy Towards the CIS Countries*. Routledge, London

Under these circumstances the particular issue of Russian energy pressure has been the focus of a number of regional studies. The case of Ukraine has drawn most of the attention⁶, especially in the aftermath of the major gas crises with Russia in 2006 and 2009 that delivered a thrilling contemporary material for investigating economic coercion. Placed amidst a broader geopolitical game, Russo-Ukrainian energy disputes were frequently approached in terms of their repercussions for the European gas consumers. Although providing important insights into the negotiation context and future transformation of Russia's energy diplomacy, they did not dwell on the outcomes and efficiency of Moscow's gas policy. A similar picture emerges in relation to the literature on the interplay of the Russian energy tool and attendant foreign policy interests towards Belarus.⁷ A detailed assessment of the relationship background and the allocation of powers among the two states has left the challenging question of the factors influencing bargaining outcome open. Despite existing implications of Russia having a powerful policy instrument in form of energy resources at its disposal, the overall viability of its economic coercion potential still remains insufficiently explored.

Few researches actually dealing with the query whether Russian energy leverage can be transformed into tangible political capital have produced rather controversial results. Some evidence suggests that Russian sanctions may alter domestic political landscape in the targeted state and reveals a link between energy coercion and voting behaviour with subsequent election results in Ukraine.⁸ Other work on the issue, supplementing the case of Ukraine with those of Georgia and the Baltic states, concludes that Russia for the most part fails to achieve political concessions.⁹ When expanded further by additionally including Russia's energy interactions with Armenia, Belarus, Moldova, and considering both coercive

⁶ See e.g. P. D'Anieri (1999): *Economic Interdependence in Ukrainian-Russian Relations*. State University of New York Press, Albany; E. Kropatcheva (2011): *Playing Both Ends Against the Middle: Russia's Geopolitical Energy Games with the EU and Ukraine*. *Geopolitics*, 16: 553-573; A. Stulberg (2015): *Out of Gas? Russia, Ukraine, Europe, and the Changing Geopolitics of Natural Gas*. *Problems of Post-Communism*, 62(2): 112-130

⁷ See e.g. M. Balmaceda (2006): *Belarus: Oil, Gas, Transit Pipelines and Russian Foreign Energy Policy*. GMB Publishing, London; K. Yafimava (2007): *Post-Soviet Russian-Belarusian Relationships: The Role of Gas Transit Pipelines*. *Ibidem*, Stuttgart

⁸ R. Newnham (2013): *Pipeline Politics: Russian Energy Sanctions and the 2010 Ukrainian Elections*. *Journal of Eurasian Studies*, 4(2): 115-122

⁹ K. Stegen (2011): *Deconstructing the "Energy Weapon": Russia's Threat to Europe as Case Study*. *Energy Policy*, 39(10): 6505-6513

and rewarding measures, the assessment of Russia's strategy bears mixed fruits¹⁰, contributing to the predominant ambiguity of the findings.

Whether in the context of a country-specific analysis, or within a broader framework of a multi-state research, the dispute on Russia's ability to achieve its foreign policy goals in the post-Soviet space failed to establish a pattern of conditions, associated with successful economic diplomacy. Moreover, notwithstanding some qualitative studies, quantitative techniques in approaching this research question have unduly escaped academic attention. A remarkable exception represents a book by Daniel Drezner¹¹ where he tests his conflict expectation model with the use of descriptive statistics on the basis of Russian coercion attempts against fourteen Newly Independent States (NIS) within the timeframe from 1992 to 1997. Concentrating on the nature of the relationship between Moscow and the target countries, he receives support for the expected correlation between conflict expectations and concessions to Russia. Therefore, states that did not anticipate repeated confrontation with the big neighbour were more willing to concede, implying that Russia should have an easier way coercing allies. In a pioneering move, Drezner made a first step towards addressing economic coercion within the post-Soviet territory, applying variable-oriented approach and bringing outcomes of Russian policy to the fore of scientific attention. Almost two decades later these issues are neither more clarified, nor less pressing.

Given the accumulation of recent incidents of economic diplomacy in the Eurasian region, and in view of the insistent need to refine the pool of possible determinants for effective advancement of Russia's foreign policy objectives, the following study will develop own predictions and verify them on the cases of Russian bargaining with Ukraine, Belarus and Moldova. The choice of the three target states is justified by the fact that they represent an exciting mixture of resemblance and variation. Stemming from the Soviet-laid interdependencies they, first, share a web of close economic ties that make them vulnerable to Moscow's economic pressure; a stance, aggravated by comparably poor economic condition and significant levels of trade and supply dependencies on Russia. Second, all three own a special place in Russian geopolitical ambition through being part of its area of strategic interests. At the same time, their domestic resonance with Russian foreign policy projects in

¹⁰ R. Newnham (2011): Oil, Carrots, and Sticks: Russia's Energy Resources as a Foreign Policy Tool. *Journal of Eurasian Studies*, 2(2): 134-143

¹¹ D. Drezner (1999): *The Sanctions Paradox*. Cambridge University Press, Cambridge

the region, rooted in the internal fluctuation of political elites and the general public on the preferred geopolitical vector, differs quite dramatically from high levels of synergy with Belarus, through indecisiveness of Ukraine (until the crisis of 2014) up to phases of diplomatic standstill with Moldova. Within the next pages I set out to place these characteristics in the context of interstate negotiations and deliver both theoretical and empirical assessment of the Russian strategy.

The scope of the mismatch between foreign policy aspirations and strategic capacities to achieve them is one of the enduring questions with regard to Russian relationship with Kiev, Minsk and Chisinau. Perhaps the most confusing conclusion of the overview of the current state of research is that evidence of growing assertiveness of Moscow's approach was not accompanied with acknowledgement of its increasing dominance in the neighbourhood. I seek to advance this discussion by reducing the gap between predominantly autonomous discourses of the Russian foreign policy and international economic coercion, and expand them by introducing bargaining paradigm to the analysis.

In so doing, I intend to address two existing methodological limitations. First of all, sanction episodes are commonly considered either at the threat or at the implementation phase, however separately from the remaining chronology of bilateral interactions, reflecting a certain selection bias. This study examines the whole body of bargaining cases, including those where Russia abstained from utilizing punitive measures against its partners. It not only allows for a more nuanced evaluation of Moscow's bargaining approach, but also to contrast the effectiveness of its coercive forms against the softer ones. Furthermore, in terms of method, I aim to overcome the sustained rivalry between qualitative versus quantitative schools by taking advantage of both. Whereas work on economic sanctions habitually resorts to statistic tools, foreign policy analysis is normally conducted within a case study framework. Given that the present research questions lie at the intersection of the two paradigms, there seems to be a need to scale down the prevalence of the qualitative approach towards Russian foreign policy strategy and supplement it with techniques based on mathematical logic of comparative data analysis.

Driven by the primary question of how successful Russian bargaining is, this paper will review the chronology of Moscow's bilateral relationship with Ukraine, Belarus and Moldova, scrutinize bargaining episodes that took place within 2000 and 2013, and provide extensive insights into the background of the parties' interaction. Contributing to the debate

on the utility of coercion instruments, Russian economic diplomacy will be examined from the bargaining viewpoint on its ability to yield the desired results, especially in respect of foreign policy gains. Encouraged by the existing scientific gap, this research aims to detect causal pathways leading to favourable outcomes and reveal factors, which help translate bargaining advantage into political capital. Ultimately, in order to connect academic input with governmental reality, policy ramifications for Russia will be discussed, placing an emphasis on existing shortcomings and adjustment suggestions.

Theoretical Framework

In support of the research questions discussed above some political and economic approaches will be used to get better insights into the potential success of Russian sanctions and provide the necessary explanations. The synthesis of the theory of interdependence, the bargaining theory and the soft balancing argument seems to meet the research goal best. As there are various concepts and interpretations within these theories, I will briefly outline the existing discussion, explain the relevance of the chosen interpretations to the current research and concentrate on their implications to the following study.

Theory of Interdependence

The idea that states form a system where their powers are balanced and mutually responsive is not new in politics. Since the integration processes started to gain momentum scholarly interest has been focused on the implications of the emerged system of interdependence, and the possible threats or containments within it. Interdependence is also partly seen as a “way station on the route to integration”.¹² Whereas the timing and success of arriving at the final destination are still disputable, it is clear that “integration makes all participants vulnerable to interference with any part of the system”.¹³ The theory of interdependence helps to analyse the degree and ramifications of this vulnerability to the political actors.

Before turning directly to the implications of this situation for an interdependent state it seems important to define the notion of interdependence. Its seeming simplicity is rather deceptive. Although it is broadly understood as mutual dependence, not only the actual underlying meaning varies among scholars, but also numerous types of interdependence are recognised. As well noted by Rosencrance et al. “on this definition, knowing that there is high interdependence tells one very little about the actual state of relations between nations”.¹⁴

There are two broadly discussed dimensions of interdependence: ‘sensitivity interdependence’, generally understood as mutual responsiveness and ‘vulnerability

¹² R. Rosencrance and W. Gutowitz (1981): Measuring Interdependence: A Rejoinder. *International Organization*, 35(3): 553

¹³ M. Tetreault (1981): Measuring Interdependence: A Response. *International Organization*, 35(3): 557

¹⁴ R. Rosencrance et al. (1977): Whither Interdependence? *International Organization*, 31(3): 426

interdependence'. In economic terms, the former can be portrayed as susceptibility to the shift of resources or financial flows to another actor, or alteration of factor prices. Generally speaking, this type of interdependence deals with changes within the game, not affecting its basic rules. Whereas this case is more interesting for economists to analyse, it is "politically less important".¹⁵ Vulnerability interdependence refers to the opportunity costs of either disrupting the relationship as such or changing its basic rules.¹⁶ Here the degrees of vulnerability heavily depend on bargaining power of the actors involved.¹⁷ Importantly, "the word interdependence subtly obscures the inequalities of national capability, pleasingly points to a reciprocal dependence, and strongly suggests that all states are playing the same game".¹⁸ The key words in understanding vulnerability interdependence are 'options' or 'alternatives'. In case of their presence the actor is likely to come out of the situation without serious damages, whereas in the absence of any alternative to the interrupted relationship the actor is vulnerable to a much greater extent and is likely to suffer losses.

According to Keohane and Nye, the notion of vulnerability is crucial to specifying the political component of an interdependent relationship, since it provides better insights into the power resources of the actors. On this basis it is possible to hypothesise which particular strategy the players will pursue. It is the strategic dimension of vulnerability interdependence - something sensitivity dimension lacks - that explains its feasibility to the power politics' analysis. More importantly to the current research, it is vulnerability that underlies the politics of raw materials.¹⁹

Generally, various approaches to the interdependence theory can be accounted for different levels, focuses and directions of analysis.²⁰ I will first turn to the studies on economic interdependence that have a strong impact on political decisions and influence "both the

¹⁵ K. Waltz (1970): The Myth of National Interdependence: 210. In C. Kindleberger: The International Corporation: A Symposium. MIT Press, Cambridge

¹⁶ For more on these types of interdependence see D. Baldwin (1980): Interdependence and Power: A Conceptual Analysis. *International Organization*, 34(4); E. Haas (1975): Is there a Hole in the Whole? Knowledge, Technology, Interdependence, and the Construction of International Regimes. *International Organization*, 29(3)

¹⁷ K. Holsti (1978): A New International Politics? Diplomacy in Complex Interdependence. *International Organization*, 32(2): 518

¹⁸ K. Waltz (1970): 220

¹⁹ R. Keohane and J. Nye (2001): Power and Interdependence. Longman, New York: 13-14

²⁰ H. Alker (1977): A Methodology for Design Research on Interdependence Alternatives. *International Organization*, 31(1): 30

capacity strategists have at home to play power politics abroad and the credibility of international balancing commitments”.²¹

Economic interdependence affects political decisions in the way that it places economic security, along with the security of the state itself, on top of policy priorities. And since the international economic environment is ruled by the exercise of power rather than persuasion, it may lead to a situation where further economic interdependence may be traded for certain compensations, not necessarily of an economic character.²² High interdependence complicates the process of adjustment to policy disturbances²³, therefore certain political concessions might be needed in order to balance the situation. Speaking about natural resources in an interdependent relationship, their shortage may cause ambitions to barter them “against political influence”.²⁴

Political trade-offs are often regarded as the costs of interdependence.²⁵ There are several reasons for that. First of all, although in an interdependent relationship both actors may theoretically impose trade-offs on each other, it does not always work that way. Mutual dependence does not necessarily imply equality. In case of an asymmetric interdependence one actor finds himself in possession of more bargaining power than the other.²⁶ And although both parties are likely to sustain losses, one of the interdependent actors may still come out of the situation much better off than the other. In that sense, interdependence is not enough to prevent power struggle.

Moreover, interdependence should be analysed with regard to “specific issue areas and not with respect to the whole spectrum of activities”.²⁷ Depending on the issue area it is possible to hypothesise whether the relationship may potentially lead to the claim of concessions from the one party by the other. Generally, it can be said that the possibility of trade-offs is higher if interdependent relationship deals with strategic issue areas, at least for one of the actors.

²¹ P. Papayoanou (1997): Economic Interdependence and the Balance of Power. *International Studies Quarterly*, 41(1): 136

²² E. Dell (1987): The Politics of Economic Interdependence. Macmillan Press, London: 17, 84

²³ R. Cooper (1968): The Economics of Interdependence: Economic Policy in the Atlantic Community. McGraw-Hill, New York: 157

²⁴ E. Dell (1987): 48

²⁵ E. Morse (1972): Crisis Diplomacy, Interdependence, and the Politics of International Economic Relations. *World Politics*, 24: 139

²⁶ M. Gasiorowski (1985): The Structure of Third World Economic Interdependence. *International Organization*, 39(2): 337

²⁷ E. Morse (1972): 133

Issue-specific interdependent relationship is a part of a web of other relationships connecting two actors. Logically, being vulnerable on one issue does not exclude a more powerful position on the other. The mere possibility to demand political concessions from the other party will not necessarily lead to such bids. Not only may profits in the short-term perspective be outweighed by the losses in the long-term scenario. The initial desire to transform the status quo in one relationship may cause shifts in others, where the asymmetry does not exist or is in favour of another player. Ultimately, the actor may be better off not exploiting vulnerabilities of the counterpart. Since “economic interdependence is not simply a two-way relationship once any member of an interdependent pair goes beyond simple barter arrangements with a single partner”²⁸, it is part of a broader context encompassing political dimensions of both domestic and international level. Haas enlarges this point by claiming that issue-linkage is preferred by the party that is targeted on redefinition of the relationship and acquiring additional bargaining leverage, which would be impossible if the negotiation were limited solely to one issue. Actors that enjoy a more powerful position in the relationship and prefer to retain power differentials will oppose attempts to introduce additional issues to the agenda.²⁹ Issue-linkage is, therefore, a useful tool to add a political component to an economic discussion and herewith promote the desired outcome.

Importantly, the analysis should not be confined to just two interdependent states or actors. Every interdependent relationship takes place within a broader system, containing other similar ties. Since “each country is interdependent with a system of participants in economic agreements and informal relationships” resorting to multi-causal analysis rather than to the bilateral approach presents far more challenges.³⁰

As this research deals mostly with political implications of interdependence, I will adopt the approach devised by Keohane and Nye that seems to answer the assigned objectives best. They make an important distinction between interdependence and interconnectedness, where a relationship that does not imply mutual costs is a mere interconnectedness, and is thus irrelevant to the current study. These reciprocal costs may be of different nature, of a rather asymmetrical character and be imposed either directly or indirectly. It is crucial that

²⁸ M. Tetreault (1980): Measuring Interdependence. *International Organization*, 34(3): 442

²⁹ E. Haas (1980): Why Collaborate? Issue-linkage and International Regimes. *World Politics*, 32(3): 371-372

³⁰ Ibid: 442-443

the relationship between actors inevitably involves certain constraints that will not always outweigh the benefits, but should be taken into account.³¹

It is obviously misleading to portray the outcomes of interdependence as a zero-sum. Therefore, one should keep track of not only the losses, but also the distribution of gains, at the same time. Interdependence is a power relationship and a lot depends on what is understood to be power. It may be seen simply as the possession of resources and the ability to impose costs on another actor, which reflects only part of the whole picture. There is also another side to power, which will be highlighted in this research. Power may as well presuppose the ability to affect or control the outcomes. In this sense, one may be less powerful in the first meaning of the notion, but still benefit from the favourable outcomes.³²

Following the argumentation, Keohane and Nye make a distinction between absolute and relative gains or losses that result from an interdependent relationship.³³ The problematic of absolute and relative gains in international relations is part of a longstanding debate between neorealism and neoliberalism. The former assumes that states give preference to relative gains, being largely concerned not so much with the question 'Will both of us gain?', as with 'Who will gain more?'.³⁴ In contrast, neoliberalism suggests that states will go for absolute gains, intent on their own success and that of others.

It is beyond the scope of this research to go into details of this theoretical dispute, nevertheless it seems important to clarify the adopted approach. According to the further research on the issue, one should concentrate not so much on various assumptions about state's preferences as on the constraints they are facing. It is not the perspective, from which the issue is analysed but rather the web of constraints and opportunities that condition a state's focus on either relative or absolute gains.³⁵

By and large, preferences of the state may depend on the strategic situation it finds itself in. Consequently, concern for gains is a consequence and not a cause. Thus, it seems reasonable

³¹ R. Keohane and J. Nye (2001): 7-8

³²For more on the argumentation see: Keohane and Nye (2001): 8-10

³³ Ibid: 8-9

³⁴ R. Powell (1994): Anarchy in International Relations Theory: The Neorealist-Neoliberal debate. *International Organization*, 48(2): 335; For more on Neorealism/Neoliberalism see C. Brown (1997): Understanding International Relations. Macmillan, Basingstoke: 45-51

³⁵ R. Powell (1991): Absolute and Relative Gains in International Relations Theory. *American Political Science Review*, 85(4): 1303-1304, 1316-1317; R. Keohane (1998): International Institutions: Can Interdependence Work? *Foreign Policy*, 110: 88

to bypass the controversy between the two schools of thought and determine which viewpoint enables to find better-elaborated answers to the research questions. There is no answer to the question which assumption on state's preferences is better. Since “models are tools” for an analysis, “the answer depends on ... the task at hand”.³⁶

If the choice of the model is situational, the choice of absolute gains suits the analysis of Russia's relations with the target states better, along with the neoliberal approach in general. Jervis points out that the differences between the two schools of thought are partly due to the issues they focus on. Whereas neorealism concentrates on international security issues and “the causes, conduct, and consequences of war”, neoliberals study mostly “issues of international political economy and environment”.³⁷ It is, therefore, more practical to look at the research questions from the neoliberal perspective, which does not overrely on or assume the forceful development of an interdependent relationship between the states.

Developing the neoliberal approach further, Keohane and Nye created a set of assumptions about world politics – complex interdependence – on which the analysis of interdependent states is based. Although these assumptions are rather idealistic and schematic, they seem to be a good starting point and a relevant perspective to approach the analysis of an interdependent relationship. One of its main characteristics deals with multiple channels connecting interdependent actors. Not only are formal ways of interstate interaction supplemented by informal connections and interstate institutions, there are a number of issues, including domestic constraints³⁸ that interfere with foreign policy. Since there is no longer one issue dominating foreign policy agenda (as was the case with military security in the past), actions of the state are not subjected to one major goal. Goals depend on the issue area, which in its turn determines the distribution of power. Military power is downgraded to a subordinate position in a situation of complex interdependence and is not likely to be used either within the region or as means of solving an economic dispute. Military capacities of states still do play a significant role in world politics, but according to Keohane and Nye it is relevant rather in politico-military relations with rival blocks, where the conditions of complex interdependence are not met and other causal mechanisms prevail. The overall state power, conventionally measured in terms of population, size of the economy and military

³⁶ R. Powell (1994): 336

³⁷ R. Jervis (1999): Realism, Neoliberalism, and Cooperation. *International Security*, 24(1): 45

³⁸ P. Papayoanou (1997): 119

capability, is not decisive anymore as a state may be considered more powerful and still be in a weaker position on a particular issue that underlies the interdependent relationship.³⁹ When it comes to payoffs, it is not only the possession of resources or aggregate power that determines the outcome. It is highly possible that a weaker country can outplay a superpower.

Therefore, in order to trace the development of the negotiation process and the translation (or not) of the state power into the bargaining advantage, the interdependence theory should incorporate another theoretical construct that fills in the existing gaps and completes the argumentation. In Walt's words “no single approach can capture all the complexity of contemporary world politics”, urging for a combination of diverse scholarly ideas and overruling the usage of “a single theoretical orthodoxy”.⁴⁰

The interdependence theory is a useful tool to analyse a relationship and its symmetry between two countries and thus determine their opportunities to use this relationship to their benefit. Interdependence enables to spot vulnerabilities of each party in the relationship, but it is still insufficient to say plausibly whether they will be taken advantage of and whether there is enough bargaining leverage to make a player better off after the redistribution of power within the relationship. Wagner notes that asymmetrical interdependence sometimes involves “a confusion between unexploited market power, and unexploited opportunities to trade economic resources for political concessions”.⁴¹ By contrast, the bargaining theory offers more explanatory possibilities for the cases “when one government can use the threat of interrupting trade to extract political concessions from another”.⁴² The interdependence theory will therefore be applied to specify the relationship the actors find themselves in prior to the bargaining situation. The reasoning about the development of the relationship and the likelihood of getting the bigger share of the pie by each actor will be “found in the bargaining process that translates power resources into power over outcomes”.⁴³

³⁹ The term of complex interdependence and the concomitant argumentation is derived from R. Keohane and J. Nye (2001): 20-31

⁴⁰ S. Walt (1998): 30

⁴¹ R. Wagner (1988): Economic Interdependence, Bargaining Power, and Political Influence. *International Organization*, 42(3): 473

⁴² Ibid: 465

⁴³ R. Keohane and J. Nye (2001): 17

Bargaining theory

Applicability of the bargaining theory is universal ranging from real-life situations to multinational negotiations. Scientific approaches to analysing bargaining enjoy the same amplitude, not least because of its ubiquity. Not getting involved in the scholarly discussion of bargaining models, I will concentrate on the fundamental maxims of the theory – “the detailed process of bargaining will differ so widely from one case to another that any useful theory of bargaining must involve some attempt to distil out some simple principles which will hold over a wide range of possible processes”.⁴⁴ The objective of this chapter is, therefore, limited to defining properties that translate into bargaining power, since in case of states substantial power resources are not always sufficient to guarantee a favourable bargaining outcome.

Bargaining is a process that enables the parties to reach an agreement through making mutual offers. Players, both being interested in cooperating are involved in a bargaining situation through which their conflicting interests over the terms of cooperation may be brought to some common denominator. The basic function of the bargaining theory is, therefore, to determine efficiency and distribution of the bargaining outcomes.⁴⁵ Players facing a bargaining situation encounter a dilemma, when each of them would prefer an agreement to be reached on the one hand, but wants to achieve a possibly profitable outcome on the other. It is then bargaining powers each player has at his disposal that determine the payoffs of the agreement, in case that it is arrived at.

One of the main determinants of bargaining power⁴⁶ stems from the time pressure each player is experiencing, offering more bargaining leverage to the one that does not need the agreement to be reached urgently. Significant effect has players' behaviour prior to bargaining and the commitment to the desired outcome that he signals. Anticipatory liabilities may tie hands of the negotiators and complicate the bargaining process. Risk aversion is another factor that affects bargaining power negatively. Inside and outside options that each player has at his disposal have a significant impact on the balance of bargaining powers and the

⁴⁴ J. Sutton (1986): Non-Cooperative Bargaining Theory: An Introduction. *Review of Economic Studies*, LIII: 709

⁴⁵ A. Muthoo (1999): *Bargaining Theory with Applications*. Cambridge University Press, Cambridge: 1-3

⁴⁶ The subsequent determinants of bargaining power are derived from A. Muthoo (2000): A Non-Technical Introduction to Bargaining Theory. *World Economics*, 1(2): 148-164

likelihood of the agreement to be reached. Availability of information falls, likewise, to the core determinants of bargaining leverage that will be discussed in more detail below.

Each player has an exact notion of the terms and the time frame of the desired bargaining outcome. It may be the case that bargaining pay-offs are in direct correlation with the duration of the bargaining process. If delay is costly for one, this means extra bargaining power for the other. The more patient, therefore, the player is, or to be more precise the more patience he may allow himself before the impediment losses occur, the more favourable his bargaining situation is. Consequently, one should make provisions for the high price of the delay for the other party and the reduction of the side-effects for himself in order to augment bargaining advantage.⁴⁷ Costs' reduction/imposition may be rather costly itself. The costs of doing so should then be outweighed by the profits to secure a more beneficial agreement.

It is often the case that players define their bargaining position publicly before or in the course of negotiation. By doing so, they commit themselves to a certain bargaining position that may be costly to change or repeal later. This tactic may be used to significantly decrease the room for concessions and put the other player into position where he will have to either agree to the proposed conditions or face the failure of the deal. It is also possible that both players use this strategy to enhance their bargaining leverage. In that case if the costs of renouncing the declared commitments are high for both of them, bargaining may become deadlocked and no agreement will be reached. If the costs of retreating are unequal among the players, the one with the lesser costs is in a weaker bargaining position and is more likely to make concessions.

Projected on the bargaining situations that take place in the area of international politics, making public commitments may be used to create public expectations that are costly to break, especially within democratic environments where a politician (a player) is accountable to his constituency or a party/company he is representing. Therefore if the public is likely or has the opportunity to punish a politician for retreating from his commitment, this tactic

⁴⁷ Ibid: 152

allows him to achieve bargaining benefits, otherwise no additional bargaining leverage is obtained.⁴⁸

Speaking more broadly about bargaining in an international environment it seems important to take a look at how relations and bargains between states have been incorporated into international relations theory. Traditionally, there has been made a division between international, domestic and interpersonal levels of analysis, each offering competing explanations of the driving mechanisms that lie behind state's decisions – its position on the international arena, its societal and political institutions and personal characteristics of the leaders.⁴⁹ There is still an alternative standpoint that incorporates all these levels into one body of argumentation on state's behaviour in a bargaining situation. In an international bargaining a player is confronted not only with challenges of interstate character, but with domestic constraints as well, which represent not only public response to the bargaining outcome (as discussed above). Domestic expectations come simultaneously from political and economic circles, whose effects “depend not only on group calculations of interest, but on their political influence”.⁵⁰ International and domestic agendas are closely intertwined, causing mutual adjustment – “international bargains are not simply about relations between nations. They are also about the distribution of costs and benefits among domestic groups and about domestic opinion divided on the best way of relating to the external environment. The possibility of international accords as well as their content is jointly determined by domestic and international factors”.⁵¹

In line with this argumentation Putnam suggests the two-level games approach, where a player needs to reconcile both international and domestic political ends. In his bargaining tactic the player needs to balance between what other international player will accept and what can be later ratified domestically. Ratification means here not necessarily a legal procedure to adopt a bargaining outcome, but refers rather to a decision process that

⁴⁸ B. Leventoglu and A. Tarar (2005): Prenegotiation Public Commitment in Domestic and International Bargaining. *American Political Science Review*, 99(3): 428

⁴⁹ A. Moravcsik (1993): Integrating International and Domestic Theories of International Bargaining: 5. In P. Evans (Ed.) *Double-Edged Diplomacy. International Bargaining and Domestic Politics*. University of California Press, Berkeley

⁵⁰ *Ibid*: 24

⁵¹ P. Evans (1993): Building an Integrative Approach to International and Domestic Politics: 397. In P. Evans (Ed.) *Double-Edged Diplomacy. International Bargaining and Domestic Politics*. University of California Press, Berkeley

forestalls its endorsement, “whether formally or informally”.⁵² It may be the case that decisions that are rational and beneficial at one level are unacceptable and damaging at the other. So the player faces pressure from domestic groups being expected to deliver favourable bargaining outcomes while trying to avoid its negative impact on the international level. By all the complexity of the situation it seems robust to play bargaining game at two levels simultaneously to get a better understanding of the outcomes, since neither of the two levels “can be ignored by central decision-makers, so long as their countries remain interdependent”.⁵³ One should not forget that actions on the international level might be domestically oriented and vice versa. In that sense, two-level game allows not to lose sight of domestic and international imperatives in that “the two-level approach recognizes the inevitability of domestic conflict about what the 'national interest' requires”.⁵⁴

High domestic expectations and public demand from both sides may stalemate bargaining, escaping from which “provides a rationale for secret negotiations”.⁵⁵ Transparency of negotiations is normally presupposed in a democratic environment, but does it necessarily contribute to the success of a bargaining process? Accountability may provide additional incentives to reach a favourable bargaining outcome and tie hands at the same time. Stasavage constructed a model similar to the two-level game discussed above with the difference that a player is constrained by the belief that he might be biased. Under transparency pressure a player may take up a more tough posture that will be costly to retreat from and lead to unsuccessful bargaining. Open-door bargaining is, therefore, preferred in cases when a player's commitment to the group he is representing is questionable, otherwise more optimal outcomes may be reached if the players have more bargaining space under a closed-door negotiation.⁵⁶

Risk of breakdown is another bargaining liability that may occur due to withdrawal of the one party or intervention of a third one that nullifies the cooperation benefits.⁵⁷ Since the players cannot always affect the probability of the negotiation breakdown, it is their readiness to take the risk and prolong the bargaining process for the purpose of getting a more

⁵² R. Putnam (1988): Diplomacy and Domestic Politics. The Logic of Two-Level Games. *International Organization*, 42(3): 436

⁵³ Ibid: 434

⁵⁴ Ibid: 460

⁵⁵ B. Leventoglu and A. Tarar (2005): 419

⁵⁶ D. Stasavage (2004): Open-Door or Closed-Door? Transparency in Domestic and International Bargaining. *International Organization*, 58(4): 668-670, 695

⁵⁷ A. Muthoo (1999): 73

beneficial agreement that determines the bargaining power. As a result, the more risk averse player is in a weaker bargaining position and is likely to accept a suboptimal outcome but close the deal sooner rather than later.⁵⁸ If the players' behaviour is equally risk-taking other factors need to be analysed to define their bargaining capabilities.

Outside influence may not only terminate the bargaining process but also provide for extra bargaining leverage for one of the players. If a player has an outside option that he considers to be rather beneficial, he may use it as a source of power. This tactic, however, is effective only provided that the option is reliable and lucrative. Otherwise the alignment of bargaining powers will not be affected. Simply having an outside option is not enough to be able to bargain a favourable outcome. In case when the players have no outside option or it is either unreliable or not profitable enough, the inside options enter the scene. Inside option is a pay-off of the player while bargaining before the agreement is reached.⁵⁹ The more advantageous the inside option is, the more bargaining power the player possesses. This holds, however, if both players have no profitable outside options to play up. Consequently, inside options do not affect bargaining powers if at least one party's outside option is attractive.⁶⁰

Bargaining behaviour may also be affected by the completeness of information about the potential value of an agreement that each player possesses providing for bluffing and deception. Although bargaining under perfect information contributes to its success it is more often the case that one party has an informational advantage, which leads to delays in reaching an agreement. Ill-informed players use delays to try to get necessary data and evaluate the potential pay-off to continue bargaining. Importantly, some “costly or wasteful activity” is often the only way to “credibly communicate important information”, which is the case for military conflicts and wars where forceful actions are means of information transfers.⁶¹

Information asymmetry leads to another definition of bargaining as “the manipulation of information of others in the interests of improving the outcome for one's self”⁶². Not being sure of the possible bargaining benefits, the worse informed player may simply withdraw

⁵⁸ A. Roth (1989): Risk Aversion and the Relationship Between Nash's Solution and Subgame Perfect Equilibrium of Sequential Bargaining. *Journal of Risk and Uncertainty*, 2(4): 353-354

⁵⁹ A. Muthoo (2000): 157

⁶⁰ Ibid: 158-160

⁶¹ Ibid: 164

⁶² O. Young (1975): Bargaining. Formal Theories of Negotiation. University of Illinois Press, Urbana: 304

from bargaining, giving up to informational constraints. If both parties prefer the agreement to be reached, the optimal scenario for both would be for a worse informed player to make a “first-and final offer”.⁶³ In this connection Fearon offers a notion of the ‘shadow of the future’ that may potentially “deter cheating”.⁶⁴ In his words if the shadow is long enough the parties will be generally more cooperative and long-term oriented, due to the pay-offs of a protracted cooperation and the benefits of other future interactions. However, long shadow of the future may have a reverse effect on bargaining, making the players adopt a tougher position in the hope of a more profitable outcome. In any case certain institutional or other binding constraints are believed to facilitate bargaining under asymmetric information.⁶⁵

All determinants of bargaining power and bargaining models discussed above may be transformed into mathematical ratios⁶⁶ that allow portraying bargaining outcomes in mathematical terms. Since their detailed presentation would far exceed the scope of this paper, I will confine myself to the explanatory power of the bargaining theory. The aim of this chapter is not to derive a certain figure, which reflects an achieved agreement, but rather to get a better understanding of bargaining behaviour. Moreover, when analysing bilateral disputes in the succeeding sections, it enables to distinguish bargaining powers of each party and get a better perception of their bargaining tactics.

One should also consider that not only the player's bargaining tactics vary, but bargaining itself may be of a various character. It seems relevant, having especially sanctions in mind, to examine coercive bargaining. Schoppa suggests that social context is an often neglected but influential coercive bargaining framework. In his words there are less prerequisites for a backlash if bargaining takes place “within a social context where the parties accept that they are operating within an hierarchy and when the specific tactics employed fall within the range that are accepted as legitimate in the terms of this relationship; when the coercion takes place within an institutionalized process that establishes mutually accepted rules of the game; and when the parties trust each other”.⁶⁷ Trust is an important component that may significantly

⁶³ W. Samuelson (1984): Bargaining Under Asymmetric Information. *Econometrica*, 52(4): 1004-1005

⁶⁴ J. Fearon (1998): Bargaining, Enforcement, and International Cooperation. *International Organization*, 52(2): 270

⁶⁵ W. Samuelson (1984): 996; J. Fearon (1998): 298

⁶⁶ See A. Roth (1979): *Axiomatic Models of Bargaining*. Springer, Berlin; S. Napel (2002): *Bilateral Bargaining. Theory and Applications*. Springer, Berlin; M. Osborne and A. Rubinstein (1990): *Bargaining and Markets*.

Academic Press, San Diego; I. Stahl (1972): *Bargaining Theory*. The Economic Research Institute, Stockholm; A. Muthoo (1999): *Bargaining Theory with Applications*. Cambridge University Press, Cambridge

⁶⁷ L. Schoppa (1999): The Social Context in Coercive International Bargaining. *International Organization*, 53(2): 308

smoothen bargaining. If the other party is viewed as a reliable co-player, there are more incentives for fair bargaining and less for cheating. This holds also in case of coercive bargaining that is more likely to end up with an agreement favouring one party only. If the coerced player trusts the other one, he is more likely to agree to the demanded concessions, otherwise he could choose to let bargaining fail, as he will believe that the mistrusted party may come back with further demands.⁶⁸

The notion of trust is sometimes closely related to a player's image that plays a significant role in international bargaining as well. Before states get involved in a bargaining situation they look at the other party through a prism of certain categories and characteristics that they ascribe to the state and its international behaviour. These judgements are normally rather strong and enduring. So once categorized, a state will be treated according to the ascribed image that inhibits the apprehension of inconsistent information "some of which may indicate important changes in the policies of another state".⁶⁹ Although judgements are made basing on previous bargaining experiences and political actions of the states, they may oversee the gradual development and change within the political environment of the other party, which is not static. Approached as a weak bargaining player, which is no longer the case, the other party may choose the wrong strategy and thus weaken its bargaining position. Since image affects credibility, demands of a perceived weak player will be not taken seriously.⁷⁰ Such miscalculation of bargaining power may consequently lead to a less favourable outcome.

Summing up, the bargaining theory helps to clarify the parties' bargaining positions with their advantages and weak points, which enables a better understanding of their bids and an adequate assessment of the bargaining outcome. Although the theory provides enough possibilities to incorporate the foreign political angle into the analysis, it is rather a tool for dealing with selected negotiation episodes than with power relations of the bargainers within the international system. The latter is, however, apart from being one of the focuses of this paper, is also a background and determinant for the bargaining rounds and in this capacity

⁶⁸Ibid: 315

⁶⁹ M. Cottam (1985): The Impact of Psychological Images on International Bargaining: The Case of Mexican Natural Gas. *Political Psychology*, 6(3): 418

⁷⁰ Ibid: 437

needs a separate evaluation. For this purpose the concept of soft balancing will supplement the theoretical framework.

Soft Balancing

Soft balancing emerged as a recent addition to the balance of power theory in view of the latest changes in world politics. Traditionally, it is expected that every international or regional hegemon will be balanced by other states in order to resist its domination or to attempt to match up to its powers. In the past, states engaged in an international rivalry, would adopt hard balancing as a strategy to meet these objectives. Put simply, hard balancing is largely confined to formal alliance building accompanied by arms buildups, derived from the fundamental idea behind the balance of power politics – to maintain state sovereignty and prevent preponderance of other powers over it.

Currently, traditional hard balancing is much less salient in the new world order and fails to fully explain the behaviour of major powers after the end of the Cold War. Although the milder form of the strategy is still applied in some regions with enduring rivalries and high conflict potential, like the Middle East or Asia⁷¹, there is no empirical evidence of hard balancing in contemporary Europe. The balancing perspective, however, still holds true for the European region, regardless of the reduced military effort and the growing levels of interdependence. Under the circumstances of economic globalization, traditional hard balancing, which is rooted in the threat to physical security and sovereign existence, became costly and obsolete. Having mainly lost its relevance in Europe, hard balancing gave way to other means of addressing the still existing concerns about the unilateralist behaviour of a hegemonic or potentially threatening actor and the need to constrain its power.

In the era when hard balancing has limited applicability and has lost its appeal, states prefer more indirect and informal ways to face the hegemon and check its power. These diplomatic and economic balancing acts, based on ad hoc collaborations and institutional cooperation short of binding alliances, comprise the core of soft balancing. From the perspective of the balance of power theory, even if a state does not experience a direct threat from a hegemon

⁷¹ T. Paul (2004): The Enduring Axioms of Balance of Power Theory and Their Contemporary Relevance: 6. In T. Paul et al. Balance of Power: Theory and Practice in the 21st Century. Stanford University Press, Stanford

and is engaged in expedient relations with it, a dominant actor is still unlikely to be left unbalanced. As unrestrained major player may eventually intend to rewrite the rules of interaction to its own advantage, weaker states will tend to balance towards the equilibrium of powers. In so doing, they have two major options at their disposal – to maximize their own resources through internal balancing or to aggregate power with other second-ranked players by means of external balancing.

Internal balancing, however, seems to be a futile option, given that one state is hardly able to adequately build up its capabilities to become a peer competitor to a hegemon. Further, a unilateral action of that kind is likely to provoke an immediate and harsh retaliation from the dominant actor, which is why weaker states rarely resort to unilateral actions but rather choose to coordinate their efforts within a collective act of external balancing. The power of a preponderant state may keep a second-tier player from assembling a formal balancing coalition, but not from wishing to do so by tacit means of soft balancing, which though posing no direct threat to the hegemon can still delay, frustrate or increase the costs of it using its overriding power.⁷² The disguised tools of soft balancing – economic statecraft, informal diplomatic arrangements and international institutions are, therefore, means of containment without direct confrontation.

Being in close proximity to a dominant power is undoubtedly a concern for a weaker state, which may cause it to engage in soft balancing, although this is not necessarily the only viable option of coping with a hegemon. Apart from the incentive to constrain a hegemonic power, Paul singles out three major conditions⁷³ under which soft balancing behaviour is likely to occur. First, the power position and unilateral behaviour of the dominant power become increasingly disturbing to the weaker state, although not to an extent which poses an immediate challenge to its sovereign security. The concept of security under the soft balancing strategy exceeds the classic territorial dimension and deals rather with the political autonomy of the balancing state. Troubles about retaining state borders gave way to those of sovereign decisionmaking, altering which a preponderant power is normally not shy about.

Secondly, the two enjoy close economic ties where the hegemonic actor cannot be replaced easily and a disrupted relationship with which may redound negatively on the economic and

⁷² R. Pape (2005): Soft Balancing Against the United States. *International Security*, 30(1): 16-17

⁷³ T. Paul (2005): Soft Balancing in the Age of U.S. Primacy. *International security*, 30(1): 59

social wellbeing of the second-ranked state. High levels of interdependence where both parties profit handsomely from each other lessen the likelihood of direct confrontation and make the weaker state deal with eventual antagonism towards the hegemon with more circumspection. Tacit ways of soft balancing offer a more optimal tool of undermining the relative power of the dominant actor, through institutional constraints or diplomatic entanglement, while running a lesser risk of instigating economic pain or depressing one's own security. Finally, the hegemon is unlikely to retaliate readily either owing to the covert nature of the balancing acts the weaker state is implementing, or due to the lack of direct challenge that emanates from such balancing behaviour.

He and Feng elaborate the latter condition further by adding the notion of power disparity between the parties that dictates the effectiveness of balancing. Their logic is relatively straightforward – the higher the power disparity between the pair of states is, the more likely that both resort to soft balancing out of other options.⁷⁴ Soft balancing is a rational strategy aimed at increasing power or security. If a stronger state has a tangible power advantage it would hardly go into trouble of military or diplomatic hard balancing. The choice of less hostile methods appears more rational, by virtue of having the luxury to be able to weigh political goals against economic reason. For a weaker state any attempt to bridge the power gap with the superior party by some hard means seems equally meaningless.

If there is a wide scholarly conclusion that preponderant powers do not welcome weaker states standing in their way and keep coercive measures in their policy tool kit for the recalcitrant, there is less unity on how second-ranked states choose to deal with this challenge. Apart from soft balancing, the other options could be bandwagoning – aligning with the hegemon when the cost of the confrontation exceeds the benefits of collaboration, or buck passing – abstaining from opposing the dominant actor in the hope that other states will. To keep these alternatives apart, Walt suggests the balance of threat theory, arguing that weaker states balance in the first place not against power as such, but against threats or offensive intents.⁷⁵ He defines threat as a combination of proximity, offensive resources and perceived or substantial aggressive intentions. It is not so much a hegemon's raw power that

⁷⁴ K. He and H. Feng (2008): If Not Soft Balancing, Then What? Reconsidering Soft Balancing and U.S. Policy Toward China. *Security Studies*, 17(2): 373

⁷⁵ S. Walt (2002): Keeping the World 'Off-Balance': Self-Restraint and U.S. Foreign Policy: 133. In G. Ikenberry (Ed.) *America Unrivaled*. Cornell University Press, New York

forces others to seek protection through balancing, as a weaker state's concern that these power capabilities will be used to sanction or coerce.

If a dominant actor appears to be threatening, the rational reaction for a weaker state would be buckpassing in order to pass the costs of resisting the aggressive power to others. However, there is rarely an adequate candidate at hand to pass the buck to. In this situation, if a greater power poses a threat, the other party would rather prefer to balance against as to bandwagon with it. Bandwagoning requires a portion of trust and is rooted in either the common goals or the basic belief in the benign nature of the relationship with the stronger state. In case the threat is either present or perceived, the terrain for bandwagoning is rather poor. Moreover, the conventional wisdom among policy makers suggests that hegemonic intentions and motives can change over time, leaving a weaker actor better off in the long run with the soft balancing strategy.

The threat component, other things being equal, increases the propensity of weaker states to protect themselves from a dominant power, although this amendment does not restrict soft balancing solely to a response strategy when facing an aggressor. It makes sense to stand aloof or mend fences with a benign hegemon if it brings tangible benefits for the time being. But if one is looking for sustainable security, one may as well in the meantime try to offset the superior power with anticipated interactions in mind. As Art puts it, balancing behaviour is designed to create a better range of outcomes when dealing with a preponderant state by building up power assets, capable of diminishing the hegemon's advantage or discouraging him from using them.⁷⁶ This definition of soft balancing motives draws attention to a crucial distinction between balancing and conventional policy bargaining or handling diplomatic disputes. If policy bargaining is aimed at deploying currently available power assets in order to achieve a favourable outcome over an immediate issue of dispute, balancing deals with gaining advantage and optimizing one's capabilities for the imminent conflict. Soft balancing is, therefore, a future-oriented strategy to pursue a stronger standing against a hegemon without openly endangering bilateral relationship with it.

Soft balancing does not have a single, commonly accepted definition with, as shown above, each scholar placing an emphasis of his own on one of the facets to the concept. The degree of deviation between the benchmarks to the term and especially between the recognised

⁷⁶ R. Art (2005): Striking the Balance. *International Security*, 30(3): 183-184

instruments of soft balancing is, however, rather small. Recently, Saltzman identified soft balancing as a “calculated, focused and non-military strategy that may involve economic statecraft, institutional binding or exclusion, diplomatic entangling and political integration practiced in order to constrain and restrict an emerging power from pursuing its threatening policies”.⁷⁷ This definition offers an optimal identification of the objectives and means of the strategy and will be adopted within these pages. As a foreign policy strategy, soft balancing concentrates on how states respond to power asymmetries with the goal of increasing their own security and resisting the preponderance of a stronger power. The answer to why states balance is, therefore, rather clear – to check the hegemon’s domination and discourage it from using its power against the national interests of a weaker state. The question of how these ends can be met is partly addressed in the very definition of the concept. These various strategic instruments of soft balancing have one thing in common - they are not meant to alter the core of the established international system with its power disparity, which is broadly accepted. The balancing strategy merely seeks to obtain a stronger position within the power asymmetry, which enables a weaker state to engage with the hegemon on more favourable terms.

One of the common instruments of soft balancing is economic statecraft or economic strengthening, involving a range of economic means by which a weaker state can counter the hegemon’s coercive measures, like sanctions, trade or financial restrictions; or even put some pressure on the dominant power itself. Contemporary superpowers may have the military might to worry their weaker neighbours, but the real threat a second-ranked actor is likely to balance against is of the economic nature. In the age of interdependence, economic autonomy or rather a lack of severe economic dependencies may translate into more sovereignty in political decisionmaking. In the long run, for a weaker state to balance effectively, a favourable shift of economic power is needed, which can be achieved through regional trading blocks.⁷⁸ Through building economic ties with non-hegemon-dominated organisations and diversifying trade, states either reduce their economic overreliance on the dominant power, or dilute their dependencies among multiple actors to an unalarming extent. In addition, if the preponderant state is excluded from these blocks or informal

⁷⁷ I. Saltzman (2012): Soft Balancing as Foreign Policy: Assessing American Strategy Toward Japan in the Interwar Period. *Foreign Policy Analysis*, 8(2): 132

⁷⁸ R. Pape (2005): 37

alliances, its own economic stance may suffer over time due to bypassing trade volumes and the attendant benefits.

Another soft balancing instrument – international institutions – applies similar logic of resisting a powerful state through diplomatic arrangements or strategic manoeuvring towards institutions outside the hegemon's control, as well as within those it dominates. Despite possession of overwhelming capabilities, a powerful actor is still not immune to the actions of the established international organisations and cannot put itself above the accepted diplomatic procedures. In this manner, a minor state may gain more weight in dealing with a superior power by using institutional mechanisms and practises of the body of mutual affiliation. Institutionalised relationship with a hegemon assures its less exploitative nature and may protect the weaker partner from possible hostilities of the dominant. This reasoning may be of better applicability to democratic powers, as they are more likely to feel bound to the constraints of institutional rules and norms. However, institutional setting still has a similar disciplinary effect on nondemocratic actors or those notorious for relaxing the boundaries of the democratic foundation. Institutional forms of entangling or inclusive institutional balancing represent constraints to the belligerent use of power, regardless of the nature of the power-holder.

Depending on the power disparity and levels of economic interdependence with the preponderant actor, a weaker state may be better off seeking security outside the shared international body through exclusive institutional balancing. In this form of balancing behaviour, states organise their political and economic capabilities to counter the hegemonic threat by building cohesion sidestepping the dominant power. Kai He introduces the distribution of capabilities in the regional system as the indicator to whether a weaker state would conduct his balancing in an exclusive manner. If the power asymmetry between the hegemon and other institution members is high, inclusive balancing is unlikely to be fruitful as the dominant has both the institutional agenda and the rule setting under his control. Therefore, He argues that the only option to check the hegemon under unipolarity is to conduct exclusive balancing, unlike the case of multipolar regional setting where this strategy may be seen as an unfriendly act and unnecessarily strain the relations between states inside and outside the institution, and given high economic interdependence damage the economy

of the involved states, making exclusive balancing counterproductive.⁷⁹ The power gap between the stronger state and other actors is in direct correlation with the opportunity cost of the balancing choice for the weaker party, which, if significantly overpowered, would prefer to deal with its security concerns by drifting towards institutional structures outside the hegemon's reach.

An intermediate option between the two forms of institutional balancing is strategic non-cooperation – another soft balancing instrument, employed by weaker states in order to signal resolution and break the emerging or existing pattern of inequitable relationship with the hegemon. Deliberate rejection of cooperation with the stronger partner is based on the logic of maximizing absolute gains by creating a reputation of a resolute player, who instead of accepting asymmetrical gains in cooperation would prefer to walk out of it in order to boost his standing in the long run.⁸⁰ It is in fact an easy calculation for a party that wants to have some say in the relationship. Repeated cooperation under conditions asymmetrically in favour of the dominant actor sets a precedent where the stronger state succeeds in imposing his policy preferences with impunity. Driven by the long-term calculations, the weaker partner is better off strategically not cooperating and herewith sending a message that sidelining his interests cannot be taken for granted. Given that soft balancing is not a confrontational but rather a containment strategy, non-cooperation is more likely to be deployed at the issue-specific level, which does not challenge the overall relationship between the parties. In addition, power distribution on a specific issue may fall out differently as in the absolute terms, where the weaker state is hopelessly inferior to the hegemon.

Soft balancing as a foreign policy strategy allows weaker states to respond to a threatening external environment if bilateral conflict with the hegemon is anticipated or as a pre-emptive measure to discourage the dominant force from abusing its power and taking coercive actions as means of routine political interaction. The international system offers incentives along with imperatives for states to balance against the strong or the threatening. Thus, being a typical state behaviour, actors need to weigh the effectiveness against the cost of balancing. When facing an immediate threat, states would rationally choose effectiveness over costs and resort to conventional hard balancing. If the threat level is relatively low, states are more

⁷⁹ K. He (2008): Institutional Balancing and International Relations Theory: Economic Interdependence and Balance of Power Strategies in Southeast Asia. *European Journal of International Relations*, 14(3): 496-497

⁸⁰ J. Kelley (2005): Strategic Non-Cooperation as Soft Balancing: Why Iraq Was Not Just About Iraq. *International Politics*, 42(2): 256

likely to opt for soft balancing as a cost efficient strategy to check the rival's power and defend their national interests.

As Kai He rightfully notes, different states have different values regarding their national interests that go beyond the core concerns about territorial integrity and political autonomy and may range from safe supply of resources to mastering climate change.⁸¹ Given that states identify their security concerns based on their individual values and weaknesses, soft balancing may result from issue specific insecurities and vulnerabilities of the weaker partner. Soft balancing strategy with its tacit instruments is a contemporary answer to the challenges of the interdependent international environment where states seek relative power to be able to maintain national interests without retarding one's own economic growth and upsetting bilateral relations with a hegemonic partner. While running in the background of routine political bargaining, soft balancing serves as a tool of optimizing one's capabilities, providing more favourable outcomes and pursuing security.

⁸¹ K. He (2012): Undermining Adversaries: Unipolarity, Threat Perception, and Negative Balancing Strategies After the Cold War. *Security Studies*, 21(2): 162

Conceptual Framework

Case selection

The chronology of Russia's bilateral relations with its close neighbours raises questions about the effectiveness of economic sanctions as an instrument of foreign policy. While a great deal of international disputes have been scientifically scrutinised to determine whether or when sanctions can produce favourable policy outcomes, there have been little effort to deal with the subject focusing on the Post-Soviet space in particular. Addressing this shortcoming, I intend to test the success of Russian coercion attempts on three target states – Ukraine, Belarus and Moldova. Limiting the search for theoretical explanations on one region inevitably reduces the general applicability of the empirical results. However, evaluation of existing general patterns is not essential to this study. The focus is rather on the homogeneous context in which the sanctions are applied. The comparable background of the target states compensates the geographical restriction and is useful to determine which variables are attributable to the success or failure of Russian economic coercion under given conditions.

These given conditions go beyond the common interdependencies stemming from geographical proximity and experienced by Russia with its other neighbours. The three target states overlap with different levels of intensity in several important characteristics. First, the three cases share comparably poor economies with high levels of dependencies on Russia, which opens the door for using economic threats or inducements as means to bring about the desired policy outcomes. At the same time, the three have a bargaining leverage of their own through the possession of infrastructural assets granting bargaining power over Russia, or those in which Russia has a long-standing strategic interest. Generally, the infrastructural ground for difficulties was laid in the Soviet times when trade, supply and production chain was organized from a unified state's perspective. Its partition was from the beginning a time-delay bomb, which provided the parties with mutual vulnerabilities within an interdependent relationship, leading to the vicious circle of repeated bargaining rounds.

Another, and most important, common characteristic, is Moscow's similar geopolitical vision for all the three target states. This vision has been consistent and well articulated from the mid 90es when the damaging consequences of the centrifugal drift of the former Soviet

republics for Russian political and economic power became to assume shape. A pronounced goal in this situation was to integrate the neighbours into a Russia-led regional institution and by these means secure that they stay within Russia's sphere of strategic interests. In late 90s the majority of otherwise rather heterogeneous and polarized Russia's political elite shared this aspiration with even "pro-Western reform minded Russian politicians" seeking opportunity to forcibly reintegrate "the former Soviet space under the aegis of a liberal Russian empire".⁸² However, Russia's weakness at that time prevented it from taking real action in this regard, so that it did not go beyond objections to Western presence and policies in the post-Soviet region. The following economic recovery allowed Russia to act more confidently and assertively in its attempts to re-establish its influence in the region. The growing unease about the integration of Eastern Europe into the Euro-Atlantic structures, as well as aspirations of some neighbours to do so, provoked a more pronounced policy of restoring the eroded authority over the area of strategic interests. Economic instruments are one of the key elements of this systematic effort to expand Moscow's influence, constrain undesired Western involvement and secure a clear foreign policy attachment of the band of states on the former Soviet territory.

Ukraine, Belarus and Moldova differ significantly in their compliance with Moscow's integration ambitions, however the three match in their playing the geopolitical card by balancing between the eastern and western pole, thus bargaining better results vis-à-vis the coercer. These balancing acts, apart from strategic reasons, have their roots in the fluctuant foreign political vector, supported by the societal split. Still undecided between East and West, the general public is sending contradictory signals to the ruling elites, stalling a consistent foreign policy.

This chapter looks closer at the economies of the three target cases and highlights bargaining weaknesses and advantages at their disposal, as well as their robustness against economic threats. It also examines the roots and the amplitude of their geopolitical fluctuation as well as Russian strategic goals towards the three states.

⁸²A. Stulberg (2007): *Well-Oiled Diplomacy: Strategic Manipulation and Russia's Energy Statecraft in Eurasia*. State University of New York Press, New York: 14

Economic condition of the target states

Belarus will be the first out of the three target states to be taken a closer look at. The choice is determined by its reluctance towards the market economy, which is exceptional in comparison with other target states within this research. If Ukraine and Moldova used the obtained sovereignty to eventually break up with the centrally planned economy and try a market-based one instead, Belarus was the one to stick to the old system. In fact, the Belarusian economy remained largely intact since the Soviet times. According to International Monetary Fund (IMF) assessments, Belarus is one of the least reformed states among the former Soviet republics.⁸³ This state of affairs is a logical consequence of aborted privatisation and the absence of a clear development strategy, resulted in inconsistent and unfinished reform attempts.

Interestingly, the lack of much needed modernisation in the economy field cannot be blamed solely on Lukashenko's willingness to adhere to the state-controlled property structure. Not less decisive was the absence of internal pressure in favour of economic liberalization and general scepticism in the society towards the open market. Unlike other post-communist states, Belarus not only consciously abstained from rejecting egalitarian and collectivist ideas, but also firmly incorporated them in the new sovereign national ideology. The emphasis on national ownership of the economy with ensuing advocacy of state-owned economic assets justified the rejection of market reforms and any attempt at liberalization.⁸⁴ The neighbourly experience had also a significant share in shaping Belarusian public opinion. Indicative side effects of the post-Soviet reformation endeavour in neighbour states with high inequality and corruption indicators and slightly better social welfare measures did not boost the attractiveness of a similar way for Belarus among its population.

It is open to speculation how much public sentiments influenced Lukashenko's economic policy and whether reforms would have taken place in case of active internal demand. The fact remains that the private sector accounts only for around 30 percent of GDP, whereas

⁸³ IMF (2013): Country Report No. 13/159.

<https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Republic-of-Belarus-2013-Article-IV-Consultation-and-Fourth-Post-Program-Monitoring-40666>

⁸⁴ N. Leschenko (2008): The National Ideology and the Basis of the Lukashenka Regime in Belarus. *Europe-Asia Studies*, 60(8): 1422-1423

the vast majority of economic assets remain state-owned.⁸⁵ Admittedly, there has been made an attempt at privatisation, which resulted in allowing some enterprises to enter the market through joint stock ventures, although their stock capital remained largely in state hands. Those companies that have been privatised successfully were partly taken over by the state again within a year and this trend is likely to continue with an adopted law offering the government the possibility to act on behalf of small shareholders in private enterprises.⁸⁶ In this vein it is hard to escape the conclusion that the Belarusian economy remains in a firm state grip at both macro and micro levels.

Despite seemingly more unfavourable and static economic environment, Belarus managed to outperform other countries analysed here and most notably Russia on a number of factors, offering its population a moderate but stable welfare. Judging by the yearly GDP data, Belarus experienced steady growth over the years, mostly uninfluenced neither by Russian financial crisis in 1998, nor by the international economic setback in 2009. As a result Belarus experienced a remarkable success in poverty reduction from 47 percent in 1999 to 5 percent in 2010, followed by steady wages growth and the lowest inequality rate in the region.⁸⁷ Regarded from the overall well-being perspective, represented by the composite Human Development Index⁸⁸, Belarus ranks as well ahead of its counterparts within this research, and in fact ahead of all the CIS countries.

Despite Belarus' undeniable success and progressive development in some areas, it is merely a tip of the iceberg. More important is whether there is a structural basis for further economic advancement or at least for the preservation of the currently positive characteristics. From this angle, economic populism in Belarus seems to be not so much a headway as a headache. According to IMF estimates, Belarus spends about 14 percent of its GDP on social subsidies in order to hold artificially high welfare standards, whereas the overall amounts of government spending are way beyond the state's means.⁸⁹ Meanwhile dangerously generous

⁸⁵ EBRD (2010): Transition Report: Recovery and Reform.
<https://www.ebrd.com/downloads/research/transition/tr10.pdf>

⁸⁶ EBRD (2013): Transition Report: Stuck in Transition?
<https://www.ebrd.com/news/publications/transition-report/transition-report-2013.html>

⁸⁷ The World Bank (2012): Belarus Country Economic Memorandum: Economic Transformation for Growth: 20. <http://documents.worldbank.org/curated/en/938441468206681722/Belarus-country-economic-memorandum-economic-transformation-for-growth>

⁸⁸ Human Development Reports, United Nations Development Programme (1990-2017)
<http://hdr.undp.org/en/data>

⁸⁹ G. Ioffe and V. Yarashevich (2011): Debating Belarus: An Economy in Comparative Perspective. *Eurasian Geography and Economics*, 52(6): 750-751

social policy, being even more so prior to the presidential elections when government profusion reaches its highest level, had serious consequences for the Belarusian currency. Its unmanageable depreciation, caused by increased supply without a parallel increase in demand, have been repeatedly bringing Belarus on the brink of financial crisis that was delayed either by IMF stabilisation loans or debt write-offs by Russia.⁹⁰ If regarded separately from external subsidies and financial aid, the Belarusian economy does not have the necessary stamina or viable economic foundation to survive on its own.

Turning back to Belarus' economic growth, used by the state as a strength demonstration of the state-controlled economic model, it can hardly be regarded as such. Although not quite illusionary, it is mainly driven by favourable external factors, rather than domestic efficiency. The World Bank determined three major components of the Belarusian economic advance: underpriced energy from Russia, re-export of Russian oil and significant growth of Belarus' trading partners within the CIS, especially Russia.⁹¹ Cheap Russian gas has an extensive supportive impact on Belarus' economy. The exclusive opportunity to purchase gas at the levels close to Russian domestic prices that are three times lower than those for the European trading partners and twice as low as for the CIS average, saved Belorussian trade balance with a strong negative trend as it is, from an utter disaster. Its revitalising effect is the more substantial in light of absent modernisation and general neglecting of energy efficiency of industrial production in Belarus. Bald figures substantiate Belarus' benefits most accurately – the size of Russian energy subsidies throughout 2000s amounted to the average of 14,5 percent of Belarusian GDP annually.⁹²

Another factor keeping the fundamentally inefficient economic model of Belarus afloat is re-trading Russian oil. Whereas Russia sells its crude oil to Belarus below market prices, the latter exports the products of oil refineries to the European market at considerably higher rates. According to IMF estimations Belarus earned about ten dollars per barrel due to the price differences between the crude and refined oil.⁹³ This margin was steadily rising due to the growing world prices on crude oil accompanied by increasing demand. This made oil export the main source of incoming hard currency, which in its turn helped cope with

⁹⁰ A. Savchenko (2013): The Political Economy of Belarus' Authoritarianism: 206-208. In I. Karolewski and A. Suszycki, *European Welfare States – Citizenship, Nationalism and Conflict*. Fibre, Osnabrueck

⁹¹ The World Bank (2012): 21-22

⁹² Ibid

⁹³ A. Savchenko (2013): 209

inflation and stabilise the Belarusian rouble, previously accomplished through external loans. In GDP terms oil trade brought Belarus around 3 percent annually while the difference between the imported and the exported oil value resulted in a subsidy of approximately 40 percent of the market oil price.⁹⁴

Apart from oil trade, focused on the Western buyers, most of other Belarusian exports go to the CIS countries and Russia. This export dynamic, partly conditioned by historical trade channels, is predominantly due to the uncompetitiveness of Belarusian goods in the rest of the world. But even within the less sophisticated CIS market, Belarus has been steadily losing ground. Together with some alarming developments of its export patterns this may prevent further development in the short-term, or in the absence of favourable external conditions lead to an inevitable economic collapse since the negative export trend affected both commodity structure and its geographical routes.

Over the last decade Belarus' export specialisation has experienced a strong shift towards raw materials, chemicals and petroleum, while export of machinery and other sophisticated products has been steadily eroding. According to the World Bank data the comparative advantage of Belarus' export goods had significantly weakened in 2008 opposite to 2004: the amount of products with a comparative advantage within the Russian market dropped more than twice, while exports to the EU-25 represented 80 percent of resource-based primary goods with no single high-tech Belorussian product enjoying a strong comparative advantage.⁹⁵ The increase in export concentration, observed among regional as well as international markets, especially for such an export-oriented economy as in Belarus, leaves little chance for a comforting prognosis. The current overreliance on export revenues from a small number of goods makes Belarusian economy vulnerable to external shocks, and due to significant correlation between GDP performance and oil price changes, is likely to impede sustainable growth.⁹⁶

Summing up, until today Belarus based its wasteful economic policy on the favourable external conditions while neglecting economic restructuring. Russian subsidies were not invested in modernisation, improving economic competitiveness or necessary reforms,

⁹⁴ IMF (2010): Country Report No.10/16: 22. <http://www.imf.org/external/pubs/ft/scr/2010/cr1016.pdf>

⁹⁵ The World Bank (2010): Belarus: Trade Performance Before and During the Global Crisis. Vol.2: 11-12. <http://documents.worldbank.org/curated/en/184311468014419542/Belarus-economic-policy-notes-note-no-2>

⁹⁶ Ibid: 13

which were substituted by merely cosmetic and largely inconsistent half-measures. Instead they vanished in vast social expenditures, support of inefficient and underperforming state enterprises and preservation of the welfare facade. It is unclear how long Lukashenko's regime will be able to extract economic dividends from Russia and remain resilient. There is good reason to believe that Russia's readiness to support the Belarusian dysfunctional economic system is dissolving. The costly maintenance of Belarus against Russia's economic reason failed to bring much political congruence between the two. And while Moscow is still struggling to make Minsk see things its way, the comprehension of the unlikely success of this struggle, at least under Lukashenko, is widening.

The above underlines the consensus among the researchers that the Belarusian economy does not represent a viable system able to function on its own without external help, which invariably comes from Russia.⁹⁷ Minsk missed its opportunity to create a sound economic foundation and diversify its export basket in the beginning up to mid 2000s, when the subsidies' level was at its highest. Currently, when Russian attitude towards Belarus becomes more pragmatic and the Belarusian inefficient economic model starts to undermine the very basis of Lukashenko's regime, reforms seem both inescapable and unaffordably costly.

However, there is a major trump in Belarusian hands, being its geographical location, which conditions the transportation of Russian gas by Northern Lights and Yamal-Europe pipelines. Over 20 percent of Russian gas exports run through Belarus⁹⁸ or even more in times of energy crises with Ukraine. In addition, Belarus is an important transit land for Russian oil, supplying two major EU-customers – Germany and Poland that satisfy their oil needs to 30 and 50 percent respectively with imports from Russia.⁹⁹ Russia's leading energy exporter role determines its economic interests in Belarus and the CIS area in general, which is “to ensure unimpeded transit for its gas and oil” and for this matter to gain access to the key energy assets.¹⁰⁰ Similar to the domestic energy policy, export security in Russia presupposes gaining state control, in case of Belarus over Beltransgaz and Mosyr oil refinery.

⁹⁷ A. Savchenko (2013): 212

⁹⁸ B. Nygren (2008): Putin's Use of Natural Gas to Reintegrate the CIS Region. *Problems of Post-Communism*, 55(4): 5

⁹⁹ K. Hancock (2006): The Semi-Sovereign State: Belarus and the Russian Neo-Empire. *Foreign Policy Analysis*, 2(2): 121

¹⁰⁰ D. Trenin (2009): Russia's Spheres of Interest, not Influence. *The Washington Quarterly*, 32(4): 15

Similar to Belarus, Ukrainian gas transportation system (GTS) and its state operator Naftogaz is as well an object of Russia's strategic interest and a major bargaining chip for Kiev. The Ukrainian pipeline system was built in the 50s-70s last century since when there have been undertaken no significant effort aimed at pipeline modernisation and comprehensive restructuring of the industrial sector. Given that the pipelines have the planned life span of 33 years¹⁰¹, it is a matter of simple arithmetic to see through the imminent trouble of technical or depreciation nature. According to the European Commission estimation, investment inflows of around € 2,5 billion are necessary for the technical assistance to renovate Ukraine's GTS.¹⁰² In this context, persistent attempts to gain control over the Ukrainian transmission system reveal the levels of Russia's vulnerability. Being in principle a Ukrainian internal problem, the emergency condition of some pipeline sectors endanger Russian ability to implement its gas contracts. This is also one of the major reasons why Kremlin insisted on creating an international gas consortium, which, with the help of European energy companies, should enable to control and secure gas delivery from the gas deposit to the EU border. Naturally, not solely concern about European customers urges Gazprom to seek control of Ukrainian pipelines. Pipeline's purchase or lease would not only mean a huge transit cost reduction, but also deprive Ukraine of its main bargaining leverage.

Without this leverage Ukrainian energy sector is in a rather weak position. Portrayed in figures, Ukraine's dependence on Russian gas amounts to over 75 percent¹⁰³. Considering that its own production covers around 20% of energy needs, the only possibility to reduce the dependency would be to look for alternative gas suppliers. The other energy producing countries connected with Ukraine with a pipeline are Turkmenistan, Uzbekistan and Kazakhstan, which already delivered gas to Ukraine when the disagreement with Gazprom was at its deepest point. Upon a closer view, though, this option has an impact on gas prices rather than on levels of energy dependency, since Central Asian gas needs to be transited through Russian territory first. Given Gazprom's monopoly over transit corridors, this does not leave Ukraine much space for manoeuvre.

¹⁰¹ J. Graetz (2009): Der Russisch-Ukrainische Erdgasstreit: Fortsetzung ohne Ende? *Forschungsstelle Osteuropa, Ukraine-Analysen*, 58(9): 2

¹⁰² European Commission (2008): Implementation of the European Neighbourhood Policy in 2007: Progress Report Ukraine: 15.

<https://ec.europa.eu/transparency/regdoc/rep/2/2008/EN/2-2008-402-EN-1-0.Pdf>

¹⁰³ According to US. Energy Information Administration estimation of 2005:

<http://www.eia.doe.gov/emeu/cabs/Ukraine/NaturalGas.html>

The lack of transparency in the energy sector and competing interests of various oligarchic groups that still have close ties to or are partly members of the Ukrainian political elite, aggravate the situation further. As well noted by Balmaceda “the Ukrainian market is deeply divided and controlled by 'clans' with various degrees of closeness to different parts of the central state. It is important to keep this in mind both in order to understand Ukraine's weakness in negotiations with the Russian Gazprom, and also to dispel any illusions of a weak, victimised Ukraine united in the face of Russian pressure. The real picture is rather one of competing internal and foreign interest groups, all trying to make a profit out of this situation of dependency”.¹⁰⁴ Although the bloom of oligarchs is justifiably associated with the times of Leonid Kuchma’s presidency - from 1994 till 2004 - they still enjoy a powerful position behind Ukrainian political scene. The informal barter arrangements when presidential guarantees for business contracts are traded for financial and media support are still quite common even after the Orange Revolution, which did not provoke any serious elite change.¹⁰⁵

Competitive weakness and permanent fiscal deficit, stemming from the overall economic environment, contribute to the additional vulnerability of the Ukrainian economy to any price increase occurring in major energy market segments. According to IMF analysis¹⁰⁶ of Ukraine's resistance to energy price shocks, higher energy prices lead to a negative productivity shock to the economy, GDP contraction and inflation rise. Instant negative macroeconomic effect is unlikely to be avoided due to Ukraine's high levels of energy use and energy inefficiency. With energy use being 3 percent of GDP, an exemplary gas price escalation of 10 percent requires improvement of gas use efficiency of 9 percent, in order to mitigate its impact on economic growth and inflation. A heavy burden for the state and Ukraine's major energy company Naftogaz in particular.

Financial entanglement of Naftogaz is understandable. Being state owned Naftogaz has to suffer higher energy costs, since gas prices for households and budget-funded institutions are set by the state and held low. Prices below cost recovery to households and heating

¹⁰⁴ M. Balmaceda (1998): Gas, Oil and the Linkages Between Domestic and Foreign Policies: The Case of Ukraine. *Europe-Asia Studies*, 50(2): 269

¹⁰⁵ G. Simon (2009): After the Orange Revolution: The Rocky Road to Democracy: 14, 16. In J. Besters-Dilger (Ed.) *Ukraine on Its Way to Europe*. P. Lang, Frankfurt am Main

¹⁰⁶ IMF (2007): Country Report No. 07/47.

<https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Ukraine-Selected-Issues-20408>

utilities alone incur Naftogaz' losses of 1,5 percent of GDP annually.¹⁰⁷ Aggravated by weak payment discipline and price concessions to particular industries, Naftogaz' financial shortages lead to underinvestment in domestic exploration and extraction as well as in pipeline modernisation. In this situation the state has no other option but to grant it with huge financial flows or to undertake another monetisation of deficits. In 2009 the government was forced to transfer 2,5 percent of GDP in recapitalization bonds to Naftogaz in addition to restructuring \$1,6 billion of its debt.¹⁰⁸ Such measures while postponing the escalation of the problem till the next portion of emergency money arrives do not solve its initial cause, being energy overconsumption and low efficiency.

Establishment continuity in Ukraine is considered to be the main reform and modernisation impediment and consequently one of the reasons for the overall economic weakness and vulnerability. Similar to Belarus, Ukraine was not keen on market reforms in the first decade of independence, although for all other reasons. Small, homogenous and potent elite, left unchanged from the communist times, was preoccupied mainly with rent seeking and maintaining control, and discarded radical but necessary reforms as "characteristic Russian rashness incompatible with Ukrainian peacefulness and moderation".¹⁰⁹ However, moderation failed to bring about either economic growth or reasonable welfare and by the beginning of 2000 Ukrainian economy looked alarmingly miserable. With cumulative GDP drop of 61 percent from 1989 to 1999, it suffered the greatest economic decline among the post communist states.¹¹⁰ Accompanied by severe inflation, poor export performance, lack of foreign investments and corruption Ukraine found itself in 2000 on the brink of default. In the face of the imminent economic collapse, when change turned out to be inevitable, the oligarchs agreed on forming a new government, making Viktor Yushchenko prime minister who started a phase of intense reforms with the goal of transforming Ukraine into a productive market economy.¹¹¹ The commitment to reform was as timely as it was short-lived. Although having brought substantial growth already the same year, the reforms were

¹⁰⁷ IMF (2012): Ukraine Gas Pricing Policy: Distributional Consequences of Tariff Increases. Working Paper No. 12/247: 6. <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Ukraine-Gas-Pricing-Policy-Distributional-Consequences-of-Tariff-Increases-40047>

¹⁰⁸ IMF (2010) Country Report No. 10/262: 11.

<https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Ukraine-Request-for-Stand-By-Arrangement-and-Cancellation-of-Current-Arrangement-Staff-24137>

¹⁰⁹ A. Aslund (2000): Economic Reform in Ukraine. M.E.Sharpe, New York: 263

¹¹⁰ A. Aslund (2009): How Ukraine Became a Market Economy and Democracy. Peterson Institute for International Economics, Washington, DC: 125

¹¹¹ Ibid: 128

dismantled early 2001 together with the government. Believing that the threat of economic breakdown was overcome and concerned about dropping rents, the oligarchs once again joined efforts and used their influence on the Parliament to stop the reformist endeavour.

After that, there have been made no substantial effort to renew reforms and they remained delayed and inconsistent. However, between early and mid 2000s Ukrainian economy entered a period of significant revival, known as “competitive oligarchy with high growth” and based largely on increased volumes and prices of steel and iron exports.¹¹² In 2006, for instance, GDP growth accelerated to 5,7 percent in comparison to 2,6 percent the previous year, supported by consumption boom and visible growth in retail trade, communications and transport sectors.¹¹³ However, lacking a solid basis for long-term growth, the economy was vulnerable to trade and price shocks that hit Ukraine hard in the course of 2008 financial crisis. Unfavourable world market conditions provoked a deep recession, a collapse in demand for metals and chemicals led to output contraction of 15 percent in 2009, with national currency losing half of its value and the overall deficit reaching 11,3 percent of GDP.¹¹⁴ It was not until 2010 when the Ukrainian economy began a slow recovery.

One of the foundations of this recovery was the agricultural sector that is historically strong in Ukraine and still has a great but largely unexplored potential. In 2012 agricultural contribution reached 9,3 percent of GDP, produced 17,2 percent of employment and 26 percent of the country’s exports.¹¹⁵ Having one of the most arable lands in Europe, Ukrainian agriculture could produce even more impressive statistics if it was able to comply with international quality standards and was not constrained by inadequate government policy. After a short privatization phase in 2000, the authorities introduced a moratorium on land sale leading to low investment and productivity levels. Excessive government intervention and the policy of benefiting big business prevented Ukraine from capitalizing on its agricultural advantage.

¹¹² M. Balmaceda (2013): *The Politics of Energy Dependency*. University of Toronto Press, Toronto: 96-97

¹¹³ EBRD (2006): *Transition Report: Finance in Transition*: 191.

<https://www.ebrd.com/downloads/research/transition/TR06.pdf>

¹¹⁴ EBRD (2010): *Transition Report: Recovery and Reform*: 152.

<https://www.ebrd.com/downloads/research/transition/tr10.pdf>

¹¹⁵ The World Bank (2015): *Ukraine Partnership - Country Program Snapshot*: 7.

<http://documents.worldbank.org/curated/en/685541486622470131/Ukraine-partnership-Country-program-snapshot>

In general, the erratic development of the Ukrainian economy can be ascribed to the delayed and incomplete transition to market economy, which hinders its sustainable growth. Despite having established basic market norms and achieved significant success in reducing poverty, there are a number of impediments for further development. Key government indicators that capture institutional capacity, business effectiveness and the rule of law show that these areas remain challenged in Ukraine. Thus, according to the Global Integrity Index, Ukraine scored well in respect to its legal framework, especially the anti-corruption law of 2011, but was ranked very poorly regarding the actual implementation and law enforcement.¹¹⁶ The lack of funding and high levels of political interference due to utterly hierarchical structure of law enforcement bodies, stand in the way of their efficiency and accountability. In addition, levels of government effectiveness, corruption and economic freedom that lie well below Europe and Central Asia average negatively affect the business climate, which is considered difficult by both local and foreign entrepreneurs.¹¹⁷ As a consequence, potential productivity gains remain unexercised and economic diversification suffers due to the low number of emerging firms if compared to other post-Soviet economies.

Summing up, the growth of Ukraine's economy remains rather fragile and facing competition from Asia its traditionally strong sectors may lose their main markets if not reformed and modernised. Poor investment climate, business environment and corrupt bureaucracy sponsored a flourishing shadow economy, which is one of the highest in the world. International studies score Ukraine's shadow economy at around 50 percent of GDP, whereas the national statistic estimated 23 percent of total employment to be engaged in the informal sector.¹¹⁸ Limited incentives for adopting new technology and modern government practices lead to low export diversification and sophistication. Together with high vulnerability to international economic environment and dependence on foreign financing, Ukraine's ability to resist economic sanctions is rather limited. The gradual erosion of the Soviet industrial inheritance and the failure to enforce structural reforms makes Ukrainian economy susceptible to external pressure.

¹¹⁶ Global Integrity Report (2011): <https://www.globalintegrity.org/research/reports/global-integrity-report/global-integrity-report-2011/gir-scorecard-2011-ukraine>

¹¹⁷ The World Bank (2012): Ukraine: An Overview. Europe and Central Asia (ECA) Political Economy and Governance (PEG) Brief Series: 2-4.

<http://documents.worldbank.org/curated/en/891891468337806138/Ukraine-an-overview>

¹¹⁸ The World Bank (2012): Characteristics and Determinants of Internal Labor Mobility in Ukraine: 59.

<http://documents.worldbank.org/curated/en/224161468313770215/Characteristics-and-determinants-of-internal-labor-mobility-in-Ukraine>

The next case of Moldova shows a similarly troubled economy. Its energy supply from Gazprom is embedded in the more complex geopolitically unresolved issue of the separatist region of Transnistria that has been aspiring for independence and gravitating towards Moscow ever since the demise of the common Soviet state. In this regard there emerge two other major factors, which go hand in hand with the country's energy stance. First of all, since due to Transnistria's geographic location, energy resources have to cross its territory first, Moldova finds itself in a double dependency on both Russian energy supplies and Transnistrian energy transit. This situation is aggravated by the fact that Moldova's main electricity provider, the Moldovskaya Gres, is situated on the east bank of Dniester as well.¹¹⁹ The second issue deals directly with Russia and its military presence in the region. It refers to the Russian 14th army stationed in Transnistria, which to a large extent served over the years as a guarantor of Transnistria's de facto autonomy and as a cornerstone to finding a solution to this conflict. The 14th army is the successor of the Soviet Red Army that was present in the region since 1945 and for all these years was well integrated in the Transnistrian social landscape, as well as enjoyed large numbers of indigenous staff. Topped with strategic importance of the region to Moscow, especially in regard to the eastward shift of the EU and NATO borders, all attempts to force Russia to withdraw its troops had more than limited success.

At the same time, the separation of Transnistria from Moldova had a highly negative effect on the economic potency of the latter. Transnistria, having around 11 percent of the whole Moldovan territory and around 16 percent of its population¹²⁰, was to a significant extent more industrialised and infrastructurally advanced. This has its roots in the Soviet past, when Moscow, having in mind large Russian and Ukrainian population in Transnistria, was consciously building industrial objects on the eastern bank of Dniester that were responsible for around 80 percent of the industrial input of the unified Moldova.¹²¹ Similar logic was applied when stationing the 14th army, which was always located within the Transnistrian borders and later instrumentalised in the ethnic conflict in order to, as some scholars believe,

¹¹⁹ C. Bruce (2007): Power Resources: The Political Agenda in Russo-Moldovan Gas Relations. *Problems of Post-Communism*, 54(3): 29

¹²⁰ K. Buescher (2002): Transnationale Beziehungen der Russen in Moldova und der Ukraine. P. Lang, Frankfurt am Main: 150

¹²¹ A. Gabanyi (1996): Moldova im Spannungsfeld zwischen Russland, Rumänien und der Ukraine. *Berichte des Bundesinstituts fuer Ostwissenschaftliche und Internationale Studien*, 16: 8

give an extra impulse for Moldova to enter the CIS and retain the eastward foreign political vector.¹²²

This uneasy situation led Moldova into becoming the first Russian energy transistor to make a joint venture with Gazprom and de facto transfer control over its strategic energy infrastructure to the Russian party. The creation of a joint energy company took place in mid 90s and through a series of negotiations was completed and fixed in the current form by 1998. The whole endeavour was Russia's first big success in the energy field on the former Soviet territory, although due to the regional market specifics and lack of transparency, the deal seemed to have had certain legal deficits and had a clear bias in favour of the Russian party.

Generally, the takeover of Moldovan energy infrastructure by Gazprom was conditioned by the country's economic difficulties that most of the Soviet republics were facing once left on their own. The case of Moldova was in this respect quite illustrative, as it found itself not only without Moscow's continuous financial support, but also without its industrial backbone, left in Transnistria. Rapidly growing energy debt to Gazprom put Chisinau automatically in the weak position, from which by mid 90s there seemed to be only one way out – to clear the debt by granting Russia with shares in the energy joint venture. Thus, in September 1994 the parties signed an agreement, stipulating the creation of a joint company based on Moldova's GTS with Gazprom's share reaching 51 percent, whereas local gas distribution network remained in the hands of Moldovan and Transnistrian local operators – Moldovagaz and Tisraspoltransgaz respectively.¹²³

The lack of transparency and accountability, notable in Russia as well as in Moldova in the 90s, makes it difficult to evaluate the agreement in terms of its profitability for Moldova. Some scholars argue that it had a twofold fraud. In the first place, Gazprom is believed to have artificially risen Moldova's gas debt to an approximately 9 times higher through its price and penalty policy; and second, the overall estimation of Moldova's gas infrastructure was calculated at a dumping price, around 45 times less than its market value at that time.¹²⁴ All of the above allowed Gazprom to claim the controlling stake of the joint company. But

¹²² Ibid: 7-8

¹²³ V. Parlicov and T. Soitu (2007): *The Gaze Industry in RM: the Burden of Ignorance and the Cost of Errors*. Institute for Development and Social Initiatives (IDIS Viitorul): 5, 10. <http://www.viitorul.org>

¹²⁴ Ibid: 5-12

Gazprom went further and in 1998 by using similar debt mechanisms signed a new agreement with the Moldovan party in founding another gas joint venture on the basis of the old one, this time comprising Moldovan and Transnistrian regional gas pipelines and facilities. The new company retained its agreed structure till the current day with Gazprom having 50 percent and one share, Moldova – 35,33 percent and Transnistria – 13,44 percent.¹²⁵

Such surrender of its strategically important energy asset had a rather negative consequence for Moldova. Apart from the obvious limitations to its bargaining powers, Gazprom's leading role on its domestic gas market did not bring Moldovan energy customers any significant price or service benefits. Thus, in 1994 as the first joint venture was active, the gas price for 1000 cubic meters of gas for Moldova was \$80, whereas for the CIS gas recipients it was fluctuating between \$30 and \$80, at the same time the gas transit price for Gazprom through Moldova was significantly lower in Moldova than in Ukraine – \$1,3 and \$1,7 respectively.¹²⁶

Interestingly, neither the creation of the joint venture was followed by oppositional protests or public displeasure, nor were there any attempts made to revise the agreement. Only in 2011 did Moldavian Parliament start to think about investigating the activities and price policy of Moldovagaz and its subsidiaries on the suspicion of economic fraud and corruption.¹²⁷ Corruption is also likely to be one of the reasons for Russian economic breakthrough in Moldova. Early 90s Moldova was considered one of the most democratic states on the post Soviet space and was giving much hope for the further democratic development path. In reality a backward trend took place that was strengthening throughout the mid and late 90s and resulted in a 'semi-consolidated authoritarianism' rating from the Freedom House.¹²⁸ These developing authoritarian tendencies went hand in hand with oligarchy, fraudulent privatisation and political dependency from wealthy individuals. Under these conditions, Russian business structures, operating in a similar environment at home, had good chances of reaching their goals, which were otherwise unlikely under free market conditions.

¹²⁵ Moldovagaz (2010): Annual Report.

http://www.moldovagaz.md/userfiles/file/darea_de_seama_2010.pdf

¹²⁶ V. Parlicov and T. Soitu (2007): 11

¹²⁷ State News Agency Moldpres (2011): Press Release

<http://portal.moldpres.md/default.asp?Lang=en&ID=153203>

¹²⁸ A. Mungiu-Pippidi and I. Munteanu (2009): Moldova's Twitter Revolution. *Journal of Democracy*, 20(3): 136-137

Apart from the differences in the energy sector, Moldova shares a comparably troubling economic situation with the two other target states. Historically agrarian, poor in resources and having lost most of its industrial assets to Transnistria, Moldova has been struggling to establish itself as a viable economy since gaining independence and still fails to reach the levels of economic performance it had in Soviet times. The relatively stable growth of the recent years was to a great extent remittance-driven, which is despite bringing visible positive short-term developments, may hardly represent a sustainable and long lasting model. Structural and fiscal reforms, massive underemployment, the uncompetitive agrarian sector with limited market orientation and a poor business environment are the key issues to be addressed in order to reverse Moldova's economic decline.

Similar to other post-Soviet states, Moldova had to embark on a painful transition from central planning to a market economy. This process, accompanied by a dramatic output reduction with consequent job shedding, was additionally aggravated by the regional economic crisis in 1998 that provoked massive emigration of the labour pool. This phenomenon turned into a trend that remained more or less constant till the present day. As of 2005 at least one fourth of the economically active population had left Moldova to work abroad.¹²⁹ The actual amount of emigrants is likely to be much higher, since official numbers cover only those who declared their departure. The money that the emigrants sent back home made Moldova one of the largest remittance recipients in the world, with the share of remittances reaching up to 25 per cent of GDP, which is far beyond the CIS average where this index hardly exceeds five percent.¹³⁰

For a time being this economic model served Moldova quite well. According to the World Bank, from 2000 to 2008 Moldova's GDP growth was over 6 percent, which is approximately in line with the regional average. Economic performance in recent years has been steady, although vulnerable to the external environment, but still enough for a dramatic poverty reduction that made Moldova one of the world's greatest successors in this field. Directly after gaining independence nearly half of the Moldavians were beyond the poverty line, this number went up to nearly 70 percent of the population in the aftermath of the regional

¹²⁹ IMF (2005): Country Report No. 05/54: 14.

<https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Republic-of-Moldova-Selected-Issues-18061>

¹³⁰ Ibid: 7, 11

economic crisis of 1998 but then steadily went down again to below 20 percent in 2011.¹³¹ Remittances traditionally contribute to rapid poverty curtailment since money flows directly to the recipients, bypassing any government structures. A similar positive effect of remittances may be observed in regard to the purchasing power and growing consumption, which in its turn boosted GDP growth.

In the long term, however, overreliance on remittances bears certain risks. Should remittance inflow reduce, the vulnerable domestic economy will start stagnating, lacking other growth mechanisms. There emerges a vicious circle where emigrants leave seeking escape from the poor domestic situation, but by sending money back to their families help create a shiny facade at home that only disguises the scope of economic problems to be solved. The relative public wealth achieved through remittances reduces the pressure on the authorities to implement reforms and lowers the urgency of creating prerequisites for sustainable growth. This means that by doing little to reverse the situation that caused mass emigration in the first place, there are few incentives for Moldavians to return, leaving the country deprived of their labour power. In addition to this, remittances push up wages, which makes domestic production more costly, and end up hampering the competitiveness of Moldovan goods.

The worldwide analysis of remittance-receiving economies showed that apart from improving the sustainability of the government debt and having a positive impact on the economy's balance of payments, there is little empirical evidence across the world that would allow to link remittances to economic growth. On the contrary, high volumes of remittances tend to appreciate the equilibrium real exchange rate with the consequence of higher consumption levels coming at the expense of long-term growth and total factor productivity.¹³² In addition, the affected economies run the risk of underestimating the costs of remittances and failing to manage their counterproductive side effects accordingly. One of the subsequent alterations of government behaviour, especially worth mentioning with regard to Moldova, is taking advantage of remittances without channelling them into activities that would promote domestic economic development. The most rational way to use remittances efficiently is for the government to invest in infrastructure and the productive sectors of the economy.

¹³¹ Ministry of Economy and Infrastructure of the Republic of Moldova (2012): Poverty Report: 11 <http://mei.gov.md/sites/default/files/poverty-report-republic-of-moldova-2010-2011.pdf>

¹³² R. Chami (2008): Macroeconomic Consequences of Remittances. IMF, Washington, DC: 58

Moldova, where remittances are significantly higher than foreign direct investment and represent the main source of foreign currency, chose the easy way of allocating its spending within the public sector by increasing wages and pensions, especially in the pre-election period. The asymmetrical emphasis on social projects and unsustainable state enterprises amounted to nearly 50 percent of GDP in 2009, increasing Moldova's deficit to a structurally unbearable range.¹³³ Maintenance or creation of infrastructure, on the contrary, was not prioritized while investment projects were largely neglected. As a result of such inefficient spending, Moldova had to face an "infrastructure deficit" with poor transportation, communication and state production stance¹³⁴, being one of the major business impediments in the country.

Private remittance spending in its turn is mainly limited to the consumption of goods and services instead of turning into productive investments or capital accumulation and, thus, fails to cover the deficit as well, lowering Moldova's chances of self-sustained growth. Although saving money is natural for emigrants and remittance receiving households, they tend to keep their money at home. Due to the distrust and malfunctioning of Moldova's financial and banking system a large share of migrants' revenues remain in private hands without working for the economy. As of 2010 only around 20 percent of remittances were invested, among other things into private businesses.¹³⁵ Moderate levels of entrepreneurship can be accounted not so much for the lack of commercial spirit among the Moldavians, as for the unattractive business environment. Bureaucratic hurdles, corruption, discouraging taxation and weak protection of the domestic market stand in the way of more business activities.

The biggest growth handicap for Moldova is, however, according to Business Environment and Enterprise Performance Survey, an emigration-driven shortage of adequate labour force. In comparison with 1998 when economically active population amounted to 1,8 million, its number dropped to 1,23 million in 2010, which is a mere 34,7 percent of the total

¹³³ The World Bank (2011): *Moldova After the Global Crisis: Promoting Competitiveness and Shared Growth*: 9. <http://documents.worldbank.org/curated/en/291951468054585656/Moldova-After-the-global-crisis-promoting-competitiveness-and-shared-growth>

¹³⁴ The World Bank (2013): *External Shocks, Fiscal Policy and Income Distribution: Alternative Scenarios for Moldova*: 8. <http://documents.worldbank.org/curated/en/508991468050951085/External-shocks-fiscal-policy-and-income-distribution-alternative-scenarios-for-Moldova>

¹³⁵ International Organization for Migration (IOM) (2010): <http://iom.md/index.php/en/publications>: 26

population.¹³⁶ The major reduction of workforce was especially noticeable in rural regions that used to host the absolute majority of Moldovan economically active inhabitants. Emigration affected these areas the most as they were the poorest in the country. Parallel to the contraction of workforce, the amount of inactive population has been, on the contrary, steadily rising. In 2010 it amounted to 65 percent of Moldova's population, having more than doubled since 2000.¹³⁷ This development is another side effect of massive remittance inflows. Members of revenue receiving households have the possibility to enjoy a moderate welfare without needing to enter the official labour market. The lack or underdevelopment of production capacities within the agricultural sector together with a large share of informal employment aggravates the situation further.

In sum, remittances only buy a time-out for national governments to sort things out and prepare domestic economies for the inevitable slowdown in remittance volumes. The gradual fall in the amount of remittances comes through the fading connection between emigrants and their homeland, as they tend to collect the remaining family and settle abroad. A more abrupt change in remittance flows may be caused through the economic recession in the hosting country. The origin of remittances has not been constant over time. Initially, the favourite destination for Moldova's emigrants was the EU, predominantly Italy and Portugal, which is logical given economic struggling among the post-Soviet states in the 90s. From 2008 this trend changed to the CIS countries, where Russia holds the leadership position. In 2011 over 60 percent of remittances came from the CIS region, 91,5 percent of which from Russia.¹³⁸

According to the EBRD, the collapse of remittances from Russia was the major channel through which Moldova was affected by the 2008 economic crisis.¹³⁹ In 2009 remittances dropped by over 37 percent, followed by the real GDP contraction by 6,5 percent and a collapse of the industrial output, affecting practically all sectors and ranging from 12 to 60 percent.¹⁴⁰ The severity of this downturn revealed Moldova's vulnerability to the economic performance of hosting countries and the need for an alternative source of growth. In fact,

¹³⁶ International Organization for Migration (IOM) (2012): *Extended Migration Profile of the Republic of Moldova 2005-2010*: 134. <https://publications.iom.int/books/extended-migration-profile-republic-moldova>

¹³⁷ Ibid: 139

¹³⁸ A. Stratan et al. (2013): *Development and Side Effects of Remittances in the CIS Countries: The Case of Moldova*. CARIM East (Consortium for Applied Research on International Migration), Report No. 2013/23:10-11. <http://www.carim-east.eu/media/CARIM-East-RR-2013-25.pdf>

¹³⁹ EBRD (2013): 102

¹⁴⁰ The World Bank (2011): 1-4

agriculture and food processing, given Moldova's advantageous climatic and soil conditions, should be the sectors to place emphasis on in a historically agrarian country. However, recent developments took another turn.

Throughout 2000-2010 the main contributor to the economic growth in Moldova, apart from remittances, was consumption-driven productivity in the services sector and the resale of goods. This is best illustrated by labour reallocation from formerly leading agriculture and industry sectors to wholesale, retail, hotels, restaurants and construction. The services sector was the only one that created jobs, while the agricultural sector suffered the most from employment destruction with 10,6 percent annually¹⁴¹, followed by manufacturing where labour reduction was less devastating. Parallel to the negative employment trend goes the declining competitiveness of Moldovan trading goods as a result of the downward trade factor productivity growth and falling output per worker. Most troubling is the decline in business output on the basis of domestic production. If in 2003 thirty percent of total revenues in the non-financial sector came from own production while the share of revenues from the resale of goods amounted to 45 percent, in 2008 the correlation changed in favour of the latter with 54 percent while domestic production lagged behind with 20 percent of the total output.¹⁴² The fact that Moldovan businesses shift away from the productive sectors may stand in the way of developing sustainable growth.

The agricultural sector, being historically the backbone of the Moldovan economy could be the one to bring the country back on track of sustainable development. Having otherwise limited alternatives, Moldova has undertaken a series of reforms to bring its agriculture into line with the common market practices that have already born fruits, although fundamental market-based reforms remained largely inconsistent. Certain progress has been achieved in the distribution of land cultivation where the share of state or large collective farms that used to have a near to 100 percent monopoly over the land dropped to around 50 percent. This is still far below the market model where far over ninety percent of the land is either in private hands or is in control of small and middle-sized farms. Despite its insufficiencies the scope of farm reorganization in Moldova achieved through the National Land Program

¹⁴¹ Ibid: 11

¹⁴² Ibid: 16

starting 1998 has measurably outperformed land allocation attempts of the neighbouring states with similar collective farms legacy.

However, despite making steps in the right direction the Moldovan farm structure fails to fit the market pattern to an extent, sufficient for prompting growth. On the contrary, the sector output has been steadily shrinking from nearly 30 percent of GDP in 1999 to a mere 11 percent in 2009.¹⁴³ Given that around 30 percent of the employed are occupied in the agricultural sector, its instability leaves them vulnerable to both yield fluctuation and remittance degradation. There are multiple reasons for the stagnation in Moldovan agriculture. It is partly the unfinished land privatisation reform with an immoderate share of large corporate farms that despite their size are far less efficient in production than small or individual farms. Similar inefficiencies take place in regard to state subsidies that pass small farms by and are used by large agricultural enterprises mainly for fertilizers and pesticides instead of productive investments.¹⁴⁴ Measures dealing with the improvement of taxation climate and customs regulations, which could help the sector more, remain insufficiently addressed by the government.

The imperfections within the Moldovan agricultural sector led to poor competitiveness of its goods and declining exports. As a result, from 2007 on Moldova experiences the negative food trade balance, in addition to which it ceased to export agricultural products that had been exported only a decade ago. This underlines the recent trend observed by the World Bank that the share of small Moldovan farmers losing profits or making losses has been increasing, due to the declining real value of agriculture in the country.¹⁴⁵ In other words, real food prices in Moldova have been falling since 2000, which is no bad development as such if accompanied by faster rising productivity. In case of Moldova, productivity was either stagnating or rising very slowly. So were Moldovan yields, which still lie below the average of the neighbouring states like Ukraine, Romania and Poland. The above obstructs small farming within Moldova, which is normally the engine of growth within the sector, making young people seek employment outside agriculture or abandon Moldova. The share of population employed in agriculture already dropped from 50 percent in 2000 to 29 percent

¹⁴³ The World Bank (2013b): Reducing the Vulnerability of Moldova's Agricultural Systems to Climate Change: Impact Assessment and Adaptation Options: 20.
<http://documents.worldbank.org/curated/en/514581468062063065/Reducing-the-vulnerability-of-Moldovas-agricultural-systems-to-climate-change-impact-assessment-and-adaptation-options>

¹⁴⁴ Ibid: 31

¹⁴⁵ The World Bank (2011): 47, 49

in 2013, whereas the average age of a Moldovan farmer has increased by over 10 years.¹⁴⁶ Nevertheless, there have also been some positive trends within the sector. Moldova managed to reduce its overreliance of the agricultural exports on the CIS markets, whose share used to be around 80 percent in 2000, and increase trade volumes with the EU that accounted to over 40 percent in 2013. The share of exports to the EU could have been even higher if more Moldovan products could meet sanitary standards of the European market. Another obstacle is the insufficient development and use of the food processing, the products of which hardly exceed one fifth of the total agricultural exports.

A broader picture of Moldova's external trade displays shortcomings similar to those of the agricultural sector. Since gaining independence Moldova was having a steadily increasing trade deficit that had its peak in the crisis year of 2008 when the value of imports reached up only to 32 percent of the exports.¹⁴⁷ The trade gap had decreased since then, although Moldova's exports failed to climb over the 50 percent mark in comparison to the imports. This is hardly surprising given the nature of Moldovan exports, consisting mainly of food, vegetable raw materials and textiles. Apart from the limited range of exported products, they are mostly of low added value through intensive production in terms of both human and natural resources.

Diversification of the export basket with the current technological level is hardly possible for Moldova on its own. What can and need to be done domestically is the renouncement of protectionism practices and attraction of foreign direct investments. The latter is usually rather sensitive to reform, investment and business climate in the country. Moldova is to a certain extent notorious in this regard. In addition to general overbureaucratisation and high levels of corruption, Moldova is still struggling with the image of a poor and unpredictable partner. More importantly, practical and effective implementation of legislation is still a problem, accompanied by frequent administrative intervention in business activities, including repressive actions, and high influence of politics over the economic sphere.¹⁴⁸

Like the agricultural sector, Moldova's foreign trade with the EU has experienced a noticeable increase in volume. Both imports and exports between the two were growing

¹⁴⁶ Data obtained from the Statistical Databank of the National Bureau of Statistics of Moldova: <http://statbank.statistica.md>

¹⁴⁷ G. Belostecinic (2012): Economic Competitiveness – Prerequisite to Accelerate Moldova's Accession to the European Union. *Review of General Management*, 16(2): 32

¹⁴⁸ Ibid: 39

annually to over 15 percent between 2000 and 2012.¹⁴⁹ Unfortunately for Moldova, the range of trade partners within the EU was not expanding together with its volumes, remaining for all these years practically constant. The list of Moldova's major EU trade partners is rather short, comprising Romania, Italy, Germany, Poland and the UK. Adding CIS countries to the list does not change the picture of excessive geographical concentration of trade. In this vein, Moldova's five largest trade partners accounted for 75 and 62 percent of Moldova's exports in 2000 and 2013 respectively. Imports show lower, although still high levels of concentration with 61 and 55 percent for the same two control years.

The economic component of bilateral relations with Russia is obviously the principal background for economic coercion between the parties. Still, having in mind Russia's habit to link economic ties with political issues, sanctions step over the bounds of the dealings between two business units and lands in the sector of foreign policy. At this point the issues of the national identity and geopolitical orientation enter the scene, which are to be discussed in more detail below.

Foreign-political fluctuation of the target states

Since Moldova's economic situation had long been constantly dire, there was hardly another way to face bargaining with Russia as to overtrump its economic sanctions with a geopolitical card. Chisinau has a long history of shifting its foreign policy back and forth towards and away from Russia that seems to illustrate Moldova's soft balancing efforts. Despite initial difficulties, Moldova managed to use its political ambivalence masterfully. During the first years of the independent Moldova, external environment was not responsive to Chisinau's balancing acts. However, along with the changing geopolitical setting around the country and growing EU interests in Moldova, it managed to drive down Russian influence and the damage of its sanctions.

Shortly after gaining independence in early 90s Moldova was not on the radar of the European states. Far from the border of the European Economic Community (EEC) at that time and viewed as a source of potential instability, Moldova was of limited importance to

¹⁴⁹ Data obtained from the Statistical Databank of the National Bureau of Statistics of Moldova: <http://statbank.statistica.md>

the West and faced a corresponding low-priority treatment. In this vein, relations between the Community and Moldova were based on the Trade and Cooperation Agreement signed back in 1989 between EEC and the USSR. Although Moldova's attempts at rapprochement with the EEC and later the EU had been pronounced immediately after the dissolution of the Soviet Union, it was not until mid 90s that they had been heard and a cautious dialogue between the two started.

The first step was signing the Partnership and Cooperation agreement (PCA) in 1994, which despite being a good start, should not be overestimated, since it introduced only marginal changes compared to the existing agreement of 1989 and entered into force only four years later in 1998. Focusing mostly on economic issues, PCA lacked a pronounced policy objective for Moldova and was mainly vague in its motivation and formulations. In general, the EU was at that point unwilling to meet Moldova's expectations of closer cooperation, let alone consider it as a potential member. In Moldova itself the integration rhetoric was not accompanied by noticeable reforms aimed at Europeanization and even the PCA commitments remained largely unaddressed or unimplemented.

The winding path towards further Europeanization was pursued, even if not without setbacks, during the communist rule from 2001 till 2009 as well. In 2003 Moldova was included in the European Neighbourhood Policy (ENP), seen as an alternative to the EU membership for states bordering the Union. The year 2005 was especially fruitful in advancing Moldova's integration into European economic and social structures with the new Action Plan within the framework of the ENP aimed at reforming Moldovan legislation and regulations in order to approximate them to those of the EU. In addition, the Moldovan Parliament adopted a Declaration on the Political Partnership with the objective of the European Integration¹⁵⁰, which adopted by all four parliamentary fractions indicated unusual levels of unanimity regarding Moldova's strategic course. As a symbolic act in support of the European vector the Foreign Ministry got the name of the Ministry of Foreign Affairs and European Integration the same year. The last major agreement signed under the communist government dates back to 2008 and deals with visa facilitation issues, on the basis of which Moldovan citizens have enjoyed a visa-free regime with the EU since mid 2014.

¹⁵⁰ E. Korosteleva (2010): Moldova's European Choice: 'Between Two Stools'. *Europe-Asia Studies*, 62(8): 1273

Rapprochement with the EU and the implementation of the Action Plan stalled for a while after 2009 parliamentary elections and subsequent political stalemate marked by the inability to elect president for three years. However, Chisinau continued to show its pro-European aspirations and made another step in this direction by signing the Association Agreement and entering the preferential trade regime with the EU - the Deep and Comprehensive Free Trade Area (DCFTA) in 2014.

What on the face of it looks like a strategic pro-European orientation and a consistent policy of achieving it, appears to be less so considered from the perspective of soft balancing. Although it became utterly pronounced in 00s during the Voronin presidency, Moldova sought to constrain Russian influence already throughout the 90s. The early attempts did not bear enough fruits to consider them successful, however they indicate initial testing of the soft balancing strategy. One of its core instruments is institutional binding, which allows the weaker state to limit the abilities of the stronger partner to impose its agenda. At the dawn of its independency, Moldova despite its will was of little interest to the established, non-Russia-dominated political institutions. After knocking on the EU's door and getting indistinct promises instead of a clear answer, Moldova became a founding member of the GUAM organization in 1997 in an attempt to create a regional supplement to the CIS, the membership in which it had enjoyed since 1994. The initiative fell short of evolving beyond a minor irritant to Russia not least because of the missing domestic pressure on the elites to loosen ties with Moscow. Opinion polls in the 90s show no pronounced desire among Moldavians to move towards the West, a position underpinned by cordial relations the country's elite had with Moscow.¹⁵¹ At the early stage of Moldova's sovereignty Russia was not seen as a security and political threat by the public and more importantly posed no danger to the survival of the ruling elite. Combined with the passivity of potential allies, Moldova's soft balancing was merely half-hearted and without tangible consequences.

In 2001 when the Party of Communists of the Republic of Moldova (PCRM) came to power having won the absolute majority promoting closer ties to Russia, the Moldovan public was still looking towards the East and saw in good relationship with Moscow a chance to solve the Transnistrian issue. This standpoint seemed to be justified till 2003 when the Kozak plan for the Transnistrian settlement was introduced and nearly adopted. President Voronin's

¹⁵¹ C. Cantir and R. Kennedy (2015): Balancing on the Shoulders of Giants: Moldova's Foreign Policy Toward Russia and the European Union. *Foreign Policy Analysis*, 11(4): 403

decision to withdraw his support for the plan in the last minute sparked another round of Chisinau's soft balancing, which started to become a geopolitical priority with high success potential in the face of the changed external environment marked by increasing interest to a soon neighbouring Moldova on the part of the enlarging EU. Moldova's striking shift in its foreign policy was not only a reaction to the security threat posed by the Kozak memorandum, which delegating too much power to the separatist regions could have disintegrated the country from within. More importantly, the new power allocation proposed by the plan threatened the political and administrative control of the PRCM. Having a constitutional majority and being the only solid political power representing Russian-speaking and eastern-oriented Moldavians, PRCM would have gotten a strong rival in the person of the Transnistrian president Smirnov and his party. The possible erosion of the PRCM electorate as well as the prospect of sharing power with the Russia-backed representatives of the separatist region represented a viable danger to the Communist position within the country. Russia's plan to federalize Moldova was the first solid threat to the Moldovan ruling elite and to a certain extent a challenge to its sovereignty that forced Moldova to intensify its attempts to frustrate Moscow's goals.

The changing external environment coupled with emerging domestic pressure for a European vector played in the hands of PRCM that after failing its electoral promise to reunite Moldova found itself in need of a fresh electorate catcher. In November 2001, shortly after coming into power, Voronin with overwhelming 70% enjoyed by far the highest trust rate of all politicians among the general public, while 39% of Moldavians would have voted for his Party of Communists if the elections took place the next Sunday, leaving other political forces way behind.¹⁵² In the election year of 2005 Voronin was still heading the list of the trustworthiest politicians with 43%, although closely followed by Vasile Tarlev and Marian Lupu, both communists at that time.¹⁵³ In line with individual popularity, the same poll showed that 58% of Moldavians would have voted communist if given the chance. The preferences of the Moldovan electorate prove to be much less unequivocal with respect to the foreign political orientation, at least in the early 2000s. Since 1998 when 52% favoured strengthening relations with the CIS, public support for the Eastern vector has been steadily

¹⁵² Institutul de Politici Publice (2001): Barometer of Public Opinion, November. <http://ipp.md/old/lib.php?l=ro&idc=156&year=2011>

¹⁵³ Institutul de Politici Publice (2005): Barometer of Public Opinion, December. <http://ipp.md/old/lib.php?l=ro&idc=156&year=2005>

eroding, being only slightly in favour of the CIS over the EU with 41 and 40 percent respectively in 2002 to reach constantly higher support rates for the European choice throughout the PCRM rule.¹⁵⁴

The shift in Moldovan public opinion was mirrored in the political landscape prior to the 2005 parliamentary elections. Out of 23 registered entities only one – Patria-Rodina electoral bloc had a pro-Russian orientation, whereas others who had a chance of surpassing the electoral barrier – the Social Democratic Party, the Christian Democratic People’s Party and the electoral bloc Democratic Moldova had positioned European integration as their strategic goal.¹⁵⁵ Therefore, having upset a part of its Russia-oriented supporters, PCRM needed to ride the emerging pro-European wave among the Moldavians and draw away the competitor’s electorate by adding European aspirations to its political platform. Adjusting its electoral agenda to the majority of the public opinion against the background of deteriorated relations with Russia and its economic sanctions, PCRM balanced in response to the incoming threat from Moscow who was seen as seeking to undermine the existing political configuration in Moldova. After winning the elections and having maintained internal control, Voronin continued his soft balancing attempts with regard to the Transnistrian settlement through initiating new diplomatic arrangements to counterweight Russian over-presence in the region. A new ‘five plus two’ format was introduced to continue negotiating over the Transnistrian issue where the two referred to the EU and the USA as additional observers. Moldova also requested international monitoring of the Transnistrian border with Ukraine to which it had no direct access. The official EU Border Assistance Mission was launched late 2005 and had a commonly recognised effect of strengthening Chisinau’s position in talks with Tiraspol.¹⁵⁶

In terms of economic balancing, aware of Moldova’s economic vulnerability and constraints on the part of the external environment, Voronin undertook a trade and financial reorientation that was coupled with implementing reforms stated in the Action Plan. Seeking to constrain more resourceful Russia, Moldova needed in the first place a viable economic alternative, which had its own expectations and imperatives. In the course of further

¹⁵⁴ Institutul de Politici Publice (2001): *Analiza Barometrului de Opinie Publică 1998, 2000, 2001*. <http://ipp.md/old/lib.php?l=ro&idc=156&year=2001>; Institutul de Politici Publice (2002): *Barometer of Public Opinion*, April. <http://ipp.md/old/lib.php?l=ro&idc=156&year=2002>

¹⁵⁵ C. Cantir and R. Kennedy (2014): 15

¹⁵⁶ *Ibid*: 9-10

rapprochement with the EU starting 2008 Moldova upgraded its trade relations with the EU through the Autonomous Trade Preferences regime, granting it duty-free access to the European market.¹⁵⁷ Moreover, Moldova was a beneficiary of multiple financial aid programs within the ENP and TACIS (Technical Aid to the Commonwealth of Independent States), which made it leading aid recipient per capita in the region.¹⁵⁸ The whole package helped Moldova to significantly reduce its trade dependence on the CIS and Russia in particular, who by imposing various trade restrictions on Moldovan products was to a certain extent herself to blame for the weakening position on Moldova's market.

Importantly, trade incentives were much more pronounced in Moldova's domestic reform politics than any other stipulated by the Action Plan with the EU. In fact, the communist government was cherry-picking those provisions of the common agenda that contributed to trade facilitation and further financial assistance from the EU. Consequently, the adoption and application of the necessary legislation on customs procedures and export certificate standards was implemented in an immediate and comprehensive manner, fulfilling the majority of the Action Plan demands in this sector.¹⁵⁹ As far as other areas of the preconditioned reforms are concerned, such as rule of law, democracy or human rights, there had been little progress and even less will to align with the European norms. Generally, the Moldovan elite did not see the endorsement of the European vector in light of the necessary domestic transformation or look beyond the profits of the economic cooperation. Rather than being a value-oriented choice, Moldova's Europeanization was driven by immediate tactical considerations and domestic power play within a broader soft balancing context.

The same holds true for the Alliance for European Integration (AEI), a coalition consisting of the Liberal Democratic, Liberal and Democratic parties. Despite the clear-cut orientation towards the EU, documented both in the name and the rhetoric of the alliance, it seemed to be less identity-driven, but rather conditioned by personal career ambitions and redistribution of power and financial resources after the communists loosened their grip of it. While presenting European choice as a response to the critical questions of Moldova's economic misery and institutionalized corruption, AEI failed to find real answers through valid reforms. The lack of progress on the actual Europeanization of Moldovan society was

¹⁵⁷ E. Korosteleva (2010): 1275

¹⁵⁸ Ibid: 1276-1277

¹⁵⁹ C. Hagemann (2013): External Governance on the Terms of the Partner? The EU, Russia and the Republic of Moldova in the European Neighborhood Policy. *European Integration*, 35(7): 775-776

partially concealed by populist actions like the condemnation of the Soviet communist crimes and the prohibition of the communist symbols. Ironically, the Venice Commission of the Council of Europe found the ban on using the hammer and sickle, still practiced by the PCRM, incompatible with the European standards on freedom of expression¹⁶⁰. Owing to a strong recommendation from the West the ban had to be dismissed a year later. Apart from the anecdotal episodes of the AEI rule, the implementation of the Action Plan agenda enjoyed a less amusing assessment. The ENP Progress Report on this issue concluded that freedom of expression in Moldova was hampered by insufficient law protection, while the laws on access to information and the transparency of the public decisionmaking process were enforced either inadequately or in a selective manner.¹⁶¹ According to the same report, progress was equally poor in the field of combating corruption, strengthening social dialogue and enforcing the rule of law.

The extent of the declarative character of the coalition's goals was revealed more than once. After the Parliamentary elections in 2010 Marian Lupu, the leader of the Democratic Party and member of the AEI, was on the brink of leaving the alliance and form a coalition with the PCRM. The Communist Party, which had found back to its pro-Russian orientation in a new oppositional capacity, needed a partner with a similar stance to gain the majority in the Parliament. Lupu, who had quit being communist only a year earlier and still retained close ties to Moscow, had been actively seduced by the Russian presidential chief of staff Naryshkin to form a new Russia-friendly alliance.¹⁶² The Democratic Party, however, remained within the AEI till the no-confidence vote of the Parliament in March 2013 that compelled the alliance to resign. The crisis was the culmination of the internal power and direction struggle of the allied parties, taking course amid mutual release of compromising materials, initiation of anti-corruption criminal actions and a series of reciprocal dismissals at the highest levels. As stated in the ENP Progress Report of that year, political crisis evolved into an institutional one, mirroring a broader problem of malfunctioning of the

¹⁶⁰ Venice Commission, Council of Europe (2013): VC Opinion No. 697/2012. [http://www.venice.coe.int/webforms/documents/?pdf=CDL\(2013\)006-e](http://www.venice.coe.int/webforms/documents/?pdf=CDL(2013)006-e)

¹⁶¹ European Union External Action (2011): Moldova: ENP Progress Report. <https://library.euneighbours.eu/content/moldova-enp-progress-report-2011>

¹⁶² Kommersant (2010): Moldavija Podast Golos Rosii. No.100, 05.06.2010

constitutional and political set-up, which was exacerbated by insufficient plurality of the media landscape, serving political and business interests.¹⁶³

After pressure from the EU, the Moldovan elite managed to form a new pro-European coalition, which however shared to a great extent the composition and shortcomings of the previous one. Whatever the name and political arrangement the ruling alliances had been from 2009 on, they were all trapped within the declared exclusivity of their European orientation that narrowed down their room for manoeuvre by decreasing other external options. At the same time by balancing away from dependency on Russia, Chisinau did not obtain the necessary levels of autonomy to be able to pursue an independent policy. The European vector offered Moldova the opportunity, direction and necessary financial assistance to modernize both economically and politically in order to outgrow the role of a contested territory in an East-West influence struggle and gain a strong voice of its own. Having missed it, Moldova simply switched its source of dependency from the East to the West and limited its ability to balance, which may be a handicap not only in relations with Russia, but in the first place domestically. In need of a success case for the ENP program, especially in light of the Ukraine crisis, the EU already turned a blind eye on the failings of the Action Plan agenda for the purpose of making Chisinau's European vector irreversible. Further rapprochement with the EU makes it unlikely for Moldova to be able to balance within the former amplitude, which given the divide on the orientation and identity issues within the Moldavian society, makes it difficult for any government to represent the majority of the public.

National identity of the Moldavians is twofold – Romania driven and genuine Moldovan, which in its turn has a pro-Russian and a pro-European direction. The pan-Romanianism was having a leading hand prior to Moldova's independence. Its basic idea was the unity of Romanian and Moldavian peoples, based on their common history, language and culture, which led to the logical aspiration of a common unified state. On the contrary, the genuine Moldavian stance advocated the inherent self-worth of Moldavians and underlined the value of independence. Predictably, the debate was heavily influenced by the openly pro-Russian orientation of Transnistria and its de facto autonomous position. Thus, partly out of fear to lose Transnistria altogether, partly due to the growing acceptance of Moldova's sovereignty,

¹⁶³ European Union External Action (2013): Moldova: Progress Report.
<https://library.eunighbours.eu/content/moldova-enp-progress-report-2013>

the issue of reunification with Romania was steadily losing ground. Projected at the current political elites, the pan-Romanian movement evolved into supporting the European vector of Moldova's foreign policy and its accession into the EU. 'Moldavianism' has also experienced a certain evolution. Having translated into a moderate and broadly accepted conception of the state among the general public¹⁶⁴, its advocates among the political elite were less homogenous and lacking a single vision of the states' basic geo-political orientation.

Domestic pressure for serving the plurality of the foreign political orientation has already been experienced by the PCRM and proven to be helpful for retaining power and expanding the public backing. According to the Moldova's values survey, the divide within the society that seemed to have been overcome in favour of the European choice in 2009 is still present in contemporary Moldova. The survey that compared public perceptions in 2009 and 2013 found out that although remaining an attractive option, the EU ceased to be seen as the best and the only policy priority for Moldova, whereas the Russia-led Customs Union (CU) is perceived as a model, offering stability, prosperity and security.¹⁶⁵ Despite being newly launched, the Customs Union enjoyed much higher interest and awareness rates than the EU (80% vs. 67%) and is believed to have more shared values with Moldova (62% vs. 44%). Furthermore, according to the survey, in a referendum on a preferred cooperation partner 25 percent of Moldavians would opt for both entities, while 36 and 32 percent would favour the Customs Union and the EU respectively, which shows an increase in support rate of 17% for the CU compared to 2009.

One-sided foreign policy orientation, regardless of its eastern or western vector, seems to be incompatible with Moldova's domestic realities and amplifies centrifugal powers within the country. Unequivocal EU membership aspirations changed the tonality of the Transnistrian leadership, no longer interested in any other crisis resolution other than breaking away from Moldova. More importantly for Chisinau, the autonomous territorial unit Gagauzia also showed an ambition to secede from Moldova. In a referendum held in February 2014 the Gagauzian population was asked to express their preferences towards further integration with the EU or strengthening ties with the Customs Union, and whether Gagauzia should seek independence in case Moldova lost its sovereignty. The results of the referendum that

¹⁶⁴ K. Buescher (2002): *Transnationale Beziehungen der Russen in Moldova und der Ukraine*. Peter Lang, Frankfurt am Main: 152-153

¹⁶⁵ Central European Policy Institute (2014): *Sociological Survey: Widening the European Dialogue in Moldova*. http://www.cepolicy.org/sites/cepolicy.org/files/attachments/survey_results.pdf

had a merely consultative nature were overwhelmingly in favour of the CU and Gagauz independence with over 98 percent of votes, while over 97 percent of Gagauzians dismissed the option of EU integration.¹⁶⁶ Official Chisinau took the results hard, but having capitalized on Europeanization and needing Western financial aid to keep the country and own power position intact, the ruling alliance could do little to modify the chosen path. Attempts to balance eastwards could mean political suicide or another government crisis. In this situation the Constitutional Court of Moldova issued a statement, saying that ‘orientation towards the European area of democratic values is a defining element of the constitutional identity of the Republic of Moldova’ whereas any other orientation ‘is unconstitutional a priori’.¹⁶⁷ More broadly, Moldova’s case shows the interplay of international and domestic factors in the fluctuant foreign policy. Stuck between two much too powerful players Moldova’s elites are doomed to face pressure from either of them in case of favouring only one. The nature of this external pressure differs significantly in its form and content. If Russia tends to prefer coercive methods of economic sanctions, the EU acts more cautiously by using soft power and financial aid.

The case of Ukraine represents a resembling story when European aspirations have been proclaimed already in the first independence years, but were not accompanied by a tangible commitment to Europeanization with profound reforms and modernization. Rent-seeking and short-term power considerations dominated over pursuit of national interests among the ruling elite, which as in Moldova imitated Western orientation while pursuing inconsistent, opportunistic and multi-vector foreign policy. Ukraine is also highly ambiguous in terms of national identity with a substantial regional cleavage that supersedes all other issues and constrains pursuing a consistent policy line.

After becoming independent Ukraine was quick to adopt an independent standing when the primary goal of the first president Leonid Kravchuk was to cherish the country’s sovereignty especially by limiting Russia’s influence politically and economically. However his strategy of distancing Ukraine from Russia lacked a viable alternative, since the West was primarily focused on reorganising its relations with Moscow and had not yet elaborated an adequate

¹⁶⁶Autonomous Territorial Unit of Gagauzia (2014): Official Press Release of 03.02.2014.
<http://www.gagauzia.md/newsview.php?l=ru&idc=390&id=4790>

¹⁶⁷ Constitutional Court of the Republic of Moldova (2014): Official Press Release: The Association Agreement between the Republic of Moldova and the European Union – Constitutional.
<http://constcourt.md/lib.php?l=en&idc=7&t=/Overview/Press-Service/News/&year=&month=10>

approach to a bulk of NIS. More importantly, while Ukrainian economy remained heavily dependent on Russia and the proclaimed reorientation on the West lacked a reform basis, the idea of economic detachment backfired badly. The disrupted economic relationship with Russia had undermined not only the Ukrainian economy but also the credibility of Kravchuk's course and his power position. So when challenged by Leonid Kuchma at the presidential elections in 1994, Kravchuk stood no chance against the platform of strengthening ties with Russia, promoted by his rival. After having taken up the post though, Kuchma dismissed his earlier rhetoric of pro-Russian orientation and opted for an alignment with the European Community instead, followed by signing the Partnership and Cooperation Agreement the same year.

Similar to Moldova, Ukraine was neither high on the EU priority list, nor was the Union prepared to recognise Ukrainian membership aspirations, voiced by president Kuchma throughout both of his terms till 2004. The verbal endorsement of the European choice, however, was once again not associated with a corresponding commitment to the core European values. As some point out, Kiev sought "integration by declaration", intending a mere participation in international organizations rather than "undertaking concrete structural changes".¹⁶⁸ In addition to overseeing the conditionality of belonging to the European family and underestimating the challenges of the necessary transformation, Kuchma pursued this goal in a rather authoritarian manner without involving the parliament or the public. Although the Ukrainian constitution infers that the parliament is the body to determine the principles of the foreign policy, the key documents shaping Ukraine's European vector – Strategy on Ukraine's integration with the European Union in 1998 and the Programme of Ukraine's Integration with the EU in 2000 – were adopted by means of presidential decrees bypassing the Rada.¹⁶⁹ This course of action, being a reflection of growing power imbalances and institutional weakness within Ukraine, made the credibility of Kiev's European choice and its public backing in the 90s highly debatable.

The Russian factor played its own role in the inability of Ukraine to fashion a coherent Europe-oriented foreign policy. Firstly, Kiev's declared orientation towards the West was to a large extent caused by security considerations and the threat to the newly obtained

¹⁶⁸ J. Sherr (1999): Ukraine's New Time of Troubles. *The Journal of Slavic Military Studies*, 12(2): 59

¹⁶⁹ K. Wolczuk (2009): Implementation without Coordination: The Impact of EU Conditionality on Ukraine under the European Neighbourhood Policy. *Europe-Asia Studies*, 61(2): 193

sovereignty coming from the big neighbour. In need of finding an adequate strategy to deal with Russia that was having trouble accepting Ukraine's independence and questioned the legitimacy of the Crimea Peninsula remaining Ukrainian, Kiev chose to balance towards the other pole and limit Russian interference by declaring the finality of the European course. Being a geopolitical rationale, the European choice was neither value-based, nor exclusive. Secondly, driven by individual business interests, the elite was in fact more interested in promoting closer economic ties to Russia. In 2003 Ukraine became one of the founding members of the Single Economic Space (SES) with Russia, Kazakhstan and Belarus caring little about its incompatibility with similarly aspired free trade agreement with the EU. Ukraine, therefore, performed an efficient balancing act without giving its foreign policy a clear sense of direction. It managed certain rapprochement with the West not only without upsetting Moscow but having successfully lobbied its business interests in Russia. Overall, in the period of Kuchma's presidency there is little evidence of Kiev comprehending the responsibilities stemming from choosing the European vector. Instead, the EU and its officials were expected to do the dirty work, arrange integration and make sure Ukraine somehow sneaks into the European club.

The new power setting in the aftermath of the Orange Revolution headed by the Yushchenko-Timoshenko tandem brought some dynamic into the process and fostered hopes of a new substance-filled dialogue with the EU. At the same time the new leadership carried out a number of foreign political actions of an anti-Russian character. Among them was the initiative to reinforce the GUAM organization and transform it into a viable counterweight to Russia-dominated regional bodies, and the promotion of an alternative plan to resolve the Transnistrian issue. Moreover, the establishment of the Community for Democratic Choice was initiated, comprising the states of the Baltic, Black and Caspian Sea region, which was perceived by Russia as a "Trojan horse of the West" aimed at facilitating the disentanglement from Russian influence.¹⁷⁰ As for the European vector, early 2005 the foundation for Ukraine's membership application was utterly different. Encouraged by broad public support and demonstrations in favour of the European choice, Kiev expected EU recognition and a substantial membership prospect. However the EU was not ready to embrace Ukraine at that point and continued dealing with it within the framework of the European Neighbourhood Policy and its Action Plan, adopted by both parties in February

¹⁷⁰ F. Proedrou (2010): Ukraine's Foreign Policy: Accounting for Ukraine's Indeterminate Stance Between Russia and the West. *Southeast European and Black Sea Studies*, 10(4): 449

2005. Disappointed on its expectations and objecting the absence of a clear membership perspective, Kiev was reluctant to implement the provisions of the plan and accept Ukraine's pre-candidate status. Despite claims of putting greater emphasis on doing its homework, the Orange leadership lacked political will to do so and failed to override domestic inertia. Another factor that hindered the pursuit of the Action Plan was internal political opposition and competition among various elite groups. Paralysed by the growing turbulences within the Orange camp itself, its struggle with the Party of Regions led by Yanukovych and subsequent parliamentary stalemate and its dissolution in 2007, Ukraine was institutionally too weak take solid care of the EU-related matters.

The following domestic developments changed power dynamics within the ruling coalition not in favour of more success for EU integration. On the face of it, the new Yanukovych government took over the established foreign policy objective and even promoted it to the new institutional level. Yanukovych himself headed the newly created Committee on Defence, Legal Policy and European Integration, whereas the European and financial portfolios landed in the hands of his first deputy Azarov.¹⁷¹ Both fell short of delivering on the proclaimed advance of the European agenda. On the contrary, the Party of Regions along with its top representatives was openly promoting economic integration with Russia and fiercely opposed NATO membership (one of the president Yushchenko's key goals). As a consequence of continued tensions within the ruling elite and lack of accountability mechanisms for the officials in charge, the Orange Revolution and subsequent Yushchenko presidency paved the way for closer relations with the EU, but failed to root democracy and the rule of law in Ukraine firmly enough to stay on the European course.

With Yanukovych presidency starting 2010 the tonality of Ukraine's foreign policy changed significantly from unequivocally pro-Western to a reasonably balanced approach. Policies within this time frame were neither driven by the illusion that European integration would be quick and easy and presuppose palpable reduction of Russia's influence over Ukraine, nor was breaking free from Moscow considered to be a pragmatic choice. Without denying the importance of the European vector, Yanukovych propelled relations with Russia to a high priority, adopting Kuchma-style ambivalence. In fact, multi-vector approach was the only one compatible with Ukraine's domestic scene. Party of Regions, being a party of oligarchs, was a typical representative of Ukraine's ruling elite, which incumbents being "ideologically

¹⁷¹ K. Wolczuk (2009): 201

unattached” were used to changing their positions guided by rent-seeking considerations, thus placing short-term profit objectives before long-term national interests.¹⁷² In this context economic ties with Russia and a substantial financial involvement of Russian investors in Ukraine, who own a significant part of the country’s industrial assets, make amicable relations with Russia an economic imperative. Therefore, as long as Ukrainian decisionmakers do not break free from the oligarchic grip, the latter will continue to work against any policy projects that endanger continuing their business-as-usual practices and fight political initiatives contradicting their business interests. In this regard domestic struggles hold Ukraine’s foreign policy hostage within the dilemma of choosing an eastward or westward course.

Being essentially a geopolitical issue decided at the government level, the assessment of Ukraine’s foreign policy orientation is incomplete without analysing the role of national identity and regional cleavages in shaping a consensus on the country’s future. In this regard Ukraine stands out among the other two cases of Moldova and Belarus by the profound regional polarisation and the decisive impact identity issues exert on the articulation of foreign policy preferences. In fact, Ukrainians are divided in the same manner as their elites are, showing two strong preferences – in favour of European or Eurasian roots. This division goes along and intersects with other cleavages, most persistently those of region, language and ethnic affiliation.

Regionalism, being the core of many of Ukraine’s problems has been pronounced throughout its whole independent history and is most likely to persist further. The rough division can be drawn along the east-west axis. The eastern part, having been longer under control of the Russian and the Soviet states tends to identify stronger with Russia, its culture and political vector. In addition to a large ethnic Russian minority and the dominant role of the Russian language in the region, simple geography plays its own role. Due to measurable cross-border ties with the big neighbour, any implication of rupture with Russia strikes against misunderstanding and resentment. The western regions, on the other hand, have other historical roots stemming from the common past with Austro-Hungary and Poland. Being mostly ethnic Ukrainian and Ukrainian speaking, residents of the western areas are more inclined to reach out for Europe and seek Ukraine’s affiliation with the West. Coupled

¹⁷² T. Kuzio (2012): Twenty Years as an Independent State: Ukraine’s Ten Logical Inconsistencies. *Communist and Post-Communist Studies*, 45: 432-434

with distinct nationalist sentiments that run deep here, the opposition to the rapprochement with Russia, especially at the expense of the trajectory towards the EU, has been traditionally strong.

In more differentiated terms three more regions deserve a separate reference – the central area, the southern regions and the Crimea.¹⁷³ The central region is the most moderate and less polarised of all others. Although predominantly Ukrainian speaking, it also comprises the capital of the country where Russian is used more frequently. In respect to foreign policy orientation, the region is responsive to both visions with preference to a balanced political course. The southern region shows a slight tendency towards the East, probably due to a sizeable Russian minority and the repercussions of the short-lived Novorossiia experience in the 18th century. Without a salient national consciousness and having a mixed ethnic composition, the region occupies a middle ground and lacks a coherent ideology. The Crimea is a whole other story. With over 50 percent of the peninsula population being ethnic Russians, Crimea is the only region where Ukrainians are in a minority position. Underpinned by the presence of the Russian naval base, a pro-Russian sentiment is rather pronounced here. Along with aspiring more autonomy from Ukraine, the Crimeans have been traditionally in favour of maintenance of close ties with Russia.

These regional differences have not only a profound impact on the lack of unity and cohesion within the Ukrainian society. Since external factors are dominant in shaping Ukraine's internal division, the issues of foreign policy become automatically linked to those of national identity. Shulman differentiates between two identities – Eastern Slavic and Ethnic Ukrainian – both of which are build around “one primary external comparison, that between Ukraine and Russia”.¹⁷⁴ As he notes further, the former is based on the bicultural foundation rooted in the perception of common history and heritage of Ukrainians and Russians, whereas the latter distinguishes particular ethnic, linguistic and cultural Ukrainian features and highlights the separate standing of the nation. Most importantly, the two identities are reinforced by the mutual rejection of each other's primary attraction pole, being Russia and Europe respectively. Ethnic Ukrainian identity emphasises its “otherness vis-à-vis Russia” and is based on the assumption that Ukraine is essentially a European nation that should ‘return’

¹⁷³ P. Kubicek (2000): Regional Polarization in Ukraine: Public Opinion, Voting and Legislative Behavior. *Europe-Asia Studies*, 52(2): 274-276

¹⁷⁴ S. Shulman (2005): National Identity and Public Support for Political and Economic Reform in Ukraine. *Slavic Review*, 64(1): 63, 83

back on the initial European track, from which it was derailed by Russification and Sovietization.¹⁷⁵ Adherents of the Slavic identity are not so passionately antagonistic towards Ukrainianism and do not aim at reclaiming a union with Russia. However, they consider close association with Russia essential and treat the idea of Ukrainian pan-Europeanism with scepticism and suspicion.

Given that this split plays out in the election results, Ukraine's regional and identity cleavage inhibits a consensus within the political elite on the priorities of the country's foreign policy. Lacking a shared vision of which direction to go and unable to implement a coherent policy over the objection of the large parts of the dissident population, Ukraine is trapped somewhere in between. The attempted European vector is a good example of the vicious circle of Ukrainian foreign policy. On the one hand, the government made the launch of domestic reforms dependent on a clear prospect of EU membership. The EU in its turn, was not ready to promise its membership to a state that was neither ready to commit unequivocally to the European value base, nor able to undertake some meaningful steps towards genuine Europeanization, among other factors, due to the absence of domestic consent on the chosen course.

The implications of popular orientations, illustrated by the survey data on the issues of international relations and the general perception of their country among Ukrainians show a pattern of domestic equilibrium in regard to public preferences. A number of opinion polls conducted by the Razumkov Centre asked respondents which foreign policy should be a priority for Ukraine, which integration course the country should head for and whether Ukraine was a European country and its citizen belonged to the culture and history of the European community.¹⁷⁶ The results represent a rather ambiguous case. From 2002 till 2010 Russia and the EU were the most preferred foreign policy priorities among Ukrainians, leaving other options such as USA and the CIS far behind. Throughout this period the Russian option was a constant leader, with a short exception of 2005, with popularity ranking ranging between 52,5 and 28,8 percent. The EU was prioritised by 39,6 percent of Ukrainians in the peak year 2005. At the same time when asked whether Ukraine should join the EU the majority constantly answered 'yes' within the same time frame of eight years. Interestingly,

¹⁷⁵ M. Riabchuk (2012): Ukraine's Muddling Through: National Identity and Postcommunist Transition. *Communist and Post-Communist Studies*, 45: 443-444

¹⁷⁶ Razumkov Centre for Economic and Political Studies: <http://www.razumkov.org.ua/eng/socpolls.php>

as soon as the prospect of EU membership is set against joining the Customs Union of Russia, Belarus and Kazakhstan, the preferences are no longer outright. In 2012, 38 percent saw their country's future within the EU against 36 percent, who favoured the CU. Shifting the focus from politics to socio-cultural issues shows a similarly blurry picture. Whereas the absolute majority of Ukrainians consider their country historically and geographically European, 48 percent believe that culturally this is not the case. In the same manner when a poll in 2012 asked Ukrainians if they consider themselves European 32 percent said 'no', 29 percent 'rather no' and only 12 percent answered with 'yes' and 21 percent with 'rather yes'. While there is also a scientific consent that Ukraine's two main national identities result in "cross-cutting cleavages" stemming from disagreements "within as well as between ethnic and linguistic groups"¹⁷⁷, the question remains whether the two are compatible with each other and what kind of foreign policy could satisfy both.

So far Ukraine's foreign policy remained highly constrained by the contested identity vectors and the overall weak state, unable to implement a consistent policy. However paradoxically, Ukraine's ambivalence has proven to be an effective tool of resistance against external coercion. As D'Aniery puts it, because Ukraine's external partners pursue goals that directly contradict one another, the country was able to offset pressure from both of them, thus translating internal weakness into strength in international bargaining.¹⁷⁸ Given that a foreign political course favouring either Russia or the West can only be adopted by achieving a consensus among the domestic elite and the public, which is unlikely, only those policies that do not polarise the Ukrainians further can be successfully arranged. As the latest history shows, when facing implementation, a policy aimed at a decisive shift towards either the Russian or the Western pole is imminently diffused by opposing domestic forces and through losing its initial drive becomes a merely symbolic sign of good will. Thus, neither Kuchma and Yanukovych were able to retain their pro-Russian stance, nor has Yushchenko been successful in implementing his pro-Western agenda. The everlasting status quo does, however, provide Ukraine with a great deal of immunity against external attempts at manipulation and constraint.

¹⁷⁷ N. Munro (2007): Which Way Does Ukraine Face? *Problems of Post-Communism*, 54(6): 55

¹⁷⁸ P. D'Aniery (2012): Ukrainian Foreign Policy from Independence to Inertia. *Communist and Post-Communist Studies*, 45: 454

Fluctuation in Belarus is of another nature and is less tied to the public opinion, which has little opportunity to find an outlet either through elections or public protests. Ever since independence, Belarus has had an unsavoury reputation of Russia's close ally. Herein it distinguished itself remarkably from the two other cases. Belarus stayed within the Russian orbit, formally pursuing far-reaching plans on building a Union State with common economic, political, currency and military space. However, upon a closer look, there is a much less harmonious picture to see. Interestingly, in his first presidential term Lukashenko did not deny the European way for Belarus as well. Although good relations with Moscow were an important part of his foreign policy, its Russian vector had not been the top priority back then.

A balanced approach had already won public support in Belarus in the 90s, when the outcome of the presidential elections was not yet predetermined. When confronted with a debate over national identity in its early years of independence, expressed in a polarized political landscape, Belarus had a choice between pro-Russian isolationists and anti-Russian westernisers, allowing a third political force in the person of Lukashenko to win under the conciliatory tagline 'neither with the left, nor with the right, but with the people'.¹⁷⁹ Belarusians, unlike their Baltic neighbours, were not aspiring to break ties with Russia and the common past. At the same time they were not ready to sacrifice the newly obtained sovereignty for economic benefits. Belarusian borderline national identity reflects Lukashenko's fluctuations from being Russia's close ally to Kremlin's severe critic. Unlike in Ukraine, Belarusian orientation is not geographically divided when regions bordering on Russia are by far less Europe-oriented than the western parts of the country. Popular opinion is also far less polarised in Belarus as in the neighbouring Ukraine, with cases of complete antagonism to Russia being rather rare. Moreover, Belarus enjoys an exceptionally close link to the Russian language, which is, along with Belarusian, the official one. Still, it would be an oversimplification to label the Belarusians as predominantly Russia-driven, although of all the former Soviet republics they are much more so.

Belarusian national identity is a complex issue without a clearly defined stance. Scholarly research concludes that it has a rather vague nature and finds itself in the process of

¹⁷⁹ P. Rudling (2008): Belarus in the Lukashenka Era: National Identity and Relations with Russia: 62-63. In O. Schmidtke and S. Yekelchik *Europe's Last Frontier? Belarus, Moldova and Ukraine Between Russia and the European Union*. Palgrave Macmillan, Basingstoke

establishing, whereas a link to Russia is undeniable as the majority of Belarusians view themselves as simply being different from the Russians.¹⁸⁰ Both historic and religious affiliations contribute to the vagueness of the Belarusian background. In addition to the Orthodox majority, there is a significant Catholic minority in Belarus, stemming from its first being part of the Kievan Rus, later being incorporated into the Polish-Lithuanian Commonwealth until integration into the Russian Empire. That is why, as some scholars note, in reference to Huntington's civilizations, Belarus reflects an ambiguous nature with its Western regions relating to the world of Western Christianity whereas the Eastern ones belong to that of the Orthodox family, a division that has not been entirely overcome until the present day.¹⁸¹ Nevertheless, this ambivalence is rather subtle and non-confrontational to the extent that it lacks the potential to shape civilization-driven foreign policy preferences.

The issue of national identity is incomplete without that of national ideology, which has been increasingly addressed and fashioned by President Lukashenko in order to consolidate the public and legitimise his power. Since the goal of most state ideologies is to be possibly inclusive and far-reaching, the national ideology of Belarus is neither religion- nor ethnic-driven, but instead build upon internal cohesion and external sovereignty. It is recognised to have three essential pillars - national uniqueness, unity and independence – all serving the objective to instil public awareness and appreciation for the particular Belarusian development path and create social immunity to external pressure on the regime.¹⁸² The emphasis on the Belarusian otherness and its independent standing allows Lukashenko to block any reform appeals from the West as well as override Russian attempts to limit his authority through attempts at political integration by disguising the trivial imperative to retain power under the pretence of defending the Belarusian state and its interests. In this sense, the national ideology of Belarus serves as a foreign policy instrument that is characterised by a cyclic and inconsistent nature.

Ironically, it was Russian President Putin who contributed decisively to the very emergence of the sovereignty-driven national ideology in Belarus through cornering Lukashenko into inventing himself as father of the nation. Under Putin's predecessor Yeltsin, when Russia

¹⁸⁰ G. Ioffe (2004): 102

¹⁸¹ R. Allison et al. (2005): Belarus Between East and West. *Journal of Communist Studies and Transition Politics*, 21(4): 487-488

¹⁸² N. Leshchenko (2008): The National Ideology and the Basis of the Lukashenko Regime in Belarus. *Europe-Asia Studies*, 60(8): 1420-1424

and Belarus experienced a blossoming relationship and were in the active phase of building a Union State, of which Lukashenko was the most passionate promoter, he performed yet another role of a unionist and preserver of the Slavic legacy. However, when Putin already in his early presidential years declared a new pragmatic approach towards Minsk and voiced his merger plans with Belarus, thus shaking Lukashenko's authority basis, the latter found himself increasingly in need of a fresh ideological foundation for power preservation. One of the outlets of this new national identity was the multi-vector foreign policy approach, justified by the "God-given geographic location" of Belarus, making it "a bridge, connecting East and West" and an "imperative" to cooperate with Europe and Russia.¹⁸³ However, repeated attempts to balance the Eastern vector by intensifying dialogue with EU and USA did not deliver substantial results not least due to their conditionality of non-interference in Belarusian domestic affairs.

Looking back, the initial phase of Belarus' relationship with European institutions perfectly resembled that of Ukraine and Moldova when Trade and Cooperation Agreement of 1989 signed by the Soviet Union served as the basis for engagement until the conclusion of the Partnership and Cooperation Agreement in 1995. After that things took an utterly different turn, owing to the Lukashenko-initiated referendum in 1996 enhancing his presidential powers. In response to electoral violations and growing undemocratic developments in the country, the ratification of the PCA agreement was suspended and remained non-ratified until the present day. Consequently, since 1997, after the EU reduced political interaction with Minsk to below ministerial level¹⁸⁴, relations between the Union and Belarus have been marked by mutual mistrust and for the time being put on ice. Having positioned itself in condemnation of the Belarusian regime and linking possible cooperation to a set of conditions Belarus was not ready to meet, the EU did not have a clear strategy how to deal with Lukashenko without compromising its values.

By 2009, after the EU softened its normative wording and chose a more pragmatic and interest-oriented approach towards Belarus, the parties experienced a perceptible warming of relations resulting in Belarusian participation in the Eastern Partnership project and

¹⁸³ President of the Republic of Belarus (2003): Transcript of a Press Conference, 24.10.2003. http://president.gov.by/ru/news_ru/view/stenogramma-press-konferentsii-prezidenta-respubliki-belarus-aglukashenko-chas-s-prezidentom-5913/

¹⁸⁴ G. Bosse and E. Korosteleva (2009): Changing Belarus? The Limits of EU Governance in Eastern Europe and the Promise of Partnership. *Cooperation and Conflict*, 44(2): 147

suspension of EU sanctions, introduced in 2004 in reaction to human rights violations. The short-lived rapprochement was once again overshadowed by domestic events in Belarus. The forceful crackdown on the oppositional protests following the 2010 Presidential elections brought new sanctions upon Belarus, including asset freeze and travel bans, later extended to an arms embargo.

Relationship with Russia displayed a similar series of ups and downs, which despite growing levels of interdependence was increasingly plagued by chronic disputes. Amidst the dysfunctional Union State, the parties engaged in economic integration by establishing the Eurasian Economic Community (EurAsEC) in 2000 together with Kazakhstan, Kyrgyzstan and Tajikistan followed by the creation of the Eurasian Customs Union in 2007 and the Single Economic Space in 2012. In 2015 EurAsEC was replaced by the Eurasian Economic Union, retaining the same goal to harmonize economic regulation and provide free movement of goods, capital, service and labour.

Another cornerstone of bilateral cooperation between Belarus and Russia is military cooperation that came up on the agenda especially after NATO eastward expansion. In this regard, the ties between the two states have been extremely close. Belarusian signing of the Collective Security Treaty in 1993 and its membership in the Organisation based on it (CSTO) in 2002 served as a background for a military alliance. During Lukashenko's presidency in 1995 Russia was granted exclusive rights to retain its military presence in Belarus with a free use of its air defence units.¹⁸⁵ In the year 2000 a joint financial-industrial group was formed to organise a merger of two Belarusian and seventeen Russian weapon production companies specialising in air defence utilities.¹⁸⁶ Moreover, the countries adopted a joint military doctrine in 2001, in addition to the already existing 300-thousand strong military unit under joint command, formed in the case of a conflict.¹⁸⁷ Being a buffer strip between Russia and NATO, Belarus' strategic importance to Kremlin can hardly be overestimated. Moscow has been historically sensible to having an alien military alliance in its backyard, making Russian military assets on the Belarusian territory a sacred cow of the bilateral relationship.

¹⁸⁵ V. Silitski and A. Moshes (2007): *Political Trends in the New Eastern Europe: Ukraine and Belarus*. Strategic Studies Institute, Carlisle: 4.

¹⁸⁶ B. Nygren (2005): *Russia's Relations with Ukraine and Belarus*: 160. In R. Kanet *The New Security Environment*. Ashgate, Aldershot

¹⁸⁷ D. Trenin (2005): 71

Overall, negotiations and implementation of military integration between the two have been far more rapid and less contested than in any other policy area, which is partly due to the fact that Belarus, unlike Ukraine and Moldova, based its sovereign armed forces on the old Soviet structure and personnel that was to a great extent ethnically Russian.¹⁸⁸ As a result, Russia has two major military assets on the Belarusian territory: the Vileyka transmitter centre that secures communication in very low frequencies with the Russian nuclear fleet and the Volga early warning radar station designed to monitor missile launches. Seemingly, Russia is not complacent with the achieved framework and hatches plans to create a full-scale military base in Belarus. According to Russia's Minister of Defence an agreement has been reached on deploying a Russian air base with fighter planes and aviation regiment¹⁸⁹. It should be noted that hosting a foreign military base contradicts Belarus' neutral stance and the country's constitution.

Although closely connected with Russia at the institutional, economic and military levels, Belarus' foreign policy is less straightforward as its organisational setting might suggest. A review of the relationship with Russia and the broader vision of Belarusian foreign policy priorities represent a major point of Lukashenko's annual programmatic speech known as the State of the Nation Address. The assessment of its contents between 2006 and 2010 showed that Russia was mentioned "only in passing and often disapprovingly", being an important strategic partner but "no longer a priority" and highlighting two major foreign policy trends – "an enthusiasm for diversification and a reinvigorated discourse of sovereignty".¹⁹⁰ It seems that growing appreciation of the country's independence and awareness of its national interests resulted in a critical evaluation of the partnership with Russia and multi-directional foreign policy. The sovereignization of Belarus produced practical steps towards building up ties to China and especially normalising relations with the EU. The European vector intensified significantly since 2013 when by 2016 bilateral contacts with Brussels outnumbered those with Moscow.¹⁹¹ Obviously, Belarusian multi-vectoredness is short of attempts at geopolitical reorientation and should be rather seen as an effort to

¹⁸⁸ R. Deyermond (2004): The State of the Union: Military Success, Economic and Political Failure in the Russia-Belarus Union. *Europe-Asia Studies*, 56(8): 1192, 1195

¹⁸⁹ Ministry of Defence of the Russian Federation (2013): Press Release.

http://function.mil.ru/news_page/country/more.htm?id=11729810@egNews

¹⁹⁰ E. Korosteleva (2011): Belarusian Foreign Policy in a Time of Crisis. *Journal of Communist Studies and Transition Politics*, 27(3): 577,581

¹⁹¹ R. Astapenia and D. Balkunets (2016): Belarus-Russia Relations after the Ukrainian Conflict. Analytical Paper 5, Ostrogorski Centre/BelarusDigest. <https://belarusdigest.com/papers/belarus-russia-relations.pdf>

capitalise on its advantageous geographic location and aggregate some bargaining leverage in dealings with Russia. However, should Belarus one day experience an open social and political debate on the preferred geopolitical vector, the pro-Russian option is likely to confront a strong alternative.

Even now public preferences are split between Russia and the EU, as has been the case for the last two decades. Although the share of Belarusians who feel culturally and historically more attached to Russia significantly outnumbers those with affinity to Europe, there is an utterly different allocation in respect to the geopolitical choice. The dynamic of the public opinion¹⁹² between 2005 and 2016 shows quite a fluctuant picture. Thus, when asked whether Belarus should enter the EU, the majority would answer positively in 2005, change their opinion back and forth until reaching a negative trend on this issue starting 2014. When confronted with a similar question in regard to the unification with Russia, there is a clear change of heart after 2010, when the majority of Belarusians would no longer vote in favour of this option. Interestingly, in case of a binary choice, integration with Russia wins a steady majority over the EU throughout the whole timeline with the exception of 2009, 2010 and 2012.

Ambiguous as it is, geopolitical orientation among Belarusians is not mutually exclusive. In fact, 40 percent believe simultaneous integration with both Russia and the EU to be possible, whereas a choice in favour of the European vector is not automatically associated with a shift away from Russia.¹⁹³ In these circumstances, public preferences seem to resonate well with Lukashenko's pragmatic foreign policy of maximising the benefits of cooperation with Russia while distancing himself from Moscow's troubling policies. It is hard to tell which driving forces underlie Belarus' fluctuation: mere manifestation of its sovereignty or the policy of strategic estrangement. In any case, this trend is likely to persist, representing an additional challenge to the success of Russian bargaining in pursuit of its strategic interests.

¹⁹² Poll results within this abstract obtained from the Independent Institute of Socio-Economic and Political Studies: <http://www.iiseps.org/?p=114>

¹⁹³ Y. Drakokhrust (2012): Belarus – Raskolotoe Gosudarstvo: Vchera, Segodnya, Zavtra: 480, 507. In O. Manaev Budushee Belarusi. Vzgl'yad nezavisimih ekspertov. Nevskii Prostor, St. Petersburg

Russia's strategic interests towards the target states

Russian approach to the post-Soviet states as well as its foreign policy priorities and strategic interests have went through a significant transformation since the outset of its sovereignty till the first years of the Putin presidency, when the policy pattern in the region experienced yet another shift and finally gained its current shape. The disintegration of the Soviet state marked an upheaval phase in the Russian foreign policy, followed by the collapse of the established discursive practices and value systems, opening a debate about how Russia should fit into the new geopolitical reality. Three most prominent schools of thought – Westernism, Eurasianism and neo-Eurasianism as a hybrid version of the first two - were engaged in this reorientation search process, each offering a civilizational vision and strategic approach of its own and each having shaped the foreign policy concepts at its own time.

In the early years of the Yeltsin presidency, after the familiar geopolitical foundation was shaken to the core and Russia in its smaller and weaker capacity saw the risk of finding itself on the periphery of world politics, the Westernist approach entered the scene through declaring the West to the pole of attraction and historical affinity for Russia. Rather than trying to elaborate a new, special path for Russia's further development, the Westernisers emphasized the appealing and progressive nature of the Western vector and expected Russia to soon come on board through reforms and liberalization. The major implementer of this vision, former foreign minister Kozyrev believed in strategic partnership with the Western countries through integration into European and transatlantic economic and security institutions and separating the new Russia from the newly independent Soviet states both economically and politically.¹⁹⁴ From this angle, Russian foreign policy until 1996 was openly Western-oriented and the relationship with the CIS countries concentrated mainly on the practical task of managing the partition.

The unambiguous rapprochement with the West was, however, not indisputable within the ruling leadership. So when this strategy failed to bring about the expected standing for Russia among the respectable and the powerful and the challenges of transforming the political system into a Western-style democracy became clearly too exhausting a task, the alternative approach of Eurasianism took over in formulating the new geopolitical direction. Arguing that Russia, due to its geographic location between the two continents needed to pursue a

¹⁹⁴ A. Tsygankov (2007): Finding a Civilizational Idea: "West", "Eurasia" and "Euro-East" in Russia's Foreign Policy. *Geopolitics*, 12(3): 380, 383

balanced course and become an intermediary between East and West, the Eurasianists promoted a multi-vector strategy and assumed a more conscious and independent posture. The shift in foreign policy had additionally an important conceptual dimension. It introduced and gave substance to the neglected by the previous school of thought notions of national interests and national security, for both of which strengthening ties with the former Soviet region was seen as crucial and catapulted the CIS member states to the top of geopolitical priorities.¹⁹⁵ Although tougher and more pragmatic in theory and rhetoric, Russian policy lacked teeth, consistency and internal stability to effectively follow through the adopted goals. Out of this shortcoming and due to its unnecessarily anti-Western and overly adversarial positioning that failed to adequately address Russia's interests, the Eurasianist approach was similarly short-lived as its predecessor.

The succeeding vision adopted by Putin in 2000 stems from the preceding ideological struggles of the 90s and can be seen as an attempt to reconcile the two by putting aside civilizational debates and placing an emphasis on Russia's strategic interests. The official foundation of Russia's strategic interests is summarized in its three foreign policy concepts, adopted in 2000, 2008 and 2013.¹⁹⁶ The main objectives that they all share regard the reinforcement of the national and international security, fostering economic growth and development, and boosting cooperation with the CIS member states. Despite the overall continuity of the foreign policy goals, one can still filter out important distinctions in the analysis of the challenges and international developments these concepts aim to address. If in 2000 the reassessment of the Russian foreign policy priorities was build from the "misplaced expectations" of equal and mutually beneficial relationships with the "outside world" and the main threat to Russia's national security was seen in the unipolar world order with economic and power dominance of the USA, the concept of 2008 stressed the continued threat from the West (in general) and its policy of "containing" Russia. The strategy of dealing with these challenges underwent little variation within the eight years and

¹⁹⁵ A. Kubyshkin and A. Sergunin (2012): The Problem of the "Special Path" in Russian Foreign Policy. *Russian Politics and Law*, 50(6): 9-10

¹⁹⁶ The current edition of 2016 is not included in the analysis, since it exceeds the time frame of this paper. The older versions are attained from: *Nezavisimaya gazeta* (2000): *Konzeptsiya Vneshnei Politiki Rossiiskoi Federatsii*. http://www.ng.ru/world/2000-07-11/1_concept.html; President of Russia (2008): *The Foreign Policy Concept of the Russian Federation*. <http://en.kremlin.ru/supplement/4116>; Ministry of Foreign Affairs of the Russian Federation (2013): *Concept of the Foreign Policy of the Russian Federation*. http://www.mid.ru/en/foreign_policy/official_documents/-/asset_publisher/CptICk6BZ29/content/id/122186

concentrated on the principles of multilateralism and strengthening Russia's standing as "the largest EuroAsian power". In the long run, the acknowledgement of the geopolitical power shift to the East became increasingly more pronounced and consolidated further in 2013 with the declaration of the diminishing ability of the West to dominate the economic and political realms. Consequently, the relevance of Russia's integration projects in the post-Soviet neighbourhood for its national interests, as well as the priority of the region itself was steadily gaining more significance and substance. Thereby, the concept of 2013 was the first to go beyond focusing mostly on regional organisations, but featured prominently Ukraine, Belarus and Moldova, labelling the former as a "priority partner" and prioritizing playing an active role in conflict settlement with the latter.

In geopolitical terms Belarus, Ukraine and Moldova have a special place in Russia's efforts of achieving its strategic goals and mastering regional integration. Without their participation, any kind of Eurasian integration would automatically become Russia-Asia association that falls short of fulfilling Moscow's vision. The largest framework of multilateral regional cooperation in the former Soviet space was the Commonwealth of Independent States. Established in late 1991, the CIS initially comprised eleven states, having shrunk to nine full-scale members, with Turkmenistan having reduced its status to that of an associate member, Ukraine being only a participating state and Georgia having left the organisation completely. From the very beginning, the CIS fell short of having the integrating and coordinating effect on its participants. The structural weakness and non-binding nature of its decisions together with the lack of genuine interest to integrate on the part of most its members led to the downgrading of the CIS, which had become some kind of discussion club for officials of all levels and a platform for multilateral lobbying.

Yet, it was the CIS Collective Security Treaty that the most significant Russia-led military alliance – Collective Security Treaty Organization – is rooted in. Since its creation, CSTO managed to advance significantly in achieving its goal of military and military-technical cooperation and coordination, as well as joint action against global security challenges. All six organisation members (Russia, Belarus, Kazakhstan, Tajikistan, Armenia and Kyrgyzstan) created a common anti-ballistic missile defence and air defence systems, supported by collective military contingent, having only a few hours reaction span between the decision-

making and military deployment.¹⁹⁷ Apart from promoting closer inter-state ties in form of mutual commitment to defend each other, CSTO fulfils an important political function by forbidding its members to join other military alliances.

The same group of states, excluding Armenia that together with Ukraine and Moldova had an associated status, initiated another organisation, crucial for Russia's integration ambition - the Eurasian Economic Community. Established in 2001, EurAsEC had from the very beginning the challenging goal of creating a free trade zone and the customs union, followed by the common economic space. The Community put emphasis solely on economic integration, consciously abstaining from politicizing the issue in order not to bury the project directly. Nonetheless, even under these conditions, it took nine years to arrive at the effective initiation of the Customs Union between Russia, Belarus and Kazakhstan. Within the EurAsEC successor institution - the Eurasian Economic Union - launched in 2015, Belarus is once again the only member saving the project from becoming bilateral between Russia and the Asian states with Moldova having merely an observer status.

Russia's growing assertiveness in establishing regional cohesion is repeatedly seen as a sign of imperial handling and the return of its great power ambition. Literature on Russian foreign policy concentrates most commonly on two key assumptions about the driving forces of the country's international behaviour. The first is Russia's unhappiness about its current status and willingness to play a greater role in world politics as a major power, which leads to the second assumption, dealing with the special identity of the ruling elite, historically driven by the urge to outward expansion and hegemonic aspiration.¹⁹⁸ Add the Soviet inheritance in form of economic and infrastructural ties plus historic and cultural links and the broad picture of Russia's great power nostalgia emerging in its attempts to revive some kind of a regional bloc is complete. Yet, this viewpoint fails to explain the timing for Moscow's prioritising regional integration.

Addressing the question why Russia pushes integration more than a decade after the breakup of the Soviet state and not immediately in the aftermath of its collapse when regional ties were the strongest, Krickovic in his study compares Russia's integrationist attempts with

¹⁹⁷ A. Nikitin (2008): Russian Foreign Policy in the Fragmented Post-Soviet Space. *International Journal on World Peace*, 25(2): 21-22

¹⁹⁸ J. Mankoff (2011): Russian Foreign Policy: The Return of Great Power Politics. Rowman & Littlefield, Lanham

those of Brazil (Mercosur/Unasur) and China (ASEAN+1), concluding that they all stem from the, same recent development when the ability of the USA and the West to deliver global collective goods and secure the existing world order become more and more questionable.¹⁹⁹ Indeed, the argumentation based on Russia's ambition to become more of an international heavyweight does not fully cover the timing of the reinforced Moscow-led integration. The desire to restore the dominant role in the region did not come overnight. Apart from placing other foreign policy priorities in the early 90s, Russia objectively lacked the capacity to press ahead the integration plan and was visibly reluctant to advocate more cohesion within the loose CIS fearing the leadership burden it would have to carry. In early 2000s Russia's stance was distinctly better. The economic upturn, based on the beneficial export conjuncture for the energy resources offered favourable prerequisites for Moscow to put regional integration on the agenda and push it forward. Nonetheless, at first the emphasis was rather placed on the bipartite approach in an attempt to hold the neighbouring states in Russia's orbit by offering carrots on a bilateral basis.

Russia's strategic interest in regional integration gained momentum amidst the changing environment in international relations where the existing power divisions began to erode and new potent players were emerging. This situation posed a threat to individual states that used to rely on the West as economic and political guideline, which increasingly preoccupied with internal problems, began losing this leadership role, thus opening the field for geopolitical reorganisation.²⁰⁰ Economic component contributed as well to the existing world order being put into question. The global financial crisis revealed the risks of overreliance on the Western financial structures. In this context regional integration is seen as a way to lessen this dependence that enables strengthening regional currencies and economies and allows entering the world economy from a position of more strength and better bargaining possibilities.²⁰¹ If activities on the Western market are inevitably linked to accepting the Western rules, the creation of a Russia-dominated economic space within the Eurasian region would necessitate renegotiation of the interaction norms, where the stronger position of the West would be less obvious. The growing Russian assertiveness and the readiness to walk out of step with its Western partners in pursuing own interests bears mixed fruits so far. Yet, the strained relationship of the present day seems to have a liberating effect on the

¹⁹⁹ A. Krickovic (2014): Imperial Nostalgia or Prudent Geopolitics? *Post-Soviet Affairs*, 30(6): 503-528

²⁰⁰ Ibid: 512-513

²⁰¹ Ibid: 515

Russian leadership. As Foreign Minister Lavrov put it, the current crisis is a kind of “refreshing storm” that will help transform relations with the West “to healthier and fairer foundations” that will probably have “less tormenting discussions about the search for general values and more recognition of the right to be different”, thus constituting a relationship based on “equality, mutual respect and consideration of each other’s interests”²⁰².

The crisis addressed by Lavrov, refers to the Ukraine conflict of 2014 that takes its origins in the same priority setting that has been unfolding in the context of Russia’s foreign policy. Along the global geopolitical shifts throughout the last two decades, Russia’s has been pursuing the strategy of pro-active interests protection with the primary focus on the post-Soviet neighbourhood. The first building blocks were laid in the early years of Putin’s first presidency gaining momentum after the so-called colour revolutions in Georgia, Ukraine and Kyrgyzstan, which added impetus to further elaboration of Russia’s strategic interests. Viewing the protest events as Western-sponsored organised public revolt and fearing a similar scenario at home, Russia sought to fight centrifugal forces within the former Soviet space and cement cooperation with those regional leaders whose authority was not yet put in question. This philosophy endured Medvedev’s presidency and flourished further within Putin’s third term, illustrating a strategic continuity in respect to Ukraine, Belarus and Moldova. The outset of this foreign policy approach in 2000 is, for this reason, the starting point of the present research that follows its dynamic till the end of 2013 when the Ukraine crisis introduced an alteration to the previous course. Interrupting the comparability with Belarus and Moldova, Ukrainian events offer a decisive moment to turn back and make sense of the preceding developments. Build upon the pursuit of its strategic interests, Moscow’s relationship with Kiev, Minsk and Chisinau shares the origin, not the consequence. Having outlined the former, the next chapters deal with examining the latter.

Hypotheses

Drawing on the observed background resemblance of the three target states, there are some main assumptions to this study that the following hypotheses rely on. First, the ulterior

²⁰² Ministry of Foreign Affairs of the Russian Federation (2014): Sergey Lavrov: Speech at the Meeting with Members of the Russian International Affairs Council.
http://www.mid.ru/brp_4.nsf/0/F772ADD4C6B7E17744257CEF005C7A2C

motives behind Russia's dealings with Ukraine, Belarus and Moldova stem from its strategic interest to arrange for a benign surrounding. Acting to this end, Russia seeks to limit foreign influence over its immediate neighbourhood in an attempt to prevent the target states from becoming Moscow's adversaries. This especially holds for the time frame of the following analysis comprising Putin and Medvedev presidencies. As fairly noted by Tsygankov, by the early 2000 Russia's political class has arrived at a consensus regarding the country's main international objectives, being "the preservation of global influence as an independent power and dominance in the former Soviet region", which were consistently pursued by both presidents, who were more or less clear in their dissatisfaction with the "unipolar structure of the international system".²⁰³ Unable to reclaim the lost power to an extent necessary to challenge the established unipolarity, Russian foreign policy set more realistic goals of securing its dominant role in the neighbouring region.

In this context integration initiatives and strengthening bilateral engagement are the major vehicles for Russia to accommodate this strategic goal. The focal point is to prevent other powers or international bodies from overtaking the leading role in the region, especially those endangering Russia-led security architecture. Being central to this conception of Russian foreign policy, the target states are on the one hand doomed to deal with Moscow's interference, but on the other blessed to be a high priority, which offers a broad potential to extract concessions from a stronger party. Given that affiliation of the target states with the West would inevitably shift the power balance in the region not in Russia's favour, winning over Belarus, Ukraine and Moldova is decisive in order for Moscow to be able to cement its role as a regional hegemon. Some scholars recognise a particular place of Ukraine in this regional setting, arguing that "without Ukraine, Russia ceases to be a Eurasian empire", whereas re-establishing control over it would automatically enable Russia to become "a powerful imperial state".²⁰⁴ I believe that although Ukraine is arguably the largest piece of pie in terms of size, infrastructural base and military worth, Moscow has limited capability to succeed with a Eurasian project if it does not include all non-EU members westward of the Russian border. In other words, in order to retain a strong voice in structuring the

²⁰³ A. Tsygankov (2011): Preserving Influence in a Changing World: Russia's Grand Strategy. *Problems of Post-Communism*, 58(2): 31-32

²⁰⁴ S. Larrabee (2010): Russia, Ukraine, and Central Europe: The Return of Geopolitics. *Journal of International Affairs*, 63(2): 38

geopolitical architecture in the region, Russia just as well needs Belarus and Moldova on its side.

In addition, Russian foreign policy in the post-Soviet area has an internal dimension in terms of being an important repercussion for the domestic standing of the Russian ruling elite. As long as the three target states remain in the orbit of Russia's influence, the possibility for their free and democratic development seems to be constrained. If neither of the target states manages to prove by the own example that the path offered by the West represents an attractive alternative to the Russian vector, Russian political forces in power are unlikely to face substantial domestic challenges or find themselves in need of domestic transformation. Otherwise, if one of the three becomes a successful independent democracy, the very core of Russia's political system may be undermined, since its legitimacy and credibility could be put in question.

Embedded in this perception of Russia's strategic objectives towards Ukraine, Belarus and Moldova is the second assumption that economic coercion as well as a threat to coerce is likely to be one of the accompanying strategic tools in support of the Russian agenda. I expect economic diplomacy to be deployed against the recalcitrant in an attempt to make them comply. Although there is no unequivocally discernable link between sanctions and policy change within target states, coercive measures are also seen as means to signal resolution of the sanctioner and underline the gains of collaboration. Conventional wisdom suggests that through withholding the benefits of an economic relationship, one party may exercise political influence over the other, especially if the target is more dependent on the profits of this relationship. In this sense Russia is in a favourable position to manipulate another's economic deficits. As Drezner fairly notes, in an interdependent relationship with the three target states, Russia may potentially experience economic "sensitivities, not acute vulnerabilities", so that in case of imposing sanctions it is likely to suffer much less than the coerced party in "both absolute and proportional terms".²⁰⁵ Capitalizing on the economic weakness of the target, however, is not necessarily limited to punishment or deprivation measures. Economic coercion may also take more constructive and stimulating forms - the so-called positive sanctions - a strategy of subsidising economic relationship with the target in hope of or as a reward to the preferred or changed policy. In this manner, delivering valuables and granting the target state with a preferential treatment can not only strengthen

²⁰⁵ D. Drezner (1999): *The Sanctions Paradox*. Cambridge University Press, Cambridge: 142-145

bilateral ties but also “indicate a price for non-compliance”.²⁰⁶ By using the conditionality provision, the sender can reverse the tonality of his sanctions if the rewarded policy behaviour is no longer conducted. In other words, Russia can also use its economic statecraft to entangle the target states by providing incentives for closer cooperation and thus amplify their dependencies.

The context of Russian economic coercion, regardless of the form and intensity it may take, leads to the third assumption that this tool is a part of a broader bargaining process. Presuming that Russia uses its punitive measures in conjunction with a disputable issue, the parties are expected to resolve the controversy through bargaining. In this case, the target needs to perform a cost-benefit analysis to determine whether the incentives of compliance supersede the value of going along with the policy at stake, which provoked sanctions in the first place. From this angle, sanctions are means to increase bargaining leverage over the target and encourage it to acquiesce. If the issue of dispute is salient to both parties and the bargaining outcome is likely to have far-reaching implications for the bilateral relationship, the sanctioner would try to increase the cost of resistance to the target. In this vein, a coercion episode represents a “bargaining tactic” where sanctions are a way of “increasing the costs of deadlock” to secure a better settlement.²⁰⁷ To summarize the general argument, coercion attempts towards Ukraine, Belarus and Moldova are reasonably expected to supplement the foreign political imperatives and represent a sustainable part of bargaining interaction between the parties. In light of the high stakes and existing vulnerabilities, Moscow is not expected to stand idly by while observing undesired policy developments within the target states. The open question is, therefore, how efficient in coercing Russia can be and which factors may enhance the possibility of success.

When regarding the possible outcomes, it seems crucial to consider domestic repercussions of compliance and the perceived value of the issue of dispute to the target state. As discussed above, Ukraine, Belarus and Moldova share, although with various levels of intensity and amplitude, a fluctuant national identity that exercises certain impact on the government behaviour in the sense that a policy that delights one part of the population can alienate or enrage the other. More importantly, however, these national identities are to a large extent

²⁰⁶ P. Wallensteen (2005): *International Sanctions: Between Words and Wars in the Global System*. Routledge, London: 230

²⁰⁷ D. Drezner (2000): Bargaining, Enforcement and Multilateral Sanctions. *International Organization*, 54(1): 79

build around the perception of Russia as either a pole or an anti-pole. From this perspective, there are two major considerations on bargaining episodes with Russia. First, the target cannot act from a unified perspective and present a united front against the coercer, since there are two differing visions of the state's interests and strategic vector. The consequent natural tendency to balance and pursue a middle ground on the part of the target challenges the theory of economic coercion in a way that it makes it difficult to recognize its definite standing vis-à-vis the sanctioner. There are two major domestic factors that are scholarly recognised to influence the likelihood of sanctions to accomplish their goal - the relationship between the target and the sender and the value of the issue of dispute to both parties.²⁰⁸ Whether the two are allies or adversaries is believed to determine the target's behaviour, with enemies displaying a higher inclination to withstand coercion and endure higher costs of resistance. In case of a fluctuant national identity, governments of the target states have limited possibilities to pursue a clear-cut positioning towards the coercer and through balancing along the ally-adversary axis enhance their bargaining advantage and reduce the probability of sanctions to extract concessions.

Second, in the absence of a fundamental agreement on a strategic attitude to Russia, bargaining issues with Moscow that involve foreign policy decisions become those of high salience, since they complement the domestic debate on the principal development vector. I expect, along the issue salience argument, that if the issue at stake is viewed as salient, the target should be more willing to incur higher costs to protect its interests and be, therefore, more determined not to comply.²⁰⁹ Issues with a geopolitical component are naturally those of national interests. Additionally, the degree of importance attached to them stem from domestic imperatives to overcome identity divisions in order to consolidate and retain power. In other words, the target government is unlikely to capitulate in the face of coercion, as it can exacerbate domestic friction, wash out the base for existing ruling alliances and ultimately lead to the loss of power. From the perspective of an unclearly defined national identity and the perception of issue salience, two general hypotheses follow:

H1: Russia's ability to coerce target states to comply is expected to be moderate.

²⁰⁸ T. Whang (2010): Structural Estimation of Economic Sanctions: From Initiation to Outcomes. *Journal of Peace Research*, 47(5): 563-564

²⁰⁹ A. Ang (2007): When Do Economic Sanctions Work? *Political Research Quarterly*, 60(1): 138

H2: Russia should be able to achieve higher compliance over economic issues.

Although the general expectation render Russian economic coercion attempts relatively ineffective, it is necessary to explore which factors may contribute to the success of sanctions, given that they seem to be an unavoidable feature of the target states' relationship with Russia. Economic coercion aims, by definition, at imposing economic hardship on the target. Economic statecraft was recognised as a 'weapon of diplomacy' in international relations way back in the last century when Hirschman argued about the linkage between economic dependence of the target and the influence potential of the sanctioning country.²¹⁰ This argument was taken over and pursued further within the scholarly debate on the success of sanctions. This study, basing on previous research, identifies economic stance of the target as a possible determinant for the coercion outcome.

Economic power is usually deployed to threaten or undermine the economy of the sanctioned state in expectation of the change of the objected policy and achieving acquiescence. However, since compliance comes at a certain cost for the target, the cost of sanctions or the fear of such should supersede the cost of resistance. As a consequence, one of the major determinants of the success of coercion is the extent of economic suffering by the target and its ability to avoid or endure the losses. The cost of sanctions is normally expected to be related to the degree of economic interdependence between the two parties. The more the two economies interact, the more vulnerable they are to the disruptions of this relationship. One of the most distinctive reflections of dependence is bilateral trade. In this vein, if the target depends and profits significantly from trade with the sender, sanctions are likely to induce serious and immediate suffering to the economy of the former. Consequently, the more dependent on bilateral trade the target is, the more difficulty it will experience while resisting coercion.

At the same time, in case of interdependent economies, the sender is also likely to bear certain costs of imposing sanctions. If both parties profit from a trade relationship, sanctions will equally put pressure on the economy of the sender and through deprivation lead to negative economic effects. Therefore, the economic power gap between the two seems to play a crucial role in the ability of the target to endure coercion. If the parties vary in their economic

²¹⁰ A. Hirschman (1945): *National Power and the Structure of Foreign Trade*. University of California Press, Berkeley

capabilities to withstand the negative impacts of sanctions and the target finds itself in a comparably weaker position, the sender should be more successful in bringing about the desired outcome.

Some scholars estimated that the average cost to the target in case of successful sanctions amounts to 2.4 percent decrease of GNP and came to the conclusion that “sanctions that bite are sanctions that work”.²¹¹ Whereas inflicting suffering is the major driving mechanism of economic diplomacy, the question is whether the target will be able to continue resisting in the face of coercion. More specifically, it seems to be a matter of economic stability of the target in determining its decision to sustain resistance. The level of economic stamina the target has at its disposal should, therefore, be correlated with the ability to endure the costs of coercion. Given the likelihood that the target’s resolution not to comply will increase the pressure and opportunity cost on the sender, the following hypotheses emerge:

H3: Russian coercion attempts are expected to extract more favourable outcomes when trade volumes with the target are high. As trade volumes decrease, coercion is less likely to succeed.

H4: Target’s resistance rate should increase in correlation with its economic stamina. The stronger the economy of the target, the less compliant it is expected to be.

Although placing the focus on the economic ramifications, economic coercion attempts are likely to have an additional domestic dimension within the sanctioned state and should as well incur political costs on the target regime. Economic burden of sanctions can hardly go unnoticed by the targeted society, since economic hardship tends to affect public wealth and lead to tensions and frustration with the government. To capture this dynamic, it seems reasonable to look closer at the political environment of the target leaders in order to understand which political systems are more susceptible to internal pressure.

In the sanctions literature domestic institutions are recognised as one of the determinants of successful coercion. The general argument suggests that without political costs, resulting out of the economic pressure, there is little incentive for a target to give in. In this view, in democratic regimes the public has more opportunities to impose political costs on their governments, who in turn should be more reluctant to pursue unpopular and economically

²¹¹ G. Hufbauer et al. (1990): *Economic Sanctions Reconsidered*. Institute for International Economics, Washington D.C.: 101-102

costly policy, whereas in an autocratic setting the population has limited ability to influence the decisionmakers who have little to fear while going through with the painful resistance.²¹² Consequently, most analysts claim coercion to be more successful against democracies. The logic behind this common assumption is rather straightforward. The decision whether to stand firm in the face of sanctions is to a great deal dependent on the motivation and the possibilities of the target's leaders to retain power. In a democracy leaders are held accountable for the ramifications of their policy, which in turn suggests that democratic incumbents would be more unwilling to bring economic burden of coercion upon their public and prefer to concede instead. Additionally, the pressure to abandon resistance may come from the base of the ruling coalition itself. Being traditionally broad in a democratic regime, the electorate is most likely to be hit by the negative economic repercussions of coercion along the rest of the society. Being responsive to the support of the constituency, democratic leaders lack the legal ability to alleviate their suffering from sanctions. Therefore, out of necessity to maintain the backing of their supporters and having the possibility of electoral punishment in mind, democratic leaders are more likely to yield to coercion.

Autocratic leaders, on the contrary, enjoy a more favourable position of having little concern about public retaliation for an unpopular and costly policy as their power position normally rests on a limited group of supporters, whose loyalty stands in correlation with economic rents, over which autocrats have immediate control. As some scholars notice, governments with a firm grip over the economy are well positioned to exploit rent seeking and grant economic benefits in return for political loyalty.²¹³ Thus, being able to protect their inner circle from the economic pain of sanctions, autocratic regimes are better equipped to withstand coercion. Free from the risk of being held politically responsible for the economic suffering, autocratic regimes are viewed more immune against economic coercion and consequently more prone to refuse compliance.

Following the lead of previous researchers on the institutional determinants of successful coercion and acknowledging the above argumentation, I, however, argue otherwise and expect Russian economic statecraft to bear more success against nondemocratic targets. The above scholarly reasoning holds true for states with a rather articulated domestic political

²¹² S. Allen (2005): The Determinants of Economic Sanctions Success and Failure. *International Interactions*, 31(2): 118-126

²¹³ D. Lektzian and M. Souva (2007): An Institutional Theory of Sanctions Onset and Success. *Journal of Conflict Resolution*, 51(6): 853

dynamics. When adding the ambivalent national identity to the equation, the democratic leader's motivation to retain power through abstaining from an unpopular economic policy may give way to another motivational imperative – that of political nature. Thus, the government policy choices, made in response to coercion will be still driven by the need to maintain public support, although the decision of the public to punish their leaders are expected to be driven by other priorities. In this vein, those parts of the target society that advocate a Europe-driven national identity and resent rapprochement with Moscow are likely to assess a decision to give in to Russia's coercion as a sell-out of national interests, regardless of whether this stance makes sense economically. I therefore retain the first part of the established argument that political costs are decisive in affecting the way targets react to sanctions. By contrast, I believe that failings on the issues of national identity rather than economic suffering have more potential to threaten political survival of the decisionmakers in a democracy.

Autocrats, on the other hand, are in a more comfortable position to be able to neglect public displeasure and are more likely to build their response to coercion upon the reasoning of economic profitability. As long as sanctions are not aimed at replacing the autocratic leader and serve merely as a bargaining tool to promote or prevent a certain policy within the target state, economic benefits are expected to have a stronger impact on the success of coercion than domestic political structures. Although autocratic regimes have a great deal of control over their economies and the ability to manipulate them in order to minimize the negative ramifications of coercion, they may lack the incentive to do so. Driven essentially by securing their political survival, autocrats are more likely to decide in favour of safeguarding excess profits from interactions with the sender rather than risk upsetting the sanctioner and provide incentives for further coercion episodes. This leads to the final hypothesis:

H5: Russia should be able to achieve higher compliance against a nondemocratic target.

The Cases

In this chapter I will concentrate on the chronology of relations between Russia and the three target states – Ukraine, Belarus and Moldova - and elaborate on Russian interests and consequent responses to the Russian pressure. Although only acute crises, mostly in the energy field, gained large scientific and media attention, disputes that were resolved without massive media campaigns will represent a crucial block in the current research as well. The analysis of the background relations seems equally relevant in evaluating a bargaining episode and allows for a more realistic estimation of each party's driving forces and the underlying agenda.

The following case description is divided into cohesive sections for convenience reasons and encompasses a wide range of issues and events leading to the actual bargaining. I start with bargaining cases with Ukraine, which represent the most extensive and eventful part of the case description. As well noted by the Economist, Ukrainian politics takes place mostly in entertainment genre, being a soap opera under Yushchenko and evolving into noir drama under Yanukovich.²¹⁴ In any case, the specifics of bargaining issues between Russia and Ukraine introduce a burlesque tinge into a scientific research.

Ukraine

2000 - 2004

One of the most prevalent bargaining issues between Russia and Ukraine is the one dealing with the Ukrainian gas transportation system and the question which party would acquire control over it. Negotiations on the possible ownership structure occupied the two all the way throughout the early 2000s. The first noteworthy agreement on the matter dates back to the 07 October 2002 when the chairman of Gazprom management committee Alexey Miller and his Ukrainian counterpart from Naftogaz Yuri Boiko signed an agreement to set up the International Consortium of Ukrainian Gas Transportation System Development and Management.²¹⁵

The initial idea of an international joint venture to secure gas deliveries from Russia was promoted, apart from Gazprom, by the German Ruhrgas (now E.On Global Commodities

²¹⁴ The Economist (2010): One Hundred Days of Yanukovich. No. 8685, 05.06.2010: 33

²¹⁵ Gazprom (2002): Chronicle. <http://www.gazprom.com/about/history/chronicle/2002/>

SE) and the French Gaz de France (now Engie SA). The Ukrainian pipelines were the only link in the gas chain between Russia and Europe that were solely in the state's hands and could not have been influenced internationally. Earlier that year the international consortium, consisting of the three above mentioned companies, had already executed a similar deal by purchasing 49 percent of the Slovak 'Slovensky Plynarensky Priemysel' (SPP), which was in charge of the country's gas transmission and distribution systems.²¹⁶ This did not only shift the construction of new gas pipelines bypassing Ukraine back on the Gazprom's agenda, but also gave Moscow extra bargaining leverage over Kiev. Since SPP was one of the largest distribution centres of gas sales to Eastern Europe, it provided Gazprom with a theoretic possibility to block Ukrainian gas exports in case of Naftogaz siphoning Russian gas.²¹⁷

Prior to the actual creation of the international gas consortium with Ukraine, Russian President Putin, German Chancellor Schroeder and Ukrainian President Kuchma signed in June 2002 a joint statement on strategic cooperation in operating Ukrainian cross-country pipelines and securing uninterrupted gas supply to Europe, which was followed by signing of the gas supply contract till 2013 between Gazprom and Naftogaz.²¹⁸ Despite declarations of good will, the way to the launch of the gas consortium itself was rather thorny. In July 2002 Russia and Ukraine exchanged draft settlements on the conditions of its creation that immediately led to a stalemate in the negotiations, which was no wonder due to the incompatible interests and expectations of the two parties. Ukraine's main requirement was majority shareholding, Russia insisted on privatisation of the pipelines. The compromise was reached, nonetheless, rather quickly, although behind a veil of secrecy and with uncertain engagement of the European investors. As for the major divisive issue – the ownership structure - it was decided to set up the consortium on a parity basis (50/50 with no party possessing one additional share as a controlling stake) and without privatising the pipelines.²¹⁹

Having the pipelines in direct possession would have been obviously much more profitable and secure for Gazprom. On the other hand, this issue could always be returned to and be the next step if Ukrainian domestic political situation permitted it. As the reaction of Ukrainian political circles showed, the mere creation of the gas consortium provoked an

²¹⁶ The Moscow Times (2002): Miller Sheds Light on His Plan for SPP. 02.04.2002

²¹⁷ Kommersant (2002): Alexey Miller Oblozhil Ukrainu. No. 40/II(2409), 11.03.2002

²¹⁸ N. Hayoz and A. Lushnycky (2005): Ukraine at a Crossroads. Lang, Bern: 182

²¹⁹ Kyiv Post (2002): Gas Deal Sours. <https://www.kyivpost.com/article/opinion/editorial/gas-deal-sours-12017.html>

ambiguous assessment. While proponents of president Kuchma evaluated it as a “huge success”, the leader of the oppositional party Our Ukraine Viktor Yushchenko called names and claimed the agreement to be a “defeat”.²²⁰ Considering the split within Ukrainian politicians, getting its own way for Gazprom involved more than reaching a compromise with the ruling party. It had to be such a compromise that would successfully get through the ratification procedures of the Parliament.

Initial steps on the way to consortium creation went rather smoothly owing to the pro-presidential majority in Verkhovna Rada. Till 2004 everything was shaping well for Russia. On August 31 Gazprom ratified the increase of about \$34 billion in the Consortium's charter capital and acknowledged its readiness to the initiation of the investment phase.²²¹ Later that year on October 27 Gazprom and Naftogaz officially entered the investment stage by signing the Agreement on Interaction in the presence of Russian and Ukrainian presidents.²²² The red-carpet atmosphere did not contribute to the success of the endeavour, though. By the end of 2004 Gazprom had transferred its financial share, which was not the case with Ukraine.²²³ The Ukrainians seemed to have gotten cold feet and considered any further steps toward the consortium inexpedient. Since then no progress has been made on the issue and the whole idea was buried with the time.

Such behaviour may be partly explained by the domestic difficulties president Kuchma confronted at the end of 2004. Both his political image and his popularity were tarnishing, which was more than untimely not long before presidential elections. Kuchma's credibility was severely damaged by the notorious case of the murder of the oppositional journalist Georgiy Gongadze who uncovered corruption issues in the presidential circles. Although no official charges were made, according to some leaked confidential documents Kuchma was the one behind the crime.²²⁴ Despite the fact that Kuchma himself was not going to be re-elected, his official successor Viktor Yanukovich, who headed the Cabinet at the time, was affected as well and had to suffer a significant loss of popularity and oppositional pressure.

²²⁰ Kommersant (2002): Uchastniki Kishinevskogo Sammita Razoshlis. No. 183(2552), 09.10.2002

²²¹ Gazprom (2004): Chronicle. <http://www.gazprom.ru/about/history/chronicle/2004/>

²²² Ibid

²²³ N. Grib (2009): *Gazoviy Imperator*. EKSMO, Moscow: 86

²²⁴ The Independent (2004): Pressure Piles on Ukrainian Leader After Leaks Reveal Attempts to Cover Up Killing. <https://www.independent.co.uk/news/world/europe/pressure-piles-on-ukrainian-leader-after-leaks-reveal-attempts-to-cover-up-killing-755773.html>

In this context, making any unpopular or controversial decisions, which gas consortium obviously was, perilously close to presidential elections would have been irrational.

The opportunity to return to the issue in more favourable circumstances did not come along due to Yanukovich's defeat in the elections. The new elected president Viktor Yushchenko had always been opposed to the idea and used the obtained power to bury the issue completely. Upon his taking office the realisation of the consortium project was gradually suspended till the ratification of Amendments to the Law on Pipeline Transportation No. 605-V on February 6, 2007.²²⁵ According to it, gas pipelines and gas storage facilities were specified as strategic objects, which cannot be either privatised or assigned for temporary use. Such allocation of GTS solely to the Ukrainian state put the matter of gas consortium together with Russian aspirations ultimately to rest.

2005 - 2009

The year 2005 was the time when Russo-Ukrainian energy relations experienced the first serious tension, which broke out in May when the Russian side realized that its gas deposited in Ukrainian underground gas storage facilities (UGS) had mysteriously disappeared. Gazprom stored 7,8 Bcm of gas in Ukraine as far back as 2004 and took 40 attempts to gain access to it within October 14, 2004 till March 22, 2005.²²⁶ Naftogaz did not meet any of them. When the Ukrainian officials came up with a response, it lacked both unanimity and credibility. Some provided technical reasons for the failure to pull out gas, others admitted the fact of stealing, whereas the most common reaction was to simply shrug the shoulders.

What happened to the gas is a murky story. Expert of the State Duma Committee for Relations with Compatriots Dmitry Kulikov believes that Ukraine's officials simply re-exported the gas and thus ensured huge profits. According to him, gas re-export is a highly lucrative business, which may bring over 100 percent benefits due to price differences on the Russia-Ukraine and Ukraine-Europe borders. As Kulikov notes, “this is the method used repeatedly by Ukraine when it took more Russian gas out of the pipeline than the contract stipulated. Subsequently, Ukraine produced debt agreements with a grace period based on a

²²⁵ Legislation of Ukraine (2007): Document No. 605-V. <https://zakon.rada.gov.ua/laws/show/605-16>

²²⁶ J. Stern (2006): The Russian-Ukrainian Energy Crisis of January 2006. *Oxford Institute for Energy Studies*, 01(06): 4

\$50 price. In the meantime, Ukraine was selling gas to the West at a double price with immediate cash settlement".²²⁷

It is still not unequivocally clear who exactly was responsible for the disappearance of the Russian gas. Presumably, the traces lead to the highest officials in the Ukrainian government. Not only is the gas sector state controlled in the Ukraine. Being one of the major sources of the state budget and a strategically important commodity, it is highly doubtful that large amounts of gas could have been sold without knowledge or consent of political leaders. Moreover, gas operations, especially with the missing gas, have always been a good source of extra money, since it offers a unique opportunity to get cost-free gas, which is apart from everything else not being taxed.²²⁸

Some researchers believe that the Russian party has been aware of Ukraine's shady gas dealings. Theoretically, Russian gas system managers should have been aware how much gas their Ukrainian colleagues had exported. Hence, Gazprom CEOs as a response to Ukraine's shady operations suggested that Kiev covered the state's energy shortages without Russian help; or it was a well-planned trap on the part of Gazprom from the very beginning.²²⁹

One can assume that Russia knew which way the gas had disappeared all along, which probably explains the creation of a Switzerland based gas trader RosUkrEnergo (RUE) in July 2004, to be managed by a Coordinating Committee formed by Gazprom, Naftogaz, Gazprombank and Raiffeisenbank's top executives.²³⁰ The official goal of its creation was to promote and simplify Russo-Ukrainian gas cooperation. However, it is not clear how an intermediary was supposed to simplify the complex gas relationship considering that in both states the gas sector was state-controlled. Apart from that, activities of the intermediary itself were to a large extent shaped by Gazprom itself. Since Gazprom officials can hardly be suspected of naivety to believe that within an intermediary firm rough edges would be rounded off, some extra benefit opportunities are more likely to lie behind this decision. One of the possible schemes to get multibillion profits for RUE was to sell gas to its subsidiary UkrGazEnergo, which storages gas in its UGS and then sells it back to RosUkrEnergo and

²²⁷ Pravda (2005): Ukraine Steals Gas from Russia and Sells it to the West. http://english.pravda.ru/main/18/89/357/15822_gas.html

²²⁸ N. Grib (2009): 75

²²⁹ Ibid: 77

²³⁰ Gazprom (2004): Chronicle. <http://www.gazprom.ru/about/history/chronicle/2004/>

issues export invoices, whereafter gets the value added tax back.²³¹ Importantly, the gas does not in fact change its location in the course of these transactions.

In the meantime, in the absence of any settlement acceptable for both parties Ukraine was slowly but surely on its way to an energy crisis. Despite the fact that Ukraine had acknowledged having withdrawn Russian gas, the method and conditions of payment were a matter of hot arguments. Gazprom offered two alternatives - the more preferable for Russia being that the cost of the missing amounts of gas be offset as payment for the transit of Russian export gas in 2005²³². That meant that Ukraine would have received 7,8 Bcm of gas less and would have been forced to buy the missing amounts from Turkmenistan for \$80/Tcm, whereas Gazprom price was \$55/Tcm at that time. Another option for Ukraine was to purchase the contested amount of gas at a European export price of \$160/Tcm.²³³ Obviously, both options were economically overwhelming for Kiev and therefore dismissed.

Naftogaz in its turn voiced a counteroffer, volunteering to return gas in equal parts 1,75 Bcm each, extracted from the overall state gas import within 2005-2008.²³⁴ This was a rather vague prospect, since energy relations between the two states were deteriorating rapidly and contract conditions for 2006, let alone till 2008 were still in the negotiation phase. Expectably, Gazprom found this solution unacceptable.

The situation developed unfavourably for Kiev. On June 28, 2005 Gazprom's chief Alexey Miller informed Naftogaz of the unilateral decision on the Gazprom's part to treat the disputable 7,8 Bcm of gas as already delivered to Ukraine²³⁵, which meant that Kiev would receive only 15,2 instead of 23 Bcm of gas as payment for the transit, which in its turn would lead to a tangible gas deficit for Ukraine. Kiev reacted in a predictable way, claiming that since gas goes through the Ukrainian territory anyway, the missing amounts would simply be siphoned from the pipeline in order to avoid gas deficit.²³⁶

²³¹ N. Grib: 85

²³² Gas Strategies (2005): Gazprom Puts Pressure on Ukraine in Talks Over 'Missing' 8 Bcm of Gas. 29.06.2005 <https://www.gasstrategies.com/information-services/gas-matters-today/gazprom-puts-pressure-ukraine-talks-over-missing-8-bcm-gas-0>

²³³ Gas Strategies (2005): Russia and Ukraine Remain Tetchy Despite Storage Agreement. 28.07.2005 <https://www.gasstrategies.com/information-services/gas-matters/russia-and-ukraine-remain-tetchy-despite-storage-agreement>

²³⁴ Kommersant (2005): Gazprom Nashel Svoe Gaz na Ukraine. No. 107(3191), 15.06.2005

²³⁵ Gazprom (2005): Press Release of 28.06.2005: Ob Itogah Rabochey Vstrechi Alexeya Millera i Alexeya Ivchenko. <http://www.gazprom.ru/press/news/2005/june/article55324/>

²³⁶ J. Stern (2006): 5

On June 25, 2005 Ukrainian bravado gave place to particular actions when the Cabinet issued a special order banning gas re-export as means to avoid gas shortages and subsequent energy difficulties, which still provoked harsh criticism from both Naftogaz and energy experts.²³⁷ First of all, Ukraine had contractual obligations to European gas customers, the breach of which could lead to fines that were quite untimely considering Ukraine's financial difficulties. Apart from this, Naftogaz would be hit by this decision rather than helped. Gas re-export and speculating on price differences had always been the main source of income for Naftogaz and to a large extent the only possibility to clear debts.

The dispute was finally resolved on July 17, 2005 through signing a package of documents by Gazprom, Naftogaz and RosUkrEnergo much to the benefit of the Russian party. According to them²³⁸, 2.55 Bcm of gas was charged off as partial payment for Russian transit in 2005; the remaining 5.25 Bcm were to be turned over to RosUkrEnergo that in its turn would make the payment to Gazprom. Additionally, the parties agreed on the increase of transit volumes through Ukraine by 8 Bcm in 2005 and by 11.5 Bcm in 2006.

The agreement reached on the issue of missing gas caused a sigh of relief from both sides and the issue was taken off the table. It did not manage to defuse tension between the countries, though. Parallel to the missing gas issue, there was another one emerging, with much more destructive potential, as it turned out later. The reason for the next round of debates was, predictably, the gas price. The uneasy character of negotiations was foreseeable given Russia's warrior determination to reach market price levels together with hostile political attitudes in Ukraine. The most spectacular events took place at the end of 2005. The price discussions began much earlier with much lesser load of dramatics at first.

Revision of the gas contracts began shortly after the new Ukrainian authorities entered into power, which was to a large extent expectable. The new Ukrainian president Yushchenko was unlikely to continue the political line of his predecessor and back up gas contracts signed by his direct rival Yanukovych in his prime-minister days. It seems to be an unwritten rule in Ukraine that new authorities gain a footing at the cost of or thanks to relations with Russia,

²³⁷ Obozrevatel (2005): Glava Naftogaza Ukrainy Vistupil Protiv Zapreta na Reexport Gaza. 29.06.2005. <https://www.obozrevatel.com/news/2005/6/29/22953.htm>

²³⁸ Gazprom (2005): Press Release of 17.07.2005: Gazprom and Naftogaz Ukrainy Settle 7.8 Bcm of Russian Gas in Ukrainian UGS Facilities Problem. <http://www.gazprom.com/press/news/2005/july/article63194/>

particularly in the gas area. Still, the way Yushchenko approached the issue gave grounds for cautious optimism and offered hope that a pragmatic approach to gas deals would prevail.

Initiation of the bargaining round on the new gas contract conditions took place on March 28, 2005, when Ukraine's energy minister Ivan Plachkov proposed a shift to market pricing both for gas transit and gas purchase, as well as dismissal of barter schemes (gas as transit payment), which was warmly welcomed by the Gazprom side.²³⁹ These new arrangements, especially the abolition of barter offsets could have promoted the much lacked transparency in Russian-Ukrainian energy relations and possibly taken them to a new mature level.

At the same time Kiev undertook an attempt to increase its bargaining power by revealing some outside options. Prior to the meeting with Gazprom, Naftogaz officials made a number of statements that were clearly aimed at pressing the Russian party. They voiced plans to create a joint venture with Germany and Poland to sell Ukrainian and Middle Eastern gas to the EU, which would be a direct rival to Gazprom. In addition, the possibility of a gas consortium to retail gas from Turkmenistan was repeatedly mentioned.²⁴⁰ This rhetoric was, however, unlikely to give Ukraine any advantage since no other proof of these plans from other sources was to be found. Despite the move in the right direction Ukraine lacked the consistency to turn its plans to some tangible advantage.

Soon after, Ukraine took another attempt to press Gazprom by starting an initiative on gas supply diversification. These plans were voiced by Naftogaz, stating that Ukraine was developing a joint project with Teheran on gas pipeline construction from Iran to Europe (through Ukraine and bypassing Russia), supported by the corresponding memorandum of collaboration the two parties had already signed.²⁴¹ Tactically, being a plausible outside option, this Ukrainian act, if successfully implemented, could have hurt Gazprom's and noticeably enhance Ukrainian bargaining powers. Basing on the existing Iranian pipeline net, its further extension to the European border could represent a strong rival to Gazprom. Apart from taking a share of the European market, it could have reduced the benefits of the Blue Stream project, so dear to Gazprom. Moreover, Ukrainian manoeuvring could have a

²³⁹ Gazprom (2005): Press Release of 28.03.2005: On Alexey Miller's Meeting with Ivan Plachkov and Alexey Ivchenko. <http://www.gazprom.com/press/news/2005/march/article63040/>

²⁴⁰ Ministry of Energy and Coal Mining of Ukraine (2005): Press Review. 15.03.2005. http://mpe.kmu.gov.ua/minugol/control/publish/article?art_id=93799

²⁴¹ Neftegaz (2005): Publication of 26.07.2005: Ukraina Gazuet v Obhod Rossii. <https://neftegaz.ru/news/view/57274-Ukraina-gazuet-v-obhod-Rossii>

negative impact on Gazprom's negotiations with French Total on Gazprom's participation in the already existing gas projects in South Pars in Iran.²⁴² Although strategically coherent, the intent still fell short of developing beyond the initial stage.

Early September 2005 negotiations on gas and transit prices went further with both sides increasing the rates dramatically. Considering the predicted European gas price over \$200/Tcm, Gazprom suggested that Ukraine pay \$180 (instead of \$50), with the possibility of a price increase following the world's trend.²⁴³ Ukraine came up with a symmetrical bid and proposed to quadruple the transit price for Gazprom from \$1,09/Tcm/100km (while the highest European gas transit price was \$2).²⁴⁴ The Ukrainian logic was rather simple – if Russia pays the European \$2 for its transit, whereas Ukraine the threefold gas price, there is still a billion dollar difference that Ukraine would owe Gazprom. In case of quadrupling the transit price both gas and transit costs would be approximately the same, due to the huge difference in gas volumes purchased by Ukraine and those transited to Gazprom's customers.

Status quo remained till Gazprom achieved an important tactic victory. Late September Gazprom and JSC Uztransgaz (Uzbekneftegaz' subholding company) signed an agreement on Central Asian gas transmission through the territory of the Republic of Uzbekistan for the period till 2010, using the Central Asia – Center and Bukhara - Ural gas pipelines.²⁴⁵ In fact, Gazprom obtained control over the transit of all Uzbek and Turkmen gas. Together with the existing agreement with Turkmenistan that presupposed the purchase by Gazprom of all Turkmen gas starting 2007 (till 2028)²⁴⁶ this meant that Gazprom would control all Ukrainian alternative gas sources, which in its turn buried Ukrainian plans of Central Asian gas re-export.

Ukraine, however, made an attempt to get a share of Turkmen gas in 2006 where it was still available, and afterwards starting 2007 by convincing Turkmenistan to increase its gas production. However, in the course of Plachkov's (Ukraine's Minister of Fuel and Energy)

²⁴² Ibid

²⁴³ Kommersant (2005): Gazprom Objavil Naftogazy Ukrainy Startovuyu Tsenu. No. 163(3247), 01.09.2005

²⁴⁴ Ibid

²⁴⁵ Gazprom (2005): Press Release of 27.09.2005: Gazprom and Uztransgaz Enter into Agreement on Natural Gas Transmission via Uzbekistan over 2006 to 2010.

<http://www.gazprom.com/press/news/2005/september/article63248/>

²⁴⁶ Gazprom (2005): Press Release of 15.04.2005: Ob Itogah Visita Delegazii OAO Gazprom v Turkmenistan. <http://www.gazprom.ru/press/news/2005/april/article55262/>

visit to Ashgabat, Turkmen president Niyazov dismissed the possibility of signing any gas contract with Ukraine without Gazprom's consent.²⁴⁷ First of all, it was much more sensible to involve Gazprom in the discussion since it was in charge of gas transit anyway and could theoretically devalue Ukraine's agreement with Turkmenistan through high transit prices. But the more apparent reason why Niyazov was so reluctant to strike a gas deal with Ukraine was Kiev's previous poor debt record. Niyazov refused to hold any further discussions on gas contracts before previous arrangements were fulfilled. At that time Ukraine had some \$0,5 billion debt in form of various goods that had not been delivered to Turkmenistan as gas payment.²⁴⁸

There was no other option for Ukraine as to turn to Kazakhstan. Among all possible alternative gas suppliers it was the only country left that could fulfil Ukrainian dream of getting gas without having to deal much with Gazprom. These hopes were as well dashed by Russia. In mid November 2005 Gazprom signed a 5 year agreement with Intergas Central Asia (KazMunayGas transmission subsidiary) on gas transit through the Kazakh territory²⁴⁹, which meant that Gazprom became the single operator of all Central Asian gas.

This provoked a serious shift of bargaining advantage to Gazprom, which was openly admitted by the Ukrainian side. Officials from the Ministry of Fuel and Energy acknowledged that Central Asian gas was their main stake in negotiations with Moscow, withdrawal of which would force Naftogaz to abandon “the policy of blackmailing” and accept the necessity of reaching a compromise.²⁵⁰

Despite the fact that Ukraine's leverage of influence landed in Gazprom's hands, Kiev did not become more compliant. Another round of negotiations highlighted uncompromising positions of the parties, one insisting on \$160/Tcm and abandonment of all kinds of barter agreements and shift to cash operations; the other ready to pay the maximum of \$80/Tcm preferably in some money equivalent.²⁵¹ Turning a deaf ear to each other's proposals at the

²⁴⁷ Kyiv Post (2005): Ukrainian Premier: Russia Can be Included in Gas Talks.
<https://www.kyivpost.com/article/content/world/ukrainian-premier-russia-can-be-included-in-gas-ta-23391.html>

²⁴⁸ Ibid

²⁴⁹ Gazprom (2005): Press Release of 11.11.2005: Gazprom and Intergas Central Asia Sign Package of Mid-Term Contracts for Natural Gas Transmission Via Kazakhstan over 2006 to 2010.
<http://www.gazprom.com/press/news/2005/november/article63327/>

²⁵⁰ Kommersant (2005): Vse Gazy v Gosti Budut k Nam. No. 213/II(3297), 14.11.2005

²⁵¹ J. Stern (2006): 6-7

end of the year in sub-zero temperatures and not having a valid gas contract for 2006 both parties continued moving in the opposite directions. Russia advocated the necessity of transparent financial payments, whereas Naftogaz would rather deliver Ukrainian military-industrial products amounting to over \$1 billion as compensation for Russian gas.²⁵²

In December Ukraine continuously turned all Gazprom offers down and insisted on paying the reduced price of \$50 referring to the existing agreement of 2001 on conditions of gas supply and gas transit, which was effective till 2013. Kiev claimed that the agreement gave it the right for cheap gas and barter settlements. Gazprom's reading of the document “expressly stipulates the Russian natural gas transit via Ukraine services being settled both by gas supply and in cash” whereas “the volume of Russian natural gas transit across Ukraine as well as the amount of hard currency and/or barter payments for gas transit will be specified in Intergovernmental Protocols to be signed on a yearly basis”.²⁵³

After that, events represented a row of suggestions on the conflict settlement and their rejections. Despite the seeming polarity of stances, Russia was ready to agree to lower gas price in case of certain concessions. Gazprom's chief Miller shed light on the exact key to compromise with Ukraine, which was not new – actual creation of a gas consortium and partial control over transit pipelines.²⁵⁴ The closer the year 2006 was, the more pressure both parties were putting on each other. Gazprom made the first move and proposed a new price of \$220-230 after Ukraine had declined the gas consortium proposal.²⁵⁵ Kiev came up with a counter offer and agreed to share its domestic gas market with Gazprom on a parity basis if the latter raised gas prices gradually.²⁵⁶ Gazprom chose to stick to the guns and declined.

Since the conflict had obviously outtraveled a simple price discussion between Gazprom and Naftogaz, another attempt was made to find some common ground at the intergovernmental level. Prime-minister Fradkov and his Ukrainian counterpart Yekhanurov, despite of the acknowledged necessity of a shift to market pricing, were still unable to agree on which

²⁵² Nezavisimaya Gazeta (2005): Pushki Vmesto Masla. No. 258(3656), 28.11.2005

²⁵³ Gazprom (2005): Press Release of 06.12.2005: On Talks Between Gazprom and Ukrainian Side on Cooperation in Gas Business over 2006.

<http://www.gazprom.com/press/news/2005/december/article63382/>

²⁵⁴ Obozrevatel (2005): Publication of 14.12.2005: Miller Obyasnil v Kakom Sluchae Gazprom Poidet na Kompromiss s Ukrainoi. <https://www.obozrevatel.com/news/2005/12/14/70400.htm>

²⁵⁵ RIA Novosti (2005): Publication of 14.12.2005. <https://ria.ru/20051214/42486177.html>

²⁵⁶ Web-Portal of Ukrainian Government (2005): News Archive: Publication of 15.12.2005. http://old.kmu.gov.ua/kmu/control/ru/publish/article?art_id=25948850

conditions this shift should occur. Ukraine, being aware that Moscow was unlikely to accept the multiple raise of transit price, came up with the idea that it handles the price of \$230 if Gazprom agreed to sell Turkmen gas (around 8 Bcm) for less than \$60.²⁵⁷ Gazprom refused to do so.

Failure of negotiations and the continuing uncertainty at the end of December provoked expressions of bold dissatisfaction from both sides, accompanied by threats on the part of Ukraine. Ukraine's Prime-Minister Yekhanurov expressed his readiness to discuss the issue further in the Stockholm arbitration court, while president Yushchenko linked the gas matter to the Russian Black Sea military base and suggested the possibility of price revision for its stationeering.²⁵⁸

Gazprom abstained from verbal intimidations and chose an illustrative way to demonstrate its power. Its chief Alexey Miller initiated a spectacular cut-off of gas supply simply by giving a telephone call to the gas operator, broadcasted by all leading Russian TV-channels.²⁵⁹ This theatrical performance was followed by a more specific indication of Russian unwillingness to discuss the issue further. The same day Gazprom once again presented its gas price for 2006 set at \$230/Tcm with an ironic remark that if Ukraine claimed to be a market economy, it should as well be prepared for market pricing.²⁶⁰ Considering that there were only 7 days left till 2006 the situation began developing rapidly, each day bringing new proposals, hopes and ultimately frustration.

Up to the end of December weak attempts were still made to prevent gas cut-off, seemingly prompted by the mere necessity to show good will with Ukraine still trying to convince Gazprom to shift to market prices steadily, starting as late as 2009, and fixing the highest price it could pay in 2006 at \$80. The final say in 2005 was made by Vladimir Putin, who dismissed all hopes of resolving the conflict peacefully two days before the New Year's eve by clearly stating that every other price other than the one approximating the average European rate was unacceptable for Russia, referring to the unwillingness to subsidise the Ukrainian economy further.²⁶¹ Consequently, Russia was prepared to stop gas deliveries at

²⁵⁷ Kommersant (2005): Snizhenniy Prirodny Gaz. No. 239(3323), 20.12.2005

²⁵⁸ Vedomosti (2005): Publication of 21.12.2005: Sobytiya.

<https://www.vedomosti.ru/newspaper/articles/2005/12/21/sobytiya>

²⁵⁹ N. Grib (2009): 79-80

²⁶⁰ Ibid

²⁶¹ President of Russia (2005): Transcript of the Meeting on Deliveries of Russian Gas to Ukraine. <http://special.kremlin.ru/events/president/transcripts/23365>

10:00 AM on January 1, 2006 if until then the new contract was not signed, in which case Ukraine was determined to cover its own energy needs by siphoning 15 percent of transit gas to Europe.²⁶²

Ukraine was not the first state to experience Russia's new rational political approach. In fact it was one of the last former Soviet republics to pay a market gas price for its foreign-political independence. The current crisis reflected Russian frustration with Ukraine's political stance after the Orange revolution. Apart from the consortium's ill-born, Kiev exhausted Moscow's patience by not signing an agreement on the Single Economic Space, designed primarily to embrace Ukraine within the Russian sphere of influence.²⁶³ Unwillingness to subsidise an independent state that was moving in the opposite direction plus irritation from the disruption of previous agreements equalled gas cut-offs. That's how the new formula of the Russian-Ukrainian relations looked like.

Consequently, on January 1, 2006 Gazprom, as planned, cut off gas supply to Ukraine and was pumping only the transit volumes of gas meant for the European consumers. Ukraine, in its turn, was taking the necessary amounts of transit gas to cover its own energy needs, which led to supply shortages in various European countries, comprising France, Italy and Austria, whereas in Poland and Slovakia the deliveries dropped to over 25 percent and in Hungary up to 40 percent.²⁶⁴

The resolution of the conflict turned out to be surprisingly quick and simple, in comparison to the overall development of the dispute. The agreement reached on January 4 prevented Ukraine and partly Europe from freezing and plants from lay-offs, the gloomy scenario which was unfolding in the minds of many, considering the uncompromising stance of both parties. Interestingly, the major winner of the conflict was neither Ukraine nor Russia, but RosUkrEnergo, an off-shore gas trader that was appointed as the exclusive gas supplier to Ukraine.

²⁶² Polit.ru (2005): Publication of 30.12.2005: Truba Voini. <http://polit.ru/article/2005/12/30/truba/>

²⁶³ Vlast (2005): Politika Knuta i Kranika. No. 50(653), 19.12.2005

²⁶⁴ BBC News (2006): Publication of 02.01.2006: Russia Vows to End Gas Shortage. <http://news.bbc.co.uk/2/hi/europe/4575726.stm>

According to the agreement²⁶⁵ starting January 2006, Gazprom was to deliver gas to RosUkrEnergo at a price of \$230, which, combined with the much cheaper Central Asian gas, was to be resold to Ukraine at a price of \$95. The transit price for Russia was set at \$1,6 provided that both gas supply and gas transit was to be paid in cash. Despite defusing tension, the new agreement did not contribute to relationship improvement between the countries. Due to its short-term validity of 6 months and the limited amount of gas its conditions covered, it represented rather a cease-fire than a long-term solution. The agreement regulated solely the conditions of gas supply of 34 Bcm till June 2006²⁶⁶, which could not cover Ukraine's yearly energy demand. Therefore, it was up to the political will of both states to either use these six months to come to a longer-lasting compromise or prepare for another round of gas disturbance.

The unclear future of Russian-Ukrainian gas relations was probably partly the reason for the tepid reception the arrangement got from both sides. Many in Russia shared the opinion that the dispute did not bring about the desired outcome and simply highlighted the poor stance of gas relations and the inability to build a long-term cooperation. Ukrainians, similarly frustrated, were more dramatic in expressing their discontent, which provoked not only harsh statements but also the whole political crisis. On January 10, 2006 Ukrainian Rada voted non-confidence to the Cabinet of Ministers, headed by Yuri Ekhanurov, who was responsible for the agreement. On that day Ukrainian political elite showed so much wanted and so rare determination and unity. The absolute majority voted for the Cabinet resignation, being confident that the gas deal did not answer Ukrainian state interests. However, this unusual solidarity was not necessarily rooted in collective concern for the motherland, but rather reflected a rational move to attract voters prior to the coming elections, scheduled for March 2006. Technically, this action did not lead to any actual resignation and the Cabinet continued working as an incumbent until the elections took place. At the same time it was a serious blow to president Yushchenko's credibility. What is more, Ukrainian big business, which is traditionally highly politicised, linked itself with the opposition and showed strong disapproval of the gas agreement as well. In a collective document, addressed to Yushchenko, the industrialists underlined the negative consequences of the deal for the

²⁶⁵ Gazprom (2006): Press Release of 04.01.2006: Gazprom and Naftogaz Ukrainy Finally Settle Standoff Surrounding Cooperation in Gas Sector.

<http://www.gazprom.com/press/news/2006/january/article88139/>

²⁶⁶ J. Stern (2006): 9-10

Ukrainian economy and competitiveness of its goods as well as insisted on the revision of its conditions.²⁶⁷

The outcome of the crisis was far from satisfying for both parts indeed. On the face of it, the agreement seemed to be a good compromise, since Ukraine managed to bargain a much better gas price than the suicidal \$230, whereas Gazprom was able to sell its expensive gas to RUE. But upon a closer look, there was hardly another winner apart from RosUkrEnergo.

As for Ukraine, every gas price increase over \$70-80, which was its highest bargaining bid, would inevitably lead to economic difficulties, coupled with social discontent if the state decided to cut its spending by rising energy price for the households. There was no doubt that sooner or later Ukraine would be obliged to give up barter and subsidies practice and pay market gas prices. In the long run it was in Ukraine's interest as well, given that financial independence was the key to the aspired political emancipation from Russia. Still, this shift to market relations should have been preceded by large industry modernisation, energy intensity reduction and most importantly, by a mental shift to transparency and accountability in political circles. In sum, a shift to market conditions within an ill-prepared economic environment was likely to result in state debt growth and a drop in the living standards.

As for Russia, it failed to master this bargaining game either. Formally, the deal to sell gas for \$230 to RosUkrEnergo was a good bargain, which was strongly promoted by Russian mass media after the agreement was reached. Nevertheless, the arrangement nullified all Russian efforts on gaining benefits from reselling cheaper Central Asian gas that instead landed in the hands of RUE. To be fair, one should not forget that Gazprom was its 50 percent shareholder and was to get half of the benefits that, however, pale in comparison with billions in profits it could have earned without an intermediary. Portrayed in figures, the gas deal²⁶⁸ presupposed that Gazexport (Gazprom subsidiary, in charge of the whole gas export) sells all Turkmen gas that it has at its disposal to RosUkrEnergo. The same happened to all of Uzbek and Kazakh gas – 8 Bcm and 7 Bcm respectfully. In addition, Gazprom sold RUE 17 Bcm of its own gas for \$230. The whole gas amount was then resold by RUE to its joint subsidiary with Nafrogaz (50/50 basis), which in its turn would sell gas to Ukrainian

²⁶⁷ Obozrevatel (2006): Publication of 10.01.2006: Gazovoe Soglashenie s RF Mozhet Paralizovat Promishlennost. <https://www.obozrevatel.com/news/2006/1/10/77915.htm>

²⁶⁸ Kommersant (2006): Kokteil Millera. No. 1(3332), 10.01.2006

households and industries. Why RUE would not sell gas directly to Naftogaz as well as in who's interests another intermediary was introduced together with the question who would get the profits from the trader was unclear. Clear was that the agreement substantially dissolved all Gazprom's hard efforts to gain control over Central Asian gas, cut off escape routes for Ukraine and force it to pay the market price. In the end, despite all Gazprom's bargaining attempts, Ukraine still became largely what it wanted, obviously not as cheap as when imported directly from Central Asia (around \$60), but if one adds transit price to the equation the difference with the contractual \$95 would not be significant. Summing up, not only did Gazprom fail to resell Central Asian gas, but a mere 17 Bcm that it did sell at a market price was only a small part of Ukraine's gas needs, which otherwise would have been fully covered by Gazprom on a market basis.

In the meantime, tensions flared up again in Russian-Ukrainian gas relations. It turned out that by January 25 Ukraine had already received the whole amount of the January's gas share, specified by the latest agreement. Due to the extreme frost that winter the daily volumes of consumed gas jumped significantly for both households and industrial users, forcing Ukraine to buy extra gas amounts at a higher price.²⁶⁹ The situation was aggravated by the lack of a signed contract that would have regulated both gas supply and the disputable issues. The only valid document was the agreement of January 4, which defined the conditions of gas supply but still needed to be transformed into an actual contract that had not yet been signed. In fact, at the end of January there was no one responsible for Ukraine's gas supply. Such a legal mismatch affected, as usual, European customers, who once again had to face delivery shortages. As for the both parties concerned, they acted quite predictably. Ukraine suggested to pay the 0,5 Bcm of additional gas it used in January for \$110, Gazprom insisted on cash settlement on the basis of \$220.²⁷⁰ Since the January 4 agreement foresaw the conclusion of the actual contract till January 31, both states found themselves again on the brink of a gas dispute escalation.

Fortunately, it did not go that far. On February 2 the dispute was settled by creation of another joint venture on a parity basis between RUE and Naftogaz - UkrGazEnergo, which

²⁶⁹ Neftegaz (2006): Publication of 26.01.2006: Novyj Vitok Gazovogo Protivostoyaniya. <https://neftegaz.ru/news/view/61166-Novyj-vitok-gazovogo-protivostoyaniya>

²⁷⁰ Kommersant (2006): Na Ukraine Zhdut Prezentazii RosUkrEnergo. No. 16(3347), 31.01.2006

was to sell gas to domestic customers in Ukraine.²⁷¹ The difficulty in evaluating such deals in the absence of a direct contract between Gazprom and Naftogaz and a number of dubious intermediary firms with unclear ownership structure instead, consists in details and specifications to the contracts, which are generally not shown to the public. It was already mentioned that such an opaque system of gas relations gives much room for various profit-machinations, which may be traced to the highest political elites of both countries. Therefore, it may be the case that contracts that are considered disadvantageous for a state as a bargaining entity, may be highly profitable for some individuals that are either doing politics themselves or supporting politicians financially.

According to the agreement, UkrGazEnergo would sell gas at a price of \$115, which meant \$15 of net profit, regarding that it bought gas for \$95 from RUE and paid \$5 for gas transport to the industrial customers.²⁷² Ukraine's victory in this deal was that it secured a relatively cheap price, in comparison to \$230, and most importantly, avoided granting Russia partial control over transit pipelines. Gazprom's victory comprised getting a partial share of the Ukrainian domestic market (through RUE, where it had 50 percent, which meant 25 percent of Ukrainian domestic gas market) and according to Gazprom representative Ryazanov, through presence at the domestic market the ability to prevent unsanctioned siphoning of Russian gas.²⁷³ On the negative side, both states lost by demonstrating their inability to make clear agreements and allowing huge sums of money to bypass state budgets.

Moreover, Gazprom's latest moderate success was yet again limited shortly after. On February 8, 2006 Ukraine's government set the highest limit of domestic gas price at \$110/Tcm for the next 5 years.²⁷⁴ That meant \$5 less profit per thousand cubic meters for Gazprom, as well as more potential losses if Turkmenistan raised its gas price in the second half of 2006. And there was more to come. First, Ukrainian authorities refused to issue an operation licence to UkrGazEnergo and therefore frustrated its scheduled initiation date. The formal reason was UkrGazEnergo's unpreparedness to deliver on its contractual obligations and the absence of bank guarantees for the purchase of the agreed amounts of

²⁷¹ Naftogaz (2006): Press Release of 02.02.2006.

<http://www.naftogaz.com/www/3/nakweb.nsf/0/DDD2C01E61E1E4C1C225710F004E4291>

²⁷² Neftegaz (2006): Publication of 03.02.3006: Gazprom Mozhet Potirat Ruki.

<https://neftegaz.ru/news/view/61367-Gazprom-mozhet-potirat-ruki>

²⁷³ Ibid

²⁷⁴ Web-Portal of Ukrainian Government (2006): News Archive: Publication of 08.02.2006.

http://old.kmu.gov.ua/kmu/control/en/publish/article?art_id=28731590&cat_id=244315200

gas.²⁷⁵ Second, after the licence was finally issued, the licensed amounts of gas, which UkrGazEnergo was allowed to sell on the Ukrainian market were reduced from the expected 32 Bcm to the mere 5,04 Bcm.²⁷⁶ There was a chance that the licence may eventually be prolonged, which would mean another round of haggling. However, instead of issuing a longer-lasting license, Ukrainian government issued a decree, on the exemption of value added tax for Naftogaz and its subsidiaries, allowing them to operate on the gas market on a tax-free basis.²⁷⁷ Since UkrGazEnergo was not covered by the decree and left out of the preferential treatment, it had to pay some 20 percent tax of the gas price into the Ukrainian budget. Any activities under these conditions would be inevitably unprofitable, meaning that Gazprom (as a partial shareholder) would think twice before starting any actual gas trade. Finding other ways to trade gas lucratively or possibilities to bypass the decree would have taken time and political effort. Under these conditions it was more rational to wait till parliamentary elections in Ukraine on March 26 and continue the discussion in the context of the new political landscape.

The elections, as expected, provoked certain changes in the alignment of forces. The winner turned to be the oppositional Viktor Yanukovich, whose Party of Regions gained 32,1% and 186 seats in the Parliament. The Orange camp proved to be less successful – Timoshenko's block secured 130 parliamentary seats with 22,3% of votes, while Viktor Yushchenko's party had to content itself with 13,9% and 80 seats. The socialists and the communists shared the remaining 54 seats.²⁷⁸ Since no political force gained an absolute majority, the parties had to build a coalition in order to agree on the choice of a Prime Minister. Considering the cooldown in the relationships within the Orange camp, let alone strained terms with the elections leader Yanukovich, the negotiations were uneasy. It took four months to finally coordinate the approval of the head of government, who was finally appointed on August 4 when Viktor Yanukovich entered his new position.

²⁷⁵ RBC Ukraine (2006): Publication of 28.02.2006.

https://www.rbc.ua/rus/news/zao_ukrgaz_energo_napravilo_dokumenty_na_poluchenie litsenzii_na_post_avku_gaza__1141115442

²⁷⁶ Web-Portal of Ukrainian Government (2006): News Archive, Publication of 10.03.2006.

http://old.kmu.gov.ua/kmu/control/en/publish/article?art_id=30936662

²⁷⁷ Legislation of Ukraine (2006): Document No. 244-2006-п. <https://zakon.rada.gov.ua/laws/show/ru/244-2006-п/sp:max15>

²⁷⁸ All election results from the Central Election Commission of Ukraine:

https://www.cvk.gov.ua/vnd_2012_en

The Kremlin predictably welcomed Yanukovich's victory, although constrained by president Yushchenko and the necessity for a constant compromise. Gas negotiations did not lose their complexity, but certainly lost their dramatics for the time being due to the new Prime Minister and his party colleague, the newly appointed Minister of Fuel and Energy Yuri Boiko, well known and approved in Moscow. The change of actors, however, did not introduce any changes to the topic of discussion and shortly after the regained political stability in Ukraine the gas price issue was on the agenda again.

The renewed negotiations on the gas price for the rest of 2006 and for 2007 were complicated by the new agreement on gas delivery terms between Gazprom and Turkmenistan in early September. According to the new contract the gas price was set at \$100/Tcm (previously \$65) for the additional gas volumes in 2006 and supply quantities for 2007-2009.²⁷⁹ Since it was the cheaper Turkmen gas that Gazprom was reselling to Ukraine in order to meet the agreed price of \$95, the new contract with Turkmenistan introduced evident difficulties to this scheme. Now Russian discontent with the perceived low price was reinforced by its economic irrationality. Energy expert Valeriy Nesterov claims that with account of the new gas price Gazprom had to sell gas to Ukraine for a minimum of \$135 in order to escape financial losses.²⁸⁰ Any other price needed to be linked to political dividends in order to make sense. These new developments revived Gazprom's ambitions to get access to the Ukrainian domestic gas market and pipeline infrastructure in search of extra profits.

The terms of gas deliveries to Ukraine in the last quarter of the year were set at the end of September, confirming the already existing price of \$95 till the end of 2006 to be supplied by RosUkrEnergo.²⁸¹ Since there has not been mentioned any political component to the agreement and regarding the unlikelihood of Gazprom's selflessness, the only possible explanation to such generous conditions was that the losses would be somehow covered by RUE or be included in the coming agreement for 2007.

For the coming year Ukraine, sadder but wiser, was determined to abstain from buying Russian gas whatsoever and announced plans to cover its energy needs by the cheaper

²⁷⁹ Gazprom (2006): Chronicle. <http://www.gazprom.com/about/history/chronicle/2006/>

²⁸⁰ Kommersant (2006): Ukraina Rasplatitsya s Gazpromom iz Budzheta. No. 177(3508), 22.09.2006

²⁸¹ Gazprom (2006): Press Release of 27.09.2006: On Working Meeting Between Alexey Miller and Yuri Boiko. <http://www.gazprom.ru/press/news/2006/september/article55832/>

Turkmen, Uzbek and Kazakh gas.²⁸² Further, Minister Boiko stressed that gas supply for 2007 should remain under the responsibility of RUE, which should allow Ukraine hold the price at a low level and minimize its negotiations with Gazprom. Obviously a good idea that had yet to be arranged with Gazprom that was the only operator, transmitter and seller of the Asian gas to RUE. Although interested in the smooth entry into 2007 as well, Gazprom still could not miss the possibility to try trading some political concessions for a cheaper price. This time it showed some imagination and introduced a new issue to the bargaining discussion. Apart from the familiar matter of the Russian Black Sea fleet in Sevastopol and the low gas transit price through the territory of Ukraine, a referendum on Ukraine's entry to NATO complemented the list of Russia's bids.²⁸³ The initial idea to carry the NATO issue over for the nationwide consideration was formulated in the election programme of the Party of Regions, headed by Yanukovych. Considering that the general public was predominantly against the entry to the alliance at that point, the timing was quite favourable for the referendum to be held. National dismissal of the idea could have buried the issue for some years to come, much to Moscow's consent.

The agreement was reached surprisingly quickly and easily. What is more surprising, Ukraine managed to negotiate the low price of \$130²⁸⁴, whereas Russia got no guarantees that its political or economic demands would be satisfied. The referendum on the NATO accession was neither held, nor was it planned to be. As Foreign Minister Tarasyuk put it, the Ukrainian people needed more time to get informed about NATO and the referendum was not on the agenda till at least 2008.²⁸⁵ As for another crucial issue for Moscow, the lease prolongation for the naval base in the Crimea, Ukraine appeared to be a tough bargainer. As Ukrainian diplomats put it, the country's Constitution did not envisage foreign military bases on the territory of Ukraine²⁸⁶, turning the renewal of the existing agreement beyond 2017 into a debatable issue.

²⁸² Ukrayinskaya Pravda (2006): Publication of 06.10.2006: Rossiiskogo Gaza v Ukraine Bolshe ne Budet. <https://www.pravda.com.ua/rus/news/2006/10/6/4406437/>

²⁸³ RBC Russia (2006): Publication of 20.10.2006.

<https://www.rbc.ru/economics/20/10/2006/5703c36f9a7947dde8e0b168>

²⁸⁴ Web-Portal of Ukrainian Government (2006): News Archive: Publication of 24.10.2006.

http://old.kmu.gov.ua/kmu/control/en/publish/article?art_id=52224196&cat_id=244315154

²⁸⁵ Obozrevatel (2006): Publication of 31.10.2006: Tarasyuk Hoche Referendum po NATO ne Ranshe 2008 Roku. <https://www.obozrevatel.com/news/2006/10/31/142580.htm>

²⁸⁶ Web-Portal of Ukrainian Government (2006): News Archive, Publication of 24.10.2006.

http://old.kmu.gov.ua/kmu/control/en/publish/article?art_id=52810620&cat_id=244315200

Controversial statements towards Russia were largely a reminiscence of a power struggle between President Yushchenko and Prime Minister Yanukovich, leading the country into opposite directions with varied success. By the end of the year, when gas relations normally escalate, Yanukovich seemed to have turned the tide for his own benefit. In the first days of December he managed to bring the dismissal of the key Foreign and Interior Ministers - who were one of the closest allies to the president - through the Parliament.²⁸⁷ This power shift made Yanukovich for a time being to a more influential decisionmaker. This may have been one of the reasons why both countries travelled into the new 2007-year without any complications. Another factor that may have distracted Moscow from gas disputes with Ukraine were perturbed relations with Belarus over gas issues as well. The imminent gas clash on another front partly stipulated Russia's peacefulness with Ukraine.

The year 2007 and the most part of 2008 were relatively quiet in comparison to the previous and subsequent track of bilateral relations. Still, there were some highlights to this period that kept both Ukrainian and Russian politicians up. The initiator of the disturbance was Yulia Timoshenko, who initiated the request to amend the bill on pipeline transportation on February 2, 2007. This was a reaction to the circulating rumours about conspiracy between Prime Minister Yanukovich and Gazprom on granting Russia with the access to Ukrainian GTS in exchange to giving Ukraine a share in Russian gas fields. These rumours were never officially confirmed. But since there is no smoke without fire, Timoshenko ventured upon preventive measures, which only supported her thoroughly created image of a ruthless fighter for Ukraine's state interests. This time it was definitely a major success for Timoshenko. The bill was amended indeed, forbidding any lease, rent, reorganisation or privatisation of Ukrainian GTS and gas storage facilities.²⁸⁸ The amendment managed to dismiss all Gazprom hopes on gaining access to transit pipelines and substantially changed the alignment of forces for the coming years.

The end of the year marked another important happening, the agreement on gas deliveries for the next 2008-year, which despite price increase did not lead to any complications. The regular negotiations between Gazprom and Naftogaz ended the same day as started, which

²⁸⁷ Web-Portal of Ukrainian Government (2006): News Archive, Publication of 01.12.2006. http://old.kmu.gov.ua/kmu/control/en/publish/article?art_id=56769277&cat_id=244315200; Publication of 30.01.2007. http://old.kmu.gov.ua/kmu/control/en/publish/article?art_id=64884728

²⁸⁸ Web-Portal of Ukrainian Government (2007): News Archive, Publication of 07.02.2007. http://old.kmu.gov.ua/kmu/control/ru/publish/article?art_id=65709098

is hardly ever the case. Although both sides had initially higher bids on both gas and transit price, the agreement was still reached. According to it, gas price for Ukraine was fixed at \$179,5/Tcm (whereas Gazprom insisted on \$180) and transit price for Russia at \$1,7/Tcm (as insisted on by Naftogaz).²⁸⁹ This time Kiev had to meet Gazprom halfway and approve price increase of \$49,5 since it was conditioned by appreciation of Central Asian gas, which made up the most part of gas amounts that were sold to Ukraine. However, due to the negotiation skills of Minister of Fuel and Energy Yuri Boiko Naftogaz managed to reduce its spending by increasing the transit price.

December was also the month when Ukraine faced another shift of power marked by the return of Yulia Tymoshenko who made it back to the very top as Prime Minister. Yanukovich in his turn was removed from office and took charge of the opposition. The whole development was not particularly welcomed in Russia, especially due to Tymoshenko's pre-election rhetoric, promising trouble to the fragile energy relationship. Not only was she determined to exclude all intermediaries from the gas relationship, but was also willing to renegotiate previous gas agreements with Gazprom as well as the existing gas price, which she labelled as a betrayal of Ukraine's national interests.²⁹⁰ Acting to this end, the Cabinet of Ministers in cooperation with the National Security and Defence Council prepared a list of measures on the reorganization of Ukrainian's gas market in order to switch to direct gas trade between Gazprom and Naftogaz.²⁹¹ These measures were in the first place aimed at removing the gas intermediary UkrGazEnergo where Gazprom was a shareholder and which was meant to open the door to the Ukrainian domestic gas market for the Russian party.

Tymoshenko's actions aimed at undermining the existing gas contract met an adequate response from Gazprom. Fortunately for the Russian side, an appropriate pretext was always present. Thus, Gazprom representative made an official statement that gas deliveries to Ukraine will be stopped if Naftogaz did not pay its debt of \$1,5 billion for the already consumed gas and if the new agreement on gas purchase at a price of \$314,7 was not to be signed shortly.²⁹²

²⁸⁹ Naftogaz (2007): Press Release of 10.12.2007.

<http://www.naftogaz.com/www/3/nakweb.nsf/0/94C4811BD14BB8DDC2257AAF00556554>

²⁹⁰ RIA Novosti (2007): Publication of 17.12.2007. <https://ria.ru/20071217/92767356.html>

²⁹¹ Naftogaz (2008): Press Release of 06.02.2008.

<http://www.naftogaz.com/www/3/nakweb.nsf/0/EBF90C0826D6EE70C2257AAF00523A58>

²⁹² Vesti (2008): Publication of 08.02.2008. <https://www.vesti.ru/doc.html?id=161931>

As it was often the case, the resolution of the conflict found itself in presidential hands during the official visit of the Ukrainian head of state Yushchenko with his Russian counterpart Putin, who indeed managed to prevent gas cut-offs and come to an arrangement.²⁹³ According to it, the Ukrainian party not only managed to achieve the continuation of gas deliveries, but also the preservation of the gas price at the low level of \$179,5. Additionally, the presidents agreed to set up a working group to elaborate a more direct and transparent organisation of the gas relationship without third parties. Gazprom's share of the pie fell rather short, since it was only promised a debt settlement for the gas consumed in 2007.

Despite the positive results of the deal it was only an intermediate success. All the details should have taken a form of a written agreement that was to be reached in the coming days after the presidential visit. Since it did not happen, another bargaining round seemed inevitable. Determined to finally reach a longer lasting solution, Gazprom set Kiev another deadline otherwise threatening gas cut-offs. Thus, Ukraine has been given time till April 1 to agree on the new gas supply-chain and till March 14 to settle the \$1 billion debt.²⁹⁴

On the face of it, this gas crisis seemed to resemble the previous ones. Still, there was one peculiarity about it. This time the allocation of power was slightly different with Timoshenko being in opposition not only to Moscow but also to President Yushchenko. Indeed, the rhetoric on the controversial gas intermediaries RosUkrEnergo and UkrGasEnergo differed dramatically between the two. If Timoshenko was their avid opponent, Yushchenko stated more than once that the only thing that mattered was the gas price and not its source. Interestingly, Ukrainian deputy from the communist party claimed that Yushchenko's brother Pjotr was the real shareholder of the 50 percent stake of RosUkrEnergo.²⁹⁵ The subsequent development of the conflict markedly showed that Ukrainian President and Prime Minister were at the opposite sides of the fence. Gazprom and Yushchenko, on the contrary, seemed to have found some common ground in the face of the common opponent, which was otherwise hard to imagine.

Timoshenko's reluctance to fulfil presidential agreements conditioned that till the end of February Ukraine was receiving gas without a contract and consequently without a fixed price. In this situation Gazprom resorted to the old strategy and threatened to cut down

²⁹³ RIA Novosti (2008): Publication of 12.02.2008. <https://ria.ru/20080212/99053529.html>

²⁹⁴ Kommersant (2008): Gazprom Dal Ukraine Poltora Mesjaza. No. 25(3842), 25.02.2008

²⁹⁵ Vlast (2008): Basar Dlja Troih. No. 6(759), 18.02.2008

supply by 25 percent if the contract would not be signed till March 3.²⁹⁶ Both sides had around a week to find common grounds on the gas price for 2008 and close the issue of Ukrainian debt for 2007. They failed, possibly partly because of the mild weather and the sufficient amounts of gas in Ukrainian UGS. As a consequence, it came to delivery reductions amounting to the envisaged 25 percent. The amounts of transit gas remained constant. The next day, in the context of no foreseeable changes Gazprom cut the deliveries to the additional 25 percent. Ukraine chose to stay firm and without signalling any desire to continue negotiations hinted that in case of shortages it would take off European gas to cover domestic needs.²⁹⁷ Gazprom reeled back. The danger of ruining the already spoiled image as a reliable partner for European consumers took effect. Gazprom resumed full deliveries without having achieved any concessions from Ukraine. Official Gazprom statement on the crisis resolution was rather vague, stating that the already delivered gas will be “fully confirmed by relevant documents and paid in accordance with the delivery scheme effective as of the beginning of the year”.²⁹⁸ In other words the negotiations returned to the initial phase with no preconditions for a quick resolution. The only notable consequence of the Russian ultimatum was confirmation of the assertive nature of Gazprom dealings with its neighbours in the eyes of the European customers.

The final resolution of the conflict marked political victory for Yulia Timoshenko who managed to get all her bids satisfied and secure deliveries of the cheap Central Asian gas without third parties. The agreement²⁹⁹ signed by Gazprom and Naftogaz fixed the gas price till the end of 2008 at the same level of \$179,5, which will be purchased directly by Naftogaz eliminating all intermediaries. Gazprom got a certain bonus as well in form of direct access to a small share of Ukrainian domestic market and would deliver around 7,5 Bcm to industrial consumers. Despite the acceptable outcome for both parties they did not come to a long-term agreement, which meant that the greater struggle was still ahead. Moreover, negotiations on gas price for 2009 were expected to be even more complicated, due to the collective decision of Central Asian leaders to switch to market prices. Since Asian gas was the only possibility for Ukraine to secure a low gas price and since Gazprom purchased all of it from

²⁹⁶ Vesti (2008): Publication of 26.02.2008. <https://www.vesti.ru/doc.html?id=165870>

²⁹⁷ Vesti (2008): Publication of 04.03.2008. <https://www.vesti.ru/doc.html?id=167264>

²⁹⁸ Gazprom (2008): Press Release of 05.03.2008: Joint Statement of OAO Gazprom and NAK Naftogaz Ukrainy. <http://www.gazprom.com/press/news/2008/march/article64102/>

²⁹⁹ Gazprom (2008): Press Release of 13.03.2008: Gazprom and Naftogaz Ukrainy Enter into Agreement to Develop Relations in Gas Sector. <http://www.gazprom.com/press/news/2008/march/article64098/>

Turkmenistan, Kazakhstan and Uzbekistan, it would not be able to offer Ukraine any significant price reduction in the coming 2009.

As expected, negotiations on gas price for 2009 began well in advance and yielded no results. At the first negotiation round that took place in June the parties merely “addressed” the issues of future gas deliveries to Ukraine.³⁰⁰ Despite the mild diplomatic wording of Gazprom's press service it was clear that Russia and Ukraine once again had a dramatically different vision of supply conditions. Another attempt was made in October during Timoshenko's visit to Moscow. This time the talks were more specific and involved a shift from contractual to market pricing with a certain reduction, since the European customers were purchasing Russian gas for around \$500, which would be impossible for the Ukrainian economy.³⁰¹ The amount of the reduction was not mentioned and was to be specified in the subsequent negotiations.

Closer to 2009 with no signed contract the situation was heating up. Gazprom on its part only fuelled the dispute by linking the new contract for 2009 to the Ukrainian debt for 2008, unwilling to sign anything before the debt was paid off. Apparently, the split was menacingly widening, despite some positive developments in this matter. In the middle of December Naftogaz managed to transfer \$1 billion to Gazprom's account, assuming to have cleared the debt entirely.³⁰² According to Gazprom, the debt amounted to \$2 billion and the issue remained unresolved. Interestingly, by the end of December when gas disputes between Russia and Ukraine normally take place, Gazprom came up with an extra press release on the Ukrainian matter. It highlighted that the “Ukrainian party was obliged to secure uninterrupted Russian gas transit across its territory” according to the contract of 2006, whereas the contract was “in no way related to the contract for gas supply to Ukraine’s consumers”.³⁰³ What is more, the press release emphasised that Gazprom would fulfil all its contracts with the European customers. All that rhetoric suggested that Gazprom was going to let the negotiations escalate. Alexey Miller's statement on December 31 confirmed this suggestion. He accused Ukraine of taking a nonconstructive position,

³⁰⁰ Gazprom (2008): Press Release of 05.06.2008: On Working Meeting of Gazprom and Naftogaz Ukrainy's Leadership. <http://www.gazprom.com/press/news/2008/june/article64237/>

³⁰¹ Neftgaz (2008): Publication of 03.10.2008: Gazovye Uslovnosti. <https://neftgaz.ru/news/view/83296-Gazovye-uslovnosti>

³⁰² Naftogaz (2008): Press Release of 19.12.2008. <http://www.naftogaz.com/www/3/nakweb.nsf/0/CB660C9E60CC8045C2257AAF00523AB4>

³⁰³ Gazprom (2008): Press Release of 29.12.2008: Board of Directors Addresses Relationships with Ukraine. <http://www.gazprom.com/press/news/2008/december/article64435/>

acknowledged that the negotiations had gone beyond the economic sphere and reminded that if by 0:00 on January 1 no agreement had been reached, Gazprom would withdraw from its legal obligations to supply gas to Ukraine from 10:00 AM on January 1, 2009.³⁰⁴ Gazprom's calculations proved to be right and another gas dispute was initiated. As of January 1, gas deliveries for Ukrainian domestic needs amounting to 110 Mcb per day were stopped, while amounts of export gas to Europe had increased by 20 Mcb to 326 Mcb per day and continued to be transited.³⁰⁵

The next day Gazprom took an even tougher stance and came up with a new price of \$418, since Ukraine had rejected the lower rate of \$250, proposed in December.³⁰⁶ According to Gazprom the Ukrainian party did not respond to the offer and abstained from the negotiations. At the same time Naftogaz declared the withdrawal of 21 Mcm of the transit gas per day for technological needs.³⁰⁷ Meanwhile, some European countries had already started suffering from the insufficient deliveries and were officially encouraged by Gazprom to take legal measures against Ukraine for violation of the Energy Charter, which it had signed and ratified.³⁰⁸ Four days after the supply intermission, Ukraine still did not make its counter offer on the gas price or voice any desire to resume negotiations whatsoever. In this situation Gazprom had to use alternative gas transit routes via Belarus and through the Blue Stream pipeline, which could not substitute the Ukrainian pipelines completely, though. At this point the Russian side tried to win support of the European countries and filed a request to the European Commission to provide independent observers to trace the transit of Russian gas on the Ukrainian territory.³⁰⁹

If at first Ukraine was only siphoning Russian export gas, on January 7 it stopped transiting Russian gas altogether.³¹⁰ Despite unilateral Ukrainian actions, Gazprom was still committed

³⁰⁴ Gazprom (2008): Press Release of 31.12.2008: Alexey Miller About Talks with Ukraine. <http://www.gazprom.com/press/news/2008/december/article64432/>

³⁰⁵ Gazprom (2009): Press Release of 01.01.2009: Gas Supplies to Ukraine Cut 100 Per Cent. <http://www.gazprom.com/press/news/2009/january/article67879/>

³⁰⁶ Gazprom (2009): Press Release of 01.01.2009: Alexey Miller's Statement About Gas Price for Ukraine. <http://www.gazprom.com/press/news/2009/january/article67876/>

³⁰⁷ Gazprom (2009): Press Release of 02.01.2009: Ukrainian Side Disagrees to Required Transit Volume. <http://www.gazprom.com/press/news/2009/january/article67875/>

³⁰⁸ Gazprom (2009): Press Release of 02.01.2009: Balkan States Suffer from Ukraine's Moves. <http://www.gazprom.com/press/news/2009/january/article67874/>

³⁰⁹ Gazprom (2009): Press Release of 04.01.2009: 50 Million Cubic Meters of Gas Not Received by European Consumers Over Past 24 Hours Through Fault of Ukraine. <http://www.gazprom.com/press/news/2009/january/article67858/>

³¹⁰ Gazprom (2009): Press Release of 07.01.2009: Gazprom Has to Stop Deliveries to Entry Point of Gas Transmission System of Ukraine. <http://www.gazprom.com/press/news/2009/january/article67853/>

to fulfilling its contracts, as Alexey Miller tried to prove in Brussels the next day at the meeting with presidents of the European Commission, the European Parliament and the Energy Commissioner. Anxious to show good will, Miller suggested that a group of international observers be given free access to the gas metering stations both in Russia and Ukraine to help resume gas transit in full volume.³¹¹ Clearly, Gazprom linked the possibility of transit resumption to the operation of the supervising committee to ensure that the gas reached European consumers indeed. Surprisingly, Ukraine at first blocked this initiative, which gave Gazprom a perfect opportunity to blame its Ukrainian counterparts for the whole crisis. Eventually, under the pressure of Gazprom and Europe, Ukraine agreed to the monitoring of its gas transit facilities and signed all the necessary documents.³¹² By this time European consumers were deprived of Russian gas for five days whereas delivery resumption was still questionable. After the issue of international observers was closed, Ukraine came up with another claim. Kiev was hoping that as much as the daily 21 Mcm of gas for technological needs would come free. Gazprom in its turn insisted that it was the responsibility of the transiting party to provide the necessary amounts of technological gas and arrange for reliable transmission.³¹³

The next day, on January 13, Gazprom still tried to resume gas deliveries and made two requests to transit 76,6 Mcm to the Balkan states and Moldova, and 22,2 Mcm to Slovakia, both denied by the Ukrainian side, which was soon confirmed by the international observers who were already operating on the gas metering stations.³¹⁴ During the next several days till January 17 Gazprom undertook several attempts to deliver its gas through the Ukrainian territory but Naftogaz kept the pipeline tap shut on the pretext of the lack of technical capacity and the absence of a valid transit agreement to perform gas deliveries. As for the technical reasons, the disputable amount of 21 Mcm of gas was insignificant for both sides and could not be viewed as a solid reason to stop the transit. The assumed absence of the

³¹¹ Gazprom (2009): Press Release of 08.01.2009: Gazprom Delegation Visits Brussels. <http://www.gazprom.com/press/news/2009/january/article67838/>

³¹² Gazprom (2009): Press Release of 12.01.2009: Terms of Reference for the Monitoring of the Transit of Natural Gas Through Ukraine. <http://www.gazprom.com/press/news/2009/january/article67821/>

³¹³ Gazprom (2009): Press Release of 12.01.2009: Providing Gas for Technological Needs is the Sole Responsibility of Transiting Party! <http://www.gazprom.com/press/news/2009/january/article67820/>

³¹⁴ Gazprom (2009): Press Release of 13.01.2009: Restoration of Gas Transit via Ukraine. <http://www.gazprom.com/press/news/2009/january/article67777/>; Press Release of 13.01.2009: Naftogaz Ukrainy Also Refuses to Transit Gas to Slovakia.

<http://www.gazprom.com/press/news/2009/january/article67774/>; Press Release of 13.01.2009: Reports by International Monitors Confirm Ukraine has Blocked Transit of Russian Gas. http://www.gazprom.com/press/news/2009/january/article67770

transit contract did not serve as a motivator to shut the pipelines in the previous years as well. In the meantime European states had been missing gas deliveries for more than a week.

The long awaited resumption of gas transition took place on January 20, after the Russian and Ukrainian Prime Ministers Putin and Timoshenko managed to reach the corresponding agreement. The long-term contracts for 2009-2019 envisaged a shift to market prices without any third parties in order to ensure transparency and stability. According to the agreement³¹⁵ gas transit price for Russia was set at \$1,7/Tcm (the same price as in 2008). As for Ukraine, the final shift to market prices was envisaged for 2010. Throughout 2009 it was to receive gas at a discount of 20 percent, which equalled in the first quarter of the year to \$360/Tcm (against \$179,5/Tcm in 2008).

This time Gazprom came off victorious. Not only did it manage to finally make Ukraine pay a price comparable to other gas consumers, except Belarus, but also signed a long-term agreement. The low transit rate of \$1,7, which remained unchanged, was Gazprom's another achievement, despite Ukraine's much higher bids up to \$3. As for Naftogaz, it still got a reduced gas price that was to be adjusted on a quarterly basis. In addition, Ukraine succeeded in eliminating all intermediary firms from the delivery scheme.

Following the January gas crisis, EU and Ukraine summed up their vision of the events and defined steps aimed at strengthening energy security at the conference 'EU-Ukraine: Partners for securing gas to Europe' held in March 2009 in Brussels. Seemingly, Russia was not regarded crucial to the European gas security, which did not slip Moscow's attention. The joint declaration, signed at the conference, presupposed active EU involvement in the modernisation of Ukraine's gas transit system and Ukraine's subsequent accession to the Energy Community.³¹⁶ Needless to say, it was one of Kremlin's aspirations for some years to take the leading role in modernisation and operation of Ukrainian GTS, which was one of the major parts of the gas consortium idea that Russia never managed to materialise. Having this in mind, the following events did not seem to be a mere coincidence. In mid April Gazprom threatened Naftogaz with a fine of \$540 million for purchasing less gas than

³¹⁵ Gazprom (2009): Press Release of 20.01.2009: Russian Gas Deliveries Towards Ukraine Initiated. <http://www.gazprom.com/press/news/2009/january/article67744/>

³¹⁶ European Union External Action (2009): Joint EU-Ukraine International Investment Conference on the Modernisation of Ukraine's Gas Transit System: Joint Declaration. http://eeas.europa.eu/energy/events/eu_ukraine_2009/joint_declaration_en.pdf

stipulated by the contract.³¹⁷ Since in the first quarter of the year Ukraine, due to financial shortages, acquired only half of the gas amount fixed by the contract signed on a 'take or pay' basis, Gazprom had every legal right to demand the penalty. Unwilling to escalate the conflict or due to the lack of cash to do so, Kiev invited Russia to participate in the modernisation project.³¹⁸ The proposal did not contain anything specific, which was to be defined in the course of bilateral negotiations. Although the success of the talks seemed rather vague, Russia was satisfied with the little headway and abandoned the idea to demand compensation.

This consensus did not affect the roots of the problem. Economically weak Ukraine was badly hit by the financial crisis, which seriously undermined its ability to purchase gas in amounts stipulated by the contract. In fact, Naftogaz was unable to buy gas at all. Theoretically, Gazprom's paying for the gas transit in advance could have provided Ukraine with some billion-dollar sum to cover its current gas needs. In practice Naftogaz had to find some other source of income.

The European Commission did not relish the prospect of giving Ukraine another financial grant as well. Still, it was the West that gave a helping hand, although the amounts felt short of Kiev's expectations and were accompanied by numerous conditions on gas market liberalisation stated in the joint EU-Ukraine conference in March. According to the joint statement of intent³¹⁹ signed at the end of July by the European Commission (EC), international financial institutions and Ukrainian government, Naftogaz would receive \$300 million in 2009 and \$450 million in 2010 from the European Bank for Reconstruction and Development and another \$450 million from the European Investment Bank for the rehabilitation of the gas transit system, as well as \$500 million from the World Bank to assist reforms in the gas sector. The total sum of \$1,7 billion proved insufficient for Kiev to cover Naftogaz' debt and the coming bills. Nor did it defuse tensions between Gazprom and Naftogaz. The rule of thumb states that money issues may well be neglected if the political component is profitable. In Yushchenko's case, the political factor was unacceptable for

³¹⁷ Kyiv Post (2009): Gazprom Officially Informs Naftogaz on Possible Fines for Reduction in Gas Purchases. <https://www.kyivpost.com/article/content/business/gazprom-officially-informs-naftogaz-on-possible-fi-39396.html>

³¹⁸ Kommersant (2009): Gazovy Kredit. No. 78(4133), 30.04.2009

³¹⁹ European Commission (2009): Press Release of 31.07.2009.

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1218&format=HTML&aged=0&language=en&guiLanguage=en>

Moscow. His open pro-Western stance was once again proven by his desire to meet EC's expectations by issuing a presidential decree on the development of energy resources market³²⁰, which presupposed reforming and liberalisation of the gas sector in accordance with the EU standards as envisaged by the latest bilateral agreements.

Russian frustration with Ukrainian authorities was best formulated in the open message³²¹ of Russian President Medvedev to his Ukrainian counterpart, which was unprecedentedly harsh both in style and consequences. Medvedev expressed his indignation about Ukraine's arms deliveries to Georgia during the military clash in South Ossetia as well as its plans to join NATO. Naturally, emphasis was put on the gas issue as well. Ukraine was accused of threatening the stable functioning of the 'practically joint' gas transportation system. These statements were accompanied by Medvedev's decision to postpone for an indefinite term the arrival of the new Russian ambassador to Ukraine. In fact he made it clear that Russia was going to abstain from dealing with Yushchenko and wait until the results of the near presidential elections in Ukraine in 2010 to define a new policy towards Kiev. In order to intensify the effect, Medvedev at his meeting with Gazprom's chief Miller opposed any advanced payments for gas transit³²² leaving Ukraine to deal with financial difficulties on its own.

It should be noted that Kremlin was not alone in its antagonism to President Yushchenko. Ironically, it was Yulia Timoshenko who allied with Moscow. Given the volatility of Timoshenko's stances and political alliances, and in light of the coming presidential elections where Russia was likely to support another candidate, this temporary collaboration was hardly stable or long-lasting. Still, at that point Timoshenko was the only high-ranking politician in power who echoed Moscow.

Despite rather strained relations and Kremlin's overall dissatisfaction with the state of affairs in the gas sphere with Ukraine, there was little danger of a gas dispute at the end of 2009. Given the coming presidential elections in Ukraine, planned for the end of January 2010, it made no sense to stick to the guns with the current authorities. Moreover, due to

³²⁰ President of Ukraine (2009): Decree No. 82/2009.

<http://www.president.gov.ua/ru/documents/9774.html>

³²¹ President of Russia (2009): Poslanie Prezidentu Ukrainy Viktoru Yushchenko.

<http://www.kremlin.ru/news/5158>

³²² President of Russia (2009): Vstrecha s Predsedatelem Pravleniya Kompanii Gazprom Alekseem Millerom. <http://kremlin.ru/events/president/news/5385>

Yushchenko's low popularity and the growing frustration with his performance at the end of the year, there were good chances of another power shift in Kiev.

The two working meetings that followed were expected to break the ice. Gazprom chief Alexey Miller and his Naftogaz colleague Oleg Dubina did not resolve all the problems in the aftermath of the crisis. According to the signed documents, Gazprom would abstain from penal sanctions against Naftogaz for buying lesser amounts of gas as specified by the contract³²³ and consequently freed Ukrainian economy from a billion-dollar fine. It was decided to postpone an agreement on supply and transit conditions for the coming 2010 till January, together with payments for gas that was consumed in December 2009.³²⁴ Being a major concession and a serious relief for the Ukrainian budget, the agreements were unlikely to have been reached with no compensation. According to the Russian Energy Minister, Ukraine took a constructive stand on the matter of Russian involvement in modernising the Ukrainian GTS³²⁵, which could also mean partial control over it in the future. Considering the fluctuant position of the Ukrainian side, it was unlikely that there had been solid ground behind the deal. Given that the incumbents had less than a month left to be in power till the elections, they were in fact having a free hand in negotiations with Gazprom. In any case, it was in the interest of both sides to avoid arguments and collect bargaining chips for the new negotiation round in 2010 with the new president.

2010 - 2013

Consistent with general expectations, bilateral relations began stabilising during the presidential elections in Ukraine. Interestingly, Russian president Medvedev was quick to send an ambassador to Ukraine right after the first round of presidential elections, not waiting for the power shift to complete. It became clear that Yushchenko, with whom Medvedev broke off all official relations in August 2009, would not stay in power shortly after the first voting on January 17. According to the official results, Yanukovych and Timoshenko made it to the second round of the elections with 35,32 and 25,05 percent

³²³ Gazprom (2009): Press Release of 24.11.2009: On Working Meeting Between Alexey Miller and Oleg Dubina. <http://www.gazprom.com/press/news/2009/november/article71738/>

³²⁴ Gazprom (2009): Press Release of 22.12.2009: On Working Meeting Between Alexey Miller and Oleg Dubina. <http://www.gazprom.com/press/news/2009/december/article73508/>

³²⁵ RIA Novosti (2009): Publication of 20.11.2009. <https://ria.ru/20091120/194756608.html>

respectively, leaving Yushchenko with 5,45 percent far behind.³²⁶ On the one hand, Kremlin's haste to restore diplomatic relations may well speak for its confidence in Yanukovych' victory. But Russia's moderate support of Yanukovych and the strong competition on the part of another frontrunner Yulia Tymoshenko suggest that with Yushchenko out of the race, Moscow did not care that much who of the two would be elected President. As for Yanukovych's pre-election rhetoric, it was differing from his usual statements, generally friendly to Moscow. One of his election promises prior to the second round was the revision of gas contracts with Gazprom, accompanied by accusing Russia of overpricing its gas.³²⁷ Interestingly, such claims had been the keynote of some Yushchenko's speeches, which to a certain extent had provoked the disruption of diplomatic relations with Russia.

In the meantime, Yanukovych successfully passed the second round of the elections with 48,95 percent of votes, slightly ahead of Tymoshenko with 45,47 percent.³²⁸ The close margin of around 3,5 percent once again reflected the split within the general public and the political elite. For the newly elected president this meant only two alternatives. He would have to either face the constant opposition of the Rada where his party did not have the majority. Or, as an option, enter into coalition with Tymoshenko, which may have damaged Yanukovych's image, since one of his election promises was to punish the previous Tymoshenko-led government for economic crimes and put much effort into establishing transparency and accountability of the incumbents.

Soon it became clear that Yanukovych and Tymoshenko were most likely to go separate ways after Yanukovych has made his first public appearances after the elections. In one of his first interviews as the election winner, Yanukovych addressed the gas issue, coming up with, or rather coming back to the idea of a gas consortium between Ukraine, Russia and the European customers, each party possessing 33,3 percent of the share.³²⁹ The consortium could not only enable Ukraine to modernise its gas transmission system, but also reduce the gas price and reinforce its position on the gas market.

³²⁶ Central Election Commission of Ukraine (2010): Presidential Elections of 2010: Election Results. https://www.cvk.gov.ua/vp_2010/

³²⁷ Interfax (2010): Publication of 19.01.2010. <https://www.interfax.ru/russia/119586>

³²⁸ Central Election Commission of Ukraine (2010): Presidential Elections of 2010: Election Results. https://www.cvk.gov.ua/vp_2010/

³²⁹ Ukrayinskaya Pravda (2010): Publication of 09.02.2010: Yanukovych Otdast Gazpromu Tret v Gazotransportnom Konsortsiume? <https://www.pravda.com.ua/rus/news/2010/02/9/4743425/>

The first opportunity to discuss specifics to the joint venture and accompanying gas issues came along during Yanukovich' first presidential visit to Russia in early March. Prior to the meeting with President Medvedev, he articulated his expectations of the new stage of bilateral relations. In the first place, Yanukovich counted on a gas price reduction. What is more, he hoped to convince Russia to abandon the idea of the South Stream pipeline in exchange for a share in the Ukrainian GTS or, alternatively, for Ukraine's participation in the Eurasian Customs Union.³³⁰ If the gas price issue was certainly disputable, given that Ukraine was ready to provide tangible political concessions, Russia's withdrawal from the South Stream project was utterly unrealistic. Even if Yanukovich had a tempting offer for Russia at his disposal, his presidential term was too short to abandon the prospective profits of alternative pipeline routes to Europe. And indeed, the presidential meeting in Moscow did not result in any sensational agreements. So far the two leaders had only agreed to restore bilateral relations, leaving gas issues to be discussed by the governments. Since the Ukrainian government was still not formed at that moment due to the uneasy process of coalition building in Rada, all decisions in the gas sector were postponed till the new prime minister was appointed.

As expected, the new Ukrainian Cabinet headed by Nikolai Azarov focused its efforts on reducing the gas price. Notably, in exchange for the revival of the gas consortium, Ukraine suggested that it pay for gas as little as Belarus - \$168 instead of the current \$305.³³¹ In the hope of getting the gas discount amounting up to \$4 billion a year, the Ukrainian government even had to postpone the adoption of the state budget. For the event of Gazprom's reluctance to compromise on the price, Ukraine already took pre-emptive measures to reduce its gas demand. Prior to the negotiations, the Cabinet issued a decree initiating a project on building terminals to regasify liquefied natural gas.³³² Despite some precautionary actions, both countries approached the bargaining round with a generally constructive attitude, although the idea of the gas consortium seemingly lost its appeal to the Russian party. Moscow had obviously learned the lesson and made it clear that mere promises would not be enough to be exchanged for a gas price reduction. After all, Russia seemed determined to

³³⁰ Vzgljad (2010): Publication of 05.03.2010: Gazovye Shahmati.

<https://vz.ru/economy/2010/3/5/381585.html>

³³¹ Neftegaz (2010): Publication of 24.03.2010: Ukraina Manit Gazprom Vnutrennim Rynkom.

<https://neftegaz.ru/news/view/93762-Ukraina-manit-Gazprom-vnutrennim-ryнком>

³³² Legislation of Ukraine (2010): Document No. 992-2010-p. <https://zakon.rada.gov.ua/laws/show/ru/992-2010-p>

get a tangible concession in return, which could not be so easily abandoned as the consortium that was created on paper way back in 2002.

Apparently, Gazprom was more interested in long-term solutions to the security of gas transit to Europe and therefore shifted its emphasis on the Nord and South Stream projects. Having these pipelines in mind, it was reluctant to finance the modernisation of the Ukrainian GTS while working on alternative routes of delivering gas to the European customers. In this situation Ukraine needed to come up with some other serious incentives for Russia to provide a gas price discount, possibly in the political field.

All the open questions were settled on April 21 when Gazprom and Naftogaz signed additional agreements to the gas contract of January 19, 2009. According to the document, Naftogaz received the desired 30 percent discount to the gas price, which would amount to the maximum of \$100 and apply to 30 Bcm of gas in 2010 and to 40 Bcm in the following years.³³³ That would mean that Gazprom would receive around \$3 billion in 2010 and \$4 billion in 2011 less, a profit cut that was softened by the decision of the Russian government to decrease the export duty.³³⁴ In other words, the financial burden from the new gas price was shifted from Gazprom to the Russian budget, which would lose several billion taxes a year. Given that Gazprom was one of the major contributors to the Russian treasury, the decision to reduce export duty could provoke a budget deficit. In the end, it was Russian taxpayer that was supposed to disburse the newly restored friendship with Ukraine.

As for political component of the gas deal, presidents Medvedev and Yanukovich signed an agreement on the prolongation of Russia's Black Sea fleet presence in Ukraine for 25 years till 2042³³⁵ with the possibility of a 5-year extension after the expiration of the term.³³⁶ Therefore, Russia's benefit was twofold. In the first place, it managed to retain its military facilities in the Black Sea region, which was crucial since the naval base on the Russian territory in Novorossiysk was still in the initial phase of construction. More importantly,

³³³ Gazprom (2010): Press Release of 21.04.2010: Addenda to Contract on Gas Supply to Ukraine Signed. <http://www.gazprom.com/press/news/2010/april/article97663/>

³³⁴ Government of the Russian Federation (2010): Decree No. 291. <http://government.ru/docs/all/72250/>

³³⁵ The count begins starting 2017 with the expiration of the previous agreement on Russia's naval presence in Ukraine signed in 1997

³³⁶ President of Russia (2010): Press Release of 21.04.2010: Dmitry Medvedev Met with President of Ukraine Viktor Yanukovich. <http://eng.kremlin.ru/news/1084>

Russia successfully prevented Ukraine from joining NATO at least till 2042, since non-existence of a foreign military base was a prerequisite for entering the organization.

The deal signed by the presidents was only half the battle, since it needed to be ratified by the parliaments of both countries in order to come into effect. If the Russian Duma was unlikely to cause any trouble, it was not the case with the Ukrainian Rada. The agreement was expected to be severely criticised by the western oriented half of the parliament, especially by the Tymoshenko Bloc. Having a number of sad experiences with the fluctuant nature of Ukrainian politics, Moscow decided to secure the deal. Thus, the agreement on the 30 percent discount to the gas price was included into the Black Sea fleet agreement.³³⁷ In fact that meant that if by any reason the deal on the Russian naval presence in Ukraine failed, Naftogaz would have to return to higher gas prices. However, the agreement was successfully ratified, although accompanied by the Ukrainian-style drama with a wrestling round between the dissenting parliamentarians.

Encouraged by the success, Kremlin did not want to rest on its laurels. Vladimir Putin, who suggested that Gazprom and Naftogaz merge into a single company, proposed the next step. Reasoning that such a merger would be simply a return to the initial state of affairs as in the Soviet times when the gas systems of both countries were parts of one whole, Gazprom chief Miller noted at his meeting with Ukraine's minister of Fuel and Energy Boiko that “the pipe is a valuable asset in case it is filled with gas”.³³⁸ Although the Ukrainian party did not directly renounce the idea, it was not thrilled from the very beginning either. Kiev was ready to discuss the idea given that the merger would be on a 50/50 basis, whereas Moscow insisted on a merger proportional to Naftogaz' and Gazprom's sizes, which in fact that would lead to a takeover of Naftogaz by the Russian party. Ukraine was in its turn still promoting the idea of a tripartite gas consortium with Gazprom and European gas companies in order to retain control over its gas system and over Naftogaz, one of the major taxpayers to the Ukrainian budget.

By the end of 2010, the parties did not make much progress on the way to the joint venture. The bargaining process was characterised by the customary polarity of interests. The only difference this time was that both Russian and Ukrainian authorities were trying to conceal

³³⁷ Legislation of Ukraine (2010): Document No. 643_359. https://zakon.rada.gov.ua/laws/show/643_359

³³⁸ Gazprom (2010): Press Release of 13.05.2010: On Working Meeting Between Alexey Miller and Yuri Boiko. <http://www.gazprom.com/press/news/2010/may/article98580/>

the lack of meeting points by expressing good will. In 2011 Russian enthusiasm about the Yanukovich presidency and the encouragement after the Black Sea Fleet deal have almost faded as it became clear that further breakthrough was unlikely to follow. The parties continued negotiating on the potential framework for a Gazprom-Naftogaz joint venture and possibilities for a further gas price reduction with a single outcome – to agree to disagree. One of the negotiation rounds within the meeting of the Russian-Ukrainian Economic Cooperation Committee offered comprehensive insights into the longstanding deadlock the parties were facing. In a joint press conference³³⁹ with the Ukrainian counterpart Azarov, Prime Minister Putin connected gas price issues directly to Kiev's participation in the Eurasian integration project, implying a measurable commitment to the Russia-led Customs Union instead of a hollow and non-binding 3 plus 1 (Russia, Belarus and Kazakhstan, already CU members, plus Ukraine) proposal, lobbied by the Ukrainian side. In addition to the lack of enthusiasm for Russia's integrationist plans, Azarov stressed the possibility of lifting the gas transit price in case Ukraine continued to pay what it called an unreasonably high gas price.

In an attempt to avoid high gas bills and to optimize its bargaining position, Ukraine introduced its new energy strategy, the main emphasis of which was put on the reduction of gas imports from Russia and the development of domestic production of energy resources. According to the Minister of Energy and Coal Mining³⁴⁰ Boiko, these goals would be implemented through the increased coal mining and the subsequent replacement of gas by coal in the country's energy balance, with the parallel modernization of the gas transportation system and reorganization of its state-owned operator Naftogaz.³⁴¹ Both the scheduled decrease of the gas purchase and the restructuring of Naftogaz were rather a strategy of raising the stakes while searching for viable pretexts to renegotiate the existing contract with Gazprom. The running agreement included 'take or pay' condition, so that any purchased gas volume below the contractual obligation would violate its terms and lead to the imposition of penalties on the deviating party. The Energy Charter conformant division of Naftogaz into separate transit and extraction entities could, due to Ukraine's plan, dissolve the agreement, given that one of the contract parties would cease to exist in its original legal

³³⁹ Government of the Russian Federation (2011): Press Release and the Transcript of the Press Conference of 07.06.2011. <http://archive.government.ru/eng/docs/15508/index.html>

³⁴⁰ Formerly Ministry of Fuel and Energy

³⁴¹ Web-Portal of Ukrainian Government (2011): Press Release of 08.09.2011.

http://www.kmu.gov.ua/control/en/publish/article?art_id=244519554&cat_id=244314975

form. However, since Gazprom's determination to stick to the contract could have been reversed either by letting it overtake Ukrainian transit pipelines or by a major geopolitical concession, both of which seemed unlikely, the agreement remained unambiguously in force over the whole 2011.

Early 2012 the Russian party took its turn to exert pressure on Ukraine. In a meeting with president Medvedev Gazprom CEO Miller accused Naftogaz of siphoning up to 40 million cubic meters of gas daily in the first weeks of February, whereby Gazprom got instructed to provide for the maximum capacity in the construction and planning of the South Stream gas pipeline.³⁴² The Ukrainian side blankly denied the accusation of unauthorized gas offtake, which given that Gazprom did not undertake any legal actions or press the issue further may as well be true. In any case, Miller's public denunciation seemed to aim primarily at giving the Russian president the opportunity to send a warning to Ukraine that it will not be long till its gas transit services would become obsolete. Europe was supposedly another recipient of the message, whose recalcitrance in supporting South Stream was posing a threat to the whole project and needed to be reversed by showing the unreliability of Ukraine as a transit country.

Apparently, Kiev turned a deaf ear to the Russian statement and proceeded with the Naftogaz restructuring on its own terms. In April 2012 the Ukrainian parliament introduced amendments to the law "On pipeline transportation" that banned the privatization of all Naftogaz subsidiaries, carrying out gas transit and storage activities with the use of Ukrainian infrastructure, which rent, lease or operation by license was explicitly outlawed.³⁴³ In fact, Kiev ultimately dismissed Gazprom's aspirations to overtake Ukrainian gas transportation system and cemented the friction between the parties.

In 2013 Ukraine continued attempts to reduce its energy dependency on Russia and made a number of important steps in this direction. In January Yanukovich signed a deal with Royal Dutch Shell on the joint exploitation of unconventional gas reserves in shale and sandstone in Ukraine, denoted prospects of further production sharing agreements with Chevron and ExxonMobil in the gas production field and with this instigated Gazprom's displeasure in

³⁴² President of Russia (2012): Press Release of 22.02.2012: Meeting With Gazprom CEO Alexei Miller. <http://en.kremlin.ru/events/president/news/14572>

³⁴³ Legislation of Ukraine (2012): Document No. 4658-IV. <http://zakon1.rada.gov.ua/laws/show/4658-17>

the form of \$7 billion gas bill for importing less than the agreed amount.³⁴⁴ Russia once again used the ‘take or pay’ clause in the gas contract to exert additional pressure on Ukraine’s recessing economy and its president, searching for bailout credits and underlined the attractiveness of the Eurasian integration with its financial aid tools that were not bound to any reform conditions in comparison to those from the IMF or the World Bank.

Despite harsh rhetoric and illustrative acts, Russia, who was regularly pushing the situation on the brink of another crisis, was still unwilling to cross the line and take the Ukrainian debt issue to the international arbitration, although Naftogaz was violating the ‘take or pay’ clause since 2012. However, the closer it got to the Eastern Partnership Summit of November 2013 where Ukraine was supposed to sign the association agreement with the EU, and the harder it seemed for Russia to convince Kiev to opt for the Eurasian integration, the more likely it became for a resolute sanctions scenario to come true. In the end of October Gazprom’s CEO Miller clarified what it could look like. In a meeting with President Medvedev he reported another Ukraine’s \$882 million gas debt for the August gas deliveries and advocated the switching to the advanced payments for Naftogaz to avoid further debt increase, for which he directly received the presidential blessing.³⁴⁵ Ukraine in its turn showed no intimidation and hit Gazprom’s raw nerve by intending to sabotage gas transit to Europe. As Minister Boiko put it, if Russia practices a “formal approach” to the issue of Ukraine’s debt, meaning Russia’s unwillingness to accept payment delays, the Ukrainian party will apply the same approach ”in the issue of securing transit in peak periods”³⁴⁶. With this statement Boiko referred to Ukraine’s decision to abstain from buying Russian gas and take it from underground gas storage facilities instead. This decision had serious consequences for Gazprom’s transit obligations towards European consumers, as sufficient amounts of gas in these facilities were crucial for uninterrupted deliveries. Given that Gazprom had the responsibility to deliver the contractual volumes to its buyers, which could not be possible if Ukraine emptied the gas storages for its own domestic use, there was little time to arrive to a compromise.

³⁴⁴ Financial Times (2013): Publication of 25.01.2013: Russia Hands Ukraine \$7bn Gas Bill.

<http://www.ft.com/intl/cms/s/0/6c1111ae-6718-11e2-8b67-00144feab49a.html#axzz3cTZ9kBiS>

³⁴⁵ President of Russia (2013): Press Release of 29.10.2013: On Emergency Measures to Strengthen Financial Discipline in Natural Gas Supplies. <http://government.ru/news/7842/>

³⁴⁶ Web-Portal of Ukrainian Government (2013): Press Release of 08.11.2013.

http://www.kmu.gov.ua/control/en/publish/article?art_id=246832610&cat_id=244314975

Indeed, in the danger of gas crisis escalation and considering Ukraine's immediate need to make an ultimate choice for its future geopolitical orientation, the parties managed to quickly and efficiently pass through the existing irreconcilabilities and close a deal. In this vein Ukraine resumed gas imports from Russia shortly after and once president Yanukovich made a decision to postpone further rapprochement with the EU, thus withdrawing the last obstacle to the long-awaited gas contract renegotiation. Using the favourable opportunity, on December 17, 2013 Russia and Ukraine signed a broad package of agreements on mutual collaboration, including the removal of restrictions in bilateral trade and allocation of \$15 billion credit to the Ukrainian budget.³⁴⁷ With this generosity Russia seemed to have easily overbid the promised financial aid from the EU, which hardly exceeded a billion dollar mark and was therefore unlikely to sustain Ukraine's macroeconomic stability in a term long enough till the next presidential elections. From this angle, the most crucial was the amendment agreement to the gas contract with Gazprom, signed the same day. It formalized the new gas price for Ukraine from January 1, 2014 of \$268,5 (which meant a reduction of \$241,5) allowing the Ukrainian budget to spare around \$7 billion annually.³⁴⁸ Importantly, the new amendment presupposed a quarterly revision of the contract provisions, which theoretically gave Moscow additional leverage in correlating the gas price directly with Kiev's geopolitical moves, thus closing the year 2013 and the time span of the current analysis on favourable terms for Russia.

Belarus

2000 - 2004

Early 2000 bilateral relationship between Belarus and Russia was already under Vladimir Putin's supervision who became Acting President on December 31, 1999 and was officially elected in March. At that time both countries were busy building a Union State, although Putin's vision of Russia's partnership with Belarus was much more precise and benefit oriented than the vague and expensive one, inherited from his predecessor. Still it was Putin who on January 26, 2000 exchanged ratification documents of the Union Treaty³⁴⁹ with

³⁴⁷ President of Russia (2013): Press Release of 17.12.2013: Meeting of the Russian-Ukrainian Interstate Commission. <http://www.kremlin.ru/events/president/transcripts/19854>

³⁴⁸ Web-Portal of Ukrainian Government (2013): Press Release of 18.12.2013.

http://www.kmu.gov.ua/control/ru/publish/article?art_id=246925977&cat_id=244843950

³⁴⁹ President of Russia (2000): Press Release of 26.01.2000: Acting President Vladimir Putin and Belarusian President Alexander Lukashenko Exchanged Instruments of Ratification of the Treaty on the Establishment of a Union State. <http://en.kremlin.ru/events/president/news/37838>

Lukashenko and thus initiated the Union of Belarus and Russia. The reaction from the Russian side was rather modest and reflected a shift in country's foreign political approach. Although Putin considered the CIS a priority partner, he was no longer interested in preserving disabled regional organisations and placed an emphasis on bilateral relations and the economic sector, capable of bringing Moscow some tangible benefits. Belarus was one of the first to experience Kremlin's new strategy.

The first issue that followed the creation of the Russia-Belarus Union and provoked a long-lasting negotiation process was that of the common currency space. Both sides were quick to agree that the Russian rouble would serve as a single currency. The body responsible for currency emission was on the contrary a reason for numerous discussions. Belarus sought to obtain emission rights, but Moscow viewed it as being inexpedient for the Russian economy. In order to enable economic integration of both countries, Belarus needed to conduct market reforms, privatise state-owned assets, liberalise the market and take control over inflation. Moscow confronted Belarus with these demands, but at the same time promised to promote reforms with stabilization loans, amounting to \$30 million to be provided in 2000 and \$70 million in 2001.³⁵⁰ Considering that market reforms would inevitably lead to Lukashenko's loss of control over the country's economy and thus weaken his political potency, he had little incentives to implement Russia's directives but still signalled compliance in need of Russian loans.

Early 2002 the natural gas issues supplemented the common agenda. Belarus insisted on a price reduction from \$30 per thousand cubic meters of gas to \$18,6 - Russia's domestic price for the Smolensk region, neighbouring Belarus - which would mean around \$150 million less profit for Gazprom.³⁵¹ Russia's acceptance of a cheaper price was caused by Belarus' intention to otherwise raise the gas transit price significantly. At that time Gazprom paid about one fourth of the market margin for the transit and was thereby saving comparably the same amount it was losing through charging cheaper gas. Instead, Russia came up with an option for compensational benefits in another area of economic cooperation. At a prime-ministerial meeting in March 2002 the two parties agreed that Belarus in the person of Lukashenko would surrender his right to grant selected companies with tax and customs

³⁵⁰ Government of the Russian Federation (2000): Decree No. 902. <http://government.ru/docs/all/37357/>

³⁵¹ Kommersant (2002): Moskva Poobeshala Belorusam Desheviy Gaz. No. 14(2383), 29.01.2002

preferences.³⁵² That would abolish the most favoured terms for Belarusian commodities and offer new market possibilities for Russian goods. Whereas the Belarusian president was reluctant to sign the paperwork, Putin made one-sided concessions. According to the inter-governmental agreement of 12 April, Gazprom reduced the gas price for Belarus down to \$21 per thousand cubic meters.³⁵³

Shortly after, in May 2002 the first symptoms of the imminent energy dispute between the states began emerging. During his visit to Moscow the Belarusian Energy Minister faced two challenging issues, both based on Belarus' inability to pay hard currency for the consumed energy. The first negotiations were focused on the conditions of electricity supply to Belarus, whose major provider was Russia. After the expiration of the latest contract on 01 April that included barter arrangements, the Russian party insisted on the resignation of this scheme and a shift to monetary settlements with double tariffs in case of delayed payments.³⁵⁴ That would practically mean huge penalty sums for Belarus, comparable with the electricity bill itself. Thus, the Belarusian minister dismissed the offer leaving the issue open for further discussions.

During the same ministerial visit Gazprom used the opportunity to remind Belarus of its gas debt, amounting to some \$300 million. Gazprom's chief Miller noted that it could lead to a 30 percent supply reduction in case of non-payments or, alternatively to a debt relief if Russia and Belarus created a joint venture based on their gas operators – Gazprom and Beltransgaz respectively.³⁵⁵ That would allow Gazprom to control its gas transit to European customers as well as reduce its gas transportation costs. Simultaneously Belarus made a similar move to acquire a share of Russian oil pipelines running through the Belarusian territory (in line with inter-CIS agreement of 1992, which determined the distribution principles of the former Soviet property, Russia took over the ownership of the Soviet regional oil pipelines.³⁵⁶) The Supreme Economic Court of Belarus abolished the registration of the Russian firm Zapad-Transnefteprodukt that was operating the pipelines, depriving it of its legal right to continue oil transportation in Belarus.³⁵⁷ This move may be interpreted as Lukashenko's desire to get

³⁵² Kommersant (2002): Aleksander Lukashenko Ostalsja Bez Lgot. No. 42(2411), 13.03.2002

³⁵³ Gazprom (2002): Press Release of 06.11.2002: O Situazii s Postavkami Gaza v Belorussiju. <http://www.gazprom.ru/press/news/2002/november/article54149/>

³⁵⁴ Kommersant (2002): Gazprom Poshel v Belorussii Dalshe RAO UES. No. 83II(2452), 20.05.2002

³⁵⁵ Ibid

³⁵⁶ CIS Executive Committee (1992): Register of Legal Acts:

<http://cis.minsk.by/reestr/ru/index.html#reestr/view/text?doc=138>

³⁵⁷ Vesti (2002): Publication of 22.07.2002. <https://www.vesti.ru/doc.html?id=98243>

his share of profits from the pipelines, meaning a significant contribution to the state budget through millions in annual tax returns.

In autumn 2002 Gazprom increased pressure on Belarus in order to get a share of Beltransgaz. The Russian party became more active since Belarus had already consumed the contractual amounts of gas, fixed at 10,2 Bcm of gas annually, by November 2002, whereas Gazprom had received as little as 8,3 percent of the payment.³⁵⁸ The Russian party refused to supply extra amounts of gas in 2002 at a reduced price and insisted on the creation of a joint retail company instead, which would deal directly with Belarusian consumers. On 01 November Gazprom sent an official notification to Belarusian consumers stating the necessity to reduce their gas takeoff up to 50 percent.³⁵⁹ At the same time Lukashenko tried to play the fluctuation card and turn to the West by trying to attend the NATO Prague summit in November. This plan failed spectacularly after the Czech Republic and later USA together with the majority of the EU member states subjected Lukashenko to a visa ban.³⁶⁰ Gazprom in its turn increased pressure by reminding Belarus of its million-dollar gas debt and contemplating supply reductions.

Belarusian scope for manoeuvre was limited by the approaching winter and the initiated heating season, when any gas supply disruptions were critical. Under these conditions Lukashenko was indeed quick to give in. According to the reached agreement³⁶¹ Belarus agreed to pay its gas debt for 2002, whereas independent gas operators would cover the additional gas amounts for that year at a much higher market price. Moreover the parties eliminated the possibility of a similar conflict in 2003 by setting the contractual amount of gas at 10,2 Bcm, with additional volumes to be purchased at a market price. Here Gazprom was likely to take higher Belarusian gas demand in consideration and deliberately kept the contractual gas amounts low in order to secure supplementary profits in the last quarter of 2003. The Beltransgaz issue was not neglected either, with Belarus being obliged to settle the share sales issue by July 01, 2003.

³⁵⁸ Gazprom (2002): Press Release of 22.10.2002: Ob Itogah Vstrechi Aleksandra Rjzanova s Vladimirom Semashko i Petrom Petukhom. <http://www.gazprom.ru/press/news/2002/october/article54073/>

³⁵⁹ Gazprom (2002): Press Release of 06.11.2002: O Situazii s Postavkami Gaza v Belorussiju. <http://www.gazprom.ru/press/news/2002/november/article54149/>

³⁶⁰ The Guardian (2002): EU Slaps Europe-Wide Travel Ban on Authoritarian Leader of Belarus. <https://www.theguardian.com/world/2002/nov/16/ianblack>

³⁶¹ Gazprom (2002): Press Release of 12.11.2002: Ob Itogah Peregovorov Gennadiya Novitskogo i Aleksandra Annanenkova. <http://www.gazprom.ru/press/news/2002/november/article54144/>

The deal was the first large success for Gazprom in Belarus. Not only did it manage to fulfil all its bargaining bids, but also made it clear to Belarus that the times of gratuitous concessions were over. According to the new profit-oriented strategy towards Belarus Moscow was trying to shift the emphasis from political rapprochement with its neighbour to the economic component, which was by far more beneficial. Gazprom's entrance to the Belarusian domestic gas market, as was agreed at the November meeting, would guarantee billion dollar profits to cover the losses from the Belarusian discount gas price. If Beltransgaz purchased Russian gas at \$ 24/Tcm, its customers paid \$47 for the same amount, meaning \$400 thousand in profits daily.³⁶²

The year 2003 began with efforts to set up the agreed joint gas company between Gazprom and Beltransgaz. For Gazprom to be able to acquire a share in the state owned Beltransgaz, the latter had to be transformed into a joint stock company. The Belarusian party initiated the corresponding legal procedures already in February.³⁶³ Despite obvious progress on this issue it was still unclear whether Gazprom would obtain Beltransgaz' shares as a debt payment, or whether it would have to purchase them at a market price. At that point no information about the negotiated percentage of shares was disclosed, suggesting that the bargaining process was still in progress.

In May there were the first symptoms of a friction between Russia and Belarus who differed in their vision of the joint gas company. According to the Belarusian suggestions³⁶⁴ on the company building, 50 percent plus one share should remain state-owned, the rest could be purchased at a market price. Another option presupposed that Gazprom would buy 30 percent of shares at a market price and would acquire more (but not the controlling stake) in exchange for Russian shares in Yamal-Europe gas pipeline, running through the territory of Belarus. The Russian party had two objections to such a scenario. First, it wanted the controlling stake of Beltransgaz. Second, Gazprom wanted it cheap. Belarusian intention to sell the shares at a market price where the parties had to agree on the market value of Beltransgaz meant another bargaining round.

³⁶² Dengi (2002): *Bratstvo po Kommercheskim Raszenkam*. No. 45(400), 19.11.2002

³⁶³ Gazprom Transgaz Belarus [formerly Beltransgaz] (2003): *History*. <http://belarus-tr.gazprom.ru/about/history/>

³⁶⁴ *Kommersant* (2003): *Beltransgaz ne Stoit Rossiyskoi Truby*. No.77(2680), 06.05.2003

In July, when the joint company was planned to be formed, the agreement on this issue was nowhere in sight. At the end of the month the parties made another attempt to reach a consensus, but ended in signing a protocol that only formalised the discrepancies between the actors involved.³⁶⁵ Gazprom's discontent was primarily incurred by the Belarusian estimation of Beltransgaz value of \$5 billion and its unwillingness to engage an independent broker. At the same time, the Russian party insisted on some investment recovery guarantees or in other words on the ability to affect the financial activities of the future joint venture through the majority interest. Conflicting interests once again fuelled a gas dispute between Russia and Belarus.

Interestingly, the difficulties with Belarus revealed a serious split between Gazprom and Kremlin. While Gazprom's chief Miller advocated a hardliner approach to Belarus, president Putin was more willing to compromise. This fact seems rather peculiar considering Russia's much stronger bargaining position topped with personal antagonism between Putin and Lukashenko. Still the fact remains that Miller sent an official note to Beltransgaz officials, stating Gazprom's withdrawal from negotiations on a joint venture due to irreconcilable differences and recommended the Russian Prime Minister to cancel discount gas pricing for Belarus.³⁶⁶ However, at the subsequent meeting between the Russian and Belarusian Presidents stern wording was avoided and the parties agreed on looking further for common ground, although the possibility of its success was as limited as before.

The rest of the year marked numerous attempts on the part of Gazprom and Beltransgaz to reach an agreement on the terms of gas deliveries for 2004. Miller was prepared to sell maximum 10,2 Bcm of gas at an inter-Russian gas price and the rest at market rates of \$80 per thousand cubic meters, whereas the Belarusian side intended to cover all of its gas needs, amounting to 18,5 Bcm at a discount price.³⁶⁷ Thus, by the end of 2003 the relationship between the countries was in deep stagnation with a number of unresolved issues, be it gas price, joint venture or monetary union. As for the single currency issue, which was supposed to be introduced in 2005, there was made no progress worth mentioning. In order to accelerate the integration process, Putin sent Lukashenko a message urging to take action in

³⁶⁵ Gazprom (2003): Press Release of 25.07.2003: On the Outcome of the Visit of Gazprom's Delegation to Belarus. <http://www.gazprom.com/press/news/2003/july/article62478/>

³⁶⁶ Dengi (2003): *Bratja-razboiniki*. No. 37(442), 22.09.2003

³⁶⁷ Gazprom (2003): Press Release of 25.09.2003: Results of the Meeting of Alexey Miller and Peter Petukh. <http://www.gazprom.com/press/news/2003/september/article62539/>

this regard.³⁶⁸ The answer from Minsk lacked any substance, suggesting that Belarus was unlikely to comply willingly and was speculating on a better deal. Although a monetary Union with Belarus was a window of opportunity for Russian businesses considering large state owned segments of the Belarusian economy to be opened for privatisation, there seemed little chance in 2003 for these plans to become a reality. Under these circumstances, the Russian government issued a decree abolishing the preferential gas price for Belarus starting January 1, 2004.³⁶⁹

The parties entered the new 2004-year without any agreement on the gas price or on Beltransgaz market value. The Belarusian side still insisted on its \$5 billion worth, whereas Gazprom was ready to pay the maximum of around \$1 billion. As a consequence, Gazprom stopped supplying gas to Belarus starting January 1, 2004.³⁷⁰ This did not yet mean energy crisis for Belarus, since gas deliveries were taken over by independent suppliers Itera and Trans Nafta that were selling gas at a market price. This was only a temporary solution, though, as according to the contract, independent gas traders would supply Belarus with gas only till February 18³⁷¹, whereupon there was a risk for Belarus to be left without energy.

After that the situation took a bad turn. On February 18, after the expiration of the contracts and without having signed the new ones, independent gas suppliers stopped delivering gas to Belarus as well, whereas Gazprom continued to transit gas to European customers through the Belarusian territory. After the Belarusian party started withdrawing the transit gas for its own needs, Gazprom terminated gas supply of Belarusian pipelines altogether, shifting the responsibility for nonfulfillment of its contracts with European consumers at Minsk.³⁷² Russian stance was complicated by the direct impact of the delivery cuts on its enclave also connected to the Belarusian pipeline. In order to prevent energy crisis in the Kaliningrad region, Gazprom used its reserved capacities and initiated gas deliveries to

³⁶⁸ President of Russia (2003): Press Release of 28.08.2003: President Vladimir Putin Sent Belarusian President Alexander Lukashenko a Message on Forming a Common Economic Space and the Deeper Integration of Russia and Belarus. <http://en.kremlin.ru/events/president/news/29252>

³⁶⁹ Government of the Russian Federation (2003): Decree No. 1323-p. <http://government.ru/docs/all/46544/>

³⁷⁰ Gazprom (2004): Press Release of 16.02.2004: The Results of Alexey Miller and Pyotr Piotuch's Working Meeting. <http://www.gazprom.com/press/news/2004/february/article88039/>

³⁷¹ Ibid

³⁷² Gazprom (2004): Press Release of 18.02.2004: Gazprom Terminated Gas Deliveries to Belarus. <http://www.gazprom.com/press/news/2004/february/article88036/>

Kaliningrad via Latvia and Lithuania.³⁷³ Therefore, the first victim of Gazprom policy was Russia's own territory, which was deprived of gas for over thirty hours in winter conditions. Additionally, Gazprom did not possess any valid transit contract with Belarus since the latest one expired together with the gas supply agreement for Belarus. In fact that enabled Minsk to stop Russian gas transit using the same pretext of the contract absence as Gazprom did.

Coincidentally, the same day Gazprom resumed its transit through Belarus and Russian independent gas supplier Trans Nafta entered into an agreement with Minsk to provide it with 640 Mcm of gas, which should approximately cover Belarusian gas demand for 10 days.³⁷⁴ Some long-lasting solution defining the terms for the rest of 2004 was still to be found. Gazprom continued linking the gas supply contract to the controlling stake of Beltransgaz shares at its nominal price of under \$1 billion. Belarus in its turn was trying to secure for another year of cheap gas prices and avoid market pricing by threatening to raise the gas transit price. The stalemate lasted for another three months.

The relief came only in mid 2004 when the parties finally reached an agreement both on gas supply and its transit. According to the deal Gazprom would supply 10,2 Bcm of gas at \$46,68/Tcm and pay \$0,75 for the transit via the Belarusian pipelines and \$0,46 via the Yamal-Europe pipeline.³⁷⁵ Although the purchase of Beltransgaz shares was not included in the agreement, Russia managed to bargain a higher gas price without a correspondent increase of the transit price, which was still around 30 percent lower as that of gas transit through Ukraine. The lower price for the Yamal-Europe route was conditioned by Gazprom's ownership of the pipeline itself and the necessity to pay solely for its running through the Belarusian territory. Belarus did not come out of the negotiation round empty-handed as well. Lukashenko once again avoided losing control over Beltransgaz and defining the time and conditions of its reorganisation. What is more, the parties did not advance in the common currency issue, which was also one of the reasons for Russia's initial reluctance to supply Belarus with gas.

³⁷³ Gazprom (2004): Press Release of 19.02.2004: Gazprom Used Reserved Capacities to Deliver Gas to Kaliningrad Region and Lithuania. <http://www.gazprom.com/press/news/2004/february/article88034/>

³⁷⁴ Gazprom (2004): Press Release of 19.02.2004: Gazprom Resumed Gas Deliveries to Belarus. <http://www.gazprom.com/press/news/2004/february/article88033/>

³⁷⁵ Gazprom (2004): Press Release of 08.06.2004: Ob Itogah Visita Delegazii OAO Gazprom v Belorussiju. <http://www.gazprom.ru/press/news/2004/june/article54913/>

At the end of the year Russia and Belarus once again negotiated on the gas price for 2005 but this time avoided any escalation. The agreement, reached on December 30, confirmed the gas and transit price of the previous contract with the singular reservation that Gazprom would supply 19,1 Bcm of gas, thus covering all of Belarusian energy demand.³⁷⁶ The political component was once again withdrawn from the agenda.

2005 - 2009

The year 2005 started with Lukashenko expressing his discontent with the gas price, which was higher than the Russian domestic one, but still the lowest among other Gazprom customers. In this context, the Belarusian president mentioned the possibility of transit price revision³⁷⁷, which was hardly more than a mere rhetoric. The contract of gas transit was directly correlated with the one of Belarusian purchases and could not be revised without affecting the gas price for Belarus. Lukashenko's dissatisfaction with the gas price was understandable. Unwilling to raise prices for households, he was obliged to find some other way of filling the financial difference caused by higher energy rates. Since it would be irrational to shift the whole burden on industrial gas consumers and thus negatively affect the attractiveness of Belarusian goods, Lukashenko had no other choice but to ask Russia for a loan. Moscow was likely to provide it, although asking for certain concessions in return.

In April it became clear what the Russian party wanted in exchange for keeping the gas flowing cheaply. According to the reached agreement, Belarus finally agreed to a long-term lease of its land for the Yamal-Europe gas pipeline, running 575 kilometres through Belarus, and its facilities, which would allow Gazprom to construct four gas compressor stations and thus bring the pipeline to its maximum capacity.³⁷⁸ Russian benefit was the near completion of the export pipeline construction, whose maximum capacity of 33 Bcm of gas a year at a low transit rate meant good profits for Gazprom. Providing for the smooth implementation of the agreement and the scheduled launch of the compressor stations, Belarus was in return promised the same low gas price for 2006 as it was in 2005.

³⁷⁶ Gazprom (2004): Press Release of 30.12.2004: Gazprom and Beltransgaz Enter Into Gas Sales and Transit Agreement. <http://www.gazprom.com/press/news/2004/december/article62992/>

³⁷⁷ President of the Republic of Belarus (2005): Press Release of 11.01.2005. <http://www.president.gov.by/press16848.html#doc>

³⁷⁸ Gazprom (2005): Press Release of 12.04.2005: On Working Meeting Between Alexey Miller and Dmitry Kazakov. <http://www.gazprom.com/press/news/2005/april/article63090/>

Belarusian motivation to prevent gas price hikes was best illustrated by the quick accomplishment of the deal. By June two of the four compressor stations were already in construction, the construction license for the other two was to be issued no later than August 15, whereas additional gas volumes in 2005 would be “tied to the timely commissioning of the compressor stations”.³⁷⁹ Gazprom’s stick and carrot policy seemed to have yielded fruits and proved that Russia-Belarus collaboration may well go beyond words to real actions. The upcoming presidential elections in Belarus, scheduled on March 2006, were likely to be one of the decisive reasons for Lukashenko’s compliance. Despite the administrative resource at his disposal, Lukashenko was unlikely to do something as unpopular as increase domestic gas price before the re-election. And the successful startup of operations of the two compressor stations in November 2005³⁸⁰ was another step in this direction. So far both sides were acting strictly in line with the agreements. Belarus finalized the lease of land for the Yamal-Europe pipeline, Russia in its turn fulfilled its promise. According to the contract for 2006, Gazprom committed itself to supplying Belarus with 21 Bcm of gas at the same cheap price as in 2005; transit price for Russia remained constant as well.³⁸¹

After reaching the above-mentioned agreement and till Lukashenko’s re-election in March 2006 all further discussions between the states were frozen. In the meantime Gazprom accounted for a range of measures, undertaken in order to increase gas supply of the Kaliningrad region. By the end of 2005 the company put into operation a gas looping connecting the Kaliningrad region with Lithuanian pipelines, a gas compressor station, and initiated the construction of an underground gas storage facility on the territory of the Russian enclave.³⁸² All these actions were implemented under the guise of developing the gas supply chain of the remote Kaliningrad region, however, especially the coming gas storage facility would significantly reduce Kaliningrad's vulnerability to Gazprom's policy of gas cut-offs towards Belarus.

³⁷⁹ Gazprom (2005): Press Release of 29.06.2005: On Alexander Ananikov and Dmitry Kazakov's Working Meeting. <http://www.gazprom.com/press/news/2005/june/article63141/>

³⁸⁰ Gazprom (2005): Press Release of 25.11.2005: Two Compressor Station at Yamal – Europe's Belarusian Section Commissioned. <http://www.gazprom.com/press/news/2005/november/article63309/>

³⁸¹ Gazprom (2005): Press Release of 27.12.2005: Gazprom and Beltransgaz Ink Gas Supply and Transit Contract for 2006. <http://www.gazprom.com/press/news/2005/december/article63348/>

³⁸² Gazprom (2006): Press Release of 29.03.2006: Board of Directors Reviews Implementation of Plan of Measures Aimed at Boosting Gas Supply to Kaliningrad Region. <http://www.gazprom.com/press/news/2006/march/article63396/>

Simultaneously Gazprom resumed its attempts to raise Russian domestic gas prices, which were held artificially low. In this context Gazprom was not inclined to limit its profit-oriented efforts to the domestic market solely without involving Belarus in gas price discussions. Already in March Gazprom specified its position on Belarusian gas supply. Stressing the necessity of reaching an agreement on terms of gas trade for 2007 in advance, it launched another negotiation round and suggested that Belarus pay European gas rates, which gave the Belarusian party time till April 30 to come up with its own suggestions.³⁸³ Gazprom's determination to maximise profits from energy deals with Belarus may be linked to its long-term failure to take possession of the Belarusian Beltransgaz. Since Russia voiced no specific numbers of the new gas price for Belarus, Moscow was likely to be still counting on the success of the Beltransgaz takeover. Gazprom was, therefore, giving Lukashenko thirty days to either sidestep from the deal again and pay a market gas price, which was over \$200 at that time, or give up his major bargaining chip in return for cheap energy.

Just before the deadline, the presidents of both states met in Moscow with the intention to keep the dispute at a peaceful footing.³⁸⁴ Russia once again urged Lukashenko to introduce the Russian rouble and sell the control share of Beltransgaz, otherwise the market gas price seemed inevitable. Belarus had no economic opportunity to manage an energy price even close to the market price without putting itself on the verge of bankruptcy³⁸⁵. At the end of June Russian pressure bore fruits: Belarus finally agreed to the independent audit of Beltransgaz market value. When negotiating on the gas price for 2007, the parties agreed to prepare a list of Belarusian companies that could be potentially interesting for Gazprom and, more importantly, determined the Dutch ABN Amro bank as an independent auditor of Beltransgaz.³⁸⁶ As stated in Gazprom's press release,³⁸⁶ the above agreements were directly linked to the conditions of gas supply in 2007, illustrating Moscow's determination to use its leverage in full volume.

³⁸³ Gazprom (2006): Press Release of 30.03.2006: On Working Meeting of Alexey Miller, Alexander Ageyev and Dmitry Kazakov. <http://www.gazprom.com/press/news/2006/march/article63393/>

³⁸⁴ President of Russia (2006): Press Release of 28.04.2006: President Vladimir Putin Met with President of Belarus Alexander Lukashenko. <http://en.kremlin.ru/events/president/news/35465>

³⁸⁵ Even a limited price hike to \$100/Tcm would lead to the 50 percent quantity raise of unprofitable plants, up to 8 percent of budget deficit and around 18 percent inflation spike (Neftegaz (2006): Publication of 09.06.2006: Gazprom Zagnal Belorussiyu v Ugol. <https://neftegaz.ru/news/view/64036-Gazprom-zagnal-Belorussiyu-v-ugol>)

³⁸⁶ Gazprom (2006): Press Release of 23.06.2006: On Working Meeting of Alexey Miller, Vladimir Semashko and Dmitry Kazakov. <http://www.gazprom.com/press/news/2006/june/article63530/>

The subsequent events reflected a parade of bargaining bids from both sides, which led to the escalation of bilateral relations by the end of the year. Whereas the parties were waiting for the final verdict of ABN Amro on its price propositions for Beltransgaz to be made early December, Lukashenko let no grass grow under his feet. His first attempt was to find alternative gas suppliers that could offer a friendlier price than Gazprom's. Having limited options due to the pipelines structure, the Belarusian president set his eyes on the Central Asian states, where Turkmenistan and Azerbaijan were the major gas producers. These were also the states that had a long history of collaboration with Gazprom, which unlike Belarus was a solvent partner. And although both Ashgabat and Baku were generally inclined to lessen their interdependence with Gazprom, they seemed to regard Belarus as an improper actor to do that with. In this context Lukashenko brought up a suggestion that the result of ABN Amro estimations of Beltransgaz would be nothing more than a "starting point" for negotiations on the issue, whereas Belarusian gas company would be sold solely at its market value, which according to Lukashenko was floating between \$10 and 17 billion.³⁸⁷ Sensationally enough, this statement was not the only one, directed at pumping up Belarusian bargaining power. Lukashenko made another comment in this vein claiming that Belarus would compensate the losses of the higher gas price by imposing tax on the transit of Russian goods. He calculated that 100 million tons of goods from and to Russia cross Belarusian territory annually, therefore a tax of \$10 per ton could theoretically bring Belarus a billion dollar profit and allow it pay easily for gas.³⁸⁸

Market evaluation of Beltransgaz was finished as planned by the beginning of December. ABN Amro prepared several value estimations based on various scenarios of the capacities of Belarusian pipelines. Surprisingly, there have been made no official statements about the precise figures on the part of either Gazprom or Beltransgaz, as well as from the state officials. According to the Belarusian Deputy Minister of Economy, the estimated Beltransgaz value was around \$3,5 billion.³⁸⁹ Such inexactness coupled with the lack of success in finalising the deal only a month before the New Year resembled the similar

³⁸⁷ President of the Republic of Belarus (2006): Press Release of 13.11.2006.

<http://www.president.gov.by/press33144.html#doc>

³⁸⁸ President of the Republic of Belarus (2006): Transcript of a Press Conference of 23.11.2006.

http://president.gov.by/ru/news_ru/view/stenogramma-press-konferentsii-predstaviteljam-sredstv-massovoj-informatsii-ukrainy-5928/

³⁸⁹ Vremya Novostei (2006): Tanets s Vilkami. No. 222, 01.12.2006

situation in December 2004 when the parties found common grounds only after gas cut-offs.

This time Moscow dealt the first blow and issued a Government decree, coming into effect January 01, 2007 on the application of export customs duties on oil and oil products exported from Russia to Belarus³⁹⁰, and thus abolishing the previous one, more favourable for Belarus, effective since mid 90s. The previous agreement stipulated that the export tax was to be divided between the two states, which however did not manage to agree on the shares of this division. Unhappy with profits from the oil trade bypassing the state budget, the Russian party decided to claim the tax revenues entirely. The Belarusian Cabinet responded by demanding \$100 million of additional payments to the state budget from Mozyr oil refinery, whose net profit amounted to \$192 million.³⁹¹ Importantly, Russian Oil Company Slavneft possessed over 40 percent of the Mozyr oil refinery and was therefore directly hit by this government imitative.

At the end of the month, despite previous complications, Russia surprisingly softened its position and attempted to meet Belarus halfway. Gazprom agreed with the highest Beltransgaz estimation of \$5 billion, owing to the 'partnership relations' between the parties as CEO Miller put it.³⁹² Moreover, Gazprom also reduced its gas price bid from \$200 to \$105 (\$75 to be paid in cash and \$30 in Beltransgaz shares)³⁹³, which was a fair tariff for Belarus and still the lowest rate among Gazprom's customers. Nevertheless, Lukashenko dismissed all the offers and the states once again faced an acute gas crisis. Gazprom warned that it would stop gas deliveries from 10:00 AM on January 01, 2007, due to the absence of the contract.³⁹⁴ Belarus in its turn was going to block Russian gas transit, referring to the same reason. Preparing for the worst, Belarus was going to shift some of its plants to mazut, whereas the Kaliningrad region was going to extract gas from the Baltic underground storage facilities.

The parties did not have to resort to the extreme measures though. Late on December 31, 2006 Russia and Belarus signed the gas supply and transit contract for the years 2007 –

³⁹⁰ Government of the Russian Federation (2006): Decree No. 753. <http://government.ru/docs/all/58202/>

³⁹¹ Neftegaz (2006): Publication of 22.12.2006: Belorussiya Ishet Dengi u Slavnefti.

<https://neftegaz.ru/news/view/68059-Belorussiya-ischet-dengi-u-Slavnefti>

³⁹² RIA Novosti (2006): Publication of 26.12.2006. <https://ria.ru/20061226/57841145.html>

³⁹³ Ibid

³⁹⁴ Vesti (2006): Publication of 31.12.2006. <https://www.vesti.ru/doc.html?id=90384>

2011.³⁹⁵ According to it Belarus would receive cheaper gas at a fixed price only throughout 2007 for \$100 per thousand cubic meters. Starting 2008 the parties would switch to the European gas price formula, whereas Belarus would pay 67, 80 and 90 percent of it in 2008, 2009 and 2010 respectively. The transit rates for Russia had approached European levels as well and reached \$1,45. The price for 50 percent of Beltransgaz shares was fixed at \$2,5 billion and was to be paid by Gazprom in parts within four years.

Whereas the gas issues were taken off the table, the focus of negotiations had shifted to oil matters. The reason was the Russian piece of legislation, discussed above, which came into effect on January 1, 2007. According to it, Russia started taking an export oil tax of \$180 per ton of oil. In response, Belarus introduced a transit tax for Russian oil at \$45 per ton and after exchanging diplomatic notes Russia stopped oil supply to Belarus on January 8, referring to the illegal siphoning of oil by the Belarusian party.³⁹⁶ On January 10 Belarus withdrew the transport tax and already on January 12 the parties resolved the conflict. According to the arrangement Russia continued to collect the oil export tax, although agreed to introduce a decreasing coefficient to it.³⁹⁷ Despite the relatively quick solution of the problem and little collateral damage for both parties, bilateral relations were still at their lowest. Both sides were frustrated – Belarus with Russia's unwillingness to withdraw financial pressure, Russia in its turn counted on much higher profits from the economic partnership with Belarus.

In May 2007 the Beltransgaz deal was ultimately finalised. Gazprom and State Property Committee of the Republic of Belarus signed a purchase and sale agreement, which settled Gazprom's takeover of 50 percent of Beltransgaz shares.³⁹⁸ Importantly, Gazprom bargained a decisive concession from the Belarusian authorities. The Belarusian party was obliged to abstain from using its special right of the government – the so-called golden share – to influence the management of Beltransgaz. Given that Gazprom did not manage to purchase the controlling stake, the above compromise was an important asset to raise Russian influence over the Belarusian Company.

³⁹⁵ Gazprom (2007): Press Release of 01.01.2007: Talks on Gas Supply to Belarus Finalized.

<http://www.gazprom.com/press/news/2007/january/article88188/>

³⁹⁶ RBC Russia (2007): Publication of 11.01.2007.

<https://www.rbc.ru/economics/11/01/2007/5703c6eb9a79470eaf764bdb>

³⁹⁷ Government of the Russian Federation (2007): Order No. 17-p. <http://government.ru/docs/all/58596/>

³⁹⁸ Gazprom (2007): Press Release of 18.05.2007: Gazprom and Republic of Belarus Sign Purchase and Sale Agreement for Beltransgaz Shares. <http://www.gazprom.com/press/news/2007/may/article63814/>

In August 2007 the parties were once again at a brink of a gas dispute, although this time its escalation was successfully avoided. Due to the lack of payments for delivered gas in the first quarter of 2007, Gazprom sent a notification to its Belarusian colleagues, warning that gas supply volumes would be reduced to 45 percent from 10:00 AM on August 3.³⁹⁹ Nevertheless, there seemed to have been no political will to exploit the conflict and it was settled by Gazprom and Beltransgaz alone without involvement from the Kremlin. Within the next week after Gazprom's notification, the Belarusian party cleared its debt and, thus, avoided the complications.

At the end of the year came another confirmation that Russia and Belarus had no interest in challenging the unstable normalisation of relations. First, the Russian ambassador voiced Russia's intention to place Russian military assets on the Belarusian territory as a reaction to USA's plans to pull out missile shield in the Eastern Europe.⁴⁰⁰ Official Minsk did not oppose to this initiative. Coincidentally, in December 2007 Russia granted another loan to Belarus, which it requested for filling the budget holes, caused by the higher gas price. It agreed to provide Belarus with \$1,5 billion to be granted the same month.⁴⁰¹ Therefore, the long-term gas contract together with general unwillingness from both sides to change the status quo, allowed Russia and Belarus meet the year 2008 without complications.

In 2008 Russia continued implementing its profit-oriented approach, whereas Belarus was still trying to exchange sweet talk for Russia's financial aid. Given that Moscow was expecting more than words, the relations continued to deteriorate. This would have been acceptable for both sides if Belarus had not needed another credit. Due to annually rising gas prices, as fixed by the contract, Belarusian energy bills were rising together with its levels of insolvency.

According to the Russian ambassador to Belarus, in the first half-year period of 2008, the Belarusian credit balance deficit had doubled and reached \$6 billion, which forced Lukashenko to seek another emergency loan in Russia.⁴⁰² This request came at a bad timing when Moscow's frustration with Lukashenko was gaining momentum, as he not only expressed no support for Russia in the conflict with Georgia over South Ossetia and

³⁹⁹ Gazprom (2007): Press Release of 01.08.2007: Under Contract Gazprom to Reduce Gas Deliveries to Belarus Due to Nonpayments. <http://www.gazprom.com/press/news/2007/august/article63905/>

⁴⁰⁰ BBC News (2007): Publication of 14.12.2007: Belarus Backs Russia on Missiles. <http://news.bbc.co.uk/2/hi/europe/7144668.stm>

⁴⁰¹ Ministry of Finance of the Russian Federation (2007): Press Centre, Publication of 20.12.2007. https://m.minfin.ru/ru/press-center/?id_4=31158&area_id=4&page_id=2207&popup=Y

⁴⁰² RIA Novosti (2008): Publication of 06.08.2008. <https://ria.ru/20080806/150140109.html>

Abkhazia, but also showed little intention to officially recognise the two rebellious republics. Having faced a refusal to provide Belarus with the credit, Lukashenko softened his position on the issue, but in a typical noncommittal manner. In a reconciliation attempt, he sent a message to Russia's President Medvedev, stating that Belarus "had no other moral choice but to support the appeal of the peoples of South Ossetia and Abkhazia to recognize their right to self-determination"⁴⁰³. Though, he did not go as far as to officially recognise those republics, in the same message he proposed to discuss this issue at the coming CSTO meeting and elaborate a collective approach. Considering that the organisation had five more members with their own record of having trouble with Moscow, it was a prudent way to abstain from making any decision at all. Rather surprisingly, Belarus still received the \$2 billion credit from Moscow⁴⁰⁴ without making any concessions in return.

On the contrary, Lukashenko opted for geopolitical manoeuvring, starting directly after the meeting of the Supreme State Council of the Union State and the CSTO summit, both in early 2009. On the face of it, both events seemed rather successful for Russia – the first ended in signing an agreement of a joint regional air defence system⁴⁰⁵, while the latter marked the creation of the Collective Rapid Reaction Force to maintain security and deal with natural and industrial challenges within the CSTO borders⁴⁰⁶. Directly after the above developments, Belarus corrected its position by reminding that according to its Constitution, Belarusian armed forces could not participate in any actions outside the Belarusian borders and stated that Belarus' military involvement in "hot-spots were forbidden by the law"⁴⁰⁷. These statements in fact nullified the CSTO agreement and left other members of the organisation preoccupied with security issues on their own.

Such noncollaborative behaviour coincided with Belarus' rapprochement with the West. In January 2009 the IMF agreed to provide Belarus with a \$2,46 billion loan in order to "address

⁴⁰³ President of the Republic of Belarus (2008): Press Release of 28.08.2008: President Alexander Lukashenko Sends Message to Russian President Dmitry Medvedev.

<http://www.president.gov.by/en/press61242.html#doc>

⁴⁰⁴ Ministry of Finance of the Republic of Belarus (2008): Press Release of 14.11.2008.

<http://www.minfin.gov.by/news/information/?m=11&y=2008>

⁴⁰⁵ Union State of Russian and Belarus (2009): Press Release of 04.02.2009:

<http://www.soyuz.by/ru/?guid=55517>

⁴⁰⁶ President of Russia (2009): Press Release of 04.02.2009:

http://archive.kremlin.ru/eng/speeches/2009/02/04/1956_type82914type82915_212504.shtml

⁴⁰⁷ Ministry of Foreign Affairs of the Republic of Belarus (2009): Press Release of 05.02.2009.

http://www.mfa.gov.by/en/press/news_mfa/f24ecfa059d9f6c0.html

pressing vulnerabilities”.⁴⁰⁸ At the same time Belarus intensified its dialogue with the EU and applied for participation in its Eastern Partnership Program, which presupposed financial help as well. Interestingly, the West acted in a similar vein as Russia and expected certain political movements from Belarus. One of the conditions for cooperation was Belarus’ non-recognition of South Ossetia and Abkhazia. Foreign Minister of the Czech Republic warned that Belarus would otherwise face “a very difficult situation”, whereas EU Commissioner for External Relations Ferrero-Waldner was more precise and threatened a freeze of rapprochement in case Belarus recognised the two republics.⁴⁰⁹ Belarus docility paid off and it was successfully endorsed in the Eastern Partnership with visa restrictions for Lukashenko and some other high-ranking Belarusian politicians being lifted.

Lukashenko continued expressing his frustration about relations with Russia by boycotting the CSTO summit, set to finalise the military agreement on Rapid Reaction Forces, which already had experienced Belarus’ reluctance. Belarusian withdrawal from the summit was preceded by the so-called ‘milk war’ that lasted for over two weeks when Russia banned the import of Belarusian milk products, initiated allegedly over packaging and technical issues. Whereas the summit proceeded without Belarusian participation and resulted in signing all the planned agreements, Minsk stroke back by claiming them to be illegitimate.⁴¹⁰ Following these events, Russia banned the imports of Belarusian meat products due to sanitary concerns. Belarus in its turn interrupted Russian oil transit to Latvia, referring to the poor technical state of the pipeline. These reciprocal hostilities were quick to be lifted and rather a demonstration of power than an outright sanction episode. However, such reprisals once again illustrated the toxic political climate and increasingly hardening fronts between the two. In this situation Kremlin turned a deaf ear to Belarusian attempts to reduce the gas price for 2009 and it was raised according to the contract of 2006 to around \$168 in 2010.⁴¹¹

⁴⁰⁸ IMF (2009): Press Release of 12.01.2009. <http://www.imf.org/external/np/sec/pr/2009/pr0905.htm>

⁴⁰⁹ D. Tolksdorf (2010): Russia’s Response to the Eastern Partnership in the First Eighteen Months: From Opposition to Gradual Participation? Eastern Partnership Community. <http://www.easternpartnership.org/community/debate/russia-s-response-eastern-partnership-first-eighteen-months-opposition-gradual-part>

⁴¹⁰ Ministry of Foreign Affairs of the Republic of Belarus (2009): Press Release of 15.06.2009. http://www.mfa.gov.by/en/press/news_mfa/df18271aac450f39.html

⁴¹¹ Gazprom (2009): Press Release of 30.12.2009: On Working Meeting Between Alexey Miller and Vladimir Semashko. <http://www.gazprom.com/press/news/2009/december/article73879/>

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2010 brought new challenges to the energy relations of Russia and Belarus. At first it was the oil sector that experienced harsh bargaining rounds. The crisis had already been brewing since the end of 2009 when the parties were trying to agree on the terms of the prolongation of the oil agreement signed in January 2007. The arrangement fixed a decreasing coefficient on the export tax for Belarus, which expired on January 1, 2010. From then on Belarus was normally to pay the tax in full. However, taking into account “the exclusive relationship with the Belarusian partners” the Russian party offered Minsk to supply 6 million tons of oil for domestic needs on a tax-free basis.⁴¹² Belarus was predictably against this offer, since refining cheap Russian oil and selling it at a market price to European customers was a lucrative business. In order to minimise the losses from the Russian initiative, Lukashenko tried to bargain up the amount of tax-free oil by threatening to leave the Customs Union of Russia, Belarus and Kazakhstan in case of further escalation of the conflict. In addition, he threatened to raise the transit price for Russian oil to Europe and cease the transit of Russian electricity to the Kaliningrad region, as the parties had not agreed on the price of the electricity transit for 2010 as well.⁴¹³

In this situation Russia rather unexpectedly abstained from a muscular foreign policy and did not press Belarus with the prospect of oil delivery cuts. This tactic proved to be no less successful and the parties managed to come to a consensus as soon as by the end of January. The signed protocol reflected fully the Russian vision of oil trade with Belarus. According to it, the tax-free amount of oil was set at 6,3 million tons with the rest to be subjected to a duty according to the Russian legislation.⁴¹⁴ The deal obviously defused tension in the oil trade between the states and returned it to the legal framework, although Belarus was openly dissatisfied with the signed document and did not leave attempts to renegotiate the agreement. This time Minsk restrained from threats or concession offers and turned directly to the Economic Court of the CIS with the lawsuit against Russia demanding the deal to be

⁴¹² Government of the Russian Federation (2010): Press Release of 04.01.2010. <http://archive.government.ru/docs/8875/>

⁴¹³ RIA Novosti (2010): Publication of 04.01.2010. <https://ria.ru/20100104/202877552.html>

⁴¹⁴ Official Website of the Republic of Belarus (2010): Press Release of 28.01.2010: Belarus, Russia Sign Oil Deliveries Protocol. http://www.belarus.by/en/press-center/news/belarus-russia-sign-oil-deliveries-protocol_i_701.html

abolished due to its supposedly illegal nature.⁴¹⁵ Considering the complexity of the issue and the foot dragging typical of such cases, the court needed months to come to a conclusion.

In the meantime, the parties focused their attention on the gas sector where another crisis was on the way. Displeasure was growing on both sides, with Belarus being against the high gas price and Russia upset with the Belarusian growing debt. As stipulated by the latest contract, the gas price for 2010 was supposed to become another step closer to the European one, so that the parties could achieve market pricing by 2011. If Gazprom was satisfied with such a development, Beltransgaz was attempting to negotiate more favourable conditions throughout 2009 and the beginning of 2010. When all Belarusian attempts failed, it simply continued paying the cheaper price of 2009. Gazprom tolerated this for almost half a year and started pressing Belarus only at the end of May when the debt amounted to \$192 million.⁴¹⁶ The possible reason was the final stage of Beltransgaz purchase, which was closed shortly before.

In June president Medvedev gave Belarus five days to settle the debt, otherwise gas supply would be cut on June 21 proportionally to the amount of debt – to 15 percent - and would continue growing daily till 85 percent of supply reduction.⁴¹⁷ Belarus used the given term of five days to persuade Gazprom to accept machinery and other Belarusian products as payment for gas but failed. Russia was determined to get hard currency and with this in mind gas supply was indeed reduced to 15 percent on June 21 and to another 15 percent the next day; on June 23 supply cuts reached 60 percent.⁴¹⁸ On June 22 Lukashenko instructed his government to cut Russian gas transit to Europe.⁴¹⁹ This threat entered into force on June 23, although its negative impact on European customers was rather limited this time. The only European state to experience gas shortages was Lithuania that received around 50 percent of gas less and was preparing to reduce gas transit to Kaliningrad in case delivery troubles persisted.⁴²⁰ Lithuania did not have to suffer long, since already on June 24 Belarus

⁴¹⁵ Ministry of Justice of the Republic of Belarus (2010): Press Release of 23.04.2010. http://www.minjust.by/ru/site_menu/news/?id=569

⁴¹⁶ Gazprom (2010): Press Release of 21.05.2010. <http://www.gazprom.ru/press/russia-belarus/>

⁴¹⁷ Gazprom (2010): Press Release of 21.06.2010. <http://www.gazprom.ru/press/russia-belarus/>

⁴¹⁸ Gazprom (2010): Press Release of 22.06.2010. <http://www.gazprom.ru/press/russia-belarus/>

⁴¹⁹ President of the Republic of Belarus (2010): Press Release from 22.06.2010.

<http://www.president.gov.by/press91267.html#doc>

⁴²⁰ Neftegaz (2010): Publication of 24.06.2010: Litva Poteryala Uzhe Polovinu Rossiyskogo Gaza. <https://neftegaz.ru/news/view/95509-Litva-poteryala-uzhe-polovinu-rossiyskogo-gaza>

cleared its debt, due to an emergency loan from Azerbaijan, and the parties resumed both gas supply and transit in full volume.

Interestingly, Gazprom had a debt of its own for gas transit. Moreover, Gazprom's arrears were even higher than those of Belarus. According to Lukashenko, by June 2010 Gazprom owed Belarus around \$260 million for gas transmission services, including that of 2009.⁴²¹ Therefore, in case of a purely economic argument, it would have been more rational for Gazprom to carry out a debt offset rather than initiate the crisis. However, Gazprom claimed to have been ready to pay the transit all along at the price of \$1,45, but the Belarusian party refused to sign the corresponding documents.⁴²² This accusation was partly true, but only to the extent that non-signing of the transit documents was part of a larger problem. After the finalisation of Beltransgaz purchase by Gazprom and consequently the new composition of the Belarusian company, the parties needed to sign a supplement to the contract of 2006, specifying the new transit rates as well as the gas wholesale margin. Since Belarus insisted on the higher transit price that Gazprom did not accept, gas was being transited without any clearly specified contractual framework. Looking ahead, the agreement on the issue was reached on July 2, fixing the transit price growth of \$1,88 for 2010 and raising the wholesale price for gas, sold by Beltransgaz, to \$11.09.⁴²³

The above agreement was a success for the Belarusian diplomacy. Not only did Gazprom agree to the higher transit rate, but also did not get any precise control mechanism over Beltransgaz. The only concession that the Russian party managed to secure were government guarantees not to impose additional taxation, charges or other penalty actions on the joint Beltransgaz; and fixed its annual provisions to the Belarusian innovation fund at the minimum level.⁴²⁴ Lukashenko learned his lesson and this time turned the same weapon against Gazprom by threatening to stop the gas transit if the supplementary agreement was not to be signed.⁴²⁵ In this situation Gazprom made it clear that the cornerstone to the dispute was the operation of the recently joint Beltransgaz that was still being operated

⁴²¹ President of the Republic of Belarus (2010): Press Release of 24.06.2010.

<http://www.president.gov.by/en/press91513.html#doc>

⁴²² Gazprom (2010): Press Release of 21.06.2010: Sergey Kupriyanov, Gazprom's Official Spokesman - Transcript of the Meeting with Reporters. <http://www.gazprom.com/press/russia-belarus/>

⁴²³ Gazprom (2010): Press Release of 02.07.2010: Protocol on Contributions by Beltransgaz to Belarusian Innovation Fund and Addendum to Gas Supply and Transit Contract Signed.

<http://www.gazprom.com/press/news/2010/july/article100656/>

⁴²⁴Ibid

⁴²⁵ Gazprom (2010): Press Release of 25.06.2010: Gazprom Management Committee Chairman Alexey Miller - Transcript of a Press Briefing. <http://www.gazprom.com/press/russia-belarus/>

according to the Belarusian perspective. Ironically, the purchase of 50 percent of its shares did not have any visible positive impact on the energy relations between the states. It did not prevent the dispute either. On the contrary, now that Russia had a right to have a say on the Belarusian domestic energy market, the bargaining between the parties seemed to have intensified.

Prior to the energy crisis Russia and Belarus experienced another argument on the emerging Customs Union and the Single Economic Space, which according to the existing agreements was to be launched starting July 1, 2010. There was a hitch though, since the parties could not compromise on customs duties on energy commodities, with both of them willing to get the bigger share of the pie. If Russia insisted on a separate agreement on energy resource trade and on leaving these issues beyond the framework of the CU, Belarus advocated the abolition of all customs duties. In other words, Moscow planned to enrich its budget through customs duties on energy export, which meant higher energy prices for Belarus and an extra burden on its economy. In an attempt to prevent it, Lukashenko voiced his readiness to give up the CU project whatsoever.

Lukashenko eventually did sign the customs code of the CU, although Russia can hardly take credit for it, since it was in the first place profitable for Belarus itself. Given that Russia was the major sales market for the Belarusian products, the Customs Union was of paramount importance for its producers. Therefore, its endorsement by Belarus was expectable, as well as its further attempts to achieve duty-free terms in the energy sector. Indeed, as it turned out Russia and Belarus had opposing visions of what the CU meant for the energy trade. Lukashenko officially stated that the unified customs area would presuppose the abolition of all customs duties between the states involved.⁴²⁶ The Russian party remained unconvinced and was going to continue charging the export duties as before.

Parallel to the above events the oil duty dispute appeared once again on the agenda due to the intermediate verdict of the Economic court of the CIS. According to its statement, the Belarusian suit, pleading to the disabling of the Russian oil duty, was dismissed and the parties involved were coerced to find conciliation.⁴²⁷ This meant little chance for Belarus to abstain

⁴²⁶ President of the Republic Of Belarus (2010): Press Release of 05.07.2010. <http://www.president.gov.by/press92407.html#doc>

⁴²⁷ The Economic Court of the CIS (2010): Press Release of 07.09.2010. <http://sudsng.org/press/economic-news/770.html>

from paying a higher oil price, since the verdicts of the Economic court of the CIS were final and binding to all its members.

Summing up, by the end of the year relations between Russia and Belarus were strained as never before. The key bargaining issues in the ongoing negotiations were yet again energy prices and the agreements on the Single Economic Space. The existing gas contract stipulated that Belarus would switch to market pricing from 2011, whereas the presumable starting point for Russia's internal gas users to pay the European level gas price excluding transit and export charges was initially set at 2012. Due to the negative impact of the world economic crisis and the overall unpreparedness of the Russian economy to higher energy prices, the starting date of domestic price parity was postponed till January 1, 2015. Belarus, referring to the Union State with Russia insisted on being granted the same delay. As for the oil sector, the situation was no less problematic with a proceeding trial and the absence of the valid contract for 2011.

Eventually the states managed to agree on some issues, although it was a desperate measure and they both were not utterly happy with the compromise. Belarus succeeded in getting rid of oil export duties by trading the signing and ratification of all the documents on the SES for it.⁴²⁸ The existing gas contract was not corrected and in 2011 Belarus had to face a market gas price with the supply conditions in 2012-2015 to be agreed on later. The resolution of the economic issues did not make Moscow more comfortable with Lukashenko in power but in the absence of any other significant political figure on the Belarusian scene it had to recognise his victory at the elections, yet expressing no pre-electoral support and trying to distance itself from the debates on the undemocratic nature of the voting.

The first minor clash of 2011 took place already in January. Despite the established legal and customs framework for oil deliveries, the individual contracts between Russian oil suppliers and the Belarusian oil refineries were still not signed, which ended in delivery disruptions. The incident caused neither political vibrancy nor any major collateral damage due to sufficient reserves in Belarusian storages. The former was surprising since billion dollar issues, as in this case, were normally settled with fanfare. The dispute was provoked by Russia's desire to increase its profits from oil trade with Belarus as well as from the export

⁴²⁸ Government of the Russian Federation (2010): Press Release of 15.10.2010. <http://premier.gov.ru/eng/events/news/12581/>

of oil refined in Belarus. Since Russia abolished its oil export tax, starting January 1, 2011, as stipulated by the agreements on the Single Economic Space, it was looking for another way to benefit from the oil dealings with Belarus and with this objective insisted on getting a bonus to the net oil price that Minsk was not willing to grant. The issue was settled only at the end of January with Belarus accepting the bonus to the net price amounting to \$46, as proposed by Russia.⁴²⁹

Minsk' backing off on the oil issue reflected its overall impasse after the presidential elections, seen as fraud by the West. In response, early 2011 the EU and the USA revived the visa ban and asset freeze on Lukashenko and a number of top Belarusian officials, following brutal harassments of oppositional leaders and free journalists in Belarus. Later the same year, the sanctions were extended further, restricting exports of some Belarusian companies and prohibiting imports of a number of goods that may be of direct or indirect use for internal repression. The overall hostile tonality towards Belarus drove down Minsk ability to balance and the value of such attempts, which echoed directly in negotiations with Moscow.

Up to June 2011 the two parties have been actively discussing the framework of a billion-dollar credit for Belarus that Lukashenko badly needed to stabilize the economy and patch the budget holes in aftermath of his electoral largesse. The amount Belarus needed and was counting on lay somewhere between 6 and 8 billion dollars. The agreement has been finally reached on June 6 on overwhelmingly Russian terms. According to it, the Eurasian Development Bank, where Russia was the largest donor, granted Belarus \$3 billion with the first tranche of merely \$800 million and the rest being split into 5 tranches to be provided only after implementation of the agreed measures.⁴³⁰ These measures consisted officially of various stabilization and reform programs aimed at redressing the imbalances in the Belarusian economy. Unofficially, the loan was linked to Lukashenko's consent to the further privatization of Beltransgaz and other valuable assets, long desired by Russia. Given that the scope of the first tranche was unable to keep Belarusian economy afloat for long enough, subsequent concessions were unavoidable for Lukashenko and were quick in coming.

⁴²⁹ Interfax Russia (2011): Publication of 25.01.2011. <https://www.interfax.ru/business/174638>

⁴³⁰ Eurasian Development Bank (2011): Press Release of 06.06.2011. http://www.eabr.org/e/press_center/press-releases/index.php?id_4=7333&start_4=01.06.2011&end_4=16.06.2011

Five months later Gazprom bought the remaining 50 percent shares and entered the full ownership of Beltransgaz. The same day, November 25, the parties settled all other controversial gas issues by signing the new gas supply and transit contract for 2012-2014 years. The contract set a reduced gas price for Belarus in 2011 at \$165,6, to be calculated for the following years by the new price formula on the basis of Russian domestic gas prices.⁴³¹ From that moment on, the very foundation for bargaining on the gas supply and transit issues had been dismissed and the contract experienced neither renegotiation attempts, nor implementation problems. In April 2013 Gazprom drew a symbolic line under the long-lived gas clashes by renaming Beltransgaz into Gazprom Transgaz Belarus in order for its 100% subsidiary to conform to the common corporate identity, prior to which Lukashenko signed a decree granting Gazprom the right to use the name of the Belarusian Republic in its title.⁴³²

After gas negotiations have fallen under the table, there were few issues left that had a potential to bring Russian irritation with Lukashenko to the boiling point. One of them was once again Belarusian unauthorized re-export of petrochemicals, although Moscow's displeasure did not evolve into a major argument. In 2012 Belarus had significantly increased its exports of thinners and solvents - products of refined Russian oil - that although being mainly identical to automobile gasoline were not subject to the export duties.⁴³³ In addition to having cost the Russian budget billions of unpaid revenues, this scheme intensified Russian intentions to keep Belarus on a short leash in the oil area. In 2013 the agreements on the levels and conditions of oil supply were reached only on a quarterly basis. Although the stipulations of these agreements were not utterly unfavourable for Belarus, their short-term nature forced Minsk to stick to the contract in respect to the customs duties and simulate overall docility at least every three months.

In sum, throughout 2012 and 2013 relations between Belarus and Russia had the same pattern as in the last decade when the highs and lows were taking terms, with the exception that Lukashenko's bargaining position and his ability to balance have been steadily shrinking. The EU continued to pursue its hard line towards Belarus against the background of

⁴³¹ Gazprom (2011): Press Release of 25.11.2011: Russia and Belarus Define New Terms and Conditions for Gas Supply and Transmission. Gazprom Takes Full Ownership of Beltransgaz.
<http://www.gazprom.com/press/news/2011/november/article124286>

⁴³² Gazprom (2013): Press Release of 22.04.2013: Beltransgaz Renamed Gazprom Transgaz Belarus.
<http://www.gazprom.com/about/subsidiaries/news/2013/april/article161005/>

⁴³³ IPM Research Center (2012): Belarusian Monthly Economic Review, No.6.
<http://eng.research.by/analytics/bmer/>

continued repressions of the civil society. In both years, the EU reinforced and extended its visa and trade sanctions⁴³⁴ against Belarusian officials and economic entities, while the lowest point was reached early 2012 as the EU and Poland recalled their ambassadors from Minsk. The tensions declined eventually, as the West was not ready to give up on Belarus completely and leave it at Russia's disposal. However, European pressure on Lukashenko for political reform continued, which got him cornered in remaining loyal to the Russia-led Eurasian course. The emphasis of the future bargaining issues, therefore, shifted further from negotiating merely about the possibility of Belarusian membership in a new Eurasian setting to how far it would go and how many benefits Belarus would be able to trade along the way.

Moldova

2000 - 2004

The year 2000 started for Russia and Moldova with an energy dispute, which reached its height in February. The negotiations were developing according to the familiar scenario – Moldovagaz was unable to pay for the consumed gas, which gave Gazprom the legal right to cease the deliveries. By the end of February, Moldova had already accumulated a gas debt of over \$2 million for January only and was therefore officially notified by Gazprom officials of the probable consequences.⁴³⁵ It came so far on February 25 when Gazprom stopped its gas deliveries to Moldova and started the negotiations process, aiming at becoming a package of Moldovagaz shares for its whole debt of around \$300 million.⁴³⁶ After the Russian party fell short of reaching its goal, gas deliveries were resumed on March 2 after the Moldavian authorities committed themselves to clear the debt. Shortly after the incident, Gazprom had raised the gas price for Moldova to \$80/Tcm⁴³⁷, which was the highest stake within the CIS area at that time, applied normally to its recalcitrant members.

Whereas Moldova was unsuccessfully trying to reduce its gas price, the debt to Gazprom was steadily growing, which aggravated further the already strained relationship between the two states. The differences were once again highlighted during the visit of Moldova's Prime-

⁴³⁴ An overview of the EU restrictive measures against Belarus and their regulations base can be found under: European Union External Action (2016): Restrictive Measures (Sanctions) in Force. http://eeas.europa.eu/cfsp/sanctions/docs/measures_en.pdf

⁴³⁵ Kommersant (2000): Energeticheskie Polusi SNG. No. 30(1915), 23.02.2000

⁴³⁶ Vlast (2011): Istoriya Gazovih Voin Rossii s Sosedjami. No. 36(940), 12.09.2011

⁴³⁷ Ibid

Minister Bragis to Russia at the end of September. The Moldavian party used the opportunity to negotiate lower gas prices and convince Gazprom to accept Moldavian products and services instead of cash as a payment. Gazprom, on the contrary, had no intention to discuss the gas price whatsoever and was ready to refuse from hard currency (the debt amount under discussion amounted to \$750 million⁴³⁸) solely in exchange for shares in local gas companies. The official visit did not bring any breakthrough to the discussion. Since the parties did not manage to overcome the differences they decided to let them be, hoping for more success after the upcoming presidential elections in Moldova and the new political landscape in the Moldavian negotiation camp.

As it turned out, it was still a long time for the new Moldavian political alignment of forces to be formed, as the new President was elected as late as in April 2001. Prior to that, Moldova experienced numerous unsuccessful parliamentary attempts to elect President, dissolution of the Parliament and early elections. Two presidential candidates served as a good reflection of the national identity issues within the country: one being the communist leader Vladimir Voronin and the other – a joint candidate from the right and centrist wing, Pavel Barbalat. According to the Moldavian constitution, reflecting the parliamentary system, the presidential candidate needed to get 61 parliamentarian votes out of 101 in order to be elected. Neither of the nominees had the parliamentary majority to secure the victory, with the communists still being in the stronger position with enough MPs to prevent the election of the oppositional candidate. Throughout December 2000 the Parliament was fighting a losing battle of Presidential elections till the end of the month, when unable to compromise it was dissolved in hope of more luck in the next composition. The new Parliament was defined at the end of February 2001, with the Communist party led by Voronin becoming the clear electoral winner with 71 parliamentary seats out of 101.⁴³⁹ This constitutional majority allowed the Communists to appoint both Prime Minister and President, as well as introduce changes to the constitution. The latter issue was rather needed by the communists in case they chose to implement their electoral platform, which encompassed giving Russian the status of the state language and even mentioned the possibility of Moldova to join the Union of Russia and Belarus.

⁴³⁸ Pravda (2000): Bragis Obeshal Kasyanovu Razobratsya s Problemy Russkogo Yazika v Moldavii. <https://www.pravda.ru/politics/817256-bragish>

⁴³⁹ Association for Participatory Democracy (2001): Early Parliamentary Elections in Moldova on February 25, 2001. <http://www.e-democracy.md/en/elections/parliamentary/2001/>

After the shift of power was utterly completed in April 2001 and Voronin entered the presidential position, his first official visit was made predictably to Moscow, where, predictably as well, all pre-election plans gave way to the more pressing issues of energy prices, Moldova's gas debt and the Transnistrian settlement. As for the first set of issues, it was decided to hold more detailed negotiations on the matter later and the focus of the talks was set on Transnistria, continuing the *lex non scripta* of all fresh presidents to appear peacemaker and find a way out of the deadlock. Voronin, like his predecessors, failed to work wonders as well and apart from giving a long-awaited positive geopolitical signal to Moscow, the first visit of Moldova's presidential delegation had nothing to offer.

In the meantime, specific decisions on the Transnistrian issue were badly needed. The urgency was dictated by the decisions of the 1999 OSCE summit, where Moscow agreed to withdraw its troops and armaments from the region by the end of 2002.⁴⁴⁰ While willing to do so on paper, Russia did nothing to bring these plans to reality, not least because of strong opposition to such withdrawal from the Transnistrian authorities. They not only understood Russian troops to be a guarantor of their *de facto* independence, but also considered initially Russian armaments to belong to the Transnistrian state.

The Transnistrian component was also of importance in the negotiations on the gas issues. The complications in this matter were to a large extent provoked by the Transnistrian authorities, which while aspiring for political independence were still not ready to take responsibility for the gas debt and were shifting it at the Moldovan state. At the beginning of October the parties have made the last attempt in 2001 to get their own way during gas negotiations. Moldova's expectations were extensive – to reduce the gas price from \$80 to \$70 per thousand cubic meters and to write off all penalties for the late gas payments, which made up most of the debt. The remaining \$100 million of the gas debt itself (excluding \$430 million of the Transnistrian arrears) Moldova was ready to pay with its agricultural and other products, additionally urging Russia to reduce its value added tax on the Moldovan goods, in order to make such barter deal more lucrative.⁴⁴¹ Russia in its turn expected all debts in full to be paid in hard currency and had not the least intention to introduce any changes to the current gas price. The final deal was closer to the Russian bargaining position, although considering Moldavian insolvency. Thus, the parties agreed that Moldova had to pay all of

⁴⁴⁰ OSCE (1999): Istanbul Summit 1999: Istanbul Document: 49-50. <http://www.osce.org/mc/39569>

⁴⁴¹ Kommersant (2001): Mikhail Kasyanov Vibil Dolgi v Podvale. No. 183(2313), 06.10. 2001

its gas debt, including that of Transnistria, amounting to \$800 million within the 10-year period, the gas price remained by \$80, with \$60 to be paid directly and the remaining \$20 with a three-year delay.⁴⁴² These conditions were not only a bargaining loss for Moldova, but also a huge step towards an economic crisis. Coming energy bills were overlapping the pre-electoral promises of the Communists, who had raised rents up to 50 percent without having enough budgetary resource to fulfil their promises. Financial difficulties together with broadening frustration with the communist rule put Moldova by the beginning of 2002 on the brink of a political crisis.

The situation was aggravated further in early 2002 when the Communist authorities attempted to turn into reality one of their electoral promises and introduce Russian as the second official language. The initiative was dismissed by the Parliament shortly after. Instead the Ministry of Education issued two decrees on compulsory Russian lessons at schools and on renaming the historical course from the 'history of the Romanians' to 'the history of Moldova' with corresponding updates to the content. While welcomed by the Russian minority, the novelties provoked massive public protests, supported by the oppositional Christian Democratic People's Party (PPCD - Partidul Popular Creștin Democrat). The demonstrations lasted for over a month, transforming their slogans from anti-Russian language to - urged by PPCD - anti-Communist in general. The tensions started to diminish only after the authorities acknowledged their fiasco and announced a moratorium on the initiatives.

No more successful was the communist administration in its attempts to settle the Transnistrian issue, which was to a large extent due to the uncompromising position of the Transnistrian president Igor Smirnov, rather than a consequence of the Moldovan diplomatic awkwardness. The cornerstone of the deadlock was Transnistria's blocking of Russian troops and armament withdrawal, which was supposed to be completed by December 2002. Being aware that without Russian troops in the region it would be no longer possible for the separatist state to retain its autonomy with all the consequent economic benefits of the shadow economy and illegal arms trading, Smirnov did everything in his power to prevent meeting the OSCE deadline. The blocking of Russian armaments was lifted only in November 2003, after the Russian Parliament granted Transnistria a gratuitous loan of \$105

⁴⁴² Ibid

million.⁴⁴³ In the meantime the OSCE deadline was prolonged for another year till the end of 2003.

The next 2003-year brought more dynamic to the Transnistrian conflict settlement attempts on both Moldovan and Russian sides, which were being made parallel to negotiations on the gas issues. In mid February Gazprom informed its Moldovan counterparts of possible cuts in gas deliveries, due to underpayments since Moldova was paying only around 70 percent of its gas bill.⁴⁴⁴ Unlike Chisinau, which bargaining bid consisted traditionally of price reduction and debt relief proposals, Moscow entered the bargaining round with a much broader set of issues. Gazprom in its bargaining proposal agreed to reduce the gas price from \$80 down to \$50 under several conditions⁴⁴⁵. First, it was suggested that Moldova reduce the transit price for the Russian gas from \$2,5 down to \$1,5 while Russia in its turn could reduce the gas price for Moldova by selling it the cheaper Central Asian gas, in case the bill would be paid in full. Second, in order to minimize the losses of Moldovagaz, where Gazprom was the largest shareholder, it suggested that the domestic gas price in Moldova should be revised and the new tariffing set. And third and finally, Gazprom expressed its readiness to write off Moldovan and Transnistrian gas debts in exchange for more shares in Moldovagaz or shares in heating and power plants. Due to the multiplicity of issues the search for a consensus extended over months and still brought nothing. Despite all efforts, Moldova preferred high gas price to losing more shares of Moldovagaz. Instead, the attention was switched to the resolution the Transnistrian conflict, which was coming with a wet sail.

Negotiations on the Transnistrian problem took place on the wave of political rapprochement between Moldova and Russia when President Voronin consequentially reduced activities in Russia-sceptic organizations such as GUAM. Thus, under the pretext of illness he first missed its summit in July and then openly stated Moldova's loss of interest in the organization, which put into question its entire existence. Nevertheless, this position proved to be neither solidly based nor long lasting. The sobriety came at the end of November when Russia set forward its draft Memorandum on the Basic Principles of the State Structure of a United State in Moldova, better known as the Kozak plan, called by the name of its Russian promoter Dmitry Kozak and aimed at the unification of Moldova.

⁴⁴³ Government of the Russian Federation (2003): Decree No. 692. <http://government.ru/docs/all/47117/>

⁴⁴⁴ Kommersant (2003): Gazprom Mozhet Ogranichit Postavki v Moldaviju. No. 27(2630), 17.02.2003

⁴⁴⁵ Ekonomicheskoe Obozrenie (2003): Gazprom Predlagaet Moldove Vzaimnoe Snizhenie Tarifov. No. 8(504), 07.03.2003

Despite speculations that Russia came forward with this initiative solely in order to justify and legalise its military presence in Transnistria, the endeavour was short of success. The date of signing the document had been previously set by the Presidents of Moldova and Transnistria, for which occasion President Putin changed his schedule and was on the verge of flying to Chisinau and add more festivity to the event by declaring partial debt reduction and lower gas prices for Moldova⁴⁴⁶, when the unexpected came. The day before the advertised event, Voronin suddenly changed his mind, motivating his refusal to sign the memorandum by the necessity for its approval by the European organizations, in the first place by OSCE.⁴⁴⁷ As it turned out later from an interview with the former head of OSCE mission to Moldova William Hill, OSCE together with USA and EU, were against Russian military presence in Moldova, which was the reason for a phone call to Voronin with instructions to abstain from signing.⁴⁴⁸ After all the November turbulences, the stand of affairs at the end of 2003 looked rather gloomy with drastic worsening of the bilateral climate, little prerequisites for Russian troops withdrawal and further fracturing of the Moldovan society.

In 2004 the focus of bilateral relations was shifted to the economic sphere, since there was little chance and impulse to find political reconciliation before the parliamentary elections in 2005. The economic interests of Russian companies in Moldova, on the contrary, remained well articulated, although without the positive political climate their success was rather unlikely. Russian businesses had been traditionally strong in Moldova regardless of the current geopolitical stance, as long as Russian interests did not consider state owned economic entities. Unfortunately for Russia, by 2004 the only attractive assets left to be offered to foreign investors were state owned. One of these were two power distribution networks Red Nord and Red Nord-Vest that were put up for an investment tender. The sole competitor to the Russian RAO UES was the American AE Silk Road that withdrew itself at the end phase of the competition. Consequently, the question arose whether the

⁴⁴⁶ Kommersant (2003): Kozak i Razboiniki. No. 216(2819), 26.11.2003

⁴⁴⁷ President of Moldova (2011): Press Release of 30.11.2011.

<http://www.prm.md/press.php?p=1&s=1498&lang=rus>

⁴⁴⁸ Moldavskie Vedomosti (2011): Publication of 30.11.2011.

http://www.vedomosti.md/news/Eksglava_Missii_Obse_Raskryl_Detali_Memoranduma_Kozaka

Moldavian government was willing to tolerate 75 percent of shares of power distribution networks in Russian hands, which it was not and opted to abandon the tender whatsoever.⁴⁴⁹

The developments in the gas sector did not unfold in accordance with Russian expectations either. By April 2004 the debt issue for the past gas deliveries was still unresolved and the latest debt numbers were \$308,35 million for Moldova and \$959,89 million for Transnistria, while domestic payment rates reached 85,11 and 66,82 percent respectively.⁴⁵⁰ At the annual Moldovagaz shareholders' meeting in May the Russian party once again raised the issue of exchanging debt restructuring for Moldavian industrial assets but the question remained up in the air.

The same lack of progress applied to the Transnistrian issue, the resolution of which seemed to be moving away in spite of all attempts to reverse this process. Since June 2004 the situation developed beyond the negotiation table and took a form of economic and media war between Tiraspol and Chisinau. It was sparked off by the decision of the Transnistrian authorities to close several Moldavian schools within the breakaway republic that were still under the jurisdiction of the Moldavian Ministry of Education. These schools had long been an irritant for Tiraspol, due to their teaching in Moldavian and using Latin letters instead of Cyrillic.⁴⁵¹ Moldova's reaction was categorical – Transnistria was given time till August 1 to ensure smooth school functioning, otherwise Moldova would stop issuing provenance certificates for Transnistrian products, which could paralyse its exports.⁴⁵² Tiraspol ignored the ultimatum and came up with symmetrical measures instead. It blocked the railway, running through its territory and serving as the main transport corridor for persons and goods to Russia and other CIS countries. The bypass route meant massive set backs and huge financial losses. The conflict was resolved through mediation of Russia, Ukraine and OSCE by passing of the Transnistrian section of the railway into the Tiraspol ownership and Ukrainian consent to handle trains without Moldavian certificates.⁴⁵³ These tensions had a

⁴⁴⁹ RIA Novosti (2004): Publication of 08.04.2004. <https://ria.ru/amp/20040408/564722.html>; 19.04.2004: <https://ria.ru/20040419/572359.html>

⁴⁵⁰ Gazprom (2004): Press Release of 15.04.2004: Results of Gazprom's Delegation's Visit to the Republic of Moldova. <http://www.gazprom.com/press/news/2004/april/article62709/>

⁴⁵¹ Moldova switched to Latin letters directly after obtaining independence, Transnistria retained the Cyrillic writing

⁴⁵² *Ekonomicheskoe Obozrenie* (2004): *Posredniki Prizvali ne Dopustit Obostreniya Situazii*. No. 25(569), 23.07.2004

⁴⁵³ E. Gorelova and G. Shelar (2009): *Izderzhki Pridnestrovskogo Konflikta i Vigodi ot Ego Uregulirovaniya*: 39-40. Centre for Independent Social Research, Chisinau. <http://www.cisr-md.org/pdf/Report%20RUS%20Master%20Final%20vGS.pdf>

negative effect on Russo-Moldavian relations as well. The end of the year was marked with hostile notes exchange between the Foreign Ministries, with Moldova claiming Russian military presence in the region to be a “blatant interference in Moldova’s internal affairs”, Moscow in its turn defined such accusation as unfriendly and irresponsible.⁴⁵⁴

2005 - 2009

The next frictions between Moscow and Chisinau began almost simultaneously with the start of the election campaign for the parliamentary elections scheduled for March 2005. The Moldovan party expelled six Russian citizens for alleged illegal campaigning and attempts to affect the electoral outcome. Several days later another 16 Russians were deported for similar reasons. The Russian answer followed shortly after in form of a Duma declaration⁴⁵⁵ expressing concern about Moldavian actions and suggesting that in case of further destabilization by Moldavian authorities, counter measures might be needed. Among such measures the state Duma mentioned an import ban on Moldavian wine and tobacco products, the initiation of visa regime between the countries and supply of energy products at a market price. Importantly, there was made an exception for Transnistrian products and citizens for all of the above sanctions.

The efforts of Russian Parliamentarians proved ineffective and the threats left Moldova indifferent. On the contrary, after one of Russian TV channels provided Serafim Urechean, one of the oppositional leaders, with air time, the Moldavian authorities accused the channel of biased coverage and urged it to abstain from reports, which might be treated as campaigning, otherwise its broadcast in Moldova would be stopped.⁴⁵⁶ Such a tough position had full presidential support, which Voronin once again underlined at a press conference prior to the elections, accusing Russia of interference in internal affairs and manipulating the popular opinion.⁴⁵⁷

Parliamentary elections took place on March 6, 2005 marked by shrinking but still broad support for the Communist party. According to the final results, PCRM gained 45,98 percent

⁴⁵⁴ RIA Novosti (2004): Publication of 16.12.2004. <https://ria.ru/20041216/762073.html>

⁴⁵⁵ The State Duma of the Russian Federation (2005): Transcript of the Session of 18.02.2005. <http://transcript.duma.gov.ru/node/1132/>

⁴⁵⁶ Infotag News Agency (2005): Publication of 22.02.2005. http://www.infotag.md/all_news/31143

⁴⁵⁷ Gazeta (2005): Publication of 23.02.2005. https://www.gazeta.ru/2005/02/23/oa_149223.shtml

of votes, the electoral block Democratic Moldova led by Urechean – 28,53 percent and Christian Democratic People's Party – 9,07 percent, which meant 56, 34 and 11 parliamentary seats respectively.⁴⁵⁸ As a consequence the Communists lost the constitutional majority and had got only the simple one in the Parliament, which was enough for appointing the speaker, not the President. The former appointment went smoothly as expected and confirmed the communist Marian Lupu in the speaker's seat. Voronin's candidacy as President faced, on the contrary, strong antagonism from the opposition, with which the communists had no choice but to come to an agreement. These negotiations turned out to proceed surprisingly quickly and smoothly. In the first place the opposition failed to agree on a single presidential candidate and Voronin had to compete with the artificial rival from the own party. Secondly, the Democratic Moldova electoral block, comprising representatives of various parties began falling apart directly after the elections making it easier for the communists to recruit individual MPs.

The negotiations between the three parties brought another surprise. Urechean, speaking from the still holding together parts of the block, presented his list of 22 conditions, under which he and his followers would support Voronin at the presidential elections. These conditions⁴⁵⁹, consisted among other issues of secession out of the CIS, declaring Russian military presence in Transnistria illegal, open orientation towards Europe and entrance to the EU and NATO. Although the parties did not manage to find any common ground, in the end Voronin still managed to get even more votes than in 2001, when his party had the constitutional majority in the Parliament. This success assured the Christian Democratic People's Party that as well introduced certain conditions, which were accepted by Voronin. Unlike Urechean's they had a far more moderate nature and presupposed the policy of Europeanization, updating the legal basis on Mass Media and securing independence of the judicial system.⁴⁶⁰ Thus, despite differences in tonality among the Parliamentarians, the majority of political powers in Moldova were united in their geopolitical priority.

At the same time, Moldova began actively looking for a solution to the Transnistrian problem, although this time on a bilateral basis with Ukraine, without Russian or

⁴⁵⁸ Association for Participatory Democracy (2005): Parliamentary Elections in Moldova on March 6, 2005. <http://www.e-democracy.md/en/elections/parliamentary/2005/>

⁴⁵⁹ Nezavisimaya Moldova (2005): Serafim Urechean Eshe ne Opredeleysya: On Vidvigaet Usloviya ili Zadaet Voprosy? No. 606, 01.04.2005

⁴⁶⁰ Kommersant (2005): Vladimir Voronin Vstupil po Hristianski. No. 59(3143), 05.04.2005

Transnistrian diplomats. The emerging set of solutions, called the Yushchenko plan by the name of the Ukrainian president who was the main driving force behind the whole process, logically presupposed the withdrawal of Russian troops from Transnistria. Moscow's strained relations with Yushchenko personally, its uncompromising position regarding the 14th Army and the general unwillingness to play the second fiddle in the settlement process conditioned its open resentment of the endeavour. The already cool relations with Moldova sank another level lower after the GUAM summit in Chisinau on April 22 where Moldova, Georgia, Ukraine and Azerbaijan were trying to breathe life into the inert organization. One of the outputs of the summit that were out of tune with Kremlin's interests was the decision to promote energy cooperation aiming at transporting Caspian energy to the European market through the territory of GUAM members; and create a free trade zone, a potential rival to the Russia-backed Customs Union.⁴⁶¹

In this situation Russia once again threatened with economic sanctions. It did not come as a surprise since the possibility of sanctions had already been mentioned in the state Duma's declaration where wine and tobacco export ban from Moldova was discussed. This time the sanctions concerned crop and vegetable products and were presented as not bearing any political component. According to the Federal Service for Veterinary and Phytosanitary Surveillance (Rosselkhozadzor) their Moldavian colleagues did not meet Russian and international standards of crop and vegetable deliveries, which might lead to dangerous contaminations in Russia.⁴⁶² The ban did not comprise tobacco or wine, possibly due to Russian ownership of Moldova's largest wineries and tobacco factories. What is more, Moldavian wine had a much larger share on Russian domestic market than crop and vegetables, which could have been much easily replaced.

At the end of September, Russia once again hardened its position and implemented further sanctions against Moldavian wine. This time they were not presented in a diplomatic form of sanitary concerns. The Federal Customs Service simply stopped issuing excise marks for Moldavian wine products. The only indirect excuse for such measures, according to the corresponding press release, was the prolonged time span for issuing the excise marks from 2-3 weeks to 40-50 days due to the new piece of legislation on the State Regulation of the Production and Circulation of Ethyl Alcohol and Alcoholic Products, issued on July 21 and

⁴⁶¹ GUAM (2005): Press Release of 22.04.2005. <http://guam-organization.org/node/310>

⁴⁶² Vremya Novostei (2005): Fitosanitarniy Kordon. No. 84, 17.05.2005

introducing certain changes to the whole wine distribution system.⁴⁶³ Importantly, only Moldovan products experienced these difficulties. For all the likelihood of the political motivation to the sanctions it was still unclear which effect the Russian authorities were counting on. According to the export numbers, 85 percent of Moldavian wine went to Russia and wineries' representatives confirmed that a week without excise marks would put them on the brink of bankruptcy.⁴⁶⁴ However, the largest wineries in Moldova had Russian ownership, and some of them bottled their wine in Russia itself.

The reason for such desperate measures came up shortly during the visit of Russian delegation to Chisinau in October where the lifting of economic sanctions against Moldova was directly linked to the settlement of the Transnistrian issue on Russian terms, meaning further stay of the Russian 14th army in the region. Moldova's reaction was unexpectedly adamant. President Voronin in his interview to BBC stated that Moldova would manage without exports to Russia and was willing to freeze without Russian gas but would not pay with its freedom and sovereignty, no matter how high the price.⁴⁶⁵ This statement marked the gradual understanding by Kremlin of its failure in Moldova at least for the time of Voronin's presidency. Additionally, the Russian party had to put up with the ineffectiveness of its economic sanctions. Consequently, by November 2005 the export marks were issued in the ordinary course. More surprisingly, Russia compromised on the Transnistrian issue as well. Firstly, it agreed to US and EU involvement in the negotiations as observers. Secondly, in a Joint Statement of the Presidents of the Russian Federation and Ukraine on the question of Transnistrian settlement, Russia acknowledged the necessity to transform its military contingent into a peacekeeping force under the OSCE umbrella.⁴⁶⁶ And finally, Russian Prime Minister Fradkov signed a decree, passing real property items located on the territory of the Transnistrian region and released by the Russian army to the local authorities according to the agreements of the OSCE summit in Istanbul in 1999.⁴⁶⁷

At the beginning of 2006 the gas issues once again came up to the surface, since the contract for its delivery had still not been signed due to Russia's willingness to raise the price and

⁴⁶³ Federal Customs Service of Russia (2005): Press Release of 27.09.2005.

http://www.customs.ru/index.php?option=com_content&view=article&id=4222

⁴⁶⁴ Kommersant (2005): Bez Vina Vinovaty. No. 180(3264), 26.09.2005

⁴⁶⁵ Regnum News Agency (2005): Publication of 08.10.2005. <http://www.regnum.ru/news/525144.html>

⁴⁶⁶ Ministry of Foreign Affairs of the Russian Federation (2005): Press Service, News Bulletin of 19.12.2005. http://www.mid.ru/ru/press_service/bulletins/-/asset_publisher/i4uOWcG8W4iA/content/id/417266

⁴⁶⁷ Government of the Russian Federation (2005): Order No. 2308-p. <http://government.ru/docs/all/54913/>

collect the debt and Moldova's reluctance to accept that. Gazprom's bargaining bid contained \$160 gas price (compared to \$80 in 2005) and additional 25 percent of Moldovagaz shares as debt payment. By 2006 Moldova owed Gazprom \$780 million, excluding penalties, whereas \$560 million fell to the Transnistrian share.⁴⁶⁸ In this situation Moldova was not ready to pay for Transnistria's debt with its own Moldovagaz shares. Therefore, the agreement reached on January 16 was a temporary solution to secure gas deliveries in the winter months and postponed the actual bargaining till April. The parties agreed on \$110 gas price for the first quarter of the year.⁴⁶⁹

Prior to the next negotiation round, another old problem strained the relations further. This time the dispute involved two more parties and apart from Moscow and Chisinau, Kiev and Tiraspol were equally affected. At the beginning of March Ukraine stopped the transit of all goods with Transnistrian customs registration and demanded Moldavian customs documentation in accordance with its recent agreement with Moldova.⁴⁷⁰ This measure was pushed by the Moldavian authorities in order to on the one hand get profits from Transnistria's trade and on the other, to put an end to shadow trade operations on the Ukrainian-Transnistrian border. This put Transnistrian economy in a blockade situation, since all of its exports were travelling through the Ukrainian territory and could put the republic, for which trade was the main source of income, on the brink of economic collapse. It did not come that far, though, since Tiraspol was quick to turn to Moscow for financial help. In addition, it came up with a responsive initiative and blocked railway and highway connection between Moldova and Ukraine. This measure lacked the expected effect, since there had been a similar precedent in 2004 and alternative routes had already been tested and arranged. Therefore, the dispute would not have been so damaging for Moldova if Russia had not sided with Tiraspol and entered the scene with economic sanctions.

At the end of March the Chief of Rospotrebnadzor (Federal Service for the Oversight of Consumer Protection) voiced concerns regarding sanitary and epidemiological standards of Moldavian wine and requested the Federal Customs Service to prohibit the import of

⁴⁶⁸ Gazprom (2006): Press Release of 16.01.2006: Gazprom and Moldovagaz Ink Contract on Natural Gas Transit Via and Supply to Republic of Moldova.

<http://www.gazprom.com/press/news/2006/january/article88136/>

⁴⁶⁹ Ibid

⁴⁷⁰ Vremya Novostei (2006): Sboi Szenariya. No. 38, 06.03.2006

Moldavian wine and its distribution within the Russian Federation.⁴⁷¹ Already by the end of the month Moldavian vine products vanished from the Russian markets causing damage not only to the Moldavian economy that was heavily dependent on Russian market, but also to Russian bottlers and retailers, which were on the brink of filing a lawsuit against the CEO of Rospotrebnadzor aiming at lifting the ban.

It did not take long till the Moldavian party reeled backward and came to Moscow in search of reconciliation. Still despite all efforts of its parliamentary delegation, the talks in mid April brought no particular solution. The wine sanctions coincided with gas negotiations that were supposed to outline the terms of gas deliveries till the end of the year. At the working meeting in Moscow the parties agreed to prolong the existing terms of gas deliveries for another quarter of a year.⁴⁷² In exchange for preservation of gas price, Moldova was to annul the law, claiming Transnistrian privatisation illegal.⁴⁷³ This decision was decisive for Russian business, which was the major purchaser of Transnistrian privatisation objects. Apart from legalising the activities of Russian business circles in Transnistria the law also reduced its opposition to the resolution of Moldova-Transnistria conflict. The industrialists' fear of losing the property was no longer an impediment to the conflict settlement.

One settled issue still did not reduce the chill between the states. Moldova was actively promoting European integration together with Transnistria but without the Russian army. Moldavian parliamentarians even discussed an initiative to withdraw from the CIS⁴⁷⁴, which did not get the majority, still the Parliament considered an examination of the existing CIS agreements in search of those that might contravene with the norms and regulations of the EU. Russia in its turn stood by the wine sanctions and went as far as instructing all Russian wine importers and bottlers, through a Rospotrebnadzor decree, to destroy all Moldavian wine products that had already been taken off sale, but were still stored in depots. According to rough estimates, the losses of this measure for vine producers and bottlers would be around \$2 Million and for vine retailers around \$60 million.⁴⁷⁵ It was doubtful

⁴⁷¹ Rospotrebnadzor (2006): Publication of 25.03.2006.

http://rospotrebnadzor.ru/c/journal/view_article_content?groupId=10156&articleId=264352&version=1.0

⁴⁷² Gazprom (2006): Press Release of 30.03.2006: Ob Itogah Rabochey Vstrechi Alekseya Millera I Zinaidy Greceani. <http://www.gazprom.ru/press/news/2006/march/article55622/>

⁴⁷³ Vlast (2006): Respublika Polurussiya. No. 14(668), 10.04.2006

⁴⁷⁴ RIA Novosti (2006): Publication of 24.05.2006. <https://ria.ru/20060524/48572709.html>

⁴⁷⁵ Kommersant (2006): Moldavskie i Gruzinskie Vina Prikazano Vilit ili Vivezti. No. 102(3433), 08.06.2006

whether such drastic measures and self-damage were justified, in any case Moldova was the first to attempt to normalize the relations at the negotiations table.

At the beginning of August 2006 President Voronin insisted on meeting his counterpart Putin to discuss his road map aimed at the revival of good neighbourly relations and the renewal of talks on Transnistria. The plan that was delivered to Putin prior to the meeting included a broad range of controversial issues.⁴⁷⁶ First, Voronin suggested that Russia withdraw its military staff from Transnistria that should get a broad autonomy within Moldova. In return Moscow could claim to be the main driving force of the conflict resolution with all the image benefits and laurels of a successful peacekeeper. Moreover, the united Moldova would legally introduce its neutral status, which eliminated the possibility of stationing any foreign troops on its territory and, more importantly, the possibility of its accession to NATO. Further, Voronin would promote the Russian language in Moldova and the rights of the Russian-speaking minority. Finally, the Moldavian party would create a benign climate for Russian business in the country and secure the inviolability of Russian property in Moldova. Despite showing little excitement about the plan, Moscow welcomed Moldavian rapprochement efforts and the parties began a rather slow and cautious reconciliation process. Voronin's plan provoked a gradual shift in Kremlin's position and revived old diplomatic ambitions as well as visibly healed the wounds of the disastrous crash of the Kozak memorandum.

By the end of the year Russia lifted diplomatic avoidance of Moldova and revived its activities in the Transnistrian direction. Another possible stimulus for Moscow's return to promoting the revised Kozak plan again may have been a referendum in Transnistria in September. According to the official data of the Supreme Council of Transnistria on the consultative referendum on further Relations with the Republic of Moldova and the Russian Federation, 97 percent of Transnistrians voted for its independence and later affiliation with Russia.⁴⁷⁷ Although no country except Russia acknowledged the referendum, Moscow interpreted its results as an additional confirmation of its negotiation stance.

⁴⁷⁶ Kommersant (2006): President Moldavii Hochet Pomiritsya. No. 143(3474), 07.08.2006

⁴⁷⁷ The Supreme Council of the Pridnestrovian Moldavian Republic (2006): Publication of 18.09.2006: <http://vspmr.org/news/supreme-council/predsedatelj-tsentraljnoy-izbirateljnoy-komissii-pridnestrovskoy-moldavskoy-respubliki-petr-denisenko-ozvuchil-ofitsialjnie-itogi-referenduma.html>

The end of the year witnessed more developments in bilateral relations. In the first place the issue with Russian wine sanctions was ultimately settled by the presidents Voronin and Putin at their meeting within the CIS summit at the end of November. At the subsequent press conference the parties demonstrated a visible warm-up, which was, among other things, illustrated by Russia's decision to resume wine imports and declarations of stronger partnership in the energy sector.⁴⁷⁸ According to the latest gas contract, Gazprom's deliveries in the second half of 2006 cost Moldova \$160, whereas the overall Moldovan gas debt reached \$1,4 billion.⁴⁷⁹ As the presidents hoped, supply terms for 2007 were indeed agreed on shortly after, fixing the new gas price at \$170.⁴⁸⁰ The parties additionally discussed future gas price trends, which foresaw their gradual rise until they reached the market level in 2011.

The final resolution of the wine sanctions issue, despite presidential declarations, took place at the end of 2007. As it turned out, Russia's agreement to import Moldavian wine was not as unconditional as it seemed and the reload of bilateral relations was seen mostly as means in reaching economic goals rather than as a worth per se. Thus, the actual wine import resumption happened as late as in October 2007. Prior to that both parties held multiple negotiation rounds with Russia trying to get the largest possible share of the lucrative wine trade pie. Russia's aspiration was to organise wine imports according to a one-stop principle when a single Russian firm was responsible for the importation of all Moldavian wine products. More importantly, the Russian party planned to re-issue Moldavian trademarks for the most popular wines to a Russian company, so that most of the profit would remain in the Russian hands.⁴⁸¹ The parties did not disclose the ultimate details of the final deal whereas Russia was actively denying attempts to get hold of Moldavia's wine bestsellers. However, one may suggest that Russia failed to impose unprofitable import conditions on Moldova. Moreover Rospotrebnadzor did not manage to filter unwanted Moldova's wine producers in favour of those with high amount of Russian shares in their access to Russian market. After president Voronin banned all wine exports whatsoever until Russian sanctions were lifted

⁴⁷⁸ President of the Republic of Moldova (2006): Press Release of 28.11.2006.

<http://www.prm.md/press.php?p=1&s=4377&lang=rus>

⁴⁷⁹ Gazprom (2006): Press Release of 23.11.2006: Ob Itogah Rabochey Vstrechi Alekseya Millera i Zinaidy Greceani. <http://www.gazprom.com/press/news/2006/november/article63648/>

⁴⁸⁰ Gazprom (2006): Press Release of 26.12.2006: Ob Itogah Rabochey Vstrechi Alekseya Millera i Zinaidy Greceani. <http://www.gazprom.ru/press/news/2006/december/article55960/>

⁴⁸¹ Kommersant (2007): Moldavskie Vina Prokachajut Cheres 'Sojusplodoimport'. No. 102(3678), 15.06.2007

for *all* Moldavian vine companies and after Russia's unsuccessful attempts to neutralise this position, the parties returned to the trade relationship, functional prior to the 'wine war'.

In 2007 Moldova managed to rehabilitate itself in Kremlin's eyes and one could even see the long forgotten pictures of the harmonious past when Voronin used to ignore the GUAM Summit in favour of a meeting with Putin, as it was once again the case in June 2007. Such demonstrative friendly gestures still brought no concessions for Moldova in the energy sector. According to the new gas conditions for 2008, Moldova would pay \$187,81 in the first and \$209,6 in the second quarter of the year, compared to \$170 in 2007⁴⁸², making another step to market pricing and resulting in one of the highest rates among other Gazprom customers within the CIS.

In 2008 the main focus of bilateral relations with Moldova continued to be the Transnistrian settlement. In this respect a parallel may be drawn with 2003 when inspired by warm relations with Chisinau, Kremlin was actively promoting its diplomatic efforts. Having learned from the failure of the Kozak plan, Moscow seemed to have been acting more cautiously and slowly this time. Russia's aspiration for success on the contrary remained unchanged and had even increased after Kosovo's declaration of independence in February 2008, as Kremlin endorsed the challenging goal of showing and implementing more peaceful and constitutional forms of conflict resolution based on territorial integrity. On the face of it, the chances for success were comparably high. In an interview president Voronin claimed to have found a consensus with Moscow on the painful issue of the Russian army in Transnistria, which according to the discussed settlement plan would be completely withdrawn from the region in exchange for the introduction of Moldova's neutral status.⁴⁸³ In the same interview Voronin even hinted at the possibility of the country's exit from GUAM.

The seeming idyll was tainted by the Transnistrian leader Smirnov who seemed to be the main hitch in the negotiation process. In a reciprocal newspaper interview he voiced a diametrically opposing position to Voronin's and denied not only the possibility of the near peaceful solution but Tiraspol's willingness to come to the negotiation table with Moldova.⁴⁸⁴

⁴⁸² Neftegaz (2008): Publication of 20.02.2008: Gazprom Prigotovil Dlya Moldavii Neozhidannye Tseny. <https://neftegaz.ru/news/gas/283918-gazprom-prigotovil-dlya-moldavii-neozhidannye-tseny/>

⁴⁸³ Kommersant (2008): Mi s V. Putinim Davno Poterjali Vkus s Sobstvennim Hotelkam. No. 38(3855), 11.03.2008

⁴⁸⁴ Kommersant (2008): Igor Smirnov: Mi iz SSSR ne Vihodili. No. 40, 13.03.2008

Under the pressure from Moscow Smirnov still radically changed his position and already a month after uncompromising statements presidents Smirnov and Voronin were negotiating in person. This presidential meeting was their first personal encounter since 2001 when Tiraspol had frozen its relations with Moldova and later on declared Voronin persona non grata. Despite personal repulsion both leaders seemed highly interested in the success of the endeavour. Before the coming parliamentary elections in Moldova in 2009, Voronin was motivated to restore the fading popularity of his party. Smirnov, in his turn, was more concerned about the vanishing support in Kremlin. Within the context of uneasy circumstances the presidents managed to deliver results that were short of being a breakthrough. Thus, the parties agreed to form bilateral working groups to conciliate the viewpoints on the possible unification and discuss the lifting of existing economic barriers for Transnistrian goods.⁴⁸⁵ In addition to this, Smirnov agreed to cancel travel restrictions imposed on Moldavian leaders, while Voronin promised to address EU and USA on the issue of lifting the visa ban on Transnistrian politicians.

By 2009, after numerous attempts to switch from talking to action in settlement of the Transnistrian problem still brought no visible results, the chances for a breakthrough within Voronin's presidency began to decline. The new Parliamentary elections were due on April 5 and from January on the Communists as well as the opposition were mainly preoccupied with their popularity ratings rather than with international negotiations. Russia was once again granting support to the Communist party and its leader Voronin, out of the absence of better options and still lingering hope for Moldova's broader compliance with Moscow's plans. The oppositional rivals the Liberal Party, Liberal Democratic Party of Moldova and the Christian Democratic People's Party were openly pro-European and were unlikely to meet Russia halfway be it the gas issues or the Transnistrian settlement.

According to the preliminary results, the communists were confidently ahead of their rivals (Liberal Party – 12,75%; Liberal Democratic Party – 12,26%; PPCD – 3,02%) with 50 percent of votes.⁴⁸⁶ The opposition that was expressing concerns about the fairness of the elections well ahead of the voting itself, once again stressed this viewpoint at the anti-communist demonstrations on April 7-8. The massive protests against the election results

⁴⁸⁵ President of the Pridnestrovian Moldavian Republic (2008): Press Release of 15.04.2008.

http://president.pmr-gov.org/index.php?option=com_content&task=view&id=996&Itemid=1

⁴⁸⁶ Republic of Moldova, Official Website (2009): Press Release of 06.04.2009.

<http://www.moldova.md/en/newslst/1211/1/3153/>

got utterly out of control. The next day violence erupted, crowds of people broke into the Parliamentary building and the Presidential residence, destroying both. The oppositional leaders were quick to deny any involvement in the riots, blaming the communists for provocations to discredit other political powers. Voronin indeed blamed the opposition for an attempted coup, but at the same time scapegoated Romania. The Romanian flag that was hoisted on the Parliament building in the course of the riots (along with the EU banner) motivated the communists to blame the neighbouring country for organising and sponsoring the protests. As a consequence, Moldova expelled the Romanian ambassador and introduced visa regime with the country.

The next day the electoral commission published the ultimate election results that confirmed the communist success with 49,48 percent and significant lag of the opposition – Liberal Party with 13,14 percent, Liberal Democratic Party with 12,43 percent and Party Alliance Our Moldova with 9,77 percent.⁴⁸⁷ All international observers, including those from OSCE, acknowledged the results. Since it did not take the heat out of the situation and critical voices were still loud, Voronin asked the Constitutional Court to recount the ballots. The opposition in its turn unanimously refused to participate in the recount and demanded the re-election. The social unrest remained high as well. Predictably, the recount results varied little from the initial ones and secured 60 Parliamentary seats for the communists, Liberal and Liberal Democratic Party each with 15 seats and Our Moldova with 11.⁴⁸⁸ This parliamentary composition enabled the communists to elect only the new speaker on their own, for which the simple Parliamentarian majority was needed. In order to elect the president, the party lacked one single vote to be able to reach the constitutional majority.

As expected, Voronin, who could no longer qualify for the presidency, was elected as the speaker, which gave him the de facto opportunity to retain power outside the presidential mandate. The challenging task to convince the opposition or at least one of its members to collaborate and support her presidential ambition, adopted the long term Prime-Minister Zinaida Greceanii. Despite the promises to foster European integration and offers of

⁴⁸⁷ Republic of Moldova, Official Website (2009): Press Release of 10.04.2009: <http://www.moldova.md/en/news/1211/1/3155/>

⁴⁸⁸ Republic of Moldova, Official Website (2009): Press Release of 22.04.2009. <http://www.moldova.md/en/news/1211/1/3164/>

ministerial seats, all oppositional parties boycotted the voting and Moldova headed to the repeated parliamentary elections.

According to the new results, the Communists worsened their position with 45 percent of votes and therefore lost the majority in the Parliament. The new composition was clearly in favour of the liberal democrats, with the Communist Party receiving 48 seats, the Liberal Democratic Party 18 mandates, the Liberal Party – 15, the Democratic Party and Our Moldova 13 and 7 seats respectively.⁴⁸⁹ Now that the situation reversed itself and the recent opposition that formed the ruling coalition Alliance for European Integration (AEI) had the opportunity to elect the speaker but not president, it faced the same problem as the communists three months before. The speaker position went to the advocate of rapprochement with Romania Mihai Ghimpu, the government leadership obtained the leader of the Liberal Democratic Party Vlad Filat.

As for the presidential elections, the communists won back their positions after the failure of their own candidate. Using the same tactic of boycotting the voting, they easily prevented the election of the single presidential candidate Marian Lupu, leader of the Democratic Party. The firm decision to initiate another snap parliamentary election was not swayed neither by collaboration offers from the liberal democrats, nor by Kremlin's persuasion. Amid Moldova's political crisis Moscow decided in favour of the pro-European Lupu and a relatively balanced Parliament. Due to broad anti-communist attitudes and the growing popularity of right-wing forces, Lupu might have been the lesser evil in the otherwise clearly western-oriented political landscape in Moldova. In any case, the Communist Party buried all these calculations and put Moldova in a political crisis till at least 2010, since the Parliament could not be dissolved twice within one year.

Political turbulences in no way affected the economic sphere where the gas contract, signed in 2006 for five years was still strictly followed. According to it, Moldova planned to switch to the market prices by 2011. In the meantime the gas price formula was calculated from the market price for Europe minus part of the transit costs and with a discount rate. For 2009 this rate equalled 0.8, which meant a gas price within \$260-270.⁴⁹⁰

⁴⁸⁹ Republic of Moldova, Official Website (2009): Press Release of 05.08.2009. <http://www.moldova.md/en/newslst/1211/1/3272/>

⁴⁹⁰ Republic of Moldova, Official Website (2009): Press Release of 17.04.2009. <http://www.moldova.md/en/newslst/1211/1/3163/>

2010 - 2013

In 2010, in the situation of a sustainable political crisis, the fluctuation within Moldova's political circles became even more obvious since it was no longer constrained with a clear ruling alignment. In the communist wing four key members left the party and formed an independent parliamentarian group that was likely to be enlarged by further renegades. The ruling Alliance for European Integration after obtaining power seemed to have little consent about what to do with it as well. One of the controversial issues were relations with Russia, where the parliamentary speaker and the acting president Ghimpu advocated a tough position of holding distance, whereas the prime minister Filat tended to a more balanced approach. These differences came to the surface before the annual Victory Parade in Moscow celebrating the end of the World War II. The Moldavian party was traditionally invited to the event, but the defence ministry refused to send his military to the parade referring to current financial difficulties and high costs of such participation. The following emergency meeting of the AEI under the prime-ministerial pressure still devoted funds for Moldova's engagement in the parade. Shortly before the event, Ghimpu demonstratively changed his mind and withdrew his previous consent to attend the event, provoking annoyance in the ruling camp. This demarche was broadly understood as pre-electoral tactics aimed at nationalistic groups and hinted at the lack of accord within the AEI, apart from unilateral anti-communist position.

Ghimpu provoked an outrage of AEI once again by signing a decree that declared 28 of June 1940 a day of the Soviet occupation that was to be celebrated annually as a memory day for all the victims of the Soviet totalitarian regime.⁴⁹¹ The initiative found support only within the Liberal party, headed by Ghimpu himself. Other members of the ruling coalition fearing a further split of the society did not back the decree, boycotted all festivities and addressed the Constitutional court with a claim to cancel the piece of legislation. Predictably, the initiative provoked Moscow as well, which chose to express its protest not only by the means of diplomatic notes, but also sent a clear signal through the notorious Rospotrebnadzor. Rather coincidentally, the next day after the presidential decree was issued, the Russian federal service on human well-being surveillance issued an extra press release on Moldovan wines, stating the intensification of control over wine products due to increasing cases of

⁴⁹¹ President of the Republic of Moldova (2010): Press Release of 24.06.2010.
<http://www.prm.md/press.php?p=1&s=7774&lang=rus>

their mismatch with sanitary norms.⁴⁹² The situation did not escalate further to economic sanctions since the Moldovan Constitutional Court was quick to overrule the decree and the issue was off the table already by mid July.

This incident still did not discourage Ghimpu from taking further steps in the same direction by touching Russia's hot button again and awarding a group of fighters against the "totalitarian communist occupational regime" with Moldova's highest order, the Order of the Republic.⁴⁹³ Shortly after Russia banned the import of Moldavian fruits and vegetables, referring to the high content of pesticides in agricultural products. The ban was lifted after a month, which gave the parties enough time to send the intended signals to the nationalistic parts of the electorate in case of Ghimpu and to provocateurs within Moldova's elite in case of Russia.

The next parliamentary elections that took place in November 2010 confirmed the split within Moldova's society and a lack of a clear-cut vision of its geopolitical orientation, be it closeness to Russia advocated by the communists, reunification with Romania advocated by the Liberal party or some indistinct course of sitting between the stools advocated by the Democrats and the Liberal-Democrats. According to the final results, the Communist party was once again the clear leader of the election, with 39,29 percent (42 parliamentary seats), followed by the Liberal-Democratic party with 29.38 percent (32 seats), the Democratic party with 12,72 percent (15 seats) and the Liberal party with 9,96 percent (12 seats).⁴⁹⁴ Thus, the AEI did not manage to receive enough seats to be able to elect President and the power composition remained more or less the same, with Vlad Filat retaining the Prime-Ministerial post and Marian Lupu (leader of the Democratic party) becoming the parliamentarian speaker and the Acting President.

Moldova's permanent pre- and post-election fever since 2009 paralysed negotiations with Russia on crucial issues of bilateral importance, such as Transnistrian settlement or gas deliveries. Having no certainty in the length of the power mandate of Moldovan negotiators, the parties seemed unwilling to start any discussion rounds at all. This caused a serious

⁴⁹² Rospotrebnadzor (2010): Press Release of 29.06.2010. http://rospotrebnadzor.ru/press_center/-/asset_publisher/0L3h/content/об-усилении-надзора-за-алкогольной-продукцией-производимой-в-республике-молдова-от-29-06-2010

⁴⁹³ President of the Republic of Moldova (2010): Press Release of 23.08.2010. <http://www.prm.md/press.php?p=1&s=7926&lang=rus>

⁴⁹⁴ Republic of Moldova, Official Website (2010): Press Release of 30.11.2010. <http://www.moldova.md/en/newslst/1211/1/3582/>

setback in the Transnistrian position, which under no pressure from Moscow and Chisinau was quick to return back to its hard independence rhetoric, mocking the previous successful steps to bring Tiraspol to the negotiation table. As for the gas sector, Moldova still had a valid contract with Gazprom till 2011, which presupposed certain discount indexes to the market gas price. Starting 2012 the same contract was extended on the annual basis without either bargaining over its terms or introducing major changes to it.

The presidential epic came to a happy end as late as in March 2012 after almost three years of an ongoing political crisis and unclear power arrangements. The new head of state became Nicolae Timofti who managed to collect all 59 AEI votes and three socialist ones from the MPs who had earlier left the Communist party. Timofti, who used to lead Moldova's Supreme Magistrate Council, won in the first place due to his non-affiliation with any political party, which was the major requirement for a potential candidate voiced by the communist deserters whose votes were crucial to the successful election.

The major foreign political achievement of the new ruling establishment was signing the Association Agreement with the EU in 2014. Moscow reacted in a predictable manner and immediately after the signing of the document imposed trade restrictions on Moldovan products. Prior to the Eastern Partnership Summit in Vilnius, Russian Sanitary Service issued restrictions on Moldovan wine due to its alleged quality shortcomings and expanded the ban on other groups of products throughout 2014. Finally, the Russian government unilaterally introduced customs duties on a range of imported goods from Moldova, thus discarding its preferential trade position, established by the Moldova-Russia Free Trade Zone Agreement of 2011.⁴⁹⁵ All these measures took place out of the bargaining context and were not linked to any specific negotiations or demands between the parties. They were rather an act of Russian frustration towards the inability to prevent Moldova's drift westwards and the unwillingness to let it go unanswered.

⁴⁹⁵ Government of the Russian Federation (2014): Press Release of 01.08.2014. http://government.ru/en/dep_news/14056/

Method

The choice of the method for the analysis was conditioned by the two major characteristics of the collected data. Firstly, there is a limited and relatively small number of cases. Secondly, the method had to possess adequate tools that would answer the comparative nature of the cases. Although comparative politics often resorts to case studies, this technique alone seemed insufficient for a full-scale clarification of the research questions. Moreover, case study practice is questioned by some in its scientificity due to the inevitable subjectivity and the loose body of the case study material, which is not always suitable for a robust inspection.⁴⁹⁶ Quantitative analysis, on the other hand, has limited applicability for small-N designs and was also dismissed on the grounds of low statistical power.

An alternative approach – Qualitative Comparative Analysis (QCA) – elaborated by Charles Ragin was designed to overcome the limitations of regular statistical tools in small-N research and to integrate the best features of the case- and variable-oriented approaches. QCA is case-oriented in the sense that it treats each case as a complex body, which can be seen as a whole to numerous qualities. Such case-sensitivity requires a profound knowledge of the individual case units along the entire analysis, since only good familiarity with research objects allows for the robust applications of QCA techniques.

Another facet of the case-oriented approach present in QCA is multi causality. Contrary to the statistic models where a single causal path is infiltrated, QCA allows for multiple explanations where different sets of conditions may lead to the same outcome, or the outcome may or may not be present depending on the context. Ragin himself rejects permanent causality in any form and introduces the notion of equifinality, meaning that various paths may bring the same outcome, which in QCA lexicon is known as multiple conjunctural causation where multiple stands for the variety of paths and the notion conjunctural implies that each path incorporates a set of conditions.⁴⁹⁷

On the other hand, QCA possesses a number of points of convergence with cross-case regression analysis and in the first place enables software data analysis, otherwise

⁴⁹⁶ B. Rihoux (2009): Qualitative Comparative Analysis and Related Techniques: Recent Advances and Challenges: 366. In S. Pickel *Methoden der Vergleichenden Politik- und Sozialwissenschaft: Neue Entwicklungen und Anwendungen*. VS Verlag, Wiesbaden

⁴⁹⁷ B. Rihoux and C. Ragin (2009): *Configurational Comparative Methods*. SAGE, Los Angeles: 8

troublesome for human mind. In comparison with the conventional statistical analysis QCA demands more involvement from a researcher than mechanically entering data and getting results. The researcher's active engagement is necessary on most steps of applying the QCA procedure, which in its turn fosters transparency and more clarity as to how the initial data was transformed into final results. Additionally, QCA dataset is processed on the basis of Boolean algebra with its well-defined rules and solutions, which allow for replicability seen by many as a prerequisite for a solid research and a key condition for reliable findings.⁴⁹⁸

However, despite some similarities with conventional quantitative analysis especially in the data set construction, QCA has a decisive distinction in the relation of the dependent and independent variables. While statistical theory is based on finding which independent variable has the strongest impact on the dependent one and the variables are dealt with separately, QCA examines the entire data body as a whole and considers collective effect of different combinations of independent variables on the outcome. As Ragin puts it, the task of QCA is to see «causal conditions not as adversaries in the struggle to explain variation in dependent variables but as potential collaborators in the production of outcomes» where the question asked is «not which variable is the strongest (has the biggest net effect) but how different conditions combine and whether there is only one or several different combinations of conditions capable of generating the same outcome».⁴⁹⁹ With this standpoint in mind it may be worthwhile to return to the bargaining theory elaborated above. In line with previous argumentation it considers various bargaining stances to be of effect to the outcome, where not the presence or absence of a bargaining bid is decisive, but their combinations towards each other and the outcome itself.

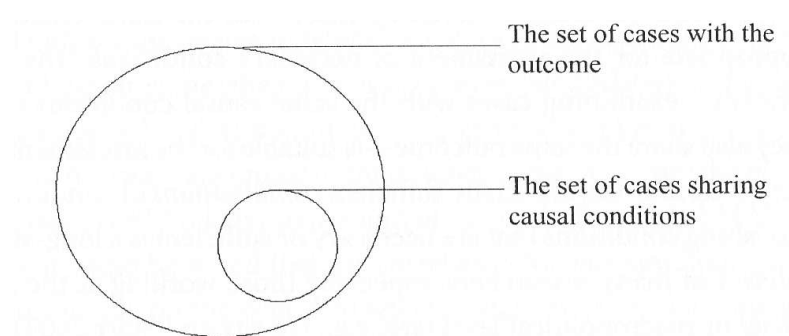
Before turning to the actual QCA analysis it seems reasonable to clear up some basic notions of the method. Here a comparison with the average statistical methodology for its broad use in political science is once again the easiest. The QCA data set is constructed based on the same logic but with a slight difference. In place of the dependent variable the notion 'outcome' is used to refer to the analysed effect. Instead of independent variables the term 'conditions' is applied. Apart from the formal QCA categories that do not specifically affect the overall comprehension of the method, the notions of sufficiency and necessity in relation

⁴⁹⁸ B. Rihoux (2009): 367

⁴⁹⁹ C. Ragin (2008): *Redesigning Social Inquiry. Fuzzy Sets and Beyond*. University of Chicago Press, Chicago: 113-114

to conditions and the underlying logic are crucial to the whole concept. A necessary condition is needed to reach the outcome, meaning that there will be no outcome without this condition. A sufficient condition, on the contrary, is not a prerequisite for the outcome. The condition is sufficient for the outcome, but the outcome may also happen without it (or due to other conditions). For instance, if the tested outcome is success at a high school, holding a secondary school degree would be a necessary condition, since one cannot enter a university without prior attendance of a secondary school. Holding this degree would not be, however, a sufficient condition as one needs other factors as motivation, diligence, etc. to succeed.

In practice, the application of QCA technique starts with transforming raw data into a software-compatible data matrix, which the program converts in the so-called truth table. The truth table lists all possible combinations of causal conditions and suggests which of them may lead to the outcome. The combinations of conditions represent an exponential function of the number of conditions, meaning that one can calculate the number of combinations of conditions by multiplying the number of causal conditions by two. The table presents configurations of conditions in association with the empirical outcome with the absence of any in some cases. In fact, the table assesses cases that share the same causal conditions and shows whether these cases share the same outcome as well. The underlying diagram illustrates this analytic strategy graphically:



Source: C. Ragin (2008): 19

Following this step, QCA software from all the variety of options derives the parsimonious solution that entails sets of conditions with the shortest path to the outcome. It is also called Boolean minimisation and aims at achieving a simpler form of causal complexity. This minimisation rests on a basic rule stating that if two combinations of causal conditions

produce the same outcome and differ only in one causal condition, the condition that stands out may be considered irrelevant and can be removed to create a simpler expression.⁵⁰⁰ For instance if the outcome (Y) is produced by a number of conditions (ABc, AbC, AcD, bcD) it may be presented as follows:

$$ABc + Abc + AcD + bcD \rightarrow Y^{501}$$

On this basis the program will launch the simplification procedure and omit causally irrelevant observations:

$$Ac + AcD + bcD \rightarrow Y$$

$$Ac + bcD \rightarrow Y$$

That would mean that the presence of condition A with the absence of condition c will lead to the outcome, as well as the absence of conditions b and c with the presence of condition D.

Fuzzy-set QCA

The specifics of fuzzy-set QCA (fsQCA), which will be applied to the collected data, may be drawn out of its name. The initial crisp-set version of QCA was based on dichotomous variables where each observation obtained either 1 or 0 as a definition of membership in a set and lacked the ability to capture and transmit the diversity of the data. In political science such binary and categorical nature of presenting observations would be highly problematic since social phenomena rarely offer a clear divided membership or non-membership and has rather an interval nature. For that matter, a fuzzy-set version of QCA has been developed recently and introduced a crucial addition to the method by allowing for fuzziness or partial membership in representing the data. Within a fuzzy set the elements may obtain any value in the interval between 0.0 and 1.0, thus covering not only cases that are fully in or fully out, but also for those in between.

⁵⁰⁰ P. Pennings (2009): Fuzzy Sets and QCA: 349. In S. Pickel Methoden der Vergleichenden Politik- und Sozialwissenschaft: Neue Entwicklungen und Anwendungen. VS Verlag, Wiesbaden

⁵⁰¹ In Boolean logic '+' stands for the logic 'and', capital letters indicate a present phenomenon whereas small letters stand for the absent cases

Following this logic, both outcome and causal conditions are presented in terms of membership scores that are ascribed to the data. Importantly, the measurement or as it is called in fsQCA the calibration of data is performed by the researcher, allowing for a much more case oriented gradation than in conventional statistics. Calibration once again demonstrates the boundary position of the method between qualitative and quantitative approaches. Qualitative techniques pay a deal of attention not only to variations within the sample of cases as the variable-oriented approach does, but go further and assess the cases more precisely in how far they satisfy membership requirements in a set. In order to do so and to distinguish between relevant and irrelevant variation theoretical and case knowledge is needed.

Consider a practical example⁵⁰² of a country's economic wealth represented by GNP per capita, where a sample offers all kinds of variation. A conventional wealth variable would be based on the numerical index that remains constant irrespective of the researcher's intentions. In fsQCA there is a possibility to shift the focus of the analysis depending on the research question. Through the translation of an index variable into a fuzzy set it is possible to set necessary accents and underline variation corresponding with the focus of research. Turning back to GNP per capita it would be erroneous to label the highest number as wealthy and the lowest number as poor. Rather, a three anchor system is applied, where three GNP per capita values are identified. In this vein, a certain GNP index scores reach countries (meaning that from this index onwards the countries would be ascribed full membership in a 'rich' set), another index scores poor countries (from that index downwards the countries are ascribed a full non-membership in the 'rich' set); and the cross-over point is identified, which divides countries between more in the set of 'rich' or more out of this set. After this procedure, there are a number of states in the set of 'rich' countries where variation between them is not relevant to their membership in the set. The same works for all the states with GNP below the out-of-the-set anchor – they are seen as equally poor. Therefore, depending on the goal of the research it is possible to set the fuzzy anchors accordingly and thus shift the membership scores using the relevant variation, whereas the initial index variable remains constant.

This example underlines the interpretive nature of fuzzy-sets where the definition of the set itself is key to the data management. If the interval GNP variable leaves no room for

⁵⁰² Taken from C. Ragin (2000): *Fuzzy-Set Social Science*. University of Chicago Press, Chicago: 158-159

rendering, various definitions of the set for a fuzzy analysis may produce different fuzzy scores. Thus, the level of GNP in conventional statistics would be transformed into a clearly specified set, for example of states with strong GNP. In this case qualitative anchors would vary significantly from those used for a set of states with low GNP. In this vein fuzzy sets allow for a much closer dialogue between theory, data and the research question.

Summing up, the measurement in fsQCA is subjected to the process of calibration, the application of which rests on existing theoretical knowledge and is case-oriented by nature. The usage of external criteria in defining set memberships is crucial to the robustness of the whole method, since qualitative techniques are often criticized for inaccurate measurements that are adapted to researchers' needs, which is unscientific in its nature.⁵⁰³ These external criteria are manifold, comprising social knowledge, case specifics and theoretical framework. In fact, fsQCA reconciles quantitative and qualitative approaches, with accuracy and exactness of the former and case-sensitivity of the latter.

Calibration

Calibrating fuzzy sets may be performed in a direct and indirect way. The second technique presupposes that the researcher, relying on the existing theory, groups the cases according to their membership in the set. For instance, the scale between 0.0 and 1.0 may be divided into four groups where 0.0 would stand for a position beyond the target set; 0,33 would mean more out than in the set; 0,67 – more in than out of the set and 1.0 would mark cases within the target set. Consequently, the researcher sets benchmarks on the numerical variable and defines which numerical values determine the limits of the four groups. Group definition and group number depends specifically on the nature of the data and the intention of the researcher to perform more or less grained calibration.

This analysis will resort mostly to the other option and use direct calibration, which seems to resonate better both with the data and the case specifics. Direct calibration is based on anchors, set in a theory-oriented way and defining full membership, full non-membership and the cross-over point, which correspond to the relevant value of the index variable. The transformation of the numerical variable into a fuzzy set takes several steps⁵⁰⁴. In the first

⁵⁰³ C. Ragin (2008): 81

⁵⁰⁴ For calibration steps in detail and more info on fuzzy sets see C. Ragin (2008): 85-97

place the data needs to be transformed into the log odds metric. On this way the cross-over anchor is needed for the further calculation of a deviation score. The deviation score results from the subtraction of the cross-over number from the index variable value. Consequently the ratio of the log odds is computed through the multiplication of the deviation score with the ratio of the log odds of the full membership for cases above the cross-over point, and with the ratio of the log odds of the full non-membership for those below this point. The obtained values that reflect the log odds of membership in the set are finally converted into the ultimate fuzzy scores from 0.0 to 1.0, using the following formula⁵⁰⁵:

$$\text{degree of membership} = \exp(\log \text{ odds}) / (1 + \exp(\log \text{ odds}))$$

However, there is no need to perform this procedure manually, since the software overtakes the calculations after the three anchors are set.

While the mathematical burden of calibration may be shuffled off on the software, the definition of membership and non-membership in the set is the task and responsibility of the researcher alone. On the one hand this fact fosters transparency of the fuzzy scores, but on the other it may well become a weak point of the method due to the subjective nature of the procedure. For that matter, as was noted above, it is important to build the choice of calibration anchors on the existing scientific practice. This, unfortunately, is not always possible since accurate numerical data may simply be unavailable and had to be subtracted directly from the case. But even if one has hard data at his disposal, there may be no existing knowledge base to rely the settlement of the benchmarks on. In this case, fuzzy scaling rests primarily on case knowledge. A certain degree of subjectivity, inevitable in the calibration procedure, is a topic of broad discussion on the impact of a probable bias on the robustness of the results. To conserve space there seems no need to explore the issue in much detail, since the possible bias of subjective assessment is no bigger than “those found in seemingly objective indicators”, furthermore “no method of elicitation of subjective numerical estimates seems to be free of known and potentially important biases”.⁵⁰⁶ Details on data transformation and calibration for the current analysis will be presented in the next chapter.

⁵⁰⁵ C. Ragin (2008): 91

⁵⁰⁶ J. Verkuilen (2005): Assigning Membership in a Fuzzy Set Analysis. *Sociological Methods & Research*, 33(4): 470-472

Analysis

Outcome

The outcome to be analysed and the main focus of the paper, is the success of Russian coercion attempts. As it appears from the case description, the data on the outcome is embedded into a number of bargaining episodes that through bids and counter-offers determine if favour of which party the disputable issue is resolved. For the sake of coding the data, the empirical case body was transformed into a software processible format. For that purpose each bargaining case was first divided into groups of bids, ascribed to one of the two parties – either Russia as the sender, or Ukraine, Belarus and Moldova as the target. Second, regarding of the nature of the bids, they were divided into separate categories, depending on the character of the issue at stake.

Following this logic, two main categories emerged. First, the economic block, dealing with gas and transit prices, as well as with the framework of bilateral trade and the promotion of Russian business interests within the respective target state. The second category contained claims of political and security character, made in the course of bargaining. For the most part it reflected bids dealing with the issues of foreign policy and institutional affiliation. At this point a more profound gradation seemed unnecessary and of minor effect on the whole variable value.

Economic bids were then compared to the actual deal, in order to judge the price outcomes against the pursued goals and capture the detailed correlation of asserted claims with the final agreement. In this vein price offers were contrasted to those finalised by the actual contract. Due to the method specifics and the necessity to generate values along the scale between 0 and 1, outcomes of negotiations on economic issues were calculated. The resulting success-rate represented one of the pieces of the final outcome value, which is to be included in the conclusive estimation.

The same estimation logic was applied to calculate the bargaining success on the transit price. Importantly, the perspective of the buyer/seller standpoints is inverse in this case, as Russia changed its role from dealer to client. In other words, as opposed to the gas price situation, Russia was aiming at the cheapest rate whereas the other negotiation partner bargained for the highest price possible. Logically, the resulted values were reversed in polarity in order to represent Russia's success.

The subsequent step encompassed the assessment of remaining bids of political nature, which required a separate treatment owing to their non-numeric nature. Due to data limitations in this regard and as an alternative to a direct mathematical generation of the success values, the indirect calibration was applied that appears to commensurate better with the data structure. According to it, a span between 0 and 1 was transformed into a six-value scale, matching the corresponding level of Russia's success.

The starting and the ending points of the scale - 0 and 1 – remained constant, representing the total lack of success and a complete compliance with Russian bargaining claims consequently. Minimal achievements of Russian coercive attempts were ascribed to the value of 0,2; whereas major, although not complete success, received the value of 0,8. The remaining values of 0,4 and 0,6 represented cases of more or less fruitless and successful bargaining respectively. Finally, all estimated and calibrated components of the outcome were summed together to represent its final value. Appendix 1 displays the six-value fuzzy-set outcome scores by country and bargaining episode.

Conditions

The theoretical argument presented above combined with the empirical case material leads to the expectation that although there is a broad consent that sanctions success record is rather poor⁵⁰⁷, the practice of using them as policy coercion mechanism has not become less popular. This study adopts the definition of economic sanctions as «deliberate government-inspired withdrawal, or threat of withdrawal of 'customary' trade or financial relations».⁵⁰⁸ There is a broad range of motives that induce various forms of economic coercion, be it export or import restrictions or financial impediments of any kind. Sanctions are often seen as a middle path to achieving economic benefits or imposing political will and are «chosen over alternatives on the perception that they may succeed where words would not be enough and the use of force is either infeasible or undesirable».⁵⁰⁹ Obviously, any kind of coercion comes at a certain price for the sender country and it is the cost-benefit calculation made on

⁵⁰⁷ C. Rarick and T. Han (2010): Economic Sanctions Revisited: Additional Insights Into Why They Fail. *Economic Affairs*, 30(2): 68

⁵⁰⁸ G. Hufbauer and J. Schott (1985): Economic Sanctions Reconsidered: History and Current Policy. Institute for International Economics, Washington, DC: 2

⁵⁰⁹ N. Marinov (2005): Do Economic Sanctions Destabilize Country Leaders? *American Journal of Political Science*, No. 49(3): 566

the sides of both sender and target states that is decisive to the outcome. The levels of economic and political interdependence and other interlinks between the parties are key factors in this calculation and are, therefore, represented in the choice of the set of conditions for the analysis.

In accordance with the hypotheses, I expect that trade volumes between the target and the sender have an impact on the willingness of the former to concede. Here it was decided to abstain from using a conventional trade variable, comprising both exports and imports, but to divide it into two, measuring incoming and outgoing trade flows. Doing this, one has to consider the following. First of all, such a division allows for more precise insights into the vulnerability of states. Secondly, according to the collected data on Russian operations with the target countries, it had used both export and import limitations as a coercion act. Hence, it appears promising to test separately for both types of trade dependency. The data was collected from the annual trade reports published by the statistical institutions of the three target countries⁵¹⁰ and represent the share of the total. Import and export conditions share the same qualitative thresholds for calibration. The threshold for full membership in the set of trade dependent countries was set at 50 percent, the lowest anchor marking full non-membership or lack of any trade dependency - at 10 percent. The cross-over point was coded with 20 percent.

The overall economic strength is as well expected to play an important role in the ability of the target states to confront the coercion attempts or at least prolong the counterstand phase. Sanctions primarily aim at disrupting the existing economic relationship and expose the target state to a loss that would make it comply. It is the overall economic stamina, which may amortise the cost of coercion and reverse the trend. I adopt the common approach and define economic conditions by gross national income per capita.⁵¹¹ The data was withdrawn from the World Bank data indicators. For calibration purposes it was decided to abstain from using conventional GNP strength standards in setting the qualitative thresholds, due to their orientation on developed industrial states, which are not part of this analysis. For the sake of retaining the relevant variation it was decided to use value breaks among the cases in the

⁵¹⁰ <http://belstat.gov.by>, <http://www.ukrstat.gov.ua>, <http://www.statistica.md>

⁵¹¹ N. Marinov (2005): 569

choice of anchors. The coding for full membership, non-membership and the cross-over point was set at \$14, \$2 and \$5 million respectively.

According to the theorizing on the nature of the issue at stake, bargaining on economic matters is expected to bear more success for Russia. To capture this argumentation, I introduce the issue salience condition, which has a binary nature and equals 1 if the sanction episode had a geopolitical component and included bids of a political or affiliation character. The condition is coded as 0 if bargaining encompassed only those issues that lie within the economic realm.

Furthermore, the expectation is that domestic political situation in target countries should also intervene with their ability to master sanctions episodes. Although sanctions serve as an economic destabiliser, they may end up shaking up the incumbent's power base, the robustness of which is inevitably linked to the legitimacy and length of his holding office. I therefore include the democratic score condition, taken from the Polity IV project data. Here the calibration benchmarks were data-driven as well. States considered full members of the democratic set were coded with 9, those fully non-democratic with 1. The cross-over point was rated with 5.

In addition to the conditions stemming from the developed theory, I introduce one more to test for a supplementary causal path that might influence the outcome of Russian coercion. Thus, regime durability was also included in the analysis, represented by the years in power of the incumbent. Here the length of the presidential term is considered, since despite the fact that the analysed states have certain differences in their power hierarchy, presidents have a commonly upper hand in the bargaining process. The coding for membership in the set of states with a sustained incumbent was derived from the ability of the president to secure the second term. The upper anchor was set at 5 years, which is the term length in Ukraine and Belarus (in Moldova presidents serve 4 years). The lowest anchor was coded with 1 year, as is the case with a fresh incumbent, who might be less willing to compromise at the beginning of the term in order not to jeopardise his position right from the beginning. The cross-over point was set at 2 years.

Finally, the last condition refers to the specifics of sanctions itself, measuring their intensity. The values were habitually derived from the bargaining episodes and ranged from 0 to 1 in order to meet the method requirements. A score of 0 is assigned when the bargaining process

proceeded smoothly without any coercion. The value of 0,33 stands for the threat of sanctions, 0,67 – for a sanction episode where economic exchange have been reduced but not stopped. And the score of 1 is assigned to cases when an export or import standstill did take place.

One could have introduced more causal conditions to the analysis and examined for other possible factors influencing the outcome. This option was consciously dismissed due to the relatively small scope of the research. In a small-N analysis it is unadvisable to use a large number of variables, since every additional one increases the number of possible paths, leading to the outcome (the method specifics were discussed in more detail above). Therefore, having multiple causal recipes under a small number of cases complicates the task of finding similarities. According to Ragin, the optimal number of conditions is between three and eight.⁵¹² It seems that the chosen conditions represent the key factors of potential impact on the success of sanctions, which makes their further extension redundant. The overview of the ultimate values for the fuzzy analysis is presented in Appendix 1.

⁵¹² C. Ragin (2008): 142

Results

The first test for necessary conditions represents the set theoretic relationship between causal conditions and the outcome. To qualify as necessary, a condition should have equal or higher scores than those of the outcome, which in other words means that cases of the outcome are a subset of those of the causal condition.

The necessity test (Table 1) showed that none of the conditions passed the consistency threshold of 90 percent as suggested by the good practice of the QCA.⁵¹³ Set-theoretic consistency indicates to which degree cases with similar memberships of the cause share the same outcome as well. Coverage in its turn, accounts for empirical relevance and reflects the share of cases covered by the hypothesised causal relationship.

Table 1: Analysis of Necessary Conditions

	Consistency	Coverage
Issue Saliency	0.18	0.47
Sanctions' Intensity	0.32	0.51
Economic Wealth	0.76	0.80
Import Dependency	0.86	0.76
Export Dependency	0.87	0.73
Democratic Affiliation	0.47	0.60
Regime Durability	0.87	0.67

Comparably high consistency values of the two trade conditions suggest that high import and export volumes must be a facilitating factor for Russia to achieve compliance. Interestingly there seems to be little variation in the levels of vulnerability resulting from high incoming or outgoing trade flows. So one can speculate that any kind of trade dependency weakens the bargaining position of the three target states and impedes their ability to resist

⁵¹³ C. Schneider and C. Wagemann (2012): *Set-Theoretic Methods for the Social Sciences. A Guide to Qualitative Comparative Analysis*. Cambridge University Press, Cambridge: 278

coercion. Based on this finding and since one form of dependency alone proved to be insufficient for bargaining to succeed, an additional necessity analysis was performed in order to test for the joint relevance of the two conditions on the outcome. QCA allows for an expanded conceptualization of causal recipes and offers the possibility to specify substitutable necessary conditions using logical OR.

Elaboration of the causal argument in a substitutable manner (Table 2) showed that a broad trade dependency on the sender is a consistent necessary condition for achieving compliance from the target. This supports the hypothesis that Russian bargaining is more likely to be successful if the target depends heavily on either import or export with its big neighbour. Moreover, this finding proved to be empirically inclusive with the coverage value of 0.70 indicating significant explanatory power.

Table 2: Analysis of the Substitutable Necessary Condition

	Consistency	Coverage
Import + Export Dependency	0.94	0.70

+ = OR

The next step is the analysis of the sufficient conditions for the success of bargaining. The test for sufficiency reveals those combinations of conditions, which presence lead to the presence of the outcome. First, the fuzzy data is transformed into a truth table through the truth table algorithm. The truth table entails different combinations of conditions that have equal or lower scores than those of the outcome. The relevant combinations are then minimized in order to determine which of them pass the set-theoretic consistency. In accordance with the method, the gap in consistency values is used to determine those causal combinations that bring about the successful bargaining and differentiate between those that are not the subsets of the outcome. This leads to the consistency threshold of 0,85.

The parsimonious solution (Table 3), produced by the minimization procedure, shows that a single condition is sufficient for the success of bargaining. In line with theoretical expectations, taking account of the target's domestic fluctuation, Russia should be able to extract more concessions from a target state with a non-democratic regime.

Table 3: Parsimonious Solution for the Outcome “Bargaining Success”

Causal combination	Consistency	Raw Coverage	Unique Coverage	Covered Cases
~Democratic Affiliation	0.81	0.68	0.68	Bel02a, Bel02b, Bel04, Bel05, Bel06, Bel07a, Bel07b, Bel10a, Bel10b, Bel11a, Bel11b

~ = absence of

Coercion appears to reach its limits in a democratic environment where a decisionmaker faces restraints to his ability to exercise unchallenged authority. Transparency and accountability of those in charge within the target country, habitual for democratic systems seems to yield an effective tool for protecting national interests.

With the coverage value of 0,68 nearly seventy percent of the empirical cases fit the assumptions for the outcome. The hypothesized connection between the undemocratic environment and successful bargaining for Russia is therefore empirically corroborated. Expectedly, the cases is in line with this argumentation refer to Belarus, due to its most undemocratic standing compared to the other two target states. Obviously, Ukraine and Moldova have their own deficits in this regard, however since they are not covered by the parsimonious solution, it makes sense to explore the repercussions of their political regimes on bargaining with Russia in more detail.

Analysis of the remaining conditions is based, as discussed above, on the truth table that presents the empirically observed causal paths and the degree to which they lead to the success of Russian bargaining (Table 4). At this point it is the researcher’s task to determine those truth table rows that exhibit the outcome. The gap in the consistency values between 0.89 and 0.73 is used to make this determination. In this vein those combinations of causal conditions that surpass the consistency threshold of 0.85 are coded as subsets of the outcome.

Table 4: Truth Table for the Analysis of Bargaining Success

Issue Salience	Sanctions Intensity	Economic Wealth	Import Dependency	Export Dependency	Consistency	Outcome	Covered Cases
1	0	1	1	1	0.91	1	Ukr06, Ukr10, Ukr13
0	0	0	0	1	0.90	1	Mol01
0	0	0	0	0	0.89	1	Mol06
0	0	1	1	1	0.89	1	Ukr05a, Ukr07, Ukr08a, Bel02a, Bel02b, Bel05, Bel06, Bel07b, Bel10a, Bel11a, Bel11b
0	1	1	1	1	0.73	0	Ukr05b, Ukr08b, Ukr09, Bel04, Bel07a, Bel10b
1	1	0	0	0	0.70	0	Mol07
0	1	0	0	1	0.69	0	Mol00
1	0	0	0	1	0.65	0	Mol03
1	1	0	0	1	0.50	0	Mol05

The parsimonious solution (Table 5) offers two causal pathways to the Russian bargaining success. In agreement with the theoretical expectations, issues at stake play an important role in defining the bargaining outcome. Those of a geopolitical nature are more likely to be bargained in Moscow's favour if the target state exhibits an import dependency on Russia. However, despite the consistent nature of this solution, the rather low coverage tells us that it explains only a limited number of cases. Consequently, the generalizability of this causal combination should not be overestimated.

The second configuration shows that Russia is more likely to extract concessions over economic issues without turning to any coercion mechanism. This finding gives support to the expectation that sanctions are a quite ineffective tool and fall short of bringing about the desired outcome. A benign strategy proves to be more successful, especially when applied to negotiations on economic matters. This highlights that Ukraine, Belarus and Moldova are more agreeable to the Russian agenda as long as it does not challenge their fluctuant geopolitical orientation. The coverage of over sixty percent suggests that Russia should be

able to promote its interests by civilized means of diplomacy and encouragement, not coercion.

Table 5: Parsimonious Solution for the Bargaining Success

Causal combination	Consistency	Coverage	Covered Cases
~Issue Saliency*~Sanction's Intensity	0.79	0.61	Ukr05a, Ukr07, Bel02a, Bel05, Bel10a, Bel11a, Bel11b, Mol01, Mol06, Ukr08a, Bel02b, Bel06, Bel07b
Issue Saliency*Import Dependency	0.85	0.14	Ukr10, Ukr06, Ukr13
Solution Consistency: 0.80			
Solution Coverage: 0.75			

* = and

The complex solution (Table 6) offers only one combination of causal conditions that relevantly contributes to the outcome in question. Russian ability to arrive to a favourable bargaining outcome is explained by import and export dependencies of an economically strong target state in combination with abstaining from coercion attempts. It is remarkable that in case of an existing trade vulnerability, Russia does not need to either threaten or implement the disruption of the trade relationship in order to strengthen its bargaining position. The mere dependency on the Russian market or its products seems to suffice for the target state to be more willing to acquiesce.

Table 6: Complex Solution for the Bargaining Success

Causal combination	Consistency	Coverage	Covered Cases
~Issue Saliency*~Sanction's Intensity*Economic Wealth*~Import Dependency	0.91	0.16	Mol06, Mol01
~Sanction's Intensity*Economic Wealth*Import*Export Dependency	0.89	0.57	Bel10a, Bel11a, Bel11b, Bel05, Bel06, Bel07b, Ukr07, Ukr10, Ukr13, Ukr08a, Bel02a, Bel02b, Ukr06, Ukr05a
Solution Consistency: 0.90			
Solution Coverage: 0.66			

Interestingly, this causal path covers only Belarusian and Ukrainian cases leaving bargaining episodes with Moldova subject to further investigation. Moreover, the potency of the target's economy is not individually responsible for the bargaining outcome and needs to be supplemented by other conditions. In contrast to the theoretic expectations, economic stamina as such turned out to play a marginal role in defining the success of Russian bargaining. The initial assumption that Russia would have an easier way with an economically weak target found no empirically based evidence. Although Ukraine, Belarus and Moldova differ significantly in their economic capabilities, this is not the variation that appears to be relevant to the outcome of bargaining. Rather the levels of bilateral economic exchange with Russia and the nature of the target's dependencies serve as an important determinant of successful diplomacy for Moscow.

This leads to an assumption that taking into account the net economic strength of the coerced state alone proves to be insufficient to evaluate its ability to sustain resistance and needs to be embedded into the broader assessment of the target's international economic environment, its outside options and diversification possibilities. Considered from the angle of soft balancing, it is rather economic autonomy that may influence the bargaining outcome. Achieved through building ties with organizations outside the sender's reach, this kind of autonomy is in correlation with the responsiveness of third parties towards such emancipation attempts. For that matter, the analysis of economic wealth in conjunction with external institutional openness seems more promising in delivering insights about the allocation of bargaining powers.

To analyse the relationship between the complex and the parsimonious solutions and in order to distinguish those causal conditions that represent the essential elements to the outcome, I turn to the notion of "coreness" and the typology developed by Fiss.⁵¹⁴ He makes a differentiation between the core and peripheral elements of a causal relationship, with core conditions being essential to the outcome whereas the peripheral ones are those displaying a weaker or exchangeable impact. The intersection of the two solutions reveals that the absence of sanction's intensity is present in both of them and thus represents a core element

⁵¹⁴ P. Fiss (2011): Building Better Causal Theories: A Fuzzy Set Approach to Typologies in Organization Research. *Academy of Management Journal*, 54(2): 393-420

of the two causal paths. Withholding coercion is therefore essential for Russia in ensuring successful bargaining.

This result corresponds with the existing scholarly literature suggesting that sanctions generally fail to achieve the intended outcome. Moreover, including those bargaining cases to the current analysis in which sanctions were not carried out, addresses the recognized selection bias⁵¹⁵ in studies on the utility of economic coercion focusing solely on those instances where sanctions were actually imposed. The logic behind this bias is that coercion is generally implemented in deadlock situations when other means to resolve differences between the parties failed to succeed. From this angle it is unlikely that moving from sanction words to deeds will generate more concessions. In cases where there is a viable chance to reach an agreement, the target would prefer to concede already on the threat stage, before sanctions can do their damage.⁵¹⁶ Following this argumentation, bargaining is likely to be more successful in cases when coercion has not been executed.

The implications of the present research in relation to Russian bargaining behaviour evidently point out the ineffectiveness of overreliance on the punishing force of disrupting economic exchange, suggesting a need for reorientation towards other facets of economic statecraft. The low success rate of coercion leads back to the question what alternative policy tools are more efficient to achieve compliance from Belarus, Ukraine and Moldova. From this perspective it seems reasonable investigate the power of opposite measures. Where the sticks will not work, the carrots may as well do. The efficacy of using positive incentives to motivate the target to comply has already gained some empirical ground. A test within a game model illustrated that rewards are by far more instrumental than threats to incentivize the target's behaviour.⁵¹⁷ In comparison to sanctions, which alienate the target, positive incentives send an accommodating message, allowing the target government to comply gracefully. Strong-arming, on the other hand, complicates the task of saving the face while succumbing for the target bargainer.

There is, therefore, an insistent need to include economic inducements as another causal condition into future research. A relevant next step for further analysis may be to expand the

⁵¹⁵ C. Blake and N. Klemm (2006): Reconsidering the Effectiveness of International Economic Sanctions: An Examination of Selection Bias. *International Politics*, 43(1): 133-149

⁵¹⁶ D. Drezner (2003): The Hidden Hand of Economic Coercion. *International Organization*, 57(3): 643-659

⁵¹⁷ D. Verdier and B. Woo (2011): Why Rewards are Better Than Sanctions. *Economics and Politics*, 23(2): 220-238

causal explanation base for successful bargaining by investigating the impact of the sender's investments on the target's decisionmaking. The ramifications of the current study reveal the expedience of revising the existing power politics formula stating that without economic costs there is no reason for the target to comply. What if reversing the logic leads to the same outcome when economic incentives are that very reason to grant concessions to the sender. Whether this logic can be applied to the Russian neighbourhood and the odds of Moscow's ability to incline the neighbours to embrace its agenda by means of attraction and persuasion will be discussed further below.

Drezner already made a step in this direction by developing a conflict expectations model and identifying the level of alignment between the sender and the target as a decisive factor to assess the likelihood of coercion to be imposed and the magnitude of the target's concessions.⁵¹⁸ Defining allies as states that share a history of partnership and accord on a broad range of issues and adversaries as those with a history of conflict and mistrust, he concludes that both coercion and rewards are unlikely to be of any use in bargaining among adversaries. The logic behind this model is straightforward: since adversaries anticipate more future conflicts and sanctioning attempts than allies do, they will be constrained in their willingness to acquiesce out of concern to set a precedent and weaken their position in the repeated clash. The sender will in its turn be readier to alienate an adversary through sanctions and opt for a softer coercion strategy with an ally. Therefore, the closer the parties are aligned, the higher is the likelihood of economic incentives to be used instead of sanctions, and the more concessions are to be expected from the target in response to the offered inducements.

In his study Drezner goes further and tests the model on cases of Russian coercion against the newly independent states between 1992 and 1997 in one of the very few researches focusing on sanctions imposed by Russia.⁵¹⁹ He finds support for his model and concludes that the more adversarial the relationship, the more frequently the target is to experience coercion, whereas the magnitude of concessions to Russia tends to decline if conflict expectations are present. These findings suggest that bilateral climate and the tonality of the relationship between sender and target should be taken into consideration along with economic and issue-specific factors when analysing the opportunities for successful

⁵¹⁸ D. Drezner (1999): *The Sanctions Paradox*. Cambridge University Press, New York: 27-99

⁵¹⁹ *Ibid*: 129-247

bargaining. However, the binary division of target countries into allies and adversaries seems to miss both the complexity and the volatility of these relationships in case of Belarus, Ukraine and Moldova. The fluctuant nature of their foreign political vector and the history of balancing back and forth between the two anchor points complicate the task of unequivocal coding of their relationship to Russia. Nonetheless, being a dominating issue behind the bargaining interactions in question, geopolitical orientation of the target states and their perception of Russia represent a major component to negotiations. That said, within the soft balancing context, the analysis of domestic factors that shape target's foreign political preferences and are responsible for their ambivalence seems to be more suited to uncover the corresponding causal processes.

Finally, in line with the good practices of QCA, the negated outcome has been investigated in search for causal paths that lead to unsuccessful bargaining. The relationship between the outcome and conditions in QCA is essentially asymmetric, meaning that the absence of conditions leading to the outcome will not necessarily lead to the absence of the outcome itself. In other words if, as in current research, trade dependency of the target is a prerequisite for the sender to bargain successfully, Russia will not inevitably be unable to reach concessions from a country with which it has insignificant trade ties. Causal asymmetry implies that the set of conditions causing the non-occurrence of the outcome in question can be quite different from those that proved to cause its presence.

Indeed, the available combinations of conditions fall short to explain which factors lead to unsuccessful bargaining. No condition passed the necessity test and can be found consistently responsible for the failure of Russian coercion attempts (Appendix 1.2.). The reliability of the sufficiency analysis (Appendix 1.3.) is as well limited by low coverage values. The parsimonious solution offers one causal pathway, indicating that the sender is unlikely to achieve the desired outcome over geopolitical issues with a target, which experiences no import dependency. Despite matching the theoretic assumptions, the explanatory power of this finding is rather tenuous, due to the lack of sufficient empirical evidence.

The insights into the causal relationships leading to successful bargaining are, therefore, of limited use for explaining those cases where the target chose to stand firm. Stemming from conceptual asymmetry, the absence of successful bargaining should be subject to a separate analysis with individually elaborated theoretical assumptions. The findings of this study offer a solid base and a promising perspective for future research on the effectiveness of Russian

economic coercion and the factors increasing its bargaining advantage against Ukraine, Belarus and Moldova.

Discussion

Building on the results of the empirical analysis and with the aim to close the remaining gaps in assessing Russian bargaining strategy and its viability towards Belarus, Ukraine and Moldova, I turn to the specifics of the three target states and their own outlook of the relationship with Russia. Importantly, the danger of a European contagion that Moscow is trying to suppress through bargaining has not fully unfolded in any of the states within the analysed time frame. Instead, they opted for balancing between the poles, gambling for a better political and economic deal. It is, thus, the understanding of the local perception of Moscow and Brussels and the respective vision of the regional surroundings in Kiev, Minsk and Chisinau that can shift the balance towards a Russia-led integration project, provided that it has the will and the resources to make a corresponding offer.

The qualitative method of expert interviews will be applied to investigate the domestic assessment of the target states' bargaining powers, internal fluctuation and receptiveness to the Russian approach. This step allows, on the one hand, to grasp phenomena that are, due to the vague and multidimensional nature, not suited for a quantitative analysis and would otherwise remain unaddressed. On the other, it enables to reverse the perspective and inspect Russian bargaining on the part of the target, not the sender. Therefore, the obtained knowledge that economic coercion is not the right tool for Moscow to achieve its goals can be put in contrast to how Belarus, Ukraine and Moldova define the preferable arrangement of bilateral interaction. Along the observation of their divergent resonance with Russian integration initiatives goes the inquiry on the main irritants in the relationship with Moscow and appropriate amendments to its policy.

Apart from being a recognized research methodology as such, expert interviews can also serve as an additional instrument to supplement the already obtained results through expanding and accentuating the research context.⁵²⁰ To this end, interviews put an emphasis on the expert accounts of the bargaining background and the respective bargaining tools the three target states have at their disposal. The acquired viewpoints are then subjected to thematic analysis, which allows through reducing, coding and categorizing to compare the interview data⁵²¹, in order to trace the commonalities and identify country-specific

⁵²⁰ U. Flick (2016): *Qualitative Sozialforschung*. Rowohlt, Reinbek: 216-218

⁵²¹ Questionnaire and the transcripts of interviews can be found in Appendix 2

differences.⁵²² Beyond the cardinal search for the shared factors that can either impede or facilitate Russia's bargaining success, it is essential to additionally consider those domestic characteristics, which represent relevant deviation.

Although there is no single approach to select interviewees, there is a decisive hallmark they need to share in order to qualify as an expert, which is profound knowledge of the specific subject area.⁵²³ In the context of current research, the required sphere of expertise deals with foreign policy of the corresponding target state. Consequently, the respondents dispose of either practical experience in this field through having held political office, or specialize on foreign policy issues within their scholarly, teaching or journalistic activities. Having drawn a complex picture of mutual dependencies, domestic constraints and external factors, they provided a sober and detailed assessment of the target bargaining powers and the own evaluation of Russia's foreign policy instruments. Sharing the general analytic direction with the present research, the experts set alternative accents, enhancing the search for the missing pieces.

The resulting pattern of facilitating factors for resisting Russian coercion revealed a bargaining resemblance between Belarus and Ukraine, and a remarkable amendment to QCA findings in relation to the relevance of the target regime. Although different in nature, the specifics of their political systems were recognised on the one hand as a viable security mechanism against Russian pressure, but on the other as an impeding factor for taking advantage of soft balancing instruments. That said, expert judgements go beyond the common dichotomy, distinguishing between democratic and authoritarian environments. Rather, they highlight the interplay of domestic business and power interests with Russian bargaining bids and how the latter pose a challenge to these established and self-defending hierarchies.

In case of Belarus, its authoritarian regime represents a major impediment to any kind of integration. For obvious reasons, there is little chance for an autocratic leader to willingly share power with a supranational institution, making him unresponsive to such attempts within the political realm. Shifting the focus to economic issues leads to the same conclusion. As Papko notes, authoritarian setting inevitably produces a non-market economy, which,

⁵²² U. Flick (2016): 402-407; More on analysis of interview data in K. Roulston (2014): *Analyzing Interviews*. In U. Flick *The SAGE Handbook of Qualitative Data Analysis*. SAGE, London

⁵²³ H-J. Lauth et al. (2009): *Methoden der Vergleichenden Politikwissenschaft*. Springer, Wiesbaden: 180

-serving the goal to maintain elite's authority, is comparably unsuited for any integration that 'goes beyond paperwork'.⁵²⁴ What is more, Lukashenko managed to complement authoritarian power vertical with an effective state apparatus, capable of formulating a comprehensive defence strategy in the face of external challenges. Following the notion of pre-emptive authoritarianism developed by Vitali Silitski⁵²⁵, Belarusian regime is characterised by high adaptivity and flexibility, enabling it to proactively offset possible threats at an early stage through immediate and asymmetric actions. Generally, authoritarian regimes keep their administrative tools at standby for domestic repression. However, they are similarly available for economic disputes and can as well be mobilised in the context of international bargaining. Belarusian resilience is additionally supported by the cohesion of its representatives. Officials, negotiating with Russia, have neither separate agenda nor interfering business interests, thus acting upon their commitment to the objectives, defined and endorsed at the highest level.

The absence of such clear-cut power allocation in Ukraine is, on the contrary, what enhances bargaining advantage in its particular case. Its political regime, characterised by semi-authoritarian attributes, rests on multiple power sources that did not manage to build a vertically arranged structure with monopoly control over decisionmaking. Torn between different regional oligarchic groups with competing business and political interests, Ukrainian political system has a pluralistic nature with several centres of power. This influences bargaining with Russia in two ways. First, Ukraine's oligarchs are naturally defensive of their economic space and do not welcome Russian business and political expansionism. Realizing that only through preservation of the country's economic and political sovereignty from Russia can they secure own business interests, most oligarchic groups, including those with close trade ties to their Russian counterparts, are in opposition to any interference or integration project in the region. In fact, it is Ukrainian oligarchs who are the prominent fighters for the state's independence, although out of 'trivial personal interests'.⁵²⁶ Second, the fragmented power structure makes Ukraine to a country of minorities, which may come together to a situational majority, yet it is unlikely to be stable

⁵²⁴ Appendix 2: Interview with A. Papko

⁵²⁵ V. Silitski (2006): *Contagion Deterred: Preemptive Authoritarianism in the Former Soviet Union (the Case of Belarus)*. Stanford Center on Democracy, Development, and the Rule of Law, Working Paper No. 66 https://cddrl.fsi.stanford.edu/publications/contagion_deterred_preemptive_authoritarianism_in_the_former_soviet_union_the_case_of_belarus

⁵²⁶ Appendix 2: Interview with S. Glebov

or long-lasting. This kind of political volatility contradicts the very essence of regional integration, striving for sustainable commitments.

If the implications of regime specifics were found to contribute to the resilience of Belarus and Ukraine in disputes with Russia, their impact on the corresponding bargaining strategy appeared far less favourable. Characterised by strong reliance on the instruments of soft balancing, seeking external support when confronting Russia was equally attested to Ukraine, Belarus and Moldova in the expert statements. In this vein, diversification of the economic and foreign policy in general, and rapprochement with the EU in particular represent the main means the target states use to foster their bargaining advantage. The overlap in the choice of the cumulative strategy, however, did not pinpoint similar congruence concerning its implementation.

Strategic economic diversification in Belarus is expressed in the presidential formula of the three 30-ies, standing for the targeted export shares to Russia, China and the EU. In terms of the European vector, this ambitious goal remains an uneasy task. Relationship with the EU is poisoned with a long history of sanctions and lacks even the basic framework in the form of the partnership agreement. Under these circumstances, Belarusian regime characteristics once again enter the scene. Incompatible with the terms of political conditionality for a closer dialogue, its authoritarian system blocks any substantial attempts in this direction, downgrading diversification plans towards the EU to a 'symbolic and rhetorical answer'.⁵²⁷ From this angle, Lukashenko's authoritarian regime converts from fostering the country's tenacity to impeding its bargaining strategy. As a result of inaccessibility of the European option, Belarus opts for another soft-balancing instrument – strategic non-cooperation.

The essence of this policy lies in Lukashenko's awareness that Belarus is crucial to Russia's interests and, following the experts' overwhelmingly matching wording, its 'only ally'. The nature of this relationship was quite romantically summarized in one sentence: 'Belarus is the only country selling something Russia really wants to buy, and that is love'.⁵²⁸ Although this expression loses its poetic charm after decoding it into its political meaning, it still perfectly captures the substance of Russo-Belarusian bargaining when strategic alliances come with a

⁵²⁷ Appendix 2: Interview with A. Lavruhin

⁵²⁸ Appendix 2: Interview with B. Jarabik

cost. The actual issue of negotiations is not the option of the alliance, which is predetermined for the Lukashenko's regime, but the extent of economic concessions Russia will have to make. The principal scheme of exploiting the allied relationship for Belarus is to capitalize on Russian basic understanding that the virtue of keeping an ally is a 'greater asset than satisfying own economic interests'.⁵²⁹ Nonetheless, without a plausible outside option, Belarus has neither the balancing amplitude available to Moldova or Ukraine, nor can it realistically step out of the alliance with Russia. That is why, Minsk' strategy is to stall issue-specific cooperation while raising the stakes and bargaining for the highest price of the ultimate compliance.

In case of Ukraine, strengthening ties with the EU and internationalisation of disputable issues ranked just as highly in the overview of its bargaining strategy. At the same time, most statements on this matter contained either a differentiation between the formal policy and its implementation, or simply labelled it as mere rhetoric. In this vein, acknowledgment of potential effectiveness of soft balancing instruments in addressing power asymmetry with Russia went along with criticism of their situational and inconsistent application. Even after 2014 when the European vector gained momentum, Ukrainian political elites, while 'flirting with the West' were not ready to internalize the corresponding rules of the game and 'do their homework'.⁵³⁰ Corresponding with the Belarusian case, Ukraine's flawed political system was rendered equally responsible for the incoherence of its bargaining approach.

These implications connect with the existing scholarly literature on the correlation of domestic political factors with the possible levels of interstate economic cooperation. Resorting frequently to a binary approach, there has been gathered evidence that democratic regime types are more prone to cooperate than non-democratic systems.⁵³¹ However, leaving the types of authoritarian regimes beyond the analytical scope, they fail to grasp the complexity of cooperation behaviour within a non-democratic setting. There have been made some recent attempts to address this shortcoming by testing cooperation and integration potential of autocracies considering their different types and specifics.⁵³²

⁵²⁹ Appendix 2: Interview with A. Shraibman

⁵³⁰ Appendix 2: Interview with S. Glebov

⁵³¹ E. Mansfield et al. (2002): Why Democracies Cooperate More: Electoral Control and International Trade Agreements. *International Organizations*, 56(3): 477-513; B. Leeds (1999): Domestic Political Institutions, Credible Commitments, and International Cooperation. *American Journal of Political Science*, 43(4): 979-1002

⁵³² M. Mattes and M. Rodriguez (2014): Autocracies and International Cooperation. *International Studies Quarterly*, 58(3): 527-538; A. Libman (2012): Postsovetskaya Integrazia i Politicheskie Sistemy Postsovetskih Gosudarstv. *Rossija i Novie Gosudarstva Evrasii*, 4(17): 5-22

Certainly providing important findings to the aptitude of autocratic regimes to master convergence on different levels, there remains an unexplored area in terms of their applicability to semi-authoritarian systems and those with pronounced oligarchic influence.

While approaching this issue, a bunch of studies concentrated generally on the nature of Ukraine's political system and the levels of its symbiosis with big business.⁵³³ Following the launch of EU's policy initiatives towards its Eastern neighbours, some research attention has been drawn to the compatibility of Ukrainian political composition with the targeted rapprochement. Concluding that oligarchic clans are the main internal drivers and the primary veto-players behind potential institutional convergence⁵³⁴, their motivation to support policy change was found dependent on the simultaneous possibility to preserve the existing rent-distribution system.⁵³⁵ The same instrumental strategy of extracting economic benefits whereas avoiding binding commitments by virtue of its domestic political structure was shown typical of Ukraine in its dealings with Russia.⁵³⁶ Although, there have evidently been made substantial progress in examining the interplay between political regimes and their cooperation and integration capacities, comparative analysis of various authoritarian systems with focus on international bargaining has lagged behind. Expert assertions, give an important impetus in this regard. While observing the opposing effect domestic political factors have on the target's bargaining behaviour and the success of its soft balancing strategy, they point out the need to look upon regime repercussions from both angles, hence paving an avenue for broader inquiries.

In this respect, Moldova builds a special case of much more successful economic reorientation and provides additional insights into how and why. Apart from geographical proximity and a shared border with the EU, which is in the same manner valid for Belarus and Ukraine, two exclusive Moldovan factors were identified to having enabled its economic diversification: the size of its economy and EU's readiness to open its markets. Relying on the agricultural and the services sectors and lacking heavy industry, Moldova's economy was

⁵³³ See e.g. T. Kuzio (2005): Regime Type and Politics in Ukraine under Kuchma. *Communist and Post-Communist Studies*, 38(2): 167-190; P. D'Anieri (2007): Understanding Ukrainian Politics. M.E. Sharpe, Armonk, N.Y.; R. Puglisi (2010): The Rise of the Ukrainian Oligarchs. *Democratization*, 10(3): 99-123

⁵³⁴ I. Melnykovska and R. Schweickert (2008): Bottom-Up or Top-Down: What Drives the Convergence of Ukraine's Institutions Towards European Standards? *Southeast European and Black Sea Studies*, 8(4): 445-468; R. Dragneva and K. Wolczuk (2015): Ukraine Between the EU and Russia. Palgrave Macmillan, New York

⁵³⁵ A. Dimitrova and R. Dragneva (2013): Shaping Convergence With the EU in Foreign Policy and State Aid in Post-Orange Ukraine: Weak External Incentives, Powerful Veto Players. *Europe-Asia Studies*, 65(4): 658-681

⁵³⁶ R. Dragneva and K. Wolczyk (2016): Between Dependence and Integration: Ukraine's Relations With Russia. *Europe-Asia Studies*, 68(4): 678-698

much more easily divertible when compared to the other two target states. Its relatively small size and high concentration levels allowed it to achieve swift adjustments through amending norms and legislations, otherwise substantially time-consuming in a more sophisticated economy. However, more prominent, especially within the soft-balancing framework, was the role of the EU in allowing this reorientation process to actually take place. Here, the immense levels of market openness and trade preferences on the part of the EU were named as the key to Moldova's bargaining success. Both sides abstained from being protectionist, given that 'Moldova did not have much to protect', whereas for the EU opening up to Moldova's 'small and harmless' economy would go more or less 'statistically unnoticed'.⁵³⁷ In this context the expert reference to the length and the outcome of DCFTA negotiations, especially in comparison to Ukraine, is particularly worth mentioning. Whereas Ukraine negotiated over five years on this issue and still had to accept a long list of exemptions from the free trade regime, it took Moldova less than a year to arrive at an agreement with a single-digit exemptions number. Therefore, the profound economic openness of the EU offered a reliable and feasible alternative to the Russian market for Moldova, an option that was not to a comparable extent available to the two other states.

With reference to the results of the QCA analysis, Moldovan case indicates possible alternatives to incorporating the specifics of the target economy into the causal relationship with the sender. Since economic stamina as such has proven to be insufficient in explaining target's resilience against coercion, it may be more promising to examine how the size and the sectoral allocation of its economy correlate with the ability of the sender to achieve its goals. Testing for the availability and the openness of trade agreements outside the sender-led organizations may also bring new dynamic to the argumentation and help verify the generalizability of Moldova's experience under divergent conditions.

Political diversification in Moldova, which accompanied its economic reorientation, is embedded in an ambivalent perception of the two available geopolitical options and the lack of a sustainable consensus on the preferred vector. The experts' opinion was unanimous in certifying a divide within the elites and the society on the issue of foreign political preferences that is most likely to persist further, making neutrality the only point of convergence and a strategic imperative. If an explicit positioning in favour of the pro-Russian or pro-European vector is obtained in the election process, it will be shed off soon after entering office. The

⁵³⁷ Appendix 2: Interview with N. Popescu

impulse of shifting towards a balanced course, regardless of the proclaimed preferences, reflects the essence of Moldovan underlying elite struggle when the ‘defeated minority can overthrow the elected majority’, forcing it to revise the initial standing in order to stay in power.⁵³⁸ Projected on Moldova’s bargaining with Russia, these internal checks introduce an addition to the existing argument on the role of domestic political setting in shaping Chisinau’s soft balancing policy. Cantir and Kennedy, focusing on Voronin’s presidency, found that the ruling elite is more likely to balance towards the opposing pole if there is no alternative political force within its primary platform⁵³⁹, as was the case with the Party of Communists that used to have monopoly over the pro-Russian stance. While highlighting the role of domestic political competition in the pursuit of the soft balancing strategy, these insights give little rationale for the success and the consistency of this policy. The expert statements suggest that the division of the political spectrum and the polarization of its major players affect the efficacy of soft balancing instruments and limit the scope of potential concessions to the sender.

In Belarus the experts have drawn a resembling picture of persistently fluctuant geopolitical preferences, leading to the same demand for a non-bloc policy, especially pronounced at the societal level. Although Belarusian public opinion does not have a directly channelled influence on the authorities, the general reluctance to cope with the existing divide through making a single choice has, nonetheless, arrived at the decisionmaking level. Notwithstanding the predominantly positive perception of Russia, the state building and the appreciation of the state sovereignty in Belarus have shaped a steady trend for neutrality with emphasis on genuine state interests. In this vein, the expert judgement stressed the widely shared imperative to avoid damages from the zero-sum game of external players as the underpinning of the foreign policy strategy in Belarus and Moldova.

Ukraine is a special case in this regard, which experienced a dramatic shift in the pre-existing equilibrium, even if geopolitical ambivalence is still echoing in the elite and public perceptions. Departing from the same unbridgeable discord on the preferred foreign political vector as Belarus and Moldova, Ukraine was not attested with the corresponding neutrality urge in the expert opinion. Moreover, united in recognising the recent general consent within

⁵³⁸ Appendix 2: Interview with E. Sholari

⁵³⁹ C. Cantir and R. Kennedy (2015): Balancing on the Shoulders of Giants: Moldova’s Foreign Policy Toward Russia and the European Union. *Foreign Policy Analysis*, 11(4): 397-416

the country with the proclaimed pro-European course, there is less concurrence among the experts on assessing the consciousness of this decision. As pointed out by Kapitonenko, the Maidan protests were not about Yushchenko, Yanukovych or the European choice, but rather about the frustration with the misery of the so-called 'post-Soviet swamp', the country did not manage to overcome, regardless which regime with which paradigm was holding power. The European track was rather a symbol of consolidation, although those waving EU flags were not necessarily aware of the European values or conscious about why Ukraine should pursue association.⁵⁴⁰ The Russian vector, on the contrary, neither provoked similar enthusiasm, nor did it stand for a substantial improvement of standard and quality of living in the public eye. Explicit in their comprehension of the Russian agenda and in defining the main irritants in the bilateral relationship on the interstate level, the expert assessment revealed a number of limitations of the Russian approach, overwhelmingly congruent for Ukraine, Belarus and Moldova.

A range of additionally identified country-specific disturbances to the Russian strategy recedes into the background in the face of the fundamental uncertainty about the benign nature of Russian goals and their general compatibility with domestic concerns. Put simply, Russian foreign policy offer was largely interpreted as a vehicle to advance its economic ambition with little concern for reconciliation of interests. Hence, it is both the content and the packaging of the Russian bargaining bids that arose suspicion within the target states. In the first place, Moscow was principally seen as having trouble to respect the sovereignty of the neighbouring countries, seeking maximum control over its allies. Coupled with the perceived impossibility of an equal relationship with Russia and its dismissive attitude towards the partner's standpoint, closer convergence is overshadowed by a concern of a full absorption.

This discomfort about the risk of incorporation is a result of Russia's unjustified heavy-handed policy when instead of highlighting the benefits of collaboration the emphasis is placed on the damage of non-cooperation. The pattern of continuous pressure was found especially offensive in the economic sphere. Identified as a major irritant with broad unanimity, misuse of economic statecraft was even matter-of-factly named as an element that infiltrated the state's 'blood system', causing a 'chronic illness' of bilateral relations with

⁵⁴⁰ Appendix 2: Interview with N. Kapitonenko

Russia.⁵⁴¹ This reproach exceeds the mere reference to the episodes of economic coercion, comprising trade restrictions and supply reductions. But rather points out the general distress with Russian business interests that interfere with reciprocity message and prevail over the gains of an equitable partnership. The impression that Russia tends to inflict own narrative of economic engagement on its neighbours at the expense of the principles of fairness and transparency is quite pronounced in the expert perception. In this sense, clear commitment to the value of a constructive dialogue and strict adherence to the mutually defined rules of cooperation is what seems to be missed the most in relation to the Russian approach and should replace the tools of coercion at the foundation of economic interaction.

The same lack of benevolence was ascribed to Russia's foreign policy behaviour. The practice to enter negotiations from a position of strength, undermining the possibility of a dialogue on a parity basis, alerts the counterparts to beware and keep distance. Stressing that a long-term partnership cannot be built on an aggressive rhetoric and interference into domestic affairs of sovereign nations, the experts give a clue which shifts in Russia's strategy could bring about more success. Primarily, they accentuate the pivotal aspiration of Ukraine, Belarus and Moldova for independent decisionmaking and leeway for action, while at the same time blaming Moscow for attempting to suppress these strivings, which is the shortest way to alienate even the closest allies. Instead of interpreting sovereignisation processes and divergent perspectives in the neighbourhood as intrinsically Russia-unfriendly, Moscow would be well advised to demonstrate open-mindedness and take a more inclusive stance.

The latest events in Chisinau illustrate positive effects of such impartial policy, which led to a new government for Moldova and a positive appraisal in the expert opinion for the Russian leadership. The complement refers to Russia's role in solving political deadlock in Moldova in the aftermath of Parliamentary elections early 2019 when no party obtained the necessary majority to elect a Prime Minister. Assisted in an unusual accord by the EU, USA and Russia, two geopolitically opposing forces – the pro-Russian Socialist Party and the pro-European bloc ACUM – managed to build a last-minute coalition, form a government and put an end to the oligarchic regime of Vladimir Plahotniuc and his Democratic Party of Moldova. The unprecedented accumulation of control over state institutions in Plahotniuc's hands in the latest years that earned Moldova the tag of a captured state, left little hope for the possibility of swift and peaceful change of power. Moscow's constructive stance made a decisive

⁵⁴¹ Appendix 2: Interview with N. Popescu

contribution to letting this happen and opened a door for rethinking bilateral relationship with Moldova and placing it on a more compromise-oriented footing.

The above example represents rather an exception of Russia pushing for a common ground. The rule, in expert judgment, is that Moscow tends to build vertical relations with its post-Soviet partners, whereas horizontal ties would be far less conflict-prone and much more compatible with domestic comprehension of a mutually beneficial alliance in Kiev, Minsk and Chisinau. In this context, recent incident vis-à-vis Belarus exemplifies Russian tactical awkwardness. In the course of Ukraine crisis Russia created facts without having given a notice, let alone consulted Lukashenko about the coming developments. As rightly noted by Jarabik in reference to the case of Crimea, ‘by the Union State rules Russia should have asked Belarus about enlarging the territory of the Union State’⁵⁴², which did not happen having caught Minsk off-guard and unprepared. It underlies the unappealing pattern of bilateral relations when Russia disregards Belarus’ consent, undermines its co-decision right as an ally, while involving it in the confrontation and expecting Minsk to take Moscow’s side. The unpredictable and forceful nature of Kremlin’s diplomacy leads to the issue of Russia overusing its preponderance.

A major theme that ran through nearly all the interviews corresponds with the principal outcome of the statistic analysis, indicating the inefficiency of coercive methods and suggesting the instruments of soft power as a more potent tool for Russia to influence the bargaining outcome in its favour. Whereas there is much broader willingness within the target states to be attracted into a closer relationship with Russia, there is very little appeal in being forced to convergence. However, when Moscow sends a soft power message, it arrives in the country of destination as ‘indication of hard power’⁵⁴³, contradicting the very essence of an expedient partnership. United in observing insufficient levels of trust between the parties, the respondents suggested that Russia will not be able to increase its bargaining success without dealing with creation of a friendly negotiation climate first.

Furthermore, the expert insights imply that contemporary Russia misses the mark not only in the ways of promoting its concept of cooperation, but also in filling this concept with attractive contents, especially compared to other geopolitical options present in the region.

⁵⁴² Appendix 2: Interview with B. Jarabik

⁵⁴³ Appendix 2: Interview with V. Pistrinciuc

Open for an alliance with ‘strong and democratic’ Russia, which would represent a ‘benign alternative to the Western development model and liberal economy’⁵⁴⁴, the target states face an offer of an utterly different kind. In order to find out why, it is necessary to investigate the domestic background that seems to dominate Moscow’s foreign policy agenda. Given the growing economization of its goals and the tools of its advancement within the analysed time frame, the linkage between economic pragmatism and geopolitical ambitions is the one fashioning bargaining behaviour. Russian policy towards the three target states takes place within an ambiguous setting of political imperatives and economic interests that are difficult to disentangle and are often contradictory. In this context, I aim to consider the domestic impact on the Russian foreign policy and the nature of its regime as a key to its coercive behaviour and a source of its bargaining weakness.

Moscow’s strategic interests are embedded in a general understanding of Russia as a European country, however highlighting its historic distinctness and with an important reservation that the Western vector is by no means unconditional, but instead driven by Russian terms, pursued in its own pace and serving its goal of becoming an international heavyweight.⁵⁴⁵ Importantly, this reference to Russia’s individuality stemmed not so much from civilizational considerations, but rather resulted from preoccupation with strengthening political stability and consolidating domestic power. This ambivalence between the official commitment to Western values and the domestic reality of curtailing democratic transformation produced a de-facto authoritarian political system with a largely state controlled economy. Whereas the shortcomings of the Russian regime type and economics are not the focus of this paper, their impact on Moscow’s bargaining behaviour is twofold and indispensable in assessing the limited success of its coercion attempts. First, the symbiosis of the ruling and the business elite has a pronounced impact on the very articulation of Russia’s foreign policy interests. Second, the effective achievement of these interests is constrained by the domestic political system.

What appears to be a calculated development and articulation of Russia’s national interests with the focus on its special standing between the Western and Eastern poles and a distinctive role of the fellow ex-Soviet states in augmenting Russia’s regional hegemony and its international authority, is hardly a product of visionary thinking of the ruling elite or a

⁵⁴⁴ Appendix 2: Interview with S. Glebov

⁵⁴⁵ A. Tsygankov (2007): 385-386

reflection of a public consent. The origin of the proclaimed advantage of paving a special way for Russia and celebrating the opposition to the West instead of following its lead is rather rooted in the trivial drive for domestic power preservation of the ruling leadership. As fairly noted by Torbakov, the authoritarian nature of the Russian regime makes any kind of integration into or with the West practically impossible, compelling the decisionmakers to look for a plausible ideological explanation for this dead end and forcing their hand to declare Russia's strategic independence, embedded in the concept of multipolarity.⁵⁴⁶ The resulting demarcation from the established transatlantic institutions and value-systems allows Russian elite to select those spheres of cooperation with the West, mostly economic, that cannot upset the domestic power base - an approach justified by the pursuit of national interests. The same justification of strategic balancing is applied to the pursuit of the large-scale integration project in the post-Soviet neighbourhood, which is in fact the only viable alternative to the political marginalisation Russian leadership manoeuvred itself into.

This geostrategic side effect of Russia's political system is accompanied by the notorious symbiosis of political and business interests of the ruling elite, which is pronounced to the extent that it infiltrates both state practices and objectives. As a consequence, the formulation of Russia's national interests is largely driven by immediate business considerations, presented in a more appealing fashion of a long-term foreign policy strategy. The fact that national interests mean regime interests "first and foremost" whereas interests of the ruling group can damage those of the country creates a situation where "any audit of Russian policy that ignores this reality is artificial".⁵⁴⁷ From this perspective, Russian bargaining behaviour has a profoundly ambiguous nature with no clear division between bids exclusively in favour of business expansionism and those additionally comprising public interest. Considering the former Soviet neighbourhood, the successful promotion of Russian business interests in regard to Ukraine, Belarus and Moldova presupposes preservation of the favourable, in the sense of similarly flawed, local political environment, which is best achieved by cutting the three from the European antipole and capturing them within a Russia-dominated regional setting. Therefore, when it comes to the three target states, conditions necessary for the

⁵⁴⁶ I. Torbakov (2013): *Understanding Moscow's Conduct: The Analysis of the Domestic Politics - Foreign Policy Nexus in Russia*. Nomos, Baden-Baden: 27-28

⁵⁴⁷ J. Sherr (2013): *Hard Diplomacy and Soft Coercion*. Chatham House, London: 67, 96

expansion of business interests largely coincide with those for domestic power preservation and shape Russian foreign policy agenda accordingly.

This fact with the resulting emphasis on the post-Soviet region, does not favour Russian bargaining efforts there, though. On the contrary, the substitution of genuine national interests with hollow geostrategic constructs enables the trade of economic benefits for political loyalty on the one hand, and allows for these loyalty affirmations to remain conditional and unbinding on the other. Stemming from the distorted articulation of the state interests, Russia seems to lack an elaborate perception of which particular advantages, apart from demonstration of power and influence, a closer economic and political association with the neighbouring countries should yield. Conventionally, integration initiatives are aimed at attaining positive economic balance, promoting security, as well as advancing efficient administration. So far, all Russia-dominated regional institutions including the latest Eurasian Economic Union neither managed to reach the desired effect, nor is there tangible reason to believe they are going to. In fact, it is more likely that Russia will continue to pay a heavy price for a project of questionable value. As pointed out by Inozemtsev, closer integration with the former Soviet republics will aggravate the existing trend and translate growth away from Russia to the peripheral economies, with one-way cheap labour migration further diminishing both its productivity and the incentives for innovation and modernisation.⁵⁴⁸ What normally would appear to be an economic irrationality seems to be a product of Russia's understanding that there is no other way to secure influence in the neighbouring region. The establishment of economic incentives and coercion as instruments of political operation is, as a matter of fact an expression of limited efficiency of Russian soft power, which has been added to the political toolkit already in the early years of Putin's presidency and emphasized as primary in the foreign policy concept of 2013.

Looking back, Russia discovered and adopted soft power instruments long before the concept was formally articulated in official documents and statements. Labelled as "information support" of the foreign policy agenda in the foreign policy concept of 2000⁵⁴⁹, a number of soft power techniques were introduced as a crucial supplement to diplomatic activities in promoting the country's interests. They concentrated on the creation of media

⁵⁴⁸ V. Inozemtsev (2012): Russian National Interests on the Post-Soviet Space: What They Are and What They Should Be? *Russia and the Contemporary World*, 3(76): 114-115

⁵⁴⁹ Nezavisimaya gazeta (2000): Konzeptsiya Vneshnei Politiki Rossiiskoi Federatsii. http://www.ng.ru/world/2000-07-11/1_concept.html

outlets aiming at the improvement of Russia's image abroad and facilitating the positive perception of Russia's policies through increasing its outreach and offering insights about the country and its own narrative. The concept of 2008⁵⁵⁰ specified and expanded this approach by focusing on the former Soviet region through the intention to capitalise on the two major sources of attraction at Russia's disposal – common culture and language. In this vein the promotion of the Russian language, intercultural partnership and protection of interests of Russian compatriots abroad was added to the policy strategy. Finally, by 2013 the soft power concept was firmly established in the official vocabulary and represented prominently in the corresponding foreign policy concept. What is more, the notion acquired a much more extensive reading, surpassing the previous focus on the ex-Soviet region in general and Russian compatriots in particular. From then on, soft power was proclaimed an “indispensable component of modern international relations”⁵⁵¹ and Russia began to refine its foreign policy in accordance with soft power principles.

Obviously, this development resulted out of Russia's conviction in the efficacy of its soft power channels. However, the assessment of the actual output of this strategy is rather disenchanting even in the neighbouring region, which due to cultural, language and labour market proximity should be most susceptible to what Russia has to offer. The question what stands in the way of Russia successfully winning over the three target states and gaining advantage of its soft power potential is best answered by the original inventor of the concept – Joseph Nye. According to his definition, soft power “rests on the ability to shape the preferences of others” and in comparison to hard power relies not on coercion or inducements but attraction, which in case of a country presupposes three primary resources – “culture, political values and foreign policies”.⁵⁵² In other words, soft power is about convincing and co-opting other states to want the desired outcome and opt for abidance not out of fear, but out of persuasion. Therefore, the emphasis is made rather on soft, than on power in the sense that the envisioned outcome is generated through benign means and the force lies in the ability to affect others without any damage.

⁵⁵⁰ President of Russia (2008): The Foreign Policy Concept of the Russian Federation. <http://en.kremlin.ru/supplement/4116>

⁵⁵¹ Ministry of Foreign Affairs of the Russian Federation (2013): Concept of the Foreign Policy of the Russian Federation. http://www.mid.ru/en/foreign_policy/official_documents/-/asset_publisher/CptICk6BZ29/content/id/122186

⁵⁵² J. Nye (2011): *Soft Power: The Means to Success in World Politics*. Public Affairs, New York: 5, 11

Russia, in its turn, employs a creative interpretation of the concept, combining elements of a zero-sum mentality and exploitative style. Following Nye's judgement, Moscow is failing miserably in utilizing all three soft power resources. Repressive domestic actions reveal troubling political values, reinforced by assertive foreign policies and erroneous belief that government, rather than civil society is the main instrument of soft power, leading to the misguided usage of state propaganda, which is neither credible, nor appealing.⁵⁵³ Although Russia was right to acknowledge the potency of the concept it was wrong to replace soft power instruments with manipulation and domination attempts. In its approach towards the three target states, Russia falls short to value sufficiently the virtue of an equal partnership and mutual advantages that should result out of an integration project. Instead, the emphasis is made on economic benefits of such an endeavour, especially preferential energy prices and trade deals, which is an element of hard and not soft power. This misreading of the concept leads to ill judged attempts to buy the potential partners over. Soft power, on the contrary, is about winning support for the own policy initiatives through offering an attractive cooperation package, capable of positively affecting the economies and societies of others and not just cementing the already existing channels of dependence.

The cornerstone of Russia's soft power weakness in the neighbouring region and beyond arises from the same domestic factors and regime characteristics that, as discussed above, shaped the country's foreign policy course. Effective soft power presupposes a strong ideational and normative component and builds on a coherent and well-articulated national ideology and political value-base.⁵⁵⁴ Both have already been missing throughout the evolution process of Russia's national interests and the corresponding foreign political strategy. The substituent notions of multilateralism and individuality of Russia's development path are intrinsically based on emancipation from the Western model, but fail to either offer a tangible alternative or articulate plausibly on which socio-political norms this alternative trajectory should rest. Whereas Moscow is utterly detailed about what it is in opposition to, there is much less certainty on the ideological orientation and political model it is willing to externalize. This is however, the very essence of the functioning soft power – the ability to set standards and substantiate their success by the own example. Russia's poor record of a

⁵⁵³ J. Nye (2013): What China and Russia Don't Get About Soft Power. Foreign Policy.

<https://foreignpolicy.com/2013/04/29/what-china-and-russia-dont-get-about-soft-power>

⁵⁵⁴ T. Lankina et al. (2015): Russia's Foreign Policy and Soft Power: 102. In D. Cadier Russia's Foreign Policy: Ideas, Domestic Politics and External Relations. Palgrave Macmillan, Basingstoke

heavy-handed domestic policy, fading commitment to the principles of democracy and the rule of law accompanied by deeply rooted corruption can be hardly perceived as a positive model to copy. Without first dealing with domestic problems and addressing its own flawed socio-economic model, it would, therefore, remain impossible for Russia to capitalise on its soft power potential and encourage other post-Soviet states to a closer integration.

The dysfunctionality of the Russian soft power becomes especially evident when compared to the European counterpart, the instrument of which is the European Neighbourhood Policy and its corresponding branch the Eastern Partnership. In fact, these two policy initiatives invigorated Russian attempts to create an alternative economic and political framework in the region and at the same time stipulated the development of its reciprocal soft power strategy, leading to the collision of the two rival poles. Although disclaiming the competitive nature of Russia's integration projects in the post-Soviet space and positioning the Eurasian Union as means for its members to "integrate into Europe", one can hardly ignore the resemblance of the emerging Russia-led institutions with the EU structures, which was largely confirmed by Vladimir Putin in one of his programmatic articles by recognizing the adoption of "the experience of the EU".⁵⁵⁵ Shaped in reaction to the growing European involvement and building on the model of the EU's soft and structural power, Russia saw itself forced to formulate an adequate response. However, due to the domestic constraints this response, in line with the foreign policy strategy, took a rather competing form that tampered Russian bargaining with Ukraine, Belarus and Moldova. Therefore, driven by the same strategic interest to arrange for friendly and reliable states along the borders, the EU and Russia found themselves increasingly in hard and soft power competition, which in its turn highlighted Russia's bargaining shortcomings.

Moscow's proclaimed shift to the soft power instruments in dealing with the target states could have the potential to become an effective tactic, if it were not for the mismatch between Russia's ambitions and its actual capacities. The substitution of the genuine sources of attractiveness with self-serving politics, aimed at enhancing Russia's regional reach is devoid of genuinely compelling vision of cooperation. The ideological veneer of a unique Eurasian model falls short of the ability to durably outperform the established European

⁵⁵⁵ V. Putin (2011): A New Integration Project for Eurasia: The Future in the Making. *Izvestia*, 03.10.2011 <https://russiaeu.ru/en/news/article-prime-minister-vladimir-putin-new-integration-project-eurasia-future-making-izvestia-3->

alternative. Under these circumstances of largely inoperative soft power, Russian bargainers are left with less efficient tools of sanctions and inducements as means to arrive to a successful outcome, which is one of the sources of the blow to Russia's bargaining ambitions. So far, however, there is no indication of an oncoming revision of the Russian strategy, and a more proficient approach to utilizing soft power mechanisms is unlikely to materialise under the country's current leadership. The challenging question what factors can Russia economize on to arrive to its foreign policy goals will, therefore, continue to remain highly topical in the years succeeding the time span of the current analysis, which offered multifaceted conclusions in this regard.

Investigation of Russia's bargaining interactions not only found support for the limited success of coercive instruments against Kiev, Minsk and Chisinau, but also uncovered economic, regime and issue-specific attributes capable of enhancing Moscow's ability to achieve its objectives. Having intentionally placed an emphasis on analysing external factors conducive to Russian foreign policy agenda, one should yet consider the altering nature of international surroundings. Due to the volatile character of the pre-existing interaction patterns with the target states and the impermanence of the ability to claim bargaining advantage, Russia cannot overrely its strategy upon accommodative external environment. Long-term success can hardly be achieved without addressing internal deficiencies and domestic constraints to the general attractiveness of Russian geopolitical vision.

Whereas this research concentrated on a selective number of cases, the obtained results suggest that the underlying Russian bargaining shortcomings could as well have broader implications. Intersecting results of the QCA and qualitative inquiry have indicated the necessity for Russia to match its soft power resources to the foreign policy ambitions. In so doing, Moscow is well advised to relinquish its domination impulses and substitute unilateral itch with appreciation for an equitable partnership. Bargaining strategy build around infringing upon interests of the neighbouring states renders inadequate for sustainably securing preponderant role in the post-Soviet area, hence showing the way for Russia to update its foreign policy approach through taking account of advanced sovereinisation processes in the region. As long as an offer of a mutually beneficial constructive dialogue continues to be a fiction rather than a fact, Russia will not be understood as an attractive power and inviting integration partner. Ironically, a plea for coercion seems to be most suited for the concluding remark, the one aimed at Moscow's own strategic vision. If Russia

managed to coerce itself to revise its policy toolkit and the foundation of its relationship with the neighbouring states, the findings of subsequent studies on the success of Russian bargaining could allow a far more positive estimation.

Appendices

1.1. Fuzzy-set Data Matrix of Outcome and Conditions

Cases (State/Year)	Outcome		Conditions					
	Bargaining success	Economic Wealth	Import Depend ency	Export Depend ency	Democratic Affiliation	Regime Durability	Issue Salience	Sanction's intensity
Ukraine 2005a	0.8	0.57	0.79	0.55	0.68	0.18	0	0
Ukraine 2005b	0.2	0.57	0.79	0.55	0.68	0.18	0	1
Ukraine 2006	0.4	0.59	0.74	0.56	0.82	0.5	1	0
Ukraine 2007	0.6	0.65	0.69	0.64	0.82	0.73	0	0
Ukraine 2008a	0.2	0.68	0.58	0.59	0.82	0.88	0	0.33
Ukraine 2008b	0.2	0.68	0.58	0.59	0.82	0.88	0	0.67
Ukraine 2009	0.8	0.64	0.64	0.64	0.82	0.92	0	1
Ukraine 2010	0.8	0.63	0.64	0.65	0.68	0.05	1	0
Ukraine 2013	0.8	0.76	0.73	0.59	0.68	0.88	1	0
Belarus 2002a	0.2	0.58	0.99	0.95	0.02	1	0	0
Belarus 2002b	1	0.58	0.99	0.95	0.02	1	0	0.33
Belarus 2004	0.6	0.66	0.99	0.94	0.02	1	0	1
Belarus 2005	1	0.76	0.98	0.83	0.02	1	0	0

Belarus 2006	0.8	0.83	0.98	0.81	0.02	1	0	0.33
Belarus 2007a	0.6	0.87	0.98	0.84	0.02	1	0	1
Belarus 2007b	1	0.87	0.98	0.84	0.02	1	0	0.33
Belarus 2010a	1	0.95	0.96	0.87	0.02	1	0	0
Belarus 2010b	0.4	0.95	0.96	0.87	0.02	1	0	0.67
Belarus 2011a	0.8	0.98	0.97	0.82	0.02	1	0	0
Belarus 2011b	1	0.98	0.97	0.82	0.02	1	0	0
Moldova 2000	0.4	0.03	0.2	0.92	0.82	0.88	0	1
Moldova 2001	0.8	0.04	0.24	0.91	0.9	0.05	0	0
Moldova 2003	0.2	0.05	0.11	0.87	0.9	0.73	1	0.33
Moldova 2005	0.2	0.09	0.08	0.77	0.95	0.95	1	1
Moldova 2006	0.8	0.11	0.2	0.31	0.95	0.98	0	0
Moldova 2007	0.4	0.12	0.12	0.31	0.95	0.99	1	1

1.2. Analysis of Necessary Conditions for the Negated Outcome “Unsuccessful Bargaining”

	Consistency	Coverage
Issue Saliency	0.32	0.53
Sanctions’ Intensity	0.59	0.59
Economic Wealth	0.65	0.42
Import Dependency	0.72	0.40
Export Dependency	0.89	0.47
Democratic Affiliation	0.74	0.59
Regime Durability	0.88	0.42

1.3. Parsimonious Solution for the Outcome “Unsuccessful Bargaining”

Causal combination	Consistency	Raw Coverage	Unique Coverage	Covered Cases
Issue Saliency*~Import Dependency	0.83	0.28	0.28	Mol05, Mol03, Mol07

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While the debate on the effectiveness of economic coercion is as long-standing as the reliance on sanctions as a recognised foreign policy tool, less attention has been paid to the particular case of the Russian Federation and its relationship with the neighbouring countries. Given the accumulation of recent incidents of economic diplomacy in the Eurasian region, and in view of the insistent need to refine the pool of possible determinants for effective advancement of Russia's foreign policy objectives, the following work develops own predictions and verifies them on the cases of Russian bargaining with Ukraine, Belarus and Moldova. Encouraged by the existing scientific gap, this research aims to detect causal pathways leading to favourable outcomes and reveal factors, which help translate bargaining advantage into political capital. Investigation of Russia's bargaining interactions that took place within 2000 and 2013 not only found support for the limited success of coercive instruments against Kiev, Minsk and Chisinau, but also uncovered economic, regime and issue-specific attributes capable of enhancing Moscow's ability to achieve its objectives.