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## **Russia and the European Union: The Sources and Limits of "Special Relationships"**

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**RUSSIA AND THE EUROPEAN UNION:  
THE SOURCES AND LIMITS  
OF "SPECIAL RELATIONSHIPS"**

**Cynthia A. Roberts**

**February 2007**

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## FOREWORD

The topic of Russo-European Union (EU) relations is one of the most important security issues in Europe and Russia because this relationship will help determine the security situation throughout Eastern and Central Europe well into the future. The course of this relationship also will influence in large measure the extent to which Russia moves toward realizing its historic European vocation and its proclaimed ambition to become a democracy. On the other side, the relationship will influence significantly the capability of the EU to function effectively as a union of European states, possibly including Russia, and other European members of the Commonwealth of Independent States like Ukraine, Belarus, and Georgia.

Admittedly this relationship is in a rather precarious state. But it is essential that policymakers and analysts understand what the problems are that have impeded Russia's integration with Europe if we and they are to overcome these obstacles. Therefore, this superb analysis by Dr. Cynthia Roberts is highly important to any effective understanding of both Russia's and the EU's future trajectory.

This monograph is part of a series of publications on aspects of Russian defense and foreign policy that derived from a conference entitled "The U.S. and Russia: Regional Security Issues and Interests." It was cosponsored by the Strategic Studies Institute; the Ellison Center for Russian, East European, and Central Asian Studies at the Jackson School of International Studies at the University of Washington; the Pacific Northwest Center for Global Security; and the Institute for Global and Regional Security Studies.

The conference and this series represent a part of SSI's efforts to provide expert analysis of some of the most urgent challenges to security in today's world.

  
DOUGLAS C. LOVELACE, JR.  
Director  
Strategic Studies Institute

## BIOGRAPHICAL SKETCH OF THE AUTHOR

CYNTHIA A. ROBERTS is an Associate Professor of Political Science at Hunter College, City University of New York, and also an Adjunct Associate Professor at the School of International and Public Affairs at Columbia University. In 2007, she was also appointed a Senior Associate of the Saltzman Institute of War and Peace Studies at Columbia. Previously, Dr. Roberts was Director of the Russian Area Studies Graduate Program at Hunter. Dr. Roberts has served as a consultant to various departments of the U.S. government, including the Lawrence Livermore Laboratory, Department of Energy and is currently a member of the John J. McCloy Roundtable on Setting the National Security Agenda at the Council on Foreign Relations in New York and on the international board of trustees of the Centre for European Security in Moscow. Her articles on Russian affairs and international security problems have appeared in such journals as *Comparative Politics*, *Survival*, *Europe-Asia Studies*, *The Washington Quarterly*, *Journal of Cold War Studies*, *Technology Review* and others, as well as in books on these subjects. Dr. Roberts currently is revising a book on "Prelude to Catastrophe: Soviet Security Policy between the World Wars," which was accepted for inclusion in the series "Studies of the Harriman Institute," Columbia University. Her other book project concerns Russia's relationships with the North Atlantic Treaty Organization, the EU, and the G-8. Dr. Roberts received her Ph.D. in Political Science and the Certificate of the Harriman Institute, both from Columbia University.



## SUMMARY

More than 15 years after the collapse of the Soviet Union and two decades after the last Soviet President, Mikhail Gorbachev, raised hopes that Russia would liberalize and join a common European home, Moscow again resorts to authoritarian means amid the continuing absence of a mutual agenda for Russia's integration into Western institutions. Since the end of the Cold War, Russia and the West have averted renewed confrontation but managed only to craft a series of half-formed, suboptimal partnerships—with the European Union (EU), the North Atlantic Treaty Organization (NATO), and the Group of 7<sup>1</sup>—in which Russia is neither anchored by democratic rules nor fully excluded by Western institutions. These “special relationships,” which have been often turbulent, are now seriously strained by Russia's stronger geopolitical position, boosted by sustained high economic growth and market power in energy, and newly-emboldened rulers, who seek to renegotiate terms.

Why did “special relationships” materialize between Russia and the dominant Euro-Atlantic institutions instead of a Concert of Europe, a Cold Peace, full integration into Western institutions, direct confrontation, or a different outcome? How durable is the present, second best equilibrium? Which factors would increase the prospects for a mutually-beneficial agenda for integration? What are the risks that a more authoritarian and nationalist Russia will grow defiant and revanchist over its unfavorable terms of engagement, leading not to closer cooperation but a reemergence of two Europes, one led by the EU and NATO as the core and the other centered on Russia,



relegated to the periphery and tempted to act as a spoiler and a closer ally of rogue regimes in Eurasia and elsewhere?

This monograph, which focuses on Russia and the EU, explains why such special relationships tend to produce shallow collaboration, symbolic summitry, and costly standoffs. It underscores the bargaining problems which block closer cooperation in areas of mutual interest, from managing energy interdependence, instability in the Balkans, and nuclear proliferation in the Middle East, to negotiating a new partnership and cooperation agreement. The ongoing disputes are over terms, not just enforcement, and rooted in asymmetries in power, uncertainty about the distributional costs and benefits of engagement, and mistrust generated by Russia's continued unwillingness or inability to lock-in the liberal domestic structures necessary to make credible commitments or converge to European norms.

Domestic interests and political veto players further work against deep cooperation. Russia's autocrats and dominant elites who gain phenomenal wealth from their positions of power have a stake in a nontransparent, illiberal Russian state and eschew international agreements requiring strict conditionality and accountability. Russia even has shown its willingness to cut the flow of energy supplies to two key transit states, Ukraine and Belarus, over price disputes, notwithstanding the disruptions to its EU customers farther west. For its part, the EU often is unable to impose discipline on the national politics and domestic interests of 27 member states, making it easier for Moscow to cut myopic, bilateral deals such as the German-Russian energy cartel which is building a gas pipeline under the Baltic Sea, bypassing Ukraine and

Poland, which depend heavily on Russia for energy. Warsaw, in turn, has been willing to use its EU veto to block the start of negotiations on a new EU-Russia partnership and cooperation treaty, underscoring political and economic disputes with Moscow. For both the Europeans and Russians, mistrust persists, and both sides are profoundly ambivalent about the desirability of deepening their relationship. Thus, it remains to be seen whether Russia's special relationships with the EU and other Euro-Atlantic institutions will succumb to the negative pressures or persist in their present imperfect form for lack of a realistic, superior alternative.

## ENDNOTE

1. The "Group of 7" (G-7) industrialized democratic powers was subsequently renamed the "Group of 8" (G-8) to include Russia in its political but not its core economic deliberations. When Russia was invited by President Bill Clinton to become a regular participant, then Treasury Secretary Robert Rubin made it clear that the G-7 would have to reconstitute itself to do its important financial business outside of the new G-8 process.



## **RUSSIA AND THE EUROPEAN UNION: THE SOURCES AND LIMITS OF "SPECIAL RELATIONSHIPS"**

The foremost unresolved challenge for European security at the beginning of the 21st century is how best to engage a Russia that is not a member of the leading international and Euro-Atlantic institutions composed of market democracies, notably the North Atlantic Treaty Organization (NATO) and the European Union (EU), and is lurching back towards authoritarian rule. For the past 2 decades, according to a prominent specialist, the "central foreign policy agenda" for both Russia and the West, starting with Mikhail Gorbachev's wish for a "common European home," was Russia's integration into Western institutions. In this view, recent developments signal "a dangerous drift" backwards, away from the mutually-agreed "strategic agenda of integration."<sup>1</sup> A careful study of the record, however, reveals an all around lack of commitment to full integration from the outset and an absence of consensus about how to structure post-Cold War relations. Nor is there evidence of a feared "one-sided courtship," where much weight is put on Western efforts to cooperate but "not on Russia engaging the West."<sup>2</sup> Claims that an economically resurgent Russia now wants to strike out entirely on its own and has lost all interest in joining Western clubs similarly are overblown.<sup>3</sup>

Neither fully excluded nor embraced, Russia has been relegated to the awkward position of having "special relationships" with NATO and the EU, much like its initial interaction with the "Group of 7" (G-7) industrialized powers, subsequently renamed the

“Group of 8” (G-8) to include Russia in its political but not its core economic deliberations. Notably these are international institutions in which the Russian Federation did not inherit outright membership from the Union of Soviet Socialist Republics (USSR) (such as its permanent seat on the United Nations [UN] Security Council) or to date has been unable to qualify for membership, such as the World Trade Organization (WTO).

Although an improvement over Cold War tensions and the “peaceful coexistence” that prevailed during a time of nuclear and ideological confrontation, such “special relationships” hardly form the basis of an ideal post-Cold War settlement. They are nothing like the special relationship between Britain and the United States whose close ties derive as much from common values as common interests. Yet 15 years after the collapse of the Soviet Union, these relationships are the foundation stones for a suboptimal, East-West equilibrium of partial integration. The United States and its European allies in Western institutions such as NATO and the EU promote stability by involving Russia in a mixture of symbolic and substantive cooperative endeavors, while creating a structure in which Russia is allowed to participate only as a subordinate nonmember. A partially reformed Russia, in essence, has been partially integrated into a Western hierarchy, and with respect to top tier organizations, can claim equal membership only in the G-8, now a club long on summitry and short on substance.<sup>4</sup> Despite alternating talk of closer strategic partnership and punishing Moscow for its antidemocratic behavior, both Russia and the West have a stake in perpetuating “special relationships” because no superior alternative is feasible. Russia’s situation thus contrasts unfavorably

with more adaptable and less prestige conscious Central and East European countries that have made successful transitions to market democracies and joined the EU, NATO, and other Western institutions in the last decade.

These “special relationships” are now strained by the revival of Russia’s power and newly self-confident government which seeks to renegotiate terms. Since 2005, Moscow has signaled a willingness to use its market power in energy to advance Russia’s influence in the post-Soviet space and dealings with the West. Russia’s sustained economic growth rates of about 6 percent since 1999 and soaring energy prices have boosted Moscow’s coffers and geopolitical ambitions dramatically while transforming Europe’s 1990s distribution of power. Influential elites have resurrected the idea of strengthening the commonwealth of post-Soviet states, with the expectation, however fanciful, that Moscow can create a counter power center and leverage its “union” to craft a more “equal partnership” with Brussels and its Western partners. Although frustrated by lack of progress and European and American obstinacy, Moscow has not abandoned the goal of upgrading its status or ruled out the possibility of full membership in one or more of the West’s premier clubs. A persistent contradiction, however, is that Russia remains averse to commit to new bargains that involve conditionality (with the exception of WTO), a *sine qua non* for Europe and the United States which are more skeptical than ever about Russia’s potential for integration.

The problem with partial integration is that it favors shallow cooperation and is prone to crises, underscoring continued competition and persistent uncertainty, mistrust, and a values gap between Russia and the

West. Since the end of the Cold War, Russia and the West have averted renewed confrontation, checking crises over NATO expansion, Kosovo and the Orange Revolution, and gas crisis in Ukraine, while containing competitive impulses in the former Soviet space and elsewhere. Although avoiding the worst outcomes, they also have failed to achieve the ideal of a liberal democratic and market-driven Russia integrated into the Western community and its leading international institutions. There is a risk that an emboldened, energy-rich, more authoritarian Russia will grow defiant and revanchist over its unfavorable terms of engagement, leading not to a deepening of cooperation but instead to the reemergence of two Europes, one led by the EU and NATO as the core and the other centered on Russia, relegated to the periphery and tempted to act as a spoiler and a closer ally of rogues and rising authoritarian states.

What explains why a “special relationship” materialized between Russia and the dominant Euro-Atlantic institutions instead of a Concert of Europe, a Cold Peace, full integration into Western institutions, or a different outcome? How durable is the present partial integration equilibrium? What changes would be necessary to increase the prospects for Russia’s integration into an undivided, democratic Europe?

This monograph, which focuses on the sources and limits of the post-Cold War relationship between Russia and the European Union, is one part of a larger study on Russia’s “special relationships” with NATO, the EU, and G-8. In contrast to most works on this topic, it draws insights from the social science literature on bargaining problems to explain the constrained scope of interaction between Russia and the EU. I argue that three main factors underpin this special relationship

and the larger partial integration equilibrium while undercutting prospects for more and less optimal alternative outcomes. They are asymmetries in the relationship, commitment problems, and ambiguous stakes in deeper cooperation resulting in part from distributional issues.

- First, fundamental asymmetries define the relationship in which Russia is a large, relatively self-sufficient exporter of energy and other raw materials, but its economy is small in relation to the EU. As the stronger side, the EU is able to hold out for its preferred bargain in which Russia transforms, adopts universal and European values and norms, and achieves integration without membership. Failing this, Brussels will agree only to shallow or narrowly focused interim agreements with the added veneer of high-level summitry and international prestige. These arrangements are considered preferable to no agreement which could provoke a backlash from a critical energy supplier or, even worse, a return to confrontation. Moscow objects to EU's agenda-setting power and seeks to redistribute gains by fostering greater dependency on Russian gas and by circumventing Brussels in favor of bilateral interactions with European capitals.
- Second, Russia's absence of strong democratic institutions and rule of law to hold both economic oligarchs and the state accountable, coupled with uncertainty about future outcomes, means it is impossible for Moscow to make credible commitments to uphold international or domestic bargains. Brussels requires convergence to European norms and



rule of law as a prerequisite for implementing a deep EU-Russia partnership. Russia's essential predicament is that it will be difficult to escape its partial reform trap and lock-in a liberal political and economic transformation without the discipline and incentives of Western integration, but Europe (and the United States) is unwilling to deepen cooperation *before* Russia democratizes.<sup>5</sup>

- Third, both sides have ambiguous stakes in deeper cooperation in the foreseeable future. Europeans are preoccupied with recent and planned enlargements as well as deepening and broadening the scope of their own interactions within the limits of public acceptance. Russia's fate is of long-term concern, but because even energy involves mutual dependencies, it is not a pressing priority and might eventually resolve itself through gradual convergence to European norms. For their part, Russians are profoundly ambivalent about integration with a Europe which insists on imposing its values. Besides concerns about sovereignty are the preferences and interests of dominant leaders and elites who have a stake in a nontransparent powerful Russian state. Moscow prefers equal partnership without conditions to special relationships or exclusion, but to date has been unable to secure this outcome despite a "Russia first" tendency among Europe's great powers. Moreover, the Russian government recognizes no contradiction in simultaneously pursuing European integration and an economic community within the Commonwealth of Independent States (CIS) with Russia as the

central force, as well as partnerships with rising powers in Asia.

The monograph begins by tracing the sources of special relationships to bargaining dynamics influenced by asymmetries in power, objectives, and domestic political pressures. Next, it turns to consider a more optimal outcome as demonstrated by the EU integration model and the difficulties in extending this approach to post-communist countries now outside the accession process. The second half of the monograph highlights the substantive aspects of the EU-Russia relationship, underscoring the practical implications of conflicting goals, the sources of Russia's commitment problems and ambivalence about integration.

### **The Roots of Special Relationships: Bargaining Problems.**

Russia and Europe have a mutual stake in deeper cooperation. The EU is Russia's most important trading partner—remarkably three times larger than trade with other post-Soviet (non-EU) states—and the administration of President Vladimir Putin, which seeks rapid economic modernization and growth, has upgraded the place of the EU in Russian priorities. Europeans differ broadly in their attitudes towards Russia, but the EU recognizes that Russia presents “the most important, the most urgent, and the most challenging task that the EU faces at the beginning of the 21st century.”<sup>6</sup> Besides depending heavily on Russian oil and gas supplies, the EU with recent and future enlargements will share borders or be in close proximity to Russia from the Arctic Circle to the Black Sea, an area fraught with tensions and crises.

Perhaps as much to convince themselves, the two sides periodically reaffirm a “commitment to ensure that EU enlargement will bring the EU and Russia closer together in a Europe without dividing lines” for durable, peaceful engagement.<sup>7</sup>

At one level, the European approach appears to follow the multidimensional functionalist and institutional logic of gradually and indirectly reintegrating Russia into Europe and a stable post-Cold War order.<sup>8</sup> But what are the driving forces of Europe’s long-term, incremental strategy—the pressures of interdependence and normative convergence or a preference to limit liabilities and a deliberate reluctance to institutionalize closer ties? This monograph argues that the latter contention better explains the record. Russians are embracing illiberal attitudes<sup>9</sup> and moving closer to the authoritarian model of a one-party state in lieu of converging on Western or European norms of democracy and human rights.<sup>10</sup> Moreover, economic interaction is not spilling over into political and security integration. Lacking secure property rights and rule of law, Russian politics is preoccupied with the distribution and redistribution of property. Gaining political power is the surest means to capturing the state’s resources and phenomenal wealth. The resulting competition and corruption militates against the consolidation of a repressive authoritarian regime, but it also affects foreign policy, for instance by favoring outcomes that keep oil prices high, such as prolonging the nuclear stand-off with Iran.

Institutionalist and liberal expectations that Russia would develop markets and democratic institutions rapidly and squarely choose modernization and integration into the interdependent, democratic community of nations foundered on the many obstacles

to successful transitions in post-communist countries and the former Soviet Union, in particular.<sup>11</sup> Theorists who predict that the development of shared values leads to deep cooperation and harmonious relations similarly overestimated the degree to which norms in Russia were changing during *Perestroika* and the first post-Soviet decade. Optimistic forecasts, such as Mikhail Gorbachev's expectation that Russia would join a common European home, were grounded less in the construction of new identities and institutions, let alone geopolitical realities, than expressions of wishful thinking. Even Russia's 1992 application to the Council of Europe, the European organization imposing the least demands on new entrants, was delayed until 1996 when it was decided that "integration" and "cooperation" are preferable to "isolation" and "confrontation," despite concerns that Russia fell short of European standards for democracy, rule of law, and human rights. Only 4 years later, in April 2000, the Parliamentary Assembly suspended Russia's voting rights in response to reports of human rights abuses by Russian forces in Chechnya and recommended proceedings to expel Russia from the Council.<sup>12</sup> Instead of promoting such common values as tolerance, mutual respect, and standards for safeguarding civil and political rights, Moscow has impeded the work of human rights nongovernmental organizations and constrained "the Council's ability to promote normative socialization within the country."<sup>13</sup> Meanwhile, after pushing at the end of the Cold War for a leading role for the Organization for Security and Cooperation in Europe (OSCE), the only Euro-Atlantic institution in which Russia has an equal voice, Moscow soured on the organization as it exposed electoral fraud in post-Communist countries.

Institutional theory may be a poor predictor of the EU-Russia special relationship because it

overemphasizes the positive role of institutions to deal with problems of international cooperation while ignoring cases of costly, noncooperative standoffs or “nonserious bargaining, where states ‘commit’ to vague agreements for various political purposes.” As James Fearon shows, the dynamics of such cases turn on a distributional problem about terms for any mutually beneficial bargain or concerns about the feasibility of monitoring or enforcement. The first problem is indicated when we observe “costly standoffs” in which the dispute has a war-of-attrition aspect, and the parties suffer the costs of holding out for better terms instead of striking a deal that would make both sides better off. Various possible agreements exist that the parties would prefer to no agreement, but they disagree in their ranking of them. Since this process involves uncertainty and private information, it is not uncommon for the two sides to engage in bluffing and misrepresentation of their true positions. In the second problem, even when the “shadow of the future” is long, the parties may think effective monitoring is infeasible, and incentives to renege will discourage any serious bargaining or lead to weak, preliminary agreements.<sup>14</sup>

The Russia-EU relationship involves both types of problems: (1) recurring costly standoffs in which the stronger side (the EU in most issue areas) demonstrates it can incur costs longer, such as the confrontation over Moscow’s initial refusal to extend the Russia-EU Partnership and Cooperation Agreement (PCA) to the 10 new EU members incorporated in 2004; and (2) uncertainty about future intentions, resulting in the establishment of vague interim arrangements, examples of which include the EU Common Strategy on Russia (1999-2003) and the plethora of “dialogues” (e.g., on political and security matters) and “action

plans" (to cooperate on combating organized crime, etc.) agreed upon at summits and other meetings. One important test of the bargaining model for special relationships is in the energy area, particularly EU-Russia negotiations over a regulatory regime and liberalization of upstream and downstream markets and access to pipelines. The area of greatest mutual interdependence, energy cooperation, is a case in which Europe faces strong divergent national, political, and security considerations as well as asymmetries favoring Russia. Moscow possesses some energy trump cards and has been willing to hold out for a better deal than offered to date.

A second test is the development of the Four Common Spaces first initiated in 2003 at the St. Petersburg EU-Russia summit—a common economic space (building on the notion of a Common European Economic Space); a common space of freedom, security, and justice; a space of cooperation in the field of external security; and a space of research and education. To the extent that the common spaces remain abstract and unfulfilled ideas, with less potential for momentum and substance than even Europe's Neighborhood Policy for engaging its regional partners on a nonmember basis, this constitutes shallow cooperation characteristic of special relationships. Such an outcome likely reflects an inability to resolve competing bargaining preferences. Given that Russia prefers equal partnership while the Europeans emphasize normative integration without membership, a shift in emphasis from the PCA to substantive progress on the four common spaces could signal a shift in the distribution of power, although both fit the special relationship model. The same pattern of bargaining problems is likely to influence any follow-on agreement to the PCA which runs through 2007.

## **Partial Integration vs. Full Integration.**

Bargaining theory, unlike institutionalist or cooperation theory, recognizes the centrality of power to international politics – particularly to the determination of who plays the game, writes the rules, and changes the payoff matrix. Power allows some actors to secure a more favorable distribution of benefits in international bargains and to restrict the choice sets of others, even to the point of compelling them to accept outcomes that may leave them worse off.<sup>15</sup> Thus, in contrast to an institutional setting in which all members participate on equal terms, in a “partial integration” equilibrium, the dominant coalition seeks to lower the costs and risks of locking in gains at the expense of weaker rivals or defeated adversaries.<sup>16</sup> Sensitive to the possibility that such steps may foster security concerns or revanchism, the stronger side prudently refrains from isolating potentially disruptive weaker rivals (or former foes), easing their adjustment to a diminished position by offering compensation or side-payments in the form of “special relationships.”<sup>17</sup> Such relationships involve only their partial integration into the institutions controlled by more powerful global actors. As in the examples of Russia and NATO and Ukraine and NATO, the recipient gains enhanced international prestige but otherwise partial integration creates few tangible positive incentives while imposing little or no conditionality.<sup>18</sup>

Although power and interest underpin the partial integration model, it remains to be explained why the dominant coalition keeps its distance instead of taming the ambitions of potential challengers by inviting them to jump on the bandwagon, and why, apart from weakness, an excluded opponent accepts such an

unfavorable bargain. The outsider, for example, could shift instead to a position of confrontation which might attract the support of other dissatisfied actors and result in superior deals. The bargaining dynamics that lead to special relationships and a partial integration equilibrium as opposed to noncooperation or closer associations appear to involve three factors that are not present or significant in alternative outcomes. The first is a preference by one or both sides to limit liabilities, i.e., to avoid making a commitment to deeper cooperation because of an ongoing dispute over terms or concerns about enforcement. Neither side, however, is likely to leave the bargaining table permanently because of the second factor—a strong incentive to avoid a complete break in relations, given substantial interdependence in areas of important mutual interests. Third, the convergence on a special relationship is likely to be reinforced by a lack of domestic political consensus over the benefits or feasibility of an optimal bargain and particularly by the presence of strong domestic opponents. Although a special relationship is suboptimal for long-term security, stability, and prosperity, it may be the compromise position when leaders face strong domestic opponents who deem deeper cooperation or full integration as inimical to their interests. Likewise, the prestige gained by both sides from finding some common ground, coupled with the absence of conditionality allows political leaders to create the symbols and some of the trappings of partnership while still pursuing contradictory aims. For example, Moscow presses to deepen its participation in the decisionmaking structures of NATO and the EU's security committees, while refusing to introduce democratic controls and greater transparency in its own defense establishment. Similarly, Moscow relishes the G-8 and EU-Russia summitry that highlights its



leadership role in helping to resolve major international disputes, such as over Iran's nuclear program, while increasing sales of surface-to-air missiles to Teheran and cutting deals to upgrade Iran's Soviet-made bombers, fighter aircraft, and main battle tanks. Special relationships are welcomed, not least because they help protect political leaders from pressures to resolve major contradictions in their strategies and policies.

The two-level domestic-international interactions which underscore the partial integration equilibrium differ significantly from the bargaining dynamics that have informed the full integration or accession model of the EU.<sup>19</sup> The central differences are two-fold. First, promising candidates for membership in the EU demonstrated in many ways their strong preference for a "return to Europe" and desire to join the EU. In particular, governments signaled the seriousness of their commitment to reform and the rules of the organization by agreeing to a rigorous preaccession process that would involve "tying the hands" of current and future rulers.<sup>20</sup> Second, the EU signaled its willingness to consider new applicants according to specified criteria, which was designed to reveal whether compliance with the organization's conditionality requirements sufficiently corresponded to the applicant's domestic interests and a shared system of norms and understandings perceived as legitimate.<sup>21</sup> Acceptable bargains were predicated further on the understanding that the long-term economic benefits to existing members outweigh the short-term adjustment costs of enlargement. The next section describes how these factors worked in the successful transformations of Central and East European countries and their integration into the EU and then turns to a preliminary examination of the variations in the EU-Russia relationship.

## **International and Domestic Incentives to Reform: The Successful European Integration Model.**

When the Cold War ended, ironically the EU was focused inward on deepening the terms of interaction among its members. European governments had not yet created the institutions necessary to develop a common foreign and security policy, leaving such matters entirely in the hands of the individual member governments. Even worse than merely bad timing, as one observer recounts, "Few politicians were in any mood for grand gestures or financial generosity." They put priority on the reunification of Germany, "and the evident political risk and financial expense of that unification made many leaders even more reluctant to commit themselves to enlarging the EU as a whole."<sup>22</sup> The EU delayed a decision on further enlargement another 2 years and then moved slowly on accession negotiations with even the three Central European front-runners among the Visegrad states.

By comparison, for many Central Europeans, the goal of EU membership and the rewards associated with it created "a normative focal point for domestic adjustment efforts, often in advance of participation in existing organizations or western demands."<sup>23</sup> However, lacking a credible EU commitment to enlarge, coupled with specific accession criteria, aspiring entrants tended to push for membership while pursuing domestic agendas that conformed to existing patterns of government and prevailing interests, whether or not they were compatible with membership requirements.<sup>24</sup> Only when the aspirants were assessed publicly against precise criteria and informed of their prospects were the international costs of domestic practices such as anti-democratic behavior, rent-seeking, corruption,

and ethnic nationalism revealed to electorates which generally favored Western integration. This approach tended to make pro-Western liberal and moderate parties more attractive to voters even when they were in the opposition. Still a domestic backlash could not be ruled out if domestic groups that stood to lose from accession organized and mobilized against conditionality and even membership.<sup>25</sup>

The three Central European countries that most quickly transitioned to market democracies and gained entry to the EU had “regimes-in-waiting” when the communist period ended. Consensus prevailed among elites and in society on the goals of “returning to Europe” and creating a liberal political and economic order.<sup>26</sup> In Poland, Hungary, and the Czech Republic (the so-called Visegrad countries), even reformed communist parties, which transformed themselves into social democratic parties and successfully reentered politics, embraced economic reform, and the quest to join Europe. The former Eastern bloc countries stood to gain large tangible and intangible economic, social, political, and security benefits from full membership in the EU (and NATO). However, their strong motivation was counterbalanced by a weak bargaining position in relations with a European community reluctant to pay the economic and political costs of EU enlargement and preoccupied with deepening their own relations. Despite the West’s endorsement of a democratic, free, and undivided Europe, EU members (prominently led by France) resisted challenging powerful domestic interests in sectors such as steel, textiles, and agriculture, which benefited from subsidies from the EU budget and extensive protectionist policies, including against East European imports.<sup>27</sup>

The Visegrad countries persevered in the face of blatant protectionism as they redirected trade

from east to west, persistently pressing the EU for precise guidance on how to prepare for membership, beyond the “anticipatory adaptations” in legislation already under way in the early 1990s.<sup>28</sup> By 1993, the EU acknowledged the long-term geopolitical and economic benefits of enlargement, despite continuing distributional disputes over short-term economic costs. The resulting “Copenhagen criteria” (and further refinements) stipulated the political and economic terms for the preaccession process, emphasizing democratic stability, rule of law, human rights, protection of minorities, and a functioning market economy. In addition, prospective members were expected to accept in full all of the existing rights and obligations of the EU, contained in some 95,000 pages of the *acquis communautaire*.

EU conditionality not only helped lock-in liberal reforms in the front-runners for accession, which already were proving that the simultaneous and rapid introduction of competitive politics and markets were conducive to economic growth.<sup>29</sup> It also signaled electorates elsewhere in East Central Europe that they would pay a price for illiberal regimes fostering aggressive nationalism, economic corruption, rent-seeking, and a host of poor governance practices that were tolerated when Greece was admitted in 1981 during the Cold War but would now block future accessions.<sup>30</sup> Gradually, the EU shifted from what Milada Vachudova calls “passive leverage” – the draw of the EU’s economic benefits for its members and discriminatory treatment of nonmembers – to “active leverage” which, in addition to conditionality, involves “the deliberate engagement with the domestic politics of states applying for membership.”<sup>31</sup>

By reducing information asymmetries and boosting the political fortunes of fledgling liberal opposition

groups in the partially reformed East European states, the EU demonstrated that merit and the rigorous application of EU rules and norms could trump political myth-making by illiberal ruling elites who dominated their home media markets and pretended to comply with EU requirements.<sup>32</sup> Thus, the EU and other Western institutions used their leverage to ensure free and fair elections after 1995 in Romania, Slovakia, and Bulgaria; and subsequently when illiberal rulers were replaced, Brussels compelled the new governments to tackle difficult reforms of the state and economy, such as creating an independent judiciary and civil service and privatizing the banking sector. Although compliance varies across countries with the quality and depth of the reforms, it is likely that changes essential for good governance “would have been slower, less transparent, and more clientalistic absent the EU accession process.”<sup>33</sup> In short, since the mid-1990s, the EU provided the “crucial external push that has altered domestic interests in favor of accomplishing some of the key tasks of post-communism.”<sup>34</sup>

In 2004, the EU embraced 10 new members, 8 of which were post-communist states. With an average gross domestic product (GDP) per capita of roughly half of the existing EU 15 members, the 10 new members nonetheless faced up to 7 years of barriers on labor mobility and could expect to receive substantially smaller amounts of aid from the EU budget than prior entrants such as Greece, Spain, and Portugal, who had succeeded largely in protecting their privileged positions. In return for valued long-term economic and geopolitical gains, the new members, as a result of their weak bargaining position, had to make concessions to satisfy the domestic interests and short-term adjustment costs of the EU-15 members.<sup>35</sup> Recent

research also suggests that although the new Central European members benefit from trade access, increased foreign direct investment,<sup>36</sup> and reduced corruption, it is likely that higher public expenditures and taxes to support social welfare systems and implement EU regulations have put downward pressure on growth rates since 1999.<sup>37</sup>

From the standpoint of the West European EU-15, rational cost-benefit considerations involving the efficiency gains from an enlarged EU, manageable adjustment costs for bringing in new members whose combined GDP (measured in terms of purchasing power parity [PPP]) was less than 10 percent of the EU GDP, and concerns about the risks and costs of instability if Central Europe was not anchored firmly appear to explain why initially reluctant members of the EU-15 eventually followed Germany and other proponents of enlargement.<sup>38</sup> Nonetheless, a persistent tension exists between the EU as a reluctant expansionist and the open door stipulated by Article 49 of the Treaty of Maastricht to any European state which seeks to apply for entry.

### **Prospects for Anchoring Post-Communist Neighbors outside the EU.**

On March 11, 2003, 18 years to the day that Mikhail Gorbachev became the last General Secretary of the USSR, Brussels issued a new framework for engaging with its “new neighbors” along the expanding periphery—those countries which the EU did not expect would ever join the community. Paradoxically, nearly a decade and half after the end of the Cold War, EU leaders quietly acknowledged in this document that the “incentive to reform created by the prospect of

membership” unarguably had proven to be the EU’s most influential foreign policy instrument. However, the purpose of Europe’s Neighborhood Policy was clearly to discourage new applicants for membership. It aimed instead to develop a “zone of prosperity and a friendly neighborhood,” what the EU calls a “ring of friends,” so as to avoid new dividing lines in Europe. In return for concrete progress demonstrating shared values and effective implementation of political, economic, and institutional reforms, the EU offers its neighbors the prospect of a stake in its internal market, and, following further integration and liberalization, the possibility of “promoting the free movement of persons, goods, services, and capital (four freedoms).” As then Commissioner for External Relations Chris Patten explained,

Over the past decade, the Union’s most successful foreign policy instrument has undeniably been the promise of EU membership. This is not sustainable. For the coming decade, we need to find new ways to export the stability, security and prosperity we have created within the enlarged EU. We should begin by agreeing on a clearer vision for relations with our neighbours.<sup>39</sup>

Russia reacted negatively to the EU’s “Wider Europe-Neighbourhood” framework, resentful of being lumped together with countries with histories of nondemocratic governance and poor human rights records. Even worse, Moscow felt marginalized as one of many Eastern neighbors instead of a power with a special role in Europe’s security and stability.<sup>40</sup> However, during the 1990s, the Russian government had agreed to a puffed-up, earlier variant of this approach to selective nonmembers in the form of a Partnership and Cooperation Agreement (PCA). As discussed

below, to a large degree, the PCA reflected the EU's market power and Russia's relative weakness. A decade later, Moscow's position had improved substantially, and as a major exporter of hydrocarbons, it gained additional leverage from soaring energy prices and monopoly control over infrastructure.

### **The Framework of Relations: Building a Special Relationship in Lieu of Russia's Membership in EU.**

The legal basis of the EU-Russia relationship remains the Partnership and Cooperation Agreement (PCA), signed by President Boris Yeltsin and EU leaders at Corfu in 1994, in force since December 1997, and due to expire in 2007 or automatically be renewed annually under the treaty's provisions.<sup>41</sup> At the time, Moscow sought relationships with both the EU and the major European powers but had not yet worked out a set of coherent objectives or a coordinated policy process for developing those relationships.<sup>42</sup> By comparison, Europeans already had established three guiding principles for dealing with post-Soviet Russia: (1) to promote Russia's transformation to a market democracy; (2) to make clear that implementation of the planned partnership between the EU and Russia *presupposes* the accomplishment of Russia's political and economic reforms; and (3) to gain Russia's commitment to "common values" and a framework of Western norms without any expectation of prospective membership in the EU (emphasis added). That all three were embodied in the agreement testifies to the EU's stronger bargaining position as well as the early consensus in Europe on distinguishing future accession countries in Central and Eastern Europe from Russia and other CIS countries.



The post-communist countries in the first group, many of whom became EU member states in 2004, were offered "Europe Agreements," which aimed to prepare candidate countries for membership and clearly specified integration into the European Community as the final objective. In contrast, Russia, Ukraine, and other former Soviet republics (except the Baltic states which were included in the first group) similarly were expected to uphold the rule of law and human rights and converge with European norms and rules, but could only look forward to the establishment of partnerships with the EU or else be marginalized on the periphery of European affairs.

Beyond supporting Russia's transformation, the aims of the "partnership" specified the promotion of trade, including the creation of conditions for the establishment of a free trade area and the development of a political dialogue to promote "increasing convergence" on "international issues of mutual concern, thus increasing security and stability." The PCA liberalized trade on the basis of reciprocal most-favored-nation (MFN) access to markets for trade in goods and contains provisions for cooperation on competition matters, business and investment, and prevention of illegal activities. The institutions created by the PCA regulate EU-Russia interactions and provide for regular meetings at various levels structured to accommodate the EU's rotational presidency and bureaucratic operations more than the purposes of the partnership.

The chaotic events in Russia during the 1990s, particularly the derailing of reforms and the first war in Chechnya not only delayed the agreement's entry into force but also stymied its implementation. Russia was among those post-communist countries that failed to undertake radical reforms quickly and

comprehensively and fell into a partial reform trap. In the polarized politics of the Boris Yeltsin years, the Kremlin used the resources of state to win political support and this proclivity, together with political and administrative lawlessness, piecemeal reform, and insider privatizations facilitated rent seeking, corruption, and pervasive theft.<sup>43</sup> The early big winners were concentrated interest groups—typically industrial enterprise insiders, tycoons trading natural resources, bankers, and local officials—that gained substantial rents or profited from the notorious “loans for shares” scheme in which Russia’s most valuable enterprises were sold in rigged auctions for fire sale prices. These economic oligarchs developed a stake in “maintaining a partial reform equilibrium” while the costs of transformation were spread throughout society.<sup>44</sup> According to one estimate, eight shareholder groups controlled 85 percent of the value of Russia’s 64 largest privately owned companies by the end of 2001.<sup>45</sup> These groups penetrated all parts of the state structure to protect and expand their gains. By “capturing the state,” they were able to block objectionable policies as well as needed structural reforms and efficiency gains.<sup>46</sup>

Electoral backlash through vigorous political competition prompts the reforms necessary to escape the partial reform trap. However, in Russia, electoral politics were not free and fair; political polarization stalled progress; and fundamental democratic institutions, including an independent judiciary, private property rights and rule of law, which are necessary to hold the state and economic oligarchs accountable, never took root.<sup>47</sup> This toxic mix created uncertainty about future political and economic conditions and an ongoing war of attrition over policies and their implementation.<sup>48</sup> In such conditions, it is impossible

for governments to make credible commitments to respect property rights or international bargains.<sup>49</sup>

Meanwhile, European protectionism, trade disputes, and concerns about Russian politics overshadowed strategic issues. Europeans also were preoccupied with their own radical internal transformation associated *inter alia* with the Maastricht Treaty in 1993, which provided for monetary integration and a common foreign and security policy (CFSP), and the Amsterdam Treaty in 1997, which envisioned the progressive development of a European Security and Defense Policy (ESDP) and an improved capacity to cope with challenges such as those posed by conflict in the former Yugoslavia.

Dismayed by the negative developments and crises in Russia, the EU attempted to give the objectives of the PCA new impetus with an internal review of relations with Russia embodied in the “Common Strategy,” adopted by the European Council in June 1999.<sup>50</sup> In lofty language, the Common Strategy reiterates Europe’s vision for Russia:

A stable, democratic and prosperous Russia, *firmly anchored* in a united Europe free of new dividing lines, is essential to lasting peace on the continent [emphasis added]. The issues which the whole continent faces can be resolved only through ever closer cooperation between Russia and the European Union. The EU welcomes Russia’s return to its rightful place in the European family in a spirit of friendship, cooperation, fair accommodation of interests and on the foundations of shared values enshrined in the common heritage of European civilization.

Such grandiloquent rhetoric and bold ambitions, however, masked the absence of a viable European strategy connecting desired goals with the necessary

means to realize them. In its place, the document outlines some sensible narrower objectives, such as promoting cooperation in areas concerning European security (including peacekeeping missions within the so-called Petersburg tasks), international crime, and the environment. However, the Common Strategy leaves unresolved the persistent contradiction over whether any practical results from partnership can be achieved before Russia is transformed, or even if the partnership should actively foster domestic reforms in Russia as a first priority.

The bulk of the Common Strategy is devoted to several pages of detailed instructions and advice for the dwindling number of reformers still remaining in the Russian government in the late 1990s. Described by a European minister as “long and diffuse,” the Common Strategy failed to “clearly signal what the EU’s specific priorities are in its relations with Russia.”<sup>51</sup> Such incoherence no doubt reflected the start-up difficulties stemming from the launch of the CFSP’s new mechanisms as well as the EU’s cumbersome bureaucratic process which incorporates the disparate input of many member states.<sup>52</sup> But at root, it demonstrates a lack of political will.

Looking back on the Common Strategy and similar pronouncements from Brussels, the EU’s lengthy list of recommended reforms seems a pompous substitute for a concrete plan to operationalize strong positive and negative incentives to anchor Russia. At the time it was clear already that Russia’s transformation would not be achieved with the kind of technical initiatives and financial assistance arranged through the Technical Aid to the Commonwealth of Independent States (TACIS) and other programs. Europe had honed its stick of extensive conditionality requirements and

possessed commanding market power, but in Russia's case (as with other non-Baltic former Soviet republics), it refused to proffer the huge stimulus that might have made a difference – the promise of accession.

As discussed above, the realistic potential of EU accession has a significant influence on the design of new political, economic, and regulatory institutions in transition countries and the scope of domestic adjustment, which in turn affects the dynamics supporting successful consolidation. In particular, the EU is able to empower reformist politicians by rewarding their efforts with aid, trade, and political ties. When domestic conditions are favorable, supportive external conditions can “create a domino effect.”<sup>53</sup> On the other hand, a weak signal for membership prospects may reinforce weak domestic incentives to reform political and economic structures and vice versa, creating a “vicious cycle” of outcomes instead of the positive reinforcing “virtuous circle” of reforms.

Because differences in the structure of international incentives affect domestic political fortunes, such settings are especially conducive to ethnic nationalism and politically-inspired opposition. As Paul Kubicek observes, EU “membership may be great for the country, but would the required political reforms be good for the existing leadership?”<sup>54</sup> For instance, politicians consumed by a struggle to control and distribute astronomical rents from high energy prices and who engage in excessive patronage and more nefarious activities stand to lose from greater transparency and secure property rights. Such leaders are strongly motivated to mask their political and personal interests by appealing to voters on more noble grounds of protecting national autonomy and sovereignty from the application of “double standards”

and other “unfair” demands.<sup>55</sup> Thus in Russia, where senior officials simultaneously hold top positions in key national firms or reap other financial rewards from their positions of authority, warnings abound about supposed threats to Russia’s sovereignty from foreign multinationals pushing for transparent, stable rules for foreign investment in strategic industries such as oil and gas. A similar line is evident about democratic breakthroughs from “color revolutions” in which outsiders working with domestically based nongovernment organizations (NGOs) declare the government ineffective and supposedly provoke internal conflicts which challenge the nation’s security or its geopolitical position in regions of vital interest.<sup>56</sup> According to the President’s deputy chief of staff and chief political strategist, Russia must resist such “invasions” by controlling its own leading sectors of the economy and thereby “carve out a place in the global hierarchy. . . . Our sovereignty and who we are in the world’s spider web—spiders or flies—depends on this.”<sup>57</sup> Likewise, distorted images of outsiders provoking political instability during color revolutions are largely a convenient justification for additional authoritarian controls and repressive measures such as the recent backlash in Russia against NGOs and legislation constraining their activities.<sup>58</sup>

However, a strong EU commitment, coupled with credible threats to use the stick of conditionality, may tilt the balance in favor of reformers and even convince Western-oriented voters to change leaders who are responsible for regressive policies. This effect assumes that liberal reformers already exist in some numbers to create a “beachhead” from which democracy can be advanced.<sup>59</sup> Thus, threats by Brussels to postpone consideration of membership in Slovakia under

Vladimir Méciar had a positive effect, exposing the emptiness of Méciar's claims that Brussels resorted to double standards. The real cost of supporting a government which refused all manner of accountability while pretending to work toward the goal of EU accession was revealed to Slovak citizens.<sup>60</sup> Similarly, in Romania, Bulgaria, and especially in Turkey, the EU initially proved to be a weak anchor in stimulating radical domestic change in the absence of clear prospects for membership. However, the authentic prospect of membership, for example in Turkey after 1999, provided a common sense of purpose to an inchoate pro-EU coalition and hastened a wave of liberal reforms.<sup>61</sup>

It remains to be seen whether the EU will offer encouragement to Ukraine which, like Slovakia, only rhetorically espoused a pro-European choice under President Leonid Kuchma, while adopting policies that undermined the goal of EU membership.<sup>62</sup> During the Orange Revolution, Viktor Yushchenko emphasized a commitment to substantive reforms and appealed to Brussels for a strong signal that membership was possible, invoking the EU's 1998 precedent in taking a "clear European position that helped the democratic forces in Slovakia defeat an authoritarian regime."<sup>63</sup>

Russia, although in theory eligible to apply for membership as a European state,<sup>64</sup> is even more of an outlier, not least because of its increasingly authoritarian measures. Strobe Talbott, President Bill Clinton's deputy secretary of state and a distinguished Russia expert, considers Russia as "beyond the gravitational pull of the EU's political values and norms."<sup>65</sup> Against one set of indicators for successful democratic convergence or democracy through use of conditionality,<sup>66</sup> Russia indeed would fall short on many conditions. These

include the prevalence of nationalist temptations, a weak civil society coupled with entrenched elites, no readily available sticks or carrots to induce reform, ambivalent attitudes towards membership, and alternatives to the EU in the form of both “special relationships” and countervailing coalitions in the CIS and Eurasia of like-minded authoritarian regimes. To be sure, international leverage and inducements have been absent from the outset because Brussels made clear that Russian accession is out of the question.

In 2002, then European Commission President Romano Prodi stated publicly that former Soviet republics have no place in an enlarged EU. When on a visit to Brussels Putin had inquired about potential Russian membership, Prodi recounted how he told him that Russia is just “too big” to join.<sup>67</sup> The EU plainly is concerned more with the size of Russia’s large, albeit fast shrinking, population (presently double the size of Turkey’s current but growing population) which would be difficult to absorb, than with its vast geographic expanse. Were Russia ever to become a serious candidate for membership in the EU, institutional changes would be expected in voting rights and structural funds to protect existing members’ privileges to a large degree. Russia’s nuclear stockpile and great power ego are added annoyances, but it is unlikely that Russia’s GDP is a disabling factor since it is roughly equivalent to the combined GDPs of the 10 new members and only a fraction of the truly big EU output.

It is beyond the scope of this monograph to speculate in greater detail about hypothetical Russian accession in view of the many obvious impediments to further EU enlargement, including concerns over financial transfers, voting rights, collective action



problems, the relative distribution of economic gains and losses, and enlargement fatigue. Suffice it to suggest first that accession is a key element of a viable transformation model, even for “hard cases” such as Slovakia and Turkey. Second, the EU accession model was and perhaps remains an important counterfactual alternative for still more challenging cases, such as Russia and Ukraine, where illiberal pluralist states have degenerated into corrupt oligarchies or competitive authoritarian regimes in which elections are rigged, information is constrained, NGOs are repressed, and partially reformed economies are captured by powerful vested interests or ruling “syndicates.”<sup>68</sup> There is no prior empirical record to estimate the probability of successfully dislodging a country caught in the partial reform trap. Certainly, Turkey’s experience of halting reforms over 2 decades punctuated by the fortuitous alignment of internal and international stimuli is a reminder that timing matters, and that stagnant progress over a long period does not necessarily lead to irreversible failure.

At the same time, it should be emphasized that in sharp contrast to the positive effects derived from anchoring post-communist transition countries in Europe, nonmembership partner agreements of the sort negotiated with Russia and Ukraine have been widely dismissed as being too weak to affect the general direction of policy.<sup>69</sup> As the European Bank for Reconstruction and Development (EBRD) observed, “In the absence of prospects for closer integration, EU association agreements have not exercised significant influence on the reform process in the CIS.”<sup>70</sup>

After the Orange Revolution, Brussels agreed to a 10-point plan of “additional measures to further strengthen and enrich” the Action Plan negotiated be-

tween the EU and the Kuchma regime in 2005 before the presidential elections. Although these measures have been criticized as a tepid response to the democratic breakthrough in Ukraine, one element of the plan called for shifting half of total funding available to CIS members from the European Investment Bank to Ukraine, principally at the expense of Russia, then the only CIS country to receive such loans.<sup>71</sup> Also notable is that the European Neighborhood Policy (ENP) bilateral Action Plans, such as the one for Ukraine, are meant to “encourage and support . . . further integration into European economic and social structures” short of recognizing any participant’s aspirations for full membership.<sup>72</sup> Each Action Plan is designed to meet the interests of the participant for deeper cooperation in specific areas, although all involve conditionality as well as positive support (financial assistance, technical dialogue, or transfer of best practice) as progress is made. For some, deeper cooperation within ENP would involve a stake in the EU’s internal market, moving from “‘shallow’ integration to deeper economic and regulatory integration.”<sup>73</sup>

Such steps resemble elements of the European Free Trade Association (EFTA) and could lead to associations with the EU that resemble Norway’s status, recognizing that such nonmembers lack voting rights over regulations that govern their behavior and they have negotiated multiple separate arrangements in diverse issue areas. Norway and other associate non-EU members, of course, were already well-established market democracies when such arrangements were put in place. Given such noteworthy differences as well as the changing dynamics of domestic and regional politics, it is premature to predict the potential impact of the new ENP Action Plans on the domestic policy

choices of transitional countries such as Ukraine and Moldova.

At its own request, Russia is not a participant in the ENP. Yet the EU's Common Strategy and the PCA underscore a persistent, unresolved contradiction in Europe's approach—partnership leads to shallow agreements which solve some practical problems and create an illusion that Russia is not excluded, but there is no convincing evidence that a special relationship will bring about the desired liberal transformation. So long as an accession strategy for Russia is ruled out as unwarranted, too costly, and too risky, the EU will likely continue to settle for a second-best, limited liability solution of special relationships, hoping Russia will gradually adapt to European norms while avoiding worse outcomes.

### **Russia's Approach to Partnership: Underlying Commitment Problems.**

Russia's reaction to the EU's 1999 Common Strategy reflected the changed domestic and international context which featured culminating political chaos associated with the derailing of reforms under Yeltsin, deflated hopes for post-Cold War harmony, acrimony over NATO's use of force in the Balkans and expansion eastward, and the ascendancy of Yevgenny Primakov from the intelligence service to foreign minister and then prime minister. Primakov's anti-Western and especially anti-American attitudes and vision of a multipolar world were shared widely by vast swaths of unreconstructed Soviet-era functionaries still pushing their ideological predispositions and parochial interests in the corridors of power, particularly in the ministries of foreign affairs and defense. Competition over strategic and ideological visions was exacerbated

by the continued absence of strong domestic political institutions, rendering Russia's international commitments as uncertain and lacking in credibility as its domestic commitments were to private firms and societal groups. However, beyond trade disputes, Brussels was not on Russia's primary radar scope until the EU moved decisively in favor of its own expansion and began to develop independent foreign and defense policies.<sup>74</sup>

Moscow responded dismissively to the Common Strategy with a strategy statement of its own and then Prime Minister Putin presented it to the EU in October 1999.<sup>75</sup> Where the European grandees prefer to speak of common values and convergence to European norms (and leave discussion of their enormous market power and use of sanctions to less polite settings), the Russians emphasize geopolitics, great power interests, and the instrumental bases of cooperation. It follows that "The Medium Term Strategy for the Development of Relations between the Russian Federation and the EU (2000-2010)" sees no need to link the development of the EU-Russia "strategic partnership" to democratic reforms in Russia or common values. Rather, cooperation should be established on an equal basis and with full respect of Russia's sovereignty. The strategy refers to "the objective need to establish a multipolar world" and to ensure cooperation in European security to "counterbalance, *inter alia*, the NATO-centrism in Europe." That the Russian statement also mentions developing contacts with the West European Union (WEU) raises questions about the competence of the foreign ministry in the 1990s which should have known that the WEU was soon to be disbanded.

Further, the strategy is aimed at "enhancing the role and image of Russia in Europe and in the world" and

“mobilizing the economic potential and managerial experience of the EU to promote the development of a socially oriented market economy” in Russia. The strategy also pressed for EU recognition of Russia as a market economy, which was subsequently granted in 2002. This achievement makes it more difficult for Brussels to apply various import restrictions and anti-dumping procedures against such Russian exports as steel, textiles, nuclear fuel, and space technologies. Still, the strategy asserted Russia’s prerogative to protect key economic sectors, notwithstanding the terms of the PCA or bilateral negotiations on accession to the WTO which Russia finally concluded with Brussels in May 2004.

The Russian government does not anticipate accession to the EU during the 10 years under review, according to the strategy document, which echoes Putin’s studied refusal to rule out Russia’s membership as a future option. The strategy paper then goes on to insist on Russia’s special status: “As a world power situated on two continents, Russia should retain its freedom to determine and implement its domestic and foreign policies, its status and advantages of a Euro-Asian state and the largest country of the CIS, [the] independence of its position and activities at international organizations.” The document similarly foreshadows Russia’s tension between deepening cooperation with the West and developing a counter “system of interstate political and economic relations in the CIS” with Moscow at the center. Such ambiguity over preferences is another principal source of the suboptimal special relationships and impediment to deeper cooperation and integration between Russia and the EU.

## **Russia-EU Partnership under Putin: Tactical Success and Strategic Stalemate.**

Putin's ascendance to the position of president in 2000 breathed new life into Russia's strained relationship with the EU. But it also intensified Russia's commitment problems and the contradictions in Russia's developing "multi-vector" foreign policy,<sup>76</sup> signaling continued ambivalence about integration with Europe. Putin's economic modernization program—which features selective liberal economic reforms, the promotion of high growth, national control over strategic sectors, particularly energy, and the stabilization of Russian politics—was initially coupled with a charm offensive abroad and willingness to stand with the United States after September 11, 2001 (9/11), and with France and Germany against the war in Iraq, raising expectations about a fundamental reorientation of Russian foreign policy towards the West.<sup>77</sup> However, at root, Putin's strategy aims to restore Russia's power and position, not to forge an alliance based on common values, as Alexander Vershbow, then the U.S. ambassador in Moscow was among the first to discern.

President Putin invokes his country's "Western vocation" and refers often to Russia as "a European country" which has special relations with Europe's major powers and seeks "to strengthen . . . interaction with the EU as a whole."<sup>78</sup> Key government officials, and at least one of the potential successors to Putin, find it expedient to echo this sense of national identity. Thus, First Deputy Prime Minister and Gazprom Chairman Dmitri Medvedev stated matter-of-factly at a gathering of international business leaders, "Russia is a part of Europe and European civilization, and that

is that.”<sup>79</sup> Yet the Russian president acknowledged in his 2001 address at the German Bundestag that “We continue to live in the old system of values. We speak of a partnership, but, in reality, we still have not yet learnt to trust one another.” In clear German, Putin added, “Despite all the sweet talk, we secretly still resist.”

In 2001, Russia still was positioned too weakly to bargain for better terms in its fledgling special relationships with the EU, NATO, and G-8. Frustrated by this situation, Putin complained to the German parliamentarians:

Despite all the positive things that have been achieved over the past decades, we have not yet managed to work out an efficient mechanism for cooperation. The coordination organs, which have been established so far, do not give Russia any real opportunity to participate in the preparation of decisions. Nowadays, decisions are sometimes made without [consulting] us at all, and then we are emphatically asked to approve them.<sup>80</sup>

In 2002, the Kremlin succeeded in gaining market economy status for Russia from both Washington and Brussels, but this was largely a political gesture. Putin was still unable to press European officials into meaningful concessions in other areas, such as over Russia’s open transit rights to Kaliningrad, its enclave in EU territory.

Moscow expected that improvements in its economic and political conditions would translate into greater leverage in its dealings with the EU and other Western actors. In fact, Russia consistently has exceeded growth expectations since the 1998 financial crisis, with an average rate slightly above 6.5 percent per annum in 1999-2003.<sup>81</sup> However, it was large price rises in oil and a monopoly grip on gas distribution

to Europe that solidified Moscow's perception in 2005 of its strengthened bargaining position as an indispensable energy great power.<sup>82</sup> Putin had earlier brought greater stability to Russian politics and, using a clear majority in the parliament, was able to enact select efficiency-enhancing policy changes. However, the president's moves to centralize power in the Kremlin and the state and an increase in *chekisty* (former KGB) cronies from St. Petersburg and other *siloviki*<sup>83</sup> supporters from the military and security services<sup>84</sup> at the expense of private business and civil society raised doubts about the credibility of Russia's commitment to market reforms and property rights, let alone to what Putin referred to as "managed democracy."

Political polarization has diminished under Putin, but it comes at the price of the parliamentary electoral defeat and discrediting of liberals with a pro-European orientation.<sup>85</sup> Meanwhile the centralization of power in the Kremlin has led to sharp reversals in the level of political openness.<sup>86</sup> The assault on Yukos and its chairman, Mikhail Khodorkovskii, further demonstrated that "Putin wants dynamic capitalist development without having to deal with the political power of a dynamic capitalist class."<sup>87</sup> In fact, the fusion of state and business under Putin, with top officials in the Kremlin also holding senior executive posts in leading firms, has given new meaning to state capture and led to a notable worsening of corruption and racketeering in the administrative structure, as well as a decrease in transparency.<sup>88</sup> The current autocratic rulers in the Kremlin, like monopolists, are likely to block socially beneficial economic and political reforms when they threaten their political power. Absent institutions holding them accountable, ruling elites typically are unwilling to forego further redistributions of wealth, as



in Russia where high political office is now the surest path to phenomenal riches.<sup>89</sup>

In these circumstances, Europeans have not been reticent to raise “questions about Russia’s commitment and ability to uphold core universal and European values and pursue democratic reforms.” Such concerns surface repeatedly and permeated an internal assessment of EU-Russia relations presented to the Council and European Parliament in February 2004.<sup>90</sup> The communication reiterated the main goal of engagement—to “promote a fully functioning rules-based system in Russia.” It went on to insist that the EU “as a whole” (warning against troublesome freelancing by leaders of certain member states, such as Italy’s President Silvio Berlusconi) “should confirm that European values remain the basis for deepening relations.” Brussels intended to send another clear message to Moscow about what was required to build a “strategic partnership.”

Thus, despite a brief period of euphoria after September 11, 2001 (9/11) and a spectacular rise in economic growth, Russia’s relations with the West and the EU in particular have rankled from lack of vision and mutual distrust. With Brussels, Moscow has made an effort to play its cards with greater skill but still has had only mixed luck and nothing remotely equivalent to a royal flush. Staking out a firmer bargaining position, Russia successfully insisted on separating itself from the ENP and asserting its “special” importance in relations with the EU. At the St. Petersburg summit in May 2003, the EU and Russia agreed to develop their plan for Four Common Spaces, and in recent years Moscow has pushed hard to get its priorities specified on separate road maps for this initiative instead of the one action plan envisioned by the EU.

## The Long and Winding Road to Nebulous Common Spaces.

It was hoped that with the Four Common Spaces initiative Moscow finally would be able to develop more equal relations with Brussels and escape from the position of *demandeur* – with respect to WTO, trade disputes, the transit of people and goods to and from Kaliningrad, visa requirements for Russians traveling within the Schengen zone, extension of the PCA to new members, and so on. To this end, Russia has been keen to develop the institutional structure of the EU-Russia relationship and extracted minor concessions from Brussels on process and procedural matters. For example, in June 2003 the EU-Russia Permanent Partnership Council (PPC) was established to replace the Cooperation Council whose task was to oversee the implementation of the PCA. The PPC is a body at the ministerial level which was designed to be flexible and permit meetings in different formats as often as necessary, bringing together relevant ministers to discuss specific issues. To date, PPCs have been held in the format of foreign ministers, justice and home affairs ministers, and energy ministers. Russia and the EU also hold regular biannual summits, and on two occasions the EU has been represented by all its heads of state and government, not just the usual troika of officials from the EU Member State that holds the EU Presidency (and possibly the incoming EU Presidency), the European Commission, and the EU Council Secretariat. Dialogue between the EU and Russia, in fact, is now more frequent than between Brussels and any other actor.<sup>91</sup>

With respect to the ESDP, a high priority area for Moscow,<sup>92</sup> the two sides agreed to frequent

consultations, including monthly meetings between the Russian ambassador in Brussels and the EU's Political and Security Committee (COPS) and the assignment of a Russian officer as liaison to the EU Military Staff in Brussels. Moscow now proposes biweekly meetings and also regular sessions on terrorism issues and greater participation of the Russian Ministry of Defense in partnership activities.<sup>93</sup> Although discussions in this area are more extensive with Russia than with ENP countries, Moscow remains concerned about being sidelined on a host of European security issues within the EU's domain. The irony, not lost on officials in the corridors of the defense ministry, is that Russia's partnership with NATO is not only more institutionalized, as in the Russia-NATO Council, but also more advanced with respect to development of multiple avenues of cooperation, such as procedures for interoperability and joint operations.<sup>94</sup> Neither Russia nor the EU views the other as a military threat, but neither do they see their relationship as a means to solve existing security requirements, which further decreases the likelihood of deepening cooperation.<sup>95</sup>

Expanded dialogue thus has proved to be no substitute for substantive results, and, as Putin's first term came to a close, there were few notable achievements from the EU-Russia partnership to trumpet. In a July 2004 speech to Russian diplomats at the foreign ministry where anti-Western attitudes still run deep, President Putin nonetheless pointedly insisted that, after the CIS, "Europe remains our traditional priority." He explained, "The latest wave of EU and NATO enlargement has created a new geopolitical situation on the continent, and now we must not so much adapt to it as, first of all, minimize the potential risks and damage to Russia's economic

security and economic interests, and, second of all, find some opportunities here and use them to good effect. There is no other option left to us but to build up equal cooperation with the EU and the North Atlantic Treaty Organization.”<sup>96</sup> There is no mistaking Putin’s defensive tone or the widespread skepticism he faces about achieving tangible results from cooperation with an expanding EU.

The lack of significant progress is visible most readily in the once vaunted development of the four Common Spaces. For example, in the Common Space on freedom, security, and justice, Moscow insisted on including discussion of visa-free travel within the Schengen zone which now prevents Russians from traveling freely in the 25 member states of the EU, let alone to and from Russia’s Kaliningrad enclave which is entirely within the EU. The road map for this space agreed to at the Moscow summit in May 2005 underscores the objective of “building a new Europe without dividing lines” and joint agreement to examine the “conditions for visa-free travel,” but only over the long term.<sup>97</sup> Cooperation also is envisioned in combating terrorism, international crime, and drug trafficking, with mechanisms for interagency coordination, although it remains unclear how the parties will surmount problems of secrecy and bureaucratic corruption in Russia.

At the 2006 Summit in Sochi, the two sides reached a limited agreement that made minor changes to the rules for issuing visas, simplifying procedures for certain categories of citizens on both sides, such as students, journalists, businessmen, cultural activists, scientists, and athletes. Putin heralded the “new” visa regulations as the first step toward eventual visa-free travel,<sup>98</sup> putting a positive spin on the meeting, just 2

months before Russia's first hosting of a G-8 summit in St. Petersburg. However, such happy talk could not mask the usual outcome of shallow cooperation or Russia's concession on the corollary "readmission agreement" which commits Moscow to accept back any person who illegally enters the EU from Russia.

The road map for the Common Economic Space is supposed to build on previously agreed goals for the establishment of a single economic space, linking it to both Russian membership in the WTO, further liberalization of the Russian economy, and the application of principles embodied in the PCA to economic relations. However, the road map is less precise than the PCA about progress toward a free trade area and leaves open whose standards—EU norms, international or Russian—will govern legislative and regulatory convergence. This uncertainty may reflect Russia's preference for equal partnership in lieu of EU normative dominance, or it may be a "costly standoff" in the bargaining over trade relations. The EU's dominant market power usually ensures that its rules prevail in such relationships, as is the case in the Action Plans and other arrangements for ENP countries. Although still at an elementary stage, those arrangements resemble the European Economic Area (EEA) which gives non-EU members, such as Norway and Iceland, full access to the EU single market in return for their implementation of the *acquis* in most areas.

Russian economists already have raised concerns about the desirability of adopting all or most of the *acquis*, pointing especially to inflexibilities from over-regulation and the high costs of the EU's social welfare norms, which are impediments to economic growth.<sup>99</sup> Unilateral adoption by Russia of the *acquis*

and integration without membership in the EU would mean having no voice in shaping European rules and no effective legal protection in conflicts against the EU. Such a relationship may work for Norway and Switzerland (although former EEA members Austria, Finland, and Sweden ultimately opted to apply for membership), but it is doubtful that a large power sensitive about its position, such as Russia, would embrace it willingly.<sup>100</sup> Many Russian elites dismiss the notion as a nonstarter,<sup>101</sup> although President Putin has made at least one positive reference to the Norwegian model. Given that EU regulations would help lock-in improved rules in a number of areas such as competition policy and lead to increased foreign direct investment (FDI), it is evident that some opposition to nonmember integration comes from Russia's protectionist industrial lobbies and the Kremlin. Perhaps as important, there are strong sentiments in the Russian political class that Brussels should abandon its expectation that Russia adopt even a "light" version of EU laws and standards. In this view, it is better to use available international or jointly negotiated standards as a basis for integration wherever possible to bring about open markets and the free movement of people, goods, services, and capital than to get bogged down by excessively bureaucratic plans for "harmonization."<sup>102</sup> The Russian emphasis on equality in relations in all aspects of possible integration, however, rests on the false assumption that a group of rule-governed market democracies would ever integrate willingly with an illiberal corrupt autocracy caught in a partial reform trap. The default compromises, given such contradictions, therefore will likely remain within the existing pattern of special relationships.

Of all the Common Spaces, Russians and Europeans alike have viewed the potential for equal partnership as

most promising within the context of External Security or ESDP. The two sides have definable common security interests with respect to terrorism and weapons of mass destruction (WMD) nonproliferation, and also, from the Russian perspective, security has the added benefit of being an area of comparative advantage.<sup>103</sup> Underappreciated, however, was the extent to which Russia's underlying commitment problems would undermine progress even in an area where Europe could benefit from Russian capabilities. Thus, instead of taking up a Russian offer to fill Europe's need for a strategic airlift capability, Europeans opted to develop their own new aircraft. Similarly, Russia may be invited to participate in EU crisis management operations and be involved in managing the mission if it contributes significant capabilities. However, Foreign Minister Sergei Lavrov complains that the "old approach" in which the EU leads and Russia follows is not suitable for an equal strategic partnership. Moscow appreciates that the EU may assume a leading role on many European security issues but wants to share the driver's seat, according to Lavrov, proposing operations that will be implemented jointly.<sup>104</sup> Russia is motivated partly by an interest in preventing another Kosovo or a future EU intervention in border areas where there is considerable friction between the two sides. One such hot-spot is Moldova, where the EU in November 2003 undercut a Russian initiative to end the dispute over Transdnistria on terms that legitimated a long-term Russian military presence in the region.

The road map for the Common Space of External Security notes that the two parties intend to cooperate to promote the resolution of so-called frozen conflicts (e.g., in Transdnistria, Abkhazia, South Ossetia, and Nagorno-Karabakh), in line with UN and

OSCE commitments, given Russia's sensitivity to retrenchment from the former Soviet space. Although Russia fears more situations like the 2004 Orange Revolution and exaggerates Western involvement, Moscow is coming to appreciate that not all pro-Western, pro-EU orientations are necessarily anti-Russian.<sup>105</sup> What is unclear is whether Moscow sees sufficient common interests and is willing to share the driver's seat with Brussels in settling conflicts along their common frontier.<sup>106</sup> Russia has been a party to these post-Soviet disputes which involve sensitive questions about sovereignty, separatist groups, and Russia's future influence. In May 2006, Russia agreed to new international negotiations on turning the Russian "peacekeeping" contingent in Moldova into an authentic international operation including personnel from EU members and elements of the Polish-Ukrainian joint peacekeeping battalion. But Moscow has yet to give up its insistence on a prior political settlement between Chisinau and Tiraspol, which is a cover for legitimizing Moscow's role as meddler in the conflict and ensuring Russian military presence indefinitely.<sup>107</sup> Meanwhile in June the OSCE Chairman demanded that Russia finally honor the 1999 OSCE accord and withdraw its troops from the territories of both Moldova and Georgia, even offering to pay for Russia's withdrawal from Transdnistria. The Russian Foreign Ministry, however, has shifted to a harder line, announcing that the breakaway entities in these former Soviet republics are entitled to self-determination, not unlike Kosovo and Montenegro, despite the challenge to international principles of sovereignty and territorial integrity.<sup>108</sup> If Moscow is capitalizing on its stronger position to lay claim to exclusive prerogatives in its borderlands, this policy will seriously strain Russia's special relationship with the EU.



With the admission of Romania to the EU in 2007 and the expansion of ENP programs, such developments will test whether Brussels has sufficient political will and strategic vision to promote settlements of frozen conflicts which reflect the values and interests that it wants to project in the new border areas it shares with Russia. It is premature to predict with confidence whether Europe and Russia will emphasize competing stakes in their common neighborhood, let problems fester, or find common ground to develop workable solutions. The "special relationship" equilibrium suggests the probability of continued stalemate or limited and shallow agreements, but, understandably, this is not how political leaders prefer to characterize the "special" nature and importance of this partnership or its achievements.

Taking 2005 as an important turning point for Russia's role in the world arena (and a new high point for recent oil prices), government officials in the Putin administration were prone to exaggerate the achievements and significance of the 15th EU-Russia summit held in Moscow that May and the development of the road maps for the Four Common Spaces. Foreign Minister Lavrov boasted of the changed conditions in which Russia and the EU negotiated, insisting that Russia will no longer condescend to being "an object of the EU's policy." As late as the Russia-EU summit in February 1999, Lavrov conceded, "the entire agenda was . . . interspersed with issues concerning measures to stabilize the economic and social conditions in Russia, international assistance to these measures, the maintenance of trade dynamics, and the attraction of direct investment, technical assistance, and humanitarian aid." By comparison, "if we compare the February 1999 agenda with the themes of the two

summit meetings which took place this year [in 2005], then, of course, striking changes have occurred.”<sup>109</sup> The Russian Foreign Minister could reasonably point to a strengthening of Russia’s economic conditions and its growing influence on energy matters (discussed below). At the October 2005 EU-Russia Summit held in London, President Putin underscored Russia’s new confidence, given sustained high economic growth and dominance in energy. He recalled with gratitude how serious European politicians had not “humiliated” Russia when it suffered from economic decline and weak state capacity, asserting that Moscow would reciprocate now that “our possibilities have increased considerably.” But he underscored that the dialog and partnership would now be “equal.”<sup>110</sup>

Thus, bowing to Moscow’s insistence, the EU and Russia launched in March 2005 a new round of consultations which was tasked with examining human rights not only in Russia, including Chechnya, but also in the EU, focusing on minorities, in particular Russian-speaking minorities living in the Baltic States. In line with Moscow’s more assertive stance, Russia no longer would act as if the admission of post-Soviet countries to the EU and NATO signified that they were no longer an area of Russian national interest. The Baltic states, in particular, would be targeted as areas of concern on issues such as transit or the status of the Russian language and Russian community.<sup>111</sup> To the extent that Moscow could successfully tilt the agenda for discussions with the EU in favor of such issues, it expected to gain an advantage in the distribution of benefits from the relationship. That Russia’s focus primarily was instrumental cannot be doubted, given its own record of double standards on human rights issues. Moreover, since the 1990s, Russia actively

had engaged in economic penetration and pursued partners and influence in Central and Eastern Europe, especially exploiting energy dependent, indebted weak links, such as Slovakia under Meciar, while ignoring Western and international criticism of Slovakia's discriminatory policies toward its large Hungarian and Roma minorities.<sup>112</sup>

It would be an exaggeration to claim that progress on the road maps had reached a high point or that they clearly indicate where the EU and Russia are heading, let alone whether these indistinct destinations will ever be reached. Prime Minister Tony Blair engaged in diplomatic hyperbole at the conclusion of the EU-Russia summit in London in 2005 when he speculated that "the new institutional arrangements that will supersede the present Partnership and Cooperation Agreement are likely to see a significant institutional strengthening of the relationship between Europe and Russia for the future."<sup>113</sup> More accurately, as one analyst concluded, the EU has a "well-identified corpus of law, norms and values. But it does not have a well-defined model for exporting these beyond suggesting weak and fuzzy derivatives of the enlargement process. . . ."<sup>114</sup> This is the dilemma of special relationships; they tend to produce second-best or shallow preliminary agreements. Not even growing economic and energy interdependence is encouraging Brussels or Moscow to rethink the current paradigm in favor of a deeper commitment to more substantial arrangements.

### **Economic Asymmetries and Energy Interdependence.**

Russia and the EU are very unequal partners and large economic asymmetries create an imbalance of power which greatly weakens Russia's bargaining

position in every area except energy, where there is mutual interdependence and growing tensions. The EU population is now over 457 million after enlargement (EU-25) compared to less than 143 million Russians, a number which is declining steadily.<sup>115</sup> Russia's real GDP (PPP) is only 12 percent of the EU total in 2004 (up from 10.5 percent in 2001) and only 6 percent larger than that of the 10 new members (EU-10) combined. The enlarged Europe is Russia's main trading partner, absorbing 50 percent of Russia's exports. However, Russia is a relatively small trading partner for the EU, accounting for only about 5 percent of total EU foreign trade, just ahead of the level of EU transactions with Norway. EU-Russia trade more than doubled between 1995 and 2003 but again the structure of trade is unbalanced. In 2004, energy and fuels accounted for about 59 percent of Russian exports to the EU while Europe exports mostly manufactured goods to Russia (see Table 1 for data and comparisons with recent [Poland], new [Romania and Bulgaria], and aspiring [Turkey and Ukraine] EU members).<sup>116</sup>

With surging energy prices but stagnant domestic production, Russia seeks to create economic and political advantages by encouraging greater competition among buyers for Russian energy and higher European dependencies on Russia as its principal supplier of gas. At present, Europe relies on Russia for 30 percent of its oil imports (or 25 percent of oil consumption) and 50 percent of its natural gas imports (or 25 percent of gas consumption), including gas from Central Asia sent through Russian pipelines (see Figures 1, 2, and 3). Overall, members of the EU import 50 percent of total energy supplies, and forecasts suggest imports will rise to 70 percent and natural gas consumption to 80 percent by 2030.

	Population (mil)	GDP US\$ Billions	GDP/ capita US\$	GDP with PPP Billions	3DP/capita with PPP US\$	GDP percentage of agriculture
Russia	142.8*	581.8	4,086.6	1,449.2	10,179.5	5*
Poland	38.2	242.2	6,344.0	475.4	12,451.0	3.07
Turkey	70.7	302.6	4,286.2	529.6	7,503.0	11.9
Ukraine	48.0*	65.0	13,65.7	312.1	6,554.3	13.66
Romania	21.7	71.3	3,206.6	170.7	7,641.5	12.84
Bulgaria	7.8	23.8	3,056.4	66.1	8,499.8	10
EU-25	457.2	12,864.0*	28,136.0*	12,111.0*	26,488.0*	2.2*
EU-15	383.0	12,279.0*	32,019.0*	11,104.0*	28,955.0*	
EU-10	74.3	585.0*	7,938.0*	1,007.0*	13,653.0*	
	* From <i>World Bank.org</i>	* From <i>www. eiu.com Country Forecast</i>	* From <i>www. eiu.com Country Forecast</i>	* From <i>www. eiu.com Country Forecast</i>	* From <i>www. eiu.com Country Forecast</i>	* From <i>CIA World Factbook (2005 estimate)</i>

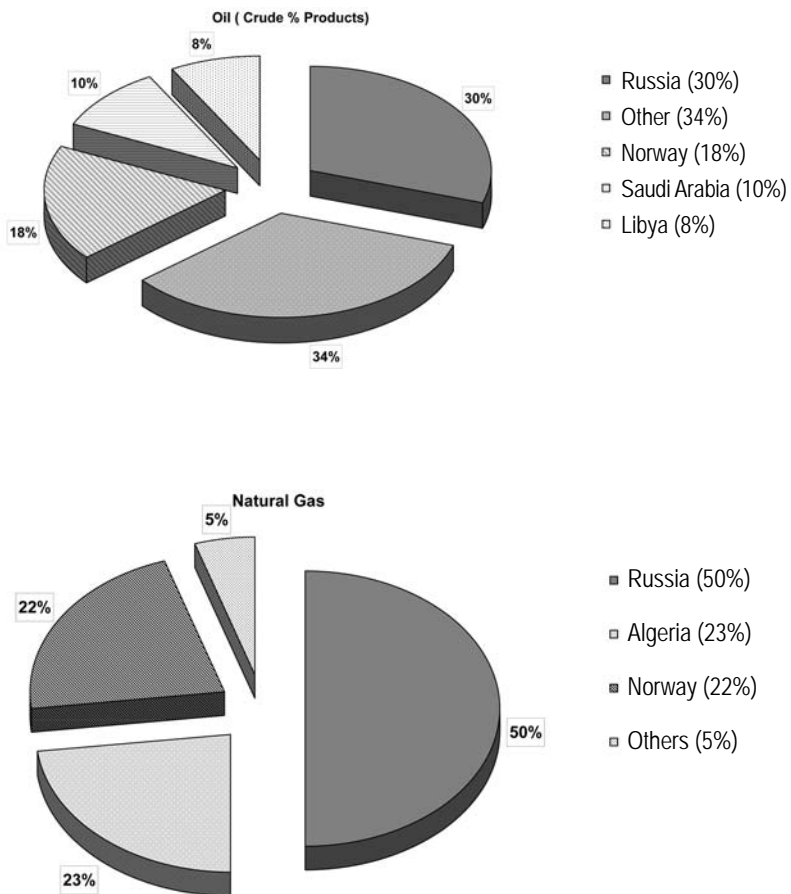
Source: Population from Eurostat  
GDP, GDP/capita, GDP with PPP, and GDP/capita with PPP  
from IMF's World Economic Outlook Database  
GDP% agriculture from *WorldBank.org*

**Table 1. Comparative Economic Data for Current,  
New and Potential EU Members.**

Russia	Energy sector contribution to GDP	approximately 25%
	Oil Exports to the EU-25	63% of oil exported
	Gas exports to the EU-25	65% of gas exported
EU-25	Oil Exports from Russia	30%
	Gas exports	50%

Source: European Commission, 2004.

**Figure 1. EU-Russia Energy Relations.**



**Figure 2. EU-25 Energy Imports: Origins.**



Source: U.S. Department of Energy (DOE), Energy Information Administration (EIA), Country Analysis Briefs, *Russia*, "Natural Gas," January 2006, available at [www.eia.doe.gov/emeu/cabs/Russia/NaturalGas.html](http://www.eia.doe.gov/emeu/cabs/Russia/NaturalGas.html).

**Figure 3. Existing and Planned Natural Gas Pipelines to Europe.**

Unlike oil, the market in natural gas depends more on long-term supply agreements, such as those between the energy-poor but technology/capital-rich West European countries and the energy-rich but technology/capital-constrained economies of Russia and Central Asia. In the 1990s the EU attempted to reconcile the contradictions between competitive markets and long-term producer-consumer supply agreements with the Energy Charter Treaty which aims

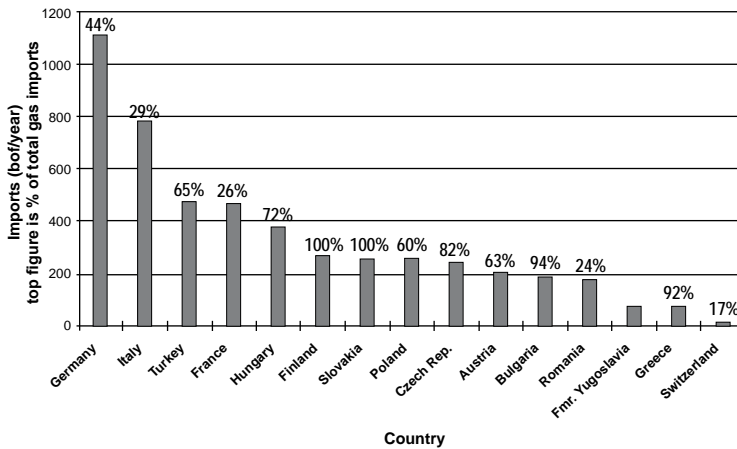
to provide certainty and protection for energy trade, transit, and investment, and open Russia's domestic energy market to competition, reflecting Europe's stake in securing reliable supplies on favorable commercial conditions.<sup>117</sup> Moscow has refused to ratify the charter, however, insisting that its unequal terms favor energy consumers over suppliers and that "energy security" should be defined not only in terms of supply but also as security of demand and acceptable prices for energy suppliers.<sup>118</sup>

Likewise Russia remains unwilling to agree to greater transparency and nondiscriminatory rules for all participants. Despite President Putin's assurances at the May 2006 EU-Russia Summit in Sochi that Moscow is prepared to allow Europeans access to the Russian economy's "holiest of holies, the energy area," if they take "reciprocal steps," any transit protocol on pipelines is likely to be limited or unreachable, given Moscow's aversion to relinquishing its huge advantages from national ownership or command over the dispatch, transport, and storage infrastructure for natural gas.<sup>119</sup> Moreover, given huge price differentials, Gazprom's control over pipeline access and monopoly on CIS exports adds rents to its market power as well as an incentive to discriminate among independent producers. For example, Turkmenistan sells gas to Russia at the cut-rate price of \$50 per 1,000 cubic meters and initially proposed only a \$10 increase over the 25-year life of the Turkmenistan-Russia gas supply agreement, signed in 2003.<sup>120</sup> More recently, however, Turkmenistan and Russia have been in dispute over the pricing of gas, leading to a complete halt in natural gas supplies in 2004 and Turkmenistan's insistence on a price system more in line with the resale value of natural gas in European markets.<sup>121</sup>



Despite its principled approach to the energy charter, Europe's willingness to deregulate and liberalize its energy market, let alone forge an integrated EU policy, is problematic. Some countries, such as France, prefer to protect national energy firms from competition, while Germany leans toward negotiating separate deals with Gazprom, including a direct supply of Russian gas from the construction of a 1,200 km undersea Baltic pipeline system, bypassing existing transit routes through Ukraine and Poland.<sup>122</sup> EU countries vary greatly in levels of dependency on Russian energy, with the Central Europeans, Baltic states, and Finland among the most heavily dependent on imported gas (see Table 2). For example, Finland imports 100 percent of its natural gas from Russia. Although the share of natural gas is only about 10 percent of the total energy consumption, Finland also depends on Russia for 70 percent of its oil and coal imports. Altogether, 70 percent of Finnish energy imports comes from Russia which in 2004 translated into 50 percent of total energy use. Poland imports 58 percent of its natural gas from Russia, or 13 percent of consumption; 97 percent of its crude oil, accounting for 24 percent of consumption; making domestically produced coal the largest source of Poland's energy needs, accounting for around 60 percent of consumption.<sup>123</sup> By comparison, Germany gets about one-third of its imported oil (37 percent of its consumption) and 40 percent of its gas requirements (23 percent of its consumption) from Russia, while several countries, including Spain, Portugal, Sweden, and Norway do not import any gas from Russia.<sup>124</sup>

**Major European Recipients of Russian Gas Exports, 2004.**



Source: U.S. Department of Energy (DOE), Energy Information Administration (EIA), Country Analysis Briefs, *Russia*, "Natural Gas," January 2006; BP (2005), CIS and E. European Databook, 2005.

**Table 2.**

In these varied conditions, the collective good has given way to national solutions, particularly the interests of the large European gas importers, such as Germany and Italy. When the North European Gas Pipeline was initiated by Germany, it was welcomed by the EU and much of Western Europe which faced falling production in Norway and Great Britain. As much as it affords Old Europe an alternate source of supply, Russia's temporary shut-off in January 2006 of gas transiting through Ukraine over a price dispute set off alarm bells. This dispute revealed the risk that commercial or political differences also might prompt Russia to block energy supplied directly to the West and not just indirectly as a result of clashes with transit countries, despite years of Soviet and Russian

reliability.<sup>125</sup> Unlike previous supply disruptions affecting Ukraine, Moldova, and the Baltic states, major Western customers such as Germany were affected during the cold winter of 2006 by the decrease in pressure in their pipelines. Europe's dependency suddenly became a security concern as many countries learned the hard way that, as of 2005, 73 percent of Russian natural gas began to be piped to Central and Western Europe (with the exception of Finland) through Ukraine. Moreover, the Baltic Sea pipeline to Germany, which is scheduled for completion in 2010, will reduce this volume by less than 10 percent; Ukrainian pipelines will still carry 66 percent of Russia's gas exports to Europe.<sup>126</sup> It is an open question whether Putin and some members of his administration now appreciate the shortsightedness of Gazprom's cutoff to Ukraine or were deliberately signaling Europeans that Moscow has coercive power and wants to renegotiate the terms of its relationships. In either case, nothing better illustrates Moscow's commitment problem in political and economic affairs, especially coming not long after the trial and sentencing of Yukos CEO Mikhail Khodorkovskii.

European concerns about Moscow's coercive handling of the Ukrainian crisis are complicated by that country's corruption, its profligate use of energy and frequent payment arrears, and recent failure to open and reform the energy sector, not to mention the irony of Russia and former Soviet republics in Central Asia subsidizing the independence of post-Soviet states with cheap energy for more than a decade.<sup>127</sup> What the Ukrainian gas crisis underscores is that Brussels lacks not only a unified energy policy but also a serious strategy for dealing with front-line states such as Moldova and Ukraine which, despite the Orange Revolution,

remains captured to a large degree by Russian energy interests and vulnerable to exploitation and bullying by Russia. Corrupt government and business practices long favored Russian firms. As a result, 80 percent of refining capacity in Ukraine is owned by Russia.

At a transatlantic conference in late April 2006, European Commission President Jose Manuel Barroso diplomatically highlighted such concerns without explicitly mentioning Russia or Brussels' long-standing neglect of the problem. "We are seeing more frequently the use of energy resources as an instrument of political coercion," Barroso said, just days before Vice President Dick Cheney's more blunt comments on the same issue.<sup>128</sup> Subsequently, Viktor Chernomyrdin, Russia's former Gazprom chief, Yeltsin's prime minister, and now Russian ambassador to Ukraine, affirmed that "Where there are bad political relations, good economic [affairs] just don't happen." Yushchenko's pro-Western stance, and particularly Kyiv's public intention to seek NATO membership, have harmed relations with Moscow, according to Chernomyrdin, who maintained that "politics and economics are, unfortunately, inseparable."<sup>129</sup>

In its most recent Green Paper on Energy, issued in March 2006, the European Commission acknowledges the need to take additional measures beyond the ENP and Action Plans to create a common regulatory space around Europe and a predictable and transparent market, as well as "security of supply, for the EU and its neighbours."<sup>130</sup> The EU and Ukraine agreed in a memorandum of understanding at their December 2005 Summit that Kyiv will "progressively align with EU energy legislation and rules, and gradually integrate with the EU energy market, as foreseen in the ENP Action Plan for Ukraine." The Annex to the Green

Paper further underlines the particular vulnerability of Moldova, “not only to unilateral actions from a party with monopoly status in the energy area, but also to steep and sudden increases in the pricing of energy.” Given that Moldova is also a transit country for Russian gas to Romania, Greece, and Turkey, and to the Balkans, Brussels is pursuing an agenda for cooperation on energy issues with Chisinau as part of its ENP action plan.<sup>131</sup> Such tepid first steps, however, will mean little if they are not followed with concrete actions to ensure transparency and accountability in East European energy deals. Europe’s vulnerabilities will only multiply if Russia’s quest for unconstrained monopolistic power is unchecked by international rules and market competition. EU Energy Commissioner Andris Piebalgs, who is from Latvia, readily appreciates the need for “real coordination” and “pro-active policy” on securing and diversifying gas supplies.<sup>132</sup> But it remains to be seen whether the EU has sufficient political will to pursue its collective interests, including those of its most vulnerable new members in Central Europe and the Baltic states, let alone to recognize that supporting Ukraine’s European aspirations and reforms in other borderland countries could also promote Europe’s energy security.

Also troubling for Europeans are the periodic threats by Gazprom to divert supplies to China and elsewhere as partial retaliation for being blocked from acquiring European energy assets and the move by the Kremlin to break production sharing agreements with Western energy companies for oil and gas extraction in Eastern Russia. Moscow’s new policy requires that the government retain controlling rights of at least 50 percent for strategic industries such as energy and mineral resources. Thus, Gazprom decided to develop

the Shtokman field independently and redirect a larger percentage of the gas to Europe, although Putin did not rule out the possibility of foreign firms participating in development and partial liquefaction of gas for other markets.<sup>133</sup> Russia still seeks and desperately needs Western investment in energy projects, preferring asset swapping deals similar to those with German firms in the North Sea Gas Pipeline project, but it is pressing harder for reciprocal rights to acquire utilities, pipelines, natural-gas facilities and other infrastructure in Europe and the United States. The risk of allowing Moscow a bigger foothold in the EU distribution system is that Gazprom's suppliers will not invest in alternative sources or transit means to meet rising demand, and thereby draw European countries deeper into Russia's oil and gas orbit.

At the same time, Moscow's bluster on new markets and its supposed superior bargaining position must be counterbalanced by Gazprom's critical reliance on current European profits. Sales of Russian raw materials to the EU provide needed foreign currency, about 25 percent of GDP and nearly 50 percent of the Russian federal budget. Gazprom itself sells only 30 percent of its production to Europe, reserving about 70 percent for Russia, but depends on the European market for 70 percent of its earnings because domestic prices are only 15-20 percent of the export price to Europe.<sup>134</sup>

Probably the greatest risk to Europe and corresponding incentive to pursue energy diversification more vigorously is the very real prospect that Russian capacity will be unable to meet Europe's growing demand. Russia's principal resource curse is that it lacks adequate resources for a country bent more on state control and redistribution of wealth than much needed reforms and investment.<sup>135</sup> The Russian

Energy Strategy to 2020 issued in 2003 only foresees an increase in total gas exports of some 50 million tons of oil equivalent between the years 2000 and 2020. These additional 50 million tons are not only for the EU which is forecasted to need an additional 200 million tons of oil equivalent by 2020. Moreover, the Russian strategy, which underscores problems of aging capital stock, inefficient equipment, and lack of modern technology, depends on significant investments of about \$200 billion.<sup>136</sup> The International Energy Agency projects that on average about \$11 billion per year is needed to ensure adequate export and domestic supplies, but that this is 20 percent more than current (2003) investment.<sup>137</sup>

Russia possesses 27 percent of the world's known gas reserves as well as vast oil fields. It is the world's largest exporter of natural gas and second-largest exporter of oil, after Saudi Arabia. However, after declining during the 1990s, domestic gas output is suffering from under-investment in infrastructure and new fields and is leveling off or rising only slightly. The Russian gas industry, dominated by the state-controlled Gazprom, is by most measures Russia's least reformed and perhaps most inefficient sector. Its labor unit costs were more than double the levels of 1997 and despite a drop of around 20 percent in labor productivity, wages which were four times higher than the overall industrial average before the 1998 crisis rose much faster afterwards. In 2000-04, industrial output rose by about 40 percent, crude oil output rose by 50 percent, while gas production stagnated and even had a slightly negative impact on Russia's GDP growth (1999-2004).<sup>138</sup> As a result, Russia depends more on increasing production from independent producers and cheaper foreign suppliers,

such as Kazakhstan, Turkmenistan, and Azerbaijan, to meet its expanding commitments.<sup>139</sup> As already noted, Gazprom extracts high rents from these arrangements and is determined to be the monopsonist buyer in parts of Central Asia, locking in long-term agreements with Turkmenistan and Uzbekistan and reselling the gas to Europe. However, Moscow increasingly resembles the Sorcerer's Apprentice, promising more gas exports than it realistically can deliver. At a summit in Beijing in March 2006, President Putin promised 60-80 billion cubic feet of gas to China and the Asia-Pacific region as early as 2011 through pipelines that have yet to be built.<sup>140</sup> Putin and Gazprom subsequently reassured Europe of secure supplies if Russia is allowed a foothold in downstream infrastructure. Moscow is similarly overcommitted on oil, agreeing in 2005 to build a pipeline to Nakhodka, on the Pacific, to supply multiple customers, but then in March Putin announced an extremely costly branch line also would go to China. Energy experts warn that \$70 oil prices encourage governments to act dysfunctionally, such as by blocking FDI or building uneconomical pipelines.<sup>141</sup>

Europe's energy situation also will be affected negatively by the fact that Russia, like Ukraine, is among the most energy inefficient economies in the world with respect to both households and firms and has significant transportation costs, given its large territory. Russia already is the world's third largest consumer of energy, so continued domestic economic growth is likely to add to the pressures on available supply. Russia is the second largest gas user, after the United States, despite an economy 20 times smaller, and energy use per unit of output in manufacturing is twice the rate of Western Europe. The Russian



economy uses about 500 million tons of hydrocarbons (oil and gas converted into oil equivalent) per year, which amounts to the total annual production of Saudi Arabia. Not surprisingly, Russia only exports about the equivalent of three tons of oil per capita annually which makes it unlikely that Russia will have sufficient resources for all of its economic modernization projects, not to mention the greed of state officials.<sup>142</sup> Meanwhile only independent Russian energy companies are performing well while state enterprises like Gazprom are stagnating and running high debts. Instead of using its energy wealth to invest and restructure priority sectors of the economy, the government engages in further encroachments, enriching the new oligarchs in the Kremlin and their cronies while leaving Russia vulnerable to an economic crash when energy prices finally come down. Without dramatic increases in foreign investment to develop new fields, Russia could be forced to raise domestic prices considerably higher than planned, which will dampen what Russian energy experts consider a “too high” dependence on natural gas, but also possibly cause disruptions to manufacturing.<sup>143</sup>

Walking this tightrope adds economic incentives to Moscow’s geopolitical agenda for cutting subsidized gas (in Ukraine on the level of \$3 to \$5 billion per year) and adopting across the board gas price rises to CIS countries, including Belarus. Thus Putin lectured visiting media executives in June 2006 that the West should pick up the cost if it wants Ukraine to pay below-market prices for its gas. “Why should consumers in Germany pay \$250 per thousand cubic meters and those in Ukraine \$50?” Insisting that Russia no longer would provide such subsidies, Putin asserted, “If you [the West] want to give Ukraine that kind of gift, then pay for it.”<sup>144</sup>

For the EU, there is no alternative to pursuing energy diversification as a hedge against the worst case and a prudent supplement to Russian imports. Europe must heed Winston Churchill's strategy as First Lord of the Admiralty for ensuring oil supplies to the Royal Navy after shifting its power source from coal to oil: "Safety and certainty in oil," he insisted, "lie in variety and variety alone."<sup>145</sup> Even if Europeans rethink their aversion to nuclear energy, which seems improbable outside of a few countries like France for the present, needed future energy resources will require greater external capacity, particularly given current limitations on renewable energy. According to the EU's Green Paper, "The challenge is to ensure a continued high level of diversification of supply." It lists several options although a more critical assessment is necessary. With respect to natural gas, the choices include North Africa, which cannot adequately meet Europe's demand; liquefied natural gas (LNG), which is expanding notably but is expensive and requires large investments in infrastructure and transport;<sup>146</sup> and Iran, which has the world's second largest gas reserves after Russia but is politically more dicey, currently on hold as a result of the nuclear dispute, and already has large commitments to China and India. Nonetheless EU leaders look to a quick start to the Nabucco pipeline which will cross Turkey, Bulgaria, Romania, Hungary, and Austria, and make it possible to transport gas from the Caspian region, Iran, and the Middle East to the European market with a capacity of up to 31 bcm by 2020.<sup>147</sup> Together with the United States, there is also now EU support for a Trans-Caspian pipeline to free Central Asian energy from Russian domination and to promote a more competitive and transparent market while reducing Moscow's commercial and political leverage.

The more difficult challenge for the EU is to recognize that its “special relationship” with Russia legitimates precisely the sort of myopic, bilateral deals best illustrated by the German-Russian energy cartel while fostering Moscow’s commercial and political leverage at the expense of open markets and liberal reforms. Resisting the external checks and balances and regulations associated with large international investments, the Putin administration deepens the confluence of political and business interests in Russia with its policy of renationalizations in important sectors of the economy. The grabs by the Kremlin are continuing beyond the destruction of Yukos and the government’s acquisition of a 51 percent stake in Gazprom.<sup>148</sup> Russia’s extraordinary concentration of wealth and power fuels corruption and unchecked greed while stalling economic reform and solidifying authoritarian tendencies. According to a former Russian finance minister and Gazprom board member, some “\$2 billion to \$3 billion disappears from Gazprom each year through corruption, nepotism, and simple theft.”<sup>149</sup> The tangle of Byzantine domestic politics, economic corruption, and swelling geopolitical ambitions, based on a faulty image of Russia as a petrostate,<sup>150</sup> spins a noxious web that ultimately could ensnare Russia again in backwardness when the price of hydrocarbons drops, blocking development of an open society and rule of law for many more years.

The EU let slip a signal opportunity to make inroads towards promoting energy diversification and more open markets when it endorsed Russia for WTO membership without gaining any substantial concessions on key regulatory issues, let alone a commitment to increase gas production. President Putin dismissed the EU’s feeble attempts to engage in

“arm-twisting,” with the admonishment that “Russia’s arms are getting stronger and the EU won’t succeed in twisting them.”<sup>151</sup> European leaders have been slow to question how Russia can expect to create a Common Economic Space with the EU or solve its commitment problem if it refuses to follow accepted rules of market regulation. Yet absent international pressure or a prior foundation in rule of law, arguably Russia will not wean itself off its natural-resource dependency or escape the associated curses of autocratic politics, corruption, and myth-making.<sup>152</sup> Without a more effective EU strategy, Europe may have to cope with an aggressive monopoly supplier in future energy disputes or supply disruptions caused by Russia’s economic mismanagement and criminal behavior.

Given the dangers of energy interdependence and Russia’s reliance on Europe for trade, it is paradoxical that Russia’s partnership with the EU is the weakest and least institutionalized of its three special relationships (the other two with NATO and G-8). This outcome may be traced not only to national preferences for bilateral relations but also to Europe’s persistent unwillingness to agree to deeper cooperation, given Russia’s partially reformed political and economic conditions and inability to make credible commitments.

### **Mutual Ambivalence about the Europeanization and Integration of Russia.**

Besides asymmetry and commitment problems, a third factor which underpins the EU-Russia special relationship is that both sides have ambiguous stakes in deeper cooperation. Europeans are troubled by Russia’s failure to liberalize after 1989, but in the prevailing view an increased military threat seems

unlikely to materialize. Major European powers have based their bilateral “Russia first” orientations on this assumption. Europeans acknowledge the negative impact of unrealistic expectations about the scope of change in Russia, continued ideological biases, and Western policy inconsistency.<sup>153</sup> Yet there is a hope, particularly in Western European countries, that with continued interaction and generational change, Russia may still converge to European values and norms. The incorporation of eight new members in 2004 from the former Soviet bloc has intensified the EU’s focus on problems in the new borderlands, increased the EU’s vulnerability to energy disruptions, and raised the level of concerns about Russia’s failure to democratize and resist imperial temptations. As a consequence, Brussels finds it still more difficult to produce a coherent and integrated policy towards Russia. But whatever differences exist on the modalities of cooperation, *no one in a position of authority in Brussels or the national capitals* (with the unserious exception of Silvio Berlusconi, the former prime minister of Italy) *endorses the idea of promoting Russia’s formal accession to the EU as a stimulus to dislodge its frozen reforms*. Europeans remain profoundly ambivalent about the realistic possibilities for substantive deep cooperation with Russia and strongly resist any proposal, beyond a free trade zone after Russia enters the WTO, which involves Russia’s integration into EU institutions. The EU’s special relationship with Russia is a natural outgrowth of such preferences.

With the weaker but strengthening hand, Moscow’s ambivalence is greater still, sustained not only by doubts about the benefits of integration but also by years of polarized politics and the wellspring of resentment, sense of exclusion, and anti-Western attitudes

among elites and those whose interests run counter to open markets and liberal politics. It manifests itself in contradictory policies in which Russia simultaneously pursues equal partnership and special relations with the EU, special relations with the United States, and a leading role for itself in the integration of the CIS, as well as assorted partnerships with rising powers in Asia.

Western integration was always the preferred strategy of Russia's dwindling number of liberals who tended to view relations with Russia's neighbors as of secondary importance or troublesome legacies from the Soviet past which, like Russia's antiquated military industrial complex, were best ignored. However, Russia got trapped in the early stages of reform and failed to develop democratic institutions and the rule of law while the United States and Europe avoided a commitment to full integration. Such a Western commitment would have necessitated developing a strategy to help anchor a reform-oriented Russia in the safe harbor of Western institutions. With the failure of liberalization in Russia, it was predictable that the West and Russia's liberals would become the scapegoats for the collapse of the Soviet Union as well as Russia's economic decline and imperial retrenchment in the 1990s.

Russia's political class not only shares Putin's perspective on the breakup of the Soviet Union as one of the greatest tragedies of the last century but also views the 1990s as a time of chaos when Russia, as Vladislav Surkov, the deputy head of the presidential administration, emphasized in a recent speech, "was on the verge of losing its sovereignty."<sup>154</sup> It follows that despite Putin's strong affinity for Europe and an economic modernization strategy premised on

good relations with the West, the Kremlin has not relied exclusively on the European or Western path to modernization.<sup>155</sup> The Putin administration consistently has emphasized the restoration of Russia's national power and influence and recently also shifted to a more mercantilist approach to economic development. In Russia it is no longer acceptable for large Russian corporations in strategic sectors to merge with major foreign multinational corporations and thereby lose controlling interest, as in the case of TNK-BP. Ironically, the minister of finance acknowledges that "the expansion of the state's share of the oil sector will constrain the development of this sector of the economy."<sup>156</sup> Nonetheless, under the new rules, the integration of Russia's leading economic sectors into the global economy will follow the national model in which the state controls at least 51 percent interest as in Gazprom and Rosneft and the rest is sold to a strategic partner like Ruhrgas or Westinghouse Gas or floated through initial public offerings (IPOs) in the free market.

Putin also supports large concentrations of capital and monopolies, subordinated to the Kremlin, because he sees them as levers of control, the ultimate means of political patronage and instruments of foreign policy, as demonstrated by Russia's gas distribution monopoly in Europe. Some estimates indicate that the government share of industrial output and employment is now 40 percent, up from about 30 percent in 2003. To some observers it seems as if, instead of efficiently regulating the economy, "the state owns the economy." According to a Russian economist, "even private owners know that their property rights are contingent on their relationships with the Kremlin."<sup>157</sup>

Russia's current ruling group includes a sizable number of *siloviki*, presidential cronies from St.

Petersburg as well as elites from the apparat whose attitudes broadly correlate with the direction of policy under Putin, with the notable exception that their national and foreign agenda is strongly anti-Western, especially anti-American.<sup>158</sup> Such people bitterly dismiss “the dreams about a single European economic expanse nurtured by the perestroika heroes” as naïve.<sup>159</sup> They support a strong state directing society and the economy as well as a powerful military and defense industry. This ideological orientation centers on the restoration of the traditional Russian state and requires a struggle against external and internal enemies, which include the United States and its Western allies. Thus, Surkov labored in a 2004 interview to find an appropriate way to describe Putin’s cordial relationships with American and European leaders within Moscow’s dominant anti-Western world view. Surkov resorted to distinguishing between a “good” West and a “bad” West. The former welcomes a stronger Russia as a “good neighbor and reliable ally” while the second seeks to “destroy Russia and fill its enormous geographic space with numerous unviable quasi-state entities,” relying on the help of a “fifth column” of domestic opponents for support.<sup>160</sup> Even President Putin, who continues to emphasize positive relations with Washington, was not above taking a swipe at the Bush administration in his May 2006 address to the nation, calling for more effective defense in a world where “Comrade Wolf knows whom to eat and doesn’t listen to anyone.” Not so the major European powers, who are more often part of the “good” West and ill-disposed to the use of force, when they are not unduly influenced, according to presidential aide Sergei Yastrzhembskii, by the “Russophobic” politically immature Easterners, who were “integrated into Europe with all their inferiority



complexes.”<sup>161</sup>

Putin frequently refers to how “Russia was and will remain a great power,” and reaffirms Russia’s traditional reliance on a “great, powerful and mighty state.” In his 1999 Millennium manifesto, Putin emphasized that “For Russians, a strong state is not an anomaly, which should be got rid of . . . [but rather] a guarantor of order and the initiator and main driving force of any change.” For elites who embrace a national identity which features traditional *velikhoderzhavie*, or attachment to great power status, the starkness of Surkov’s characterization is a fitting reflection of their wounded pride over Russia’s perceived loss of position at the end of the Cold War. According to a policy planner in the foreign ministry, “nothing the West is doing to help Russia join the WTO, to develop closer cooperation with the EU, to establish equal interaction with NATO, etc. . . . can be regarded as a complete and adequate compensation for the lost strategic security that took many decades to be created.”<sup>162</sup> The suggestion that the world might look different had Russia blazed a path of reform, joined Western clubs, and recovered economically is dismissed by many careerists with a mixture of incredulity and hostility at the preposterousness of such counterfactual thinking.<sup>163</sup> With power and position deemed greater virtues than virtuous circles of democratic and market reform, many Russian elites see as degrading the notion that Russia should get in line behind puny, former Soviet satellites to press for membership in an unwelcoming EU or NATO.<sup>164</sup> Such resentment underscores a firm determination that “Russia will never accept the role of a poor relation, which the West would like to impose on it.”<sup>165</sup>

In this perspective, it makes sense not only to strengthen the state, but also develop Russia’s

comparative advantage as an “energy superpower” and in other strategic industries, and reinvigorate the former Soviet space, not as a historical atavism in the Soviet mold but as a developing economic zone with Russia as its powerful center. The Russian president warned diplomats in his 2004 speech at the Russian foreign ministry that “the absence of an effective Russian policy in the CIS or even an unjustified pause inevitably will entail nothing more than energetic occupation of this political space by other, more active states.” Concern about Western encroachments into the former Soviet space initially centered on the United States and NATO’s expansion, but increasingly the EU has come under criticism for problems connected to its enlargements, democracy promotion programs, and attempts at conflict resolution in former Soviet bloc countries. As discussed above, Brussels is engaged in a range of ENP activities which Moscow sees as interference in Russia’s borderlands.

Nonetheless, it has been no easy task to find an effective strategy to promote Russia’s interests in the post-Soviet space, partly because of disagreement over what those interests should be. Opinion in Moscow was still divided in 2004, a truly *annus horribilis* for Russia when the blows from the Beslan school hostage disaster and the Ukrainian election debacle shook the confidence of the government. Three main schools of thought, ranging from neoimperial to “benevolent integrationist” and pragmatic bilateralism, dominated the debate.<sup>166</sup> Reacting to a perceived urgent need to stop the retreat from Russia’s traditional sphere of interest, the neoimperialists argued that the forces underpinning the Rose revolution in Georgia and Western orientations in other post-Soviet countries threatened the existence of the CIS. The neoimperialists

called for redoubled efforts to assert Russian dominance in the region, using all available means of political and economic influence and Russia's military presence in the former Soviet areas. The "benevolent integrationist" model holds that post-Soviet countries, due to civilizational dissimilarities and differences in values, are not a good fit for the EU. "Only Russia," asserts a Kremlin-connected analyst, can lead the process of building a *Evrovostok* – "Euro-East" – which in turn eventually will be transformed into a higher-level, Europe-wide process of integration involving western Europe.<sup>167</sup> By comparison, the "pragmatists" question the value of the "paper integration" underpinning the CIS and favor prioritizing relations with CIS countries according to Russia's national interests and conducting bilateral relations instead. Aggressive expansion of Russian capital, penetration of information markets, and a naturalization program for CIS migrants can turn Russia into a true leader and magnet for the majority of the post-Soviet countries, according to Sergei Karaganov, a leading proponent of this school.

Two democratic oriented strategies have gained almost no political traction. One is a liberal variant of the integrationist approach championed by Anatolii Chubais, the controversial architect of privatization in the Yeltsin administration and now head of the United Energy System, who has argued for a liberal empire in which private business is a powerful agent of market reforms and gradually the development of democratic government. The second strategic idea, outlined by Konstantin Kosachev, head of the State Duma's Foreign Affairs Committee, suggests that Moscow should present a "democratic alternative" to more authoritarian options, partly to counter Western

advances in the region. According to Kosachev, Russia needs a strategy that will eliminate “the widespread representation of Russia’s influence and presence in the post-Soviet space as a phenomenon which thwarts the development of democracy.”<sup>168</sup> Predictably, neither of these strategies could find support after the post-Beslan emphasis on security and further moves to centralize power. Russia could hardly be a credible exporter of democracy in the region when it has its own serious deficit of democracy at home. Just days after the Beslan atrocity, in a meeting with Western analysts Putin warned that democracy can be “counterproductive” if it is introduced too quickly or in ways not in conformity with the development of society.<sup>169</sup>

Undeterred, as 2004 was ending, Kosachev returned to the subject, warning that Russia will not out-compete Western countries and organizations in the CIS successfully if they address the people directly under the banner of democratization, while Russia is openly preoccupied with pursuit of narrow self-interests and can offer no “unifying projects.” Other commentators struggled unsuccessfully to identify values and projects that would be attractive in the region, while Karaganov squarely pinpointed the importance and attractiveness of economic success. “If we don’t have an economically viable and politically attractive model,” Karaganov bluntly warned, “other countries . . . will reorient themselves towards the EU.”<sup>170</sup>

At the CIS summit in August 2005, Putin maintained that the organization still had a future but also admitted that changes were needed, and a reevaluation was still underway. Deputy foreign minister Grigorii Karasin and other government officials signaled Moscow’s acknowledgement that it did not have a

monopoly on the post-Soviet space and realistically could not oppose the involvement of the United States or the EU in a civilized competition of ideas there. However in newspaper interviews, Karasin warned that Russia would not tolerate “forced ‘democratization’” or “color revolutions” in Russia’s borderlands, and that Western interests could never equal Russia’s in this region. Other high-ranking officials likewise declared that Russia’s aid and subsidized energy supplies would now be targeted to advance geopolitical priorities, and that Moscow would eliminate discounts to Western-oriented countries.<sup>171</sup> The move by Georgian President Mikhail Saakashvili and Ukrainian President Viktor Yushchenko in August 2005 to create a new regional organization, the Commonwealth of Democratic Choice, with the aim of uniting all democratic states in the Baltic, Black Sea, and Caspian regions, and promoting their integration into the Euro-Atlantic community, underscored the sharp divisions between CIS countries still largely within Moscow’s orbit and those seeking to break free and join the West.

### **Russia’s Multi-Vector Strategy and the Mixed Appeal of “Euro-East.”**

Faced with more acute geopolitical competition in its declared sphere of interests, the Kremlin gradually settled on a differentiated approach to the post-Soviet states that is both more bilateral and more muscular. Russian policy now would reward more powerfully friendly governments while punishing renegades. This approach was not entirely new in design, but the intention is to strengthen its implementation.

Moscow has long used a variety of inducements and coercive means to gain a hegemonic position in

the former Soviet space, from subsidizing energy and exchanging large debts for a share in the ownership of strategic industries and infrastructure to using Russian capital for major buyouts of oil refineries, banks, aluminum plants, and other key sectors and pushing for the creation of a Single Economic Space with a single policy on trade, taxes, currency, and other economic and financial activities.<sup>172</sup> Countries such as Moldova, Georgia, Belarus, and especially Ukraine owed enormous debts to Russia in relation to their state budgets, often insisted on paying in barter, and reportedly siphoned off gas illegally for their own use, prompting Russian companies to cut off gas supplies many times before the January 2006 crisis. Such mismanagement of their economies has been self-defeating financially, and made it more costly and difficult for these countries to pursue a fully independent foreign policy.<sup>173</sup> Thus, under Shevardnadze, the Georgian government was compelled to agree not to pursue NATO membership, while Yushchenko's government has been unable to break free from the stranglehold of Russian economic penetration and dependency in energy and metallurgy, in part because of the collusion of Ukrainian oligarchs and middlemen. Moscow also has exploited the Russian minority and supported separatism in Crimea to put political pressures on Kyiv.

Throughout the 1990s and during Putin's rule, Russia also has put the squeeze on aspirants for EU and NATO membership, not only in the Baltic states but also in Eastern and Southeastern Europe, in countries such as Bulgaria.<sup>174</sup> Vagit Alekperov, the president of Russia's oil giant, LUKOIL, candidly bragged in a 2001 interview on the Russian oil industry's expansion in Eastern Europe that he was "certain that Bulgaria, whose oil sector is owned almost entirely by Russian

companies, will not conduct an anti-Russian foreign policy in the foreseeable future.”<sup>175</sup> Yet Moscow was unable to draw this former close Soviet ally back into its orbit or prevent its turn toward Euro-Atlantic institutions, despite Bulgaria’s high dependency on Russian gas supplies, major Russian investments (especially during the UN’s economic embargo on Serbia which isolated Bulgaria from EU markets), and its role as a major transit juncture for energy supplies into Europe. The Putin administration has made a more concerted effort to gain control over energy transit and consumption by penetrating the gas transmission network and preventing alternative sources and routes from the Caspian. The complicated mix of energy inputs for dependent countries such as Bulgaria makes it especially difficult to increase diversification while also meeting EU regulations. For example, in 2006, Bulgaria faced simultaneous pressure from the EU to close its aging Kozlodui nuclear power plant, which uses technology similar to the ill-fated Chernobyl station in Ukraine, and from Russia over the cash pricing of gas provided in lieu of transit fees. Ironically, Moscow often has been more successful in gaining preferential treatment for Russian firms than in advancing Russia’s geopolitical interests, although this may not overly trouble the new oligarchs in the Kremlin who see the two as synonymous. Despite years of various types of coercion and inducements as well as Russian intelligence, criminal, and subversive activities, Sofia generally has resisted Moscow’s geopolitical gambits since it joined NATO and entered into accession negotiations with the EU.

Russia is even more determined not to suffer the same fate in the post-Soviet space. Thus, although many Russian elites think that the CIS is obsolete and should be eliminated, the government firmly is

committed to promoting Russia's strategic interests in Eurasia with or without this organization. According to Russian Minister of Defense Sergei Ivanov, Russia's top concern is the domestic situation of the former Soviet republics and nearby regions. In an obvious warning to the West and Russia's wayward neighbors, Ivanov emphasized that the Russian military had to be prepared to intervene in a "political or military-political conflict or process that has a potential to pose a direct threat to Russia's security, or to change the geopolitical reality in a region of Russia's strategic interest."<sup>176</sup> Moscow's strong measures in the escalation of tensions between Russia and Georgia in the autumn of 2006 indicate its firmer stance.

Without discounting the importance of such signaling, political and economic instruments of foreign policy clearly remain in the forefront of Russia's intensified *realpolitik* in the borderlands. Taking a page from the EU strategy book, Moscow is resurrecting its 1999 goal of creating a single economic space in the CIS, this time drawing on the gravitational field of Russia's growing market and the opportunities this presents for some of Russia's neighbors whose citizens find readily available work in the expanding Russian economy. According to Putin, Russia already has natural advantages in the region from the past—a single energy system, transport infrastructure, deep economic cooperation, and a common language (Russian), and it would be "simply stupid not to use them."<sup>177</sup> Although details about the newly proposed economic zones remain sketchy, some Russians envision a greater Europe in which there is a loose association,<sup>178</sup> or even a "strategic union,"<sup>179</sup> between the EU and Russia-led countries in Eurasia. At least one variant foresees overarching cooperation not



only in economics and trade, but also between the EU and NATO on one hand and the Collective Security Treaty Organization (CSTO) which includes Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and, as of 2005, Uzbekistan, on the other.

Dizzy from the success of sustained high economic growth and energy wealth, Russian officials and elites are happy to convince themselves that Russia is fast becoming an “indispensable” great power. Such confidence bolsters a familiar claim recently resurrected by Russian diplomats, namely, as Deputy Foreign Minister Vladimir Chizhov insists, “The future of Europe is impossible without Russia, without its active participation in the processes occurring on our continent.”<sup>180</sup> Chizhov went on to explain that Russia does not “regard the existing contradictions” between its EU and CIS strategies “as insurmountable” and hopes to “bring the integration processes in the post-Soviet area in sync with the course of the expanding and deepening European integration, including within the EU framework, so that they complement each other.” Similarly, leader of the Motherland nationalist party Dmitry Rogozin asserts that “building a united Europe without the largest country in Europe—Russia—is practically impossible.”<sup>181</sup>

Given the proliferation of international organizations in post-Soviet Eurasia and emergence of competing geopolitical agendas, there are obvious strategic underpinnings to the Russian debate over the “CIS project,” the CSTO, and other alternative means to promote Russia’s national interests. However, Moscow’s “multi-vector” foreign policy line reaches beyond collaborations in Europe and Eurasia to more extensive involvement in Asia, which according to some politicians, has usefully strengthened Russia’s

positions with the United States and EU.<sup>182</sup> Which vectors loom most prominently over time will help reveal the strength of competing agendas and interests in Russia's internal debate over its role in the post-Soviet space. Significantly, the strongest opponents of partnership with the EU warn that Russia's convergence to EU norms would diminish its power and "unique Euro-Asian role" and thereby derail its leadership in directing the reintegration of the CIS. As a former deputy foreign minister bluntly intones, "great powers . . . do not dissolve in integration unions – they create them around themselves."<sup>183</sup>

### **Integration with the West: An Idea Whose Time Keeps Coming.**

It is an exaggeration, however, to suggest that the Russian government and political class have fully abandoned the idea of integration into Western institutions, such as the EU, in favor of more limited and gradual economic integration into the global economy.<sup>184</sup> Strikingly, Konstantin Kosachev has remarked that "the time is already coming" to talk about Russia joining the EU. "The problem," he observes, "lies in the fact that the EU has still not determined what kind of strategic relations it wants to build with Russia, and the same can also be observed on the Russian side."<sup>185</sup> A survey in mid-2005 of leading Russian experts on relations with the EU echoed Kosachev, criticizing Russian policy for a lack of "strategic vision" of Russia's place in Europe and poor administrative execution of the administration's declared "European choice." Reflecting a strain of Putin's thinking, these experts concluded that there are no "objective insurmountable obstacles" to raising

the question of Russia's formal accession to the EU. However, to preclude unrealistic expectations and disappointment the experts recommended focusing on practical projects for a period to reverse the current negative state of relations.<sup>186</sup>

Nearly half of the Russians polled in 2005 expressed trust in the EU, and 60 percent said that Russia should seek to join—a slightly higher percentage than those who favored joining the WTO.<sup>187</sup> That May, in an interview with French television, Vladimir Putin claimed that “uniting within a single framework” is not Russia's objective “at the moment.” But invoking the experience of European countries such as Norway, the President added “at some future point, our cooperation could reach such a level that it would be almost akin to actual membership in the EU.”<sup>188</sup>

In an earlier press conference in 2004, Kosachev speculated that “10 years ago no one could imagine that Poland or the Baltic states would become EU members. I am sure that 10 years from now the prospects of Russian membership of the EU will be quite different than they are today.” Perhaps, but only 3 years later, such statements seem oddly out of place, ironically from a different era, as a stronger, more self-confident Russia, and a politically weakened, often divided Europe face diminished expectations and enthusiasm for building a closer partnership.<sup>189</sup>

## **Conclusions.**

European and Russian ambivalence about the nature and scope of their relations presently do not favor an optimal bargain in which Russia consolidates a liberal transformation and is integrated into European and Western institutions. Despite positive developments in broadening the scope of Russia's participation in

the NATO-Russia Council, Washington is even more pessimistic about the political trend line in Russia, and American politics are likely to further dampen the outlook for deepening cooperation.<sup>190</sup> However, Europeans and Americans alike should avoid excessive swings in attitudes and approaches and instead adapt to the realities of the current paradigm until and unless its underlying conditions change. European gravitas can counterbalance the psychological temptation in Russia to become enamored with a concept, such as a Russia-dominated regional association that would somehow “integrate” with the EU, not because it has a basis in reality or sound strategy but because it represents a symbol of hope that Russia is again in the game of competitive great power politics.<sup>191</sup>

In war, “the first, the supreme, the most far-reaching act of judgment that the statesman” has to make is to establish “the kind of war on which he is embarking.” This insight from Clausewitz applies equally well to understanding the framework in which the Euro-Atlantic community and Russia interact. To pretend to be engaged in a historic struggle to integrate post-communist Russia into Western institutions and the international order while actually pursuing a limited liability strategy is as senseless as it is to rush to the barricades and proclaim a new era of Cold Peace when Russia behaves like a typical monopolist in energy deals while simultaneously weakening its future economic prospects, tolerating an unreformed military, and accepting a level of political openness greater than what prevails in China. Since the end of the Cold War, Russia and the West have forged a basis for interaction which favors shallow agreements rather than Pareto optimal outcomes. The resulting special relationships endure because, for the foreseeable future, they are

capable of producing second-best outcomes that meet base-line levels of acceptability to all parties—from limited cooperation to stabilize the Balkans and limited collaboration to delay Iran's development of nuclear weapons, to expansion of trade short of the creation of a free-trade area, and deals for new pipelines and asset swaps to fuel European consumption absent open competition in energy and rule-based commercial contracts.

The West has a stake in Russia's transition to a peaceful, market democracy but needs to recognize that after 15 years of turbulent transition, neither dialogue and annual summits nor self-righteous lectures will help unfreeze Russia's domestic political status quo run by a corrupt clique motivated as much by murky concentrated interests as a dysfunctional urge to out-compete the West. Radical internal reforms, if and when they come, will be more a matter of necessity, decided by a new set of rulers, than an outgrowth of a spreading European normative structure. Moreover, although the realistic opportunity for accession has had demonstrable positive effects on domestic politics and economics in other post-communist countries, at this juncture Europe lacks the consensus and the capacity to consider even in theoretical terms the possibility of membership for Russia. If Russia undergoes its own color revolution and if a new democratic government follows up with liberal political and economic reforms, then, like Ukraine, European support for deeper cooperation will accelerate. Such a hypothetical scenario for Russia borders on fantasy at a time when the leaders of the Orange Revolution are faltering in the swamp of Ukrainian politics and Russian meddling. Nonetheless, 1989 is a lesson that the impossible sometimes materializes, and in such conditions, if

Russians start pressing aspirations to join the EU, Brussels' closed door policy could become unsustainable. For now, Europe and the United States should be candid about the origins and limits of existing arrangements and resist politicizing the special relationships with Russia so long as more optimal solutions remain out of reach.

The December 2007 deadline to renegotiate or renew the PCA presents an opportunity to undertake a systematic review of the respective stakes, benefits, and limitations of the current arrangements. Using 2007 as a stimulus, forward thinkers in Brussels and the national capitals should form working groups with their Russian counterparts in and outside of government to consider the conditions that would be necessary to shift to points along the continuum of deeper cooperation, including a new bargain which would link positive incentives to conditionality requirements. The agenda should include lessons learned from 15 years of comparative post-communist transitions and policy analysis which highlight the serious obstacles presented by the partial reform trap. As part of the nongovernment work, academics, journalists, and other independent researchers should examine the political and societal implications of perverse corruption, racketeering, and theft of assets, not only by reviled oligarchs like Khodorkovskii, but also by top government leaders and officials throughout the bureaucracy. There is also value in systematic analysis drawing on empirical comparisons of alternative frameworks for interaction in Europe—Europe Agreements for EU accession countries, European Neighborhood Action Plans, and Partnership Agreements (i.e., Special Relationships) such as between the EU and Russia. Ongoing engagement on these issues cannot be expected to

promote immediate changes in policy but will provide more realistic assessments of tradeoffs and an analytical base for future decisionmakers.

In the interim, the United States should continue to support its transatlantic partners in the EU's engagement with Russia on resolving "frozen conflicts" in their new neighborhood. Propinquity favors a division of labor in which Europe takes the lead, although more will be gained from a consistent transatlantic line which shows resolve in promoting outcomes consistent with Western and European values and interests. An important part of the work involves encouraging Moscow to resist becoming attached to the fallacy that outcomes in Montenegro and Kosovo are universal precedents applicable to places like Transdnistria, Abkhazia, and South Ossetia, trumping alternative peaceful solutions to problems involving separatist struggles and minority rights as evidenced for example in Quebec, the Basque region of Spain, and, even more recently, in Northern Ireland.

A second convergence of transatlantic interests concerns the vital matter of energy security. With oil breaking \$70 per barrel and higher gas prices, the energy factor is no longer underestimated in relations with Russia. Even at \$60 a barrel, the United States will spend about \$4,320 billion on oil imports annually, and in 25 years the world will need 50 percent more energy than it does now.<sup>192</sup> Europe and the United States have a common interest not only in energy conservation, but also in diversification of supply, given most of the world's energy is concentrated in places that are politically antagonistic or unstable, vulnerable to terrorism, or, like Russia, lacking secure property rights and unable to make credible commitments as suppliers.

In advance of the G-8 Summit in St. Petersburg, European Commission President Jose Manuel Barroso called for the EU and the United States to work together to press Moscow to open its energy market and create transparency and legal guarantees to ensure predictable energy supplies. Warning about the frequent “use of energy resources as an instrument of political coercion,” Barroso argued that “[t]ogether, the EU and the United States must send a clear signal on the need for a paradigm shift on energy.”<sup>193</sup> Unfortunately, the status quo is not likely to be dislodged by diplomacy alone. The EU, as energy commissioner Piebalgs has emphasized, must achieve greater unity and a coherent strategy to promote Europe’s energy security.<sup>194</sup> Second, Europeans, with U.S. support, need to send a credible signal to Russia that they are prepared to underwrite the costs of greater energy diversification. Only a united front and concerted action are likely to prod Moscow towards accepting greater transparency and international rules of commerce.

Mesmerized by extraordinarily high energy prices, Russia’s rulers are consumed by the politics of controlling the distribution of rents rather than problems related to production and investment.<sup>195</sup> But the energy bubble will not last forever, and when the end comes, Russia likely will face serious economic and political crises if it has not yet created secure property rights. Economic shocks of this order can create openings for progressive political change or for destabilizing aggressive nationalism that will positively or negatively impact Russia’s relations with the West. Europe and the United States need to be prepared to support opportunities to promote deeper cooperation or contain the damage and, to the extent possible, to limit the ability of hostile nationalist groups to exploit



the international situation to further their domestic political ambitions.

If the argument developed in this monograph is correct, progressive movement away from the special relationships that now underpin the partial integration equilibrium presupposes a narrowing of the asymmetries and distributional disputes which divide the two sides, a positive resolution of Russia's commitment problem, and a stronger consensus in both Russia and Europe on the value of Russian integration. Without discounting the long-term prospects, those who expect near-term forward movement in any of these dimensions are just whistling in the dark.

## ENDNOTES

1. Michael McFaul, "Russia and the West: A Dangerous Drift," *Current History*, Vol. 104, October 2005, pp. 307-312.

2. Zbigniew Brzezinski, "Living with Russia," *The National Interest*, No. 61, Fall 2000, p. 16. Cf the subsequent commentary by Stephen Sestanovich on "Where Does Russia Belong?" *The National Interest*, No. 62, Winter 2000/2001, which emphasizes the normative value attached since 1989 to integrating Russia into Western institutions.

3. Dmitri Trenin, "Russia Leaves the West," *Foreign Affairs*, Vol. 85, No. 4, July-August, 2006, pp. 87-96.

4. Russia, of course, is a full member of the OSCE and the Council of Europe, although its status in the latter was put in jeopardy in the 1990s as a result of the first Chechen war. With respect to the G-7/G-8, the Clinton administration pushed to include Russia in part of the program of the summits as a side-payment for accepting NATO enlargement and a stimulus for liberal reform. However, when it became clear that Russia would become a regular participant, Treasury Secretary Robert Rubin made it clear that the G-7 would have to reconstitute itself to do its important financial business outside of the new G-8 process (author's interviews in Moscow and Washington, 2005).

5. For a similar argument about the conundrum of attempting to modernize in the absence of democracy or Western integration, see especially the editors' introduction in Alexander Motyl, Blair A. Ruble, and Lilia Shevtsova, eds., *Russia's Engagement with the West: Transformation and Integration in the Twenty-First Century*, Armonk, NY: M. E. Sharpe, 2005.

6. Javier Solana, "The EU-Russia Strategic Partnership," Stockholm: Council of the European Union, October 13, 1999.

7. "Joint Statement on EU Enlargement and EU-Russia Relations," Brussels: European Commission, April 27, 2004.

8. Stephan De Spiegeleire, "Europe's Security Relation with Russia: Staying the Course," in Dmitri Trenin, Stephan De Spiegeleire, and Angela Stent, "Russia's Security Policy and EU-Russian Relations," ESF Working Paper No. 6, March 2002.

9. See, for example, Sarah E. Mendelson and Theodore P. Gerber, "Failing the Stalin Test," *Foreign Affairs*, Vol. 85, No. 1, January/February 2006, pp. 2-8.

10. For insightful accounts, see M. Steven Fish, *Democracy Derailed in Russia. The Failure of Open Politics*, New York: Cambridge University Press, 2005; Michael McFaul, "The Fourth Wave of Democracy and Dictatorship: Noncooperative Transitions in the Post-communist World," *World Politics*, Vol. 54, No. 2, 2002, pp. 212-244; and Lucan Way, "Authoritarian State Building and the Sources of Political Competition in the Fourth Wave: The Cases of Belarus, Moldova, Russia, and Ukraine," *World Politics*, Vol. 57, No. 2, January 2005, pp. 231-261.

11. Valerie Bunce, "Rethinking Recent Democratization, Lessons from the Post communist Experience," *World Politics*, Vol. 55, No. 2, 2003, pp. 167-192; McFaul, "The Fourth Wave;" and European Bank for Reconstruction and Development (EBRD) Transition Reports.

12. Russia's voting rights were restored in 2001 after agreement to establish a task force on restoring peace in Chechnya. Nothing significant resulted, and both the European Court of Human Rights and the Parliamentary Assembly of the Council took up cases involving torture, executions, and other human rights violations by Russian troops. See Pamela A. Jordan, "Russia's Accession to the Council of Europe and Compliance with European Human Rights Norms," *Demokratizatsiya*, Vol. 11, No. 2, Spring 2003; *idem*, "Does Membership have its privileges?: Entrance into the Council

of Europe and Compliance with Human Rights Norms," *Human Rights Quarterly*, Vol. 25, No. 3, August 2003, pp. 660-688; and William D. Jackson, "Russia and the Council of Europe: The Perils of Premature Admission," *Problems of Post-Communism*, Vol. 51, No. 5, September/October 2004, pp. 23-33.

13. Jeffrey T. Checkel, "International Institutions and Socialization," ARENA Working Paper, Vol. 99, No. 5; and Sarah E. Mendelson, "Russians' Rights Imperiled. Has Anybody Noticed?" *International Security*, Vol. 26, No. 4, Spring 2002, pp. 39-69.

14. James D. Fearon, "Bargaining, Enforcement, and International Cooperation," *International Organization*, Vol. 52, No. 2, 1998, pp. 268-305.

15. Stephen D. Krasner, "Global Communications and National Power: Life on the Pareto Frontier," *World Politics*, Vol. 43, No. 3, April 1991, pp. 336-366; and Lloyd Gruber, *Ruling the World: Power Politics and the Rise of Supranational Institutions*, Princeton: Princeton University Press, 2000.

16. The concept of "partial integration" is not specified clearly in international relations theory. It may take the form of a relationship between a powerful victor or coalition of great powers and their weakened defeated adversary, arising when the victors seek to lower the costs and risks of filling political vacuums and expanding their superior position to lock in gains at the expense of their former adversary. For an examination in the Russia-NATO context, see Cynthia Roberts, "Russia and NATO: Explaining the Sources of Partial Integration," Paper presented at the ISA Annual Convention, Honolulu, Hawaii, March 1-5, 2005. Although, unlike the United States the EU has been a reluctant expansionist, it is worth noting that the temptation to expand positions and influence is the norm in international anarchy. As Randall Schweller underscores: "Hegemonic postwar junctures are precisely when great powers, especially the leading state, can be expected to expand, not bind, their power." Randall L. Schweller, "The Problem of International Order Revisited," *International Security*, Vol. 26, No. 1, Summer 2001, p. 174. See also Robert Gilpin, *War and Change in World Politics*, New York: Cambridge University Press, 1981; Eric J. Labs, "Beyond Victory: Offensive Realism and the Expansion of War Aims," *Security Studies*, Vol. 6, No. 4, Summer 1997, pp. 1-49; and John J. Mearsheimer, *The Tragedy of the Great Power Politics*, New York: Norton, 2003.

17. Initially the United States and its allies compensated Mikhail Gorbachev for Soviet concessions primarily with enhanced international prestige to mask the gross imbalance in power. See Philip Zelikow and Condoleezza Rice, *Germany Unified and Europe Transformed: A Study in Statecraft*, Cambridge: Harvard University Press, 1995; and Randall L. Schweller and William C. Wohlforth, "Power Test: Evaluating Realism in Response to the End of the Cold War," *Security Studies*, Vol. 9, No. 3, Summer 2000, pp. 60-107.

18. Cynthia Roberts, "Russia and NATO: The Limits of Partial Integration," *Aktualnye problemy Evropy (Urgent Problems of Europe)*, No. 4, 2004, pp. 87-113; and *idem*, "Russia and NATO."

19. On two-level games, see Robert D. Putnam, "Diplomacy and Domestic Politics: The Logic of Two Level Games," *International Organization*, Vol. 42, No. 3, 1988, pp. 427-460.

20. Jon C. Pevehouse, "Democracy from the Outside-In? International Organizations and Democratization," *International Organization*, Vol. 56, No. 3, 2002, pp. 515-549; and Fearon.

21. Robert O. Keohane and Helen V. Milner, *Internationalization and Domestic Politics*, Cambridge: Cambridge University Press, 1996; Frank Schimmelfennig, *The EU, NATO and the Integration of Europe*, Cambridge: Cambridge University Press, 2003; and Jeffrey T. Checkel, "International Institutions and Socialization," ARENA Working Paper, 05/1999, March 3, 2004.

22. Heather Grabbe, "Challenges of EU Enlargement," in Anatol Lieven and Dmitri Trenin, eds., *Ambivalent Neighbors: The EU, NATO and the Price of Membership*, Washington, DC: Carnegie Endowment for International Peace, 2003, p. 67.

23. Stephen Haggard, Marc A. Levy, Andrew Moravcsik, and Kalypso Nicolaidis, "Integrating the Two Halves of Europe: Theories of Interests, Bargaining and Institutions," in Robert Keohane, Joseph S. Nye, Jr., and Stanley Hoffmann, eds., *After the Cold War: International Institutions and States Strategies in Europe: 1989-1991*, Cambridge: Harvard University Press, 1993, p. 185.

24. Milada Anna Vachudova, "The Leverage of International Institutions on Democratizing States: Eastern Europe and the European Union," European Union Institute Working Paper, 2000; and *idem*, *Europe Undivided: Democracy, Leverage, and Integration After Communism*, New York: Oxford University Press, 2005.

25. *Ibid.* and *idem*, "The Czech Republic: The Unexpected Force of Institutional Constraints," in Jan Zielonka and Alex Pravda, eds, *Democratic Consolidation in Eastern Europe*, London: Oxford University Press, 2001, pp. 325-362.

26. *Ibid.*, 2005; Valerie Bunce, "Rethinking Recent Democratization, Lessons from the Post communist Experience," *World Politics*, Vol. 55, No.2, 2003, pp. 167-192; and M. Steven Fish, "Post communist Subversion: Social Science and Democratization in East Europe and Eurasia," *Slavic Review*, Vol. 58, No. 4, Winter 1999, pp. 794-823.

27. A study in 1997 by the Centre for Economic Policy Research estimated that accession of countries of Central and Eastern Europe—even in a conservative scenario—would bring an economic gain for the EU-15 of € 10 billion, and for the new members of € 23 billion. R. Baldwin, J. F. François, and R. Portes, "The Costs and Benefits of Eastern Enlargement," *Economic Policy*, Vol. 12, 1997, pp. 125-176.

28. Haggard, *et al.*, "Integrating the Two Halves of Europe," p. 185.

29. See EBRD Transition Reports.

30. Joshua A. Tucker, Alexander C. Pacek, and Adam J. Berinsky, "Transitional Winners and Losers: Attitudes toward EU Membership in Post-Communist Countries," *American Journal of Political Science*, Vol. 46, No. 3, 2002, pp. 34-43. But there were still exceptions for countries below the level of Greece. See the series of EBRD Transition Reports.

31. Vachudova, *Europe Undivided*, p. 143.

32. *Ibid.*, chs. 6, 7; and Paul Kubicek, ed., *The European Union and Democratization*, New York: Routledge, 2003.

33. Vachudova, *Europe Undivided*, p. 186; and Kubicek, *The European Union and Democratization*.

34. Jeffrey Kopstein and David Reilly, "Geographic Diffusion and Transformation of the Post-Communist World," *World Politics*, Vol. 53, No. 1, pp. 1-37, at p. 28.

35. Vachudova, *Europe Undivided*, p. 234.

36. The early candidates for EU accession attracted a high level of Foreign Direct Investment (FDI) per capita, which is related not only to their advanced stage of economic liberalization but

also to the real prospect of EU membership. Oleh Havrylyshyn, "The Impact of EU Enlargement on Countries Beyond the New Frontiers," in Michael Landesmann and Dariusz Rosati, eds., *Shaping the New Europe: Economic Policy Challenges of European Union Enlargement*, London, 2004, ch. 13.

37. Anders Åslund and Nazgul Jenish, "The Eurasian Growth Paradox," conference paper, 2005. Note these countries also are running budget deficits of about 6 percent of GDP, violating the Maastricht restriction that is supposed to limit budget deficits to 3 percent of GDP. Unlike Ireland, the member of the EU with the highest GDP per capita, new members are compelled to accept all the social provisions of EU rules and cannot opt out to allow for more flexible labor laws, for example.

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41. European Commission, EU's Relations with Russia, "Agreement on Partnership and Cooperation," available at [www.eu.int/comm/external\\_relations/ceeca/pca/pca\\_russia.pdf](http://www.eu.int/comm/external_relations/ceeca/pca/pca_russia.pdf).

42. Timofei Bordachev, "Toward a Strategic Alliance," *Russia in Global Affairs*, Vol. 4, No. 2, April-June 2006; and *idem* and Arkady Moshes, "Is the Europeanization of Russia Over?" *Russia in Global Affairs*, Vol. 2, No. 2, April-June 2004; Dov Lynch "Russia's Strategic Partnership with Europe," *Washington Quarterly*, Vol. 27, No. 2, Spring 2004, pp. 99-118; *idem*, *Russia Faces Europe*, Chaillot Paper No. 60, Paris: European Institute for Security Studies, 2003; I. Leshukov, "Beyond Satisfaction: Russia's Perspective on European Integration," ZEI Discussion Paper 26, Bonn: ZEI; and author's interviews in Russia, 2002, 2003, 2005.

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44. Joel S. Hellman, "Winners Take All: The Politics of Partial Reform in Post-communist Nations," *World Politics*, Vol. 50, No. 2, 1998, pp. 203-234.

45. Peter Boone and Denis Rodionov, "Reformed Rent-Seekers Promoting Reform?" *Moscow Times*, August 23, 2002; "Moscow's Group of Seven," *Financial Times*, November 1, 1996, p. 17; David E. Hoffman, *The Oligarchs*, New York: Public Affairs, 2003; *Kommersant*, "Who Owns Russia?" Moscow: Vagrius, 2003.

46. Hellman, "Winners Take All"; Joel S. Hellman and Mark Schankermann, "Intervention, Corruption and Capture," *Economics of Transition*, Vol. 8, No. 3, 2000, pp. 295-326; Joel S. Hellman, Geraint Jones, and Daniel Kaufman, "Seize the State, Seize the Day: State Capture and Influence in Transition Economies," *Journal of Comparative Economics*, Vol. 91, 2000, pp. 751-753; and Thomas Graham, Jr., *Russia's Decline and Uncertain Recovery*, Washington, DC: Carnegie Endowment for International Peace, 2002.

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48. Timothy Frye, "Credible Commitment and Property Rights: Evidence from Russia," *American Political Science Review*, August 2005; and Alberto Alesina and Allan Drazen, "Why Are Stabilizations Delayed?" *American Economic Review*, Vol. 81, 1991, pp. 1170-1188.

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50. The Common Strategy instrument was created by the Amsterdam Treaty as the means of setting out the objectives, overall policy guidelines, organization and duration of the EU's external policies towards geographic or thematic areas. The EU's 1999 Common Strategy on Russia was its first. European Council, *Common Strategy of The European Union of June 4, 1999, on Russia*

(1999/414/CFSP), Official Journal of the European Communities, available at [europa.eu.int/comm/external\\_relations/ceeca/com\\_strat/russia\\_99.pdf](http://europa.eu.int/comm/external_relations/ceeca/com_strat/russia_99.pdf).

51. Letter from Right Hon. Denis MacShane, MP, Minister for Europe, Foreign, and Commonwealth Office to the Chairman, available at [www.parliament.the-stationery-office.co.uk/pa/ld200506/ldselect/lddeucom/16/16128.htm](http://www.parliament.the-stationery-office.co.uk/pa/ld200506/ldselect/lddeucom/16/16128.htm).

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53. Ziya Onis, "Diverse but Converging Paths to European Union Membership: Poland and Turkey in Comparative Perspective," *East European Politics and Societies*, Vol. 18, No. 3, 2004, pp. 481-512.

54. Kubicek, *The European Union and Democratization*, p. 210.

55. Jan Zielonka and Alex Pravda, eds., *Democratic Consolidation in Eastern Europe*, Vol. 2: *International and Domestic Factors*, New York: Oxford University Press, 2001; Frank Schimmelfennig, et al., "Costs, Commitment and Compliance: The Impact of EU Democratic Conditionality on Latvia, Slovakia, and Turkey," *Journal of Common Market Studies*, Vol. 41, No. 3, 2003; Ziya Onis, "Diverse but Converging Paths to European Union Membership: Poland and Turkey in Comparative Perspective," *East European Politics and Societies*, Vol. 18, No. 3, 2004, pp. 481-512. There is an extensive, growing literature on international influences on democracy promotion. See also Levitsky and Way; Phillippe C. Schmitter, "The Influence of the International Context upon the Choice of National Institutions and Policies in Neo-Democracies," in Laurence Whitehead, ed., *The International Dimension of Democratization: Europe and Americas*, London: Oxford University Press, 1996; Geoffrey Pridham, et al., eds., *Building Democracy? The International Dimension of Democratisation in Eastern Europe*, London: Leicester University Press, 1997.

56. V. Surkov, "General'naya liniya" ("The General Line"), *Moskovskie novosti*, Vol. 7, No. 1324, March 3-9, 2006, pp. 10-11; and



March 10-16, 2006, Vol. 9, No. 1325; and Sergei Ivanov, "Russia Must Be Strong," *Wall Street Journal*, January 11, 2006.

57. *Ibid.*

58. Thomas Carothers, "The Backlash Against Democracy Promotion," *Foreign Affairs*, Vol. 85, No. 2, March/April 2006, pp. 55-68.

59. Kubicek, *The European Union and Democratization*, p. 210.

60. This interpretation is closer to one argued by Paul Kubicek than the analysis of Kevin Krause. See both in Kubicek, *The European Union and Democratization*.

61. Onis, "Diverse but Converging Paths."

62. Taras Kuzio, "EU and Ukraine: A Turning Point in 2004?" Occasional Paper, No. 47, Paris: European Union Institute for Security Studies, March 2003.

63. *International Herald Tribune*, September 9, 2004.

64. Is Russia a European state? The sole condition for a country to apply to join the European Union was laid down by the Treaty of Maastricht (or the Treaty of the European Union, 1992) and holds that the applicant must be a 'European State'. There is no explicit interpretation of this criterion and can be considered in geographical, cultural, or political terms. Thus, the Council rejected a 1987 application from Morocco to become a member on the grounds that Morocco was not a European State. By comparison, Cyprus, geographically an island in Southwest Asia, has extensive historical, cultural, and political ties to Europe and entered the EU in 2004. Whether Turkey is a European country, given that only 3 percent of its territory lies in Europe and its population is more than 90 percent Muslim, is a controversial question. On the other hand, Turkey has historically been part of European diplomacy, it is strategically important, and a member of NATO. Article 28 of the Association Agreement signed in 1963 includes the option of Turkey eventually joining the EU, and Ankara in fact lodged an application to accede in 1987. The European Parliament, Council, and Commission confirmed Turkey's eligibility, and the EU formally started accession negotiations with Ankara in 2005. These examples show that the term "European State" is as much subject to political as it is geographical assessment. On Turkey, see Council Decision of October 1, 1987, cited in *Europe Archives*, Z 207; EP resolution Doc. A4-0368/97, 4.12.1997, recital S and para. 31; Luxembourg European Council of 12-13.12.1997,

Presidency's Conclusions, para. 31; Commission opinion of 18.12.1989, SEC(89)2290 final; Commission communication to the Council, *European Strategy for Turkey – Initial Operational Proposals by the Commission* COM(98)0124 final, 4.3.1998. Cited in European Parliament. Briefing No 23, Legal questions of enlargement, available at [www.europarl.eu.int/enlargement/briefings/23a2\\_en.htm](http://www.europarl.eu.int/enlargement/briefings/23a2_en.htm).

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76. See, for example, V. Chizhov, "Russia-EU Cooperation: The Foreign Policy Dimension," *International Affairs*, 2005, pp. 134-138; and K. Kosachev, "Russia Between the European Choice and Asian Growth," *International Affairs*, 2006, pp. 1-9; Sergei Lavrov, "The Foreign Policy Outcomes of 2005: Reflections and Conclusions," Unofficial translation from Russian, Russian Ministry of Foreign Affairs, December 28, 2005; and Alexander Grushko, "The Euro-Atlantic Vector of Russian Foreign Policy," Unofficial translation from Russian, Russian Ministry of Foreign Affairs, December 27, 2005.

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