

## The Price of Brotherly Love

### WHAT WILL RUSSIA LOSE FROM INTEGRATING UKRAINE?

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Russia's hard push for Ukraine's integration into the Customs Union (CU) has reached a watershed moment. During an April 2013 press conference, Russian President Vladimir Putin hinted that Moscow's sales pitch was complete and noted, "The ball is now in our partner's court." In reality, the integration ball is still in the hands of the European Union, which soon has to decide whether to ratify an Association Agreement (AA) and Deep and Comprehensive Free Trade Agreement (DCFTA) with Ukraine during the upcoming Eastern Partnership Summit in November 2013. As the Kremlin made clear, the signing of the AA and the creation of a Free Trade Area (FTA) with the EU will make it impossible for Ukraine to join the CU. However, if Ukrainian President Viktor Yanukovich refuses to make further concessions to the West on the issue of "selective prosecution of the opposition," the EU may postpone the signing of the AA until after Ukraine's next presidential election. This will give the Kremlin at least another year to lure Ukraine into its economic alliance. Russian Prime Minister Dmitry Medvedev interpreted Ukraine's signing of a Memorandum with the Eurasian Economic Commission on May 31 as the "first step" in its accession to the future Eurasian Economic Union.

There are good reasons, however, for the Russian authorities to be more circumspect in promoting Ukraine's integration into the CU. The political costs of this move might turn out to be much higher for Russia than any symbolic or material gains it can obtain. This memo analyzes the possible political implications of Ukraine's membership in the CU. It argues that Russia's strategy to regain regional dominance will be successful only if Ukraine remains outside of its integration arrangements.

#### **What's In It for Russia?**

According to the newly adopted Foreign Policy Concept of the Russian Federation, Moscow views Ukraine as a "priority partner in the CIS" that should be further engaged in "deeper integration projects." Russia's economic gains from treating Ukraine as a

priority country, however, are minimal. A 2012 report by the Center for Integration Studies, which is affiliated with the Eurasian Development Bank, and co-authored by economists of the Russian and Ukrainian Academies of Sciences, concluded that Ukraine's accession to the CU will have only a marginal positive effect on Russia's economic growth, adding only about 2 percent to its GDP by 2030.<sup>1</sup> Similarly, Russia will not suffer any economic losses if Ukraine enacts a FTA with the EU. This indicates that the Kremlin pursues largely symbolic goals in its drive for closer economic integration with Ukraine. If Ukraine opts for integration with the CU, it will bring Russia closer to regaining the coveted status of a major world power. The move would also give Russia additional levers of influence over political and economic processes inside Ukraine, which would ensure that its future leadership remains on good terms with Moscow. Finally, Putin may also view it through the prism of his personal political legacy and see it as an important part of his re-election platform in 2018. With Ukraine closely tied to Russia, he could claim the title of a new "gatherer of the Russian lands."

Ukraine's membership in the CU, however, would come at a major price for Russia. The estimated financial loss to the Russian state budget from integrating Ukraine amounts to \$10-12 billion annually. This will result from offering Ukraine a subsidized gas price (~\$6 billion in losses), eliminating export duties on oil (~\$4 billion in losses), and compensating Ukraine for WTO sanctions (~\$1.9 billion in losses). The total cost amounts to more than half of Russia's current annual expenditures on education or two-thirds of its annual expenditures on health care. Immediate economic costs are only one type of negative externality that Russia needs to account for in case Ukraine joins the CU. In fact, political risks and foreign policy setbacks that may follow Ukraine's entrance into the CU could outweigh any potential benefits that Moscow would hope for.

### **Political Risks**

Political risks from Ukraine's membership in the CU stem from three factors. First, Ukrainian public opinion remains sharply divided about the direction of Ukraine's integration. According to a March 2013 poll, 38 percent of respondents favor joining the CU while 41 percent endorse an FTA with the EU.<sup>2</sup> Every fifth Ukrainian is still undecided on the direction of integration. At the same time, neither side feels any particular urgency regarding Ukraine's integration course, with two-thirds saying the top priority should be "to put the country in order" before joining any organization. Second, there is a long-standing and broad consensus among Ukraine's political elite that integration with the EU is in the country's vital national interests. The goal of EU membership has been a cornerstone of Ukrainian foreign policy since 1995 and remains

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<sup>1</sup> "Kompleksnaia otsenka makroekonomicheskogo effekta razlichnykh form glubokogo ekonomicheskogo sotrudnichestva Ukrainy so stranami Tamozhennogo Soyuzha I Edinogoekonomicheskogo prostranstva v ramkah EvrAzEs," *Tsentr Integratsionnykh Issledovaniy* (St. Petersburg, 2012): <http://www.eabr.org/r/research/analytics/centre/projects/ukraine/> (last accessed: April 26, 2013).

<sup>2</sup> "Na rozdorizhzhni abo intehratyini rebusy," *Sotsiologichna Grupa "Reityng,"* April 2013: [http://ratinggroup.com.ua/upload/files/RG\\_Ukraine\\_Vektor\\_042013\\_pres.pdf](http://ratinggroup.com.ua/upload/files/RG_Ukraine_Vektor_042013_pres.pdf) (last accessed: April 26, 2013).

irreconcilable with membership in the CU. Third, some of Yanukovich's earlier policies have strongly alienated many voters in Western and Central Ukraine, which, in turn, has resulted in the rising popularity of the radical nationalist party *Svoboda*. These three factors substantially raise the political risks for Russia associated with Ukraine's CU membership.

#### *The Risk of Anti-Incumbent Nationalist Mobilization*

As political scientist Lucan Way has noted, by framing national identity in anti-incumbent terms the opposition in hybrid regimes may facilitate popular mobilization in the absence of civil society. Abrupt reversal of Ukraine's foreign policy priorities in favor of closer economic ties with Moscow would allow the opposition to portray the current authorities as Kremlin puppets and could fuel mass unrest to prevent Ukraine's drift to Russia. Ukrainian youth are likely to spearhead protests given that Ukrainians in the 18-29 age group prefer European integration to the CU by a 25 percent margin (53 percent against 28 percent). Broad public mobilization would seriously threaten the stability of Yanukovich's regime and his re-election prospects in 2015. He could also face a more cohesive opposition since resistance to "reunification with Russia" will serve as a focal point for the coordination of disparate opposition parties. The promise of a return to the European path is a specific and credible benefit that the opposition could offer to maintain mobilization. According to the latest poll, most Ukrainians associate European integration with personal and tangible benefits such as the ability to travel (55 percent) and access to new jobs (53 percent). By contrast, integration with Russia is viewed mainly through the prism of collective benefits, such as a lower gas price (63 percent) and closer people-to-people ties (50 percent). Hence, the strength of counter-mobilization is likely to be low. Furthermore, by contrasting their pro-European aspirations with the pro-Russian priorities of the incumbents, the opposition is likely to attract undecided voters with no political attachment. Thus, Ukraine's integration into the CU is likely to facilitate the political comeback of pro-Western forces by serving to undermine the regime, which, overall, remains friendly to Moscow.

#### *The Risk of Bilateral Instability*

Apart from protest mobilization, Ukraine's entrance into the CU is likely to generate an intense counteraction by nationalist groups targeting Russia's political and economic interests in Ukraine. This counteraction may range from peaceful subversive methods, like boycotting Russian goods and services, to potentially violent and costlier activities against Russian assets on Ukraine's territory. Apart from doing economic damage, the opposition may also threaten Russia's security interests. All opposition leaders already promised to annul the Kharkiv Accords, which extended Russia's lease of Sevastopol for stationing its Black Sea Fleet until 2042. Ukraine's integration into the CU will further strengthen the perception of a threat to the country's sovereignty emanating from Moscow and increase the likelihood that the accords will be rejected if the opposition comes to power in 2015. The reinstatement of the earlier treaty would require Russia to withdraw all of its troops from Ukrainian territory by 2017. Moscow's refusal to abide

by this timeframe will produce a major bilateral confrontation that could destabilize the Crimean peninsula and raise serious security concerns among the countries of the Black Sea region.

#### *The Russian Ethnic Minority*

When choosing between the EU and the CU, Ukraine's public opinion is divided primarily along ethnic lines. Those who speak Ukrainian as their first language prefer joining the EU over the CU by a margin of 57 to 23 percent (a 34-point gap). By contrast, exclusively-Russian speakers (regardless of ethnicity) favor joining the CU by a margin of 61 to 19 percent (a 42-point gap). Ethnic Russians advocate economic integration with Russia by an even larger margin of 47 points (64 to 17 percent). Neither location nor education nor age shows such a strong influence as identity markers over the respondents' choice. A shift in foreign policy priorities from the EU to the CU is likely to generate major linguistic or ethnic polarization that could well turn violent. This would be particularly threatening to ethnic Russian minorities in predominantly ethnic Ukrainian regions where there is a history of military resistance to the Soviet occupation. Therefore, ironically, if it achieves its CU foreign policy goals, Russia could undermine one of its other key priorities—the protection of the Russian-speaking diaspora in neighboring states.

#### **Foreign Policy Setbacks**

Any short-term foreign policy gains that Russia may reap from luring Ukraine into the CU may be offset by more considerable losses that would undermine its dominance in the region and produce serious strategic setbacks. These losses include heightened political tensions with the West, a weakening of its regional integration plans, and further enlargement of NATO to its borders.

#### *Cold War Redux*

U.S. Secretary of State Hillary Clinton's departing remarks about Russia's attempts to "re-Sovietize the region" under the guise of economic integration summarized the Western view of Moscow's integration projects. Her warning that the United States was determined to thwart Russian actions indicated the seriousness with which Russia's actions are treated in Western capitals. Clearly, the matter of Ukraine's participation in the CU would be of major concern for Western leaders due to its economic size and geopolitical significance. Western strategic thinking on Ukraine has long been dominated by Zbigniew Brzezinski's maxim that "without Ukraine, Russia ceases to be an empire, but with Ukraine suborned and then subordinated, Russia automatically becomes an empire." Supplying Ukraine with natural gas at a major discount in exchange for CU membership will be seen in the West as the first stage of Ukraine's gradual reabsorption into Russia's political sphere of influence. It would also be viewed as a sign of a major progress toward the Kremlin's goal of reclaiming its superpower status. Encouraging Ukraine's withdrawal from the CU would then become a top priority for Western policy in the region. Western states would pursue this objective by

taking a tougher political line against the current authorities who are already complicit in numerous democratic violations and by offering financial assistance to civil society and opposition groups in Ukraine. Given the high stakes for both sides, the intensity of a renewed competition between Russia and the West for influence in the area would surpass the levels of their clashes prior to the Orange Revolution. Another East-West confrontation would seriously hinder Russia's goal of maintaining a cooperative relationship with the EU and hinder cooperation in the security realm with the United States.

#### *Weakening of Regional Integration*

Uncertainty about the strength and duration of Ukraine's commitment to the CU would have a negative impact both on dynamics within the CU and on Russia's long-term integration plans. Since the prospects of Ukraine's continued membership will depend on Yanukovich's survival in office, other CU members are unlikely to agree to any long-term cooperative economic projects with Ukraine. Doubts about the length of Ukraine's membership may also be used to justify maintaining temporary trade barriers or introducing certain trade restrictions. Ukraine's eventual withdrawal from the CU could weaken cohesion within the nascent trading bloc. It may have a particularly strong demonstration effect on Kazakhstan given the volatility of domestic support for the CU there and the growing attraction of China as an alternative trade partner to Russia. It will also expose the weakness of Russia's actual influence in the region and will become a blow to its aspirations for regional hegemony.

#### *NATO's Renewed Enlargement*

Ukraine's integration with the CU could also backfire in the security realm. Under the guise of neutralizing a threat from Moscow, opposition parties may put the goal of Ukrainian membership in NATO back onto their foreign policy platforms. Advocates of Euro-Atlantic integration will now present NATO as the only real institutional barrier to Russia's further push for political and military expansion. Yanukovich's election defeat by any of the current opposition leaders will, hence, inevitably result in the reversal of Ukraine's current bloc-free position. Meanwhile, Ukraine's return to an integration track with NATO will lead to a sharp deterioration in Russian-Ukrainian relations and create a major long-term strategic challenge to the Kremlin.

#### **What is Russia's Best Course?**

Given the totality of political risks associated with Ukraine's integration into the CU, Russia should pursue a more pragmatic and, ultimately, more advantageous strategy in dealing with Ukraine. Since Yanukovich remains more receptive to Russia's strategic interests in the region than any of his opponents, Moscow should prioritize the stability of his regime. It will greatly improve his re-election chances through indirect economic support, particularly in agreeing to renegotiate gas contracts without getting Kyiv's prior commitment to the CU. At the same time, the Kremlin should avoid repeating the mistakes of 2004 by drawing itself into the election campaign on someone's behalf. Also,

it should not stake the future of Russian–Ukrainian relations on a single political figure. Rather, Moscow should maintain direct contact with two leading Ukrainian opposition parties (*Batkivshchyna* and UDAR) to plan for a possible leadership turnover in 2015. Its objectives should be to neutralize the influence of radical nationalists on policymaking and to minimize reversals of prior bilateral agreements. The only way Russia could secure its current strategic gains—the extension of the Black Sea Fleet lease and Ukraine’s bloc-free status—is by avoiding any action that would be interpreted as an indicator of expansionist plans. Even the recent signing of the Memorandum between Ukraine and the Eurasian Economic Commission, which did not impose any formal obligations on either party, produced harsh criticisms from the Ukrainian opposition. From Moscow’s standpoint, the use of informal economic levers through private investments and state loans may eventually be more effective in maintaining long-term influence over Ukrainian elites than the signing of integration treaties with a short shelf-life and major blowback potential.

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