

Russia, the EU and the common neighbourhood

By Dmitri Trenin

- ★ Through its new ‘neighbourhood policy’ the EU seeks to forge closer ties with the countries beyond its eastern border, namely Ukraine, Belarus, Moldova and the Caucasus states. Russia has traditionally taken a strong interest in this region, although it has been retreating reluctantly in recent years.
- ★ Both the EU and Russia have an interest in their neighbourhood becoming more stable and prosperous. The current lack of warmth in EU-Russia relations will make it more difficult for them to work together to achieve this objective. But it also offers them an opportunity for reflection and learning from past mistakes.
- ★ The EU needs to engage more constructively with its eastern neighbourhood. And Russia has to develop a more enlightened view of its ‘national interest’ in countries such as Ukraine and Belarus, and in the ‘frozen’ conflicts in Moldova and Georgia.

Throughout the 1990s, Russia tended to underestimate the impact of the EU’s forthcoming eastward enlargement. Compared with NATO’s expansion into post-Communist territory, EU enlargement looked like the lesser evil. However, over the last two or three years, Russia has been reversing its views. While Moscow has been fairly happy about its co-operation with NATO, it has become increasingly concerned about EU policies. Russia has now woken up to the fact that the EU-25 is markedly different from the EU-15, and not only because of its size. Eight of the newcomers (as well as soon-to-be members Bulgaria and Romania) were once dominated by Moscow. The 100 million or so ‘new Europeans’ tend to have a different, and often a dim, view of Russia, past or present. Their governments “watch like hawks”, in the words of a senior European diplomat, how the EU-Russia relationship develops. Some hope that being part of the EU will give them additional leverage in their relationship with Russia.

Moscow, meanwhile, fears that its frictions with the new EU members could spill over into its broader relationship with the Union. In particular, Russia is suspicious of Poland’s attempts to nudge the EU towards a more pro-active eastern policy. The Kremlin clearly resented Polish involvement in the Ukrainian election crisis in late 2004. And it has warned Poland against getting involved in its disagreements with the Baltics or becoming more active in Belarus.

Russia also continues to have a difficult relationship with the Baltic states. Russia has long accused Latvia and Estonia of mistreating their large Russian-speaking minorities, many of whom still do not have citizenship of the country in which they live. The absence of historical reconciliation was brought into stark view in the spring of 2005, when the Molotov-Ribbentrop pact, the Soviet annexation of the Baltic states, and the support of some Balts for the Nazi regime all resurfaced during the 60th anniversary of the end of the second World War. On the long-standing issue of border treaties, Russia and its Baltic neighbours have gone back to the drawing board. Although Russia finally agreed on border treaties with Estonia and Latvia in May 2005, it then refused to ratify them when both countries added references to bilateral treaties that date back to 1920-21.

The implications of EU enlargement for EU-Russia relations do not stop there. The enlarged Union now has a vast common neighbourhood with Russia that spans Ukraine, Belarus, Moldova, and the three countries in the South Caucasus, namely Georgia, Azerbaijan and Armenia. Although many of these countries have western-leaning elites, none is expected to join the EU any time soon, if ever. Some of them have lengthy histories of political and economic instability. And some have developed into major routes for the trafficking of drugs, weapons and people. Yet, until quite recently, the EU did not have a well-thought out policy for its new neighbourhood. In 2003-04, the EU devised a policy designed to bring Ukraine, Moldova and others closer without, however, offering the prospect of eventual membership. The declared objective of the EU's new 'European neighbourhood policy' (ENP) is to help countries in the former Soviet Union (and also in Northern Africa and the Middle East) to become more stable, democratic and prosperous – in short, to become a bit more like the EU itself. To achieve this, the EU offers incentives such as financial aid and better access to its lucrative single market. In return, it asks neighbouring countries to implement economic and political reforms that are listed in the bilateral ENP 'action plans'.

Russia's reluctant retreat

Russia regards the ENP as too condescending – in so far as the EU has tried to apply it to Russia itself – and as too competitive with its own perceived interests in the common neighbourhood. When the EU finally became active beyond its eastern borders – notably during the 2004 election crisis in Ukraine – Russia expressed its concern. But this does not mean that the EU and Russia will revert to some Cold-War style competition for influence in their common neighbourhood. For Russia to take an interest in neighbouring countries is not only natural but imperative. Just as it is for the EU. The EU may be expanding, but it is far from becoming a traditional empire. Rather than seeking to maximise its influence in the former Soviet Union, it has refused to offer membership to its eastward neighbours. Nevertheless, these countries have not gravitated towards Russia, with the notable exception of Belarus.

Today's Russia is not so much neo-imperialist as post-imperialist – the residual rhetoric of its politicians notwithstanding. Russia may be retrenching only reluctantly, but it is not advancing. In Ukraine, Georgia and Moldova Russia is engaged in rearguard or holding actions. Throughout its neighbourhood, Moscow has attempted little more than to preserve the status quo in the face of western-oriented change – and often to no avail:

- ★ In the Ukrainian presidential election in 2004, Vladimir Putin backed Viktor Yanukovich, the *protégé* of incumbent President Leonid Kuchma. Rather than being unequivocally pro-Russian, the Kuchma regime was opportunistically looking to benefit from its position between Russia and the West. Putin's main aim was therefore to prevent the victory of the more pro-European and Atlanticist Viktor Yushchenko. The attempt ended in a humiliating defeat after the 'orange revolution' swept Yushchenko into power.
- ★ In Georgia in 2003, Moscow made an eleventh hour attempt to prop up President Edward Shevardnadze – although the latter was unloved, to say the least, by the Russian military and security establishment. Again, the aim was to stave off a pro-western challenger, Mikheil Saakashvili, whom Russians regard as a 'pro-American hothead'. Russia decided to acquiesce in, rather than fight against, Saakashvili's ascent to power through the 'rose revolution'. Moscow then tried to mediate between Saakashvili and Aslan Abashidze, the leader of the quasi-separatist republic of Abkhazia and a long-time friend of the Russian military – only to accept the latter's defeat shortly afterwards. In May 2005, after years of wrangling, Russia finally agreed to withdraw its remaining military forces from Georgia proper, where they had been stationed for 200 years.
- ★ In the region's various 'frozen' conflicts, Russia initially sought solutions that reflected its own security interests. But it had very limited success. In 2003, Moldova rejected a Russian-brokered peace deal with the breakaway region of Transnistria, after diplomatic interventions by the US and the EU. In Georgia in 2004, Moscow was forced into last minute action to prevent South Ossetia from being overrun by the Georgian forces. Later that year, Moscow proved totally inept at engineering a leadership succession in Abkhazia – in a wholly pro-Russian environment. But its intervention almost triggered a civil war.

Many Russian officials think that this forced retreat is the result of the US and the EU moving into their country's traditional sphere of influence. They suspect that the West engineered the 'coloured' revolutions in Georgia, Ukraine and the Kyrgyz Republic. Yet the countries in question are not mere objects of East-West power plays. Their elites and peoples have choices, and they make the ultimate decisions. Often these choices are pro-EU without being overtly anti-Russian. Russia implicitly acknowledged and accepted this fact by agreeing for the first time to discuss the common neighbourhood with the EU at their May 2005 summit. Ukraine may have been the turning point in Russia's post-imperial evolution, akin to Suez for the UK or Algeria for France. However, there are still significant risks, even dangers, in the region between Russia and the enlarged EU.

★ BELARUS

Of all the countries in the common neighbourhood, Belarus harbours the most risks for the EU-Russia relationship. The EU seeks to boycott the regime of President Alyaksandr Lukashenka, which it considers illegitimate. The EU has thus imposed a visa ban on Belarusian top officials and excluded the country from the ENP. As Belarus has become more authoritarian, the EU has looked to Russia to exert some positive influence on its smaller neighbour. But the Kremlin has been reluctant to move against Lukashenka, who has styled himself as the only truly pro-Russian leader in the region. In the last two years, the situation has grown increasingly tense. Exploiting widespread insecurity after the September 2004 Beslan hostage crisis, Lukashenka managed to win a referendum on whether he should be allowed to run for a third term as president – in direct violation of the laws he had himself promulgated. Since then, Belarus has been a constant irritant in Russia's relations with the EU – as well as with the US. President George Bush has called Belarus the “last dictatorship in Europe”; and Secretary of State Condoleezza Rice has met with exiled leaders of the Belarusian opposition. Tensions are likely to rise further ahead of the presidential poll scheduled for September 2006.

Putin has been lukewarm at best about plans for a Russian-Belarusian union that were devised by his predecessor, Boris Yeltsin. Putin is said to detest Lukashenka personally, and he realises that the Minsk leader is not only a liability for Russia-US relations but also, and more importantly, a key obstacle to furthering Russian economic interests in Belarus. Nevertheless, Lukashenka remains a close, if difficult ally. The Kremlin's half-hearted attempts to make him dance to Russia's tune have failed. As long as the Kremlin remains indecisive about what to do, Lukashenka can continue to make mischief at Moscow's expense. For example, he defies the attempts of Gazprom, the Russian gas monopoly, to make Belarus pay for gas deliveries at world prices. He effectively bars private Russian investment in Belarus. He drags his feet on accepting the Russian rouble as the currency for the long-planned Russo-Belarusian union. He censors or bans the Russian media in his country. And he can still wangle support and subsidies from Moscow. The Kremlin is afraid that turning against Lukashenka will result in ‘losing Belarus’ to the West. As Moscow insiders say: “Lukashenka is a bastard, but at least he's our bastard.”

The Kremlin's call

Both Moscow and the EU would be well advised not to underestimate Lukashenka's political skills and his instincts for survival. Despite his dictatorial practices, Lukashenka remains popular with around one-third of the electorate, and he retains strongholds in rural areas. The political opposition may have western sympathies, but it remains weak, divided and marginalised. Lukashenka periodically shakes up the country's elites, to keep potential opponents or challengers at bay and to prevent opposition forces from consolidating. The regime has destroyed the country's big businesses and bullied smaller ones into passivity or submission.

In such an environment, anti-Lukashenka and pro-democracy rallies would hardly threaten the regime. Rather, they would give Lukashenka an opportunity to condemn them as the work of western agitators. If opposition demonstrators (or the police *agents provocateurs* among them) engaged in acts of violence, Lukashenka would have a pretext to use force against them. Any bloodshed in the streets of Minsk would present Putin with a tricky choice: should he condemn Russia's only ‘true ally’ in the Commonwealth of Independent States and risk seeing it become another ‘Ukraine’ (pro-Western, anti-Russian)? Or should he politically support Lukashenka, as he supported Uzbekistan's president, Islam Karimov, during recent disturbances there? There are, of course, big geopolitical differences between Belarus and Uzbekistan, so the consequences of Putin's actions would be very different. The EU cares little about Uzbekistan, but disagreements over Belarus could chill, even freeze, EU-Russia relations. Such disagreements could shape the attitudes of Europe's publics and elites towards Russia. And they could influence the Russian authorities' domestic policies and their general attitude to ‘western influence’ in Russia.

So far, Moscow has chosen not to use its potential leverage over Belarus, but such passivity has a price. Russia's interests would be best served by a regime change in Belarus after the 2006 election. Since both the Belarusian elite and the public are generally pro-Russian, there is no shortage of leaders acceptable to Moscow who could succeed Lukashenka in a free and fair election. As a first step, President Putin should speak out about the coming election, making it clear that he does not support Lukashenka's manipulations. The Kremlin should then reach out to all competing candidates, making sure that the Minsk authorities do not silence or intimidate them. Coverage of the election campaign in the Russian media (broadcast to Belarus) could give a voice to alternative candidates, who would otherwise be invisible in Belarus' own heavily censored media. At the same time, Putin should discreetly put pressure on Lukashenka to honour the constitution, and desist from running again in 2006.

Once the Russian leadership has decided on its policy towards Belarus, it should talk to the EU and the US about Belarus' future. Lukashenka's departure would defuse the political time bomb that Belarus has become and open the way for free and fair elections. It would also remove obstacles to Belarus' economic integration with Russia. Russia should be prepared to work with the Belarusian people's choice of a president. Belarus

would retain its independence, but it would gradually build the long-planned economic, customs and currency union with Russia, which would benefit both sides.

How plausible is such a scenario? A lot depends on developments within Russia. The ruling elite seems preoccupied with dividing up lucrative energy assets, including the renationalised oil giant Yukos, and positioning itself for a possible changing of the guard in the Kremlin. Under the Russian constitution, Putin is not allowed to stand for a third term as president at the 2008 election. Some political pundits think that Putin may stay in power by declaring himself president of a newly established Russian-Belarusian federal state. Any such plans, if they existed, would take precedence over attempts to achieve regime change in Minsk. Moreover, even if Putin wanted to move against Lukashenka, he would find that not everyone in Moscow supports him. In his eleven years at the top, Lukashenka has built a network of powerful friends inside Russia. These people could warn him of, and help him to foil, any plans to oust him. Therefore, Moscow could only meet the 'Belarus challenge' effectively if it had a well-designed strategy, plus the persistence and the political will to implement it. Russia's recent performance in Ukraine suggests that this will not be easy. However, Ukraine also offers the Kremlin the opportunity to learn from past mistakes.

★ UKRAINE

Ukraine has been drifting away from Russia and towards the West ever since its split from the Soviet Union. For Ukrainians, independence has always meant independence from Russia. Although many in the West perceived the Kuchma regime as pro-Moscow, its policies were ambiguous at best. It is no coincidence that the title of Kuchma's book published in 2003 was "Ukraine is NOT Russia". It was Kuchma who advocated his country's partnership with NATO, sent Ukrainian troops to Iraq, and kept complaining about the EU's refusal to acknowledge Ukraine even as a potential candidate for eventual membership. And it was Kuchma's preferred successor, Viktor Yanukovich, who insisted that the 'single economic space' that Russia has been planning with Ukraine, Belarus and Kazakhstan should not go beyond a free trade area. In short, even if Yanukovich, and not Yushchenko, had won the 2004 presidential poll, Ukraine would still be seeking to join NATO and move closer to the EU. No Ukrainian politician can afford to become Moscow's political puppet – although for tactical reasons they may occasionally move closer to Moscow.

Russia only fully accepted Ukraine's independence and its borders in the late 1990s. It is true that Russia has sought to bind Ukraine into an economic union, the 'single economic space'. But Moscow's final objective is a common market, not a common state. As indicated above, the main reason for the Kremlin's blatant and clumsy interference in Ukraine's 2004 presidential poll was not to install a puppet regime but to prevent the – allegedly anti-Russian – opposition candidate from winning. After this attempt had failed miserably, Putin simply recognised the realities on the ground.

Ukraine in NATO?

In one of his more striking statements in 2005, Putin basically acquiesced in Ukraine's NATO aspirations. In an interview with France-3 TV station in May, he said that if Ukraine joined NATO, Russia would have to withdraw sensitive military equipment from its Black Sea Fleet in the Crimea and terminate some co-operation with the Ukrainian defence sector. But that was it. The Russian defence minister and close Putin ally, Sergei Ivanov, has said he expected Ukrainian NATO membership some time after 2010-12. Russian naval experts now discuss the possible redeployment of the Black Sea Fleet from Sevastopol to the Russian coast as a practical matter, not a matter of principle.

Ukraine's EU aspirations are more controversial. The last round of eastward enlargement in 2004 showed Russia how strongly membership binds a country to the EU. Many Russians fear that the Ukrainian-Russian border would turn into a new 'iron curtain' if Ukraine joined the EU, and that bilateral trade would be disrupted. Most Russians interpret the French and Dutch rejection of the EU constitution to mean that EU enlargement has stopped for the foreseeable future. But Russians also know that there is very little they can do if and when the EU regains its appetite for enlargement. By that time, Russia's own relations with the EU may have acquired a new quality, if the two sides have made progress with building the 'common spaces' they agreed on in May 2005.

The impact of developments in Ukraine on EU-Russia relations does not have to be negative. Both sides have a clear interest in Ukraine becoming more stable, democratic and prosperous. And the new Yushchenko government has promised to implement the reforms necessary to achieve this. Following its failed interventions in the 2004 elections, the Kremlin urgently needs to develop a more enlightened view of Russia's national interest in Ukraine. This means, above all, helping to make Ukraine secure for Russian investment. As the business climate in Russia deteriorates, Russian businesses are investing ever growing sums into the fast-growing economy of neighbouring Ukraine. Most Russian businesses therefore supported the more reform-

oriented Yushchenko during the election campaign. But even Russia's political establishment, which largely backed Yanukovich, now has an interest in Yushchenko's government succeeding in its attempts to reform the economy and root out cronyism and corruption. Kuchma's allies, now in opposition, will use the forthcoming parliamentary election in the spring of 2006 to challenge Yushchenko's camp – which has already been weakened by internal splits, corruption allegations and the dismissal of the cabinet of Prime Minister Yuliya Tymoshenko in September 2005.

Enlightened national interest

Russia needs to realise that it has nothing to gain from Ukraine slipping back into the cronyism and instability of the Kuchma years. Russia needs to abandon the last remnants of imperialist thinking, be it spheres-of-influence fantasies or the use of subsidised energy supplies for political leverage. Such a new approach will be hard to sustain during a period when electoral considerations loom large (Russia holds a parliamentary in late 2007 and a presidential one in early 2008). If Putin is seen as 'too soft' in his foreign policy, populists will seek to exploit nationalist sentiment by accusing him of having 'lost' Ukraine. During this delicate balancing act, the West should be cautious not to put too much pressure on Russia to disengage from Ukraine, for example by calling for an early withdrawal of the Russian Black Sea Fleet, before the lease expires in 2017. Such pressure could be counter-productive.

For the sake of stability, the EU and Russia should think about co-ordinating their bilateral relations with Ukraine. In economics the task appears particularly urgent. Through the ENP the EU is offering Ukraine better access to, and deeper integration into, its single market, provided Kiev aligns itself with certain EU rules and policies. Russia, meanwhile, is going ahead with plans to build a 'single economic space' with its neighbours and it wants Ukraine to be part of it. In addition, the EU and Russia have signed up to plans to create a 'common economic space' as part of their 'four spaces' concept. The EU also supports the entry of both Russia and Ukraine into the World Trade Organisation. If these processes are not co-ordinated, they may result in competing requirements on Ukraine. Another area where the EU, Russia and Ukraine need to work together is justice and internal security, in particular the issues of visas, readmission treaties and border controls.

★ MOLDOVA AND THE SOUTH CAUCASUS

The EU is only just beginning to concern itself with the 'frozen' conflicts in Moldova and the South Caucasus, namely Transdnistria, Abkhazia, South Ossetia and Nagorno-Karabakh. The EU provides money for economic rehabilitation in Abkhazia and South Ossetia; it has appointed two special representatives, one to help with conflict resolution in the South Caucasus and one to deal specifically with Transdnistria; and it has observer status in the 'joint control commission' dealing with the conflict in South Ossetia. However, the EU does not have a formal role in any of the multilateral frameworks that seek to resolve the frozen conflicts (although individual EU member-states play important roles in some). Since the EU wants to take a more prominent role, and Russia is a key player in all these frameworks, the frozen conflicts will become increasingly important for EU-Russia relations in the future.

The disputes in the region date back to the late 1980s, when the Soviet Union began to crumble and separatist sentiment grew in several places. They were 'frozen' in 1992-93 after Russia helped to broker ceasefires and some basic political agreements. Although these did not resolve the underlying questions of status, they at least stopped the bloody conflicts. Later, Russian troops, under CIS mandates, were deployed to enforce the ceasefires in South Ossetia, Abkhazia and Transdnistria. The ceasefires have held, more or less, for a decade, but there has been little progress towards any lasting political solutions. Russia has preferred the status quo, mainly because it has lacked the resources to ensure that such solutions would reflect its interests, but also because it has liked using these conflicts as levers to prevent Georgia and Moldova from developing closer ties with the West.

Russia has been unable and unwilling to impose its will by force. It has had no way of forcing the various parties to negotiate and implement an agreement, as the international community did during the 1995 Dayton conference on Bosnia. Moreover, the separatist regimes, once wholly dependent on Russia, have gained a degree of independence. A web of formal or, more often, informal relationships has emerged between the separatist leaderships and their political friends and business partners in Russia. Smuggling and trafficking, on which the Transdnistria regime in particular depends for its economic survival, has often benefited Russians as much as local criminals and corrupt officials. Moscow has also offered Russian passports to many of the inhabitants of the separatist enclaves.

However, following the revolutions in Georgia and Ukraine, the status quo is becoming less sustainable. Unlike his predecessor, President Saakashvili has made 'unfreezing' the conflicts and restoring Georgia's territorial integrity a political priority. And Ukraine's Yushchenko has announced a new initiative for resolving the Transdnistria conflict. In addition, the US and the EU are playing a more active role in the former Soviet space.

They are keen to find solutions to these simmering conflicts, which they regard as a major source of potential instability in an important region.

At the moment, only the Transdnistrian conflict is formally a matter of joint concern for Russia and the EU. Moscow is still upset about the unravelling of the peace accord brokered by the then Kremlin deputy chief of staff, Dmitri Kozak, in 2003. The US and the EU advised the Moldovan government in Chisinau to reject the Kozak plan at the last minute, when it became clear that that Moscow would insist on keeping a military presence in the region until 2020. Rather than being a sinister move by the Kremlin negotiator, however, this demand could have been the price for the achievement of an internal Russian compromise on the issue.

The situation around Transdnistria has since remained tense. Moscow suspects that the West and Ukraine are primarily interested in terminating the Russian military presence there. In the summer of 2005, however, Russia welcomed a Ukrainian peace plan that foresees elections in the separatist enclave, its re-integration with the rest of Moldova as a self-governing territory, and a phasing out of the Russian military presence. For the sake of stability in Moldova, but also for the sake of their own bilateral relations, the EU and Russia should use this opportunity to work together to help the opposing parties reach a viable solution. Chisinau and Tiraspol have already broadly agreed on the principles of how to resolve the conflict within a common state, with a high degree of self-rule for the Transdnistrians. Now the two sides need to thrash out the all-important details, and the mechanism for implementing the agreement. While the EU has only become engaged in the region relatively recently, Russia has some long-standing interests there that it will want to see protected, for example investments of Russian companies in Transdnistria. Russia also insists that any settlement should be supervised by a 'joint venture' peacekeeping force made up of Russian, EU and Ukrainian units. It will not stand by and watch an EU-led effort.

There is a more general, and hugely important, point here. Russia now appears ready to discuss joint peacekeeping with the EU across the entire post-Soviet space, from Moldova to the Caucasus and even into Central Asia. So far, the EU has been less involved in the South Caucasus than in Moldova, but this is changing gradually, in particular in Georgia. The EU now maintains a small monitoring presence in the Georgian-Russian border area.

Frozen conflicts

- ★ In 1992, the mainly Russian and Ukrainian-speaking region of **Transdnistria** sought to secede from Romanian-speaking Moldova. The Moldovan government in Chisinau sent in troops but hostilities stopped shortly afterwards, when Russia deployed forces in Transdnistria to supervise a ceasefire. The Organisation for Security and Co-operation in Europe, together with Russia and Ukraine, has been trying to broker a political settlement between Chisinau and Tiraspol (the main city in Transdnistria).
- ★ **Abkhazia** broke away from the Republic of Georgia when the Soviet Union disintegrated in 1991-92. The Georgian government in Tbilisi used force in an attempt to regain control over the region but was defeated in 1993 by Abkhaz forces, backed by Russian units. Subsequently, some 300,000 (according to the Georgian authorities) ethnic Georgians were expelled from the region. An uneasy truce has been in place since 1994, policed by Russian peacekeepers. Tbilisi and the Abkhaz regime in Sukhumi are engaged in two sets of talks: UN-sponsored negotiations in Geneva and the so-called Sochi process under Moscow's auspices.
- ★ When the Soviet Union collapsed, **South Ossetia** did not support Georgia's quest for secession from the Soviet Union and instead sought greater autonomy from Georgia. The movement of Georgian troops into South Ossetia triggered fierce fighting, with hundreds of casualties and thousands of refugees streaming across the border into the Russian region of North Ossetia. Russian mediation stopped the hostilities. The ceasefire is enforced by a tripartite (Russian, Georgian and South Ossetian) peacekeeping force and the tripartite Joint Control Commission. It broke down temporarily when Tbilisi sent armed police into South Ossetia in the summer of 2004.
- ★ Conflicts between ethnic Armenians and Azerbaijanis broke out in the late 1980s, with the most extensive fighting taking place in **Nagorno-Karabakh**, a region that was part of Soviet Azerbaijan but whose population is largely Armenian. A ceasefire in 1994 established de-facto Armenian control while Nagorno-Karabakh declared itself independent. Talks in the OSCE 'Minsk group' (including Russia, the US and France) have not resulted in a political settlement. Both Azerbaijan and Turkey keep their borders with Armenia closed.

If the EU and Russia could foster a successful solution of the Transdnistria conflict, that would encourage them to work as a team, with US support, in sorting out South Ossetia and possibly Abkhazia. Russia's decision to withdraw its troops from its two remaining military bases in Georgia in 2008 shows that it understands that traditional territorial control is no longer possible or effective. The decision also backs up past Kremlin statements that Russia does not seek any kind of 'monopoly' of influence in the former Soviet Union. This gradual change of mentality opens the door to Russian-EU security collaboration in their common neighbourhood. The West needs to take Russian security concerns into account, however. Russia may eventually have to accept Georgia's membership in NATO. But it will remain strongly opposed to the stationing of any NATO or US troops in Georgia, or in neighbouring Azerbaijan. In other words, Russia is prepared to withdraw from Georgia, as it has done from Azerbaijan, but it does not want the vacuum to be filled by western military forces.

The EU has only recently started to concern itself with security issues in the former Soviet Union. Now its prestige across the region is growing, but so are the expectations of the people who live there. If the EU wants to 'deliver' on its promises, it needs to develop a thorough understanding of the region's intricate problems and find ways of working with Russia and the countries concerned to address them. Closer and more regular contacts between EU military staff and the Russian ministry of defence would be a useful way of promoting mutual understanding.

★ KALININGRAD

Kaliningrad – Russia's exclave surrounded by EU members Poland and Lithuania – will remain an important issue in EU-Russia relations. Contrary to widespread perception, the key problem is not transit between Kaliningrad and mainland Russia but the growing economic disparities between Kaliningrad and its neighbours. While Lithuania and the other Baltic countries are among the fastest growing economies in Europe, Kaliningrad remains poor and backward. If this gap widened further, Kaliningraders would call for more autonomy, perhaps even separation from Russia (and unlike in other parts of Russia, like Chechnya, such separatism would not be driven by ethnicity). Demands for more freedom from Moscow would be accompanied by attempts to get closer to the EU. If Moscow wakes up too late to the Kaliningrad problem, it is more likely to over-react and clamp down hard to re-impose its rule. The issue could then escalate into a major dispute between the EU and Russia.

In the run-up to the 750th anniversary of Königsberg-Kaliningrad in July 2005, Russia's federal government drew up some useful ideas on how to improve the plight of the exclave. But Moscow has yet to devise a credible programme for the region's development, and for turning Kaliningrad's position within EU territory from a liability into an asset. The EU and Russia should encourage Kaliningrad to take the lead on this. Kaliningrad should have the freedom to attract foreign investment from the EU, and top managers from Russia and elsewhere, to support local economic development.

The importance of EU-Russia relations

The overall state of EU-Russia relations will be a key variable in the future development of the countries that lie between them. Will the EU and Russia work together to help their neighbours become more prosperous, open and stable? Or will there be competing demands and angry exchanges between Brussels and Moscow while they disregard the needs and aspirations of the 'lands between'?

Currently, EU-Russia relations are in a phase of transition. At their summit in May 2005, the two sides agreed on 'road maps' for the creation of four 'common spaces' – EU jargon for deeper integration in economics and trade; internal security and justice; science, education and culture; and external security. The road maps are vague: they contain neither deadlines nor plans for specific projects. Even under the best of circumstances, it would take the EU and Russia at least two decades to create meaningful common spaces. Nevertheless, the agreement is useful: useful for the EU, because it sets down a sensible framework for the Union's future interaction with Russia; and useful for Russia because its reform needs broadly coincide with the steps that the road maps suggest.

Beyond their general agreement on the desirability of common spaces, the EU and Russia agree on little at the moment. The EU's attempts to influence Russia's internal development through giving advice, or even offering incentives, has not been successful. Russians simply perceive the EU as intrusive and arrogant. The EU, meanwhile, complains about a lack of co-operation on the part of Russia and it also worries about the erosion of democratic standards. Such concerns have fuelled a lively debate about the so-called value gap between the EU and Russia. It is important to understand that this gap is historical in nature, not ideological. Russia is very 'old Europe'. As Russians like to point out, their statehood precedes many, if not most, European countries. But, perhaps more importantly, the Russian elites have left the 20th century behind – to go back to the 19th.

The best, if unscientific, comparison for today's Russia is Russia under the last tsars. Many of the old problems are still present, such as undivided supreme power without accountability; an overly powerful, often corrupt and incompetent bureaucracy; and a weak civil society. They now clash with Russia's more positive developments towards capitalism and openness.

The need to address these internal contradictions means that Russia's prime business today is internal. The country faces the daunting task of not only sustaining economic growth, but also diversifying the economy away from oil and gas, as well as stimulating investment and innovation. Russia also needs to modernise its system of governance. It needs to build a civil society capable of integrating growing numbers of immigrants, who will be needed to alleviate the economic effect of Russia's dire demographics. Similarly, today's EU is inward looking. Following a 20-year period of rapid change, integration and successive enlargements, the EU now needs time to look at its goals, its policies and the role it wants to play in the world. The Russia dossier can – and will – wait for several years.

To many people, the current state of EU-Russia relations is a reason to be pessimistic. However, one can argue that the current pause is natural; or even that it could be needed as a starting point for a more constructive and rewarding future relationship. While political relations between the EU and Russia may be stagnating, at a different level relations are quite dynamic. Following the EU's 2004 enlargement, more than 50 per cent of Russia's trade is with the Union, and this trade is growing at 10 per cent per year. The number of people travelling between Russia and the EU is growing at 20 per cent a year. The EU should not underestimate the impact it has on Russia merely by being geographically close. Russians constantly compare their own situation to that of their western neighbours, especially now that they can travel and have easy access to information. The demonstration effect that a prosperous and stable EU is having on Russia is much more powerful and positive than anything the European bodies can hope to achieve through their policies.

Russia will continue to move forward, but there will be disruptions and crises along the way. The evolution of Russian foreign policy is also part of that learning process. The Kremlin leaders want to see Russia as a 'modern great power', but they have yet to define what they mean by that and how they intend to get there. In practice, Russia is adapting to changed international circumstances, if sometimes reluctantly and belatedly. This process of adaptation is perhaps most visible in Russia's policy towards its immediate neighbours and the EU. Russia seeks to construct a 'greater Europe', a loose association between the EU and a Russian-led community to its east. The attempt to build a 'single economic space' (with or without Ukraine) is part of this endeavour. But today's Russia is not so much neo-imperialist as post-imperialist. When it comes to the post-Soviet space, Russia is on the retreat. This is a shame insofar as Russia has a lot to offer to its smaller neighbours: a fast-growing market, job opportunities for the people in the region, and help with addressing separatist conflicts. The best that Russia could do for its smaller neighbours would be to become more stable, prosperous and at peace with itself. This, together with a more enlightened approach to dealing with its neighbours, would give Russia considerable 'soft power' – the ability to convince rather than coerce – in the region.

Similarly, the EU's policy towards its 'new neighbours' is only just beginning to evolve. The EU has little appetite for further enlargements at the moment. But it strives to shape its neighbourhood in its own image by offering trade and closer association through the ENP. As it stumbles into the region beyond its eastern border, the EU sometimes appears clumsy and somewhat reluctant. But it must be aware of the huge attraction it holds for the countries in the region. In the years ahead, the EU clearly will have to pay more attention to its new neighbours.

The EU and Russia need to complement their plans to create common spaces with a constructive dialogue on their shared neighbourhood. They should not regard this neighbourhood solely as a source of problems. The region's countries harbour plenty of opportunities too. They can be useful partners for both sides, since they have ample experience in dealing with Russia and Western Europe. They are eager and well-prepared to continue to act as middlemen and transit territories. Provided they maintain political stability and sort out domestic conflicts as well as those with their neighbours, they can push forward continent-wide economic, cultural and political integration. They can act as a glue binding Russia and the EU closer together.

*Dmitri Trenin is deputy director of the Carnegie Moscow Centre.
He writes in a personal capacity.
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