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## Eurasia in Russian Foreign Policy: Interests, Opportunities and Constraints

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## Abstract

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The Eurasian axis of Russian foreign policy has been given several impetuses over the last two years. The most important of these has been the sharp deterioration in relations with the West against the backdrop of the Ukraine crisis. In response to such changes, Russia's approach to multipolarity has shifted: it is now understood to offer simultaneous access to several different sources of economic growth and modernisation. Success in Russia's Eurasian foreign policy will require real effort to promote economic development and guarantee security. In the field of development, Russia has a great potential but starts from a weak position. It has a significant advantage, however, in being able to underwrite regional security, an essential precondition for economic development at a time when the risks of the region descending into chaos are high. The politicization of economic projects ranks among the major risks associated with Eurasian integration.

## Introduction

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The Eurasian vector of Russia's foreign policy has been given several boosts over the last two years. The most visible of these has been the sharp deterioration in relations with the West against the backdrop of the Ukraine crisis. Establishing partnerships with countries in the Commonwealth of Independent States (CIS), the Asia-Pacific region and South Asia has long figured among Russia's priorities. This policy is being pursued more vigorously today, however, than it was in the past. In response to these changes, Russia's approach to multipolarity has shifted. Whereas it was formerly defined as the coexistence of several power-centres on the world stage, it is now acquiring an economic dimension. For Russia, multipolarity means the ability to access, simultaneously, to several "sources" of economic growth and modernization. It secures the country's room for maneuver in economic diplomacy especially in the event that the access to one of these "sources" for political reasons is denied, as occurred over relations with the West. The success of Eurasian integration and Russia's pivot to the East will diminish risks for Russia's development.

The current situation raises a host of questions. What are Russia's interests in Eurasia and what are those of the other players? What opportunities and risks might Russia experience as a result of the changes that are taking place on the Eurasian landmass? What influence does Russia possess and what limits does it suffer from?

We argue, first and foremost, that success in Russia's Eurasian foreign policy will require a particular effort to promote economic development and at the same time to guarantee security. Development is one of Russia's key interests. Russia has great potential in this field, but starts from a very weak position. But, at the same time, Russia has a significant advantage in being able to underwrite regional security, an essential precondition for economic development at a time when the chances of the region descending into chaos are high. The politicization of economic projects ranks among the major risks associated with Eurasian integration.

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Translated from Russian by Cameron Johnston.

# Eurasian Integration: The Main Movers and Shakers

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## Russia

As a result of the conflict with Western countries over the Ukraine crisis, Russia found itself cut off from the main source of development and modernization on which it had relied for the past three decades. Sanctions and the threat of economic crisis forced Russia to search for new sources of growth and new ways of reducing costs. Eurasian integration proved to be one of its main responses to these new circumstances. Potentially, a successful integration might reduce transaction costs between member states and thereby make their economies more efficient. Greater cooperation with China marked another important dimension of Russia's policy. Plans to connect the Silk Road Economic Belt with projects for Eurasian economic integration could make China an important variable in this whole process.

Until Russia's relations with the West deteriorated, Eurasian integration played second fiddle to its relations with the European Union. Convergence with the EU, trade partnerships and humanitarian links dominated the discourse in Russian foreign policy, although they were never seen as the only option. The EU needed, and still needs, Russian resources and Russian market.<sup>1</sup> Russia, for its part, was traditionally one of the main consumers of European technology.<sup>2</sup> Russian citizens grew used to doing business in European countries and with European countries, while educational and cultural exchange became extremely strong. But the economic interdependence which had allowed Russia and the EU to overcome various disagreements in the past proved insufficient to avert a

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<sup>1</sup> C. Chyong, V. Tcherneva, "Europe's Vulnerability on Russian Gas," European Council on Foreign Relations, 17 March 2015, <[www.ecfr.eu/article/commentary\\_europes\\_vulnerability\\_on\\_russian\\_gas](http://www.ecfr.eu/article/commentary_europes_vulnerability_on_russian_gas)>.

<sup>2</sup> For instance, ExxonMobil (American), Shell (Dutch-British) and BP (British) worked closely with Russian companies to find and exploit oil deposits and they provided sophisticated equipment to work off-shore oil fields. Shell is part of the Sakhalin II oil and gas project, of which it owns 27.5% (Gazprom owns 51%, while Mitsui and Mitsubishi of Japan own 12.5% and 10% respectively). E. Mereminskaya, A. Tapalov, "Zapadnyye Sanktsii b'yut po svoim" [Western Sanctions Rebound upon the West], <Gazeta.ru>, 11 September 2014, <[www.gazeta.ru/business/2014/09/11/6209965.shtml](http://www.gazeta.ru/business/2014/09/11/6209965.shtml)>.



serious political crisis. Other vehicles for partnership, such as the NATO-Russia Council, the OSCE, and the Council of Europe, also broke down. The EU and the wider West remain priorities for Russia, but in a negative sense, as sources of tension that require energy and resources to tamp down. Both sides are once again flexing their muscles in a dangerous game that threatens to turn into an arms race. That would be a burden on the Russian economy of a quite different magnitude. Additional negatives for the Russian economy include volatility on the financial and currency markets, the fall in oil prices and the devaluation of the rouble.

Russia therefore finds itself in an extremely difficult position, with its economy being hit simultaneously by problems ranging from sanctions and technological backwardness to insufficient credit and oil-heavy exports. But these very problems force Russia to search for new sources of growth and greater efficiency. Many axis of development that used to be only statement-based must now be activated. Eurasian integration and the pivot to the East are two of these axes.

It is clear, however, that Eurasian integration and partnership with China are hardly likely to replace Russian collaboration with the EU. That is partly because the economic implications of the former differ significantly from the latter. Eurasian integration is about harmonizing the economies of member states that are at similar levels of development, whereas cooperation with the EU was asymmetric in character. The Eurasian Economic Union (EEU) will do little to help Russia modernize technologically or open up new markets for its energy resources, but it will allow Russia to expand its markets, reduce expenses and tap into migrant labour. Cooperation with China and other countries in the Asia-Pacific region may allow Russia to find new consumers for its hydrocarbons. Nevertheless, the price of such diversification might turn out to be high, while it remains doubtful whether Russia can blunt the impact of sanctions by developing closer ties with Asia in general, or China in particular.<sup>3</sup>

Be that as it may, Russia has no alternative but to [focus on] internal development and to search for opportunities abroad, however uncertain the ultimate outcome might be. This ought to benefit Russia's neighbours to the East and South because they are also hunting for new sources of growth. China and Russia's EEU partners face similar challenges, although they are looking abroad for different reasons.

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<sup>3</sup> V. Baryshnikov, A. Gabuev, "Pobegut ot Rossii kak ot Chumy" [The Will Shun Russia Like the Plague], Carnegie Moscow Center, 8 September 2015, <<http://carnegie.ru/2015/09/08/ru-61229/igq5>>.

## China

China's internal economic situation has changed in recent years, with growth slowing and the yuan being devalued. Disparities between different regions' levels of development persist, as does the country's dependence on hydrocarbons exports to drive economic growth. The challenge is to foster development, increase production and provide employment in China's Western provinces, such as Xinjiang.<sup>4</sup> In addition, the government must maintain political stability and ward off the threats of terrorism and separatism. China has a large stake, therefore, in guaranteeing the progressive development of its Western regions and encouraging stability in the bordering states of Central Asia. Large infrastructure projects are seen as the main tool of development in this area—transnational motorways and transport corridors that could connect China to the EU and Middle Eastern markets. In 2013, the Chinese President first proposed the idea of building a Silk Road Economic Belt and, in May 2015, Vladimir Putin and Xi Jinping agreed to investigate the possibility of linking up the Eurasian Economic Union with the Silk Road.<sup>5</sup> In Russia, this initiative was interpreted as a means by which Russia, China and the states of Central Asia could develop in parallel, so spurring economic growth across the region.<sup>6</sup>

The ways in which Russia and China aim to achieve their goals in Eurasia are strikingly similar: both sides see the partnership in purely pragmatic terms, not interfering in the internal politics of the region's states and not raising question marks over the political make-up of their partners' regimes. This pragmatism and "policy of non-interference" in internal affairs was once again highlighted in the "Joint Statement of the People's Republic of China and the Russian Federation on deepening their comprehensive partnership and strategic cooperation and on furthering mutually beneficial

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<sup>4</sup> 80% of the country's unused land is concentrated in Western China and 130 different types of mineral deposits have been found here. It leads the way in reserves of potassium, natural gas and a further eleven types of natural resources. Despite its riches, however, Western China was the least developed of the country's four regions in the year 2000 (the others being North-East China, East China and Central China). State support for regional development. "Kitay//Portal vnyeshnyekonomicheskoy informatsii" [Portal of External Economic Information], 12 August 2014,

<[www.ved.gov.ru/exportcountries/cn/about\\_cn/laws\\_ved\\_cn/?action=showproduct&id=4683&parent=0&start=2](http://www.ved.gov.ru/exportcountries/cn/about_cn/laws_ved_cn/?action=showproduct&id=4683&parent=0&start=2)>. R. Izimov, "Sotsial'no-ekonomicheskaya situatsiya v Sin'tszyanye" [The Socio-Economic Situation in Xinjiang], <[polit.asia.kz](http://polit.asia.kz)>, 19 November 2014, <<http://polit-asia.kz/index.php/latest-news/408>>.

<sup>5</sup> "Rossiysko-kitayskiye peregovory" [Russian-Chinese Negotiations], 8 May 2015, <<http://kremlin.ru/events/president/news/49430>>.

<sup>6</sup> "K Velikomu Okeanu-3. Sozdaniye Tsentral'noy Evrazii" [Towards the Great Ocean-3. The Creation of Central Eurasia], Valdai International Discussion Club, *Report*, Moscow, June 2015.

collaboration,” signed by the leaders of the two countries in May 2015.<sup>7</sup>

From Russia’s perspective, such pragmatism is preferable to the relations it enjoys with the EU and, even more so, with the United States (US). Even before the Ukraine crisis, politics and ideology were a big part in this relationship. The gas crisis of 2009 was more about politics than economics, as was contention over the Third Energy Packet and the cancellation of several major deals in which Russia was involved (the purchase of Opel, share in EADS and others). This is to say nothing of the media, where constant criticism of the regime and the state of democracy in Russia naturally did nothing to improve relations. Russian-Chinese relations are not marred by such ideological divergences, which simplifies them considerably.

Russia's economy is not comparable to China's one. Just like Russia’s political leverage, however, the Russian economy is big enough to constitute an important factor in how China shapes its relations with the US and its allies. Efforts to form a Trans-Pacific Partnership (TPP) run counter to China’s interests in a number of ways. In America, meanwhile, discontent with China’s economic policy is growing, stoked in recent months by unilateral moves to devalue the Yuan, which sent tremors coursing through the world’s biggest stock markets. The Russian and Chinese economies are now highly interdependent. Both governments are working constructively to resolve their political differences and disagreements but action on the part of China and the United States could upset this equilibrium.

The development of the Transatlantic Trade and Investment Partnership (TTIP) ranks alongside TPP in importance. In essence, it heralds an economic alliance between the EU and the US, the world’s two largest economies. Given the fact that they are already closely integrated through NATO, this new economic project could lead to the creation of an extraordinarily powerful bloc. And if the US succeeds in forming the Trans-Pacific economic partnership, this bloc would become truly global, forcing all the other players to adapt to new and possibly unfavourable conditions.

Economics is not the only bone of contention between China and the US: military affairs matter too. Mutual suspicion is on the rise in both Beijing and Washington. China is moving fast to modernize and develop its armed forces and is asserting itself in its regional sphere of interest, such as the South-China Sea. The US, for its part, maintains a powerful military presence in the region. Although the US establishment’s attention has shifted somewhat towards the “Russian threat”, Washington has not discounted the possibility that China might [also] present a challenge. In this regard, the partnership

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<sup>7</sup> “Rossiya i Kitay: noviy uroven’ sotrudnichestva” [Russia and China: A New Level of Cooperation], <Vestifinance.ru>, 8 May 2015, <[www.vestifinance.ru/articles/57040](http://www.vestifinance.ru/articles/57040)>.

between China and Russia is of prime importance in the military sphere, and the Silk Road in the economic sphere.

## **Kazakhstan**

Kazakhstan is also facing challenges to its future development. The country has succeeded so far in creating stable state institutions and is following a consistent policy of modernizing and updating the economy, although efficient state management depends on the price of oil and gas. This was thrown into relief by the sharp devaluation of the tenge, which occurred in several stages in 2014-2015, and the decision of the government in August 2015 to allow the currency to float freely. However, these problems are specific rather than systemic. On a strategic level, the leadership of Kazakhstan has enjoyed considerable success thanks to a consistent “multi-vector foreign policy”, forging friendly and constructive ties with all the key players, notably Russia, China, the EU and the US. It also regards its membership of the Eurasian Union and the large-scale infrastructure projects carried out in Kazakhstan as part of the Silk Road as crucial sources of economic growth. Meanwhile, challenges to security across Central Asia have a big knock-on effect in Kazakhstan, and their effect will only grow in future. That is why partnership with key global and regional players makes both economic and political sense for Kazakhstan. Eurasia’s transformation will test the strength of Kazakhstan’s economy and system of government. Russia and China are natural allies of Kazakhstan in sponsoring economic development and guaranteeing security.

The rise of radicalism and Islamic extremism, and the potential for political destabilization, are risks that threaten all the region’s governments without exception and demand a response from Russia, Kazakhstan and China, among others. Together, they constitute yet another spur to integration. Seeds of destabilization originating from the Middle East could fall on fertile ground in Central Asia and the Caucasus if political institutions are weak or the political situation unfavourable, leading to risks of radicalization across Eurasia. Preventing this scenario from being realised is in the interest of all the region’s governments.

## **United States**

This common endeavour highlights the importance of Washington's policy in Central Asia. Due to the withdrawal of most coalition forces from Afghanistan, US interests in the region are now focused on shoring up the Afghan government. The region is also important to the USA as a theatre in which to contain the economic influence of China and to block integration projects involving Russia. In addition, the threat of ISIS (Islamic State of Iraq and the Levant) and the

possible destabilization of Afghanistan would seem to dictate America's continued presence and growing activity in the region. The US influence, then, cuts both ways: combatting extremism coexists with a sceptical attitude towards projects in which Russia and China play an active role.

## **Iran**

Growing influence in the region may fall to Iran. While sanctions caused considerable damages to Iran's economy, they also encouraged the country to concentrate on industrialization and technological modernization, since it could no longer count on income from energy resources. Iran's military power and its political role in the region are on the rise. Sanctions fostered closer links between Iran and China and Iran is one of the destination-points for the Silk Road. It enjoys real leverage in Central Asia and Afghanistan and is using that leverage to fight ISIS and other radical Islamists; Iran could therefore become a major partner for Eurasian states in the field of security.

## Russia's Interests in Eurasia

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Many commentators search for the origins of Russia's Eastern or Eurasian foreign policy in the philosophy of Eurasianism or the geopolitics of the 19<sup>th</sup> and 20<sup>th</sup> centuries. Such theories go so far as to connect Eurasia with Russia's historical mission or destiny. But references of this kind mythologize Russian foreign policy and breed false interpretations. The real task of Russia and its partners is to meet pragmatic goals in the fields of security and development. This will be the context in which we survey Russia's interests.

### ***Interest one: marshaling resources and forming flexible coalitions***

Russia's economic and human resources are limited and subject to adverse external factors. Prudence and the concentration of resources on concrete, first-order tasks, is thus an essential precondition [for the success] of Russian diplomacy. If resources are dispersed through geopolitical competition, the force that Russia can bring to bear will also be dispersed, and the country will fall behind. It is therefore in Russia's interests to concentrate on its most pressing objectives, join forces with other interested parties and procure the greatest possible number of friendly or neutral neighbours. Russia's interest in Eurasia can be defined as the creation of coalitions of friendly states for regional development—a "circle of friends" or "circle of trust"—with whom it can solve the problems of development and snuff out threats to security. It is also in Russia's interests to secure the neutrality of those forces that could hinder the achievements of these aims through force of inertia. The US, for instance, increasingly sees itself as a competitor of Russia and China in the region. Such competition is not preordained, however, so compromise and win-win decisions must constantly be sought. The coalition of development must be flexible in character.

## ***Interest two: preventing the region from descending into chaos***

A combination of factors means that the threat of extensive territories—including Ukraine, the Caucasus and Central Asian countries—descending into chaos persists. Such chaos would bring no benefit to Russia, quite the contrary. It would entail the possibility that relations with the West deteriorate further and that Russia has to grapple with a mass of problems, such as spontaneous migration, drug trafficking, terrorism and the illegal circulation of weapons. More trouble spots and bitter conflicts, more weak or non-existent states on the Eurasian landmass, would require Russia to deploy force along the whole length of the border. That would not only be a source of tension in and of itself, but would risk provoking social unrest within Russia. It is reported that a growing number of ISIS fighters are citizens of Central Asian and South Caucasian republics and Russia's North Caucasian regions.<sup>8</sup> In Central Asia and the Caucasus, no systems yet exist for monitoring the extent to which populations have been radicalized or radical Islamist ideas have spread. Similarly, no mechanisms exist for tracking the movements and border-crossings of radicalized citizens. Poverty, ethnic tension and social disorder create breeding grounds for terrorists and extremists of all stripes and threaten stability in certain countries. Helping surrounding states to develop and flourish is as important a task for Russia as it is for those neighbours themselves—Kazakhstan, Kyrgyzstan, Armenia, China and others. In the event that the situation deteriorates, they might well suffer more than Russia.

## ***Interest three: the politics of common development***

In recent times, Western media have increasingly assigned Russia the image of a state that supports conservative forces and prevents political changes. Russia is often regarded as a conservative state in which internal changes are extremely difficult to bring about. Indeed, Russia must face up to the necessity of adapting its economy and structure of governance to crisis conditions—in other words, to become more effective and efficient. Attempting to preserve outmoded structures at any cost carries with it the risk of economic

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<sup>8</sup> D. Rozanov, "Kavkaz podklyuchaetsya k IGIL" [The Caucasus Links up to ISIL], Gazeta.ru, 25 June 2015, <[www.gazeta.ru/politics/2015/06/25\\_a\\_6854273.shtml](http://www.gazeta.ru/politics/2015/06/25_a_6854273.shtml)>. "Kavkaz v pritselye 'Islamskovo gosudarstva'" [Islamic State Have the Caucasus in their Cross Hairs], RIA Novosti, 22 October 2014, <[http://ria.ru/cj\\_analytics/20141022/1029455469.html](http://ria.ru/cj_analytics/20141022/1029455469.html)>.



decline and social explosion, as the recent history of Ukraine vividly illustrates. But a Maidan-like scenario would be unacceptable for Russia: a spontaneous revolution would only entrench its problems. Russia's interests also dictate that its neighbours do not follow Ukraine's path. It is therefore in its national interest to pursue a flexible, pragmatic policy of supporting infrastructure projects both within Russia and in neighbouring states. The theory of common development should be the guiding principle behind such support. Pragmatism and concrete results matter more here than the blind pursuit of abstract political doctrines. Increasing competitiveness on world markets should serve as the key measure of success. The removal of barriers to the free movement of goods, capital, services and manpower, and the unification of sector-specific standards across central Eurasia, are designed precisely to sharpen the competitive edge of member states by reducing transaction costs. This task is much more important than illusory geopolitical projects.

These very motives underlie Russia's interest in infrastructure projects in Central Asia. The construction of Silk Road routes passing through Central Asian states and the Southern regions of Russia has the potential to stimulate development in the area. The time saved in transporting cargo from Western China to Europe overland constitutes a valuable competitive advantage for regions with no direct outlet to the sea. Experts believe<sup>9</sup> that the most reliable source of increased overland transportation in Central Asia is Western China, with its population of 150 million and its rapidly developing industries. For Central Asian states and the Southern regions of Russia, new infrastructure spells new possibilities to expand markets for their own goods (taking advantage of transport arteries to deliver their own freight), create new working places, new services infrastructures and so on. It is in Russia's interests to lay down the firm economic foundations of cooperation with its partners in the Eurasian Union. If integration yields real economic benefits, it will inevitably serve to strengthen political ties between acknowledged equals. Eventually, it makes sense for Russia to work alongside its Eurasian partners to overcome their common under-development.

### ***Interest four: institutions for inter-regional cooperation***

If the Eurasian economic integration project succeeds, Russia and its partners will gain the chance to establish qualitatively new links with countries and associations outside the region. An agreement on a Free Trade Area (FTA) with Vietnam for instance has already been

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<sup>9</sup> E. Vinokurov, A. Libman, "Evraziyskaya kontinental'naya integratsiya" [The Integration of the Eurasian Continent], *Evraziyskiy Bank Razvitiya* [Eurasian Bank of Development], 2014, p. 95.



concluded in 2015. Negotiations are underway about Egypt joining the FTA: volumes of trade between Russia and Egypt are increasing and the two countries enjoy close relations as regards investment and large infrastructure projects. Eurasian economic integration might allow a renaissance in Russian-EU relations. The principles and standards written into the EEU will, in one way or another, affect cooperation between European countries and EEU member states. As integration deepens, the latter will begin to coordinate their economic policy towards third countries and blocs. It is therefore incumbent on the EU and the EEU to work out a mutually acceptable modus vivendi and, at the very least, to create a forum for discussion that puts political differences to one side. It is quite possible that the EEU and other Eurasian integration processes will resurrect the idea of a common space from Lisbon to Vladivostok: that is, a greater Europe or a greater Eurasia.<sup>10</sup>

### ***Interest five: restoring Russia's reputation as a constructive partner***

At a time of deterioration in relations with the West, Russia badly needs to restore its reputation as an equal, constructive and reliable partner and to throw off its reputation as a state that threatens weaker neighbours and nourishes imperial ambitions towards the former republics of the USSR. "Soft power" avails Russia little in this respect because all its efforts in the information sphere are interpreted as propaganda by Western elites and broadcast as such by Western media. Tangible results in the field of development might prove much more effective. But more than twenty years of integration projects in the CIS demonstrates just how difficult this task is.

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<sup>10</sup> "Khristenko: sozdaniye zony svobodnoy trgovli ot Lissabona do Vladivostoka nye snimayetsya s povestki dnaya" [Khristenko: the Creation of a Free Trade Area Extending from Lisbon to Vladivostok Is Still on the Agenda], Novosti Belarusi, 6 February 2015, <[www.belta.by/economics/view/hristenko-sozdanie-zony-svobodnoj-torgovli-ot-lissabona-do-vladivostoka-ne-snimaetsja-s-povestki-dnja-157164-2015](http://www.belta.by/economics/view/hristenko-sozdanie-zony-svobodnoj-torgovli-ot-lissabona-do-vladivostoka-ne-snimaetsja-s-povestki-dnja-157164-2015)>.

## The Possibilities and Limitations of Russia's Eurasian Policy

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To fully comprehend Russia's Eurasian policy requires a sober assessment of its possibilities and limitations. For instance, the sheer geographic span of the country can be seen from two angles. On the one hand, it is an advantage for Russia because it guarantees access to many of the countries of the region, as well as to the main motorways, ports and transport corridors. Russia can act in several different directions at the same time. On the other hand, to fully exploit this advantage would require huge investment in extending transport links. The Trans-Siberian railway is a good example: despite being a unique transport route, it suffers from serious capacity flaws. These are compounded by poor infrastructure at the port of Vladivostok and other ports.<sup>11</sup>

At present, with funds in short supply, there is no prospect of transport corridors of a continental scale being constructed in Russia. But to the extent that it is more or less feasible, involvement in trans-continental projects can and should be embraced. This goes for the Northern Silk Road routes, which pass through China, Kazakhstan and Russia: through such cities as Urumqi, Dostyk, Omsk, Moscow, into EU countries. In its Russian sections, this route passes through Orenburg, Kazan, Nizhny Novgorod, Moscow and St Petersburg, before finishing at the ports of the Baltic Sea.<sup>12</sup> The route is already in use but its biggest defect, according to experts, is its low capacity. It must therefore be dramatically modernized. Russian Caspian ports also have great potential but require significant investment and reconstruction work if large container ships are to dock there.<sup>13</sup>

In addition, Russia does not have enough of the right ships and lacks the skills to service port infrastructure and container

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<sup>11</sup> "Porty Dan'nevo Vostoka: Zheleznodorozhnaya udavka na vzlyotye investitsiy" [Ports of the Far East: Effects of Investment Choked Off], RIA PrimaMedia, 9 February 2015, <<http://primamedia.ru/news/economics/09.02.2015/419899/porti-dalnego-vostoka-zheleznodorozhnaya-udavka--na-vzlete-investitsiy.html>>.

<sup>12</sup> K Velikomu Okeanu, *op. cit.* [6].

<sup>13</sup> A. Golovaneva, "Rol' Rossii na rynke morskikh gruzovykh perevozok na Kaspii" [Russia's Role in Cargo Transportation on the Caspian], *Nauchnyye trudy: Institut narodnokhozyaystvennoy prognozirovaniya RAN* [Scientific Work: Institute of National Economy Forecasting] No 8, 2010, <<http://cyberleninka.ru/article/n/rol-rossii-na-rynke-morskikh-gruzovykh-perevozok-na-kaspii>>.

transport. Participation in the Silk Road project could act as a spur to overcoming these systemic problems.

The size of the Russian economy is an asset in the Eurasian integration process. But it is not dynamic enough, the state sector is growing in percentage terms, monopolies and state corporations play an excessive role and the shadow economy continues to exist. Labour productivity is too low, adding to demographic problems such as sluggish growth rates, the ageing of the population and high mortality.<sup>14</sup> From a central Eurasian perspective, however, the Russian economy can be seen as a pole of attraction of sorts: it provides a sizeable market for goods, investment and manpower of neighbouring states, as well as being a reliable and resource-rich supplier of raw materials. The Russian economy has still to shake off the after-effects of deindustrialization following the fall of the Soviet Union and has still not become diverse enough, but on a regional scale it exerts considerable influence over the economies of neighbouring states.

The influence of the Russian economy on that of its neighbours opens up certain possibilities and smooths the way to integration, but it also entails risks for Russia, its neighbours and the process of Eurasian integration. Negative trends in the Russian economy are immediately reflected in neighbouring countries, as recent fluctuations in the currency markets demonstrated so graphically. Any further deterioration could release a wave of discontent in EEU countries, provoke public scepticism about the feasibility of integration and unleash criticism against Russia. If the crisis can be overcome, however, Russia could make a big contribution to joint projects in Eurasia.

The fortunes of human capital in Russia can also be seen from two different perspectives. Demographic imbalances between regions are a characteristic feature of Russia, with people being distributed very unequally across the country, most of them living in the West. The potential of Siberia and the Far East has largely gone untapped because of a shortage of people, among other things. As the population declines, these parts of Russia will remain the most vulnerable. As far as quality is concerned, however, Russia has to a great extent succeeded in preserving its human capital, particularly through education. There are problems here too, of course. Middle specialized and technical education has got much worse, holding back the re-industrialization of the country and the development of large infrastructure projects. Efforts are currently under way to make up the ground that has been lost. In general, despite the peripheral

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<sup>14</sup> "Nas snova zhdyot yestyestvennaya ubyl' naseleniya: Professor vysshey shkoly ekonomiki Anatoliy Vishnevskiy o demograficheskikh problemakh Rossii" [Population Decline Is Once Again upon Us: Anatoly Vishnevsky of the Higher School of Economics on Russia's Demographic Problems], <Lenta.ru>, 21 April 2015, <<http://lenta.ru/articles/2015/04/21/demograf/>>.

nature of the economy, Russia has qualified workers capable of carrying out the most varied of projects, as was demonstrated so convincingly in recent years by construction projects in Sochi, Kazan, Vladivostok and other cities where international sports events and summits have taken place. The same goes for the construction of cross-border pipelines (Nord Stream, South Stream, Power of Siberia and others) and the development and modernization of the rail network in the run-up to the Universiade in Kazan in 2013. Russia's educational infrastructure could [also] be used for the purposes of humanitarian cooperation with the full spectrum of partners.

Language is an additional asset here. Across Central Asia, many people still speak Russian, which helps in terms of mutual comprehension and collaboration at the level of societies as well as elites. The reach of the Russian language opens up the prospect that Russia's education system could be used by its EEU partners. That said, the younger generation in many former Soviet states speak Russian much worse than their elders. Russian is no longer an attractive foreign language in the eyes of the younger generation in China and other countries, losing out to English. Money must therefore be invested in promoting the Russian language but Russia must also adapt to a new environment in which English is the de facto language of international communication. It is to Russia's advantage, however, that it is experienced in interacting with the cultures of the region, just as its cultural flexibility and long exposure to diversity will stand it in good stead.

Finally, Russia also benefits from its ability to swiftly gather its strength in order to solve crises. This is a valuable advantage when economic projects are being carried out in an environment of serious threats to regional security. Institutions have been created to coordinate security issues among regional partners, namely the Collective Security Treaty Organisation (CSTO) and the Shanghai Cooperation Organisation (SCO).

## The Risks of Russia's Eurasian Policy

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Among the key risks to Russia's Eurasian policy is the possibility that radical Islam adds fuel to the fire of regional conflicts. Signs in Central Asia and the Caucasus indicate that the influence of Islamic State<sup>15</sup> is on the rise: recall the recent infamous case of the Tajik OMON (special police unit) Commander who joined IS. IS sympathizers do not always leave for Syria and Iraq, however: they sometimes continue carrying out their activities back home. Clashes with IS fighters have already occurred in Eurasia. In July this year, for instance, IS militants were killed in a special operation in Bishkek. The authorities in Kazakhstan have also succeeded in preventing a series of planned terrorist attacks by cooperating with both Uzbek and Kyrgyz secret services. If these trends intensify, there is no predicting to what extent risks to security will impact upon the region's economic integration. If the Islamists entrench their position or the so-called frozen conflicts (such as that between Armenia and Azerbaijan) heat up, thereby destabilizing Central Asia and/or the Caucasus, the prospects for regional integration [would be called into question]. The radicalization of part of the population in Central Asia and the Caucasus could emerge as a serious stumbling block on the road to integration because it would undermine the free movement of people. The risks associated with changes of political leaders also remain. Every such change is fraught with the potential for intra-elite divisions and conflicts.

There are also economic risks associated with Eurasian integration and Silk Road infrastructure projects. Any economic project which aims to turn a profit can end up losing money if costs increase or if external economic problems impinge upon it. The success of the Silk Road is not considered a given, by any means, and the question of what economic benefit it can generate over the long term remains unanswered. What happens, for instance, if the new infrastructure is under-used because, say, sea transport turns out to be more profitable and efficient? The expert community has its doubts.<sup>16</sup> Sea transport, which is widely used at present, allows procedures to be minimized and payment simplified, while cargo can

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<sup>15</sup> Islamic State is a terrorist group whose activity is banned in Russia and prosecutable under Russian law.

<sup>16</sup> E. Vinokurov, A. Libman, *op. cit.* [9], p. 93.

be easily tracked and charges are predictable and transparent. Cargo ships can also hold many more containers than could be transported by rail. What is more, the potential for an increase in container transport in central Eurasia is limited by the composition of exports from CIS countries to China, where there is almost nothing that can be transported by container. The fortunes of the International North-South Transport Corridor (INSTC) tell their own story. Despite the fact that the INSTC was founded by an agreement in 2000, freight forwarders were not interested in it. It had been envisaged that three million tons of cargo would pass through the Caspian port of Olya by the year 2005 but, in the event, the total was only 435,000 tons.<sup>17</sup>

Yet another risk revolves around public support for economic projects. There is no guarantee that integration will yield a quick return. The economic climate in all EEU member states is gloomy, with their markets being squeezed by external factors. Making a success of such a project at a time of economic contraction is a difficult task indeed: bringing sector-specific standards into line, arranging border control, in some cases raising import duties on goods from third countries (in Armenia, for instance) and other harmonization measures all require a lot of work, the results of which will not be felt overnight. The public is already seriously questioning whether integration is worth the candle. Declining trade between member states as a result of the crisis only strengthens such feelings and acts as a brake on integration.

Herein lies still another risk—the temptation to politicize economic projects, particularly if they are economically unprofitable. If integration does not yield the expected economic return, its transformation into a political project would only make it yet more unprofitable and entail serious reputational risks. Propping up integration at a political level would require additional spending on the part of Russia and its partners, spending that would not be seen as legitimate in the eyes of the public. As things stand, it is incredibly important for Russia not to burn its reputational bridges.

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<sup>17</sup> Ibidem.

## Conclusions

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In all likelihood, Russia must solve a whole gamut of problems. On the one hand, its policy towards Eurasia and the East is determined by economic factors—Western sanctions, the need to find new markets, lower costs and access to technology. On the other hand, Russia's own economic resources are limited and insufficient to allow it to lead the process of continental integration. Russia must therefore pursue a cautious and subtle approach, taking care not to politicize economic projects and thereby irritate its partners. It must reconcile its interests with big Chinese projects in which Russia's influence might be modest.

Meanwhile, the logic of regional integration is being increasingly defined by political risks and the threat that the region could descend into chaos. Russia possesses considerable military and political assets in this regard and it is in this area that Russia can prove to its partners that it is a worthy ally. Security is something that is valuable to all the countries of the region: it too has its price. Russia can find its niche in this area.

Lastly, it is important to remember that, in the light of Russia's possibilities and limitations, Eurasian integration and the turn to the East can hardly be expected to replace relations with the West. The two should not be seen as mutually exclusive. Sooner or later, the task of restoring relations with the West will return to the agenda.