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THE EURASIAN CUSTOMS UNION AND THE FUTURE OF RUSSIAN-UKRAINIAN RELATIONS

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Introduction

On May 31, 2013, in Minsk, Ukraine's Prime Minister, Nikolay Azarov, signed a memorandum of deepening cooperation between Ukraine and the Eurasian Economic Commission (EuEC) – the executive body created by Russia, Belarus and Kazakhstan with the task of ensuring the functioning and development of their trilateral integration project: the Eurasian Customs Union (CU). Founded in 2010, the CU is expected to develop into a fully-fledged economic union by January 2015. The memorandum confirmed Ukraine's intention to obtain an observer status in the Eurasian Economic Union (currently, the CU has no observer status), as well as established the formal post of the Ukrainian representative within the EuEC and granted the former the right to submit proposals to the Commission, but no decision-making powers¹.

Although the signing of this memorandum appears to indicate some forward momentum for the Eurasian Union, it should be stated clearly at the very outset that this document hardly qualifies as an overachievement for Moscow and its diplomatic offensive that has been waged for several years now in order to persuade Ukraine join this Russia-centered post-Soviet integration project. The Eurasian Customs Union became a real priority for Russian foreign policy after Vladimir Putin's return as Russia's president in May 2012, and so Ukraine's participation – for geopolitical, but also for economic reasons – would be a key factor in ensuring the success of the initiative². For this reason, it is of little surprise that Moscow made Kiev a generous offer. In April 2013, Vladimir Putin indicated that Ukraine's economic gains from its CU accession could be as much as 9-10 billion US dollars annually in what appears to be an estimate based on a significant lowering of gas prices as well as tax-free exports of Russian crude oil to Ukraine, both of which follow the model

¹ The full text of the document is available at the website of Ukraine's Cabinet of Ministers, http://www.kmu.gov.ua/control/publish/article?art_id=246392146, accessed July 19, 2013.

² See H. Adomeit, "Putin's 'Eurasian Union': Russia's Integration Project and Policies on Post-Soviet Space". – *Neighbourhood Policy Paper* 04, July 2012, **Kadir Has** University Center for International and Eurasian Studies and the Black Sea Trust for Regional Cooperation; I have explained the importance of Ukraine for the CU in A. Moshes. "Will Ukraine Join (and Save) the Eurasian Customs Union?" – PONARS Eurasia Policy Memo No. 247, April 2013, <http://ponarseurasia.org/memo/will-ukraine-join-and-save-eurasian-customs-union>, accessed July 25, 2013.

applied in Belarus³. But Moscow is equally pointing at the potential costs of non-accession, making the stick as clear as the carrot. If Ukraine prefers to stay outside the CU, then it has already been repeatedly warned that it should be prepared to deal with worsening conditions for its exports to the Russian market and a more restrictive border regime that will affect Ukraine's migrant workers⁴.

Yet, Ukraine has so far been able to avoid membership in the CU and, to date no binding commitments have been taken. Ukraine has also retained a degree of freedom to develop its relations with the European Union, declaring its interest in concluding an Association Agreement and a free-trade agreement with the latter at its Eastern Partnership summit in Vilnius in November this year⁵. Furthermore, the memorandum with the Eurasian Economic Commission can be seen as proof of Ukraine's ability to impose tactical concessions on Russia, the original diplomatic position of which was to deny any possibility of an intermediate status and to insist on a full accession of Ukraine to the CU⁶.

But another interpretation is also possible and can, in fact, serve well to explain Russia's willingness to compromise. Prime Minister Medvedev said in March 2013 that an observer status "is the first stage of accession to any integration union"⁷. In light of this interpretation a question can, indeed, be raised as to whether Ukraine is presently correcting its previous course, which in view of the continued complications between Kiev and the West and the EU in particular, may lead to Ukraine's accelerated slip into Russia's orbit⁸.

However, as I will argue in this paper, the grounds for forecasting the latter scenario are insufficient. Regardless of what will happen in Vilnius and whether or not the Association

³ http://economics.lb.ua/state/2013/04/25/198061_putin_sulit_ukraine_10_mlrd.html , accessed July 22, 2013

⁴ Putin's economic advisor Sergey Glaziev, speaking on Ukrainian television, called the customs border the "line of the barricades" and said the benefits will be available to insiders only.

http://lb.ua/news/2013/04/26/198277_sovetnik_putina_poprosil_ukrainu.html , accessed July 22, 2013

⁵ Immediately after the mentioned memorandum was signed, on the same May 31, 2013, president Yanukovich called the head of the European Commission Jose Barroso and confirmed that the agreement does not contradict Ukraine's strategic choice of European integration and its intention to conclude the Association agreement with the EU.

http://lb.ua/news/2013/06/01/203203_yanukovich_zaveril_glavu_evrokomissii.html , accessed July 22, 2013.

This position was reconfirmed in the presidential address to Ukraine's parliament on June 6, 2013.

<http://www.pravda.com.ua/rus/news/2013/06/6/6991537/> , accessed July 22, 2013.

⁶ Ukraine's president Viktor Yanukovich proposed a special "3 plus 1" formula of Ukraine's relations with the CU in April 2011. Later on, this approach has developed into the plan to accede to a selected number of intra-CU agreements. In June 2013 Prime Minister Azarov said with precision that Ukraine would like to join 95 out of 118 agreements. Moscow does not accept the proposal. For details see

http://lb.ua/news/2013/06/05/204003_azarov_obyavil_vigodnimi_ukraini.html , accessed July 22, 2013

⁷ <http://www.kyivpost.com/content/ukraine/medvedev-ukraine-will-be-unable-to-influence-decision-making-in-customs-union-as-observer-322031.html> , accessed July 22, 2013. On the other hand, admittedly, the current compromise does not cost Russia anything as no benefits will be provided to Ukraine in the observer status.

⁸ See T.Iwansky, S.Kardas. "Ukraine Closer to the Customs Union?" *Eastweek*, 5 June 2013. Center for Eastern Studies, Warsaw. <http://www.osw.waw.pl/en/publikacje/eastweek/2013-06-05/ukraine-closer-to-customs-union> , accessed July 19, 2013.

Agreement will be signed, the memorandum of cooperation between Ukraine and the EuEC will not start a new trend in Russian-Ukrainian relations. The paradigm of this relationship is set, and this paradigm is centrifugal. Ukraine will continue its balancing act, and the issue of the Eurasian Economic Union will comprise just one component of the country's fluctuating foreign policy, just one 'pole of gravity'. It is also possible that the Eurasian Union will gradually lose the centrality it has acquired recently, and that the focus will return to more traditional issues – principally, those relating to energy.

The unconvincing merits of the case

In a nutshell, this argument is based on the assumption that Ukraine's economic gains are uncertain at best, whereas the risks – or even losses – are obvious⁹. The point that the market of the Customs Union is a destination of approximately one third of Ukraine's exports is a valid one and certainly explains why Ukraine cannot stay indifferent towards the development of the initiative. Yet, it is too general and too vague to counterbalance the following argumentation.

First of all, the economic performance of the Customs Union is not very impressive. Whereas in the beginning of the CU activity the expert community was open-minded about its future and was ready to recognize that it constituted a new reality on the ground, by the end of 2012 a rather skeptical consensus had emerged. For example, it was concluded that the project was “primarily driven by personal ambitions of the countries' leadership rather than economics”¹⁰ and that the short-term effects of the introduction of the Customs Union were already exhausted¹¹. At the same time, the CU was viewed as moving backward on non-tariff barriers and trade facilitation in general¹². As such, the emergence of the Eurasian Economic Union was not ruled out, but it was

⁹ Ukrainian economists are strikingly split in their estimates, which further underlines the overall economic uncertainties. The study conducted by Ukraine's National Academy of Sciences Institute of Economics and Forecasting together with partners from the Russian Academy of Sciences in 2011 predicted a six percent annual increase in GDP for Ukraine in the case of accession. A more recent study by Ukraine's Institute of Economic Studies and Political Consulting, on the contrary, expects a loss of 3.7 percent of “national wealth” within ten years, while painting much brighter prospect for the country in the event of the introduction of free trade with the EU. Finally, a study by the Kiev School of Economics, while finding benefits in both “eastward” and “westward” integration (though free trade with the EU would, in the authors' view, be more beneficial), points out that the CU would be more useful for Ukraine's agriculture and food industry, and the EU – for light industry, metallurgy and machine-building, thus helping to diversify Ukraine's exports. For a more-detailed summary of the discussion see “Mnogovektornaya likhoradka” (Multi-vector fever). *Expert* (Ukraine), n. 22, June 10, 2013, <http://expert.ua/articles/7/0/11453>, accessed July 22, 2013.

¹⁰ O.Shumylo-Tapiola. “The Eurasian Customs Union: Friend of Foe of the EU?” *Carnegie Papers*, October 2012, p. 22.

¹¹ S.Blockmans, H.Kostanyan, I.Vorobiov. “Towards a Eurasian Economic Union: the Challenge of Integration and Unity”. *CEPS Special Report* no. 75, December 2012, p. 28.

¹² D.Tarr. “The Eurasian Customs Union among Russia, Belarus and Kazakhstan: Can It Succeed Where Its Predecessor Failed?” *CEFIR Policy Paper* No. 37. New Economic School, Moscow, December 2012, p. 2.

considered possible only at a much later date than the one scheduled (2015), whereas the transformation of the CU into yet another stagnating CIS-area project or even the return of bilateral cooperation and the rejection of the union altogether, were considered to be equally possible scenarios¹³.

Meanwhile, the trade dynamics within the CU have been recently reversed towards the negative. If in 2011 intra-CU trade grew by 34 percent, which was still largely a recovery effect from the 2009 economic crisis, then in the first six months of 2012 it increased by 15 percent, and in the second half of 2012 by three percent only. In the first quarter of 2013 the mutual trade between the members of the CU fell by almost 10 percent¹⁴, whereas trade between the CU and the EU decreased by less than three percent¹⁵.

Furthermore, a comparison between the cases of Belarus and Ukraine shows that there is no correlation between membership in the CU and trade with Russia – the major market in the CU. In 2011, according to Russian statistics, Belarusian trade with Russia increased by 40.7 percent, and a roughly similar increase for Ukraine in the same period was 36.1 percent. Conversely, in 2012, both Belarus and Ukraine experienced decreasing volumes of trade with Russia of 9.4 and 10.8 percent, respectively. In January-May 2013, Russian-Belarusian trade was only 76.5 percent of its volume a year earlier, and for Ukraine and Russia – 80.2 percent, which means a collapse in both cases (again, particularly telling when viewed against a meager 0.8 percent decrease in Russia-EU trade during the same period)¹⁶.

Second, whereas the Customs Union and the Eurasian Economic Union may be an ambitious attempt at post-Soviet integration, it is by no means the first one. The CIS free-trade agreement, signed in 2011 and of which Ukraine is a party, is a recent example. Yet, all the efforts undertaken thus far have not been able to affect the trend towards economic disintegration and trade diversion in the post-Soviet space which became a new normalcy, coupled with the diversification of economic ties of all CIS countries. In 2012, the share of the CIS in Russian foreign trade was only 14.1 percent and that of the Customs Union – 6.9 percent, which is comparable with Italy alone. The CIS share in Ukraine's trade fell from 56 to 36 percent in the period 1995-2012, Russia's –

¹³ "Eurasian Union: a Challenge for the European Union and Eastern Partnership Countries". Eastern Europe Studies Center, Vilnius, 19 December 2012. pp. 25-26.

¹⁴ http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/trade/vzaim_stat/iCU201304/Documents/i201304_1.pdf, accessed July 22, 2013.

¹⁵ http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/trade/vneshtorg/eCU201304/Documents/ALLusd201304_13.pdf, accessed July 22, 2013

¹⁶ http://www.gks.ru/bgd/free/b04_03/IssWWW.exe/Stg/d01/33.htm, http://www.gks.ru/bgd/free/b04_03/IssWWW.exe/Stg/d02/149.htm, both accessed July 22, 2013.

from 39 to 29 percent, despite its massive energy exports to Ukraine. Equally, Ukraine's share of Russia's trade diminished from 11 to 5.4 percent¹⁷. To a large extent, this was a result of competition between duplicating industries, which were lobbying for reciprocal protectionism rather than openness. Taking these developments into account, it is very difficult to see why membership in the CU would make a difference. It is quite conceivable on the contrary that the harmonization of customs politics with Russia, with its higher external tariffs, would only complicate the trade relations with third parties (European Union and China in particular, and WTO members in general, as the CU membership would affect Ukraine's obligations taken upon its entry into the WTO), would make imports more expensive, as the case of Kazakhstan attests¹⁸, but not necessarily facilitate exports within the CU, due to the same non-tariff barriers.

Third, Ukraine's entry into the CU would effectively eliminate the prospects for concluding a free-trade agreement with the EU. Ukraine declares its interest to have free trade with both economic unions and even urged them to start negotiations on trade liberalization¹⁹. However, at the moment such an outcome is ruled out. On the one hand, Russia, the major power of the CU, is not willing to go beyond its WTO commitments and grant the EU more liberal market access. On the other hand, the EU constitutionally cannot have a preferential economic relationship with an organization, two members of which – Kazakhstan and Belarus – are not members of the WTO. Consequently, Brussels makes it clear, that although it understands Ukraine's interest to step up its cooperation with the CU, membership in the organization and the following loss of trade sovereignty would not be compatible with a privileged relationship between Ukraine and the EU²⁰.

Fourth, the crucial problem of high energy prices does not necessarily have to be solved within the context of Ukraine's accession to the Customs Union²¹. It is worth remembering that even in the case of Belarus the low gas prices came in exchange for the sale of the country's gas transit infrastructure in 2010, and formally had nothing to do with the emergence of the CU.

¹⁷ *Ukraina i Tamozhennyi Souyz: problemy integratsii* (Ukraine and the Customs Union: integration problems). *Zerkalo nedeli*, 22 March 2013. <http://gazeta.zn.ua/internal/ukraina-i-tamozhennyi-soyuz-problemy-integratsii-.html>, accessed July 25, 2013.

¹⁸ As more expensive imports from within the CU were replacing cheaper Chinese products, the negative balance in Kazakhstan's trade with Russia and Belarus increased from approximately \$8.5 billion in 2011 to almost \$11 billion in 2012. This is the author's calculations based on the data cited on the site of the Eurasian Commission.

¹⁹ See the statement of Ukraine's Foreign Minister Leonid Kozhara from February 11, 2013.

<http://www.rosbalt.ru/ukraina/2013/02/11/1092418.html>, accessed July 24, 2013.

²⁰ See, for example, the statement of EU Commissioner Stefan Füle, <http://news.liga.net/news/politics/807436-tamozhennyi-soyuz-lisnit-ukrainu-suvereniteta-evrokomissar.htm>, accessed July 24, 2013.

²¹ Ukraine pays over 400 US dollars per one thousand cubic meters of imported Russian gas as compared with 165 that Russia charges Belarus.

If the deal were to be reached, Ukraine's motivation to join the CU would practically disappear. And arguably, a new agreement can be concluded in the medium-term future. In order to understand this possibility, it is necessary to look deeper into the on-going evolution of the Russian-Ukrainian energy relationship. The thing is that Ukraine is reducing its gas dependence on Russia, which has been made possible by developments occurring in global and European gas markets, the shale gas revolution and the massive arrival of LNG. Ukraine has already dramatically reduced its imports of Russian gas – from 57 billion cubic meters (bcm) in 2007 to 33 bcm in 2012 and an expected 26 bcm in 2013. In the first six months of 2013, Ukraine's imports were a further 35 percent – one third – lower than the year before²². The country has started to import gas from the German RWE company, delivered through Hungary and Poland, in amounts which in annualized terms could reach 5.5 bcm, based on estimates for August 2013²³. Moscow tried to stop this reorientation and in January 2013 requested Ukraine to pay a fine of 7 bn US dollars as compensation for the violation of the “take or pay” principle, included into the valid bilateral contract²⁴. However, when Ukraine refused to pay, no action followed. Apparently, Moscow is hesitant to go to an international court of arbitration, a process which may involve too much disclosure of Russia's usually non-transparent “gas diplomacy”. In addition, Russia would be even less at ease now with cutting supplies to Ukraine, as it did in 2006 and 2009, as this could finally ruin Russia's reputation in Europe as a reliable energy partner. Facing the risk of losing a major market, Moscow may eventually choose to trade lower prices for stronger guarantees of purchase – as is actually happening in relations with many other European consumers – and a possible agreement on cooperation in the field of transit.

The fifth argument is of a non-economic nature and deals with Ukraine's domestic politics. Accession to the CU is a very divisive issue in the country. According to multiple public opinion polls, the CU does not have a majority support among Ukraine's population. The May 2013 poll by the respectful Razumkov Center and the Democratic Initiative Foundation revealed that 42 percent of respondents believe EU membership should be the country's main foreign policy priority; whereas membership in the CU was supported by 31 percent (13.5 support neither option)²⁵. A similar 45 to 35 percent ratio (15 percent supporting neither European nor Eurasian integration) was

²² <http://korrespondent.net/business/economics/1580018-po-itogam-shesti-mesyacev-ukraina-na-tret-sokratila-import-rossijskogo-gaza> , accessed July 22, 2013.

²³ V.Socor. “Ukraine Diversifies Gas Supplies, Slashes Imports from Gazprom”. *Eurasia Daily Monitor*, Volume 10, Issue 129, July 15, 2013. In addition to imports from Europe, Ukraine is seriously considering the construction of the own LNG terminal and the start of the own shale gas production.

²⁴ See *Gazeta.Ru*, 26 January 2013, <http://www.gazeta.ru/business/2013/01/26/4941773.shtml>, *Nezavisimaya Gazeta*, 01 February 2013, http://www.ng.ru/cis/2013-02-01/7_gasprom.html , both accessed July 22, 2013.

²⁵ http://news.liga.net/news/politics/871207-42_khotyat_prisoedineniya_ukrainy_k_es_31_khotyat_v_tamozhennyi_soyuz.htm , accessed July 22, 2013

observed in March 2013 by another pollster, Gorshenin Institute²⁶. Given these attitudes, pushing or preparing for CU membership would be rather risky for Ukraine's political leadership and the country's president, Viktor Yanukovich, who will stand for re-election in February 2015, as it would give a potentially unifying message to the political opposition. For economic reasons, once again, such a platform would no doubt be supported by certain business groupings. Meanwhile, in the time left before the elections, there is practically no chance for hypothetical benefits (low energy prices) to be felt by the wider population and thus to affect the preferences of voters.

The centrifugal context of bilateral relations

Most importantly, perhaps, the discussion of Ukraine's relationship with the Customs Union is taking place in the context of a bilateral relationship, which has been (and remains) very complicated since Ukraine's independence. Russia and Ukraine are the two largest successor states of the USSR, and, since 1991, the latter has always been looking for a geopolitical alternative to a Russia-centered model of post-Soviet development. During the period following the Orange revolution (2005-09) a more democratic Ukraine even pretended to become an alternative of sorts to the more authoritarian Russia. There were moments when the bilateral relationship threatened to develop into open conflict (in August 2009, Moscow demonstratively refused to send an ambassador to Kiev, not to mention the gas wars of 2006 and 2009), interrupted by periods of rapprochement (the last of these "honeymoons" immediately followed Viktor Yanukovich's election as president in February 2010). But attempts to come closer to each other were never sustained. As such, any improvement would likely be temporary, and the fact that relations were becoming better would not mean they were becoming good. It is not for nothing that president Yanukovich once Moscow's favorite and at the moment of speaking a bit longer than a year in power as Ukraine's head of state complained that Russia behaved "as if it was dealing with an enemy"²⁷. Such candid remarks by Ukraine's president illustrate the kind of negative continuity that characterizes Russian-Ukrainian relations, and this continuity is hard to combine with reintegration strategies. In other words, Ukraine and Russia are too different and too distant from each other, with the former too big to be either easily attracted by economic perks or to be coerced into entering a closer alliance.

²⁶ http://lb.ua/news/2013/05/30/202427_42_ukraintsev_hotyat_videt_ukrainu.html , accessed July 22, 2013

²⁷ "Uslovia vypisany kak budto dlia vruga" ("The conditions are set as for an enemy"). Interview with Viktor Yanukovich. *Kommersant*, September 6, 2011, <http://www.kommersant.ru/doc/1766711> , accessed July 25, 2013.

The primary reason for this is structural. Ukrainian independence from the very beginning was understood in the country as independence from Russia²⁸. Admittedly, a large part of Ukraine's political elite (which gradually acquired importance and influence) originally did not view independence as a self-sufficient value but only appreciated an opportunity to use the instruments of sovereignty in order to maximize personal economic gains. Yet, over the long run this motivation turned out to be no less powerful than more traditional (ethno-cultural and political) drivers of independence. Ukraine's ruling circles learned to enjoy decision-making, independent of Moscow. Regardless of the character of the regime, political actors would not be willing to become the "Kremlin's governors in Kiev", and the business groups would rather aspire to protect their smaller empires from the arrival of more powerful Russian competitors. Russia was thus allotted the status of the main, if not only, challenge to Ukraine's statehood, which had to be resisted.

An objectively existing societal and, consequently, political difference between Ukraine and Russia added to the growing alienation between the two countries. In Ukraine, the need to respect the divergence of political orientations between the eastern and the western regions resulted in a broader political pluralism, which, in turn, indirectly helped to establish a culture of political opposition and meaningful competitive elections, even if the voters have little chance to affect the behavior of the officials between the elections. Close integration with the increasingly more centralized and more authoritarian Russia would also seem an illogical outcome in this respect.

As for Ukraine's foreign policy, the perception of Russia as a challenge rather than a partner made interaction with the West an imperative. And although Ukraine was not able to join its neighbors from Central Europe and the Baltic States on their way towards full membership in the EU and NATO, it carries on a significant inertia of Euro-Atlantic integration. In 2002-2010, Ukraine positioned itself as a NATO aspirant country and even applied for the Membership Action Plan in 2008. At the same time, Ukraine's intention of obtaining EU membership at some point in future is regularly confirmed in official pronouncements. Unfortunately, domestic developments in the country after the election of Yanukovich, which culminated in the jailing of his main political opponent, Yulia Timoshenko, have significantly worsened relations between Ukraine and its Western partners. Yet, the prospect of piecemeal, incremental integration of Ukraine into the European legal and economic space has not been fully removed from the table.

²⁸ I have explained this point in detail in A. Moshes. A special case? What Stands Behind Ukraine's Commitment to the "Democratic Transition". *Russia in Global Affairs*, Vol. 6, No. 2, April – June 2008, pp. 35-50.

Two decades of complicated, often conflicting relations have undermined the trust between two countries' ruling circles. The Kremlin seems to have learned over time that the profession of "pro-Russianness" in the rhetoric of various Ukrainian politicians before they come to power is no guarantee of their readiness to enter a partnership with Moscow once they are in power, and that direct means of controlling the behavior of the Ukrainian leadership (ownership of economic assets as well as political leverages within the country) are required. Building those instruments, however, would inevitably weaken the power of the local leader and thus result in renewed conflict.

The relations between Kremlin and Viktor Yanukych have evolved a great deal since 2004-05 when the latter was supported by Moscow as a preferred successor to President Leonid Kuchma. Yanukovich's defeat in the elections dealt a severe blow on Russia's status as a regional power. But the turning point seems to have been Yanukovich's entry into a coalition with Viktor Yushchenko – the victorious leader of the Orange revolution and as such the strongest irritant for Moscow – which took place after Ukraine's parliamentary election in 2006 and which brought Yanukovich to the post of Prime Minister. In turn, Moscow also changed its position. In 2007-10 it showed no discomfort in dealing with the cabinet of Yulia Tymoshenko and, prudently or not, took neither side in Ukraine's presidential election of 2010, thus demonstrating its own "infidelity" to Yanukovich²⁹. However, the final straw that broke the camel's back was the so-called Kharkov agreements of April 2010, which must have made Yanukovich feel deceived. According to the terms of the agreements, Ukraine extended the lease of the Sevastopol naval base to the Russian Black Sea Fleet until 2042 for a discount of \$100 dollars per one thousand cubic meters (tcm) of imported Russian gas. But in reality, the discount was a little more than an accounting trick. Due to a rather opaque pricing formula, which Russia refuses to re-negotiate, Ukraine ended up paying more for its imports than Germany or Italy, despite lower transit costs and clearly contrary to the expectations of the Ukrainian leadership. It seems that for Kiev, at the moment at least, the general lack of mutual confidence undermines the credibility of the Russian economic offer made in the CU context as well.

The question then has to be asked whether or not Russia has the leverage which could be used to impose on the Ukrainian leadership the choice which it is not willing – and probably is not able – to make voluntarily. For this author the answer is negative. First, when looking back, it becomes apparent that Russia's political clout in Ukraine has significantly weakened. The 2010 Ukrainian

²⁹ It is worth noting that Russia's first reaction to Tymoshenko's trial was openly negative. See the statement of the Russian Foreign Ministry. <http://www.mid.ru/bdomp/ns-rsng.nsf/6bc38aceada6e44b432569e700419ef5/c32577ca001744b6c32578e3005660c2!OpenDocument>, accessed February 16, 2012. Later on, however, Russia withdrew from any public interference into the matter.

presidential election demonstrated that Russia had lost the status of king-maker, which it had before 2004, when it was practically inconceivable for a politician to come to power not having secured at least Russia's neutrality, but better support. After Yanukovich won the 2010 election with the Russian factor largely absent, the mobilization of the domestic power base, as opposed to external support, became the primary consideration.

Second, whereas Russia remains an economic powerhouse as compared with Ukraine, seeking specific trade-offs which would change the political context and decision-making within Ukraine is extremely difficult. On a strategically important energy issue, for instance, it seemed until recently that once Russia completes the construction of the by-pass infrastructure for its gas transit and Ukraine loses its transit near-monopoly and income, Kiev will have no other choice but to make a deal and concede its national pipeline system to Russia. But now, even though the Nord Stream pipeline in the Baltic Sea has been operating since 2011 and the South Stream in the Black Sea is being constructed and is expected to be operational in 2016, and despite Ukraine's complicated general macro-economic situation, it transpires that a credible strategy of diversifying imports can be found, as was shown in this paper, and a compromise may, indeed, have to be reciprocal. At the same time, it is worth noting separately that the economic resources which Moscow may invest in its policy of reintegration, especially in times of global economic crisis, are also limited. It may afford to pay massive economic subsidies to a small Belarus, but providing the same kind of assistance to Ukraine would be a heavy economic burden, and hardly popular among Russia's own population.

Finally, in terms of soft power, Russia's attractiveness in Ukraine should not be exaggerated³⁰. Despite cultural proximity, Russia, with its well-known social ills and assertive external behavior, does not have a strong ideational appeal in Ukraine³¹.

Conclusion

Ukraine's most recent dealings with the Eurasian Customs Union are part and parcel of the balancing act that Kiev has been conducting in its foreign policy since independence. Too weak to deal with Russia one on one, Ukraine has to seek support in the West to counterbalance Russia's

³⁰ On this issue see A. Bogomolov, O. Lytvynenko, "A Ghost in the Mirror: Russian Soft Power in Ukraine," *Chatham House Briefing Paper*, REP RSP BP 2012/01, January 2012.

³¹ A Ukrainian author notes in this regard: "Neither ideas of the "Russian world", nor the religious canonical community of the Ukrainian and Russian Orthodox Church, but gas united our two states." K. Bondarenko. "Ukraina li Rossiya: 'velikoe stoyanie'" (Ukraine and Russia: "a great stand-off"), *Nezavisimaya Gazeta*, January 23, 2012.

influence and pressure. Even though the EU membership perspective is not available to Ukraine, the offer of the free-trade zone and the Association Agreement constitutes a solid platform for a relationship of incremental integration between Ukraine and EU, provided Ukraine preserves the high degree of internal political pluralism that it achieved earlier. Meanwhile, the Eurasian integration project does not seem to create new, and overwhelming, motivation for Ukraine to break with the two decade-long legacy of its foreign policy and opt for full participation. Russia seems to be lacking the necessary diplomatic and/or economic clout to force Ukraine into making that choice. This suggests continuity in Russian-Ukrainian relations, where considerable ad hoc cooperation is possible, and where tension and open conflict can be avoided, but where centrifugal trends will nonetheless prevail.