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SNAPSHOT

Band of Outsiders

How Sanctions Will Strengthen Putin's Regional Clout

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As Russian President Vladimir Putin pours weapons and fighters into Ukraine and the West responds with sanctions, the Russian economy appears bound for recession. The latest round of penalties that followed the downing of Malaysia Airlines flight MH17 has left Russia facing unprecedented capital flight, projected to reach **$100 billion [2]** by the end of 2014 (compared with **$63 billion for all of 2013 [3]**). The ruble, meanwhile, is down 11 percent since November 2013.

But for Russia, things aren't all bad. Its **countersanctions [4]** on practically all food and agricultural imports from the United States and the EU are strengthening the country's position in Eurasia. In fact, the closing of Russia's western borders to European and U.S. goods could allow Putin to execute a judo flip: turning the West's blockade to his benefit by using it to seal closer ties with neighboring post-Soviet states and even new partners such as Turkey.

TRADING UP

A host of countries on Russia's periphery reacted with excitement to the Russian ban on EU and U.S. food; its anticipated financial cost to the EU alone is estimated to reach **$14 billion [5]** a year. Many post-Soviet countries have long struggled to deepen their reach into the Russian market, now wide open to them. For their part, Tajik officials said that they would aim to increase **fivefold [6]** the fruit and vegetable sales to Russia. Kyrgyzstan's deputy minister of agriculture went even further, foreseeing a rise in the country's total Russia-bound exports **from 13.5 to 200 tons [7]** per year. Armenia, Azerbaijan, and even the autarkic Uzbekistan likewise volunteered to expand their exports to make up for any shortfall Russia faces after banning Western products.

All these countries have struggled to develop export economies based on something other than resource extraction. Many of their best-educated citizens fled abroad after the Soviet collapse, and low productivity, geographic constraints, and endemic corruption have left them unable to compete with the West's industrialized agriculture sector, much less its modern manufacturing operations. Simply put, a fruit shipment from Kyrgyzstan was often both lower in quality and more costly and logistically difficult to procure than one from Poland. But now, Russia's agricultural market will be sealed off from more efficient competition.

Not only that, the Kremlin has even started courting its satellite states for economic exchange -- a stark contrast to the usual bullying. Since 2010, when Russia formed a customs union with Kazakhstan and Belarus, nonunion countries have been left out in the cold. The union hit Kyrgyzstan especially hard, as neighboring Kazakhstan solidified its previously porous border against nonunion imports. Since then, Russia has used exclusion from the customs union to pressure Kyrgyzstan and others, including Armenia and Tajikistan, to get on board with Eurasian integration. As one case in point, Kyrgyzstan's agricultural exports to Russia have dropped from 195 tons to 13.5 tons after the customs union was put in place. But now Russian deputy prime minister, Igor Shuvalov, has said that **Moscow will lift [8]** all restrictions and "unjustified barriers" against Kyrgyz fruits and vegetables. Now that the ban on Western food has opened new trade opportunities, there is some carrot to go along with the stick.

Turkey is also rushing to fill the gap created by Russia's sanctions. Two days after the food ban was announced, the Turkish economy minister, Nihat Zeybekci, said that his country might get closer to Russia to "gain advantages" [9] from the situation. The following week, officials from Rosselkhoznadzor, Russia's agricultural oversight agency, visited Ankara [10] for negotiations on increasing Turkish imports to the country. President-elect Recep Tayyip Erdogan has been increasingly vocal in his criticism of the West, and although Turkey has no legal obligation to follow EU decisions, his eagerness to supply Russia only reinforces the country's drift toward illiberalism.

SECOND THOUGHTS

Ironically, the countries least enthusiastic about Russia's anti-Western sanctions are the ones that are already economically integrated with it. Belarus and Kazakhstan, Russia's partners in the customs union and its successor organization, the Eurasian Economic Union, have greeted the trade boycott coolly. On May 29, the three states signed an agreement to form a **"single economic space" [11]** that would ultimately broaden the customs union to encompass financial, industrial, and agricultural policies. Even at the time of the signing, Russia was being penalized by the West for fueling unrest in Ukraine. Facing the possibility of signing on to sanctions and fearing pro-Russian separatism within its own borders, Kazakhstan fought particularly hard to water down the treaty late in the negotiations.

The new food sanctions highlight the risks of economically integrating with an increasingly isolationist Russia. The Kremlin's unilateral imposition of the ban has deepened the confusion within the group. Belarus and Kazakhstan have pointedly avoided statements in support for the decision, and Russia had made little effort to consult them in making it -- or to take their viewpoints into account.

Compounding the two countries' dilemma, they have already won many of the possible advantages of economic integration with Russia; for them, sanctions create few new opportunities. Their exports already receive preferential treatment in Russian markets since they are not subject to external tariffs and benefit from the ongoing harmonization of sanitary standards. And when it comes to geopolitics, Kazakhstan in particular has always preferred to balance Western and Russian interests. This tightrope act has now been made much more difficult by Russia's growing demands for loyalty and its ever more volatile policies.

It should perhaps not be surprising, then, that Belarus and Kazakhstan **have no intention** **[12]** of enforcing the Russian food ban on their own territories. What's more, both countries might try to profit by undermining it. Belarusian importers interviewed by the Russian newspaper *Vedomosti* have hinted that they intend to **reexport sanctioned goods** **[13]** by purchasing the banned products and then altering them slightly before sending them on to Russia. (Prior to the launch of the customs union, Kyrgyzstan used the same technique with goods that it imported from fellow World Trade Organization member China and reexported to Russia and Kazakhstan.) Similarly, Kazakh customs officials have said they won't be able to stop Western goods from entering Russia from their territory, since the customs union eliminated border controls.

THE LONG ARM OF THE KREMLIN

Belarus and Kazakhstan aside, Russia's ban on Western food has the potential to undo two decades of American economic strategy in the region. The United States' primary goal has been to reinforce the sovereignty of the newly independent states and prevent them from being reassimilated into a Russia-led order. After the invasion of Afghanistan, this ambition morphed into the so-called **New Silk Road strategy** **[14]**, which aimed to orient Central Asian economies toward Afghanistan, India, and Pakistan to strengthen Afghanistan and encourage Central Asian independence from Russia. The plan, roundly ridiculed by Central Asia experts for its many economic and political shortcomings, has had little effect. And now it has been made irrelevant by sanctions and countersanctions, as Central Asian states avidly look north to the Russian agricultural market. As they do, they could breathe life into the Eurasian Economic Union and energize an ever closer pact among former Soviet states. Over the long term, this development would be disastrous for Russia and the region, just as the closed USSR economy was. In the short term, however, it could propel Russia's imperial resurgence that Putin so covets.

This new Eurasian space will be defined by more than economics. It will also be profoundly illiberal. Russia will urge its partners to curb Western influence -- a request with which the region's autocrats will be happy to comply. The project could even expand beyond the former Soviet states to include countries such as Turkey, whose leaders are increasingly explicit in rejecting Western liberal democracy. The first signs of this process are already visible in Kyrgyzstan, the most democratic of Central Asian states but one that has fallen under Russia's sway in the past two years, as Russia made strategic investments in its energy and hydroelectricity sectors. The Kremlin is now using its behind-the-scenes influence to push for new laws that ostracize homosexuals and civil society groups that receive Western funding. A bill to criminalize "homosexual propaganda," resembling the one recently introduced in Russia, has **cleared** **[15]** the parliament's Human Rights Committee in June, and calls for a law that would label Western-funded organizations "foreign agents" are **growing louder** **[16]**.

Ultimately, however, the Kremlin's long-term plan of forging a counter-axis to the West will falter thanks to its own bullying and incompetence. After all, the current crisis began last fall when Russia used threats and economic pressure to force Ukraine not to sign a free trade agreement with the EU. A cooperative approach that recognized its neighbor's sovereignty might ultimately have kept Ukraine closer to Russia. Instead, Russia alienates those that should be its closest friends. Even if they are weak economies and small states, the former Soviet countries are sovereign nations. Their leaders in particular have come to enjoy the privileges and power that accompany sovereignty and resent taking orders from Russia. An integration project in which only Russia makes the decisions is one that will never succeed.

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Home > Snapshot > Band of Outsiders
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