

RUSSIA'S GEOECONOMIC STRATEGY
FOR GREATER EURASIA



Russia's Geoeconomic Strategy for a Greater Eurasia

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RETHINKING ASIA AND INTERNATIONAL RELATIONS

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To my wife and sons – Elena, Konstantin and Andre

Introduction

The intensifying rivalry between Russia and the West has prompted anticipation of a new Cold War. While a resurgent Russia warrants legitimate fear in the West, it should be recognised that Moscow presents entirely new challenges. Employing Cold War terminology can be tempting to shape opinions by invoking connotations of a familiar past and present imagery reflecting a simple normative binary division between two centres of power. Yet, the narrative of Russia attempting to restore the Soviet Union by military force is dangerous self-deception that dilutes the aptitude of the West to recognise the fundamental transformation the international system has undergone. Russia has utilised military power primarily to preserve status quo: to defeat Chechen separatists threatening Russia's territorial integrity and to maintain the strategic position it already held in South Ossetia, Crimea/Ukraine and Syria. Moscow's revisionist ambition to shift the international distribution of power is principally to be achieved by economic statecraft, which for a long time has believed to be a prerogative of the West.

Russian foreign policy is routinely analysed through the prism of political-military competition, irrespective of evidence that Moscow is rapidly replacing traditional geopolitics with geoeconomics. Moscow progressively reveals that influence over strategic markets, transportation corridors, economic blocs, financial institutions and trade/reserve currencies is considered to be more important to restore its great power position. The distinction between Russian geopolitics and geoeconomics is however often obscured since Russia's economic statecraft principally relies on controlling energy and transportation infrastructure, which denotes that control over territory remains essential to establish a privileged or even monopolistic position in international markets.

Russia's geoeconomic strategy for a 'Greater Eurasia' aims to utilise economic connectivity to remove Russia from the periphery of Europe and Asia, and reposition it at the heart of an integrated Eurasia. Geoeconomic theory supposes that integration with the vast Eurasian continent will enhance Moscow's bargaining power by elevating the reliance on Russia as an energy and transportation hub, while connecting with the rising markets in Asia enables Russia to diversify away from excessive dependence on any one state or region.

Despite being endowed with a territory that extends across the Eurasian landmass, Russia has imprudently relegated itself to the margins of Europe by rigorously pursuing a Western-centric foreign policy for more than two decades following the collapse of the Soviet Union. The principal achievement of the Putin administration was to embrace economic statecraft to enhance its bargaining power in Europe. Yet, the continued 'leaning-to-one-side' policy exacerbated unfavourable asymmetrical relations with the West. Recent developments indicate that Russia has learned from this mistake and increasingly acts on the belief it is necessary to pivot towards the East in order to enhance bargaining power with the West.

Russia's strategy for a 'Greater Eurasia' follows the abandonment of its previous strategy for a 'Greater Europe', which aimed to use established economic ties with the West to terminate its exclusion from the main institutions representing Europe. While Russia is said to pursue a 'natural Westerncentrism' (Lo 2012), the aspirations and preference for a Greater Europe was always contingent on eventually reaching a mutually acceptable post-Cold political settlement that would adequately accommodate Russia on the continent. Following its failed efforts in the 1990s to develop the inclusive Organisation for Security and Cooperation in Europe (OSCE) as the main engine for European integration, Moscow proposed in 2008 a new pan-European security architecture and in 2011 the formation of an EU-Russian Union that would include free trade and free movement of people from Lisbon to Vladivostok.

Russia recognises that its bargaining power in the West was curtailed by its excessive Western-centric foreign policy. Subsequently, in recent years the rhetoric has shifted towards perennial words such as 'diversification', 'mutlipolarity', 'multialignment' and 'multi-vector' foreign policy. Attention is devoted towards more distant horizons in the East due to the rise of Asia and concurrent lack of progress in constructing a Greater Europe. The global financial crisis unfolding in 2007-2008 made the shift of economic power from the West to the East more apparent. The entrenched problems of unsustainable debt and structural weaknesses within the US and the EU were juxtaposed with the resilience and rapid recovery in Asia. After several years of progressively improving economic ties with Asia, Russia's 'pivot to Asia' was announced when Vladivostok hosted the Summit of the Asian Pacific Economic Community (APEC) in 2012. Albeit, the pivot remained irresolute and a momentum did not materialise within the political and business community since the Russian economy remained deeply embedded in Western markets (Lukin 2015). The willingness to commence with substantive and painful reforms to decouple from the West was absent.

Relations with China and Iran largely remained instrumental to enhance Russia's market value in the West, resulting in hesitations and delays of common projects requiring long-term commitments. However, the conflict over Ukraine and the ensuing mutual sanctions between the West and Russia became a seminal moment. The sense of betrayal in Moscow culminated in a broad consensus that the project for a Greater Europe had failed, while sanctions exposed the vulnerabilities of excessive economic dependence on the West. Subsequently, the crisis generated a momentum in Russia to replace the strategy for a 'Greater Europe' with a 'Greater Eurasia'.

The Geoeconomics of Greater Eurasia

Geoeconomics is defined here as the economics of geopolitics. In a globalised world with growing economic interdependence and more destructive weapons, power derives increasingly from the control over strategic markets, transportation corridors and financial institutions rather than territory. Building on the work of Albert Hirschman (1945), it will be theorised that states obtain power by developing economic partnership with asymmetrical interdependence to maximise both autonomy and influence. The geoeconomic equivalent of balance of power logic is therefore conceptualised as a 'balance of dependence'. Favourable symmetry is obtained by creating a privileged or even monopolistic position for one's own corporations to maintain the dependence of others, while diversifying away from excessive reliance on others and denying them similar advantages. The economic leverage is subsequently converted into political capital by extracting political concessions from dependent states. It will be argued here that economic connectivity has become the main approach to acquire geoeconomic power on the world's largest continent.

The phenomenon of Eurasian integration is defined here as the continent's increasing economic connectivity with new physical infrastructure and mechanisms for cooperation. Infrastructure entails transportation (rail, road and sea ports) and energy infrastructure (oil, gas and plutonium reserves, pipelines, electricity grids and LNG infrastructure), while mechanisms for cooperation include institutions, trade agreements, trade currencies, and shared identities. As the largest continent in the world in terms of landmass, population, natural resources and Gross Domestic Product (GDP), the conspicuous contradiction of Eurasia is the extreme disconnection between the states and regions.

Russia's strategy for Eurasian integration can be defined as asserting the main role as the successor of the Mongol Empire by restoring the ancient Silk Road. The Silk Road connected the major Eurasian powers with a myriad of land corridors for centuries before it gradually disrupted following the collapse of the Mongol Empire. The disconnection of land-corridors in Eurasia ushered in the rise of European maritime powers from the early 1500s, which would yield military advantage and control international markets and trade routes for the next 500 years. Russia's eastward territorial expansion in the mid- to late 1800s and introduction of the railway evoked fears, especially in the UK, that Moscow would become the successor of the Mongols land-empire and dominate the Eurasian continent. Economic statecraft was virtually absent under the communist policies of the Soviet authorities, and the Cold War militarised and exacerbated divisions in Eurasia. The post-Cold War era has however presented entirely new opportunities. While hegemony is not a feasible option for Russia, economic connectivity in Eurasia can produce a collective hegemony to displace the dominance of Western maritime powers. With the global diffusion of power and rise of Asia, most of the major economies across the world's largest continent have launched various initiatives promoting integration of Eurasia.

Eurasian integration denotes efforts to make globalisation less Western-centric as opposed to rejecting global economic integration. US global primacy and dominance in Eurasia has largely rested on its geoeconomic power. Washington embraces a periphery-led geoeconomic architecture in Eurasia maintained primarily with partnerships or nodes in Europe and Japan (Katzenstein 2005). The US-sponsored physical infrastructure and mechanisms for cooperation in Eurasia have the main objective of circumventing and marginalising rival powers in the Eurasian heartland, principally China and Russia. The Bretton Woods architecture and America's dominant naval power to control the world's main maritime trade corridors along the Eurasian periphery are however in relative decline. America's history of skilful economic statecraft has gradually been replaced with more traditional and expensive geopolitics. The economic foundations for America's pre-eminence is rapidly declining due to shrinking manufacturing power, growing social inequality, rising national debt and loss of power over the levers of global economic governance. Moscow increasingly subscribes to the premise of America's inevitable decline and aims to leverage from the subsequent demise of the US-led international order (Sakwa 2016a).

Russia endeavours to influence the transition away from US global primacy by developing collective administration by major Eurasian land powers. While far from being

the leading economic power, Russia constitutes a unique contributor to Eurasian integration due to its vast geographic expanse that can be utilised as a land-bridge between Europe and Asia. Furthermore, Russia controls much of the world's natural energy resources and leverage from Soviet-era pipeline infrastructure in Central Asia and other former republics. The rise of intra-Eurasian trade and changing 'geography of trade' produces incentives for connecting the vast continent with new physical infrastructure, trade agreements, financial institutions and reserve currencies. The phenomenon of power shifting from the West to the East will transpire irrespective of Russian support. China's new Silk Road project has emerged as the most dominant rival to the US-peripheral model, which has launched several large infrastructure projects, investment banks and other China-centric connectivity initiatives across Eurasia. Eurasian integration projects have also been announced and pursued in the last few years by actors as diverse as the EU, India, Iran, South Korea and Kazakhstan. Russia's strategy is to influence and shape favourable formats for an increasingly integrated Eurasia by promoting particular connectivity initiatives. Russia's first rational objective for a Greater Eurasia would be to manage the continent from the heartland by enhancing collective autonomy and influence, and thus evict US hegemony directed from the periphery. The second objective should be to ensure the sustainability of an integrated Eurasia by establishing a balance of power or 'balance of dependence' to prevent the continent from being dominated by one power, with China being the most plausible candidate.

Russia's physical infrastructure projects include but are not limited to upgrades of the Trans-Siberian railway and the Baikal-Amur railway; construction of grand pipeline projects and LNG facilities; development of the Northern Sea Route along the Arctic; construction of a high-speed rail between Moscow and Beijing; the development of Russian ports and accompanying cargo infrastructure in the Russian Far East and European Russia; and various bridges and crossings along its borders. A broader definition of connectivity is emerging to enhance and diversify mechanisms for cooperation, which includes free trade agreements, new investment banks, different trade/reserve currencies and the construction of shared identities. Furthermore, economic cooperation is facilitated by developing new institutional frameworks such as the Eurasian Economic Union (EEU), the Shanghai Cooperation Organisation (SCO) and the Brazil-Russia-India-China-South Africa (BRICS) arrangement. Painful compromises with China are indicative of Russia's determination to develop a strategic partnership that can lay the foundation for an alternative economic system and value-chains. Russia-China agreements have progressed with the historic \$400 billion

agreement signed in May 2014 to develop a pipeline infrastructure and supply China with gas for the next 30 years, followed in May 2015 with the agreement to harmonise the interests of the EEU, SCO and BRICS as part of 'integration of integrations'. China and Russia develop common financial institutions and lead wider efforts to reduce reliance on the US dollar. Large agreements made over the last years suggest that Russia aims to diversify its economic partnership by connecting to South Korea, Japan, India, Iran, Vietnam and other actors in Eurasia.

Research design

The puzzle to be explored in this book is Russia's strategy to enhance its bargaining power with the West by pivoting to the East. There is no incongruity with this approach since realist theory recognises that a balance of power is a prerequisite for sustainable and mutually beneficial collaboration. Enhanced multilateral cooperation with the West requires more leverage to balance Western unilateralism. Russia promotes particular integration projects and considers certain connectivity initiatives to be complementary, while other integration schemes are opposed to the extent they do not incorporate Russia's strategic interests. Russia is fiercely opposed to so-called 'exclusive' European institutions such as NATO and the EU as they are perceived to maintain the Cold War division and marginalise Russia on the continent. Conversely, institutions and integration schemes can rarely be labelled to be simply 'inclusive' or 'exclusive' as there are both NATO-Russia and EU-Russia cooperation initiatives. However, the collective bargaining power of the 28+1 format of these two initiatives institutionalise an asymmetrical partnership to camouflage unilateralism as bilateralism. To Moscow's disdain, these institutions can suspend 'cooperation' if Moscow does not comply with the decisions of its more powerful partners. The preferences of economic connectivity projects in Eurasia resemble a similar state-centric realist understanding of integration and regionalism as states pursue relative gain.

The research question to be answered is: *to what extent is Russia's geoeconomic strategy for a Greater Eurasia 'rational' by acting in accordance with the 'balance of dependence' logic?* Russia's strategy for a Eurasian integration is surveyed by its ability to recognise and pursue its interests in accordance with geoeconomic theory. A strategy is conceptually different from a policy as the former implies that the international environment and plausible actions of other must be incorporated as a consideration. Consistent with realist

assumptions, it is assumed that the international distribution of power creates systemic pressures and incentives for states to adopt geoeconomic strategies, while the failure to respond accordingly is punished. It is advocated in this book that states act rationally by adopting economic statecraft to augment their power and security. ‘Advocating’ that Russia should act in accordance with the geoeconomic understanding of a balance of power logic is not a statement of support for Russia in its disputes with other powers. Instead, it suggests what would be the ‘correct’ strategy for Russia to maximise its own security.

Chapter 1 theorises the rationality of an ideal geoeconomic strategy for Eurasian integration, which sets a benchmark for later comparing Russia’s decision-making. States compete for relative power by skewing the symmetry in economic interdependent relationships. Cooperation is sustainable when there is an equilibrium since it prevents economic power from being utilised to extract undue political concessions. The assumption of states as inherently rational actors is repudiated because of the complexity of economic statecraft, which is challenged by ideological ‘market fundamentalism’ or neoliberalism. The theoretical assumptions outlined in this chapter establish the groundwork for reconfiguring Mackinder’s ‘heartland theory’ as a geoeconomic theory. The deficit of connectivity across the Eurasian landmass made the vast continent susceptible to be ruled from the periphery by maritime powers. Growing Eurasian connectivity can bring Mackinder’s prediction to fruition of a diametrical shift in global power as Eurasian land powers obtain competitive advantage vis-à-vis maritime powers.

Chapter 2 explores the geoeconomic decline of the US as an indicator of the increasingly favourable environment for rival formats for collaboration in Eurasia. The US has historically pursued the geoeconomic strategy of a maritime state conserving the balance of power in Eurasia from the periphery. The development of a large and expensive standing army deployed in Eurasia has incrementally eroded US economic status and encouraged collective balancing among Eurasia’s land powers. The US has since the days of Alfred Thayer Mahan exercised economic statecraft remarkably by controlling strategic markets and trade corridors in the Americas and the Pacific. The geoeconomic pre-eminence expanded to a global scale following the Second World War due to its share of global GDP, creditor status, specialised high-wage industries, prominent role in international financial institutions and printing the world’s sole reserve currency. However, the Second World War also severely skewed the balance of power in Eurasia, creating systemic pressures for the US to become the principal balancer. The rivalry with the Soviet Union, a country largely detached

from international markets and thus resistant to US economic statecraft, required expensive militarised geopolitics that has incrementally diminished the foundations for US geoeconomic power. Instead of reforming and reversing the regression from geoeconomics to militarised geopolitics after the Cold War, the US maintained its reliance on a superior military to sustain the unipolar moment. The conversion of a US balancing strategy to a hegemonic strategy has pushed major Eurasian powers together, a development that US grand strategy has historically aimed to hinder. Concurrently, rising debt, loss of manufacturing and growing social inequality undermines the Bretton Wood institutions and US ability to control transportation corridors. There are prospects for a geoeconomic revival with the Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP), and the 'shale revolution' making the US an energy exporter. However, integration among rising Eurasian land powers presents the US with a dilemma: it can either accommodate some of Eurasia's major powers to influence the new international economic order, or alternatively hold on to the levers of power and encourage the development of new value-chains, transportation routes and financial institutions in opposition to the US.

Chapter 3 surveys the rise of Russian geoeconomics within the context of the former objective of establishing a 'Greater Europe'. Moscow's initial embrace of economic statecraft, often deplored in the West as 'state-managed capitalism', focused predominantly on utilising energy resources to create greater symmetry in relations with Europe. Russia skewed symmetry in its favour by increasing EU dependence on Russia by asserting control over energy supplies, transit and downstream assets, while sabotaging alternatives that would enable the EU to diversify away from excessive reliance on Russia. Yet, guided by the political objective of establishing a 'Common European Home', Russia has endowed its Western partners with a privileged role in its energy and economic projects. Efforts to revive Russia's great power status progressed, albeit the 'leaning-to-one-side' policy subdued the West's incentives to accommodate Russia within a more favourable format of 'Europe'. The EU's reliance on Russia as a supplier has been balanced by Russia's dependence on the EU as its export market. As long as the West remained Russia's only choice, the EU and NATO has remained emboldened to unilaterally engage the 'shared neighbourhood' and impose economic sanction when conflicts subsequently arose.

Chapter 4 then moves to consider the emerging geoeconomics of Russia as a Eurasian state. Russia is rapidly diversifying its economic partners and adopting a 'swing strategy' to compel partners to engage Russia with carrots rather than sticks as the latter

would result in pushing Russia towards a competing centre of power. The balance of power logic in Asia is diametrically opposite to that in Europe, as states are eager to accommodate Russia since Moscow's excessive dependence on Beijing will further augment the power of China as the prospective regional hegemon. Developing the Russian Far East and dual connectivity with East Asia and European Russia is imperative to establish a gravitation pull towards the Eurasian heartland that removes Russia from the periphery of Asia and Europe. Energy and transportation infrastructure is undergoing substantive development to connect the Pacific coast with European Russia. The EEU is a pivotal mechanism for cooperation in Eurasia by enhancing collective bargaining power with China and the EU, while the SCO and BRICS are more suitable for engagement with the broader Eurasia.

Chapter 5 takes up the specific case of China as the principal architect of Eurasian connectivity. China is an indispensable partner for Russia due to its economic power and preparedness to contest US global primacy. Yet, China also present challenges due to competing formats for Eurasian integration. Under the dogma of a 'peaceful rise', China initially sought to avoid attracting international attention as it pursued an export-driven development model to rapidly industrialise and accrue US treasuries. This development model is no longer sustainable as it perpetuates the devaluation of the Yuan, suppress domestic consumption, and creates unacceptable vulnerabilities as its extensive foreign currency reserves are challenged by the fiscal imprudence of the US. Concurrently, China is now in a position to challenge the geoeconomic foundations of US primacy. The new strategy entails exerting control over energy resources across the world, develop alternative transportation corridors and energy infrastructure with the One Road One Belt initiative to connect the world to China. These development initiatives are funded with new China-centric financial institutions that internationalise the yuan as a new global reserve currency.

Chapter 6 surveys the incipient strategic partnership between Russia and China. The dyad will make up the core of any influential Eurasian constellation as it includes the world's largest energy consumer and the largest energy producer, the principal trading nation and a continental land-bridge, in addition to being the two main independent centres of power willing and capable of contesting US dominance. Yet, the growing influence of China in Central Asia and the Russian Far East has invigorated concerns in Moscow. Concurrently, Beijing is anxious that Russia may demote the partnership to a mere bargaining chip with the West in a future re-set and possible return to a Western-centric foreign policy. While both states compete for a favourable balance of dependence, each side provides indispensable

benefits for the others' vision of a Eurasian arrangement and thus it is required to adequately accommodate the other. Russia and China have gradually moved towards a compromise, which accelerated considerably as a result of the Ukrainian crisis. Russia requires Chinese support for the EEU and obtains financing for the development of the Russian Far East. Easing access to the EEU market and developing one custom zone between Chinese borders and the EU has been vital to obtain Beijing's support for an institution that creates Russian privilege and establishes collective bargaining power to China's detriment. The \$400 billion gas pipeline deal announced in May 2014 and the agreement the following year to harmonise the EEU and Silk Road under an expanded SCO demonstrates Russia's preparedness to make long-term commitment. Furthermore, it appears that Russia may tacitly accept Chinese economic leadership as an inescapable reality, but opposes Chinese dominance by diversifying partnerships.

Chapter 7 assesses Russia's efforts to develop 'strategic diversity' in Northeast Asia to elude excessive reliance on China. Economic connectivity in Northeast Asia is imperative due to the potential investments and technology transfers from Japan and South Korea. The proximity further elevates Russia's bargaining power with these two energy-hungry states that can also benefit greatly from the Russian transportation corridor developing on the Pacific coast. Furthermore, the animosity towards Russia in Europe is largely absent in Northeast Asia due to different power dynamics and history. Russia's 'swing state' strategy encourages Japan to engage Russia to ensure that Moscow maintains a neutral position in Tokyo's skirmishes with Beijing. Russia's 'pivot to Asia' entails a greater presence on the Pacific coast and the economic development of the Southern Kuril Islands, which enhances the pressure on Japan to seek a political settlement before Russia further cements its ownership over the disputed archipelago. South Korea's 'Eurasia Initiative' largely mirrors Russia's ambitions for Eurasian integration by linking trust building on the Korean peninsula to Northeast Asian cooperation and Eurasian connectivity. Linking the South Korean economy with Russia will largely be contingent on Moscow's ability to enhance its bargaining power in North Korea through economic means.

Chapter 8 then explores the pending 'strategic diversity' in Southern Eurasia. A North-South component of Russia's Eurasian integration initiative is intended to create more favourable symmetry in the West-East and Northeast Asia balancing. The region is mostly apprehensive about the predominant US and/or Chinese influence, which enables Russia to act as a third-party balancer. Russia's presence in Southern Eurasia has historically been

modest due to the geographical remoteness, yet the physical distance also implies less historical baggage and fears of an overwhelming, intrusive and subjugating Russian influence. The North-South transportation corridor is a central connectivity project to link Russia with Iran and India, the two most important states in Southern Eurasia. India is a tested but underutilised partnership, while the increasingly important and improving partnership with Iran is still troubled with distrust. Russia also aims to grow its presence in Southeast Asia by utilising Vietnam as a gateway to the region, which would be instrumental to develop Russia as a major power in the Pacific Ocean. The revival of Russia's position in the Black Sea following the annexation/reunification with Crimea can revive its historical economic and military connectivity in Southwest Eurasia (Middle East and North Africa). Due to the volatility in the region and Western interventionism, Russia is more reliant on a military component to strengthen its economic partnerships and encourage gravitation towards the Eurasian heartland.

Chapter 9 addresses Russia's engagement with Europe as Western Eurasia within the context of establishing a Greater Eurasia. The EU's impressive economic statecraft has largely rested on the bargaining power for access to its enormous Single Market. Brussels is a 'regulatory power' that converts its vast economic power into political influence by establishing conditionality for privileged trade agreements. The balance of power within the EU has however eroded since Germany's neo-mercantilist development strategy weakens the Mediterranean member states embracing a debt-and-consumption economic model. Federalist integration initiatives have further undermined the economic functionalism of the EU, most evident by using the Euro to impose a political union through the back door and enlargements that brought together economies that were too different. The EU has been unable to provide benefits to Russia as a non-member to obtain Moscow's support for an institution that leverages from collective bargaining power to impose an untenable 'Wider Europe' initiative and incorporates voices of fiercely anti-Russian government in Central and Eastern Europe. A rational Russia therefore should and does employ a wedge tactic by engaging individual member states with favourable arrangements at the peril of the union's internal cohesion. Eurasian connectivity further augments Moscow's bargaining power. Political priorities of member states are shifting as relative intra-EU trade declines and economic interests shifting towards the east. Russia's bargaining power ascends as Russian and Chinese economic influence further fragments the EU's collective interests. Russia's proposal to establish an EU-EEU format presents Brussels with a dilemma: while the initiative would facilitate a

grander role for Russia in Europe and the post-Soviet space, it would also make the sustainability of EU a priority for Moscow and reduce the incentives for wedge tactics.

It will be concluded in this book that Russia is acting rationally in accordance with the balance of dependence logic, albeit scepticism is warranted concerning the ability to implement decisions. There are both domestic and international obstacles for Russia to recognise and respond to the systemic pressures with economic statecraft. Internally, the adverse effects of hubris and the risks of militarising competition could divert Russia away from a sound geoeconomic strategy. Washington and other external actors can be expected to employ their own wedge tactics by accommodating one or several of the Eurasian powers to undermine the collective balancing of the US.

Failing to recognise the geoeconomic underpinnings of Russia's strategy for a Greater Eurasia will preclude the West from responding coherently. It is said that strategists tend to make the mistake of fighting past wars and thus not incorporate new realities. Revamping Cold War imagery of a belligerent Russia is advantageous to the extent it mobilises resources towards a purposeful goal. However, it can also delude decision-makers and impede rational behaviour. Depicting Russia's strategy as an effort to re-establish the Soviet Empire by force lends credence to preposterous expectations of a pending invasion. The analogies to the past are evidently not clearly conceptualised since Russia does not have the intention or capacity to establish hegemony in Eurasia, there is no communist ideology to lend support to such an undertaking and the emerging levers of power are primary geoeconomic in nature. Russia's strategy for a Greater Eurasia presents a significant challenge to the West's bargaining power as Moscow is immunising itself from economic coercion and obtaining more instruments to respond with a wedge strategy. Yet, Russia's pivot to the east implies that it requires external support for the EEU. The West can thus revive its bargaining power by accommodating Russian interests to reduce the zero-sum format and make Russia a stakeholder in preserving status quo. The reversal to the former Western-centric Greater Europe model is however improbable as Russia is determined to remodel Europe as the Western Eurasia.

1. Theorising Geoeconomic Strategy for Eurasian Integration

Introduction

Eurasian integration can alter the balance of power and challenge the foundations for US global primacy. The world's largest continent in terms of landmass, natural resources and population has historically been divided by the lack of peace, shared physical infrastructure and mechanisms for cooperation. Scarce economic connectivity among land powers has endowed maritime powers with competitive advantage to dominate the main transportation corridors to move troops and facilitate trade. In the language of Mackinder (1904) and Spykman (1942), the divisions on the 'Eurasian heartland' have predisposed the continent to be balanced or even controlled from the periphery or 'rimland'. Connecting the Eurasian landmass with infrastructure and instruments for cooperation should be regarded as a decisive effort to empower the Eurasian heartland at the expense of maritime states.

The purpose of this chapter is to outline the theory for an ideal and rational Russian geoeconomic strategy for Eurasian integration. It will be argued that rational states increasingly rely on economic statecraft, especially economic connectivity, to augment their bargaining power vis-à-vis other states. Eurasian integration is defined here as economic connectivity between the major Eurasian actors to enhance their collective autonomy and influence. Strategy is conceptually different from policy as the former include the anticipated behaviour of allies and adversaries to avoid unexpected or undesired responses. Strategies are usually explored to understand how rational actors should 'correctly' conduct themselves in the competition with other actors and 'give us a benchmark for the study of actual behaviour' (Schelling 1980: 1). States seek to enhance their bargaining power, the ability to influence the decisions of the counterpart by developing the incentives and deterrents for specific behaviour.

The theory of geoeconomic statecraft will first be outlined. Growing economic interdependence and increasingly destructive military power has led to economic power displacing military means in the global rivalry for power. States enhance relative power by developing favourable symmetry in economic interdependent relationships to extract political

power. Building on Albert Hirschman's (1945) theory on the asymmetry within interdependent relationships, it will be argued that the realist balance of power logic is reproduced by the 'balance of dependence' as the geoeconomic equivalent. Mutual dependence incentivises states to skew the symmetry of dependence as opposed to 'defeating' an adversary in a purely zero-sum rivalry.

Second, repudiating the assumption of rationality is imperative due to the complexity of geoeconomic statecraft. Rationality is defined in terms of decision-makers embracing the geoeconomic balance of power logic to maximise security. This entails abandoning inexpedient ideological commitment to laissez faire capitalism that has endowed maritime powers with competitive advantage. Third, modern geoeconomics infers that regionalism is instrumental to develop collective bargaining power. Integration schemes are primarily motivated by developing favourable symmetry in relations with competing powers. Economic connectivity aims to influence the behaviour of others by accommodating mutual interests of others, and deterring unwanted behaviour with the ability to inflict pain.

Lastly, it will be argued that geoeconomic strategies for Eurasian integration recast Mackinder's heartland theory in the context of economic statecraft. The US has throughout the twentieth century consistently pursued the strategy of a maritime power maintaining a balance of power by keeping Eurasian land powers divided, and ruling from the periphery in partnership with other maritime states. The shift of economic power from the West to the East has created systemic incentives for intensifying economic connectivity to shift power from the Eurasian periphery to the heartland. The harmonisation of economic interests between large Eurasian powers like Russia, China, Iran and India has the potential of establishing collective leadership of a Eurasian core, to create a gravitational pull on the periphery to displace US primacy.

1.1. What is Geoeconomics?

The term *geoeconomics* is used with increased frequency by both scholars and practitioners, albeit often with different meanings and assumptions. The commonality between varying definitions is that economic statecraft entails a mutually beneficial relationship between political and economic power. Geoeconomics is defined here as state intervention into the market to procure a privileged economic position, while the resulting economic instruments

of power are utilised to extract political power. The influential paper 'Power and Plenty' by Viner (1948) theorised that economic affluence and state power are mutually reinforcing objectives. Recognising the communism disrupted the potency of economic statecraft, Lorot (1999) posits that the global capitalist era following the Cold War will be defined by the rise of geoeconomics:

Nations are engaged - alongside their national companies - in offensive policies to conquer external markets and to take control of sectors of activity considered to be strategic. For Nations today, the quest for power and assertion of their rank on the world stage depends more and more on their economic health, the competitiveness of their companies and the place that they occupy in world trade.

Geoeconomics is complex statecraft since economic power does not automatically yield political power, and political power often fails to produce economic benefits. States such as Germany and Japan acquired powerful economies during the Cold War, but were unable to convert this into political capital due to the intrusive US influence (Baru 2012a). Similarly, not all powerful states are capable of converting their influence into advantageous positions in the global economy:

The power to interrupt commercial or financial regulations with any country, considered as an attribute of national sovereignty, is the root cause of the influence or power position which a county acquires in other countries, just as it is the root cause of the 'dependence on trade' (Hirschman 1945: 16).

Great powers acting in accordance with geopolitics rather than geoeconomics would eventually erode the economic foundations of their political and military power. Put more bluntly, empires are costly and eventually falter if they do not provide a 'return on investment'. 'The rise and fall of Great Powers' by Kennedy (1987: 439) crystallised and popularised the thesis of 'imperial overstretch', stipulating that large empires eventually collapse when the economic foundations for empire diminishes, rather than being defeated on the battlefield. British historian, Arnold Toynbee, similarly noted that 'great civilizations are not murdered. They commit suicide' (Schmidt 2015: 1).

States are required to pursue relative economic power to survive in the anarchic system. Realists such as Gilpin thus argue that 'realism today necessarily means neo-mercantilism' (Guzzini 1997: 134). In an economically interdependent world 'economics is the continuation of war by other means' (Bell 2008: 330). When 'military conflict between

major states is unlikely economic power will be increasingly important in determining the primacy or subordination of states' (Huntington 1993: 72). States have 'to act "geo-economically" simply because of what they are: spatially-defined entities structured to outdo each other on the world scene' that employs 'the logic of war in the grammar of commerce' (Luttwak 1990: 19). Trade becomes a tool for power competition, as opposed to a tool for transcending power competition: 'Everyone, it appears, now agrees that the methods of commerce are displacing military methods – with disposable capital in lieu of firepower, civilian innovation in lieu of military-technical advancement, and market penetration in lieu of garrisons and bases' (Luttwak 1990: 17).

Geoeconomics is frequently conflated with neo-mercantilism due to the similitudes. Geoeconomics denotes the geopolitics of neo-mercantilism, defined as 'the geopolitical consequences of economic phenomenon, or, as the economic consequences of geopolitical trends and national power' (Baru 2012b: 2). Mercantilism is a reference to the French economic model from the 17th century that combined the idea of the free-market capitalism with government interventionism. The state employed military power to acquire resources and precious metals, while the ensuing economic prosperity funded political and military power. Heckscher (1935: 1-21) outlined in his pioneering work on neo-mercantilism that relative economic power is enhanced by favouring exports over imports to accrue positive trade imbalances. In modern neo-mercantilism, the accumulation of foreign reserves has to a great extent substituted the procurement of gold. Yet, the large economies of the world still maintain substantial amounts of gold in lieu of possible rising distrust in fiat currencies. Neo-mercantilism and geoeconomics differ as the former usually relied more on war, while the latter aims to accommodate adversaries in asymmetrical formats to avoid 'pure conflict'. States employed military force with greater ease in a less connected global economy when their commercial competitiveness was not sufficient in the struggle for power (Luttwak, 1990: 21). In contrast, in an integrated global economy and with more destructive weapons there are greater constraints on the use of force. States still intervene militarily to defend strategic interests if survival is threatened. A prime example was the West's support for toppling the Ukrainian government in 2014 to push through the EU's Association Agreement. While Russia has initially won over Kiev by offering more loans than the EU, the coup prompted a military intervention by Russia due to perceived existential threat resulting from Ukraine being gradually converted into a new frontline.

1.2. Asymmetries and the ‘balance of dependence’

A common theme in international political economy is the enduring dilemma between recognising that prosperity and influence necessitates integration into the global economy, and the ambition of states to maintain economic and political autonomy (Cooper 1968; Gilpin 2011: 80). It will be argued here that there is no contradiction between these two objectives since power derives from the aptitude of states to manipulate the symmetry within an interdependent relationship to maximise both autonomy and influence (Hirschman 1945; Knorr 1977; Wagner 1988).

The geoeconomic ‘balance of dependence’ corresponds with the realist balance of power logic. Von Hörnigk argued in 1684 that power and wealth should be measured by relative gain: ‘principally on whether its neighbours possess more or less of it. For power and riches have become a *relative* matter’ (Heckscher 1935: 22). Similarly, Coke emphasised that ‘if our treasure were more than our Neighbouring nations, I did not care whether we had one-fifth part of the treasure we now have’ (Heckscher 1935: 22). In an economic relationship between a rich and a poor country, the richer state would have less of a stake in the trade than the poorer state (Hirschman 1945). Max Sering similarly posited argued in 1900: ‘As between private persons, there exist between national economies relations of exploitation and the subjection’ (Hirschman 1945: 11). Economic interdependence through the prism of power competition can be broken down to the ‘positive’ aspect of gaining influence over others as they become dependent, while the ‘negative’ aspect is the loss of autonomy as other states gain influence. Asymmetrical dependence, or a skewed ‘balance of dependence’, empowers the less dependent state to set favourable economic condition and extract political concessions from the more dependent. Whether economic interdependence is sustainable and promotes stability depends on whether there is a balance of dependence, typically referred to as ‘symmetry’ (Barbieri 2002: 3).

Defensive neo-mercantilism (or geoeconomics) ‘meant the shaking off commercial dependence on foreigners which was continually becoming more oppressive’ and educate the country in the direction of ‘economic autarchy’ (Schmoller 1897: 76). Malevolent or offensive neo-mercantilism denotes accruing trade surplus to augment relative economic and political power. Powerful states preserve and advance asymmetrical relations by providing material goods to reduce the incentives for weaker states to decouple from interdependent relationships, and preventing larger rising economic powers access to markets. This is

consistent with the basic realist tenets, as powerful states develop 'interdependence' to increase their influence over weaker states (Waltz 1970: 214).

The balance of dependence can be manipulated through defensive and/or offensive policies. Defensive policies aim to create a privileged position of one's own companies and markets by providing favourable conditions (Raza 2007). This includes erecting artificial barriers to restrict access to one's own market, both tariff and non-tariff. Bureaucratic hurdles, industrial, technological and environmental policies, 'health and safety' policies can be instrumental to impede the ability of imported goods to outcompete domestic producers (Jones 1986; Raza 2007; Cwik 2011). States can contribute to restrict technology transfer to foreign competitors by protecting intellectual property rights or pursue more ad-hoc restriction on national corporations by linking specific technology to national security (Gipin 2011: 139). Similarly, government can directly subsidise technological developments, or indirectly by funding specific education, competitive infrastructure or for example provide access to technology developed by the military (Luttwak 2010: 65). While traditionally concerns were devoted to civilian technology being diverted towards military purposes, geoeconomic thinking recognises the competitive advantage from transferring military technology to commercial segments (Luttwak 2010: 65). Offensive policies entail removing similar trade barriers erected by other powers. This can be achieved with anti-monopoly laws or undermining local producers by 'dumping' excess produce. Similarly, dependence can be enhanced with foreign aid and trade concessions that undercut local producers. The instruments of power in economic competition include 'productive efficiency, market control, trade surplus, strong currency, foreign exchange reserves, ownership of foreign companies, factories and technology' (Huntington 1993: 73). Governments can also manipulate capital availability and accumulation, labour input, and technological advances, as important sources of economic growth. Currency manipulation is considered a form of neo-mercantilism since devaluation protects local industries from imports and assists penetrating foreign markets (Cwik 2011).

Economic statecraft 'costs something' and the inputs must be compared to the output (Baldwin 1985: 119). The costs can be measured in pure monetary terms and the sustainability of the economic tools. Economic coercion is only sustainable when used in moderation as excessive usage increases the incentives for weaker states to reduce their dependence. The advantage of the more dependent state is the willingness and preparedness to accept significant economic pain to obtain greater autonomy (Hirschman 1945; 1978).

Conversely, the stronger and less dependent state will often be preoccupied with other relationships and thus make it inept to prevent the weaker state from decoupling (Hirschman 1978). Economic sanctions are an extremely coercive use of geoeconomic leverage, which significantly elevates the willingness of the weaker side to accept economic pain to reduce dependence. For example, the EU is likely to accept paying more for alternative energy resources to lessen dependence on Russian energy if Moscow is believed to extract unwarranted political power. Likewise, Russia will be more induced to accept economic pain to achieve greater autonomy from the West if economic reliance is used excessively to extract political concessions or cement its peripheral position in Europe.

Strategic industries

Assessing asymmetry solely in terms of total trade volume neglects the imperative of controlling strategic industries. A privileged or hegemonic position in strategic markets may have low profit, yet the ability to extract political concessions can be vast. Competition for market share is often deemed more important than profits, to the extent that even losses are accepted (Huntington 1993: 74). Dependence on strategic industries have a greater potential to become a ‘commercial fifth column’ since economic elites develop greater loyalty to a competing state (Hirschman 1945: 29). Geoeconomic dominance is achieved by ‘develop[ing] exports in articles enjoying a monopolistic position in other countries and direct trade to such countries’ (Hirschman 1945: 34).

Large energy corporations are commonly recognised as strategic assets since modern economies can only survive with reliable access to affordable energy. The energy industry is predisposed to hegemonic dominance since some states are endowed with ‘natural’ competitive advantage by possessing natural resources and transportation corridors. Geography therefore maintains an important role in geoeconomics and the regional concentration of economic activities are often a mere ‘historical accident’ (Gilpin 2011: 118). The geoeconomic significance of oil was vividly demonstrated when the Organisation of Petroleum Exporting Countries (OPEC) raised the oil price in 1973 and plunged the West into economic crisis. Similarly, the national interest of controlling transportation corridors was exemplified by the British-French-Israeli invasion of the Suez Cannel in 1956, and the unyielding response by the US. Competition over energy infrastructure implies primarily control over producers, transit states and consumers.

Energy and other strategic industries requiring concentration of power in large corporations to remain competitive internationally must to some extent be placed under the control of the state as the alternative could be the industry controlling the state. The rise of an oligarchic class with control over energy resources can pursue political interests that conflict with the state, which could be courted by foreign powers seeking indirect influence. Checks and balances are however required on the government to prevent self-serving officials from exploiting the concentration of power.

1.3. Rationality and liberal delusion of laissez-faire capitalism

Rationality is pivotal to any strategy as decision-makers must be capable of making conscious calculation in the pursuit of accurately defined security interests (Schelling 1980: 5). The behaviour of states can be labelled 'rational' to the extent security is maximised, which in the realist understanding implies responding to systemic pressures in accordance with the balance of power logic. Rationality is explored in neoclassical realist theory by opening up the 'black box' of policy-making, with decision-makers being the intervening variable between the international distribution of power and foreign policy. Neoclassical realist theory responds to the recognition by scholars from different realist strands that states do not always act 'rationally' (Rose 1998: 150; Rathbun, 2008: 305; Mearsheimer 2009: 242; Kitchen 2010; Reichwein, 2012; Quinn, 2013). Economic dependence, ideological convictions, domestic competition for power, institutional entanglement and other variables can prevent states from mobilising resources domestically and internationally in response to systemic pressures deriving from the international distribution of power (Diesen 2015: 14).

The proper relationship between the state and the economy has through history been debated forcefully, which several scholars believed had been settled with the demise of communism (Fukuyama 1989). The ideological conviction that polity and the economy should be disconnected undermines rationality by impeding decision-makers from employing economic statecraft (Baldwin 1985: 59). The state and the free market have conflicting objectives, with power deriving from the ability of the former to sway the latter rather than vice versa:

Whereas the logic of the market is to locate economic activities wherever they will be more efficient and profitable the logic of the state is to capture and control the process of

economic growth and capital accumulation in order to increase the power and economic welfare of the nation (Gilpin 2011: 81).

Harmonising political and economic interests creates fundamental challenges for the nation state as the primacy of capital competition can undermine democratic accountability (Sparke 1999: 93). Huntington (1978: 71) recognised that ‘harnessing economic power to foreign policy goals presents formidable obstacles... Yet if war is too important to be left to the generals, surely commerce is, in this context, too salient to be left to bankers and businessmen’. Unlike liberal theory, neoclassical realism is adamant that economic interdependence, democracy, multinational corporations, non-governmental organisations (NGOs), and international economic institutions do not produce peace by diffusing power away from the state. Instead, non-state actors and interdependence undermine security if the capacity of the state to act according to the balance of power logic is inhibited. Because production power is imperative for national security, the German economist, Friedrich List (1885: 17) argued that the solution was for the authorities to cultivate ‘economic patriotism’ or ‘economic nationalism’ by constructing intimate relations between moral and economic forces.

The conviction that laissez-faire capitalism inherently serves the interest of the state and enhances security impairs decision-makers from acting in accordance with geoeconomic principles. Neo-liberal assumptions have dominated scholarly debates on economic interdependence, and assumptions about free market capitalism have become accepted as a common good. Montesquieu embraced these liberal assumptions in the ‘Spirit of the Laws’, which posited that ‘the natural effect of commerce is to bring about peace. Two nations which trade together, render themselves reciprocally dependent’ (Hirschman 1945: 10). In an increasingly intertwined global economy there are significant costs to disrupt the global networked society. Following the end of the Cold War, it was claimed that the realist state-centric view was outdated since corporations and consumers were expected to increasingly make important decisions (Ohmae 1995). Nation states were claimed to have become a ‘nostalgic fiction’, which ‘have already lost their role as meaningful units of participation in the global economy of today’s borderless world’ (Ohmae 1995: 12). Other prominent liberal scholars have however recognised asymmetrical interdependence as a source of ‘soft power’ (Keohane and Nye 2001).

Neo-mercantilism and geoeconomics have received a bad reputation due to incorrect assumptions of the market being the arbiter of the just. In Adam Smith's (1776) 'The Wealth of Nations' the advocacy of the free market championed the absolute gain of interdependence in international trade. Adam Smith (1776: 661-662) was a fierce critic of mercantilism as it adversely affects the interests of the consumers and diminishes the collective good, underpinned by his assumption that the domestic division of labour and competitive advantage could be elevated to the international level. Yet, both Adam Smith and John Stuart Mill supported the Navigation Acts to restrict trade when it augmented security (Baldwin 1985: 85). Furthermore, Adam Smith recognised the necessity for government intervention in the free market to ensure the social obligation of the state (Agnew and Crobridge 2002: 225). Private ownership has always relied on state intervention to mobilise resources to support social harmony and economic growth by investing in infrastructure, education, healthcare etc. (Agnew and Crobridge 2002: 110). Mercantilism has therefore traditionally been conceptualised as benign or defensive when protectionism is used to protect sovereignty, the labour force or the welfare state force (Buzan 1984: 608). Geoeconomics and laissez-faire capitalism are therefore not diametrically opposite as the former merely advocates government intervention to a greater extent.

The criticism and derision for neo-mercantilism and geoeconomics is a reflection of power interests rather than unswerving principles. List (1885: 295-296) argued that Britain, much like other maritime powers, obtained its economic omnipotence through protective measures, government intervention in the economy and control over the seas. Leading naval powers have historically been more inclined towards free trade due to the privileges of controlling maritime trade corridors (List 1885; Angell 1915; Levy and Thompson 2010: 18). Conversely, land powers could not afford gambling on freedom of navigation (Hirschman 1945: 8). List (1885: 295-296) therefore denounced the ideological insistence on non-interference in the market by governments as an effort to 'kick away the ladder':

It is a very common clever device that when anyone has attained the summit of greatness, he kicks away the ladder by which he has climbed up, in order to deprive others of the means of climbing up after him. In this lies the secret of the cosmopolitical doctrine of Adam Smith, and of the cosmopolitical tendencies of his great contemporary William Pitt, and of all his successors in the British Government administrations. Any nation which by means of protective duties and restrictions on navigation has raised her manufacturing power and her navigation to such a degree of development that no other

nation can sustain free competition with her, can do nothing wiser than to throw away these ladders of her greatness, to preach to other nations the benefits of free trade, and to declare in penitent tones that she has hitherto wandered in the paths of error, and has now for the first time succeeded in discovering the truth.

After the Cold War, the West was susceptible to support neoliberal theories supportive of leveraging from its dominant economic power and expand its influence over markets opening up in former communist states. Irrespective of the Asian Tigers rising with considerable government intervention, the Washington Consensus was prescribed as the universal formula for development. The popular ‘end of history’ thesis of Fukuyama (1989) portrayed the West as an arbiter of the just by postulating a mutually complementary relationship between democracy and laissez-faire capitalism. The proclaimed focus on absolute gain was consistent with the notion that the West was acting as a ‘force for good’. By artificially equating geoeconomics to authoritarianism, the ‘rise of the rest’ infers that the established and privileged role of the liberal West is defied by more authoritarian states ‘high-jacking’ globalisation with ‘state-managed capitalism’ (Zakaria 2008; Torreblanca and Prislán 2012).

The ideological devotion to laissez-faire capitalism can undermine the ability of governments to ensure that the economy serves the strategic interests of the state. Huntington (1993: 72) suggests ‘the idea that economics is primarily a non-zero sum game is a favourite conceit of tenured academics’. The genuine ideological conviction of free trade as an absolute gain is a ‘liberal illusion’ at the peril of security (Barbieri 2002). Global corporations can undermine the state as they ‘have little need for national loyalty, view national boundaries as obstacles that thankfully are vanishing, and see national governments as residues from the past whose only useful function is to facilitate the elite’s global operations’ (Huntington 2004: 8). Ordinary citizens are preoccupied with preserving national identity, culture and manufacturing jobs to augment internal cohesion domestically, yet

for many elites, these concerns are secondary to participating in the global economy, supporting international trade and migration, strengthening international institutions, promoting American values abroad, and encouraging minority identities and cultures at home. The central distinction between the public and elites is not isolationism versus internationalism, but nationalism versus cosmopolitanism (Huntington 2004: 5).

The belief in laissez-faire capitalism implies that states should not obstruct imports from displacing domestic production, as the state benefits when imports are cheaper than domestic production since the saved capital and labour can be diverted to other more competitive industries. However, if the saved capital and labour are transferred into low-skilled and low-paid professions, the position within global value-chains will decline. Rational states will recognise the ultimatum in response to a negative trade balance: it can either adopt protectionist measures or intervene by directing the excess capital and labour into specialised high-skilled industries.

Neoliberal policies have also fuelled self-deception in the West and undermined the foundations and sustainability of the contemporary international economic system. Economic growth in the US and the broader West tends to rely ‘either on financial bubbles and rising household debt (‘debt-driven growth’) or on net exports (‘export-driven growth’)’ (Stockhammer 2014: 1). The debt-driven growth model exists at both the state level and at the private level. Borrowing to consume depends on rapidly and continuously expanding asset bubbles, especially within residential investments. The debt-model has also strengthened a neo-mercantilist export-driven growth model by countries such as Germany and China, where domestic wages and currencies are artificially weak to maximise export surpluses (Stockhammer 2014). This model has inaccurately been hailed as creating ‘interdependence’, irrespective of the obvious lack of sustainability as debt and foreign reserves grows. Creditor countries become increasingly unlikely to be repaid, while the debtor states fear the growing political power extracted from the asymmetrical economic relations.

Geoeconomic statecraft is also utilised to safeguard political stability, which is imperative for a state to act rationally. The internal distribution of wealth impacts the aptitude of the state to mobilise resources in pursuit of its interests. Society is fragile and fragmented when there is high economic inequality, which limits the capacity of the state to exert influence beyond its borders (Baru 2012a). Extreme inequality weakens the middle class and therefore impedes entrepreneurial capabilities and other intellectual power. At the other end of extreme inequality, the rise of a powerful oligarchic class can compete against the strategic interests of the state. A high standard of living relative to other states is important to attract skilled migration and be at the receiving end of a ‘brain drain’, while the opposite is true for low living standards. A strong middle class demanding political freedoms is beneficial to the extent it produces internal stability and enables the state to mobilise its resources. In contrast, irreconcilable and hostile pluralism that pulls the state in different directions should be subdued and resolved by cultivating

an acceptable opposition that shared the fundamental views concerning strategic interests and the direction of the state.

1.4. Bargaining power: regionalism and selective accommodation

Bargaining power refers to the overt and covert manoeuvres to influence the behaviour of other states with inducements and deterrents (Schelling 1980: 4). The rise of geoeconomics creates incentives for regional integration to enhance collective bargaining power since 'self-reliance was never viable on the national level' (Hettne 1993: 227). Stability is resilient under a format for cooperation that accommodates mutual interests and deters defection. Accommodating the interests of rival powers is imperative to ensure competition is limited to skewing the symmetry of dependence. In contrast, a complete zero-sum relationship of 'pure conflict' where the antagonists are completely opposed will inherently be unstable since the winner takes all (Schelling 1980: 3).

The geoeconomic purpose of a trade bloc resembles the geopolitical utility of alliance formation (Hurrell 1995: 340). Powerful states seek integration with weaker states in trading or military blocs to strengthen their influence over the weaker state and gain advantage over competing states (Walt 1985: 6). Regions can collectively establish asymmetrical power and enhance bargaining power vis-à-vis other states (Wagner 1988). A zone of privilege or collective advantage against non-members is constructed by erecting tariff and non-tariff barriers for non-members, while political concessions can be extracted by establishing conditionality for access to these markets.

It has been suggested that economic regions would replicate bloc-politics since 'the struggle for the world product', as phrased by former German chancellor Helmut Schmidt, would create systemic pressures for developing alliances and counter-alliances (Gilpin 2011:9). Globalisation has been equated to 'Americanisation' due to the disproportionate representation of the US in international regimes governing trade and monetary affairs, which enabled Washington to extract undue political capital from this position (Strange 2015). A key motivation for European integration was to obtain collective bargaining power and symmetry in relations with the US. Charles de Gaulle reasoned that European regionalism was imperative to dilute US dominance and 'exorbitant privilege' (Hurrell 1995: 340). The North American Free Trade Agreement (NAFTA) was a response to the declining

competitiveness of the US vis-à-vis Europe and Japan (Hurrell 1995: 341). Correspondingly, the powerful North American and European trading blocs produce strong incentives for new regional integration initiatives across Eurasia. Hettne (1993: 227) predicted already in the early 1990s that ‘the East Asian countries in view of the fortresses emerging in Europe and North America must plan for a future with a much stronger regional interdependence’. The notion that regional integration locks economies into the neo-liberal global order has been a proven erroneous in Asia, where regionalism is often pursued to insulate states from excessive US influence (Breslin 2010: 714). The Russian-led Eurasian Economic Union (EEU) also employs collective bargaining power to improve the symmetry in negotiations with the EU and China. Likewise, limiting Western influence in Central Asia has been a key motivation for the Shanghai Cooperation Organisation (SCO).

There is an inherent contradiction concerning the impact of regionalism on sovereignty. Weaker states are required to cede some sovereignty by linking themselves to more powerful centres of power to prosper in order to strengthen the state as regions assist with enhancing the protection of sensitive industries and to gain privileged access to foreign markets (Milward 1992). Alternatively, states stand alone at the expense of economic competitiveness and eventually sovereignty. Member states in various regional institutions will therefore demand that pooling sovereignty is outweighed by the strengthening of sovereignty by material benefits from integration (Milward 1992). Economic benefit is therefore recognised as a key instrument by larger powers to construct regions (Kučerová 2014). This contradiction makes a region vulnerable to foreign powers seeking to undermine regional cohesion with a wedge strategy. There will always be an incentive for external powers to dilute the cohesion of a region that provides benefits and privileges closed to non-member states, and that can enhance collective bargaining power to the disadvantage of non-member states (Wagner 1988).

Regional institutions and their strategies can be categorised as either federalist or functionalist. ‘Federalist integration’ entails concentrating power and developing characteristics of a state, which infers that *functions follow the form* (Mitrany 1965). Federalism is beneficial against external interference as the centralisation of power is conducive to harden external borders and enhance internal cohesion. Federalist integration is more likely to counter internal opposition since power is centralised without demonstrating a clear function or benefit for member states that outweighs the loss of sovereignty. Weaker member states are systemically deprived of the ability to diversify partnerships and decouple

from the region when beneficial. Sustainable cooperation among members of a region or an institution is strengthened by maintaining an internal ‘balance of dependence’, similar to Morgenthau’s (2005: 43) reference to the ‘distribution of power within an alliance’. In the absence of a balance, the dominant power will excessively extract political concessions from other member states and thus dilute internal cohesion. Empirical evidence therefore suggests that the benefits of an integration project to its member states depend on the similarity of economic size (Sorhun 2014: 288). In the absence of power equilibrium within an institution, or without an external adversary to make the asymmetry acceptable, the weaker states will seek autonomy from the more powerful member of the bloc. For example, the concentration of power in Germany undermines the survival of the EU. Similarly, Russia-led integration projects in the post-Soviet space are vulnerable as exceptionally asymmetrical power can make the institutions mere tools for Russian power.

In contrast, ‘functionalist integration’ implies that *form follows function* as integration is only pursued in areas where it provides economic, political and security benefits for member states (Mitrany 1965). Functionalist integration is less vulnerable to internal opposition since the benefits must exceed that of the costs. Functionalism is however more susceptible to external powers diluting the internal cohesion of regions with ‘selective accommodation’, which entails providing privileges for specific members on a bilateral basis (Wigell and Vihma 2016). It is for example in the interest of Russia to divide the EU and for the West to divide Russian-led institutions to deprive their adversary of collective bargaining. This susceptibility to outside sabotage of regional unity can be mitigated by centralising power by for example instigating more overt military tensions to strengthen alliance unity, or alternatively providing benefits to non-members to obtain their support. For example, convergence of tariff, laws and technical standards can improve access to the market for non-members. Mutual recognition of regions is also a solution since engagement of external powers can enhance the legitimacy of a region (Hettne and Söderbaum 2000: 469). An agreement could be reached where Russia does not disrupt Western institutions of the West similarly does not oppose and undermine Russian-led institutions (Gvosdev 2008). Inclusive institutions that reflect the international distribution of power can be utilised to facilitate cooperation and competition. The United Nations (UN) owes its endurance to the special privileges assigned to the great powers, which has ensured that it is in the interest of the great power to maintain the institution. In contrast, the Bretton Woods institutions such as the International Monetary Fund (IMF) and the World Bank (WB) increasingly do not reflect the

international distribution of power and will be rejected by rising powers.

1.5. The Geoeconomics of Eurasian connectivity

It is theorised here the global distribution of power produces competing Eurasian connectivity initiatives, a rivalry principally between maritime powers and land powers. When transportation by sea is faster and more cost effective, maritime powers have military advantage, more to gain from liberalising trade policies and a strong geoeconomic foundation for expanding empires or tributary systems. Island states have historically not required large and expensive standing armies and have instead invested in powerful navies. The economic and military leverage of maritime powers due to their speed and mobility has been evident since the ancient Athens established a tributary system over its Delian League allies. While Athens was not an island state, Pericles established a virtual island by connecting the port of Piraeus and Athens with a wall in order to only confront adversaries at sea where Athens had leverage.¹

The ancient Silk Road run by mobile nomads established the competitiveness for vast land-based trade routes for centuries. Economic connectivity among Eurasian powers expanded drastically with a network of trade routes connecting Eurasian civilisations to the dominant Chinese market. Subsequently, cities along the Silk Road grew to economic and political prominence, developing new centres of power. The Mongol Empire was the last power capable of connecting Eurasia by ensuring stability of the Silk Road under a tributary system. Following the demise of the Mongol Empire in the 1300s, the major Eurasian powers lost much of their connectivity. China established a maritime Silk Road based on a tributary system along the Indian Ocean and to the east coast of Africa, led by the renowned Zheng He in the 1400s. Yet, this route was suspended due to self-sufficiency and lack of adaptability as China devoted excessive resources to regional land-based initiatives.

Without a land corridor between Europe and China, European powers began establishing maritime routes in the early 1500s to reach the dominant Chinese markets. This would mark the beginning of 500-year dominance by the West as resources, transportation corridors and financing came under their control. European ‘trading post empires’ were

¹ The ‘artificial’ component of Athens as an island eventually became its downfall as encircling Athens with a wall for protection from the Spartans undermined sanitation and led to a cataclysmal epidemic.

established by capturing ports and controlling strategic sea lanes. The Portuguese were the first Europeans to establish a maritime trade route to China and the Indies, and extorted funds from other traders to obtain permission to trade in cities under Portuguese control. Columbus crossed the Atlantic to link Spain with the East Indies and the Chinese market, which resulted instead in European settlements in the Americas as a pivotal contribution to expand the supremacy of Western maritime powers. The European trading post empires reached East Asia and the Chinese shores. China initially enjoyed superior bargaining power due to self-sufficiency and subsequent less demand for European goods, which led to trade imbalances as precious metals flowed from the West to the East. Yet, the asymmetrical dependence was overcome as the physical presence in East Asia meant that European powers could challenge the conditions of trade. The Europeans were capable of contesting the tribute system and Chinese demand for precious metals as a currency for Chinese goods. The British illegal export of opium into China as an alternative currency was the most profound rebuttal of China's regional power. The ensuing Opium Wars in the mid-1800s were to a great extent won with British gun-boat diplomacy, which demonstrated the imperative of military power to resolve trade disputes. The Opium Wars resulted in Britain seizing Hong Kong, establishing favourable port access and obtaining unrestricted access to all of China's waterways. This became known as some of many 'unequal treaties' that ushered in China's 'century of humiliation'.

Britain's rise to global prevalence was largely a geographical accident as its status as an island state made it an ideal maritime power with economic privileges. Without the need to develop a large standing army on its soil, Britain diverted its funding into a powerful navy capable to dominate the world's oceans. Maritime supremacy ensured control over trade routes, markets and resources. Britain's subsequent colonial leadership also provided it with monopoly on sources of both cheap resources and labour. Without a large standing army that could be turned against its own population, the British government was less vulnerable to succumb to a totalitarian government (Quigley 1979). The subsequent leverage of Parliament against the Monarch resulted in land rights and enclosures that contributed to rapidly developing the agriculture industry and freed up labour as an imperative leverage in Britain's race to industrialise. Only minor investments were required for an offshore balancing strategy as a land-based military force would only be deployed on the European continent to maintain a balance of power among the main states and thus prevent the emergence of a continental superpower capable of threatening Britain.

The leading theory on the geostrategic importance of Eurasian connectivity originated with Mackinder's (1904) 'Heartland Theory'. The analytical framework was outlined in the context of the British-Russian rivalry on the Eurasian continent, with Mackinder theorising and warning that Russia could become a global hegemon by dominating Eurasia. Following the Russians expulsion of the Mongols and the disintegration of the Mongol Empire, the Moscow region (Vladimir-Suzdal) took over the tributary system and utilised it to bring other Russian cities under its rule and create a united Russian state. Russia became the natural successor to the Mongol Empire as it gradually expanded its territory across the Eurasian landmass and eventually reached the Pacific. The decline of China following the British victory in the first Opium War came at a price for the UK as Russia seized 1.5 million square kilometres of Chinese territory in two 'unequal treaties', providing Russia with a vast coastline Pacific from Vladivostok, Sakhalin to Nikolayevsk. The prospect of a new land power reconnecting the Eurasian heartland was feared to fundamentally diminish the advantage of maritime powers (Mackinder 1919).

New technologies would further contribute to enhance physical connectivity on the Eurasian landmass and undermine the balance of power between land powers and maritime powers. Mackinder (1904: 434) warned that the leverage of Britain would come to an end because the economic and military advantage of maritime powers owing to their mobility upon the seas was only temporary:

Steam and the Suez Canal appeared to have increased the mobility of sea-power relatively to land-power. Railways acted chiefly as feeders to ocean-going commerce. But transcontinental railways are now transmuting the conditions of land-power and nowhere can they have such effect as in the closed heartland of Euro-Asia.

Russia's humiliating defeat at the hands of the Japanese in 1905 surprised the world and demonstrated a flaw in Mackinder's theory, namely that maritime powers had long built their competitive advantage along the periphery. Furthermore, European Russia was only connected to the Pacific with the fragile Trans-Siberian Railroad, which became a perilous weakness.² Most importantly, Mackinder's predictions did not materialise since 'Pax Britanica' was replaced by 'Pax Americana', while communism and the Cold War greatly obstructed economic connectivity across Eurasia in terms of both physical infrastructure and

² The US invasion of the Soviet Union between 1918 and 1920 relied only on 7,950 soldiers to control the Trans-Siberian Railroad.

mechanisms for economic cooperation.

Spykman (1942), an influential US scholar, extended upon the theory of Mackinder by developing the 'Rimland Theory'. The mobility of maritime powers presented an imperious comparative advantage for the military and trade. The theory advocated that maritime powers such as the US and the UK should adopt a strategy of offshore balancing. Spykman (1942) encouraged maritime powers to control the maritime 'edge' of Eurasia (Western Europe, the Middle East and East Asia) to contain any prospective Eurasian hegemon. While controlling trade routes along the periphery of Eurasia provides an economic foundation to sustain maritime empires, the deployment of large land-based armies in Eurasia would deplete their resources.

Eurasian connectivity projects after the Cold War demands the revival and reform of the theoretical framework for understanding the rivalry between land powers and maritime powers. The diffusion of global power and rise of Asia demands a modification of Mackinder's theory with less significance devoted to Eastern Europe and subsequently recognise that unilateral dominance by Russia is unfeasible for the foreseeable future. It is unlikely that any one state can possibly dominate Eurasia and the world, as the US was probably the world's first and last truly global hegemon. Mackinder's theory is nonetheless pertinent in terms of conceptualising Eurasian integration as a competition between land and maritime powers (Mackinder 1919: 150).

The lingering pre-eminence of the US creates systemic incentives for Eurasian powers to intensify economic integration to collectively scale back US influence. Eurasian land powers are subsequently rapidly catching up to the rest of the world in terms of increased infrastructure for physical connectivity and institutions to manage economic cooperation and financial tools. The concept of Eurasian 'connectivity' was coined by the World Bank's report on logistics: 'Connecting to Compete: Trade Logistics in the Global Economy' (World Bank 2007). The report posited that competitiveness in global supply-chains is largely contingent on the aptitude to develop infrastructure for alternative transportation corridors. The history of state-led road expansion of the British state demonstrated that infrastructure had important functions for both commercial and social integration. Transportation infrastructure connected regions with their peripheries and united communities through vast territory, which was indispensable Britain's rise to power (Guldi 2012: 12).

Competing Eurasian connectivity

Maritime powers have strong incentives to collaborate among each other and incite divisions among the major land powers to preserve the primacy of the 'rimland'. Mackinder, as the British Commissioner to South Russia, therefore advocated redrawing international borders and dividing Russia into several states. His contemporary American counterpart, Brzezinski (1997a: 56), the former National Security Advisor of President Carter, similarly suggested that the disintegration of the Soviet Union should be followed with the fragmentation of the Russian Federation by encouraging the creation of a 'loosely confederated Russia – composed of a European Russia, a Siberian Republic, and a Far Eastern Republic'.

Washington supported proliferation of regionalism and connectivity in Eurasia after the Cold War as local platforms for US primacy. 'System-dominance' was constructed by offering patronage to regional power in return for allegiance to the US-centric system (Schweller 1999:41; Katzenstein 2005: 57; Buzan 2005). Germany and Japan are the main nodes in Europe and East Asia, the two most critical regions in the world at the western and eastern periphery of Eurasia (Bretherton and Vogler 1999: 66-67). While committing rhetorically to the principles of the free market, the tariff and non-tariff barriers of certain regions suggest that the privileged position would be maintained by limiting or conditioning the access to other poorer regions (Agnew and Crobridge 2002: 226). The US accepted a trade-off by supporting the development of the EU as a multilateral regional format in Europe, which constrained US power but enabled 'Europe' to contain Russian influence (Katzenstein 2005: 50). Japan is supported as the centre of Asian regional governance networks, with financial institutions such as the Asian Development Bank (ADB) to establish political conditionality for funding, which competes against China to lead regional development. US strategy aims to deter convergence or 'consolidation of East Asian and European regions that might shut the United States out, or even develop a global rivals to it' (Buzan 2005: 193). This requires a 'swing power' strategy that threatens to revoke US support to key partners. The US must be 'engaged in several regions but not permanently wedded to any of them' (Buzan 2005: 193). The enduring struggle after the Cold War has been to establish a similar node in the energy-rich Middle East at the southern periphery of Eurasia.

Washington's economic power deriving from Bretton Woods should provide 'benefits to as many states as possible for not joining a system or alliance structure hostile to American

power', while NATO and other military commitments remain indispensable for security and interventions (Friedman 2014). Hegemonic stability theory postulated that the US could and had acted as a benign hegemon since consent for its leadership was obtained voluntarily by delivering collective goods, as opposed to deterring resistance to its administration of the international system (Kindleberger 1986). Realist critique of Kindleberger's liberal theory suggested that the US was not altruistically motivated, rather the state-centric objective was to strengthen a US-led bloc against the Soviet Union (Gilpin 2011: 99). Yet, Kindleberger's arguments are pertinent in the context of a hegemon enhancing its bargaining power by producing collective goods, bearing similarities to the former Chinese tributary system. In the post-Cold War era, US hegemonic stability or a benign 'tributary system' has been impeded by the principal aim to perpetuate unipolarity by containing and marginalising rival powers. Military and economic containment has gradually tightened the noose around competing powers such as Russia, Iran and China. Furthermore, 'the creeping universalisation of American law accompanied by practices of universal jurisdiction represents a new type of power that threatens the sovereignty of states everywhere. In response, counter-hegemonic movements are gaining vitality and dynamism rooted in real challenges' (Sakwa 2016a). Realist theory expects unipolarity to be a temporary phenomenon. The more rising powers are suppressed, the greater their incentive to converge against a common adversary (Huntington 1999).

In the post-Cold War era, only Russia and China remain truly independent poles of power (Katzenstein 2005: 5; Buzan 2005). The US endeavours to contain their influence with a powerful military presence along their borders, and excluding them from equal participation in regional economic institutions or trade agreements. Washington's own Silk Road concept in the Eurasian Heartland promotes selective transportation and energy corridors aimed to reduce Central Asia's dependence on Russia and China. US grand strategy should therefore primarily devote focus to develop and control 'new political and economic arrangements and linkages across the whole Eurasia' to ensure that 'every single major political centre in Eurasia understood that its relationship with the United States was more important than its relationship with any other political centre in Eurasia (Gowan 2002: 13).

Concurrently, the demise of communism established new geoeconomic foundations for Eurasian connectivity and integration to counter US global hegemony. China and Russia have spearheaded complementary initiatives to construct a Greater Eurasia that displaces the Bretton Woods system, which Burrows and Manning (2015: 3) refer to as 'Kissinger's worst

nightmare'. While the Chinese and Russian initiatives are competitive, they share the objective of skirting the US with new trade relations, currency hubs, connecting infrastructure projects, banking clearing facilities, and gold and energy exchanges. The foundations of a Eurasian core can create a gravitational pull to draw the rimland towards the centre. A modern 'Silk Road' project would not simply physically link the regions together with infrastructure, but also develop mechanisms for cooperation. Creating a more autonomous Eurasia necessitates the development and harmonisation of Eurasia-centric trade blocs and regions; physical energy pipelines and transportation infrastructure to facilitate trade; financial and banking institutions to fund development and set political conditions supporting this endeavour; integrate production and value-chains; and use regional currencies.

Conclusion

Understanding geoeconomic theory is crucial to interpret and respond to systemic pressures as a necessity to enhance security. Economic interdependence does not transcend the international anarchy, rather it reconfigures how influence can be obtained as military tools becomes too destructive and therefore less purposeful to compete for relative power. Asymmetrical dependence enables states to extract political power, which then creates systemic pressures for rival powers to restore the balance of dependence. Sustainable and mutually beneficial cooperation can therefore only develop when there is a balance of dependence and desire to maintain status quo. With unequal economic power between dyads, a balance of dependence is established by reducing one's own dependence, while augmenting the dependence of the other. Rational states will therefore seek to diversify partnerships, control strategic industries and develop favourable value-chains, transportation corridors, financial institutions, trade currencies and trading blocs.

Theorising strategies for Eurasian connectivity establishes a benchmark for comparing actual decision-making. Eurasian geoeconomics devotes great significance to geography and categorises states as land powers and/or maritime powers, with significant contemporary economic advantages for the latter. Maritime powers have historically been inclined towards laissez-faire capitalism due to the competitive advantage from controlling key trade corridors. Furthermore, maritime powers enjoy economic advantage from lower military expenditure since offshore balancing is cheaper than the large standing armies of land powers. In contrast, Eurasian land powers with inferior maritime capabilities have

historically been less inclined towards gambling on the freedom of navigation and have had less to benefit from free trade. While technology improved the potential for physical infrastructure in Eurasia, communism and the divisions of the Cold War diluted the prospect for enhanced economic connectivity in Eurasia. The post-Cold War era is vastly different due to global economic interdependence and the adoption of geoeconomics by China and Russia as the main independent poles of power and adversaries to US unipolarity. Growing Eurasian connectivity can bring Mackinder's prediction of a diametrical shift in global power to fruition as Eurasian land powers obtain competitive advantage against maritime powers.

The following chapters will assess Russia's strategy for a Greater Eurasia by the intention and capacity to act in accordance with the geoeconomic principles outlined in this chapter. The geoeconomic rise of China combined with the decline of the US, EU and Japan presents Russia with opportunities and challenges as it transitions from Greater Europe to a Greater Eurasia. Key challenges includes harmonising its strategic interests with China as the dominant geoeconomic actor on the continent, which will require a balance of dependence by pursuing 'strategic diversification' by also connecting with the economies in Northeast Asia and Southern Eurasia.

2. The Rise, Decline and Potential Revival of US Geoeconomic Power

Introduction

The rise, decline and potential revival of US geoeconomic power is surveyed as an indicator for both opportunities and challenges in Russia's external environment. The US is the principal balancer of Russia and has strategic interests diametrically opposed to economic connectivity between major Eurasian land powers such as Russia, China, Germany and Iran. The dominant military power of the US has ensured control over key transportation corridors and strategic resources, while monetary and financial clout produces control over key chokepoints in the global economy. The relative decline of US geoeconomic power produces systemic incentives for challengers to challenge the status quo, yet the US still has opportunities to resuscitate some of its former geoeconomic authority.

This chapter will first explore the rise and decline of US geoeconomic power. The US has since the late 1800s performed remarkably as a geoeconomic maritime power by controlling strategic sea-routes, thrived with trade and pursued inexpensive offshore balancing in Eurasia. The Second World War created systemic incentives for the US to expand its geoeconomic reach globally. Albeit, the war also produced a severely skewed balance of power in Eurasia and economic statecraft had limited impact on the Soviet Union as a communist state largely disconnected from international markets. America's extensive and increasing militarisation to balance the Soviet Union led to its geoeconomics power regressing towards traditional geopolitics. The US did not reform and return to geoeconomics after the Cold War since military power was conceived as the main instrument to sustain the unipolar moment.

The US has ample potential to revive its geoeconomic power, which could present both challenges and opportunities to Russia. The 'shale revolution' is set to make the US an energy exporter determined to undermine Russia's position in Europe, while the pending TPP/TTIP trade agreements are powerful economic tools to marginalise both China and Russia. The US is under mounting pressure to abandon the unipolar moment as it incentivises collective balancing of the US by major powers such as China, Russia and Iran. Accommodating Russia or China to a greater extent could be instrumental to restore some division and an internal balance of power in Eurasia. Realist theory would expect the US

would increasingly abandon containment of Russia since China is the principal geoeconomic rival. However, the ability to contain Russia is greater, especially following the Ukraine crisis.

As the foundations for the US-centric international system wane, the available options are largely limited to managing or resisting further diffusion of power. The dominant position of the US can be used to construct a favourable format for a multipolar economic and security architecture, which would result in an immediate re-distribution of power. Alternatively, the rise of competing centres of power can be resisted and slowed down at the expense of ceding control over the new infrastructure emerging, which would then be developed without or even against the West.

2.1. The rise of US geoeconomics in Eurasia

The grand strategy of the US has since the early 1900s has been offshore balancing along the periphery of the Eurasian continent. The US has been the world's most privileged great power in terms of geography by having no formidable rivals in the Americas. The US became a virtual island by eradicating regional rivals. The Monroe Doctrine rejected further European colonisation of the Americas and regional presence, while US Secretary of State Richard Olney extended upon this in 1895 by declaring hegemony as the US would be 'sovereign on this continent'. The main objective of an offshore balancer is to ensure that a hegemon does not emerge in Eurasia that could eventually threaten the US. The principal geostrategic objective has therefore been to encourage political division on the Eurasian continent and balance potential rival powers from the periphery (Brzezinski 1997b; Van Evera 2006: 88; Friedberg 2011: 6-7; Posen 2014). The US should only enter wars on the Eurasian continent to ensure that a balance of power is established in any post-war settlement. After a conflict, the US should retreat to prevent being perceived as an intrusive occupier, and to ensure allies do not free-ride on its security. Furthermore, the US should enter wars late when the outcome is more predictable, and to minimise the loss of blood and treasury (Mearsheimer and Walt 2016: 78). Embracing this strategy, Truman announced in 1941 when Nazi Germany invaded the Soviet Union: 'If we see that Germany is winning the war we ought to help Russia, and if Russia is winning, we ought to help Germany and in that way let them kill as many as possible' (Gaddis 2005: 4).

The ideas of Mackinder and Spykman were preceded by the influential work of Alfred Thayer Mahan in the 1890s, an influential US Navy Admiral. In *The Influence of Sea Power upon History*, Mahan's (2013) advocated for the US to establish itself as a sea power like the British Empire to dominate international commerce. Mahan depicted the US as a continent-sized island relying on sea power to maintain a balance of power in Europe and Asia to prevent any one power from challenging the US. A powerful US navy, in partnership with the UK, was deemed to be imperative to contain the Western maritime edges of the Eurasian continent (Mahan 2013). Spykman (2008: 470) advocated that the US 'will have to adopt a similar protective policy toward Japan' to preserve a balance of power in the Far East to preclude the rise of China.

The US became a major maritime power in the late 1800s in accordance with the recommendations of Alfred Thayer Mahan. The victory in the American-Spanish War resulted in the US acquiring former Spanish territories in the Americas and the Pacific Ocean. A network of ports was acquired by annexing various islands in what became a US 'string of pearls' strategy to control strategic sea lanes. From the 1890s, the US annexed Hawaii, the Philippines, Guam, Puerto Rico, Wake Island, American Samoa and the Virgin Islands. Captain Alfred Thayer Mahan and other powerful naval pundits encouraged the construction of a canal in Central America to bridge US influence in the Atlantic with the Pacific. The US subsequently coerced Panama's secession from Colombia in 1903 to assert US control over the strategic Panama Canal, which fell under US sovereignty until 1979. As a maritime power, the US aimed to balance adversaries at sea, while the navy could also be utilised to acquire equal or privileged trading rights.

Following the Second World War, the prominence of the Heartland Theory continued to have great influence on US foreign policy. A powerful presence was established in Western Europe to assert dominance over the North Atlantic. In the Asia-Pacific, the US was capable of drastically increasing its physical presence beyond the minor colonies. John Foster Dulles, the US Secretary of State between 1953 and 1959, called for strengthening an 'island chain' with US allies such as Japan, Philippines and Australia to further encircle and contain China and the Soviet Union in the Pacific Ocean (Dulles 1952: 181-182). This later manifested itself as two island chains for containment. The first island chain 'locks in' the Sea of Japan, the East China Sea and the South China Sea with an encirclement stretching from Japan, Ryukyu Islands, Taiwan, Philippines and towards Malaysia and Indonesia, where the US controls the strategic Strait of Malacca. The second island chain stretches from Japan,

the Northern Mariana Islands, Guam, Micronesia and Palau before reaching Indonesia (Xu 2006). On the southern periphery of Eurasia, the US established and maintained a dominant presence in important transportation corridors such as the Persian Gulf and the Suez Canal.

The analytical framework of the Heartland Theory was invigorated in the US with the ascendance of the Soviet Union after the Second World War (Blouet 2005: 6). Friedman (2014) argues that preventing one power or coalition of powers from dominating Europe or Eurasia was the primary motivation for the US to enter both the First and Second World War. Yet, the Second World War had especially a profound impact as 'Pax Americana' replaced 'Pax Britannica' as the main maritime balancer, while the severely skewed balance of power in Europe had made the prospect of Soviet dominance in Eurasia a possibility. The containment strategy against the Soviet Union has subsequently even been referred to as the 'Spykman-Kennan thesis of containment' (Parker 1985). George Kennan, the 'architect of containment', argued primarily for economic containment by denying the Soviet Union more than one centre of industrial and economic potential to establish a 'Eurasian balance of power' (Gaddis 1982: 38). The ideas behind the Heartland Theory emerged in US National Security Council reports from 1948 and onwards, in relation to containing the Soviet Union (Gaddis 1982: 57-58). President Reagan confirmed the relevance of the Heartland Theory in the US National Security Strategy:

The United States' most basic national security interests would be endangered if a hostile state or group of states were to dominate the Eurasian landmass- that area of the globe often referred to as the world's heartland. We fought two world wars to prevent this from occurring. And, since 1945, we have sought to prevent the Soviet Union from capitalizing on its geostrategic advantage to dominate its neighbors in Western Europe, Asia, and the Middle East, and thereby fundamentally alter the global balance of power to our disadvantage (White House 1988: 1).

The post-war period was characterised by the emergence of large competitive corporations, technological developments, and high production as the war industry was converted into commercial production. The relative economic power of the US was further augmented by the destruction of rivals in Europe during the war, while continental US had not experienced any fighting on its soil. When the war concluded, the US had become the world's manufacturing powerhouse with approximately 50% of the world's GDP, becoming the world's largest creditor nation. Kennan (1948) warned that the dominant economic position of the US was abnormal and sustaining it would require strategic partnerships:

We have about 50% of the world's wealth but only 6.3% of its population... Our real task in the coming period is to devise a pattern of relationships which will permit us to maintain this position of disparity without positive detriment to our national security... We need not deceive ourselves that we can afford today the luxury of altruism and world-benefaction.

Free trade was a technique of economic statecraft employed by the US after the war to construct a US-centric international economic system (Baldwin 1985: 46). The new international system agreed in Bretton Woods towards the end of the war institutionalised US pre-eminence. The US dollar would reign as the world's international reserve and trade currency, while the US-led IMF and the World Bank were established as the world's principal financial institutions. These financial institutions are utilised as a foreign policy tool by for example assistance to voting in the UN (Pilger 2002; Oatley and Yackee 2004; Aiyar 2015; Kilby 2009). The US Trade Representative under President Bill Clinton, later referred to the IMF as 'a battering ram' to open up Asian markets to the US (Subramanian 2011: 66).

The Marshal Plan re-built the economies of European allies to strengthen the alliance against the Soviet Union, with assistance conditioned on the removal of protectionist measures and opening up their markets to US exports. Furthermore, European powers were pressured to decolonise and open these markets to the US. In the Middle East, it meant that energy resources and transit routes could be placed under the US sphere of influence. Adolf Berle, an advisor of President Roosevelt, commented that controlling Middle Eastern oil reserves meant procuring 'substantial control of the world' (Chomsky 2016: 44). A 1945 memorandum draft to the US president, Gordon Merriam, the Chief of the Near Eastern Division, postulated that 'Saudi Arabia, where the oil resources constitute a stupendous source of strategic power, and one of the greatest material prizes in world history, a concession covering this oil is nominally in American control' (US State Department 1945).

Against the objections of the UK, Washington demanded that the dollar should be the sole global reserve currency. Much of Europe's gold had been transferred across the Atlantic to pay for the war efforts, culminating in the unprecedented condition of approximately 80 percent of the world's gold being stored in US vaults. The credibility of US currency was enhanced by making it convertible to gold at a fixed rate of \$35 per ounce. The 'gold standard' reinforced stability and predictability due to the requirement for fiscal prudence since excessive printing of dollars would no longer make the dollar 'as good as gold'. The

ability of Washington to print the world reserve currency denotes that the US can ‘tax’ the rest of the world to cover budget deficit by creating additional funds at the expense to devaluing the dollars in circulation (Eichengreen 2011). The French President, Charles de Gaulle, famously expressed his disdain for the dollar ‘hegemony’ by berating that it created ‘extravagant privileges’ used to dominate Western Europe (Gilpin 2011: 237).

US bargaining power derived from the ability to both provide material goods and inflict economic pain. The US threatened to withhold funding and collapse the British pound in response to the British incursion into the Suez Canal in 1956 (Subramanian 2011: 66). The US has since become the foremost country in the world to impose sanctions on other states (Blackwill and Harris 2015: 138). New technologies later enabled the US to maintain and expand its economic statecraft. Less focus is devoted to the Society for Worldwide Interbank Financial Telecommunication (SWIFT) that was established in 1973, irrespective of being an important tool for economic statecraft. SWIFT provides a common good as a network for secure payment orders between financial institutions, which manages the overwhelming majority of the world’s interbank messages. However, as SWIFT can also utilised as a tool for US political power. Since much of the world’s trade are cleared through US-based computers and denominated in US dollars, Washington can impose its domestic laws on the international community by coercing other states to follow its sanctions regime. In 2012, SWIFT was used coercively against Iran by expelling it from the SWIFT system, and the lack of access to utilise international bank transactions contributed to crippling its economy. For example, a French bank, BNP Paribas, was fined nearly \$9 billion by the US government for bilateral trade with Sudan, Iran and Cuba. Russia was also threatened to be expelled from SWIFT following the Ukraine crisis. Furthermore, SWIFT provides valuable intelligence for the US as government institutions such as the NSA and CIA have access to the transaction database (Jančić 2016: 903).

2.2. The decline of American geoeconomics

The decline of US geoeconomic statecraft during the Cold War had its roots in ideology and reliance on military power. Ideology diminished rationality as the temporary convergence of US security interests with free-trade augmented the authority of the liberal economic theory. More importantly, geoeconomic supremacy was rapidly converted into more militarised geopolitical power (Blackwill and Harris 2016: 165). George Kennan initially envisioned a

containment of the Soviet Union through geoeconomic statecraft. However, the minimal Soviet economic activity in international markets as a communist state made the US more reliant on hard power (Blackwill and Harris 2015: 167). The US established NATO on the western rimland of Eurasia, the South East Asia Treaty Organisation (SEATO) on the eastern rimland and the Central Treaty Organisation (CENTO) in the Middle East on the southern rimland. It has been argued that the US became a military empire by circumstances due to the required military spending during the Cold War (Friedman 2015). The hazard of a maritime power becoming excessively reliant on a large standing army like a land power was recognised by Eisenhower before he became president. In 1951, while serving as NATO's first supreme commander, Eisenhower warned: 'If in ten years, all American troops stationed in Europe for national defence purposes have not been returned to the United States, then this whole project will have failed' (Carpenter 1992: 12).

The fiscal pressure heightened as President Johnson launched the 'Great Society' project in the mid-1960s to eradicate poverty, while the Vietnam War concurrently exacerbated the already stretched military budget. Trust in the US dollar eroded as new dollars were printed to pay for welfare and warfare. The allies had a strong incentive to hold over-valued dollar as a collapse of the dollar would adversely affect the capacity of the US to maintain its security commitments in Western Europe. Erosion of trust in the US currency still initiated Western European allies to gradually convert dollars into gold, which led to the IMF eventually developing the Special Drawing Rights (SDRs) as an alternative reserve currency in the late 1960s. The unwillingness or inability to scale back expenses and restore fiscal prudence resulted in the gold standard becoming unsustainable. President Nixon eventually closed the 'gold window' in August 1971 by decoupling the US dollar from gold and making it a fiat currency.

The US responded to the diminished credibility of the US dollar by transitioning from the gold-dollar to the petro-dollar. In 1973, the US Secretary of State, Henry Kissinger, negotiated a deal with Saudi Arabia, the world's largest oil producer, to sell oil exclusively in US dollars. Saudi Arabia's excess of dollars could then be invested in US denominated assets and bonds, creating a system labelled 'petrodollar recycling' (Spiro 1999). In return, the US would use its military power to guarantee Saudi security. The same deal was then reached with the other OPEC members by 1975, and soon other states fell in line as the US dollar became the de-facto global currency for energy trade. The prevailing logic is that 'everyone' needs US dollars because everyone else is using US dollars. Global demand for US dollars

for energy trade made it convenient for global trade and reserves. Subsequently, oil is purchased with a currency the US can print at will. The petro-dollar system demanded greater reliance on military power to extend security guarantees and control energy resources. The US military presence in the region has since fuelled anti-American sentiments and thereby perpetuating US reliance on coercive means to maintain its authority. None of the OPEC countries ever sold oil for another currency than the US dollar until November 2000, as Iraq and several EU countries agreed to use Euros in the Oil for Food program. However, after the US invasion in 2003, Iraq was compelled to switch back to trading oil in US dollars.

Energy has also remained crucial in US economic statecraft in terms of ensuring reliable supply of cheap oil to the USA and its allies (Gilpin 1975). By January 1983, the US created the Central Command (CENTCOM) to protect US oil interests in the Middle East by deterring Soviet disruption. This imperative of 'energy security' culminated in meetings between oil companies and the state department to ensure that business interests align with US foreign policy objectives (US Congress 1975). The informal recognition of geoeconomics was also evident in the Bush administration, which acted on the belief that what was good for large oil corporations would also benefit the US (Gordon 2002). While the energy industry is privatised, a 'cozy relationship' has been established with the government (Usborne 2010; Juhasz 2014).

Failure to reform after the Cold War: unipolarity by military force

Following the demise of the Soviet Union, the Heartland Theory was reconfigured as a US hegemonic strategy, which implied a radical shift away from the traditional role as an offshore balancer. Brzezinski (1997b), referred to the Eurasian Heartland as the 'grand chessboard' and called on the US to seize the historic moment to advance and cement US global hegemony: 'America's global primacy is directly dependent on how long and how effectively its preponderance on the Eurasian continent is sustained' (Brzezinski 1997b: 30). In order to sustain US power it is 'imperative that no Eurasian challenger emerges, capable of dominating Eurasia and thus of also challenging America' (Brzezinski 1997b: xiv). This can be achieved by preventing the emergence of 'regional coalitions that seek to push America out of Eurasia, thereby threatening America's status as a global power' (Brzezinski 1997b: 55). Washington should aim to use its economic and military power 'to keep Eurasia divided among as many different (preferably mutually hostile) powers as possible' (Friedman 2014).

The three main imperatives of US hegemonic geopolitical strategy was ‘to prevent collusion and maintain security dependence among the vassals, to keep tributaries pliant and protected, and keep the barbarians from coming together’ (Brzezinski 1997b: 40).

The leaked draft of the US Defense Planning Guidance in 1992, also referred to as the Wolfowitz Doctrine, similarly stipulated that US strategy should primarily focus on preventing the emergence of any challengers on the ‘Eurasian heartland’:

Our first objective is to prevent the re-emergence of a new rival, either on the territory of the former Soviet Union or elsewhere, that poses a threat on the order of that posed formerly by the Soviet Union. This is a dominant consideration underlying the new regional defense strategy and requires that we endeavor to prevent any hostile power from dominating a region whose resources would, under consolidated control, be sufficient to generate global power. These regions include Western Europe, East Asia, the territory of the former Soviet Union, and Southwest Asia’ (New York Times 1992).

Besides military challenges, the doctrine stipulated that in ‘the non-defense areas, we must account sufficiently for the interests of the advanced industrial nations to discourage them from challenging our leadership or seeking to overturn the established political and economic order’ (New York Times 1992).

Reliance on military power at the peril of economic affluence perpetuated following the Cold War. At Eurasia’s western periphery, NATO became even more important to maintain US influence in Europe due to the relative decline in trade between Western states (Greenwood 1993). NATO expansion to the east provided the US with an increased presence in the Baltic Sea and the Black Sea to contain Russian maritime capabilities. The military alliance also adopted ‘energy security’ as a key responsibility, and the former CEO of Royal Dutch Shell was even tasked to co-chair the draft of NATO’s new Security Concept in 2009 (Ercolani and Sciascia 2011). Washington’s support for the ‘Rose Revolution’ in Georgia and subsequent push for NATO membership aimed to establish a US presence that would support pipelines circumventing Russia, such as the Baku-Tbilisi-Ceyhan pipeline, the Baku-Tbilisi-Erzurum pipeline, the Nabucco pipeline and the Trans-Adriatic pipeline (TAP) from Azerbaijan-Greece-Albania-Italy (Ziegler and Menon 2014). These pipelines, between Georgia and Azerbaijan, follow almost exactly the Batumi-Baku rail corridor that Mackinder had advocated the British seize control over during the Russian revolution. As British High Commissioner to South Russia, Mackinder had expected that controlling the energy corridor

would be instrumental to build an anti-Russian alliance. As the With US support, Georgia's military budget increased by more than 10-folds from 2003 to 2008 (Stalenheim, Perdomo and Skons 2008). Russia's military intervention in 2008 undermined these efforts and cemented the continued presence of Russia in South Ossetia and Abkhazia by recognising their independence. Similarly, support for the 'Orange Revolution' in Ukraine in 2004 was followed by the support for NATO membership. Bringing Ukraine into the Western orbit would endow Washington with influence over pipelines that carried 80 percent of gas transiting from Russia to Europe, and diminish Russia's presence in the Black Sea by ending the lease of Sevastopol. On the eastern periphery in Asia, the US announced its military pivot to Asia in 2011 that aimed to strengthen the US-led security architecture that marginalises China's ability to project maritime power.

Controlling energy resources and trade routes in the Middle East relies to a great extent on forward deployments near the Strait of Hormuz (Gresh 2010). The US had initially been on track to bring the energy-rich Middle East under its influence following the Second World War when both Saudi Arabia and Iran had eventually fallen under US influence and Egypt followed in 1979. However, the Islamic Revolution in 1979 ensured that the US would be engaged in a prolonged, costly and militarised conflict. While the US was initially able to use Iraq as a proxy in the war against Iran from 1980 to 1988, Iraq's invasion of Kuwait made it necessary to open a front against Iraq as well. Bringing Iraq back under US influence became an important objective following the failure of the sanctions throughout the 1990s.

The think-tank 'Project for a New American Century' (PNAC), consisting of Cheney, Rumsfeld, Wolfowitz and other key figures in the Bush Administration, circulated a report in 2000 equating dominance in the Persian Gulf to global hegemony:

The United States has for decades sought to play a more permanent role in Gulf regional security. While the unresolved conflict with Iraq provides the immediate justification, the need for a substantial American force presence in the Gulf transcends the issue of the regime of Saddam Hussein (Kellner 2004).

Under the auspices of the Global War on Terror, the US has pushed itself further into debt to ensure control over the southern edge of the Eurasian landmass (Katzenstein 2005: 42). The invasion of Iraq in 2003 contributed to further weakening the US by becoming a 'military giant, a back-seat economic driver, a political schizophrenic and an ideological phantom' (Mann 2003: 13). The deployment of a large land-based invading army strayed

from the strategy of a maritime balancer and replicated the disaster of the Vietnam War. Rather than establishing a node in the Middle East, the invasion of Afghanistan and Iraq strengthened Iran as the primary balancer of US power in the region. More determined to balance an increasingly powerful Iran, the US found itself allied uncomfortably close to Saudi-Arabia, Qatar and the Sunni-extremist groups they support in the region.

The US initially sought to use the Arab Spring to bring the region under US geoeconomic power. Albeit, the ambition to establish the Middle East/North Africa Investment Fund (MENA-IF) and Trade and Investment Partnership (MENA-TIP), as a counterpart to the European TTP and Asian TTIP, failed to materialise. Instead, the reliance on military power contributed to chaos in Libya, Syria and Yemen, while Iran and Russia eventually stepped in to balance the US.

The military failures in Afghanistan also undermined US ability to establish a presence in the energy-rich region of Central Asia, bordering China, Russia and Iran as America's three main Eurasian adversaries. US support for energy cooperation and interdependence between the EU and Central Asians has the dual effect of reducing Russian influence in both Central Asia and the EU. With reference to Mackinder's heartland theory, scholars commonly refer to the rivalry over the Caspian Sea and Central Asia as 'the New Great Game' (Kleveman 2003). Kazakhstan, a strategic and energy-rich state lodged between Russia and China, was therefore offered a privileged position in the US-sponsored 'Greater Central Asia Project' (Sultanov 2015). The US version of a Silk Road project also attempted to integrate Afghanistan into the region. Yet, the envisioned TAPI pipeline (Turkmenistan, Afghanistan, Pakistan, India) did not materialise as the NATO occupation and nation-building of Afghanistan began to fail (Lee and Gill 2015; Pomfret 2015: 325).

Global hegemony has become a financially unsustainable endeavour due to rising national debt and domestic social inequality. While the NAFTA agreement was intended to enhance the collective leverage of North America vis-à-vis Europe and Japan (Hurrell 1995: 341), it intensified the outflow of manufacturing jobs due to the vastly different economies of the US and Mexico. The transition from manufacturing to a service economy can largely be deemed to have been a failure, evident by the enormous trade deficits. Saved capital and labour from outsourced manufacturing has mostly been directed towards low-skilled and low paid jobs, while growing economic inequality is eroding the middle class and undermining economic innovativeness, adaptability and resilience (Luttwak 2010).

The conviction that the US developed a sustainable post-modern economy less reliant on traditional manufacturing jobs has been sustained by inflated asset prices masquerading as economic growth. The collapse of the tech-bubble in the 1990s indicated that the US would need to accept a diminished position in the global economy. The painful, yet much needed correction was delayed by setting low interest rates and thereby replacing the tech-bubble with a housing-bubble. The US economy was again in dire need of structural reform when the housing market collapsed in 2007-2008. Inflated asset prices had also exhilarated a consumer-driven economy increasingly reliant on debt and consumption. The financial crisis began in the subprime mortgage market, but was only a symptom of a much larger bubble (Schiff 2012; Stockhammer 2014). Borrowing money from abroad to buy imported products implies that large parts of GDP represent wealth destruction rather than wealth creation. The US Federal Reserve lowered the interest rates to near-zero again and has kept it there ever since the housing crash, an unprecedented decision that goes well beyond anything Keynes advocated. As the market is flooded with cheap money, new asset bubbles have been inflated. The US is presented with a dilemma as interest rates cannot be raised significantly without pricking asset bubbles and pushing the economy back into recession, while continuing zero-rates and cheap money will cause further flawed investments and fuel a derivatives-bubble and a dollar-bubble. Rothschild (2016) referred to the sustained near-zero interests rates as ‘surely the greatest experiment in monetary policy in the history of the world. We are therefore in uncharted waters and it is impossible to predict the unintended consequences’. Furthermore, the global financial crisis demonstrated the preparedness of the US government to protect strategic industries, deeming financial institutions as being ‘too big to fail’. The ‘bailouts’ of the major investment banks became the largest transfer of wealth from the middle-class to the rich in US history, which has undermined social mobility, economic resilience and political stability.

Under the Obama administration, US debt ballooned from 10 trillion to 19 trillion, which is expected to reach 20 trillion by the time he leaves office. Debt to GDP ratio has risen from 64.8 percent in 2007 to 104.17 percent in 2015, while unfunded liabilities exceed \$100 trillion.³ In a sign of distrust over the safety of gold in US vaults, Germany and Netherlands began in 2013 and 2014 the process of repatriating their gold and discussions are intensifying in other European central banks in to do the same. The dollar is losing its appeal, albeit credible alternatives are still lacking. Justin Yifu Li, the former chief economist of the

³ For current total unfunded liabilities, see U.S. Debt Clock, <http://www.usdebtclock.org/>

World Bank, posits: ‘The dominance of the greenback is the root cause of global financial and economic crises’ (Barris 2014). The Deputy Managing Director of the IMF, Naoyuki Shinohara, encouraged emerging Asian economies to reduce their reliance on the US dollar since the dominant position of the dollar did no longer reflect the international distribution of wealth (Chandran 2015). According to the IMF, the US dollar accounted for 55 percent all foreign exchange holdings in 2001, which declined to 33 percent by 2013 (Halligan 2014a).

The amount of dollars in circulation around the world has become a liability: ‘If a future financial crisis implicated the dollar, a tidal wave of dollars could flood the market’ (Kirshner 2013: 30). However, currency dominance is recognised for the ‘advantages of incumbency’ since all major economies are deeply entrenched in the status quo and will be restrained with disentangling (Eichengreen 2011: 7; 32). Conversely, rival powers become more willing to accept economic pain to decouple from excessive dependence on the US as the ability to provide collective goods diminishes and Washington’s bargaining power becomes more reliant on coercive means.

With economic power rapidly shifting from the West to the East, an unprecedented situation has emerged as the US, EU and Japan have accumulated unsustainable debt, while China, Russia and other developing states have become the main creditors. The interdependence between the US and China as the main debtor and creditor exhibits unsustainability. The relationship has commonly been defined as mutual interdependence as the US relies on China to buy US treasury bonds, while China depends on the US as an export market. With US debt growing to unsustainable levels, the partnership becomes a liability to China as the creditor and systemic pressures encourages Beijing to challenge US primacy. China will increasingly yield to the mounting pressure to revise its development strategy and decouple from excessive dependence on its debtor. The preparedness of accepting some economic pain for favourable symmetry is enhanced as it becomes increasingly unlikely for China to have the debt repaid, and China is reluctant to fund its own military containment as tensions rise.

2.3. The potential for an American geoeconomic revival

The dominant but declining power of the US presents a paradox as chaos ensures stability: increased connectivity among rising Eurasian powers could sink the US economy and bring

the rest of the global economy down. Similarly, when there is turbulence in global financial markets caused by a fragile dollar, there is a tendency to back the US dollar as a traditional safe haven (Prasad 2014: 299). There are indications that the US could renew and cultivate its geoeconomic tools beyond crude economic sanction. The ‘shale revolution’ is transforming the US from an energy importer to an exporter. Exporting LNG to Europe is imperative for the objective of reducing reliance on Russian gas. The Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP) trade deals can revive US primacy and marginalise China and Russia (Lo 2015: 55-56; Blackwill and Harris 2016). The TPP consists solely of maritime states, which would strengthen US dominance on the eastern periphery of Eurasia. Obama (2016) argued:

America should write the rules. America should call the shots. Other countries should play by the rules that America and our partners set, and not the other way around. That’s what the TPP gives us the power to do... The United States, not countries like China, should write them.

Secretary of State, Hillary Clinton, likewise referred to the TTIP between the US and Europe as an ‘economic NATO’ (Oreskes 2016). The leaked TTIP documents indicated that the new rules written by America pursued competitive advantage by masquerading corporate dominance as free-trade. The Independent reported that the trade agreement would augment US economic dominance in Europe:

Documents show that US corporations will be granted unprecedented powers over any new public health or safety regulations to be introduced in the future. If any European government does dare to bring in laws to raise social or environmental standards, TTIP will grant US investors the right to sue for loss of profits in their own corporate court system that is unavailable to domestic firms, governments or anyone else (Hilary 2016).

The US demonstrates increased economic statecraft to contain Russia influence in Europe. Hawkish voices argue in favour enhancing US relative power across Europe by immunising against Russian economic statecraft. Applebaum (2015) suggests that ‘we need to disengage with Russia, we need to make sure it does not influence us’ by ‘getting corrupt Russian money out of our financial systems’ that are used to ‘buy’ Western politicians. These recommendations are seemingly carried out as Washington tasked the US Director of National Intelligence, James Clapper, to investigate Russian clandestine support for European political parties to gain influence on the continent (Foster 2016).

The US invested more than \$5 billion into ‘democracy-promotion’ in Ukraine, which was equated to a ‘European future’ (Sakwa 2015: 86-87). The US-backed ‘colour revolutions’ in Georgia and Ukraine in 2003 and 2004 failed cement their position within the Western orbit as Russia leveraged from business influence and energy dependence. Conversely, following the Maidan-coup in 2014 the US immediately increased its economic influence over the new government as a key lever of power.⁴ Washington provided substantial economic support for Kiev to enable Ukraine to sever economic ties with Russia, as the White House recognised its strategic interest in reducing Ukraine’s reliance on Russia’ (Scherer 2014). Natalie Jaresko, and American official from the US State Department, was granted instant Ukrainian citizenship to fill the position of Ukraine’s Finance Minister. While holding the position of Finance Minister, Jaresko as a co-founder of the investment firm ‘Horizon Capital’, also made her bid to take over one of Ukraine’s largest telecom company (Ukraine Today 2016). The son of US Vice President, Joe Biden, and a close family friend of US Secretary of State, John Kerry, became board members of the Ukrainian gas and oil company Burisma three months after the coup (Sonne and Grimaldi 2014).

The IMF changed its own rules of not lending to states that default on sovereign debt. The rule was eschewed as Ukraine and the West sought to prevent Western loans from being used to pay back Russian debt (Åslund 2015). While the reason for altering the rules was to support the Maidan-government, ironically the justification was that Russia’s loan to Ukraine had been political by supporting the Yanukovich administration. Russian Prime Minister, Medvedev, had correctly predicted Kiev would not pay its debts and that ‘our Western partners not only refuse to help, but they also make it difficult for us’ (Russian Federation 2015a). The Russian Deputy Chairman of the Committee for International Affairs at the Federation Council accused the IMF of acting as an instrument of the Maidan coup. The US was argued to have ‘the role of the main violin in the IMF while the role of the second violin is played by the European Union. These are two basic sponsors of the Maidan – the symbol of a coup d’état in Ukraine in 2014’ (Tass 2015a). Subsequently, Russian misgivings about US dominance over international financial institutions such as the IMF have trumped apprehensions about powerful Chinese-led international investment banks diluting Russian influence in Central Asia.

⁴ The word ‘coup’ is used to signify the unconstitutional seizure of power by established political elites in the opposition, as opposed to a ‘revolution’ that marks a pervasive change of government by the people.

Russia's intervention in Ukraine and China's assertive stance in the South China Sea has presented Washington with the opportunity to leverage from its military power by reviving alliances in decline. While geoeconomic instruments of power tends to be more covert and evoke less fear, the threat from military coercion makes European states more willing to accept economic pain to reduce reliance on possible aggressors (Connolly 2016). However, there are apprehensions in East Asia to partake in an anti-Chinese alliance, with Philippines being the most prominent example. Likewise, NATO's main member states have expressed extreme misgivings about prolonged confrontation of Russia. The German foreign minister, Steinmeier, accused NATO of 'saber-rattling' (DW 2016). The French President similarly warned that 'NATO has no role at all to be saying what Europe's relations with Russia should be. For France, Russia is not an adversary, not a threat'. Turkey has also vehemently rejected that NATO can dictate Turkey's partnership with Russia and announced that Russia can use Turkey's Incirlik military base (RT 2016a). Opposition to anti-Russian sanctions have also mounted in Southern and Eastern Europe.

The US has developed an unprecedented capacity for cyber espionage and cyber warfare. In the early 1990s, the concept of 'economic intelligence' began to expand to include the US intelligence community serving the interests of national business interests (Scalingi 1992: 153). The PRISM surveillance program revealed by the Edward Snowden leaks confirmed the extensive cyber espionage by the NSA into foreign corporation such as the Brazilian energy company Petrobras, Swiss banks and Chinese telecoms (Segal 2014). The Stuxnet cyber-attack on Iran's uranium enrichment centrifuges demonstrated the capability of the US to attack critical infrastructure and potentially financial institutions of adversaries. Leaked files from the US verified that President Obama had called for a list of potential overseas target for cyber warfare. The objective of the Offensive Cyber Effects Operations was to 'advance US national objectives around the world with little or no warning to the adversary or target and with potential effects ranging from subtle to severely damaging' (Greenwald and MacAskill 2013). Following the accusation by Hillary Clinton that Russia was behind the hack into the Democratic National Committee during the presidential elections in 2016, she pledged: 'As president I will make it clear that the United States will treat cyber-attacks just like any other attack. We will be ready with serious political, economic and military responses' (White 2016).

Bargaining power: from sticks to carrots?

Restoring geoeconomic bargain power requires greater ability to accommodate the interests of adversaries. Washington has become overly reliant on economic coercion as opposed to providing common goods to discourage disengagement from US-led international institutions and trade. Even if the US would not decline in absolute power, the ‘rise of the rest’ results in continuing decline of relative power (Zakaria 2008). The US is presented with a dilemma as it can either accept the emergence of a multipolar world and use its leverage to shape a new international infrastructure that maintains US leadership, or seek to maintain dominance and risk rival powers constructing new institutions without US influence and perhaps in opposition to the US (Brzezinski 2009; 2013; White 2012).

The failure to accommodate rival powers in the IMF has spurred the incentive to create alternatives. Following years of the US rejecting and delaying reforms to the IMF, the global leadership versus global domination dilemma became especially acute. In 2015, China responded by courting new members for the Asian Infrastructure Investment Bank (AIIB), as an alternative to the IMF and the World Bank. While the US lobbied its allies to ignore China, almost all of the US major allies eventually joined. Former US Secretary of State, Madeleine Albright, recognised that Washington ‘screwed it up’ by miscalculating as ‘all of a sudden everybody was in’, which isolated the US instead (Dong and Lia 2015). In an effort to salvage the IMF, the US later accepted the yuan into the currency basket of the IMF’s Special Drawing Rights.

Similarly, the threat of expelling Russia from SWIFT to cripple its economy following the annexation of Crimea drastically increased the threat of relying on a US-centric financial system. The head of the analysis department at the Association of Russian Bank recognised SWIFT expulsion would be detrimental: ‘It will be a step backwards of 20 or 30 years’ (Amos 2015). Prime Minister Medvedev warned that ‘our economic reaction and generally any other reaction will be without limits’ if Russia were to be disconnected from SWIFT (Tass 2015b). Subsequently, Russia increased its efforts to de-couple from the dollar, began developing its own transaction system and supported the Chinese launch of the China International Payment System (CIPS) at the end of 2015. Russia’s response by gradually decoupling from the US-led SWIFT system and the dollar should have been predicted as sustained sanctions on Iran also made Tehran an innovator for a post-American world by refusing to take dollars for its energy sales and developing alternative payment systems. The

US has sought to improve relations with Iran, which was hoped to turn a corner following the signing of the nuclear agreement in 2015 (Winkler 2015). Iran has nonetheless continued to express its opposition to the US, while both Russia and China are seeking to accommodate Iran in parallel financial and trade arrangement through membership in the Shanghai Cooperation Organisation.

Selective accommodation as a wedge strategy

All major adversaries of the US do not need to be accommodated. The intensifying economic connectivity and political convergence of major Eurasian powers can be countered with selective accommodation to draw a wedge between states engaging in collective balancing. Realist theory suggests that attempting to sustain the unipolar moment would only make it more resisted by uniting rising power such as China, Russia and Iran, which is what US strategy has historically aimed to prevent. Containment policies against both Russia and China are especially driving the main two Eurasian adversaries into a strategic partnership, incentivising both sides to resolve differences and harmonise interests (Cornett 2016: 15).

Brzezinski (2016) argues that the US must ‘fashion a policy in which at least one of the two potentially threatening states [China and Russia] becomes a partner in the quest for regional and then wider global stability’. The costly, unfeasible and dangerous US-led containment of both Russia and China would ideally be replaced by a strategy that ‘actively seeks to maintain the division of Eurasian great powers’ (Cornett 2016: v). The US had temporary success with the US-Russian ‘reset’ of relations in 2009, when the US dropped its missile defence plans in Poland and the Czech Republic supposedly in return for Russia agreeing to sanctions on Iran. The US later announced the deployment of a more powerful missile defence under a different format, yet Russia’s relations with Iran had been severely strained.

China is decisively the most powerful geoeconomic rival and the only potential unconstrained hegemon on the Eurasian continent (Mearsheimer and Walt 2016) The new realist will mount systemic incentives for the US to create an ‘expanded West’ that includes Russia to restore ‘normal balancing’ between Russia and China (Brzezinski 2009; Cornett 2016). The post-Cold War hubris and subsequent refusal to recognise any legitimate Russia security interests in Europe is deeply embedded in the mentality of Washington. Three

decades after Gorbachev's 'new thinking' about Soviet foreign policy, the US would benefit from a similar break from the ideational status quo to achieve a great power (Kuchins 2016: 460). Alternatively, the US could maintain its costly dual front and instead encourage rivalry between China and Russia by elevating competing interests or by utilising propaganda. Cornett (2016: 17) advocates for the US and Japan to employ 'strategic communication tools' to spread fear within Russia about China's rise, while a focus on human rights issues and common values issues would be instrumental to shame growing EU ties to China (Cornett 2016: 17).

Using carrots to enhance bargaining power with Russia does not require a complete harmonisation of interests in Europe and Asia. The objective can merely be to make Russia a rudimentary stakeholder in a regional status quo to avoid diametrically opposed positions. East Asia is a conceivable starting point for future rapprochement due to less incompatible interests, while the failure of Russia to diversify its partnerships in the region would ultimately strengthen China. Klein (2014: 20) argues that the US could be an 'indispensable' partner for Russia's pivot to East Asia, which would not require abandoning containment in Europe. Inozemtsev (2013) even recommends establishing a North Pacific Treaty Organisation to create a more equal partnership for Russia in Asia. Russia also had growing incentives to restore relations with the US since the ongoing antagonism undermines Russia's ability to play the two sides against each other (Rozman 2015). There has so far not been any explicit expression of interest on the side of the US to participate in the development of Siberia and the Russian Far East (RIAC 2012). The US can similarly align policies with Russia to some extent in Central Asia due to the shared interest of enhancing security in Afghanistan. The Northern Distribution Network transportation corridor transiting through Uzbekistan, Kazakhstan and Russia could drastically enhance economic prosperity and political stability of Afghanistan, at the price of becoming more reliant on Russia (Kuchins, Sanderson and Gordon 2010: 34).

The ability to adjust back from geopolitics to geoeconomics is subject to the rationality of decision-makers, which is an uncertain variable since states in decline often experience deep internal divisions. Obama recognises that the military should be used less as 'almost every great world power has succumbed' to overextension' (Goldberg 2016). Trump even advocates a radical withdrawal of forward deployments unless they are subsidised by allies, and warned: 'Our country owes right now \$19 trillion, going to \$21 trillion very quickly because of the omnibus budget that was passed, which is incredible. We don't have

the luxury of doing what we used to do' (New York Times 2016). In contrast, Clinton is renowned for being extremely hawkish with the military and uttered: 'I don't understand people...who talk about us as being in decline, and who act as though we are not yet the greatest country that has ever been on the face of the Earth for all of history!' (Telegraph 2016). Similarly, the systemic pressures by accommodating Russia can be obstructed by the ideological climate in Washington. Inclusion of Russia in an 'expanded West' has been advocated as to balance China (Brzezinski 2013: 123). Yet, Brzezinski has previously also postulated that integration between Europe's two largest states would be harmful to European integration: 'if the romance between Russia and Germany goes too far, it could strike a blow against European integration' (Vinocur 2009). This reflects a broader hostility in Washington towards the notion of legitimate Russian influence beyond its borders, and a conception of Europe that does not comprise of Russia.

Similarly, Washington is vehemently opposed to Russia's integration initiatives with former Soviet republics, which is equated to the revival of the Soviet Union. Russia's proposal in 2004 to create a 'Single Economic Space' between Belarus, Ukraine, Kazakhstan and Russia was deplored by Washington as an 'imperial ambition' (Gvosdev 2008). NATO has likewise been reluctant to cooperate with the Collective Security Treaty Organisation (CSTO) in fear of supporting the legitimacy of a Russian-led institution competing for influence. Similarly, the US Secretary of State, Hillary Clinton, renounced the Custom Union and the EEU as 'a move to re-Sovietise the region' and declared that Washington was determined 'to figure out effective ways to slow down or prevent it' (Sheahan 2012). Bringing Ukraine into the Western orbit has been recognised to be 'essential to prevent the recreation of something like the former Soviet superpower around its Russian core' (Nation 2000: 7). Ukraine's absence from the EEU is expected to severely weaken the integration project due to the ensuing skewed balance of power. Brzezinski (1997b: 46) posits that 'without Ukraine, Russia ceases to be a Eurasian empire'.

Conclusion

The rise of US economic statecraft can be attributed to its position as a maritime power, a privileged trading state that has relied on offshore balancing as opposed to a large standing army. The remarkable economic statecraft that endowed the US with main levers of power in the global economy declined sharply during the Cold War due to the exorbitant reliance on

traditional geopolitics. The failure to reform following the Cold War by returning to geoeconomics was motivated by the self-defeating objective of sustaining the unipolar moment. Pursuing global primacy with military superiority has subsequently set the US on the path towards bankruptcy and encouraged the convergence of its main rivals in Eurasia.

The potential for a revival of US geoeconomics can be surveyed by the means and ends. There are reasons to be exuberant concerning economic tools as the US is regaining energy independence; developing regional TTP/TTIP agreements that marginalise its rivals; accruing dominance within cyber espionage and cyber warfare; pursuing a more prominent economic component in the containment of Russia and growing focus on preventing Russia to convert economic power to political capital. Yet, the debt-model of the US has increasingly placed it in an unfavourable and unsustainable position vis-à-vis the export-based growth model of China and other rivals. The military can provide some temporary benefits by exploiting the conflict in Ukraine and the South China Sea to build anti-Russian and anti-Chinese coalitions. However, the objective of marginalising all major adversaries results in Washington geoeconomic bargaining power being increasingly devoid of the ability to provide benefits to its adversaries. Subsequently, Washington relies disproportionate on brazen military and economic coercion that further encourages disengagement from US-led structures and the creation of alternative financial institutions, infrastructure, currencies, and trade dependencies.

Russia should expect changes in US policies due to mounting systemic pressures in Washington to replace global dominance with leadership by accommodating adversaries to a greater extent. Selective accommodation is the most conducive approach to drive a wedge between rival Eurasian powers and thereby allow the US to return to the strategy of an offshore balancer. Moscow should welcome rapprochement to diversify partnerships in East Asia to prevent Chinese dominance, yet reject any proposals that can be construed as an effort to contain China.

3. Russian Failed Geoeconomic Strategy for a 'Greater Europe'

Introduction

The purpose of this chapter is survey the initial rise of Russia's economic statecraft as a tool for constructing a Greater Europe. It is imperative to evaluate the means in relations to the ends since the continuity of a Western-centric foreign policy constrained the bargaining power of Moscow. A Greater Europe is conceptualised as a project for eliminating the institutional divide that remained after the Cold War by accommodating Russia in formats with favourable symmetry. The West have great incentives to maintain the primacy of the EU and NATO as they enhance collective bargaining power to pursue material and normative objectives, while eradicating the divisions in Europe could make Russia the principal power on the continent due to its size and resources. While 'Greater Europe' evidently has immense strategic value for Moscow, the ensuing Western-centric foreign policy exacerbated the existing asymmetrical relations.

The first section of this chapter will address the absence of geoeconomic thinking by the Yeltsin administration as a rationality deficit. The economic decline of Russia in the 1990s was exacerbated by the squandered comparative advantage of Soviet industry and the failure to develop new and effective institutions and industry. Moscow did not develop economic tools to negotiate Russia's a post-Cold War political settlement from a position of strength. Instead, the balance of power logic was initially denounced and Moscow committed solely integration with the West by disregarding potential partners in the east. Yeltsin's eventual reversal by attempting to integrate with Eurasia was stillborn since it was predominantly a geopolitical initiative without sound economic foundations.

Putin's main achievement was to adopt economic statecraft to restore domestic sovereignty and reassert Russian influence internationally as a great power. Russia skewed symmetry in its favour by increasing and maintaining EU dependence on Russia by asserting control over energy supplies, transit and downstream assets within the EU, while sabotaging alternatives that would enable the EU to diversify away from excessive reliance on Russia. Economic statecraft in Russia revealed a disproportionate reliance on monopolising control over energy resources to extract political concessions. The continuation of a Western-centric foreign policy severely limited Russia's bargaining power to negotiate a new format for

Europe and to diversify the economy by attracting technology transfer and investments on favourable terms. With excessive focus on energy, the competition between the EU's 'Wider Europe' and Russia's 'Greater Europe' was principally about controlling pipelines and regulation.

It will be concluded that the Europe's dependence on Russia as an energy supplier has been balanced by Russia's reliance on Europe as an energy consumer. The symmetry in relations had deprived Russia of a potentially powerful lever of power. Russia's deep-seated immersion in the Western-centric economic system was evident since it required a war in Ukraine to eventually declare Greater Europe void and mobilise political impetus to experiment with alternative connectivity in the east.

3.1. Yeltsin's leaning-to-one-side strategy for a Greater Europe

The overarching object of Moscow for more than two decades has been to alter Europe's security architecture for the simple reasons that Russia has not been adequately part of it. Following the disbandment of the Soviet Union, the West shelved Gorbachev's Gaullist project for a 'Common European Home' by making security the prerogative of an expanded NATO and EU. The absence of a 'Greater Europe' did not simply create an unfavourable status quo, it undercut the prospect of cementing a new status quo as the main institutions representing 'Europe' incrementally expanded eastwards under the dogma of 'European integration'.

Russia is, however, not 'excluded' from Europe. Europe's main institutions engage with Russia at an arm's length for the purpose of maximise asymmetrical interdependence to deprive Russia of influence and autonomy. Collective bargaining power with NATO-Russia and EU-Russia formats (28+1) is further exacerbated through partnership with the 'shared neighbourhood' for collective pan-European clout against Russia. The failure to adequately accommodate Russia exhibits continuity rather than change, as tensions between Russia and the West has for centuries been rooted primarily in political exclusion and estrangement. Conflicts with the West are a mere reflection of

Russia's 500-year-long struggle for recognition as a European power. It concludes that Russia's major problem in Europe in the years to come is not, first and foremost, a

security problem but a general political problem that has repercussions for security policy (Neumann 2013: 13).

A Greater Europe implies replacing the dominant role of Cold War institutions with an inclusive arrangement where Russia has a seat of the table in Europe. The Foreign Policy Concept of the Russian Federation (2013) deplores the West's preference for a 'bloc-based approach to addressing international issues', which relies on 'unilateral sanctions and other coercive measures' in 'blatant neglect of fundamental principles of international law'. Dismantling and preventing the emergence of anti-Russian coalitions would remove significant threat to national security. However, the mantra of being accommodated as an 'equal among equals' is not without irony since diminishing the West's collective bargaining power could make Russia the most powerful state in Europe.

The 'liberal delusion' or irrationality of Yeltsin was rooted in the belief that the Cold War was primarily a conflict between two ideologies rather than two power centres. From this perspective, dismantling the Soviet Union would enhance the prospect of overcoming the division in Europe. In contrast, realist theory assumes that a balance of power (or dependence) is required for sustainable cooperation and integration. The symmetry that had existed when the Cold War was declared over in 1989 became severely skewed when the Soviet Union collapsed two years later, leaving the US and the broader West unconstrained and free from having to accept compromises (Walt 2006). From a realist view, the demise of the Soviet Union to some extent derailed rather than facilitated the end of the Cold since a mutually acceptable and thus durable post-Cold War settlement was deferred.

Yeltsin's devoutness to become part of the West exacerbated the existing asymmetrical dependency (Cheng 2009: 127). The policy of 'leaning-to-one-side' by only aspiring to integrate with the West motivated isolationism from former Soviet republics and even evading meetings with Chinese officials (Tsygankov 2006: 58, 73). Russia's Western-centric approach ironically empowered the West to marginalise Russia. The West was 'Russia's only choice – even if tactical – thus provided the West with a strategic opportunity. It created the preconditions for the progressive geopolitical expansion of the Western community deeper and deeper into Eurasia' (Brzezinski 2009: 102). Any rapprochement that would enhance Russian influence in Europe was depicted in Cold War terms as a divisive 'peace offensive' to divide the West (Straus 2003: 232). Some Russian journalists concluded this was the only West Russia had and it was not conducive to wait for the West to become

kinder and accept more favourable conditions for collaboration (Straus 2003: 229). The West provided Moscow with an ultimatum: Russia could either be an apprentice attempting to join Western civilisation by accepting the primacy of NATO and the EU or become a ‘counter-civilisational force’ that would be balanced (Williams and Neumann 2000: 361, 374).

Yeltsin acceptance that integration entailed conformity with Western liberal democracy precipitated Russia’s passive role in Europe. A Europe based on ‘common values’ implied accepting the normative leadership of the West and implicitly making Russia responsible for its own exclusion, while in contrast ‘compatible values’ would dispel the civilising discourse and set the foundation for cooperation between equals (Möller 2003). Moscow therefore tacitly accepted a teacher-student or subject-object format for cooperation and integration (Neumann 1999: 107-109; Browning, 2003; Haukkala, 2005: 9). In 1995, NATO invented a queuing system where conditionality was set for membership, while the EU similarly established its *community acquis*. Cooperation and integration was thereby translated into unilateral concessions and adjustments by Moscow in order to follow and become more like the West. The Secretary General of NATO, Lord Robertson, rebuked Russian submissions to join the Western alliance as an equal by arguing Russia would have to submit an application and stand in queue while obeying NATO dictates (Straus 2003: 266). Medvedev (2000) posits that ‘whether authoritarian or democratic, Russia will never feel comfortable as the subject of a “civilising”, “educational” discourse. In this sense, Europeanisation can hardly become a solid foundation for an equal relationship’.

Unbalanced power, as opposed to incompatible values, was the principal independent variable for the emerging hubris in Washington and unwillingness to accommodate Russia. This had been communicated in the 1992 State of the Union Speech by President Bush (1992), which declared ‘victory’ in the Cold War and suggested there was only ‘one sole and preeminent power... the leader of the West that has become the leader of the world’. The former US Ambassador to NATO, William Taft (1997) suggested that Russia’s full inclusion in Europe’s main institutions would dilute US primacy on the continent: ‘NATO will not be the NATO that brings in the United States to Europe in the way that it needs to if Russia is in it’. President Bill Clinton later cautioned that cooperation translated into Washington dictating what Moscow had to do: ‘we keep telling Ol’ Boris, “Okay, now here’s what you’ve got to do next – here’s some more shit for your face”’ (Talbot 2002: 202). Kissinger similarly warned that instead of fomenting a US-Russian partnership based on harmonising competing interests, Russia role was relegated to complying with Washington’s lectures on

democracy and market economics, which created the sense of Russia ‘having come under a kind of colonial tutelage’ (SMH 1999: 19). William Perry, the US Secretary of State between 1994 and 1997, recognised that Russian security interests and concerns regarding NATO enlargement were ignored because Russia was weak, not as a result of not recognising the merits of the concerns:

It wasn’t that we listened to their argument and said he don’t agree with that argument... Basically the people I was arguing with when I tried to put the Russian point... the response that I got was really: ‘Who cares what they think? They’re a third-rate power.’ And of course that point of view got across to the Russians as well (Borger 2016).

Perry noted that when Russia later expressed concerns that missile defence could incrementally challenge their deterrence, then ‘the issue again wasn’t discussed on the basis of its merits – it was just “who cares about what Russia thinks”. We dismissed it again’ (Borger 2016). The lesson learned by Moscow was that a voice in Europe depends on power, not allegiance, intentions or values. Marginalising Russia in European institutions would not permanently deprive it of a voice and influence, but rather make Russia more reliant on hard power and economic statecraft. As George Kennan cautioned in 1998, Russia would eventually respond fiercely to enduring containment by expanding NATO (Friedman 1998).

The Yeltsin administration eventually conceded its ‘leaning-to-one-side’ policy had been exploited rather than rewarded. Yeltsin reversed his position and argued in favour of integrating with the post-Soviet space and broader Eurasia. Under pressure to rectify his failed Western-centric policies, Yeltsin called for diversifying partnerships as Western unilateralism and expansionism ‘had to be balanced. After all, we are a Eurasian state’ (Tsygankov 2006: 66). Prime Minister Kozyrev was replaced with the more hawkish Primakov, who sought to revive Eurasianism by constructing a Moscow-Beijing-New Delhi alliance. The willingness and capacity to develop a political integration project independent of the West was, however, lacking among all potential participants – Russia included. The Eurasian vision was a product of geopolitics rather than geoeconomics, and never had the potential to materialise as there was little economic capacity and willingness/ability of these three Eurasian powers to unite against the West (Tsygankov 2006: 119).

3.2. Putin's great power strategy for a Greater Europe

Putin continued the project for a Greater Europe with great power status as a prerequisite. Putin reasoned that the failure to reach a mutually acceptable political settlement after the Cold War has been the genesis of Europe's enduring quandaries:

From the beginning, we failed to overcome Europe's division. Twenty-five years ago, the Berlin Wall fell, but invisible walls were moved to the East of Europe. This has led to mutual misunderstandings and assignment of guilt. They are the cause of all crises ever since (Bertrand 2016).

Putin recognised identified Moscow's failure under Yeltsin as neglecting Russian interests: 'if we had presented our national interests more clearly from the beginning, the world would still be in balance today' (Bertrand 2016). The revised and pragmatic Western-centric foreign policy aimed to negotiate integration *with* the West as equals, rather than *into* the West as an applicant aspiring to meet conditionality (Trenin 2014a). Moscow's realist understanding of the world under Putin is evident by the assumption that peace requires mutual *constraints* rather than *empowering* Western-led institutions as a 'force for good' (Diesen 2015: 154).

Moscow acknowledges that in the contemporary world a balance of dependence or a 'balance of interests' has displaced the balance of power logic (Averre 2008: 31). Unlike the Cold War, a balance of dependence in Europe is not established by incompatible ideological and military blocs. A neo-Bismarckian strategy is pursued by immersing Russia as an integral part of regional networks and institutions where a dependence on Russia is fostered, which hampers the capacity to mobilise anti-Russian coalitions. Russia's pursuit of multilateralism is deemed to be a 'relatively inexpensive way to constrain other powers' (Rangsimaporn 2009a: 3).

Restoring Russia's 'great power' is a colloquial reference to enhanced bargaining power. A great power is defined as an autonomous actor that wields influence globally, implying interdependence with favourable symmetry. A great power does not subject itself to excessive reliance on one state or region, while positioning itself as an indispensable partner to allies and adversaries. A great power status is therefore conducive to convince antagonists to settle outstanding disputes. Great power bargaining power reverses Russia's marginal role by being capable of balancing Western unilateralism and concurrently incentivising alternative multilateral formats. As Kissinger (2015) argued: 'If we treat Russia seriously as a

great power, we need at an early stage to determine whether their concerns can be reconciled with our necessities'. Primakov linked the idea of Russia's great power status to its historical role as 'the holder of international equilibrium of power' (Tsygankov 2006: 71). The Russian National Security Strategy of 2009 similarly announced the objective of integrating with the international community while preserving an independent foreign policy (Russian Federation 2009a). Putin encapsulated that imperative of Russia asserting itself as a great power by arguing that 'either Russia will be great or it will not be at all' (Shevtsova 2010: 175).

The West frequently misconstrues Moscow's great power ambitions as evidence that Russia's thinking belongs in the past and is not compatible with 'Western values'. Failing to undertake the role as an apprentice of Western civilisation is primarily depicted to reflect independent variables such as the Russian mindset, vanity of the leadership, and nostalgia for the past. Some Western observers perceived it as a contradiction that Russian insistence on being a great power revived just as its power was diminishing (Lynch 2001). However, it is *because* Russian bargaining power eroded it is required to regain its status as a great power. The consensus in Moscow that Russia was destined to remain a great power materialised only *after* NATO's began its enlargement process (Pouliot 2010: 179). Between 1992 and 1994 claims for an 'independent role in line with its great power heritage were either understated or even denied' (Ponsard 2007: 62). Kozyrev argued in March 1994 that Russia was 'doomed to be a great power' as 'some people in the West have actually succumbed to the fantasy that a partnership can be built with Russia on the principle of 'if the Russians are good guys now, they should follow us in every way'' (Pouliot 2010: 178).

3.3. Moscow's embrace of geoeconomics

Russia's strategy for a 'New Globalism' envisions economic statecraft as a key lever of power to restore global equilibrium. Economic tools are not utilised to 'defeat' adversaries, rather the objective is to establishing favourable symmetry of dependence. A continued Western-centric foreign policy implied that Russia would obtain political influence on the continent and economic benefits such as technology transfer, in return for giving preference to European investors for Russia's energy projects (Russian Federation 2003). The need for economic influence in European energy infrastructure has also encouraged the offer of lucrative deals for Europe.

Globalisation of finance progressively enthused geoeconomic thinking among Russian scholars and practitioners (Solovyev 2004). With increased frequency, Moscow associates security to economic growth, fiscal prudence, diversification of trade partners and industries, and developing monopolistic positions in the market. The Russian Security Strategy set the objective of becoming one of the world's top five economies by 2020 (Russian Federation 2009a). In 2016, the IMF ranked Russia as the sixth largest economy in the world with \$3.5 trillion in GDP in terms of purchasing power parity (PPP) (World Bank 2016a).

Putin's first objective after taking the presidency in late 1999 was for the state to restore control over strategic industries. The oligarchs controlled the privatised Russian energy companies and lacked incentives to offer Soviet-era energy discounts in return for political concessions from neighbouring states (Tsygankov 2006: 120). Instead of serving the interests of the state, the oligarchs asserted their influence over the state by using their vast control over energy resources to dictate policies according to their respective business interests (Sakwa 2007: 144). The oligarchs' dominance over business, media and politics also fuelled internal divisions as public support for the government eroded, while the communists, ethnic nationalists and secessionists were winning support for radical alternatives (Diesen 2016a). The nascent fear was that foreign governments, especially the US and UK, were courting oligarchs at the peril of national security. The oligarchs embodied what Hirschman (1969: 29) referred to as a 'commercial fifth column' since individuals controlling strategic industries were developing greater loyalty to rival governments. A colonial status seemed plausible if Russia's own natural resources became a geoeconomic instrument by Washington and London.

Reversing the rule of the oligarchs and reasserting the state's authority over the natural resources became the signature of Putin's first term. The primary objective was to 'exterminate oligarchs as a [criminal] class' (Kim 2005: 192). Oligarchs' economic power was decoupled from political influence by announcing that those interfering in politics and the media would be held accountable for their crimes during the chaotic 1990s (Sakwa 2007: 143). Furthermore, they were required to exercise transparency, pay taxes, and reverse the capital flight from Russia. Defiant oligarchs such as Berezovsky and Gusinsky were provided exile and protection by the West, while compliant oligarchs such as Abramovich fell in line by supporting the Kremlin, funding development, and selling Sibneft along with other critical energy infrastructure back to the state (Åslund 2006). Corrupt and disloyal provincial leaders

that were vulnerable to the influence of oligarchs were removed and new provincial leaders were appointed directly by the Kremlin. The re-nationalisation of energy resources reached its pinnacle with the arrest of Khodorkovsky in 2003 and the ensuing absorption of Yukos assets by the state. The timing was revealing as Khodorkovsky was becoming more political and was on the verge of selling a major share of his oil empire to ExxonMobile and Chevron-Texaco (Tsygankov 2009: 146).

Reasserting state control over energy resources improved the domestic situation dramatically as the revenue from energy resources was directed away from the ‘criminal class’ and towards a rapidly growing middle-class. Within Putin’s first term, the amount of Russian citizens living under the poverty line was reduced from 42 to 26 million (Edwards and Kemp 2006: 12). Furthermore, the public resentment and estrangement that had fuelled support for the communists and nationalists receded promptly as Putin popularity soared for taking down the oligarch class. In contrast, the normative authority of the West crumbled due to oppositions to Moscow’s new policies and support for the exiled and fallen oligarchs.

Economic recovery and great power status was to be achieved by becoming *the* energy superpower. The ‘Energy Strategy of Russia to 2020’ portrayed the Russian energy sector as ‘an instrument for the conduct of internal and external policy’ and that ‘the role of the country in world energy markets to a large extent determines its geopolitical influence’ (Russian Federation 2003). Putin’s dissertation as a Candidate of Sciences at the St. Petersburg Mining Institute provides insight into the intentions of his administration, which argued for utilising Russia’s natural resources for rapid economic development and state-building (Balzer 2005).⁵ The dissertation advocated mergers into large ‘national champions’ that would be able to compete with the large Western multinational corporations. Five large state-owned energy giants were constructed: Gazprom for natural gas, Rosneft for oil, Transneft for pipeline construction, Rosatom for nuclear energy and RusHydro for hydroelectric power. In geoeconomic tradition, these large energy companies were intended to serve the interests of the Russian people and the state (Balzer 2005). The energy giants were led by devoted, powerful and trusted people from Putin’s inner-circle: Alexey Miller, Putin’s aide from St.Petersburg, became the CEO of Gazprom; Dmitri Medvedev, Putin’s deputy chief of staff, became the chairman at Gazprom and later president of Russia; Igor Sechin, Putin’s chief of staff and then deputy prime minister, took the role as Rosneft chairman; and Vladislav Surkov, Putin’s deputy, assumed the position as a board member of

⁵ Putin’s thesis is purported to have been plagiarised. See Strauss (2014).

Transneft product (Kim 2009: 200). Gerhard Schroder, the former Chancellor of Germany, was hired by Gazprom in 2005 to chair the board an affiliate to construct the German-Russian North Stream pipeline. Market elements were harmonised with increased state influence as even private Russian energy companies came under greater pressure to abide by the Kremlin's political objectives and energy strategy.

With growing national unity and domestic sovereignty, Moscow began reclaiming assets foreign companies had acquired on favourable terms in the turbulent 1990s. The threats of huge fines for environmental damages pressured Shell and its Japanese partners to sell controlling ownership of Sakhalin-2 to Gazprom in 2006 (Kramer 2006; Ziegler and Menon 2014: 26). Kremlin spokesperson, Dimitri Peskov, explained that 'The situation has changed dramatically, our companies [now] have the possibility of being the owners of natural resources themselves' (Osborn 2006). Similarly, in 2013, environmental and tax issues were used to pressure BP to hand over TNK-BP to Rosneft, making it the world's largest publicly traded oil producer in terms of output.

Economic statecraft to escape the energy curse

Excessive reliance on energy elevates the risks associated with the 'energy curse', becoming an exporter of natural resources and importer of manufactured goods (Ahrend 2005; Ellman 2006). Communism and the breakdown of the state and society contributed to excessively dependent on exporting resources, while innovative-based technologies declined. High energy prices reduced the incentives for reforms and development of other sectors of the economy (Karaganov 2016a). Instead of investing in research and development to construct its own solutions and competitive advantage, Russia became complacent with imports and become dependent on foreign technologies. With a few notable exceptions, Russia participates predominantly in the final stage of the global value chain. In areas such as machine-tool construction, Russia is reliant on approximately 90 percent on imports (Ustyuzhanina 2016). Foreign attraction to the Russian market is thus largely limited to exporting for manufactured goods and import natural resources.

The key challenge in the years to come is to modernise the Russian economy to catch up and to establish Russia as an innovative market that will benefit from the next technological revolution. Pending advancements in energy production, robotics and other strategic areas will have a profound and rapid impact on the global economies and the

ensuing realignment of great powers (Karaganov 2016b: 461). Economic strategies aim to reposition Russia from the periphery to the core of global value-chains (Ustyuzhanina 2016). The Skolkovo project, a state-sponsored 'Silicon Valley' in Moscow, is designed to support information technology, biomedicine, energy space technology and nuclear technology. Putin promised to establish a similar 'science hub' in the Russian Far East (Lossan 2016). Fiscal prudence is recognised as an imperative to keep its industries competitive. Prime Minister Medvedev quoted Benjamin Franklin: 'Buy what thou hast no need of and ere long thou shalt sell thy necessities' (Tass 2015c).

Under Medvedev's presidency, there was a more liberal tilt recognising that less government in several sector of the economy can be conducive to economic development. Medvedev (2009) posited that modernisation requires broader reforms as 'excessive government', 'paternalistic attitudes', and 'centuries of corruption have debilitated Russia' and hampered the development of an entrepreneurial spirit. Development of innovative systems in the past relied on 'extreme efforts, by using all the levers of a totalitarian state machine' instead of freeing the creative potential of its citizens (Medvedev 2009). Medvedev (2009) expressed the dire need for reforms:

The global economic crisis has shown that our affairs are far from being in the best state. Twenty years of tumultuous change has not spared our country from its humiliating dependence on raw materials. Our current economy still reflects the major flaw of the Soviet system: it largely ignores individual needs. With a few exceptions domestic business does not invent nor create the necessary things and technology that people need. We sell things that we have not produced, raw materials or imported goods. Finished products produced in Russia are largely plagued by their extremely low competitiveness.

The Russian state has played a central part in the rehabilitation the business climate and society after the state nearly collapsed during the 1990s. The unfavourable business climate in Russia is being reversed, which has dissuaded foreign investment and encouraged capital flight. In May 2012, President Putin announced the '100 steps' decree that set the ambitious target of moving from 120th place in 2011 to 20th place by 2018 on the World Bank's annual [ease of] 'Doing Business' report (Lossan 2015). Russia has to date followed this timeline by ascending from 120th to 112th place in 2012, 92nd place in 2013, 62nd place in 2014, 51st place in 2015 and 40th place in 2016 (World Bank 2016b). Similarly, most demographic indicators were severely negative in the 1990s, such as a rapidly declining population due to low birth rates, drop in life expectancy, and abuse of alcohol, cigarettes and

drugs. These indicators have since been reversed as Russia posture a fertility rates 0.3 higher than the EU average, has the second largest immigrant population in the world, sharply rising life expectancy, and declining alcohol abuse (World Bank 2014). Government support with the maternity capital programme has also contributed to reverse the demographic decline, with Russian fertility rate approximately 0.2 higher than the EU average (Russian Federation 2015b).

The EU was envisioned as the key partnership by providing European states with privileged access to Russian energy markets in return for technology transfers and investments to modernise the Russian economy. States have however historically been reluctant to share technology as it could give rise to future competitors and a rival centre of power. Putin's (2007) renowned Munich speech in 2007 lambasted unfair competition:

Foreign companies participate in all our major energy projects... up to 26 percent of the oil extraction in Russia is done by foreign capital. Try, try to find me a similar example where Russian business participates extensively in key economic sectors in western countries. Such examples do not exist!

The launch of the EU–Russia 'Partnership for Modernisation' in June 2010 signified a move in the right direction for modernising the Russian economy and constructing a Greater Europe. Yet, disputes persisted over Moscow's effort to establish sovereign equality by disengaging from the teacher-student dynamics. More specifically, fundamental disagreement lingered over whether the agreement should pragmatically focus on technological and economic modernisation or include normative 'societal modernisation' by making Brussels a stakeholder in developing Russian democracy. The EU and Russia agreed to the common statement of pursuing a partnership 'based on democracy and the rule of law, both at the national and international level' (European Council, 2010). The commitment to democracy at the national level suggests asymmetrical relations due to the teacher-student or subject-object dynamic, while democracy at the international level infers equality, symmetry and rejection of granting the EU normative leadership (Diesen 2015: 102).

An import substitution strategy has been adopted in the effort to re-industrialise and develop innovation-based industries. This implies deliberately cutting imports for strategic industries that would allow Russia to climb up the value chain in global trade networks. The state supports selected industries in terms of infrastructure, population movements, tax benefits and funding. Import-substitution should not be conflated with self-reliance by

temporarily supporting key industries where Russia can remain competitive without sustained government support (Yevtushenkov 2015). Geoeconomic theory stipulates that shoring up strategic industries is conducive as a temporary measure if it enhances the position in global value-chains, improves the economies-of-scale and/or prevents the saved capital and labour from being redirected towards low-skilled and low-paid professions. Government interventions can be successful to the extent they integrate and strengthen Russia's position within competitive value-chains. For example, Russia has begun supporting the acquisition of foreign-based assets that create a demand for Russian-supplied components (Yevtushenkov 2015). Putin reasoned that import substitution was not about isolation, but to aid domestic producers endeavouring to become more competitive in international markets:

The import replacement programme's aim is not to close our market and isolate ourselves from the global economy. We need to learn how to produce quality, competitive goods that will be in demand not just here in Russia, but on the global markets too (Russian Federation 2015c).

Import substitution was embraced by the political elites and public following the sanctions imposed on Russia, energy prices plunged and the ruble was devalued. Painful reforms are rarely done when the status quo is comfortable, thus crises often instigate or accelerate structural shifts (Baru 2012a: 56). Connolly (2016: 770) warned that sanctions compelled Russia to reverse economic liberalisation to respond with geoeconomic statecraft. The sanctions and counter-sanctions vis-à-vis the West became 'a blessing in disguise' as Russia's counter-sanctions were designed to give a head start to key industries (Yevtushenkov 2015). Import substitution has grown productivity in key Russian industries such as agriculture, engineering, pharmaceuticals, light industry and petrochemicals (Werner 2015). While much of the former agricultural imports from the EU were simply sourced from other states, overall food production soared and Russia became the world's largest wheat exporter (Connolly 2016; Medetsky 2016). A report from the World Bank suggests the ruble's 'depreciation has presented Russia with an opportunity for a broad-based improvement in Russia's international competitiveness and to transform its export profile by diversifying away from primary commodities' (World Bank 2016c). Russia's counter-sanctions on the EU's agricultural industry was also a strategically asymmetrical and sensitive target due to the strong lobbying power of the farmers in the EU, especially of the French farmers, which can dilute EU consensus on sanctions. In the past, Russia had also taken advantage of Moldova's and Georgia's dependence on Russia as an export market by

for example citing health policies to impose restrictions of food and wine imports (Cenusa et.al. 2014).

3.4. Energy as the main instrument for symmetry in Europe

Increasing the EU's energy dependence on Russia is essential since it to some extent deprived Brussels from setting conditionality for cooperation and at times enabled Russia to establish its own conditions (Hughes 2007). The 'Energy Strategy of Russia until 2030' reiterates the objective of utilising energy resources to regain a voice and influence in Europe and broader international relations (Russian Federation 2009b). The 'energy superpower strategy' consists of three components: acquire control over downstream companies in Europe to prevent diversification away from Russian suppliers; diversify dependence on transit routes to Europe to enhance symmetry vis-à-vis transit countries to preclude them from extracting political or economic concessions from Russia; and lastly to procure energy resources in Central Asia to inhibit alternate suppliers from emerging. Moscow utilises the Soviet-era energy infrastructure to import energy from Central Asia and export its own supplies to Europe, thus positioning itself as an energy hub.

While the EU and the US response to Russia's domestic re-nationalisation were limited to largely express concerns for the rule of law and human rights, the expansion of Russia's economic influence beyond its borders has been subject to more fierce competition. The first Western offensive on Russia's newfound geoeconomic power was the Western-supported 'Rose Revolution' in Georgia in 2003 and 'Orange Revolution' in Ukraine in 2004. Protests had begun in response to corrupt political figures, which were hijacked by political elites with geostrategic objectives by seeking NATO membership and defining Russia as the political 'other' (Lane 2008: 545). The colour revolutions were effective in terms of obstructing economic integration in the post-Soviet space. While the Ukrainian Parliament had voted 266 in favour and 51 in opposition to join the Russian-led Single Economic Space, Ukraine's participation ended due to the following Western-backed 'Orange Revolution' in 2004 (Obydenkova 2011: 92).

Moscow responded by diversifying away from reliance on hostile transit states attempting to extract economic or political concession from Moscow (Hughes 2007). The CEO of Transneft, argued that Russia must 'get rid of transit dependence... Russia has a

unique opportunity not to depend on anyone in oil shipment. We have access to the Pacific, the Arctic, the Black Sea and the Baltic Sea. Then why use transit?’ (Sputnik 2004). Russia reached out to individual EU states with the calculation that national interests would be put above the collective interest of the EU. Moscow co-opted Berlin with the agreement in 2005 to construct the Nord Stream pipeline running directly between the two countries through the Baltic Sea. The marginalisation of various Eastern European states was detested in the region, and denounced by Poland’s Foreign Minister Sikorski as a modern Molotov-Ribbentrop Pact (Beunderman 2006). Russia even disarmed the leverage of Belarus after Minsk sought to extract further economic and political concessions from Moscow over its reliance on the Druzhba oil pipeline. Russia responded by diversifying away from reliance on Belarus by further developing the port of Ust-Luga to ship oil directly from the Russian Baltic coast (Fraser 2010).

Moscow subverted EU efforts to diversify its energy suppliers by obtaining an agreement in 2007 to procure hydrocarbons from Turkmenistan and Kazakhstan, which diminished the economic viability of the US and EU sponsored trans-Caspian pipeline (Ziegler and Menon 2014: 25). The EU, spearheaded by Poland, negotiated energy partnership with Azerbaijan and the Central Asian states. Moscow initially attempted to join and thus obtain ownership in the Nabucco pipeline, however, Russia was excluded as its participation would have eliminated the *raison d’état* for the pipeline (Zeyno 2008). Moscow consequently sabotaged Nabucco by announcing the competing South Stream project through the Black Sea. The volume potential for the Western-sponsored pipelines were also undermined by restrictions on transit through the Caspian Sea, as the regional legal agreement requires the approval of all five neighbouring states. Russia has blocked infrastructure, citing environmental hazards as the reasons. The war in Georgia in August 2008 and Russia’s ensuing recognition of independence for South Ossetia and Abkhazia effectively undermined Georgia’s NATO aspirations and the attractiveness of pipeline projects transiting its territory.⁶

The EU developed the ‘Third Energy Package’ in response to South Stream, the militarisation of energy politics, and Russia’s incremental monopolistic control over energy

⁶ Without a Russian intervention, Moscow’s influence in the region would likely have contracted. The killing of the Russian peacekeepers would have removed Russia’s physical presence; allegiances in the region would likely shift towards the US as Russia’s role as a security provider diminished; NATO membership would become more probable if Georgia would regain control over its own borders and the US could demonstrate to its European partners that Russian a response could be restrained.

resources and infrastructure. The Third Energy Package, also referred to as the ‘Gazprom clause’, is a geoeconomic regulatory instrument used to deny Russia control over pipeline infrastructure by using anti-monopoly regulation to demand unbundling producer and transit ownership. Brussels effort to develop an Energy Union is aimed to present Moscow with *one* customer, which would drastically weaken its ability to obtain favourable pricing and to extract political concessions.

The mutual urgency of diversifying transit and supplier states receded with the election of Yanukovich in 2010, which reversed the direction of Ukraine by returning to the former policy of harmonising integration with the EU and Russia. A law on Ukraine’s non-bloc status was immediately passed that implied withdrawing the tender to join NATO. Russia reinstated previous energy discounts in return for specific concessions, mainly extending the lease of the Black Sea Fleet in Crimea for another 20 years, until 2047. However, the non-bloc status and ambitions to harmonise integration with the EU and Russia were however no longer a viable alternative. The EU and NATO on its western borders and the Russian-led Customs Union and pending Eurasian Economic Union on its eastern borders, were locked in a zero-sum competition to draw Ukraine into their respective orbit.

At the November 2013 Summit in Vilnius, the EU signed the Association Agreement with Moldova and Georgia, while Ukraine withdrew as Russia offered favourable monetary incentives and deterred with possible economic coercions. Irrespective of Russia’s close economic relations of with Ukraine, Georgia and Moldova, the joint statement at the Vilnius Summit did not mention Russia once (European Council 2013). Ukraine’s reluctance to sign the agreement with the EU evoked mass demonstrations in Kiev and across Western Ukraine, which was vigorously supported by the EU and the US. The proposal by Moscow and Kiev to establish a trilateral Brussels-Kiev-Moscow agreement without the zero-sum component, adhering to the principle of a Greater Europe, was rejected and derided by the EU as Russian imperialism (Lynch 2013). In January 2014, the month before the coup in Kiev, Moscow had also proposed inter-regional integration by establishing a Free Trade Area between the EU and the Eurasian Economic Union (EEU) (Lavrov 2014). The EU and the US support for the riots and embrace of the unconstitutional coup was more severe than the Orange Revolution since the West had toppled a democratically elected and sitting president, which culminated in extreme nationalists taking key positions (Sakwa 2015). The Association agreement was largely a ‘civilizational choice’ since the shared neighbourhood were presented with a zero-sum choice of economic, political and security integration with the EU or Russia. Russian

Foreign Minister, Sergei Lavrov, stated

Kiev was forced to signing arrangements with the European Union, which had been drafted behind the scene and, as it eventually turned out, were undermining Ukraine's obligations on the CIS free trade area. When Viktor Yanukovich took a pause for a closer look at the situation, the Maidan protests were staged (Russian Federation 2014a).

Russia's fierce response by annexing Crimea and supporting the uprising in Eastern Ukraine contributed to escalate an economic conflict to a military stand-off. Putin proclaimed in his 'Crimea speech' in 2014: 'they have lied to us many times, made decisions behind our backs, placed us before an accomplished fact... But there is a limit to everything. And with Ukraine, our Western partners have crossed the line' (Russian Federation 2014b). Putin asked rhetorically: 'Are we ready to consistently defend our national interests, or will we forever give in, retreat to who knows where?' (Russian Federation 2014b).

The ensuing tit-for-tat sanctions initiated by the US and the EU aimed to impose asymmetrical economic pain. The vulnerability of economic reliance on the West became evident as Obama (2015) lauded in his State of the Union speech that the US had crippled Russia and left its 'economy in tatters'. The objective was to divide the Russian leadership by targeting primarily its banking, financial and energy sector. Ironically, Washington ostentatiously taking credit for economic coercion alleviated the Kremlin from being held accountable for failing to diversify its economy when energy prices collapsed.

Despite energy being perhaps the most powerful geoeconomic instrument between the EU and Russia, neither side were prepared to risk disruption of energy flows. Russia's dominant or monopolistic role in Europe as an energy supplier is balanced by Russia's dependence on the EU as an energy consumer as a monopsony. Winston Churchill famously lauded diversification as the source of energy security: 'safety and certainty in oil lie in variety and variety alone' (Yergin 2006: 69). While Churchill referred to the UK as an energy consumer, the logic of variation also applies to energy exporters. The high and rising energy demand in Asia provides opportunities for Russia to escape its undue reliance on Europe where the markets are stagnant and the political class relentlessly threatens to reduce energy supplies from Russia.

Symmetry in energy dependence should be considered a weakness for both the EU and Russia since significant political power cannot be extracted. Russian policies should therefore aim to maintain its authority as an energy supplier to the EU, while developing

partnership with new consumers. The Energy Strategy of 2003 argued that Russia should diversify away from its dependence on the EU as an export market, which has been repeated in following strategic documents. However, diversification progressed slowly due to Western-centric political objectives and because Russian ‘energy security’ is conceptualised broadly and encompasses reliable demand by high-paying consumers to ensure future income, access to investment and modern technology for energy exploration, and long-term contracts with take-or-buy clauses (Russian Federation 2008; Russian Federation 2009b; Neuman 2010).

The crisis over Ukraine produced a consensus among the political elites in Moscow that the project for a Greater Europe has ended. Former Russian Foreign Minister, Igor Ivanov (2015), previously one of the most principal advocates for a Greater Europe, posited that the project had failed and outlined the more feasible and advantageous scheme of a Greater Eurasia that reflects the new and emerging international distribution of power. Similarly, Karaganov (2015a) argues it has been a dangerous and costly mistake to harbour ‘illusions about gradual integration with the West’. On the other side of the Atlantic, Kissinger (2015) hinted towards the end of any prospect for a Greater Europe as US actions in Ukraine unfortunately indicated ‘that breaking Russia has become an objective; the long-range purpose should be to integrate it’.

A future political settlement on Ukraine does not denote a return to a Western-centric foreign policy. The disenchantment with Greater Europe did not originate with Ukraine, as ‘new Europe’ has gradually lost its appeal to Russia. The European market is becoming more uncertain due to the EU’s economic stagnation, third Energy Package and the pending ‘energy union’. The US ‘shale revolution’ will likely be utilised by the US to reduce EU dependence on Russian gas, and the Baltic States are even willing to pay more for American gas for political reasons.

Conclusion

Restoring great power status with economic statecraft and eschewing the student-teacher dynamics with the West was appropriately recognised by Putin as the solution to reverse Russia’s peripheral role in Europe. However, much like Putin’s administration failed to adequately diversify the energy-based economy, there was also insufficient economic collaboration in Asia due to the lingering and erroneous belief that Greater Europe would

gradually materialise. The failure of these two objectives are related since the leaning-to-one-side policy deprived Moscow of the bargaining power required to negotiate favourable trade agreements, including the transfer of technologies and investments to modernise the Russian economy.

The portrayal of Russia as an energy monopoly in Europe only paints half of the picture, as it could also be argued to be a monopsony as there are several suppliers and one consumer. The balance of energy dependence impedes it from being utilised for bargaining power. Economic statecraft did not influence the EU to amend its zero-sum format for 'European integration', rather the excessive focus on energy elevated the significance and thus rivalry for influence over transit states in the shared neighbourhood. The demise of Greater Europe therefore represents an opportunity for a radical alteration and expansion of Russian economic statecraft. Sanctions have compelled Russia to rapidly develop economic connectivity with the East as a requirement to prevent Eurasianism from becoming a backward and unfeasible geopolitical project. The failure of Greater Europe is indicative of what a rational strategy for Greater Eurasia should aim to achieve. Russia should diminish the EU's bargaining power by diversifying energy consumers, obtain alternative partners for modernising Russian industries and immunise itself from future sanctions by developing and support alternative financial institutions in Asia.

4. Russian Geoeconomics in a Greater Eurasia

Introduction

Russia's economic statecraft is undergoing radical restructuring to remodel the country as a Eurasian state. Russia's contemporary peripheral status in Europe and Asia is abandoned by bridging the east with the west. Russia's geographic expanse is recognised to be the key comparative advantage to become a hub for economic connectivity. New infrastructure and institutions are instrumental to construct a gravitational pull towards Russia and skew the symmetry of interdependence with the West and among Eurasian powers. Moscow is no longer putting all its eggs in the European basket, while Russia's bargaining power is intended to be further elevated by providing a land-bridge for its partners.

While Eurasianism has historically been associated with backward geopolitics in opposition to the West, the new strand of Eurasianism is consistent with geoeconomic principles. Progress is not measured in Cold War terms by 'defeating' the West, rather the main indicator of success is to intensify the relative decline of Western-centric international system and contribute to facilitate an alternative multipolar and balanced international order. Developing the Russian Far East and connecting it with European Russia and East Asia is imperative in this new Eurasianism since domestic and Eurasian connectivity is inherently interlinked. The collapse in energy prices and predicaments in the global economy has severely complicated Russia's initiatives, yet there are no indications that Russia's Eurasian ambitions are abating.

The specific energy and transportation infrastructure demonstrate a cohesive effort to diffuse power and create a balance of dependence. Russia aims to establish itself as an energy 'swing supplier', which entails developing dependence by key trading partner on Russia energy that can be diverted from one consumer to another. Russia is becoming a leading energy supplies within oil, gas, nuclear energy, hydropower and electricity grids. The development of bimodal transportation infrastructure aims to shift power from maritime powers to land powers consistent with Mackinder's predictions. Yet, ports are developed on Russia's Pacific coast to amplify demand for the Northeast Asia-Europe land bridge and the Northern Sea Route. In European Russia, land-transportation is supplemented with enhanced ports in the Baltic Sea and Black Sea to circumvent hostile transit states. Similarly, ports on

the Caspian Sea support the North-South transportation corridor between Russia, Iran and India.

Institutions are developed to manage cooperation and facilitate a balance of power. The EEU institutionalises an advantageous position for Russia in Eurasia and is attempts to use collective bargaining power for symmetry with the EU and China. However, the asymmetrical power among EEU members makes the institutions vulnerable internal strife, while external powers have incentives to pursue a wedge strategy. Establishing a single tariff zone with common standards and legislation intends supports centralisation of power, and presents non-members with tangible benefits. BRICS and the SCO are conducive for engagement with a broader Eurasia, which aim to develop as alternatives to Bretton Wood institutions.

It will be concluded that irrespective of formidable challenges with implementation, Moscow acts rationally in accordance with the ‘balance of dependence’ logic. The success of the Greater Eurasia project will be contingent on how Russia advances its bargaining power in the various regions of Eurasia. A ‘swing strategy’ is pursued to compel partners to engage Russia with carrots rather than sticks as the latter would result in Russia getting too close with a rival power.

4.1. The Geoeconomics of Russia’s New Eurasianism

Russia has throughout history swung as a pendulum between a European and a Eurasian identity and strategy. Eurasianism is a contested concept that has traditionally been predisposed to arduous and dichotomous interpretation as a West-East civilizational choice (Bassin, Glebov and Laurelle 2015: 1). Russian authors such as Vasily Tatishchev, Pyotr Chaadev, Nikolai Danilevsky and Alexander Pompiansky, espouse the views of Mackinder by recognising the opportunities and challenges from Russia’s unique Eurasian position (Schmidt 2005). Eurasianism is about geography, ideas and spirituality that have contrasted European conformity versus Eurasian uniqueness; individualism versus the collective; modernity versus spirituality; empire versus nation; geopolitics versus globalisation.

Moscow previously subscribed to the assumption that it could either to be a normal European state integrated with the Europe, or a great Eurasian power that would balance the West. Europe represented modernisation and globalisation, contrasted with backward

geopolitics of Eurasia. Trenin's (2002) argument that there was no longer an option of withdrawing into Eurasia largely conceptualised Eurasianism as an economically unviable geopolitical project that would drain the resources of the state. Fatigue over subsidising other Soviet republics had been a key motivation for Yeltsin to dismantle the Soviet Union (Tsygankov 2006: 59). Western scholars have contributed to this narrative by portraying Russia's renewed interest in Eurasianism as inward-looking isolationism that will distract focus from the necessary economic and political modernisation (Åslund 2012).

Russia's new Eurasianism envisions making the east the principal driver of modernisation and globalisation. Russia is aptly defined as 'neo-revisionist' since it does not repudiate the existing rules of the system, but rather redistribute the power within the existing system by developing a more 'internationally democratic' and multipolar system (Sakwa 2012). While Soviet power derived to a great extent from leading a bloc opposing the West, Russia does not have the intention or capacity for hegemony in Eurasia. Instead, Russia's revisions aim to accommodate Europe in a more balanced system that enhances Russian influence and autonomy.

By diversifying partnerships, Russia can develop a 'swing power' strategy, the ability and preparedness to shift engagement between regions (Buzan 2005: 193). Bargaining power is not only the value Russia can add as a partner, but also the pain it can inflict as an adversary. Connectivity with multiple regions creates systemic pressures to accommodate Russia in formats with more favourable symmetry as estrangement would push Moscow towards rival centres of power. Lavrov (2013) defines Russia's role in Asia as an 'important stabilising factor' to create a 'truly stable balance of power'. Maintaining a 'swing strategy' is imperative since permanently merging with one partner, either the EU or China, would instantly diminish its bargaining power vis-à-vis both its partners and adversaries. Karaganov posits that Russian power does not derive from excluding other Eurasian actors, rather 'there must be other strong players in the Eurasian project like India, Iran and other countries in the region' (Shestakov 2015). The rules of the past are gone as future leadership in Eurasia will be determined primarily by geoeconomics.

In contrast to previous conceptions of Eurasia, Russia's Eurasian ambitions have become the dependent variable, responding to the rise of Asia and geoeconomics. Russia leverage from linking itself to Asia to supply energy and function as a land-bridge transporting goods to Europe. Moscow should however be mindful of the profound seismic

shifts occurring in the internal Asian markets. China particularly is currently transitioning from a mere factory producing goods for the world, to consuming its own products. Furthermore, China's is reducing reliance on Western markets by developing economic connectivity to emerging markets in India, Iran, Pakistan, Central Asia etc. The rapidly changing international distribution of power creates systemic incentives for Russia to diffuse power away from a Western-centric system.

Under Soviet communism, the integration of the economies and infrastructure in Eurasia was hampered by ideological reluctance to accept Foreign Direct Investment and to invest abroad. With trade between Eurasian regions growing faster than global trade, it can be concluded that pan-Eurasian economic integration is merely catching up after falling behind during communism (Vinokurov 2014: 74). The Asian financial crisis of 1997 enhanced the prospect of a more autonomous and influential Eurasia by motivating the region to pool resources to construct an alternative to the Western-centric system. The crisis was widely perceived to have been caused by excessive liberalisation of the markets, which had left states impotent that could be exploited by the IMF. The solution was more emphasis on state-led capitalism. Russia shared the perception prevailing in Asia that further state control over the markets were necessary to prevent subjugation of the region to the West (Breslin 2010). While Moscow had previously viewed most regional integration schemes as foreign policy tools by the US, the regional integration that followed the Asian financial crisis was believed to represent a concerted effort to construct a post-Western world (Kuhrt 2014). Russia's Foreign Minister, Sergei Lavrov (2012), argued that

the globalization process has taken a turn quite different from that anticipated by its adepts twenty years ago. It was believed then that after the breakup of the Soviet Union and the socialist system the developed Western countries and large corporations would freely spread their influence around the world and that the liberal-democratic system would be the only beacon for all peoples "lagging behind."

Moscow's Eurasian strategy rests largely on the continued relative decline of the West. The Asia-Pacific region is recognised as the 'fastest-developing geopolitical zone, toward which the centre of world economy and politics is gradually shifting' (Russian Federation 2013). President Medvedev (2012) thus defined engagement with the Asia-Pacific as one of the 'unconditional priorities' as Russia is an 'integral part' of the region. The rise of Asia compels Russia to dispel old myths about the backwardness of the East and categorically reject that 'the West, and only the West' has the technology and know-how that

Russia seeks to acquire to modernise its economy (Sumsky 2010). East Asia, particularly South Korea and Japan are regarded as alternative sources of technology transfer to modernise Russian industries. Lavrov (2012) recognised that the majority of Russian economic interests are currently tied to Europe, but considers there to be more long-term geostrategic benefits with the ‘redeal of the cards’ to escape the ‘international hierarchy’.

4.2. The Russian Far East and the imperative of dual integration

Unlike other states in Eurasia, Russia’s geographic expanse implies a conjunction between domestic and Eurasian integration. The weak connectivity between European Russia and the Russian Far East has for long been a major security concern, and an impediment for integration with Northeast Asia. The development of a Eurasia with two poles, a Europe-centric and Asia-centric Eurasia, creates a dual threat to Russia (Kuhrt 2012: 478). Internationally, Russia becomes a peripheral state or a geostrategic ‘black hole’ at the periphery of both Europe and Asia (Brzezinski 1997: 87). Internally, European Russia and the Russian Far East gravitate towards opposite constellations at the possible peril of Russian sovereignty. President Medvedev argued that ‘how we use words matter’ and warned against referring to the Russian Far East as a separate entity: ‘the more we say it, the more likely we will have problems’ (Russian Federation 2010).

The solution to this quandary is to establish Russia as a Eurasian Great Power, an independent pole of power between Europe and Asia. Russia is imagined as a ‘middle continent’ and can only evade a peripheral status by embracing the status of a Eurasian power (Solovyev (2004). Implicit in this strategy is the need to integrate the Russian Far East with both European Russia and Northeast Asia. Two-thirds of Russian territory is located in Asia and it remains is the least developed region of Russia. Progress is hampered as the region is underpopulated, underdeveloped, corrupt and bureaucratic. Furthermore, it is ideationally/inter-subjectively divided from Asia in terms of being ‘too European’. On the other side of the border is China as the most populated country in the world, accompanied by some of the other largest and most dynamic economies. While Russia seeks to escape the European economic model of exporting natural resources and importing finished products, it risks re-producing this core-periphery dynamics in Asia. Russia is mostly attractive due to its natural resources and the lingering fear is to become an energy appendage of China (Karaganov 2010).

The dual integration of the Russian Far East with both the Asia-Pacific region and European Russia is largely contingent on the ability to overcome the dilapidating condition of the region. The failure to develop the Russian Far East can impede integration with Northeast Asia and/or challenge Russia's territorial integrity (Trenin 2006: 131). Putin referred to the advancement of this region as 'the most important geopolitical task' (Blagov 2012). Shortly after Putin returned to the presidency in 2012, he established Russia's first federal ministry devoted to develop a specific region, the Ministry for the Development of the Russian Far East. In March 2013, the program for 'Socio-economic Development of the Far East and Baikal Region' was adopted (Jeh et.al 2015). President Putin increased federal funding for development and designated the region the status of a special economic zone (Keck 2014). Greater representation of the region in Moscow was sought by appointing Yuri Trutnev in August 2013 to Deputy Prime Minister of Russia and Presidential envoy to the Russian Far Eastern Federal District. Trutnev was tasked with liberalising regulatory and tax regimes to make the region more attractive to domestic and international investors. Putin called on further developing Vladivostok, Khabarovsk and Komsomolsk-on-Amur as the key centres of the Russian Far East by lowering energy rates and by passing laws on offering free land plots to encourage migration (Russian Federation 2015b).

The Russian Far East requires political autonomy, population growth, infrastructure, economic development and technological modernisation. The Russian Far East requires more regional autonomy to develop, yet domestic cohesion is believed to require Moscow's pervasive influence. The lack of autonomy reflects to some extent a colonial mentality as Moscow absorbs the resources of the region and then re-distributes it back in various forms. The collapse of the Soviet Union as a federation still haunts the political memory of Russia's political elites. Centralised power is believed to be required to overcome the legacy of the 1990s, the political division within Russia and vulnerabilities from oligarchs seeking to buy political power from corrupt regional authorities.

Vladivostok has a key role in the 'dual integration' as the centre of the Russian Far East and a geographically convenient maritime 'gateway' to East Asia. When Russia hosted the APEC Summit for the first time in 2012, it was held in Vladivostok and approximately \$20 billion were spent to modernise the infrastructure in preparation for the summit. This investment was intended to signal Russia's long-term commitment to develop the region. The physical infrastructure has been complemented with a de-regulated business-friendly environment to turn Vladivostok into another Hong Kong (Lukin 2015). Vladivostok became

a free port in October 2015 with lower taxation, simplified customs, relaxed visa procedures and reformed administration. The free port status is anticipated to drastically increase the Gross Regional Product of Primorsky Krai (Fisenko et.al 2015). The free port status is also expected to be extended to other ports in the Russian Far East. With tens of thousands of new jobs and improved socio-economic conditions, the demographics are expected to enhance as a synergy effect.

4.3. The Physical Infrastructure of Russia as a Eurasian State

Enhancing economic connectivity with energy and transportation infrastructure enables Russia to leverage from its geographical expanse. Russia's endeavour to establish itself as a land-bridge connecting Europe and Asia is not new and has in the past failed to gain momentum. Russia has considered diversifying its energy exports away from Europe and towards Asia since the early 1990s (Henderson 2011). The international and domestic situation is however changing as economic power shifts from the West to Asia. There are also incentives for grand projects due to synergy effects by combining development of roads, highways, railroads, high-speed railroads, distribution networks, pipelines, electric grids and fibre optic networks.

Eurasian Energy Strategy

The ability of an energy supplier to extract political power is enhanced by developing 'swing supplier' strategy, denoting the ability to service various dependent consumers with energy resources from the same origin. Becoming a major energy supplier in Asia requires radical restructuring since the Soviet-era energy infrastructure was directed towards Europe. Russia's geography creates opportunities to connect the Eurasian landmass with bimodal land-based energy infrastructure connected to ports. Advancing Russia's position as an energy superpower entails influence over the production, transit and consumers of energy across Eurasia. Oil, gas, coal, electricity grids and nuclear energy are the main priorities. An interconnected Eurasia would require Russia to modify its European strategy from monopolising on gas supplies to instead becoming an energy hub that allows Central Asian and possibly Iranian energy to transit through Russian pipelines (Pritchins 2015).

The rise of energy demand in Asia has been coupled with declining trust in reliable energy supplies. Oil markets are set to grow as the demand from developing countries displaced the need from developed states for the first time in 2013 (Reuters 2013). Concurrently, the Middle East has been destabilised by the Arab Spring and the ensuing military interventionism by the West (RIAC 2012). Besides relying on a distant and unstable region for energy, the safety of maritime transportation routes are also a source of concern. The Russian Energy Strategy envisioned diversification of energy consumer by reaching out to Asia (Russian Federation 2009).

After returning to the presidency in 2012, Putin noted that the vast energy potentials in Siberia and the Russian Far East would spearhead Russia's integration into Northeast Asian markets (Stulberg 2015: 132). The Russian 'Energy Strategy to 2030' imagined that the 'integration of the Euro-Asian economic area' would reduce reliance on Europe. Russian oil exports to Asia to rise from 6% to 20-25% and gas from 0 to 19-20% over the following two decades to become less dependent on Europe (Russian Federation 2009b). The energy sector was expected to develop synergy effects in terms of modernising other areas of the economy and produce more value-added goods: 'The Strategy also provides for a diversification of commodities structure of energy export on account of increased export of energy products with high added value (oil products, liquefied natural gas, engine fuel, production of gas chemistry and petrochemistry, electricity)' (Russian Federation 2009b).

Energy Infrastructure (oil, gas, nuclear, hydro and electricity grids)

The inauguration of the Eastern Siberian-Pacific Ocean (ESPO) pipeline in December 2009 set the foundations for Russia to become a major oil exporter to the world's fastest growing energy market. Russia became a swing supplier as ESPO could redirect oil from Europe to a variety of states in East Asia. The inherent political influence was instant as Japan and China had for years competed for the ESPO pipeline project (Lee 2015: 91). While China National Petroleum Corporation (CNPC) and the privatised Yukos eventually agreed in 1998 to construct the Angarsk-Daqing pipeline, the project was cancelled when the owner of Yukos, Khodorkovsky, was arrested and the assets nationalised. Under government control, Russia sought to diversify the consumers of ESPO to allow political power to be extracted from its role as an energy supplier (Kaczmarek 2016). This implied extending the ESPO to the Pacific Coast to serve Japan and other markets, while the Daqing branch of the ESPO was later

constructed to also supply China (Sheppard 2013). At the opening of the new export terminal in Kozmino on the Russian Pacific Coast in December 2009, Putin proclaimed that ‘this is not just a pipe’ but rather ‘a geopolitical project’ (EurActiv 2010). New infrastructure is also developed on Khabarovsk Territory and Sakhalin to enhance the capacity and efficiency of oil transportation and offshore delivery.

The gas industry is a more prudent market to develop monopoly and extract political power because of trade complications and advantages by geography. Gas is vastly different from oil as it has less value, pricing is more complex and it is more problematic to transport. Natural gas must be transported through pipelines or alternatively be liquefied and use Liquid Natural Gas (LNG) infrastructure that include plants and ports. Unlike oil, the price of gas cannot be calculated as easily since it is traded more regionally than globally. Additionally, there are less international benchmarks for quality, and prices reflect the geographic hurdles of delivering the gas. To complicate matters further, long-term prices for gas must usually be agreed before the transportation infrastructure can be constructed. If a pipeline would be paid for by a supplier before reaching an agreement on price for a prolonged duration, the sunk cost would enhance the bargaining power of the consumer.

The geographic proximity to Europe, Central Asia and East Asia has provided Russia with the privilege of relying primarily on pipeline infrastructure. During the Soviet-era, pipelines were developed between Russia and Central Asian republics, and between Russia and Europe. A gas infrastructure was not developed to connect with East Asia since the market was less attractive. Developing Russia as an Asian gas supplier requires investments in energy fields in eastern Siberia and the accompanying energy infrastructure. The development of LNG facilities on the Pacific Coast enables Russia to access more distant markets in Asia and reduce excessive dependence on immediate neighbours such as China. The initial gas supplies to East Asia derived from Sakhalin and were exported with the use of Russia’s first LNG plant, constructed in Vladivostok in 2009. Export capacity was expanded in 2011 with the completion of the 570km long Sakhalin-Khabarovsk-Vladivostok (SKV) pipeline, which transports gas from Sakhalin to the LNG plant in Vladivostok. Russia’s gas pipeline infrastructure in the Far East is notably different from the European infrastructure as the LNG exports are partially liberalised.

The Power of Siberia gas pipeline was agreed to be constructed with the historic \$400 billion agreement between Russia and China in May 2014. Shortly after, a framework

agreement for a second gas pipeline was signed. The planned Power of Siberia-2 (previously Altai) or 'western route' would enter China on the common border between Kazakhstan and Mongolia. While the ESPO pipeline made Russia an oil swing supplier, the Power of Siberia-2 pipeline would make Russia a gas swing supplier as the same energy fields would supply both Europe and China (Paik 2012). Furthermore, the Power of Siberia-2 can be linked up with the SKV pipeline to supply other East Asian states. Russia's immense amount of gas supplies in Western Siberia infers that the 'need to divert the gas between the two markets for commercial reasons is minimal or non-existent for the time being' (Paik 2015: 9). The political reasons are more important since the ability to divert supplies skews the 'balance of dependence'. The Power of Siberia-2 pipeline would present a strong deterrent for the EU to impose sanctions on Russia or engage in other economic coercion. The potential geo-economic implications of Russia establishing itself as a swing supplier is not sufficiently recognised in the West according to Paik (2014), who argues that it is 'a dream situation for Russia but will be a nightmare for Europe'.

Russia's rise as a nuclear energy power has received surprisingly little attention in the West. Russia endeavours to control the entire business cycle as most of the major suppliers and consumers are located on the Eurasian continent (Katusa 2014). The business chain in the nuclear power industry includes financing, mining and enrichment of uranium, production of fuel pellets and cells, construction and maintenance of nuclear power plants, and discarding and recycling nuclear waste (Ustyuzhanina 2016: 40; Reuters 2016). Dominating the entire business cycle hinders new entrants to the market. Russia's state-owned Rosatom, established in 2007, has accumulated \$100 billion in orders to develop nuclear power plants and related industry, more than all of its competitors in the West combined. Rosatom already controls 40 percent of the world market in uranium enrichment and 17 percent of fuel for nuclear power plants (Katusa 2014: 137; Ustyuzhanina 2016). Russia is extending its control over the world's uranium supplies. Kazakhstan is Russia's main partner since it holds the largest uranium reserves in the world. Collectively, Russia's Rosatom and Kazakhstan's Kazatomprom could become world leaders in the nuclear energy industry (Ustyuzhanina 2016). Through a joint venture with Kazakhstan, Russia has developed a commercial centre for uranium enrichment, and Russia has made its presence even stronger by signing an agreement in 2015 to build a nuclear power plant in Kazakhstan (Guschin 2015). Similarly, in 2009 Russia obtained an agreement with Mongolia for joint venture for uranium extraction. Rosatom has also made its move against rivals in the West by acquiring the Toronto-based

Uranium One in 2013, which endowed Russia with control over 20 percent of US uranium production capacity (Fetter and Schneider 2015). Russia's forceful export strategy includes high-risk developing markets for nuclear energy, such as Bangladesh, Egypt and Jordan. Subsequently, several projects may be delayed or never be completed (Reuters 2016).

Electricity grids are the backbone of domestic energy supplies and are therefore imperative for to the development of an economy, which is why they are usually under government control (Naoumova 2015: 98). Russia has grown rapidly in electricity exports to China and Central Asia (Gusev and Westphal 2015). The EEU is developing a regional energy market that will have a considerable impact, irrespective of divergent interests by its member states (Pastukhova and Westphal 2016: 1). A single market for electricity is also evolving between Russia, Georgia, Armenia and Iran following an agreement on harmonising electricity grids (Rukhadze 2016). These efforts are to be replicated in Central Asia and in the Far East by creating a common supergrid system with China, South Korea and Japan (Skoltech 2014). A circular electric power system is also sought to encompass Siberia, China's western regions, Kazakhstan and other Central Asian states (Valdai 2015: 20). Central Asian states recognise the implicit political power of Russian influence over the electric grids and market, which must be balanced with economic benefits (Gleason 2003). Russia's initiatives are to some extent a response to US efforts to create a regional electricity market and grids between Central Asia and South Asia, which were intended to sever China and Iran from Central Asian electrical grids and undermine Russia's dominant role in the region (Kim and Indeo 2013: 279). More specifically, the US supported Kyrgyzstan and Tajikistan as the main suppliers of electrical energy for Kazakhstan, Afghanistan, Pakistan and India (Kim and Indeo 2013).

Transportation Infrastructure

Russia's 'Iron Silk Road' aims to promote domestic and Eurasian connectivity. Tsar Aleksander III had noted the geostrategic imperative of constructing the Trans-Siberian railroad to ensure the internal cohesion of the Russian Empire and power projection in East Asia. The demise of the Soviet Union had a profoundly adverse effect on the regional transportation network as well as the communication and mechanisms harmonising networks (Rastogi and Arvis 2007: 6). Recognising that transportation infrastructure has historically advanced economic growth, Putin (2012) revived the case for making Russia a land-bridge

across Eurasia:

We are already building modern ports in the Russian Far East, modernizing the transportation and shipment infrastructure, and improving national customs and administrative procedures. According to assessments by experts of the APEC Business Advisory Council, the implementation of these projects will increase traffic flow between Europe and the Asian-Pacific region via Russia's territory no less than fivefold by 2020. Such shipments are cost-competitive with the traditional routes through the Strait of Malacca and the Suez Canal, and offer advantages in terms of speed and safety.

Russia has ambitiously engaged in high-level discussions that have produced several agreements. Yet, the slow implementation of some projects, such as the Amur bridge, frustrates its partners (Higgins 2016).

The 'Northeast Asia-Europe Land Bridge' is the main transportation corridor under development, which rests largely on utilising the Trans-Siberian and the Baikal-Amur railway. The Russian railways must however be modified from serving a military geopolitical objectives to geoeconomic ends. The Baikal-Amur Railway was not constructed to connect with Chinese markets. Instead, it primarily had military objectives, as a supplementary route since the Trans-Siberian Railway was unnervingly close to the Chinese border (Lukin 2016: 574). In August 2016, a \$6.5 billion railway development plan was announced to improve connectivity between Northeast Asia and Europe by shortening the Trans-Siberian Railway with 550km (Khabarovsk 2016). Demand for the cargo infrastructure is augmented with the construction and upgrade of several ports such as Nakhodka, Vostochny, Vanino and Zarubino on Russia's Pacific coast to attract cargo from South Korea, Japan and other states in the region besides China (Minakir 2014: 74-75). The construction of the latter, the Zarubino port at the southern end of Russia's Pacific Coast, will become the largest deep-water port in Northeast Asia. The capacity for transporting cargo is also enhanced by developing roads in conjunction with additional rail.

The main rival transportation routes from Northeast Asia to Europe transitions from China, through Central Asia, before entering European Russia. Kazakhstan's geography makes it a key transit point for Eurasian transportation links and the government has been more determined than Moscow to invest in infrastructure. Kazakhstan's 'Bright Path' initiative replicates the ideas and ambitions behind China's Silk Road project (Zuenko 2016). Russia's efforts to become more competitive requires infrastructure investments in the

Russian Far East, which will have a natural competitive leverage for transit from China, South Korea, and Japan (Zuenko 2016).

The 'Northern Sea Route' is an Arctic transportation route for goods between Asia and Europe. Russia has commenced with the modernisation of supporting Arctic stations and connecting infrastructure, which will also have positive synergy effects for energy extraction in the region (Minakir 2014: 75). More than 20 percent of undiscovered hydrocarbons are situated in the Arctic, most within the Russian sector (Zysk 2011: 96-97). Extracting these resources requires ports, regional search and rescue capabilities, ice-breakers, aviation routes, transportation networks and other support infrastructure (Aaltole et.al 2014: 113). The ostentatious planting of the Russian flag on the Arctic floor in 2006 was the initial announcement of Russia's race to the north. The Special National Arctic Strategy was adopted in 2010 that called for the modernisation of 8 of the 10 stations in the Antarctic, air support infrastructure and GLOSNASS-based space monitoring for transportation (Muraviev 2011: 205). Putin announced in December 2015 that 'we will extend the preferential regime of the free port of Vladivostok to key Far Eastern harbours' to enhance the competitiveness of the Northern Sea Route (Russian Federation 2015b).

The North America-Trans-Eurasian Belt Development is a proposal to extend Russian infrastructure projects to its most north-eastern regions and connect with Alaska. The initiative would connect Russia and North America with roads, railways and a Bering Straits tunnel. The prospect of extending the transportation and energy connection to North America would make these investments more profitable as Russia could become a transit hub for energy and transport from North America to China (Shirk 2015; Cooper 2000). The proposal also has a strong domestic component as pipelines along the rail and road network would enhance the ability to extract oil and gas resources from Russia's north-eastern regions.

The development of Russian sea ports, roads and rail in European Russia is important to increase Russia's position as a Eurasian connectivity hub. The transportation infrastructure in European Russia is also revived, especially by developing ports in the Black Sea and the Baltic Sea. Russia's Baltic Sea coast is developing as a commercial transportation hub by gradually ending reliance on Estonia, Latvia and Lithuania for transit (Hilmola and Henttu 2015: 75). The Russian Deputy Prime Minister argued that Russia aims to 'fully remove our dependence on foreign ports in the foreseeable future' (Mullett 2009). By 2016, 'near-crisis' conditions had developed for the ports of the Baltic States as Russia develops its own Baltic ports (Sputnik 2016a).

During the Russian Empire and the Soviet Union, Moscow was profoundly dependent on the Baltic Sea and the Black Sea as transport corridors. US naval strategy was therefore largely directed by the objective of denying Russia's navy access to warm-water ports to connect it to the Atlantic. The collapse of the Soviet Union diminished Russia's position in both waters due to loss of territory, and Moscow has not yet been capable of redeveloping its former strategic maritime routes for both commercial and military utility (Muraviev 2011: 203). NATO expansionism in the post-Cold War era has enhanced US ability to contain Russia's access to the Atlantic Ocean. Brzezinski (2017) argues that the US must communicate clearly that 'Russia must know that there would be a massive blockade of Russia's maritime access to the West' if a conflict would ensue. The lack of reliable maritime trade routes obstructs Russia's capacity to establish cost-effective trading routes, reduce reliance on transit states and to become a transit state. Strengthening Russia's infrastructure and influence in the Black Sea and the Baltic Sea is pivotal to connect more efficiently with Europe and the Mediterranean region. Putin noted in a speech to the Federal Assembly in December 2015 that development of port infrastructure was imperative to develop transit independence: 'We will continue to upgrade our transport infrastructure and expand major logistic centers such as the Azov-Black Sea and Murmansk transport hubs, modern ports in the Baltic Sea and the Russian Far East' (Russian Federation 2015b).

The Black Sea is located at an important intersection in Eurasia. The strategic significance of the warm-water port in Crimea was evident by the multiple wars fought between Russia and the Ottoman Empire for control over the peninsula and the northern coastline of the Black Sea. In the mid-1850s, approximately one-third of Russian exports transited through the Black Sea, as the sea route especially improved the competitiveness of its agricultural sector (King 2004: 167). The annexation of Crimea in 2014 set the foundations for restoring the Black Sea as a Russian lake. The port of Novorossiysk connects Russia to both the Mediterranean and Asia. Much like the Black Sea has been indispensable for Russia's naval operations in Syria, this can also be employed for commercial use as an economic corridor strengthening Russian ports connectivity to the Mediterranean (Bugajski and Doran 2016: 3). Besides establishing Russian primacy over a strategic transportation corridor, Crimea also has an abundance of gas reserves in the adjacent waters.

Prior to the Maidan coup, Kiev and Beijing had been negotiating the construction of a deep-water port in Crimea to commercially link Ukraine with the Silk Road project. Crimea important role as a maritime port in the ancient Silk Road was to be revived by establishing a

trade route for Chinese goods heading west and Ukrainian grain going east (Penzev 2014). The Ukrainian-Chinese port project purportedly was to be supplemented with China constructing a series of cargo terminals and leasing more than 600 square kilometres of Crimean land to triple the agricultural output on the peninsula (Daly 2014a). Immediately after Crimea was seized by Russia, high-level talks were initiated between Russia and China to resuscitate the project for constructing the Crimean commercial deep-water port (Moscow Times 2014). The construction of a bridge connecting the Crimean peninsula to the Russian mainland can revive the Tsarist Black Sea trade route. However, instead of a China-centric function, the transportation corridor can also be used to also strengthen economic ties with the Middle East and North Africa.

4.4. Mechanisms for Cooperation

Institutions serve two important functions for positioning Russia at the heart of a more integrated Eurasia; they improve the mechanisms for cooperation, and can establish favourable symmetry with more powerful actors. Moscow considers the Eurasian Economic Union (EEU) to be an ‘economically rational and politically expedient’ (Sakwa 2016b: 4). The EEU is mostly preoccupied with issues such as developing a single market for services, a common currency, common legal frameworks and standards, free movement of people, free trade agreements with strategic partners, and advancing the Eurasian Development Bank. The EEU is intended to serve two important functions: increasing the level of trade between member states, and strengthening the collective bargaining power vis-à-vis other large power such as the EU and China. The EEU therefore mirrors the EU in terms of seeking economic integration and harmonising the legal and regulatory space to promote peaceful relations among member states and collectively improve symmetry with the US.

The internal cohesion of the EEU is contingent on how the two aforementioned objectives are approached. The first objective, improving the condition of trade among member states, is troubled by the asymmetrical power between member states. The lack of an internal balance of power fuels warranted concerns among member states that Russia will gradually diminish their sovereignty. While the increasingly powerful position of Germany within the EU breeds caution among other member states, it is not comparable to the dominant position of Russia producing more than 80 percent of the EEU’s GDP. The internal cohesion of the EEU is further challenged by the homogeneity of the energy-based Russian

and Kazakh economies, the low level of trade between member states and different visions for the future direction of the Union. There are also uncertainties concerning the ability of the EEU to produce long-term benefits for member states such as Kazakhstan (World Bank 2012). When the Ukrainian crisis unfolded, Russia failed to obtain the consent of the other EEU members and had to unilaterally impose counter-sanctions on the West. Kazakhstan and Belarus took advantage of the sanctions by re-exporting EU agricultural products to Russia, which led to the temporary re-introduction of border controls. Furthermore, as Russian exports became cheaper due to the decline of its currency, Belarus and Kazakhstan protected their domestic markets by temporarily banning various Russian goods (Sakwa 2016b: 13).

The second objective, to establish collective bargaining power vis-à-vis other powers provides external actors with the incentive of employing a wedge strategy. The ability of the EEU to produce a net benefit for non-members is required to obtain support for a Union that is largely designed to institutionalise a competitive advantage for Russia within the union and collective bargaining power. The internal connectivity of the EEU produces benefits for non-member by improving access to a single market with common regulation. The EEU also enhances transit between China and the EU by creating ‘a single transit system for goods’ by harmonising infrastructure, providing a common tariff zone and eliminating customs control (Rastogi and Arvis 2014: 4).

Both the internal cohesion and external support for the EEU will largely depend on the extent to which it is an outward-looking institution promoting inter-regionalism / ‘integration of integrations’. Moscow frames the benefit of membership in the EEU as a favourable format for European integration due to collective bargaining power. Belarus membership in the EEU is to a great extent motivated by pursuing European integration on more balanced terms by negotiating free trade from Lisbon to Vladivostok through an EU-EEU convergence (Melyantsou 2015: 4-5). Kyrgyzstan’s initial indecisiveness before joining in May 2015 reflected the fear that membership would deprive it from being a transition point between China and Central Asia, rather than facilitate favourable agreements (Peyrouse 2015). Cooperation with external actors is also important to obtain institutional legitimacy, and adversaries can deliberately avoid cooperation to undermine the legitimacy (Hettne and Söderbaum 2000: 469). The EEU has therefore been under pressure develop economic agreements with non-members. A Free Trade Agreement (FTA) has so far only been signed with Vietnam, however, over 30 countries have expressed interest in a FTA and negotiations are under way with several large countries such as India, Iran and Egypt (Satubaldina 2015).

Russia has sought to reassure both member states and external powers that are concerned about its dominant influence within the EEU. Putin (2011) dismisses that the Eurasian Union is intended to ‘fence ourselves off from anyone’. Instead, the aim of the EEU is purportedly to become ‘one of the poles of the contemporary world and would play the role of an effective “bridge” between Europe and the dynamic Asia-Pacific region’ (Putin 2011). Putin posits that ‘only by uniting Russia with the countries of Europe and Asia can we truly become developed, and attain success and prosperity’ (LiJiu 2012). In his speech at the UN in 2015, Putin argued that ‘contrary to the policy of exclusiveness, Russia proposes harmonising original economic projects. I refer to the so-called integration of integrations’ (Putin 2015a). This is also evident in the energy strategies, as for example the electric market of the EEU is based on the model of the EU to ensure they are compatible (Pastukhova and Westphal 2016: 6).

Russia’s inclinations towards a ‘federalist’ integration approach for the EEU by centralising power conflicts with the ‘functionalist’ approach of the other member states by only integrating in areas where it benefits for the state. Belarus and Kazakhstan remain adamant that they will withdraw from the EEU if their sovereignty and interests are threatened. The functionalist approach to integration was made inexplicit by Sagintayev, the first deputy prime minister of Kazakhstan and lead EEU negotiator: ‘It is a pragmatic means to get benefits. We don’t meddle into what Russia is doing politically, and they cannot tell us what foreign policy to pursue’ (MacFarquhar 2014). The Belarussian President unequivocally posited that ‘Belarus’ position on the future EEU will depend on what it can derive; if it is nothing, then what is the point to this alliance?’ (Wilson 2016: 122).

Promoting internal cohesion and obstructing external sabotage is therefore largely dependent on Russia’s ability to bridge the federalist and functionalist approach by providing material benefits for centralising power. Russia’s bargaining power also derives from shielding member states from the overwhelming economic clout of China, or alternatively use punitive measures to deter resistance to the EEU by for example threatening to reduce migrant worker quotas. Generating positive-sum economic benefit through connectivity is pivotal as there are limits to Russia’s capacity to provide energy subsidies and wealth transfer to the other members. Fears are lingering that integration of the post-Soviet space will make Russia a benefactor and subsequently deplete its resources (Trenin 2011a). Resistance to the EEU is likely to grow within Russia if the integration project produces a net cost, which

would add to the xenophobia resulting from the mass immigration of Central Asians. The EEU could thus face the same fate as the Soviet Union as Boris Yeltsin had argued for Russia's secession from the Soviet Union on the grounds that there was excessive wealth transfer from Russia to the periphery (Wilson 2016: 116).

The EEU has already established elements of supernationalist structures such as the Eurasian Economic Commission and the Court of the Eurasian Economic Union (Gatev and Diesen 2016). While Kazakhstan and Belarus have resisted the establishment of a Eurasian parliament to defend their sovereignty, the EEU's institutionalisation of equal representation has mitigated some apprehensions of succumbing to Russian influence (Bordachev 2015). Publicly, Kazakhstan dismisses fears about supranational structures eroding sovereignty as focus is instead directed towards the monetary benefits as the economies of the EEU are predicted to expand by 25 percent within 2030 (Iglauer, 2014).

Comparable to the EU's 'half-built house' model, Russia is a proponent of developing a monetary union to create systemic pressures for a political union.⁷ Russia's First Deputy Prime Minister, Igor Shuvalov, argued in July 2014 that 'the issue of a common currency will certainly be solved in five to ten years' (Tass 2014). In March 2015, Putin commissioned the Central Bank and government to produce 'a study of the advisability and feasibility of establishing a monetary union in the long term' (Lenta 2015). Belarus and Kazakhstan have to date rejected a common currency due to the political implications. Timur Suleimenov, the Minister of Economy and Financial Policy of the Eurasian Economic Commission, argued that a common currency is not justified yet as due to the low levels of trade flows and as it would require 'a unified budget and tax policy' (Li 2015). Objections to a shared currency may therefore be abridged if trade levels within the EEU increases to the extent a monetary union obtain significant functionalist value.

Institutions for a broader Eurasia (SCO and BRICS)

The EEU is aimed to construct an equitable position in Eurasia, not as an alternative and parallel institution capable of challenging the Western-centric international economic system. SCO and BRICS (Brazil, Russia, India, China, South Africa) have emerged as pertinent institutions to strengthen Russia's position beyond the post-Soviet space. The Foreign Policy

⁷ See more, chapter 9.

Concept of the Russian Federation (2013) envisions that global development should be decentralised from the current US-dominated system with arrangements such as BRICS, RIC and the SCO:

Russia will increase its participation in such formats as the Group of Twenty, BRICS (Brazil, Russia, India, China and the Republic of South Africa), the Group of Eight, the Shanghai Cooperation Organization, the RIC (Russia, India and China) alongside other organizations and platforms for dialogue' (Russian Federation 2013).

At the joint EEU-SCO-BRICS Ufa Summit in 2015 devoted to Eurasian integration, President Putin depicted Eurasianism as a counter-hegemonic movement and rebuked the US 'grand chessboard' strategy:

For us this [the Eurasian landmass] isn't a chessboard, it's not a geopolitical playing field – this is our home, and all of us together want our home to be calm and affluent, and for it not to be a place of extremism or for attempts to protect one's interests at the expense of others... We are united in the sense that the aims that have been set can only be achieved by acting collectively, on the basis of genuine partnership, trust, equal rights, respect and acknowledgement of each other's interests (Sakwa 2016b).

The SCO had initially limited geoeconomic potential as Russia preferred military competencies to prevent transferring leadership to China. This entailed rejecting the development of an SCO Development Bank. Instead, the SCO agreed in 2007 to establish a 'unified energy market', with Putin calling for 'the creation of an energy club will set out the priorities for further cooperation' (Eurasianet 2007). Putin argued at the SCO Council of Prime Ministers:

We now clearly see the defectiveness of the monopoly in world finance and the policy of economic selfishness. To solve the current problem Russia will take part in changing the global financial structure so that it will be able to guarantee stability and prosperity in the world and to ensure progress (RT 2008).

The prospect of a SCO Development Bank is growing, which has to date been obstructed by Moscow's preference for utilising the Eurasian Development Bank where Russia enjoys greater privileges. Russia has however become more willing for the SCO to adopt economic competencies if it expands. The enlargement of the SCO by accepting India and Pakistan as members, possibly Iran in the future, ensures a balance of power to preclude Chinese dominance.

The BRIC association was only founded in 2006, and in 2010 it expanded to BRICS by incorporating South Africa. Goldman Sachs expects that the BRIC countries and the US will become the world's five largest economies by 2050 (Kupchan 2012). BRICS is an attractive geoeconomic forum by facilitating Russia's transition from a peripheral status in an increasingly dysfunctional Western-centric system to a multipolar construct that elevates the position of Russia and reflects the international distribution of power (Lukyanov 2013: 129-130). BRICS founded their New Development Bank (NDB) with an initial capital of \$100 billion, launched concurrently with the Contingent Reserve Arrangement (CRA) with another \$100 billion to reduce the reliance on the IMF and the US dollar. The BRICS NDB will fund investment in infrastructure, primarily within its member states. While China leads the BRICS bank with twice the funding of Russia, the membership of India and Brazil (and lesser extent South Africa) instils a balance of power that prevents Chinese dominance. BRICS remains open for other members in an effort to siphon power away from the IMF and World Bank.

Domestic currencies are encouraged for trade and funding of these projects is encouraged to use of for trade and references have been made to developing alternative reserve currencies. Russia considers itself hostage to the current financial system, formulated more bluntly by Putin by stating the US has become a 'parasite' in the international economic system (Boudreaux 2011). Putin concurrently announced the objective of the bloc to start settling internal trade with domestic currencies on 1 April 2015, the main objective established was to further develop financial institutions. In lieu of the West's anti-Russian sanctions, BRICS has also been utilised as a forum to replace agricultural imports from the EU and North America. While predominantly preoccupied with financial convergence, BRICS also becomes a forum for constructing common political positions. The BRICS member refused to condemn Russia's annexation of Crimea, and instead produced a joint statement condemning the West's anti-Russian sanctions and attempts to exclude Russian participation at the G20 (Stuenkel 2015: 148-149). Moscow deemed this to be a diplomatic victory since it demonstrated that when the West declares 'there is a kind of world community, which condemns us, they mean 28 NATO member states and the EU' (Brics Post 2014).

Conclusion

Russia's initiatives for Eurasian connectivity are consistent with geoeconomic theory. The myriad of initiatives are indicative of an 'irreversible' pivot to the east. Physical infrastructure projects enhances bargaining power primarily by producing benefits for potential partners, while a swing strategy can also be employed for deterrence. Institutions are similarly utilised to create more favourable representation for Russian interests, which implies less reliance on Bretton Wood institutions. It is evident that the balance of power logic in Asia is diametrically opposite to Europe as there are systemic pressures to accommodate instead of marginalising Russia. Russia's principal strategic partner is Beijing and the asymmetrical power between the dyad is fuelling the prospect of Chinese hegemony in the region. Other states in the region have incentives to accommodate Russia to alleviate their own reliance and Moscow's dependence on China.

The project for a Greater Eurasia has an abundance of challenges and complications, while domestic quandaries hamper implementation. Russian actions rests on the assumption that the relative decline of the West will continue. Predictions about the future are obscured by the instability of the global economy and Russia's dependence and thus vulnerability to the West's relative decline that it gambles on to persist. These difficulties are indicative of Russia's previous hesitance to swiftly and radically challenge the status quo. However, with the demise of Greater Europe, Russia is obliged to accept more high-risks strategies in the search for a new status quo.

5. Chinese Geo-economics and the Silk Road Development Strategy

Introduction

The breakdown of the land-routes of the ancient Silk Road and subsequent rise of European maritime powers in the early 1500s has had a detrimental impact on China and therefore a profound impact on the international system. The control by Western powers over the main transportation corridors provided advantages for military mobility and facilitated privileged conditions for trade. The Western competitive advantage in industrialising and the ensuing conquering of China following the Opium Wars in the mid-1800s demoted the largest power in the global system to a mere colony divided by foreign powers. Referring to the prospective revival of China, Napoleon Bonaparte purportedly stated: 'China is a sleeping giant. Let her sleep, for when she wakes she will shake the world'.

This chapter will explore the major implications from China's geoeconomic strategy on the international system by shaking the foundations of Western privileges over the past 500 years. China's rise and increasingly sophisticated economic statecraft makes it the most important protagonist for Eurasian integration, which entails many of the world's largest infrastructure projects and new financial/investment mechanisms that are challenging the Bretton Woods system. China is therefore an indispensable partner for Russia and other states in the region seeking greater connectivity. Concurrently, China unrivalled economic power in Eurasia is a challenge for the same states. It will however be argued here that Chinese power may become more benevolent as it 'breaks out' of US containment.

It will first be argued that the period often defined as China's 'peaceful rise' meant rapid industrialisation without attracting attention in the international system. Besides leveraging from a large working force migrating to the cities, Beijing has utilised wage suppression, currency manipulation and technology theft to catch up with and surpass the US. China's initial inward-looking development strategy has culminated in large foreign reserves, new patterns of capital flow, altering value-chains and shifting core-periphery relations. A low profile was deliberately and temporarily sought before obtaining the strength to challenge US primacy. China's rise would inevitably require greater influence over global resources and transportation corridors, and it was never feasible to accommodate China in the existing international system without the US ceding power by abandoning unipolar institutions,

offshore balancing and currency dominance. This development strategy has reached its end as domestic variables such as urbanisation becomes stagnant, while internationally the US debt is unsustainable and Washington prepares for containment.

The second part of this chapter addresses China's Silk Road project as an effort to challenge the existing world order. New land-corridors and maritime transportation corridors are developed to circumvent the US, which are funded by Chinese-led financial institutions and increasingly denominated in the yuan. While this appear revisionist, the US-centric international institutions and trade routes no longer reflecting the international distribution of power, China aims to seize the 'historic opportunity' of moulding the international economic system to its own advantage. This is not a repudiation of the international system, but a concerted effort to change the symmetry of interdependence by reducing its own dependence on others and increase international reliance on China. New export channels are developed to contest the US-Japanese ruled regional infrastructure that has dominated since the Second World War. Current institutions are supported to the extent they can reform to accommodate new realities, albeit failure to reform results in China developing new parallel institutions that can cooperate with existing institutions. It geo-economic power derives not from zero-sum approaches of China vis-à-vis the market, rather by linking Eurasian and indeed global economic interests to a Chinese-centric system

It will be concluded that China's geoeconomic strategy reveals certain contradictions since the 'peaceful rise' was excessively reliant on belligerent economic statecraft, while replacing US global hegemony with the Silk Road project compels a more benign strategy. As a Eurasian land power in a multipolar world, China's bargaining power will have to rely more on carrots than sticks. Furthermore, a leadership position will require China to abandon many of the economic means it used to climb the geoeconomic ladder.

5.1. China's provisional 'peaceful rise'

China's embrace of economic statecraft was initially pursued as an inward-looking development strategy to rapidly industrialise and modernise the economy. China held approximately 30 percent of the world's GDP before the West was transformed by the industrial revolution, thus the initial objective was to catch up through internal modernisation before attempting to seek global leadership (Meyer 2011). The Chinese footprint in the

international sphere was also deliberately minimised to avoid evoking fear and provoking balancing acts by rival powers. China normatively depicted its approach as consistent with Deng Xiaoping's commitment to a 'peaceful rise', which is a temporary strategy to grow in strength before asserting itself globally (Meyer 2011). The strategy of not attracting attention is recognised as 'hide and bide' as the Chinese would 'bide our time and hide our capabilities'

Pursuing the traditional neo-mercantilist export-based strategy of developing states, China has through wage suppression become a hub for manufacturing and value-added goods. The development strategy has to some extent replicated the 'Asian tigers' model of 'duck-formation' manufacturing by first producing cheap low-technology products, and then incrementally progressing towards more technologically advanced products. What has made China exceptional compared to its counterparts in the region is to a large extent the sheer size of the population (Subramanian 2011: 74). China has leveraged from a 'migrant miracle' as an abundance of cheap labour migrated from an unproductive agricultural sector to factories and construction at an unprecedented scale (Wildau 2015).

The positive trade gap has been enhanced further by pegging the yuan against the US dollar at a low rate (Cwik 2011). Currency manipulation has assisted in protecting the domestic market from imports and penetrating foreign markets. The government also subsidises its exporters with tax exemption and extensive trade credits. The disadvantage of the export-based strategy is that China becomes too reliant on foreign markets since wage suppression diminishes domestic capacity to purchase its manufactured goods.

Modernisation has been supported by the government by demanding transfer of technology transfer and know-how from foreign corporation manufacturing in China. Furthermore, the government actively encourages and facilitates technology transfer through reverse-engineering and cyber espionage for commercial advantage. China reverse-engineers imported products, such as Russian military armaments, to gradually transition itself from an importer to an exporter of the same technologies. The Chinese military have established cyber espionage units, such as the infamous 'PLA Unit 61398', with the unequivocal purpose of stealing technology from the US and other states (Mandiant 2013; IP Commission 2013; US Department of Justice 2014). Technology transfer centres have been established where smaller modifications are made before the government transfer the technologies to Chinese corporations with ties to the government. The combination of low production costs and stolen

technology has made it possible for Chinese industries to outcompete its global rivals, as evident with the notorious wind turbine case (Riley and Vance 2012).

The inward-looking development strategy is a temporary strategy since accepting a lower standard of living in terms of domestic consumption is a deliberate trade-off in return for the gradual rise of China's relative position in the world through rapid industrialisation and accumulation of foreign reserves. China's passive stance on the international stage has produced uncertainties and concerns in the West, which repeatedly encourages Beijing to take greater responsibility in international affairs as an indication of its intentions and future trajectory (Hilpert and Wacker 2015: 2). China is encouraged to integrate and channel its influence within the existing Western-centric international system to mitigate the risk of having a more powerful China enter the international stage later with the capability and intention to challenge and overthrow the existing order (Ikenberry 2008). Some concerns have emerged as China for example utilises economic statecraft to unify with Taiwan. Economic incentives are presented for economic integration and economic coercion is also used by for example sanctioning businessmen that advocate secession. China's accumulation of US treasury bonds has also reduced Washington's willingness confront Beijing. With US debt soaring, Washington has become increasingly dependent on China to purchase more debt, and deterred by the prospect of China dumping US debt and flooding the world with US dollars.

China inevitably goes global

Domestic pressures have been mounting to modify the development strategy. China is plagued by environmental degradation, import dependence, a housing bubble, possible bank failure, rising inequality and political stability (Meyer 2011). Furthermore low production costs as the primary comparative advantage is eroding. The surplus of labour in the farm sector is rapidly being exhausted, resulting in a steadily shrinking rate of migrant workers that had fuelled the industry boom (Wildau 2015). The mounting pressure to allow the Yuan to surge, relinquish capital control and decouple from the US dollar would further challenge production costs and competitiveness.

Yet, the domestic infrastructure development has established several large and matured corporations that are competitive abroad. China's 'Going Global' of outbound direct

investment strategy can mitigate some of these domestic predicaments. China is acutely aware of the need to diversify commodity imports, export market and commercial transportation corridors. Recognising that trade is a national security imperative and too important to be left to the market, diversification motivated forceful inroads into Africa, Central Asia and other regions of the world (Kreft 2006: 65; Holslag 2006). China's main state-owned companies are encouraged to procure foreign energy and transportation assets (Ziegler and Menon 2014), which include China National Petroleum Corporation (CNCP), China Petroleum and Chemical Corporation (Sinopec) and China National Offshore Oil Corporation (CNOOC). Transportation corridors were developed in the Indian Ocean with the so-called 'string of pearls' architecture, denoting China's establishment of civilian maritime infrastructure in countries such as Myanmar, Bangladesh, Sri-Lanka Maldives and Pakistan (Khurana 2008). Kaplan (2012: 200) suggests that due its size, China is shifting the balance of power 'simply by securing its economic needs'.

The primary threat to China's commercial trade is the US/Japanese-led regional security architecture that dominates trade routes. 80 percent of Chinese trade and supplies pass through the Malacca Strait, the most probable 'choking point' vulnerable to a US blockade or other challenges to the freedom of navigation. If the US would enforce a blockade 'Chinese maritime trade would stop entirely' and the 'economy would be paralysed' (Brzezinski and Mearsheimer 2005). The US blockade on Japan during the Second World War still influences Chinese strategic thinking. These concerns only elevated as a consequence of Obama's proclaimed 'pivot to Asia' in 2011, which called for repositioning much of the US military infrastructure to East Asia.

Asymmetrical and unsustainable interdependence

US-centric institutions are not ideal for China since it seeks integration projects that maximise Chinese power (Geeraerts 2011). Furthermore, the contemporary interdependence between China and the US is asymmetrical and thus unsustainable as both sides have increasing incentives to decouple. China is reliant on the US as an export market and the US depends on China to invest in its treasuries. However, when debt levels become untenable and the loss of production power inhibits recovery, the export-based creditor state eventually will view the growing debt as vulnerability. The US will eventually either declare sovereign default, or alternatively print the money and devalue the purchasing power of the repayments

since the debt is denominated in US dollars.

When crises eventually emerge, export-based and fiscally prudent states can and should lessen their dependence on debtors. Economies with high production power and large foreign reserves recover more swiftly and can use crisis to extract political concessions from debtor states (Stockhammer 2014). The Asian Financial Crisis in 1997-1998 presented an opportunity for China to advance its geoeconomic power. Beijing provided US\$4.5 billion of credit to various states in its region to stabilise their economies, and promoted the yuan as a stable and reliable currency (Baru 2012a: 51). The following Global Financial Crisis unfolding in 2007-2008 made the status quo of the global economic system and the US-Chinese relationship untenable (Wang and Chin 2013). The US was faced with the choice between exercising greater fiscal discipline by cutting its costs and reducing international influence, or 'double down' by taking on more debt at the peril of its currency to maintain its global influence. To the dissatisfaction of Beijing and other creditors, Washington almost doubled its debt over the following years in an effort to re-inflate previous asset-bubbles.

Washington's policy to 'borrow and consume' its way back to prosperity implied that China could either invest more in an increasingly insolvent US, or alternatively accept the devaluation of its existing investments since the US Federal Reserve would print the money. The costs of holding excessive foreign reserves, the so-called 'dollar-trap', demanded a decisive shift in Chinese policy (Huotari and Heep 2015: 158). Holding large amounts of foreign reserves becomes precarious when central banks across the world respond to debt problems with quantitative easing and negative interest rates. Following a US Congressional vote in favour to avoid debt default, Chinese state-media called for the establishment of a 'de-Americanised world' as 'politicians in Washington have done nothing substantially but postponing once again the final bankruptcy of global confidence in the US financial system' (Isidore 2013). The crisis encouraged Beijing to seize opportunities associated with being more outward-looking. The policy of hoarding foreign reserves ended as China began directing these funds to accrue assets and invest in development in neighbouring states (Heep 2014: 1; Shestakov 2015). Many observers interpreted China's ambitions to redistribute global power and challenge US authority as the abandonment of its previous commitment to be a 'responsible power' pursuing a 'peaceful rise' (Deng 2014).

A 'peaceful rise' can be considered a dual process, as China must be willing to integrate itself into the rules and structures of the international order, while concurrently that

the powers dominating the existing system must be prepared to reform and adjust to accommodate China (Buzan 2010: 5). Washington has been reluctant to accommodate China adequately as it relinquishes the mechanisms of US primacy within institutions such as the IMF, World Bank and Asian Development Bank (Hilpert and Wacker 2015: 2). Washington is also reluctant to replace the bilateral-alliance structures and immense forward deployed military with an inclusive security architecture. Instead, the US intensifies its efforts to contain China. The US initiated talks with the region in 2008 that eventually culminated in the signing of the Trans-Pacific Partnership (TPP) agreement. The intention of marginalising China was made explicit in an op-ed by Obama (2016), where he posited that ‘the world has changed. The rules are changing with it. The United States, not countries like China, should write them’. With China being the only major economy not been offered any formal presence in TPP, Beijing has sought to counter the initiative by strengthening its own trade agreements in the region and develop alternatives (Bordachev 2016). The Regional Comprehensive Economic Partnership (RCEP) is China’s counter-initiative, a similar trade agreement that aims to include India, Japan, South Korea, Australia, New Zealand and the 10 ASEAN member states. Russia has aligned itself with the position of China and Putin (2015a) condemning the divisive nature of the TPP in his 2015 speech at the UN:

Other states, whose interests may be affected, have not been informed of anything, either. It seems that someone would like to impose upon us some new rules of the game, deliberately tailored to accommodate the interests of a privileged few, with the WTO having no say in it.

5.2. The Silk Road project for a post-Western world

The previous policies ‘peaceful rise’ by not attracting attention has been substituted with the ambitions Silk Road project to construct a post-Western world. The new development strategy aims to revive the ancient Silk Road and literally have all roads leading to Beijing. The ancient Silk Road transited through Central Asia with much manufactured goods such as silk and porcelain heading West, while precious metals and other goods headed East (Rastogi and Arvis 2014: 12). The ambitions strategy aims to enhance the control over natural resources and transportation corridors through China-centric infrastructure projects, international institutions and financing. While the initiatives are global, the main focus is devoted to developing China as the leading power in an interconnected Eurasia.

The Silk Road project, also known as the One Belt, One Road (OBOR) initiative (*yidai yilu*) consists of the ‘Belt’ as land-based infrastructure and ‘Road’ as maritime transport routes. Besides facilitating trade and providing an outlet for reallocating its excessive capacity from the construction and steel industry, reviving the ancient connectivity between the Eurasian civilisations converts China’s large foreign exchange reserves into international geoeconomic influence (Cooley 2015). Domestically, the ‘March to the West’ contributes to develop China’s Western regions by complementing China’s Western Development Plan to integrate Xinjiang, Tibet and Qinghai with the rest of the country. These initiatives are funded by new financial institutions, and enhanced trade, cooperation and communication networks.

Historical continuity can be recognised as China endeavours to revive its position as the ‘Middle Kingdom’ by becoming the economic locomotive to benefit all of Asia and a broader Eurasia, which will gravitate towards China as the economic centre of gravity. The geoeconomics of the medieval tributary system that was relatively unique in terms of developing mutually-beneficial economic relationships, while the asymmetry within the interdependence would be utilised to extract political concessions and loyalty (Eisemann, Heginbotham and Mitchell 2015: 9). China’s geoeconomic rise has provided the tools to revive the tributary system (Meyer 2011: 130). Kissinger (2012) thus predicts continuity in China’s statecraft by promoting regional leadership with asymmetrical relations over its periphery as opposed to relying on coercion.

China depicts itself as a global benefactor by expanding the ‘China Dream’ to Eurasia with joint ownership and multipolarity, depicted as a positive-sum altruistic ‘community of common destiny’ (Xi 2013; Arase 2015; Wilson 2016). Confucianist philosophy does embrace cultural and societal pluralism, which contrasts with the West’s ‘common values’ and uniformity with an implicit hierarchical subject-object relationship (Bin 2014: 267). China has a history of pragmatism and resisted temptations to claim absolute morality and rule under the guise of ‘normative leadership’ (Lukin 2015d). The portrayal of China’s multipolar, egalitarian and inclusive connectivity initiatives are contrasted with US unipolarity achieved through military power and division. It has become common to repudiate any similarity between OBOR and the Marshall Plan, with the Chinese Foreign Minister Wang Yi denouncing the latter as ‘a tool of geopolitics’ reflecting ‘outdated Cold War mentality’ (Swaine 2015: 11). Chinese media similarly depicts the Marshall Plan as an ideological instrument to exclude communist states and divide Europe, which was foisted

upon states without other alternatives and ultimately only benefitted developed countries (Swaine 2015: 11-12).

Much like the Russian neo-Bismarckian approach, China deems ‘multilateralism’, ‘integration’ and ‘cooperation’ as favourable to its bargaining power to deprive adversaries of collective bargaining and precludes the formation of anti-Chinese alliances (Clarke 2008: 93-94). The OBOR aims to construct Mackinder’s autonomous Eurasian ‘World Island’ to evict the US from the peripheral rimland (Wang 2015; Fasslabend 2015). Roland (2015) posits that the Chinese Silk Road initiative could result in ‘shifting the focus of strategy and commerce to the Eurasian landmass from the water surrounding it and reducing the significance of US naval supremacy’.

The Belt: Energy and Transportation Infrastructure

The Silk Road Economic Belt aims to connect Eurasia with land-based transportation and energy infrastructure. The initiative was first announced in a speech by President Xi in September 2013 at Nazarbaev University in Kazakhstan, which emphasised the central role of Kazakhstan and Central Asia in any Eurasian connectivity projects (Fallon 2015). The initial pipeline through Kazakhstan and Turkmenistan alleviated some of China’s reliance on maritime corridors.

Prior to the Silk Road Belt, the Central Asia Regional Economic Cooperation (CAREC) invested in transportation connectivity between Central Asia and China (Byrd and Raiser 2006). The CAREC initiative includes China, Mongolia, Kazakhstan, Kyrgyzstan, Turkmenistan, Tajikistan, Uzbekistan, Pakistan, Afghanistan and Azerbaijan, which aims to facilitate 5 percent of all Europe-East Asia trade within 2017 (ADB 2011). The first trains between China and Germany ran in 2008. It was however not until 2013 that the transportation route became competitive to maritime routes by reducing the costs, improving the travel time, and clearly announcing set time schedules (Shepard 2016). Railways are expected to become more competitive as customs protocols improve, travel time continues to be reduced and as more frequent departures reduces the reliance on warehouses. The development of the infrastructure, mechanisms and sufficient trade volume is essential to make the transportation route economically viable as subsidies purportedly cover half of the transportation costs (Farchy 2016). An administrator with Kazakhstan National Railway

noted that in 2011 they had approximately 2.000 containers passing their territory, while in 2016 it was expected to be 42.000 (Shepard 2016). China has similarly already constructed pipelines through Central Asia and China consumes the majority of Turkmenistan's gas exports. China is also developing Turkmenistan's Galkynysh gas field, the second largest in the world (Henni 2014).

In the north, Russia is an important transportation partner to connect with ports on the Russian Pacific Coast, develop road and rail to Europe, and the development of the Arctic Sea Route. In terms of energy, Russia has supplies oil to China with the ESPO pipeline, and a gas will be supplied with the Power of Siberia I pipeline and possibly the Power of Siberia-2 pipeline. In the southern direction the two main initiatives are the China-Pakistan Economic Corridor (CPEC) and the Bangladesh, China, India, Myanmar (BCIM) Economic Corridor. This is also referred to as the south-western Silk Route, which has begun to make progress after more than 14 years of discussions (Uberoi 2016: 74). The BCIM Economic Corridor is unique in terms of incorporating India in an infrastructure requires an acceptance of Chinese leadership in the region (Tiezzi 2014). The offer of inclusion in the BCIM has been interpreted in India as a dilemma between accepting a mutually beneficial economic arrangement that would further increase the asymmetry in China-India relations, or for India to isolate itself at its own peril.

CPEC is perhaps the most remarkable development in China's Southern land-corridor. An unprecedented agreement to invest \$46 billion in Pakistan's infrastructure was reached in 2015. The economic corridor consisting of road, rail and pipelines transit through Lahore and Islamabad before reaching the strategic port of Gwadar on the Arabian Sea. As a part of the agreement, China leases the Gwadar Port within a free-trade zone for 43 years. The port will be further connected with an Iran-Pakistan gas pipeline, which will also be constructed in a joint venture with China. The Port of Gwadar enhances energy security by obtaining improved access to energy suppliers, and a safer transit route as it is strategically located within proximity of the Strait of Hormuz. The newly acquired real estate enables China to bypass the Straits of Malacca, thus mitigating the threats from US naval supremacy. Chinese-Pakistani economic cooperation also spans into other areas, with for example China constructing the world's largest solar farm in Pakistan. Strengthening China's position in Pakistan also has the geostrategic purpose of deterring India from joining a US-led anti-Chinese alliance.

The Maritime Silk Road

China was once the world's dominant maritime power, yet for the last seventy years its long and strategically located coastline has been under US naval dominance. The Maritime Silk Road aims to revive China's former naval might. A maritime road is constructed to South-East Asia, the Indian Ocean, Africa and Europe by upgrading ports and transportation hubs. The initiative was announced by President Xi at the Indonesian Parliament in October 2013, indicating a central key role for Indonesia as a rising island power in Southeast Asia and a key power in ASEAN. President Xi outlined a 5-point plan to coordinate policy, improve traffic connectivity, collaborate on trade and investment, increase the use of local currencies and enhance people-to-people contact. The project would enhance China's standing as a maritime power, which already hosts seven out of the ten busiest container ports in the world, the largest ship-building state and the third-largest ship-owning state (Putten and Meijnders 2015: 7)..

The Maritime Silk Road stretches from China to Kuala Lumpur, before heading to Sri Lanka, India, Pakistan, Iran, Iraq, Myanmar, and then towards Kenya and Europe. The proposal to construct a \$28 billion canal in Thailand to circumvent the Strait of Malacca would have immense impact by creating a rival maritime hub to Singapore and Malaysia (Tiezzi 2015). China's investment in the port of Piraeus in Greece functions as a maritime bridgehead into Europe. Influence through Piraeus is complemented with interests in airports, electricity grid, high-speed railway and railroads to Central and Eastern Europe (Putten and Meijnders 2015: 7). China has developed a 16+1 format with Central and Eastern Europe to provide these states with the option of repositioning themselves away from the peripheral status within the EU. Europe will be circumvented in trade routes involving Asia and Africa, a role the continent has enjoyed for centuries (Putten and Meijnders 2015: 6). China's funding of a prospective Nicaragua Canal to rival the Panama Canal, indicates preparedness to also compete for control over transportation corridors in the US backyard. Concerns about the possible militarisation of the Maritime Silk Road have caused some reluctance among prospective partners, especially India (Nataraj 2015). The US is also increasingly apprehensive as China is currently establishing its first overseas military base in Djibouti.

The effort to challenge US naval dominance, especially in the South China Sea, has introduced a provocative military component in China's Maritime Silk Road initiative.

China's rapidly growing military capabilities and development of a blue-water navy have caused grave concerns among China's neighbours. China's intentions also appear more bellicose as its territorial claim in accordance with the brazen 9-dash line in the contested South China Sea is pursued by constructing artificial islands with military utility. Similarly, the assertive approach against Japan over the the Senkaku/ Diaoyu Islands result in more overt power politics. Kaplan (2012: 215) suggests that China's aim to push the US behind to the 'first island chain' and ideally the 'second island chain' indicates an ambition for maritime dominance consistent with the 'aggressive philosophy' of Alfred Thayer Mahan.

The US will either be successful in exploiting the resentment across the region by developing a common front against China, or the US will fail and the subsequent erosion of credibility will encourage the region to arm itself for self-reliance. Japan is currently revising or reinterpreting its pacifist constitution. China could possibly reach a third option by mitigating tensions with bilateral diplomatic solutions or a regional setting that excludes the US. At the May 2014 Summit of the Conference on Interaction and Confidence-Building Measures in Asia (CICA), China advocated the creation of a new security architecture in Asia that should be managed by Asians (Hilpert and Wacker 2015). If China takes a hard line against US allies and concurrently compromises with states in the region that split from the US, the gamble in the South China Sea could be very successful. The pending divorce of the Philippines from the US under President Duterte could set such a precedent if handled appropriately by China. As President Duterte announced during a visit to China in October 2016:

I announce my separation from the United States... I've realigned myself in your ideological flow and maybe I will also go to Russia to talk to (President Vladimir) Putin and tell him that there are three of us against the world - China, Philippines and Russia. It's the only way. (Blanchard 2016).

It can similarly be observed that other states in Southeast Asia such as Malaysia, Thailand, Cambodia and Laos are developing closer ties with China *because* of its ascendance, not *irrespective* of its rising power.

OBOR mechanisms for cooperation

Redirecting its excess of US dollar reserves to fund the Belt and Road initiative has strengthened China's ability to challenge the Bretton Woods institutions and assert leadership over global financial governance (Wang and Chin 2013). Beijing develops institutional mechanisms for global finance for three main functions: development financing, crisis liquidity and internationalising its domestic currency (Huotari and Heep 2015: 153). China unilaterally established \$40 billion 'Silk Road Fund' and Chinese-led international financial institutions to fund these initiatives. These projects are expected to spark a chain-reaction for further economic development, connectivity and geo-economic power. National institutions such as the China Development Bank, the Export-Import Bank of China and other funds that finance more foreign energy projects than the World Bank (Hilpert and Wacker 2015: 4).

International investment banks have also been established. The successful development of the AIIB in 2015, as a competitor to the IMF and the World Bank, will be used to fund favourable infrastructure projects and encourage increased utilisation of the Yuan. The AIIB demonstrated that even the closest allies of the US would join irrespective of fierce pressure from Washington to stay away. While Japan was the only state in the region not to go join the AIIB, the Japanese president of the ADB suggested the ADB would co-fund development projects with AIIB. The AIIB and BRICS NDB differ as the former maximises Chinese power and endows it with a veto. The BRICS arrangement is more devoted to equal representation in the spirit of preserving symmetry within the cooperation between great powers. The AIIB and RCAP share the common feature of not interfering in the domestic affairs of other states, depicting the rival ADB, IMF, World Bank and TPP as ideological, exclusive and intrusive instruments of power to maintain US primacy. At the November 2014 APEC Summit, China sought to revive the project of a Free Trade Area of the Asia-Pacific (FTAAP). Crisis liquidity is institutionalised through the East Asian Chiang Mai Initiative Multilateralization (CMIM), BRICS Contingency Reserve Arrangement, and 'surveillance' undertakings by the ASEAN+3 Macro-economic Research Office (Heilman et.al. 2014).

China is also leading the effort to establish competitive international payment systems. UnionPay and United Credit Rating Agency are undermining the monopoly position of US credit card companies and rating agencies. China's alternative to SWIFT, the China International Payment System (CIPS), was launched in the end of 2015 and quickly established itself as a formidable challenger to SWIFT. In March 2016, a memorandum of understanding was signed that committed SWIFT to aid CIPS in its development (Swift

2016). Beijing also endeavours to establish Chinese technology standards around the world to circumvent US-dominated cyber infrastructure and make Chinese companies less reliant on foreign patents and licenses (Heilman et.al. 2014). Keukeleire and Hooijmaaijers (2014: 582) warn against judging these institutions individually, as they collectively represent a transformation of the entire international system.

The internationalisation of the yuan has also increased rapidly. In March 2009, China's central bank governor, Xiaochuan, endorsed the development of a 'super-sovereign reserve currency' to replace the dollar (Barris 2014). Following the Global Financial Crisis, China reached 30 agreements on bilateral currency swap agreements (Huotari and Heep 2015: 156). Direct trading of currencies and currency swaps have also been established with Russia, South Korea, Singapore, Indonesia, Malaysia, the UK, Eurozone, Australia and New Zealand (Wilson 2015). The first logical step to internationalise the yuan was to use it to a greater extent in China's payments. The use of the yuan was virtually non-existent until 2010, then reaching 18 percent in 2014, and 23 percent in 2015 (Prasad 2016). Complemented with the rapid expansion of yuan-denominated bonds and the spread of yuan financial clearing centres since 2014, the yuan has become more common trade and financial transactions in Asia and beyond (Prasad 2016). The yuan is still used in a small amount of international transactions, but the currency internationalisation initiatives are very recent and there is a rapid rise. Only 0.3 percent of international trade was settled in yuan at the end of 2011, and by August 2015 this number had reached 2.8 percent (Prasad 2016: 59). The petrodollar system was openly challenged in September 2013 by announcing that China's banking system was ready to trade oil and gas in yuan. The growing focus on settling energy trade in yuan has led to speculations that Beijing aims to establish the 'petroyuan' (Leverett and Leverett 2014; Sputnik 2016b).

5.3. Risks to Russia

China's resilience during the Global Financial Crisis was contrasted to the West, while Russia's own economic problems had encouraged greater willingness to accept compromise to get access to Chinese investments and loans. Yet, China's increasingly sophisticated and powerful economic statecraft presents challenges to Russia domestically and internationally. While commencing from modest levels, trade has progressed at an accelerating rate. With top-down support, trade increased rapidly with \$6 billion in 2000, \$20 billion in 2005, \$56

billion in 2008, \$90 billion in 2014, and with the target of \$200 billion by 2020. This forecast will not likely be reached due to economic difficulties caused by the West's anti-Russian sanctions, the profound decline in energy prices, and the slow-down in the global economy. In 2015, trade dropped by almost one-third, before return to an upswing in 2016 (Sputnik 2016c). Russia still mainly exports natural resources and imports manufactured goods. Russia initially aimed to leverage from its developed military-industrial-complex as an export base to achieve greater symmetry in trade relations with China. However, the reverse-engineering and cloning of Russian weaponry subdued this leverage as Moscow was compelled to only sell older weapons to prevent China transitioning from a consumer to a competitor (Trenin 2011a: 135).

Chinese investments contribute greatly to Russia's re-industrialisation'. This includes joint manufacturing projects, joint industrial parks and agricultural investments within Russia (Zhong 2015). Albeit, the growing influence of China in the Russian Far East boosts development and simultaneously fuels apprehensions about Beijing displacing Moscow's sovereignty (Guedry and Liang 2016). Provincial leaders in the Russian Far East used the demographic differences to stir up xenophobic sentiments in opposition to Chinese migration and foreign investment (Kim 2009: 188). The ensuing crack-down on Chinese migrants disrupted efforts by Moscow to form a 'strategic partnership' with China (Kim 2009: 189). Moscow sought to salvage relations with China by replacing regional leaders and placate the locals by promoting regional development and population growth. However, there are valid apprehensions about Chinese influence both at the regional and federal level that should be addressed rather than brushed aside.

Moscow also fears that unipolarity may merely give way to a self-perpetuating US-China bipolar system (Kireeva 2012; Martynova 2014). China's Silk Road Belt is incrementally undermining Russia's influence in Central Asia that has largely been maintained by Soviet-era energy and transportation infrastructure (Zuenko 2016). Similarly, the Maritime Silk Road has produced increasingly assertive naval activity in the South China Sea and the East China Sea, which could be extended to the Sea of Okhotsk and the Arctic. Russia bargaining power is characterised by a combination of deterrence and accommodation by proposing to be the main Arctic power inviting China for joint energy exploration in the region by replacing Russia's Western partners (Sputnik 2015). Yet, when China's Xuelong (Snow Dragon) ice-breaker unilaterally made its way to the Arctic in 2012, Russia stages large-scale military exercises in the Sea of Okhotsk and off Sakhalin as a cautionary.

Conclusion

China's 'peaceful rise' is a colloquial term for an inward-focused development strategy with strategic ambiguity concerning the intention to integrate into the US-led international economic system. Unlike the Asian Tigers, China's peaceful rise strategy was inevitably temporary. China's sheer size infers it could not be accommodated adequately in the existing international system without significantly eroding US power over key resources, transportation routes and financial institutions. China did not become a principal purchaser of US Treasuries as a process of integrating into a US-led international system, but to perpetuate demand for its exports and use the foreign reserves as leverage against the US to avoid excessive balancing. However, both China and the US are increasingly uncomfortable in the current relationship as US debt becomes unsustainable and the Chinese economy surpasses the US economy. Beijing is subsequently under growing pressure to reduce its exposure to US debt and decrease reliance on US dominated transportation corridors. The launch of the Silk Road initiative signifies a rational next step in Chinese geoeconomic strategy. Land-based infrastructure projects connecting the Eurasian landmass undermine US leverage on the seas. Concurrently, China attempts to break out of US-led maritime containment to restore its historic role as a maritime power as well. Grand infrastructure projects present opportunities to develop rival financial institutions and internationalise the yuan as an international trade and reserve currency.

The 'peaceful rise' was decisively aggressive in terms of utilising wage suppression, currency manipulation and technology theft as means. Paradoxically, China challenging the US-centric international system with the Silk Road project can make Beijing more benign by abandoning many of its former tools to catch up with the West. The loss of domestic cheap labour and greater connectivity to developing states will make China less competitive on price and less capable of building large trade surpluses. China also has greater incentives to reach agreements on copyrights and protection of trade secrets as it attempts to establish itself as an innovative economy and technology leader. Similarly, internationalising the yuan will put pressure on China to reduce currency manipulation and undergo reforms.

In terms of ends, China has the choice between pursuing dominance or leadership vis-à-vis Russia and other Eurasian powers. The former is a self-defeating objective as other powers would perceive the cost of collaboration to outweigh the benefits. The diffusion of

global power implies that the US will likely be the last global hegemon in the foreseeable future. Rather than replacing the US as the global hegemon, China's power will be asserted within a multipolar format with several reserve currencies, a multitude of international financial institutions and transportation corridors. Bargaining power will therefore depend largely on the capacity to provide benefits by accommodating strategic interests of rival powers as opposed to utilising punitive measures. Leadership therefore entails constructing a new status quo that provides benefits to other Eurasian powers and accept a balance of power that mitigates fears of Chinese dominance. China's asymmetrical economic power vis-à-vis all other states on the continent provide Beijing with flexibility to harmonise competing formats for Eurasian integration without ceding its leadership.

6. Russia and China: Convergence of the Eurasian Core

Introduction

The main two protagonists for Eurasian integration, China and Russia, have historically had much to gain from collaboration and connectivity, yet a durable strategic partnership did not materialise. This chapter explores whether the Sino-Russian dynamics have fundamentally changed and become more prudent for a strategic partnership. The rapid shift of economic power from the West to the East provides opportunities to collectively challenge the Western-centric economic system and value chains. Furthermore, the global diffusion of power and emerging multipolarity implies that one country cannot dominate Eurasia, and Russia can mitigate the asymmetrical power with strategic diversity. Lastly, the rise of geoeconomics and Russia's abandonment of its Western-centric foreign policy has created a solid foundation for a strategic partnership.

It will first be argued that the sustainability of the current Sino-Russian strategic partnership will largely depend on preserving a balance of power. The two states have a long history of fearing domination by the other. While Russia and China are united in the endeavour to integrate the vast continent, lingering distrust persists over the power symmetry within competing formats for 'Greater Eurasia'. However, since neither Russia nor China can realistically dominate the Eurasian landmass unilaterally, bargaining power vis-à-vis the other will primarily rely on providing economic carrots rather than posturing with sticks. Yet, since the China-Russia dyad is likely to become more asymmetrical, it is pivotal for Moscow to pursue 'strategic diversity' of partnerships to prevent Chinese dominance.

Second, it will be demonstrated that Russia and China have moved beyond rhetoric by constructing alternative transportation routes, energy infrastructure, financial institutions and monetary policies to gradually develop collective autonomy and influence in Eurasia. The \$400 billion gas agreement in May 2014 indicates Russia's preparedness for long-term commitments. China is funding its own physical connectivity with ports and railways in the Russian Far East and the Russian Europe-Asia transportation corridor, which will enable Russia to diversify its economic partnership in East Asia. Following significant investments in Russia's energy infrastructure, China has become a major recipient of Russian oil and is set to become the largest state consumer of Russian gas. Financial institutions and currency

collaboration is also an important and growing component of Sino-Russian Eurasian cooperation.

Lastly, there has been significant progress of converging the rival conceptions and formats for a Greater Eurasia. The announcement in May 2015 to pursue a SCO-EEU-Silk Road ‘integration of integrations’ indicate intent for substantial harmonisation of interests. Institutional convergence is imperative to balance competing interests as the EEU and the Silk Road initiative, which is aimed to be facilitated within an expanded and geoeconomic-oriented SCO. It will be concluded that the strategic partnership will depend on Russia accepting Chinese economic leadership, while being capable of denying Chinese dominance. These efforts are relative new and have not yet significantly challenged the geo-economic power of the West. However, as argued here, the emerging strategic partnership between Russia and China have set the foundation for a rapid decoupling from the Western-centric economic system.

6.1. From fear of geopolitical dominance to a geoeconomic balance of dependence

A strategic partnership between Russia and China has historically been obstructed by a mutual fear of unfavourable asymmetrical power and subsequent dominance. The Mongol invasion of Russian city-states in the 13th century is widely recognised as the origin of Russia’s ‘Mongol complex’, the fear of being invaded and ruled by large hordes of ‘barbaric people’ from the East (Eder 2013: 16). Japan’s military victory over Russia in 1905 revived such fears and was ‘widely interpreted as a victory of Mongolian people over the European’ (Neumann 2005: 55). This fear has since been preserved by xenophobic inclinations and the vulnerability of an under-populated and under-developed Far East that could lose its legitimacy if perceived as a remnant European colonial outpost.

China’s apprehensions about Russian dominance originated with Russia’s imperial expansion into Asia, making it a key contributor to the much resented ‘century of humiliation’. More specifically, Russia exploited China’s weakness during the decline of the Qing Dynasty in the 19th century by appropriating more than 1.5 million square kilometres of Chinese territory (Eder 2013: 16). China has been ambiguous about Russia’s sovereignty over the Far East by referring to the territory transfer as ‘inequitable treaties’ and ‘unequal

treaties' (Eder 2013: 16; Hyer 2015: 152). As this territory includes a large slice of the Pacific Coast, it diminishes China's maritime power and sets the foundation for Russia to become a major rival naval power in the Asia-Pacific. Cooperation during the Cold War also became a source of Russian domination due to power disparity and lack of diversification. The shared communist ideology and adversarial relationship with the US encouraged China's full commitment to Soviet Union, which produced a 'leaning-to-one-side' policy granting Moscow an uncomfortable amount of leverage.

Following the collapse of the Soviet Union the power symmetry shifted and Russia gradually found itself gradually under the shadow of China. The dilapidating conditions within Russia throughout the 1990s juxtaposed with the rapid rise of China's economic power. Since the principal security threats to Russian security had for centuries primarily emanated from the West, the emergence of a more powerful neighbour in the East created 'a political earthquake, the earth has moved' (Trenin 2011b: 227). Moscow was presented with a dilemma as China is an indispensable partner to restore a global balance of power, while extensive engagement with an increasingly more powerful China would gradually enhance regional imbalance and condemn Russia to the untenable role of a subordinate 'little brother'. In contrast, China is in a position to be more flexible to make Russia more comfortable since Beijing is not threatened by a Russia that is stable and less powerful (Lukin 2015d).

Moscow aimed to leverage from a *potential* partnership with China as a tool to increase its own 'market value' in the West (Blank 2015: 166). The prospect of a Sino-Russian partnership has been instrumental towards constructing a 'Greater Europe' as the West was intended to be faced with the dilemma of either accommodating Russia or risk a Sino-Russian alliance. Moscow has, however, been reluctant to follow up with tangible long-term commitment that would empower China. Instead, relations became a predictable dependent variable influenced primarily by Russia-Western relations. Moscow reached out to Beijing in 1999 following the first NATO enlargement and bombing of Yugoslavia. After the September 11 attacks in the US, Russia's relations with China cooled down due to the renewed efforts to harmonise interests with the West. Cooperation with China revived when Moscow perceived itself to be betrayed again by another round of NATO expansion and Western-backed 'colour revolutions' in Georgia and Ukraine. Russia responded by holding its first joint military exercise with China in August 2005 (Finn 2005). The renewed partnership with China nonetheless lacked substance. China was denied access to Russia's upstream energy market as the limited foreign involvement was reserved for privileged

Western partners, and long-term commitments was avoided by not developing energy infrastructure connecting the two countries.

Russia's transparent tactic of elevating its own 'market value' by playing adversaries against each other has been commonly employed in the US-China, EU-China and Japan-China dyads. This tactic has lost much of its vigour as the Western-centric foreign policy produced a predictable pattern. The effect on the West shrunk as Russia consistently reverted to its Western-centric foreign policy, lending credence to the idea that a partnership with China can only be a temporary 'axis of convenience' (Lo 2008). Beijing also grew considerably frustrated with Moscow and an image of Russia as an unreliable partner cemented itself (Eder 2013: 27). Downs (2010: 165) concludes that a substantive and trustworthy Russia-China partnership has failed to materialise due to 'Russia's ambivalence about China's rise and China's concerns about Russia's fickle international behaviour'. Observers are therefore justly predisposed to view the Russian-Chinese convergence after the Ukraine crisis as continuation rather than change.

Moscow is confronted with a dilemma; it can either cooperating with China to shape the new Eurasia and risk asymmetrical dependence, or confront China as a more powerful adversary in a zero-sum 'pure conflict'. Economic integration risks cementing Russia's position at the lower end of the value-chain as an exporter of natural resources. Trenin (2012a) aptly argues that 'nothing concentrates minds in Moscow as much as the thought of Russia becoming a raw materials appendage to China'. However, Lukin (2015d) argues that remaining an energy supplier and potentially a satellite of a more aggressive West is frequently depicted as 'globalisation' and joining the 'civilised world'. Furthermore, avoiding cooperation would only make China even more reliant on gaining access and control over energy resources in Central Asia. China failed efforts of establishing a multilateral rule-based due to Moscow's indecisiveness and obstruction made Beijing pursue a unilateral approach to Central Asia that undermines Russia's ambitions to develop itself as an energy hub (Lukin 2015b: 4; Gabuev 2015a). Without a common institutional arrangement, China's financial incursion and credit expansion in Central Asia continues on its own terms through bilateral initiatives and beyond Moscow's influence (Gabuev 2015b). The lack of an agreement between Moscow and Beijing also caused tensions between Moscow and Central Asian states as they seek to get access to finance on more favourable terms. Furthermore, the EEU is expected to deliver some functionalist leverage to compensate for the compromise on federalist absorption of national competencies.

Geoeconomics in Greater Eurasia

The dynamics between China and Russia has fundamentally changed with the death of 'Greater Europe'. A 'swing strategy' only works by engaging with several regions without committed solely to one, since neither the allies nor the subsequent adversaries would have an incentive to accommodate Russian interests (Buzan 2005: 193). Russia will diversify its partnerships and still play different actors against each other to improve its own position in the international system. However, for China the difference will be that Russia engages substantially with China and will not revert to a Western-centric foreign policy. Balancing should not be conflated with containment as Russia would resist becoming part of any coalition to contain China (Kuhrt 2014: 143). The prospect of a 'pure conflict' with China is diminished and competition will focus on skewing the symmetry of dependence. The competition is fought by divergent preferences for the width, depth and porousness of institutions; the geographical routes of energy and transportation infrastructure projects; the balance between exclusive and inclusive national or civilizational identities; and extent of regional barriers to free trade (Gatev and Diesen 2016).

Balancing does not contradict a partnership, rather it is a prerequisite. Asymmetrical economic power should not be conflated with excessive dependence and ensuing political dominance as the weaker side can diversify its partnership. Russia pursues 'strategic diversity' since committing solely to a pivot to China would merely replacing unipolarity with a US-Chinese bipolarity (Lukin 2015a). Karaganov (2015a), an advisor to the Putin administration, posits that Moscow may accept that in the economic realm China will 'act as a leader, but not as a hegemon'. Instead of a zero-sum competition for hegemony, Russia thus adopts a counter-hegemonic strategy that accommodates China while diluting its aptitude to dominate. The geostrategic environment is diametrically different in Asia as there are systemic pressures to accommodate rather than marginalise Russia. Russia's fear of asymmetrical interdependence with China is shared by other states in the region since it would further augment Chinese power (Diesen 2016b). Putin noted that China already has several states balancing it and Russia would mostly benefit as a third party, while also expressing awareness of Western attempts to scare Russia with the 'Chinese threat' to set the two main US adversaries against each other (Kashin 2013).

‘Strategic diversity’ denotes that physical infrastructure and mechanisms for cooperation with China must be designed to engage with the wider region (Shestakov 2015). The opening of the ESPO pipeline in 2009 established a precedent that Moscow will aim to re-construct. Russia cancelled a pipeline directed solely to China, and re-routed the new pipeline to the Pacific coast to link Russia with Japan and South Korea. The revised pipeline infrastructure had been vehemently promoted by Tokyo and was aimed to cultivate Russian-Japanese relations (Kim 2009: 202; Trenin 2011a). Russia’s strategic objective was to leverage from the competition between China and Japan, which resulted in Beijing eventually paying a premium price (Guedry and Liang 2016). An additional branch of the pipeline was added to reach Daqing in China, as the original destination under Yukos. China enhanced its energy security, albeit without obtaining excessive influence over Russia.

Chinese officials recognise that benign relations with Russia is imperative due to the geo-economic benefits of having Russia as an ally, and the aptitude of Russia to inflict pain as an adversary if its security interests are ignored (Gabuev 2015c). The Chinese President subsequently emphasised that ‘China will make developing relations with Russia a priority in its foreign policy orientation’ (Herszenhorn and Buckley 2013). Alienating Russia would be detrimental to the security of China, which is encircled by hostile US military forces recruiting for an anti-Chinese alliance (Trenin 2012b: 20). Chinese officials admitted they were very concerned about Russia’s reaction to the Silk Road initiative (Gabuev 2016: 25). China’s pragmatism and heightened sensitivity to Russian security interests is juxtaposed the West’s unilateralism and brazen denouncement of any Russian influence as Russian ‘spheres of influence’:

Russia enjoys an informal co-leadership role alongside China. Beijing also respects Moscow’s red lines on establishing political alliances and military bases in the former Soviet space. This contrasts starkly with the Western policies of NATO and EU enlargement in the former Soviet borderlands in Eastern Europe (Trenin 2015:14).

A Sino-Russian rivalry has not unfolded in Central Asia as observers commonly predicted. Western scholars and practitioners often neglect that Chinese political elites are acutely determined to avoid ostracising its northern neighbour by ignoring rival interests in Central Asia (Eder 2014: 95). Furthermore, China tends to empathise with Russia’s ‘underdog’ position and shares an affinity with the West’s humiliation of Russia after the Cold War (Carlsson, Oxenstierna and Weissmann 2015: 17). Opinion polls in China

consistently show that Russia is either perceived as the most friendly or second-friendliest country (Trenin 2012b: 13).

Following the crisis in Ukraine, China increased its diplomatic support for Russia in its stand-off with the West (Lukin 2015a). In February 2015 the Chinese ambassador to Belgium expressed solidarity with that Russian view that the EU and NATO are dividing Europe. The ambassador encouraged the West to ‘abandon its zero-sum mentality’ over Russia and instead take ‘the real security concerns of Russia into consideration’ (Boren 2015). While this represented a cautious and low-level expression of solidarity with Russia following the seizure of Crimea, it was nonetheless remarkable due to China’s staunch and consistent principles on sovereignty and territorial integrity. Moscow has resisted reciprocal efforts to support Chinese territorial claim vis-à-vis other East Asian states since it would diminish Russia’s ability to diversify its partnerships in the region. China’s reluctance to recognise the independence of South Ossetia and Abkhazia has nonetheless relieved pressure on Moscow (Trenin 2011a: 135).

6.2. Convergence of energy, infrastructure and financial policies

Energy

Chinese-Russian energy collaboration reached new heights in 2013, and then drastically intensified in 2014 following the coup in Ukraine. In 2013, two major oil agreements were reached. Russia’s Rosneft and China’s CNPC signed a \$270 billion agreement for a joint venture for the collective development of the major Srednebotubinskoye oil field in Eastern Siberia, an upstream area of cooperation that had previously been a de-facto prerogative for Western corporations. Another \$85 billion agreement was signed the same year between Rosneft and SINOPEC for oil deliveries through an expanded ESPO pipeline (Kuchins 2014; Kaczmarek 2015: 60; Paik 2016). Oil exports to China grew from 24.4 million tonnes in 2013 to 41.29 million tonnes in 2015, culminating in China displacing Germany as the largest customer of Russian oil (Kaczmarek and Kardas 2016). In 2015, Russia displaced Saudi Arabia as the largest supplier of oil to China (Sedghi 2015). In September 2015, President Xi and President Putin supervised an agreement committing Rosneft to buy a 30 percent stake in ChemChina Petrochemicals and thus merging Chinese and Russian energy interests (Wang 2016: 107).

In March 2013 as Gazprom and CNPC signed a memorandum of understanding for 30-year delivery of natural gas (Chazan and Buckley 2013). The historic \$400 billion agreement to construct the Power of Siberia natural gas pipeline project to supply China was reached in May 2014. The speedy compromises were indicative of China's enhanced bargaining power due to Russia's vulnerable position after the Ukraine crisis. Yet, Russia's crisis with the West also mobilised political impetus for a bold, long-delayed and 'irreversible' pivot to Asia. The Power of Siberia represented the most important tangible evidence of Russia's long-term commitment to China, a much welcomed reversal from its previous approaches to China. The deal includes China as a partner for jointly developing the Eastern Siberian fields and financing the construction of the pipeline, a key victory for Beijing. This entailed a complete reversal of Russian practice of limited engagement since China was allowed to acquire a controlling majority in strategic gas and oil fields. The deal had been in the works for approximately a decade, with differences over pricing being one of the key obstacles. The timing of the deals suggests that Russia was under pressure and likely had to accept certain concessions. Shortly after the announcement of the Power of Siberia pipeline, a framework agreement for a second gas pipeline was signed. The planned Power of Siberia-2 (previously Altai) or 'Western Route' would enter China on the common border between Kazakhstan and Mongolia. Combined, the Power of Siberia and Altai pipeline become one of the largest fuel networks in the world that could endow China also with the role as the largest recipient of Russian gas. The announcement of the two pipelines may signify a compromise as Russia had for a long time sought to obtain Beijing's acceptance to the Western route. The proposed but postponed Western route carries additional geoeconomic weight as Russia becomes a swing supplier as the same gas fields can supply both Europe and China.

Russia's objective to enhance its position as an electricity exporter is to be aided by the construction of hydropower plants. The majority of Russia's electricity is generated by thermal plants and a minority by nuclear power stations. Yet, with approximately 20 percent of Russian water resources are deemed to be 'hydropower-worthy', this is an important area for potential expansion (Chang 2015). An agreement was reached in May 2015 to jointly construct a hydropower plant on the Bureya river in the Russian Far East (Koh 2015), while China eyes other potentials for joint ventures with Rushydro.

Transportation infrastructure

A memorandum of understanding was initially signed in 2008 to use existing railways to establish a Eurasian land-bridge. The benefits for China to utilise the Russian Far East rather than Central Asia as a transportation corridor to Europe is contingent on the quality of the infrastructure and the economies of scale by attracting other partners. A trilateral agreement between Russia, Mongolia and China has been reached as a part of a China-Mongolia-Russia-Belarus-Poland-Germany route. Mongolia, wedged between China and Russia, has historically been a region of rivalry between Beijing and Moscow. A trilateral ‘China-Mongolia-Russia economic corridor’ aims to integrate the China’s Silk Road Belt initiative, Russia’s Trans-Eurasian Belt Development’ plan and Mongolia’s Prairie Road development plan.

Russia is developing its Pacific coast for enhanced connectivity with China, Japan, South Korea and other states in the region (Fisenko et.al 2015). Developing Russian ports and connecting infrastructure is pivotal to connect China’s landlocked Northeast provinces of Jilin and Heilongjiang to the Pacific. Besides promoting Russia as a transportation hub, it can also mitigate Chinese historical distress about having its northeast provinces landlocked due to the ‘unequal treaties’ that ceded the territories to Russia (Gueldry and Liang 2016). The Agreement of Cooperation in Development of Chinese Northeast Provinces and the Russian Far East was reached in 2009, which provided a framework for more than 200 joint investment projects (Minakir 2014: 77). In 2013, the Chinese State Development Bank signed a memorandum with Russia for the development of the Russian Far East, which resulted in \$5 billion of loans for joint projects (Kaczmarek 2015:77-78). These projects include rail infrastructure for cargo, energy infrastructure, ports, collaboration in high-tech industries and other areas (Minakir 2014: 77). The first railway connection between Jilin Province in China and Vladivostok opened in 2010, followed by China’s first use of cargo-shipping route utilising Russian ports in 2012. Another rail connection established in 2013 linked Hunchun in China, lodged between North Korea and Russia, with the Russian port in Makhhalino. The Amur railway bridge under construction will connect China’s landlocked Heilongjiang region with Nizhnelenskoye in Russia, which has not been completed solely due to delays on the Russian side. Following delays on the Russian end of the Amur bridge project, a Russia-Chinese Joint Venture was eventually established to commence construction immediately (Korablinov 2016). Russia and China are also collectively constructing a port in Zarubino, Russia, which will be the largest deep-water port in Northeast Asia.

Russia's investment in domestic connectivity also enhances its status as a transportation hub. A major project is the development of a 770km high-speed railway from Moscow to Beijing that will reduce the travel time to two days, from the current 7 days on the Trans-Siberian Railway (Farchy 2016; RailPro 2016). The high-speed rail project will link Russian cities closer as construction has already begun on the first section between Moscow and Kazan, 800km to the east. For an approximate cost of 242 billion dollars, the high-speed rail would be built over a period of 10 years. Unresolved issues, Moscow insistence on utilising Russian companies and technology for Moscow-Kazan is undermined by the reliance on Chinese funding (Gabuev 2015d).

Financial policy

China and Russia spearhead initiatives to promote new international reserve/trading currencies, financial institutions and rating agencies (Grant 2012). The future strength of the US dollar can be challenged by three main approaches: ending the monopoly of dollars for energy trade; reduce the percentage of US dollar used in international trade; and lastly limit the holdings of US treasury bonds and dollars as a reserve currency. A key challenge is to decouple from the US-centric financial system and the US dollar, which both economies are being deeply entrenched within. Progress by Russia and China should not be measured by the unlikely scenario of causing a 'run on the dollar', 'destroying' or 'replacing' its global status, but rather more modestly in terms of escalating the existing downward trend of the US currency.

Besides the unequivocal political objectives, decoupling from the US also has a sound economic argument. The relative decline of US economic power suggests that the status quo is laden with uncertainties and risks associated with. Russia and China have led efforts to push for currency swaps with each other and their trading partners, with China having a much greater impact as the second largest economy in the world.⁸ There is much room for growth as the Chinese and Russian currency remain the most underutilised major currencies when comparing trade to payment (Auboin 2012: 10).

Since the Ukrainian coup in 2014, China and Russia have escalated efforts to establish parallel international financial infrastructure. Beijing resisted US pressure to impose

⁸ China is already the largest economy in the world in terms of Purchasing Power Parity (PPP)

sanctions against Russia and instead took advantage by presenting itself as a more reliable financial centre, as a repeat of the Asian Financial Crisis in the late 1990s. Beijing announced in December 2014 it would bailout the Russian economy if the sanctions and falling oil prices made it necessary. Politically motivated, Western rating agencies such as Moody's, S&P and Fitch downgraded Russia's ratings to 'near junk' or 'junk' to increase lending costs to Russia. Equally politically motivated, Chinese rating agencies such as Dagong Global responded by giving Gazprom the highest rating as a gesture of good will and to offer more favourable loans to displace Western financing institutions (Lukin 2015a; Hille 2015). Moscow was disturbed by Chinese banks' 'rigorous adherence to Western sanctions', albeit a parallel financial infrastructure is developed between China and Russia to immunise from similar sanctions in the future (Gabuev 2016: 29). China Construction Bank and the Russian Direct Investment Fund will jointly establish a Russia-China Investment Bank, which will grant Russian companies improved access to non-Western financing (Hille, 2015). Furthermore, Russia joined eventually joined the Chinese-led AIIB. Russia and China also develop a joint rating agency to strip the West of the monopoly, used coercively against Russia following the Ukraine crisis to heighten the cost of loans (Hille 2014). A memorandum of understanding was reached to link the Moscow Stock Exchange to Shanghai to facilitate trade denominated in own currencies (Moscow Exchange 2015).

The first major break from the petrodollar occurred in May 2014, when Russia and China signed the \$400 billion dollar gas agreement to be settled in domestic currencies. Collectively, China and Russia have significant advantage to challenge the foundations of the petro-dollar as the world's largest consumer and supplier of energy. President Putin praised the six-fold increase in ruble-yuan trade in 2014 from the same quarter the previous year, and predicted that the pending large scale use of national currencies 'mean that the impact of the dollar in the global energy sector will objectively decline' (RIAnovosti 2014). The major task with de-dollarising is to educate Russian and Chinese banks in terms of how to avoid making payments in US dollars (SCO 2015). Speculations of an emerging petro-yuan have revived as other countries are following the trend. Kazakhstan, a major energy supplier lodged between Russia and China, pledged to de-dollarise their economy by 2016. Similarly, Iran-India energy trade is to only be denominated in Euros.⁹

⁹ Economic stability of a dominant currency, and political leverage as the EU would be less likely to follow the US in a possible future return of sanctions.

The shift away from US dollars in energy trade can gain momentum as incentives grow to utilise domestic currencies. Russia displaced Saudi Arabia as the main exporter of oil to China due to the new energy infrastructure and the willingness of Moscow to accept the yuan. It is argued that ‘if Saudi Arabia wants to recapture its number one ranking, it needs to accept the renminbi for oil payments instead of just the dollar’ (Bloomberg 2015). For Russia this is a win-win scenario as Saudi insistence on using the US dollar weakens its competitiveness against Russia for the Chinese market, while abandoning the US dollar would be a major blow to the petro-dollar system. Saudi Arabia was the first member of Kissinger’s petro-dollar club which then mounted pressure on the other Gulf States to also comply.¹⁰ The possible withdrawal of Saudi Arabia from this system, following years of decline in US-Saudi relations, would therefore likely create a contagion effect on the Gulf States.

A prevailing argument is that irrespective of its flaws, the US dollar remains the least dirty shirt in the hamper of currencies, and the global economy is tied intimately to its authority. However, gold functions as an alternative storage of value; it strengthens the standing of currencies; and function as a hedge against the decline of the US dollar since it would increase the price of gold as an alternative safe haven. China and Russia have become the two principal procurers of gold, with a rapid escalation following the Global Financial Crisis unfolding in 2008-09. Russia’s gold reserves rose from 457 tonnes in January 2008, to 1035.21 tonnes in January 2014, and to 1414.54 tonnes in January 2016. China followed a similar trajectory, with approximately 1762.2 tonnes in January 2016.¹¹ While only occupying the fifth and sixth place globally in terms of gold reserves, both countries remained committed to rapid procurement even at the height of economic turmoil. The possibility of backing domestic currencies with gold could also be instrumental to heighten the credibility of their currencies for transactions and as reserve currencies. In 2009, Russian President Medvedev presented a gold coin at the G8 summit, as an example for a new reserve currency consisting of a basket of currencies.

6.3. Institutional convergence

A grand compromise for ‘integration of integrations’ was announced in Moscow during the

¹⁰ See more, chapter 2.

¹¹ China has less transparency than Russia in terms of gold accumulation.

70th Victory Day celebrations in May 2015. It was agreed that the EEU and the Silk Road initiative would be harmonised under the auspices of the SCO to produce a win-win solution. Uncertainties linger in terms of how the convergence will be implemented. Yet, announcing the SCO-EEU-Silk Road convergence symbolised the end of ‘Greater Europe’ and the birth of ‘Greater Eurasia’. Western states largely boycotted the events to exhibit Russia’s isolation in the world due to its role in the Ukraine crisis. The event subsequently symbolised Russia’s pivot to the east as leaders from Asia made their way to the Red Square and Moscow could demonstrate that the West no longer represented the ‘international community’. The agreements reached with China produced a more palpable ‘Stalingrad moment’ in terms of reversing the West’s economic offensive by insulating Russia from the West and enhancing its own ability to inflict economic pain.

In July 2015, Russia merged the BRICS summit and the SCO summit in Ufa and invited EEU members to form a grand EEU-BRICS-SCO meeting. There is a large degree of overlap and thus potential for competition between these institutions for Eurasian integration, trade and financing. The ‘integration of integrations’ serve the shared objective of harmonising policies and interest to focus collective efforts at taking ‘market share’ away from the Western-centric system.

Competition for favourable symmetry has in the past been the principal obstacle for deeper integration of the SCO. China seeks ‘free trade’ to the extent it can leverage from uneven economic power, while Russia demands a central role for the EEU to institutionalise more symmetry in relations with China. China is concerned the EEU would become a federalist project for Russian hegemony in Central Asia, while Russia fear the SCO will fortify Chinese dominance. The SCO was formally created in 2001 with the limited task of fighting the three ‘evils’ of secessionism, extremism and terrorism. Unofficially, the institution also regulates Russian-Chinese cooperation and competition in Central Asia, and resists further US/NATO incursion to the east. The SCO never obtained a substantial security function since the CSTO has been favoured for hard security in the region. Russia initially sought to develop a CSTO-SCO partnership within security, a construct that would maximise Russian influence due to the absence of Chinese membership in the former institution. Disputes concerning the responsibilities and direction of the SCO have therefore relegated the institution to a politically impotent ‘talking-club’.

China has been the main driver to revive the SCO as a major international institution by making it a vehicle for geoeconomics, which would upset the symmetry of co-leadership with Russia. China proposed to develop a joint SCO Development Bank in 2010 as an alternative to the IMF and World Bank to fund common infrastructure projects to connect the region. Similarly, a SCO Free Trade Agreement has been deferred as it would become a vehicle for China to displace Russian influence in Central Asia. Hitherto, Russia has sought to obstruct China from making further inroads into Central Asia by opposing an economic component for the SCO, including the establishment of a SCO Development Bank. Moscow counter-proposal was to develop the SCO Development Bank on the foundations of the Eurasian Development Bank (EDB). The EDB is dominated by Russia and Kazakhstan, and China could buy a share in the bank to the extent to which a favourable symmetry would be maintained. Similarly, Russia has favoured developing the SCO Energy Club to facilitate a natural gas cartel similar to that of OPEC, which Russia has expressed interests for in the past (Lukin 2015b). However, China aptly worries is directed to reduce China's voice (Contessi 2010: 105-106).

Russian obstruction backfired as China engages Central Asia through bilateral ad-hoc agreements that maximise its asymmetrical leverage, as opposed to utilising multilateral institutions with established rules. The multilateral SCO was replaced by the unilateral Silk Road initiative, and the SCO Development Bank was substituted by the AIIB. The remaining options for Russia is to either accommodate China in multilateral institutions to harmonise interests, or resists the shifting international distribution of power and be presented with a zero-sum confrontation that Russia is unlikely to win. The Valdai Discussion Club released a report in 2015,¹² advocating harmonising the EEU and the Silk Road for mutual benefit and avoid the format for 'pure conflict' that has developed in Europe: 'this logic brought about the attempt of one party to achieve a dominating position, which first caused zero-sum game and, next, to wars' (Karaganov 2015b).

A compromise can produce immense benefits as 'Moscow and Beijing would have Central Asia as well as Mongolia to themselves, effectively shutting out all external powers from the heart of Eurasia' (Lukin 2015c: 201). Furthermore, an expanded SCO would become 'an emerging cornerstone of the multipolar world in the making, a platform offering a Eurasian alternative to Western Europe' (Lukin 2015b).

¹² The main economic forum in Russia where politicians at the highest level (including the president), academics and journalists discuss the economy

Russia aims to establish itself as a pole of power to achieve a balance of power, as a requirement for sustainable integration. This entails, Chinese recognition and support for the EEU, the redirection of the Silk Road transit routes to include the Trans-Siberian Railway and the Baikal-Amur Railway, and funding for Russian infrastructure projects such as the high-speed 'trans-European railway'. As the more powerful side in the dyad not challenged by Russian economic power, China aims primarily to reduce restrictions for access to Central Asia without alienating Russia. While promoting institutional privileges for Russia in Central Asia, the EEU also provides benefits to China as a non-member with easier access to the region and establishing one customs zone between China and the EU. China was therefore willing to accept the EEU as a component in a larger Eurasian integration project to reverse Russia's opposition and obstruction.

The deepening integration of the SCO by taking on an economic component requires the widening of the institution. Russia has come to terms with the unavoidable Chinese leadership in the SCO by making it an economic institution, albeit the prospect of Chinese dominance is vehemently detested and resisted. Enlargement of membership would not preclude Chinese leadership, but it avert its dominance (Lukin 2011). China abandoning its opposition to enlargement can be interpreted as a compromise with Russia in return for the SCO becoming an economic institution. It has been agreed that India and Pakistan will become new members, while it seems increasingly probable that Iran will be next in line to be offered membership. An expanded SCO would create greater impetus for developing an Energy Club by including some of the world's largest energy exporters (Russia, Kazakhstan and Iran) and energy importers (China and India). Putin proposed facilitate a common transportation infrastructure network facilitated by a 'SCO integrated transport system, including the potential of the Trans-Siberian and Baikal-Amur railway lines in Russia'. A China-led SCO Development bank could be balanced a more powerful Energy Club. Putin (2015b) indicated a reversal of the Russian position by arguing in favour of both initiatives:

It is important to make the SCO Energy Club's activity more practically oriented... We are working to establish the SCO Development Bank and Special Account. The idea of establishing an international project financing centre at the SCO Interbank Consortium seems to be highly promising.

Conclusion

Sino-Russian relations are swiftly transitioning from a provisional 'axis of convenience' to a physically connected and institutionalised economic partnership. Irrespective of competition between the two states for favourable symmetry, they are dependent on each other to collectively decouple from Western-centric value-chains, transportation routes, financial institutions and currencies. The durability of the strategic partnership will be contingent on harmonising economic interests to avoid zero-sum 'pure conflict' scenarios, and establishing a balance of power to prevent economic asymmetries from translating into untenable political dominance.

Obtaining Chinese support for the EEU has been imperative to institutionalise a privileged position for Russia in Central Asia, as a key requirement to obtain equilibrium in relations with China. The EEU presents tangible benefits to non-member states like China in terms of offering improved access to the region by standardising the single market and improved transit to Europe due to the common custom zone. The expansion of SCO membership enhances the scope of Chinese leadership as the institutions adopts an economic component, yet accommodating large powers such as India also precludes Chinese dominance. Furthermore, the prospect of balancing a Chinese-led SCO Development Bank with a Russian-led Energy Club becomes more feasible by adding Iran as a major energy producer, India as a major consumer and Pakistan as a consumer and transit state.

7. Strategic Diversity in Northeast Asia: Japan and Korea

Introduction:

This chapter surveys the prospect for Russia to attain ‘strategic diversity’ in Northeast Asia by enhancing economic connectivity with Japan and South Korea. The divisive history of Northeast Asia was exacerbated by the Cold War and resulted in a deficit of economic connectivity. Most integration projects in the region reflect a continuation of rivalry through exclusive cooperation rather than the formation of a genuine Northeast Asian community. At the forefront is the competition for regional leadership between China and Japan, with the US supporting the bid of the latter to curb the rise of China. This rivalry included ambitions for a broader East Asian integration that includes Southeast Asia, most notably through the Japanese supported proposal for a Comprehensive Economic Partnership for East Asia (CEPEA) versus a Chinese-backed East Asian Free Trade Area (EAFTA). More recently, the new Chinese-led Asian Infrastructure Investment Bank competing with the less potent Japanese-led Asian Development Bank has signified China gaining momentum in the rivalry. South Korea, being positioned between a bipolar region led by the US and China is not ideal. South Korea has strategic differences with China, an uncomfortable asymmetrical partnership with the US and an antagonistic relationship with Japan.

Moscow prioritises Chinese-led connectivity initiatives that are both intended and capable of challenging the Japanese/US dominated leadership from the periphery of Eurasia. Yet, Russia’s strategy in the region is to avoid alliances in opposition to other states in the region, which would demote Russia to the role of a junior partner to China. Instead, Moscow’s influence derives from being a regional balancer engaging all states in the region in formats with favourable symmetry. It will be argued that Japan and South Korea are important partners due to the physical proximity to Russia, which implies that large scale energy and transportation infrastructure projects to China can affordably be extended to their borders (RIAC 2012: 28). As highly developed economies, these two states are capable of contributing with technology transfer and investments required to modernise the Russian economy. Russia, Japan and South Korea have a shared interest to scale back the North Korean nuclear program and ideally support reunification of the peninsula. While Washington can mount pressure on both Japan and South Korea to abstain from collaborating with Russia, the US itself faces a dilemma in terms of how to engage Russia in East Asia as

containing Russia in East Asia would make Russia more reliant on China and strengthen what could become a Chinese regional hegemony (Trenin 2014b). Russia can diffuse power in the region by providing alternatives to China-centric transportation infrastructure and enhance energy security. Japan and South Korea benefits from Russian energy compared to Middle Eastern energy due to the superior quality, shorter delivery time, lower transportation costs, and safe transportation (Shadrina 2016: 23).

7.1. Japan and Russia at a crossroad

Russia views Japan as ‘the Germany of the East’, a highly developed power that can assist Russia with its economic modernisation through technology transfers and foreign investments (Trenin 2011a: 138). Extending further on the comparison with Germany, Japan is not considered a major military threat on its own, but rather by its association with the US. Furthermore, an energy-hungry Japan can set a high regional benchmark for energy prices. Moscow and Tokyo have sought to improve bilateral relations as Japan also seeks greater energy security by diversifying suppliers and transportation routes. Both states have an interest to prevent Russia from becoming excessively reliant on China.

Yet, rapprochement is obstructed by the territorial dispute over the Southern Kuril Islands (referred to as the Northern Territories by Japan) and Japan’s intimate alliance with the US. The lack of autonomy is an obstruction to a Russia-Japan convergence, with both states aiming to not subject Russian-Japanese relations to Russian-US relations. A common interest is also to demilitarise the islands along the shared borders and ensure mutual freedom of navigation in adjacent waters. The status quo over the last decade and a half has been characterised by a mutual understanding that economic integration must precede a political settlement, culminating in the territorial dispute being deferred.

Russia’s ‘pivot to Asia’ is however making this status quo untenable as there are great incentives for reaching a compromise in the near future before the window of opportunity closes and Russia’s new position in the Pacific solidifies. Moscow requires a political settlement with Japan to diversify its partnership in Northeast Asia, and make Russian-Japanese relations less contingent on the more bellicose Russia-US-relations. Yet, if such a partnership with Japan fails to materialise in the near future, the subsequent deepening of an asymmetrical Sino-Russian partnership will incrementally diminish Moscow’s political

autonomy and latitude to make similar concessions to Japan in the future. Russia's development of commercial and military infrastructure on the Pacific coast, particularly on the disputed Iturup Island, suggests that Moscow's willingness to transfer territory will gradually decline. Tokyo's lack of commitment to not accommodating US forces near the Southern Kurils also impedes a compromise, since control over the Southern Kuril Islands and by extension the Sea of Okhotsk will become more important as Russia's commercial and military activities in Northeast Asia expand.

The Southern Kuril Islands and US-Japanese ties

The Southern Kuril Islands consists of four islands that are claimed by both Japan and Russia, currently under Moscow's administration. The two major islands, Kunashir and Iturup, are the main obstacle to a settlement since they constitute an extension of Russia's strategic archipelago that makes the Sea of Okhotsk an exclusive Russian basin. The two minor island, Habomai and Shikotan, are on the outskirts of the archipelago and could be transferred due to less strategic significance.

The sovereignty of the Southern Kuril Islands was transferred from Japan to the Soviet Union at the end of the Second World War in accordance with the US-Soviet agreement as compensation for the Soviet Union entering the war against Japan. The transfer of sovereignty was confirmed in the 1945 Yalta Agreement, and again with the Potsdam Declaration. Japan rejects to be bound by the Yalta Conference due to its absence, however, Tokyo later renounced its sovereignty over these territories under the 1951 San Francisco Treaty. The main area of contention has become to defining the Southern Kuril Islands. Matsumoto Shunichi, a former Japanese diplomat that negotiated the 1956 Joint Declaration with the Soviet Union, argued that Japan's claim for the islands of Habomai and Shikotan was originally based on technical interpretation of which islands were included in the Southern Kuril Islands (Clark 2005). The argument was that Habomai and Shikotan had been administered by Hokkaido, not the Kurils, thus they should be transferred back to Japan. By July 1956, the Japanese Foreign Minister informed the Soviet Union that Japan would settle for Habomai and Shikotan.

While the Soviet Union rejected that administrative borders could challenge geographical demarcations, it was swayed by the opportunity to reach a mutually acceptable

political settlement with Japan that could transform a US bulwark into a partner. Two conditions were attached to ensure that the transfer of Habomai and Shikotan would result in lasting peace rather than enhancing the strategic advantage of the US. First, a peace agreement should explicitly resolve any outstanding territorial disputes to sour relations. Second, Japan had to pledge that the military alliance with the United States would not be directed against the Soviet Union. More specifically, it was demanded that Japan would keep the islands demilitarised and not grant access to foreign warships in the adjacent waters, which would enable the US to extend its island chain containment to the north (Elleman, Nichols and Ouimet 1998: 496). Without such assurances, the transfer of the islands was deemed to escalate rather than mitigate tensions with Japan. Moscow and Tokyo agreed on a Joint Declaration in 1956 stipulating that the Soviet Union would 'hand over to Japan the Habomai Islands and the island of Shikotan' after a peace treaty has been concluded.

Conservatives in Tokyo, emboldened by the US, sought to extract more from the Soviet Union by also claiming Kunashir and Iturup. In the midst of fomenting anti-Soviet alliances under US leadership, Washington publicly discouraged Japan from seeking détente with communist states. The Soviet proposal for demilitarisation of the islands and adjacent waters was argued to be unacceptable due to sovereignty, international law and the US-Japanese Security Treaty (Elleman, Nichols and Ouimet 1998: 496-497). The US therefore insisted that Japan should reject the agreement with the Soviet Union and threatened to keep Okinawa if Japan signed the agreement. It is widely argued that the US threat to annex Okinawa was to maintain the territorial dispute and thereby fuel animosity between the Soviet Union and Japan to preserve US leadership (Clark 2005; Kimura 2008: 71-72; Gorenburg 2012: 2; Brown 2016). This strategy was consistent with the scepticism towards Moscow's initiatives to establish peaceful relations with Western Europe, which were frequently referred to as a 'peace offensive' to divide the West.

Japanese assurances that its military partnership with the US would not be directed against the Soviet Union also fell apart. The 1960 agreement between the US and Japan reaffirmed that the military alliance was continue. This was not received well in the Soviet Union as it was seen to cement Japan's subservient status that would make it a proxy against the Soviet Union. The offer to transfer Habomai and Shikotan had not brought stability, rather it had legitimised Japan's claim and invigorated Tokyo to demand more. Over the next decades, the validity of Japanese claims over all the Southern Kuril Islands was accepted by the Japanese and became entrenched in nationalist sentiments.

Relations between Moscow and Tokyo warmed under Gorbachev, who sought to improve relations with Japan by reopening the possibility of compromise that entailed transfer of territory. The Soviet Union and then Russia sought to improve ties with non-communist states due to a dire need for economic cooperation, while improved relations would reduce the need for strategic territory in the competition with the US. Yet, Japan overestimated its bargaining power with the assumption that the economic havoc would compel Moscow to make greater concessions and transfer all four islands (Menon 1996: 63). Furthermore, Tokyo witnessed that Russia ceded the strategic Crimea peninsula to Ukraine with astonishing ease following the demise of the Soviet Union (Chugrov 2005: 116). Russian President Yeltsin and Japanese Prime Minister Hashimoto agreed to sign a peace treaty by 2000, which would be accompanied by a Japanese economic package for the Krasnoyarsk region. Yeltsin also demonstrated intentions for reconciliation by announcing demilitarisation that included removing troops and weapons from the islands (Menon 1996). The flaw in Japan's prediction was the ability of the Moscow leaders to act. While the economic desperation made both Gorbachev and Yeltsin more willing to find a compromise, it also made them unpopular domestically and therefore incapable of making controversial decisions.

In contrast, Russia's economic revival in the 2000s made Putin an immensely popular leader and thus in a position to ceding territory. It is common for scholars to suggest that Putin's revitalisation of nationalist sentiments is an impediment to compromise (Auton 2016). Yet, as evident by the territorial concessions made to China to settle border disputes, Putin's popularity made him able to withstand fierce opposition and protests across the Russian Far East and in Moscow. The Islands symbolise Russia's victory in the Second World War as a pivotal event in the national consciousness, yet they are less important to Russian nationalist sentiments than the Japanese. The popular decision of re-uniting/annexing Crimea in 2014 has endowed Putin with the political standing to accept painful compromises on other fronts. Russia continues to hold the position that Habomai and Shikotan can be transferred to Japan on the condition that a peace treaty is signed, which would include the renouncement of outstanding territorial disputes (Menon 1996). However, Japan only accepts the transfer of Habomai and Shikotan as a part of a gradual return of all four islands. The main impediment is the Japanese political class and population internalisation of nationalist rhetoric that links the Southern Kuril Islands to Japan. Accepting anything less than all of the Southern Kuril Islands have become tantamount to political suicide for Japanese politicians.

The principal impediment to Russia accepting a compromise is not nationalist sentiments, but rather the strategic importance of the disputed islands. The Kuril Islands also provide control over important sea lanes between the Pacific Ocean and the Sea of Okhotsk, which then stretches further into the Sea of Japan. The Kuril Islands archipelago is important to their role in creating anti-access/area denial (A2/AD) to the Sea of Okhotsk. Stalin remarked the significance of these islands: ‘henceforth, the Kuril Islands.... Shall not serve as a means to cut off the Soviet Union from the ocean... But as a means to link the Soviet Union with the ocean and as a defensive base against Japanese aggression’ (Stephan 1974: 170). The military significance of the Sea of Okhotsk grew further towards the later stages of the Cold War. The A2/AD status of the Sea of Okhotsk made this vast ocean an important pillar of nuclear deterrence by protecting Soviet nuclear submarine in the waters from a crippling first-strike by the US.

The souring relations with the US amplify the significance of the disputed islands. During the Cold War, US naval strategy was largely directed by offshore containment. The contingency war plan of the US during the Cold War aimed to deny Soviet access to the Pacific and ‘cripple’ Soviet operations in the Sea of Okhotsk by invading the Kamchatka peninsula, block the Southern Kuril Islands and conquer Sakhalin (Stolfi 1988: 103-105). If the US would expand its military presence to the Southern Kuril Islands, it would further extend the US military encirclement along the eastern periphery of the Eurasian continent, stretching from the South China Sea, the East China Sea, Sea of Japan, and then to the Sea of Okhotsk. Habomai and Shikotan were located on the periphery of the archipelago, which would prevent any claims over maritime borders in the Sea of Okhotsk.

The potential for a settlement is unclear as discussions must have a high level of secrecy until a compromise can be reached. Both sides fear that offers of concessions could legitimise the claims of the other and fuel a nationalist backlash from their own populations. Japan’s position is peculiar since it has taken a very uncompromising stance irrespective of having little bargaining power for the islands that have been under the control of Moscow for more than 70 years. Russia can conceivably go beyond its historical offer of the minor and less strategic islands of Habomai and Shikotan, by also offering Kunashir. The prospect of Russia transferring Iturup, the largest island and adjacent to the Russian archipelago, is politically untenable as a one-sided concession and complete surrender. The compromise of accepting Russian sovereignty over Iturup was even suggested by Japan’s former Prime Minister, Yoshiro Mori (Miller 2014).

Japan's interests in Russia's pivot to Asia

At first glance, Japan seemingly has great incentives to oppose Eurasian integration as a maritime power and the West's main counterpart in East Asia. Enhancing economic connectivity among Eurasian land powers would shift influence away from existing US/Japanese-led structures and value-chains, represented by institutions such as the Asian Development Bank. However, with Eurasian integration taking form, Japan's options – much like Russia's options, are to either influence the development or become marginalised. While Russia's application to join the ADB in the past was rejected by Tokyo and Washington (Lukin and Lee 2015), Tokyo could become more accommodating to raise its competitiveness in lieu of the Chinese-led AIIB. Tokyo is pragmatic and will support infrastructure linking Japan to East Asia, especially if skirting China. Since the 1970, Tokyo has used its foreign-aid program to develop infrastructure in East Asia, which would also benefit Japanese corporations (Agnew and Crobridge 2002).

Geostrategic interests in Northeast Asia produce systemic incentives for Japanese-Russian economic integration. Irrespective of lingering tensions, Russia is probably the most Japanese-friendly country in Northeast Asia compared to Japan's reciprocal animosity with China, South Korea and North Korea. Japan would ideally engage Russia against China (Ferguson 2007: 18), yet the best probable outcome of rapprochement would be to reduce Russian dependence on China. Ensuring that Russia becomes a neutral regional balancer is of increasing importance due to Tokyo's perception of the relative decline of the US, evident by Japan abandoning its pacifist constitution (Auton 2016).

Japan is apprehensive that Russia's reliance on China grows as it would adversely impact the relatively neutral position of Moscow on the territorial disputes between Japan and China (Klein 2014). Russia officially still takes a neutral position, but evidently expresses more sympathies with China as a favoured ally. Russia and China are engaging in unprecedented joint naval exercises and are increasingly capable of collectively imposing a naval blockade on Japan (Kamalakaran 2015). The Chinese-Japanese dispute over the Senkaku/Diaoyu Islands can be linked to the Kuril Islands row if Japan postures militarily. In a possible further rift between South Korea and Japan, Russia would have greater incentive to take a firmer position in the region. Beijing would ideally see China, South Korea and Russia form an anti-Japanese coalition in territorial disputes vis-à-vis the Japanese in Northeast Asia

(Brown 2015). Yet, Moscow also remains apprehensive about encouraging a Chinese territorial revanchist stance that could later threaten Russia's territorial integrity (Brown 2015).

Russia's endeavour to establish itself as an east-west transportation network by land and sea presents opportunities for cooperation with Japan. While the talk of a Sino-Japanese 'scramble for Siberia' in 2004-2005 did not materialize, both Beijing and Tokyo states have great interest in obtaining privileged access to Russian energy (Goldstein and Kozyrev 2006). Japan's successful lobbying for re-directing Russia's 'eastern oil pipeline' from China by constructing the ESPO pipeline to the Pacific Coast demonstrated the imperative of engaging Russia. Japan has since continued to enhance ties between the Japanese and Russian energy sector as a way to lessen Russia's economic dependence on China (Hughes 2009).

With Russia's infrastructure project and business reforms progressing in the Far East, Japan has taken greater interest. Russia already supplies Japan with LNG, and aspires to drastically expand its exports. Tokyo can become an integral stakeholder in Russian energy security by providing technology and investments for joint energy extraction in the Russian Far East and the Arctic. The Sakhalin-2 project in collaboration with Japan enhanced the supplies of Russia, as the project began supplying Japan in 2009. In 2014, Japan imported approximately 80 percent of the gas originating from the Sakhalin-2 LNG plant. With increased capacity from the SKV pipeline, Japan is an ideal partner to finance the expansion of Sakhalin projects and developing a second LNG plant in Vladivostok (Kuchins 2013: 134). The prospect of a pipeline to import gas from Sakhalin to Hokkaido has been considered, deterred mostly from the unfavourable geological challenges (Miller 2014; Tanaka 2014). Transportation infrastructure is also planned, including connecting Japan to Russia's railway system, further connecting further with Sakhalin to Hokkaido (Minakir 2014: 74-75).

The subordinate status of Japan in its relations with the US was in 1960 seen by Tokyo as a necessary evil to resolve issues with other challengers, such as the 'unequal treaty' of the Kuril Islands with the Soviet Union (Rozman 2014: 12). In recent years, Tokyo had made efforts to improve relations with Russia, irrespective of US efforts to obstruct such developments (Cazacu 2015). China's emergence as the principal adversary to the US in the Asia-Pacific, Washington may eventually encourage rather than obstruct a Russian-Japanese convergence in Asia. Cornett (2016: 16-17) advocates that Washington should support a Kuril Islands settlement to 'signal to Russia that it is valued as a counterbalance to Chinese

ambitions' in an agreement that would entail 'favourable terms for Russian energy exports and infrastructure development cooperation'.

Russia's interest to reach a political settlement

Russia views Japan as an indispensable partner in terms of developing strategic diversity in Northeast Asia. Moscow has sought to enhance its relations with all states in the region to ensure less dependence on one single state and to deconstruct/prevent the formation of anti-Russian alliances. This approach implies avoiding rapprochement on the basis of forming alliances against other states, rather Moscow plays the states of the region against each other by their fear of having Russia ally itself too close with their adversaries. As Katzenstein (2005) and Buzan (2005) argue, power derives from the ability to shift between centres of power, while power diminishes wedded to one alliance. In a few years, Russia would be further constrained by Chinese interests and would face greater opposition to a settlement with Japan (Lukyanov 2012).

Yet, Russian acceptance of a political settlement that transfers islands to Japan should be resisted if these islands would be beneficial to economic development and the prospect for enhanced trade with Japan. In both Japan and Russia it is contested whether a political settlement is required to improve economic integration, or if economic integration will create incentives for a settlement of disputes. Deguchi-ron, or the 'exit point' strategy suggests that relations must first be improved before a political settlement on the islands can be reached. Iriguchi-ron, or the 'entry point' strategy posits that a settlement of the sovereignty over the islands is required before relations can improve to the extent economic integration becomes possible (Ferguson 2007: 206).

Japan's reluctance to invest in Russia in the 1990s was principally caused by the unfavourable business climate, more specifically the weak domestic market, the widespread corruption and the lack of order and legal protection (Chugrov 2005). In contrast, with the resurgence of the Russian economy in the early 2000s, Japan decided to put the territorial dispute aside and support economic integration with Russia (Weitz 2011a). In May 2003, on a trip to Russia, Koizumi proposed a Japan-Russia Action Plan for deepened relations in trade, defence and energy (Hughes 2009). While Japan has much greater fears of China, it nonetheless has more than 30,000 companies with a presence in China, compared to a meagre 600 in Russia (Brown 2013: 200-201).

Prime Minister Medvedev referred to the Kurils as ‘a gate to the rapidly developing Asian-Pacific region’, as both commercial and military vessels require freer passage to the Pacific Ocean (RT 2015). Russia’s construction of ports on its pacific coast and the opening of the Arctic route enhance the value to controlling the entire Kuril archipelago. With a huge potential for tourism, an airport and hotels have been built on Iturup since 2014. Under its socio-economic development plan for the region, Moscow is spending large amounts of federal funds to develop ports and other infrastructure on the Kuril Islands, along the Sea of Okhotsk and the coast of the Sea of Japan (Akimoto 2013). The costs of delaying a settlement was also communicated by opening up to investments to China and South Korea in the Southern Kurils, which would give regional states that are hostile to Japan incentives to maintain status quo (Weitz, 2011b).

As Russia is making preparations to become a major energy supplier in East Asia, the energy fields surrounding the Southern Kuril Islands also grow in relevance. Controlling the Southern Kurils is important as it contributes to encircle the Sea of Okhotsk with Russian territory, effectively making it an ‘exclusive’ Russian basin. Russia can claim 200 nautical miles mile ‘exclusive economic zone off its shores according to the 1982 United Nations Convention on the Law of the Sea. The Sea of Okhotsk is only sea in the world with a high-seas enclave surrounded by an exclusive economic zone of one state (Goltz 1995). The need for Southern Kuril Islands to claim the exclusive economic rights for this energy-rich basin was to some extent resolved in March 2014 when the United Nations Commission on the Limits of the Continental Shelf formally recognised Russia’s claim to 52.000 square kilometres in the centre of the Sea of Okhotsk as Russian territory. Hence, the rights to the Sea of Okhotsk make Russia less dependent on controlling the entire archipelago.

The increased commercial activity in the region will be supported by the Russian Pacific Fleet, which will also be strengthened by exclusive control over the Sea of Okhotsk. With most of Russia’s new warships being destined for the Far East, Russia is considering to develop a naval base in the Southern Kurils (Sputnik 2016d). The location for the construction of a naval base would most likely also be Iturup, to dissuade any illusions of a Russian compromise over this particular island and at the same time encourage greater urgency in Tokyo to reach a compromise over the remaining islands

The end of status quo: Southern Kurils as a bridge or bastion?

President Medvedev's visit to Kunashir in November 2010, the first ever by a state leader of either the Soviet Union or Russia indicated that status quo was no longer tenable (Trenin 2011a: 137; Lukyanov 2012). The visit demonstrated Russia's resolve and value as a partner to countries such as China, and also fuelled domestic support by demonstrating that Moscow was looking after its remote regions (Lukyanov 2012). The presidential trip to Kunashir has been described as a deliberate coordinated initiative with China to collectively pressure Japan over the Chinese claimed Senkaku/Diaoyu and the Russian claimed Southern Kurils (Brown 2015). A security dilemma became evident as protests over Medvedev's visit caused protests in Japan and hardening of the positions and rhetoric among Japanese politicians. Responding to what were seen as a more hostile tone from Tokyo, President Medvedev called for militarising the Southern Kurils: 'The weapons to be additionally deployed there should be necessary, sufficient, and modern enough to guarantee the security of these islands as an integral part of the Russian Federation' (Brown 2013: 200).

After tensions had settled, Moscow offered in March 2012 to re-open negotiations with Japan. Tokyo responded by shifting to more benign rhetoric and the following year the Japanese Prime Minister made a visit to Moscow. Demonstrating the politics of the Olympics, Russia supported Japan's bid for the 2020 Olympics, while Japan broke ranks with the Western quasi-boycott of the Sochi Olympics as Abe went to Russia for the Olympics (Burrett 2014). In a further symbolic gesture, Japan joined China by having its athletes walk on stage during the opening of the Olympics carrying both their own flag and the flag of Russia as the host country. By November 2013, relations had warmed significantly as Russia and Japan, culminating in their first 2+2 talks between defence ministers and foreign ministers (Filippov 2014). This was very significant step as Japan only engages in such a format with the US and Australia. The talks led to the agreement of holding joint military exercises, not aimed against a third country, but rather against terrorists. Russia's objective of preventing Russian-Japanese relations to be subject to Russian-US relations was slowly materialising.

Japan's decision to join the US-led sanctions over the Ukrainian crisis was a set-back for bilateral relations. Tokyo stood out from the rest of the region that remained reluctant to give into US pressure, and from Moscow's perspective demonstrated that Russian-Japanese relations were still subject to US pressure. Japan's imprudent sanctions against Russia came at an inopportune time as Russia was pressured to show greater solidarity with China. This included a joint naval exercise in the East China Sea in proximity of China's territorial

dispute with Japan. Sanctions also made Russia more willing to supply China with the advance S-400 air defence system. Severing ties with Japan would however be disastrous for Russia's strategic diversity in Northeast Asia.

The visit by Prime Minister Abe in Moscow in 2016 was an initiative to pull away from the animosity caused by Japan's sanctions on Russia, and revert to talks on the Southern Kurils and joint development of the Russian Far East. Abe outlined an eight-point plan to rejuvenate economic relations with Russia, which included energy, transportation, agriculture, technology, healthcare, urban infrastructure, culture, and small and medium-sized business (Krylov 2016). Russia's preparedness to reach a settlement with Japan will depend on the geoeconomic benefits of an island transfer outweighing the costs as Russia attempts to establish itself as a formidable power in Northeast Asia.

7.2. Korea and Russia: Eurasian integration for Regional Stability

Moscow endeavours to make North Korea an exclusive land-bridge linking South Korea with Russia. Connecting Russian infrastructure with the Trans-Korean Railway and a Trans-Korean Gas Pipeline would contribute to transform Vladivostok into a 'modern megalopolis' and strengthen Russia in Northeast Asia (RIAC 2012). South Korea shares many of the characteristics of Japan in terms of being a highly developed and energy-hungry state within proximity of Russian territory that can assist with technology transfer and foreign investment to modernise the Russian Far East (Lee 2015). The main difference with Japan is the more benign relations with both China and Russia, resulting in more autonomous foreign policy and more favourable attitude towards the concept of Eurasian integration. Both South Korea and Russia considers divisions on the Eurasian continent and the Korean peninsula to be interrelated, while Eurasian connectivity and Korean integration would be mutually complementary.

South Korea and the 'Eurasia Initiative'

South Korea's own 'Eurasia Initiative' presents a conception of Eurasian integration that coincides to a great extent with Russia's ambitions for the Korean peninsula, Northeast Asia and the wider Eurasian continent. The Eurasia Initiative outlines the ambition to connect the continent with physical infrastructure and new mechanisms for cooperation, with the

recognition of a privileged position for Russia due to its energy and infrastructure connectivity projects within the proximity of South Korea (Joo 2014; Republic of Korea 2015). Experts in South Korea predict growing economic ties with Russia as Moscow's development plan for the Russian Far East will greatly impact the future trajectory of the South Korean economy (Jeh et.al 2015).

The Eurasia Initiative is envisioned to be the driving force for innovation, prosperity and peace for a region that has fell behind on regional integration and where remnants of the Cold War divide still persists. Seoul recognises that 'Eurasia has long been marked by isolation and disconnection' that inevitably has had adverse effects on peace, stability and prosperity (Republic of Korea 2015: 5). President Park Geun-hye referred to the 'Asia's Paradox' as 'the disconnect between growing economic interdependence on the one hand, and backward political, security cooperation on the other' (Republic of Korea 2014). The South Korean President, Park Geun-hye, argued that 'if trade barriers are gradually taken down and Eurasia becomes a free trade zone, Eurasia could be made into a gigantic market like the European Union' (Campi 2014). A three-layered and mutually supporting process for building trust and peace is outlined that links Korea to the larger continent: 1) Trust-building process on the Korean Peninsula; 2) the Northeast Asia Peace and Cooperation Initiative; and lastly Eurasia Initiative (Republic of Korea 2015).

Seoul believes that Eurasian integration will advance with physical transportation and energy infrastructure to connect the region, coupled with mechanisms for cooperation such as institutions and trade agreements to manage growing cooperation. Moscow proposed in 2001 to connect the Trans-Korean Railway with the Trans-Siberian Railway and other Eurasian railways, and develop the conditions and expertise required for the Arctic Sea route. The President of South Korea, Geun-Hye (2011: 17) affirmed that discussions with Pyongyang had included talks about reviving the Trans-Korean railway and connecting it with the Trans-Siberian Railway and the Trans-China Railway. This was envisioned to establish regional trust as the Korean peninsula would be transformed into a corridor for regional trade that fuels development of China's north-eastern provinces and the Russian Far East (Geun-Hye 2011: 17). The Korean Railroad Research Institute envisioned that the Russian-sponsored 'Iron Silk Road' could 'lead to the development of a strategic international multimodal transport route connecting to Northeast Asia and Europe' (Republic of Korea). South Korea is already constructing an extension to the Gyeongwon Line to connect Trans-Korea Railway to Eurasian railways, while the Rajin-Khasan (North Korea-Russia) logistic project has already

been used to supply coal to South Korea (Minakir 2014: 74). The CEO of Russian Railways, Vladimir Bakunin, posited that shipping goods between South Korea and Europe with Russian Railways is cheaper, safer and approximately three times faster than via the Suez Canal (Ferguson 2003; Lee 2004; RT 2014).

The key energy connectivity projects entail connecting South Korea and Russia with energy pipelines, increasing LNG supplies with new and upgraded facilities, and connecting to the Russian electrical grid (Republic of Korea 2015). South Korea is the second largest LNG importer in the world, positioned after Japan, and therefore has great interest in Russia developing the Russian Far East. In 2005, Seoul and Moscow agreed to construct LNG terminals to supply gas to South Korea. While the development of ports and LNG facilities on Russia's pacific coast is linking commercial infrastructure and attracting foreign investment, the main potential for integration of the South Korean economy with the Russian economy. The geographic link between the two states would provide Russia with a geographic privileged position for transportation links, and even monopoly in terms gas pipelines that enjoy significant competitive advantage vis-a-vis the LNG market. The ambition has been set to increase the supplies of South Korea's gas from 6 percent in 2014, to 30 percent (Luft 2014).

South Korea's Trustpolitik suggests that economic connectivity on the Korean peninsula could improve the conditions for unification, which Russia views favourably. The prospect of Korean unification would radically improve the conditions for Russia to develop railroads and pipelines on the peninsula (Lukyanov 2012; Kuchins 2014: 136). Furthermore, stability would be enhanced by ending the unpredictable behaviour of North Korea, eliminating nuclear weapons on the peninsula and reduce the prospect of a US war on Russian borders. South Korean society is already divided on the presence of the US military, which would likely shift in the favour of the critics once the North Korean threat vanishes. Unification would however also have its risks. The European experience after the Cold War demonstrated that the US did not withdraw when threats receded, but exploited the vacuum by expanding NATO rapidly towards Russian borders. Furthermore Russia's political weight in South Korea after the Cold War has to some extent been the result of its ties and influence in North Korea. The common position of Russia and China has also been a source of cooperation and worked in favour of harmonising other interests in the region (Kim 2015). The condition for unification is therefore imperative. Like China, Russia would prefer to see Pyongyang gradually reform, disarm its nuclear weapons and integrate with South Korea.

This would ideally be coordinated with the US scaling back its military presence in South Korea. The international mediation should be multilateral as a US-Chinese bilateral settlement could sideline Russia. In contrast, a collapse of the state could result in millions of refugees crossing into Russia and China. Most would probably go towards the Russian borders as the Chinese border has stricter controls (Kim 2015). The likely disorder, the need to secure nuclear weapons and the humanitarian challenges in the case of a state collapse could likely justify the US to intervene militarily and unilaterally develop new realities on the ground.

The US has quietly opposed the railway, gas pipeline and electric grids to connect South Korea and Russia with the reasoning that North Korea would benefit (Lukin and Lee 2015). Washington is however presented with a dilemma as these initiatives would enable South Korea to diversify away from its excessive reliance on China (Lukin and Lee 2015). Eurasian integration is more attractive to South Korea than Japan since Seoul does not have the same privileged position in the economic system as a US node, and due to greater incentives for economic integration with Eurasian land powers.

South Korea demonstrates more foreign policy autonomy than its Japanese counterpart. Seoul is less devoted to the status quo of US leadership in Eurasia and its population is divided over the rivalry between the US and China. The limits of US leverage over South Korea was evident by Seoul not yielding to US pressure by applying sanctions on Russia. Similarly, Seoul joined the Chinese-led AIIB in defiance of Washington and has proposed the construction of a comparable Northeast Asia Development Bank. Yet, President Park Geun-hye turned down the invitation to attend the Victory Day parade in Moscow in May 2015. Similarly, Moscow's objections to the deployment of the US THAAD missile defence in South Korea did not carry enough weight to dissuade Seoul. The geoeconomic objective of Moscow should however not be defined as abandoning the US and joining a rival bloc, rather South Korea should merely be incentivised to diversify its partnerships. Russia cannot realistically aspire to become the dominant actor in Northeast Asia in the near future, which can work in its advantage by positioning itself as a third partner and a balancer in the region. South Korea's reliance on the US derives from the troubled relations with North Korea, the historical tensions with Japan and the apprehensions about a rising and increasingly assertive China (Campi 2014). Diversifying economic ties by connecting with Russia could mitigate these concerns and subsequently reduce reliance and accommodation of the US.

Russia's leaning-to-one-side policy mistake

Russia's bargaining power with South Korea is largely contingent on its influence in North Korea. The lesson learned by Moscow in the 1990s was that by taking sides in the Korean conflict reduced its influence in both Pyongyang and Seoul. Russia's prioritisation of integrating with democratic capitalist states in the 1990s resulted in a sole focus on South Korea and Japan in Northeast Asia, while neglecting former allies such as North Korea (Tsygankov 2006: 73). Moscow's leaning-to-one-side approach in the Korean dispute was not rewarded with embrace by South Korea, rather Russia was excluded since its influence over North Korea diminished (Kim 2009: 190). Russian interests were also neglected in the US-North Korean Agreed Framework and Moscow was excluded from the Four-Party Talks.

Efforts were subsequently made to restore its ties with North Korea in 2000 after Putin took the presidency. The shift to pragmatic geoeconomics produced a radically different relationship compared to the geopolitics of the Cold War when allies often became an intolerable monetary and political cost. The notion that Russia 'supports' North Korea due to its strategy of engagement is 'one of the biggest illusions' as 'they have never done anything for Russia. Their policies are bluff, threats and blackmail' (Brown 2013: 204). Russian bargaining power vis-à-vis North Korea is enhanced as it relies both on the ability to provide common benefits and inflict pain to influence the behaviour of Pyongyang. In contrast, the US, Japan and South Korea have cemented an adversarial position to North Korea that relies on costly economic incentives without common benefits or more punitive punishment that fuels antagonism.

Trust-building and friendly relations with Pyongyang endow Russia with the prospect of establishing a land-based energy and transportation connection with South Korea. Moscow and Pyongyang initially agreed in 2002 to work towards linking the Trans-Korean-Railway with the Trans-Siberian Railway (Joo 2014: 172). However, under the leadership of Kim Jong-Il there was mutual frustration between North Korea and Russia concerning the dynamics of the relationship. Both sides had unrealistic expectations reminiscent of the partnership during the Cold War as Pyongyang expected unconditional support and protection, while Moscow was discouraged from its lack of ability to influence North Korea's posturing with nuclear weapons. Relations subsequently stagnated until the demise of Kim

Jong-Il in December 2011. Russia and North Korea commenced with joint ventures that included developing the port in Rajin and construct coal and container terminals. South Korean corporations can already ship products to the port in Rajin and transport the goods to the West via Russian railways (Campi 2014). A breakthrough was eventually reached as Moscow cancelled 90 percent of North Korea's \$10 billion debt in 2014, while the remaining 10 percent of the debt would be reinvested as foreign investment to develop the North Korean economy (Joo 2014: 173). In return for the cancelling North Korea's debt, Pyongyang accepted the construction of a gas pipeline and upgraded railroad to transition from Russia to South Korea, through North Korea.

Russian bargaining power with North Korea leverages from asymmetrical dependence. Russia can produce common economic benefits with a cooperative Pyongyang by utilising land-routes, which entails Russia paying transit payments and upgrading the North Korean railways in return for privileged access to its natural resources (Waitz 2015: 17). Russia also enjoys favourable conditions for its businesses in North Korea with trade increasingly denominated in Russian roubles, relaxed visa conditions, and better internet access. Russia's economic cooperation with South Korea also creates advantageous synergy effects for North Korea in the realm of energy, railway and electricity infrastructure projects (Blank 2014). Russia is also increasing its own engagement in the Joint-Korean Kaesong Industrial Complex, while approximately 25,000 North Korean workers are employed in Eastern Russia (Shankar 2015). Russia's coal extraction in North Korea also enables Pyongyang to diversify away from the crippling dependence on China.

Moscow's bargaining power vis-à-vis Pyongyang is further enhanced with the capacity to penalise and circumvent an uncooperative North Korea. Development of ports and accompanying railway infrastructure on Russia's Pacific coast supports an alternative maritime route to South Korea. The determination to prevent Pyongyang from exploiting Russia's dependence on North Korea as a transit country by extracting political concessions or even blackmail Russia derived from lessons learned in Europe, where Ukraine had siphoned Russian gas transiting to Europe to obtain energy discounts. Moscow's growing confidence was by the open criticism of a senior North Korean official for the first time in 2010 as the Foreign Minister was denounced for shelling Yeonpyeong Island (Hyodo 2014: 49).

Conclusion

This chapter has demonstrated that Japan and South Korea are indispensable partners for Russia's pivot to Asia, which is contingent on strategic diversity and modernisation of the Russian Far East. Japan and South Korea are economically salient partners for strategic diversity as the physical proximity provides economies of scale for major energy and transportation infrastructure projects that are being developed to connect with China. Furthermore, their close vicinity to China makes them more disposed to accommodating Russia to dilute Chinese regional dominance. Japan is especially under pressure to harmonise interests and obtain influence in Russia as it cannot risk having the most Japan-friendly state in Northeast Asia solely being courted by adversaries. As highly developed and wealthy states, Japan and South Korea are also ideal partners for modernising the economy of the Russian Far East by funding and technology transfer for industries and infrastructure. Russia's competitiveness in terms of supplying oil and gas for these two energy-hungry states ensures symmetry of dependence, which prevents Tokyo and Seoul from attaching conditionality.

With a mounting presence in Northeast Asia, Russian bargaining power is on the rise. It can be expected that Japan will become more determined to resolve its territorial disputes with Russia and devise a foreign policy more autonomous from the US. Similarly, Russia is elevated in South Korea's strategic thinking as it is recognised that peace and the prospect for unification on the Korean peninsula is interlinked with Northeast Asian connectivity and broader Eurasian integration. Without a reasonable prospect for regional hegemony, Russia's optimal role in the region is that of a balancer establishing power equilibrium in the region. A rational foreign policy would therefore not entail containing China or completely evicting the US from the region. A successful pivot to Northeast Asia translates into enhancing Russia's position as a Pacific maritime power, which is imperative to progress connectivity with South East Asia. Hence, Russia's developments in Japan and Korea are indicative of a broader shift in power as a Eurasian land power develops gravitational pull to draw in the powers along the rimland.

8. Connectivity with Southern Eurasia

The purpose of this chapter is to assess Russia's intentions and ability to shape and profit from connectivity projects in Southern Eurasia. Russia's West-East balancing between Europe and Northeast Asia can be complemented with a North-South dimension. Southern Eurasia, much like Russia, has an interest to diversify relations and avoid a US-China bipolar dynamics. Southern Eurasia is less subjected to the East-West division of Northeast Asia, and is therefore an important region to construct a truly multipolar continent. While the absence of favourable proximity complicates connectivity projects, the distance alleviates fear of an overwhelming, intrusive and subjugating Russian influence.

The most important initiative of Russia has in South Asia is the North-South Corridor, with the objective of developing a land-connection with Iran and India. The China-Pakistan Economic Corridor (CPEC) that can be extended to Iran is the dominant project in the region, which can both complement and compete with Russian initiatives in the region. The second region for expansion of Russian geoeconomic influence is Southwest Asia, also known as the Middle East and North Africa. As a region with more regional volatility and Western interventionism, Russia relies more on its military to defend strategic interests. The growing power of Russia in the Black Sea as a connectivity hub following the seizure of Crimea, and the principal role in Syria can elevate Russia's position in the region. The third region in Southern Eurasia to be assessed is Southeast Asia, where Russia has a minor footprint it seeks to exponentially expand through its strategic partnership with Vietnam.

8.1. India, Iran and the North-South Corridor

India

India is inclined towards multipolar Eurasian integration with diffusion of power as opposed to linking itself to Western-centric and anti-Western initiatives. New Delhi's aversion to limit its autonomy by partaking in alliances can be interpreted as a long-standing tradition for India as the largest non-aligned state during the Cold War. Enhanced connectivity between India and Russia, two major Eurasian powers, could greatly contribute to developing a more balanced Eurasia as both countries fear the Silk Road would produce an excessively China-centric continent (Kazmin 2016).

The 'Connect Central Asia' policy initiated in 2012 aims to develop transportation and energy infrastructure to facilitate more trade with Central Asia and Russia. Russia is inclined towards developing the trilateral Russia-India-China (RIC) format for Eurasian cooperation as it establishes a balance of power, without excluding or containing China (Muraviev 2011: 202). Russia also views the Indian Ocean Region as a strategic economic connection, with India and Pakistan being deemed to potentially become vital transit states to provide Russia with access to 'warm seas' (Muraviev 2011: 203). India announced its 'Act East' initiative or 'Cotton Route' at the India-ASEAN summit in Myanmar in November 2014, an initiative aimed to integrate India's economy with its Eastern neighbours, primarily ASEAN (Das and Thomas 2016; Palit 2016). The launch of the 'Make in India' initiative in September 2014 was aimed to boost India's manufacturing position in the world, with New Delhi looking abroad for export opportunities. India overtook China as the fastest growing economy in the world in 2015, and the IMF expects India to hold the position until 2020 (Grandhi 2016).

Eurasian integration could produce tensions between India and Russia if the former displaces Russian influence in Central Asia, or the latter gets too close with Pakistan. Without the intention or capacity to become the dominant power in Central Asia, India is likely to dilute the growing power of China in the region without challenging Russia's of being the 'first among equals' in the region (Lee and Gill 2015: 111). As evident by Russia's support for granting India a permanent seat in the UN Security Council, it is expected that a strong India would be conducive to develop a more favourable Eurasia. The first joint military exercise between Russia and Pakistan in September 2016 was indicative of a development that could produce tension, or alternatively it could be a source of stability if it cautions India to get too close to the US.

New Dehli's relations with Moscow can be defined as underutilised. The two countries shared a very positive history throughout the Soviet-era, though the lack of connectivity has prevented the partnership from developing its commercial potential. For India, Russia is a 'time-tested and respected friend' (Lee 2014: 62). When India was under pressure by the US to join sanctions against Russia, Prime Minister Modi reassured Russia by writing that 'times have changed, but our friendship has not... We stick together through thick and thin' (Halligan 2014b). Modi had also argued that 'Russia is India's closest friend, and the preferred strategic partner' (Holodny 2014).

Following Russia's intensification of its pivot to Asia in 2014, Russia has increased

economic connectivity with India and contributed to 'Make in India'. Bilateral trade is expected to grow in strategic industries as Russia remains willing to sell some of its most advanced weaponry and include technology transfer (Lee and Gill 2015). Russia produced and delivered in 2013 India's first aircraft carrier since 1961, among other military hardware. Russia and India reached an agreement for a joint venture to produce 200 Ka-226T military helicopters, with another agreement on Russia delivering fifth-generation stealth fighter jets still in the making. US military sales to India in a competition for influence have begun to sideline Russia. Yet, Prime Minister Modi sought to reassure Russia that while India aims to differentiate its defence partnerships, Russia would remain the preferred ally: 'Even as India's options have increased today, Russia will remain our most important defence partner' (Russian Federation 2014c). In October 2016, Russia agreed to supply India with the powerful S-400 air defence system (Choudhury 2016).

The increased trade encompass energy field with oil, gas and uranium, the construction of 12 nuclear reactors, and the delivery of LNG. In October 2016, it was announced that Russia's state-owned Rosneft took control over India's Essar Oil Ltd. for \$13 billion in what was the largest foreign acquisitions in India's history (Choudhury 2016). Furthermore, Moscow and New Delhi are undertaking a feasibility study to construct a \$25 billion oil pipeline from Russia to India, through Northwest China (ET 2016). Other strategic industries included Russia's access to India's diamond cutting and polishing industry, the use of Russia's GLONASS satellite system, construction of factories and assembly plants, and military arms (Chaudhury 2014). Plans for developing a joint military satellite system are also under way (Egorov 2015).

Iran

Iran is optimistic concerning a new Eurasian-centric order as it has very increasingly favourable relations with Russia, India and China. A senior policy advisor to Ayatollah Khamenei reasoned that stability in Eurasia required a trilateral partnership between Moscow, Beijing and Tehran (Khabar 2015). Iran is in a similar geostrategic situation as Russia and China, as the main challenger to US primacy on the southern periphery of Eurasia since the Islamic Revolution in 1979. The heavy US naval presence in the Strait of Hormuz is a reminder of the ability to shut down the Iranian economy, as the US and UK blockaded the Strait in 1953 to disrupt all maritime trade with Iran to topple Mossadeq. Concerns over the

US military presence in the region began to elevate from the early 2000s with military actions following against Afghanistan, Iraq, Libya and Syria, in addition to support for Saudi Arabia's attack on Yemen or backing for Saudi-supported militant groups. The failure of the Afghanistan and Iraq invasions resulted in the opposite effect. Instead of creating US-linked nodes in the region, Iranian influence enhanced drastically, especially in Iraq. The nuclear issue enabled the US to rally the world against Iran with crippling trade sanctions and suspension from the SWIFT international payment system. The containment of Iran has been detrimental to economic connectivity in terms of both its physical infrastructure and mechanisms for cooperation.

The sanctions on Iran made the country an innovator in terms of circumventing the US, The expulsion from SWIFT compelled Iran to avoid the US dollar and US-based banking clearing systems through barter deals and making payments in gold. The India-Iranian energy trade grew and in 2016 it was announced that all trade would be made in Euros. The Iran-Pakistan agreement in 2016 to end the use of the dollar in bilateral trade will also have an impact on currency markets (PressTV 2016). Physical connectivity with China is improved as the first 10.399km China-Kazakhstan-Turkmenistan-Iran rail route for cargo made its first trip in February 2016 (Dehghan 2016). Iran aims to develop different routes for its energy and transportation infrastructure for enhanced connectivity with India, China and Russia.

Efforts by Russia and Iran to harmonise strategic interests is burdened by a difficult history. The 1828 Treaty of Turkmenchay became Iran's 'unequal treaty' as territory in the South Caucasus was ceded to the Russian Empire. Soviet-Iranian relations were uneasy due to the Anglo-Soviet invasion of Iran in 1941 to seize control over its oil fields to support the Allied's war effort, followed by the reluctance of Soviet Union to withdraw from Iranian territory until 1946. Common interests emerged in the post-Soviet era as both Iran and Russia aimed to deny the West access to Central Asian energy resources by opposing pipelines in the Caspian Sea. Russia has also weighed in militarily on the regional rivalry between Saudi Arabia and Iran due to a shared concern for the rise of Saudi-backed Sunni extremist groups.

Yet, Russia's Western-centric foreign policy after the demise of the Soviet Union often demoted Russia-Iran relations to a currency in Russia's negotiations with the West. The US-Russian 'reset' of relations in 2009 included the US scrapping its strategic missile defence system in Poland and the Czech Republic, while Russia agreed to imposing sanctions on Iran and to cancel the sales of the S-300 air defence system as an important deterrent

against US military actions. These actions were later deemed to have been a mistake by Moscow as relations with Iran soured, while the US shortly thereafter revamped the missile defence system in an even more advanced format as a NATO asset. Russia has since begun delivering the S-300 ground-air defence system and Iran dropped its lawsuit for the failure to deliver in August 2015. The convergence of interests become even more evident in 2015 as Iran and Russia engaged in a common naval exercise in the Caspian Sea (Winer 2015). Russia abandoning its Western-centric policy sets the foundation for a partnership as Iran's significance is elevated in Moscow's strategic consideration.

The sanctions against Iran contributed to enhance bilateral ties as trade was directed towards Russia. Prior to the removal of sanctions on Iran, a memorandum of understanding was signed in August 2014 for a barter agreement to exchange Russian agricultural products and energy technology in return for Iranian oil. The removal of sanctions on Iran following the nuclear agreement also presents challenges as Iran suddenly emerges as a possible rival for energy exports to the EU. Russia is still capable of limiting Iran's export energy to Europe through an Armenia-Georgia corridor. Armenia's membership in the EEC has further empowered Russia to pressure Armenia into reject pipeline agreements that bypass Russia (Grigoryan 2015). The Russian Energy Strategy envisions accommodating Iran in an infrastructure where Russia has a more central role (Russian Federation 2009b).

The North-South Transportation Corridor

A 'North-South transportation corridor' is under development that would establish a bimodal transportation corridor between India, Iran and Russia. Russia, Iran and India agreed to develop the corridor in 2000, albeit little progress was made in the following decade. The project was however revitalised in 2012, and the first dry run was made in March 2014 (Lee and Gill 2015: 114). The strategic significance is supported by a rational economic logic. The corridor can circumvent the Suez Canal route and European ports, with competitiveness in terms of both costs and time. The connectivity with India is also aimed to improve Russia's access to South East Asia (Muraviev 2011: 207). The other end of the corridor will also be extended to Europe and thus strengthen Russia's position as a transit hub. The maritime, rail and road infrastructure between Iran and India also ensures greater diversification in South Asia to dilute the ability of both the US and China from accruing excessive influence.

Three main routes are being established between Iran and Russia to the east, west and through the Caspian Sea. First, to the east of the Caspian Sea, the railroad through Iran-Turkmenistan-Kazakhstan-Russia is already operational. The second route is developed along the west of the Caspian Sea, transiting through Azerbaijan. This route is further diversified as another agreement has been reached for a Iran-Armenia-Georgia-Russia land corridor, which could be preferable as Armenia is an EEU member and Azerbaijan firmly opposed to membership. The final route in the North-South Transportation corridor journeys through the Caspian Sea, with Iranian ports on the southern coast of the Caspian Sea connected with the Astrakhan port in Russia on the northern coast. By extension, Astrakhan is connected with the Volga River and at the other end the Persian Gulf and the Gulf of Oman can access the Caspian by a land-route.

Strengthening the connectivity between Iran and India has the potential of reviving the centuries old commercial and cultural partnership before the secession of Pakistan from India in 1947 eliminated the shared borders. Unlike Russia, India maintained positive relations with Iran by opposing the US-led sanctions. India has invested in the development of Iran's port in Chabahar to connect with India's port in Mumbai, which deliberately circumvents Pakistan due to the Indo-Pakistani row. The corridor with Iran provides India with access to the energy-rich Central Asia region. This Iran-India maritime transportation corridor is aimed to be complemented with an energy connection by constructing an underwater pipeline to bypass Pakistan.

An Iran-Pakistan-India (IPI) pipeline has been promoted for the last decade to enhance the energy security of both Pakistan and India. A land-bridge would eliminate the reliance on a bimodal land and sea format for India and Iran. Pakistan's consumption of gas from the pipeline and the transit fees it would collect is intended to reduce the incentive of using it for political leverage over India (Kaura 2015). Such a project could also be complemented with an India-Pakistan-Iran railroad that would also be connected with Russia. A key obstacle to IPI has been US formidable efforts to undermine economic connectivity with Iran. The UN sanctions on Iran were effective to prevent IPI. The US Secretary of State, Hillary Clinton (2014: 476), wrote that her main reason for visiting India in May 2012 was to pressure India to reduce its energy dependence on Iran. The Japan/US-led Asian Development Bank sought to reduce connectivity between Iran and Pakistan by funding a LNG terminal in Pakistan to provide it with the option of LNG imports from more distant

locations (ADB 2015). While India previously gave into US pressure, it is now reversing its position to revive the IPI pipeline project. The removal of sanctions on Iran makes closer ties more feasible. However, the main motivation for India is likely the development of the alternative Iran-Pakistan-China corridor that could isolate India.

The Iran-Pakistan gas pipeline currently under construction is estimated to be completed by 2018, and will likely be linked up with the grand China-Pakistan Economic Corridor (CPEC). The \$46 billion agreement between China and Pakistan includes transportation and energy corridor from South to North of Pakistan, before crossing into China. The project has further elevated China's regional position by leasing the strategic port of Gwadar in Pakistan for the next 43 years, and effectively replacing India in the connectivity equation. The CPEC initiative will elevate the Chinese-led AIIB as major infrastructure fund. Furthermore, the connectivity initiatives of Iran-Pakistan, Iran-India, Iran-China and Pakistan-China are denominated in local currencies and make a significant contribution to de-dollarisation. Russia' aim to benefit from the project by constructing a section of Pakistan's pipeline from Karachi to Lahore for the monetary remuneration, and more importantly, to also get closer with Pakistan as the country becomes an increasingly important connection point between China, India and Iran. The incorporation of both India and Pakistan into the SCO can ideally be conducive for improving India-Pakistan relations, rather than Russia's engagement with Pakistan being interpreted by India as a betrayal of their strategic partnership.

Iran's development of the Chabahar port aims to compete with the port of Gwadar, and give India access to Afghanistan and to become the main port for Central Asia (Arif 2016: 3). The Chabahar port is therefore in direct competition with Pakistan's Gwadar port controlled by China. Iran permitting Afghanistan to use its Chabahar port at a discounted rate demonstrates Tehran's efforts to enhance its influence in Afghanistan and connectivity to Central Asia, and it sets the stage for a possible Iran-Afghanistan-India partnership against Pakistan (Arif 2016: 3). However, with Iran having a stake in both CPEC and IPI, clearly delineated blocs are unlikely to emerge. Both routes also reduce Central Asia's dependence of on Russia (Malik 2012: 63). Yet, unable to obstruct them, Russia aims to leverage from the connectivity and competition by diversifying its own trade routes. While the Iranian route is becoming an increasingly favourable, Pakistan has also offered Russia to utilise Gwadar for its transit in the region (Haider 2005: 99).

The competition and cooperation over Southern Eurasian connectivity projects is complicated further with the possible but unlikely revival of the 1,078-mile long TAPI (Turkmenistan, Afghanistan, Pakistan, India) gas pipeline project. The United States ardently promoted the strategic pipeline project in negotiations with Afghanistan's Taliban government, culminating in a memorandum of understanding in 1995. The objective of Washington was to diversify Central Asia's economic dependence to undermine Russia's privileged position in the region and perpetuate its weakness after the Soviet Union dissolved (Blank 2016). The project was also important to discourage rival projects with Iran and China. Still, irrespective of the geostrategic significance, TAPI stalled for more than two decades due to difficult relations with the Taliban government. After the US invasion and removal of the Taliban from power, an agreement was signed in December 2002 to revive the project. The initiative since became an important component of the US Silk Road initiative that aims to marginalise Russia, China and Iran by connecting Central Asia with India through TAPI and with Europe through the Georgia-Azerbaijan energy corridor. Nonetheless, TAPI could justly be deemed a pipedream due to two decades of delays, the failure to end the war in Afghanistan and the enduring tensions between Pakistan and India.

In an effort to resurrect TAPI, Turkmenistan postured with an opening ceremony in December 2015 to mark that construction had commenced. The nuclear deal with Iran and the ensuing revival of the Iran-India connectivity induced Turkmenistan to pursue its objective of diversifying away from dependence on Russia and China more vigorously (Amin 2016). While intrinsic impediments still persist, the competition for supplies to India has ensured the support from the US and Japan as the ADB commits to providing the funds (ADB 2016). Yet, as NATO is seemingly losing the war in Afghanistan, the likely return of the Taliban's influence will likely result in Afghanistan diverting connectivity projects towards China as Pakistan facilitated US military actions. Russia lacked the means to oppose the rival TAPI as Turkmenistan has been the most autonomous and isolationist of the former Soviet Republics in Central Asia. Moscow has made specific proposals for energy supply to India, including the construction of a North-South gas and oil pipeline to India, or alternatively for Russia to swap gas with Iran (Blank 2016). Russia could therefore join the TAPI pipeline and provide gas, which would mitigate its opposition and possible obstruction.

Beijing's growing influence in a more geostrategic significant Pakistan has made Moscow more inclined towards strengthening its ties with Islamabad. Besides withdrawing

its opposition to TAPI, Russia promised support for CASA 1000, an initiative to export electricity from Kyrgyzstan and Tajikistan to Afghanistan and Pakistan. Russian-Pakistan economic cooperation began to be explored and expand in the area of energy, communications, physical infrastructure, metallurgy and space cooperation (Muraviev 2011: 208; Hanif 2013: 76-77). Russia also supports Pakistani infrastructure projects by offering for example \$540 million credit to upgrade Pak Steel (Muraviev 2011: 209). Pakistan was one of the chief proponents for establishing cooperation between the Islamic Council and Russia. While Russia set limitation on arms sales to Pakistan to not upset its ties with India, the embargo was announced to have been lifted in June 2014 (Daly 2014b). Two years later, Pakistan and Russia had their first joint military exercise. Furthermore, Pakistan requested negotiations for a FTA with the EEU.

Common institutions with India, Iran (and Pakistan)

Eurasian institutions are instrumental for establishing favourable mechanisms for economic engagement with India and Iran, which would enhance the balance of power within the institutions. In February 2015, India announced pending negotiations for establishing an EEU-India Free Trade Agreement. Russia similarly encouraged in 2016 to establish a Free Trade Agreement between the EEC and Iran (RT 2016b). Both India and Russia are members of BRICS, and in 2017 India and Pakistan will be granted its membership in the SCO. Pakistan's membership in the SCO enhances the prospect for a Eurasian solution for the conflict in Afghanistan after the US and NATO eventually withdraw (Cheng 2015). While the plan to accept Iran as an SCO member state in 2013 was deferred, the removal of sanctions coupled with the pending membership for India and Pakistan is expected to produce a membership offer. Iran's value is enhanced due to its potential contribution in the energy sector as the SCO is increasingly taking on more economic competencies. Iran has also expressed its interest in a larger role for the SCO as an international banking forum. At the SCO Summit in 2010, Iranian Vice President Parviz Davudi argued that 'The Shanghai Cooperation Organization is a good venue for designing a new banking system which is independent from [existing] international banking systems' (Pye 2011). Iran is the only country outside the former Soviet Union to have been invited to join the Russian-led CSTO military alliance. The offer was made in 2007, however, Iran was reluctant to join due to its historical antagonistic relationship with Russia (Valvo 2012). The improved relations

following a joint military campaign in Syria and Russia's delivery of S-300 air defence system could change the prospect of closer military ties. Iran's uncompromising defence of its sovereignty and principled resistance to foreign troops on its territory took a historical turning point in August 2016, when Tehran confirmed that it had approved Russia's the use of its military base in Hamadan to strike targets in Syria (Khalaji and Nadimi 2016).

8.2. Southeast Asia: Vietnam as the gateway to ASEAN

ASEAN elevated its focus on connectivity between its member states and with external partners in its 2010 'Master Plan on ASEAN Connectivity'. The plan proposes economic integration with physical infrastructure, institutions, financial mechanisms and other agreements to become a more cohesive and competitive region (ASEAN 2010). During the Cold War, ASEAN functioned as a US node of power by resisting communism and reiterating US positions. In the post-Cold War era, ASEAN has acted more as an autonomous pole of power in a multipolar Eurasia rather than accommodating US primacy (Rangsimaporn 2009b: 792; Kuhrt 2014). Russia has little prospect of dominating the region where US, Japanese and China influence are well-established, and Russia only account for 1% of regional trade. However, it is an important region for Russia to catch up in order to become serious actor in the Asia-Pacific and ensure that the rimland gravitates towards the continent.

Russia's ambition to engage with ASEAN invokes warranted scepticism by the member states due to Russia's irregular interest in the region. Russia-ASEAN relations have aptly been characterised by a lack of a clear strategy in terms of how to move forward with Russia-ASEAN relations (Martynova 2014). The Foreign Policy Concept of the Russian Federation (2013) even downgraded the priority of ASEAN. Russia's 'pivot to Asia' has, however, created more focus in Russia due to the dire need to diversify partners in East Asia and to achieve economies of scale for the large infrastructure project in the Russian Far East. The EEU and Vietnam signed a FTA in December 2014, which provides the Russian car industry with a great potential market that can be reached with access to Vietnamese ports (Federov 2016). Russian Foreign Minister, Lavrov, even suggested that the EEU-Vietnam FTA was a 'pilot project' for greater convergence in trade and investment between EEU and ASEAN (Timofeychev 2015). The EEU-Vietnam FTA is sought to be replicated with Indonesia, Laos and Thailand. While ASEAN does not have a shared external tariff, cooperation between the EEU and ASEAN could be an expedient format that would also

enhance legitimacy of both institutions and be consistent with Russia's inter-regionalism or 'integration of integrations'. Russia's ambition to establish an EEU-SCO-ASEAN format for cooperation would be a further expansion of the more recent convergence between the EEU and SCO to facilitate investments, cross-border flow of goods, service and capital markets (Russian Federation 2015b; Tsvetov 2016: 65). Russia also aims to boost trade by increasingly utilise national currencies rather than the US dollar. The prospect of enhancing connectivity in terms of both mechanisms for cooperation and physical infrastructure through the Russian Far East and the North-South Transit Corridor could elevate the importance of the region for Russia. While neither side is a dominant trade partner for the other, bilateral trade between the various states have flourished over the past years, with Russia-ASEAN trade growing more than five-fold between 2005 and 2014. While Vietnam can function as a gateway to ASEAN, the partnership is too unique to be replicated in a broader EEU-ASEAN setting.

Russia's partnership with Vietnam, much like its relations with India, is a time-tested relationship that is not adequately utilised. Moscow was an ardent ally of Vietnam during the Soviet-era with economic support and indispensable military assistance to resist and defeat the US invasion. Vietnam's partnership with Russia remains indispensable due to the ensuing animosity between Hanoi and Beijing. Moscow has resisted calls from Beijing to reduce its ties with Hanoi, which demonstrates that the partnership has so far not been used as a currency with other. Indeed, Russia has to some extent leveraged from the tensions as Vietnam seeks military arms and autonomy. Russian exports to Vietnam focuses primarily on energy and military hardware, while Russia has great ambitions to broaden its industrial base by also exporting cars and other manufactured goods. Russia is constructing Vietnam's first nuclear power plant, Ninh Thuan-1, and aims to deliver LNG in the future from its Pacific coast (Kuchins 2014: 136). In a joint venture, Russia and Vietnam extracts hydrocarbons off the coast of Vietnam. In lieu of the economic benefits and military necessity for a regional balance, Russia has sold Vietnam six kilo-class submarines, advanced fighter aircrafts, frigates, missiles and possibly tanks. Russia is crafting the conditions for projecting military power in the region, which is also conducive for further arms sales. While Russia announced the abandonment of its naval base in Cam Ranh in 2002, this decision was reversed and access has been obtained to the base for naval activity and refuelling for long range aviation. Russia contemplates to make this presence firmer by reopening its own military in Cam Ranh.

Indonesia is becoming an increasingly important actor in Southeast Asia due to its strategic location and its mere population size of approximately 250 million. Indonesia is an attractive market for nuclear energy, LNG, oil, aviation and is a leading state for arms exports to ASEAN after Vietnam. Arms sales coincide with joint military exercises and other multilateral military engagement. Malaysia and Thailand is also set to grow in significance for Russian arms exporters. Thailand is a peculiar market due to its historically strong ties with the US that are on decline. Thailand only recently became a consumer of Russian military hardware and Russia has proposed a rapid expansion of economic ties by setting up arms production in Thailand, in addition to investing in Thai railway that could also be utilised to make Thailand a bimodal land and sea transportation hub in ASEAN (Fernquest 2016). Thailand is negotiating the terms of its own investments to develop the agriculture industry in Russia. The region also has an immense potential for Russian energy exports and joint energy extraction. Following the construction of a nuclear power plant in Vietnam, Rosatom engaged Indonesia, Cambodia, Thailand, Laos and Myanmar concerning nuclear cooperation (WSJ 2016). Russia also supplies oil and gas to Singapore and Malaysia, the former especially important as a source of technology, investment and experience in transportation connectivity. These initiatives are expected broaden as relationships mature. In the case of Myanmar, Russia first reached an agreement to access the country's gas and oil reserves in 2006, and then the following year expanded trade by signing an agreement to construct a nuclear research facility (Muraviev 2011: 203).

8.3. Southwest Eurasia: economic statecraft with military support

Russia's footprint in the Arab world, east of Iran, diminished significantly after 1979 and was almost absent following the demise of the Soviet Union. In European Russia, the loss of territory in the Baltic and Black Sea since 1991 severely reduced Russia's port infrastructure for economic and military engagement, a vacuum that has since been filled by the US. However, Russia's Baltic and Black Sea ports have in recent years undergone expansion and modernisation, which can complement Pakistan's Gwadar port and Iran's Chabahar port that can connect Russia to other warm water ports. Efforts are made to expand Russian economic presence in the region, spearheaded primarily with exports of arms and nuclear energy, while also influencing favorable transportation corridors. The Black Sea maritime economic corridor is revived to recover former links with important states such as Egypt, Syria and

Turkey.

Geoeconomic activity in the Middle East and North Africa is inevitably accompanied with a military component as the dominant US bargaining power in the region is to a great extent upheld by monopolising on security guarantees and military coercion. As the leaked emails of Hillary Clinton indicated, comparable to Iraq, the military intervention in Libya was largely motivated by the objective of asserting control over the country's energy resources and to sabotage the utilisation of alternative currencies (Hoff 2016). Similarly, Syria is imperative for Iran's link to Hezbollah and Hamaz, in addition to being an essential component for alternative economic corridors. The proposed pipeline agreement through Qatar, Saudi Arabia, Jordan, Syria, Turkey and then Europe was largely obstructed by Damascus, which favours the rival Iran-Iraq-Syria pipeline project that would cement Baghdad into the alliance between Tehran and Damascus (Kennedy 2016).

Washington purportedly began spreading propaganda within Syria that the partnership with Iran as a Shia majority country was meant to subdue to the majority Sunni population in Syria (Wikileaks 2006; Hersh 2007; Kennedy 2016). According to former French foreign minister, Roland Dumas, the British joined the Americans in planning covert military actions against Syria in 2009 (Guardian 2013). RAND, the US Army-funded think tank, released a report arguing in favour of a broader 'divide and rule' tactic in the region by using covert actions, disinformation and military training. RAND further argues that the US should then 'capitalise on the "Sustained Shia-Sunni Conflict" trajectory by taking the side of the conservative Sunni regimes against [Iran-allied Shiite empowerment movements in the Muslim world]' (Pernin et.al 2008: xvi). A declassified document by the US Defence Intelligence Agency from 2012 envisioned

establishing a declared or undeclared Salafist principality in Eastern Syria (Hasaka and Der Zor), and this is exactly what the supporting powers to the opposition want, in order to isolate the Syrian regime, which is considered the strategic depth of the Shia expansion (Iraq and Iran) (Judicial Watch 2015).

Russia's return to the region has been spearheaded by its military engagement in Syria. Perceived to have been betrayed in Libya as NATO used the mandate for a no-fly zone to coerce a regime change, Moscow was determined to avoid a repetition in Syria. Russia military engagement in Syria has made Moscow the dominant stakeholder among those who will plan Syria's future. The Russian-Iranian intervention in Syria shored up the Syrian

government and targeted the US-backed militants. The ostentatious display of force by launching cruise missiles from the Caspian Sea through the airspace of Iran and Iraq before striking targets in Syria, demonstrated Russia's advanced weaponry and its partnership with Iran and Iraq in defiance of the US (Diesen 2016c). Moscow targets US-backed insurgents to enhance its bargaining power with the West to accept a political settlement where Assad would remain in power. Without a viable dog in the fight, Washington's inclination for a regime change declined due to the fear of ISIS taking over Damascus. In what may have been a calculated repercussion, Saudi Arabia grew even more disenfranchised with the US as it considered itself betrayed by Washington over both the Syrian intervention and the nuclear deal with Iran. This has further strained ties as the US is becoming energy independent and Saudi Arabia threatening to withdraw hundreds of billion in US assets since the US government will allow its citizens to sue Riyadh for its involvement in the September 11 attacks.

Egypt, previously a firm ally in the US orbit, aims to develop a more independent and multidimensional foreign policy (Schumacher and Nitoiu 2015: 100-101). Moscow's footprint was previously pervasive in Egypt until pivoting into the US sphere of influence after the Camp David Accords in 1979. As the US is no longer the decisive superpower, systemic incentives urge Cairo to diversify its ties and become less reliant on Washington for economic and military cooperation. A bilateral Russia-Egypt commission on trade and economic cooperation was established in March 2014, yet it was not until General el-Sisi took the Egyptian presidency in June 2014 that bilateral relations truly reached new heights (Schumacher and Nitoiu 2015: 101). In a highly emblematic gesture, the new Egyptian president made his first foreign trip to Moscow rather than Washington. The power shift in Cairo came at an opportune moment as Russia was engulfed in a trade war with the West. Egypt hoped to leverage from Russia's counter-sanctions on the West's agricultural industry by intensifying its own agriculture exports to Russia. In return, Russia signed an agreement to export weaponry to Egypt, which was supplemented with enhanced military collaboration. Bilateral ties rapidly grew as trade increased by 86 percent in 2014 (Svet and Miller 2015). In February 2015, Egypt and the EEU agreed to establish a Free Trade Zone, providing a much needed legitimacy boost for the EEU following a rough start due to the crisis in Ukraine. In November 2015 an agreement was reached for Russia to construct Egypt's first nuclear power plant, and plans were made to drastically increase export of military hardware to Egypt.

Turkey has historically been an important component for Eurasian connectivity from its central role in the ancient Silk Road, its influence in the Black Sea, to the Berlin-Baghdad Railway constructed under the Ottoman Empire. The Berlin-Baghdad Railway, constructed from the early 1900s, was deemed as a threat to Russia and the UK by extending Germany influence as a Eurasian land-power into markets in the Caucasus, Northern Persia and even India. Turkey strategic geographical position for physical connectivity has continued to lock Ankara and Moscow in an environment of cooperation and competition. In the post-Cold War era, the significance of Turkey as a potential partner and a lingering competitor has risen significantly. Turkey provides Europe with alternative physical connectivity and energy security, while concurrently allows Russia to circumvent troublesome neighbours as transit states and it provides Russia with access to North Africa and the Middle East. The two states tend to have more interests that unite rather than divide them: they share the geostrategic discontent of being two major European states excluded from membership in the main economic institution on the continent. Similarly, both Russia and Turkey have been apprehensive about the US rising influence in the Black Sea, previously influenced primarily by Turkey and Russia. The more favourable relationship between Iran and Turkey could have the potential of swaying Turkish economic interests away from its NATO allies. A common Eurasian strategy was seemingly in the making as Turkey became a SCO observer in April 2013, and Russia later announced it would replace its South Stream pipeline with a Turk Stream pipeline to avoid the unacceptable regulations of the EU's Third Energy Package. The rival positions over Syria eventually derailed the partnership, which plummeted to new depths when Turkey shot down a Russian military plane that allegedly crossed into Turkish territory. The failed coup attempt in Turkey nonetheless provided an opportunity for reconciliation at a time when relations between Ankara and the West soured. By late 2016, President Erdogan announced that steps were being made to commence trade with Russia, Iran and China in local currencies. Until Turkish-Russian interests are more harmonised, it is unlikely that a truly strategic partnership could develop.

Saudi Arabia can be considered the most unfavourable state in the region due to its strategic partnership with the US and its support for Sunni extremist groups. Geoeconomic strategy suggests that bargaining power is not obtained by severing ties, rather economic engagement can alter strategic interests. In 2015, Saudi Arabia committed itself to invest \$10 billion in Russia, with development of the agricultural sector being a key sector (Ostroukh 2015). This investment came at a time when Russia was restricted from access to Western

funding, while Russian counter-sanctions in agriculture were devised to support and grow its domestic producers to a more competitive position.

Conclusion

Southern Eurasia represents an opportunity for Russia to move beyond the East-West dimension, by also adding a North-South component. Iran and India should be recognised and prioritised as indispensable partners in a Greater Eurasia. The partnership with India is evidently underutilised considering the benevolent historical ties compared to the low trade volumes. Iran is a more challenging relationship, burdened with conflicts through history and Russia's previous willingness to sacrifice relations as a bargaining tool with the West. In Southeast Asia, Russia aims to leverage from its historical ties with Vietnam to become a more visible actor. While Russia cannot become a leading power in Southeast Asia in the foreseeable future, a greater presence supports Russia's ambitions to become a major power in the Pacific. Enhancing Russia's footprint in Southwest Eurasia can complement return to prominence in the Black Sea, yet geoeconomic interests in the Middle East and North Africa region requires a significant military component to balance the heavy presence of the West. The most pertinent risk is that military confrontation with the US and other Western powers in Syria risks disrupting Russia's shift from geopolitics to geoeconomics.

Russia's irresolute approach to Southern Eurasia has to a large extent been a product of its Western-centric foreign policy, which has culminated in missed opportunities. Russia has seemingly become more focused since the abandonment of Greater Europe and attempts to establish ties with strategic regions and markets. While Russia is far from the principal architect of new connectivity initiatives in Southern Eurasia, it is imperative to expand and strengthen Russia's global reach to enhance its bargaining power as a great power. The unfeasibility of a leading role so far from Russian borders has the advantage of relations not being accompanied by the same historical baggage of conflicts and subjugation as its immediate neighbours.

9. Europe at the Periphery of 'Greater Eurasia'

Introduction

This chapter appraises how forsaking 'Greater Europe' in favour of 'Greater Eurasia' impacts Russia's bargaining power in Europe. Russia is shifting towards a less Western-centric foreign policy, yet Europe still occupies a strategic position and is therefore by no means abandoned. Instead, the Greater Eurasia initiative aims to demote Europe away from the centre of Moscow's strategic thinking. Russia's bargaining power is intended to enhance by accruing more powerful carrots and sticks, while weakening the corresponding tools of its European counterparts.

This chapter will first survey the geoeconomic rise of the EU, revealing an impressive astuteness to utilise collective bargaining power to gravitate the periphery towards Brussels. The EU can be defined as a 'regulatory power', denoting that economic power is converted into political capital by establishing conditionality for access to its large Single Market. Institutionalising bilateral formats between Brussels and individual partners further maximises asymmetrical leverage to enforce a collective hegemony under the Wider Europe format. The EU is aptly recognised as an economic powerhouse, yet its ability to collectively engage Russia is limited due to deficiency in its internal cohesion. EU enlargement and the common currency further augmented the collective power of the EU vis-à-vis non-members, though it has also become the main sources for internal division and its possible demise.

The second section of this chapter assesses the systemic flaws intrinsic in the EU, which will eventually unravel the union in its current form. EU member states are pursuing diametrically different development models; either economic growth by consumption and debt or by production and savings. German neo-mercantilism is particularly contributing to unravel the balance of power within the EU as Berlin becomes the de-facto capital. The federalist integration agenda of an expanded EU sacrifices economic functionalism in favour of the political objective of circumventing consent for political union. The Euro is the principal irony of the EU as it forces integration through the back door and in the process erodes the economic foundation required to obtain consent for a United States of Europe. Furthermore, both the Euro and successive enlargements have contributed to additionally concentrate power in Germany and thus undermine the internal cohesion of the union.

Lastly, it will be argued that Russia's Eurasian orientation enhances its ability to exploit and exacerbate the fragmentation of the EU. The EU is no longer the only game in town, while Russia's emerging role as an energy 'swing supplier' and transportation corridor will enhance its capacity to employ a wedge strategy. Yet, the EU also obtains significant bargaining power as the success of Russia's Greater Eurasia will be contingent on cooperation with European states.

It will be concluded that the Greater Eurasia project presents the EU with a dilemma in terms of engaging with a Eurasian Russia. Establishing an EU-EEU format would strengthen Russia as an adversarial power, yet it would also provide Brussels with bargaining power. Rejecting cooperation with the EEU and a broader Eurasia-connected Russia would weaken Moscow's position, however Russia would then have greater incentives to divide the EU as an antagonistic bloc promoting asymmetrical leverage without any producing value to Russia as a non-member.

9.1. The geoeconomic ascendance of the EU

The EU can be considered the world's most successful regional geoeconomic project in terms of collectively enhancing bargaining power and leverage vis-à-vis non-members (Hettne 1993). The Union enables its 28 member states to skew the symmetry of dependence with other powers. The EU has been instrumental to establish equilibrium with the US and thus made the Atlantic partnership acceptable and durable. The EU has been successful by establishing asymmetrical relations with its neighbours and facilitated 'collective hegemony' on the continent (Hyde-Price 2006: 227). While the EU was initially established to resolve disputes and promote peace among member states, the mission has changed has become more outward looking by primarily seeking collective bargaining power over non-member states. The chief architect of the rejected EU Constitution, former French President Valéry Giscard d'Estaing, argued that the mission of the EU had changed:

Over the decades, the basis of the EU's existence has changed. We've moved from seeking peace to seeking greatness. The goal is clear: we have to become one of the three main players in the world, so that in 20 years, the US, China and the EU will control the world's three most important currencies' (Rettman, 2013).

In his support for the UK's continued membership in the EU, Tony Blair similarly posited:

The rationale for Europe in the 21st century is stronger than it has ever been. It is essentially about power, not about peace anymore. We won't fight each other if we don't have Europe, but we will be weaker, less powerful, with less influence (Scheuermann, 2013).

The Single Market can be attributed as its greatest success as trade among members increased by removing barriers for trade within the Union, while erecting external barriers and conditionality for access to the market by non-members. The Single Market was to some extent a defensive response to Japan's neo-mercantilist offensive for market share, which was mitigated by imposing costs on non-members (Cecchini 1988: 6). The economic weight of the EU and its ability to obtain political power has been further augmented by the Schengen Agreement, launch of the common currency, and successive enlargements.

The EU extracts political power from its economic position primarily as a 'regulatory power' (Damro 2012). The role as a gatekeeper and negotiator of access for external actors to the Single Market has positioned the EU as a dominant player in the international political economy (Bretherton and Vogler 1999: 47). By establishing more specific political and legal conditionality for favourable trade agreements with its enormous market, Brussels has become a 'regulatory power' (Eberlein and Grande 2005; Bradford 2012: 65), or even a 'regulatory empire' (Zielonka 2008: 474). The EU can merely focus on regulating its own markets to obtain influence beyond its borders, since 'the size and attractiveness of its market does the rest' (Bradford 2012: 65). With gradually more European states joining the EU-centric structures through membership or partnerships, the costs of remaining outside the regulatory space of Brussels increases due to the economic perils of isolation. European countries such as Norway and Switzerland that are part of the Single Market, but opting to stay out of the EU, are put on a so-called 'pay-without-say' model as they must implement all EU directives without having a voice in the decision-making.

Regulatory power is used to advance both an offensive and a defensive agenda in terms of market access (Raza 2007). Defensive economic interests are pursued by providing discriminatory conditions in favour of corporations in its member states. Offensive economic interests are pursued by imposing a regulatory agenda that deconstructs the corresponding discriminatory practices of non-member states (Raza 2007). The EU has constructed a bureaucratic or regulatory empire by developing tariff and non-tariff hurdles for access to the market, disadvantaging especially weaker economies and smaller corporations that cannot

afford adjusting to increasingly complicated regulations (Eberlein and Grande 2005; Bradford 2015; Damro 2015). Subsidies are utilised to defend what are considered sensitive or strategic internal markets. The Common Agricultural Policy (CAP) is the most contentious neo-mercantilist policy that absorbs approximately half of the EU budget (Raza 2007). The US frequently critiques the EU for preventing access to its agricultural market with subsidies, while other states accuse the CAP of offensive initiatives as excess produce is dumped in foreign markets.

The EU Commission announced its intentions to incorporate energy in its economic statecraft by arguing that energy policy must reflect ‘the geopolitical dimensions of energy-related security issues’ and be ‘consistent with the EU’s broader foreign policy objectives’ (European Commission 2006). Brussels provides economic carrots and sticks, the latter by coercing states to implement EU legislation. The EU Commissioner for Energy, Günther Oettinger, threatened economic and political isolation: ‘whoever leaves the Energy Community indirectly leaves the partnership with the EU. It becomes the next Belarus’ (Keating 2012). The EU2020 initiative is intended to further expand the ability of the EU to intervene in the market to support the businesses of member states. The economic growth strategy is aimed to provide ‘powerful tools to hand in the shape of new economic governance’ (European Commission 2010).

The influence and geoeconomic power of the European Community (EC) grew immensely after the collapse of communism in the Central and Eastern European countries. Even before the demise of the Soviet Union, the EC initiated efforts in 1990-1991 to establish agreement for trade with Central and Eastern Europe as the economies were opening (Lane 2016: 49). Favourable trade agreements were conditioned on adopting a legal framework compatible with the Single Market. Conditionality was later formalised with more specific requirements with the *Acquis Communautaire* in preparation of granting membership. A core-periphery relationship was advanced as weaker states had to accept limited sovereignty under the influence of the strong. Conditionality was largely tied to democracy and good governance. Yet, it also provided a dual economic leverage for the Western Europe core countries by enhancing the collective power of a larger EU and the core asserting influence over the periphery countries by taking advantage of cheap assets, labour and capital (Lane 2016: 50).

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9.2. The EU's geoeconomic decline

The EU has several systemic flaws limiting its collective bargaining power. First, German geoeconomic competitiveness has skewed the internal balance of power within the EU and undermined internal cohesion. The EU has further exacerbated this by enabling and privileging German economic statecraft disproportionately compared to other member states. Second, the political objectives for 'deepening' of integration with federalist integration initiatives such as the Euro produces structural flaws impeding economic functionalism. Third, the 'widening' of integration by expanding membership has lumped together economies that are too different.

Germany's systemic incentives for establishing primacy in Europe have endured, yet a distinct difference exists as geoeconomics has displaced militarised geopolitics (Szabo 2014: 123). Germany is principally a land power that has historically relied on a large military to ascend as a large international actor. The maritime dominance of Britain prevented Germany in the past from reaping the benefits from trade, since dependence on sea lanes would subject German economic survival to the British navy (List 1885: 295-296). The naval arms race between Britain and Germany leading up to the First World War was indicative of Germany's recognition for the need to control trade routes to be a viable world power. Karl Haushofer, a dominant figure in German geopolitics in the 1930s and 1940s envisioned great

power status to be contingent on acquiring more territory or 'lebensraum' (living space) to achieve economic independence as an 'autarchy'. Following another defeat in the Second World War, the nascent West-German state enjoyed trade opportunities and economic development developed under foreign patronage, which displaced the requirement for expensive and confrontational military power. Germany's competitive industries and fiscal discipline made the Deutschmark one of the world's most attractive currencies. Yet, the ability of West Germany to convert its economic power into political capital was diminished due to invasive US influence, division of the country and collective guilt fuelling apprehensions to act independently. Immediately after reunification, Germany's vast domestic challenges culminated initially in inward-looking focus and reduced the interest to flaunt increasing relative power in foreign affairs.

The EU facilitated a more outward-looking Germany and enabled Berlin to use its economic might to exercise influence within the shared political project. The EU or 'Europe' has been instrumental to overcome the historical legacy as German power is exercised under the veil of 'European integration' and 'European interests' (Hurrell 1995: 342). As Otto Von Bismarck purportedly stated: 'I have always found the word "Europe" in the mouths of those politicians who wanted from other powers something they did not dare to demand in their own name'. The continued success of the EU has largely depended on harmonising the interests and power of Germany with the EU. Helmut Schmidt, the German Chancellor, argued at a Bundesbank Council meeting in 1978 that the European policy initiative for the new monetary system was motivated primarily by Germany's political considerations:

It is all the more necessary for us to clothe ourselves in this European mantle. We need this mantle not only to cover our foreign policy nakednesses, like Berlin or Auschwitz, but we need it also to cover these ever-increasing relative strengths, economic, political, military, of the German Federal Republic within the West. The more they come into view, the harder it becomes to secure our room for manoeuvre... my principal political considerations, in which for me the whole thing has been embedded from the start and remains embedded, foreign policy considerations (Bundesbank 1978).

German geoeconomics has ascended gradually under the protective umbrella of 'Europe'. Economic power is used to pursue a foreign policy of securing global supply chains, opening up and protecting vital markets, prioritising access to raw materials required for the economy to prosper, while the tool for achieving these objectives are largely economic influence rather than hard military power (Szabo 2015). The geoeconomic

objectives for Germany and the EU are stipulated increasingly more explicit in Germany's strategic documents:

Free trade routes and a secure supply of raw materials are crucial for the future of Germany and Europe. Around the globe, changes are taking place in markets, channels of distribution, and the ways in which natural resources are developed, secured, and accessed. The scarcity of energy sources and other commodities required for highly developed products will have implications for the international community. Restricted access can trigger conflicts. Disruptions of transport routes and the flow of raw materials and commodities, e.g. by piracy or the sabotage of air transport, pose a threat to security and prosperity. This is why transport and energy security and related issues will play an increasingly important role for our security. (German Ministry of Defence, 2011: 3).

The German President, Horst Kohler, was pressured to resign after arguing that Germany must have a more open debate about utilising the military to pursue economic interests. In a bid to enable Berlin to act rational in accordance with geoeconomic logic, Kohler accurately posited that German society must come to terms that:

a country of our size, with such an export orientation, that in an emergency, military deployments are necessary in order to protect our interests, for example, securing free trade routes or preventing regional instabilities, which would definitely negatively influence our trade, jobs, and incomes (Szabo 2015: 7).

Conflicting economic development models within the EU

German geoeconomic is a decisive advantage for the EU's collective global competitiveness. Yet, the same policies distort the symmetry within the Union due to different economic models among member states (Lucrarelli 2012). Germany pursues a policy of aggressive wage suppression to create favourable conditions for exports (Stockhammer 2011). Berlin deliberately uses the market as a tool for power as it 'coordinates constant discussions between labour, government, and industry to arrive at agreements on wages, investment, productivity gains, and prices that will assure continued competitiveness to producers based in Germany' (Prestowitz 2012). Domestic austerity and wage repression limits foreign entry to the German market, while making German products more competitive abroad. Furthermore, low domestic wages creates less domestic consumption, which compels German companies to pursue markets abroad. These corporations also get favourable loans

from German banks as the banks prioritise foreign investments with export-surplus. In 2015, German exports amounted to \$1.4 trillion, exceeding the combined exports of the UK, France and Russia.

While most EU member states have a so-called 'debt-model' for economic growth, Germany has taken a neo-mercantilist export-based approach. Culpability for the disharmony within the EU is commonly attributed to Germany's state-led neo-mercantilist practices, while Berlin tends to blame the 'debt-model' of other member states. Much like China, Germany has pursued a 'beggar-thy-neighbour' strategy by strengthening their own economy by accumulating account surpluses and thus compelling the neighbours to adjust (Baru 2012a: 53). Focus is devoted to production and export at the expense of German consumers, and foreign producers principally in other EU member states. In contrast to the debt-model of its allies, Berlin encourages savings, discourages consumption, and aims to minimise inflation. The extent of divide between the surplus and deficit members has gradually grown, making Germany the burgeoning economic powerhouse of Europe as the Mediterranean member states sink further into unsustainable debt.

Germany has subsequently become more confident to assert itself as the centre of Europe, evident by EU decision-making being increasingly made in Berlin (Brattberg and De Lima 2015). Germany has acted in accordance with realist assumptions about 'interdependence' as EU legislation is used to influence smaller member states without surrendering Germany's own autonomy. For example, the Stability and Growth Pact was intended to promote fiscal discipline with strict limitations on debt, yet Germany and France exempted themselves from the rules in 2003. With production power and capital transferring from the Mediterranean to Germany, asymmetrical economic relation translates into political influence (Cesaratto 2010; Prestowitz 2012). According to Kundnani (2011: 41), the trade gap within the EU has contributed to a more assertive German foreign policy:

The concept of geoeconomics now seems particularly helpful as a way of describing the foreign policy of Germany, which has become more willing to impose its economic preferences on others within the European Union in the context of a discourse of zero-sum competition between the fiscally responsible and the fiscally irresponsible. For example, instead of accepting a moderate increase in inflation, which could harm the global competitiveness of its exports, Germany has insisted on austerity throughout the eurozone, even though this undermines the ability of states on the periphery to grow and threatens the overall cohesion of the European Union.

The centralisation of power in Germany and distortion of a balance of power within the EU can be expected to fragment the EU. Nigel Farage (2015), the leader of the UK Independence Party (UKIP) who contributed greatly to Britain leaving the EU, expressed his disdain for the EU facilitating rather than preventing a ‘German-dominated Europe’. With the UK set to leave the Union and the French economy in decline, the incremental concentration of power in Berlin is likely to endure. Systemic pressures balancing Germany within the EU are evident by the revival of the previous alarming language by the British and French that Germany’s re-unification could bring about a ‘Fourth Reich’ (Mouritzen, Wæver, and Wiberg 1996: 37; Kettenacker 2000: 119). Margaret Thatcher had then echoed French concerns when she warned that Germany would achieve through the EU what it could not achieve through two world wars (Klein 1996). In the Mediterranean and Eastern Europe, the imagery of the ‘good German’ is in decline as rhetoric frequently conjures references to Germany past. Athens aims to establish an alliance of indebted southern European countries against Germany and other northern European state advocating further austerity measures.

Deeper and wider integration in a divisive federalist EU

The federalist integration approach has greatly contributed to exacerbate division within the EU. States are inclined to maximise sovereignty and therefore deem the ‘cost’ of pooling sovereignty to only be acceptable when the ‘benefit’ is greater by improving the economy as a foundation for sovereignty. This is especially important when there is not a shared demos or a common identity among members. Functionalism suggests that *form follows function*, that European integration should only be pursued in the areas and to the extent to which it adds value to the economy, security or good governance (Mitrany 1965). Functionalism represent sounder economic statecraft since institutional solidarity is contingent on maximising the collective benefits to compensate for the reduced sovereignty suffered by integration. In contrast, European federalism implies that the *form dictates function*: the objective of creating a ‘United States of Europe’ implies that economic decisions and the transfer of competencies are largely motivated by the objective of creating a political union (Mitrany 1965). The federalist approach produces a paradox as making the EU more cohesive by transferring power from the state-level to the EU produces further opposition from member states that are reluctant to transfer sovereignty without convincing benefits to the state. Mitrany (1965) thus made the bold prediction that a federalist ‘United States of Europe’

integration project would resemble the undemocratic structures of the Soviet Union rather than the US.

The Single Market of 1987 and the open borders among Western European states with similar economies and standard of living had strong functionalist foundation that contributed to harmonising the national and the regional interests. However, the common currency and enlargement was largely based on the federalist objectives of a political project, a larger supranational European state. The common currency and eastern expansion of the EU has become the two main mistakes creating divergent interests, systemic decline, and possibly the EU's demise (Münchau 2015). The Euro and enlargement are important sources for collective geoeconomic power in the wider world. However, it has also disrupted the balance of power within the EU and concentrated power in Germany.

EU enlargement was intended to enhance collective market share of global GDP and unite Europe (Borocs 2015), but it diluted the internal cohesion required to mobilise the collective resources. Enlargement brought in vastly different economies that upset the internal cohesion of the union, especially as they predominantly augmented the German economy, which further upset the balance with France and the UK. Besides capital and production moving across borders, the different development of the member economies the Central and Eastern European states created huge incentives for large-scale population movements from the East to the West. Rapid demographic changes revived nationalist sentiments in both Western and Eastern Europe. The most prominent case is the UK/Poland case, where politicians in the UK rose in the polls by promising less Polish immigrants, while in the Polish counterpart the politicians were calling for Poles to return to avert further exacerbating a disastrous population decline (Tasch 2016).

The Euro was primarily a federalist project as unsound monetary decisions were made in order to promote political integration. A political union is required to develop a fiscal union, and a fiscal union is needed to develop a monetary union. However, without consensus and a mandate for a political union, the EU elites began at the other way that produced entrenched systemic flaws (Feldstein 2012). A monetary union would create demand for a fiscal union, which would be impossible without a political union. The common currency was therefore a deliberately unsound economic project that would set in motion a chain reaction for political union (Spolaore 2013). Germany reluctantly abandoned the Deutschmark as there was recognition for the structural problems of a monetary union without a political

union, yet political considerations trumped (Sauga, Simons and Wiegrefe 2010). One of the architects of the monetary union, Padoa-Schioppa (2004, p. 14), explained that the common currency was intended to cause a ‘chain reaction’ towards integration:

The road toward the single currency looks like a chain reaction in which each step resolved a preexisting contradiction and generated a new one that in turn required a further step forward. The steps were the start of the EMS [European monetary system] (1979), the re-launching of the single market (1985), the decision to accelerate the liberalization of capital movements (1986), the launching of the project of monetary union (1988), the agreement of Maastricht (1992), and the final adoption of the euro (1998).

Bergsten (2012) used the terminology, a ‘half-built house’, as the inevitable problems emanating from the monetary union would force additional integration and centralisation of power. Monetary integration therefore created an all-or-nothing logic as a European superstate had to be created, or else member states would be compelled to return to national currencies (Stockhammer 2014).

The Euro provides Germany with a severely devalued currency, while other members struggle with an overvalued currency. Usually strong economies will have soaring currencies due to increasing demand and some balance will be restored as the weaker economies will have their currencies devalued and thus increase the competitiveness of their exports. In the EU currency trap, a core-periphery function emerges as the benefit of Germany and at the peril of especially the Mediterranean member states. Several observers therefore define the Euro as a German currency manipulation similar to that of China (Cesaratto 2010; Mattich 2011; Baru 2012a; Krugman 2013). The currency ‘trap’ has further strengthened German exports at the expense of the competitiveness of Europe’s Mediterranean states (Lucarelli 2011). The Maastricht Treaty of 1992 set the initial fundamentals for the internal contradictions of the EU. When the peripheral countries were stuck in the fiscal straightjacket of the Exchange Rate Mechanism (ERM) they were unable to devalue their currencies to restore competitiveness. The European Central Bank (ECB) is compelled to make the monetary policy for the entire bloc, irrespective of their vastly different economies, and lean favourably towards Germany as the main economy (Feldstein 2012). Low interest rates were designed for a deflationary German economy, but fuelled a housing-bubble on other parts of Europe that was inaccurately perceived as economic growth (Cesaratto 2010). The first chief

economist of the European Central Bank, Otmar Issing, described the Euro a ‘house of cards’ that would inevitably collapse (Evans-Pritchard 2016).

The Euro further enabled a state-centric neo-mercantilist policy by utilising an export-led economic growth model and accumulates chronic surpluses. Budget deficits grow in the Mediterranean as production power transfers to Germany and the easy access to cheap money boosts consumption (Krugman 2013). The weak currency has benefitted German exporters, while Berlin ‘has failed to deliver on its side of the bargain: To avoid a European depression, it needed to spend more as its neighbours were forced to spend less, and it hasn’t done that’ (Krugman 2013). The US Treasury Report condemned Germany for strengthening its own economy at the expense of its neighbours:

Within the euro area, countries with large and persistent surpluses need to take action to boost domestic demand growth and shrink their surpluses. Germany has maintained a large current account surplus throughout the euro area financial crisis, and in 2012, Germany’s nominal current account surplus was larger than that of China. Germany’s anaemic pace of domestic demand growth and dependence on exports have hampered rebalancing at a time when many other euro-area countries have been under severe pressure to curb demand and compress imports in order to promote adjustment. The net result has been a deflationary bias for the euro area, as well as for the world economy (US Treasury, 2013: 3).

Responding to EU crises: from carrots to sticks

There is a key flaw to the chain-reaction thesis, which envisioned that a ‘half-built house’ would compel further integration since the only other alternative would be unpredictable disintegration. With the growing recognition that ‘Europe’ caused the current crisis, it is difficult to convince the populations of member states that ‘more Europe’ is the answer (Spolaore 2013). Stiglitz (2016) posits that with fewer carrots and less excitement about the European project, Brussels has become more reliant on fear and threats to deter states from decoupling from the EU. Eliminating alternatives to the EU is imperative to its survival. However, the pressure to punish Britain following the Brexit vote to discourage political contagion among other member states is set to further undermine important trade and the economic functionality of the EU.

Yet, while the concentration of power in Germany has been a source of crisis, it also enables Germany to present itself as the solution by being the locomotive for economic recovery (Veebel 2015: 225). The financial crisis inflicted both the debt-driven and export-driven economies of the EU, but the fiscally prudent export-driven economies such as Germany rapidly recovered and were presented with the opportunity of using the growing asymmetry to extract political concessions (Stockhammer 2014). Germany has used the crisis and weakness of the Mediterranean states to exert its influence by setting the conditions for 'saving' the Mediterranean member states. As European states crumble under debt, Germany provides financial assistance with the conditionality of falling in line with Brussels. Germany's power within the EU has thus reached what Brattberg and De Lima (2015) refer to as the unipolar moment as the Greek debt crisis became virtually a bilateral affair between Berlin and Athens where the former could strongarm the latter. Similarly, Germany dominated the negotiations with Russia over the Minsk Agreement, and the approach to the EU's refugee crisis (Brattberg and De Lima 2015).

The possible fatal dilemma to the Euro has been that Greece cannot receive a debt restructuring or a haircut, as this would have a contagion effect on the other debtor states, while not cutting Greek debt would only see it sink further into unsustainable debt and increase animosity towards Berlin. As the leaked emails of Hillary Clinton revealed, the German Finance Minister, Schauble, 'continues to believe that a complete collapse of the currency union is unacceptable for Germany, as the newly reconstituted Deutsche Mark would be considerably more valuable than the Euro; seriously damaging Germany's export driven economy' (PressProject 2016). The IMF has recognised that the Greek debt is beyond what it could possibly be able to repay since servicing the debt absorbs an excessive amount of resources (Francis 2016). Greece cannot be allowed to default on its debts due to the contagion effect, and the German-led bail-out has mainly been used to repay German banks (Robins-Early 2015). With other Mediterranean states following the path of Greece, they would also expect debt forgiveness as the economic burden of servicing the debt prevents a recovery. The sovereign debt crisis continues along the periphery in Greece Portugal, Spain and Ireland, with Italy and France next in line. While Germany has more authority to push ahead with further integration, the resistance among the populations in member states have reached new heights. EU-scepticism has become the new normal and it appears that saving the EU would require winding back several major project, including the Euro (Harding 2016). The prospect of a reversal for a 'all-or-nothing' project is however unclear, as the EU

never conceptualised or formalised a format for reversing integration (Spolaore 2013).

9.3. The failing geoeconomics of Wider Europe

The EU's format for collective hegemony in Europe outlined in its 'Wider Europe' concept, endeavours to organise non-member states along the periphery within the regulatory framework of Brussels. The bargaining power for constructing a Wider Europe derives largely from the lack of alternatives, as the EU has been the only game in town. Asymmetrical interdependence with neighbouring states is utilised to cultivate a 'ring of friends' (European Commission 2003). The effort of promoting the leadership of Brussels also extends to Central Asia as they are defined as 'neighbours of the neighbours' (European Parliament 2015). Wider Europe is conceptualised in terms of 'concentric circles' of European integration, with different layers or 'subsets of states which have achieved different levels of integration' (European Union, 2009). The principal objective of the EU is to keep the 'core intact, ensuring there is one centre rather than several', and with the subsequent gravitational pull 'stabilising leverage over "the Near Abroad"' (Wæver 1997: 68).

Russia has been the principal obstacle to 'Wider Europe' as a separate and independent core that 'could not be integrated into a 'Big Europe' following the logic of 'concentric circles'' (Kaveshnikov 2003). Neither the West nor Russia aims to sever relations and exclude the other, but rather to develop a favourable and asymmetrical format that maximises their own autonomy and influence. Moscow has consistently and fiercely rejected and resisted efforts by the EU to institutionalise asymmetrical relations for political leverage over Russia. The initial EU-Russia Partnership and Cooperation Agreement (PCA) became the 'original sin' by establishing an unequal and untenable partnership when Russia was at its weakest. The main purpose of EU-Russia cooperation was not to harmonise interests, but for Russia to reorganising its domestic affairs according to the directions of Brussels. Without any conceptual space for an independent role for Russia beyond its borders, the resurgence of Russian influence has consistently been conflated and disparaged as a 'sphere of influence' (Diesen 2015: 79). The 'Common Strategy of the European Union on Russia' similarly presented a condescending list of actions to be fulfilled by Russia (Lynch, 2003: 57; Haukkala, 2010: 97).

The Wider Europe concept was initially to be materialised with the European Neighbourhood Policy (ENP) in 2004, which aimed to organise Europe solely around the EU. Moscow rejected the ENP as it was structured around bilateral formats between the collective EU and individual neighbouring states to maximise asymmetry. The Russian ambassador to the EU, Vladimir Chizhov (2004), denounced the EU for pursuing a format designed to impose its dictates on the ‘underdeveloped peripheral states’. Bilateralism is preferred over inter-regionalism to ensure the neighbourhood gravitate towards the EU (Smith 2005). Due to asymmetry, EU bilateralism can aptly be defined as veiled unilateralism (Tassinari 2005: 9; Vahl 2005: 57). The ENP has been conceptualised as ‘an imperial geopolitical model’ by centralising decision-making in Brussels and neglecting relations between EU’s neighbours (Browning and Joenniemi 2008: 521, 534).

In an effort by the EU to assuage Moscow with more a multilateral and interregional format, the EU and Russia instead negotiated the Common Spaces Agreement of 2005. The Common Spaces agreement affirmed that both the EU and Russia would refrain from zero-sum integration initiatives as both actors had interests and partnerships in the shared neighbourhood:

The EU and Russia recognise that processes of regional cooperation and integration in which they participate and which are based on the sovereign decisions of States, play an important role in strengthening security and stability. They agree to actively promote them in a mutually beneficial manner, through close result-oriented EU-Russia collaboration and dialogue, thereby contributing effectively to creating a greater Europe without dividing lines and based on common values (Russian Federation 2005).

While Moscow interpreted the joint text as a mutual commitment to harmonise integration efforts to establish a Greater Europe, Brussels upheld that the EU’s integration initiatives were inherently a force for good and therefore ‘mutually beneficial’. The EU undermined the Common Spaces agreement three years later by unilaterally launching the Eastern Partnership in 2008. The Eastern Partnership is more multilateral and devotes particular focus to ‘energy security’, which is why Russia was not invited. Following the crisis in Georgia, the EU depicted the Eastern Partnership as an instrument to ‘save’ the shared neighbourhood from Russia (European Council 2008). Several of the Eastern Partnership programs were aimed to compete for power in the shared neighbourhood (Diesen 2015: 96). The Eastern Partnership explicitly supports INOGATE, an international energy cooperation programs and the

Transport Corridor Europe-Caucasus-Asia (TRACECA), both with the aim to reduce reliance on Russia (European Commission, 2008).

The EU's inability to provide benefits to Russia

Regional integration projects tend to be assessed by the reorganisation of relations among member states, while less focus is devoted to the how associations with non-members change. The bargaining power and viability of integration projects such as the EU are largely contingent on the ability to provide benefits for affected non-member states. Regional integration projects inevitably create certain disadvantages of non-members by establishing external borders with privileges for those on the inside and collective bargaining power against those on the outside. Rational external actors act upon the incentive to resist and sabotage integration efforts that affect them adversely, unless the institution can provide substantial benefits to off-set the detriments. For example, China committed itself to support the EEU because the benefit from a common tariff or legal spaces for the entire region between China and the EU outweighed Russia institutionalising a privileged position in Central Asia. Concurrently, Moscow pledged to reduce the external barrier by establishing a FTA with China as a long-term objective, while failure of China to support the EEU would in contrast have resulted in Russia initiating reciprocal punitive efforts to sabotage the Silk Road project.

The tireless mantra of Moscow attempting to divide the EU with wedge tactics can be explained as a rational and predictable reaction by Russia, which is disadvantaged by the EU's collective bargaining power and zero-sum approach to 'European integration' in the shared neighbourhood. A wedge tactic is defined as the attempt to dilute the internal cohesion of an institution by offering individual member states incentives for bilateral initiatives to break from the rest. The EU has failed to recognise that in the era of geoeconomics there is an entirely new dynamic for engaging external actors. In the former epoch characterised by militarised geopolitics, the ascendance of a powerful and overtly threatening external adversary such as the Soviet Union motivated greater solidarity to ensure survival. In contrast, the rise of a geoeconomic adversary employing more covert and non-violent economic statecraft can be more divisive effect (Wigell and Vihma 2016: 605). The EU's attempt to develop a forceful foreign policy is perilous since external powers can exploit and exacerbate the existing divisions within the Union. The former President of the EU

Commission, Romano Prodi, argues that the EU was mainly created as an inward looking institution to resolve differences among its members, and struggles to act internationally while having diminished ability to act collectively with external actors:

Europe is too fragmented and divided... it is one of the biggest economic players in the world, but it still remains a political dwarf. Or, to use a different metaphor, Europe is a “giant with the feet of clay” that does not move because it is too afraid to collapse (Prodi 2015).

The EU's inability to provide benefits to Russia is evident by the absence of a mutually acceptable post-Cold War settlement in Europe. Continuous EU expansion with enlargements and neighbourhood initiatives intensified rivalry and prevented a new status quo from emerging that could be used to build a format for cooperation. The argument that the EU has stabilised Central and Eastern Europe is undermined by power politics as the principal objective was to ensure there was only one core the ‘shared neighbourhood’ would gravitate towards. The states in the ‘shared neighbourhood’ are deeply divided within concerning their views about Russia, and the West's expansion ‘tearing apart’ these societies (Lukin 2014). The EU has become a source of instability by supporting fiercely anti-Russian politics groups and governments in the Baltic States, Georgia and Ukraine. The subsequent war in Ukraine can however present an opportunity for the EU by developing institutional unity in opposition to Russia. The EU's Global Strategy adopted by the European Council on 28 June 2016 posited that ‘Russia's violation of international law and the destabilisation of Ukraine’ have ‘challenged the European security order at its core’ (Sakwa 2016a). The announced intention to develop an EU army to confront a more assertive Russia indicates a new possible foundation for institutional solidarity.

The EU's requirement to provide benefits to the US is an additional disadvantage for Russia. Washington initially expressed apprehensions about the prospect of the EU undermining US leadership in Europe through NATO, albeit it was recognised that the EU was an important node in US global leadership (Katzenstein 2005). The support from Washington was according to Madeleine Albright (1998) contingent on the ‘three Ds’: no duplication of NATO capabilities, no decoupling from NATO, and no discrimination of NATO members outside the EU. The division of labour and harmonisation of interests thus culminated in a partnership for shared management of European security. The EU-NATO partnership and coordination of policies only fuelled the fear in Moscow that the EU would

be another instrument to marginalise rather than accommodate Russia (Diesen 2015: 67). In the longer term, the EU can be expected to diverge from the US since Germany as a geoeconomic power seeks to distance itself and the EU further as the US, which is believed to increasingly drift towards militaristic geopolitics (Szabo 2015).

9.4. EU bargaining power in Greater Eurasia

Both the EU and Russia aim to develop cooperation with the other within a format with favourable symmetry, Sergei Karaganov, an advisor to President Putin's administration, argued in favour of drastically reducing the centrality and dependence on Europe: 'We want to be at the heart of Greater Eurasia, a region of peace and cooperation. The subcontinent of Europe will also belong to this Eurasia' (Neef 2016). Brussels bargaining power vis-à-vis Moscow is set to diminish as the EU is no longer the only game in town. First, Russia is becoming less reliant on the EU by diversifying energy consumers and partners for modernising the Russian economy. Second, Eurasian connectivity equips Russia with more potent wedge tactics. Yet, Russia's Greater Eurasia strategy also provides the EU with an opportunity to provide value to Russia and could therefore lessen Moscow's incentives for employing wedge tactics.

The enduring accusation by Western governments that Russia utilised energy as a 'weapon' to blackmail its neighbours was initially based on a flawed argument. The narrative suggested that Russia disrupted energy supplies transiting through Ukraine to punish the anti-Russian government that came to power in 2004. This description deliberately neglects that Russia only cancelled energy rebates to Ukraine as a punishment, and energy was only cut once Kiev responded by siphoning gas transiting to Europe. Accusations about the alleged Russian 'energy weapon' were conducive by motivating a consensus for reducing dependence on Russia. However, Russia's energy weapon was largely limited as Russia has remained equally dependent on the EU as an energy customer. With Russian energy supplies being directed to the east, Moscow will in the future be in the position to redirect its oil and gas supplies.

In lieu of pending crisis and rising probability of disruption to energy flows, EU member states will be more willing to ensure reliable supply of affordable energy by accepting favourable bilateral deals with Russia. The North Stream gas pipeline, directly

connecting Russia and Germany through the Baltic Sea, was signed with Germany in 2005 following the 'Orange Revolution' to bypass transit dependence on anti-Russian governments Ukraine and other Eastern European states. Following the 2014 Maidan coup, Russia and Germany agreed to construct the North Stream 2 project to facilitate increased gas exports. Italy and Bulgaria subsequently expressed a sense of betrayal by Germany as Berlin had blocked the South Stream that would have greatly benefitted Italy (Fischer 2016: 2). Similarly, Nord Stream 2 will, much like Nord Stream 1, replace reliance on transit and deprive Ukraine, Slovakia, Hungary and Poland of transit fees and political leverage. The planned Turk Stream pipeline, which is replacing South Stream, will transit through states united by disenchantment with the EU.

Anti-EU political parties across Europe often find themselves united with Moscow's frustration with the EU's efforts to assign fixed values to the contested concept of 'Europe'. The ties between political groups and Russia have especially grown since the mutual sanctions. has only escalated Political forces in the EU detest efforts to equate 'Europe' with the centralisation of power in Brussels (Diez 1999; Malcolm 1995; Emerson 2001), which is deemed as equally unacceptable for Russia by being conceptually excluded from Europe (De Wilde 2007: 2). The UK Independence Party (UKIP) expressed similar discontent with Brussels, which became the largest British party represented in the EU parliament and eventually pushed the Prime Minister to hold the Brexit referendum. The UKIP leader, Nigel Farage, even criticised 'NATO and the EU encroaching upon Russia', which had been 'provocative', 'wrong' and a direct cause of the war in Georgia (BBC 2008). After the EU support for toppling the Ukrainian President in 2014, Farage accused the EU of an 'imperialist, expansionist' agenda that resulted in 'blood on its hands' (BBC 2014). The election of a pro-Russian leadership in the US, Bulgaria and Moldova in 2016 indicates that the ability to marginalise Russia is declining. France could follow this trend as its election in 2017 could possibly become a competition between François Fillon and Marine Le Pen. The former is a staunch advocate for a closer partnership with Russia who blamed the war in Ukraine on the West for provoking Russia. The latter holds an even more pro-Russian position by calling for leaving the EU and NATO and instead forming a strategic partnership with Russia. Similar anti-EU/pro-Russian sentiments are shared by EU sceptic parties such as the Five Star Movement in Italy, the 'Alternative for Germany' and Die Linke in Germany, Syriza in Greece and others (Polyakova 2014; Laruelle 2015).

With the relative decline of material wealth in the EU, the accompanying liberal

democratic values will also predictably have reduced attraction. While it is common to depict the West and Russia through a comfortable democracy-authoritarianism dichotomy, Moscow presents its government as an alternative to Western liberal democracy. Putin declared that Europe has become morally degenerate by abandoning ‘their roots, including Christian values that constitute the basis of Western civilisation’ (Valdai 2013). The social conservatism upheld by Russia is seen as a preferable alternative therefore gaining and push for diffusion of power away from Brussels. The rise of anti-establishment parties across Europe portrays Russia as representing more traditional values and freedom from ‘Merkel’s Europe of the banks’ (Braghiroli and Makarychev 2016: 219). Marine Le Pen, the leader of National Front in France hailed Putin as the defender of ‘the Christian heritage of European civilization’ (Polyakova 2014). The Prime Minister of Hungary, Victor Orbán (2014), announced that Hungary will be building an illiberal democracy as liberal democracies are not competitive: ‘Today, the stars of international analyses are Singapore, China, India, Turkey, Russia’.

Establishing Greece as a bimodal sea and land route for energy and transportation into Europe has the political benefit of transiting through states that are friendlier to Russia. In addition to a heavy Russian economic footprint within the Western Balkans, Russia also shared a common history as allies and a shared orthodox faith with Greece, Serbia, Republika Srpska, Montenegro and Macedonia. Serbia asks for EEU FTA. The President of Serbia, Tomislav Nikolić, unambiguously stated that ‘the only thing I love more than Serbia is Russia’ (Cella 2015: 6). As Russia expands its maritime connectivity, it will have more to offer coastal states. Cyprus agreed in February 2015 to host the Russian navy in the port of Limassol, and possibly also the Paphos military airbase. Spain has similarly accommodated Russian warships since 2011 to its port of Ceuta.

The economic decline in Greece and fierce negotiations with the EU has made it important for Greece to diversify its partnership for enhanced bargaining power. Yet, to date, Greece has principally utilised its ties with Russia to achieve better deals with the EU (Cella 2015: 2). Russia’s willingness to establish factories in Greece and tempt Greece with favourable agriculture exports to Russia has been attempted to sow discord in EU sanctions on Russia. Both Russia and China have expressed interest to purchase Greek ports, railways (Stanek 2016).

Greater Eurasia connectivity as a wedge strategy

The security challenges and opportunities from Russia have altered in the era of geoeconomic following the Cold War. While there is no realistic scenario of a Russian invasion, threats are mostly geo-economical in terms of rising influence in Eastern and Southern Europe, competing integration initiatives, efforts to dilute the EU's internal cohesion, and cross-border crime (Szabo 2015: 89). Concurrently, Russia is an indispensable partner for energy, and also increasingly transportation infrastructure, since the German trade is extremely dependent on maritime transport and thus vulnerable to disruption at several volatile regions (Szabo 2015: 89). Polls demonstrate that the vast majority of the populations in EU member states disapproves of the EU's policy on Russia, while having a strong economic relationship with Russia is favoured over 'being tough' (Stokes, Wike and Poushter 2016).

The rise of Eurasian powers presents a challenge to the ability of the EU to ensure internal cohesion. The EU's share of global GDP is projected to continue a steep decline, which will limit its aptitude to set conditionality and act as a regulatory power. Trade is also shifting from between member states to non-member states. As individual member states have greater commercial interests with non-members, the foreign policy and decline in loyalty to the EU is expected to follow. As German trade and economic interests continue to incrementally shift from the EU to Russia, China and the Gulf States, its definition of national interests and subsequently foreign policy will change (Szabo 2015: 69). While a reasonable argument is that Germany's common identity and inter-subjective ties with the West functions as an anchor against the geo-economic wave to the East, the economic engagement with the East presents ideational continuity rather than change as a new 'Ostpolitik' in globalisation. A division within the broader West is therefore also probable, as Berlin has never been completely comfortable with the US approach of isolating authoritarian states, and rather subscribed to the belief it is serving liberal democratic values by gradually opening up the East by developing economic ties.

The internal competition between member states has undermined the internal cohesion of the EU and thus the capacity to act collectively. The governments of member states are increasingly seeking leverage vis-à-vis other member states by acting unilaterally in bilateral deals when economically and politically expedient, which undermines the EU (Youngs and Springford 2013). Germany receives most attention for this practice, however, most member states are adopting this approach to remain competitive (Youngs and Springford 2013: 40-41). Berlin resisted pressure from the EU in its bilateral agreement with Russia to develop Nord Stream I and Nord Stream II, the latter negotiated while Berlin

pressured other EU members to impose and maintain sanctions on Russia. In contrast, Germany had been a strong proponent of blocking the South Stream pipeline from Russia to Bulgaria by insisting of Moscow adopting the legislation from the Third Energy Package. This indicted priority to the state-centric objectives of reliable supply of energy to Germany by insulating itself from EU-Russian power politics, and obtaining the status of an energy hub within the EU. Similarly, Germany also circumvented the EU by gaining access to rare earths in bilateral deals with Kazakhstan and Mongolia (Kundnani and Parello-Plesner 2012). Berlin also acted unilaterally by engaging with China bilaterally to develop agreements on standards for electric cars and other renewable energy (Kundnani and Parello-Plesner 2012).

China's march to the West in cooperation with Russia will contribute to relegating Europe to the periphery of Eurasia. Chinese exports to Russia are increasingly substituting EU exports to Russia (Herrero and Xu 2016). This trend is likely to escalate as Russia had in the past reserved privilege access to its energy markets to the EU due to the political considerations of the Greater Europe project, while the new Greater Eurasia project will devote less significance to Europe. The growing entry of China is also swaying states away from Germany and the EU. Orban (2014) argued that liberal countries 'will not be able to sustain their world-competitiveness in the following years', while advocating looking towards Russia, China, and the Middle East for economic development.

The strategic industries and specific regions of Chinese investments in Europe are indicative of a cohesive grand strategy. China considers Central and Eastern Europe to be a distinct block of 16 countries and developed a 16+1 format to engage the region. Engagement with Beijing can assist them to elevate from their peripheral position in Europe. Dividing the EU is not an objective in itself, rather a key purpose is to provide these states with greater agency to develop state interests in concert with China when it may be opposed by the rest of the bloc. With Greece being the main maritime bridgehead into Europe, China has bought its stake in the port. The China Ocean Shipping Company (COSCO) acquired container terminals. Following China's upgrades of Piraeus, the port could have equal capacity as Europe's three largest ports in Rotterdam, Antwerp and Hamburg (Le Corre and Sepulchre 2016: 27). This is strategically coupled with and rail projects for enhanced connectivity north through Serbia and Hungary. Chinese investments in Europe rose by 40 percent in 2015, often due to large scale acquisitions or grand infrastructure projects. China focuses on strategic industries such as agriculture and manufacturing, with major takeovers occurring such as ChemChina prospective for the Swiss seed giant Syngenta for \$43 billion. A key

motivation with mass acquisitions is to obtain technology transfers, while Chinese staff often replace their European counterparts (Le Corre and Sepulchre 2016: 54).

EU geoeconomic revival through inter-regionalism

Greater Eurasia presents the EU with a dilemma. Engagement with the EEU provides legitimacy to an institution that aims to eliminate the asymmetrical leverage of the Wider Europe format. Yet, accommodating the EEU can enhance the EU's bargaining power. Prior to the coup in Ukraine, Moscow proposed in January 2014 to establish a Free Trade Area between the EU and the EEU as a tool for settling the zero-sum rivalry over Ukraine (Lavrov 2014). Russia has promoted membership in the EEU as an opportunity to break with the EU's program of political conditionality for cooperation that relies on maximising asymmetrical leverage. Since the EEU aims to enhance symmetry in relations with the EU, establishing an EU-EEU dialogue is pivotal for the success of the latter. At his UN speech in 2015 Putin reiterated the success of great powers harmonising interests

Contrary to the policy of exclusiveness, Russia proposes harmonizing original economic projects. I refer to the so-called integration of integrations based on universal and transparent rules of international trade. As an example, I would like to cite our plans to interconnect the Eurasian economic union, and China's initiative of the Silk Road economic belt. We still believe that harmonizing the integration processes within the Eurasian Economic Union and the European Union is highly promising (Putin 2015a).

At the 2016 St Petersburg International Economic Forum, Putin (2016) repeated again that 'the "greater Eurasia" project – is, of course, open for Europe'.

Towards the end of 2014, Merkel argued that 'We are ready for talks between the Eurasian Union and the EU on trade issues' (Wagstyl and Khalaf 2014). At the Munich Security Conference in February 2015, Merkel repeated her support for negotiations between the EU and the EEU. The former president of the European Commission, Romano Prodi, argued that a 'quadrangle relationship' should be established between China, Russia, the EU and the US to respond the lack of mechanisms for cooperation among the key centres of power (Prodi 2015). There is, however, an assumption in the EU that an eventual reset in relations will be contingent on Moscow falling in line with the Wider Europe format (Suslov 2016).

Conclusion

Preserving an economic entity with political resolve can delay disintegration, yet the subsequent dilapidating economic foundation of the entity will ensure a faster and uncontrolled collapse once disintegration inexorably commences. The best approach for the EU would be a controlled reversal and return to the EU fundamentals of the pre-Maastricht era that ended in 1992. Less focus on deeper integration and centralisation of power would also make the EU more capable of harmonising its interests with Russia as a non-member state. Albeit, reduced rationality remains a key impediment for the EU evident by the lack of appreciation for the economic foundations for its internal cohesion and bargaining power with external actors.

The initial and extraordinary success of the EU's economic statecraft to create collective hegemony on the continent rested on the ability to establish itself as a regulatory power. Establishing conditionality for access to the EU's Single Market has produced internal cohesion due to the economic benefits for member states and the limited need to foment divisive foreign policies since the periphery 'naturally' gravitates towards the enormous EU market. Yet, the EU has largely failed to resolve the internal competition within the union. Power increasingly centralises in Berlin as German neo-mercantilist policies expands exports at the expense of the southern member states that rapidly accumulate unsustainable debt. While states usually require centralisation of power to be stable, the sustainability of an economic bloc is undermined when the internal balance of power erodes. The economic functionality of the EU project has mostly been eschewed by the efforts toward establishing a political union or a European superstate. The common currency created greater internal competition as it centralises power in Germany, which undermines the functionalist reasoning for integration. Enlargement also undermined the foundations of the union by privileging German power disproportionately and bringing in very different states with economic incompatibility and thus excessive migration. Subsequently, neo-mercantilist policies and federalist integration agenda for the EU has returned Germany to its historical role of leading Europe towards collective suicide.

The EU has largely failed to develop shared interests with Russia and to make Moscow a stakeholder in the contemporary European architecture. Enlargements and the Wider Europe initiative diminished the opportunity to approach the shared neighbourhood

collectively and cast 'European integration' as a zero-sum geopolitical project. The EU has therefore implicitly encouraged Moscow to pursue wedge tactics at the peril of the internal cohesion of the EU. The militarisation of relations has left the EU and Russia at a crossroad. On one hand, the overt military challenge from an external power can be conducive to strengthen a common voice within the EU. On the other hand, the effort by member states with widely different interests to pursue a forceful, controversial and sustained common foreign policy will likely expose the EU's 'feet of clay'.

Russia's Greater Eurasia project could provide Brussels with the opportunity to reverse its principal mistake of marginalising Russia in Europe and thus providing Russia with incentives to support the EU. A mutually beneficial partnership between the EU and EEU could elevate Brussels bargaining power. However, the profound mutual sense of betrayal over Ukraine makes a great power compromise unlikely. While there are growing voices within the EU to re-set relations with Russia and reach a compromise, Ukraine cannot be put back together. The prospect of a hostile Ukraine gradually cemented into the Western orbit has for more than two decades been recognised to pose an existential threat to the Russian Federation. The rational and optimal objective for Moscow is to prevent Ukraine from being ruled from an anti-Russian core as large segments of Eastern Ukraine have more favourable views of Russia. Decentralising power in Ukraine would be conducive towards this end, which was achieved in the Minsk-II Agreement that committed to federalising Ukraine – a possible stepping stone to secession as the Western and Eastern regions would likely drift apart. The reluctance by Western powers to pressure Kiev to abide by the Minsk-II agreement would result in Donbass becoming a frozen conflict under de-facto Russian influence, while attempts by Kiev to take Donbass by force would compel Russia to intervene directly and unilaterally establish a new *fait accompli*. Either way, a potential and much-needed re-set in EU-Russia relations would be burdened by the prerequisite of re-drawing the map of Europe. The most probable direction of relations is for the EU to continue efforts of crippling the Russian economy with sanctions.

In the absence of a 'new thinking' and radically different foreign policy by the EU, Russia should and likely will support the pending unravelling of the EU. The EU's collective bargaining power has created unfavourable conditions for Russian exports, limited Russia's access to European technologies and added intrusive 'democracy promotion' a condition, and facilitated crippling economic coercion through sanctions. Russia's 'Stalingrad moment' when the economic pain is reversed could be a few European elections and referendums

away, as Brexit and the election of Trump could be followed by more new Russia-friendly governments in France, Italy and the Netherlands. Alternatively, the disintegration of the EU could be precipitated by what seems to be a likely or even unavoidable banking crisis in the EU. Germany, the primary facilitator of anti-Russian sanctions, could soon lose support for these policies and its privileged position within the EU, which has fuelled its economy and sanitised Germany's invasive influence on the continent. Russia should aim to cut down in size what has become an excessively powerful and antagonistic Germany. A future strategic partnership between Germany and Russia, which should have prioritised after the Cold War, should not be burdened by Berlin's priority of institutionalise privileged or exclusive influence in Europe and the shared neighbourhood.

Conclusion: Towards a New Russian Grand Strategy

Russia's abandonment of Greater Europe in favour of a Greater Eurasia signifies a rational response to the rapidly changing global order. Moscow progressively contrasts a stagnant, ideological and belligerent West with a dynamic, pragmatic and accommodating East. Efforts by Moscow to enhance connectivity between Eurasian powers should be deliberated within the context of a broader rivalry encompassing a myriad of actors challenging the foundations for the 500-year prominence of Western maritime powers. The endeavour to establish Russia as a land-bridge between Europe and Asia failed in the past due to inadequate geoeconomic foundations. The rise of Asia, most importantly China, has redistributed global power not seen since the mid-1800s.

The strategy for a Greater Eurasia should be framed as developing Russia as a key successor of the Mongol Empire's in terms of reviving the Silk Road with Eurasian connectivity. Previous Eurasian endeavours were unsustainable and failed as they were principally costly militaristic geopolitical projects led to imperial overstretch, and detached Russia from the modern economies of the maritime powers in Western Europe. The inheritance of the Mongol Empire should be conceptualised through a geoeconomic lens in terms of a Eurasian land power challenging the economic privileges and primacy of Western maritime powers. Eurasian connectivity provides Russia with alternative markets for its exports and improved access to technology and investments to modernise its economy.

Russia's bargaining power at the centre of Eurasia should be enhanced by becoming an increasingly indispensable partner for other large powers, while for Russia to become less reliant on any one state or region. Policy makers should however be careful to develop foreign policy on false historical analogies since ransacking the past in search of precedents is often diminishes rationality. The resurgence of Asia implies that the prospect for Russian hegemony in Eurasia is unfeasible, which is an important difference from Tsarist Russia in the early 1900s and the burgeoning Soviet Union that followed. Russia's optimal strategy should be directed by the guiding principle of enhancing its bargaining power to establish a balance of dependence. China constitutes the principal power in Eurasia and its revival of the ancient Silk Road can benefit Russia by establishing alternative international institutions, value-chains, trade routes and trading currencies that reflect the new international distribution of power.

The guiding objective of a rational Russian grand strategy should be to primarily rely on economic statecraft to skew the symmetry within interdependence and enhance bargaining power. China is an indispensable partner as the main locomotive to deconstruct unipolarity, while concurrently it is imperative that Russia prevents a US-China bipolar system from evolving. Russian bargaining power is maximised by accepting China's economic leadership, while simultaneously reject Chinese dominance by diversifying partnership. The EEU should be recognised as an imperative component to ensure equilibrium in a Greater Eurasia. However, NAFTA and the EU should present a cautionary tale for Moscow concerning the development of economic blocs to enhance collective bargaining power. The sustainability of economic blocs is fragile if production power shifts drastically within the institution and/or skew the internal balance of power. A strong and cohesive EEU could add significant weight to Russia's efforts to reach out to Northeast Asia, Southern Eurasia and Europe.

Geopolitics and geoeconomics strategy are decisively different in terms of the ability to enhance bargaining power without producing excessively zero-sum scenarios. Economic statecraft is more conducive to avoid 'pure conflict' since the decision-making of adversaries can be influenced to a greater extent with benign means by providing shared material benefits. The realist logic of relative gains and thus need for balancing still persists. Yet, geoeconomic balancing is conceptually distinct from containment. The former can be pursued benignly by diversifying away from asymmetrical economic dependence, while the latter relinquishes the ability to harmonise interests and instils uneasiness with the status quo. A 'swing strategy' of maintaining fruitful partnerships with several centres of power without

committing solely to one partnership is imperative to act in accordance with the balance of power logic as the international distribution of power undergoes change. Bargaining power diminishes by cutting ties with one centre of power as a negotiation tactic. For example, Russia's willingness to impose sanctions on Iran in 2009 in return for a reset in relations with Washington that included scraping missile defence should be recognised as a blunder: The economy of a potential ally was strangled, Russian-Iranian relations suffered, and NATO merely reintroduced a more powerful missile defence system.

The gradual demise of the world order established after the Cold War creates much uncertainty about what will follow domestically and internationally. The relative decline of the West could easily fuel hubris within Russia and encourage irrational policies. Of greatest concern would be the prospective rise of more hawkish personalities espousing the objective of balancing the West in a traditional geopolitical manner. The head of Russia's Investigative Committee, General Aleksandr Bastrykin, advocated rapid development of the military and preparations for war. With more traditional geopolitical understandings of rivalry, Bastrykin argued that continuous and futile efforts to reach a post-Cold War political settlement with the West amounted to appeasement that only emboldened NATO (Kommersant 2016). While there is merit to Bastrykin's argument, a return to militarised geopolitics would be detrimental to the adoption of economic statecraft as the principal instrument of power. Russia's employment of military force to preserve the status-quo in Georgia, Ukraine and Syria was a rational decision made only after economic tools were exhausted to maintain a position with important geoeconomic significance. Yet, consecutive successful use of the military to enhance Russia's international standing risks empowering the wrong segments of the Russian political class that are less devoted to a geoeconomic grand strategy. The current approval ratings of the Russian president enhances manoeuvring to sideline the voices neglecting the importance of economic statecraft and favour a return to outdated geopolitical strategies that are destined to fail. Over the medium- to long-term, Moscow should cultivate 'economic patriotism' among the political class and population to ensure political pluralism does not impede the ability of the state to act in a rational manner.

Internationally, the US has growing incentives to revise its current bargaining power to divide the major Eurasian powers. Being the decisive superpower for more than two decades has made Washington's reduced reliance on compromise with rising powers contesting US leadership. With the relative decline of the US, it is reasonable to expect that its bargaining power will be less reliant on economic and military coercion that fuels

cooperation among Eurasian powers, and instead accommodate various rising powers to restore a balance of power among its adversaries. The balance of power logic suggests that the US would most likely reach out to Russia since China is the principal power, while the balance of threat thesis may advocate that Russia is the main adversary due to its preparedness to confront the US with hard power. Both Russia and China would and should respond favourably to proposals by Washington to develop new formats for cooperation that would reduce the contemporary zero-sum structures. For example, Washington's acceptance of including the Chinese Yuan in the IMF currency basket is indicative of a rational effort to preserve US-led institutions, following the failed attempt to isolate the rival AIIB. Similarly, the nuclear agreement with Iran, the Joint Comprehensive Plan of Action (JCPOA) reached in 2015 would make it possible for Iran to develop stronger ties with the West as a key bargaining power vis-à-vis China and Russia.

Eurasian connectivity has sound economic rationality by providing significant gains for the major Eurasian powers, yet it should be recognised that the recent momentum has been built on shared resentment of the intrusive and intolerable effort of the US to advance and sustain global primacy. The election of Donald Trump in November 2016 can therefore have a profound impact on Russia's strategy for a Greater Eurasia. Trump has during his presidential campaign indicated he could remove almost all impediments for a strategic partnership with Russia, while being less clear on what he would expect in return. The President-Elect stated on several occasions that a better relationship with Russia is warranted; NATO is 'obsolete'; the US should stay out of Ukraine; Crimea may be recognised as Russian territory; the US and Russia should fight collectively against ISIS in Syria and Assad could stay in power. It is possible that Trump may backtrack once he takes office due to competing priorities and the need to compromise with a political establishment that remains fiercely hostile to Russia. Albeit, Moscow should be prepared for compromise with a US President that openly contests the post-Cold War international order. With brazen antagonism expressed towards China and Iran, Trump will likely aim to reduce Russia's economic connectivity with two of the main Eurasian powers. A potential partnership with the US should support a Greater Eurasia, not undermine it. Moscow would therefore be wise to develop favourable relations with the US to diversify partnerships and promote peace, without using its Eurasian partners as a currency. Systemic pressures will incentivise the US to promote division on the Eurasian continent, which will disadvantage Russia.

The tendency in the West to interpret Russia's resurgence through the lens of

traditional geopolitics reduces the aptitude to respond with economic statecraft and risks producing military conflicts. The dominant discourse in the West indicates little understanding for Russia's aim to use geoeconomic power to revise the structures in Europe and Eurasia. The common depiction of Russia seeking to alter the international system has deluded the political class into expecting Russia to restore the Soviet Union by military force. Suspicions that Russian tanks may soon invade in Poland or the Baltic States demonstrates the extent to which the West has deceived itself and is unprepared for the actual challenges posed by Russia's economic statecraft. Furthermore, the militarisation of relations and continuous brinkmanship will make it more difficult to facilitate cooperation and competition. Kissinger (2014) notes that 'the concept of order that has underpinned the modern era is in crisis' due to the lack of 'an effective mechanism for the major powers to consult and possibly cooperate on the most consequential issues'. Confrontations without clearly established rules are spiralling out of control from Ukraine to Syria, while similar conflicts may also erupt in places such as Moldova where the population is divided down the middle between seeking integration with the EU and Russia.

The positive outcome of an eventual rapprochement with the West presents another set of critical challenges to Russia's Greater Eurasia strategy. Moscow's momentum for a formidable and 'irreversible' pivot to the east has to a great extent been supported by the collapse of relations with the West. While Russia will not accept a reset within the EU's Wider Europe or a NATO-centric format, a settlement will reduce the political momentum for accepting the painful reforms required to establish Russia as a Eurasian state. There is a profound risk of the political class being induced by the prospect of reintroducing a Greater Europe, which could be fatal for the Greater Eurasia project by again demoting the indispensable strategic partnership with China and Iran to a mere currency in negotiations with the West.

Hitherto, there are reasons for optimism for Russia's Greater Eurasia ambitions. There are remarkable indications that the Eurasian rimland is gradually gravitating towards the Eurasian heartland. In Northeast Asia, Japan is under increasing pressure to settle its border disputes with Russia and device a more independent foreign policy, and South Korea links peace on the Korean peninsula to economic connectivity with Russia and China. In Southeast Asia states many US allies in the first island-chain are diversifying their relations by pivoting to China and to a lesser extent Russia, with Philippines being the most flagrant illustration. The two main powers in Southern Eurasia, India and Iran, are voting for a post-Western

future by embracing Eurasian institutions, trade patterns, physical infrastructure and trading currencies. In the Middle East and North Africa, the decline of the US as the decisive superpower is also persuading states to diversify their partnerships, with Egypt spearheading the trend. Lastly, the joint effort by Russia and China to reconfigure Europe as Western Eurasia intensifies the ongoing fragmentation of Europe's post-Cold War architecture. Systemic economic difficulties and political opposition are burgeoning as the EU establishment attempts to hold together an economic institution with political determination. The fragmentation of the existing order in Europe transpires at a time when economic interests and ultimately political allegiances are shifting to the East.

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