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**EU, Russia and the Reshaping of the Post-Soviet Space:
An International Trade Analysis**

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ABSTRACT

The last decades have witnessed the rise of a new wave of economic regionalism, not only at a global level, but more recently even within the old continent, where the supremacy of the EU has begun to be challenged by Russia in an attempt to re-consolidate the post-Soviet space, thus tempering the increasing EU engagement in the area. The article analyses the main shifts occurred in the trade patterns of the EU and the CIS countries since the 1990s. Russia's ties to Europe have to some extent slackened, while Europe, despite its growing dependence on Russia, is eager to find alternative energy suppliers, like Kazakhstan, Azerbaijan and Turkmenistan. In Central Asia, however, both Europe and Russia will find it increasingly difficult to counterweigh Chinese influence. In Central and Eastern countries Russia is regaining importance if compared to the rest of the EU also owing to the lacklustre performance of the latter.

Keywords: economic regionalism, European Union, Eurasian Union, Russia, post-Soviet states, Central Asia

JEL codes: F14, F15, P2

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1. Introduction

The last decades have witnessed the rise of a new wave of economic regionalism, the most remarkable example of which is the European Union. Until recently, there was no other comparable experiment of integration in the continent – if not in size, at least ideally. In the East, CIS countries had repeatedly tried to reinforce cooperation, either under the aegis of Moscow or at different sub-regional levels, but with relatively scanty achievements. In 2004 the European Union expanded its borders to include four former members of the Eastern Bloc as well as the three Baltic states, once part of the USSR¹. Four years later, also Bulgaria and Romania joined the Union. The West-East divide had thus been partially bridged.

Following the Eastward enlargement, the European Union launched the European Neighbourhood Policy (ENP) to create a "ring of friends" around its new borders. Partnership and Cooperation Agreements (PCAs) had already been signed between the EU and the newly independent states in the 1990s, at a time when the CIS was still perceived as an integrated region (Gänzle, 2009, p. 1724). Over time, however, the EU has developed a more structured policy by acting at sub-regional level (Delcour, 2008, p. 173). As the Russian Federation refused to join the ENP, insisting on dealing with the EU on an equal footing rather than being entrapped into a "junior partnership", strategic cooperation with Russia has been developed around four common spaces (economy and environment; freedom, security and justice; external security; research and education). In 2007 the European Council adopted the Strategy for a New Partnership in Central Asia (European Communities, 2009) and in 2009 the Eastern Partnership was introduced, including Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. The growing involvement of the EU in the eastern periphery began however to displease the Kremlin, which was seeing its sphere of influence progressively but unrelentingly eroded.

Russia's response to the challenge posed by the increasing engagement of the EU in the East was twofold. On the one hand, it proposed the ambitious goal of creating an economic commonwealth "from Lisbon to Vladivostok" (or even a free trade area thereafter) to be implemented through a common industrial policy, the creation of an European energy system, cooperation in the field of scientific research and education, and finally the establishment of a visa-free regime (Putin, 2010). On the other hand, it has been driving forward the agenda for the foundation of the Eurasian Union (EaU) (Russian Ministry of Foreign Affairs, 2013), modelled on the EU itself. In doing so, Russia has started to compete with the EU on the same ground, that of normative power. Notwithstanding the claims that the EU and EaU are not necessarily mutually excluding projects and that the latter might constitute an intermediate stage aimed at reinforcing the economies of the post-Soviet space and their bargaining power vis-à-vis the EU in the negotiations of Deep and Comprehensive Free Trade Agreements (DCFTA) (Vinokurov, 2013, p. 24; Putin, 2011), the EU has ruled out deeper integration with countries wishing to join the EaU².

Even before the outbreak of the Ukrainian crisis, the two integration frameworks were potentially conflicting due to the vagueness of their ideal boundaries. The geographic definition of Europe has become fuzzy (Smith, 2005, p. 757) nor has that of Eurasia ever been clearer. Depending on the faction, it is claimed that Eurasian integration should have a truly Asian focus (with the participation of members of the Shanghai Cooperation Organisation³ and potentially India, Iran and Mongolia), be extended to continental Muslim countries or remained confined to the Soviet space (Mostafa, 2013). Whatever the extension the EU and EaU will eventually achieve, at the moment it is clear that the two spheres of influence perceive each other as mutually encroaching on the very same space, that of the former USSR.

Leaving aside political considerations, the inclusion of a country into a regional bloc is usually

1 Plus Slovenia, member of the former Socialist Republic of Yugoslavia.

2 As was the case for Armenia (see European Commission, 2014).

3 Russia, China, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan.

justified by a preexisting, although partial, *de facto* economic integration, to be furthered after formal accession. Every article exploring EU-Russia relations contains at least one line where the high interdependence in terms of exchanges between the two economies is recalled. Less is known however about the countries in between. This contribution aims at providing an overview of the trade links between the EU, Russia and the other transition economies, offering a factual background for the debate on the reshaping of the post-Soviet space.

The questions to be answered are: a) to what extent Russian and EU markets are interdependent; b) how far trade integration of the new accession countries inside the EU has progressed in comparison to that with Russia; and finally c) of which of the two regional blocs, the European or the Eurasian Economic Union, post-Soviet countries appear to be closer trade partners.

The figures reported in the text⁴ are based on own calculations made on bilateral trade data available from the UNCTAD statistical database for the period 1995-2012. Aggregate data about the EU refer to the EU-27.

Obviously, the analysis proposed suffers from some limitations. A minor one is that it only considers merchandise trade, neglecting services. Given however the marginal role services play for the less advanced countries, the picture should not be significantly altered by their inclusion into a further analysis. A more severe limitation might be on the contrary the fact that, though throughout the paper the fuel component has been considered separately for economies highly dependent on the energy sector, only figures about *values* of fuel exports-imports have been provided. Lacking an estimation of the influence of higher hydrocarbon prices on total values, we do not know for instance if increasing trade between the EU and an oil-exporting country is mainly due to price movements or to actual increases in the volumes traded. This can make a difference in assessing the energy dependence on one country, as prices adjust much more quickly than quantities. Moreover, by focussing on trade relations, the study omits other dimensions important to evaluate economic links between countries, like FDI or migrant remittances, these latter often quite important for some CIS countries.

It must also be stressed that the results reported in the paper do not imply any normative judgment on the opportunity of deepening integration between one or the other country bloc. As mentioned above, these associations are often the recognition of already existing ties between economies, to be further reinforced through coordinated policies. But the fact that significant trade relations already exist does not automatically imply that they are optimal: they might just be the outcome of sub-optimal choices dictated by reasons other than macroeconomic ones. It may therefore well be that in some situations the most growth-enhancing policy is to foster trade with minor, not major partners. Not to mention the fact that, when talking of regionalism, despite the terms or the rhetoric deployed about economic prospects, what the principal actors have in mind is always something more complex (and real) than estimated welfare gains or hypothetical additional GDP percentage points, something that crucially hinges also on geopolitic-geostrategic considerations, which may suggest very different paths than those of a tidy econometric result.

It is for this reason that what is provided here is only a descriptive overview of the current situation and its past evolution from the point of view of international trade. The evidence provided can thus offer a general and comparative picture, something often left aside in more ambitious works that aim at promoting one set of policies along a single geographic vector.

2. The Commonwealth of Independent States

The Commonwealth of Independent States (CIS) was established in 1991 as a way of safeguarding economic linkages among "sister republics" after the dissolution of the USSR. The CIS was founded by the Russian Federation, Ukraine and Belarus, quickly joined by Moldova, Armenia,

4 Tables and figures have been omitted due to space reasons.

Azerbaijan, Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan and Tajikistan, while Georgia followed suit two years later. Albeit judged to be trade enhancing, the loose structure of the CIS has until now prevented it from fully deploying its potential (Freinkman et al., 2004). Its regime is usually perceived as too soft, confusing or even ineffective. This results from the possibility for each member state – warranted under the "interested party principle" – to cherry-pick the most favourable agreements avoiding participating in others without affecting the validity of these latter for the other signatory countries. Reservations and exemptions have been regularly introduced in the protocols of many free trade agreements and there is no effective mechanism to ensure compliance. The actual regime is thus a unique blend of *à la carte* multilateralism and multiple bilateralism frequently overlapping, as thoroughly documented by Dragneva and De Kort (2007).

In a historical perspective, the CIS should be regarded as the first and geographically most extended attempt to promote integration within the region in a European style, or at least this was the intention. Ambitions were however higher than actual possibilities. In 1994, the non-ratification on the part of the Russian Parliament of the Agreement on the Establishment of the Free Trade Area – containing provisions for the implementation of the 1993 Treaty of the Economic Union, which envisaged a multilateral free trade association as preluding to a customs union – eventually torpedoed the project.

From that moment onwards, Russia pursued bilateral agreements, while at the same time promoting a multilateral framework on a more narrow base, with the launching in the following year of a customs union with Belarus and Kazakhstan, later extended to Kyrgyzstan and Tajikistan (the so-called Union of Five).

Russia was not however the only promoter of regionalism on a smaller scale. In 1991 three Central Asian republics, namely Kazakhstan, Uzbekistan and Kyrgyzstan, launched the Central Asian Economic Union, re-baptised Central Asian Economic Community (CAEC) when Tajikistan joined in 1998. The CAEC proved to be rather ineffective (Pomfret, 2004, p. 13), nor was it substantially improved by its successor, the Central Asian Cooperation Organisation (CACO) founded in 2002. Despite grand proclamations, after this face-lift operation, trade was still hindered by border closure, tariffs, protections and visa requirements (Spechler and Spechler, 2009, p. 364). In the same period Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova established the GUUAM, later renamed GUAM, as the second "U", Uzbekistan, withdrew. In an incoherent quest for regional integration counterweighing Russian influence, the five Central Asian republics, together with Azerbaijan and Afghanistan, joined the Economic Cooperation Organisation (ECO), previously established by Iran, Pakistan and Turkey, but even this association did not bring tangible results (Pomfret, 2004, pp. 15-16).

All these unfruitful attempts have cast a negative light on any further project of integration in the CIS region. Despite understandable skepticism, in recent times Russia has nonetheless revamped regionalism through the creation in 2000 of the Eurasian Economic Community (EEC) among the members of the Union of Five, besides a proposed Single Economic Space (SES) among Russia, Belarus, Kazakhstan and Ukraine. The EEC improved upon the CIS framework in many respects, although coordination problems remained (Dragneva and Wolczuk, 2012, p. 4). The project of deeper integration has been so far consistently implemented only by three of these countries, namely Russia, Kazakhstan and Belarus, which in 2010 established the Eurasian Customs Union (ECU) to be followed in 2015 by the Eurasian Economic Union, whose future however remains uncertain given the international tensions provoked by the Ukraine crisis.

From an economic point of view, the CIS countries represent different realities in terms of GDP, trade profiles and stages of transition towards a fully fledged market economy (Obydenkova, 2011). According to their trade specialisation, they can be divided into a group of energy exporters (Russia, Kazakhstan, Turkmenistan and Azerbaijan), small economies with significant migration (Armenia, Moldova, Kyrgyzstan and Tajikistan) and exporters of relatively more complex products

(Belarus, Ukraine and Uzbekistan)⁵. After the collapse of the Soviet Union their manufacturing sector contracted, increasing their dependence on commodity exports. The literature has also emphasised the disintegration of the trade network set up in Soviet times following political fragmentation (Fidrmuc and Fidrmuc, 2003; De Sousa and Lamotte, 2007), although the legacy of the former USSR still influences the business environment (Golovnin et al., 2013, p. 111).

Before starting to discuss the evolution of trade profiles in the CIS, a word of caution is needed regarding the quality of trade data, especially for the small economies. The main flaws are limited coverage owing to smuggling, shuttle trade of consumer goods, misspecification of the country of origin through transit-countries because of duty incentives, limited timeliness or even lack of governmental control over secessionist regions (Freinkman et al., 2004, pp. 1-5; Pomfret, 2004, pp.1-2).

2.1 The Russian Federation

Albeit substantial improvements in industrial productivity have been achieved since 1997, Russia's trade profile is heavily skewed towards hydrocarbon production and energy-intensive basic goods (Ahrend, 2006; Algeri, 2004). The country has until now proved generally unsuccessful in fostering medium- and high-technology exports not only in absolute terms, but also when compared with most other emerging economies (Connolly, 2008)⁶.

Economic and political relations between Europe and Russia are shaped by their energy trade. Albeit the EU will continue to be the main trade partner in this sector, Russia is aiming at diversifying its exports towards other markets like Asia (Russian Ministry of Energy, 2010). This is not simply an empty threat to be employed in negotiations with Europe, as some maintain, but corresponds to factual circumstances. Russian exports to the EU have been rapidly growing until 2000 to decelerate thereafter and then fall due to the economic crisis. The growth of the European market prior to the crisis, however, is to be attributed to the overwhelming influence of the Netherlands. In the 1990s Russia was only one of the minor suppliers of hydrocarbons to the country, merely accounting for a 5%, as the bulk of imports came from Norway (20%) and Saudi Arabia (15%). In few years, however, Dutch purchases swiftly shifted away from its major suppliers towards Russia, which by 2007 had a third of the market. Over time also Germany supplies had shifted from Norway and African producers to Russia; nonetheless, its overall share in Russian exports has been declining since 2001. If we therefore exclude the Netherlands (the largest sales market for Russia since the mid-2000s), the remaining European share began declining already in 2000 and in 2012 was 30%, 5 percentage points smaller than 17 years before. Including the Netherlands, the values are back to those in the late 1990s.

After the Netherlands and together with Germany, the most important partners are Italy, China, Ukraine, Turkey and Poland. Italy and Turkey were growing markets, which however suffered from the crisis; Ukraine has progressively decreased from 8% to less than 3%; the Polish market has remained stable, while the Chinese one has been oscillating between 4% and 6%. The US and the UK markets have been contracting and Russian ties with Eastern Europe have become looser (decreasing shares of Hungary, the Czech and the Slovak Republic and Lithuania). Also the CIS as a whole has been declining from 17% to 11%. Emerging trading partners are on the contrary South Korea and Japan. Japan had increased its exchanges with Russia already some years before the nuclear accident in Fukushima - which spurred the government to seek alternative energy sources⁷ - while Korean share has almost tripled in the last years.

On the import market, both Germany and China have a 15%, stable the former, rapidly ascending

5 This classification has been borrowed from Vinokurov (2013, p.17).

6 An exception is represented by the arms industry, which has considerably expanded on the international market, especially in Asia (Battisti, 2009, pp. 319-320).

7 For the Japanese interest in Russian LNG, see Ericson (2012) and Pajon (2013).

the latter. As a whole, both Europe and the CIS have been declining: Europe from its historical maximum of 53% in 2004 to 45% in 2012 and the CIS from 21% to 14% over the same period. Imports from Belarus, one of Russia's main suppliers, had been growing until the early 2000s reaching almost a 10% share to contract to 4% afterwards, though they started growing again with the implementation of the Customs Union in 2010. Imports from Ukraine have remained roughly stable around 6%, while those from Japan and South Korea have increased significantly⁸.

If we now take only non-fuels exports, the share of the CIS has gradually increased from less than 20% to more than 30%. Ukraine's share of the market, increased in the late 1990s, fluctuated around 8% before slightly reducing in the aftermath of the global economic crisis, which also affected exports to Germany and Italy, two major destination for Russian goods, thus significantly reducing the size of the European market. Also Turkey, whose share had passed from less than 2% to 11% over a decade, has reduced its imports after 2008.

As regards the trade balance (highly positive thanks to energy exports), before the crisis Europe accounted for half of the surplus on average, while the balance with the CIS had been constantly improving. The only countries to enjoy a non-negligible surplus with Russia are Germany and China. If fuels are excluded, however, Russia's balance turns negative. To its negative value contribute especially Germany and China (for roughly one fourth), Ukraine, Belarus, Italy, Korea and Japan (5% each).

2.2 Belarus, Moldova and Ukraine

Among the three, Belarus is the country with the highest per capita income⁹, Ukraine is a middle income country within the CIS area, while Moldova is a very poor nation, heavily dependent on remittances from abroad and exporting mainly agricultural products (like wine or sunflower oil) and textiles. Belarus on the contrary has a trade structure more balanced between primary and secondary sector. The country grew considerably under Soviet rule, developing the most technologically advanced industry in the USSR and becoming one of the most export-oriented countries within the bloc. After the dissolution of the USSR, Belarus also managed to retain its industrial profile better than many other "sister republics" (Ioffe, 2004). Nonetheless, its economic base narrowed, with a decline in medium-technology exports and growing dependence on Russia for the import of cheap oil to be refined and then re-exported (Connolly, 2008, p. 597). Russia has always been the main sales market for Belarus, absorbing more than half its exports, but it has been constantly decreasing, accounting for no more than one third of total exports since the mid-2000s. In the meanwhile exports to Europe have substantially increased (more than one third), though the shift is mainly due to the Netherlands, which accounts alone for 17% of the market. This increased "europeisation" of exports is thus to be read in the context of the changed Dutch policy concerning its energy supply, as fuels account for the almost entirety of the flows. After Russia and the Netherlands, the most important importer from Belarus is Ukraine, which mainly imports fuels (while manufactured goods have become less and less important). On the import side, leaving aside China's ascent, not much has changed, with Russia supplying 60% of the Byelorussian market and Europe around 20%. The overall trade balance is negative due to the energy deficit vis-à-vis Russia, partially counterbalanced by the energy surplus with Ukraine and the Netherlands.

In Ukraine, in the mid-1990s Russia approximately accounted for 40% of the export market, whereas Europe for only 20%. For a decade, the former had been falling and the latter increasing. However, since 2003 trends reversed and now the EU and Russia represent each 25% of the total market, while the CIS as a whole has a share of 37%. Far beneath Russia, the second largest sales market is Turkey (which has grown from a modest 3% to 6-7%). Also Italy and Germany used to be important partners, but their shares have reverted to their values in the 1990s (4% and 3%

8 For a detailed analysis of the growing trade relations between Russia and Japan, see Tabata (2012).

9 UNCTAD database, GDP per capita in constant dollars and exchange rates.

respectively). Belarus, on the contrary, whose share had dropped in the years following the collapse of the Soviet Union, has been regaining ground (more than 3%). In the meantime, also the size of the Kazakh market expanded substantially (from less than 1% to 3%). Also noteworthy is the different export profile of the country vis-à-vis Russia and the EU. Exports to Russia are mainly manufactured goods (70% of the total), while food has decreased from a fourth to a tenth of the total. To Europe Ukraine exports 50-60% of manufactures and an increasing share of food (almost 30% in 2012, to which one should add agricultural raw materials – nearly inexistent in Russia's case – for few percentage points). Comparing the structure of exports to the two countries, it results that Ukraine exports 30 times more agricultural raw materials to Europe than to Russia, 2.5 times more foodstuffs, 1.5 times more ores and metals, slightly less manufactures (0.8 times), almost the same percentage of low-skill and low-technology intensity products, half the share of medium-skill and technology goods and roughly the same share of complex industrial productions.

As regards imports, Europe has maintained a stable share of 30%, roughly equal to that of Russia. After Russia, the most important suppliers are Germany (stagnant), China (increasing) and Belarus (which rose from 2% to 6%, see above). If we consider total trade flows (exports plus imports), over the 2000s Russia and Europe have remained almost equally important trade partners for Ukraine, while excluding fuels European trade reached its maximum in comparison to Russia in 2002 (2 times larger) to slightly decrease thereafter (1.5 in the last years). Since the mid-2000s, Ukraine is running a trade deficit with Europe which is comparable to that with Russia. Omitting fuels, however, the surplus vis-à-vis the CIS covered (and since 2008 has over-covered) that with Europe, so that Ukraine could enjoy a surplus with respect to Russia as well as to the other members of the CIS.

Moldova's dependence on Russian trade has considerably fallen since the 1990s, with an export and an import share passing respectively from 60% to 20% and from 30% to 20%. Europe as a whole now accounts for half of both exports and imports, but this is primarily due to the expansion of the Romanian market, which has doubled its size and is now as large as the Russian one. Moldova is running a trade deficit largely determined by Ukraine and, to a smaller extent, by Romania and Germany.

2.3 Central Asia

Long after the dismantling of the USSR, Central Asian countries are still struggling to restructure their economy and integrate into the world economy. Plunged in the aftermath of the dissolution of the Soviet Union into a deep depression characterised by declining manufacturing production and by labour migration, with traditional consumer goods industries displaced by imports, the five Republics gradually reoriented their exports towards commodities. At the moment there are only limited hints at export upgrading towards industrial products (like garments and textiles) and Central Asia continues to remain isolated from international production networks (Myant and Drahokoupil, 2008). The fate of its economies is thus mainly dictated by the fluctuations of the markets for raw materials.

Among the main items exported there are petroleum and natural gas (Kazakhstan, Turkmenistan), uranium (Kazakhstan¹⁰), gold (Kyrgyzstan, Uzbekistan), aluminium (Tajikistan) and cotton (Uzbekistan, Tajikistan, Turkmenistan). Kyrgyzstan and Tajikistan are in a particularly unfavourable position owing to their landlocked location and relative resource scarcity, which makes them dependent on fuels imports and migrant remittances (Kim and Indeo, 2013, p. 280). Uzbekistan, though having a more diversified industrial structure, has been disadvantaged by the adverse movement in cotton prices started in the mid-1990s until early 2000s, cotton being the most important item in the country's exports.

10 The country has recently become the world largest producer of uranium, accounting for more than 35% of the total output since 2008 (World Nuclear Association, 2014).

Kazakhstan and Turkmenistan, on the contrary, have been benefitting from the surge in oil and natural gas prices since 2000. Kazakhstan, with its huge hydrocarbon reserves, is destined to become a major exporter in the near future. While Caspian oil is mainly concentrated in this country, Turkmenistan accounts for the largest share in natural gas reserves of the region (Petersen and Barysch, 2011, p. 22). Because of the pipeline system inherited from the Soviet times, these countries are still heavily dependent on Russia, which used to be in a monopsonistic position, but they are both trying to secure new markets autonomously. In this strategy both China's energy hunger and EU concern with supply security play a crucial role. The Chinese CNPC (China National Petroleum Corporation) has been investing in the construction of the Kazakhstan-China Oil Pipeline since 2004 and few years later it has granted generous loans to Turkmenistan – to be repayed through deliveries of natural gas – for the laying of the Central Asia-China Gas Pipeline (Petersen and Barysch, 2011, p. 42). Turkmen gas can thus flow to China through Uzbekistan and Kazakhstan, but also Tajikistan and Kyrgyzstan are negotiating with China for the extension of the pipeline system, which would provide China with an alternative route for its gas imports and grant the two republics a slice of the cake in the Chinese business as transit states (Ericson, 2012).

Also India and Pakistan are interested in the supply of Turkmen natural gas. To this end, the Trans-Afghanistan Pipeline (better known as TAPI) should start to be constructed in 2015. The main drawback of dealing with South Asian partners, however, is the low price they are willing to pay for fuel imports. A more promising customer is certainly the EU, with which, however, negotiations have been inconclusive, with the project of the Trans-Caspian Gas Pipeline (TCP) still on paper. Parallel to the TCP, there is also the involvement of Kazakhstan for the launching of the Trans-Caspian Oil Transport System, which would connect the country with Azerbaijan to reach the Black Sea and the Mediterranean.

The growing importance of China and the EU clearly appears from trade figures. In 1995 Kazakhstan's exports to the European countries were something more than half its exports to Russia, but by 2012 they were seven times larger. In terms of trade share there has been a complete substitution between the two trading poles. In 1995 Russia and the EU accounted respectively for 45% of total exports, but the importance of the latter has been constantly decreasing to a meagre 7% in 2012, whereas in the same year Europe, which in 2003 had already surpassed Russia, accounted for 50%. Similarly to Russia, also exports to the other CIS countries have been declining from 10% to 6%. The former Soviet bloc has not only suffered from European competition, but also from China's, which in the late 1990s absorbed 7% of Kazakh exports on average, while it presently accounts for 18%. Besides the construction of the Kazakhstan-China Oil Pipeline, this development has also been accelerated by the global economic crisis, which, reducing European and Russian demand to serve the European market, has left more resources available for the Chinese market. On the import side, the loosening of the ties to the CIS area has been less pronounced, as it still supplies around 40% of Kazakhstan's imports. Since the 1990s, Europe has on average remained on a 20-25% share of the market and has already been surpassed by China, whose imports increased by a factor of 17. In terms of total trade flows (exports plus imports) the Kazakh market is thus now roughly divided into a 40% share held by the EU and another 40% almost equally split between Russia with the CIS and China. If from total trade we exclude fuels, the respective position of Russia and the EU has kept balanced and almost equal, while China, with its cheap exports, has reached an equivalent share by 2009.

While Kazakhstan has been progressively detaching itself from Russia, with a total trade with the rest of the world growing from 2 to more than 6 times the value of its exchanges with Russia, until the mid-2000s Turkmenistan's trade structure remained much more static, with the CIS accounting for the bulk of trade flows (70% of exports, which compensated for a declining share of imports, thus resulting in a roughly stable 50% share of total flows) and Europe constantly weighing for a 20% of both export and import markets. By 2010 the picture was totally altered due to China's

entrance on stage. Chinese imports have been rising all over the 2000s from negligible values up to shares equal to that of Russia and the EU. But it was on the export markets that the change has been most dramatic and sudden, as is now China, not the CIS, which receives 65% of the country's exports, thus being its most important trade partner.

Unlike Kazakhstan and Turkmenistan, in Uzbekistan, Tajikistan and Kyrgyzstan trade flows with the EU, both in the export and in the import markets, have been declining with respect to the CIS. From 1995 to 2012, in Uzbekistan total trade flows with Europe dropped from 48% to 11%, in Tajikistan from 35% to 6%, while in Kyrgyzstan the European market, whose size had doubled between the late 1990s and the beginning of the new century, reverted to its previous values of around 9%. In Uzbekistan the share of trade within the CIS in the last two decades has been constantly accounting for at least 40% of both exports and imports. While imports from Russia have remained unchanged, exports have been on average falling from 30% to 20%. This decline has been however balanced by the rising share of the neighbouring Kazakhstan, which now also accounts for 20% of Uzbek exports. Other two emerging trade partners are China and Turkey. On the export side they have approximately grown from 3-4% to 20%. On the import side, Turkey is much less important, while China has reached a 16% share, equal to that of South Korea, which since the late 1990s has always been the second largest exporter to Uzbekistan after Russia.

Unlike Uzbekistan, Tajikistan's trade with the CIS and Russia has been decreasing. CIS exports and imports fell respectively from 30% and 60% in 1995 to less than 20% and 40% in 2012. Now it is Turkey, not Russia, the main importer from the country (30%), while China has become the main exporter, rapidly gaining 40% of the market. Uzbekistan – traditionally the largest trade partner of the country together with Russia – which in 2000 still accounted for 16% of exports and 30% of imports, is now nothing more than a partner among others. In Kyrgyzstan, on the contrary, international trade is still mainly confined to the CIS area (55% of total trade flows). As regards exports, a recent, possibly temporary, decrease of Russia's share has been compensated by an expansion towards Uzbekistan and Kazakhstan; imports from this latter have on the contrary declined, while Russia, formerly accounting for 20% of the imports of the country, has increased its presence by more than ten percentage points. Russia controls now a third of the country's total trade, although China, whose exports to Kyrgyzstan have substantially grown, ranks second, with slightly less than one fifth.

To conclude this section, let us briefly mention trade balances. Kazakhstan is running growing trade surpluses with the European countries, which however only depend on energy exports, as the non-fuel trade balance is increasingly negative, with Europe as well as with the rest of the world. With Russia, both the non-fuel and the fuel trade balances are negative, while, thanks to direct access to the market, the country now enjoys an overall surplus vis-à-vis China, albeit very limited when compared to that with the EU. Even including fuels, Turkmenistan has a trade deficit towards Europe and Russia, more than compensated by the surplus on the Chinese market. Uzbekistan, which since the fall of the Soviet Union has consistently implemented an import-substitution policy, is, with the exception of 2012, a net exporter with respect to the CIS and even China¹¹. The surplus with Turkey is growing, while the deficit with South Korea is worsening. The smaller Kyrgyzstan and Tajikistan are on the contrary net importers, with the largest deficits being those towards Russia and China. In Tajikistan, the biggest positive component of the trade balance is the surplus with Turkey.

11 Uzbekistan also has large gas resources, which are however mainly used for domestic purposes. Despite the relative importance of gas in the export mix, the favourable trend in gas prices has contributed to the further improvement of the trade balance and the country is now envisaging to increase supply to China (see Bendini, 2013, p. 16).

2.4 Southern Caucasus

Besides Russia, Kazakhstan and Turkmenistan, a major oil economy in the CIS area is Azerbaijan. The country is heavily dependent on its oil exports, which makes it prone to the "Dutch disease" (Hasanov, 2013). Representing "only" half of the total exports in the late 1990s, petroleum by now has almost become the unique commodity exported by the country (more than 90% of total exports). Since the mid-1990s the share of exports to the CIS has been plummeting from 40% to 4-6%, with Russia alone declining from 25% to 3%. Exports to Europe surged from less than 20% to more than 70% in few years, but, after reaching their record level in 2002, started to follow a downward trend, accounting in 2012 for slightly more than half the aggregate figure. The single major importer of Azeri oil is Italy, at least three times larger than any other partner. In the last years, however, also India, Indonesia and, to a lesser degree, Thailand have significantly increased their shares, which are now among the highest (respectively 7%, 6% and 3%). As regards imports, the country mainly relies on other CIS countries, particularly on Russia, whose importance has remained stable over time. European producers have however increased their presence on the Azeri market, which is now split into one third controlled by the CIS and another third controlled by the EU. Turkey, which was a very important supplier in the 1990s, after losing ground has now fully recovered, with a market share equal to Russia's. Needless to say, also China, though still smaller, ranks among the main suppliers.

The resource abundance of Azerbaijan benefits also its neighbour Georgia, as the country, which is not equally blessed in terms of hydrocarbon reserves, can partake in the revenues generated by the black gold flowing in the pipelines crossing its territory (the relatively older oil pipeline from Baku to Supsa, on the Black Sea; the more recent BTC, connecting Baku to Ceyhan, in Turkey, through Tbilisi, as well as the gas pipeline BTE from Baku to Erzurum, which runs parallel to BTC). Georgia also exports refined petroleum, ferroalloys and gold, besides a profitable business as car re-exporter to neighbour countries. Until the late 1990s, Russia was the largest market for Georgian exports (roughly one third), but with the new century its share started to decline dropping to very modest values already before the tensions between the two countries escalated, culminating in the South Ossetia War. Imports, on the contrary, began to seriously contract only in 2006. Thus, on the whole, Russia still ranks relatively high as trade partner, though being far smaller than Turkey, Azerbaijan or even Ukraine. Despite the country's declared objective to become part of the EU, it is noteworthy that trade with Europe, though relatively sizeable, has remained totally flat over the last two decades, with respect to both exports (20%) and imports (30%). On the export side, Azerbaijan was the emerging partner (26% in 2012), whereas on the import side it was Turkey (18%). Georgia is a net importer from the rest of the world in general as well as from most of countries, especially Europe and Turkey.

Armenia is the most isolated country within the CIS. Its borders with Turkey and Azerbaijan are closed as a consequence of the dispute with the latter over the region of Nagorno-Karabakh. After independence, the export base of Armenia has narrowed (Connolly, 2008, pp. 592-593) and the country is now mainly relying on commodity exports like copper, ferroalloys and non-mounted diamonds. Overall trade with Russia from 1995 to 2000 shrank by almost 50% but in the following years fully recovered, mainly because of increasing imports. Since the late 1990s, Europe remains the main trade partner, but since the mid-2000s European exports as well as imports began to reduce, so that the shares of total trade of Russia and EU are now converging. To the decline of the European market has especially contributed the deteriorating trade relation with Belgium, formerly one of the country's main trade partners¹². Trade flows on the contrary have kept increasing with China and, at least until the global crisis, with Ukraine, while also Iran is slowly regaining importance. Armenia is running trade deficits with almost all of its partners, deficits that are to a large extent financed by emigrants' remittances.

12 Exports to Belgium were and still are essentially diamonds.

3. The European Union

A remarkable phenomenon of the evolution of European trade in the last years has been the contraction of the intra-EU share in favour of exchanges with the rest of the world. This was not an aggregate artifact merely reflecting exceptional export performance of few champions like Germany or the Netherlands but a common characteristic shared by the vast majority of member states (Chiaruttini, 2014). In spite of the ongoing process of economic integration within the continent, the centrifugal forces of globalisation are prevailing and European countries are becoming increasingly dependent on third non-EU parties, one of which is Russia. For the whole Union, exchanges with the Russian Federation have more than doubled in ten years. This was partly the result of growing energy imports, with fuels formerly accounting for half and now representing almost 80% of the European imports from Russia. But also exports to Russia have been following an upward trend of similar magnitude: if during the 1990s the Russian market was as large as the Turkish one, it then started to grow much more vigorously, gaining a 2.5% share. Though Russia is for Europe by far the largest trade partner from the CIS area, total trade in percentage shares has increased for almost all former members of the USSR. Ukraine passed from 0.2% to 0.4%, Kazakhstan from 0.04% to 0.35%, while Belarus and Azerbaijan have now about 0.2% each of total trade. The other republics have even smaller shares (Kyrgyzstan hardly reaches a 0.005%), but they have all grown, with the exception of Uzbekistan (whose share considerably declined) and the minuscule Tajikistan.

To better understand trade dynamics between the EU and the CIS, however, it is advisable to distinguish the EU-15 countries from the new member states.

In the EU-15, the countries that are more dependent on Russian supplies are Finland (from 7% to 18% over the period 1995-2012), Greece (roughly grown from 2% to 10%), the Netherlands (from 1.5% to 8% on average) and, to a smaller extent, Germany (from 2% to 4.5%). France and Italy, on the contrary, have pursued a more diversified strategy through increasing imports from Kazakhstan and Azerbaijan. For France Kazakhstan accounts already for 1% of imports (against the 2-3% of Russia), whereas in Italy, Kazakhstan and Azerbaijan together have a 3% of the market compared to the 5% share of Russia (2012 figures). Besides energy supply, Russia is emerging also as a sales market for the EU-15, with shares generally ranging from 2% to 3%, though its importance, due to obvious geographic reasons, is much more pronounced for Finland (passed from 5% to 10% from 1995 to 2012). With few exceptions, producers of the EU-15 countries are gaining market shares also in the other CIS states, whose importance is however dwarfed by Russia. The same holds true for imports.

As regards the Eastern and Baltic countries, their ties to Russia and the CIS in general are now looser than in the past. In terms of total trade flows, the European market is from 22 times (Czech Republic) to 2 times (Lithuania) bigger than the Russian one. These values however result not from a monotonic upward trend but from an inverted "U" dynamics, as exchanges with Europe relative to those with Russia have been increasing in the years preceding accession to start decreasing soon afterwards¹³, so that in Lithuania, for instance, they have returned to their value in the 1990s and in Poland they have even fallen beneath (from 12 to 6 times since 1995). Excluding fuels, the picture partially changes, though not much in Europe's favour. In this case (and neglecting a relative stagnation in the recent years due to the worldwide crisis) Europe has continued to increase in Bulgaria and Estonia only. In the Czech Republic, Slovakia, Hungary, Lithuania and Slovenia the ratio of the European to the Russian market has reverted to its pre-accession values (in Poland it has passed from 20 to 14 times).

This ubiquitous roof-shaped pattern can be equally found in exports and imports. In particular Russia's position has been recovering as a sales market, regaining its historical relative size in

13 The only exceptions are Romania, for which the ratio did not decrease, and Estonia, where the European underperformance is likely due to the stagnation induced by the global economic downturn.

almost all countries (with the exception of Bulgaria, Latvia and Lithuania, where the EU is still larger).

4. Conclusions

Two decades after the fall of the Soviet Union, tensions are growing again at the eastern borders of Europe. Unlike the Cold-War period, when the Iron Curtain drew an immovable dividing line, the present post-modern confrontation sees the encroaching of two ideal spheres of influence whose boundaries are still undetermined. Political relations between Russia and some of the post-Soviet republics are deteriorating in favour of a closer integration of the latter with Europe: Georgia and Ukraine withdrew from the CIS after their respective conflicts with Russia and both aspire, together with Moldova, to full EU membership, while Turkmenistan changed its CIS status to simple associate member already in 2005. At the same time, Russia has been able to launch the Eurasian Customs Union with Belarus and Kazakhstan. The loss of Ukraine, given the market potential of the country and its industrial base, has been a hard blow for the expansionary vision of the Union, which could now seek to grow along alternative dimensions. The Eurasian Union might in the future comprise not only the other Central Asian republics plus Armenia but also bigger partners like Turkey¹⁴, leveraging on frustrated aspirations to ever become an EU member and reviving nationalism (Sakwa, 2012), as well as growing trade links with Russia and its southern neighbours. If only trade patterns are considered, then a composite and evolving picture emerges. Russia's dependence on Europe is gradually reducing in favour of Asia. At the same time, for the EU-15 countries the Russian market (both downstream and upstream) is growing, though Europe is actively seeking to engage new partners to lower its dependence on Russia's hydrocarbons. In Central Asia, however, both the EU and Russia will have to face China, eager to gain control over the natural resources of the region. Ukraine is a split country also in terms of trade flows, as the importance of the ECU area has been increasing compared to Europe and the two trading blocs offer asymmetric incentives to the economy in terms of manufacturing exports and energy supply. In the Eastern and Baltic states Russia is also regaining some ground as the accession euphoria fades.

In the economic competition over the post-Soviet space there are as yet no definitive winners or losers. Even the inclusion of Kazakhstan in the EaU may turn out to be a mixed blessing for Russia: on the one hand, if the strategies of the two countries truly converge, Europe will find it harder and harder to free itself from the Eurasian energy grip; on the other one, nothing ensures that Russia will be able to advantageously deal with a partner increasingly strong on the European and Chinese markets.

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14 In June 2014, Kazakhstan's president Nazarbayev was reported to have invited Turkey to become associate member of the Union (Asbarez.com, 2014).

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