

Geopolitics versus geoeconomics: the case of Russia's geostrategy and its effects on the EU

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Geoeconomics is often treated as a sub-variant of geopolitics. Studies have analysed the use of geoeconomic power as just another means in the geostrategic toolbox, applied alongside other more traditional geopolitical ones.¹ In the first wave of debates concerning geoeconomics in the early 1990s, Daniel Bell—supported by Samuel Huntington—claimed that ‘economics is the continuation of war by other means’.² Contemporary commentators on the Ukraine crisis are equally keen to invoke Clausewitz, stating that economic sanctions are ‘war by other means’.³ These accounts overlook the differences between projecting military power and projecting economic power, and in particular the diverging effects on their objects and the counter-reactions they provoke.

This article develops a new framework for analysing geopolitics, geoeconomics and the interplay between the two. Geopolitical power projection, as an offensive foreign policy operation, is typically overt, conducted by military means, and its operational logic is confrontation. Geoeconomic power projection, on the other hand, is more covert, conducted by economic means, and its operational logic is selective accommodation. These differences elicit in turn diverging tendencies in the target country or coalition. Traditional geopolitics typically produces centripetal forces, high threat perception, and counterbalancing or bandwagoning behaviour. Geoeconomics, by contrast, creates centrifugal forces, low or medium threat perception, and underbalancing behaviour. These characteristics suggest that economic power may be no less effective than military power as a means to pursue geostrategic goals, especially as it provides a more subtle means for seeking relative gains, with less risk of major counter-reactions that could prove costly in a situation of interdependency. The article applies this framework to the analysis of

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¹ See e.g. Tomasz G. Grosse, ‘Geo-economic relations between the EU and China: the lessons from the EU weapon embargo and from Galileo’, *Geopolitics* 19: 1, 2014, pp. 40–65; David Scott, ‘The Great Power “great game” between India and China: the logic of geography’, *Geopolitics* 13: 1, 2008, pp. 1–26.

² For discussion, see Samuel Huntington, ‘Why international primacy matters’, *International Security* 17: 4, 1993, p. 82; see also Daniel Bell, *The cultural contradictions of capitalism: twentieth anniversary edition* (New York: Basic Books, 1996), p. 330.

³ ‘Sanctions: war by other means’, *Financial Times*, 30 March 2014. See also e.g. ‘Financial war: subject to sanction’, *Bloomberg*, 17 Dec. 2014.

Russia's geostrategy towards Europe. The analysis demonstrates the different strategic natures of geopolitics and geoeconomics, and the way each may undermine the other's effectiveness when the two approaches are applied simultaneously.

By distinguishing geopolitics and geoeconomics, the article creates a typology for differentiating geostrategies. In traditional geopolitical discussion, military power has had a central role. In his historical overview of the concept of geopolitics, Colin Flint notes that during the Cold War definitions of power were 'dominated by a focus on a country's ability to wage war with other countries'.⁴ Currently, several influential scholars and schools of thought, notably the 'offensive neorealism' of John Mearsheimer, continue to consider military power the central foundation of geopolitics, and the study of power as the study of military force and its use.⁵ Recent discussions have criticized this preoccupation with military force and called for more attention to be paid to non-military forms of power projection.⁶ However, expanding the category of geopolitics to include all forms of power projection risks creating an over-extended concept void of analytical precision. We argue that economic forms of power projection are better included in the separate category of geoeconomics, whereby a typology emerges with two ideal-typical geostrategies—geopolitics and geoeconomics. Scholarly analysis has paid relatively scant attention to the interplay of military and economic forms of power. Equipped with these two 'reference models', we can start to address the extent to which they constitute substitutes for or complements to each other, and the implications of this for their respective effectiveness.

At the same time, the analysis clarifies the concept of geoeconomics, a term which has become both increasingly popular in policy debates and subject to conceptual confusion.⁷ In recent debates geoeconomics has been used in a broad manner, approximating to economic geography and also covering the commercial tactics of countries.⁸ We would argue, on the contrary, that the essence of the term is embodied in the way it was used in the seminal articles of the 1990s, namely to challenge the liberal interdependency paradigm by underscoring the strategic interests—zero-sum interests that do not function in the logic of commerce—in play in economic relations between states.⁹ Geoeconomics is thus about advancing geostrategic goals, not mutually beneficial trade relations. According to this understanding, geoeconomics can be defined as 'the geostrategic use of economic power'.¹⁰

⁴ Colin Flint, *Introduction to geopolitics* (London: Routledge, 2006), p. 28.

⁵ John J. Mearsheimer, *The tragedy of great power politics* (New York: Norton, 2001); R. Harrison Wagner, *War and the state: the theory of international politics* (Ann Arbor: University of Michigan Press, 2007).

⁶ For a discussion, see David A. Baldwin, 'Power and international relations', in Walter Carlsnaes, Thomas Risse and Beth A. Simmons, eds, *Handbook of international relations* (London: Sage, 2013).

⁷ See Mikael Mattlin and Mikael Wigell, 'Geo-economics in the context of restive regional powers', *Asia Europe Journal*, forthcoming 2016, online first: <http://link.springer.com/article/10.1007%2Fs10308-015-0443-9>.

⁸ Priya Chacko, 'The new geo-economics of a "rising" India: state transformation and the recasting of foreign policy', *Journal of Contemporary Asia* 45: 2, 2014, pp. 326–44; Mona Domosh, 'Geo-economic imaginations and economic geography in the early twentieth century', *Annals of the Association of American Geographers* 103: 4, 2013, pp. 944–66.

⁹ Edward N. Luttwak, 'From geopolitics to geo-economics: logic of conflict, grammar of commerce', *National Interest* 20, Summer 1990, pp. 17–24.

¹⁰ Mikael Wigell, 'Conceptualizing regional powers' geo-economic strategies: neo-imperialism, neo-mercantilism, hegemony, and liberal institutionalism', *Asia Europe Journal*, 2016, online first: <http://link.springer.com/>

This article investigates the implications of the way in which a geostrategic agent chooses to mix geopolitics and geoconomics, putting more weight on the one relative to the other. In formal terms, the article casts the choice of geostrategy (geopolitics versus geoconomics) as the independent variable, and the implications of this choice for the target as the dependent variable. The question of *why* the geostrategic agent makes a particular choice in the first place is likely to be contextual, and is only briefly addressed.

The argument put forward in this article is relevant for the continuing debate over the fallout from the Ukraine crisis since 2014. As the analysis here will show, Russia had previously successfully applied geoconomics as a strategy to keep the EU divided. By turning to traditional geopolitics, President Putin contributed to a strengthening European will to set aside short-term economic interests for the greater common cause of relative EU unity. Putin's geopolitics has thus undermined his geoconomics. The analysis suggests that, far from being the master strategist sometimes portrayed in the media, typically accompanied with a chess metaphor, Putin seems to have committed a geostrategic blunder by annexing Crimea and launching his hybrid war in Ukraine.

The article proceeds as follows. The first section below develops a framework for analysing strategic behaviour and its consequences by decoupling geopolitics and geoconomics. The second section describes the Russian geo-economic strategy towards Europe, focusing on the natural gas trade between Russia and the EU. The third section turns to the implications for the EU's foreign and energy policies of Russia's turn to geopolitics in Ukraine in 2014. The concluding section summarizes key findings and briefly reflects on alternative views.

Geostrategic choices and balancing behaviour: building an analytical framework

In the strategic studies literature, insufficient attention is given to the use of economic power. Perceiving military force as the *ultima ratio* in international politics, neo-realist scholars tend to pay little regard to non-military forms of power.¹¹ Other analysts, while supporting a greater focus on non-military means, including economic statecraft,¹² tend to make little distinction between military and economic instruments in respect of the nature of their use. According to Baldwin, 'economic sanctions, like war, have their own grammar but not their own logic'.¹³ The term 'soft power' was introduced by Nye to emphasize the

article/10.1007/978-1-107-015-0442-x, p. 3. Here the word 'geostrategic', instead of merely 'strategic', restricts the definition to the foreign policy domain. More precisely, 'geostrategy' describes a state's concentration of its efforts on projecting power and directing diplomatic activity. This exercise calls for prioritizing, as in the world of scarce resources states are unable to conduct foreign policy that pursues all interests with equal intensity. See also Zbigniew Brzezinski, *The grand chessboard: American primacy and its geostrategic imperatives* (New York: Basic Books, 1997), p. xiv.

¹¹ For a review, see Baldwin, 'Power and international relations'.

¹² Robert O. Keohane and Joseph Nye, *Power and interdependence*, 3rd edn (New York: Longman, 2001; first publ. 1977); Daniel W. Drezner, *The sanctions paradox: economic statecraft and international relations* (Cambridge: Cambridge University Press, 1999).

¹³ David Baldwin, 'The sanctions debate and the logic of choice', *International Security* 24: 3, 1999–2000, p. 107.

use of non-material power resources such as culture, ideology and institutions, distinguishing the use of these resources from the use of material power in forms such as money, energy and military force.¹⁴ This taxonomy of power and its later developments do not differentiate between the respective qualities of military and economic forms of power projection.¹⁵ Both are analysed under the category of 'hard power', which is seen as resting on inducements (carrots) or threats (sticks). Similarly, the geoeconomics perspective of the 1990s, which asserted the increasing importance of a geoeconomic strategy 'in determining the primacy or subordination of states',¹⁶ viewed it as functioning according to the same logic as a geopolitical strategy. Luttwak's famous dictum was illustrative in this respect: 'logic of conflict, grammar of commerce'.¹⁷

In the literature on geoeconomics, it also seems that positive geoeconomics (the proverbial 'carrot') is significantly under-researched compared to negative forms of geoeconomics (or 'sticks').¹⁸ The carrot is easier to characterize as commercial activity and mutual economic interest. The geoeconomic agent may induce the target to do what the agent wants by granting the target a certain amount of money—for example in the form of price cuts, side-payments or asset swaps. The target may view this as 'reward', and may be perfectly willing to follow the geoeconomic agent's instructions as long as it receives the reward. As noted by Pallaver, this is a classical command–obedience relation; but, interestingly, it can be viewed as positive-sum.¹⁹ This positive-sum interpretation does not, however, take into account the political externalities caused by the diminution of sovereignty entailed.

Taking into account the properties of geoeconomic power outlined above, the analytical framework developed in this article aims to capture the differences between the strategic nature of traditional geopolitics and of geoeconomics. It is not just that the means are different; it follows from that difference in means that the operational logic and visibility of the two approaches may also differ markedly. These operational differences, in turn, translate into diverging effects in respect of action–reaction forces, threat perception and behavioural tendencies in the target country or coalition. These divergences are summarized in table 1.

The distinctions we make between geopolitics and geoeconomics are ideal-typical in a Weberian sense. Thomas Burger argues that Weber's use of ideal-types was a result of his conviction 'that the most interesting concepts are not based on defining properties shared by all cases to which the concept refers'.²⁰ As such, the properties of geoeconomics and geopolitics may not be found in reality in forms as

¹⁴ Joseph S. Nye Jr, *Bound to lead: the changing nature of American power* (New York: Basic Books, 1990).

¹⁵ Joseph S. Nye Jr, *Soft power: the means to success in world politics* (New York: Public Affairs, 2004).

¹⁶ Huntington, 'Why international primacy matters', p. 72.

¹⁷ Luttwak, 'From geopolitics to geo-economics'.

¹⁸ See also the related discussion concerning economic statecraft in Rawi Abdelal and Jonathan Kirshner, 'Strategy, economic relations, and the definition of national interests', *Security Studies* 9: 1–2, 1999, pp. 119–156. Also Klaus Dalggaard, 'The energy statecraft of Brazil', paper presented at 56th International Studies Association annual convention, New Orleans, 18 Feb. 2015.

¹⁹ Matteo Pallaver, *Power and its forms: hard, soft, smart* (London: London School of Economics, 2011).

²⁰ Cited in David Collier and James E. Mahon, 'Conceptual "stretching" revisited: adapting categories in comparative politics', *American Political Science Review* 87: 4, 1993, pp. 853, fn. 8.

Table 1: Contrasting traditional geopolitics with geoconomics

	<i>Geopolitics</i>	<i>Geoconomics</i>
<i>Operational (agent):</i>		
Means	Military	Economic
Visibility	Overt	Covert
Logic	Confrontation	Selective accommodation
<i>Effects (target):</i>		
Threat perception	High	Low/medium
Action–reaction force	Centripetal	Centrifugal
Behavioural tendency	Counterbalancing/ bandwagoning	Underbalancing

pure as those presented in the model. In practice, states will often try to combine elements of both when projecting power. However, for analytical purposes it makes sense to distinguish between them. Using a Weberian approach, they can be taken as ‘reference models’, helping to identify and describe the geostrategic behaviour of states. Equipped with these reference models, we may then enquire about the way they interact, and the conditions under which they may be expected to overlap, reinforce or undermine each other.

Geopolitical power projection is overt, it is conducted by military means and its operational logic is confrontation. By overt, we mean that the operation is hard to conceal or negate. Hybrid warfare tactics may be adopted in an effort to initially conceal or deny involvement, but the concealment will be hard to sustain for long.²¹ This is partly because the means applied are predominantly military, but also because the operational logic is centred on confronting the target. The idea is to appear intimidating, make credible threats and thereby deter a target from hostile actions or impel it to bandwagon. The term ‘confrontation’ is here used in a broad sense, including not only the actual use but also the threat of using military power. Geopolitical aims that relate to the containment or deterrence of a target need not require offensive territorial incursions and can be attained without resorting to actual warfare. Importantly, the nature of geopolitics produces a set of tendencies in the target country or coalition which differs from that generated by geoconomics.

First, the threat perception is likely to be higher when confronted by geopolitical compared to geoeconomic power projection. Whether perceived as existential or not, by its very nature an external geopolitical threat is bound to cause widespread alarm among the target country’s population. That is also why geopolitical

²¹ Russia’s use of non-insignia-bearing commando units in Ukraine, subsequently referred to as ‘polite little green men’, caused confusion and stalled the EU’s and NATO’s ability to form a unanimous assessment of the situation on the ground. See Julio Miranda Calha, ‘Hybrid warfare: NATO’s new strategic challenge’, Defence and Security Committee, NATO Parliamentary Assembly, April 2015.

offensives often help produce centripetal forces in the target country or coalition, meaning the tendency to unite as a reaction to the aggressive geopolitical action.²² The overt, military and confrontational approach inherent in a traditional geopolitical offensive will strengthen the common threat perception and, through that, the willingness to cooperate and join forces against the geopolitical agent. This tendency takes place on both the domestic and the international level. Geopolitical aggression thus commonly provokes balancing behaviour—although whether this ultimately takes place depends on perceptions about the balance of power. States will opt to balance against the geopolitical agent in a reinforcing situation, for example when a group of states perceive themselves as being confronted by a common threat, and believe that by joining forces they can improve their chances of deterring it. So, in the post-1945 period, west European states opted to balance against the Soviet threat, calculating that together with the United States they would own superior strength over Russian forces that would deter a military attack.²³ Yet in a countervailing situation, when the geopolitical agent is perceived as being so strong that the aspiring balancers see no chance of deterring or defeating it, they may grudgingly opt to ‘bandwagon’ with it.²⁴ One commonly used example is the inclination of European states initially to opt for bandwagoning with Napoleonic France; the shift to balancing behaviour occurred only much later, after Napoleon had been weakened by major military defeat.²⁵ A geopolitical offensive, particularly in a complex situation of interdependence and asymmetric information, thus involves gambling. The geopolitical agent must weigh the risk of blowback—the risk that the geopolitical offensive itself will provoke increased balancing, whether internally at the domestic level or externally in the form of alliance-building.²⁶

An offensive geoeconomic operation, by contrast, is covert, is conducted by economic means and its operational logic can be referred to as ‘selective accommodation’. By covert, we mean that the operation is more subtle, and easier to conceal and negate than a geopolitical operation. The idea is not to confront the target head on, but to weaken its resolve by more subtle inducements calibrated to undermine its internal cohesion. Sometimes referred to as ‘reward wedging’,²⁷ selective accommodation has been defined as a strategy by which a state ‘uses concessions and other inducements to lure a target away from other adversaries, which are dealt with more firmly’.²⁸ A geoeconomic operation provides economic

²² The term *centripetal* comes from the combination of the Latin words *centrum*, meaning ‘centre’, and *petere*, meaning ‘tend towards’ or ‘aim at’.

²³ Richard Rosecrance and Chieh-Cheng Lo, ‘Balancing, stability, and war: the mysterious case of the Napoleonic international system’, *International Studies Quarterly* 40: 4, 1996, pp. 479–500.

²⁴ On reinforcing versus countervailing dynamics as they pertain to balancing behaviour, see Timothy Crawford, ‘Preventing enemy coalitions: how wedge strategies shape power politics’, *International Security* 35: 4, 2011, pp. 155–89.

²⁵ Rosecrance and Lo, ‘Balancing, stability, and war’.

²⁶ On different forms of balancing behaviour, see Kai He, ‘Undermining adversaries: unipolarity, threat perception, and negative balancing strategies after the Cold War’, *Security Studies* 21: 2, 2012, pp. 154–91.

²⁷ Yasuhiro Izumikawa, ‘To coerce or reward? Theorizing wedge strategies in alliance politics’, *Security Studies* 22: 3, 2013, pp. 498–531.

²⁸ Crawford, ‘Preventing enemy coalitions’, p. 161.

inducements—side-payments, discounts and other economic incentives—selectively to some actors but not to others. Geoeconomics can therefore be used as a wedge strategy, attempting to divide a target country or coalition, and through that to weaken its balancing potential. As we shall show below, Russia's use of varying energy prices is an attempt to create divergent pressures on EU members and thus weaken the cohesion of the EU. Russia has also been offering asset-swap deals to European companies, giving them, for instance, access to lucrative hydrocarbon fields in exchange for allowing Russian state companies to control some of their shares or infrastructure. By these tactics, the Kremlin has attempted to create elements with an interest in maintaining economic relations under any political conditions, while downplaying the threat this might entail to the EU's decision-making capacity as a whole.²⁹

A geoeconomic operation, if applied successfully, can be expected to generate a more dispersed threat perception in a target country or coalition than a geopolitical operation. Some state and societal sectors will be alarmed by the dependencies created by the operation, and the prospect of its leading to a *de facto* geoeconomic 'Finlandization', through which parts of the national foreign policy autonomy are traded for selective economic benefits. Other sectors, which stand to benefit from the selective inducements provided by the operation, will downplay this threat and become local advocates of the operation. This is one way in which geoeconomics tends to produce centrifugal forces among a target population or coalition, generating a tendency to split and disintegrate in reaction to the geoeconomic action.³⁰ The covert, economic and selective accommodation approach inherent in a geoeconomic campaign will have a corrupting effect on the target's cohesion, provoking divisions or aggravating existing conflicts within it. By provoking domestic political discord over the need to balance, geoeconomics is well equipped to undermine effective balancing behaviour.

Concerning alliance patterns, successful geoeconomic offensives provoke underbalancing behaviour, sometimes referred to as 'buck-passing' and 'distancing'.³¹ Whereas external balancing against any type of offensive commonly needs to come to terms with the collective action problem, as formulated by Olson,³² the incentive to free-ride on the balancing efforts of others is even greater when confronted by a geoeconomic offensive. The economic rewards provided by the geoeconomic agent to a target country for passing the buck or distancing itself from a balancing coalition constitute an additional incentive to do so. The buck-passing explanation, as presented by neo-realist literature, 'identifies the prime cause of balancing failure as cost-shifting competition among would-be balancers', but overlooks how

²⁹ See Stefan Meister, 'Reframing Germany's Russia policy: an opportunity for the EU', Policy Brief, European Council of Foreign Relations, April 2014.

³⁰ The term *centrifugal* comes from the combination of the Latin words *centrum*, meaning 'centre', and *fugere*, meaning 'to flee'.

³¹ For a discussion of the various manifestations of 'underbalancing', see Randall L. Schweller, *Unanswered threats: political constraints on the balance of power* (Princeton: Princeton University Press, 2006).

³² Mancur Olson, *The logic of collective action: public goods and the theory of groups* (Cambridge, MA: Harvard University Press, 1965). See also Kenneth Waltz, *Theory of international politics* (Long Grove: Waveland, 1979).

the agent may 'set up' the underbalancing.³³ An offensive geoeconomic strategy is precisely calculated to exacerbate domestic discord and encourage such buck-passing dynamics, thus undermining the propensity for both internal and external balancing, by making use of selective economic inducements. The neo-classical realist explanations, in turn, emphasize the role of domestic political discord in working against the need for balancing, thereby hindering the ability of threatened states to build counter-alliances and balance effectively, but they seldom link this to the strategy of outsiders, and the way such a strategy may foster opposition among domestic groups.³⁴ Our analytical framework suggests that these changes in behaviour can be explained by outsiders' geostrategies.

The analytical framework thus makes some propositions for an explanation of balancing behaviour.³⁵ It contends that the geostrategic choices (between geopolitics and geoeconomics) of the agent influence the counterbalancing behaviour of the target state or coalition. Building on Walt,³⁶ our framing assumes balancing to be a function of states' threat perceptions, which in turn are affected by the agent's geostrategic actions. An offensive geopolitical operation exacerbates a target's threat perception, triggering centripetal action–reaction forces and encouraging it either to balance or to bandwagon with the agent, depending on whether conditions are reinforcing or countervailing. An offensive geoeconomic operation, by contrast, aims to mitigate or at least confuse the threat perception, exacerbating centrifugal action–reaction forces and thereby reducing the propensity for counterbalancing.

A qualifying remark is in order at this stage. As noted above, the juxtaposition of geopolitics and geoeconomics serves as a heuristic instrument that helps create analytical differentiation and conceptual clarity. In practice, we observe hybrid strategies in which, for instance, economic means are applied in an overt manner following the logic of confrontation, or military means are applied in a covert manner. However, these hybrid strategies have their limitations, which our analytical framework helps to understand. The application of economic means in an overt and confrontational manner, for example when imposing an economic embargo against a particular country, risks triggering higher threat perception and centripetal forces within the target country—but without the higher coercive potential of military means that could induce stronger bandwagoning behaviour.³⁷ It should come as no surprise, therefore, that the Cuban embargo, for example, has often been described as counterproductive.³⁸ Economic means are likely to be more effective when applied according to the logic of selective accommodation, and thus calibrated to induce underbalancing. Hybrid warfare, on the other

³³ For a discussion, see Crawford, 'Preventing enemy coalitions'.

³⁴ Schweller, *Unanswered threats*.

³⁵ 'Balancing' is here understood in a broad sense to include a host of measures beyond military alliances whereby states 'seek to reduce their vulnerability to political subjugation—or loss of control over territory or vital interests—by either enhancing their own capabilities, pooling their capabilities, or reducing the capabilities of a threatening actor': Daniel Nexon, 'The balance of power in the balance', *World Politics* 61: 2, 2009, p. 344.

³⁶ Stephen Walt, *The origins of alliances* (Ithaca, NY: Cornell University Press, 1987).

³⁷ For an overview of the economic sanctions literature, see Jean-Marc F. Blanchard and Norrin M. Ripsman, 'A political theory of economic statecraft', *Foreign Policy Analysis* 4: 4, 2008, pp. 371–98.

³⁸ Donna Rich Kaplowitz, *Anatomy of a failed embargo: US sanctions against Cuba* (Boulder, CO: Lynne Rienner, 1998).

hand, is a potentially risky strategy, especially when used against a neighbouring country, as it risks creating uncontrolled instability.³⁹ Military means, as noted above, are hard to conceal for long; and the use of military means by proxy, for example by giving military aid to rebel groups, needs to build on existing tensions in the target state if it is to be effective. Lastly, states often try to apply both geopolitics and geoconomics simultaneously. The question then becomes to what extent and under what conditions the two approaches reinforce or interfere with each other. In the following sections, we find that Russia's turn to traditional geopolitics in the Ukraine crisis had, at least momentarily, undermined its geo-economic strategy towards the EU.

Russia's geo-economic strategy

In the 1990s the EU and Russia were relatively closely in agreement concerning the main features of their interdependent economic relations, including the European energy order. This initial optimism ran into difficulties as Russia gradually changed its stance under Putin's first presidency and began to favour an increasingly realist geo-economic view of its economic relations and energy reserves. Since Putin's rise to power, Russia's aim has been to enlarge its sphere of influence,⁴⁰ and an important component of this project has been keeping the EU weak and disunited in its dealings with Russia in international forums.⁴¹ To this end, Russia turned to a geo-economic strategy, calibrated to covertly reinforce the centrifugal forces in Europe.

From the beginning of the 2000s, geo-economics has thus been given an important role in Russia's geostrategy. Some operations implementing the geo-economic wedge strategy have been remarkably direct. For example, Russia has been supporting and collaborating with anti-EU populist parties in European politics. As a result, several influential western populists and anti-EU politicians have been promoting the Kremlin's narrative that the conflict in Ukraine has been created by the EU's 'expansionism'.⁴² France's National Front has received at least €9.4 million of financial support from Russia.⁴³ The Kremlin's support for Hungary's Jobbik is also well documented, and the Russian influence further extends to paramilitary organizations in Hungary.⁴⁴ In other cases there is less direct evidence, but Russian money is rumoured to have been channelled also to Greece's Syriza, for

³⁹ See e.g. Adrian Karatnycky, 'Putin's warlords slip out of control', *New York Times*, 9 June 2015.

⁴⁰ Bertil Nygren, *The rebuilding of Greater Russia: Putin's foreign policy towards the Baltic CIS countries* (London: Routledge, 2008).

⁴¹ For an overview of Russia's relationship with the EU, Germany, France and Poland since the early 1990s, see Robert Donaldson and Joseph L. Nogee, *The foreign policy of Russia: changing systems, enduring interests* (New York: Sharpe, 2009), pp. 246–64. On energy, see Kari Liuhto, *Energy in Russia's foreign policy*, Electronic Publications of the Pan-European Institute 10/2010, p. 36, http://www.utu.fi/fi/yksikot/tse/yksikot/PEI/raportit-ja-tietopakettit/Documents/Liuhto_final_netti.pdf. (Unless otherwise noted at point of citation, all URLs cited in this article were accessible at 24 Feb. 2016.)

⁴² See e.g. 'EU has "blood on its hands" over Ukraine—UKIP leader', *Russia Today*, 27 March 2014.

⁴³ 'In the Kremlin's pocket: who backs Putin, and why', *The Economist*, 14 Feb. 2015.

⁴⁴ Attila Juhász, Lóránt Győri, Péter Krekó and András Dezső, 'I am Eurasian': the Kremlin connections of the Hungarian far-right (Budapest: Political Capital and Social Development Institute, 2015), http://www.politicalcapital.hu/wp-content/uploads/PC_SDI_Boll_study_IamEurasian.pdf.

example.⁴⁵ According to analysts, however, the Kremlin has typically preferred to provide financial support to individual politicians rather than to a party apparatus. Similar tactics are claimed to be in use with respect to European journalists.⁴⁶

General trade relations obviously play an important role in a geoeconomic strategy. Under Putin's presidency Russia has applied import bans and other trade-disrupting measures in disputes with EU countries in sectors other than energy. The target countries have included, among others, Finland and Sweden (Russian export tax on timber), Poland (meat and vegetables embargo), the Netherlands (flower, fruit and vegetables embargo), Germany (Lufthansa cargo dispute), Estonia (rail tariffs and traffic embargo), Latvia (rail tariffs) and the UK (revision of BP and Shell contracts).⁴⁷ In general economic relations, energy is a persuasive foreign policy tool, as energy resources are, by almost any definition, 'strategic goods'. Countries have a basic need for energy in almost all economic activities—as well as to sustain their national security—and 'energy security' means an assured ability to access the energy resources required to sustain performance. The low price elasticity for most energy products largely favours the exporters, and, unlike most economic sectors, energy resources are commonly subject to some degree of government control. States' need for energy security gives rise to 'energy diplomacy' on the part of both energy importers in search of this security and energy producers in search of markets.⁴⁸ It also opens up the opportunity for energy exporters to engage in 'energy geoeconomics' to take advantage of that need.

Putin's energy geoeconomics

Energy geoeconomics makes use of energy resources as an instrument to advance political aims that are not energy-related—by manipulating another actor's need for affordable and secure energy supplies with one's own energy resources. Russia's energy resources have indeed been seen by policy-makers, starting with Putin himself,⁴⁹ as a foreign policy tool. The same has been noted in key Russian policy documents, such as the Energy Strategy for 2020, which already in 2003 noted explicitly that energy resources constitute an instrument of the internal and external policies of Russia,⁵⁰ as well as the latest Energy Strategy from 2009, which states as one of its aims 'to promote foreign policy positions'.⁵¹ Many scholars have analysed Russia's policies, in which it uses the control over energy

⁴⁵ 'In the Kremlin's pocket'.

⁴⁶ For some cases in France, see 'Selling your soul to Mr Putin' (New York: Institute of Modern Russia, 24 June 2015), <http://imrussia.org/en/analysis/world/2284-selling-your-soul-to-mr-putin>.

⁴⁷ Liuhto, *Energy in Russia's foreign policy*, p. 36.

⁴⁸ Dalgaard, 'The energy statecraft of Brazil'.

⁴⁹ Haukkala offers an interesting anecdote: Vladimir Putin's doctoral dissertation envisaged natural resources as a springboard to enhance the international role of Russia. Hiski Haukkala, 'Towards a pan-European energy order? Energy as an object of contention in EU–Russia relations', *Oil, Gas & Energy Law Intelligence* 12: 4, 2014, p. 10.

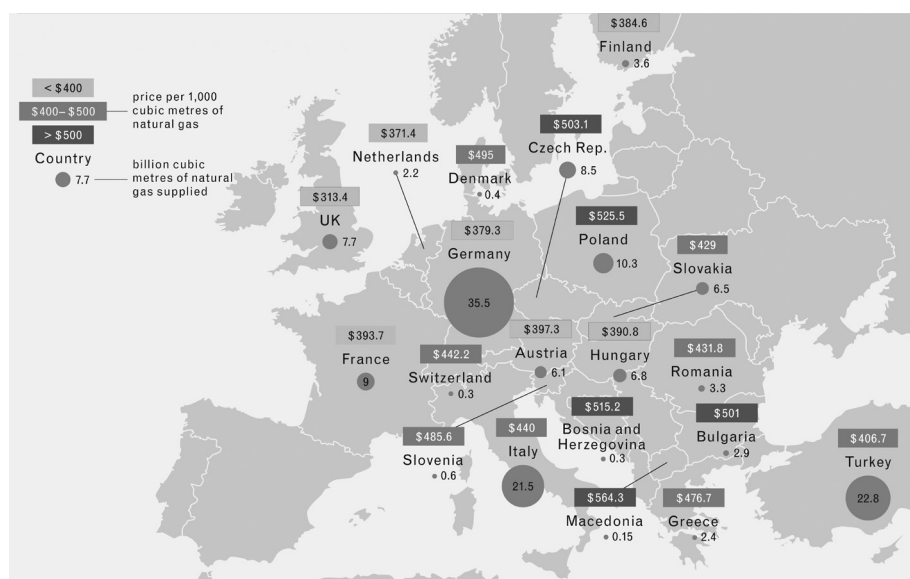
⁵⁰ Ministry of Energy of the Russian Federation, *Summary of the energy strategy of Russia for the period of up to 2020*, [http://www.energystrategy.ru/projects/docs/ES-2030_\(Eng\).pdf](http://www.energystrategy.ru/projects/docs/ES-2030_(Eng).pdf) (Moscow, 2010).

⁵¹ See http://minenergo.gov.ru/activity/energostrategy/ch_1.php, accessed 13 Oct. 2015.

streams to Europe as a means to enhance its foreign policy influence and regional power status.⁵²

Figure 1 presents a snapshot overview of Russia's natural gas pricing for its various European customers in 2012, showing how it is used as a centrifugal force within the EU. These prices and quantities were made public for the first time in 2013 as a result of new EU regulations.⁵³ From a comparison, for example, of the respective prices for 1,000 cubic metres of gas paid by the Czech Republic (\$503) and Austria (\$397), it is evident that the divergence cannot be explained by transport distance or quantity of gas. Instead, the differential prices are determined by factors such as competition and degree of dependency, along with political discounts and punishments.⁵⁴

Figure 1: European natural gas imports from Russia, 2012: prices and quantities



Source: Data from Nijaz Dizdarevic, 'Regulatory aspects behind a realization of the South Stream', *Oil, Gas and Energy Law Intelligence* 12: 2, 2014, p. 22.

Russian energy geoeconomics has directly contributed to undermining European unity and thus the capacity of the EU to take counterbalancing action. Using the operational logic of selective accommodation, Russia has used gas exports on the one hand as a carrot, giving discounts especially to sympathetic governments in former Soviet countries and strategic partners in western Europe,

⁵² Robert Legvold, ed., *Russian foreign policy in the 21st century and the shadow of the past* (New York: Columbia University Press, 2007); Pami Aalto, ed., *The EU–Russian energy dialogue: Europe's future energy security* (Aldershot: Ashgate, 2009).

⁵³ Regulation (EU) No. 994/2010 of the European Parliament and of the Council concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC, 20 Oct. 2010.

⁵⁴ Karen Smith Stegen, 'Deconstructing the "energy weapon": Russia's threat to Europe as case study', *Energy Policy* 39: 10, 2011, pp. 6505–13.

and on the other as a stick, giving ‘hard’ contracts to the most dependent states with unsympathetic governments. Germany in particular has been seen as a target of Russia’s carrot-orientated gas policies—or wedge strategy—which has resulted in German politicians not favouring EU unity in external energy security issues. One example of this was Chancellor Merkel’s decision to lead the effort to block proposed EU regulations to limit the ability of foreign companies to buy European energy utilities—a measure aimed at addressing Gazprom’s monopolistic position in EU gas markets.⁵⁵ Russia, in turn, sees its relationship with Germany as a valuable asset in its quest for greater influence in European affairs.⁵⁶ A similar energy geoeconomics approach is applied to many other actors and states. Important current and former national energy champions—in small and large member states alike—have close economic ties to the Russian energy sector.

The most extreme measure of energy geoeconomics, cutting energy supplies for political reasons, also featured in Russian conduct in the 2000s. For example, Russia cut off gas to the Czech Republic when the latter supported the US missile defence plan in 2008.⁵⁷ The most severe instances have been the 2006 gas dispute with Ukraine, the blowing up of the Turkmenistan–Russia pipeline in 2009, the 2006 and 2010 oil disputes with Belarus, and the second Ukrainian gas crisis in 2008–2009, which led to a cut-off of most supplies to central and south-eastern Europe. In 2014 Ukrainian gas supplies were cut off again, this time in relation to the armed conflict under way in eastern Ukraine.⁵⁸

The European Parliament and Commission have repeatedly taken a stand in advocating a common energy policy strategy that goes beyond the single market, underscoring the need for a strategic, foreign policy approach in energy relations. Several member states have supported this position. Poland, which has an unfavourable gas contract (\$526 per 1,000 cubic metres: see figure 1) and several other disputes with Russia, has lobbied hard for ‘energy solidarity’ and the ‘Europeanization of energy security’ since the 2006 Russia–Ukraine gas crisis.⁵⁹ But while the EU institutions, in particular the Commission, have been keen to promote a more unified policy in external energy relations,⁶⁰ such a stance has long been countered by Russian energy geoeconomics and the various member states’ bilateral energy agreements with Russia. Member states enjoying favourable gas contracts have distanced themselves from the Commission’s efforts to balance against Russia’s geoeconomic operation. That operation has been covert enough, even with powerful member states such as Germany actively cooperating with Russia’s pipeline politics in the case of Nord Stream I, for instance, not to

⁵⁵ Umut Turksen, ‘Euro-vision of energy trade with Russia: current problems and future prospects for EU solidarity in energy trade’, *Oil, Gas & Energy Law Intelligence* 12: 4, p. 26.

⁵⁶ Constanze Stelzenmüller, ‘Germany’s Russia question: a new Ostpolitik for Europe’, *Foreign Affairs* 88: 2, 2009, pp. 89–100.

⁵⁷ ‘Russia exerts its power’, *Financial Times*, 31 Oct. 2008.

⁵⁸ ‘Gazprom cuts Russia’s natural gas supply to Ukraine’, *New York Times*, 16 June 2014.

⁵⁹ Mathias Roth, ‘Poland as a policy entrepreneur in European external energy policy: towards greater energy solidarity vis-à-vis Russia?’, *Geopolitics* 16: 3, 2011, pp. 600–25.

⁶⁰ See European Commission, ‘Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee, and the Committee of the Regions: Second Strategic Energy Review—an EU Energy Security and Solidarity Action Plan’, COM (2008) 0781, 13 Nov. 2008.

have led to a significantly heightened common threat perception within the EU. On the contrary, Russia's geoeconomic operations have been successful in undermining EU cohesiveness. Even achieving simple transparency and coordination has been challenging for the EU's foreign energy policy: for instance, as noted above, Gazprom's gas prices were not made public until 2013, the company and its partners having long insisted that gas pricing agreements should be kept confidential.⁶¹

The geoeconomic flagship: the South Stream pipeline project

Until recently, the flagship enterprise of Russia's centrifugal geoeconomic power in its western neighbourhood has been the South Stream pipeline project. The aim was to build the capacity to ship 63 billion cubic metres of Gazprom's gas annually across the Black Sea to the Balkans and finally to Austria and Italy. The project was announced in June 2007 and in November that year a memorandum of understanding was signed by Gazprom and the Italian company Eni.⁶² However, in a surprising turn of events, on 1 December 2014 President Putin stated that Russia was to abandon the project.⁶³ After the abrupt cancellation of South Stream, Gazprom's stock rose slightly, indicating that concerns about the project's profitability were widely shared among investors.⁶⁴ South Stream's geoeconomic motivation was thus verified by the marketplace. At the same time, the stocks of European contractors expected to be involved in the construction dropped sharply,⁶⁵ highlighting surprise among analysts at the decision to abandon South Stream.

We pick out South Stream as an example because the timing of the project coincided with the Ukraine crisis, revealing interesting political dynamics around geopolitics and geoeconomics. The mainstream perception among analysts has always been that South Stream was motivated by geoeconomics rather than commercial viability.⁶⁶ First, in the short term, it would enable Russia to increase its leverage over Ukraine, depriving it of gas transit revenue and its key lever in Moscow as a transit state between Russia and the EU markets.⁶⁷ This would leave Ukraine more exposed to price increases and interruptions, as Gazprom could switch off its supplies without troubling other European clients. Second, it would enable Russia to reinforce its influence with countries in south-eastern Europe, weakening their allegiance to the EU. This would be done by increasing Gazprom's share of the regional market and consequently those countries' dependency on Gazprom pipeline gas. South Stream thus had the potential to strengthen

⁶¹ Turksen, 'Euro-vision of energy trade with Russia'.

⁶² See ENI, 'Gazprom', 21 July 2015, http://www.eni.com/en_RU/eni-russia/partners-projects/gazprom/gazprom.shtml.

⁶³ 'In diplomatic defeat, Putin diverts pipeline to Turkey', *New York Times*, 1 Dec. 2014.

⁶⁴ See Gazprom, 'Share price graph', <http://www.gazprom.com/investors/stock/stocks/>.

⁶⁵ 'Putin loses face with cancellation of "Pharaonic" South Stream', *Financial Times*, 2 Dec. 2014.

⁶⁶ On the rationale for and profitability of South Stream, see e.g. Jonathan Stern, Simon Pirani and Katja Yafimava, 'Does the cancellation of South Stream signal a fundamental reorientation of Russian gas export policy?', *Oxford Energy Comment* 1/2015 (Oxford: Oxford Institute for Energy Studies, 2015).

⁶⁷ Nijaz Dizdarevic, 'Regulatory aspects behind a realization of the South Stream', *Oil, Gas & Energy Law Intelligence* 12: 2, 2014, p. 3.

the centrifugal forces within the EU and solidify Russia's political influence on the projected route.⁶⁸ Further influence could also be exerted on big-market final destinations such as Italy and Austria, politically sympathetic energy importers that have been profiting from lower gas prices and, accordingly, have adopted less strong language than other EU countries on Russia's geopolitical campaign in Ukraine. Third, the project has effectively balked competing plans to bring gas from Azerbaijan through Turkey into the EU market, a long-lasting strategic priority of Brussels, as it would increase competition in the gas markets of south-eastern Europe.⁶⁹

Russia's exercise of geoeconomic power in the South Stream pipeline project was challenged and politicized in the context of the bilateral agreements negotiated and signed by Russia and European partner countries on the projected pipeline route between 2008 and 2011. The bilateral agreements typically coincided with a new gas contract, such as the one Bulgaria received, including a 20 per cent price cut for ten years.⁷⁰ The bilateral South Stream agreements would require notable exemptions from the EU Commission, as they contain provisions that breach the relevant energy and competition legislation of the EU.⁷¹ Russia has refused to comply with these EU rules, as they are seen as unfair—as well as restricting the very essence of geoeconomics, the use of South Stream as a tool of political influence. Early in 2014 Gazprom was 'on the point of winning an exemption to the competition rules to supply extra gas to Germany', which some Russian officials took as a sign of flexibility and potential will to compromise by the Commission on the South Stream case.⁷² As the Ukraine crisis began to unfold, the Commission stepped up resistance to the project (see next section). However, initially a common perception was that a political and legal compromise would be reached, and that South Stream could officially move forward. Many analysts and industry representatives took the view that South Stream's momentum would not be reversed.⁷³ Most importantly, the Russian leadership calculated that EU-level actions could not 'stop a moving train', and pushed for the construction with increased geoeconomic efforts, both by advancing work on the actual construction sites, notably in Bulgaria, and by campaigning politically in member states on the projected route.⁷⁴

The Russian leadership invested considerable amounts of both money and political capital in promoting the South Stream project. Gazprom's stranded investment was estimated to exceed \$4.5 billion,⁷⁵ and considering the multiple

⁶⁸ Liuhto, *Energy in Russia's foreign policy*, pp. 26–8.

⁶⁹ This strategic viewpoint has been emphasized by many analysts; see e.g. Edward Chow, 'Russian gas stream or dream' (Washington DC: Center for Strategic and International Studies, 2 Feb. 2015), <http://csis.org/publication/russian-gas-stream-or-dream>.

⁷⁰ 'Gazprom secures South Stream deal', *Financial Times*, 15 Nov. 2012.

⁷¹ The relevant EU legislation comprises directives and regulations from the third package, consisting of Directive 2009/72/EC, Directive 2009/73/EC, Regulation (EC) No. 713/2009, Regulation (EC) No. 714/2009 and Regulation (EC) No. 715/2009, as well as the rules on protection of competition from the Treaty on the Functioning of the European Union: *Official Journal* C 326, 26 Oct. 2012.

⁷² 'Russia's South Stream gas pipeline to Europe divides EU', *Financial Times*, 4 May 2013.

⁷³ See e.g. 'A conduit for Russian gas, tangled in Europe's conflicts', *New York Times*, 1 July 2014.

⁷⁴ Antto Vihma and Umut Turksen, 'The geo-economics of the South Stream pipeline project', *Journal of International Affairs* 69: 1, 2015, pp. 34–53.

⁷⁵ 'Russia's "South Stream" is closed, but nothing has changed', RUSI Analysis, 18 Dec. 2014, <https://rusi.org/>

channels used in the geoeconomic game, may well have been considerably higher. Russia also decided to press ahead with the project after its turn to geopolitics in Ukraine, addressed in the following section. In sum, the South Stream pipeline was a strategic, geoeconomic project, and the pipeline's cancellation was caused by the heightened political tension between the EU and Russia resulting from Russia's geopolitical campaign in Ukraine.⁷⁶

Russia's turn to geopolitics

With its annexation of Crimea and attempts to win control over the eastern part of Ukraine by military intervention, Russia moved to bring traditional geopolitical means into play. This reflects a certain shift in Russian geostrategic thinking. The heightened focus on geopolitics is visible in Russian strategic documents, notably the succession of updates to the military doctrine, which underscore assessments of the potential threats to Russian interests in neighbouring states (owing to developments such as regime changes),⁷⁷ increasing the capability for mobilization and completing the reforms of the Russian armed forces.⁷⁸ The latest version of the military doctrine emphasizes that Russian security includes 'promoting national interests', and lays considerably less stress on the economy than its precursors.⁷⁹ However, it is worth noting that Putin's regime was not shy of using military tools before the Ukraine crisis, in cases where the country's perceived vital interests have been threatened. Notable examples include the war against Georgia in 2008, the second Chechen war in 1999–2009 and the continuous presence of Russian armed forces in Transnistria. Yet, compared with these previous Russian military operations, most prominently the Georgian war, there are several reasons why the Ukraine crisis is seen in the EU as representing a more profound 'turn to geopolitics' and why it has therefore triggered a higher threat perception.

First, Ukraine is in a strategically more sensitive location, as it is closer to central Europe and borders on four EU member states. The Crimean peninsula, in particular, is of geostrategic importance as it enables Russian power projection over the Black Sea. The crisis has underscored Russia's role in Europe and the need for the EU to develop capabilities to deal with such traditional geopolitical power.⁸⁰ Second, unlike in Georgia, the EU was involved in the events that triggered the Ukraine crisis, namely the ratification of the EU–Ukraine association agreement. Therefore, Russia's geopolitical actions were felt more directly by the EU itself. Third, the Georgian war could be interpreted—although this narrative is easy to contest—as a 'defensive reaction' to Georgian aggression, with little indication

commentary/russia%E2%80%99s-%E2%80%98south-stream%E2%80%99-closed-nothing-has-changed.

⁷⁶ For an analysis of Russia's reasons for abandoning the project, see Vihma and Turksen, 'The geo-economics of the South Stream pipeline project'.

⁷⁷ Russian military doctrine 2014, 26 Dec. 2014, p. 12, <http://kremlin.ru/events/president/news/47334>.

⁷⁸ For an assessment of the significance and evolution of the Russian military doctrines of 1993, 2000, 2010 and 2014, see Katri Pynnöniemi and James Mashiri, *Comparing Russian military doctrines* (in Finnish) (Helsinki: Finnish Institute of International Affairs, 2015).

⁷⁹ Pynnöniemi and Mashiri, *Comparing Russian military doctrines*.

⁸⁰ Sam Robertshaw, 'Why the EU got the Ukrainian crisis wrong', *Global Affairs* 1: 3, 2015, p. 336.

of a broader challenge to the existing European security order.⁸¹ In Ukraine, however, as Russia for a second time turned to military means in the course of a conflict in the neighbourhood, a pattern emerged that is harder to explain away as 'defence' or as an isolated incident. A fourth and related point is that the *annexation* of Crimea is legally, politically and strategically distinct from the Russian operation in the Georgian breakaway regions, as it does not allow for a retreat. In Europe, therefore, Russia's actions were widely interpreted as going further than preventing a country such as Georgia or Ukraine from joining NATO; they were seen as including a revisionist challenge to the existing security order and raised suspicions of a broader expansionist agenda.⁸² The concerns over Russian expansionism also caused neighbouring states to see issues such as Russia's army modernization reforms and its violations of other countries' airspace in a new light. Although these elements were perceived differently in various EU countries, together they generated a common view of a return of geopolitics or an end to the fragile post-Cold War peace—'the end of illusions'.⁸³

Before the turn to traditional geopolitics in Ukraine, Putin's geoeconomic moves, including a discount on natural gas (dropping the price from \$400 to \$268.5 per 1,000 cubic metres), had induced the Ukrainian government to suspend talks with the EU in favour of strengthening its economic relationship with Russia.⁸⁴ Following a meeting with Putin in Moscow in November 2013, President Yanukovich announced that Ukraine would not sign the association agreement it had been negotiating with the EU as part of the EU's Eastern Partnership.⁸⁵ In December the same year, it was announced that Russia would purchase \$15 billion in Ukrainian government bonds.⁸⁶ At that point, the Kremlin was still implementing its chosen geoeconomic strategy. The aim was to weaken Ukraine's power as a key transit state with South Stream and tie Ukraine to Putin's 'Eurasian' project through the Russia-led customs union, later to become the Eurasian Economic Union.⁸⁷ Yet, as this operation by Putin became politicized in Ukraine, the protest movement expanded and eventually succeeded in bringing down the Yanukovich government. Russia then turned to traditional geopolitics with a military campaign. Its geopolitical toolbox, labelled in the West as 'hybrid war', also included intensive propaganda aimed at undermining EU unity.⁸⁸

Scholars have offered several explanations for Russia's turn to a military operation in Ukraine.⁸⁹ Persuasively, several analysts link the operation in Ukraine to

⁸¹ Roy Allison, 'Russian "deniable" intervention in Ukraine: how and why Russia broke the rules', *International Affairs* 90: 6, Nov. 2014, p. 1262.

⁸² Allison, 'Russian "deniable" intervention in Ukraine', pp. 1270, 1275.

⁸³ Richard Sakwa, 'The death of Europe? Continental fates after Ukraine', *International Affairs* 91: 3, May 2015, pp. 555–7.

⁸⁴ 'Russia offers Ukraine major economic assistance', BBC News, 17 Dec. 2013.

⁸⁵ 'Putin's gambit: how the EU lost Ukraine', *Spiegel*, 25 Nov. 2013.

⁸⁶ 'Russia offers Ukraine major economic assistance'.

⁸⁷ Anton Barbashin, 'A Eurasian union no more?', *National Interest*, 23 April 2014, <http://nationalinterest.org/feature/eurasian-union-no-more-10296>.

⁸⁸ 'From Cold War to hot war', *The Economist*, 14 Feb. 2015.

⁸⁹ For an extensive analysis of Russia's choice and mixture of economic and military tools in foreign policy, see Allison, 'Russian "deniable" intervention in Ukraine'.

both the larger foreign policy context of 'setting limits to the West' and Putin's wider domestic political project for Russia.⁹⁰ The upsurge of military activity in foreign policy is, to a great extent, the embodiment of a reactionary response to both the internal and external setbacks Russia has faced, which have prompted Russia's leadership to adopt a 'crisis mode' that legitimizes hard measures in foreign and domestic policy-making.⁹¹ Significant among such setbacks are the increasing role of the EU in the post-Soviet space and the domestic discontent following Putin's decision to apply for a third presidential term. The regime's previous relative reluctance to use military means in foreign policy has eroded at the same time as domestic policy-making has shifted towards a patriotic, anti-liberal and anti-western stance—especially after the street protests of 2011–12.⁹² In espousing this doctrine, Russia confronts the outside world in a 'militarist mode'.⁹³

Russia's geopolitical campaign alarmed Europeans and their leaders. Public opinion among Europeans concerning Russia hardened after its Ukraine intervention.⁹⁴ Russia's actions were also increasingly perceived by European publics and their leaders as embodying a security threat, even in countries with deep economic and cultural ties to Russia.⁹⁵ To a certain extent, the new security situation had a galvanizing effect on EU unity. Russia's heightened geopolitical activity helped to engender precisely the centripetal response to an external security threat that had been lacking in Europe ever since the fall of the Soviet Union—a lack that Russia had exploited with its geoeconomic strategy, as analysed above.

Evidence of these centripetal tendencies can be seen in three key areas. First, in the energy field, the EU managed to harden its stance on the South Stream pipeline project. In late March 2014, as the Ukraine crisis evolved into a war with mounting evidence of Russian military involvement, the Commission moved from concern into outright opposition and suspended the negotiations on exemptions, stating that 'decisions on exemptions [for South Stream] from the third energy package are on ice for political reasons'.⁹⁶ In the meantime, the European Parliament took the view in an informal resolution that 'the South Stream pipeline should not be built, and that other sources of supply should be made available'.⁹⁷ In June, the Commission launched a legal investigation in Bulgaria,⁹⁸ and stated

⁹⁰ Aglaya Snetkov, 'From crisis to crisis: Russia's security policy under Putin', *Russian Analytical Digest*, no. 173, 12 Oct. 2015; see also Aglaya Snetkov, *Russia's security policy under Putin: a critical perspective* (London and New York: Routledge, 2015); Veera Laine, Toivo Martikainen, Katri Pynnöniemi and Sinikukka Saari, *Zugzwang in slow motion? The implications of Russia's system-level crisis*, FIIA Analysis no. 6 (Helsinki: Finnish Institute of International Affairs, Dec. 2015).

⁹¹ Laine et al., *Zugzwang in slow motion?*.

⁹² Snetkov, 'From crisis to crisis'.

⁹³ Lilia Shevtsova, 'Russia's policy system: imperialism and decay', *Journal of Democracy* 26: 1, 2015, pp. 171–82.

⁹⁴ Pew Research Center, 'Russia's global image negative amid crisis in Ukraine: Americans' and Europeans' views sour dramatically', 9 July 2014, <http://www.pewglobal.org/2014/07/09/russias-global-image-negative-amid-crisis-in-ukraine/>.

⁹⁵ See Joerg Forbrügge, ed., *A region disunited? Central European responses to the Russia–Ukraine crisis*, Europe Policy Paper 1/2015 (Washington DC: German Marshall Fund of the United States, 2015).

⁹⁶ 'Russia's South Stream gas pipeline to Europe divides EU'.

⁹⁷ This non-binding resolution of the European Parliament 'takes the view that the South Stream pipeline should not be built, and that other sources of supply should be made available': EP 2014/2699 (RSP), para. 28, 16 April 2014.

⁹⁸ 'EU Commission reiterates calls on Bulgaria to stop South Stream', Sofia News Agency, 3 June 2014.

in its annual enlargement report that Serbia's accession process would suffer if the project moved forward before the agreement with Russia was aligned with EU laws.⁹⁹ In September, the European Parliament passed a resolution calling on member states to cancel planned energy sector agreements with Russia, including those concerning the South Stream pipeline.¹⁰⁰ Several member states publicly supported South Stream, but did not throw their political weight behind it in Brussels as a priority. In December 2014 Putin finally saw the centripetal tendencies he had provoked, and became disillusioned with the geoeconomic potential of South Stream.

Similar centripetal tendencies caused by a perceived geopolitical threat can be seen in the re-emerging wider discussion on a European energy union.¹⁰¹ The political and legal project of increasing EU unity in the energy field, and diversifying sources of gas in particular, has a long history, which has been strongly influenced by the tensions between Ukraine and Russia. After the 2006 Russia–Ukraine gas dispute the EU Commission launched regulatory efforts with several directives, later complemented by decrees and regulations. A notable milestone was the Third Energy Package, which was proposed by the Commission in 2007 and entered into force in 2009. Its implementation was accompanied by the political aftermath of the second Ukrainian gas crisis in 2008–2009, which led to the severing of most gas supplies to central and south-eastern Europe. However, practical progress towards the EU goals has been slow owing to various factors, including the reluctance of several member states, the political clout of the national champions, the market structure and long distances involved, and failures in regulation.¹⁰²

Since the late 2000s, spot-priced gas has continuously increased its share of the market, particularly in western Europe,¹⁰³ but—crucially—eastern parts of the Union are notably lagging behind in the competition. It was only after the Ukraine crisis, in July 2015, that 15 EU countries in the central, eastern and south-eastern regions of Europe reached a general agreement to work together to accelerate the building of missing gas infrastructure links and to tackle the remaining technical and regulatory issues which hamper the development of an integrated energy market in the region.¹⁰⁴ The Commission has championed the term 'energy union' before, especially when Gunther Oettinger was vice-president in charge of energy affairs, but in February 2015 presented a more visionary proposal.¹⁰⁵ Legis-

⁹⁹ 'EU puts pressure on Serbia to stop South Stream gas pipeline', *EU Observer*, 7 Oct. 2014.

¹⁰⁰ 'MEPs welcome signs of hope in Ukraine and urge the EU to stand up to Russia', press release, European Parliament, 18 Sept. 2014.

¹⁰¹ For a discussion, see Sonja van Renssen, 'Interview J. M. Glachant, "To get an Energy Union, you need new institutions"', *Energy Post*, 24 Feb. 2015, <http://www.energypost.eu/interview-jean-michel-glachant-get-energy-union-need-new-institutions/>.

¹⁰² For more details and analysis, see Kim Talus, *EU energy law and policy: a critical account* (Oxford: Oxford University Press, 2013).

¹⁰³ Jonathan Stern and Howard Rogers, *The dynamics of a liberalised European gas market: key determinants of hub prices, and roles and risks of major players*, OIES Paper NG 94 (Oxford: Oxford Institute for Energy Studies, 2014), pp. 1–84.

¹⁰⁴ European Commission, 'Energy: Central Eastern and South Eastern European countries join forces to create an integrated gas market', press release, 10 July 2015, http://europa.eu/rapid/press-release_IP-15-5343_en.htm.

¹⁰⁵ European Commission, 'Energy union package: a framework strategy for a resilient energy union with a forward-looking climate change policy', COM (2015) 80 final, 25 Feb. 2015.

lative proposals will follow in due course, and more on the actual contents of the energy union are likely to be known in 2016. However, it is important to notice the timing of this initiative and the new packaging of old European energy policy ideas as ‘energy union’. The Commission, among others, saw an opportunity in the centripetal tendency to nudge forward these extremely challenging issues in European energy policy.

The second area in which centripetal tendencies are apparent is the EU’s Russia policy. Although many countries were initially hesitant, all EU member states eventually joined in the sanctions regime. Sanctions were introduced with unanimity in three successive stages, with regular interim updates. The sanctions policy expanded from measures targeting private entities and individuals via travel bans and asset freezes to sector-based economic sanctions targeting: (1) capital markets (by banning long-term EU loans to the main Russian state-owned banks); (2) the defence sector (arms embargo); (3) dual-use technology manufacturers, both civil and military; and (4) the energy sector (embargo on technologies related to deep water, Arctic and shale oil).¹⁰⁶

This is the first time that the EU has imposed serious sanctions on a major power, and—remarkably, considering its previous difficulties in developing and sustaining a coherent policy line in its relations with Russia—it has remained relatively united throughout the process. As a result of the heightened threat perception, the EU has been able to develop a stronger sanctions policy *vis-à-vis* Russia than many experts anticipated,¹⁰⁷ despite the economic interests at stake and the asymmetric economic effects of the sanctions on European member states. The EU’s sectoral sanctions started off as mild compared to the US sanctions, but were nonetheless introduced in close coordination with the United States. The European and American lists of sanctioned individuals and entities are not entirely harmonized, however: the US measures are broader, particularly with regard to the energy sector.¹⁰⁸ Another important difference is that the EU sanctions are time-limited, therefore requiring positive action to be renewed; but while there was some scepticism concerning the EU’s ability to maintain the sanctions, the decision to extend them was arrived at with relative ease by the EU foreign ministers in June 2015.

In Germany, whose trade with Russia is worth more than €75 billion a year, and which has more than 6,000 firms with premises in Russia and investments of around €19.5 billion, the sanctions were eventually accepted by the business community.¹⁰⁹ A poll conducted in August 2014 also found 70 per cent of Germans

¹⁰⁶ Tatia Dolidze, ‘EU sanctions policy towards Russia: the sanctioner–sanctionee’s Game of Thrones’, CEPS working document 402/2015 (Brussels: Centre for European Policy Studies, 2015).

¹⁰⁷ In an interview, Senator John McCain said that if anyone believed the Europeans would impose firm sanctions, ‘I have some beachfront property for them in Arizona’: ‘John McCain: European sanctions on Russia are “a joke”’, *Telegraph*, 23 July 2014. See also e.g. ‘Russian dilemma: why EU sanctions are a bluff’, *Spiegel*, 12 May 2014; ‘EU sanctions push on Russia falters amid big business lobbying’, *Financial Times*, 16 April 2014; ‘Russia unfazed by new EU economic sanctions warning’, *Moscow Times*, 26 June 2014.

¹⁰⁸ For a discussion, see Simond de Galbert, *A year of sanctions against Russia: now what?* (Washington DC: Center for Strategic and International Studies/Rowman & Littlefield, 2015).

¹⁰⁹ Markus Kerber, ‘German industry should speak hard truths to Putin’, *Financial Times*, 7 May 2014; Stephen F. Szabo, *Germany, Russia, and the rise of geoeconomics* (London: Bloomsbury, 2014).

supporting the sanctions.¹¹⁰ With around 300,000 German jobs depending on the Russian market,¹¹¹ the poll is another indication of the power of the broader existential considerations triggered by the Russian geopolitical strategy to draw Germans together behind a more firm approach towards Russia, trumping the sectoral economic interests. Germany's 'strategic partnership' with Russia has been built on these sectoral economic interests, and has been a prominent factor in undermining the EU's ability to form a coherent and unified Russia policy.¹¹² As Forsberg notes, while the debate continues, with many still advocating a role for Germany as Russia's interlocutor in Europe, 'the climate of opinion among the foreign policy elite changed definitely',¹¹³ and support for the government's new foreign policy line among both the German public and German industry has strengthened as the crisis has unfolded.

Third, the centripetal forces set in motion by Russian geopolitics can be noted in a tendency towards a more cohesive EU foreign policy. This was reflected in Germany's firmer position in leading EU foreign policy, enabling the EU to speak with a stronger and more coherent voice.¹¹⁴ In 2014 and 2015, European capitals in general relied on Chancellor Merkel to lead attempts at mediation with President Putin over the Ukraine crisis and work to shape the sanctions regime. This more prominent leadership reflected Germany's new Russia policy, in which it is willing to coordinate closely with other EU member states and protect the European security architecture, even if in so doing it jeopardizes its own traditional close bilateral relationship with Russia. While many commentators viewed the new German leadership stance and its broad acceptance by the other EU member states as a surprise,¹¹⁵ from a more scholarly perspective it should have been predictable. Several studies have shown how big external powers, through military activity, may shift the power balance in a region. As Pedersen has put it: 'If such powers are seen to be threats to a region, this may also indirectly affect the regional power distribution, making a regional power asymmetry more acceptable to smaller states.'¹¹⁶ According to this reasoning, Russia's new geopolitical threat to Europe was thus directly contributing to making German leadership, despite all the historical baggage, acceptable to the EU's secondary and smaller powers.

Traditional geopolitics played an instrumental role in the case of early European integration, which has often been understood as an attempt to balance against the Soviet Union and its communist allies.¹¹⁷ Throughout the Cold War, the geopolit-

¹¹⁰ 'Germans back tougher stance toward Russia over Ukraine: poll', *Wall Street Journal*, 8 Aug. 2014.

¹¹¹ Elizabeth Pond, 'Germany's real role in the Ukraine crisis', *Foreign Affairs* 94: 2, 2015, pp. 173–6.

¹¹² Stefan Meister, 'Reframing Germany's Russia policy'.

¹¹³ Tuomas Forsberg, 'From *Ostpolitik* to "frostpolitik"? Merkel, Putin and German foreign policy towards Russia', *International Affairs* 92: 1, Jan. 2016, pp. 21–42.

¹¹⁴ Pond, 'Germany's real role in the Ukraine crisis'; Ulrich Speck, 'German power and the Ukraine conflict', 26 March 2015 (Brussels: Carnegie Europe), <http://carnegieeurope.eu/2015/03/26/german-power-and-ukraine-conflict>.

¹¹⁵ George Friedman and Marc Lanthemann, 'A more assertive German foreign policy', *Stratfor Geopolitical Weekly*, 4 Feb. 2014, https://www.stratfor.com/weekly/more-assertive-german-foreign-policy?o=ip_login_no_cache%3D2be955d29ad709af7f61ae9964059537.

¹¹⁶ Thomas Pedersen, 'Cooperative hegemony: power, ideas and institutions in regional integration', *Review of International Studies* 28: 4, 2002, p. 689.

¹¹⁷ For a recent analysis emphasizing the geopolitical imperative of balancing against the Soviet Union, see

ical threat from the Soviet Union continued to provide an incentive for Europeans to join forces and balance against it. The collapse of the Soviet Union weakened that geopolitical reason for European integration. At first, the effects of the end of the Cold War and the subsequent change in the European power architecture did not manifest themselves as the 1990s were years of prosperity, optimism and the ‘unipolar moment’ of the West; but after the turn of the century, especially as the economic situation deteriorated, EU integration showed ‘unmistakable signs of strain’.¹¹⁸ What these analysts did not foresee, however, was the reappearance of Russia as a perceived geopolitical threat to Europe.

Conclusions

The idea of commerce reducing the likelihood of war dates back at least to the late eighteenth-century writings of Immanuel Kant, who famously noted that ‘the spirit of commerce, which is incompatible with war, sooner or later gains the upper hand in every state’.¹¹⁹ Now that this optimism of liberal interdependency, and its security policy implications—more recently enshrined in the Charter of Paris for a New Europe in 1990¹²⁰—has suffered various clear setbacks, many analysts and commentators have gone to the other extreme, paraphrasing von Clausewitz to draw parallels between economics and warfare. This article shows that such a view, though seductive, is misleading as it obscures the significant differences in strategic nature between the uses of economic power and of military power, and the potential contradictions between the two. Within the framework of the strategic competition between the EU and Russia, the issue of the energy trade highlights the inconsistencies of geoeconomic and geopolitical strategies. Europe’s dependence on Russia for gas has been widely viewed as limiting the scope of the EU’s response to Russia’s military aggression in Ukraine.¹²¹ The other perspective, the harm caused by Russia’s geopolitical campaign in Ukraine to the exercise of its geoeconomic power towards Europe, has not been adequately addressed. While Russia continues to use geoeconomics in its dealings with Europe, this has, at least momentarily, become less effective as a wedge strategy because of the heightened threat perception in the EU, caused by the turn to traditional geopolitical power projection in Ukraine.

Importantly, the juxtaposition of geopolitics and geoeconomics suggests a new explanation for alliance patterns and whether they are driven by balancing, bandwagoning or underbalancing dynamics. The neo-realist literature has found underbalancing dynamics hard to explain. Though more empirical research is needed, our analysis indicates that type of geostrategy plays an important role in the formation of blocking coalitions. Russian geoeconomics has long been successful

Stefano Rosato, ‘Europe’s troubles: power politics and the state of the European project’, *International Security* 35: 4, 2011 pp. 45–86.

¹¹⁸ Rosato, ‘Europe’s troubles’, p. 48.

¹¹⁹ See Immanuel Kant, *Perpetual peace* (New York: Cosimo, 2005; first publ. 1795), p. 39.

¹²⁰ See e.g. Sten Rynning, ‘The false promise of continental concert: Russia, the West and the necessary balance of power’, *International Affairs* 91: 3, May 2015, pp. 540–41.

¹²¹ ‘A conduit for Russian gas’.

as a centrifugal, dividing power within the EU. In the light of this assessment, EU's underbalancing behaviour towards Russia, as illustrated by its incoherent line on Russia, lamented for years by analysts and politicians alike,¹²² becomes understandable. Similarly, a certain trend in 2014–15 towards a more coherent European approach to dealing with Russia, in the form of a tendency towards more rigorous balancing, can be explained by Russia's changing geostrategy. Its turn to geopolitics worked as a centripetal force, causing increasing EU unity, as exemplified by the South Stream case. The global energy context, including cheap coal prices and the expansion of renewable energies and liquefied natural gas, cannot fully account for the firmness of the EU Commission and the allegiance of member states in the South Stream case. Similar centripetal tendencies caused by the heightened threat perception within the EU can be seen in the emerging German leadership in EU foreign policy, the economic sanctions imposed against Russia, and the re-emerging wider discussion on an energy union. Most explanations for balancing dynamics tend to emphasize either systemic factors, as in balance of power theory (neo-realism), or the role of domestic politics (neo-classical realism), suggesting that whether states balance against threats is mainly determined by domestic political constellations. Our analysis suggests a greater focus on the way outsiders' strategic choices—geopolitics versus geoeconomics—affect the coherence of threatened states and, hence, their propensity to balance, bandwagon or underbalance.

The preliminary analysis of the effects of Russian geostrategic choices conducted in this article gives some support to the argument that traditional geopolitics undermines a geoeconomic strategy. We have devoted the article to one case-study concerning the EU and Russia. While we assume that our conclusions in respect of strategic-level considerations hold value more generally, the context in which geoeconomics or geopolitics is applied matters a great deal. Further research on the interplay of the two is clearly needed. Once the analytical framework has been applied in multiple cases in different contexts, there should be a more solid foundation for making claims regarding any possible consistent tendencies in this interplay. The application of the framework in real-world cases will, we hope, in turn feed back into the theoretical debates on the main drivers of an effective geostrategy.

The centripetal and centrifugal tendencies analysed in this article are naturally subject to the influence of several external variables. This holds especially for the delicate centripetal tendencies within the EU. A key external variable affecting EU centripetalism towards Russia, especially the sanctions policy, is the diplomatic influence of the United States. For example, US Vice-President Joe Biden has claimed that it was the US that 'embarrassed the EU into sanctions',¹²³ while

¹²² See e.g. Hiski Haukkala, 'False premises, sound principles: the way forward in EU–Russia relations', FIIA briefing paper no. 20 (Helsinki: Finnish Institute of International Affairs, April 2008); Annegret Bendiek, *The networking of European foreign policy: from cacophony to choir?*, SWP Comments no. 48 (Berlin: Stiftung Wissenschaft und Politik, Nov. 2014).

¹²³ Joe Biden, remarks by the Vice-President at the John F. Kennedy Forum, The White House, Office of the Vice-President, 3 Oct. 2014.

analysts have noted that the United States has been a 'driving force' and then a 'strong link in the chain of Western sanctions' against Russia.¹²⁴ Moreover, the EU's increased centripetalism may be a finite and quickly spent political resource. The often fragile unity of the EU in external affairs is currently being stretched by the long-lasting economic depression in many member states, the political turbulence associated with loan packages for Greece and associated measures, and the migration/refugee situation in the Mediterranean. A further point to note is that to identify a centripetal tendency within the EU caused by Russian geopolitics is not to claim that this centripetalism has been politically effective. Experts have noted, for example, that the Minsk II agreement signed in February 2015 is less favourable to the EU's goals than Minsk I signed in September 2014.¹²⁵

Finally, we have acknowledged that Russia's annexation of Crimea and military aggression in eastern Ukraine not only formed part of the geostrategic game, but were also motivated by domestic political considerations and the shift to 'crisis mode' in Russia. Nevertheless, irrespective of the drivers of Putin's heightened focus on geopolitics, the Russian leadership estimated in the winter and spring of 2014 that it could pursue two foreign policy strategies towards Europe simultaneously: a geoeconomic one (South Stream) and a geopolitical one (Ukraine). Russia will in all likelihood succeed in holding onto Crimea and attain some of its aims concerning the eastern parts of Ukraine. However, by overlooking how the two strategies undermine each other, the Kremlin's broader geostrategic goals of strengthening its sphere of influence and weakening what it sees as its foremost strategic competitor in the neighbourhood, the EU, became at least temporarily harder to reach. With his geopolitical campaign, Putin provoked a blowback, weakening his ability to play the geoeconomic game with the EU—as pursued through pipeline politics—and causing his own economic encirclement. In order to revitalize his strategy, Putin would do well to recalibrate his centrifugal geoeconomic influence on the EU, importantly by the construction of the North Stream II pipeline to Germany, and to phase out the traditional geopolitical means in use in eastern Ukraine.

¹²⁴ Dolidze, 'EU sanctions policy towards Russia', p. 5.

¹²⁵ Paul Roderick Gregory, 'Putin comes out on top in new Minsk agreement', *Forbes*, 13 Feb. 2015.