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Political and economic consequences of the annexation of the Crimean Peninsula by Russia



Rio de Janeiro

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EVALUATION COMMITTEE

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ABSTRACT

The Crimea crisis has been the worst European issue after the end of the Soviet Union. Crimea is a centre of pro-Russian sentiment, which can spill into separatism. The region - a peninsula on Ukraine's Black Sea coast - has 2.3 million people; most of the population identifies itself as ethnic Russians, and they speak Russian. In this peninsula, the Russian Black Sea fleet is deployed; this is the sole Russian port in hot water and it has connection with Mediterranean Sea. In the 2000's, the approach between Ukraine and European Union, as well as the intentions of the Ukrainian government to join the North Atlantic Treaty Organization (NATO), were seen by Russia like a threat for her sovereignty because NATO's borders would be closer to Russian territory. This is one of the main reasons of this crisis; it has direct political and economic consequences for Ukraine and Europe and indirect impact to the rest of the world. This issue is still going on and it lifts new equations in the international geopolitical game.

Key Words: Crisis. Sovereignty. Politics. Economic.

RESUMO

A crise Criméia é o mais grave problema europeu após o fim da União Soviética. A Crimeia é um centro de sentimento pró-russo, que pode levar ao separatismo. A região - uma península na costa do Mar Negro da Ucrânia - tem 2,3 milhões de pessoas, a maioria dos quais se identificam como os russos étnicos e falam russo. Nesta península está a frota russa do Mar Negro, o único porto russo em águas quentes e com ligação com o Mar Mediterrâneo. Na década de 2000, a aproximação entre a Ucrânia e a União Europeia, bem como os sinais do governo ucraniano para pertencer Norte Organização do Tratado do Atlântico (OTAN) foram vistos pela Rússia como uma ameaça à sua soberania, porque as fronteiras da OTAN passariam com o território russo. Estas são algumas das razões para esta crise, que tem consequências políticas e econômicas para o mundo. Este assunto é atual e traz novas equações no jogo geopolítico internacional.

Palavras-chave: Crise. Soberania. Política. Econômico.

1 INTRODUCTION

Russia has been the dominant power in Crimea for most of the past 200 years, since it annexed the region in 1783. But it was transferred by Moscow to Ukraine - then part of the Soviet Union - in 1954. Some ethnic Russians in Crimea see that fact as a historical mistake.

Crimea is a centre of pro-Russian sentiment, which can spill into separatism. The region - a peninsula on Ukraine's Black Sea coast - has 2.3 million people, the majority of whom identify themselves as ethnic Russians.

Crimea crisis is the outcome of the necessity to define the borders and relationships between the former Soviet Union countries and Russia. In this complex process there are many factors, namely, Russia's resentment to the Western countries for no longer considering it as a super power; the European dependence on Russian pipeline gas and the possible approach of North Atlantic Treaty Organization to Russian territory, what means a threat to Russia.

The great questions about this crisis are: What will be the end? Will the world close the doors to Russia, or will it close its eyes? What will be the next Russian and Westerns countries steps?

This paper presents an analysis of the Crimea crisis, seeking for the main political and economic consequences of the annexation of the Crimean Peninsula by Russia.

This subject is important to understand the modern geopolitics and what is occurring in the Old Continent. This work could be a good support and the base of new researches about the current issue.

2 BACKGROUND

The Republic of Crimea lies on a peninsula, stretching out from the south of Ukraine between the Black Sea and the Sea of Azov. It is separated from Russia to the east by the narrow Kerch Strait.

Crimea was part of Russia since the 18th century; it enjoyed the Crimean autonomy with the name of the Crimean Autonomous Soviet Socialist Republic, under the umbrella of Russian Soviet Federative Republic; in 1954, Nikita Khrushchev transferred Crimea region to the Soviet Socialist Republic of Ukraine. With separatist tensions during the nineties, the Crimean Autonomous Republic remained within Ukraine.



Figure 1: Map of Crimea. Source: The voice of Russia, Feb 27th, 2014.

The Crimean region became part of independent Ukraine since in 1991. It was recognized by Russia, which pledged to preserve the unity of Ukraine in the Budapest Memorandum on Security Assurances, signed in 1994. The agreement was signed by the Russian Federation, the United States and the United Kingdom as well as Ukraine.

According to the statistics, 77% of the population of Crimea considers the Russian language as mother tongue, 11.4% the Tatar language and 10.1% the Ukrainian language, however, the Ukrainian language is the only official language of the country. The Russian language is used in government institutions. According to the 2011 Census, the Russians represented 58% of the total two million residents in the Crimea; Ukrainians represented 24%, and the Tatars, 12%.



Figure 2: Ukraine's ethical divide. Source: CBC News, April 13th, 2014.

At the end of 2013, after President Viktor Yanukovych postponed the signing of the Ukraine–European Union Association Agreement, under severe economic pressure from Russia, the protests began. The foreseeable outcome of this association was the future accession by Ukraine to the North Atlantic Treaty Organization (NATO).

The increasing protests at the beginning of 2014 led to the death of many of the protesters and government forces; under the clashes between security forces and demonstrators, the Ukrainian parliament voted to isolate President Yanukovych in February 22nd.

Some residents, primarily Russian-speaking, from the Eastern and Southern parts of the country did not like this change in Kiev. They previously constituted President Yanukovych's support base. The Ukrainian parliament abolished the law of minorities' language which includes Russian, and made Ukrainian the sole state language at all levels. Then, this decision came to pour oil on the fire in those regions disgruntled originally from the changes taking place in the capital. These regions saw the move as more evidence that the anti - government protests in Kiev, that toppled Yanukovich's government, were intent on pressing for a nationalistic agenda.

Both houses of the Russian legislature (Federal Assembly) voted on March 1st, 2014 to give Vladimir Putin the right to use Russian troops in Crimea.

The question of independence from Ukraine and joining Russia was put to a referendum. In March 16th, the Official returns indicated nearly 96% in favor (independence), with a turnout of over 83%.

Now the Republic of Crimea is an autonomous Russian Republic. It joined formally to Russia on March 21st, 2014, after a popular referendum. The capital of the Republic of Crimea is Simferopol. This Republic still has limited international recognition.

3 THE ORIGIN AND EVOLUTION OF THE CRISIS

The fall of the Soviet Socialist Republics and the cessation of the rest of the 14 republics from Russia, Ukraine included, showed the interest of integrating fully with west. This interest was welcomed by the European Union.

In 2012 the European Union (EU) initiated deals on free trade and political association with Ukraine, but the EU leaders stated that these agreements would not be ratified unless Ukraine addresses the concerns over the deterioration of democracy and the rule of law. The Ukrainian government was given deadlines to carry out the required changes in its justice and electoral system before it could be admitted to the EU. President Yanukovych urged the Ukrainian parliament to adopt laws that would make Ukraine to meet the EU criteria. The Ukraine government suspended preparations for signing the association agreement on November 21st, 2013. Despite the suspension of the process of signing of the agreement, Yanukovych still attended the aforementioned EU summit in Vilnius on November 28 the -29^{th} , 2013 where the association agreement was originally planned to be signed but it was not signed. The decision to shelve the signing of the association agreement caused wide spread protests in Ukraine.

The current Ukrainian crisis started on the night of the November 21^{st,} 2013 with public protests in Maidan Nezalezhnosti Kiev in demand for closer European integration. These protests expanded in scope with the people calling for the resignation of President Viktor Yanukovich and his entire government. The protests led to the 2014 Ukrainian revolution. The violent dispersal of protesters on the November 30th, 2013 led to the popularity of the protests to the masses of Ukraine and Kiev in particular. The other factor that fuelled the protests was the will of the Ukrainians to change life in the country as they perceived their government not fit to rule them any longer.

On January 25th, 2014 the protests were fuelled by the perceived government corruption, abuse of power and violation of human rights in Ukraine. On the middle February 2014 the protests reached climax and the worst Euromaidan clashes broke out. This rise in clashes was caused by the fact that the Ukrainian government refused to accede to the demand that the Ukrainian constitution be rolled back to its pre 2004 form that would lessen the presidential power. In February 2014 President Viktor Yanukovych and his entire government was removed by parliament after the

Ukrainian revolution. Ukraine is in turmoil because of the 2014 Crimean crisis and the pro - Russian conflict. The recent evolution of the crisis from mere un armed protests to an armed separatist movement is a worrying factor as it continues to claim lives of innocent people and also ravaging both the economy and the general infrastructure. The perceived military support being received by the separatists from Russia is also a disturbing factor. The sighting of military convoys entering Crimea from Russia signals serious tensions that may lead to a full blown armed conflict between Crimea and the rest of Ukraine.

4. ECONOMIC AND POLITICAL CONSEQUENCES

The crisis in Ukraine has devastating economic consequences over an economy with serious structural imbalances whose correction requires urgent measures. Undoubtedly the main impact is the instability and uncertainty about the future of the country, which holds the crippled economy for months and with it, the decisions of economic agents. Large investment projects, such as Western companies in the energy sector, have been disrupted; logistics of its foreign trade through the Black Sea has been compromised, with the consequent impact on grain markets; its debts and higher prices charged for gas, point out to a crisis of prices and supplies like in 2006 and 2009; its financial system is on the verge of collapse, with little foreign exchange to pay for imports or access to debt markets.

The economic future of the country is unknown. It is to see if the integration model will eventually link Ukraine to the EU.

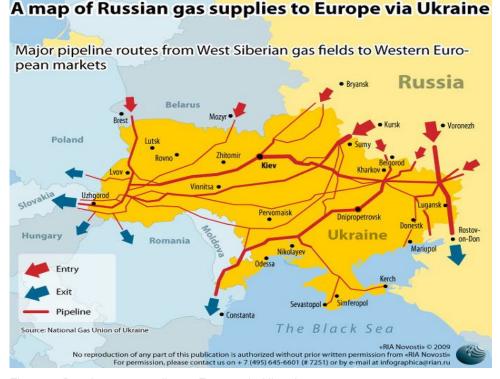


Figure 3: Russian gas supplies to Europe via Ukcraine. Source: Inside Nordea Markets.

After the annexation of Crimea, the short-term priority was to maintain political stability and to prevent new cycles of events. A military escalation would mean further deterioration of Ukrainian country risk, and open conflict with Russia at unbearable cost, both in short and long term. The loss of Crimea is a blow to the country's territorial integrity whose cost is impossible to measure and whose replica should be avoided above all. But it also brings obvious economic costs, such as loss of state property in the Peninsula, from critical infrastructure (ports and airports) and other assets of Ukrainian state-owned public enterprises to projects such as those related to hydrocarbon exploration in the Black Sea. Also, Ukraine lost an important regional market and the main tourist center of the region, along with intangibles such as business networks, supply chains and the image of stability.

After preserving territorial integrity as possible, the most economic near-term concern is to avoid state bankruptcy. Ukraine can no longer count on Russian loans, discounts on gas prices or negotiate debt to Gazprom. The EU and US have played a strong role with economic charts and now it's time to back up, ensuring minimal economic stability to prevent further social unrest and political tensions. But that immediate support should be part of a credible long-term project for Ukraine's integration into its surrounding economic area. There is no time for ambiguity. If the EU is not willing to offer Ukraine membership, either by internal reluctance and / or not to affront to Russia, it should propose a clear alternative model capable of anchoring expectations of economic agents.

A Free Trade Agreement (FTA) as provided in the Partnership Agreement offered by the EU does not seem to be enough when it is opposed to the Russian offer of integration into a Customs Union (CU).

As much as the Eurasian CU sponsored by the Kremlin is unattractive, the EU cannot offer less in the medium term, in addition to financial support. Although some governments hide behind technicalities on the possible compatibility of both initiatives Ukraine cannot simultaneously have a CU with Russia and an FTA with the EU, and vice versa. The only possibility is to reduce the level of integration to respective FTA, leaving Ukraine in a sort of no man's land that is beginning to emerge in the field of security. Perhaps the political and military actors are able to incorporate their expectations of neutrality and uncertainty scenarios, even partition. In economic terms, however, neutrality understood as uncertainty, especially when we consider it

forced politically, does not provide a favourable environment for economic viability in Ukraine.

Every step taken since the beginning of the conflict in Ukraine has been motivated by one thing: security. The conflict, indeed, began as a pulse for control of the eastern border of the EU, western Russia, therefore, a subject related to safety, but with clear commercial objectives.

Two very obvious examples are: the development of anti-missile shield in countries such as Poland, Bulgaria and the Czech Republic, and signing trade agreements with "sensitive" countries to Moscow-Ukraine, Moldova and Georgia. However, the trigger for this crisis, the Ukrainian crisis is precisely the trade issue: the resignation of Yanukovych to an Association Agreement with the EU. And the conflict has been transformed into a global trade dispute. And it seems to be limited to it, since nobody wants a military conflict or the breakdown of cooperation in anti-terrorism or nuclear matter.

In the case of relations between the EU and Russia, the situation is much more delicate because there is, or there was, a high level of mutual dependence. After the financial, military and energy actions taken by the EU in late July, the Russian response only took a week. On August 7th, Russia launched a trade embargo on all the farm and fishery products originated in the countries that supported previous sanctions. Thus Putin ended breaking ties with the US, EU, Canada and Australia. But while putting in place the embargo, Russia launched an aggressive diplomatic campaign in Latin America to get the products he would not import from Europe. In this situation a question arises as to who loses and who wins?

Undoubtedly, the EU loses because to its delicate economic situation severely deteriorated before the Ukrainian crisis, now the losses of trade and financial break with Russia are added. Only in the agri-food sector are estimated at more than 5,000 million Euros. EU must add the losses in the financial and energy sectors, such as the National Bank of Scotland, Société Générale, Deutsche Bank, BP and Repsol. They should keep in mind that exports to Russia in 2013 were more than 12,000 million. The International Monetary Fund (IMF) has already said that the growth in the Euro zone will suffer three to five tenths next year. European stock markets have already begun to notice falls. While the impact on the food industry will be more noticeable in the next few weeks, truckloads of goods have already made their way

back to their countries of origin: peaches of Greek, apples of Poland, meat, fruits of Spanish origin and so on.

Therefore, the European farmers also lose as the products that were addressed to Russia will have to be sold at alternative markets or they will significantly reduce prices in order to sell them in the European market. In Spain, the sixth most affected country after Lithuania, Poland, Germany, the Netherlands and Denmark, it is estimated that the sector will be affected more than 330 million. For now, it seems that the EU will not resort to the compensation package provided by the Common Agricultural Policy (CAP) nor to other reserve funds for the crisis. However, it is to see the pressure that countries like Poland, Greece and Finland, which have already launched their compensation demands, can exert on the process of decision making.

Russian consumers also lose in this vicious cycle. Products from the European market were mainly consumed by the middle and upper classes of Russian society, so that the almost sure-price increases of around 20% provided by the embargo affect a very limited population. One thing that we must know, Moscow and St. Petersburg import 40% of its food while the rest of the country imports just 15%.

And who won? To begin, those who sell their products to Russia, primarily Latin America, but also Serbia, China and Israel will benefit from this change in global trade game. So, after the creation in mid-July of the Development Bank of the BRICS and the signing of agreements with countries in the region in innovation, now it has come to juicy trade agreements with countries like Brazil, Mexico and Argentina, among others which translated into Latin America's main supplier of agro Russia in the near future. While this seems to be the trend, caution must be taken in this regard since the costs of transportation and storage logistics of perishable goods is not an easy matter to resolve.

Also, though with caution, Russian farmers win as they will have the opportunity to launch a process of modernizing its industry, little or no competitive with the industry coming from the EU and US. And this almost certainly will take more than a year, the duration of the embargo.

Therefore, in this game of zero sum that it seems to be played at the global level, about this crisis can extract at least four clear conclusions:

1. First, the role that Russia wants to play in the overall board is not a mere supporting actor, not a simple regional power; Russia wants to play in the first division. And it does so, on the premises of security policy in terms of defense, rearming its military for an amount more than \$750 million, increasing its territory and spheres of influence; destabilizing and creating their Customs Union and their own regulatory bodies through the Development Bank.

2. Second, Russia will increase its relations with Latin America and China, where the EU will have to find new export markets and strengthen existing with the US.

3. Third, the progressive change that is taking place in global governance, although timidly, would not underestimate the recent agreement between the BRICS to create an alternative body to the IMF and the World Bank

4. Fourth, the weak position of the EU. After the failed diplomatic actions since the start of the crisis in Ukraine, EU has made all and each of the measures taken to or from Russia affect negatively.

5 CONCLUSION

This paper analyzed the most important current crisis in Europe and brought political thought within the geopolitical game of the involved countries, and the economic influence in Eurasia, that have reflected in the world.

Crimea became the focus of the worst East-West crisis since the Cold War, after Ukraine's pro-Moscow president Viktor Yanukovych was driven out of power by violent protests in Kiev.

This fact was the keyword to the paramilitary separatist forces, supported by the Kremlin, for taking control of the Crimean peninsula. Immediately, this group organized elections to vote for the separation of Ukraine and to join with Russia. For Western countries and Ukraine, this referendum was illegal, but Russia was the first country to recognize the result of voting.

This situation is changing the relationship between the United States, European Union and former Soviet countries with Russia. European countries feel fear about the next Russian step and what Russia really wants. Therefore, the global politics has a new challenge.

The Ukrainian and Russian economies are interdependent and many times complementary. Both have been influenced by the events, but all Europe have suffered with this conflict.

Russia is the biggest supplier of energy (pipeline gas) to Europe and it is an important consumer of Western European countries products.

In this situation, new solutions are sought in order to decrease the interdependence of both economies. Russia looks for support from the BRICS, mainly with the new pipeline duct that would link Russia to China. On the other hand, the US is studying the possibility to supply Europe with shale gas that would be transported in big ships.

Crimea crisis can be the first conflict of the new worldwide order, where there are regional powers fighting for his vital space, lifting old problems to get new solutions.

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