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Russia and the Use of Trade Policy: Concentration with Soviet Successor States

Carol K G Lutz
Syracuse University, cklutz@syr.edu

James M. Lutz
Indiana University-Purdue University at Fort Wayne, lutz@ipfw.edu

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Carol K. G. Lutz, Syracuse University
cklutz@syr.edu

and

James M. Lutz, Indiana University-Purdue University at Fort Wayne
lutz@ipfw.edu

Introduction

Economic policy has often been an integral part of foreign policy usage by many countries through the years. Governments will frequently use trade, aid, and investment to attain other policy objectives deemed to be in the national interest. Larger or stronger states will be especially prone to utilizing economic mechanisms to gain and to maintain foreign allies and supporters. Smaller countries in turn will seek economic resources and protection from more powerful countries in return for their support. Hirschman (1945/1980) in an early, and now classic, study suggested that the governments in Weimar and Nazi Germany consciously attempted to dominate the trade of weaker nations in central and southeast Europe as a means of enhancing the foreign policy position of Germany and enhancing its economic security. After the breakup of the Soviet Union, Russia found itself in a similar situation to that of Germany after World War I. The analyses to follow will look at Russian trade policy since the breakup of the Soviet Union to determine if or to what extent the new political leadership has been following a similar pattern, especially with regard to the other successor states of the former Soviet Union.

Trade Policy and Political Pressure

National governments have been quite willing to use economic instruments, including trade linkages, as one mechanism in the pursuit of broader foreign policies. Economic statecraft can become an extension of foreign policy (Davis *et al*, 2014: 39; Reilly, 2013: 2). Governments have obviously used foreign aid, favorable trade deals, or foreign investment as a means of shoring up allies. Economic tools, however, may be used in a more indirect fashion as part of broader foreign policies. Hirschman (1945/1980) undertook one of the earliest analyses of trade patterns, which suggested a country could consciously and intentionally seek to use trade linkages to create situations in which one result would be a convergence of foreign policy views.

Hirschman suggested that larger countries could use the leverage that came with international exchange to form relationships that would permit them to pressure smaller trading partners into preferred actions (Hirschman 1045/1980: vi). Further, as the stronger state in a trading dyad the larger country that could walk away from the relationship with fewer costs would have the advantage (Hirschman 1945/1980: 17; Flores-Macias and Kreps, 2013: 366). Hirschman's detailed analysis focused on Germany, a formerly powerful state that was in a weakened condition after World War I. The leaders of the Weimar Republic formulated a policy of concentrating trade linkages with the smaller European countries that were also weaker economically to provide leverage with those nations that would then be used to enhance Germany's international position. When Hitler came to power he continued the policy as a means of more closely connecting the countries in Central and Southeastern Europe with Germany. Germany actively encouraged these countries to increase exports to the German market by providing advantageous programs for their exports and for the importation of German goods. These types of arrangements became even more intense as a consequence of the negative economic effects of the Great Depression when many countries were much more concerned about maintaining exports as a means of dealing with domestic unemployment and earning foreign exchange. Hirschman calculated the trade concentrations that major powers in the international system had with smaller countries. Compared to France, the United Kingdom, and Italy that had higher levels of trade with other large countries, German trade linkages with its smaller European neighbors were much more concentrated in keeping with the policy orientation that Hirschman posited. Ultimately, Germany's development of these kinds of economic links was a "prelude to political and military domination" (Aldcroft, 2006: 63)

With the breakup of the Soviet Union, Russia at the beginning of the 1990s found itself in circumstances similar to Germany after World War I. The geographically reduced Russia found that its status as a superpower had been reduced to that of a major power, and one that was initially reliant on assistance from Western countries to stabilize its economy. In some respects the situation was also similar to the new Soviet Union after the First World War. Stalin, however, chose to limit economic ties with the outside world after he consolidated his position in power. His limitation of these outside linkages was a result of his suspicion of the motives of the capitalist groups in the West. As a consequence, he chose to pursue a path of autarkic self-sufficiency for the new Soviet Union. Russia in 1992, however, did not have a realistic option for this type of autarchy in the global economy; therefore, concentration of trade ties with weaker states, especially the other successor states of the Soviet Union, was a more realistic policy that is was available for the Russian political elite to adopt.

Soviet and Russian Trade Policy

There have been many examples of the use of trade policy by governments. Economic cooperation with neighbors has been a means of creating dependencies on the larger state with the obvious advantages for that country in later negotiations and interactions (Weyland, 2016: 151, 165). The Soviet Union has provided examples of similar uses of trade to achieve broader foreign policy goals. After the end of World War II, Stalin continued to have the Soviet Union pursue a policy of autarchy due to his fear of manipulation of the Soviet economy in the Western dominated international economic system (Spulber, 1959: 432). In essence, he created an alternative trading system centered on the USSR that also included the Soviet allies in East Europe and for a period China. His emphasis on self-sufficiency extended to the communist states in Eastern Europe that were expected to be as self-sufficient as possible on a national level. Agreements on intra-bloc trade provided a commercial framework and reinforced socialist political systems in allied countries (Spulber, 1959: 423). The trade that did occur was concentrated among the countries in the Soviet bloc. Trade among these allied countries was intended to serve as a form of economic integration that tied these states more closely to the Soviet Union (Toole and Lutz, 2005: 1). Trade with the outside world was still considered to be dangerous (Turpin, 1997: 10). There has been evidence that the Soviet Union used trade as a means of supporting its allies in East Europe when particular countries faced internal political difficulties. The economic assistance permitted the allies to gain public support from their citizens (Evanson and Lutz, 1983). There has also been evidence that Soviet trade with developing countries, supported by trade activities from the East European allies, were designed to promote foreign policy goals (Lutz, 1995). Given this historical background it is not unreasonable to presume that the Russian successors would be willing to adopt similar strategies if such policies would appear to be effective. The Chinese apparently learned this lesson when still allied with the Soviet Union. In more recent years, countries in Africa and Latin America that have had larger trade volumes with China provide examples of countries whose foreign policy views have converged with Chinese views on issue of particular importance for that country (Flores-Macias and Kreps, 2013).

Russia clearly appears to have been involved in using its size and economic resources to reach a position of commercial dominance over its neighbors. The economic reintegration of the successor states with Russia became a key foreign policy objective for Putin when he took power, and he was quite willing to use economic and political pressures to achieve this goal (Van der Loo and Elsuwege 2012: 447). Russia generally has preferred to deal with trade issues on a case by case basis as opposed to multilateral discussions so that any trade concessions that would be made would be linked to the achievement of its own objectives (Dragneva and Wolczuk, 2016). Russia used such resources to pressure Kyrgyzstan in supporting Russian policies in Central Asia (Carter and Scott, 2014: 198). The increase in economic and political cooperation between the EU and Ukraine raised red flags for Moscow (Gladkov, 2015: 164). Russia wanted to limit such linkages to preserve its own influence. Stronger ties to Ukraine and other states designed to protect Russia and the other successor states against economic (and political) dominance by the EU (Tsygankov, 2015: 291). Diplomatic disputes between Russia and the Ukraine have been influenced by economic linkages which were also present in other difficulties between the Ukraine and Russia. In keeping with great power use of economic policies, Ukraine was more dependent on ties to Russia than the reverse (Dragneva and Wolczuk, 2016: 680; Tsygankov, 2015). The Ukrainian leaders were aware of the situation and were concerned about being too economically dependent on Russia (Van der Loo and Elsuwege, 2012, p. 439). Ukrainian politicians were also fearful in a time when Russian firms were quite active in the country that Russian businesses would be used by Moscow to undermine state sovereignty (Moshes, 2002: 162). Russia used diplomatic, economic, and political activities in attempts to prevent Ukraine's shift towards the West by (Wawrzonek, 2014: 760). The ultimate goal for Putin has been the political integration of Ukraine with Russia (Braun, 2014: 38). In addition, Putin has used the presence of Russian-speaking groups in the Crimea and Ukraine and their "oppression" by the majority as a cause for involvement that weakens Ukraine and makes closer ties with the West less likely (Lutz, 2017). Interestingly enough, for a period both Ukraine and Russia used trade to provide support to the pro-Russian autonomous regime in Trasnistria that separated itself from direct rule from Moldova with Russian support. Russia has absorbed a large portion of the exports from Transnistria, but for a period of time so did Ukraine (Istomin and Bolgova, 2016: 182). Overall, it has been apparent that the leadership in Moscow has been willing to at least attempt to utilize its economic powers as Hirschman suggested to more closely link the other parts of the former Soviet Union with Russia.

In terms of using trade to create dependencies Russia has one advantage that it has inherited from the old centrally planned economy system. The companies involved in international trade in the Soviet system had been state-owned. Many of the trading enterprises in Russia inherited remained in state hands, were controlled by members of the political elite, or were in the hands of individuals connected to the new leadership. State monopolies such as those present in Russia have provided another effective economic weapon in unsettled world markets (Spulber, 1959: 432). Such companies are more readily accessible for use as mechanisms for furthering the interests of the state or the political leaders of the country. State owned or operated enterprises have provided noticeable advantages when compared to countries where private companies are the norm. For example, such companies provide governments with the ability to control key sectors of the economy (Connolly, 2016: 769). State owned enterprises can be used to reward 'friendly' countries by purchasing their exports or punish a country by failing to purchase its goods. State controlled companies have been used by governments as part of efforts to achieve foreign policy goals (Davis *et al*, 2014; Spulber, 1959). The presence of such companies has been a factor in the convergence of foreign policy actions by the smaller states to match that of the larger country (Reilly, 2013: 5).

Notwithstanding Hirschman's findings about German foreign policy practices in the interwar period, there have been significant elements of the international economic system that have undergone important changes since the 1920s and 1930s. Global trade rules today place greater limitations on state action. One consequence of these limitations is that countries find it much more difficult to discriminate against countries while transnational production by multinational corporations raise additional difficulties (Carnegie, 2014; Davis and Meunier, 2011; Gowa and Mansfield, 2004; Lutz, 2000). Trade within large multinational companies presents many problems for control by governments in terms of furthering national economic policies or using these practices for other foreign policy objectives. While such limitations do exist in the more modern global economy, they have reduced the options available to be used by governments rather than eliminating these possibilities (Davis *et al*, 2014: 39). Thus, it has remained possible for Russia to have instituted actions that have attempted to achieve trade concentrations with the other successor states of the Soviet Union in order to further Russian foreign policy goals.

Analyses

The analyses to follow will focus on exports from the countries that border on Russia to include all of the successor states. The discussions will emphasize the importance of Russia as a market for exports from the other states. The data for the distribution of exports is drawn from *Direction of Trade* (International Monetary Fund, 2016) information available online. The use of outgoing trade flows as opposed to imports was made for a number of reasons. Data on export levels for the successor states of the Soviet Union are somewhat more reliable than the corresponding figures for imports. The import data are less dependable due to smuggling and other forms of corruption the result in lower reported levels of imports than are actually present (Shelburne and Pidufala, 2006: 8). The use of exports also reflects the fact that it is easier for a country to manipulate purchases from other countries than to determine the level of its sales abroad (with a small number of exceptions that can be quite important as is the case with petroleum products). Governments can more effectively limit (or expand) imports from other countries as a matter of conscious policy much more so than is possible with exports (Davis *et al*, 2014: 3). Any one of the successor states of the Soviet Union might be able to find alternative sources of imports in most cases, but these states would have less flexibility in terms of selling at least some types of goods that are exported. Opportunities for Russia selectively purchasing goods from particular successor states have been greater since the export structures of the CIS countries are generally quite different—even complementary, and thus they do not significantly overlap with each other (Shelburne and Pidufala, 2006: 36). This circumstance has the advantage for the countries involved of limiting competition between them and permitting more cooperation. At the same time, it provide opportunities for geographic concentrations that could have given Moscow opportunities to purchase exports and establish a position in which it could use trade to get the other states to support Russian foreign policy or at least some objectives.

The successor states of the Soviet Union can be conveniently groups into the three Baltic countries, the three other European successor nations, the three Transcaucasian states, and the five central Asian countries. In general, trade among the successor states initially declined significantly due to the creation of border controls and barriers, the establishment of new currencies, and declining output from local industries. There was also a loss of markets in East Europe when communism collapsed in these countries. The negative consequences were greater for the successor states than the effects of the Great Depression had been (Shelburne and Pidufala, 2006: 3). The three Baltic nations were the first to break from the old Soviet Union and to reestablish the independent status that they lost in 1940. The three quickly established links with the West, including joining the EU. Their exports to Russia in the aftermath of the dissolution of the Soviet Union were relatively low compared to other countries. The level of exports from the Baltic nations reached a low at the beginning of the twenty-first century after years of decreases (see Figure 1). Somewhat unexpectedly given the turn of the three countries to the West, the importance of the Russian market increased in the following years. The levels were the lowest for Estonia, the country with the largest Russian-speaking minority, especially around the city of Narva, which led to Estonian concerns about support from Moscow for this minority. It would be logical for Estonia to seek to prevent any great reliance on Russian markets that could be used to pressure the government in Tallinn to adjust its domestic or foreign policies. Exports from Latvia and Lithuania to Russia were much higher, although there was a downturn towards the end of the study period. Integration into the EU has provided these three countries with a significant alternative source of economic activity.

Exports from the other European successor states of Belarus, Ukraine, and Moldova to Russia have been more consistent, although there was a decline in relative levels over time (see Figure 2). Russia has clearly remained the dominant market for Belarussian exports. The concentration of exports was quite high in the late 1990s, but the levels remained high as late as 2014, even increasing from a decline that had occurred early in the twenty-first century. Ukraine also had a significant reliance on Russian customers who purchased its exports, even though it was not as high as Belarus. These bilateral economic ties were reinforced in this case by Ukrainian imports of Russian energy products that were moderately priced or even sold below market value (Moshes, 2002). There was a similar decline in exports early in the twenty-first century similar to what occurred with Belarus and then a recovery to higher levels. In 2014 there was a major drop off in export concentrations which was undoubtedly a reflection of the increasing tensions over the Crimea and the eventual annexation of that territory by Russia. Moldavan exports to Russia have followed a pattern that falls somewhere between those of Belarus and Ukraine. The concentration was quite high initially, declined early in the twenty-first century, rose again, and then had a drop off similar to that of Ukraine. The decreasing reliance of Moldova on Russian markets could have reflected stronger ties to the Ukraine which was by virtue of geography likely to be more relevant for trading purposes and which reflected the importance of Ukrainian markets. The last decline could also have reflected Moldovan concerns about Moscow's continuing support for the pro-Russian autonomists in Transnistria (Braun, 2014: 37). Russian foreign policy moves in the Crimea and elsewhere could have raised concerns about Russian moves and motives.

In the Transcaucasian region the initial levels of exports to Russia from Azerbaijan, Armenia, and Georgia were quite high in the early 1990s, especially when compared to the Baltic countries. The levels, however, were similar to those for the other European successor states (see Figure 3). In the case of Azerbaijan, energy products accounted for an increasing portion of the country's exports. Since Russia was also a net exporter of petroleum products there was not a strong market for Azeri exports. Some Azeri exports of energy products relied on pipelines in Russian territories, but alternative export routes have been developed. Azerbaijan did import goods providing Russia with a positive balance of trade. Of the countries in the region, Armenia has maintained the strongest diplomatic links with Russia, and thus it is not surprising that Armenia has had the higher levels of exports to Russia among the three states. Armenian exports have remained at consistently high levels even after the general downturn at the beginning of the twenty-first century. Either dependence on Russia as an export market strengthened the diplomatic ties or the strong trade relationships followed upon the strong diplomatic ties or the diplomatic ties and trade were mutually reinforcing. Moscow has used the threat that it would withdraw support from Armenia in its border disputes with Azerbaijan to strengthen economic ties between the two countries (Braun, 2014: 37). Georgia has had the most erratic pattern of exports to Russia. Georgian exports steadily declined as tensions rose between the two countries as Russia supported autonomous groups in South Ossetia and Abkhazia. The violent military confrontation in 2008 between the two countries led to an almost complete absence of Georgian exports to Russia. Somewhat surprisingly given the military conflict and the tensions between the two countries, the Russian market increased in importance again, suggesting that Russian was very consciously using its market and economic power to tie Georgia to Russia in the aftermath of the conflict. These increased economic ties provided Moscow with an additional means of influencing government leaders and political elites in Georgia to more closely align that state's policy with Russian foreign policy objectives.

The last group of successor states consists of the five new nations in Central Asia. All of these countries started out with relatively high levels of export concentrations, declined to a relatively low level at the beginning of the twenty-first century, and then, like many other countries, recovered before dropping to lower levels after 2008 and 2009 (see Figure 4). The Central Asian countries initially higher trade relationships reflected geography and their relative distance from more advanced economies other than Russia. The last decline after 2008 most likely represented concern over the Russian military intervention in Georgia and a fear of similar actions by Russia directed against them. This concern thus led to a search for external markets in other countries. Turkmenistan, whose economy was largely based on natural resources while in the Soviet Union relied on resource-based exports in the post-Soviet period. It has had a very low reliance on exports to Russia, another resource rich country. Exports have gone to other countries willing to purchase the natural resources. Turkmenistan for the first years of independence also followed extremely isolationist policies toward the outside world seeking to avoid foreign influences. Uzbekistan was often the country among the five that was most closely linked economically with Russia, especially after 2010. Kyrgyzstan showed the sharpest decline in exports towards the latter part of the study period in 2008. In earlier periods the levels of exports were more concentrated than Tajikistan and Turkmenistan and less so than Kazakhstan and Uzbekistan. Tajikistan had a fairly consistent level of exports at lower levels than most of the other countries. Kazakhstan was a bit different in that exports started out at relatively high levels but experienced a major decline without even the recovery noted after 2004 and 2005 that was present for many of the other countries.

Some of the patterns in Central Asia and elsewhere reflected efforts by Putin to create a free trade area, the Eurasian Economic Union, that he hoped would eventually include all the successor states of the Soviet Union except the Baltic countries that had joined the EU. The initial members were Russia, Belarus, and Kazakhstan, and they were later joined by Armenia and Kyrgyzstan. Ukraine was considering membership at one point but the annexation of Crimea and Russian support for separatists in eastern Ukraine has put an end to that possibility. The membership in the free trade area makes the declines in the levels of exports for Kazakhstan and Kyrgyzstan surprising. Membership, however, would explain why there are no figures for

Kazakh exports in the last years if they are no longer reported separately, which would obscure the actual amounts. The stronger economic linkages that would occur in a free trade area would provide Russia, as the largest member, with greater leverage in gaining support for at least some foreign policy objectives. It is not surprising that Putin was advocating such a free trade area as a means of enhancing Russian economic and diplomatic influence in the successor states. For his efforts to be even more successful, he will have to convince (or pressure) additional states to join.

Discussion and Conclusions

There is clear evidence for the proposition that Russia has been willing to use trade as a tool as part of a process for achieving roader foreign policy goals. Opportunities for such an approach were going to be present given the size of the Russian economy compared to the other successor countries. Russia has some additional advantages for dealing with the other successor states in the period after the breakup of the Soviet Union. Exports from many of the countries that were formed out the Soviet Union are typical of the goods that originate in the richer countries. One result of this situation is that the various countries have relied on each others' markets for sales of their manufactured products. Many of these manufactured products that had previously been reliant on domestic consumption in the larger Soviet Union market or markets in satellite East European states or other friendly countries elsewhere in the world were at a disadvantage with products produced in other industrialized countries in a competitive world market. When exports of manufactured goods have declined after the breakup of the Soviet Union as a consequence, exports to markets in the successor states became especially important (Shelburne and Pidufala, 2006). Russia was in a particularly advantageous position to use the importance of its market to achieve foreign policy objectives under these circumstances. In addition, the relatively weak economies of the successor states, at least initially as they were integrated into the global economy, made them more reliant on the Russian market. The new currencies in place in the former parts of the Soviet Union also placed them in a weaker position and made even the Russian ruble more useful to them than accumulations of their own weaker currencies. As a consequence, Russia was quite well position to use trade to further its goals.

The larger market which was available to the Russian leadership was not surprisingly used as a major mechanism for creating diplomatic and political influence. The strong trade ties between Russia and Belarus are the most obvious example. Russian trade with Ukraine also appears to have followed a pattern indicative of Russian efforts for many years to economically dominate its neighbor. The trade ties between Russia and Armenia and Kyrgyzstan are additional examples. The creation of the Eurasian Economic Union that would include all of the successor states except the Baltic nations would help to negate the influence of the EU and provide additional opportunities for Moscow to generate support for political objectives. The ultimate goal of the customs area has been to bring the smaller states under Russian control (Braun, 2014: 41). The economic and diplomatic influence available to Russia convinced other countries to join the free trade area, and membership in the free trade area in turn will provide Russia with greater opportunities to further pressure the neighbor states.

There were additional patterns that indicated that trade linkages in the form of exports were sensitive to political events in the international system in other ways. At the beginning of the twenty-first century, virtually all fourteen of the other successor states saw the Russian market increase in importance. The upturn represented two interrelated events. The first was the fact that the Russian economy improved, providing more opportunities for Moscow (Tsygankov, 2015: 295-296). Russian trade, for example, reached a high point in 2013, increasingly more than eightfold since 1992 before sanctions began to have an effect on trade levels (Gladkov, 2015: 167). Secondly, Putin became much more aggressive in terms of pursuing foreign policy objectives (Tsygankov, 2015; Van der Loo and Elsuwege, 2012). He could now use Russian market power that increased with the improving economy. The Russian economy has managed to maintain itself despite the application of sanctions. Even though the economy suffered initially, the negative effects have been limited. The government has been able to use countermeasures, including import substitution and government financial support for affected industries and sectors to limit the damage from the sanctions. There was an additional example of the connection between trade and political policy in 2008 as a consequence of the Russian military incursion into Georgia. Exports from the Baltic countries, the Transcaucasian states, and some of the Central Asian countries dropped. The decline was, not unexpectedly, most obvious in Georgia—at least in the short term. Russia was more successful in preventing Ukraine, Belarus, Kyrgyzstan, and Uzbekistan from reducing their exports and even increasing them in some cases. The judicious application of pressure by Moscow was apparently effective in this area. Interestingly enough for the other countries, while there was an immediate downturn, most export levels did recover or increase. Georgian reliance on Russian market even increased to respectable levels in later years.

The above findings indicate that there will undoubtedly be additional changes in trade connections that will appear in the years after 2014. The unilateral Russian annexation of the Crimea and then the support for the Russian-speaking minority in eastern Ukraine has severely compromised Russian-Ukrainian trade. It is also quite possible that as was the case with the military incursion into Georgia, other successor states might seek to reduce economic linkages with Russia as a consequence of the trouble in Ukraine and to avoid being placed in a similar situation of being subjected to Russian pressure. On the other hand, the imposition of sanctions by European countries may have the perverse effect of increasing the efforts of Moscow to strengthen economic ties to the successor states (other than the Baltic countries) and link them even more closely to Russia. Any analysis of these possibilities remains for the future when additional trade data for an acceptable period of time becomes available.

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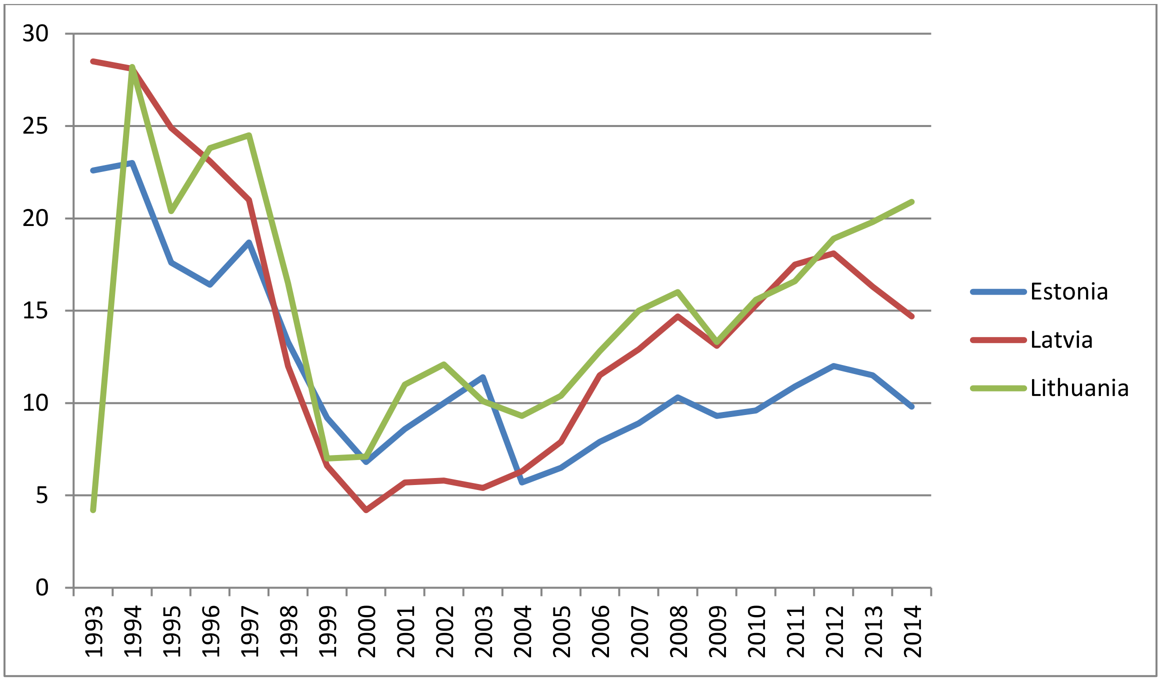

Figure 1: Export Concentrations with Russia: Baltic Countries

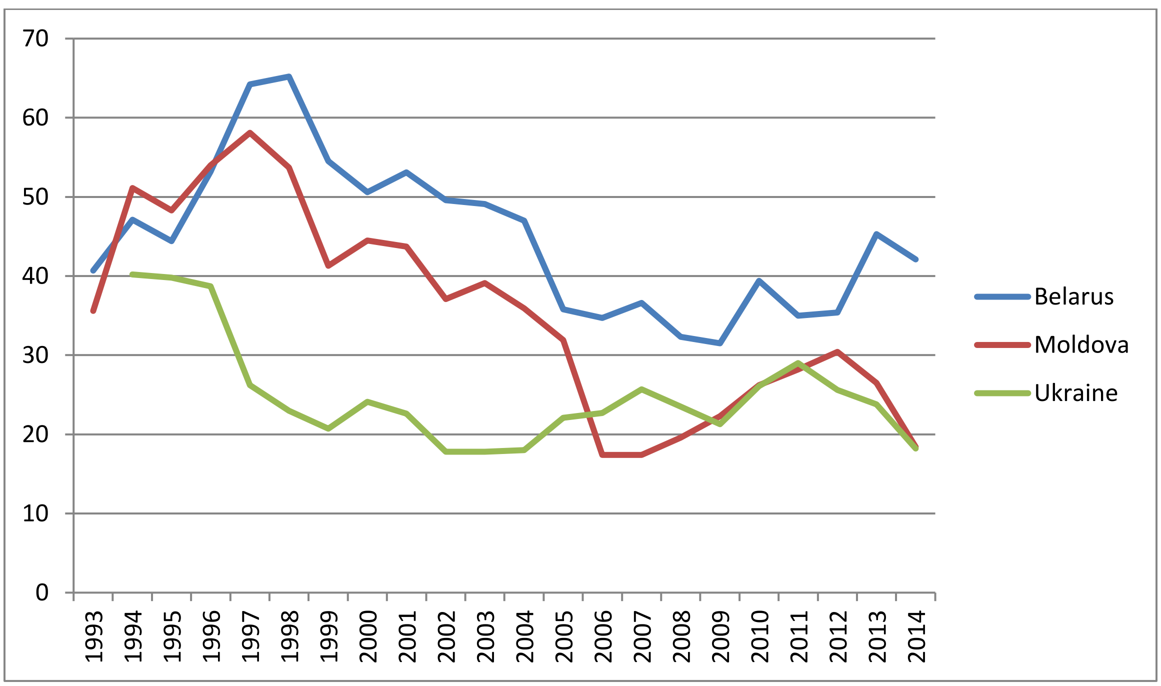

Figure 2: Export Concentrations with Russia: European Countries

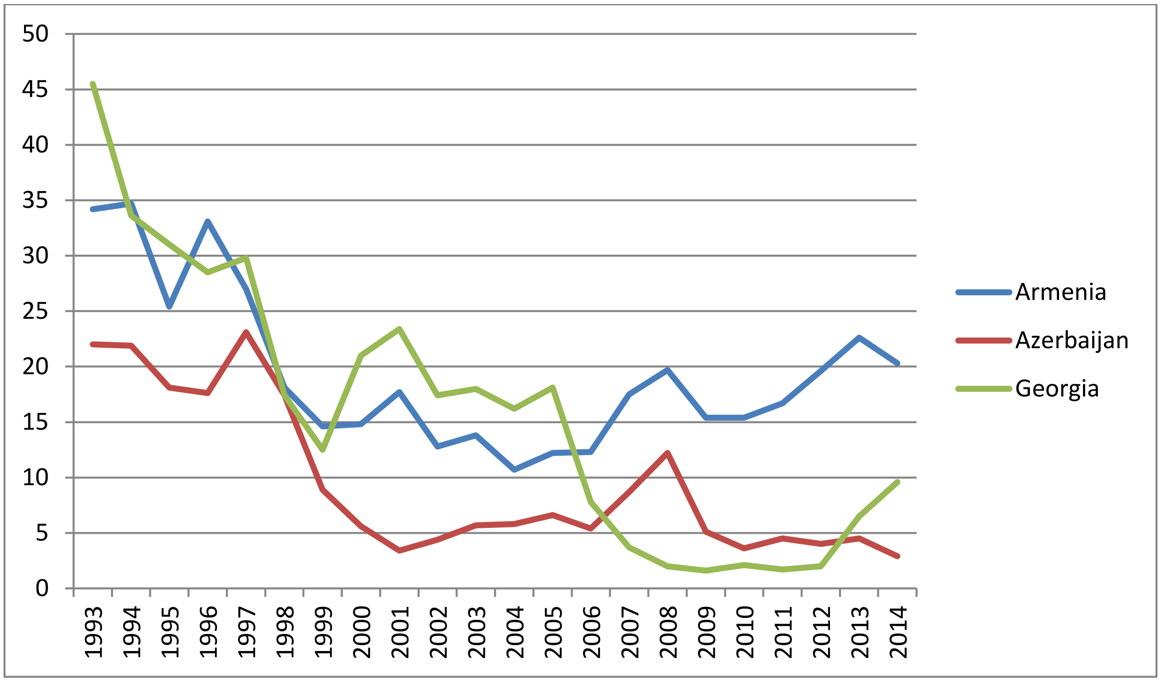

Figure 3: Export Concentrations with Russia: Transcaucasian Countries

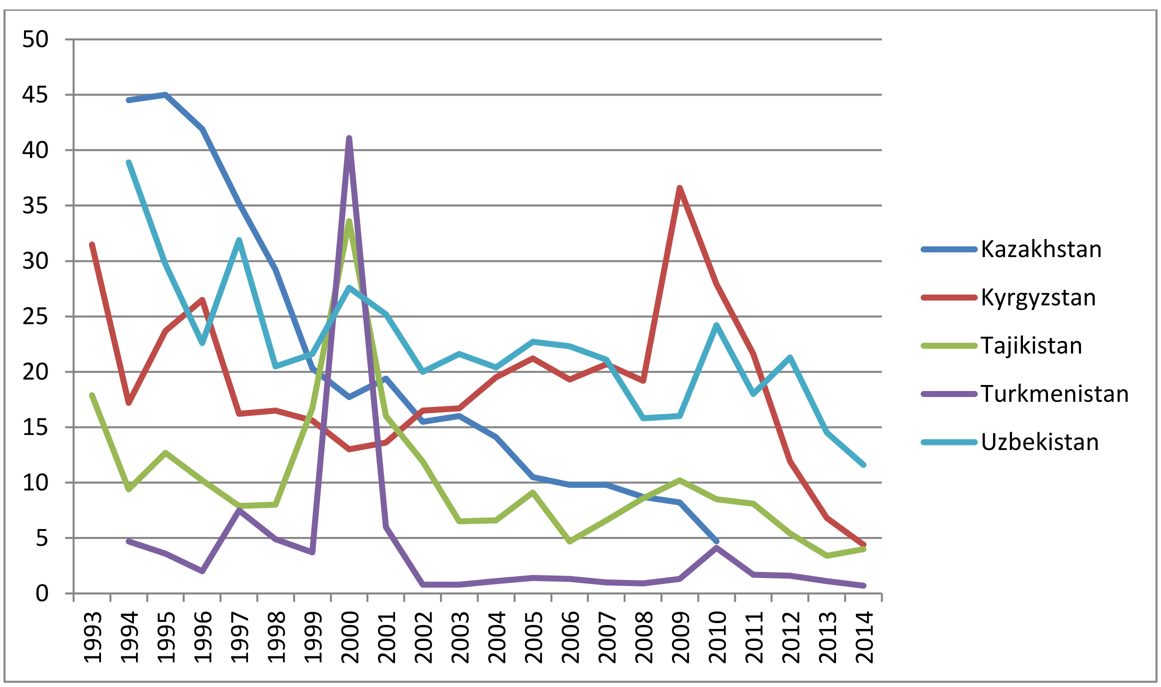

Figure 4: Export Concentrations with Russia: Central Asian Countries