

Digital transformation and connectivity:

Prospects for economic interaction between the EU and Russia in times of sanctions?

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The 9th EUREN meeting was the second one devoted to economic relations between the EU and Russia (for more information, see [EUREN Chronicle no. 5](#)). The Network followed up on its recommendation in the 2018 EUREN Interim Report to “explore areas of economic cooperation which do not violate sanctions on either side” ([EUREN Interim Report 2018: 9](#)). Preserving and developing economic interaction can help to avoid the progression towards isolation in a complicated political context.

There was a rather **sober assessment of the current state of economic relations** at the beginning of the discussion. Whilst the participants agreed that the economic bond between Russia and the EU is still significant for both sides, they also highlighted negative aspects and developments. The political context of the economic relations was particularly important for EU speakers. They stressed that the EU’s restrictive measures against Russia were not an arbitrary punishment, but were instead, a necessary, moderate and targeted reaction to events in Crimea and the Donbas in 2014. The EU participants conceded that sanc-

tions slowed down economic relations between the EU and Russia. However, they were not the only or even the most important problem in this relationship, compared to the negative investment climate and the lack of rule of law in Russia, which counted for more in the eyes of European investors. Russian participants, on the other hand, were pessimistic about the future of EU-Russia economic relations. The EU’s share in Russia’s foreign trade would continually shrink in the coming years. This was as much due to Russia’s economic reorientation as it was to political disagreements and sanctions. No one could predict, however, whether this development would be linear. The Russian and EU participants expressed doubts as to whether economic relations could be restored to their pre-crisis scope and depth should the political crisis come to an end at some point.

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The Eurasian Economic Union was touched upon in this context (see [EUREN Chronicle no. 5](#)). One Russian speaker asked which of the two narratives was stronger in the EU debate about the EAEU: that the EAEU was too weak to be an appealing cooperation partner, or that it was a Russian hegemonic project and

should, therefore, be treated with caution. The response from the EU side was that these were complementary, rather than competing narratives: the low level of interest and multilateral interaction in the EAEU convinced observers that there must be a (Russian) political rationale behind the project. Russian participants agreed it would be “silly to deny” this political rationale in Russia’s approach. However, they argued that there was an economic rationale, too, not only from a Russian perspective, but also from the perspective of the other member states. The EAEU would continue to exist and the EU would have to deal with it in the future.

Economic connectivity has become a political priority for many relevant international actors, as a result of growing global interdependence, including in the digital sphere (see [EUREN Brief no. 3](#)). Reducing barriers to economic exchange and promoting economic interaction is considered to be an instrument to reduce confrontation, build confidence, promote cooperation and generate synergies. The concept has gained more prominence in view of China’s Belt and Road Initiative, which is already transforming economic interaction in Eurasia and Europe. The EU adopted a Euro-Asia Connectivity Strategy in 2018 that mentioned Russia as a partner. Russia stated in its 2016 Foreign Policy Concept that the EU remains an important partner in trade and foreign policy.

Participants identified a variety of geopolitical projects that are related to the notion of connectivity, from European political and economic integration to the Chinese Belt and Road Initiative to Russian ideas of Greater Eurasia. These projects are not necessarily compatible. One speaker pointed out that, in times of increasing international tension, connectivity could become a divisive factor between Russia, the EU and China, rather than a potentially unifying one. Another speaker asked how to interconnect the approaches of different international players to connectivity in a meaningful way. Connectivity, it was stressed, was a rather vague concept and required specification. In order to do this, the following themes and questions should be explored: How can relevant

state and non-state stakeholders be engaged, particularly in countries between the EAEU and China? How can the role of rules and sustainability be assured, as opposed to purely commercial initiatives (that are preferred by China)? How can the environmental implications of large infrastructure projects be addressed?

Moreover, the EU and Russia should keep in mind rapid technological developments when discussing connectivity, including in the digital sphere.

Digital transformation implies opportunities and challenges for both the EU and Russia (see [EUREN Brief no. 2](#)). Brussels and Moscow are developing strategies to address the groundbreaking impact of technological change on governments, social systems and private businesses. They also have to deal with cybersecurity: in this area, they find themselves on different sides of the fence more often than not. One speaker noted that while the EU’s focus was on data protection, China and Russia were more interested in the control, and the US in the commercialization of data.

The participants agreed that cooperation in the digital sphere could be advantageous for both the EU and Russia. Both have declared that digital transformation is a priority and have increased their investment in it significantly. Both lag behind compared to the other players, notably the US and China, and could benefit from an exchange of experience. At the same time, a lack of trust, arising from the current political impasse, the securitization of most things digital, and diverging approaches towards security issues and data protection, present serious and mutually reinforcing obstacles. Cautious first steps could be taken in the areas of e-commerce, fundamental research (including under the EU’s Horizon 2020 programme) and education. The EU and Russia could pursue an informal exchange of their experiences on financial cybercrime and cyberterrorism prevention. One speaker stressed the increasing security threat from lethal autonomous weapons. The EU and Russia could consider a joint initiative to ban those weapons.

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Mutual economic sanctions need to be taken into consideration as a key variable when analysing economic relations between the EU and Russia (see [EUREN Brief no. 1](#)). However, one participant remarked that, in hindsight, the focus of the discussion was mainly on EU and much less on Russian sanctions. Views differed regarding the effects and effectiveness of the EU's restrictive measures against Russia. Experts agreed (albeit to different degrees) that the effect of the sanctions was larger on Russia than on the EU. Some participants pointed out that the sanctions had helped to deter Russian military action in Ukraine. Moreover, sanctions were able to incentivise at least some of the Russian political elite's representatives, as demonstrated, for instance, by Alexei Kudrin's repeated calls that Russian foreign policy should aim to reduce the pressure of sanctions.

The participants assessed that the prospect of lifting sanctions was low, even if some EU governments and business communities would be willing to take steps in that direction. Both EU and Russian participants felt that the effect of the new, broad approach of the US sanctions was detrimental and disincentivised Russian action. Russian speakers saw a risk that sanctions would either not be lifted or be reimposed once Russia had complied with the Minsk Agreements (citing JCPOA and Iran as an example). EU experts, on the other hand, expressed doubt about Russia's willingness to stick to policy changes once the sanctions were lifted. This part of the discussion reflected the very low level of trust that exists in the current relationship. EU speakers

questioned the significance of the EU lifting its restrictive measures (provided that conditions are fulfilled) in light of the new US sanctions legislation. Russian speakers objected. They were certain that such symbolic steps would be appreciated by the Russian side.

Experts agreed that neither the EU, nor Russian or US sanctions were likely to disappear soon. In this situation, Russia and the EU should both consider low-key measures in order to preserve economic cooperation wherever possible, and rebuild some of the trust that has been destroyed in recent years. For instance, authorization procedures could be improved in order to make non-sanctioned trade and investment easier. Both sides could try to offer more information about sanctions to businesses and maximize the clarity and transparency of the sanction regulations. With a view to US sanctions legislation, the experts discussed the possibility of the

EU setting up an agency that could not only monitor the risks emanating from secondary US sanctions, but also help the Commission and national governments to carry out informed negotiations with US policymakers.

This paper is a reflection on the discussions during the 9th EUREN meeting on "Digital transformation and connectivity: prospects for economic interaction between the EU and Russia in times of sanctions" on 28 February/1 March in Moscow. Its content is the sole responsibility of the author and does not represent the position of individual EUREN members or EUREN as a group.

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Not all core group members were present at all meetings. The interim report do not necessarily reflect the opinion of the core group.

About EU-Russia Experts Network

The **EU-Russia Experts Network on Foreign Policy (EUREN)** was initiated by the EU Delegation to Russia in 2016 as a new form of interaction between EU and Russian foreign policy experts and think tanks.

EUREN brings together foreign policy experts and think tanks from Russia and EU member states to discuss relevant foreign policy issues with the aim of exchanging views and formulating policy recommendations. The network meets on a quarterly basis in Russia and different EU capitals.



Public Diplomacy EU and Russia offers a platform for dialogue between Russian and EU selected audiences on a number of bilateral and global issues. Personal ties built over the years are an indispensable element of our relations with Russia, particularly with an eye to the future of the next generations.

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