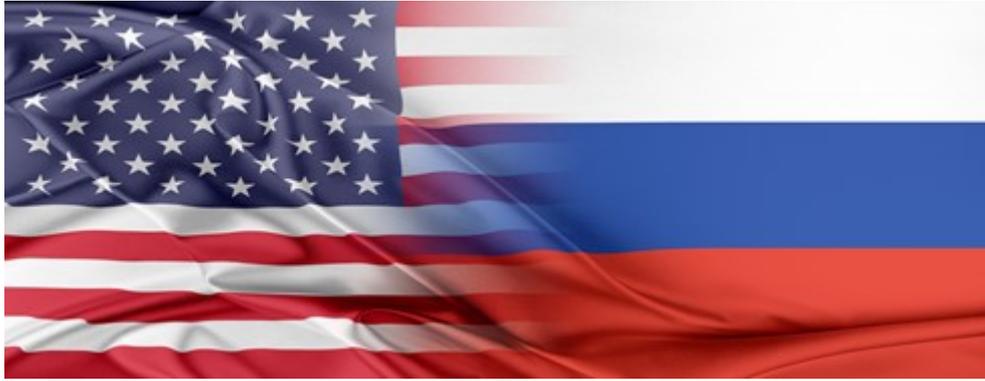


# Russia/EE Watch: How much diplomatic progress feasible — short- & medium-term?

The much-awaited "week of diplomacy" on the Ukraine issue and beyond between Russia, Western states and relevant security bodies has begun. At the same time, events in Kazakhstan have provided additional impetus. In the following we analyze both subjects and relevant connecting lines.



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## Ongoing diplomatic talks: No quick settlement - when "surrender" of one side is called for

Ultimately, with the threat of escalation on Ukraine's borders, **Russia has forced upon the West**, the US, the EU and NATO an **uncomfortable discussion** about **spheres of influence** in Eastern **Europe**. To a certain extent, the West (US, NATO, EU, OSCE) will have to respond and is willing to talk about a new East/West security architecture, limiting its own and NATO military activities up to a certain extent (incl. the CEE region), much less about the sovereignty and territorial integrity of countries (e.g. according to the Paris Charta as of 1990ies, not mentioned in the Russian Draft proposals to US and NATO).

**We do not think** that a **sustainable solution can be found in the coming days** with regard to Russia's "red lines" or so-called zones of influence in (Eastern) Europe. It seems that **Russia has possibly linked** the "**Ukraine question**" with **too many other issues** that a quick agreement is hardly feasible. Moreover, the Russian side's **far-reaching proposal** is hardly possible for the West to agree.

Firstly, parts of the proposals issued by the Russian Foreign Ministry to the USA and NATO in December 2021 could be interpreted in a way that also Sweden and Finland shall have no right to join NATO at any point in time. Secondly, in some parts the proposals also include demands to limit the presence of US and Russian nuclear weapons to their own territories, which would put the NATO into a huge disadvantage. In fact, NATO's concept of nuclear sharing is also actively questioned. The same applies to practical concepts such as joint airspace surveillance over the Baltics. On a more general note the draft agreements very often speak of measures that would be "[...] perceived by the Parties as a threat to their national security". Such vague wording also contains a (non-measurable) perception that is very strongly driven by Russia and Russian interests, which the West cannot accept in this way. Other aspects are more reasonable like the presented need for channels of crisis/emergency contacts or the "revival" of the NATO-Russia Council. For details in regard to Russian proposals towards the US plus NATO see the following links ([Treaty between The United States of America and the Russian Federation on security guarantees; Agreement on measures to ensure the security of The Russian Federation and member States of the North Atlantic Treaty Organization.](#))

**Gunter DEUBER**

*Analyst Editor*

+43 1 71707-5707

gunter.deuber@rbinternational.com

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NATO and its member states have already publicly scaled back their expectations for diplomatic talks this week. The West is betting to some extent on the fact that an unlikely full annexation of Ukraine will come at a very high or punitive costs to Russia not only in the short run, but also in the long run. At present, we also do not see any exuberant rationality on the Russian side to quickly settle the “perceived” conflict. If the focus were purely on the Ukraine issue, a sustainable agreement would be more likely. However, with the current list of demands (and the associated inability of the West to comply), a scenario of Russia being threatened by the West can be maintained from a Russian point of view.

Overall, both sides are not seeking a quick settlement. Therefore, **financial markets and investors will have to live with the on and off pricing of geopolitical risks** in the **Eastern European region** for some time to come. At present, we see geopolitical risks (sufficiently) being priced in again, especially with regard to Russia; as long as a complete escalation on the sanctions front can be avoided, as has been the case so far.

### Recent events in Kazakhstan, implications for Eastern Europe

Kazakhstan was hit by **unprecedented social unrest** in the first days of the year which was sparked by an increase of gas prices for people. The recurring shutdowns of the internet in the country make the available information highly fragmented complicating the analysis. Still, a clear lack of initial reaction by the government makes us think that the **unrest might have been inspired from the inside** of some parts of the government or military — at least this would justify the President Tokayev's call for **support** of the **Russia-led bloc of the Collective Security Treaty Organization (CSTO)**. From today's perspective, the situation looks like a (failed) coup attempt, as a result of which the President Tokayev strengthened his position essentially **ending the short era of dual power** (with the ex-President Nazarbayev) with the help of Russia. From this point of view the power transition could be possibly now considered as completed.

Overall, we see the **situation as stabilizing**, as President Tokayev manages to suppress the riot on the one side and address the protestors' economic demands on the other (resignation of the government, price regulation proposals). At the same time, this comes at cost of a **likely increasing political dependence of Kazakhstan on Russia**, with the latter also gaining more weight in Central Asia as a result and just in time for the Russia-U.S. and Russia-NATO summits this week. For the President Tokayev who is now consolidating the powers this will likely require a greater effort to balance between the economic/political interests of China/West/Russia going forward.

We tend to interpret the Kazakh crisis as internal triggered by the accumulated social tension that was further picked up by some parts of the government elites to attempt a change in the political status quo. Hence, no major direct spillovers to other countries in the region are envisaged. However, from a regional perspective **most recent developments in Kazakhstan** made clear that **Russia** will be **likely ready to intervene in Belarus** (CSTO member, currently Belarus holds the General Secretary position of the CSTO) **if needed** — where a Western/foreign involvement in case of any wobbles can be presumably more easily claimed than in case of Kazakhstan. Moreover, the strong engagement by Russia in Kazakhstan (possibly aligned with China, but without active engagement by China) shows that China accepts also a certain “zone of influence” of Russia in the region. Moreover, events in Kazakhstan and the less than successful dual leadership **make a so-called "Belakazakhstan scenario" unlikely** (i.e. that the current President will use a power sharing setup to instigate a transition).

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## Contacts

### PETER BREZINSCEK

📍 Austria   
✉ [peter.brezinscek@rbinternational.com](mailto:peter.brezinscek@rbinternational.com)

### MATTHIAS REITH

📍 Austria   
✉ [matthias.reith@rbinternational.com](mailto:matthias.reith@rbinternational.com)

### PETER ÖHLINGER

📍 Austria   
✉ [peter.oehlinger@rbinternational.com](mailto:peter.oehlinger@rbinternational.com)

### FJORENT RRUSHI

📍 Albania   
✉ [Fjorent.Rrushi@raiffeisen.al](mailto:Fjorent.Rrushi@raiffeisen.al)

### ASJA GRDJO

📍 Bosnia Herzegovina   
✉ [asja.grdjo@raiffeisengroup.ba](mailto:asja.grdjo@raiffeisengroup.ba)

### ANA LESAR

📍 Croatia   
✉ [ana.lesar@rba.hr](mailto:ana.lesar@rba.hr)

### HELENA HORSKA

📍 Czech Republic   
✉ [Helena.Horska@rb.cz](mailto:Helena.Horska@rb.cz)

### ZOLTÁN TÖRÖK

📍 Hungary   
✉ [torok.zoltan@raiffeisen.hu](mailto:torok.zoltan@raiffeisen.hu)

### ANDREEA-ELENA DRAGHIA

📍 Romania   
✉ [Andreea-Elena.DRAGHIA@raiffeisen.ro](mailto:Andreea-Elena.DRAGHIA@raiffeisen.ro)

### GREGORY CHEPKOV

📍 Russia   
✉ [grigory.chepkov@raiffeisen.ru](mailto:grigory.chepkov@raiffeisen.ru)

### TIBOR LORINCZ

📍 Slovakia   
✉ [tibor\\_lorincz@tatrabanka.sk](mailto:tibor_lorincz@tatrabanka.sk)

### GUNTER DEUBER

📍 Austria   
✉ [gunter.deuber@rbinternational.com](mailto:gunter.deuber@rbinternational.com)

### GOTTFRIED STEINDL

📍 Austria   
✉ [gottfried.steindl@rbinternational.com](mailto:gottfried.steindl@rbinternational.com)

### BRISIDA BUZI

📍 Albania   
✉ [Brisida.BUZI@raiffeisen.al](mailto:Brisida.BUZI@raiffeisen.al)

### ARISTEA VLLAHU

📍 Albania   
✉ [Aristea.Vllahu@raiffeisen.al](mailto:Aristea.Vllahu@raiffeisen.al)

### IVONA ZAMETICA

📍 Bosnia Herzegovina   
✉ [ivona.zametica@raiffeisengroup.ba](mailto:ivona.zametica@raiffeisengroup.ba)

### ELIZABETA SABOLEK-RESANOVIC

📍 Croatia   
✉ [elizabeta.sabolek-resanovic@rba.hr](mailto:elizabeta.sabolek-resanovic@rba.hr)

### DAVID VAGENKNECHT

📍 Czech Republic   
✉ [david.vagenknecht@rb.cz](mailto:david.vagenknecht@rb.cz)

### DOROTA STRAUCH

📍 Poland   
✉ [dorota.strauch@raiffeisen.pl](mailto:dorota.strauch@raiffeisen.pl)

### IONUT DUMITRU

📍 Romania   
✉ [Ionut.Dumitru@raiffeisen.ro](mailto:Ionut.Dumitru@raiffeisen.ro)

### STANISLAV MURASHOV

📍 Russia   
✉ [stanislav.murashov@raiffeisen.ru](mailto:stanislav.murashov@raiffeisen.ru)

### SERHII KOLODII

📍 Ukraine   
✉ [serhii.kolodii@aval.ua](mailto:serhii.kolodii@aval.ua)

### CASPER ENGELEN

📍 Austria   
✉ [casper.engelen@rbinternational.com](mailto:casper.engelen@rbinternational.com)

### FRANZ ZOBL

📍 Austria   
✉ [franz.zobl@rbinternational.com](mailto:franz.zobl@rbinternational.com)

### VALBONA GJEKA

📍 Albania   
✉ [valbona.gjeka@raiffeisen.al](mailto:valbona.gjeka@raiffeisen.al)

### OLGA ZHEGULO

📍 Belarus   
✉ [olga.zhegulo@priorbank.by](mailto:olga.zhegulo@priorbank.by)

### EMIL KALCHEV

📍 Bulgaria   
✉ [emil.kalchev@raiffeisen.bg](mailto:emil.kalchev@raiffeisen.bg)

### ZRINKA ZIVKOVIC-MATIJEVIC

📍 Croatia   
✉ [zrinka.zivkovic-matijevic@rba.hr](mailto:zrinka.zivkovic-matijevic@rba.hr)

### GERGELY PÁLFFY

📍 Hungary   
✉ [gergely.palffy@raiffeisen.hu](mailto:gergely.palffy@raiffeisen.hu)

### NICOLAE COVRIG

📍 Romania   
✉ [Nicolae.Covrig@raiffeisen.ro](mailto:Nicolae.Covrig@raiffeisen.ro)

### ANASTASIA BAYKOVA

📍 Russia   
✉ [ABAIKOVA@raiffeisen.ru](mailto:ABAIKOVA@raiffeisen.ru)

### LJILJANA GRUBIC

📍 Serbia   
✉ [ljiljana.grubic@raiffeisenbank.rs](mailto:ljiljana.grubic@raiffeisenbank.rs)

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