

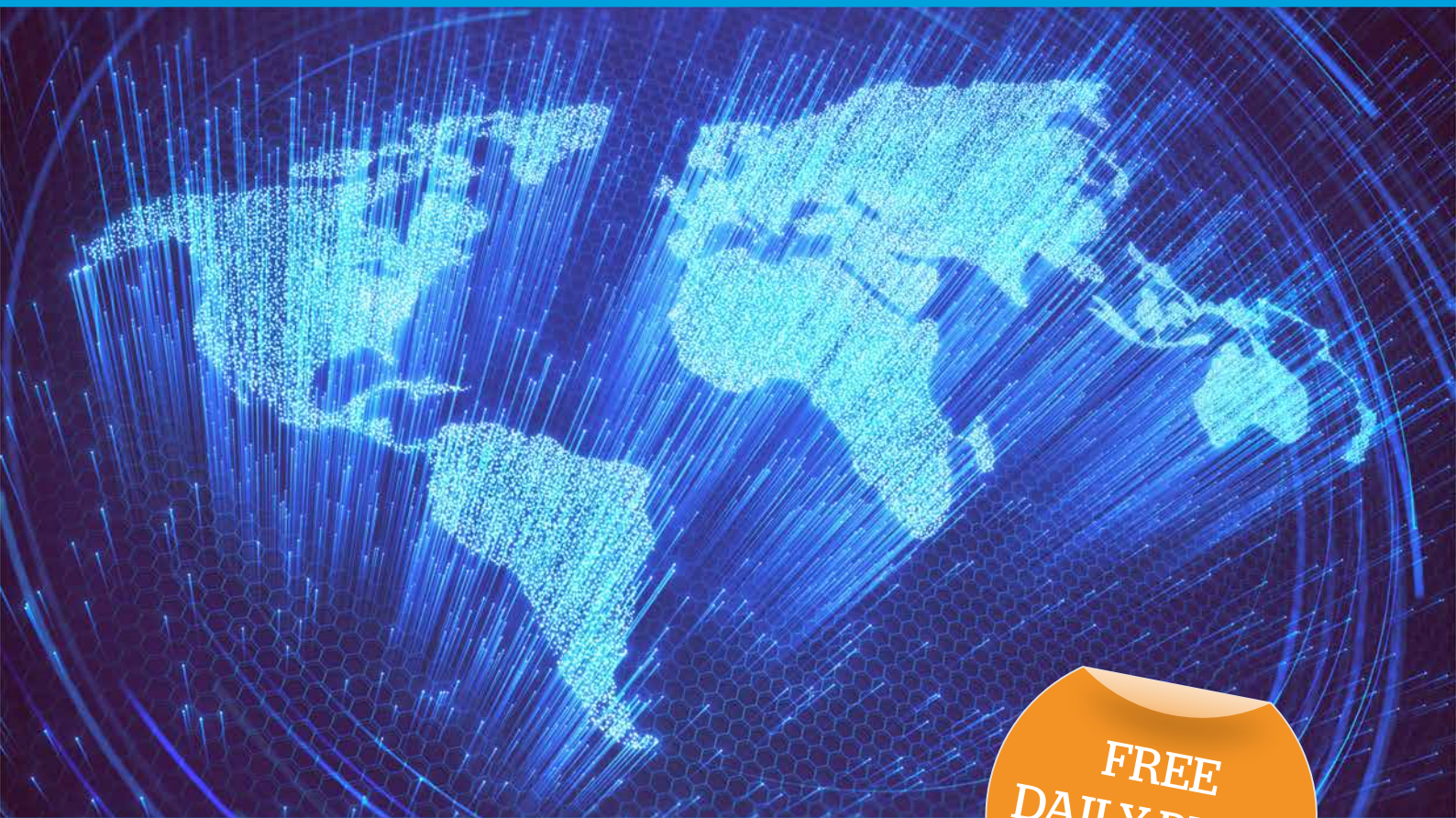


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The Rīga Conference 2021

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Foreword

This past month Oxford Analytica was proud to announce the 37th anniversary of the publication of the first Oxford Analytica Daily Brief, pioneering daily geopolitical analysis service to serve senior decision-makers with timely, impartial, and relevant analysis.

We are delighted to provide you with a selection of our briefs in support of The Rīga Conference 2021. These selected articles, drawn from the Oxford Analytica Daily Brief provide analyses on key topics addressed in the meeting agenda. As well as the articles, it is our pleasure to give you the opportunity to receive a complimentary 1-month trial to our Daily Brief subscription service. If you would like to take up this opportunity, please fill out the form at oxan.to/rigatrial.

If you have any questions arising from any of the articles included here or would like to know more about our services at Oxford Analytica, please get in touch with us at oxan.to/rigacontact.

Yours sincerely,

Nick Redman,

Editor in Chief of the Oxford Analytica Daily Brief
and Director of Analysis
Oxford Analytica



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Circular economy investments will rise sharply

Thursday, September 30, 2021

The concept of the circular economy is rising in importance, particularly as the UN climate conference COP26 approaches

The circular economy concept was developed in 2013 and a study in July 2021 by Chatham House and Just Economics estimates that governments, firms and financial institutions invest around USD1.4tn per year in the circular economy. A circular economy is one that avoids waste and pollution, keeps materials in use and replenishes the natural world, helping to limit climate change and promote biodiversity.



EU Commission Circular Economy Initiative, 2014
(Julien Warnand/EPA/Shutterstock)

What next

Circular economy business models will gradually become common across different sectors. More governments will pursue circular economic models via changes to taxation and other regulatory initiatives. The circular economy is key to environmental, social and governance (ESG) performance and circular investments have grown rapidly across asset classes and sectors. More companies are transitioning to a circular economy model to cut costs, generate new revenue sources and manage risks.

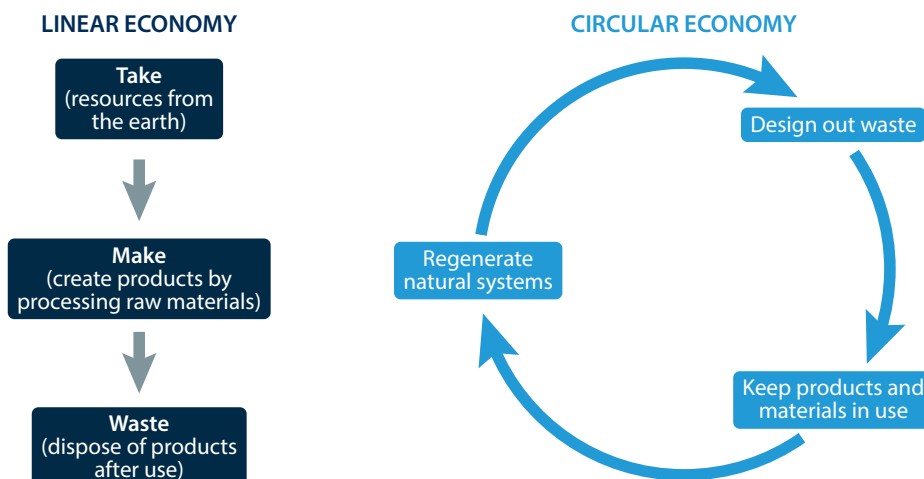
Subsidiary Impacts

- In high- and middle-income nations especially, consumers will have to cut or adapt consumption if the circular economy is to flourish.
- Asset managers are likely to see more demand for circular economy funds as part of the broader move to sustainable investment.
- Technological innovation arising from circular economy initiatives could lead to more jobs being created.

Analysis

The circular economy process starts when products are designed to be reused, repaired or remanufactured. Products are broken down into components, which are made into new products, or biological ones, which return to the soil (in a 'cradle-to-cradle' cycle). Circle Economy is a not-for-profit consultancy and its founder, Robert-Jan van Ogtrop, has said that "nature...is, in itself, a perfect 'circle economy'."

From linear to circular economy



Source: Blackrock Graphic: Oxford Analytica

Urbanisation, globalisation and population growth are drivers of increasing waste and pollution; growing recognition of this is stoking calls for action. The main principle of the circular economy is 'zero waste'. According to National Geographic magazine, more than 100 billion tonnes of raw materials are used annually, most of which ends up as pollution, for example, in landfill.

70%
Share of GHG emissions created by the production of everyday goods

The circular economy contrasts with a linear 'take, make, waste' model whereby raw materials are turned into products, sold, and then disposed of. A related 'lease business model' is circular, as it involves sharing, renting, and leasing products instead of buying them.

Estimates suggest that 70% of greenhouse gas (GHG) emissions come from the production of everyday goods. Changes in energy systems alone will not deliver a net-zero economy. Behavioural change in industry, agriculture and land use is also required.

Sectors

The Ellen MacArthur Foundation, a resource efficiency think-tank, sees plastic, food, fashion, finance and cities as the areas where shifting to a circular economy could have the most impact.

With more than 8 million tonnes of plastic entering the ocean per year (doing damage to marine ecosystems, tourism and fishing estimated at USD13bn), there could be more plastic than fish by weight in the sea by 2050 (see INTERNATIONAL: Plastic bans will rise, reuse is hard - August 7, 2018). However, by 2040, adoption of a circular economy could cut the amount of plastic going into oceans by 80%, lowering GHG emissions and bringing annual savings of USD200bn, while creating 700,000 extra jobs.

The food system, and particularly industrial farming practices, are a leading source of GHG emissions and pollution (see INTERNATIONAL: Technology can transform the food space - January 14, 2019). Almost one-third of food is wasted and nearly 10% of the world's population is classified as hungry according to the UN. Regenerative food production and waste elimination are key areas to focus on.

The fashion industry is one of the largest contributors to ocean pollution because of plastic microfibres. Industry and government can work together to redesign the way clothes are made and used (see INTERNATIONAL: Fast fashion faces sustainability push - August 16, 2019). Approximately 87% of clothing is burned or buried in landfill per year, costing over USD100bn.

Spending per year on the linear and circular business model

Corporate sector spending, by industry	Linear model value (USDbn)	Circular components	Circular model value (USDbn)	Circular (as a % of linear)
Fashion	1,500	Resale, rental, artisanal, hemp, new business models	44.3	3.0
Electronics	2,000	E-waste market	42.0	2.1
Construction	10,500	Retrofit market, green cement, green construction, recycling	299.4	2.9
Mobility	2,000	Electric vehicles, battery recycling, mobility-as-a-service	127.0	6.4
Food and beverages	6,000	Vegan food, Cell-based meat, R&D	140.7	2.3
Agriculture	8,000	Indoor farming, food waste, insect feed	48.7	0.6
Mining, oil and gas	3,600	Waste to energy, waste to chemicals, carbon capture use and storage	45.5	1.3
Non-specific	1,358	Bioplastics, plastic recycling, unaccounted-for-recycling	110.6	8.1
Total corporate spending	34,958		858.1	2.5
Government spending from COVID-19 stimulus packages			126.0	
Usual government spending			510.0	
Finance sector			46.0	
Total circular spending			1,540.1	
Total circular spending less the extra from the COVID-19 stimulus			1,414.1	

Source: Chatham House/Just Economics July 2021 report and Lawler and Spratt, Circular Investment (2021)

The Ellen MacArthur Foundation estimates that cities consume 75% of global natural resources, produce 50% of the world's waste and generate over 60% of GHG emissions. With an estimated 56% of humanity living in cities, their consumption of resources is disproportionately high. Introducing a circular economy in urban centres could generate large economic, social, and environmental benefits, and these would grow to 2050 by when the UN estimates that two-thirds of the world population will be urban-dwellers.

Investment

USD1.4tn
Estimated annual circular economy spending worldwide

The recent study by Chatham House and Just Economics on financing the circular economy estimates that more than 60% of the annual circular economy spending worldwide (USD1.4tn) comes from the corporate sector. However, it is a tiny proportion (just 3%) of corporate spending. Comparing linear and circular economy spending is not straightforward but the size of the gap illustrates the potential for corporate spending on the circular economy to increase (see INTERNATIONAL: Natural capital to be a key asset class - August 23, 2021). The report recommends using policy instruments such as investment guarantees, political risk insurance and public-private blended finance increases to support public-private collaboration and widen the ways in which circular economy financing can be scaled up.

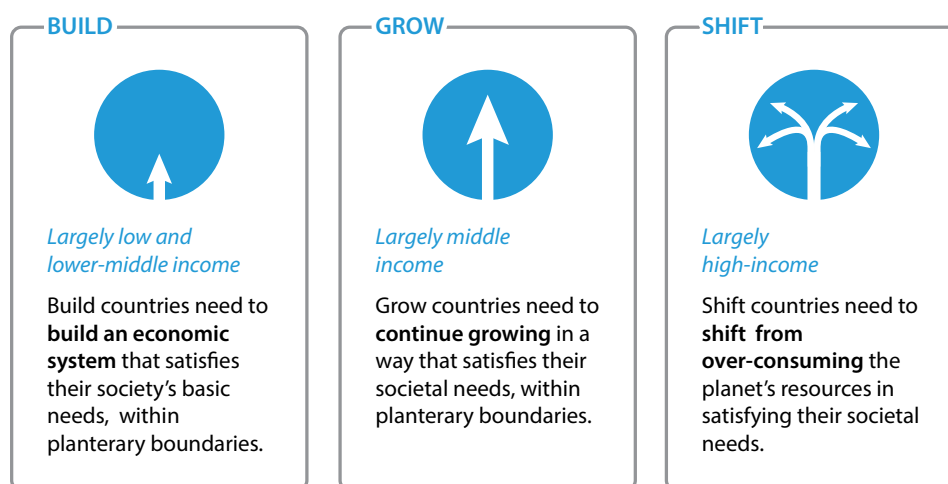
Circular economy funds can generate attractive risk-adjusted returns for investors while meeting ESG criteria. BlackRock's circular economy fund now has more than USD2bn in assets under management. About half its investments are in Europe, with the materials and capital goods sectors accounting for over 40% of its exposure and its top (mostly large-cap) holdings including well-known companies such as semiconductor manufacturing equipment company ASML, software firm Microsoft, sportswear giant Nike, cosmetics company L'Oreal, and beverage-maker Coca Cola.

Meanwhile, since 2019 investment bank Morgan Stanley has supported PepsiCo's USD1bn bond deal to finance various initiatives including cutting its reliance on virgin plastics.

Implications

A more circular economy will improve the environment, improve soil health and reduce air, water and land pollution. This should help to combat climate change and increase biodiversity. Consumers might save money in the long term by using more modular products. There would be less reliance on natural resources to create new products. The circular economy could create jobs, particularly in niche areas. Innovation will be needed to improve efficiencies. Firms' supply chains could become more resilient, with less reliance on raw material prices.

Countries are at different stages of developing a circular economy

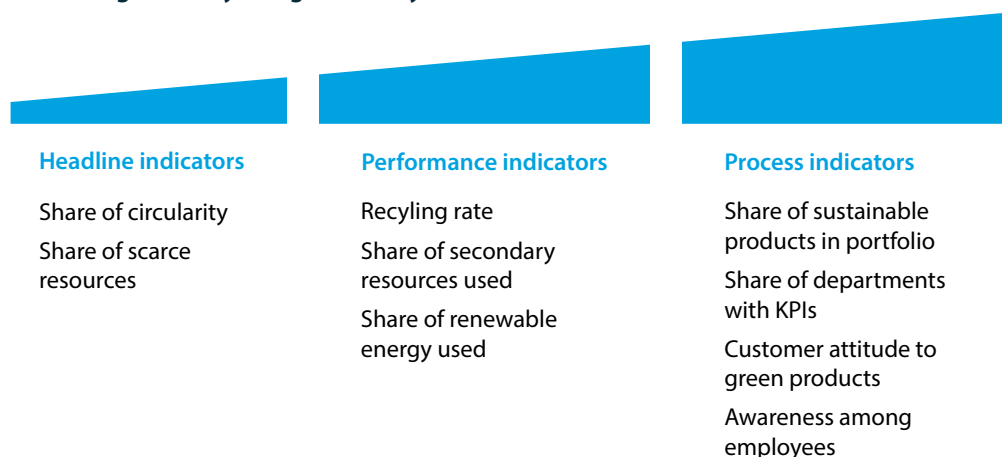


Source: Circle Economy

At the same time:

- Consumers will need to adapt to consuming less.
- It could raise prices in the short term.
- Unpredictable events such as the pandemic will increase the challenge -- for example, around 129 billion single-use face masks are now used per month, with each mask taking 450 years to decompose.
- Current circularity models are oversimplified, and it can be hard -- with no standardised metrics -- to quantify the concept's impact on sustainability (see INTERNATIONAL: ESG rating rigour will fuel investment - July 15, 2021).

Measuring an entity using circularity metrics



Source: Circle Economy

Outlook

Only 9% of companies and governments were designed for a circular economy in 2019, according to the World Economic Forum. Few public companies have completely adopted a circular business model, but many brands including Levi's, Toshiba, and Smurfit Kappa have announced initiatives.

Governments are increasingly adopting policies to promote circularity. For example, the United Kingdom is planning to tax all plastic packaging made from less than 30% recycled plastic from 2022.

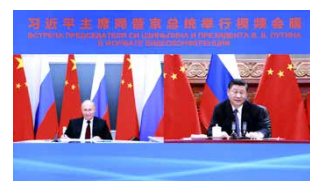
The European Commission's action to promote circularity aligns with the EU's priorities and global efforts on sustainable development. The European Green Deal, introduced in 2019, aims for a circular economy with a goal of climate neutrality by 2050. The EU's Circular Economy Action Plan, adopted in March 2020, has taken effect this year. According to the Ellen MacArthur Foundation, a circular model could generate EUR600bn (USD694bn) of savings per year and bring EUR1.8tn of benefits to Europe's economy by 2030.

Russia has limited leverage in Chinese-US tensions

Friday, July 9, 2021

Beyond expressions of support on global issues, Russia cannot or will not side wholly with China

Russia has demonstrated a willingness to offer political support for China's confrontations with the United States. It sides with Beijing in areas that invite Western criticism, both global matters and Chinese domestic policy. It is more circumspect on China's neighbourhood ambitions, as it has other countries' interests to consider.



Chinese President Xi Jinping (R) talks to Russia's Vladimir Putin via video link, June 28 (Xinhua/Shutterstock)

What next

A rise in Russian assistance for Beijing will be constrained by differing approaches to Chinese regional policy and by an economy too weak and too short on technological capacity usefully to help China overcome barriers erected by the United States and European allies.

Subsidiary Impacts

- Russian-US relations may involve greater dialogue but will not improve dramatically in coming months.
- Overt Russian support for more aggressive Chinese moves against Taiwan is improbable.
- Beijing may gain greater scope for coercive activities if Russian-US tensions rise in Europe.

Analysis

Prior to 2018, US foreign policy singled Russia out as a rogue actor. A shift in US policy initiated during Donald Trump's presidency and continued by Joe Biden has inadvertently resulted in greater parity in the Russian-Chinese relationship. There is now scope for mutual assistance where previously, an isolated Russia was heavily dependent on Chinese political and economic support.

As China faces US pressure in more and more areas, the potential value of support from Russia increases.

The jury is out on whether Moscow and Beijing are now informally allies -- Russian President Vladimir Putin has ruled out a formal defence alliance for now (see [RUSSIA/CHINA: Countries ill-matched for alliance](#) - March 23, 2021).

For years, Russian commentators thought the worst-case scenario would be a Chinese-US conflict in which Moscow would be forced to choose one side over the other.

Some prominent analysts still advocate a policy of maintaining equidistance from China and the United States to avoid becoming entangled in those countries' bilateral disputes. Most Russian experts do not, however, see a need to pursue such a symmetrical approach any longer.

The current question is whether Russia is willing to offer China more substantial support, the areas where that might be strongest and whether it has the capacity to do so.

Unqualified support on internal matters

Moscow offers unconditional backing for Chinese domestic policy. Putin has defended Chinese positions on Xinjiang and the origins of the COVID-19 virus, and also its claim to Taiwan. On the former, he said he had met ethnic Uighurs in China who "welcomed" their government's policies in Xinjiang. In the same June 15 NBC interview, he laughingly dismissed talk of a possible Chinese invasion of Taiwan.

Russia's leaders share much of their world view with their Chinese counterparts. Both define sovereignty as de facto impunity within their own borders and whatever action is needed to defend that internationally. Both accuse the West of conducting a relentless policy of regime change on their peripheries. Russia's ambassador in Beijing, Andrey Denisov, has juxtaposed events in Belarus and Hong Kong as examples of revolutions inspired by the West.

Strategic support, within bounds

Russian political and strategic support for China is on an issue-by-issue basis. Moscow is more willing to back Beijing's policies in the global dimension, but more cautious with regard to China's regional ambitions.

Moscow and Beijing are aligned on most global areas of tension

Global backing

Russia has made it clear it will not join Western efforts to slow China's rise. Russian policymakers and commentators regularly accuse the West, the United States in particular, of trying to drive a wedge between Russia and China.

Russia has consistently supported China in the realm of arms control. Moscow has never blamed China for developing and deploying intermediate-range missiles, a factor in the US decision to leave the Intermediate-Range Nuclear Forces Treaty.

Russian negotiators endorsed and justified Beijing's refusal to enter into trilateral arms control negotiations -- a Trump-era policy aim -- last year. The extension of the Strategic Arms Reduction Treaty under Biden has postponed that discussion (see [RUSSIA/US: Arms treaty deal will help broader dialogue - January 19, 2021](#)).

Moscow opposes the US concept of the Indo-Pacific, accusing Washington of promoting it for anti-Chinese purposes. It will also attempt to slow Delhi's tilt towards Washington, although it will stay neutral on the Chinese-Indian dispute.

Regional caution

Russian support for Chinese regional ambitions is more half-hearted. Moscow has no desire to add to its tensions with Washington by taking a strong position on issues such as the South China Sea. Nor does it wish to alienate other Asian partners, India and Vietnam in particular (see [INDIA/RUSSIA: Ties will withstand external pressures - June 28, 2021](#)).

Russian participation in joint bomber patrols in 2019 and 2020 in the vicinity of Japan and South Korea implied endorsement of China's display of its armed superiority as a coercive instrument.

Intensification of joint exercises, especially in the maritime domain, could strengthen China's hand in responding to growing US military pressures in the Asia-Pacific region.

Moscow may be reluctant to assist. Russian-Chinese Joint Sea naval exercises have stopped taking place annually. No wargames took place in 2018 and 2020, and the 2019 iteration took place far from the contested waters of the South and East China Seas.

The two states conducted trilateral exercises with Iran (twice) and South Africa, which hints at a common global stance rather than specific support for China's regional ambitions.

NATO's recent description of China as a "systemic challenge" may encourage Beijing to support brinkmanship on Russia's western flanks.

Beijing sent troops to the Kavkaz-2020 wargames in southern Russia, and had a more robust presence at this year's Zapad-21 exercises, in a more sensitive zone encompassing Belarus, would send a strong signal of support (see [RUSSIA: Wargames more about diplomacy than threats - September 21, 2020](#)).

Russian and Chinese regional frictions are kept separate

China may have its own reasons for welcoming tensions along NATO-Russian frontiers. The Russian build-up of forces around Ukraine in April distracted attention from Chinese air force incursions around Taiwan, and complicated Washington's response (see [RUSSIA/UKRAINE: US intercession may help de-escalation - April 15, 2021](#) and see [TAIWAN/CHINA: Aerial attrition tactics bear fruit - March 29, 2021](#)).

Economic capacity deficient

Russia's capacity to support China in traditional areas of great power competition is not matched by what it can offer in the economic and technological domains.

Access to technologies

Russian companies are unable to offer alternatives either in high-tech sectors (semiconductor manufacturing) or in software to Chinese counterparts cut off from access to US technologies.

The space industry is the only sector where Russia can realistically offer tangible assistance. Plans for a joint International Lunar Research Station, involving a base on the moon and a space station in lunar orbit, embodies this cooperation (see [CHINA/US: Moon competition will pull in other states - June 17, 2021](#)).

Market access

Russia is not in a position to not compensate for the Chinese losses in the US or European markets. Its market is too small and too poor in purchasing power to be attractive for Chinese companies deprived of Western access.

The Russian market offers some limited opportunities for Chinese investors, either those targeting individual consumers or those interested in large-scale infrastructure deals. The energy sector is an exception, but scope for Chinese participation in constructing transport infrastructure will be limited by Moscow's own financial constraints (see [RUSSIA/CHINA: Economic imbalance will deepen - March 9, 2021](#)).

Moscow will also try to avoid excessive dependence on China. Huawei has entered Russia's 5G market, but it is forced to compete with European operators Nokia and Eriksson.

Outlook

On balance, Russia has benefited from intensifying Chinese-US rivalry. Its asymmetrical dependence on China has been reduced, and Washington became interested in stabilising its relationship with Moscow so as to be able to focus on Beijing.

Worsening US-Chinese tensions might place Russia in a less comfortable position, especially if Beijing expects more explicit support for its regional ambitions.

Data Security Law will have impact beyond China

Monday, August 9, 2021

China's first Data Security Law takes effect next month

China's first Data Security Law will take effect on September 1. It creates a comprehensive framework for protection of all data with implications for national security. Alongside a forthcoming Personal Information Protection Law, it will have a significant impact on data protection compliance requirements for businesses, as well as on data flows between China and the outside world.



A passenger has his face scanned by a face recognition system to buy a subway ticket in Guangzhou (Shutterstock)

What next

Implementation will be messy and will probably take several years. It depends on a multitude of sectoral and local regulatory choices and requires the creation of dozens of administrative regulations and data catalogues at the national and local levels. The law will have significant international influence, because it is the first move by a major cyber power to regulate personal and non-personal data comprehensively from the perspective of national security and the public interest.

Subsidiary Impacts

- Particular kinds of data might be categorised differently by different localities, creating compliance confusion.
- Multinational companies must prepare for more demanding data localisation requirements.
- Demand for the auditing and inspection services the law requires will drive expansion of China's domestic cybersecurity industry.

Analysis

The National People's Congress Standing Committee on June 10 issued the definitive version of the Data Security Law (DSL).

This law and the Personal Information Protection Law -- developed in tandem with it and set for enactment later this year -- are the two pillars of a new data protection architecture in China (see [CHINA: Personal data protection regime takes shape - December 31, 2020](#)).

The enacted law has largely retained the internal structure of its first draft (see [CHINA: Data Security Law will create dilemmas - August 5, 2020](#)):

- The government will institute a tiered model in which data is categorised on the basis of the potential harm it will do to national security and the public interest if it is leaked, divulged or abused.
- In higher tiers, data processors will need to comply with more stringent requirements, as well as auditing obligations.

However, the final version also contains significant changes.

New elements

First, the final DSL creates the new category of 'core national data', defined as data concerning "national security, the lifelines of the national economy, important welfare matters, major public interest matters, etc". A special management system will be instituted for this kind of data, and related punishments include some of the highest fines ever seen in Chinese technology law (up to CNY10mn, USD1.5mn).

Second, the final DSL calls for a new coordinating body for data security, to be constituted within the National Security Commission.

The law creates a new regulator for data security

This is likely a response to persistent inter-agency wrangling that has characterised the creation of China's legal framework for cybersecurity, and a means to ensure contact and interaction between the ministries and departments that will bear significant responsibility for the law's implementation. The new data regulator will probably consist of representatives from the most important departments concerned, such as the Ministry of Public Security and the Cybersecurity Administration of China.

Third, the law revises the previous wording restricting the provision of data to foreign judicial and law enforcement bodies. The new wording is slightly gentler, but its substantive impact is unchanged.

Purpose

This law affects the data management processes of Chinese tech firms, but it should not be seen as the next in a line of measures to cut digital platforms down to size, such as the recent moves in anti-monopoly law and financial services regulation.

Rather, the law's purpose is to address a central question in rapidly 'datafying' societies: how to ensure that collection of data cannot be used to harm the collective interest.

The law is not merely part of the current crackdown on Big Tech

World first

It constitutes an approach to this issue that is so far unique worldwide. Existing data protection systems almost exclusively focus on protecting information relating to individual persons. The DSL makes no distinction between personal information or non-personal data, such as industrial control data or information on the performance of critical industries.

This is therefore an area where China could potentially exercise international influence simply by being the first to address a question that faces policymakers worldwide.

Basic framework

The law is light on detail. This is often the case in Chinese legislation, which sets up a basic framework for ministries to fill out with a raft of administrative regulations.

For instance, the DSL does not itself designate how data should be classified or categorised. It mandates "relevant government departments" with drawing up catalogues of important data within their own scope of responsibility.

Dozens of ministries and hundreds of local government bodies will be involved, so it will be an uneven process in which some departments and localities move far earlier than others, and where there is a small but significant risk of regulatory divergence and overlap.

Production of related regulations has already begun: recent rules on autonomous vehicles, for instance, contain strict rules on data collected through on-board sensors (see CHINA: Regulating vehicle data will carry high price - June 24, 2021).

Cybersecurity capabilities

An unresolved question is whether China's domestic cybersecurity industry has the capabilities to provide the auditing and inspection that the law requires for higher-tier data.

In future, the demand the DSL generates will likely drive the expansion of these businesses, yet it takes time to train the required personnel and have adequate processes in place. In the meantime, these inspections may be carried out for form more than function. The state of the domestic cybersecurity industry is particularly relevant for multinational businesses, because certain forms of data export also require inspections.

Ukraine will seek a louder voice in adverse conditions

Wednesday, August 25, 2021

As President Zelensky prepares for talks in Washington, Kyiv is adopting a more assertive foreign policy stance

Ukraine celebrated 30 years of independence yesterday as President Volodymyr Zelensky prepares to meet US President Joe Biden on August 31. Just as Zelensky's July 2019 phone call with then President Donald Trump was fading from memory, Biden's green light for the Nord Stream 2 pipeline project, in a deal with Germany, has undermined Ukraine's confidence in both countries. Kyiv is now seeking to make its own voice heard and assert its rights as a significant player rather than a pawn in international affairs.



Ukrainian President Volodymyr Zelensky (R) and German Chancellor Angela Merkel (L) arrive for a press conference in Kyiv, August 22 (Sergey Dolzhenko/EPA-EFE/Shutterstock)

What next

Zelensky is unlikely to secure substantial new promises from Biden but at least will come away with a better idea of the scale of future US support for Ukraine. He seems set on a more robust international stance on conflict resolution, energy and Crimea to avoid Ukraine being relegated to a side issue in US and EU relations with Russia.

Subsidiary Impacts

- Kyiv will present the Biden summit as an achievement, whatever the outcome, although this is unlikely to affect Zelensky's ratings.
- The opposition will place the blame for Nord Stream 2 squarely on the Zelensky administration.
- Biden's decisions on Afghanistan will increase Ukrainian worries about US foreign policy commitments.

Analysis

In late July, the National Defence and Security Council adopted a Strategy for Ukraine's Foreign Policy Activities, a 254-page document detailing policy goals and priorities.

The priorities it sets out include progressing towards EU and NATO membership and "counter-action to Russian aggression".

Outside the NATO sphere, where the United States is seen as foremost partner, there are a few surprises. Ukraine's main partners are listed as China, Japan, Brazil and India, in that order. This suggests that Ukraine is replicating the multi-vector approach prior to 2014, minus Russia.

More criticism of the West

Policymakers have recently been making unusually robust statements about Ukraine's interests and rights, and betraying some irritation with Western governments.

In a February TV interview, Zelensky said that given the opportunity, he would ask the newly inaugurated US president "why is Ukraine still not in NATO?"

He repeated the challenge in June, telling Western news agencies that he wanted a clear "yes or no" from Biden on Ukraine's chances of NATO accession.

The question is somewhat rhetorical: Zelensky must be aware that the answer is "no" for the foreseeable future. The point was nevertheless made, as an expression of Ukraine's vulnerability and aspirations (see UKRAINE: NATO accession will remain a long-term aim - September 3, 2020).

Zelensky knows NATO accession is implausible but asked anyway

Critical messages tend to come in interviews or political talk shows rather than press conferences, often from second-tier officials and advisers rather than senior figures, allowing the administration to send messages it would prefer not to deliver itself.

Sometimes the messages are phrased in controversial terms that seem designed to test external reaction. In televised remarks last month, presidential adviser Olexiy Arestovych indicated that if the West and Russia want to cosy up at Ukraine's expense, "we will re-orientate towards the east", by which, he said, he meant "China, Vietnam, Turkey, the United Arab Emirates, Qatar and others".

Nord Stream reverse

The new resentful tone reflects profound disappointment with Biden's agreement to allow the Nord Stream 2 pipeline to be completed rather than impose the sanctions that many in Congress, Poland and Ukraine were calling for. Biden opted for pragmatism and good relations with Germany, where the dominant political mood favours the pipeline (see [US/GERMANY: Russian pipeline deal sidelines Ukraine - July 22, 2021](#)).

Kyiv's hopes that the project would be stopped were dashed. Even after this, it has been careful not to let its sense of betrayal affect its communications with Berlin and Washington.

Discussions on Nord Stream, including during Chancellor Angela Merkel's visit to Kyiv on August 22 and Zelensky's forthcoming trip to Washington, are focused now on a compensation package consisting primarily of German-financed green energy projects and a pledge to help negotiate a ten-year gas transit contract with Russia beyond 2024, when current arrangements end.

Conflict resolution and gas

For Ukraine, the gas transit question is linked to conflict and security. The two are not formally connected, but it is commonly believed in Kyiv that gas transit via Ukrainian territory has served as insurance against a full-scale Russian offensive.

German pressure

A similar view may be shaping German policy -- an expectation that Moscow will make future talks about gas transit conditional on progress towards a political settlement for eastern Ukraine. Parallel to gas discussions, Berlin has reportedly been signalling to Kyiv that it must fulfil obligations it has undertaken as part of the peace process, such as incorporating the 'Steinmeier formula' into legislation.

At a December 2019 summit in the 'Normandy format' (Ukraine, Russia, France and Germany), the four heads of state issued in a communique saying that the Steinmeier formula must be written into Ukrainian legislation. This requires Ukraine to grant special status to rebel-held areas and hold elections there; the implication is that Russian-backed forces may not have withdrawn or disbanded by that point (see [UKRAINE: Kyiv will struggle to re-activate peace talks - October 15, 2020](#) and see [UKRAINE: Clashes reflect and worsen diplomatic impasse - February 27, 2020](#)).

Kyiv has stalled on implementation, saying that it must have complete control over the border between rebel-held territories and Russia before elections can happen. The Steinmeier formula -- never formally documented -- is not part of the Minsk 2.0 accords signed in 2015.

Russia's position

Russia has made repeated accusations that Ukraine is reneging on its commitments.

Russian President Vladimir Putin made this point forcefully when he met Merkel in Moscow on August 20, before she travelled to Kyiv. He said statements by Ukraine's leaders showed that "they do not intend to fulfil the Minsk agreements".

Moscow is especially concerned about a Ukrainian draft law currently before parliament on a 'transition period' of mechanisms to bring not only eastern Ukraine but Crimea, too, back under Kyiv's rule, and defines Russia as an "aggressor" and "occupying state".

Kyiv is trying to bring Crimea back onto the international agenda and on August 23 launched the International Crimea Platform to re-focus international attention on Russia's occupation of the peninsula and build a consensus for action. NATO states are among the 40 countries that have sent delegates to the event.

The Crimean initiative is intended to revive a near-forgotten debate

Although Merkel said all the right things in Kyiv -- gas should not be "used as a weapon" -- local officials were left unconvinced.

Arestovych said "we're left in the same place as before" but that Ukraine now had the initiative thanks to its 'transition period' bill. He rejected Putin's claim that the legislation meant that Kyiv wanted to exit the Minsk 2.0 agreement. "The sides must reach agreement, and we don't see goodwill on Russia's part," he added.

At a press conference after meeting Merkel, Zelensky said talks on extending the gas transit agreement with Russia beyond 2024 were unclear. In a later interview he questioned Western governments' commitment to guaranteeing Ukraine's energy security in the face of Russian "blackmail". Such guarantees needed to be "not just words", he said.

Outlook

Beyond its transformational effects on energy supplies, the Nord Stream 2 deal must leave Kyiv uncertain about the intentions of two key partners, the United States and Germany.

More robust language, the 'transition period' legislation and the Crimean summit represent an attempt to carve out a stronger position and avoid being pressured into concessions on conflict resolution in exchange for assistance with future transit contracts, whose success is not assured.

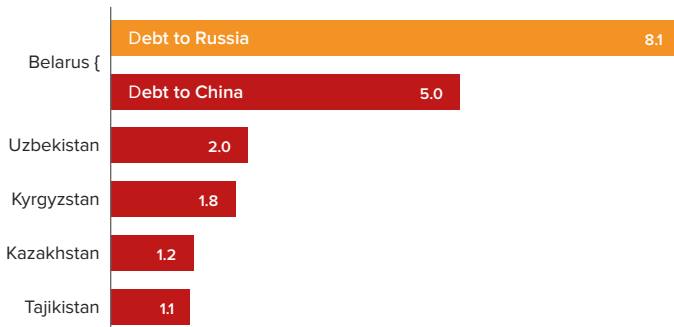
May 28, 2021

Belarus borrowing options will shrink inexorably

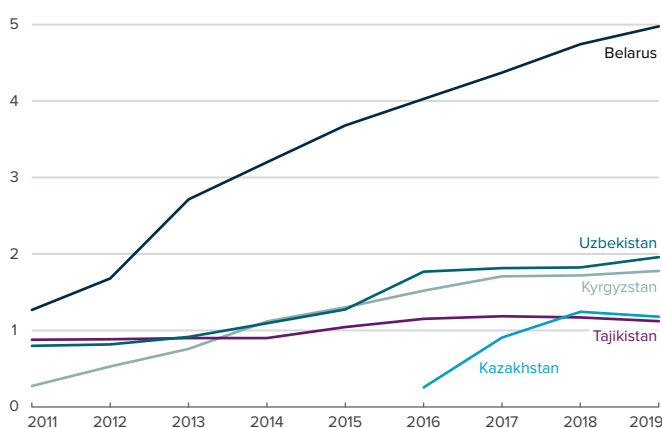
Belarus has relied heavily on Russian and Chinese loans, and its political behaviour is shutting down other options

Belarusian debt to Russia and China far exceeds other former Soviet states'

Debt to China compared, 2019 (USDbn)



Chinese lending, total debt stock (USDbn)



After EU leaders announced sanctions for the forcible diversion of an airliner, Belarusian Eurobonds on May 24 suffered their largest fall in value since last year's post-election protests. Belarus's USD1.25bn Eurobond issuance last June is likely to be its last for some time, although it plans to issue bonds in Russia.

As creditors grow wary, Belarus's borrowing options will narrow to Russia, already its largest lender. Beijing is Belarus's second-largest creditor – its loans far exceed those to Central Asian states -- but lending slowed steeply to USD126mn last year due to concerns about Belarusian stability as well as general Chinese retrenchment.

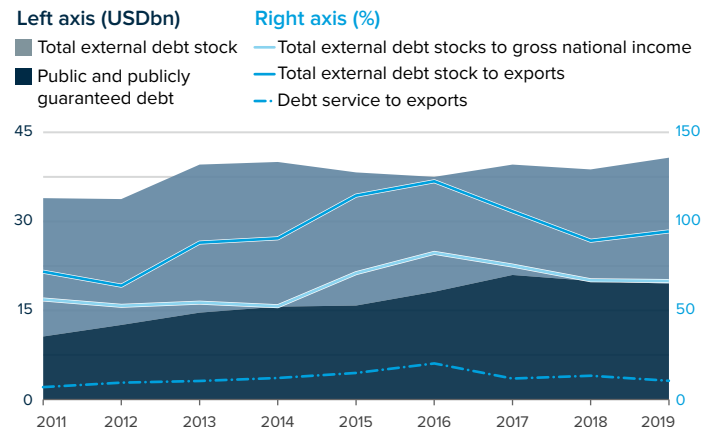
See also: [Belarus leader tests EU's will to punish him](#) -- May 25, 2021

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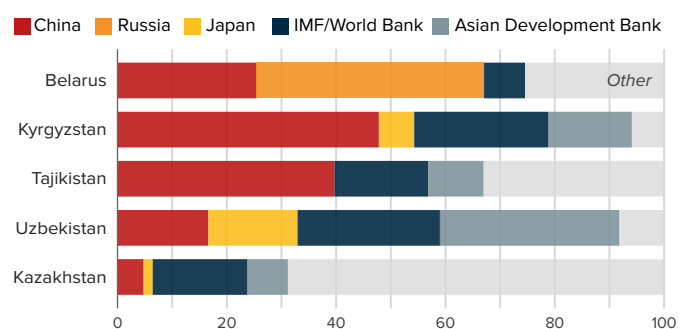
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Losing access to loans will alter Belarusian debt sustainability

Belarus external debt indicators



Total debt stock, public and private, % owed to each lender, 2019



- **Moscow will demand political subservience as the price of continued lending and refinancing.**
- **A widening fiscal deficit and falling reserves will add to questions about Belarus's future solvency.**
- **Because much of Belarus's borrowing is bilateral or multilateral, debt servicing costs have been low, but that is likely to change.**
- **Of China's former Soviet borrowers, Tajikistan and Kyrgyzstan present the highest risks of debt distress.**



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