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**POLITICAL RISKS OF ECONOMIC DEPENDENCE FROM RUSSIA:  
THE EVIDENCE FROM UKRAINE, BELARUS,  
ARMENIA AND GEORGIA**

*This study focuses on political risks coming together with economic dependence for Belarus, Armenia, Ukraine and Georgia, in case of their attempt to escape the influence of Russia. Based on the assumption that a common pattern exists in Russia's behaviour during the conflicts in Georgia and Ukraine the economic consequences of a potential change of course towards the EU of these states are assessed.*

*Keywords: Russia; imperialism; political risks; economic dependence; Georgia; Ukraine.*

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Вільяр Вібель

**ПОЛІТИЧНІ РИЗИКИ ЕКОНОМІЧНОЇ ЗАЛЕЖНОСТІ ВІД РОСІЇ:  
ЗА ДАНИМИ УКРАЇНИ, БІЛОРУСІ, ВІРМЕНІЇ ТА ГРУЗІЇ**

*У статті описано політичні ризики в контексті економічної залежності Білорусі, Вірменії, України та Грузії від Росії, а також у контексті їх спроб мінімізувати вплив цієї країни. Якщо зробити припущення про існування в геополітичній поведінці Росії певних патернів (на прикладах військових конфліктів в Грузії та Україні), можна описати потенційні економічні наслідки євроорієнтації цих країн.*

*Ключові слова: Росія; імперіалізм; політичні ризики; економічна залежність; Грузія; Україна.*

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Вильяр Вибель

**ПОЛИТИЧЕСКИЕ РИСКИ ЭКОНОМИЧЕСКОЙ ЗАВИСИМОСТИ  
ОТ РОССИИ: ПО ДАННЫМ УКРАИНЫ, БЕЛАРУСИ,  
АРМЕНИИ И ГРУЗИИ**

*В статье описаны политические риски в контексте экономической зависимости Беларуси, Армении, Украины и Грузии от России, а также в контексте их попыток минимизировать влияние данной страны. Если предположить, что в геополитическом поведении России существуют некие паттерны (на примерах военных конфликтов в Грузии и Украине), можно описать потенциальные экономические последствия евроориентации данных стран.*

*Ключевые слова: Россия; империализм; политические риски; экономическая зависимость; Грузия; Украина.*

**Introduction.** Following the collapse of the Soviet Union (SU) in 1991, former Soviet republics faced a political and economic choice between East and West. The three Baltic States chose to anchor themselves in the Euro-Atlantic security network and European economic space. Since then, Estonia, Latvia and Lithuania have also strengthened their economic relations with Western countries, introduced reforms in various policy areas from privatisation and liberalisation to institution building and monetary policy to ensure macroeconomic stability and to attract foreign investments. The national real wealth more than doubled in Estonia, Latvia and Lithuania during 2000–2008 (Veebel and Loik, 2012: 170).

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In other former SU republics, particularly in Belarus, Ukraine, Turkmenistan and Uzbekistan, after regaining their independence, semi-authoritarian regimes consolidated, much of the former Soviet practices in state administration continued, political links and economic relations and dependence with Moscow were sustained and the countries remained in Russia's sphere of influence. Although the EU initiated the Eastern Partnership (EaP) initiative in 2009 in the framework of the European Neighborhood Policy (ENP) with a view to support the democratization and modernization of countries in transition and enhance the EU's cooperation with Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine, the results have been rather modest in reducing those countries' dependence on Russia. On the contrary, in 2008 Russia torpedoed Georgia's efforts to move closer to the EU and NATO, and in 2013 they interfered in Eastern Ukraine to block the country's path to an association with the EU. Both situations escalated rapidly into military conflicts in South Ossetia and Abkhazia in 2008 and in certain areas of Donetsk and Luhansk from 2014 on. These actions have indicated Russia's geopolitical ambitions in the former Soviet space and forced some former Soviet republics to a difficult dilemma by navigating between non-alignment, growing partnership with the EU of further cooperation with Russia and the Eurasian Union.

The current study considers political and economic challenges and dilemmas that Belarus, Armenia, Ukraine and Georgia would face as a result of their attempt to escape the influence of Russia. The theoretical part of the analysis juxtaposes the models of imperial dependence, supranational interdependence and the problems of asymmetric integration in international relations.

### **1. Conceptual connections between integration, interdependence and security.**

The motivation for CIS countries to deepen relations with the EU is both political and economic. There is a presumption that the EU integration encourages democratisation, good governance, economic well-being, and sustainable development. Greater stability together with the disillusionment of an accession perspective, in turn, attracts foreign investments and enhances economic growth.

The first choice for countries in transition (or in reorientation from one power centre to an alternative power centre) is between independence and dependence. A decision to abstain from cooperation and integration offers some advantages in terms of countries retaining their sovereignty, but this option makes them also more unstable due to difficulties in absorbing shocks and avoiding speculative attacks. To cite R. Mundell (2001: 16), "a large currency area is better cushion against shocks than a small currency area, just as a large lake can absorb the impact of a meteor better than a small pond". At the same time, even if involvement in international organisations might create stronger growth prospects and better opportunities to absorb shocks, the impact of cooperation and integration might differ regarding whether a country is a policy-taker or a policy-maker. Since small states mostly depend on the decisions and markets of bigger and more influential countries, they tend to be policy-takers without a noteworthy option to stand against or reject the decisions that other countries have taken. Thus, asymmetric dependence may result in undesired consequences, particularly for countries with less political and economic power.

A differentiation could thus be made between an empire and a supranational community. Considering them as contrary tendencies, empires tend not to be volun-

tary associations and make its smaller and peripheral regions complete policy-takers if not outright dependants. In contrast, supranational community stands here for a voluntary association among equals and consequently allows as much centralisation as is acceptable for its individual members. If in reality such communities may also leave rather little room for independent policy creation, on the formal side they are consensus-seeking and content-wise tend to be based on the principle of subsidiarity.

In a broader sense, the discussion of the linkages between dependence, interdependence – i.e. the arrangements whereby nation states cooperate with each other on matters of common interest under conditions they can control – and integration has its roots in I. Kant's essay "Perpetual Peace: A Philosophical Sketch" (1795). Based on Kant's conclusions the only rational choice to avoid war would be formation of an international state, the willingness of a state to give up its will to act is questionable. Thus, since all nation states have to a certain extent remain sovereign but still integrate and cooperate with each other, "dependence" is replaced by "interdependence". The meaning of dependence stands here for a constitutional, not imperial relationship. This means that although a voluntary multinational state creates a constitutional dependence, it remains voluntary. Whereas an empire, even if global, is based on involuntary dependence.

However, coming back to the CIS playground between East and West, the tendency of the CIS members illustrates the working of the ideal types outlined above. Not every international network produces similar results in terms of security, prosperity and autonomy. Leaving out for a moment the question of economic growth potential of the network, for most CIS countries, contrary to what the name suggests, the security that the network offers tends to come at a heavy price on the autonomy of its smaller members. The character of the association is moulded by Russia's will to dominate over its lesser partners, thus producing a *dependence* of an *imperial* kind. Whatever peace and stability is present in such a network, it comes at the price of suppressing lesser members and is consequently inherently unstable. At the same time, the EU symbolises the opposite ideal type where one can speak about *interdependence* that is voluntary and of a *constitutional* kind.

The traditional integration theorists (J. Monnet, R. Schuman, E. Haas and L. Lindberg) have argued that interdependence is the precondition and driving force of integration process as well as its ultimate value. It makes economic cooperation more effective by making countries more dependent on each other in terms of security and simultaneously motivating them to collectively protect peace and stability. In the neo-functional model, economic interdependence is considered as a starting point for explaining the motivation of countries for long-term cooperation (Risse, 2005: 299).

Nevertheless, interdependence may also contain problematic aspects. According to the neo-functional model – a theoretical construct based on the needs of post-war Europe, successful integration needs continuous progress in terms of deepening and widening integration. It could therefore not be stopped at a certain stage, but must unremittingly be deepened and widened (embodied in the so-called "spillover effect") to survive. In practical terms, this might lead to a situation where instead of the universal "win-win" game in terms of security and prosperity some countries might become "victims" of the common need.

But next to this formal side of possible problems EU integration has outlined also some substantial problems of interdependence. The global financial and European debt crises have made apparent some serious downsides of the functioning of the single market and the common currency. Namely, especially the post-communist Central and Eastern European (CEE) member states have bounced to a "glass ceiling" in terms of their economic growth potential. Despite the noteworthy development they have experienced in their first years of the EU membership there seems to be a level beyond which the single market does not easily allow them reach (Reinert and Kattel, 2013: 25). This is perhaps best visible in terms of the effects of the euro currency.

Thus, there is an important corrective to be made. We can see that what we began to treat as negative aspects of interdependence, as much as they diminish formal and substantial equality of an EU member state, are actually inroads of the other ideal type – dependence. Indeed, by this example there is an underlined categorical difference between real associations and theoretical ideal types. And by the same token, this way also the taxonomy of ideal types proves its usefulness. One can see that those developments that produce imperial characteristics in an otherwise supranational community, could be spotted by way of the very ideal types distinguished.

**2. Looking for a pattern: re-orientation of Georgia and Ukraine and Russian reactions.** In cases of Georgia and Ukraine Russia has relied on the argument of assuming responsibility for the protection of rights of certain vulnerable social segments in neighbouring countries. Thereby, Russia was referring to the unacceptable condition of Russian-speaking populations in these countries. In effect, in both countries Russia has exploited ethnic conflicts to undermine its neighbours' efforts in their path to the EU and NATO. This motive could be deemed the main reason for it to have constantly supported separatism in these regions. Both episodes contain elements of modern warfare, combining conventional warfare and non-military tools such as irregular tactics, terrorism, criminal behaviour, political and economic pressure, propaganda and information warfare.

In both cases, Russia has to some extent denied its participation in the conflict. It has denied shooting down a drone over Abkhazia in April 2008, sending troops to Abkhazia under the name of railway workers in May 2008, participating in the military conflicts in East Ukraine in 2014–2016, and claiming that Russian soldiers and military hardware in Ukraine are volunteers. Despite many diplomatic efforts by the international community, Abkhazia, South Ossetia, Donetsk and Lugansk districts remain "frozen conflict" zones posing serious security risks to Georgia and Ukraine accordingly. These regions could be used by Russia to destabilize these countries. Against this background, it is reasonable to assume that similar arguments can be presented and similar strategy could be used by Russia should Belarus or Armenia decide to move closer to the EU too. In this light, it will be useful to assess whether similar preconditions exist in Belarus and Armenia that have guaranteed success in Ukraine and Georgia from Russia's perspective. This analysis gives an indication of whether next to Ukraine and Georgia also Belarus and Armenia could be similarly vulnerable.

In addition to ethnic factors, in determining Russia's next potential "target" among the former Soviet Union republics a major role could be played by *the level of economic development of a country*. Though it does not have to be a regularity, the fact

remains that both countries under Russia's pressure – Ukraine and Georgia – have showed relatively low level of economic development in terms of GDP per capita (Figure 1). As a result of economic downturn, trade flows decreased between Russia and Ukraine, but remained still significant until the beginning of the geopolitical conflict in 2013 (Figure 2). Paradoxically, despite the conflict between Russia and Ukraine, Russia is still the largest individual trading partner of Ukraine. Since Ukraine is highly dependent on the energy resources imported from Russia or via Russia from Central Asia and is facing difficulties in finding other supply markets besides Russia, it would be difficult for Ukraine to move away from Russia's sphere of influence. At the same time, from Russia's perspective the share of Ukraine among its trading partners has constantly decreased from 2000s on (Figure 2), referring to asymmetric trade relations between Russia and Ukraine. Notably, next to extensive trade relations Russia and Ukraine were also highly dependent on mutual deliveries before the geopolitical conflict broke out, particularly, those of the defence sector. This also explains Russia's interests in the East Ukrainian regions and Crimea where Ukrainian military industry objects are located.

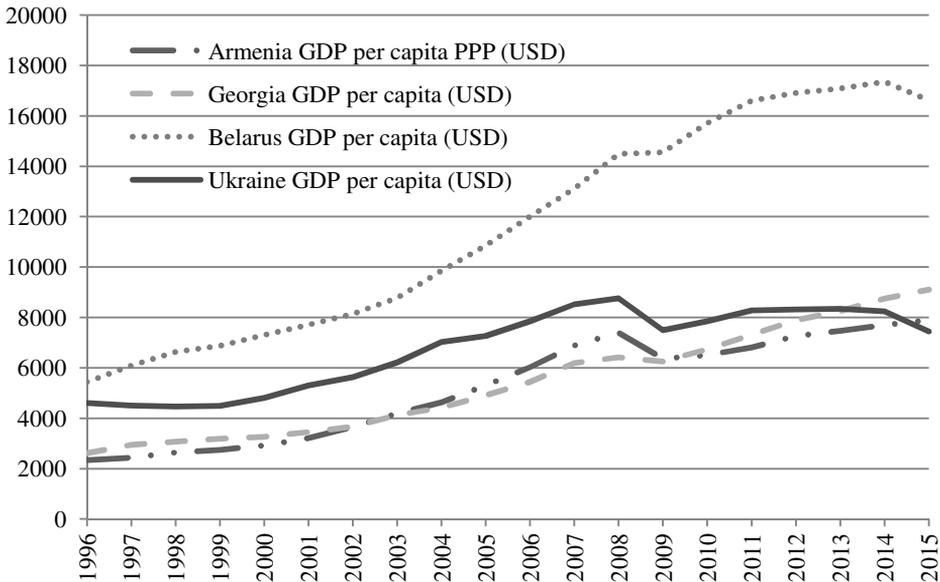


Figure 1. **GDP per capita PPP (USD) in Belarus, Ukraine, Armenia and Georgia, 2006–2014** (Trading Economics, [www.tradingeconomics.com](http://www.tradingeconomics.com))

In addition, before the outbreak of the conflict Russian companies had made significant investments in Ukraine, both direct investments and investments through offshore companies located in Cyprus, the Netherlands and British Virgin Islands (Blyakha, 2009: 5). One can see here high politics overriding economic interests in the imperial manner. Namely, Russia's FDIs have played significant role in Russian-Ukrainian conflict, since next to the military pressure Russia withdrew about 31% of all Russian investments in Ukraine in the first half of 2014. This was accompanied by the outflow of investments coming from Russian offshore companies operating under the jurisdiction of British Virgin Islands and Cyprus. But it is relevant to note that

there also occurred an outflow of investment of Western companies, which had previously close economic relations with the so-called inner circle of the former Ukrainian president Yanukovich.



Figure 2. Trade relations between Russia and Ukraine  
(The World Bank database; Eurostat database)

The same can be said about the Russian–Georgian conflict in 2008 when Russia also used economic relations to put pressure on the partner country simultaneously to military and political attacks. Furthermore, a setback in trade relations between Russia and Georgia occurred already in 2006, after Russia banned the main export articles of Georgia such as agricultural products, wine and mineral water, and halted postal, airline, automobile, sea and railway transport between Russia and Georgia. Consequently, trade between Georgia and Russia – although not particularly significant in terms of value – decreased noticeably in the following years. It took about 5–6 years to recover from the recession (Figure 3). Thus, Russia had started putting significant economic pressure on Georgia already at least two years before the war broke out in Georgia which clearly reflects Russia’s well thought-out and long-term strategy on how to destabilize its neighbour.

Extensive economic relations have not prevented Russia from violating the territorial integrity of its neighbours and next to the direct pressure in the form of sanctions and other restrictive measures, indirect channels (such as withdrawal of investments of Russian offshore companies operating under jurisdiction of British Virgin Islands and Cyprus) have been used by Russia to harm the economies of its neighbours. In this light, there is a lot at stake, particularly for Belarus which is – just like Ukraine – highly dependent on Russia’s market (Figure 4). Thus, extensive economic relations between Russia and Belarus should not be considered as a guarantee of stability and peace. Moreover, the declining share of Belarus in Russia’s total exports and imports (Figure 4) refers to the same problem Ukraine is currently facing, par-

ticularly the growing asymmetry in economic relations with Russia. Although the volumes of trade exchange with Russia are lower in Armenia and Georgia, asymmetry appears also in their relations with Russia (Figure 5).

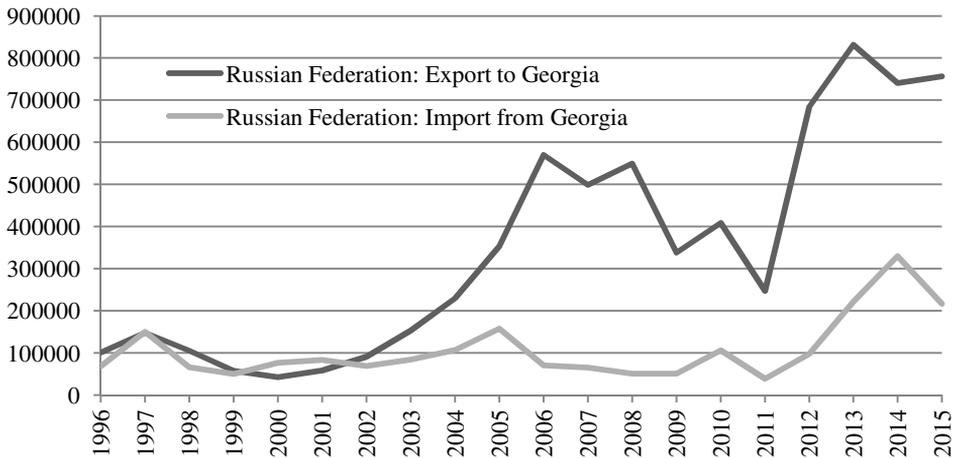


Figure 3. Trade relations between Russia and Georgia, ths USD  
(The World Bank database)

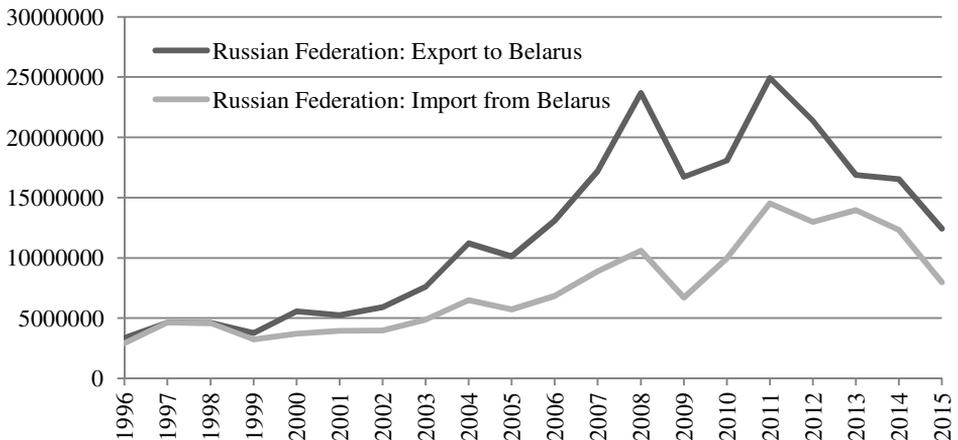


Figure 4. Trade exchange between Russia and Belarus  
(The World Bank database; Eurostat database)

In this light, it would be in the best interests of the CIS countries to find other supply markets besides Russia and move away from Russia's sphere of influence. The focus should be on the implementation of macroeconomic stabilisation measures and the improvement of business and investment climate in these countries. At the same time, the importance of tightening economic contacts between the EU and the CIS countries and convincing international capital and financial markets that these countries are following the path towards sustainable stability should not be underestimated. Nevertheless, the question remains of how risky would it be for Belarus, Armenia, Ukraine and Georgia to try to escape the political and economic influence of Russia.

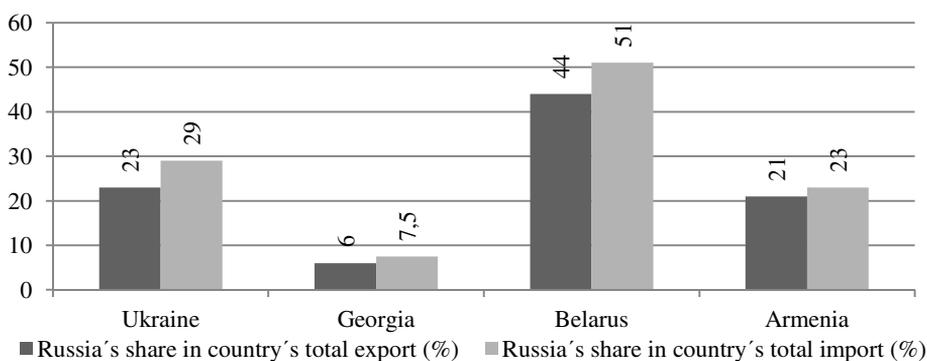
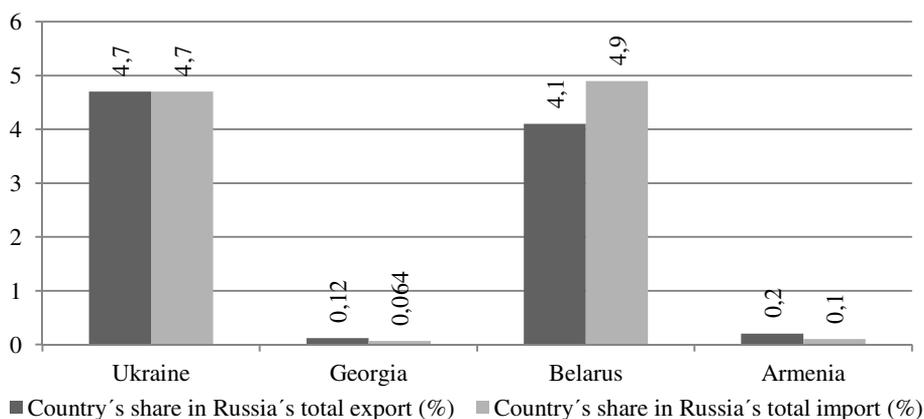


Figure 5. **Asymmetry in trade relations between Ukraine, Georgia, Armenia, Belarus and Russia in 2013, %** (Eurostat database)

**3. Economic consequences of re-orientation.** Due to the ongoing conflict, Ukraine has faced an economic recession already for 1.5 years. It is comparable to the deepest recession period during the recent economic crisis from the first to the third quarter in 2009 when Ukrainian economy contracted by 19.6%, 17.3% and 15.7% (Ukraine GDP..., 2015: 1). Ukraine has lost altogether one fifth of its economic size since the beginning of the crisis in the first quarter of 2014, not to mention experiencing the lowest economic growth numbers among the CIS countries under examination. Since the escalation of the conflict from July 2014, Ukrainian national currency – hryvnia (UAH) – has lost approximately 60% of its value. If at the beginning of the conflict the exchange rate of Ukrainian hryvnia was 15 UAH/EUR, it reached its lowest level in February 2015 with 37 UAH/EUR and stabilized at 24 UAH/EUR in the second quarter of 2015. The weakening of the currency has caused high inflation in Ukraine reaching 60.9% in April 2015 and close to 60% in May and June 2015 (Veebel and Markus, 2016). Due to Russia's withdrawal of investments from Ukraine, the net foreign direct investment turned negative in Ukraine in the first half of 2014, but from then on, a positive flow has been reinstalled.

To sum up, during the ongoing conflict Russia has deployed comprehensive measures to destabilize Ukraine, from military actions to economic pressure and

propaganda war. As a result, Ukraine has lost one fifth of its GDP and is functioning only with the support of international community. The latter includes humanitarian aid provided by some EU member states and the recent bailout packages of the International Monetary Fund. Compared to Russian-Georgian war in 2008, the present conflict has led to lower GDP growth rates in Ukraine compared to Georgia during the previous war. Likewise, the recovery of Ukraine's economy is much slower than it was in Georgia after the eruption of the conflict in 2008 (Veebel and Markus, 2016). As the author sees it, this could be directly associated with the persistence or escalation of the military conflict in the East Ukraine in 2014 and 2015, whereas the military conflict during Russian-Georgian war lasted only 5 days. A conclusion could be drawn that should conflicts occur between Russia and its neighbours, it would be in the best interests of the CIS countries to halt military activities as fast as possible.

Next to the cessation of military actions, the role of economic stabilization measures should not be underestimated. They have a clear role in minimizing the harm that Russia could potentially cause in response to its neighbours decision to approach the EU. This applies to Armenia and Belarus, but also to Ukraine and Georgia. In this respect, based on the example of Ukraine, several policy recommendations have been made by international institutions. The IMF (2015: 1) has stressed the importance of maintaining tight monetary policy and building up official foreign exchange reserves. It has also outlined the necessity of the restoration of a sound banking system as a key for economic recovery in Ukraine. Among other suggestions, the Vienna Institute for International Economic Studies (Adarov et al., 2015: 1–5) has recommended to take a clearer focus on the possibility of maintaining a preferential trade regime within the CIS free trade agreement signed between Russia, Ukraine, Belarus, Moldova, Armenia, Uzbekistan, Kazakhstan and Kyrgyzstan in 2011.

This last recommendation as to the CIS free trade regime sounds especially vital and appropriate when considering the competitiveness of Ukraine's economy. This way it could have access to markets where its produce is competitive. The EU could certainly support this by allowing Ukraine simultaneously protect its industries against EU own producers and help upgrade it so that it would be able to enter a free trade regime with the EU. It must be admitted that the record of the Washington institutions in setting less developed countries on a route of development has not been entirely stainless (see e.g.: Andrews, 2013; Chang 2008). Looking at the policy trajectories of successful developing countries, they have significantly deviated from the standard road suggested. These countries have focused on building up competitive national industrial (and services) sectors, and, among other efforts, this has often demanded protectionist policies. Curiously, in doing so they have learnt from the historical experience of Western nations (Reinert, 2008). For, as it has been argued, the effect of less developed economies prematurely entering free trade regimes could easily result in de-industrialization (Reinert and Kattel, 2013: 4). It is vital to try to avoid similar effects in Ukraine as it would destabilise the country further and play additional cards to the hands of the potentially malevolent Russia. Instead, a concerted effort should be taken by the EU and its partners to help upgrade Ukraine's local industries so that they could first compete with their peers in the CIS area, and then also being able to survive in the free trade regime and the competition with the indus-

tries of the EU (Reinert, 2014). It would be also useful to create a special development policy programme to answer to the needs of the ENP CIS countries.

This brings the discussion to the crucial aspect of economic and financial stability of the EU itself. Could it be a strong and unwavering partner to the states under focus? In this regard, looking for a special development programme for CIS countries may be a false hope inasmuch as the EU itself struggles with an arguably self-inflicted downward spiral of austerity measures, unemployment and deflation (Wray and Papadimitriou, 2011: 3–5). As the measures and practice of the European Central Bank show, monetary policy is not enough to restore confidence in European markets and economies and get them growing. Still, in order to appreciate the appropriateness of fiscal measures, it may be necessary to rethink some monetarist assumptions (Mitchell, 2015). This has also proven a grave practical problem bearing directly on the topic of this paper. Namely, one can see the Maastricht criteria as having played the major role in constraining government expenditures of the EU member states. And the sphere of defence is one field which has been suffering most since military capacities of the EU members have remained seriously underdeveloped (Majone, 2009: 103).

Thus, lessons learnt from Georgian-Russian war and the Russian-Ukrainian conflict also highlight the importance of financial support provided to the countries by the EU and the IMF to avoid their economic collapse and to build greater trust to the intentions of Western countries to integrate Ukraine, Georgia, Armenia and Belarus to the West. While avoiding the potential de-industrialization of its partners, the West should simultaneously be aware of socioeconomic and political complexities that the CIS nations face. The Soviet, and more recently oligarchic, past is still embedded in their social and institutional structures and practices and needs steady efforts to get rid of. In this sense, it is also crucial that the bailout-packages and other financial resources should be directly linked to the progress in implementing reforms in the CIS countries in the limited time frame. The author suggests that the positive conditionality approach be used more widely. It has proved to be a valuable method of partnership in different areas from the EU development cooperation to the EU neighbourhood policy and pre-accession strategy. In case of Ukraine, first steps on the road to stabilize the country politically and economically have been agreed in the document called "EU-Ukraine: A European Agenda for Reform" (2014) developed jointly by Ukrainian Government and the European Commission and the European External Action Service in July 2014. However, activities should be focused on further promotion of institutional reforms and modernization of the society, fight against corruption, and other critical factors. Particular attention should be paid to the activities to secure the Eastern border of Ukraine and general financial support to Ukraine should be directly linked to the results achieved (Veebel et al., 2014: 101–102).

**Conclusions.** The current study has focused on the question of how risky would it be for Belarus, Armenia, Ukraine and Georgia to escape the political and economic influence of Russia. It is based on the assumption that a common pattern exists in Russia's behaviour in destabilizing its neighbouring countries – during Russian-Georgian war in 2008 and Russian-Ukrainian conflict in 2013–2015.

As the author sees it, success of Russian neo-imperial perspective seems to be related to a high share of Russian-speaking population in the region, to ethnic homo-

geneity of population under direct aggression, and to the country's low level of economic development. As the supranational vs. imperial modelling shows, in case of the prevalence of the latter type close mutual economic relations do not necessarily work as a guarantee of peace and stability but rather create imperial dependence. But with a nominally supranational community there may also occur similar though milder problems of dependency as long as the level of economic development between the partners is asymmetric.

Secondly, to assess the outcome of a potential confrontation with Belarus or Armenia from the economic point of view, the respective effects of Russian-Ukrainian conflict were examined. As a result of the ongoing conflict, Ukraine has lost one fifth of its GDP and is functioning with significant support of international community. This includes humanitarian aid to Ukraine provided by some EU member states and the recent bailout packages by the International Monetary Fund. As compared to Russian-Georgian war in 2008, the current Ukrainian-Russian conflict has led to significantly low GDP growth rates in Ukraine and the recovery of Ukraine's economy is much slower than it was in Georgia after the conflict in 2008. This seems to be related to the persistence or escalation of the military conflict in the East Ukraine in 2014 and 2015, whereas the military conflict during the Russian-Georgian war lasted several days only. Therefore, in case of potential conflicts it would be in the best interests of the CIS countries to halt military activities as soon as possible. Particular attention should be paid to the activities of assistance, including financial aid to keep all four countries functioning but also help them upgrade and build up competitive economies. Likewise, it is vital to care about the viability of European values in these societies. From the practical side, the EU should pay attention to the activities that allow these countries be included in European information space. In a longer term, this could reduce the scope of the problems if not prevent the occurrence of similar conflicts like the ongoing Ukrainian-Russian crisis.

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