

ESCAPING THE IMPERIAL GRIP OF RUSSIA: UKRAINE, BELARUS, ARMENIA, AND GEORGIA

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Abstract

Russia's war with Georgia in 2008 and the ongoing conflict with Ukraine since 2013 have revealed Russia's geopolitical ambitions in the former Soviet space. This forces former Soviet republics in the South Caucasus and Central and Eastern Europe to choose between non-alignment and closer integration with either the EU or Russia. This study focuses on the question of political and economic risk 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, ethnic and economic pre-conditions for a successful "hybrid warfare" are analysed, and the economic consequences of a potential change of course towards the EU of these countries are assessed.

Keywords:

Introduction

Following the collapse of the Soviet Union (SU) in 1991, former Soviet Union 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 integration. 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

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policy to ensure macroeconomic stability and to attract foreign investments. They became members of the European Union (EU), the North Atlantic Treaty Organization (NATO) and the euro area. The European integration and related economic reforms have led to a significant inflow of foreign direct investment (FDI) and to comparably higher economic growth rates compared to other former SU Republics. The national real wealth more than doubled in Estonia, Latvia and Lithuania in 2000-2008 (Veebel and Loik 2012, 170).

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 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 Neighbourhood Policy (ENP) with a view to supporting the democratisation and modernisation of countries in transition and to 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 or further cooperation with Russia and Eurasian Union.

The current study considers the 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 and supranational interdependence. It also discusses the problems of asymmetric integration in international relations. The linkages between dependence, stability and security are particularly relevant in the current security situation in Europe. The analytical part of the study focuses on the impact of Georgian-Russian war in 2008 and the Ukrainian-Russian conflict, by asking whether not only Ukraine and Georgia, but also Belarus and Armenia could be vulnerable in their relations with Russia.

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. Thus it would enhance stability in the whole region. 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 process 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 Robert Mundell, "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" (Mundell 2001, 16). If this statement, as far as some economic aspects are concerned, could be subjected to certain criticism, it seems especially straightforward as regards security. Countries which haven't joined collective security networks such as NATO remain more vulnerable. In this regard, collective defence networks work as instruments of intimidation. 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 voluntary 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. Along these lines, the general principles of functioning of an empire and a supranational community could also be described by the contrasting concepts of dependence and interdependence.

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 Immanuel Kant's essay on *Perpetual Peace: A Philosophical Sketch* (1795). In his argument, Kant draws parallels between individuals and nations, and claims that ...

“Just as in the case of individual men, Reason would drive them to give up their savage lawless freedom, to accommodate themselves to public coercive laws, and thus to form an ever-growing State of Nations. But as the Nations, according to their ideas of international law, will not have such a positive rational system, and consequently reject in fact what is right in theory, it cannot be realised in this pure form”.

Thus, based on Kant's remark a conclusion could be drawn that although the only rational choice to avoid war would be the formation of an international state, the willingness of the 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 the 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 the 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 (see e.g. the works of Jean Monnet, Robert Schuman, Ernst Haas, and Leon Lindberg) have argued that interdependence is the

pre-condition and driving force of integration process as well as its ultimate value. It makes economic cooperation more effective by making the countries more dependent from 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 of the integration. It could therefore not be stopped at a certain stage, but must unremittably be deepened and widened (embodied in the so-called spill-over 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. In this context, it appears that the rational choice for a small country would be to keep cooperation and integration going, but also slow down its speed as much as possible.

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 EU membership there seems to be a level beyond which the single market does not easily allow them to reach (Reinert and Kattel 2013, 25). This is perhaps best visible in terms of the effects of the euro currency. Among other (what are now called) 'peripheral' members the CEE states struggle with wage levels surpassing their productivity. The euro does not provide a mechanism to alleviate this by way of devaluation as does a sovereign currency. The only option left is to apply the so-called internal devaluation in terms of wage cuts in the private and austerity measures in the public sector. Especially in the deflationary environment this initiates a self-perpetuating downward spiral. Similarly, whereas the central states such as Germany see accumulation of huge surpluses, the periphery witnesses deficits of a similar extent (see e.g. Wray and Papadimitriou 2011, 8). All this has produced a curious phenomenon whereby, in spite of the efforts of the European Central bank, the peripheral member states witness the drive of both their human and financial capital towards the central states and their markets.

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 underlined a 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. And this lays the relevant basis for trying to understand the pursuits of the CIS countries. Next to the obvious wish of getting out of an imperial union and closer to a supranational one, there are several problematic aspects that these countries may encounter in the latter.

Finally, there is yet one further facet to the CIS countries endeavour that needs to be taken into consideration. Next to the external side discussed above there are crucial internal aspects to these states that can hardly be overlooked. And they concern the CIS countries' social, economic, political and other relevant structural characteristics that make them either congruous or not with the respective features of the EU member states. With the current choice of CIS states these differences are not overly grave, especially as they share with the West similar (basically Christian) cultural heritage. This background has shaped these societies to follow a relatively close model to that of the West. However, there remain salient obstacles. Within this broadly identical framework the EU countries draw most stringently on the idea and practice of human rights and organize their politics along a democratic model. Both attributes rely on the idea of an individual who should be empowered to live a life of individual choosing as well as to take part, and be heard of, in politics. Even if among the EU member states most have had some experience with the dominance of a collectivist social model and the often concomitant periods of authoritarian, if not despotic, rule, their membership of the EU witnesses a clear prevalence in their social structure of the practice of a viable civil society and civic culture. It is arguably this rudimentary quality of the self-image of the citizens, and the viability of the ensuing civic practice, that make a strong civil society (see Almond and Verba 1989). In turn, it is a flourishing civil society that keeps corrupt practices limited from inside as well as under control from outside. Likewise, only such a solid civil society could nurture a healthy legal and adjudicative system. It also allows to build up a viable political practice and thereby feeds into a responsive and accountable democratic governance. Finally, it is foremost a viable civil society that creates conditions for prolific enterprising activities and contributes thus to a functioning and prosperous market economy. At this point, it is important to realise that the Western model

is not the only one available and among the alternatives there is also one represented by Russia. Whatever criticism could be raised from the Western perspective, (that very perspective itself makes it necessary that) it remains the choice of each country and its people to determine its destiny in terms of a social and political model they follow.

Hence, should the preference for the Western model stay alive among the chosen CIS countries, beside the possible activities of Russia that the present paper will dedicate its primary focus, what stand along the way are two additional hurdles forming the wider backdrop for the scenery. The first of them concerns the purity of the Western supranational system and the possible drawbacks as regards the substantial equality between the members of the EU, mostly depending on the economic and monetary functioning of the network. As will be argued, it makes a difference in terms of the ability of the EU to successfully help to build well-functioning economies in the interested CIS countries. The second hurdle concerns the inner quality of the civil society and its impact to the well-being of the judicial, political and economic planes of the CIS countries.

Looking for a Pattern:

Re-orientation Attempts of Georgia and Ukraine and Russian Reactions

In both cases Russia has relied on the argument of assuming responsibility for the protection of the rights of certain vulnerable social segments of its neighbouring countries. Thereby, Russia is referring to the (more or less) unacceptable condition of Russian-speaking populations living in those 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, psychological operations, 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 2014-2015, and claiming that Russian soldiers and military hardware in Ukraine are volunteers. Despite many a diplomatic effort by the international community, Abkhazia, South Ossetia, Donetsk and Lugansk districts remain “frozen conflict” zones posing serious security risks to Georgia and Ukraine. These regions could be used by Russia to destabilize the 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. 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.

Ethnic pre-conditions of a "successful engagement" from Russia's perspective

In cases of Ukraine and Georgia several factors have worked to Russia's advantage. One of the pre-conditions of a successful engagement from Russia's perspective seems to be a *high share and concentration of Russian-speaking population in the region under aggression*. This appears to be important in terms of using non-military tools of the modern warfare such as disinformation and psychological pressure with the aim to ensure support to Russia's aggression at the local level.

In absolute terms, the number of inhabitants of Russian background is highest in Ukraine (see Table 1), covering almost 30 per cent of Ukraine's population. Moreover, the share of Russian minority differs significantly across the districts of Ukraine. For example, approximately 60 per cent of the Crimean population were of Russian background and more than 70 per cent of the inhabitants of Crimea named Russian as their native language according to the Ukrainian National Census Survey in 2001. In Donetsk district, 38 per cent of the population were of Russian background and it is primarily Russian language that is spoken in the district. In Lugansk district, approximately 40 per cent of the population are of Russian background, and more than 68 per cent of the population consider themselves Russian-speakers (Population Census Ukraine 2001). In South Ossetia and Abkhazia – the so-called frozen conflict zones in Georgia – the share of native Russians used to be relatively low before the war broke out in 2008 (Ministerstvo... 2015). However, the Russian-related community in these regions is relatively big since at the beginning of 2000s Russia extended single-handedly Russian citizenship to the people living in South Ossetia and Abkhazia. This resulted in a situation where majority of the population in these regions had dual citizenship before the outbreak of the military conflict in 2008. In this regard, it could be argued that at least in South Ossetia and Abkhazia, Russia has set the stage for the escalation of conflict over past ten-fifteen years and has consciously contributed to the increase of its influence in the region.

The share of inhabitants of Russian nationality in Belarus and Armenia is lower compared to Crimea or Donetsk and Lugansk districts. In Belarus, approximately 8 per cent

of the population were of Russian nationality/background according to the Population Census survey in 2009 (Belarus – Population Census 2009). In Armenia, people are overwhelmingly ethnic Armenians and the share of inhabitants of Russian nationality/background is marginal, about 0.5 per cent of the total population (Population Census Armenia 2011). Thus, ethnic factor could not be exploited as successfully and straightforwardly in Russia's favour in Belarus or Armenia. Nevertheless, should Russia be interested in destabilising Belarus, the most likely region would be Vitebsk district which borders with Russia and has relatively higher share of inhabitants of Russian nationality (about 10 per cent) compared to the country's overall average. As to Armenia, one should not forget that since the 1990s Russia has indirectly influenced ethnic conflict between Armenia and Azerbaijan over Nagorno-Karabakh, the region that belongs to the territory of Azerbaijan but is populated by ethnic Armenians. In this respect, Russia's toolbox contains both the "stick" and the "carrot". The first appears in Russia's potential to destabilize the region politically or economically, whereas the second is to be found in Russia's ability to contribute to the solvency of the conflict in Armenia's favour.

In addition, it can be argued that even *ethnic homogeneity* of a region could sometimes be working in Russia's advantage. This claim is based on the results of a survey conducted in Abkhazia, South Ossetia and Transnistria in 2009-2010 (see Toal and O'Loughlin 2014). With an aim to investigate how people in these regions feel about Russia, they were asked about their preferences regarding the future of the region. In South Ossetia with almost 90 per cent of the people being ethnic Ossetians, approximately 80 per cent of the respondents answered that they would like to be integrated with Russia. One can speak of Russia's political influence and military presence in the region, as well as the latter's high dependence on Russia's economic aid. At the same time, the outcome was not as straightforward in Abkhazia and the results varied across ethnic groups. For example, more than half of the respondents of Armenian nationality living in Abkhazia preferred integration with Russia, whereas large majority (80 per cent) of native Abkhaz preferred independence of the region. Rather surprisingly, almost 60 per cent of Russians and 50 per cent of Georgians/Mingrelians preferred independence instead of integration with either Russia or Georgia. Such differences across ethnic groups have also occurred in Transnistria (Ibid.). It obviously also testifies to the problems the smaller CIS countries have had in creating good conditions for their regions to prosper economically and the populations to enjoy certain cultural and political autonomy.

Applying this logic to Belarus would be problematic though, since Belarus is relatively heterogeneous as concerns its ethnic groups. It stands out in comparison to Armenia where more than 90 per cent of the population are ethnic Armenians. Thus in Belarus it

would take more efforts from Russia to influence public opinion in its favour. Still, what could alter this view is the decline of public support to the EU among the Belarus population while support to Russia has increased during the Russian-Ukrainian conflict. This comes out from the survey of the Independent Institute of Socio-Economic and Political Studies (IISEPS) from 2014 (IISEPS 2014a). Intriguingly, according to another survey of IISEPS from September 2014, only 27 per cent of the respondents in Belarus saw Russia as occupying Crimea, whereas 60 per cent of the respondents considered it an act of dispensing historical justice (IISEPS 2014b).

To sum it up, it is rather unlikely that ethnic factors could work in Russia's favour with Belarus or Armenia in case of a conflict. However, the other line of action whereby Russia seeks the protection of the rights of Russians living in the neighbouring countries could be used in Belarus where the most vulnerable region would be the Vitebsk district. In Armenia Russia's toolbox offers the choice between „carrot“ or „stick“ strategy regarding the frozen conflict over Nagorno-Karabakh.

Economic factors impacting the choices of Armenia, Belarus, Georgia and Ukraine

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).

Figure 1: GDP per capita PPP (USD) in Belarus, Ukraine, Armenia and Georgia in 2006-2014

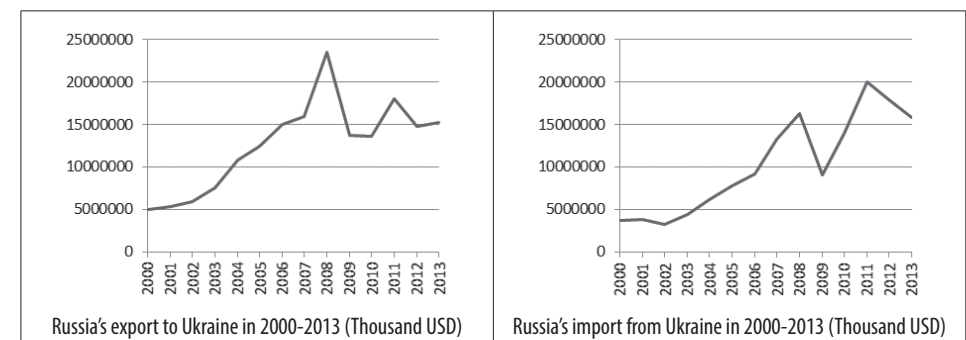


Source: TradingEconomics, www.tradingeconomics.com

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 (see Figure 2(a) and 2(b)). Paradoxically, despite the geopolitical 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 (Szeptucki 2008), 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 (see Figure 2(c)), 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 break 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.

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 the Russian-Ukrainian conflict, since next to the military pressure Russia withdraw about 31 per cent 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 notice 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 (Veebel and Markus 2015).

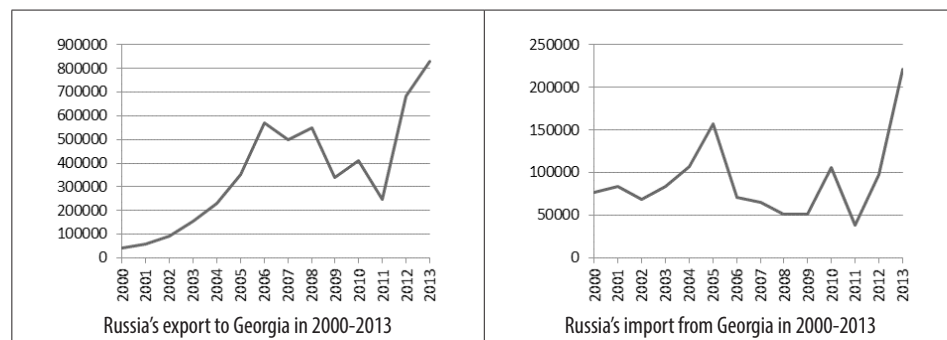
Figure 2: Trade relations between Russia and Ukraine



Source: 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 the 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.

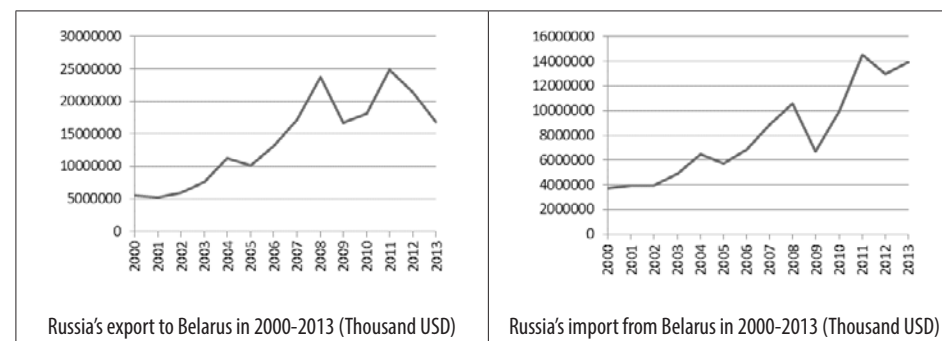
Figure 3: Trade relations between Russia and Georgia (in thousand USD)



Source: The World Bank database.

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 the 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 (see Figure 4(a) and Figure 4(b)). 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(c)) refers to the same problem Ukraine is currently facing, particularly the growing asymmetry in economic relations with Russia. Although volumes of trade exchange with Russia are lower in Armenia and Georgia, asymmetry appears also in their relations with Russia (Figure 4).

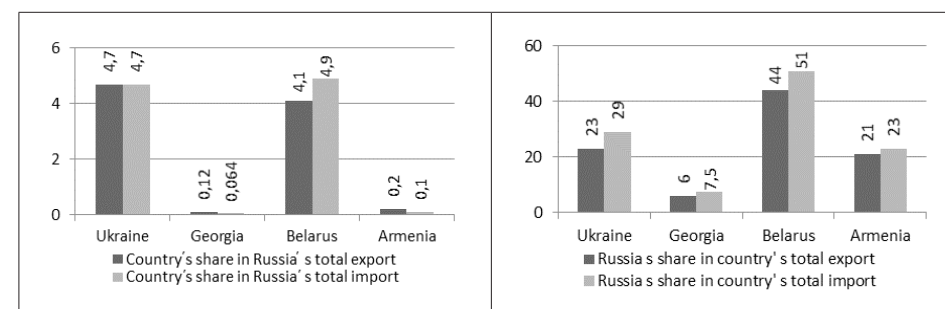
Figure 4: Trade exchange between Russia and Belarus



Source: 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 of 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 (per cent)



Source: Eurostat database.

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 the Ukrainian economy contracted by 19.6 per cent, 17.3 per cent and 15.7 per cent (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, the Ukrainian national currency – hryvnia – has lost approximately 60 per cent of its value. If at the beginning of the conflict the exchange rate of the 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 to 60.9 per cent in April 2015 and close to 60 per cent in May and June 2015 (Veebel and Markus 2015, 181). 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 the 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 the 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 authors see 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 the Russian-Georgian war lasted only for five 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 critical 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 much 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 the Ukraine's economy. This way it could have an access to markets where its produce is competitive. The EU could certainly support this by allowing Ukraine simultaneously to protect its industry against EU own producers and to 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 the 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 industries of the EU (Reinert 2014). Indeed, to this aim, it would be 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 the 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 a 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 the 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 the 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 the socio-economic 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 authors suggest 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* (see EU-Ukraine... 2014) that has been developed jointly by the Ukrainian Government and the European Commission and the European External Action Service in July 2014. However, the activities should be focused on the further promotion of institutional reforms and the modernization process in 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 the general financial support to Ukraine should be directly linked to the results that have been achieved particularly in this area (Veebel, Kulu and Tartes 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 the Russian-Georgian war in 2008 and the Russian-Ukrainian conflict in 2013-2015. It has relied on the argument of being responsible for the protection of the Russian-speaking population in the neighbouring countries, exploited ethnic conflicts to discourage its neighbours' efforts in their path

to the EU and NATO, supported separatism in these regions, and applied both conventional warfare and non-military tools to destabilize its neighbours.

As the authors see it, success of Russian neo-imperial perspective seems to be related to a high share of Russian-speaking population in the region, to the ethnic homogeneity of the 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.

Against this background, it is rather unlikely that ethnic factors would work in Russia's favour in case of a potential conflict with Belarus or Armenia. However, in the light of Russia's aggressions in Ukraine and in Georgia under the aegis of the protection of the right of Russians living in the neighbouring countries, the potentially most vulnerable region is the Vitebsk district in Belarus.

Secondly, to assess the outcome of a potential confrontation with Belarus or Armenia from the economic point of view, the respective effects of the Russian-Ukrainian conflict were examined. As a result of the ongoing conflict, Ukraine has lost one fifth of its GDP and is functioning only with the support of the international community. This includes humanitarian aid to Ukraine provided by some EU member states and the recent bailout packages by the International Monetary Fund. Compared to the Russian-Georgian war in 2008, the current Ukrainian-Russian conflict has led to significantly low GDP growth rates in Ukraine and the recovery of the Ukraine's economy is much slower than it was in Georgia after the eruption of 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 only for five days. 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 the European values in these societies. From a practical side, the EU should pay attention to the activities that allow these countries to be included in the 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 current Ukrainian-Russian crisis.

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