

# Swords and Sustenance

The Economics of Security in Belarus and Ukraine

Robert Legvold and Celeste A. Wallander, editors

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## The Economics of Security in Belarus and Ukraine

Edited by Robert Legvold and Celeste A. Wallander

American Academy of Arts and Sciences  
Cambridge, Massachusetts

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# Foreword

This book is one in a series of five volumes on security challenges to the international community posed by developments within the vast territory of what was once the Soviet Union. It would take a very long series indeed to explore in detail all of the security relationships among the successor states of the former Soviet Union. The issues selected for further study in this series, we believe, are among the most important. The approach to these issues is a practical one: rather than settle for generalizations driven by broad analytical categories, each book deals with a specific manifestation of a selected problem and studies it from the “ground up.”

This book tackles the problem of how economic factors impinge on the national security policies of the states of this region. The specific case is a comparison of Ukraine with Belarus. Unique as some features of these two countries are, the way that economic considerations shape and complicate their national security agendas applies in crucial respects to virtually all of the post-Soviet states because of their geopolitical environment and legacy as Soviet republics. Their environment means Russia looms large as potential partner or potential threat, while Europe and the United States are potential partners or problems as well. Their legacy of political and economic integration within the Soviet Union created a high level of dependence on Russia and distance from the Western global economy, affecting the costs and benefits of alternative security policies. The intermingling of economic and security factors is further deepened by the fact that these countries remain in the earlier stages of their post-Soviet political and economic transitions, rendering their choice often a matter of national sovereignty and survival.

The previous volume in the series assesses how systematically, ambitiously, and skillfully the major powers have thought about and pursued their vital stakes in Central Asia. It does so by comparing the policies of China, Japan, Russia, Europe, and the United States toward a key country in this crucial region, Kazakhstan. Without pretending that the knowledge generated in a specific case study can be applied perfectly to the policies of the major powers in other parts of the former Soviet



Union, the hope is that the basic insights, made richer by the concrete instance from which they are derived, will serve to deepen our understanding of what roles the major powers are playing in the massive hinterland of Europe and Asia.

The third volume deals directly with the military profile of the key country in the region, Russia. Not much can be said about the broader international significance of security trends within the former Soviet Union without having some sense of what kind of military power Russia is today. Thus, the authors of this volume attempt to draw the many dimensions of Russia's military physiognomy (the evolution of defense policy, the socio-economic condition of the military, Russia's use of force in regional conflicts, and its approach to nuclear weapons) into a single composite picture. The book is intended to provide a broad and basic assessment of how Russia fits into both regional and international contexts as a military actor.

A fourth book considers the complex impact of external and internal forces on the way lesser post-Soviet states are approaching the military component of national security. To get at this tangle of issues, we have selected a particularly vexed and intricate portion of the former Soviet Union—the three states of the Caucasus, Armenia, Azerbaijan, and Georgia. Not only is each undergoing the same painful political and economic transformations faced by the other post-Soviet states, but two of them suffer from violent internal conflicts, and all three are part of the inter-regional tensions to which these give rise. Add to this the involvement of many external players—Russia, the United States, Turkey, and Iran—as well as the influence of oil politics, and the picture grows very complex. This book will then try to explain how this tortured and multi-layered context is affecting the way these three states approach their defense establishment, think about the role of the military in foreign policy, and care (or not) about the management of military relations with their neighbors.

A fifth book, preceding this specific series of four books but sharing the same conception, dealt with what kinds of security issues are overlooked when the complex challenges raised by the larger post-Soviet space are reduced to single dimensions, such as Russia's relationship with the West. The book, *Belarus at the Crossroads*, explored the many ways that a state like Belarus in its external relations considerably complicates European security issues. This was and remains a seriously neglected per-

spective as NATO expands and analytical energies are focused on resolving Russia's relationship with it.

We thank the Carnegie Corporation of New York for its support of the project, which has been carried out under the auspices of the American Academy of Arts and Sciences and its Committee on International Security Studies. Robert Legvold is the intellectual and organizational force behind the entire project. We are grateful for the important work he has done to advance our understanding of the international implications of developments within the post-Soviet space.

Carl Kaysen and John Steinbruner  
Co-Chairs, Committee on International Security Studies  
October 2003



# Acknowledgments

Our work on this volume would have been neither possible nor as rewarding without the support and professional care of a number of institutions and individuals. Most fundamental of these is the Carnegie Corporation, the sponsor of this book and the larger project of which it is a part. At the Carnegie Corporation, Deana Arsenian and David Speedie have been generous, thoughtful, and patient benefactors and counselors. Carl Kaysen, as Chairman of the American Academy's Committee on International Security Studies (CISS), rallied behind the project from the start, and with his usual elegant intelligence helped launch the effort. John Steinbruner, who in the interim became the co-Chair of CISS, gently nudged it forward. Martin Malin, the Committee's Program Director, was a key partner in providing organizational backup for the book and overseeing the practical integration of the work into the larger project. Carolyn Yee played an utterly critical role in coordinating this book and Leigh Nolan helped to guide the process through the final stages of production. Lois Malone did the copy editing with remarkable speed and care. We thank Anthony Baird for organizing our authors' conference in Washington D.C. and Diana Kudayarova for translating Hrihoriy Perepelitsa's chapter from Russian. We would like to thank the Center for Strategic and International Studies for hosting the author's workshop, and Julie Sawyer of the CSIS Russia and Eurasia Program for helping to coordinate the meeting.

As editors, we would like to thank the authors for their contributions to the work as a whole, as well as for their individual chapters. The synergies in their work and discussions made the task of crafting an integrated volume a pleasure and advanced our own thinking on the subject. We are especially grateful to two outside reviewers for their extraordinarily conscientious and constructive suggestions. The degree of detailed comments and the quality of their feedback enabled us to produce a better study, for which we extend our thanks.

## A NOTE ON TRANSLITERATION

It is challenge enough to produce a book in English in which Russian names and places must be consistently and sensibly transliterated from Cyrillic: it challenged the collective editorial wisdom of the project for some days and numerous emails to settle upon a sensible and authentic system for transliterating three distinct but related Slavic languages. For names, we have used Russian forms for Russian names, Belarusian for Belarusian, and Ukrainian for Ukrainian. For place names, we have followed the New York Times manual of style, except for Kyiv and Lviv (instead of Kiev and Lvov, respectively) since they are now familiar in their Ukrainian form.

# Glossary of Acronyms

CEFTA	Central European Free Trade Agreement
CES	Common Economic Space (Belarus, Kazakhstan, Russia, Ukraine)
CIS	Commonwealth of Independent States
CPU	Customs and Payments Union
CST	Collective Security Treaty (1992)
ECO	Economic Cooperation Organization (Iran, Pakistan, Turkey, 1985)
EvrAzES	Eurasian Economic Community
GUUAM	Economic group comprising Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova
NACC	North Atlantic Cooperation Council
NATO	North Atlantic Treaty Organization
NUC	NATO–Ukrainian Commission
PCA	Partnership and Cooperation Agreement
PfP	Partnership for Peace (NATO, 1997)
SES	Single Economic Space (2003)
SCO	Shanghai Cooperation Organization
WEU	Western European Union
WTO	World Trade Organization



## INTRODUCTION

# Economics and Security in the Post-Soviet Space

CELESTE A. WALLANDER AND ROBERT LEGVOLD

It is obvious that security and economics are related. The question that the authors of this volume address is how that linkage affects the foreign policies and relations of Ukraine and Belarus. When the Soviet Union was dissolved on December 8, 1991, by the leaders of the Russian, Ukrainian, and Belarusian Soviet Socialist Republics, no one was prepared for the complex realities of creating newly independent, sovereign countries with all of the functions and institutional capacities required of modern states, including an ability to ensure national security. The extent of these difficulties is illustrated by an experience of one of the editors on her first visit to independent Ukraine in June 1992. Buying a round-trip Aeroflot ticket from Moscow to Kyiv proved easy enough (and buying it in hard currency proved wise, since it guaranteed a seat on the aircraft), but securing a visa, considerably less so. A Russian entry visa did not work for independent Ukraine, and to get a Ukrainian visa in Moscow was impossible for an American, since no one could process travel documents for non-Russians and Russians did not need them. On the somewhat bemused advice of Russian and U.S. officials, she decided to fly to Kyiv, and solve the problem there. The trouble was that the Moscow flight disembarked in the domestic-arrivals section of the airport, where neither immigration nor customs officials were in sight—six months into the existence of the new Ukraine. The effort of the now illegal American traveler to locate an immigration officer produced only puzzled looks and shrugged shoulders. Finally, one of the importuned helpfully pointed out that it was not the American's responsibility to make sure that the Ukrainian state had an immigration process,



that she was already in the country, and that she should carry on with her business and enjoy her time in Kyiv. And so she did.

There is more to the story, however, for, although security *qua* secure borders had not quite caught up with the reality of Ukraine's status as a sovereign independent country, the economic trappings of independence were moving forward. Her Russian rubles were no longer accepted, and she had to exchange dollars for "coupons," the precursor to what eventually would be a new Ukrainian currency. Establishing borders and a national currency are often considered two of the hallmarks of national sovereignty, but both have to be created, and the story indicates which was Kyiv's priority.

The question of the relationship of economics and security is always an important and difficult one, and for none more than the newly independent countries of the former Soviet Union. This is because one of the main tasks during their first ten years as new states has been to establish sovereignty and, for that, a relative independence from Russia, while constructing a closer relationship with Europe and the United States, and all this while also carrying out a fundamental transformation of their political and economic systems. As a result, the foreign policies of both countries have been defined largely in terms of their relationships with powerful actors that have much to say about how independent and sovereign they will be. Choices about security and economic well-being for Belarus and Ukraine have implications for the most fundamental aspects of their statehood.

This is compounded by geopolitical and structural realities inherited from both the Imperial Russian and Soviet periods of their history. Russia is not merely nearby, it is a huge and historical presence in the political and security environment of both countries. Ukraine and Belarus lie between Russia and Europe, which makes them unavoidably a focus of Russian vulnerabilities and opportunities. This is, of course, true for many smaller neighbors of geopolitical giants, but the nature of the structural environment for Ukraine and Belarus is virtually unique, because they were politically part of a Russian and the Soviet empire for hundreds of years, because their modern economies were created and institutionalized as an integral and complementary part of the Russian Federation's, and because for nearly a century they were sharply isolated from natural trading partners in western Europe and the larger international community.

The relationship of economics to security for Belarus and Ukraine, therefore, is at least as good, and perhaps better, as a case study for a key area of international-relations scholarship than the typical empirical focus of most IR scholars on European or American foreign policy. What we

could call in broad terms the study of “the political economy of security” addresses how states choose to pursue security and economic well-being in a world where states need to be powerful to be secure, need to be wealthy to be powerful, but need to be interdependent to be wealthy. This book is an examination of how Belarus and Ukraine are sovereign, independent, interdependent, and dependent, and of the implications of those conditions for their relations with their neighbors and for their national security.

We start with the linkage of economics and security, turning next to key analytical concepts. These general guideposts are then related to the specific cases of Belarus and Ukraine in terms of their historical legacies, post-Soviet challenges, and uneven trajectory from dependence to sovereignty and prosperity. We highlight, as the book does in general, specific issues, such as the energy sector, transnational institutions, and military-industrial integration. And we conclude with some suggestions on how the cases of Belarus and Ukraine might contribute to our understanding of the relationship of economics and security more generally, and what we should expect the foreign policies and relations of those two countries to be over their second post-Soviet decade.

## THE POLITICAL ECONOMY OF NATIONAL SECURITY

At the root of the relationship between economics and security lies the reality that national security requires national power, national power is built upon the productive capability of a country’s economy, and productive capacity derives from economic growth.<sup>1</sup> Leaders cannot choose to pursue security at the expense of wealth, because they are causally related. While at a given moment in time there is a zero-sum trade-off in the decision to allocate resources to defense (guns) vs. consumption and social goods (butter), over the long run an economy that invests only in defense will lose its productive capacity, and thus its ability to produce security. Finding the right balance is a perennial challenge for national policy.<sup>2</sup>

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<sup>1</sup> Jonathan Kirshner, “The Political Economy of Realism,” in Ethan Kapstein and Michael Mastanduno (eds.), *Unipolar Politics: Realism and State Strategies After the Cold War* (Columbia University Press, 1999), pp. 69–102, at p. 71.

<sup>2</sup> Steve Chan, “The Impact of Defense Spending on Economic Performance,” *Orbis*, Summer 1985, vol. 29, pp. 403–34; Bruce Russett, *What Price Vigilance? The Burdens of National Defense* (New Haven: Yale University Press, 1970).

Similarly, at the international level states face a dilemma in the choice between integration and autonomy. In an anarchical international system without a superior authority to settle disputes or provide security, states must provide for their own security. This makes autonomy valuable for security, because autonomy enables states to pursue their own interests and provide for their country's security as they prefer, free from the influence, pressure, or demands of other countries.

Since wealth and power are linked, and since power is a necessary component of security policy, autonomy in the economic sphere reinforces autonomy in the security sphere. Trade and economic integration reduce autonomy in the economic sphere, and create a potential vulnerability to the actions, policies, and demands of other countries, limiting national autonomy in the security sphere as well.

Yet, economic autonomy carries a significant cost. Since Adam Smith's *The Wealth of Nations*, we have known that an economy that is cut off from international trade will not grow as well as one that trades, essentially because economies that are open to trade can specialize in sectors of comparative advantage, producing what they can produce best, and buying what others produce better. Trade, in effect, creates a growing pie of goods and wealth from which all participants benefit. In a world in which states and their leaders cared only about maximizing wealth and economic growth, policy choices would be simple: they would be reduced to opening completely to international trade and allowing market forces to direct economic activity to a country's areas of comparative advantage.

International trade, however, by increasing interdependence among nations, reduces economic autonomy, and therefore potentially reduces security autonomy. Just as in the domestic trade-off of guns vs. butter, national leaders must find the right balance of autonomy and integration at the international level in order to provide both security and wealth for their countries.<sup>3</sup> There are three reasons trade and integration reduce autonomy and risk security. First, while the pie may be growing, the surplus may not be equally distributed. Imagine two countries producing all they need autonomously. Each year each country produces \$10 worth of goods, natural gas, and bread. They discover that by specializing through

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<sup>3</sup> Robert Gilpin, "Economic Interdependence and National Security in Historical Perspective," in Klaus Knorr and Frank N. Trager, eds., *Economic Issues and National Security* (University Press of Kansas, 1977), chapter 2.

international trade, Country A can now produce \$15 worth of natural gas, and Country B can produce \$12 worth of bread. Each is able to trade with the other, and because its aggregate production has increased in value, it can consume more, or invest, or buy a third good from a third country. Country B is better off than it was before, even if it is not quite as well off as Country A. In terms of its wealth that does not matter: would you rather have \$12 or \$10, even if your neighbor has \$15?

However, in terms of power, it might matter. Imagine that instead of consuming \$5 more in bread or natural gas, Country A decides to buy \$5 worth of guns with its new economic bounty. Country B can choose to use its new-found wealth to buy guns as well, of course, but it can only buy \$2 worth of guns, unless it chooses to cut back on heat and food. While one could view both Country A and Country B as better off in security terms because they both now have more guns (or defense) than they had before, that is far from certain. Defense forces can be used for aggression and intimidation as well as for defense and security. If Country A and Country B have a benign security relationship—perhaps they are in a security alliance or are not neighbors and cannot use their military forces for aggression against one another—the inequality in their defense assets might not matter. Country A may not be tempted to use (or threaten to use) its superior power to make demands on Country B, and Country B may not mind that they now exist in a 5:2 power relationship.

But if there are contentious security issues between the two, and in particular if they are neighbors with border, territorial, or other geopolitical disputes in their relationship, Country B may find itself in a worse position in the security sphere than it was before it embarked upon free trade. The reason is that while economic growth is an “absolute gain” as long as it is purely an issue of wealth, it can become a “relative gain” when economic growth translates into power.<sup>4</sup> If the gains from trade are always distributed equally among freely trading countries, this might not be much of a problem. But the gains from mutually beneficial trade are almost always unequally distributed, because production capacities and the value of different goods vary across states and across economic sectors. Thus, because there is a fundamental link between wealth and power, countries may prefer not to trade for fear that although they will benefit from trade, other countries will benefit more and use the surplus to invest

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<sup>4</sup> Joanne Gowa, “Bipolarity, Multipolarity, and Free Trade,” *American Political Science Review*, vol. 83, no. 4 (December 1989), pp. 1245–56.

in military capabilities that can be used to threaten, coerce, or even attack. Trade and integration can have a negative effect on security because they provide power to potentially threatening neighbors or competitors.

The second reason why trade can reduce autonomy and have negative effects on security is that the gains from trade derive from specialization. Specialization is not a problem as long as states have guaranteed access to the entire range of goods required for national well-being and security. It does not matter that you do not produce guns as long as you can always buy them using the wealth you have generated by specializing in producing butter. In a true market, you would always be able to buy anything you required, as long as you could pay for the desired goods from your own wealth.

The problem arises from the fact that the international economic system is not a true market, because it is simultaneously a political system. The main players in the international system are not firms, motivated only by the profit incentive and therefore willing to sell to any other firm that can pay, but countries. Countries are not motivated solely by profit and wealth, but also by the need for national security. A country may prefer not to sell guns to its neighbors, either because those guns may be turned against itself, or because it has decided to use its guns to press a political or territorial claim against that neighbor and prefers that it be weak and vulnerable. Hence, a state choosing to specialize may risk not having the necessary capacity to provide for its national security in a world of states with potentially conflicting foreign policies. This is a constraint on specializing in trade even with countries that are currently allies or good neighbors, because foreign policies may change quickly, while economic specialization is quite difficult to reverse in a short period of time.

States cannot completely eliminate vulnerabilities due to specialization because the ability to produce goods necessary for security and well-being is affected by natural resources, location, and size. A country without large deposits of coal, natural gas, or oil will not be able to produce energy from national resources (nuclear power can provide national energy in the absence of fossil fuel, although it is expensive and technologically demanding). A small state, without the population or basic resources necessary to provide all the goods and services required for its well-being and security, has little choice but to specialize.<sup>5</sup>

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<sup>5</sup> Peter J. Katzenstein, *Small States in World Markets* (Ithaca: Cornell University Press, 1978).

Within these constraints, however, leaders can choose to devote resources to building autonomous capacity in areas deemed crucial for security. Mercantilism, developed in response to the marketization of European economies in the sixteenth century, was meant to manage the potentially negative security effects of markets, trade, and specialization by providing state support for certain sectors deemed vital to national power and protecting them from competition, for both economic and power reasons.<sup>6</sup> Mercantilism was, in effect, a choice to accept a different set of costs and benefits in the economics-security relationship, foregoing some efficiency gains from trade in order to limit the negative security effects of economic specialization.

The third reason trade can have a negative effect on autonomy and security also arises from interdependence, but more subtly than the vulnerability created by specialization. The flow of imports and exports creates interdependencies, but all interdependencies are not equal. Large states can more easily endure the costs of trade disruptions, and therefore can use them to make demands on smaller trading partners. In his classic study of the use of foreign trade as national power, Albert Hirschman called this the “influence effect” of foreign trade.

...the influence effect of foreign trade derives from the fact that the trade conducted between country A, on the one hand, and countries B, C, D, etc. on the other, is worth something to B, C, D, etc., and that they would, therefore, consent to grant A certain advantages—military, political, economic—in order to retain the possibility of trading with A.<sup>7</sup>

Even a country that produces its own defense assets, therefore, can be vulnerable to the political or security demands of a trading partner if it trades anything of value with another country which, by virtue of its size or by the structure of its trade, is less dependent, and which chooses to use that asymmetric interdependence to coerce or more subtly influence its trading partner’s policy choices.

Furthermore, modern international economic exchange goes beyond simple exports and imports of goods and services. In the modern international economy, production can be spread among several different countries, with some serving as the source of parts that are assembled in

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<sup>6</sup> Gilpin, p. 27.

<sup>7</sup> Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley: University of California Press, 1945), p. 17.

another country. A disruption in such trade entails not only finding an alternative source of goods to import or markets for one's exports, but also a disruption in streams of production and exchange within an affected country.

This modern form of international economic exchange is what we mean by "integration." Integration entails not merely classic trade in imports and exports, but an intermingling of the national economy with the international economy at multiple levels of production and exchange. It involves exchange in services as well as goods, including foreign ownership and investment. As in the simple classic trade model, integration and international openness are desirable because they increase efficiency, productivity, and thus economic wealth. But just as in the classic model, integration creates the potential for reduced autonomy and for negative security effects. Therefore, countries that seek to reduce their vulnerability and maintain autonomy need to be concerned not only about how much they trade and with whom they trade, but also about the quality and nature of trade and foreign ownership in the national economy.

A key hedge against slipping from interdependence to highly asymmetric interdependence or even dependence is diversification in trade and economic partners. Countries that seek the beneficial effects of trade and integration will be less likely to suffer the negative political and security effects of coercion and loss of autonomy, if they are not excessively dependent on a single country. Diversification of economic partners enables a country to resist coercion and influence because the costs of a disruption in trade are less (the proportion of economic activity involved in a political demand is low) and the costs of adjustment are less (it is easier to switch to existing alternative economic partners).<sup>8</sup>

Trade thus has two potential negative effects on autonomy. It creates absolute value by increasing economic productivity, but when that value is distributed it creates a relative gains problem, because wealth can be converted into power resources. Hirschman calls this the "supply effect" of trade. Secondly, trade, through specialization and integration, creates interdependence. Asymmetric interdependence, however, leads toward dependence and vulnerability. Hirschman calls this the "influence effect" of trade.

To some extent, these effects are simply rooted in structural factors over which states have little control, such as natural resource endow-

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<sup>8</sup> Hirschman, p. 26.

ments or location, which can give states advantages as transportation or transit routes. But in addition, the “influence effect” of trade can be created through state policies by fostering asymmetric interdependencies and outright dependencies. Hirschman’s analytical insights were sparked by his empirical observation of Nazi Germany’s trade policies toward its eastern European neighbors, in which trade dependencies were deliberately created and then exploited for political coercion and influence. Those demands can be in the economic as well as security sphere, and involve demands for asymmetrically beneficial trade agreements, customs unions, currency systems, or foreign ownership rules, thereby reinforcing the original asymmetric interdependencies and creating further opportunities for political coercion.<sup>9</sup>

#### ECONOMICS AND SECURITY IN INDEPENDENT BELARUS AND UKRAINE

Belarus and Ukraine exist within their current borders by virtue of their definition as Soviet Republics, not by a long prior history of political independence on the territories they now inhabit. But the roots of the dilemmas created by the need to establish Belarusian and Ukrainian national sovereignty lie deeper in history than Stalin’s nationalities and industrial policies. For centuries Ukraine and Belarus were the borderlands between the kingdoms, empires, and civilizations of eastern Europe and modern Russia. Ukraine a millennium ago was, as Kievan Rus, the cradle of Russian civilization (indeed, the name “Ukraine” means borderland). When later the Russian Empire emerged out of Muscovy, the historical heart of Rus became a subject province. Even then, much of the rest of what is today Ukraine remained part of the Lithuanian-Polish Kingdom and then Poland until the end of the eighteenth century—shortening the period it was under Russian sway by a century and a half. Belarus shares a similar political-territorial history, first ruled by Lithuania and Poland and acquired by the Russian Empire as a result of the division of Poland by Germany, Austria, and Russia in 1796.

This historic complexity is important to keep in mind, because it goes a long way toward explaining the dimensions of the challenges Belarus

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<sup>9</sup> For a systematic study of Russia’s use of economic coercion in its first years of relations with new post-Soviet neighbors, see Daniel W. Drezner, *The Sanctions Paradox: Economic Statecraft and International Relations* (Cambridge: Cambridge University Press, 1999).



and Ukraine confronted from the start of independent statehood in December 1991. The leaders of both countries had to take imperially defined borders and give them sovereign content, distinct from but not hostile to the new post-imperial and post-Soviet Russia. They had to establish the trappings of sovereign independence, such as borders and currencies, for both their practical importance in security and economics and their symbolic importance in forging a national identity and securing the commitment of their publics to the complicated and costly path of transformation away from a socialist past that again had featured Russia.

That the leaders of Belarus and Ukraine took different approaches to these dilemmas and challenges precisely because of their complicated histories as borderlands and imperial provinces is explained in the chapter by Wilson and Rontoyanni. The difference lies essentially in the contrast in their histories as borderlands, notwithstanding the similarities. Belarus was occupied and ruled by different foreign princes, kings, or tsars, but largely as a single entity and by the same foreign ruler at any given time. This means that, in contrast to Ukraine, the Belarusian leadership does not face a society defined by its split between East and West, Hapsburg versus Russian Empire, Catholicism versus Orthodoxy, titular language versus Russian as an imperial *lingua franca*.

For Ukraine, establishing its distinctiveness was much more important and politically charged in its first years of existence than it was for Belarus. Ukraine's historic and ethnic East-West distinction, if not quite a divide, was a potential threat to the very existence of the new country. While Ukrainian independence had roots in a distinctive linguistic and cultural tradition, strongest in western Ukraine, a region absorbed into the Soviet Union only after World War II, eastern Ukraine was no less firmly tied to Russian linguistic and cultural traditions by virtue of its long history in the Russian Empire and its substantial population of Russian speakers. This meant that if the legitimacy of the new country depended on its cultural identity and the democratic expression of the preferences of its citizens, there was a real prospect that the eastern half of Ukraine might secede to join Russia or create a separate Russian Ukraine oriented to the East.<sup>10</sup> Security for Ukraine, therefore, is fundamentally defined by how balanced its relationship is with Russia: it must be separate and sovereign, to meet the desires of Western Ukrainians and

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<sup>10</sup> Alexander J. Motyl, *Dilemmas of Independence: Ukraine after Totalitarianism* (New York: Council on Foreign Relations Press, 1993), pp. 7–8.

to sustain an independent culture and national life, but it must also not base its sovereignty and identity on hostility to Russia or Russians, lest separatism be fueled among Russian-speaking Ukrainians and break the country apart.

Belarus faces no such fundamental dilemma. The tension between defining its nationhood and preserving its national unity simply does not exist. Through centuries of domination from the outside, the emergence of a distinct national identity has proceeded only feebly and fitfully; nor has the idea found a special home in a particular territorial core. As a result, nationalism and a distinct ethnic identity are neither highly politicized nor territorially rooted, so distinctiveness from Russia is neither a politically galvanizing nor politically fraught issue. Belarus' physical security is in principle every bit as much at risk relative to its giant, well-armed Russian neighbor as is Ukraine's (and indeed more so, since its territory and army are smaller), but the fact that this is not the main difference in Belarusian and Ukrainian security tells us something very important about the nature of security relations in the region. Geopolitical and military vulnerability to Russia for countries in the region is simply a given, something to be recognized and managed, but about which there is not a lot to be done in practical terms. Variation in security challenges and how they are managed is determined by political and economic factors, not by a largely unchanging reality of geopolitical vulnerability.

Far more important in defining security relations in the region are the domestic political priorities and make-up of the regimes leading the countries, together with the form and extent of economic relations among them; threats to security are determined not only by geopolitics and military balances, but also by the nature of political relations and intentions regarding one's neighbors. Threats are real, objective, and in important respects structural, but so are they subjective, contingent, and a function of politics and personality. Belarus and Ukraine would face a very benign security environment if large neighbors with the theoretical capacity to do them harm had no intention of doing so, and instead sought common gains such as mutually beneficial trade and regional cooperation for development and prosperity. In the environment of post-Soviet transformation, it was not at all clear that Russia's leadership had embraced such an innocent approach towards its neighbors. What was clear, after Yeltsin had abetted the Soviet Union's astonishing collapse, was that the political, social, and economic forces behind him were not uniformly agreed on putting Russia's imperial past behind them. In particular, disarray in and disagreement among Russian civilian and military

leadership circles increased rather than decreased security threats for Russia's new neighbors.<sup>11</sup> The appearance of the term "near abroad" in early 1992 to distinguish foreign countries from the newly independent countries of the former Soviet Union, which by implication were somehow not truly foreign, was an indicator that accepting these countries as irrevocably sovereign and independent would not be easy or uncontentious.

Thus, in important measure the security challenges facing the two new countries were outside their control, and depended on the outcome of the political struggle within Russia over national priorities. But it was also dependent on their own internal political struggles over their national priorities. The degree to which relations between Belarus and Russia and Ukraine and Russia would be threatening and filled with conflict depended on domestic political priorities within the two countries themselves. This not only varied across the two cases, but over time. Belarus began with a non-problematic security relationship with Russia, one based on the lack of competing or hostile intentions and priorities. With the election of Aleksandr Lukashenko as president in 1994, an already congenial Russian-Belarusian relationship based on an untroubled notion of the security challenge posed by Russia was transformed into a virtually symbiotic relationship in which the security assessments of the two countries converged. Belarusian national security interests came to be defined in terms of the leadership's security interests. This required integration with Russia and an accompanying erosion of national autonomy. In Ukraine, the Kravchuk leadership chose differently. A strong nationalist constituency ensured that autonomy and distinctness would play a greater role in defining policies toward Russia. Yet, at the same time, as became evident after Kuchma's 1994 election—based in large measure on support from Ukraine's eastern population—there were limits to how independent a course Ukraine could or wanted to pursue. Accommodation with Russia also had its own logic and constituency.

As will be evident in the remainder of this book, a key aspect of the relationship between security and economics has been the external dimension of the process of building national constituencies and establishing national priorities—and Russia has dominated the external dimen-

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<sup>11</sup> Sherman Garnett, "Europe's Crossroads: Russia and the West in the New Borderlands," in Michael Mandelbaum, ed., *The New Russian Foreign Policy* (New York: Council on Foreign Relations Press, 1998), p. 67.

sion. This has enormously complicated the process of establishing political institutions and national policies in Belarus and Ukraine. In the political realm, decisions and debates that would normally be viewed as purely internal—education policy, election laws, media freedom—are for them bound up with how the shape of their domestic political terrain affects, or at least is perceived as affecting, Russia. This would have been the case even if security and economics did not overlap in the many direct ways already noted. As a consequence, the linkage between economics and security for Belarus and Ukraine, because of the tight connection between domestic factors and foreign relations, renders developments in the economic sphere virtually indistinguishable from security issues.

Interdependence and integration are increasingly common phenomena in the modern world, where they have come to be catch phrases with little real meaning. For Belarus and Ukraine, they are deeply meaningful and highly problematic. Despite the fact that the Soviet Union was imposed by force and ruled through coercive means, it was nonetheless after seven decades of existence—not to mention centuries as the Russian Empire—a substantially integrated and interdependent space. Its military trained, deployed, and planned for offense and defense across the territory of all fifteen republics, with strategic nuclear forces deployed in four republics, anti-ballistic missile defense systems operational from Skrunda in Latvia to Balkhash in Kazakhstan, and conventional forces and bases in every Soviet republic.<sup>12</sup> The Red Army's most modern and fully staffed divisions were deployed forward in Ukraine and Belarus to defend, not Ukraine and Belarus, but the Soviet Union, and could not, either in purpose, form, or location easily be transformed into the institutional core of their national defense. The military was equipped by a scientific and industrial infrastructure that employed 135 million workers spread across every republic;<sup>13</sup> virtually every enterprise in this complex depended on suppliers—often a single supplier—in another republic.

Moreover, although named for their titular nationality, the republics had over the centuries of Russian Empire and decades of Soviet national-

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<sup>12</sup> Pavel Podvig (ed.), *Russian Strategic Nuclear Forces* (Cambridge, Mass.: MIT Press), chapter 7; Celeste A. Wallander, *Mortal Friends, Best Enemies* (Ithaca: Cornell University Press), chapter 4.

<sup>13</sup> Vitaliy L. Katayev, "MIC: the view from inside," in Vlad. E. Genin, ed., *The Anatomy of Russian Defense Conversion* (Walnut Creek, California: Vega Press, 2001), at p. 58.

ties policy become home to many other ethnic groups present in the Soviet Union: Russians lived in sizeable numbers (above one percent and in key instances between 11 and 38 percent) in every republic; Ukrainians lived in Russia, Kazakhstan, Belarus, Moldova, Latvia, Lithuania, Estonia, Turkmenistan, and Kyrgyzstan; as did Belarusians in most of the same republics.<sup>14</sup> As Igor Burakovsky shows in his chapter, intra-Union economic exchange with other constituent republics of the Soviet Union accounted for at least 80 percent of their exports and imports, with the exception of Russia (given its international exports of energy and raw materials). Globalization may be new to these countries, but integration and interdependence are not, even though theirs was an integration largely political in its origins and distorting in its effects, particularly on their relationship to the broader international economic order.

This meant that both Belarus and Ukraine, at the moment of their existence as independent, sovereign countries, were confronted with managing a comprehensive and deep interdependence with Russia. And because Russia is so much larger—in size, population, military, natural resources, and economic potential—and economically diverse, the nature of the relationship was asymmetrically interdependent (that is, Russia was far less dependent on Belarus and Ukraine than they were on Russia), affording Russia a built-in “influence effect” in its relationships with both countries.

The roots of Belarusian and Ukrainian economic interdependence with Russia were established in the imperial period, reinforced during Soviet industrialization and collectivization, and exacerbated by the economic crisis created by Gorbachev’s failed perestroika and the stresses of post-Soviet transformation. Ukraine’s agricultural bounty was first directed to sustain Russian imperial needs rather than markets in Western Europe, and then harnessed to Soviet political priorities as well through collectivization drives meant to destroy peasant and petit-bourgeois classes as potential opponents to Soviet rule. Because Belarus and Ukraine became modern during the period of Soviet industrialization, their key economic sectors and the institutions established to manage them were deeply integrated with those of other Soviet republics, and entirely cut off from the non-communist world. Because of the Soviet

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<sup>14</sup> Karen Dawisha and Bruce Parrott, *Russia and the New States of Eurasia: The Politics of Upheaval* (Cambridge: Cambridge University Press, 1994), Appendix C.

model of development, which emphasized state planning, production on a massive scale in which industrial goods were produced in coordination with enterprises rather than in smaller-scale, closed-production cycles, Belarus and Ukraine produced many parts of advanced industrial goods but depended on intra-republic trade to produce finished goods. By the end of the Soviet era, the defense industry had accounted for 28 percent of its industrial production;<sup>15</sup> the defense goods produced by Belarus and Ukraine were not only of little use to them once they became independent countries, but they could not easily be sold on international markets, for example, ballistic missiles.<sup>16</sup>

The deep interdependence of their economies with those of other formerly Soviet republics meant that Belarus and Ukraine would “import” economic dislocation, whatever their own choices in the economic-policy field. The Soviet break-up itself caused loss by disrupting trade: Some of the disruption was due to the outbreak of conflicts in several former republics, particularly those in Moldova and Georgia, and between Armenia and Azerbaijan. While the loss of trade caused decline in economic performance, at the same time continuity in trade caused its own problems by fueling inflation and currency crises.

Some post-Soviet republics chose to transform as deeply and quickly as possible in order to reduce their interdependence with and vulnerability to Russia. Estonia, for example, endured severe energy shortages in its first years of independence in order to break free of Russian influence rather than continuing to benefit from subsidized prices. Estonian national priorities and cohesion were such that the economic hardship did not threaten to undermine and destabilize the new country. This was not true for Ukraine, where internal cohesion was more problematic, nor in Belarus, where ties to Russia did not have the same negative cast.<sup>17</sup>

Belarus and Ukraine were vulnerable, not merely due to asymmetric interdependence with Russia, but because any path of post-Soviet economic policy risked economic decline, unemployment, and scarcity, lead-

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<sup>15</sup> Motyl, p. 130.

<sup>16</sup> For an analysis of the shape of the Soviet defense economy and its aftereffects, although one focusing on the Russian case, see Clifford G. Gaddy, *The Price of the Past: Russia's Struggle with the Legacy of a Militarized Economy* (Washington DC: The Brookings Institution, 1996).

<sup>17</sup> The best study exploring and explaining these variations is Rawi Abdelal, *National Purpose in the World Economy: Post-Soviet States in Comparative Perspective* (Ithaca: Cornell University Press, 2001).

ing to regime insecurity and potentially to national insecurity. Asymmetric independence can be reduced through conscious policy, as the Estonian case demonstrates, but it is painful and costly even for the strongest economies in the most stable of times. Belarusian and Ukrainian leaders made their choices during a decade of nearly unprecedented political and economic turmoil.

Nor was the choice of international integration an easy option for either country—it was certainly much less so than their political elites originally assumed. Opening to the international economy promises trade and growth, but it also creates a vulnerability to fluctuations in global economic cycles and to unpredictable trading partners. Furthermore, the terms of integration in the modern economy are very immediately political as well as economic because integration means joining international institutions, which often entails stringent rules impinging on internal economic practices. Membership in the World Trade Organization promises protection against unfair trading practices by other member states, but it also requires internal policy changes that are politically costly and potentially de-stabilizing, such as reducing subsidies to domestic industrial interests. For example, Ukraine, to be eligible to join the WTO, is trying to rework its Soviet-era agricultural system, disrupting the livelihoods of tens of thousands of agricultural workers in the pursuit of potentially greater market-based growth; at the same time it must cut subsidies to the agricultural sector. This is difficult enough for countries with well-developed economic, political, and social systems. Even the well-developed industrialized market economies have experienced very considerable strains from integration. Take, for example, the anti-globalization protests surrounding meetings of the G-8 and the international financial institutions, or U.S. steel interests and the growth of protectionism, or the EU's struggle to deal with bloated agricultural subsidies. The strains are much greater for the new, poor, fragile post-Soviet societies.

This is not to say that the costs are too high, merely that the compressed timeframe and multiple dimensions of change are a very real threat to the stability of these countries. Most countries have had at least decades, if not centuries, to work through the balance of economic change and political stability. Ukraine and in theory Belarus, like their other post-Soviet neighbors, if they are to integrate their economies into a global market and its institutions, must do so while also thoroughly transforming their domestic political and economic makeup. Modifying this or that economic practice or statute—difficult enough for countries with intact economic orders—becomes for Ukraine and, were it to

choose this course, Belarus, a far more portentous challenge, because not just special interests are touched, but whole segments of society. On top of the tension between the imperatives of integration and the perils of transformation comes the need to do everything within short order.

This was the set of constraints that faced Belarus and Ukraine at the beginning of their post-Soviet independent statehood. This volume focuses on how the constraints have affected the choices and policies of the countries' leaderships and societies, and how their choices during the 1990s shaped their opportunities and constraints at the beginning of the twenty-first century. It would be misleading to leave the reader with the impression that the constraints and challenges were so great that economic dependence and security vulnerabilities were immutable. In fact, despite the ongoing asymmetric dependence and unchanged geopolitical framework, both economic relationships and security challenges have evolved a great deal, and despite starting from similar structural positions, today Ukraine and Belarus face very different internal situations, and different relationships with Russia, with the West, and with the global environment. As a result, while security and economics remain linked in both countries' internal and foreign policies, the relationship has taken on new dimensions shaped by the experiences of their first decade of independence.

#### POST-SOVIET ECONOMICS AND SECURITY

In order to address the array of constraints and challenges Belarus and Ukraine have faced in balancing security and economics, the chapters in this volume are structured to look from the inside out, from the outside in, and along particularly salient dimensions of the security-economics relationship for these two countries. From the inside out, Andrew Wilson and Clelia Rontoyanni explain the economic and security priorities that have guided Belarusian and Ukrainian foreign and domestic policy choices over the past ten years. How is it, they ask, that two countries similarly situated, sharing comparable histories, and subject to the same burdens of a Soviet past, nonetheless have followed very different paths since independence, defining threats differently and even more so the economic underpinnings of security? The difference, they answer, derives from the contrasting sense of national identity each has come to have, and that has much to do with the configuration of influence among nationalists, Russophiles, and the shifting middle. In Ukraine neither nationalists nor Russophiles can dictate outcomes and it is left to a non-ideological mid-



dle to settle matters. To explain Ukraine's evolution within the structural constraints of this distribution of sentiment, however, they emphasize the way unyielding realities, both inside and outside the country, have remolded the prejudices and preferences of the different camps. In Belarus the configuration is sharply skewed, leaving the nationalists weak, the Russophiles predominant, and the middle inconsequential. Thus, in unraveling the linkage between economics and security, Wilson and Rontoyanni draw us back to the larger picture of historical legacy, national identity, the character of political elites, and above all the different strategies each regime has followed when facing the challenges of economic and political reform.

From the outside in, Celeste Wallander provides an overview of the relationship between economics and security in Russian foreign policy, and an analysis of how the resultant overall direction of Russian foreign policy has played itself out in the specific cases of Belarus and Ukraine. Unlike Wilson and Rontoyanni (although not inconsistent with their argument), she contends that it is interests—in this case, the economic interests of the state and the business interests of certain leading sectors—that define Russian priorities and the choice of foreign-policy strategies. She argues that while economic reform and growth have been the overall aim of both the Yeltsin and Putin leaderships, specifying interests at a more tangible level of abstraction reveals significant differences between the two periods of Russian foreign policy, and between contrasting effects in Russian relations with Belarus and Ukraine. As a result, Russian policy under the less politically liberal Putin has counter-intuitively become more cooperative with Ukraine and more antagonistic with Belarus, even as it has become more pragmatically and quietly hegemonic in the economic sphere.

Looking outside in from the West, Robert Legvold takes up the challenge of explaining something which, he notes, does not exist: Western policy toward the relationship of economics and security in Belarus and Ukraine. The West, he says, should care about this linkage, because its implications for Europe are more important than is seemingly understood. Legvold suggests the ways Ukraine's and Belarus's inattention and lack of strategic integration of the two dimensions create costs and obstacles for both countries, impede their ability to balance security and economic concerns, and complicate their choices when it comes to integration with the West. Both the United States and Europe were misled rather than energized by their focus on the enormity of the challenge facing Russia in its own economic and security turmoil. Rather than see-

ing engagement and constructive development of security and economic relations with Belarus and Ukraine as part of a strategy for effectively engaging a changing Russia, the West saw the problem in at best piecemeal terms (no time for the little post-Soviet countries, given Russia's demands) or in at worst zero-sum terms (the West cannot risk alienating Russia by engaging its neighbors). Combined with the West's focus on the obstacles to using its main institutional instruments for security and economic cooperation in the case of these post-Soviet countries, Legvold's conclusion is that the opportunity is far from lost, but its main dimensions have shifted. In particular, he notes that Russia's relations with the West in both the economic and security spheres create the potential for leveraging the political choices of the leaderships in Minsk and Kyiv, to create synergies in Western policies toward the region rather than maintaining the old pattern of cycles of inattention and ineffectiveness.

These outside-in perspectives bracket three chapters that look more closely at key interfaces in the linkage of security and economics for Belarus and Ukraine. Energy is one key interface, first for the role it plays in Russia's foreign trade and in its exports to these two countries, but also for qualitative as well as quantitative reasons: Because energy exports must be shipped across Belarus and Ukraine by pipeline to reach Russia's regional and global customers, energy is a geopolitical as well as an economic factor in Belarusian and Ukrainian relations with Russia, and with the West. So, add the politics of pipelines to the over-riding dependency of these two countries on Russia for gas and oil and the leverage they concede to Russia when they cannot pay and debts mount. As Abdelal argues, however, the decisive factor shaping the security-economics interface in Belarusian and Ukrainian energy policies has been each leadership's attitude toward dependence on Russia—whether it is perceived as a security threat to be minimized or an economic advantage to be embraced. Illustrating and expanding upon the insight advanced by Wilson and Rontoyanni in their chapter, Abdelal makes a strong case that the same structural condition of dependence has different meanings for security policy in different post-Soviet states, depending on the priorities and ideas of their leaderships and critical segments of their societies.

There is a striking consistency across issue areas in this finding among the authors in this book. In the second key interface between security and economics, integration in the defense industrial sector, Hrihoriy Perepelitsa makes a compelling case that the basic condition of integration with Russian defense industries that creates dependence and potential vulnerability to Russian pressure had different effects in Belarus and

Ukraine. In Belarus, integration was embraced as a way to encourage continuing production, foreign arms sales, and an enduring Russian interest in the relationship. In Ukraine, which sought an independent defense capacity and an ability to buy and sell in western markets, bondage to the Russian defense industry was a costly constraint and a significant threat to security as defined in terms of autonomy. In the case of both energy and defense production, however, the gap between the desirable and the feasible has had a considerable impact on the actual course of policy. The desirable has to do with the preferences of the Belarusian and Ukrainian leaderships; the feasible, with what the traffic—as determined by circumstance and the policies of others—will bear.

In a third chapter focused on a key interface of economics and security for Belarus and Ukraine, Igor Burakovsky assesses the array of international institutional arrangements on which Belarus and Ukraine might lean. These range from global institutions such as the WTO to post-Soviet regional institutions such as GUUAM (the association among Georgia, Ukraine, Uzbekistan, Armenia, and Moldova). The choice presents both countries with a considerable dilemma: The most useful institutions for reducing and reversing the costs of the Soviet breakup (such as a customs union and especially a common currency zone, both facilitating trade) would also greatly increase political and economic dependence on Russia. Similarly, cooperating with Russia in the security sphere holds out the promise of better managing border security and transnational threats, but it also means closer political and defense relations with Russia. Reaching out to global, international, or European institutions, including not just the IMF and EU but also NATO, would help to improve relations with the West, increase the chance of receiving aid and investment, and provide an alternative path to greater security. But to choose along these lines not only risks Russian disapproval, but requires complying with western rules and standards. Strikingly, Belarusian and Ukrainian institutional preferences have been consistent with their choices on energy and on defense integration, and for much the same reasons as in those cases. Ukraine has sought to minimize its membership and participation in post-Soviet institutions, primarily to maximize its autonomy from Russia in both the economic and security spheres, and has sought to multiply its options by developing relations with western and European institutions. Belarus has embraced institutional membership that deepens its integration with Russia, in the security sphere, as in the Tashkent Treaty, and most strikingly in the economic sphere, in the Russian-Belarusian Union. As in the other areas, realities that have defied earlier

hopes have forced a retreat in both countries' positions. In the past year, the Belarusian leadership has grown more leery of integration as dictated by Russia, and the Ukrainian leadership has grown more open to some level of economic cooperation engineered through the Eurasian Economic Community. But the basic orientation of both remains the same, and for reasons paralleling the explanation for developments in the other dimensions. How they choose reflects the differing way the two leaderships judge the risks and advantages of solving problems of close association with Russia.

This basic finding suggests that the conceptual approaches to security and economics outlined at the beginning of this introductory chapter tend to strongly understate a key factor: The preferences, priorities, interests, and definitions that leaders attach to security and prosperity turn out to be as decisive in shaping foreign-policy choices as the structural realities and constraints encasing them. Structure and history put Belarus and Ukraine in an asymmetrically interdependent and vulnerable position, but the implications of that vulnerability are not certain. What happens depends heavily on internal political, economic, and social choices. In the end, only by studying the particular way that circumstance and political choice interact in each new state of the former Soviet Union can one really understand where and why the economics of security converges and diverges as it does. Beneath the competing influence of structure and agency—between what the environment allows and leaders determine—an enormously ramified set of connections relate economics to security in the Belarusian and Ukrainian cases, at times bringing the two together, more often setting them at odds. Everything is at stake, from the apprehensions surrounding the inflow of direct foreign investment to the economics of military reform, from the security implications of membership in economic institutions to the economic effects of the choice of security organizations, and from the material incentives fostering the trade in arms to the military disincentives heightening tensions over budget options. The chapters that follow set about tracing many of these connections and explaining their implications, without, however, losing sight of the more fundamental interplay at work.



# Security or Prosperity?

## Belarusian and Ukrainian Choices<sup>1</sup>

ANDREW WILSON AND CLELIA RONTYOYANNI

In a decade of independent statehood, Belarus and Ukraine have taken very different paths. Ukraine initially opted for economic autonomy and subsequently for a version of market reform and integration into the global economy. It resisted economic integration and security cooperation in the framework of the CIS, and at the beginning of the new century declared its intention to join the EU and NATO. Ukraine's relations with Russia have been fraught with mutual suspicion and have oscillated between tension and efforts to develop a mutually advantageous partnership. Belarus has not seriously contemplated economic reform, but sought to maintain many features of the Soviet economic system. It has linked its national security, prosperity, and political future almost exclusively with the CIS in general and bilateral integration with Russia in particular.

Belarus and Ukraine share so many of their basic features that these almost opposite trajectories were by no means foreseeable in the immediate wake of independence. Their histories have many parallels—in fact the two shared a common “southern Rus” or “Ruthenian” identity until the seventeenth century. National identity in both countries has tended to pivot on a fulcrum between the rival attractions of “Europe” and the all-Russian/Soviet/East Slavic idea; it can still be understood in terms of these divided pulls, with Russophile and Europhile extremes flanking a middle ground in both states. The relative strength of the three options has varied historically within and between both nations. The Russophile wing is currently stronger in Belarus, while Ukraine is delicately balanced;

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<sup>1</sup> Clelia Rontoyanni wishes to acknowledge the support of the UK Economic and Social Research Council, which enabled the research published in this chapter.

but in neither case is the existing correlation immutable.

Both Ukraine and Belarus are middle-ranking states, facing the end of cold war bipolarity, but lacking the obvious answers provided by the NATO/EU framework, or even post-imperial Russia. Both must plot a course amid a similar triad of main dynamics: relations with the West (NATO, EU, United States); relations with Russia; and the repercussions of Russia's relations with the West. Many would also argue that their base geopolitical (and geoeconomic) positions are similar, which would *a priori* suggest that Belarus and Ukraine should follow similar foreign-policy orientations. In the world-view of Zbigniew Brzezinski, both are part of the Eurasian "rimlands," the potential frontier of "Atlanticist Europe."<sup>2</sup> Samuel Huntington's line dividing the Catholic-Protestant and the Orthodox civilizations cuts across the territories of both Belarus and Ukraine, although Huntington contends that their predominantly Orthodox heritage is likely to prevent their successful integration into Western institutions. According to the inverse view provided by Aleksandr Dugin, the doyen of the currently flourishing Russian school of geopolitics, "these territories, to which Belarus, the central part of Ukraine, Moldova, Romania, Serbia and Bulgaria belong, have an ambivalent geopolitical nature—geographically they belong to the southern sector of Central Europe, but culturally and confessionally to Russia-Eurasia."<sup>3</sup>

Both Ukraine and Belarus face superficially similar post-1991 security contingencies.<sup>4</sup> Both are in the grey zone beyond an expanding NATO and EU, but adjacent to the former metropolitan power. Both face instability in their immediate neighborhood. Economically, Ukraine and Belarus were among the most prosperous republics in the USSR, with a high concentration of relatively technologically advanced industrial capacity. However, their economies were highly dependent on inter-

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<sup>2</sup> Zbigniew Brzezinski, "A Geostrategy for Eurasia," *Foreign Affairs*, vol. 76, no. 5 (September–October 1997), pp. 50–64.

<sup>3</sup> Aleksandr Dugin, *Osnovy geopolitiki: geopoliticheskoe budushchee Rossii* (Moscow: Artogeia, 1997), p. 376.

<sup>4</sup> On Belarus' foreign policy, see Sherman W. Garnett and Robert Legvold (eds.), *Belarus at the Crossroads* (Washington, DC: Carnegie Endowment for International Peace, 1999). For Ukraine, the most recent treatment is Jennifer Moroney, Taras Kuzio, and Mikhail Molchanov (eds.), *Ukrainian Foreign and Security Policy: Theoretical and Comparative Perspectives* (Westport: Praeger, 2002).

republican trade, and on Russia in particular for export markets and raw material and energy supplies.

This chapter examines the reasons why the Belarusian and Ukrainian leaderships have made such different choices since the two countries' emergence as independent states in late 1991, focusing on the linkages between their respective interpretations of national security and their favored economic strategies. The first section contains an overview of the different constituencies in the two states and their different views of the interrelationships between prosperity and security. The second section looks at economic strategies and the third at threat perceptions and security policies. Finally, some tentative conclusions about changing interrelationships are drawn.

#### NATIONAL IDENTITY

Given the similar economic starting points and incentive structures that Belarus and Ukraine originally faced in 1991, our main contention is that it is differences in national identity and the consequent line-up of rival domestic forces that explain the divergent choices the two states have made since independence.<sup>5</sup> Nevertheless, that line-up is itself subject to change, and can be shaped by changes in the external environment. The following sections will examine the mitigating effects of external factors on the respective foreign-policy courses favored by the Ukrainian and Belarusian leaderships.

The main reason for Belarus's consistent alignment with Russia—at least since 1993—has been the relative uniformity of both the Belarusian elite and its electorate.<sup>6</sup> The nationalist constituency is extremely weak. The “nationally conscious” as a political constituency approximately correspond with habitual Belarusophones (i.e. those who prefer Belarusian as

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<sup>5</sup> This argument has already been well made in Rawi Abdelal, *National Purpose in the World Economy: Post-Soviet States in Comparative Perspective* (Ithaca: Cornell University Press, 2001). See also Glenn Chafetz, Michael Spirtas, and Benjamin Frankel, “Introduction: Tracing the Influence of Identity on Foreign Policy,” *Security Studies*, vol. 8, nos. 2/3 (Winter 1998/99–Spring 1999), pp. vii–xxii, and the other essays in the volume.

<sup>6</sup> Cf the analysis of Belarusian elites in Leonid Zaiko (ed.), *Natsional'no-gosudarstvennye interesy Respubliki Belarus* (Minsk: Makaturov Fund, “Strategiia,” 1999), pp. 11–30.



their primary language of communication), who make up around 10 percent of the population.<sup>7</sup> An estimated 45–50 percent are Russophone, and 35–40 percent speak the mixture known as *trasianka*.<sup>8</sup> The predominance of ethnic Belarusians over ethnic Russians in the new state (81 percent in the 1999 census; 78 percent in 1989) has not produced a strong sense of national identity based on a notion of distinctiveness from Russia or mass popular support for a “nation-building” project.<sup>9</sup> The majority preference for the Russian language (in the 1999 census 63 percent gave their first language as Russian; for reasons of perceived status, many *trasianka* speakers can be classed as would-be Russophones) in turn corresponds to stable majority support for the idea of a Russo-Belarusian condominium in an “East Slavic-(post) Soviet civilisation,” which President Lukashenko has elevated to the status of “unofficial state ideology.”<sup>10</sup> The referendum of May 1995, in which overwhelming majorities supported the restoration of Russian as an official language, the continuation of economic integration with Russia, and the reinstatement of Soviet state symbols (83 percent, 82 percent, and 76 percent respectively), illustrated the Belarusian population’s close affinity with Russian (and Soviet) identity. A wealth of survey evidence testifies to the continued salience of the various aspects of the Belarusian public’s attachment to Russia (preference for the Russian language; positive perceptions of Russia and its influence on Belarus; expectations of increased welfare linked to economic integration with Russia).<sup>11</sup>

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<sup>7</sup> A survey commissioned by the U.S. State Department and conducted in July 2000 (sample of 1081) indicated that 12 percent of Belarusians spoke Belarusian at home (53 percent spoke Russian) and only 7 percent spoke it at work (63 percent for Russian). The rest used both languages (31 percent at home; 26 percent at work). U.S. State Department Office of Research, *Opinion Analysis*, M-175-00, October 11, 2000, p.3.

<sup>8</sup> Andrii Dyn’ko, “Bilorusomovni suproty kvaziderzhavy i kvaziburzhuzii,” *Henezha*, special 1999 edition, pp. 56–58, at p. 56.

<sup>9</sup> Compare with Kuzio’s definition of the Ukrainian nation-building project as a set of “policies that seek to mould a national identity different to its neighbours (principally Russia), with its own ‘unique’ history that helps to create a sense of difference.” Taras Kuzio, “Identity and nation-building in Ukraine: Defining the ‘Other’,” *Ethnicities*, vol. 1 (3), 2001, p. 348.

<sup>10</sup> Zaiko (ed.), *Natsional’no-gosudarstvennye interesy Respubliki Belarus’*, p. 81. See also p. 187.

<sup>11</sup> See for example “Novak,” *Belarus and the World* (Minsk: March 2000); U.S. State Department Office of Research, *Opinion Analysis*, M-175-00, October 11, 2000.

Although the nationalist minority is somewhat stronger in the regions bordering Poland (Grodno, Brest), it cannot be said to have any real regional, social, or confessional strongholds comparable to Galicia in west Ukraine. Students and some intelligentsia in Minsk and other regional centers form the core nationalist constituency in Belarus. Moreover, unlike Ukraine, the Belarusian elite saw relatively little turnover in the late Soviet period. Nor have divergent business interests emerged after independence, as there has been no large-scale privatization in Belarus.

The pursuit of (re)integration with Russia has therefore been a consistently popular project, and the foreign policy priorities of both Viacheslav Kebich (Prime Minister between 1991 and 1994) and Aleksandr Lukashenko (first President of Belarus, 1994 to date) have provided a major source of public support. Public opinion research, however, indicates that Belarusians are increasingly appreciative of independent statehood and unwilling to support forms of integration that they think would place it under threat. The vast majority of Belarusians are against Belarus simply becoming part of the Russian Federation. Most Belarusians favor federal or confederal institutional models for integration with Russia.<sup>12</sup> At the same time, there appears to be some confusion as to the compatibility of state sovereignty with membership in a new federation or confederation, to which Lukashenko has often referred as the political end-point of bilateral integration. Similarly, a lack of adequate information seems to account for the Belarusian public's simultaneous support for the idea of membership in the European Union and integration with Russia.<sup>13</sup>

The narrow appeal of the nationalist constituency in Belarus has meant that elite—let alone popular—support for following the Baltic “fast track” away from Russian influence has been negligible. Since Lukashenko's forced reform of the Belarusian parliament in 1996, nationalist forces have been marginalized in Belarusian politics and their criticisms have had barely any impact on official policy. All opposition

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<sup>12</sup> Only 5 percent were in favor of Belarus being incorporated into the Russian Federation, according to repeated national surveys carried out by the independent institute “Novak.” *Belarus and the World*, March 2000; *Public Opinion Monitoring*, January 30–February 5, 2002.

<sup>13</sup> *Ibid.*; and Independent Institute for Socio-Economic and Political Studies (IISEPS), *IISEPS News*, December 2000, p. 82; *IISEPS News*, December 2001, p. 35.

forces (and less openly, many state officials), however, are critical of the Lukashenko administration's focus on political aspects of integration and of the almost exclusive alignment with Russia at the expense of relations with the West.<sup>14</sup> An anti-Russian Belarus exclusively oriented to the West is not a current possibility, but other aspects of current Belarusian policy cannot be attributed merely to the constraints of Belarusian national identity (or lack thereof). As the last section of this chapter will show, Lukashenko's phobic anti-Westernism and international isolation (due to his domestic behavior) are an additional factor. Perhaps more importantly, the Belarusian president's acute preoccupation with preserving his personal power—arguably over and above all other economic and national-security considerations—has led Belarus to engage in what appears to be erratic or even capricious behavior with regard to the declared objective of further integration with Russia.

Ukrainian society is much more diverse, and the balance between the various options more even than in Belarus. All Ukrainian leaders have had to compromise. The first president, Leonid Kravchuk (1991–1994), was not free to favor autonomy from Russia over economic advantage. His successor, Leonid Kuchma (1994 to date), has had to frame the advantages of engagement with Russia in a way that does not threaten potential welfare gains from the EU.

The nationalist constituency in Ukraine is stronger than in Belarus (about 25–30 percent of the population, largely Ukrainians from the former Habsburg territories and Ukrainophones in central Ukraine), but it is again a minority.<sup>15</sup> As well as a much larger ethnic Russian presence (22 percent of the population in 1989, down to 17 percent in the 2001 census) concentrated in the east and south, Ukraine has a huge number of Russophone Ukrainians (25–30 percent) and/or those speaking the Ukrainian equivalent of *trasianka*, known as *surzhyk* (again, language is here only being used as an available approximator for identity).<sup>16</sup> Like

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<sup>14</sup> Interviews conducted by Clelia Rontoyanni with Belarusian government officials and key figures of the Belarusian opposition (including Sergey Kalyakin, Anatoliy Lebed'ko, Mikhail Chigir, Stanislav Shushkevich, Ol'ga Abramova), Minsk, April 2002.

<sup>15</sup> See Andrew Wilson, "Elements of a Theory of Ukrainian Ethno-National Identities," *Nations and Nationalism*, vol. 8, no. 1 (January 2002), pp. 31–54.

<sup>16</sup> In a comparative study of survey data from L'viv, Kyiv, and Simferopol, Ian Bremmer found very close correlations between language preference, religious

their Belarusian equivalents, apart from a small isolationist current, Ukrainian nationalists are unambiguously Europhile and Russophobe. As nationalists, their basic principle has been building and defending Ukrainian sovereignty and autonomy—defined as the freedom and capacity to act independently from Russia—but as a minority they have interpreted national security and prosperity through a complex mythology outlined below.

At the opposite end of the political spectrum, there is little support for Russian ethno-nationalism in Ukraine. Opposition to Ukrainian nationalism is better represented by the Soviet nostalgia politics of the Communist Party—still the biggest single party in Ukraine, with 20 percent of the vote in the 2002 elections. The Communists tend to be anti-Western and Russophile, with a world-view still shaped by Soviet stereotypes of American imperialism, according to which “the West doesn’t need a strong Ukraine.”<sup>17</sup> According to this world-view, Western security interests in fact require the dismantling of Soviet economies of scale—and the Soviet “civilization” that spawned them—and ultimately the deindustrialisation of Ukraine and its transformation into a raw-material appendage. “Independent” Ukraine, in their eyes, is therefore not autonomous, because it cannot act independently of the West. Like the Russian Communists, the Ukrainians have recently updated this world-view by adding their own “clash of civilizations” theory to reinforce the alien nature of (mainly Catholic) Europe and add the threat from the Muslim South.

Neither the nationalist nor the communist minority is ever likely to govern alone. In Ukraine therefore, it is the center ground that is key to

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affiliation, and ethnicity, on the one hand, and political attitudes (including foreign policy preferences), on the other. Ian Bremmer, “The Politics of Ethnicity: Russians in the New Ukraine,” *Europe-Asia Studies*, vol. 46, no. 2, 1994, pp. 268–269, 277.

<sup>17</sup> Oleksii Haran’ and Oleksandr Maiboroda, *Ideini zasady liubo rukhu v Ukraïni: chy vidbuvaiets’sia dreif do sotsial-demokratii?* (Kyiv: University of the Kyiv-Mohyla Academy, 1999), p. 53. For an analysis of the Communist Party’s foreign-policy thinking, see Andrew Wilson, “The Communist Party of Ukraine: From Soviet Brotherhood to East Slavic Man,” in Jane Leftwich Curry and Joan Barth Urban (eds.), *The Left Transformed: Social Democrats and Neo-Leninists in East-Central Europe, Russia, and Ukraine* (Lanham: Rowman & Littlefield, 2003).

any governing formula, and it is the shifting interests of its non-ideological elites (that is, largely business and bureaucrats; cultural elites, on the other hand, are safely Ukrainophone) that have determined the course of politics under both Kravchuk and Kuchma. This political “center” owes its predominance to the cultural center ground in the mass population, largely made up of Russophones, Sovietised or *surzhyk*-speaking Ukrainians, along with the many local Russians who have been drawn into the same *mélange*. However, this mass center ground is more ambiguous in its loyalties than “*trasiianka*” Belarusians, who in current conditions are safely Russophile. It can be simultaneously Ukrainophile and Russophile/Slavophile. Unlike contemporary Belarus, Ukrainian demographics therefore mean that two types of situational majorities are possible, depending on which way the swing group swings—although its amorphous identity (identities) means that it is easily led.

The centrist elite’s pivotal role in Ukrainian politics has had profound implications for Ukraine’s external relations. National security does not figure prominently in the plans of this group. They have no intrinsic commitment to any version of the national idea. Many simply have no long-term perspective; others would define national security as their own safety from domestic threats. As one representative of this group put it, they are “neither pro-Russian nor pro-Western, but ‘pro-*sebia*’ [for themselves].”<sup>18</sup>

It is only since the former National Bank Governor Viktor Yushchenko served as prime minister in 1999–2001 that a real alternative to Ukraine’s capitalists of this sort has begun to emerge. After his successful economic stewardship, Yushchenko’s center-right “Our Ukraine” coalition topped the polls in the 2002 elections with 23.6 percent of the list vote—almost trebling the support for the main traditional Right party, Rukh (9.4 percent), at the last elections in 1998. The greatest asset of “Our Ukraine” was its remodelled nationalist leadership, whose members have recognized the need to transcend their own minority status and have fewer illusions than the traditional Right about the limited resources that Ukrainian cultural nationalism can bring to the new state. They have recognized that relative economic performance and prospects (in relation to Russia), and relative security perceptions (in the sense of whether Russia

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<sup>18</sup> Ukrainian government adviser and businessman, confidential interview with Clelia Rontoyanni, Kyiv, November 1999.

or Ukraine is the safer place to live) remain crucial to winning the loyalties of the middle ground. Without cooperation with Russia, it will be impossible to build security in stable statehood. They have also accepted that the new Ukrainian business elite must be encouraged to prioritize economic activity in the domestic market, as with former gas trader and Deputy Prime Minister Yuliia Tymoshenko, whose eponymous coalition won 7.3 percent of the vote in 2002. "Our Ukraine" therefore also included a broad range of business people whose interests are primarily in the local market. For some, the coalition was actually too broad, and several "sponsors" defected from its ranks immediately after free-riding into parliament. The new pragmatists grouped around Yushchenko recognize that the biggest threats to Ukrainian security are internal. Russian capital is as welcome a balm as any other investment, and in fact a more likely source of the sums that Ukraine desperately needs—and Yushchenko proved friendly to Russian capital in office. The more optimistic pragmatists would proffer that intertwining business interests serve as a potent guarantee of friendly political relations.

The tension between traditional Russophobic Ukrainian nationalism and this kind of open-door pragmatism may, of course, turn out to be a potential fissure in Yushchenko's electoral coalition as he seeks to win the presidency in a likely contest with the establishment's chosen candidate in 2004. Building a broad center-right coalition, expanding out of the traditional regional and social heartlands of Ukrainian nationalism, was his main achievement in the 2002 elections. Holding the coalition together will be an even bigger achievement.

#### ECONOMIC CHOICES AND FOREIGN POLICY

As constituent republics of the Soviet Union, Belarus and Ukraine for the most part lacked effective government structures, which had to be established essentially from scratch. They also lacked the necessary institutions for the implementation of economic policy, such as integrated tax collection authorities, reliable statistical agencies, and—more importantly—elites with a sound understanding of market economics. At first, both Belarus and Ukraine continued to share a currency with Russia and other Soviet successor states. Their first steps in economic policy were therefore a response to Russia's introduction of economic reforms, particularly price liberalization in January 1992. Both introduced ersatz currencies

initially in parallel circulation with the ruble; but only as a passive measure to cover wages, protect domestic consumers, and preserve price controls on staple products. Already during the first year of independence, both countries were estimated to have lost up to 20 percent of their trade with other Soviet successor states. Essential supply chains were disrupted, leading to sharp GDP decline (see Table 1.1).

**TABLE 1.1**

GDP Growth in Belarus and Ukraine ( percent)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Belarus	-9.6	-7.6	12.6	10.4	2.8	11.4	8.4	3.4	5.8	2.5
Ukraine	-9.9	-14.2	-22.9	-12.2	-10.0	-3.0	-1.9	-0.2	5.8	7.0

**Source:** European Bank for Reconstruction and Development, *Transition Report 2001*, p. 59.

### *The Nature of Economic Dependence on Russia*

The implications of Belarusian and Ukrainian economic dependence on Russia were therefore soon apparent. Both economies were heavily export-oriented and import-dependent. Belarus and Ukraine were major exporters of foodstuffs and industrial products to other republics of the Soviet Union. Exports to other Soviet republics made up an estimated 33 percent of GNP in the case of Ukraine and 35 percent in the case of Belarus, Russia being the primary destination in both cases.<sup>19</sup> Due to its high concentration of industrial capacity and lack of its own raw materials, Belarus used to be known as the “assembly shop of the Soviet Union.” It exported textiles, agricultural machinery, transport vehicles, consumer durables, fertilizers, and electronic components. Ukraine was a key supplier of metals, diesel engines, aircraft and other transport equipment, and industrial machinery. Essential imports included oil and gas, paper, and various industrial components, on which the production lines of an estimated 80 percent of Ukrainian enterprises depended.<sup>20</sup>

As well as collapsing trade, both new states were faced with rapid rises in the price of Russian energy (oil, gas, and electricity) from the nominal

<sup>19</sup> Yurii Khromov and Yurii Puzanov, “Ekonomika Ukrainy na nachal’nom etape reform,” in Ye. Kozhokin (ed.), *Ukraina: vektor peremen’* (Moscow: Russian Institute of Strategic Studies, 1994), pp. 8–9; A. Vavilov and O. Vjugin, “Trade Patterns After Integration,” p. 140.

<sup>20</sup> Khromov and Puzanov, “Ekonomika Ukrainy,” p. 9.

levels applicable in Soviet inter-republican exchange. Owing to these subsidies, Belarus and Ukraine had positive trade balances within the Soviet Union.<sup>21</sup> In the late Soviet period, this gave rise to the impression that the two republics were net contributors to the Soviet economy and that they would benefit from autonomy from Moscow's tutelage. As the chapter by Abdelal explains in this volume, this dependence on imported energy, particularly gas, was by far the most serious challenge facing the two new states. Belarusian and Ukrainian industrial capacity was established without any consideration of energy efficiency, for the Soviet Union was rich in energy resources and market principles did not apply to their allocation. As a result, Belarusian and Ukrainian plants are estimated to be nine to twelve times more energy-intensive than their West European counterparts.<sup>22</sup> Belarus has modest oil reserves, which in the early 1990s barely accounted for 10 percent of its oil consumption. Unlike Ukraine, it has no nuclear power plants, natural gas, or significant coal reserves and relies very heavily on gas, all of which comes from Russia. Though in a better position than Belarus, Ukraine still imported more than half of its energy needs.

### *The Responses of National Leaderships*

Belarusian and Ukrainian ruling elites responded to these common problems very differently. Expectations regarding their countries' economic prospects were a key consideration at this stage. Paul D'Anieri has argued that in 1991–1992 Ukrainian elites were prepared to accept a classic Listian trade-off,<sup>23</sup> embracing short-term sacrifices in the name of build-

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<sup>21</sup> Leonid Zlotnikov quotes an inter-republican trade surplus of 3.6 billion rubles for 1991. L. Zlotnikov, "Prichiny ekonomicheskogo krizisa," in L. Zlotnikov and V. Shlyndikov, *Ekonomicheskaya politika: analiz i al'ternativa* (Minsk: Bestprint, 1999), p. 31. According to Goskomstat statistics, Ukraine's trade balance was positive only if calculated in internal (rather than international) prices. A. Vavilov and O. Vjugin, "Trade Patterns After Integration Into the World Economy," in J. Williamson (ed.), *Economic Consequences of Soviet Disintegration* (Washington DC: Institute for International Economics, 1993), pp. 141–42.

<sup>22</sup> Khromov and Puzanov, "Ekonomika Ukrainy"; Zlotnikov, "Prichiny ekonomicheskogo krizisa," p. 23.

<sup>23</sup> Friedrich List (1789–1846) was an advocate of tariff protection and state-sponsored development.



ing true economic and political autonomy.<sup>24</sup> However, insofar as this was ever temporarily true of the Ukrainian elite, it was only because they were borrowing arguments made by the nationalist Right—and the ideological gadflies in the Ukrainian leadership soon shied away from the implications. Economic sacrifice was not so much temporarily endured as wholly unexpected.

The types of arguments linking economy and security that developed in nationalist circles in 1989–1991 were based less on Listian principles than, in the words of a conference held in Kyiv in December 1990, “problems of overcoming economic colonialism in Ukraine.”<sup>25</sup> Unlike in the Baltic republics, calls to make short-term sacrifices in the name of the national interest were heard relatively rarely. Nationalists were more attracted to theories of internal colonialism, in part because of their own intellectual history (the works of the Ukrainian economist of the 1920s, Mykhailo Volobuiev),<sup>26</sup> but also because the exploitation myth was seen as a necessary means of mobilizing a relatively materialist electorate. During the Soviet end-game, nationalist economic analysis claimed to show that output per head of electricity, steel, etc. was close to that of developed countries such as France or the UK, and that Ukraine could therefore achieve the same standard of living once it achieved control over its own production surpluses.<sup>27</sup> More intelligent nationalists were acutely aware of the historical weakness of their core constituency and the consequent need to reach out to the Sovietized/Russophone/mixed-identity population in eastern and southern Ukraine. The myth of Ukraine’s economic exploitation had been crucial in the rapid turnaround from the 29.5 percent who voted “no” in Gorbachev’s referendum on the preservation of the USSR in March 1991 to the 90.3 percent

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<sup>24</sup> Paul D’Anieri, *Economic Interdependence in Ukrainian-Russian Relations* (New York: State University of New York Press, 1999), p. 201.

<sup>25</sup> “Ekonomichnyi neokolonializm na marshi,” *Vyzvolennia* ’91, no. 2, 1991.

<sup>26</sup> L.P. Horkina, *Narysy z istorii politychnoi ekonomii v Ukraini* (Kyiv: Naukova dumka, 1994). Volobuiev argued that the Tsarist authorities treated Ukraine as an economic “colony”; and, more controversially, that the Soviet regime continued to do so through such policies as over-taxation, under-pricing of agricultural goods, and the diversion of potential export surpluses. For the latter view, Volobuiev was purged in the 1930s.

<sup>27</sup> “Ekonomichnyi neokolonializm na marshi,” p. 2; see also Oleksa Didyk, “Dlia nas hotuiut’ nove yarmo,” *Ternystyi shliakh*, nos. 17 and 18 (June) 1991.

who backed independence only nine months later, in December 1991. By this count, the pragmatic “middle ground”—both ethno-linguistically and politically flexible—made up no less than 60 percent of the population. Significantly, there was no such intellectual tradition in Belarus to help underpin the nationalist position.

After independence, the argument continued, a protected national economy would provide a safe haven for expanding the otherwise regionally and socially limited base of Ukrainian cultural nationalism, as would the building of the social infrastructure of a Listian national economy. In the words of Rukh leader Ivan Drach, “the economic subsoil of national interests is the creation of a Ukrainian internal market. We recall how this occurred to Volobuiev in the 1920s. On this level lies the solution to the objective and artificial contradictions between the regions of Ukraine, which were parts of different empires.”<sup>28</sup>

Ukrainian nationalists also revisited the idea of a natural national “economic space” to be found in the works of the geographer Stepan Rudnyts’kyi and the nationalist writer and amateur geographer Yurii Lypa.<sup>29</sup> The idea of Ukraine’s “natural” economy had a dual purpose. First, it helped to reinforce the image of common Ukrainian interests over and above ethno-linguistic and regional differences. Second, it served to reinforce the mythology of prosperity via autonomy. Rudnyts’kyi and Lypa argued that Russian raw material and energy supply imposed unnatural diseconomies of scale on Ukraine, while exporting to Russia cut Ukraine off from geographically more proximate markets with lower transport costs. In short, welfare gains were predicted to accrue fairly rapidly after independence.

Nationalist security arguments were straightforward. At the time of independence, a real and present danger—and the then-universally cited historical precedent of Ukraine’s tragic “defenselessness” in 1917–1920—mandated a strong military posture. This was not possible without a strong national economy. First, the necessary material base and “closed production cycles” must be provided. Second, Ukraine must be extricat-

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<sup>28</sup> Ivan Drach, *Polityka* (Kyiv: Ukraïna, 1997), p. 364.

<sup>29</sup> Stepan Rudnyts’kyi’s main works are reprinted in the collection *Chomu my khochemo samostiinoï Ukraïny* (L’viv: Svit, 1994). Yurii Lypa’s two books on geopolitics are *Rozpodil Rosiï* (L’viv: Academy of Sciences, 1995, original 1941), and *Chornomors’ka doktryna* (Geneva: Ukrainian Naval Institute, 1947).

ed from the type of “politico-economic leverage” scenarios mentioned by Robert Legvold in his chapter for this volume. Nationalists always tended to see the relationship with Russia as dependency (Russia as a stronger state using its political power to enforce economic gains via extraction) rather than as dependence (Russia as a stronger state using economic means to achieve political goals via subsidy).<sup>30</sup> The Ukrainian Left, on the other hand, sees and embraces dependence on Russia as a means of building joint autonomy against the West.

In fact, for many nationalists this chain of reasoning was more or less their only economic argument. Security first, economics second. Some of the proposals put forward in this period were frighteningly crude. This made it easier for the nationalist argument to be hijacked by Ukraine’s industrial elite. In the early 1990s, what were then called “red directors” had little more than post-Gosplan instincts, a desire to shelter themselves from the uncertainties of market reform by maintaining traditional economic ties and an essentially donor-recipient relationship with the state; if that meant a local state, then so be it. The same autonomy that would provide nationalists with security would provide them with rents and credits. The emergence of a proper ideological cover-story for the new Ukrainian business elite can be dated to the first musings about a “Ukrainian path” to reform, a specifically national “third way” that began to emerge in 1995–1996. Listian principles were now seriously distorted. Ukraine’s new “industrial policy” meant either blanket protection, or favors allocated by lobbying strength rather than “infant industry” potential, and a distinct reluctance to let go of traditional administrative levers of control. The “Ukrainian path” now relied on the argument that Ukrainians, lacking an ideological motivation to “return to Europe,” would not be prepared to bear the social costs of the kind of shock therapy introduced in Poland and elsewhere in Central Europe. On the contrary, relatively generous “social defense” was now enshrined in the 1996 constitution to win the support of the materialist center ground; but, with the economy still contracting in 1996–1999, it could not be delivered.

Hence, the “autonomy” project was distorted from the very beginning. During the initial “state-building” era under President Kravchuk,

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<sup>30</sup> Rawi Abdelal and Jonathan Kirshner, “Strategy, Economic Relations, and the Definition of National Interests,” *Security Studies*, vol. 9, nos. 1/2 (Autumn 1999–Winter 2000), pp. 119–56, at p. 122.

Ukraine's first economic program—the March 1992 Yemel'ianov plan—reflected the priorities of the managerial elite. It prioritized the building of a national “economic space” and accepted some severance costs in the pursuit of sovereignty and autonomy; but these costs were of course hugely underestimated, and the plan was never fully implemented. Still, the Ukrainian elite hoped that a strategy based on building political distance from Russia would help bring substantive Western assistance as a dividend for Ukraine's strategic importance and political loyalty. Ukrainian elites also expected to ease their path through a rapid restoration of Ukraine's natural “European” trading posture. The Ukrainian leadership clung to the first belief until the late 1990s, but were rapidly disabused of the latter expectation.

Ukraine redirected much of its export trade away from Russia and the CIS, though this was mostly due to the Ukrainian leadership's failure throughout the 1990s to take initiatives to arrest the decline of its exports to the CIS rather than a conscious decision (let alone a consistent strategy) to replace CIS markets with Western ones. Between 1996 and 2000, exports to the CIS were down by 54 percent; Russia's share decreased from 38 percent of all Ukrainian exports in 1996 to 19 percent in 2000; while exports beyond the CIS were up by 25 percent.<sup>31</sup> This trend began to be reversed as of 2000, largely as a result of renewed economic growth and increased demand for imports in Russia (see Table 1.2). But this did not amount to the major strategic reorientation achieved by the Baltic States—imports from Russia still accounted for 48 percent of Ukraine's total in 2000–2001.<sup>32</sup> Debt to Russia consequently accumulated. Trade volumes were also down (see Table 1.2), with disrupted supply links leading to a spectacular collapse in GDP, down 9.9 percent in 1992, 14.2 percent in 1993, and 2.9 percent in 1994 (see also Table 1.1). This level of decline was wholly unexpected. Furthermore, rather than embracing transition costs, Ukraine sought to offset their effect by taking advantage of hidden Russian subsidies that kept the two

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<sup>31</sup> It is worth noting that the decline in Ukrainian exports to Russia was sharper before the financial crisis of 1998: 37 percent between 1996 and 1997; 18 percent between 1997 and 1998; 23 percent between 1998 and 1999). IMF, *Ukraine: Statistical Appendix*, Country Report No. 01/28, February 2001, p. 45. See also Table 1.2 in this chapter.

<sup>32</sup> *Ibid.*, p. 46.

**TABLE 1.2**

Belarusian and Ukrainian trade with Russia, 1994–2000

	Belarusian trade with Russia (\$ million)				Ukrainian trade with Russia (\$ million)			
	Imports	Exports	Turnover	Balance	Imports	Exports	Turnover	Balance
1994	3103	2094	5197	-1009	6701	4404	11105	-2297
1995	965	2185	5150	-780	7149	6617	13766	-532
1996	522	3024	6546	-498	7547	6294	13841	-1253
1997	673	4780	9453	+107	7240	3982	11222	-3258
1998	670	4608	9278	-52	5560	3267	8827	-2293
1999	767	3222	6987	-545	4792	2528	7320	-2264
2000	557	3715	9272	-1842	5024	3651	8675	-1381
2001	249	3941	9160	-1308	5269	3820	9089	-1449

**Source:** *Rossia v tsifrah* (Moscow: Goskomstat, 2002), p. 367.**Note:** The large share of barter transactions seriously complicates the calculation of the monetary value of bilateral trade.

economies more closely enmeshed than official figures indicate. These took the form of Ukraine free-riding on Russian monetary issue until its exit from the ruble zone (November 1992); subsidized gas imports (to 1996); and several other mechanisms, including non-payment for energy imports and officially tolerated (by the Ukrainian authorities) theft of Russian gas transiting though Ukrainian pipelines.<sup>33</sup>

In the face of a rebellion by east-Ukrainian industrialists in 1993, the intellectual edifice of the nationalist argument collapsed. They had not prepared the ground for a true campaign of Listian sacrifice (even among their own limited constituency), and President Kravchuk was forced to campaign for re-election without real economic arguments in 1994—having in any case conceded in policy terms by accepting “reintegration” strategies from summer 1993 onward. The new president, Leonid Kuchma, went further. His inauguration speech condemned the welfare costs of “self-isolation” and promised a new pragmatism:

<sup>33</sup> The Ukrainian authorities’ tolerance of illicit gas siphoning is indicated by the effectiveness of the Russian government’s moratorium on oil exports to Ukraine (December 1999) in bringing gas theft under control. The problem has very much subsided since the agreements of December 2000 (debt rescheduling; automatic conversion of illicit gas takings into Ukrainian sovereign debt). *Kommersant*, February 8, 2000; *Zerkalo Nedeli*, February 3–9, 2001.

Ukrainian statehood cannot be an end in itself. A state is for the people and not a people for the state.... A state incapable of defending its citizens from spiritual and material impoverishment is worth nothing. The Ukrainian state is not an icon to which one should pray.<sup>34</sup>

A new consensus emerged, embodied in the 1997 National Security Concept, whereby national security and domestic economic welfare were now seen as mutually dependent. Nationalists of the Kravchuk era came to accept most of this, as sovereignty, if not autonomy, was now seemingly secure, so long as (as they saw it) “strategic assets” were ring-fenced from Russian purchase—as agreed by then Prime Minister Yevhen Marchuk. Nationalists edged toward a Faustian bargain with nascent “national capital,” again for claimed security reasons (keeping out their Russian equivalent), despite the welfare losses from domestic re-monopolization and the early watering-down of the October 1994 reform program (the restoration of tax breaks and preferential credit schemes, the proliferation of rent-seeking schemes, and corrupt licensing arrangements).

Something of a policy interregnum was also prolonged by hopes of Western assistance, as IMF funding began after the introduction of the October 1994 reform program, and Ukraine continued to seek political dividends from nuclear disarmament and the closure of Chernobyl. Ultimately a reordering of priorities did emerge in 1998–1999, before the murder of journalist Georgy Gongadze created a scandal that dramatically altered the political landscape in November 2000. First, the reluctance of IFIs to help Ukraine recover from the aftermath of the August 1998 crisis led to the first serious search for alternative sources of revenue.<sup>35</sup> After the 1997 Friendship Treaty (see below) the existential fear of Russia had begun to fade away; among a part of the new business elite it had disappeared completely. Several powerful “clans,” particularly those based in Crimea and the eastern cities of Dnipropetrovsk and the

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<sup>34</sup> Cited in excerpted form in Z. Brzezinski and P. Sullivan (eds.), *Russia and the Commonwealth of Independent States* (Armonk, NY: M.E. Sharpe, 1997), p. 271.

<sup>35</sup> See the argument made by Anders Åslund, “Ukraine’s Return to Economic Growth,” *Post-Soviet Geography and Economics*, vol. 42, no. 5 (July–August 2001), pp. 313–28.

Donbas, began to re-establish closer relations with Russian capital. Initially these groups, fearful that Russian economic penetration might displace them on their home turf, had sided with nationalist politicians in opposing the sale of Ukraine's "strategic enterprises." By early 1999, however, they came to realize that large-scale Western investment and/or financial assistance was no longer a realistic prospect. At the same time, it became clear that Russian capital had come out of the 1998 crash in much better shape than had been predicted, and had begun to consolidate domestically and reorient itself to neighboring markets. To east-Ukrainian elites with no inherent cultural fear of Russia, Russian business conglomerates were now seen as the saviors of enterprises (particularly in the metallurgical, chemical, and oil-processing sectors) which had mostly come out of the first stage of privatization massively indebted, starved of supply and investment capital. If that meant playing second fiddle, so be it.

In their hands, the concept of Ukrainian autonomy has come almost full circle. From a specifically anti-Russian project, it has evolved into a perception that "European norms" (that is, EU legal standards on competition), to which the Kuchma administration has officially committed itself, are a threat to their usual business practices (and to their very sources of power, if for example energy-sector reform were to have proceeded in line with EU recommendations as planned by the Yushchenko government). The penetration of Russian capital, however, leaves existing power relationships within Ukraine essentially unchanged. Any potential geopolitical ramifications emanating from Russian ownership of Ukraine's hard-currency-earning enterprises are of little concern to the pragmatic, non-nationalist elite. As a senior government adviser put it,

We have begun to understand that property and independence are different things. Even strongly nationally oriented politicians have realized that money does not smell, that there is no difference between a dollar coming from the USA and a dollar from Russia, and that the sale of large and important enterprises does not mean automatic loss of independence and sovereignty.<sup>36</sup>

It was only after the Yushchenko government in 1999–2001 that it became clear that the east-Ukrainian business clans did not speak for every business interest in Ukraine. Some accepted Yushchenko's tacit

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<sup>36</sup> Dmytro Vydrin, interview with *Nezavisimaya Gazeta*, November 16, 2000, p. 5.

offer to go legitimate and joined his “Our Ukraine” movement. Important sectoral differences also emerged: those who traded westward (such as aircraft leasing) or who might benefit from better relations with the EU (agricultural exporters) were still reluctant to accept Russian capital, its business practices, and its potential political agenda.

Finally, with Vladimir Putin as first prime minister and then president, Russia began to give greater priority to economic interests in foreign policy in general, and to cracking down on energy non-payment in particular. Oil supplies were suspended in December 1999, forcing Ukraine to improve its payment record and promise to control the siphoning of Russian gas headed across Ukrainian territory to Central Europe.

The new conjuncture led to the beginnings of major asset sales to Russian capital. Again it should be stressed that this was before old-fashioned nationalists like Levko Luk’ianenko accused Kuchma of organizing a “flash sale” of strategically important enterprises to buy Russian support at the height of the Gongadze affair in January 2001. A majority shareholding in the Odessa oil refinery went to Russia’s Lukoil in spring 2000, two-thirds of the Lysychans’kyi refinery to Tiumen Oil in summer 2000, the Mykolaïv aluminium plant to Siberia Aluminium, and its Zaporozhian neighbour to Avtovaz. None other than Marchuk, from October 1999 Secretary of the National Security Council, began to argue in favor of privatizing the most strategic of Ukrainian assets, the gas export pipelines, which have long been eyed by the Russian gas giant Gazprom.<sup>37</sup>

Ukraine’s changed circumstances in 1999–2000 also resulted in a major adjustment of economic and security thinking on the Right. The neo-liberal onslaught on the rent-seeking powers of domestic oligarchs under the Yushchenko government from December 1999 to April 2001 was inconceivable without some basic fiscal leeway, which meant making overtures to Russian—and Ukrainian—capital. Yushchenko was also well aware of the need to broaden his political and electoral base by playing divide and rule among the center “clans” and encouraging potential business “sponsors” onto his list for the 2002 elections.

On the other hand, Yushchenko has made it clear that, while Ukraine is happy to do business with anybody, this should not be at the expense of Ukraine’s strategic orientation toward the EU—which, in parallel with

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<sup>37</sup> Interview with *Nezavisimaya Gazeta*, November 14, 2000, p. 1.



increased Russian penetration, has also become a more direct factor in Ukrainian politics since the late 1990s. After the belated ratification of Ukraine's Partnership and Cooperation Agreement in 1998, there followed two years of argument over whether it was actually being implemented. With the remarkable economic performance and reform progress achieved during Yushchenko's term as prime minister, however, the prospect of upgrading to an Association Agreement began to look somewhat more realistic, and the EU rather than NATO was increasingly viewed by nationalists as a potential counterweight against any strategic turn to Russia. Hence their dismay that economic progress was offset by the damage done to Ukraine's international image by the Gongadze affair, and by earlier disquiet over Kuchma's 1999 re-election campaign and the referendum to increase presidential power in April 2000. In any case, Yushchenko's efforts to reform the Ukrainian economy in line with EU recommendations (particularly through a de-monopolization of the energy sector) clashed with powerful domestic interests, leading to the withdrawal of key centrist factions' support and the dismissal of his government in April 2001.

Moreover, following the 1997 agreements with Russia and Putin's accession to the Russian presidency, Ukrainian public opinion appears to have shifted back toward supporting integration with Russia and Belarus.<sup>38</sup> Opinion remains divided on NATO, although membership in the EU is in general perceived positively, albeit among a rather poorly informed Ukrainian public.<sup>39</sup> Kuchma must also pander to this sentiment by playing up Ukraine's long-term prospects with the EU, trimming his freedom for maneuver in foreign and domestic policy—and adding to the

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<sup>38</sup> Survey data published by the Office of Research, U.S. State Department, *Opinion Analysis*, M-27-02, March 27, 2002, pp. 4–5, indicate that 60 percent of Ukrainians now support integration with Russia (34 percent oppose it), although opposition remains strong in Western Ukraine (62 percent in 2001 compared to 82 percent in 1995). Fear of Russia had also declined (from 21 percent in 1996 to 5 percent in 2001), with the United States being perceived as more of a threat to Ukraine's security (10 percent thought so).

<sup>39</sup> A set of national surveys (n=1800) in January–February 2000 and 2001 and in February–March 2002 conducted by the Sociology Institute of the Ukrainian Academy of Sciences found strong support for EU membership, although the rate dropped to 45 percent in 2002 from 56 percent in 2001 (15 percent disapproved in 2002 compared to 8 percent in 2001). Support for cooperation

divisions within the Ukrainian elite.

For Ukraine, at least initially, re-orienting the national economy away from Russia and the CIS was an objective in its own right. The Belarusian political leadership had no such motivation. Moreover, Belarusian policy-makers were acutely aware of the national economy's near total dependence on Russia.<sup>40</sup> The nationalist Belarusian National Front advocated market reform (albeit with a high degree of protectionism), coupled with policies aimed at reducing economic dependence on Russia and re-orienting the economy toward the West; but held only 9 percent of the seats in the Supreme Soviet in 1990–1995, and, unlike Ukraine, had no tradition of national political economy on which to base its arguments. Its economic strategy therefore found little resonance among the rest of the Belarusian political elite, even among the reformist minority. In 1992, Stanislav Bogdankevich, the reform-minded first chairman of the Belarusian National Bank, wrote:

Belarus, because of its strong dependence on imports of energy and other key raw materials from Russia and other CIS countries, is doomed to a close cooperation with the other countries of the former Soviet Union.<sup>41</sup>

Indeed, to the overwhelming majority of the Belarusian political elite, the costs of an economic strategy aimed at reducing interaction with Russia were immediate, certain, and of such a magnitude as to make such a choice unthinkable. The potential economic rewards of a reorientation toward the West and other economic partners seemed doubtful and would at best become visible only in the medium-to-long term. Even the government of Viacheslav Kebich considered the preservation of a single economic space (including a customs union, single currency, and continuation of Soviet-era subsidies) in the CIS or at least bilaterally with Russia

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with NATO also seems to be declining: 19 percent of respondents were in favor in 2002 compared with 23 percent and 25 percent in 2001 and 2000 respectively. Results available at [www.for.com.ua](http://www.for.com.ua).

<sup>40</sup> Belarus depends on Russia for 83 percent of its oil consumption and for 94 percent of its needs in natural gas. Data from the U.S. Energy Information Administration (EIA), [www.eia.doe.gov](http://www.eia.doe.gov).

<sup>41</sup> Stanislav Bogdankevich, "Belarus," in Williamson, *Economic Consequences of Soviet Disintegration*, p. 352.

as essential to the Belarusian economy. Belarus initiated economic reintegration with Russia as early as 1993 and negotiated the first monetary union agreement in spring 1994, barely six months after the collapse of the ruble zone in November 1993.

Even before Aleksandr Lukashenko's election to the presidency in 1994, no real steps had been taken in the direction of privatization, liberalization, or macroeconomic stabilization. Inefficient enterprises were kept afloat through direct subsidies financed by inflationary currency emission, and price controls applied to a wide range of commodities, energy not the least. President Lukashenko, suspicious of private enterprise and market mechanisms, continued the aforementioned policies, which amounted to avoidance of reform. Indeed, Mario Nuti places Belarus (along with Uzbekistan and Turkmenistan) in the category of "non-starters" in terms of economic reform, suggesting that a process of transition to a market economy has not begun in these countries.<sup>42</sup>

Lukashenko described his policies as a unique "Belarusian model" of social and economic development aimed at the preservation of the perceived positive elements of the Soviet system, such as state ownership of large enterprises, near-full employment and free health care and education. According to IMF data, wages in Belarus tripled in dollar terms between 1994 and 2000, surpassing Ukrainian levels in 1995 and Russian ones in 1999.<sup>43</sup> Public opinion surveys indicate that these policies have played a key part in maintaining the president's high—albeit declining—approval ratings.<sup>44</sup> The real source of this prosperity bubble, however, was less Belarus's unique domestic policy and more its dependence on Russia. Like Kebich, Lukashenko sought to support his social and economic policies through a strategy of (re)integration with and deeper dependence on Russia, which resulted in the major agreements outlined in Table 1.3.

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<sup>42</sup> Mario Nuti, *The Belarusian economy: suspended animation instead of transition*, presentation at the ESRC "One Europe or Several" Workshop, "The Outsiders: Belarus, Moldova and Ukraine between Russia and Europe," London School of Economics, December 15, 2000.

<sup>43</sup> IMF, *Republic of Belarus: Selected Issues*, Country Report no. 02/22, February 2002, p. 20.

<sup>44</sup> See for example U.S. State Department Office of Research, *Opinion Analysis*, M-175-00, October 11, 2000, p. 4; M-32-02, April 5, 2002, pp. 2–3.

**TABLE 1.3**

Belarus-Russian Agreements, 1995–1999

January 1995	Customs union agreement	Restrictions in bilateral trade removed in June 1995; customs union still incomplete
April 1996	Treaty on the formation of a community	Creation of Community institutions; foreign policy co-ordination; harmonization of economic policies still pending
April 1997	Treaty forming a Belarus-Russia union	Concept of Union citizenship; re-iteration of Community treaty provisions
December 1998	Treaty on equal rights of citizens	Russia and Belarus extend rights to employment, residence and access to social services to each other's citizens by mid-1999
December 1999	Treaty establishing a Union state	Reform of common institutions still not complete; detailed provisions for monetary union; Union-state troops established in April 2001

Belarus has obtained substantial economic rewards from this process. As the chapter by Abdelal details, Russian subsidies have taken a variety of forms (debt pardoning and rescheduling; loopholes in the customs union, favorable barter terms, and heavily subsidized energy exports, particularly gas). These have represented a substantial share of Belarusian GDP (according to IMF estimates, around \$1.2 billion annually—or approximately 10 percent of Belarusian GDP).<sup>45</sup> In preparation for monetary (re)union, currently scheduled for 2005, Russia has supplied financial assistance to support the Belarusian currency.<sup>46</sup> Russian support has enabled the Belarusian leadership to maintain relatively generous social policies (such as free education and healthcare and relatively high salaries for public sector employees), delay potentially unpopular reforms, and

<sup>45</sup> This percentage is calculated based on the 2000 GDP figure of \$12,728 million. IMF, *Republic of Belarus: Selected Issues*, Country report no. 02/22, Washington DC, February 19, 2002, pp. 5, 39.

<sup>46</sup> The date of January 1, 2005 for the introduction of the Russian ruble in Belarus was confirmed at the Russia-Belarus summit of January 2003 (Minsk). However, the Belarusian president has refused to introduce the Russian ruble in nominal form by the previously agreed deadline of July 2003 on the grounds of outstanding economic disputes between the two countries.

avoid the dramatic rates of economic decline experienced by Ukraine and Russia itself. Russia's leniency with regard to Belarusian debts has allowed Belarus to do without credits from international financial institutions and commercial banks, which are highly critical of the "Belarusian model."<sup>47</sup> Belarus has posted positive growth rates since 1996 (see Table 1.1), although low investment and a lack of enterprise restructuring threaten the sustainability of this trend.

Unlike the Ukrainian leadership, the Lukashenko administration has been eager to develop trade with Russia, and shows little concern over the risk of increased dependence. In the short term, Russia provides a traditionally welcoming, huge market for Belarusian products, easing pressures on Belarusian producers to increase their international competitiveness and to seek to break into new markets. The president himself has played an active role in brokering trade agreements with most of Russia's regions. Since the customs union agreement of 1995, bilateral trade has grown impressively (even allowing for the unreliability of official statistics)—despite a dip after the 1998 crisis (see Table 1.2). A reduction in the share of non-CIS countries in Belarusian foreign trade suggests that a redirection of trade, rather than genuine trade creation, appears to account for a significant share of this growth.<sup>48</sup>

Belarusian and Ukrainian trade relations with Russia have followed opposite trends, particularly in exports. In 1997, Belarus bypassed Ukraine to become the second-largest exporter to Russia behind the EU. Belarusian exports further benefited from the August 1998 financial crisis, which raised the cost of non-CIS imports, but began to decline in 2001—in many cases, as a result of low quality and uncompetitive prices.

For the Belarusian leadership, the preservation of social and economic stability (and with it, the popular legitimacy of the president) has been the foremost priority. Political alignment and economic integration with Russia have so far provided an effective mechanism for attaining the Lukashenko administration's social and economic policy objectives without embarking on socially painful and politically risky economic reform. Economic dependence on Russia appears to have increased significantly since the mid-1990s. Trade turnover with Russia now represents around

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<sup>47</sup> The exception has been a small Social Infrastructure loan (\$22.6 million) from the World Bank approved in June 2001.

<sup>48</sup> *Republic of Belarus*, IMF Staff Country Report no. 97/111, p. 49.

50 percent of Belarusian GDP,<sup>49</sup> which critics of government policy regard as a matter for concern because of the limited investment and modernization advantages expected from economic interaction with Russia.

Belarusian policy makers saw no conflict between their economic priorities and the country's broader political and security interests, nor did they consider political distance from Russia a necessary element of state sovereignty. Russia was by far the partner of choice of the overwhelming majority of the political elite and public opinion. If economic dependence can be argued to encroach on security only when it prevents a country's leadership from choosing policies that would otherwise have been considered the optimal way of advancing its security, then the Belarusian leadership faced no such dilemma. After a brief flirtation with the idea of neutrality in 1992–1993 (see the following section), the Belarusian leadership opted for a full-blown alliance with Russia as the best strategy for safeguarding national security. Integration in the economic and security fields was considered complementary and—particularly under Lukashenko—mutually reinforcing. For many years, concern over a possible loss of sovereignty or policy-making autonomy had barely affected Belarusian policy makers' enthusiasm for integration with Russia. This began to change only after 2000, when firm Russian demands for Belarusian economic reform became incompatible with President Lukashenko's domestic agenda focused on regime survival. Bilateral integration initiatives were not the result of Russian pressure, but of persistent Belarusian demands. Government officials often compare the objectives of bilateral integration to those of the European Union, pointing out that Belarus remains a fully sovereign state with its own government institutions and diplomatic representation.<sup>50</sup>

President Lukashenko himself, who at one time had his sights on the presidency of a Russian–Belarusian federation, has consistently interpreted both sovereignty and security in terms of welfare. Belarus (in the form of the Belorussian SSR), he has asserted, used to have more sovereignty

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<sup>49</sup> IMF, *Republic of Belarus: Selected Issues*, Country Report no. 02/22, February 2002, p. 8. In 2002, Russia accounted for 58 percent of Belarusian external trade (50 percent of Belarusian exports and 65 percent of imports). IMF, Country Report no. 03/118, April 2003, p. 44.

<sup>50</sup> This is also asserted in Article 6, Treaty on the Creation of a Union State (December 1999), *Byulleten' mezhdunarodnykh dogovorov*, March 2000, p. 56.

within the Soviet Union, not only because it had its own institutions, but because the living standards of the population were higher.<sup>51</sup> To be sure, bilateral integration agreements require Belarus to adopt a series of reforms aimed at convergence with Russian norms and economic conditions, thereby restricting the Belarusian authorities' policy-making autonomy—at least in principle. But in fact, reliance on Russian economic support has for the most part come with rather weak conditions, allowing the Belarusian administration to maintain almost unfettered autonomy in the formulation of domestic policy, and thus functioning as a disincentive for reform. The flow of economic benefits is seen to have *added* to security, in Lukashenko's sense of the term. The Belarusian elite is much less interested than the Ukrainian in *samostoyatel'nost'* (self-reliance); which in many ways is antithetical to dependence, with which the elite is happy. Nevertheless, although the Belarusian ruling elite does not treat state sovereignty as a supreme value in its own right, it has staunchly stood for equal influence with Russia in bilateral institutions and jealously guarded its policy autonomy, particularly in economic matters.

It is only since Putin's coming to power that Belarus has taken certain steps in the direction of reform in line with obligations resulting from bilateral agreements with Russia. Monetary policy came first, with a reduction in rates of inflation and the elimination of multiple exchange rates in autumn 2000, both significant achievements. Price controls and subsidies to enterprises have begun to be progressively eliminated.<sup>52</sup> Following Lukashenko's re-election to the presidency in September 2001 and under strong pressure from the Russian government and Russian business, a program of privatization has been announced covering several major enterprises, including the flagship television manufacturer Gorizont and the Gomel' chemical plant, but so far no majority stake in any large enterprise has been sold. Other major enterprises such as the Mozyr' and Novopolotsk oil refineries and the Krinitsa brewery, whose sale has long been negotiated with leading Russian companies (Tyumen Oil, Lukoil, and Baltika respectively), are yet to issue any equity, testifying to the

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<sup>51</sup> Quoted in V. Karbalevich, "Vneshnaya politika Belarusi: popytki samoopredeleniya," in V. Karbalevich and L. Zaiko (eds.), *Natsional'naya i regional'naya bezopasnost'* (Minsk: "Strategiya," 2001), p. 168.

<sup>52</sup> Details of the reform program are contained in the Belarusian government's *Memorandum of Economic and Financial Policies* of April 13, 2001 to the IMF (available at [www.imf.org](http://www.imf.org)).

Belarusian authorities' acute reluctance to cede control over the economy. Most importantly, at the bilateral summit that took place in Minsk in January 2003, Lukashenko announced that he had signed a decree providing for the capitalization of Beltransgaz, the enterprise controlling the international gas transit pipelines crossing Belarusian territory (the northern section of the Yamal-Europe pipeline). However, in July 2003, Belarus missed yet another deadline for the sale of Beltransgaz to Gazprom.<sup>53</sup>

These belated policy changes have been the result of overwhelming Russian pressure, which pushed Lukashenko into a corner in August 2002, when Putin asked his Belarusian counterpart to choose between incorporation into the Russian Federation (an option that Putin knows is totally unacceptable to the Belarusian public, the elite, and Lukashenko himself) and integration based on the EU "harmonization" model. Despite Belarusian rhetoric in favor of the EU model, the latter choice was almost equally unpalatable for Lukashenko. The Belarusian president has been loath to proceed with economic reform to approximate Russian conditions, and privatization in particular, from fear that reform would undermine state control of the economy and by extension his personal grip on power. At this writing, a conflict between prosperity and security appears finally to have emerged in the mind of the Belarusian leadership, although "security" in this case refers to regime survival rather than national security as such. President Lukashenko's refusal to allow the introduction of the Russian ruble as a nominal currency as of July 2003, despite bilateral agreements with Russia and the positive recommendation of National Bank Chairman Prokopovich, suggests that the Belarusian leader's preoccupation with his own political survival is overshadowing considerations related to the country's economic interests.<sup>54</sup>

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<sup>53</sup> According to the "Program of Actions" attached to the Union state treaty of 1999, ownership of the export pipeline was to have been transferred to Gazprom in 2001. A bilateral gas sector agreement of April 2002, which provided for the supply of 12 billion cubic meters of Russian gas at domestic market prices in 2003, also envisaged the registration of a joint Russian-Belarusian company of Gazprom and Beltransgaz by July 2003. Lukashenko, however, was willing to sell no more than 49 percent (leaving Gazprom without a controlling stake) and demanded at least \$2.5 billion, while Gazprom insisted on at least 50 percent for a maximum price of \$900 million. *Kommersant*, September 17, 2003, p. 1.

<sup>54</sup> Despite preliminary agreements between the Russian and Belarusian governments and central banks to bring the Russian ruble into parallel circulation as



BELARUSIAN AND UKRAINIAN SECURITY POLICIES: AT THE SERVICE OF THE ECONOMY OR AT THE EXPENSE OF THE NATION'S WELFARE?

In defense and foreign policy, both Ukraine and Belarus have gradually achieved a more consistent ordering of prosperity and security, albeit one leading them in very different policy directions. In Ukraine the nationalist emphasis on security at almost any cost stood surprisingly firm in 1992–1997. There was no sharp correction to defense or foreign policy, as there was to economic policy in 1993–1994. The autonomy project committed the Kravchuk administration to the rapid creation of large armed forces at high cost (size and speed also being dictated by the supposed “lessons” of the failed bid for independence in 1917–1920)—largely by taking the short-cut of nationalizing all Soviet armed forces left on its territory in December 1991. Moreover, in sharp contrast to the Belarusian leadership’s very modest international ambitions, the Kravchuk and Kuchma administrations shared a conviction that Ukraine could function as a European power in its own right.

By taking control of Soviet forces stationed on its territory at the end of 1991, Ukraine became the first CIS country to establish its own national armed forces. Ukraine subsequently refused to join the Collective Security Treaty (CST), which was signed by eight CIS countries in May 1992, and opposed all other initiatives for CIS security integration, such as Russia’s bid to conduct peacekeeping operations under CIS auspices. Economic realities soon enforced the inevitable downsizing and abandonment of several strategic delusions (a nuclear Ukraine, an “ocean-going” fleet, hence the almost instant redundancy of the 1993 Military Doctrine), but the basic “nationalization” strategy has remained intact, despite locking Ukraine in to a defense size and posture it cannot afford (one-off benefits of asset capture being soon overshadowed by replacement costs). The rebuilding of domestic security infrastructure under President Kuchma has occurred for reasons entirely unconnected with either foreign policy or economics.

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of July 1, 2003, Lukashenko put the measure off indefinitely. In a letter to President Putin, the Belarusian president has put forward a set of (unrealistic) conditions for the introduction of the Russian ruble in Belarus, including Russian supplies of oil, gas, and electricity to cover all of the Belarusian economy’s needs at Russian domestic prices and compensation for lost VAT revenue since 2000. (In trade with Belarus, Russia applies the origin rather than destination principle in levying VAT.) *Nezavisimaya Gazeta*, September 8, 2003, p. 3.

In the early 1990s, periodic crises with Russia, both real and imagined, regularly reanimated the nationalist case for prioritizing sovereignty and autonomy. Ukraine's new corporate elite initially also valued sovereignty—if not autonomy—as a shield for its economic activities. Tensions with Russia over ownership of the Black Sea Fleet and its basing facilities in Crimea were a constant factor in 1992–1997, as was the questioning by prominent Russian politicians of the “legality” of the 1954 transfer of Crimea from the Russian SFSR to the Ukrainian SSR, including two aggressive resolutions by the Russian parliament in May 1992 and July 1993.<sup>55</sup> Although the Russian leadership (that is, the president and the government) never itself advanced territorial claims against Ukraine (with the exception of reported comments by Yeltsin's press spokesman in August 1991), the absence until 1997 of official recognition of Ukraine's borders helped extend the image of Russia as the principal threat to Ukraine's security beyond nationalist ranks. Political instability and the trend toward growing nationalism in Russia, which the results of the 1993 and 1995 Duma elections appeared to indicate, exacerbated Ukrainian fears.

The nationalist position held firm until 1997, securing several notable victories. The Rada cited national security to reject several Russian proposals to offset Ukraine's debt against the division of the Black Sea Fleet and shares in Ukrainian enterprises, forcing Kravchuk to back-pedal on the September 1993 Massandra agreement and a similar deal in March 1994 which would have swapped Ukrainian debt for Russian equity in Ukraine's pipeline system. In November 1995 the Rada passed a law forbidding the sale of the oil and gas industry.<sup>56</sup> Ukrainian fears began to ebb only after a mutually acceptable compromise on the division and basing arrangements of the Black Sea Fleet was reached in May 1997. Although the Crimean city of Sevastopol remained the principal base of the Russian Black Sea Fleet, Russia recognized Ukrainian sovereignty by concluding a leasing agreement. A few days later the Friendship, Partnership and Cooperation Treaty (also known as “the Big Treaty”) provided

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<sup>55</sup> In 1992 and 1993, the Russian parliament adopted two resolutions declaring the transfer of Crimea to Ukraine in 1954 illegal and Sevastopol to be a subject of the Russian Federation. In 1996, the Duma adopted a resolution denouncing the Belovezh agreements and another on Russian state financing of Sevastopol.

<sup>56</sup> D'Anieri, *Economic Interdependence*, pp. 81–82.

unconditional Russian recognition of Ukraine's sovereign statehood and territorial integrity.

The one apparent exception to this order of priorities (security at the expense of prosperity) was the controversy over the fate of Ukraine's nuclear weapons. Ukraine had signed the Lisbon Protocol of May 1992, thereby agreeing to transfer nuclear weapons left on its territory to Russia. Still, the Kravchuk administration repeatedly called Ukraine's non-nuclear status into question and sought to make weapons transfer conditional upon substantial Western economic assistance and security guarantees, implying that a potential security asset was tradable for hard cash. Conversely, economic incentives from the West were seemingly decisive in securing Ukraine's ratification of the START-I and the NPT in November 1993 and the Trilateral Agreement with Russia and the United States in January 1994, which ended any nuclear delusions.

However, it is still possible to argue that security came first, and that it was the diplomatic isolation with which Ukraine was threatened in late 1993, the potentially fatal damage to Ukraine's quest for international recognition of its sovereignty, and the realization that nuclear stewardship without control was actually a security liability, that proved decisive. This undermined the nationalist argument that nuclear weapons were a potentially decisive addition to Ukraine's diplomatic importance and military might that was well worth paying for. In any case, another part of the nationalist constituency saw nuclear weapons as a cheap short-cut to the large-scale anti-Russian deterrence their view of security required.

In general, however, the high economic costs of maintaining large armed forces have been borne for a surprisingly long time. Even after 1997, military reform as opposed to mere downsizing, and the process of moving away from a Soviet-style structure with mass conscription and a top-heavy command structure to professional armed forces, has yet to properly begin—in Ukraine as in Russia. Ukraine's operational posture remains locked in assumptions of European-theater war rather than rapid and flexible force deployment. The higher echelons of the military have been extremely resistant to change, ensuring that the 2000–2005 State Program of Armed Forces Development and Reform was of very limited ambition.<sup>57</sup> It was only after a stray missile accidentally downed a Russian

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<sup>57</sup> James Sherr, "A Fresh Start for Ukrainian Military Reform?" *Survival*, vol. 43, no. 1 (Spring 2001), pp. 107–26.

commercial airliner over the Black Sea in October 2001, killing all 78 on board, followed within months by the L'viv airshow disaster in July 2002, when a Sukhoi Su-27 fighter jet crashed and killed 83 spectators, that public opinion began to question the wisdom of spending only some 1.3 percent of official GDP (3.3 billion hryvnia, or barely \$600 million in the 2002 budget) on bloated armed forces that were still planned to include 295,000 servicemen in 2005. The initial political response to the L'viv disaster implied that Ukraine would move in both directions—spend more money and begin real reform.

Belarus established its own armed forces in May 1992 (only after Russia did so first), but made it clear that it did not wish to preserve the then massive concentration of Soviet armed forces on Belarusian soil, which Speaker of the Supreme Soviet Stanislav Shushkevich estimated at around 240,000 men.<sup>58</sup> Belarus, like Ukraine, declared military neutrality and non-nuclear status, and originally abstained from the CST on these grounds.<sup>59</sup> Nevertheless, it acceded to the CST in 1993 and quickly engaged in extensive military cooperation with Russia. Shushkevich, who had signed the Belovezh Accords dissolving the USSR on behalf of the Belorussian SSR, was in a minority in arguing that membership in the CST would contradict the country's neutrality. He was critical of the "Eastern orientation" followed by Belarus, which in his view threatened to stifle the development of contacts with the West, and saw neutrality as necessary for the development of Belarus as a sovereign state.<sup>60</sup>

Most of the Belarusian political elite, led by Prime Minister Vyacheslav Kebich, preferred a loose interpretation of neutrality and took a prag-

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<sup>58</sup> Belarusian Defense Minister Pavel Kozlovskiy announced that the country's armed forces would be reduced to less than 110,000. Citations from Jan Zaprudnik, *Belarus: At a Crossroads in History* (Boulder, CO: Westview Press, 1993), pp. 206–207.

<sup>59</sup> References to military neutrality and nuclear-free status were contained in the Ukrainian and Belarusian Declarations of State Sovereignty (adopted July 16 and 27, 1990 respectively). A commitment to neutrality is also contained in the Belarusian, but not in the Ukrainian, constitution.

<sup>60</sup> Address to the Supreme Soviet (April 9, 1993) excerpted in Brzezinski and Sullivan, *Russia and the Commonwealth of Independent States*, pp. 245–46; Article by Shushkevich from *Narodnaya gazeta* (May 13, 1993) cited in V. Karbalevich, "Natsional'no-gosudarstvennye interesy Respubliki Belarus," in Zaiko (ed), *Natsional'no-gosudarstvennye interesy*, p. 67.

matic stance on military cooperation with Russia, being careful to accommodate Russian security interests. Belarus promptly and without controversy returned Soviet strategic nuclear weapons to Russia in line with its international commitments. Belarus concluded a number of military agreements with Russia, initially concerning the preservation of production lines linking the two countries' defense industries and temporary arrangements for the accommodation of Russian troops, which were to be gradually withdrawn. The Belarusian Popular Front opposed special ties with Russia as detrimental to the development of Belarus as a neutral state with a strong sense of national identity, but the Belarusian political elite did not perceive Russia as a threat in any sense. To them, preserving Belarusian national identity meant preserving an open door to Russian influence; and, as mentioned earlier, Belarus was unlikely to lose any positive liberty in foreign and defense policy by making any choices to which Russia would object. With no desire to build armed forces as an independent foreign policy asset, the economic case for free-riding on Russian efforts was overwhelming.

Since his accession to the presidency in 1994, however, Lukashenko has gone beyond the notion of security-as-welfare in shared Russo-Belarusian economies of scale and assumed channels of operation to identify the West as an actual security threat; and has been able to bypass Russian reformists' suggestions that Belarus is a burden on the Russian economy by playing up its allegedly indispensable contribution to Russia's security framed in the same terms. In the period between NATO expansion and September 11, 2001, the Russian ruling elite did indeed come to value Belarus as Russia's only "reliable" strategic ally, particularly at a time when Russian influence in the CIS appeared increasingly precarious. Military integration between the two countries has advanced very rapidly, and apparently smoothly. Under Lukashenko the military dimension of integration with Russia made impressive progress, developing into a full-fledged alliance. Key aspects of military integration include: Russia's rent-free use of two major military facilities (radar installation in Baranovichi and radio location facility in Vileika) since 1995; joint use of other military installations in border regions since 1998; joint exercises and officer training; joint collegial sessions of the Ministries of Defense (since 1998) on a range of areas of common policy formulation, including doctrine, the structure of the armed forces, and procurement; an integrated air-defense system; a regional force bringing together the Belarusian armed forces

with Russian troops serving in neighboring regions (under national commands in peacetime), set up in late 1999; and aspects of internal security (intelligence-sharing between secret services, combating crime and terrorism, and joint patrolling of borders with third countries).

Given Russia's own slow progress in the field of military reform, it is not surprising that the process is only beginning in Belarus. It was only in February 2002 that the Belarusian Ministry of Defense announced a reform program involving a gradual reduction of force levels and steps toward the creation of rapid-reaction capabilities in line with the objectives set for the regional force.<sup>61</sup>

The sustainability of a strategy based on a supposed threat from the West has come under question since September 11, however, as the Putin administration now clearly strives towards meaningful long-term partnerships with both NATO and the EU. Nevertheless, even in this context, Belarus still retains its strategic significance in the eyes of Russian decision makers, this time as a reliable transit route for Russia's trade with Europe and as a vital link with Kaliningrad oblast, which from 2004 will be a Russian enclave surrounded by new EU member states.

The question of relations with NATO has exemplified the divergence between the Ukrainian and Belarusian positions. Ukrainian diplomacy initially took a neutral position on NATO enlargement, recognizing Central European countries' right to make their own choices, but soon came to view it in more positive terms, sensing the greater danger that an incomplete process might turn Ukraine into a buffer state in Russia's shadow. Ukraine was the first CIS country to join NATO's Partnership for Peace (PfP) program in February 1994, and since signing the Charter on a Distinctive Partnership with NATO in July 1997 has developed into the Alliance's most enthusiastic partner in the region. The relationship has reaped substantial practical benefits for the Ukrainian military in terms of prestige and subsidized costs of equipment, exercises, and training at home and abroad. Cooperation with NATO thus contributes to maintaining the combat readiness of the Ukrainian armed forces to a much higher level than would otherwise have been possible.

Before September 11, however, the potential Russian reaction prevented Ukraine from taking its political relationship with NATO any further. After September 11, emboldened by the rapprochement in Russia's

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<sup>61</sup> *Tass News Agency*, February 24, 2002.

relations with NATO and the United States, Ukraine's National Security Council announced in May 2002 its intention to draw up "a long-term strategy, at the end of which Ukraine should join the collective security system on which NATO is based." However, Ukraine was ill-prepared for the sudden change in environment. Even before September 11, Ukraine was experiencing problems as its NATO partners sought to move PfP to another stage, from organizing common exercises to promoting in-service reform.

Ukraine's newly declared aspiration to join NATO has also fuelled speculation regarding the continued presence of the Black Sea Fleet in Crimea. Ukrainian officials insist that there is no reason for Ukraine's relations with NATO to affect the validity of agreements between Ukraine and Russia—or indeed the development of a stable partnership between the two countries.<sup>62</sup> Indeed, Russia has little reason to be concerned about Ukrainian officials' talk of NATO accession, not only because Ukraine has yet to submit a formal application for membership, but also because NATO has grown wary of closer relations with the Kuchma administration, which has been disgraced by the revelation of a series of major scandals, including the Gongadze affair, the revelations of the "Mel'nychenko tapes," and the alleged sale of arms to Iraq. Ukraine's already poor relations with the West took a further turn for the worse in fall 2002. In September, the United States decided the Iraq allegations had real substance, sharply reduced aid and announced a review of "all aspects" of its relations with Ukraine. Ukraine's contribution to the peacekeeping force in Iraq (deployed in August 2003) went some way toward restoring American good will.<sup>63</sup> Nevertheless, Ukraine's internal problems have therefore prevented it taking real advantage of the changed international environment after September 11, and have if anything left it more dependent on Russia.

Belarus, like Russia, acceded to the PfP rather reluctantly (in early 1995) and expressed its opposition to NATO expansion in very strong terms indeed. While the Belarusian position was partly a function of soli-

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<sup>62</sup> Mykola Beloblots'kyi, Ukrainian Ambassador in the Russian Federation, interview with *Nezavisimaya Gazeta*, August 8, 2002, p. 5.

<sup>63</sup> In September 2003, the United States and Ukraine signed a bilateral memorandum according to which \$150 million of U.S. aid will be allocated to assist the Ukrainian government's economic reform program.

clarity with Russia, President Lukashenko went much further than the Russian leadership in his objections to NATO expansion and, later, in his condemnation of NATO's military campaign against Yugoslavia in 1999, and in his rhetoric of Slavic and Orthodox solidarity. In 1999–2001, he increasingly served as a proxy voice for Russian nationalists frustrated by the less strident position adopted by their own leadership. Lukashenko referred to NATO as a threat to the security of Belarus and Russia alike and strongly emphasised the necessity of bilateral military integration in response. Since September 11, 2001, the Belarusian administration has progressively moderated its position and expressed a wish to improve relations with the Alliance—but largely to remain in line with Russian policy.

Lukashenko's anti-NATO bombast, however, was not merely another aspect of his populism. Since 1997, Belarus had found itself economically and diplomatically isolated from the West as a result of a strong international response to the much-criticized referendum of November 1996, which concentrated power in the president's hands at the expense of the legislature. Measures included a U.S. policy of so-called "selective engagement," the suspension of the Partnership and Cooperation Agreement with the EU (concluded in 1994), along with most EU bilateral assistance programs, and the expulsion of Belarusian parliamentary delegations from the OSCE and the Council of Europe.<sup>64</sup> Western criticism subsequently focused on the Belarusian administration's heavy-handed treatment of the opposition and the non-state media, putting Belarus on a black list of countries disregarding civic liberties and human rights. NATO's bombing of Yugoslavia in defense of the human rights of Kosovo's Albanian population and the subsequent toppling of the Milosevic regime alarmed Lukashenko, who interpreted the West's human-rights discourse as a smokescreen for geopolitically motivated attempts forcibly to remove unfriendly leaders. The United States, in particular, did indeed back the opposition's campaign against him in the 2001 elections.

Even though the Belarusian leadership's fears have since subsided, in the absence of a (rather unlikely) bold initiative to restore constructive relations with the West Belarusian options will be severely constrained as

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<sup>64</sup> Belarus had observer status in the Parliamentary Assembly of the Council of Europe.



long as Lukashenko remains in power. The Belarusian President has perhaps irredeemably damaged his reputation in the West by his administration's failure to address international concerns—including those over the fairness of elections.<sup>65</sup> This has in turn increased his reliance on Russia. Ukraine has yet to make a decisive break with Western standards on democracy, but its record on media freedom, civil liberties, and corruption has come under increasingly sharp criticism. The presidential election due in 2004 might help Ukraine clean up its act, or it could push Ukraine further down the Belarusian path to compensating semi-isolation in the West with Russia's rather more indulgent embrace.

## CONCLUSIONS

Ukraine and Belarus started their existence as independent states with different aspirations and expectations for the future. Belarus has been content to remain closely associated with Russia and to use its economic dependence as a means of boosting domestic welfare without incurring the economic and social costs of rapid reform. It has consistently pursued a Russia-oriented strategy in the economic and security spheres alike. It could be argued that the Belarusian leadership (of both Kebich and Lukashenko) subsumed the very idea of security into that of economic advantage, using the military alliance with Russia as a mechanism for extracting further material rewards. Belarusian decision makers did not have a notion of national security requiring any kind of distance from Russia, nor did they aspire to a distinct international role for Belarus (with the possible exception of the brief flirtation with neutrality up to 1993). They have, however, fiercely guarded their actual autonomy in domestic economic policy, the one area where their preferences have diverged from those of Russia. They have also strongly resisted any suggestion that the bilateral integration process might lead to the loss of Belarusian statehood and the country's absorption into the Russian Federation.

Ukrainian policy has been torn by powerful tensions between a drive to strengthen security and independence by reducing Russian influence and a reluctance to accept the economic costs implied by a determined

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<sup>65</sup> According to the OSCE, the EU, and the United States, both the parliamentary elections of October–November 2000 and the presidential election of September 2001 fell short of international standards for free and fair elections.

pursuit of such a choice. Ukraine's lesser degree of economic dependence on Russia (compared to Belarus) and initially greater hopes of prosperity in isolation from Russia were important factors in the Kravchuk administration's contemplation of a strategy aimed at economic and political separation from Russia. The resulting economic costs, already apparent in the first year of independence, forced a policy adjustment in 1993, and the subsequent simultaneous pursuit of autonomy (through a balanced foreign policy) and economic advantage. This balancing act has been the hallmark of the Kuchma period, and has taken the form of efforts to forge close relations with the European Union and NATO with a view to eventual accession—without prejudice to a close partnership with Russia.

Russia-related security concerns lost much of their salience after the Black Sea Fleet agreements and the "Big Treaty" removed uncertainties concerning Russia's acceptance of Ukraine's territorial integrity in 1997. Russian non-interference in disputes between Kyiv and Russophone Crimea also contributed to a decline in Ukrainian fears of Russia. Domestic economic and political developments, particularly the shift in the priorities of the non-ideological business elite, also played a key part in Ukraine's new emphasis on economic cooperation with Russia (including the attraction of Russian investors to Ukraine's main industries) since the late 1990s.

Putin's rapprochement with the West, which acquired special impetus after the tragedy of September 11, 2001, has eroded the sustainability of Belarusian and Ukrainian strategies premised on Russia-NATO (or Russia-U.S.) rivalry. Belarus's poor relations with NATO and the EU are no longer compatible with Russian positions. Some tentative steps made by Belarus toward reconciliation with the West (notably, agreement for the establishment of a new OSCE mission, which became operational in January 2003, albeit with a somewhat less intrusive mandate than the previous mission, which had been effectively ousted in 2002) illustrate the influence of Russian foreign policy. The Belarusian leadership can still count on continued Russian interest and support due to the political salience and long-term economic significance that Russian policymakers attach to Belarus. Belarus, however, will increasingly have to accept limitations on its policy-making autonomy to remain in line with Russian policies, especially in the economic sphere.<sup>66</sup> Non-nationalist reform-

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<sup>66</sup> Despite much speculation that Putin had no interest in Yeltsin's project of integration with Belarus, he has unequivocally affirmed his support for monetary

oriented critics of the Lukashenko administration welcome the imposition of Russian norms as an indirect path to integration with Europe (“to Europe through Russia”).<sup>67</sup>

Putin’s good relations with the West and the de facto isolation of Kuchma since 2000 (strengthened in 2002) have equally made irrelevant Ukrainian nationalists’ preferred strategy of enlisting Western economic and political support by projecting Kyiv as an alternative “geopolitical center” in the CIS. At the same time, the linkage between security considerations and economic dependence on Russia has faded further into the background. If Russia itself is striving to move closer to Europe (through partnerships with both NATO and the EU), as a leading Russian expert put it, “the question becomes who will get there first.” In the Yalta CIS summit of September 2003, Ukraine along with Russia, Belarus, and Kazakhstan signed an agreement to cooperate with a view to forming a “single economic space,” marking the first instance of Ukraine’s participation in a Russia-led integration initiative. As Kuchma explained, Ukraine’s choice had been due to the external environment (that is, the distant prospect of EU accession): “European markets are close to us,” and “it is better to have an egg today than a hen tomorrow.”<sup>68</sup> Ukraine’s current leadership appears intent on balancing the economic and security benefits of a more substantive partnership with Russia with the advantages—in political and economic terms alike—of getting “into Europe” first, a strategy of “in Europe alongside (or regardless of) Russia.”

Over the last decade, Ukraine’s foreign policy course has evolved markedly as a result of changes in the country’s international environment, fluctuations in the influence of different political and economic groups in domestic politics, and reconfigurations of dominant groups’ interests. An initial emphasis on state-building, sovereignty, and security based on autonomy (that is, distance from Russia) was subsequently moderated by harsh economic realities.

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union and the creation of common, albeit federal, state structures. Press conference following a meeting with Aleksandr Lukashenko, *Nezavisimaya Gazeta*, August 14, 2002, p. 1.

<sup>67</sup> Interviews by Clelia Rontoyanni with Belarusian politicians, officials, and policy experts, Minsk, April 2002.

<sup>68</sup> Comment made under Chatham House rules, Wilton Park Conference “Ukraine: Political and Economic Challenges,” October 8–11, 2001.

Belarus, on the other hand, has been remarkably single-minded in its pursuit of integration with Russia. Economic considerations and security perceptions have converged in pointing to Russia as Belarus' foreign partner of choice. Besides, given its history and current economic and political conditions (most notably the absence of business interests autonomous from the political leadership and the effective lack of a multiparty system), Belarus is far less pluralistic than Ukraine—in both domestic priorities and foreign-policy choices. Nationalist political forces, which interpret Belarusian security in terms of resisting Russian influence, have at no point been influential enough to put the Russia-centered orientation into question. Advocates of market reform and good relations with the West have relatively wider appeal, but, since Putin's coming to power, this constituency also appears to consider integration with Russia in a more positive light.

Perhaps the only notable change in the Belarusian leadership's ordering of economic and security considerations has been President Lukashenko's marked reluctance to proceed with certain aspects of economic integration with Russia (particularly privatization and monetary union). Such steps could endanger security in the sense of regime survival. Opening up the national economy to Russian capital, liberalizing the business climate, and giving up monetary emission would erode the state's control over the economy, which has so far enabled President Lukashenko to maintain relatively generous welfare policies, underpinning his popularity among his core constituencies. Moreover, liberalization would foster a new class of Belarusian entrepreneurs likely to seek to advance their own interests in a more pluralistic political landscape.

A similar phenomenon appears to have occurred also in Ukraine after the scandals that discredited President Kuchma and his administration in the West and among liberal-reformist forces (led by former Premier Yushchenko's "Our Ukraine") at home. The West's increasing isolation of President Kuchma since late 2000 has further prompted the Ukrainian leadership to side with domestic economic interests favoring closer relations with Russia. Ukraine continues to assert its EU (and—less unambiguously—NATO) membership aspirations, which are not simply meant to appease the nationalist and reformist constituencies, but also to provide Ukraine with a long-term strategic perspective and give the Ukrainian leadership room for maneuver in the meantime. It is clear, however, that security understood as autonomy (particularly from Russia)

has very much lost its prominence in mainstream public discourse and effectively disappeared from the list of the Ukrainian leadership's key foreign-policy preoccupations. An emphasis on pragmatic, preferably immediate, economic gains has become increasingly evident, usually with reference to improving relations with Russia. Other external factors, notably the unlikelihood of EU accession negotiations in the foreseeable future and the increasingly attractive prospects presented by the growing Russian economy, suggest that this shift in Ukrainian priorities cannot be reduced to the president's own personal calculations.<sup>69</sup> Nevertheless, in the Ukrainian and Belarusian cases alike, domestic political considerations have been the key factor in determining the ordering of security and prosperity when it comes to foreign policy. Public opinion represents a major constraint on the possible choices of the two countries' leaders. In Ukraine, the presence of sizeable nationalist and Russia-oriented constituencies requires any Ukrainian president to steer a middle course, notwithstanding occasional shifts of emphasis. In Belarus, the weakness of the nationalist constituency—among both the elite and the mass public—effectively rules out a Russia-skeptic interpretation of the country's economic and security interests. In both cases, domestic politics can be said to have overshadowed the concept of national security, as regime survival has become the prevalent, perverse interpretation of “national security interests.”

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<sup>69</sup> Speculation surrounding Kuchma's alleged search for a “successor” (meaning a candidate to support in the 2004 presidential election, presumably on the understanding that Kuchma would receive immunity from prosecution) is widespread in the Ukrainian and Russian media.

## CHAPTER 2

# Economics and Security in Russia's Foreign Policy and the Implications for Ukraine and Belarus

CELESTE A. WALLANDER

Economic and security factors in foreign policy are unquestionably intertwined. Wealth is one aspect of power, and power is a factor in security policy. Security priorities may rule out potential trading partners, or lead to less lucrative foreign economic relations. The relationship between security and economics may be unidirectionally causal, mutually interdependent, or a trade-off. Exploring and analyzing the complexities of these potential relationships in the case of Russia's policies toward Belarus and Ukraine is the primary task of this chapter.

This analysis begins with the reasons economics and security are tightly linked in Russian foreign policy. Next the way this linkage worked in the Yeltsin period is explored, and the reason it grew stronger and took a new form under the Putin presidency. The result is a definition of Russian national security that is largely rooted in economic factors. Yet the result of that definition is a foreign policy that, while not reflecting realist expectations on the primacy of power and geopolitics in determining security interests and policy, nevertheless also does not produce a foreign policy of accommodation and integration as expected in liberal theories of foreign policy. Instead, Russian foreign policy in the early twenty-first century is one of a Great Power aspirant, with strong geopolitical influences shaping a core pragmatic strategic goal of economic development, prosperity, and international integration.

The third section looks more closely at the evolution of Russian foreign policy toward Ukraine and Belarus within these parameters. It demonstrates how strikingly Russia's relations with Belarus and Ukraine reflect what might be considered quite disparate influences: narrow sectoral as well as macroeconomic priorities, geopolitics, and liberal interna-

tional economic ambition.

The chapter concludes with an analysis of Russia's security objectives and economic realities and its resultant foreign policy toward Belarus and Ukraine, to assess whether the mix is sustainable: Can Russia successfully advance a foreign policy which depends on substantial economic growth and greater western integration, yet is aimed at Great Power status, including the exercise of greater political influence for security and economic advantage in relations with its neighboring Slavic brothers? I conclude that Russia can do so for the foreseeable future, largely because the methods it uses are compatible with broader processes of integration and interstate relations.

## ECONOMICS AND SECURITY

Economics and security are linked for a simple reason: Wealth is one of the bases of security, and security is one of the bases of wealth. In an anarchic international system, states need to be able to defend and protect their citizens and sovereign territory, which together define the property from which economic activity is generated and on which wealth depends: Security is necessary for wealth. In an anarchic international system in which states must provide their own defense resources, they need to be able to extract resources from their citizens and their economic activity in order to build militaries and other state mechanisms for defense: Wealth is necessary for security.<sup>1</sup> The classic economist trade-off in which states have to decide whether they should devote resources to guns (security) or butter (wealth) is misleadingly simplistic: It is not simply that states need both, they need each in order to obtain the other.

Furthermore, economic interests are tied to political power at the

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<sup>1</sup> The literature on the relationship between economics and security is extensive. For excellent summaries, see Robert Gilpin, "Economic Interdependence and National Security in Historical Perspective," in Klaus Knorr and Frank Trager, (eds.), *Economic Issues and National Security* (Lawrence, Kansas: University of Kansas Press, 1978); Jonathan Kirshner, "Political Economy in Security Studies After the Cold War," *Review of International Political Economy*, vol. 5, no. 1 (1998), pp. 64–91; Michael Mastanduno, "Economics and Security in Statecraft and Scholarship," *International Organization*, vol. 52, no. 4 (1998), pp. 825–54.

domestic level as well. To the extent that political leaders seek economic growth for stability and support, a leadership's policy agenda is shaped by economic interests. Russia's marketizing and privatizing economy means that the country encompasses a large and diverse set of economic interests which are affected in positive and negative ways by the state's economic policy and its institutional make-up. The importance of economic actors in Russian politics is reinforced by the unfinished task of economic reform and the effects that the Putin leadership's choices will have in shaping Russia's economic system for decades to come.

The shape of the leadership's economic policy, in turn, has strong implications for Russia's national security policy, for two reasons. First, Russia's economic strategy suggests that certain sectors will be chosen and relied upon for political support and economic growth. For example, Putin has clearly avoided near-term budget battles by relying upon the government's bonanza of export receipts for oil and gas, giving the government a strong stake in those sectors, and leverage for those sectors in government policy. In addition, Putin has signaled reliance on advanced technology and export-competitive sectors of the defense industry as the engines of growth. Putin leadership figures have declared that a priority of Russian foreign policy will be to open foreign markets to Russian goods and to fight against discriminatory trade practices, particularly in steel and other metals exports.

Second, different sectors of the Russian economy vary on whether they gain or are harmed by reform and exposure to the international market. Sectors that can compete on open international markets—such as oil, gas, metals, and certain defense enterprises—have an interest in internationalization and Russian integration. Certain import-substituting sectors—such as food and beverage processing—which can gain from foreign partnerships and need international investment, are less concerned about trade and more affected by monetary and fiscal policy. Those firms in sectors that may not be able to compete or which may suffer from the effects of Russian economic openness—such as construction, heavy industry, or outdated defense industries—may prefer protection, isolation, and a greater state role in the economy.<sup>2</sup>

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<sup>2</sup> Jeffry Frieden, "Invested Interests: The Politics of National Economic Policies in a World of Global Finance," *International Organization*, vol. 45, number 4 (Autumn 1991).



Therefore, while *a* relationship between economics and security in foreign policy is a given, *the* relationship in a particular country's foreign policy is not. The relationship is a function of geopolitics, the shape of the economy, international economic context, and the form of domestic political economic power. Most of all, it is a function of the political leadership's objectives and strategies. A leadership that has chosen an industrial policy approach to development, for example, will tend to rely on different sectors of the economy (such as defense industries) compared to a more classically liberal hands-off approach. This affects the choice of trading partners, and trade-offs in choosing allies and partners in security policy.

#### RUSSIA'S FOREIGN POLICY: FROM TACTICAL TRANSFORMATION TO STRATEGIC STABILIZATION

Russian foreign policy in the Yeltsin period was a direct product of the style and substance of Russia's immediate post-Soviet domestic political context, which is to say it was as mercurial, non-institutionalized, contradictory, and fundamentally tactical in its objectives as was the domestic political scene.<sup>3</sup> Yeltsin proved himself the right leader to oversee the dismantling of the Soviet empire and the Soviet economic and political system within the Russian Federation. Breaking the Soviet grip on foreign and domestic relations called for radical change. First signing the agreement to dissolve the Soviet Union in December 1991 and next freeing prices in January 1992, Yeltsin and his advisers proved themselves inclined to sweep away oppressive Soviet structures on the shortest possible timetable to prevent consolidation of opposition, rather than a cautious incrementalism that might have been less disruptive but would have risked stalled transformation.<sup>4</sup>

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<sup>3</sup> On the Yeltsin period in domestic and foreign policy, see Lilia Shevtsova, *Yeltsin's Russia: Myths and Reality* (Washington DC: Carnegie Endowment for International Peace, 1999); Dimitri K. Simes, *After the Collapse: Russia Seeks its Place as a Great Power* (New York: Simon and Schuster, 1999); Strobe Talbott, *The Russia Hand: A Memoir of Presidential Diplomacy* (New York: Random House, 2002).

<sup>4</sup> On these priorities in the Yeltsin leadership, see Chrystia Freeland, *Sale of the Century: Russia's Wild Ride from Communism to Capitalism* (New York: Times Books, 2000).

The result in the foreign policy sphere was a focus on aligning the new Russia with Western values, priorities, and institutions. In addition to distancing Russian policy from Soviet precepts and policies, Yeltsin and his Foreign Minister, Andrey Kozyrev, were driven to a Western focus by internal economic realities: The Soviet economy had been spiraling to failure for some years and the radical reforms the Yeltsin leadership sought to advance would cause even greater contraction and domestic dislocation. The Yeltsin-Kozyrev calculation was that western financial assistance and support of western international financial institutions were necessary to remediate the costs and dislocations of their domestic economic deconstruction. In short, a liberal and western-oriented foreign policy was driven by Yeltsin's domestic economic strategy and the undeniable need to find resources to cushion the blow of revolutionary change.<sup>5</sup>

At the same time, Yeltsin's foreign-policy making system was strikingly un-institutionalized and ad hoc, for fundamentally the same reasons. Part of Yeltsin's success as a leader lay in his ability to break the grip of the Soviet Communist Party and Soviet political institutions over Russian life in the first year of the Russian Federation's sovereign international existence. However, the struggle to dismantle political institutions did not itself result in the creation of new institutions for formulating and implementing policy. The result was a foreign policy process that was personalistic, unstable, and at times unprofessional.<sup>6</sup> Yeltsin could agree to any policy he believed would buy him support and resources from the West, but he could not often see that agreement through to concrete policies that would be reliably implemented. Lacking a system for interagency mediation necessary to choose among competing priorities and resist narrow interests, Yeltsin's foreign policies were inconsistent and lacked strategic purpose and direction.<sup>7</sup>

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<sup>5</sup> See interviews with Russian officials and politicians in Celeste A. Wallander, *Mortal Friends, Best Enemies: German-Russian Cooperation after the Cold War* (Ithaca: Cornell University Press, 1999), chap. 3.

<sup>6</sup> Neil Malcolm, Alex Pravda, Roy Allison, Margot Light, *Internal Factors in Russian Foreign Policy* (New York: Oxford University Press, 1996).

<sup>7</sup> Yeltsin's foreign policy system was in a sense akin to the logrolling pathologies that arise from authoritarian personalistic rules, but instead of developing over commitment, Yeltsin's political context produced tactical inconsistency. On personalistic rule and overcommitment, see Jack Snyder, *Myths of Empire: Domestic*

Into this institutional vacuum, other interests and players could assert their interests and create facts on the ground that would become foreign policy in practice. Despite Russia's obligations under the missile technology and control regime, for example, Russian firms contracted to sell banned technology to Iran and India. Despite commitments to recognize the sovereignty and territorial integrity of its new neighbors, Russian military forces intervened in separatist conflicts in Moldova and Georgia. These actions were in sharp contrast to the overall foreign-policy line, which stressed integration into international institutions and Russia's decision to join the West, leaving behind Soviet clients and hegemony over its neighbors.<sup>8</sup>

As the West began to realize that a radically reforming Russia which based its foreign policy on the transforming priorities of its leader brought its own problems, Russia's fractured political and economic system itself created the opportunity for articulating competing priorities and understandings of Russia's national interests. Yeltsin's Atlanticist focus in the conceptualization of Russian security was challenged by statist, Eurasianist, and nationalist conceptions articulated by leading political figures. The conceptual challenges paralleled challenges to the political effects of Yeltsin's early radical economic reforms, including privatization, which had created a new structure of economic interests that were increasingly important to Yeltsin's political power.<sup>9</sup> As criticism grew of the effects of Yeltsin's seeming commitment to radical policies at home and subordination of Russian interests to Western priorities abroad, the Yeltsin leadership pulled back on radical reform and acknowledged that there needed to be more to Russian national interests than IMF loans and programs. Yeltsin replaced Kozyrev as Foreign Minister

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*Politics and International Ambition* (Ithaca: Cornell University Press, 1991), ch. 2.

<sup>8</sup> In effect, Russia's fractured political system and poor implementation of nominal policy led to serious cases of "involuntary defection" from its international commitments. See Deborah Yarsike Ball and Celeste A. Wallander, "Interests, Institutions, and Involuntary Defection: the Effects of Russian Civil-Military Relations on International Security Cooperation," paper presented at the Annual Meetings of the American Political Science Association, Washington DC, 28–31 August 1997.

<sup>9</sup> Celeste A. Wallander, "Wary of the West: Russian Security Doctrine at the Millennium," *Arms Control Today* (March 2000), pp. 7–12.

with Yevgeniy Primakov, an experienced Soviet diplomat who emphasized the importance to Russian security interests of a “multipolar” policy in which Russia would play as a great power, pursuing strong relations with a variety of powerful states, not only the United States, and in which Russia’s security depended far more on its policies toward its new neighbors in the Commonwealth of Independent States than on its degree of western economic integration.

Primakov’s appointment in the run-up to the 1996 presidential election was not a repudiation of Russia’s course toward a market economy, but it was a clear recognition of two new realities of Russia’s situation after the Soviet Union had been dismantled. The first was that a significant price had been paid both in the loss of political stability and support within Russia for Yeltsin’s Atlanticist priorities, and in the neglect of a positive articulation of Russia’s national interests beyond the overarching identification of Russia’s interests in reform. The result was a foreign policy from 1993 through 1996 that wavered between Western and Eurasianist orientations, without any apparent solid basis for policy in an articulation of Russian national interests that would guide a coherent strategy. Compromise with conservative forces had begun with Yeltsin’s appointment of Viktor Chernomyrdin as prime minister at the end of 1992, but Yeltsin continued to retain reformers in his government, and Kozyrev remained foreign minister. It was not until 1996 that Yeltsin’s Atlanticism was truly discarded, without being replaced by a new guiding objective.

Russia needed not only a commitment to reform, it needed a clear assessment of the shape of its geopolitical neighborhood and the shape of its economic potential in order to fill in the details of foreign policy. Even Russian liberals criticized the disarray in Russian foreign policy by the mid-1990s. At the same time, the absence of a stable set of political institutions meant that domestic political power was personalized, leading to the rise of Yeltsin’s immediate entourage or “family” as Russia’s inter-agency mechanism for mediating among competing claims to wealth and power. As the Yeltsin leadership became more and more beholden to wealthy business leaders, it became less able to sustain the responsible policies necessary for realizing the goals of economic growth and development.<sup>10</sup>

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<sup>10</sup> Shevtsova (1999), especially chap. 10.

The second reality was that the choice of a market economy set only the very broadest parameters of Russia's national interests, and created the space for the emergence of new and competing economic interests, each with its own preferences for the types of foreign policies necessary for safeguarding and pursuing its trade and development interests. Even as the Yeltsin government sought approval and resources from the international financial institutions, which required liberalization of Russia's domestic markets and trade policies and (at least in theory) overall macroeconomic stability, individual firms and sectors had their own interests, which quite often led to actions that created problems for the overall strategies. On the domestic side, this resulted in barter, wage arrears, and inflation.<sup>11</sup> On the international scene, it meant arms and technology sales to countries such as China, Iran, India, and Iraq, which raised questions, at least in the United States, on just how serious Yeltsin's reform path really was.

In the end, domestic economic contradictions and political instability, rather than the foreign policy tensions with the West that arose after 1996, proved the Achilles heel of the Yeltsin government. The August 1998 economic crises and an increasingly unstable political situation led to the emergence of the basis for a new political leadership led by Vladimir Putin in fall 1999, a domestic change that was key to a new definition of Russian national interests and foreign-policy strategy.

In summary, under the Yeltsin leadership there was a link between economics and national security in Russian foreign policy: The need for economic change at home coupled with economic weakness made western support and resources a high priority of overall Russian policy. The fact that the overall goal was inconsistently pursued and increasingly masked apparent contradictions in Russian policy (for example, emphasis on NATO as a threat and intervention in neighboring countries) was primarily the result of instability in Russia's foreign-policy institutions. But it was also a result of the international context of the post-cold war international system: An overarching cozy relationship with the West in exchange for its political and financial support of the Yeltsin leadership was inadequate as a foundation for a comprehensive security policy. Russian objectives can be cast in terms of global integration, but an assessment of its policies must take into account its location and neigh-

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<sup>11</sup> David Woodruff, *Money Unmade: Barter and the Fate of Russian Capitalism* (Ithaca: Cornell University Press, 2000).

borhood as a Eurasian power, and the possibilities and constraints of the economy the Soviet legacy dealt it.

Putin's appointment as prime minister in August and acting president in December 1999, followed by his election as president in March 2000, built on certain continuities important for foreign policy, but to a much greater degree it brought the re-conceptualization of Russian national interests and strategy within the context of actual circumstances in late 1999. The primary continuity that Putin inherited upon becoming Russian leader was a growing economy that had emerged from the August 1998 crisis well-positioned to benefit from high international prices for Russian energy exports and from a favorable exchange rate that supported exports and depressed imports, spurring demand for Russian-made products in the domestic economy. Economic growth fueled support for the Putin government's policies to extend stability and control in the political economic system, and produced government surpluses which helped to improve Russia's macroeconomic conditions, further generating an important source of societal support for the government. The new Putin leadership used this period of political support and economic growth to pass new legislation for establishing the institutions and rules of a market economy, as well as reigning in Russia's governors and business oligarchs, who had their own political agendas.<sup>12</sup>

Like it or not (and many liberal Western and Russian democracy and human-rights advocates decidedly do not), the Putin leadership came into power with a clear sense of what it needed to build and consolidate in Russian politics and the economy for stability and growth. That clarity of purpose and strategic focus was evident early in its foreign policy orientation, as well. On the doctrinal level, Putin's government clarified how economic factors shaped Russia's national security interests, and how that relationship would guide Russia's foreign policy. In January 2000, Putin signed into law a new National Security Concept which identified internal sources—primarily terrorism, instability, and polarization—as the primary threats to Russian security, unlike the 1997 Concept, which had specified external threats to Russian security, including Russia's weakened influence in the world, growth of military alliances (a clear reference to NATO), proliferation of weapons of mass destruc-

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<sup>12</sup> For the best account of this process, see Lilia Shevtsova, *Putin's Russia* (Washington DC: Carnegie Endowment for International Peace, 2003).

tion, territorial claims against Russia, and conflicts within the Commonwealth of Independent States.<sup>13</sup>

However, most striking in the 2000 National Security Concept (and supporting statements by Putin and other government leaders) was the identification of Russia's economic weakness and failures as the root of both its internal and external threats. The primary strategy for coping with internal and external weakness was clear: economic growth and development facilitated by state consolidation at home and active entry into the international economy abroad. While the Yeltsin leadership had articulated a general goal of participation in the international economy, that goal was neither well-specified in terms of foreign-policy priorities nor linked to a specific agenda of domestic political and economic goals. The strategy under Putin was different. Beginning with a speech in December 1999, Putin had articulated a clear strategy for building the Russian economy: Russia would join the World Trade Organization in order to impose the organization's discipline on the Russian economy to make it competitive, to open foreign markets to Russian exports, and to create conditions for foreign investment in Russia.<sup>14</sup> In shifting the strategy from breaking apart the Soviet economy and seeking western support for that effort, to building a new market economy from which Russia could build strength and stability at home and abroad, Putin shifted Russia's foreign-policy conceptualization, based on a sharpened articulation of the relationship between economics and security for Russia.

How the conceptualization had shifted became clear with publication of Russia's Foreign Policy Concept in June 2000. As explained by Russia's current foreign minister, Igor Ivanov, beginning in 2000 Russia moved away from the foreign policy of the 1990s in which Russia threw in its lot with accelerated integration in the Euro-Atlantic structure, setting "unrealistic goals" in its foreign policy. In contrast, he writes, under Russia's new Foreign Policy Concept, "priority has been given to goals including strengthening the Russian economy and rebuilding those specialized areas geared to the international economy; facilitating full mem-

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<sup>13</sup> Celeste A. Wallander, "Russian National Security Policy in 2000," *Policy Memo Series* #102 (January 2000), Program on New Approaches to Russian Security, Davis Center for Russian Studies, Harvard University, p. 4.

<sup>14</sup> Keith Bush, "Russia's Accession to the WTO: Ten Years and Beyond," *Russia Business Watch*, vol. 10, no. 4 (Special Edition, 2003), pp. 29–34.

bership and participation in international economics organizations; helping Russian entrepreneurs enter foreign markets; attracting foreign investment; and solving the issue of our foreign debt.”<sup>15</sup> Under Putin, Ivanov continues, Russia has a program for using foreign policy to achieve economic growth and macroeconomic stability. Russia’s domestic economic priorities and objectives in creating competition and the rules of the game, have their matching conditions in external relations because efforts to integrate Russia into the global economic system and into the network of international economic organizations require “corresponding measures to bring our economy in line with the norms and standards required for all participants in the global economic system.”<sup>16</sup> Russia seeks to join international economic organizations to become competitive at home and abroad. At the same time, bilateral trade and economic relations play a role in Russia’s strategy, as they are sources of economic growth and help prevent Russia’s isolation.

There is little question that Russia’s national interests are defined primarily in terms of economic priorities, and that there are clear implications of that leadership strategy for foreign and security policy. But it is important to note is that economic well-being is not really the goal in itself: Economic growth at home is necessary for social and political stabilization at home to make Russia strong from within. International trade and integration are necessary both to support domestic economic priorities and to build a Russia that matters on the world stage. Economics is a necessary aspect of Russia’s security interests, but they are necessary because they are required to make Russia strong and safe. One of Putin’s consistent themes has been that Russia’s internal stability and rebuilding requires an external environment of certainty and engagement.<sup>17</sup> In his 2003 State of the Union address, Putin confirmed this core objective and strategy. Declaring that a three-year period of dealing with a backlog of problems was successfully accomplished, he stated that it was time “to make the next step”: “All our decisions and all our actions must aim at securing Russia a place among strong, economically developed and influ-

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<sup>15</sup> Igor S. Ivanov, *The New Russian Diplomacy* (Washington DC: The Brookings Institution Press, 2002), p. 16.

<sup>16</sup> Ivanov (2002), p. 142.

<sup>17</sup> Dov Lynch, “Russia Faces Europe,” *Chaillot Papers*, May 2003 (Paris: European Union Institute for Security Studies), p. 8.



ential countries in the very near future.”<sup>18</sup>

Within this relationship of economics and security in Putin's foreign policy, there are two very different bases for the specific impact of economic factors on Russian security policy. The first is the overall impact on Russian foreign and security policy, determined by Russia's priority of economic growth and modernization in the pursuit of national power and stature. But the second is as important to understand: the nature of relations with specific countries based on Russia's economic interests, in trade between them, or in advancing sectoral interests (such as energy-transport corridors). The link between the two bases is Putin's strategy of building an economic basis for Russian power and security, working with the few strengths inherited from the Soviet economy while building new capabilities that fit the modern global economy. The Soviet economy did not leave many strengths; the few are energy, metals and other exportable commodities, a space and satellite industry, a nuclear industry, and conventional arms. While a better environment created by significant reforms has supported creation of new sectors of the domestic economy, including consumer goods, a developing information technology industry, and services, the engines of growth in Russia remain raw materials and energy export, and its foreign trade remains dominated by Soviet industries and relationships.

Russia's long-term objective is modernization, investment, and new sectors of development at the high end of production and technology. But in the short to medium term, Russia needs to sell what is in demand abroad. This means primarily the Soviet legacy of fossil and nuclear energy. By 2002, analysts estimated that for each \$1 change in the price of a barrel of oil, Russian GDP rises or falls 0.35 percent,<sup>19</sup> so energy became key to Russia's security policy. Export and development of natural gas and oil increasingly define Russia's foreign policy relationships, not only with Europe and the United States, but with China, India, and Russia's CIS neighbors.

Furthermore, selling nuclear reactors and conventional arms to Iran, investing in Iraq's oil industry, and selling manufactured goods to Iraq,

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<sup>18</sup> Federal News Service, "President Valdimir Putin's Annual Address Before the Federal Assembly," *The Kremlin*, 12:05, May 16, 2003.

<sup>19</sup> Troika Dialogue, *Russia Market Daily*, April 15, 2002.

have been part of the same policy, driven largely by the same factors, as selling natural gas to Germany or sending oil tankers to U.S. ports. The intent is to keep the weak Russian economy growing so that it can be restructured to support a strong Russia in the future. Old Soviet trading partners do not account for the bulk of Russia's exports, but they tend to buy manufactured goods and energy-sector services that Russia for the most part cannot sell anywhere else.

Therefore, to understand the linkage of security and economics in Russian foreign policy, we must not look only at the boom sectors such as energy, or the new sectors such as consumer products and services; we need to look comprehensively at the weakness in the legacy of a distorted Soviet economy that produces only a limited set of exportable goods. The Soviet Union invested heavily in its nuclear industry, to which it devoted its best scientific minds. Similarly, its conventional military industries produced goods that were, and still are, in demand on foreign markets. Revenues for arms sales varied between \$2 and \$4 billion annually from the mid-1990s to the present, and for nuclear materials and technology between \$2 and \$2.5 billion annually in the mid- to late-1990s. While not a huge proportion of Russia's yearly exports, they are very significant because in both cases there is virtually no domestic demand for the products of either of these industries. Russian energy use fell with the decline of its economy in the 1990s, so the Ministry of Atomic Energy (Minatom) has not been investing in the domestic market. Similarly, the Russian military has not spent any significant amounts on procurement, so Russian defense plants have either been idle, or have produced for foreign customers. The Chinese military purchases more aircraft from Russian defense enterprises than does the Russian military.

Specific bilateral relationships and the foreign trade they support, therefore, are a significant asset for keeping certain Russian industries alive. Russia seeks to preserve its defense and nuclear sectors for a time when they can be restructured and called upon for future Russian conventional and nuclear defense production, for a time in the future when it will be ready to buy arms for its own military. Customers like China, Iran, and India play a role in preserving Russia's defense industrial capacity until the Russian military becomes a customer again.

Nearly as striking as the straightforward statements of Russia's weakness and economic development priorities driving its foreign policy has been how clearly the strategy has been reflected in Russian foreign-policy

practice. In the spring and summer of 2000, Putin launched a series of meetings with European leaders, and emphasized repeatedly in his travels and foreign policy statements that Russia is a European country and seeks to develop ties with European partners. Commentators commonly attribute Putin's European orientation to his St. Petersburg origins, or his KGB service in East Germany, and they may play some role, but the more serious questions of foreign policy interests are explained by Russia's economic interests in Europe. EU countries account for 62% of foreign investment in Russia, and will account for 67% of Russian exports by 2005.<sup>20</sup> Natural gas is a substantial part of this trade. EU countries import 20 percent of the natural gas they use from Russia alone, and this is expected to rise substantially as European countries reduce their reliance on nuclear power and coal. The EU and Russia now have a permanent energy dialogue, and are discussing the development of several natural gas pipelines.

Putin's successful spring 2000 introduction to European foreign policy circles left open the question of whether his pragmatic, integrationist, economically based foreign policy would repair the rift in U.S.-Russian relations that had developed in the last years of the Clinton administration and which the Bush administration in its first six months showed little interest in addressing as a priority. A successful Bush-Putin meeting in Slovenia in summer 2000 established the basis for the generalization of Putin's strategy of international trade and integration with Europe to encompass relations with the United States as well. Russia did not succeed in achieving reduction of its Soviet-era debt, but economic growth and fiscal responsibility meant that Russia could meet its debt payments, and that sore spot was removed from the agenda. Russia's substantial interests in international energy markets, and both its public and private interests in interesting foreign investors in its exports and in investment, created a strong energy dimension in Russia's relations with the United States as well as with Europe. Russia began serious negotiations with the WTO on accession. Generally supported by the U.S. position (although specific issues of direct competition and protection remain a problem, particularly Russian steel exports and U.S. poultry exports), the Putin government invested more of its domestic political capital in sensitive issues likely to be costly to Russian domestic interests if and when Russia

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<sup>20</sup> Nikolas Gvosdev, "A Tale of Three Petersburg Summits," *In the National Interest*, vol. II, issue 21 (May 28, 2003).

accedes to the WTO primarily vulnerable industries such as automobiles and heavily subsidized domestic energy consumption.

At the same time, Russia has significant interests in relations with countries in Eurasia, rooted in the same economic strategy that solidified Russia's relations with Europe and the United States. A major component of this interest is economic opportunity. Russia sells natural resources, energy, and conventional weapons to China, India, and Iran. Russia has trade agreements with China worth over \$1 billion in arms sales, and a broader package of trade agreements with India worth some \$3 billion. In May 2003, the private Russian oil company Yukos signed a general agreement on supplying oil to China worth \$150 billion dollars over 25 years. Russian-Iranian contracts are worth over \$4 billion in the next few years, and these commercial stakes are a prime reason for the intense and positive level of Russian-Iranian relations over the past few years, despite U.S. pressure on Russia to suspend work on the Bushehr nuclear reactor. Squaring these economic relationships with Putin's declared priority of market reform, liberalization, and western integration is part of the challenge of explaining the security-economic link in Russian foreign policy.

The security-economic link in the Putin strategy was tested, survived, and strengthened with the September 11, 2001 attacks on the United States. While critics outside (and even inside) the Russian government warned against a greater U.S. military presence in Eurasia, even if the ostensible objective was to fight the common fight against terrorism, Putin chose to support U.S. overflights and bases in Central Asia, and later to accept as not a threat U.S. military train-and-equip programs in Georgia. Putin's theme remained Russia's interests in cooperation and integration with the West, for whose realization U.S. support remained central. In other issues where the Yeltsin government had tried to draw red lines against U.S. initiatives that could be construed to threaten Russian security interests in a traditional sense—NATO and the ABM Treaty—Putin chose to recognize the limits of Russian ability to influence the outcome, and to stick with the strategic goal of integration.<sup>21</sup>

Iraq has been the exception to what had become Putin's strategic rule. On the one hand, Russia's opposition to the U.S. course of policy

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<sup>21</sup> Celeste A. Wallander, "The U.S. and Russia: building the basis for a mature relationship," *Russia Business Watch*, vol. 10, no. 1 (Spring 2002), pp. 3–7.

on Iraq in late 2002 is consistent with an economic explanation: Russia's economic stakes in Iraq, and the costs it would pay if oil prices fall very far with the development of Iraqi reserves, are clear.<sup>22</sup> Yet despite the opportunity to negotiate with the United States to minimize Russian losses, Putin became increasingly focused on the objective of constraining the United States through international law, and via Russia's veto rights on the United Nations Security Council. In an effort to force the Bush administration to take the UN Security Council, and Russia, seriously, Putin and Ivanov issued increasingly strong statements threatening a veto of any resolution authorizing the use of force in Iraq, and opposition to any non-sanctioned war. When the opposition failed to force the United States to seek multilateral cooperation on Iraq, U.S.-Russia relations reached their lowest point since the NATO use of force in Kosovo.

Within these larger contours of Russian foreign policy, Russia's policy toward the newly independent countries, former republics of the Soviet Union, was a similar rollercoaster of neglect, bullying, and inconsistency during the Yeltsin period, and took a similar turn toward strategic focus and pragmatism under the Putin foreign-policy regime. In the early 1990s, Russia's security policies focused on managing the consequences of the Soviet breakup. The most immediate issue was the distribution of Soviet military assets, nuclear and conventional, and the status of formerly Soviet military bases, claimed by Russia, in what were newly independent countries. The answers were guided primarily by practical considerations (the new countries for the most part inherited conventional military assets on their territory), or by international obligations (nuclear weapons were to be turned over to Russia as the sole Soviet successor state under international treaties). Bases and assets claimed by Russia were worked out on bilateral terms, with varying degrees of cooperation (Tajikistan's acceptance of Russian border guards on its territory and Russian military intervention in its internal conflict in the early 1990s, as well as Armenian support for Russian military presence on its territory) and acrimony (Georgia's demands for Russian withdrawal from bases on its territory, and Russia's claims to the Black Sea Fleet based on the Ukrainian territo-

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<sup>22</sup> Celeste A. Wallander, "Russia's Interest in Trading with the 'Axis of Evil'," *Policy Memo Series* #248 (October 2002), Program on New Approaches to Russian Security, Center for Strategic and International Studies  
<<http://www.csis.org/ruseura/ponars/index.htm>>.

ry of Crimea, settled only in 1997).

Similarly, economic policies in the early 1990s were preoccupied with the consequences of dismantlement of the Soviet economy among the post-Soviet states. Russia's initial support of a ruble zone contributed to Russia's hyper-inflation, as the other countries of the zone issued credits that had to be covered by the Russian Central Bank. Trade among the CIS countries fell by over one-half in the 1990s, partly because of non-payment problems, partly because of the switch to world trade prices which were significantly higher, and partly because of the general decline of their GDPs in the 1990s. Russia's trade with the former Soviet republics fell from 13 percent of its GDP at the start of the decade to four percent in 1995–1996.<sup>23</sup>

Throughout the 1990s, there was a significant disconnect between Russia's rhetoric of integration and actual concrete policies in creating CIS institutions for integration in the security and economic sphere. To a large extent, Russia's failure to create strong institutions and invest in integration was due to resistance on the part of CIS states that sought to preserve their independence. But the failure to create a strong ruble zone, customs union, or other integrative economic institutions was also due to the Russian leadership's ambivalence about paying the price of integration, primarily through subsidies to countries with smaller and fundamentally weaker economies.<sup>24</sup> Foreign Minister Ivanov refers to this as the growth of "centrifugal forces in politics, trade and economics" and acknowledges that "this evolution was an objective process." Significantly, rather than blaming anti-Russian sentiment or the efforts of the West to undermine Russian power, he acknowledges that the despite Russia's ambitious goal of an institutionalized CIS, "by the mid-1990s it gradually became expedient for Russia to bring its CIS policies into line with a more realistic evaluation of the Commonwealth's future."<sup>25</sup>

This is not to argue that Russia did not use its relatively greater power and leverage over its new neighbors when it sought foreign policy concessions from its weaker neighbors. In addition to basing rights, Russia

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<sup>23</sup> Pavel S. Smirnov, *Russia's National Security: Trade Policy Issues* (Moscow: Consultbanker, 2002), p. 290.

<sup>24</sup> Henry Hale, "The Rise of Russian Anti-Imperialism," *Orbis*, Winter 1999, pp. 111–25.

<sup>25</sup> Ivanov (2002), p. 82; p. 84.

pressed for extensive special rights for Russian-speakers living in the “near abroad,” as well as for dual citizenship. Russian forces unquestionably interfered in conflicts in Nagorno-Karabakh, Abkhazia, and Transdniestria to favor allies and punish opponents. It has pressured countries of the Caspian region to allow Russian companies to participate in energy projects and new pipelines. Russian leaders have issued dire warnings about the development of ties to NATO by the CIS countries, and have gone so far as to issue warnings of countermeasures in its military policy and deployments.

But beginning in the late 1990s, Russian leaders began to favor “natural integration”: primarily if not exclusively bilateral ties, based especially on the development of business (private and state-owned) interests and relationships.<sup>26</sup> Recognizing the disconnect between the ambition of consolidation and integration of the CIS, Putin’s Russia shifted emphasis even more strongly.

The difference is twofold. First, Russian efforts have focused to a greater degree on building integration from the ground up by securing specific agreements and areas of cooperation, rather than insisting on grand schemes and comprehensive agreements to be signed at CIS summits. Russia has not given up on multilateral structures in the security and economic realms to manage relations among the post-Soviet states and pursue Russia’s policies toward them. A main focus of Russian security policy remains the CIS Treaty on Collective Security (known as the Tashkent Treaty) of 1992, despite its rather limited scope (only Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan are members). In the economic sphere, Russia’s efforts have shifted from CIS-wide efforts to deepening the scope and expanding the membership of the Eurasian Economic Community (which counts Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan as members).

Second, in keeping with the Putin government’s preference for pragmatic, consistently pursued policies that have a concrete benefit over ambitious objectives unevenly pursued and most often unachieved, Russia has pursued bilateral policies toward countries in its neighborhood. Even in its relations with Belarus, which Foreign Minister Ivanov has pointed to as the “epitome of integration within the CIS,”<sup>27</sup> the Putin leadership has

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<sup>26</sup> Hale (1999), p. 118.

<sup>27</sup> Ivanov (2002), p. 85.

put pragmatic policies toward CIS countries above grand schemes. Ivanov quite explicitly writes that by 2000, Russia was faced with a dilemma: Would it continue to hold integration as an absolute value, for which it would pay any price? Or would Russia “take a more pragmatic tack”? “In the final analysis,” he concludes, “Russia chose to deepen bilateral ties with other CIS member-states as a prerequisite for further integration.”<sup>28</sup> In 2002, Putin put on the brakes in costly policies that have subsidized the Belarusian economy in exchange for Lukenshenko’s political support for the Belarus-Russia Union (more on this below).

What is important to understand is that Putin’s foreign policy has been based on both international (which is to say, Western) integration, and increasing integration among Russia’s newly post-Soviet neighbors. After what they consider to be the swing to extreme Western integrationist policy in the first half of the 1990s, and a change in course with the right objective toward better balance with Russia’s Eurasian interests, but with inadequate means in the latter half of the 1990s, the Russian political elite has evolved a largely coherent policy that seeks both global and CIS integration, signaled in a widely cited article by Foreign Minister Ivanov in 2002.<sup>29</sup> In this, Putin has married the priorities of his liberal economic reformers, who emphasize global and western integration, with the persistent emphasis of traditionalists from his Eurasianist base in the foreign-ministry, military, and security services, who emphasize Russia’s relations with its CIS neighbors. In his 2003 State of the Union speech, Putin argued, “I wish to stress that the uniting economic processes now at work in the CIS are linked with the integration of our countries into the world economy.”<sup>30</sup>

In what may seem to western observers an effort to square a circle, there nonetheless are ways the policy remains consistent with Putin’s overall foreign policy. As explained earlier, Russia’s integrationist course and policy emphasis toward the United States and Europe proceeds along the same course and are based on the same strategy as Russia’s burgeoning arms and nuclear technology relations with countries such as China,

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<sup>28</sup> Ivanov (2002), p. 86.

<sup>29</sup> Igor Ivanov, “The Landmarks of Russia’s Foreign Policy,” *Kommersant-Vlast*, no. 22, June 11, 2002. Of particular note was Ivanov’s declaration that the CIS is Russia’s “number one” foreign policy priority.

<sup>30</sup> Federal News Service (2003).



Iran, and India. What unites these seeming contradictory policies is the objective of building a new Russian economy so that Russia can take its place among the international great powers, able to provide for its security and to pursue its national interests. The strategy is based on working with the existing strengths of the Russian economy, while creating both a domestic and international political economic context for the development of new areas of economic strength. The strategic compatibility of Russia's efforts to increase European energy exports and investment, together with its pursuit of similar energy deals with China, is paralleled by Russia's efforts to rationalize the cost effectiveness of its relations with CIS countries while utilizing its advantages (largely from the legacy of Soviet-era dependencies and interdependencies) to profit from Russian businesses and Russian GDP. This is the strategy as articulated by Putin; whether it is possible to implement it, given the diverse interests and terrain of Russian politics, is another matter. This has meant an important shift in Russia's private and quasi-private investment relations with CIS countries and their companies. Instead of focusing solely on global or Western integration at the expense of lucrative economic ties with its neighbors, Russia's foreign economic relations over the past five years has been directed as well toward negotiating customs unions, easing payments, clearing debt, and securing concessions for Russian companies that trade with, produce in, or seek to invest in formerly Soviet republics. Russia has sought shares for Armenian enterprises, for example, in exchange for retiring portions of the Armenian debt.

In addition, the interests of Russia's economic sectors and influential businessmen help us to understand this squared circle. On the one hand, Russia's array of oligarchs include businessmen like Mikhail Khodorkovsky and Mikhail Fridman, whose property and holdings in sectors that profit from Western sales and investment have led them to become supporters of reform and Western contacts. On the other hand, Russia's array of big business interests also includes businessmen like Aleksey Miller, head of the energy giant Gazprom, which has an enormous stake in the company's natural gas pipelines to Europe, nearly all of which transit Ukraine and which have been a source of leverage and vulnerability in Russia's relations with both the Ukrainian government and its business interests. Foreign Minister Ivanov reveals perhaps more than he knows about these squared circles and strategic compatibilities when he writes that "(i)ncreased economic cooperation and further inte-

gration within the CIS are only possible if based on market relations, and with greater involvement of industrial finance and banking capital....at the present stage a stable increase in trade and economic cooperation is only possible with narrowly focused state support and regulation.”<sup>31</sup> That is, trade and investment by Russia’s private enterprises in neighboring countries require Russian state intervention with the governments.

#### RUSSIAN POLICY TOWARD BELARUS AND UKRAINE

##### *Belarus*

Belarus is Russia’s closest ally. That largely indisputable statement contains an unexpected degree of complexity, especially in the relationship of security and economics in Russia’s foreign policy. In part, this is an alliance born of Belarusian President Lukashenko’s extreme authoritarianism and his failure to find a transition to a post-Soviet economy. Lukashenko’s policies have meant that the economy needs subsidies from and ties to Russia’s economy, the leadership needs Russia’s security guarantees given Belarus’s isolation from the West, and especially an expanding transatlantic Europe. In part, this is a situation that any Belarusian leader would face, given the degree to which the economy is dependent on Russian exports and imports and the degree of integration of industrial production, as well as Belarus’s geopolitical proximity and vulnerability to Russia. But a basic relationship of dependence and vulnerability has been exacerbated by the political priorities of the leadership, its failure to embark on internal reform, and the international isolation its policies have created.

For Russian security, Belarus is first and foremost an area of strategic importance, given its position on the borders of Poland, Lithuania, and Latvia, and as a major access point between the Russian exclave of Kaliningrad and “the mainland,” as the Russian Federation is known. Belarus’ geopolitical position also has enormous economic significance for a Russia seeking to increase its international trade overall and its exports to Europe in particular. Strange as it may sound, Belarus is “a window to Europe” for Russia.<sup>32</sup>

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<sup>31</sup> Ivanov (2002), *New Russian Diplomacy*, p. 144.

<sup>32</sup> Vyacheslav Nikonov, “The Place of Belarus on Russia’s Foreign Policy Agenda,” in *Belarus at the Crossroads*, edited by Sherman W. Garnett and

A strong security relationship with Belarus is key to Russia's current defense policy toward its western borders. Although officially Russia no longer considers NATO its enemy and Russia has a formal political relationship and presence in Brussels, in practice Russian military and defense policy continues to plan for the need to deter and defend against NATO as a military alliance, on both nuclear and conventional levels. Given the importance of strategic depth and forward access in Russia's traditional defense policy (which is to say, Soviet defense policy as it evolved in the twentieth century), both Belarusian territory and the coordination of its military forces with Russian forces are of great importance to Russian security policy in its more traditional manifestations. Russia continues to operate a radar station in Belarus at Baranovichi, now of greater importance given the closing of the Russian radar base at Skrunda. The technical importance of Belarusian territory and military assets might diminish if Russian military doctrine and defense policy were to evolve to truly downgrade NATO as a threat and to focus Russian doctrine on the twenty-first-century threats of instability and terrorism in Eurasia and to Russia's south (in accordance with the political rhetoric of Russian policy). But the geostrategic importance of Belarus to Russia will never disappear, for the simple geopolitical reason that Belarus borders Russia to its east and Europe to its west: Borderlands are regions of access and vulnerability.

As Grigoriy Perepelitsa establishes clearly in his contribution to this volume, the degree of integration of Russian and Belarusian defense industries establishes a second important dimension of Russia's security interests in Belarus. If Russia develops a twenty-first-century military doctrine, it will need a twenty-first-century defense-industry infrastructure to apply it. While a more radical approach might prefer that Russia "start from scratch" to create such an industry, that would entail not only significant startup costs for an economy still emerging from significant economic decline and with a large array of competing demands for new economic sectors, but also scrapping defense production that is in demand on global military markets. Instead, the Putin government has chosen to embark upon a path of restructuring the existing defense industrial base, largely by keeping the more successful portions of it

employed via foreign arms sales. Although Russia's economic interest in sustaining integration and cooperation with Belarusian defense firms is very apparent, this means that the relationship has a defense and security aspect as well. That is, trade in this sector is a portion of the longer-term strategy for rebuilding Russia's military doctrine, defense production infrastructure, and ultimately its international standing as a great power.

Russia's security policy toward Belarus had been largely coherent and on the surface successful since Yeltsin's retrenchment from a determined Western orientation and since consolidation of the Lukashenko regime in the mid-1990s. The political leaderships in both countries identify NATO enlargement as counter to their interests, and both countries denounced the enlargement of NATO's mission in the Balkans with its use of force against Serbia and in Kosovo. Based in part on their arms relationships, both countries have similar interests in relations with countries such as Syria and Iran, creating a common basis for their criticism of U.S. policy in the Near East. Furthermore, Belarus concentrates its foreign and security policy contacts within the CIS, given its isolation elsewhere, reinforcing its common views with Moscow.<sup>33</sup>

These security and foreign-policy commonalities appeared to be the basis and supporting structures for the drive toward an economic union beginning in the mid-1990s. The two countries signed a treaty on a Belarus-Russia Community in 1996 that set as objectives creating a single currency, a single customs space, a common economic space, and joint transportation and energy systems. It was followed by a Treaty on Belarus-Russian Union in 1997, and in 1999 by the signing of a joint security policy. Consistently throughout this process, the Russian leadership resisted agreements that promised a comprehensive political integration of the two states, although the Yeltsin government just as consistently supported the rhetoric on union as the ultimate objective.<sup>34</sup>

It had become clear that the Russian political and economic elite was extremely doubtful about the value of creating a fully integrated Union

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<sup>33</sup> Agata Wierzbowska-Miazga, "The Republic of Belarus or the Belarusian Republic?" *CES Studies*, November 2001 (Summer, number 3), (Warsaw: The Center for Eastern Studies, 2001), pp. 51–59, at p. 54.

<sup>34</sup> Vyachaslav Paznyak, "The Customs Union of Five and the Russia-Belarus Union," in *Building Security in the New States of Eurasia: Subregional Cooperation in the Former Soviet Space*, Renata Owan and Oleksandr Pavliuk, eds. (Armonk: M.E. Sharpe, 2000), pp. 57–85, at pp. 65–67.

with Belarus when the latter primarily expected economic subsidies and support without being willing to embark upon serious reform itself, which would, if successful, at least bring the Belarusian economy closer to the level of Russia's and which would reduce the significant problems Russia would take on, such as Belarus's higher inflation rate, hidden unemployment, and other costs that would further weaken an already problematic Russian economy, particularly after the 1998 crisis.<sup>35</sup> The alternative to absorbing the Belarusian economy's weaknesses and pathologies was for Belarus effectively to give sovereignty over economic and monetary policy to Russia, an option that Lukashenko made clear was not acceptable.

Therefore, the economic dimension of Russia's "integration" strategy with Belarus was largely a failure. It had produced some benefits in the political and security realms at limited cost, and it preserved the level of trade and cooperation that was the baseline reality of the degree of integration inherited from the Soviet legacy. But the potential benefits of true integration which accrue from free trade, stable and tradeable currencies, and customs union had not been realized. By 1999, the idea of a Union, now well and clearly established in an interstate treaty, was not going anywhere.

Beginning in 2000, Russian policy under Putin began to align the rhetoric of Russia's support for union with the reality of Russian interests, which is to say the rhetoric cooled to match the slow pace of policies to create a common currency, customs union, or other promised mechanisms of economic union. Guided by the new packaging of national interests, the Russian government began to withdraw from regulations under the treaties that had proved costly. This did not mean that Russia under Putin did not maintain significant instruments of leverage over Belarus in the economic sphere, but rather that the instruments shifted to those outside the Union agreements and ambitions, and more toward traditional instruments of influence accruing to a country more powerful and less dependent than its smaller neighbor.

At the same time, the form of Russia's economic leverage over Belarus began to shift, much in line with the broader perspective on CIS integration that Foreign Minister Ivanov articulated, as explained earlier in this chapter. Although statistics are not available, beginning in 2000

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<sup>35</sup> Nikonov (2000), p. 112.

Russian firms began to invest to a greater degree in Belarusian firms, primarily but not exclusively in the energy transport sector.<sup>36</sup> In addition, Russian officials raised the issue of swapping Russian ownership of Belarusian firms in exchange for Belarus' considerable debt (some \$80 million for subsidized gas alone) in parallel to Lukashenko's commitments in recent years to begin the process of privatization. Russia also began discussions of building a new gas pipeline through Belarus and Poland, partly to diversify its assets and vulnerabilities, partly to pressure Ukraine with the prospect of reduced need for Ukrainian transit routes, but partly as a way to leverage greater Russian economic presence in Belarus.

Putin's and Lukashenko's discontent with one another's policies (Putin seeking influence and integration at low cost, Lukashenko seeking maximum resources at no cost to sovereignty and control) simmered through much of 2001 and 2002, with little sign of resolution, until August 2002 when Putin proposed at a joint press conference with Lukashenko in Moscow that the two countries achieve the promised union with a single president, constitution, and Russian ruble as currency. Lukashenko responded that "even Lenin and Stalin never thought of dividing Belarus and joining it to the RSFSR or USSR."<sup>37</sup> Putin's purpose was widely recognized as pressuring Lukashenko to get in line with Russian priorities for greater access and control of Belarusian businesses and the economy, rather than to actually achieve such a unified state. Russia even went so far as to temporarily suspend deliveries of natural gas in September 2002, ostensibly due to Belarus's debt to Gazprom.

Putin's tactics appeared to have succeeded when Lukashenko proved more willing for the two governments to discuss joint ventures and Russian investment in Belarus. However, despite another round of ostensibly successful agreements on monetary union in January 2003, it is most likely that the two leaderships remain far apart on this key aspect of a Belarus-Russian union. Even as Belarus commits to adopting the Russian ruble by January 2005, the two have not agreed on whether Russia alone will control monetary emission and policy. Despite appear-

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<sup>36</sup> Wierzbowska-Miazga (2001), pp. 52–53.

<sup>37</sup> Rafal Sadowski (2002), "The integration crisis in the Belarus-Russia Union: sparks fly between Minsk and Moscow," *CES Research Reports*, August 2002 <<http://www.osw.waw.pl>>.

ing to relent on this point in mid-2003, by September Lukashenko was once again declaring that he would not give in to Russia's attempts to retain complete control of the proposed common currency. Not to do so would be enormously costly to Russia, and would risk the economic growth essential to Putin's larger strategy. His readiness to elevate the most conflict-prone issue to the forefront of the Russia-Belarus agenda hints that the 2002 row between the two presidents is far from ended at this writing, whatever the recent return of friendly rhetoric into the political lexicon of the two leaders may indicate otherwise. Putin's agreement to the Union in January, 2003 appears to be less an indication that he and Lukashenko have put their dispute behind them, and more a confirmation of Putin's pragmatic and low-cost integrationist course.<sup>38</sup>

### *Ukraine*

Russia's relations with Ukraine have been much more problematic and contentious, but paradoxically by 2003 show more promise to serve Putin's larger foreign policy strategy than Russia's relationship with Belarus. Unlike the apparent consonance of interests that grew increasingly frayed as Russia and Belarus had to contemplate practical measures to create a Union, Russian-Ukrainian relations were frayed from the start, and remained so amid periods that swung between improvement and downward spirals throughout the 1990s.

The contentious challenges plagued security as well as economic relations, and exemplified the complicated relationships between them. Although Yeltsin and Ukrainian President Kravchuk were the main actors dismantling the Soviet Union in December 1991 and creators of the Commonwealth of Independent States, it quickly became apparent that they had quite different understandings of what they had done, and what would happen next. Yeltsin and other important Russian leaders anticipated that the CIS would preserve a level of military and economic integration that Ukraine sought to shed as a potential source of Russian hegemony and dominance. While the Ukrainian government quickly claimed control of most military assets on its territory and required Soviet officers to take an oath of loyalty to the Ukrainian state to remain

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<sup>38</sup> Vital Silitksi, "Russia-Belarus Currency Union: Prelude to a Political Row?," *RFE/RL Report: Poland, Belarus, and Ukraine*, volume 5, number 3, January 28, 2003.

active-duty personnel, Russia attempted to preserve a single military command under the CIS well into 1992 before finally creating a Russian Ministry of Defense and armed forces only in May. Russia, emphasizing the undoubted problem that an actual Russian retreat from formerly Soviet borders could leave the newly independent countries vulnerable to penetration and destabilization by both criminal networks and armed groups seeking to overthrow the new governments, persuaded several CIS states, but not Ukraine, to sign the Tashkent Treaty on Collective Security in 1992. At the same time, NATO members and former Warsaw Pact members began to raise the question of NATO enlargement, including the potential of membership for countries that had been part of the Soviet Union. Although Ukraine was not a leading candidate, no one was willing to decisively rule countries in or out, creating the potential that Ukraine could and would seek membership.<sup>39</sup>

In this atmosphere of disabused Russian assumptions about security cooperation and unification, the Ukrainian government sought to retain nuclear and conventional military forces that would clearly be designed to deter and defend against Russia. Russia was faced with a security relationship with Ukraine whereby a treaty designed to limit NATO's conventional forces, the Conventional Forces in Europe Treaty, was being used by Ukraine to limit Russia's forces and make claims for its own. Similarly, Ukraine's political leadership had second thoughts about the commitment it had made to join the Nuclear Nonproliferation Treaty as a non-nuclear state, leaving Russian officials in no doubt about the intended object of Ukrainian nuclear deterrence policy. Both the conventional and nuclear military issues were ultimately settled, in large measure because of the regulating effect of existing international institutions and law in this atmosphere of considerable security uncertainty and instability, but the experience established the basis for a security relationship that Russian leaders viewed as a significant potential threat to Russian security and interests.<sup>40</sup>

Russia's geopolitical stake in Ukraine is thus similar to that in Belarus, but more multidimensional. In addition to Ukraine's territory as a potential source of military attack or infiltration on Russia's borders, denial of

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<sup>39</sup> Ronald D. Asmus, *Opening NATO's Door* (New York: Columbia University Press, 2002).

<sup>40</sup> Wallander, *Mortal Friends, Best Enemies*, chap. 4, 5.



the use of Ukrainian territory severely constrains any Russian ideas about strategic depth or a significant military presence in the European theater that might be an instrument for asserting Russian rights and interests. In addition, Ukraine's location straddling the Black Sea meant that the traditional importance of Russia's naval presence in that region could not be assumed by military or defense planners. Beyond the emotional issue of losing a historic piece of the Russian empire inhabited by Slavic brothers and Russians themselves, loss of Ukrainian territory was a significant strategic blow to Russia, although one that Yeltsin had orchestrated himself.

Perhaps the sharpest security dispute in Russian policy toward Ukraine was the ownership and basing of the Black Sea Fleet, and the related issue of the status of the Crimean Peninsula because strategic interest was heightened by national pride, emotion, and the complicating effect of domestic politics. The Russian military balked at losing its naval base at Sevastopol, one of the few Soviet naval bases worthy and capable of being preserved and adapted to the new international reality, with a mission of coastal defense, border security, and support of Russian commercial interests. Russian domestic politics was activated by complaints that Crimea was almost exclusively inhabited by ethnic Russians, and had been administratively part of Ukraine only since 1954.

Yet the principle of territorial integrity and acceptance of the status quo was a problematic one for Russia to question at a time when ethnic territorial separatism was emerging in the former Soviet space, including in Chechnya. It was also a problematic principle for a Yeltsin leadership supposedly committed to a modern course of partnership and cooperation with the West, shedding Russia's imperial and Soviet past. While the issue was a dangerous and destructive one in Russian policy toward Ukraine for several years, after numerous false starts, it was ultimately settled with the Russia-Ukraine Basic Treaty of 1997, which guarantees the sovereignty and territorial integrity of both countries, and was accompanied by protocols that provided for division of the Black Sea Fleet and Russian lease of the main fleet installations for 20 years at a rent of about \$100 million a year, to be drawn from Ukraine's debt to Russia.<sup>41</sup> With the agreement in 1997, Russia and Ukrainian had settled the most explo-

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<sup>41</sup> James Scherr, "Russia-Ukraine Rapprochement?: The Black Sea Fleet Accords," *Survival*, vol. 39, no. 3, August 1997, pp. 33–50.

sive, zero-sum issue between them, an issue about which analyst Anatol Lieven, who otherwise identifies himself as an optimist on Russian-Ukrainian relations, writes, “[I]f Crimea is the only place in Ukraine where one can imagine spontaneous ethnic violence, Sevastopol is perhaps the only place outside Russia for which one can imagine many ordinary Russians willingly going to war.”<sup>42</sup>

Nevertheless, this undoubted success did not prove the basis for progress on the very large agenda of Russian-Ukrainian tensions and disputes. NATO had not gone away, and Ukraine’s cooperation with the alliance proved more productive and meaningful than was Russia’s. Russia continued to avoid an agreement on demarcating the legal Russian-Ukrainian border, leaving a loophole in its recognition of Ukrainian sovereignty and territorial integrity: just what was viewed as sovereign and integral? Unlike Belarus, which lies to Russia’s west and could become less high-stakes for Russia in strategic terms if NATO is relegated to non-threat status, Ukraine lies in the neighborhood of Russia’s dangerous borders in the Caucasus and Black Sea. The considerable integration of Russian and Ukrainian defense industries—nuclear as well as conventional, since most of the Soviet Union’s most advanced missiles were manufactured in Ukraine—means that a Russian strategy for reorienting and rebuilding its defense capabilities to meet modern threats continues to view loss of Ukrainian assets as a security, not merely economic, loss. In short, although Russian nationalism or imperialist nostalgia may exacerbate the situation, there is a fundamental reality in Russian-Ukrainian security interdependence that even the most liberal, western-oriented Russian leader could not entirely dismiss. Although each of them is independent, “in practice that independence (not to mention sovereignty in its purest sense) is conditional and has a relative dimension—the interdependence of needs and realities.”<sup>43</sup>

A central factor in Russia’s policy toward Ukraine in the security sphere has been Ukraine’s own Western option. During the 1990s, Ukraine was able to resist Russian pressure because of Western commit-

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<sup>42</sup> Anatol Lieven, *Ukraine and Russia: A Fraternal Rivalry* (Washington DC: The United States Institute of Peace Press, 1999), p. 6.

<sup>43</sup> Pentti Forsstrom, “Military Cooperation between the Slavic CIS States” in *A Slavic Triangle? Present and Future Relations Between Russia, Ukraine, and Belarus*, Arkady Moshes and Bertil Nygren, eds. (Stockholm: The Swedish National Defense College, 2002), p. 60.

ment and interest in Ukraine's independence from Russian pressure. This was evident in Ukraine's ability to leverage its nuclear status to get aid and attention from the United States, as well in Ukraine's relationship with NATO, which likely played some role in creating incentives for Russia to agree to the 1997 accords on Crimea and the fleet.<sup>44</sup>

However, the same factor that gives Ukraine space and leverage makes Russian leaders and politicians constantly suspicious that an independent Ukrainian security policy will harm Russian interests and create security threats in this important region. Russia, of course, has only itself to blame: By seeking to dominate and control the policies and options of its neighbors, it creates fear that it seeks not reassurance against a security dilemma, but at least informal domination and re-assertion of empire.<sup>45</sup>

It is in that context that the evolution of Russia's economic relations with Ukraine are most interesting and revealing. Like the relationship with Belarus, economic relations between Russia and Ukraine are essentially those of very deep asymmetrical interdependencies.<sup>46</sup> Russia's economic contraction in 1992–1993 was exacerbated by the crash in trade among CIS countries, as they coped with falling state procurement in defense and other heavy industries, as Russian enterprises became crippled by asset-stripping and non-payments logjams, and as the effects of the loss of a common currency on costs and ease of trade became apparent.

Ukraine's primary economic dependence on Russia is for energy and raw materials; Russia's primary economic stake in Ukraine is the latter's status as near-monopoly holder on Russia's energy-transit routes to Europe. This potential Ukrainian advantage however, proved hollow primarily for three reasons. First, Ukraine needed the energy to flow through the pipelines to supply its own needs, and could not credibly threaten to shut them down for larger transit payments, or for political foreign policy pressure. Second, the Ukrainian leadership's failure to

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<sup>44</sup> Tadeusz Andrzej Olszanski, "Ukraine and Russia: Mutual Relations and the Conditions that Determine Them," *CES Studies*, number 3, November 2001 (Warsaw: Center for Eastern Studies, 2001), pp. 33–50, at p. 37.

<sup>45</sup> Roman Solchanyk, *Ukraine and Russia: The Post-Soviet Transition* (New York: Rowman and Littlefield, 2001), chapter 5.

<sup>46</sup> For detailed analysis of these interdependencies, see the chapters by Perepelitsa, Rontoyanni and Wilson, and Abdelal in this volume.

implement serious reforms meant that Ukraine's economy performed poorly in the 1990s, contributing to growing debts to Russia for its energy supplies (at already subsidized prices) and providing Russia with an additional instrument to wield against Ukrainian demands. And third, private actors with considerable political weight quickly learned how to profit from the special energy-economic relationship, in both Ukraine and Russia. A shut-down of the trade would have ended the accumulation of too many fortunes to be politically sustainable.<sup>47</sup> Russia was able to get Ukrainian agreement on a long-term economic agreement in early 1998, but its general objectives were never implemented by specific legislation aligning customs or reducing barriers to free trade.

These economic, political, and security fundamentals of the relationship essentially did not change through 1999, resulting in a Russian policy that continued to seek political leverage, security subordination, and a variety of economic advantages ranging from debt-for-equity swaps to concessions in intra-industry trade. None were particularly productive, largely because of Ukraine's fundamental economic weakness that put a limit on how far Russia could push without risking Ukrainian collapse, combined with the political and strategic advantages in its relationship with the West which continued to enable Ukraine to resist Russia's integrationist demands. Russia's policies were "drifting toward stagnation."<sup>48</sup>

Three of the basic conditions that supported this very suboptimal equilibrium had been shaken by 2000. First, the effects of Russia's economic crash in 1998 ultimately proved a bonanza for Ukraine. Russia's subsequent economic recovery, primarily the devaluation of the ruble, which made western imports more expensive, created a large increase in Russian demand for Ukrainian exports, fueling a six percent growth in Ukraine's economy in 2000, and attracting the attention of both Russian and Ukrainian business interests to the benefits of increased trade and a

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<sup>47</sup> Sherman W. Garnett, *Keystone in the Arch: Ukraine in the Emerging Security Environment of Central and Eastern Europe* (Washington DC: Carnegie Endowment for International Peace, 1997), pp. 70–71.

<sup>48</sup> Arkady Moshes, "The Evolution of Relations within the Slavic Triangle," in *A Slavic Triangle? Present and Future Relations Between Russia, Ukraine, and Belarus*, Arkady Moshes and Bertil Nygren, eds. (Stockholm: The Swedish National Defense College, 2002), p. 62.

better relationship.<sup>49</sup> Furthermore, Russia's economic growth meant that its largest financial interests had assets to invest, and they became interested in investing them in Ukraine. If one combines investment from Russia and Cyprus (on the assumption that such funds are really Russian), Russian firms were the largest source of foreign direct investment in Ukraine in 2002, at 17.6% of the total (the United States was second with 17.3%). Analysts also note that the official statistics significantly understate the amount of Russian investment, because many firms that are legally Ukrainian are actually fronts for Russian owners.<sup>50</sup>

That is, both private and government interests discovered economic interests and opportunity in improved relations, particularly in the economic sphere. A growing pie shifted the focus from zero-sum concerns about Russian involvement in the Ukrainian economy to mutual profit, at least for select business interests. Russia's Gazprom and Ukraine's Naftogaz agreed in October 2002 to create an international gas consortium, whereby Ukraine gets Russian investment and Russia gets an ownership stake in Ukraine's natural gas pipelines.<sup>51</sup> Oligarchic and subsidiary business interests likely found the path to state-facilitated profitable economic relations smoothed by the appointment of Viktor Chernomyrdin as Russian ambassador to Kyiv, given his networks among the post-Soviet political economic elites.

This turn in Russian-Ukrainian economic fortunes came at just the right moment to support the Putin pragmatic turn in foreign policy based on economic growth in service of security concerns already outlined earlier in this chapter. Putin's new emphasis on integration on the bilateral level as necessary and the multilateral level as possible turned out to find fertile ground and support from a Ukrainian leadership with a broadly similar financial-industrial structure to Russia's. Deals could be made, economic interests served, and political support won, meaning that Russia's policy toward Ukraine now has the advantage of being not merely the idea of Russia's political elite, but one with support in powerful circles in the economy. Ukraine became an observer in the Eurasian

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<sup>49</sup> Olszanski (2001), p. 39.

<sup>50</sup> Oleksandr Sushko, "The Policy of the USA and Russia towards Ukraine: Comparative Evaluation," paper presented to the annual conference of the Program on New Approaches to Russian Security, Moscow, 23–26 April 2003.

<sup>51</sup> "Russian-Ukrainian Gas consortium to be registered in one month," *Interfax*, October 8, 2002.

Economic Council, a Russian priority for pragmatic multilateral integration.<sup>52</sup> Among the new areas of bilateral industrial cooperation is joint production of military aircraft, meaning that support for the pragmatic turn in Putin's approach to integration will likely enjoy support from defense industries, and will certainly be unlikely to cause complaint from Russia's military.

At the same time, a third factor undermined, at least for a time, Ukraine's ability to leverage support from the West in order to resist closer ties to Russia. The murder of journalist Georgy Gongadze and a tape that allegedly implicated President Kuchma in his death, a crack-down on political dissent and free media, as well as taped evidence of Kuchma's approval for delivery of Kolchuga air defense systems to Iraq, all combined for a precipitous negative turn in Ukraine's relations in the West.<sup>53</sup> Ukraine appeared to lose, for a time, its ability to work intensively with Russia while reminding the Russian leadership that it had other options, and that the West had a stake in Ukrainian independence. Instead, it was Putin who was able to develop Russia's improved status and importance in U.S. and European policy.

A comparison of the evolution of Russia's policies toward Belarus and Ukraine in the framework of economic interests, security objectives, and the dependencies and interdependencies in the two relationships supports just how important are Russia's evolving economic interests for its foreign and security policies. The root cause of the poor state of Russian-Belarusian relations is the fundamental incompatibility of each leadership's economic strategies and the array of economic interests behind their respective political leaderships, while the reason for the positive trend (from the point of view of the Russian leadership) in Russian-Ukrainian relations is the compatibilities in economic interests of major business and political interests in both countries. This is not at all to argue that the improvement in relations serves the broader interests of both countries; a strong argument can be made that in both countries public policy primarily serves the economic interests of the elite, and fundamental reforms necessary for the economy and society as a whole are

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<sup>52</sup> Oleksandr Pavliuk, "Russia's Integration with the West and the States 'In Between'," paper prepared for the conference "Integrating Russia into Europe," Brussels, July 8-9, 2002.

<sup>53</sup> For a careful analysis see Robert Legvold's contribution to this volume.

not pursued. Mine is an analytical argument, not a moral one.

That said, there remains another important difference facilitating Russia's successful policy worth noting: Ukraine is less asymmetrically dependent on Russia than Belarus, and still has a Western option. Recent months have seen a rapprochement of sorts in the Kuchma government's relations with the United States, and a strengthened relationship with NATO.<sup>54</sup> Although both economies are heavily dependent on trade with Russia, Russia has a current vital stake in the transit routes that Ukraine owns and controls. Ukraine's political and diplomatic options with the United States and Europe, though fragile because of the internal political situation, along with its geoeconomic value as a necessary link in Russia's vital energy trade, provide the Ukrainian leadership with a hedge that economic integration with Russia need not mean security subordination. The lesson for Russia should be that a stable and successful security policy needs to be built not only on pragmatism in economic interests and instruments, but also on pragmatism in the security realm, which means reassuring neighbors and partners of their security and independence so they can be confident cooperation does not lead to vulnerability.

#### ANALYSIS AND CONCLUSIONS

The implication of the security-economics link in Russia's foreign policy for Belarus and Ukraine is that an integrationist, marketizing Russia is a regional power whose objectives present its neighbors with dangers as well as opportunities. The opportunities lie in the enhanced pragmatism and cost effectiveness that guide Russian strategy. The dangers continue to lie in two sources: geographical proximity and the Soviet legacy. Geographical proximity means Russia's neighbors are fated to matter in Russian calculations, whether that security is defined in terms of vulnerability to traditional threat or twenty-first-century instability and vulnerabilities. The Soviet legacy means that they are linked to Russia through multiple asymmetric interdependencies. Russian political and economic leaders see proximity and interdependencies as sources of opportunity as well as danger. These factors, more than Russia's overall objective for

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<sup>54</sup> See Legvold's chapter on the former point. On Ukraine's positive track with NATO, see the report of the Center for Strategic and International Studies on the conference of NATO defense ministers with a senior Ukrainian government delegation on May 5, 2003 in Washington DC.

economic growth through integration and market, are of more immediate importance to Belarus and Ukraine in the development of their own security and economic policies.

To a great extent, however, the implications of Russian policy depend on the political economic objectives and strategies of the Belarusian and Ukrainian leaderships. Lukashenko has benefited neither from Putin's refined strategic objective nor from his shift in strategy, largely because he does not share Putin's objective of economic growth through marketization, integration, and trade. Kuchma has more clearly benefited, because Putin's pragmatism has created the space for a Russian policy that prefers effective compromise over pursuit of maximum goals in both the security and economic realm. But the reason why effective compromise is an option is Ukraine's broader scope of a political and economic elite that seeks profit and growth itself, not just subsidies, and is willing to open the Ukrainian economy to trade and investment to realize profit, even at the expense of complete control. One could say the root cause of the shift in Russia's relations with Belarus and Ukraine in 2003 is the varying definitions of security, with Putin focused on economic growth, Lukashenko focused on political control, and Kuchma focused on domestic political support.

However, as we have seen, Putin's strategic policy is shaped not only by definitions of security, but by how that definition intersects with the realities of Russia's economic sectors, their interests, and the context of economic opportunity created by the international system and Russia's array of trading partners. Consider an alternative scenario: a Russian leadership that defined security, as Putin does, in terms of rebuilding the economy so that Russia could rebuild its power and take its rightful place on the world stage, but one that had been far more successful in creating a new economy in the 1990s. Instead of a Russian economy still dominated by raw-material exports owned by oligarchic financial-industrial groups and even the state (in the case of Gazprom), and by an industrial production largely non-competitive on international markets, imagine a Russia of multiple private energy-owners with limited capital, far more eager for massive foreign investment in Russia's energy sector. Imagine a Russia that had passed bankruptcy laws and created a social safety net with IMF credits in the 1990s, and had therefore closed defense industries and rationalized the atomic-energy industries. Imagine a Russia that had built multiple pipelines to Europe, and that had developed liquefied



natural gas technology so exports could go by sea transport as well as by transit corridors.

This would be a Russia with less interest in trade relations with old Soviet clients, including the CIS countries, and more incentive to make Russia a profitable and safe place to invest. It would be a Russia with interests in Ukraine as an energy transit corridor, but it would not be a Russia with such a degree of concentrated economic interests and political power in Ukrainian corridors. This might reduce Ukraine's leverage, but it also might reduce its vulnerability by introducing dissent and competition into Russia's foreign economic policy making. This might increase interests and opportunities in Belarus in a market relationship with Russia, rather than a post-Soviet version of Soviet economic relationships of control and subsidy.

It might also be a Russia whose foreign policy is more in keeping with liberal expectations that a marketizing Russia would be accommodating and more comprehensively integrationist than the Russia we see in 2003. That is, the specific structural features of Russia's economy have a key impact on its strategies and foreign economic relationships, because those sectoral interests determine far more reliably Russia's policy priorities and political power than does an overall commitment to growth. It is not enough to know that Putin has outlined an overall strategy for growth: one needs to know which sectors will be relied on, how reconcilable are their interests, how sustainable is the political alliance within the leadership based on those interests, and whether the international environment (including U.S. policy) forces Putin to make trade-offs he seeks to finesse. *How* an economy can grow is more important for a country's security policies and relationships because it affects political relationships at home and abroad. In Putin's Russia, energy conglomerates and monopolies that seek to dominate and control domestic production, foreign transit, foreign sales, and investment in foreign energy infrastructure have enormous weight in political circles because they are vital to the Russian economy and thus to the leadership's objective. Ideas about security matter in the link between Russian security and economics, but interests determine the conditions under which ideas are pursued because interests are related to the political power that is the basis for policy.

What this analysis has shown is that the result one might have expected from Putin's determination to make Russia's economy a success on the global stage—that Western economic integration would by itself

bring Western political integration, and thus a more liberal and less hegemonic relationship of Russia to Belarus and Ukraine—is too simplistic. The reason, as we have seen, is that the shape of Russia's evolving economy and terms of political competition and leadership are an intervening factor in that relationship.

Can Russia sustain a foreign policy that depends on economic growth and greater western integration while preserving bilateral relations with Belarus and Ukraine focused on exercising greater political influence for security and economic advantage? The answer depends first on the policy choices of the Belarusian and Ukrainian leaderships themselves: If they find it in their interests (personal, narrow, or societal) to accommodate Russian policies whether they are integrative or hegemonic in style, there is not much the international community is likely to do to interfere. International relations continue to be dominated by the presumption of external sovereignty: even non-democratic leaderships are recognized as their countries' legal representatives on the international level, with the right to set their foreign policies and relations within the constraints of international obligations, as long as those leaderships do not perpetrate egregious violations of human rights.

The answer also probably depends on the means Russian leaders use to influence the leaderships of those two countries, if the latter resist Russian policies and demands. Although U.S. leaders were unhappy about Russian cut-offs of natural gas supplies to Georgia and to Ukraine in recent years, measures that were recognized as attempts to pressure the leaderships of those countries for political concessions, there was little that could be done, given the significant debt those countries owed to Russia. Economic coercion is generally difficult to rule out in international diplomacy, because economic relations are voluntary and can be suspended when it is in a country's interests, as long as it is done consistent with international law. Military coercion is another matter, as we have seen in the U.S. policy to support Georgia against Russian military pressure over its border with Chechnya. Yet it is extremely unlikely that Russia would choose to threaten either country in military terms, for this reason.

Therefore, there is only a soft and tenuous linkage between Russia's overall commitment to international integration and how it relates to its two neighbors. The international system simply does not tell countries that they cannot join the WTO if they pressure neighbors to facilitate energy consortia. Individual countries such as the United States may be

less willing to back Russian membership or to make concessions on the terms of accession, but U.S. and European policy on Russia's WTO membership is more likely to falter because of economic complaints within those countries against unfair competition. And it should be obvious that western countries are not likely to refuse to import Russian oil or gas because its transit through Ukraine reinforces Ukraine's dependency on Russia.

The answer depends as well, however, on internal Russian political and economic sustainability. Can the Putin government and its successors successfully balance and develop an economy with sectors that depend on broad foreign presence (energy), significant transparency and competitiveness (computer software and consumer goods), and special political economic foreign relations (arms and technology sales and energy transport)? That Russia can sustain the broad set of political and economic relations abroad seems clear, at least for the foreseeable future.

The more important question is whether such a balancing act among competing political and economic interests at home can be sustained. Russia's drive toward WTO membership is faltering, largely because Russia's domestic producers in old industries seek protection and subsidies. In this, of course, Russia has become a "normal" country, and one might take the clash of political and economic interests in the realm of public policy to be a very healthy sign. Nevertheless, despite high growth rates and success in the past few years, Russia remains a fundamentally distorted and vulnerable economy, its employment levels too rooted in the extractive sectors for growth and non-profitable Soviet industry. Structural reforms have been important, but they have not reached institutions, such as the banking sector, that are necessary to Russia's developing a diversified economy, with diverse interests and political participation. The key link between security and economics in Russia's future continues to lie in relationships of political power and the economic interests they represent. Putin has set a long-term objective and a strategy for getting there that have not required that there be many losers on Russia's domestic scene. If he has to begin choosing winner and losers, the fight over a shrinking pie would likely to change the synergistic link of security and economics in Russian foreign policy into one of competition and trade-offs, undermining its sustainability. For the short to medium term, however, Putin's diversified foreign economic and security policy is sustainable precisely because it gives something to just about everyone.

# Interpreting Interdependence: National Security and the Energy Trade of Russia, Ukraine, and Belarus

RAWI ABDELAL<sup>1</sup>

The economic dependence on Russia that Ukraine and Belarus inherited from Soviet planners in 1991 was enormous. The two new states depended on Russian markets, in which Ukrainian and Belarusian producers sold goods that were uncompetitive in the rest of the world. Ukraine and Belarus also depended on Russia for crucial imports. Energy was the most important of all.

Ukraine and Belarus relied heavily, in particular, on Russian oil and gas. In 1992 Russia supplied 89 percent of Ukraine's oil and 56 percent of its gas; Belarus relied on Russia for 91 percent of its oil and all of its gas.<sup>2</sup> Every winter since December 1991 Ukrainian and Belarusian households have worried that an end to Russian gas imports would mean unbearable cold. Ukrainian and Belarusian industrial firms, energy-inefficient behemoths designed by Stalinist planners, required massive amounts of Russian oil and gas. The cost of energy dependence was obvious to policy makers in both states: reduced political autonomy.

The price, however, was negotiable. Even after 1991, the Russian government managed the prices of oil and gas exports to the other four-

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<sup>1</sup> For insightful comments and suggestions, I am grateful to Paul D'Anieri, Bob Legvold, Arkady Moshes, Clelia Rontoyanni, Celeste A. Wallander, and Andrew Wilson. The research for this chapter was supported by the Division of Research, Harvard Business School. Dora Douglass and Grant Mainland provided excellent research assistance.

<sup>2</sup> Karen Dawisha and Bruce Parrott, *Russia and the New States of Eurasia* (Cambridge: Cambridge University Press, 1994).

teen newly independent states of Eurasia and thus continued to subsidize their energy consumption. Indeed, Eurasian markets for oil and gas were highly fragmented, with prices lowest within Russia and highest in Lithuania, Latvia, and Estonia, the three Baltic republics that refused to join the Commonwealth of Independent States (CIS). The Russian government clearly sought to link political acquiescence in its regional hegemony to energy subsidies. While Belarus was rewarded for its commitment to CIS integration with low prices, Ukraine was punished for its assertiveness with higher prices.

Almost regardless of the price, however, Ukraine and Belarus desperately needed Russian energy imports, for which they simply could not pay. So energy debts mounted throughout the 1990s. Again Russia chose not to treat all its energy debtors in the near abroad equally. Russia offered Belarus generous repayment terms, and by the late 1990s accepted Belarusian industrial output as barter for more than 75 percent of its payments. Furthermore, Russia regularly forgave Belarusian energy debts. With Ukraine, in contrast, Russia took a tougher line, demanding payment in cash and threatening cutoffs much more frequently. Clearly Russia treated Ukraine and Belarus differently. Some observers even argued that Russia systematically attempted to use the energy dependence of the other post-Soviet states as leverage to shape their foreign policies.<sup>3</sup> In the Ukrainian and Belarusian cases there is little evidence that the Russian government consistently sought to link threats of energy cut-offs to specific foreign-policy objectives; still, with regard to overall foreign policy orientations, Russia rewarded Belarus for its acquiescence and punished Ukraine for its intransigence in Eurasian politics.

Underlying these patterns in the energy trade was a fundamental difference in approach between the Ukrainian and Belarusian governments. The Ukrainian government interpreted energy dependence on Russia as a security threat—as a problem that needed to be solved—in its expansive,

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<sup>3</sup> See Daniel Drezner, *The Sanctions Paradox* (Cambridge: Cambridge University Press, 1999), part 2. For an overview of the international relations of the region, see Celeste A. Wallander, “The International Relations of the Post-Communist States: Global Parameters and Domestic Determinants,” presented at the workshop “Ten Years Since the Collapse of the Soviet Union: Lessons and Perspectives,” Woodrow Wilson School of Public and International Affairs, Princeton University, October 13–15, 2000.

and non-traditional, definition of state security.<sup>4</sup> The Belarusian government, in contrast, interpreted dependence merely as a fact of post-Soviet life—neither good nor bad—and a reason to reintegrate economically with Russia.<sup>5</sup>

In this chapter I describe the strategic implications of Ukrainian and Belarusian dependence on Russian energy, emphasizing the dramatically contrasting interpretations of the Ukrainian and Belarusian governments and the divergent foreign economic policies that followed. Then I trace the evolution of these two states' energy dependence during the first post-Soviet decade and highlight the Ukrainian, Belarusian, and Russian policy choices that led to the situation as it stood at the beginning of the

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<sup>4</sup> Author's interview, Ministry of Foreign Affairs of Ukraine, Kyiv, June 1998; author's interview, Administration of the President of Ukraine, Kyiv, June 1998. Also see Vladimir Mayevskiy, "Economy Must Be Secure," *Pravda Ukrainy*, January 29, 1993, in FBIS-USR-93-023, March 3, 1993, p. 79; Vladimir Buida, "Military Doctrine Adopted," *Nezavisimaya Gazeta*, October 21, 1993, in *Current Digest of the Post-Soviet Press*, vol. 45, no. 42 (1993): 25–26; Charles J. Dick, "The Military Doctrine of Ukraine," *Journal of Slavic Military Studies*, vol. 7, no. 3 (1994): 507–20; Oles M. Smolansky, "Ukraine's Quest for Independence: The Fuel Factor," *Europe-Asia Studies*, vol. 47, no. 1 (1995): 67–90; Smolansky, "Fuel, Credit, and Trade: Ukraine's Economic Dependence on Russia," *Problems of Post-Communism*, vol. 46, no. 2 (1999): 49–58; Margarita Mercedes Balmaceda, "Gas, Oil, and the Linkages between Domestic and Foreign Policies," *Europe-Asia Studies*, vol. 50, no. 2 (1998): 257–86; and Rawi Abdelal, *National Purpose in the World Economy: Post-Soviet States in Comparative Perspective* (Ithaca, N.Y.: Cornell University Press, 2001), chap. 5.

<sup>5</sup> See, for example, the analysis of then Belarusian Minister of Foreign Affairs Vladimir Senko, "Foreign Policy of the Republic of Belarus: Directions and Prospects," *Belarus' v mire*, vol. 1, no. 1 (1996): 45–46. Also see Viacheslau Pazniak, "Belarus: In Search of a Security Identity," in *Security Dilemmas in Russia and Eurasia*, ed. Roy Allison and Christopher Bluth (London: Royal Institute of International Affairs, 1998), pp. 153–56; Anatoli Tozik, "V konseptsii natsional'noy bezopasnosti razrabotchiki postavili tochku" (National Security Concept is Finalized), *Narodnaya gazeta*, June 6, 1995; Karen Dawisha, "Constructing and Deconstructing Empire in the Post-Soviet Space," in *The End of Empire? The Transformation of the USSR in Comparative Perspective*, ed. Karen Dawisha and Bruce Parrott (Armonk, N.Y.: M. E. Sharpe, 1997); and Abdelal, *National Purpose in the World Economy*, chap. 6.

century. Finally, I evaluate the current policy debate, which revolves around prices, payments, and pipelines.

Pipelines, in particular, present the most complex analytical issues for Russian, Ukrainian, and Belarusian policymakers. Because nearly all of Russia's lucrative gas exports travel through Ukraine, Russia now needs Ukrainian transit routes, though not as desperately as Ukraine needs Russian energy. In order to increase the asymmetry of the Russian-Ukrainian economic relationship and ensure the safe, inexpensive transit of its gas, Russian and gas industry officials have proposed to bypass Ukraine with a new pipeline across Belarus. Belarusian leaders would, of course, be happy to oblige. The curious result of these mutual dependencies is that Russia, Ukraine, and Belarus may be forced into a cooperative, positive-sum relationship exporting outside the post-Soviet space the one product the region offers that the world actually needs in abundance: natural gas. Although the energy trade has divided Russia and Ukraine, the pipelines may be drawing them together without hierarchy.

#### AFTER THE FALL

The Soviet Union was endowed with enormous oil and natural gas reserves, which Soviet planners used to promote industrialization, regional integration, and state building. While the constituent republics of the Soviet Union and east European satellite states were allocated oil and gas by planners at effective prices far below those of the world market, energy exports fetched much higher prices. As a result, oil and gas dominated Soviet export earnings, reaching as high as 75 percent of the total. Thus, as energy analyst Mikhail Korchemkin notes, "For nearly forty years, Soviet oil and gas export authorities operated in two entirely different markets—the world market and a separate market consisting of countries with centrally planned economies."<sup>6</sup> The implicit energy subsidies in Soviet planning were crucial for the process of industrialization.

Gas was particularly important for the industrial sectors of the Soviet republics, and eventually became the single most important resource in

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<sup>6</sup> Mikhail Korchemkin, "Russia's Oil and Gas Exports to the Former Soviet Union," in *Economic Transition in Russia and the New States of Eurasia*, ed. Bartłomiej Kaminski (Armonk, N.Y.: M. E. Sharpe, 1996), p. 121.

the regional economy. Moreover, after the Soviet Union disintegrated in December 1991, it was precisely gas—and the miles of pipelines that transported it—that continued to tie the new states' economies together. Oil, in contrast, was not as important for industrial firms, nor was its supply as technically difficult to cut off as a result of arrears. Furthermore, whereas the end consumer was irrelevant for Russian oil exporters, the ultimate buyer of Russian gas exports was crucial. Newly independent states whose leaders were interested in the diversification of energy supplies faced an enormous undertaking. According to Korchemkin, "Suppliers and users are linked by pipelines laid without respect to the newly created internal borders of the former Soviet Union, and it would take billions of dollars to change the supply scheme."<sup>7</sup>

All fifteen post-Soviet states began 1992 with the same prices for oil and gas. But they quickly faced an important foreign economic policy choice that would influence Russia's willingness to continue to subsidize their energy consumption: whether to introduce a national currency. All fifteen states also shared the same currency, the ruble, and thus comprised the so-called "ruble zone." When a few post-Soviet governments began to make plans to exit the ruble zone, Russian policy makers made it clear that only those post-Soviet countries that remained in the zone would receive energy subsidies. After Lithuania, Latvia, and Estonia exited the ruble zone and introduced their litas, lats, and kroons in the spring of 1992, Russia raised their energy prices to world levels in a mat-

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**TABLE 3.1**

Impact on the Terms of Trade of Changing to World Prices

Russia	+79	Tajikistan	-7	Armenia	-24
Turkmenistan	+50	Azerbaijan	-7	Latvia	-24
Kazakhstan	+19	Ukraine	-18	Lithuania	-31
Kyrgyzstan	+1	Belarus	-20	Estonia	-32
Uzbekistan	-3	Georgia	-21	Moldova	-38

**Source:** Adapted from David G. Tarr, "The Terms-of-Trade Effects Moving to World Prices on the Countries of the Former Soviet Union," *Journal of Comparative Economics*, vol. 18, no. 1 (1994): 1–24.

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<sup>7</sup> Korchemkin, "Russia's Oil and Gas Exports to the Former Soviet Union," p. 130.



ter of months.<sup>8</sup> The example Russia made of the three Baltic states was obvious to the remaining eleven: autonomy from Russia would have its costs. Economists evaluated the trade-off post-Soviet governments faced, which were similar for Ukraine and Belarus.<sup>9</sup> (See Table 3.1.)

Meanwhile, the leaders of the Russian Federation planned the privatization of its energy firms. The oil sector produced a number of firms, such as Sidanko and Sibneft, that came to be dominated by businesspeople close to the Russian political establishment. Foreign investment in Russian oil firms was limited, and the experience of one Western firm, BP Amoco, made the new Russia notorious for corporate governance scandals: BP, a minority investor in the Russian oil company Sidanko, watched helplessly as several of Sidanko's prized assets were seized through a rival firm's manipulation of Russia's weak bankruptcy courts.<sup>10</sup>

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<sup>8</sup> Rawi Abdelal, "National Strategy and National Money: Politics and the End of the Ruble Zone, 1991–94," in *Monetary Orders*, ed. Jonathan Kirshner (Ithaca, N.Y.: Cornell University Press, forthcoming 2002); John M. Kramer, "'Energy Shock' from Russia Jolts Baltic States," *RFE/RL Research Report*, vol. 2, no. 17 (1993): 41–49; and Martha Brill Olcott, Anders Åslund, and Sherman Garnett, *Getting It Wrong: Regional Cooperation and the Commonwealth of Independent States* (Washington, D.C.: Carnegie Endowment for International Peace, 1999), pp. 44–45.

<sup>9</sup> David G. Tarr, "The Terms-of-Trade Effects of Moving to World Prices on the Countries of the Former Soviet Union," *Journal of Comparative Economics*, vol. 18, no. 1 (1994): 1–24; and Linda S. Goldberg, Barry W. Ickes, and Randi Ryterman, "Departures from the Ruble Zone: Implications of Adopting Independent Currencies," *World Economy*, vol. 17, no. 3 (1994): 293–322. Political scientist Matthew Evangelista evaluated various theoretical approaches to the post-Soviet energy sector and found that deductive, purely materialist accounts of its politics neglected the influence of institutions; see Evangelista "From Each According to Its Abilities: Competing Theoretical Approaches to the Post-Soviet Energy Sector," in *The Sources of Russian Foreign Policy After the Cold War*, ed. Celeste A. Wallander (Boulder, Colo.: Westview, 1996); and Evangelista, "Stalin's Revenge: Institutional Barriers to Internationalization in the Soviet Union," in *Internationalization and Domestic Politics*, ed. Robert O. Keohane and Helen V. Milner (Cambridge: Cambridge University Press, 1996).

<sup>10</sup> See "Russia: Rules of War," *Economist*, December 4, 1999; and Bhushan and Bahree, "How Siberian Oil Field Turned Into a Minefield—BP Amoco Learns Bruising Lesson on Investing in Russia," *Wall Street Journal*, February 9, 2000. Also see Rawi Abdelal, *Russia: The End of a Time of Troubles?* Harvard Business School Case No. 701-076 (2001), p. 10.

During the mid-1990s restraints on the export prices charged by Russian oil firms in the near abroad were partially liberalized, so that each oil firm negotiated independently with Ukrainian and Belarusian importers.

The gas sector was in some respects more straightforward, though not, by the end of the 1990s, less notorious for problematic corporate governance. In gas there was only one firm, Gazprom, the largest gas company in the world, in which the Russian government retained a 38 percent stake.<sup>11</sup> Although many of the gas export deals were handled by a separate trading company, Itera, most observers considered Itera an extension of Gazprom. While Gazprom dealt with exports to the European Union, Itera was responsible for CIS markets. The Russian government's equity and close relationship to the Gazprom board of directors led some scholars to suggest that the firm often acted as another policy lever for the president.<sup>12</sup> However, at other times, particularly in Russian domestic politics, it seemed that the Russian government acted on behalf of Gazprom. There is no scholarly consensus about the extent of Gazprom's influence on public policy, as compared to policy's influence on Gazprom. But in Russia's relations with the other post-Soviet states, at least, the government's foreign policy priorities often trumped Gazprom's narrower commercial concerns. In particular, Gazprom officials frequently complained about the generous terms for gas imports that Belarus received as a result of the integration treaties Belarusian and Russian leaders signed during the 1990s.

### *Ukraine's Strategy*

Ukraine's dependence on Russian energy had two crucial political consequences. The first was the threat—both explicit and implicit—that Russia could use the asymmetry of their interdependence to force changes in

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<sup>11</sup> Gazprom controls more than 98 percent of Russia's gas production. With 1,680 trillion cubic feet of proven natural gas reserves, 30 percent of all reserves in the world, Russia has more gas than any other country. See *BP Statistical Review of World Energy*, June 2002, p. 20. On the evolution of the energy sector in Russia, see Fiona Hill and Florence Fee, "Fueling the Future: The Prospects for Russian Oil and Gas," *Demokratizatsiya*, vol. 10, no. 3 (2002).

<sup>12</sup> See, for example, Jan S. Adams, "Russia's Gas Diplomacy," *Problems of Post-Communism*, vol. 49, no. 3 (2002): 14–22.

Ukrainian economic policy, or what the scholarly literature on economic statecraft labels “coercion.” Interestingly, however, most observers agree that Russia’s attempts to exploit the coercive power inherent in Ukraine’s energy dependence failed, primarily because the Ukrainian government interpreted Russia as a security threat. The Ukrainian government refused, for example, to give in fully to Russian demands about the distribution of Soviet assets, control of the Black Sea Fleet, and basing rights in Sevastopol.<sup>13</sup> During the rest of the decade, Russia did not systematically attempt to alter specific Ukrainian policies with threats about energy cut-offs, but the Ukrainian government was nonetheless extremely concerned about the possibility of manipulation that their dependence created.

The second, more significant political consequence of Ukraine’s energy dependence was its effect on domestic debates about the Ukrainian national interest. Building on the seminal work of economist Albert Hirschman, scholars have identified a more subtle form of power that results from asymmetric interdependence: rather than coercion, economic “influence” involves changing interpretations of self-interest.<sup>14</sup> Russian economic influence was evident in Ukraine’s dramatic policy reversal of 1992–1993.

In March 1992 Ukraine’s first post-independence president, Leonid Kravchuk, outlined a new economic program, which the administration presented to the Ukrainian parliament in a closed session. The central goal of the program was not growth, not reform, not development, but economic autonomy from Russia. In the proposal, *Principles of a National Economic Policy for Ukraine*, the government lamented Ukraine’s economic dependence on Russia, and worried that “the

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<sup>13</sup> Daniel Drezner, “Allies, Adversaries, and Economic Coercion: Russian Foreign Economic Policy Since 1991,” *Security Studies*, vol. 6, no. 3 (1997): 65–111, esp. pp. 96–105. Also see Anatol Lieven, *Ukraine & Russia: A Fraternal Rivalry* (Washington, D.C.: United States Institute of Peace, 1999), p. 142. For a comprehensive, critical analysis of these issues, see Clelia Rontoyanni, *Russia’s Policies towards Belarus and Ukraine: Towards Integration or Disintegration?*, Ph.D. diss., University of Glasgow, 2001, chap. 2.

<sup>14</sup> See Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley: University of California Press, [1945] 1980). For an application to Ukraine, which I summarize here, see Rawi Abdelal and Jonathan Kirshner, “Strategy, Economic Relations, and the Definition of National Interests,” *Security Studies*, vol. 9, nos. 1/2 (1999–2000): 119–56, esp. pp. 144–54.

country's very independence is jeopardized." The policy response was to be a thoroughgoing structural transformation, the creation of a new Ukrainian currency, and reductions of imports from Russia and other "ruble-zone countries" through "economizing" and "reorientation toward new markets."<sup>15</sup>

The Ukrainian government thus sought to change a material fact of independent statehood that was itself a policy choice of Soviet planners. Prior to the Ukrainian SSR's industrialization, Ukraine had its own energy industry, based on its abundant coal, which was phased out in favor of lower-cost alternatives in Russia and Central Asia. Particularly after the 1960s Soviet planners allocated oil and gas to Ukraine's energy-intensive heavy industry at effective prices far below those of the world market. Soviet strategists, who sought to tie the constituent republics closely together, succeeded brilliantly in institutionalizing Ukraine's economic dependence.<sup>16</sup>

Ukrainian officials quickly became all too keenly aware of their country's profound dependence on low-cost Russian energy. Evhen Baramikov, chief of inter-republic trade in the Ministry of the Economy, explained that although Russia "can last a year without our food," it "can halt Ukrainian industry in a day."<sup>17</sup> As Deputy Prime Minister for CIS

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<sup>15</sup> The plan was reprinted in "Kravchuk's Report Had the Effect of an Exploding Bomb," *Komsomol'skaya pravda*, March 26, 1992, in *Current Digest of the Post-Soviet Press*, vol. 44, no. 12 (1992): 15–16. Also see Sergey Tsikora, "Iz SNG Ukraina ne vykhodit, no ekonomicheskii kurs—menyaet" (Ukraine is Not Leaving the CIS, But Its Economic Course is Changing), *Izvestiya*, March 25, 1992; Chrystia Freeland, "Ukraine Plans to Sever Russian Economic Links," *Financial Times*, March 24, 1992; Alex Shprintsen, "Ukraine Will Speed Up Breakaway from Russia," *Los Angeles Times*, March 25, 1992; Serge Schmemmann, "Ukraine's Parliament Votes to Replace the Ruble," *New York Times*, March 26, 1992; and "Ukraine's Parliament Approves Plan That Could End Nation's Use of the Ruble," *Wall Street Journal*, March 25, 1992.

<sup>16</sup> See Helen Boss, "Ukraine's First Year of Economic Statehood," in *Economic Transformation in East-Central Europe and the Newly Independent States*, ed. Gabor Hunya (Boulder, Colo.: Westview, 1994); and Leslie Dienes, "Energy, Minerals, and Economic Policy," in *The Ukrainian Economy: Achievements, Problems, Challenges*, ed. I. S. Koropecykj (Cambridge, Mass.: Harvard Ukrainian Research Institute, Harvard University Press, 1992).

<sup>17</sup> Quoted in Chrystia Freeland, "Kiev Gripped in Russian Stranglehold—

Affairs Valentin Landik insisted, “world prices for oil is death for us.”<sup>18</sup> Clearly Russia was not extracting resources with its policy of subsidizing Ukrainian industry; instead, subsidies purchased influence. As political scientist Paul D’Anieri points out—in a Hirschmanesque analysis of Ukraine’s dependence—in “a strictly economic sense, the energy trade with Russia is highly beneficial to Ukraine.”<sup>19</sup>

By the end of 1992 Ukraine was already mired in a profound economic crisis. The Ukrainian economy had collapsed, in part a consequence of the rupturing of economic ties with Russia and the rest of the Soviet Union. Fuel shortages, the closure of foreign markets that had only a year earlier been part of a single, all-union market, and the weak demand for Ukrainian goods in the West all called Ukraine’s policy of economic autonomy into question. No one was more upset or vociferous than Ukraine’s industrialists, who had protested the government’s economic reorientation toward the West as soon as it had begun.

The Ukrainian government, convinced by Ukrainian industrialists and Russian officials, changed course. By late 1992 and early 1993, officials in Kyiv were forced to acknowledge that Russia was Ukraine’s most important economic partner. The then-prime minister, Leonid Kuchma, asked how Ukraine’s first year of economic independence had gone, noted the irony: “Strange as it may seem, the upshot has been an awareness of our economic dependence.”<sup>20</sup> The Ukrainian government ended its radical autonomy policies: It cut import and export quotas in May and June 1993, eliminated the value-added tax on trade with Russia and other

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Ukraine’s Economy Will Pay a Heavy Price for Defying Moscow,” *Financial Times*, July 23, 1992.

<sup>18</sup> Quoted in John Lloyd, “Weak Ukraine Plays into Russia’s Hands: Economic Union Means Giving Moscow Control of Many of the Levers of Power,” *Financial Times*, September 17, 1993.

<sup>19</sup> Paul J. D’Anieri, “Dilemmas of Interdependence: Autonomy, Prosperity, and Sovereignty in Ukraine’s Russia Policy,” *Problems of Post-Communism*, vol. 44, no. 1 (1997): 16–26, at p. 18. Also see D’Anieri, *Economic Interdependence in Ukrainian-Russian Relations* (Albany: State University of New York Press, 1999); and Gregory V. Krasnov and Josef C. Brada, “Implicit Subsidies in Russian-Ukrainian Energy Trade,” *Europe-Asia Studies*, vol. 49, no. 5 (1997): 825–43.

<sup>20</sup> Kuchma is quoted in an interview in *Komsomol’skaya pravda*, January 5, 1993, in FBIS-SOV-93-005, January 8, 1993, pp. 19–21.

CIS members in August 1993, and began to cultivate a new economic relationship with Russia, one that would, it hoped, involve continued energy subsidies. According to political scientist Oles Smolansky, the government's awareness of energy shortages led President Kravchuk, "in a major about-face, publicly to express his administration's desire to establish close economic cooperation with Russia."<sup>21</sup> As D'Anieri argues, "the policy of cutting ties with Russia has now been reversed as the price of economic independence has proved too high."<sup>22</sup> Thus, although Russia was unable to coerce Ukraine into specific policy changes, it was able to prevent Ukraine from going the way of the Baltic republics, which had epitomized the preferred strategy of the Kravchuk administration in the spring of 1992.

By the beginning of the century, Ukraine's energy needs still far exceeded its domestic supply. Ukraine's 395 million barrels of oil reserves were, at the current level of production, enough for only 25 percent of domestic demand, despite the fact that oil consumption had fallen by more than half—from 813,000 to 346,000 bbl/d—during the 1990s. Ukraine imported its oil primarily from Russia, although Kazakhstan played an increasingly large role. Ukraine also remained an important transit route for Russian oil exports, as the southern branch of the Druzhba pipeline brought oil through the country on the way to Slovakia, Hungary, and ultimately the EU.

Similarly, Ukraine's 39.6 trillion cubic feet of natural gas reserves served only 20 percent of domestic needs each year, with Russia by far the most important source of the other 80 percent. As with oil, Ukraine was an important transit route for Russian gas exports to the West. Although Ukraine received a little more than 1 trillion cubic feet of Russian natural gas as payment for transiting Russian gas exports to Europe, a great deal more disappeared from the pipelines running through Ukraine. Gazprom complained of these "illegal offtakes" and attempted to hold the Ukrainian government financially responsible for the missing gas.

The Ukrainian government's attempts to diversify its dependence met with enormous difficulties, primarily because Ukraine could not afford to fill its gas needs almost regardless of price. Although Ukraine signed a

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<sup>21</sup> Smolansky, "Ukraine's Quest for Independence," p. 73.

<sup>22</sup> D'Anieri, "Dilemmas of Interdependence," p. 21.

5-year gas supply deal with Turkmenistan designed to wean the country off Russian gas, its slow payments have continued to hamper the development of this alternative supplier. At the time of the deal, Ukraine still owed Turkmenistan \$250 million for previous gas supplies, and the two governments agreed that payments would be made 50 percent in cash and 50 percent in construction and industrial projects in Turkmenistan.<sup>23</sup> The deal was also undermined by Itera, an ostensibly independent affiliate of Gazprom, which threatened to block deliveries from Turkmenistan to Ukraine unless Ukraine's existing gas debts were resolved.<sup>24</sup> Ultimately, as Arkady Moshes points out, Ukraine's attempt to diversify was a "spectacular failure."<sup>25</sup> Thus, despite the fact that the government considered energy dependence a problem, it was a problem with which Ukrainians would have to live for some time.

### *Belarus's Strategy*

Belarusian authorities interpreted energy dependence on Russia not as a problem to be solved, but as a reason for closer cooperation with Russia and the multilateral reintegration of the Soviet economic area. The Belarusian government never came up with a plan for economic autonomy from Russia. Belarus reluctantly issued a national currency, but only after Russia had already destroyed the ruble zone in the summer and autumn of 1993, and immediately began negotiations for a reconstituted monetary union with Russia. While many in Ukraine had debated the magnitude of economic sacrifice necessary for autonomy from Russia, Belarusians sought primarily to avoid any of the costs associated with independent statehood.<sup>26</sup>

Thus, in January and February 1994 Russian and Belarusian officials made public their intentions to unify the two states' monetary systems,

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<sup>23</sup> See Michael Lelyveld, "Ukraine: Turkmen Gas Accord May Also Benefit Russia," *RFE/RL*, May 21, 2001.

<sup>24</sup> Ron Synovitz, "Ukraine: Gas Deal with Turkmenistan Reveals Russian Influence," *RFE/RL*, October 5, 2000; Michael Lelyveld, "Moscow Moves Closer to Resolving Ukraine's Gas Debt," *RFE/RL*, November 21, 2000.

<sup>25</sup> Arkady Moshes, "Russian-Ukrainian Relations After Ukraine's Elections," Program on New Approaches to Russian Security Policy Memo No. 82 (1999).

<sup>26</sup> Ustina Markus, "Imperial Understretch: Belarus's Union with Russia," *Current History*, vol. 95, no. 603 (1996): 335–39.

including the significant detail that Belarus would continue to receive Russian oil and gas at the subsidized prices Russian consumers and industrialists paid on the domestic market. Then, in April 1994 Vyacheslav Kebich and Viktor Chernomyrdin, Belarus's and Russia's respective prime ministers, signed a treaty to unify the Belarusian and Russian economies and monetary systems.<sup>27</sup> As Kebich explained, it was utterly rational for Belarus to agree to Russia's terms because of his country's dependence on Russian energy. Russia, Kebich insisted, "is the only source to satisfy our energy needs."<sup>28</sup> The policies begun by Kebich were continued by Belarus's first president, Aleksandr Lukashenko. Indeed, the 1994 election produced the surreal contest between Kebich and Lukashenko to prove how much more pro-Eurasian and pro-Russian than the other each was. Belarus's pro-Eurasian foreign economic policy remained popular among Belarusians throughout the decade.<sup>29</sup>

Although the monetary union was delayed, it was discussed and

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<sup>27</sup> See Mikhail Berger, "Belorussiya obmenyala chast' svoego suvereniteta na rossiiskie rubli" (Belarus Exchanged Part of Its Sovereignty for Russian Rubles), *Izvestiya*, April 14, 1994; Valery Zhdanko, "Bunny is Ready to Compromise—Russian and Belarusian Experts Discuss Details of the Two Monetary Systems," *Segodnya*, February 3, 1994, in *Current Digest of the Post-Soviet Press*, vol. 46, no. 5 (1994): 24; and Yelena Kolokol'tseva, "Belarus Insists on Cheap Gas from Russia—Talks on Merging 'Bunny' and Ruble are Stalled," *Segodnya*, February 26, 1994, in *Current Digest of the Post-Soviet Press*, vol. 46, no. 8 (1994): 26. Also see Ustina Markus, "The Russian-Belarusian Monetary Union," *RFE/RL Research Report*, vol. 3, no. 20 (1994): 28–32.

<sup>28</sup> Quoted in "Kebich Stresses Need for Economic Treaty with Russia," *ITAR-TASS*, September 14, 1993, in FBIS-SOV-93-178, September 16, 1993, p. 45. See also Viacheslav Kebich, "Videt' istinu: K dogovoru ob 'edinenii denezhnykh sistem Belorussii i Rossii'" (See the Truth: Toward the Treaty of "Unification of the Monetary Systems of Belarus and Russia"), *Belaruskaiia niva*, April 27, 1994; and Oleg Stepanenko, "Vyacheslav Kebich: Vykhod iz krizisa—v soyuze s Rossei" (Viacheslav Kebich: The Way Out of Crisis—Economic Union with Russia), *Pravda*, April 29, 1994.

<sup>29</sup> Abdelal, *National Purpose in the World Economy*, pp. 142–46; Kathleen J. Mihalisko, "Belarus: Retreat to Authoritarianism," in *Democratic Changes and Authoritarian Reactions in Russia, Ukraine, Belarus, and Moldova*, eds. Karen Dawisha and Bruce Parrott (Cambridge: Cambridge University Press, 1997); and Larissa Titarenko, *Public Opinion in Belarus* (Washington, D.C.: International Foundation for Election Systems, 1999), esp. pp. 3, 36, and 61.



negotiated on the occasion of each of their political integration agreements in 1996, 1997, 1998, and 1999.<sup>30</sup> Even as the trade links among post-Soviet states collapsed during the 1990s, Belarus actually managed to become more dependent on Russia, whose share of Belarus's exports rose from 42 percent in 1992 to 65 percent in 1998 while its share of imports rose from 54 to 55 percent over the same period.<sup>31</sup> The Belarusian-Russian customs union, initiated in January 1995, strengthened the trade links between the two states and reduced oil and gas prices for Belarus. Furthermore, in honor of Belarusian-Russian political integration, inaugurated by 1996 agreement, the Russian government forgave Belarus's debt to Russia, which was approximately \$1.2 billion.<sup>32</sup>

As in Ukraine, Belarus's oil consumption fell dramatically during the 1990s—from 375,000 to 188,000 bbl/d. Still, in 2000 Belarus imported approximately 80 percent of its oil consumption, primarily from Russia. Although Belarus does not yet serve as an important transit route for Russian gas, 50 percent of Russia's oil exports go through Belarus on

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<sup>30</sup> See Vladimir Konobeyev, "The Union of Russia and Belarus: New Phase of Cooperation in Foreign Policy," *Belarus' v mire*, vol. 2, no. 2 (1997): 51–53; "Slavic Symbolism," *The Economist*, April 5, 1997; Alessandra Stanley, "Russia Dilutes a Treaty with Belarus, then Signs," *New York Times*, April 3, 1997; Lee Hockstader, "Belarus, Russia Move toward a New Union," *Washington Post*, April 3, 1997; Michael Wines, "Russia and Belarus Move toward Economic Integration," *New York Times*, December 26, 1998; Wines, "Belarus's Chief Pursues Dream to Revive the Soviet Union," *New York Times*, December 27, 1998; Wines, "Russia and Belarus Agree to Join in a Confederation," *New York Times*, December 9, 1999; and Charles Clover, "Russia and Belarus in New Treaty on Reunification," *Financial Times*, December 9, 1999.

<sup>31</sup> Interstate Statistical Commission of the Commonwealth of Independent States, *Official Statistics of the Countries of the Commonwealth of Independent States* (Moscow, various years).

<sup>32</sup> See Irina Selivanova, "Ekonomicheskaya integratsiya Rossii i Belorussii i ee vlianie na razvitie narodnogo khozaistva Belorussii" (The Economic Integration of Russia and Belarus and Its Influence on the Development of the National Economy of Belarus), in *Belorussiya i Rossiya: obshchestvo i gosudarstvo*, ed. D. E. Furman (Moscow: Prava cheloveka, 1998), pp. 320–21. In exchange Belarus renounced claims it had made on the Russian military for the removal of nuclear weapons from Belarusian territory and granted the Russian military the right to use its Belarusian bases free of charge. See also Rontoyanni, *Russia's Policies towards Belarus and Ukraine*, pp. 95–96.

the way to the oil terminal in Ventspils, Latvia, as well as to Poland and Germany. Also, one of a handful of important oil companies operating in Russia, Slavneft, was, until several recent share tenders, jointly owned by Belarus and Russia.

The relationship between Russia and Belarus with regard to natural gas was much more asymmetric. Belarus depended on Gazprom for all of its gas needs, while Russia's natural gas monopoly depended on Belarus for very little indeed. Beltransgaz, Belarus's state-owned gas distributor, built up enormous arrears to Gazprom during the 1990s.

As production in many post-Soviet states collapsed, some observers wondered how Belarus managed to maintain high levels of employment and exports to Russia. The answer seemed to lie in the absence of significant change.<sup>33</sup> As a World Bank report indicates, Belarus' economic performance, far superior to its post-Soviet neighbors, resulted in part from its "political and economic relationship with Russia." According to this view, Belarus avoided economic disaster by reaching agreements to receive Russia's "very large energy subsidies, which according to some estimates amount to 10 percent of GDP, and it has enjoyed an open border providing easy access to the Russian markets together with generous provisions for barter trading."<sup>34</sup>

#### THE EVOLUTION OF THE ENERGY TRADE OF RUSSIA, UKRAINE, AND BELARUS

At the end of the first post-Soviet decade three issues dominated the politics of the energy trade among these three Slavic states—the prices Russian producers charged Ukraine and Belarus, the method, frequency, even existence of Ukrainian and Belarusian payments, and the ownership

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<sup>33</sup> See Matthew Kaminski, "Is Belorussian Dictator's Growth for Real? 'Lukanomics' and Easy Credit Help Nation to Outpace Russia," *Wall Street Journal*, February 23, 1998; and David R. Marples, *Belarus: A Denationalized Nation* (Amsterdam: Harwood, 1999), chap. 2.

<sup>34</sup> See *Memorandum of the President of the International Bank for Reconstruction and Development and of the International Finance Corporation to the Executive Directors on a Country Assistance Strategy for Belarus*, Report no. 23401-BY, February 21, 2002, p. 2. On the extent of these energy subsidies, see also Rontoyanni, *Russia's Policies towards Belarus and Ukraine*, pp. 96–100.

and placement of the pipelines that carried Russian oil and gas to its lucrative markets outside the post-Soviet region.

### *Prices*

The situation with regard to oil and gas prices even within Russia has been extremely complex. For example, Gazprom, a Russian firm not known for its transparency, clearly sells natural gas to domestic consumers at prices much lower than those at which it sells to its European consumers. And gas prices are set by the Federal Energy Commission; this much is clear. Scholars have not agreed, however, about Gazprom's strategy—whether it has sought to raise or lower prices within Russia. David Woodruff marshals significant evidence in support of the idea that Gazprom has sought to discriminate among its customers, in particular ensuring that Russian consumers, who can afford to pay less than European consumers, do in fact face lower prices.<sup>35</sup>

The sources of price differentials of Russia's energy exports have also been complex, and frequently unclear. Russia began raising the price of its natural gas exports in 1993, but not universally. Russia clearly attempted a great deal of price discrimination. According to Corina Linden, "It is clear that CIS members generally enjoyed preferential pricing structures in terms of their energy inputs from Russia. However, CIS membership in itself was not enough to guarantee receipt of subsidies, nor to ensure their continuation. Energy discounts from Russia to various CIS members differed greatly, depending in large part on bilateral relations at the time."<sup>36</sup> Thus, Belarus obtained the "lowest prices for both crude oil and natural gas," while Ukraine faced increasing gas prices as tensions in Ukrainian-Russian relations mounted.<sup>37</sup> But the prices changed in fits and starts.

Belarusian-Russian political integration kept the prices faced by Belarusian households and firms lower than elsewhere in the CIS.

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<sup>35</sup> David M. Woodruff, "It's Value That's Virtual: Bartles, Rubles, and the Place of Gazprom in the Russian Economy," *Post-Soviet Affairs*, vol. 15, no. 2 (1999): 130–48.

<sup>36</sup> Corina Herron Linden, *Power and Uneven Globalization: Coalitions and Energy Trade Dependence in the Newly Independent States of Europe*, Ph.D. diss., University of Washington, 2000, p. 68.

<sup>37</sup> Linden, *Power and Uneven Globalization*, p. 72.

Although independent Russian oil firms were free after 1996 to negotiate export prices independently with Belarus, Belarus continued to pay below market prices until Russian domestic oil prices approached world levels.<sup>38</sup> Gas prices, much more important to the Belarusian economy, were the source of intense negotiations. Belarusian authorities negotiated a price reduction from \$50 to \$30 per thousand cubic meters of gas that took effect in April 1999, with only 10 percent of payments to be made in cash.<sup>39</sup> In 2000, for example, although Belarus paid between \$27 and \$30 per thousand cubic meters of gas, Ukraine paid prices that varied between \$50 and \$80, Moldova paid \$79, and Lithuania paid \$80.<sup>40</sup> The IMF estimated the annual energy subsidy provided by Russia to be approximately \$1.2 billion, or 13.5 percent of Belarusian GDP.<sup>41</sup> In April of 2002 Putin announced, and Gazprom confirmed, that as of May Belarus would receive a larger discount in its gas prices, which fell from \$30 to less than \$20 per thousand cubic meters, the Russian domestic price.<sup>42</sup> If Russian leaders and Gazprom do, however, gradually liberalize prices on the domestic market over the next few years—as they have promised—Belarusians' subsidy will disappear along with the Russians'.<sup>43</sup>

As with the low Russian domestic prices, Gazprom apparently considered Belarus's low and declining prices for gas a matter of business strategy. That is, rather than simply having low prices for Belarusian consumers forced upon it, Gazprom appears to have considered the ability of Belarus to pay and adjusted its business model accordingly. Clelia Rontoyanni, writing of Gazprom and Itera, suggests that "Russian gas exporters have treated these arrangements less as a necessity (as Belarus would not have

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<sup>38</sup> Rontoyanni, *Russia's Policies towards Belarus and Ukraine*, pp. 98–99.

<sup>39</sup> "Gazprom Agreed to Reduce Gas Price for Belarus," *Prime-TASS*, April 1, 1999; "Gazprom Lowered the Gas Price for Belarus," *WPS—CIS Oil & Gas Report*, April 5, 1999; and "Compromise Agreement Between Gazprom and Belarus," *WPS—CIS Oil & Gas Report*, April 12, 1999.

<sup>40</sup> "Gas Prices Lowered for Belarus," *Nezavisimaya Gazeta*, January 28, 2000, in Info-Nova Press Digest, January 28, 2000.

<sup>41</sup> IMF, *Republic of Belarus: Selected Issues*, IMF Country Report no. 02/22 (2002), pp. 38–39.

<sup>42</sup> Michael Lelyveld, "Russia/Belarus: Energy Agreement Paves Way to Integration," *RFE/RL*, April 16, 2002.

<sup>43</sup> See Rontoyanni, *Russia's Policies towards Belarus and Ukraine*, p. 97.

been able to pay higher prices in hard currency in any case) and more as a form of investment.” Compared to Ukraine, Belarus pays for gas relatively regularly, prevents the illegal siphoning of the gas that does transit the country, and offers the potential for a transit route for gas exports to Europe that is more reliable than Ukraine. The deepening of Belarusian-Russian integration ensures for Gazprom a politically stable path to lucrative European markets and an effective bargaining chip with intransigent Ukrainian officials.<sup>44</sup> Moreover, although Belarusian authorities have been slow to honor the deal, the 1999 Belarusian-Russian integration treaty promises that Gazprom will own the Belarusian gas pipeline network as well as a share in Beltransgaz.<sup>45</sup>

Ukrainian officials have complained bitterly about Russia’s differential treatment of Belarus. In February 1993, Russian officials notified their Ukrainian counterparts that the price would increase from \$39 to \$85 per thousand cubic meters of gas. The Ukrainian government insisted that such a move would devastate the economy, and convinced Russia to set the price at \$60 per thousand cubic meters in 1994.<sup>46</sup> But prices kept rising during the middle of the 1990s, reaching approximately \$80 per thousand cubic meters in 1999. President Kuchma complained that the Russian domestic price of \$18 per thousand cubic meters and Belarusian price of \$30 per thousand cubic meters put Ukrainian manufacturers at a serious disadvantage.<sup>47</sup> Russian officials simply pointed out that neither the Russian government nor Gazprom was obliged to subsidize Ukrainian firms.

### *Payments*

No one in Ukraine or Belarus consistently paid Russian oil firms or Gazprom cash for energy supplies. So oil and gas debts mounted. Both the Russian government and officials of private oil and gas firms proposed to trade energy debts for Ukrainian and Belarusian assets, ranging

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<sup>44</sup> Clelia Rontoyanni, “Belarus and the East,” in *Post-Communist Belarus*, ed. Stephen White (Boulder, Colo.: Rowman & Littlefield, forthcoming 2002).

<sup>45</sup> Rontoyanni, *Russia’s Policies towards Belarus and Ukraine*, p. 100.

<sup>46</sup> Ustina Markus, “Debt and Desperation,” *Transition*, vol. 1, no. 5 (1995): 14–19.

<sup>47</sup> “Ukraine Demands Lower Gas Price from Gazprom,” *WPS—CIS Oil & Gas Report*, May 26, 1999.

from shares in privatized firms to key components of their respective energy infrastructures. Belarus regularly accepted these offers, though it was always slow to follow through, while Ukraine emphatically refused them.<sup>48</sup> According to Amy Myers Jaffe and Robert Manning, “Russian companies are allowing Belarus and Ukraine to settle some debt by transferring ownership of industrial assets, such as oil refineries. Of the two, Belarus has been more forthcoming in offering political and industrial accommodation in exchange for debt cancellation.”<sup>49</sup> In contrast, the Ukrainian parliament consistently blocked a joint Ukrainian-Russian enterprise to improve the natural gas pipeline on the grounds that even partial Russian ownership of the country’s energy infrastructure was a threat to national security.<sup>50</sup> Indeed, a 1995 law prohibits the sale of such “strategic enterprises,” although Gazprom has been eyeing parts of Ukraine’s energy infrastructure and a number of firms in the metallurgical and chemical industries.<sup>51</sup> As Ukrainian Prime Minister Anatoli Kinakh insisted, “We will never be paying our energy debts with shares of our companies.”<sup>52</sup>

Much of Ukraine’s sovereign debt to Russia for energy supplies was incurred between 1992 and 1994, before the government “parceled out the import business to private companies.” The Ukrainian government’s obligations have since increased as a result of its use of sovereign guarantees of private firms’ obligations.<sup>53</sup> Until 1996, the state-owned firm Ukrhazprom was responsible for all gas imports and their distribution to household and industrial customers; since 1996 eight independent

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<sup>48</sup> Belarus’s reluctance to follow through on agreements it signed was greatest with regard to the control over state enterprises. By the summer of 2002 the equity of Belarus’s state-owned firms had not been transferred to Russia. I am grateful to Clelia Rontoyanni for pointing this out.

<sup>49</sup> Amy Myers Jaffe and Robert A. Manning, “Russia, Energy, and the West,” *Survival*, vol. 43, no. 2 (2001): 133–152, at p. 140. Also see Ustina Markus, “Heading Off an Energy Disaster,” *Transition*, vol. 1, no. 5 (1995): 10–13.

<sup>50</sup> Smolansky, “Fuel, Credit, and Trade,” p. 54. Also see Balmaceda, “Gas, Oil, and the Linkages between Domestic and Foreign Policies,” pp. 261–62.

<sup>51</sup> Rontoyanni, *Russia’s Policies towards Belarus and Ukraine*, p. 114.

<sup>52</sup> “Ukrainian Prime Minister Rules Out Debt-for-Assets Deal with Gazprom,” *AFX*, July 4, 2001.

<sup>53</sup> Balmaceda, “Gas, Oil, and the Linkages between Domestic and Foreign Policies,” p. 261.

wholesale importers with regional monopolies have been responsible for industrial customers.<sup>54</sup> The 1997 Russian-Ukrainian Basic Treaty arranged for Russia's lease payments for use of the Sevastopol naval base to offset directly Ukraine's energy debts to Russia. That is, Russia's payments for Sevastopol do not leave Moscow, but instead are allocated directly to Ukraine's accounts with Russian firms.<sup>55</sup> In 1998 Naftohaz Ukrainy, a new company whose assets include all state-owned assets in the oil and gas industry, including those of Ukrhazprom, was established.

But the Ukrainian government's attempt to rationalize its domestic industry (as well as create opportunities for rents for the well-connected) did not simplify the energy trade between Russia and Ukraine. As Smolansky observes, "it is difficult to establish just how much Kyiv owes Moscow and for what."<sup>56</sup> At the end of 2000, for example, Ukraine conceded that it owed Russia \$1.4 billion for gas, while Russian authorities and Gazprom, holding the Ukrainian government responsible for all gas used or lost on its territory, claimed the figure was \$2.5 billion.<sup>57</sup>

At the end of 2000 Russia offered again to exchange Ukraine's gas debt for equity in its transit pipelines, but again Ukrainian officials refused, and instead proposed to establish an international consortium (including Gazprom and "third parties," presumably the EU) to manage the pipelines. In August 2001 Russian and Ukrainian officials finally agreed on a figure for Ukraine's gas debt—\$1.34 billion. Then, in April 2002, Naftohaz Ukrainy issued Eurobonds worth \$1.4 billion to restructure its gas debts to Gazprom until the year 2013, following an October 2001 agreement between the Ukrainian and Russian governments.<sup>58</sup> The bonds, moreover, paid the lowest interest rate available internationally

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<sup>54</sup> Ibid., 270–71.

<sup>55</sup> Ibid., 265.

<sup>56</sup> Smolansky, "Fuel, Credit, and Trade," p. 50.

<sup>57</sup> Michael Lelyveld, "Ukraine: Solution to Energy Problems Not in View Yet," *RFE/RL*, October 19, 2000; Lelyveld, "Ukraine: Latest Proposal on Gas Debts Turned Down," *RFE/RL*, July 3, 2001; and "Ukraine and Russia Continuing Efforts to Reach Agreement on Amount of Restructured Gas Debt," *Oil & Gas Week*, December 16, 2001.

<sup>58</sup> "Ukraine To Ask Russia to Accelerate Acceptance of USD-1.4-Billion Worth of Bonds Issued for Gas Debts," *Oil & Gas Week*, April 28, 2002. Also see "Ukraine Issues Eurobonds to Pay Off Debts for Russian Gas," *WPS—CIS Oil & Gas Report*, February 13, 2002.

and thus, arguably, constituted another form of subsidy.

Meanwhile, Gazprom used its own insurance company, SOGAZ, to insure itself against losses of gas in transit across Ukraine. Clyde & Company reinsured the policy, and paid Gazprom more than \$88 million for losses between November 1998 and December 1999. The International Commercial Arbitration Court at the Russian Chamber of Commerce in Moscow then ordered Naftohaz Ukrainy to pay Clyde & Company its \$88 million, in addition to more than \$100,000 in court costs.<sup>59</sup>

In contrast, Belarus not only faced lower prices for gas, but also much more generous repayment options from Gazprom. In April 2001, Gazprom and Beltransgaz signed an agreement to restructure the Belarusian debt between 1997 and 1999, after the previous debt had been forgiven. Of a debt of approximately \$250 million, \$77 million was to be paid with Belarusian tractors and Beltransgaz bills of exchange. At the beginning of 2002 Belarus again owed Gazprom \$220 million.<sup>60</sup> During the last few years of the 1990s Belarus was allowed to pay more than three-quarters of its gas bills with bartered goods.<sup>61</sup>

### *Pipelines*

Clearly, the energy infrastructure inherited by Ukraine and Belarus was an important part of their dependence, and the pipelines laid by Soviet planners were crucial. Russian oil and gas firms were eager to control the pipelines. In particular, Russian oil firms relied a great deal on pipelines running through Belarus to the oil terminal in Latvia, while Gazprom relied on pipelines transiting Ukraine to Europe.

Belarus systematically accommodated the demands in Russian oil and gas firms. Even in the first few years of independent statehood, Belarus, according to Korchemkin, managed to increase its use of, and dependence on, Russian gas, primarily by “surrendering all gas pipelines and

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<sup>59</sup> See Adams, “Russia’s Gas Diplomacy,” pp. 17–18.

<sup>60</sup> “Belarus and Russia Negotiated on Natural Gas Prices,” *WPS—Russian Political Monitor*, January 30, 2002.

<sup>61</sup> Michael Lelyveld, “Belarus May Offer Little Gas Relief,” *RFE/RL*, November 1, 2000. According to some estimates, barter constituted 80 percent of Belarus’s payments to Gazprom in 1997, 74 percent in 1998, and 93 percent in 1999. See Selivanova, “*Ekonomicheskaya integratsiya Rossii i Belorussii*,”



compressor facilities to Gazprom.”<sup>62</sup> There was little need, therefore, for Russian authorities to seek alternate pipelines.

The situation with regard to Ukraine, however, was different. Gazprom succeeded neither in preventing illegal gas takings from nor assuming control of the Ukrainian pipelines. Even a 1999 Russian ban on oil exports to Ukraine failed to settle the issue of illegal takings.<sup>63</sup> As energy exports increased in their importance to the Russian economy in the late 1990s, Russian authorities considered ways to diminish Ukraine’s one source of leverage in their energy trade—Ukraine’s ownership of the transit route for Russian gas to Europe. Under Putin Russian authorities have continued to press Ukraine to allow it to convert gas debt into bonds that then could be converted into shares of Ukrainian state enterprises, particularly Ukraine’s energy infrastructure.<sup>64</sup> In October 2000, Russian President Vladimir Putin negotiated a strategic energy partnership with the European Union that will provide for increasing Russian natural gas exports to Europe. Part of the deal was to create a new gas pipeline through Belarus, Poland, and Slovakia, bypassing Ukraine.<sup>65</sup> The state of the plan to bypass Ukraine with a new gas pipeline was still unclear at the beginning of 2003.<sup>66</sup> It is interesting to note, though, that the possibility of a second gas transit trunk between Russia and the EU running through Belarus weakens the bargaining position of Ukraine, but directly enhances that of Belarus. And Belarus was particularly attractive to Gazprom because it promised lower transit prices: compared to Ukraine’s \$1.09 per thousand cubic meters across one hundred kilometers, Belarus offered a mere \$0.55.<sup>67</sup> President Lukashenko is eager to

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pp. 320–23. See also “Russia Wants More Cash, Fewer Goods for Energy Supplies to Belarus,” *Belapan*, March 9, 1998.

<sup>62</sup> Korchemkin, “Russia’s Oil and Gas Exports to the Former Soviet Union,” p. 133.

<sup>63</sup> Rontoyanni, *Russia’s Policies towards Belarus and Ukraine*, p. 112.

<sup>64</sup> Charles Clover, “Putin: Good Neighbor or Great-Power Politics?” *Financial Times*, January 23, 2001.

<sup>65</sup> Jaffe and Manning, “Russia, Energy, and the West,” p. 137.

<sup>66</sup> “Gazprom Will Not Build Gas Pipeline Bypassing Ukraine,” *WPS—CIS Oil & Gas Report*, February 6, 2002; “Preparation of Business Plan for Construction of Gas Pipeline Bypassing Ukraine via Poland Continues,” *WPS—CIS Oil & Gas Report*, February 8, 2002.

<sup>67</sup> Moshes, “Russian-Ukrainian Relations After Ukraine’s Elections.”

see the project completed, and confidently announced that when the new pipeline bypassing Ukraine is complete, Belarusians “will live twice as well.”<sup>68</sup> As Moshes reports, Gazprom estimates that 70 billion cubic meters of Russia’s current 110–120 billion cubic meters of gas exports through Ukraine can be rerouted.<sup>69</sup>

The deal prompted the Ukrainian government to reconsider privatizing its pipeline system and allowing Gazprom some equity stake.<sup>70</sup> But Ukrainian officials, while insisting that a “third party” should be involved in the privatization, in order to ensure the “energy security” of Ukraine,<sup>71</sup> became increasingly desperate to avoid the building of the new pipeline. Yevhen Marchuk, secretary of the Ukrainian National Security and Defense Council, insisted that “colossal efforts must be made to stop” the bypassing of Ukraine with new pipelines.<sup>72</sup> The influential publication *National Security & Defence*, of the Ukrainian Center for Economic and Political Studies, produced a special issue on the “EU-Ukraine-Russia Gas Triangle.” Its authors concluded that the Ukrainian government should “stress the inadmissibility of implementation of the project of the Poland-Slovakia pipeline link,” arguing that “such acts should be treated as unfriendly.”<sup>73</sup> Gazprom’s investment in a Belarusian gas pipeline of modest capacity (the northern section of the Yamal pipeline to Europe) and operational since autumn of 1999 demonstrated the company’s seriousness about establishing alternate export routes if it does not gain control over the Ukrainian trunk lines.

Ukraine also sought to diversify its access to oil and gas by promoting new pipelines that link its territory to other countries. Ukraine, for example, agreed to participate in the construction of Iran-Azerbaijan-Russia-Ukraine-Europe oil and gas pipelines and a Turkmenistan-Iran-Turkey-Europe gas pipeline. But the projects have not yet moved forward,

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<sup>68</sup> Lelyveld, “Belarus May Offer Little Gas Relief.”

<sup>69</sup> See Arkady Moshes, “Russian Policy Towards Ukraine, Belarus, and the Baltic States in the Putin Era,” Program on New Approaches to Russian Security Policy Memo No. 123 (2000).

<sup>70</sup> Lelyveld, “Belarus May Offer Little Gas Relief.”

<sup>71</sup> Quoted in “Ukraine Promises to Pay Off Debts for Russian Gas,” *WPS—CIS Oil & Gas Report*, June 4, 2001.

<sup>72</sup> Quoted in Adams, “Russia’s Gas Diplomacy,” p. 18.

<sup>73</sup> See “Conclusions and Proposals,” *National Security and Defence*, no. 3 (2002): 40–43, at 43.

because neither Ukraine “nor any of its potential partners possesses the financial resources necessary to undertake projects of such magnitude.”<sup>74</sup>

Clearly, then, the gas pipelines constitute a double-edged sword for Russia. Rather than signifying merely Ukraine’s dependence on Russian energy, the two pipelines that carry almost all of Russia’s gas exports to Europe are almost as much a Ukrainian asset as a liability. Russia’s dependence on those pipelines ensures that Ukraine’s supply of natural gas is, in the short term, secure. The importance of the pipelines to the Russian economy also means that the threat of less gas flowing to Ukraine is insignificant until Russia finds alternate export routes to Europe. As Clelia Rontoyanni points out, “Cuts in gas deliveries have barely constituted a credible sanction, since Gazprom cannot afford to interrupt supplies to its European customers.”<sup>75</sup>

The promise of a more cooperative relationship between Russia and Ukraine may be emerging. In the summer of 2002 Russian and Ukrainian presidents Putin and Kuchma signed a statement with German chancellor Gerhard Schroeder outlining the future of Russia’s natural gas exports through Ukraine to the EU. While Russia was unable to abide Ukraine’s management of its gas pipelines, and Ukraine was unable to allow Russian ownership or management of them, the governments of both countries agreed in principle to the creation of an “International Gas Consortium” with EU firms’ involvement to deal with Russian gas exports. The negotiations are likely to be difficult, particularly because Ukraine’s government continues to insist that the consortium will not imply the privatization of the pipeline system, which, according to Prime Minister Kinakh, is a “strategic part of the country’s national heritage.” But this “brilliant idea,” according to Schroeder, at once allays Ukrainian concerns about Russian investment and ownership in its energy sector, Russian worries over its gas transit routes, and European interests in the stability of its gas imports.<sup>76</sup>

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<sup>74</sup> Smolansky, “Fuel, Credit, and Trade,” p. 52.

<sup>75</sup> Rontoyanni, *Russia’s Policies towards Belarus and Ukraine*, p. 112.

<sup>76</sup> See “Kuchma, Putin, Schroeder Sign Statement on Using Ukrainian Trunk Pipelines and Gas Supply Safety,” *Interfax-Ukraine*, June 10, 2002; “Creation of International Consortium Not Denoting Privatization of Gas Shipping System—Dubyna,” *Interfax-Ukraine*, June 10, 2002; “Schroeder Considers Brilliant Idea of Creation of International Consortium on Use of Ukrainian

## CONCLUSIONS

The security implications of dependence on Russian energy were determined in part by the interpretations of other post-Soviet governments. The Ukrainian government interpreted dependence on Russia as a security threat, while the Belarusian government did not. Therefore, because Ukraine sought more autonomy, its dependence was limiting. But for Belarus, which not only sought to reintegrate economically but also to ally militarily with Russia, dependence narrowed the government's policy options to those that it already preferred. In other words, energy dependence presented neither a security threat nor a constraint to the Belarusian government during the 1990s.

Ukraine's initial strategy—to achieve economic autonomy from Russia and diversify its energy dependence—was reversed in 1992–1993, but not completely. Ukraine occupied a middle ground between Belarusian reintegration and Baltic reorientation. The existing pipelines necessarily limited Ukraine's alternatives. Even more constraining was the fact that the Ukrainian economy was dependent not just on Russian energy, but on low-cost Russian energy. Ukraine could not have afforded alternative suppliers even if the pipelines had existed.

While Russian authorities and producers punished Ukraine for its intransigence in CIS politics with increased energy prices, they rewarded Belarus handsomely for its acquiescence and consistent support. (Some Russian observers dubbed the policy, “Russian gas for Belarusian kisses.”) Belarus's strategy thus became self-reinforcing—the government interpreted dependence as a reason for further integration, which then resulted in an even higher level of dependence. If a new Belarusian government ever decides that more autonomy from Russia is a necessary component of state security, then it will find itself hemmed into a

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Trunk Gas Pipelines,” *Interfax-Ukraine*, June 11, 2002; “Ukraine's National Interests Will Be Considered in Creating International Gas Consortium,” *Interfax-Ukraine*, June 18, 2002; “Ukraine Not Planning to Privatize Gas Transportation System,” *Interfax-Ukraine*, June 21, 2002; “First Round of Ukrainian-Russian Talks on Gas Consortium Slated for July 20,” *Interfax-Ukraine*, July 5, 2002; and “Ukraine, Russia, Germany to Discuss Gas Consortium in February,” *Interfax Oil & Gas Report*, December 27, 2002–January 9, 2003. Also see “Hang On to a Good Deal,” *Kyiv Post*, June 13, 2002.

position chosen as much by post-Soviet planners in Minsk as by Soviet planners in Moscow.

The three central issues associated with national security and the energy trade—prices, payments, and pipelines—have clear policy implications for Russia, Ukraine, and Belarus, as well as third parties, particularly the European Union. The decade-long collapse of its economy finally at an end, by the beginning of the twenty-first century Russia had become essentially an exporter of commodities: 85 percent of total exports consisted of oil, gas, metals, chemicals, wood, and pulp. It has become imperative for Russia to use its energy exports to earn hard currency, more than to cultivate influence in the near abroad by subsidizing friendly or punishing unfriendly regimes. Indeed, the priorities of the Russian government increasingly have focused on the following elements: the pursuit of profits on international energy markets; compliance with World Trade Organization rules, including the phasing out of domestic energy subsidies; and the cultivation of an image as a reliable energy supplier for Western markets, rather than a manipulator of the dependences of its smaller neighbors. This rationalization of Russian foreign policy is a central reality of the political economy of Eurasia.<sup>77</sup>

Therefore, as Russian officials attempt to rationalize the country's energy sector, the Belarusian "economic miracle," as much a product of Russian energy subsidies as anything else, is in jeopardy. As Russia's domestic energy prices approach world levels, so will Belarus's. And the long-term ability of Beltransgaz to pay in kind for gas is in doubt. Indeed, in the autumn of 2002 both the Putin administration and Gazprom appeared increasingly uninterested in subsidizing Lukashenko's Belarus. Gazprom announced that it would halve its natural gas exports to Belarus because it had already supplied the agreed-upon amount of gas at subsidized prices for the year. Russian government officials did not object, and Duma lawmakers listened to Gazprom officials explain that the firm had lost \$800 million over the last four years exporting gas to Belarus. Belarusian leaders were outraged, some even suggesting that Gazprom threatened the reduction in exports in order to pressure them

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<sup>77</sup> See especially Celeste A. Wallander, "Economics and Security in Russia's Foreign Policy and the Implications for Ukraine and Belarus," in this volume; and Wallander, *Economic Interests, International Integration, and Russian National Security Policy*, unpublished book manuscript.

to privatize Beltransgaz more quickly. In the end Gazprom resumed its exports at the more rapid rate, but Belarusian officials had become increasingly concerned about the long-term viability of their economic strategy of relying on subsidies from Russia.<sup>78</sup>

The priority for Belarus, therefore, is to ensure that it gets a stake in the Russian energy trade by pushing for an important gas pipeline between Russia and Europe. It is precisely this Belarusian gas route about which Ukrainian officials need to be most concerned, as it would significantly decrease the value of its only assets and sources of leverage: the gas pipelines Soviet planners built and the space in between Russia and its most economically important markets. The Ukrainian government's attempts to convince Russian and Gazprom officials to continue to depend on the Ukrainian transit route imply that it must either relinquish control to Gazprom or to a set of actors that Gazprom can trust to make the necessary investments in improving the pipelines and not to siphon gas illegally. The former is still inconceivable for a Ukrainian government that interprets its economic dependence on Russia as a problem and its energy infrastructure as a vital security interest.<sup>79</sup> The international consortium EU leaders are pushing forward may solve this dilemma for the Russians and Ukrainians, allowing the two countries to cooperate in one sector that presents them with an opportunity for an obviously positive-sum relationship: energy.<sup>80</sup>

<sup>78</sup> See "Minsk Upset by Russian Decision to Halve Gas Exports," *Interfax Oil & Gas Report*, November 8–14, 2002; and "Russia Lifts Restrictions on Gas Supply to Belarus," *Interfax Oil & Gas Report*, November 22–28, 2002.

<sup>79</sup> On the recent evolution of their relations, see Arkady Moshes, "Russian-Ukrainian Rapprochement of 2001: How Viable?" *Security Dialogue*, vol. 33, no. 2 (2002): 157–70.

<sup>80</sup> On the role of the European Union and other third parties, see Robert Legvold, "The United States, the European Union, NATO, and the Economics of Ukrainian and Belarusian Security," in this volume.



## CHAPTER 4

# Military-Industrial Cooperation between Ukraine, Belarus, and Russia: Possibilities, Priorities, Prospects

HRIHORIY PEREPELITSA

## INTRODUCTION

Military production is not only an integral part of a country's economy, it is also an important sphere of its politics. As an economic sector it is governed by economic laws, but the main consumer of military output is the state itself. This means that military production is determined not only by the size and clients of the domestic and international markets for defense goods, but also by state defense orders. The result is a rigid system of state regulation of military production, aimed at achieving state security interests and foreign policy objectives. Therefore, the politicization of military production and militarization of politics are inextricably interlinked. On the one hand, to ensure stable financing and extensive state orders the military-industrial complex must have an influential political lobby at the highest levels of state power. On the other hand, a state that allocates large resources to military production acquires an essential tool for conducting a forceful foreign policy.

Because of the close connection between economics and politics, military industry is expected to fulfill three main goals: first, to meet the demands of national defense; second, to be economically profitable, as any other industry; and third, to be an effective foreign policy instrument by promoting military-industrial connections and arms exports, thus helping the state to achieve its geopolitical and geostrategic interests. It is with this triple purpose in mind that one should analyze trends both in the Ukrainian and Belarusian military economies themselves, and in their military-industrial cooperation with Russia.



THE STATE OF MILITARY PRODUCTION IN UKRAINE AND BELARUS  
AND THEIR CAPACITY TO SUPPORT NATIONAL DEFENSE

The successful functioning of a military-industrial complex (MIC) depends on military production capacity, the demands of national defense and the arms market, and the state's ability to make use of the MIC's production capacity to satisfy the requirements of national defense and security. In Ukraine and in Belarus the production capacity of their defense industries exceeds what is required for national defense and what is possible for foreign export. Indeed, excess capacity is the main common trait of the defense industries in these two countries.

Ukraine and Belarus inherited from the Soviet Union highly capable portions of the former Soviet military-industrial complex, which had been developed to satisfy the heavy defense requirements of the global military standoff between the USSR and the United States, along with its NATO allies. Because Belarus and Ukraine enjoyed a high level of economic and scientific-technological development, it was deemed expedient to place high-technology defense production facilities on their territories. These advanced defense production enterprises were inherited by the newly independent Belarus and Ukraine when the Soviet Union collapsed.

At the moment of Ukrainian independence, the country's defense industry consisted of 750 enterprises, employing a total of 1.45 million people. One hundred thirty-nine scientific-technological and scientific-industrial organizations worked to fulfill defense orders. Overall, defense production comprised 35 percent of Ukrainian industry.<sup>1</sup> Within the Soviet MIC Ukrainian defense enterprises specialized in producing modern missile complexes, ballistic missiles, air and space equipment, marine vessels of various classes, tanks and armored carriers, electronics, radio location stations and devices, and cargo planes. Missile construction, aircraft construction, ship building, tank building, radio electronics, and ammunition still remain the most developed branches of the Ukrainian defense industry.

Belarusian defense enterprises also specialized in manufacturing high-technology products, including piloting systems and aviation equipment, satellite and space-communication devices, automation and software sys-

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<sup>1</sup> Ukraine—I dex/Special Issue (Kyiv: JSC Ukrriat).

tems, heavy-duty cargo vehicles, and chassis for mobile missile strategic and operative-tactical complexes.<sup>2</sup> Although Belarusian enterprises produced only one to three percent of total Soviet defense output, the Belarusian economy was highly militarized. According to expert calculations, no less than 70 percent of Belarusian industry was dedicated to defense production.<sup>3</sup>

However, despite their substantial production capacities, Belarusian and Ukrainian defense industries cannot meet the demands of national defense for several reasons related to the structure of Soviet production. First, the structure, volume, and type of output were meant to satisfy the defense needs of the former Soviet Union in its global standoff against the United States and NATO. Post-cold war national defense requirements, and each country's choice to move toward an independent and non-nuclear status, rendered their defense industries unsuitable for their present purposes, given the need for armaments of different types and in different quantities. The production capacities of Belarusian and Ukrainian military enterprises were intended for a volume of arms production many times larger than the present needs of their armed forces; for example, the volume of tank production in Ukraine is ten times what is needed for national defense. The same mismatch exists in the type of arms output, with the result that Belarusian and Ukrainian defense industries produce equipment that cannot be used by their own national armed forces. For example, about half of the aircraft carriers, cruisers, and other oceangoing vessels built in the USSR came from Ukrainian shipyards; as a country without ocean ports or a global naval presence the Ukrainian navy has no need for such vessels. Similarly, after Ukraine became a non-nuclear country, the missile branch of its military industry, which produced the best intercontinental ballistic missiles in the world (SS-18, SS-23, SS-24), found itself in the same anomalous situation.

On the other hand, as currently structured, the defense industries of both countries cannot meet the needs of their respective armed forces, because production of many types of necessary military equipment is located in other republics of the former Soviet Union, primarily in Russia. Thus, the defense industries in both Ukraine and Belarus are not

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<sup>2</sup> L.F. Zaiko, V.I. Korbalevich, O.M. Abramova et. al., *Natsional'no-gosudarstvennyye interesy Respubliki Belarus'* (Minsk: V.M. Skakun, 1999), p. 195.

<sup>3</sup> Ibid.

well suited to their national defense needs, either in the quality or in the quantity of their output. The Ukrainian military industry produces only 15 to 18 percent of the types of armaments the Ukrainian arms forces need.

Second, the defense industries of Ukraine and Belarus, as fragments of a former single military-industrial complex of the USSR, have no closed production cycles and cannot manufacture finished products. Most of the Ukrainian and Belarusian military output is in the form of components for military equipment produced in Russia. Ukraine is able to independently manufacture no more than three percent of the military equipment required for use by its armed forces. Ukraine's defense industry is 80 percent dependent on the supply of components from Russia.<sup>4</sup> As a result, it is practically impossible for Ukraine and Belarus to manufacture defense equipment originating from Soviet production lines without close cooperation with Russian military-industrial enterprises.

Third, given the scale of production needed to fulfill Soviet defense requirements, maintaining defense industries at the level at which Belarus and Ukraine inherited them from the former USSR is very expensive, and impossible within the countries' budgets.

These structural anomalies led to numerous problems for both Ukraine and Belarus, and drove their defense industries into a deep systemic crisis. However, although defense industries in Ukraine and Belarus are in a similar condition and face similar development prospects, the countries chose different methods to resolve the crises in their defense production, and different approaches toward military-political integration. One source of the difference is military-political: While Belarus views strengthening its union with Russia as its central priority, Ukraine has oriented itself toward a closer connection with NATO. The different choices were also shaped by each country's conceptual approach to economic transformation.

Since achieving independence, Ukraine has followed the path of economic transformation begun in the Soviet period by Mikhail Gorbachev and continued in Russia by Boris Yeltsin as the main example for its own reforms. The defense industry was primarily affected by such reform trends as price liberalization, introduction of market mechanisms, and

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<sup>4</sup> Yu. Safyulin and A. Manachinskiy, "Voyenno-promyshlennyy kompleks Ukrainy: sostoyanie i perspektivy konversii," *Finansovaya Ukraina*, January 3, 1996.

programs for the conversion of defense into commercial civilian production. Ukrainian conversion programs were important to the country's defense-sector policies, resulting in a significant contraction of production and capacity in the defense sector. In 1992, Ukraine adopted 450 programs for converting military enterprises to the manufacture of some 5000 types of civilian goods. Among the types of civilian production capacity to be created were several thousand for agricultural-technological equipment, 45 programs for food-processing industries, 41 programs for manufacturing medical equipment, 62 programs for consumer durables, and 34 programs for developing and implementing ecologically friendly energy-conserving technologies.

Implementing these programs was estimated to require \$2 billion in financing.<sup>5</sup> The Ukrainian government budgeted \$656 million for their implementation, but actually allocated only 20 percent of this amount. In addition, enterprises misused most of the allocated funds: Enterprise directors used the money to pay wages and preserve jobs, and almost half of the conversion money was received by enterprises unrelated to defense production. Under such circumstances, conversion did not bring the expected results. Even those civilian goods produced by converted military enterprises could not compete in the liberalized market because of their low quality and high cost. Unable to develop civilian production, defense-enterprise management began to cut back on research and development, lay off staff, and stop production completely.

The second step of the Ukrainian defense policy was to adopt market-economy principles and end government financing of defense enterprises, which led to a plunge in defense production. By freeing the defense industry from government procurement orders and financing, the Ukrainian government hoped to cut its budget deficits and rein in inflation. Beginning in 1994, government financing of MIC enterprises was cut to 10 percent of what was necessary to maintain existing production capacity.

After declaring the need for market reforms, the Ukrainian government also largely stopped state regulation of the defense sector of the economy. Having eschewed administrative measures, the government was unable to implement effective market mechanisms for regulating production. This policy led to decentralization of control in the military-industrial economic sector. The Ukrainian MIC became a loose collection of

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<sup>5</sup> Ibid.

military enterprises under different forms of ownership, with characteristics typical of the period of initial capital accumulation. Such enterprises were forced to survive without government support in stormy market conditions.

As a result of such policies, Ukrainian defense production fell by a factor of ten in comparison to 1991.<sup>6</sup> About 550 defense-related industrial enterprises and construction bureaus self-liquidated or were closed, and the number of jobs contracted by a factor of seven.<sup>7</sup> In that time, the share of defense production in Ukrainian manufacturing fell from 35 percent to 6 percent. Such a sharp fall led to social tension; a rapid reduction in the country's scientific and technical potential; a mass exodus of highly qualified workers, engineers, and builders into the commercial sphere or abroad; physical obsolescence of existing production capacities; and the plundering of defense-enterprise equipment.

The experience of those Ukrainian defense enterprises that managed to survive these extremely difficult times sheds light on three promising directions the country's defense and technology policy could take: targeting production to the world arms markets; creating closed production cycles for the most crucial types of armaments and military equipment; and developing inter-institutional and international industrial cooperation. To be more precise, only enterprises that maintained military-industrial ties with Russia and sold their products on the international arms market managed to survive as defense enterprises.

Thus, starting in 1996, Ukraine reoriented its military production from serving national defense needs to satisfying the demands of the international arms market. In 2001, 90 percent of its orders for military equipment came from abroad, and only five percent were domestic.<sup>8</sup> Already in 1997, 43 percent of all the military equipment and armaments produced in Ukraine were exported,<sup>9</sup> although due to a significant increase in exports of nonmilitary goods only nine percent of total exports in 1997

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<sup>6</sup> Safyulin and Manachinskiy, "Voyenno-promyshlennyy kompleks Ukrainy"

<sup>7</sup> Z. Lisyans'ka, "Virobnitstvo padae, tsini zrostayut," *Finansova Ukraina*, 11 "lyutogo" 1997, p. 26.

<sup>8</sup> V.P. Gorbunin, "Ukraina nachala sistemno perekhodit' k oboronnoy reforme," *Defense Express*, No. 2, p. 4.

<sup>9</sup> V.M. Begma, *Rinok ozbroen': Problemi marketingu produktsii viys'kovo-tekhnichnogo pryznachennya: Monografiya* (Kyiv: NIPMB, 2001), p. 126.

were defense-related (compared to 31 percent in 1993).<sup>10</sup>

While some enterprises survived by switching to closed production cycles for defense equipment, the potential for success of this approach is very limited. Creating closed production cycles requires large investments and structural reforms, of which Ukraine is still incapable. In practice, only large military concerns able to accumulate financial resources from selling their products abroad, like the Mal'shev tank construction factory, have been able to switch to closed-cycle production.

Unlike the case in Ukraine, the Belarusian government's approach was to reestablish control over defense production, especially after Aleksandr Lukashenko came to power in 1994. It preserved central regulation and administrative methods of control. Although the state could not guarantee regular defense procurement orders to Belarusian enterprises, it continued to finance their operation. In the short run, the policy had positive effects. Recession in the defense sector was manageable; enterprises continued to produce; jobs were preserved; and research and development, manufacturing collectives, and production capacities were fully employed. This had an important social effect, as well as an economic one. A sharp decline in defense production, which constituted a large share of total Belarusian industry, would have been socially explosive. The Belarusian leadership compensated for the fall in orders and demand by supplying its defense enterprises with credits and perquisites. Along with housing construction, the defense industry is still one of the largest expense items in the Belarusian state budget.

While beneficial in the social sphere, such a policy is inevitably damaging for a country's finances, since it usually leads to large budget deficits and inflation. The Belarusian budget deficit is covered by money emission (half the total deficit<sup>11</sup>), and by direct and indirect subsidies from Russia. In early 1996, Russia forgave \$1 billion of Belarusian debt. Belarus also receives indirect subsidies through cheap Russian energy resources and raw materials. Altogether, Russian subsidies to the Belarusian economy amount to \$2 billion annually.<sup>12</sup> In addition, in 2001–2002 Russia gave Belarus a \$70 million loan for balancing its

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<sup>10</sup> Ibid.

<sup>11</sup> Ya. Romanchuk, "Positiv i negativ belorusskoy ekonomicheskoy modeli," *Ekonomichnyi chasopis*, Vol. 21, No. 1 (2002), p. 28.

<sup>12</sup> Zaiko, et. al., *Natsional'no-gosudarstvennye interesy Respubliki Belarus'*, p. 195.

current account, and a further 1.5 billion rubles as a stabilization loan.<sup>13</sup>

The defense industry's conversion was also more successful in Belarus than it had been in Ukraine. Conversion to civilian production helped supply the Belarusian MIC with a steady stream of work, and the defense enterprises' nonmilitary output enjoyed some success on the Belarusian domestic market. Unlike Ukraine, Belarus closed its domestic market to foreign producers, and consumer prices were kept artificially low through administrative measures. The population's purchasing power was thus maintained, and foreign competition excluded. In 1999, enterprises under the Belarusian Ministry of Industry manufactured more than 650 types of competitive new products; their production made up 9.3 percent of Belarus's total industrial output. In the same year more than \$60 million worth of import-substituting goods were produced in the domestic Belarusian economy.<sup>14</sup>

Regarding defense products, the Belarusian government entertained no hopes of selling them domestically. The needs of a 80,000-strong Belarusian army were rather limited, and could not absorb the volume of output produced by domestic defense enterprises. Therefore Belarus tailored its military production exclusively to the Russian market, which was capable of absorbing a relatively insignificant amount of Belarusian defense goods, compared to Ukraine's.

Thus, while Ukraine tried to create a MIC that could satisfy domestic defense needs based on the fragments of the former Soviet defense complex, Belarus continued to develop its defense production as part of the Russian MIC. This key difference also led to the countries' adoption of different approaches to arms exports. After independence Belarus carried out a more flexible export policy than Ukraine. Finding itself, in the first years of independence, with military equipment it inherited from the Soviet Armed Forces in excess of that permitted by the Treaty on Conventional Forces in Europe, Belarus managed to sell off the excess, while declaring serious hardship in fulfilling its Treaty obligations.<sup>15</sup>

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<sup>13</sup> "Rossiya predostavit Belorussii kredit na 70 mln dollarov," November 30, 2001, *Strana.ru* (Moscow).

<sup>14</sup> Yu.F. Godin, *Rossiia i Belorussiya na puti k edinenyu. Problemy ekonomicheskoy bezopasnosti soyuznogo gosudarstva* (Moscow: Mezhdunarodnye Otnosheniya, 2001), p. 157.

<sup>15</sup> Arms Control Reporter, sheet 407. B. 497, 1993; *Ezhegodnik SIPRI* (Moscow: Nauka, 1994), p. 291.

In contrast to Ukraine, which sought an independent capacity to sell in international arms markets, Belarusian enterprises began exporting the weapons they produced as subcontractors of Russian defense enterprises.

Ukrainian and Belarusian military-industrial strategies thus follow different military-political goals, interests, priorities, and tasks. They also influence the two countries' defense, internal, and foreign policies to different degrees. Common interests between the Belarusian state and its defense industries are strong. One reason is that Belarus preserved central bureaucratic control over its defense industry. A second reason is the complete dependence of enterprises on government financing, leading directors of defense enterprises to see their interests in state budget allocations and to seek influence in the government policies. As a result, Belarus has seen the development of a powerful military-industrial lobby.

Unlike in Belarus, the Ukrainian military-industrial establishment has an insignificant effect on government policy in comparison to other elite groups. Decentralization of the defense industry's administration and economic liberalization gave defense-enterprise directors a certain freedom of action and a degree of independence from state control. The price was that they lost all hope of government funding. Thus, managers of defense enterprises profit from creating small businesses spun off from the defense firms they control, and from leasing manufacturing facilities to commercial ventures. Therefore, the Ukrainian military-industrial establishment cannot be seen as a unified entity. Separate interest groups within the defense sector close to President Leonid Kuchma and his circle are known to lobby for their private interests; defense-industry lobbying also takes place through the elite regional groups that provide the strongest political support for Kuchma. Because financial resources are limited and different interest groups within the military-industrial establishment mount their own lobbying campaigns, the government chooses which individual enterprises or branches of the MIC to support, and chooses primarily missile and tank construction.

The Belarusian and Ukrainian leaderships also differ in their foreign-policy priorities. Unlike its Belarusian counterpart, the Ukrainian MIC does not hold to a single view in its attitudes toward integration with Russia. Although thinking in the same old Soviet categories of a global standoff as their Belarusian colleagues, the Ukrainian military-industrial establishment and managers of defense enterprises that make competitive products nonetheless differ in their views toward Russia because they are



conscious of the advantages they get from their country's sovereignty. It gives them an opportunity to export their products and get direct profits in hard currency. Selling armaments and defense equipment in previously Soviet-supplied international markets, Ukrainian and Russian producers see each other as competitors rather than partners. For those Ukrainian manufacturers whose products can compete internationally, world arms markets are more attractive than orders from Russia's insolvent defense ministry. Therefore they are not as enthusiastic about integration with Russia as the larger portion of the Ukrainian MIC, which produced non-competitive equipment or supplies components to Russian defense producers.

For Belarusian manufacturers, the Russian market is the most profitable, due to Belarus's unusual international position, economic conditions, and its authoritarian political regime. Although Russian procurement orders were not very large and payments were not always remitted, they were sufficient for supporting the relatively small Belarusian defense production, at least until cuts in the Russian defense budget prompted Belarusian producers to compete with Russian enterprises for allocation of the Russian budgetary funds. Military-industrial integration with Russia provided the best conditions for such competition. To ensure its ability to compete for defense procurement orders on an equal footing with Russian defense enterprises, the Belarusian military and military-industrial establishment became the driving force for Russian-Belarusian integration processes. Under their pressure, Belarus in 1992 abandoned its intentions of becoming a neutral country and signed the CIS Treaty on Collective Security (also known as the Tashkent Treaty), and later, in the framework of the Union Treaty, effectively entered into a military union with the Russian Federation.

Establishing Union relationships and deepening military-political integration with Russia provided Belarusian defense producers with better opportunities for selling their products on the Russian market and receiving large defense orders from the Russian defense ministry. While Belarusian defense enterprises had accounted for only one to three percent of military production in the former USSR, their share in Russian defense procurement is 15 percent.<sup>16</sup>

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<sup>16</sup> Zaiko, et. al., *Natsional'no-gosudarstvennye interesy Respubliki Belarus'*, p. 195.

## DEVELOPMENT TRENDS IN MILITARY-INDUSTRIAL COOPERATION BETWEEN RUSSIA AND BELARUS

The framework of deep military-political, political, and economic reintegration of Belarus and Russia allowed Belarus to create a multilevel system of military-industrial cooperation with the Russian MIC. The first and most extensive level of such cooperation is carried out within the framework of the CIS Tashkent Treaty of 1992. Belarus is the most active participant in implementing military-technical programs and agreements under the Treaty, signing 91 percent of all agreements and treaties reviewed by the CIS Council of Defense Ministers.<sup>17</sup> In 1995, Belarus signed the Agreement on Cooperation for Ensuring a Uniform System of Measurements in the Armed Forces; the Agreement on Coordinating Policies in the Areas of Standardization, Metrology, and Certification; the Agreement on Establishing a Common Military Air Defense System; and the Concept of Joint Military Air Defense. These basic documents created a legislative base on which Belarus strives to maintain industrial connections and deepen military-industrial cooperation with Russia and other signatories of the Tashkent Treaty.

Minsk and Moscow initiated the signing of the Agreement on Basic Principles of Military-Technical Cooperation, according to which Tashkent Treaty signatory countries promised to sell their armaments and defense equipment to other Treaty participants for the same prices they charged their own armed forces. Arms imports and exports among treaty members are not taxed, and tariffs for their transport are the same as for domestic army transport.

The second, basic, level of military-industrial cooperation between Belarus and Russia develops within the framework of the so-called Belarusian-Russian "Union." On this level, military-industrial cooperation between the two countries is the deepest and most advanced of the Union integration. The legislative base for cooperation is laid out in the 1997 Charter of the Union of Belarus and Russia and the Concept for the Joint Defense Policy, which strengthen the defense union between Russia and Belarus and all the mutual military-political obligations that follow from it. The documents set the framework for coordinating Russian and Belarusian policies in the spheres of military construction,

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<sup>17</sup> "Itogi voennoy druzhby v ramkah SNG," *Defense Express News*, November 28, 2001.

planning and placing common defense procurement orders, securing the delivery and sale of procured arms and military equipment, and creating a common technical service system for Belarusian and Russian armed forces.<sup>18</sup> Such mutual obligations give Belarusian defense enterprises direct access to the Russian defense budget, and let them compete for Russian procurement orders on an equal playing field with Russian enterprises. Military-industrial cooperation on this level is also strengthened by earlier agreements, such as the Agreement on Principles of Mutual Technological and Material Assistance of Belarusian and Russia Armed Forces, of July 20, 1992, and the Agreement on Industrial and Scientific-Technical Cooperation of Defense Industry Enterprises, of May 20, 1994. Thus, the framework of the Union Agreement significantly improves the Belarusian defense industry's access to Russian markets and additional financial resources.

It is notable that in developing the Charter on the Union State, the Agreement on Establishing Interstate Economic Structures, and the Agreement on a Common Military Air Defense System, Russia and Belarus established an interstate financial-industrial group, "Defense Systems for Producing Armaments for Air Defense Units." Its main goal is to use the participants' investment potential for producing high-technology, internationally competitive methods and systems of air defense, and other military and nonmilitary products. Evidently, representatives of Belarusian defense industry are counting on this new form of cooperation to gain access to additional sources of financing for developing defense production and entering world arms markets, even if only as subcontractors for Russian defense enterprises.

The third level of Belarusian-Russian military-industrial cooperation is regional. Its advantages lie in allowing Belarus to develop relationships with the regions of Russia that are equal to Belarus in their potential. Such cooperation is free of bureaucratic and institutional hurdles that exist in Russia on the federal level. Thanks to regional cooperation, the Belarusian government and defense industry representatives can sign direct agreements with Russian defense enterprises on the supply of component parts and on joint production of arms, acting through Russian associations.

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<sup>18</sup> "Charter of the Union of Belarus and Russia," *Rossiyskaya Gazeta*, May 24, 1997.

Industrial connections with such centers of Russian defense production as Voronezh, Bryansk, Yaroslavl, and Tula, united in the association "Central Russia," play a central role in regional cooperation. Forty-six percent of the total trade between Russia and Belarus is with "Central Russia."<sup>19</sup> Using such a multilevel system of cooperation, Belarus tries not only to preserve its defense industry and modernize its production capacities, but also to change the industry's structure. At present, Belarusian military-industrial strategy is aimed at increasing the proportion of finished goods produced relative to the components produced.

This will provide an opportunity to transfer relatively new technologies of arms production from Russia to Belarus. It will also supply the Belarusian Armed Forces with domestically produced military equipment. A third advantage is that it creates the potential for Belarus to enter the world arms market independently with several types of competitive military equipment. With this goal in mind, it was decided to begin assembling SU-27 fighter planes in Belarusian enterprises, as well as joint production of T-72 tanks and self-propelled howitzers by Belarusian industrial-equipment enterprises.<sup>20</sup>

However, alongside its many advantages, the model of Belarusian-Russian military-industrial cooperation entails some serious disadvantages. First, relying solely on Russian defense procurement does not create the basis for a bright future. Until recently, the Russian defense sector, like that of Belarus, was insolvent. And although the funding allocated for purchasing defense equipment was increased by 2.5 times in 2002, the financial resources of the Russian defense ministry remain limited. Second, by relying exclusively on cooperation with the Russian MIC Belarusian producers deprive themselves of an opportunity to acquire the most advanced technologies, which currently come primarily from outside Russia. Third, entering the world market as a segment of the Russian MIC, Belarusian defense enterprises do not receive direct payments in hard currency. Fourth, the incompatibility of the forms of ownership in the two countries' defense industries is likely to dampen future Belarusian-Russian military-industrial cooperation. While Belarusian defense enterprises are state-owned, in Russia they are undergoing a

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<sup>19</sup> Godin, *Rossiya i Belorussiya na puti k edineniyu*, p. 110.

<sup>20</sup> "Belorussiya gotova podpisat' s Ukrainoy soglasenie o merakh doveriya v voennoy oblasti," *Defense Express*, July 8, 2001.

process of privatization. This difference will soon become a barrier to further military-industrial cooperation.

#### POSSIBILITIES AND PROSPECTS FOR THE DEVELOPMENT OF MILITARY-INDUSTRIAL COOPERATION BETWEEN UKRAINE AND RUSSIA

Unlike Belarus, which develops military-industrial cooperation with Russia in the context of the Belarusian leadership's objective of overall military-political and economic integration, Ukraine uses such collaboration to achieve fundamentally different goals. It sees military-industrial partnership with Russia primarily as necessary to support the development of its own defense industry, secondly as a source of economic profit and topping up the country's currency reserves, and finally as a way to acquire the arms and equipment necessary for the Ukrainian Armed Forces.

Military-industrial cooperation between Ukraine and Russia is not driven by a goal of cooperation for its own sake. Ukraine pursues neither military-political nor geopolitical interests through its involvement with Russian industry. On the contrary, the Ukrainian leadership is motivated by its desire to strengthen its political independence from Russia. In contrast to Belarus, Ukraine tried to create its own national MIC, primarily by seeking to create a large proportion of closed production cycles.

The shortage of financial resources and the dependence of defense production on industrial connections with Russia have prevented Ukraine from achieving this goal. While Ukraine allocates about \$40 million, or 10 percent of its total defense budget, for purchasing arms and defense equipment,<sup>21</sup> no more than 1.5 percent of its defense budget is allocated for research and development.<sup>22</sup> Furthermore, the program of scientific research for creating potential new weapons and military equipment receives only 11 percent of its planned funding.<sup>23</sup> Faced with these difficulties, in 1995 Ukraine adopted an export-oriented approach to devel-

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<sup>21</sup> V.P. Gorbulin, "Ukraina nachala sistemno podkhodit' k oboronnoy reforme," *Defense Express*, No. 2 (2002), p. 2.

<sup>22</sup> James Sherr, "A State of Reform," *Jane's Defense Weekly*, Vol. 38 (July 17, 2002), p. 24.

<sup>23</sup> Lisyans'ka, "Virobnitstvo padae," p. 26.

oping its domestic defense industry. Cooperation with Russia takes the central stage in this program.

Ukrainian defense producers see Russia as the main market for their products and the main source of defense procurement orders for keeping their productive capacities employed and for preserving jobs. Out of 1300 contracts signed by the Ukrainian defense enterprises, 67 percent were with Russia.<sup>24</sup>

Such unilateral dependence on the Russian market is clearly a sign that the Ukrainian government is convinced that the Russian Federation should remain the main export market for Ukrainian enterprises. However, experience has often shown that such views are mistaken. Even for Ukrainian producers, the volume of the Russian market is quite insignificant: although Russian defense contracts make up 67 percent of Ukraine's total foreign sales, their monetary value does not exceed \$138 million, only about 27 percent of Ukraine's total income from arms exports.<sup>25</sup> The most acute problem in Ukraine's military-industrial cooperation with Russia is the insolvency of Russian defense. A sharp reduction in resources allocated to military procurement led to a situation in which Russia often does not pay the Ukrainian manufacturers for their products, or refuses to accept deliveries, as happened with the cruiser *Varyag* and floating docks for nuclear submarines. In other cases, only 15 to 20 percent of agreed prices were remitted to Ukrainian producers, and even that was paid extremely irregularly. In such circumstances, Ukrainian enterprises can hardly count on making significant profits.

At the same time, Ukrainian military-technological policy is aimed at maintaining a monopoly on Russian arms and equipment on the domestic market. In the future, the Ukrainian army will be re-equipped exclusively with Russian arms and equipment, as well as with that produced domestically in cooperation with Russian companies. The head of the State Commission on the MIC, V. Gorbulin, unambiguously stated: "Regarding Ukraine, objectively, it will not be able to carry out necessary re-equipment of its armed forces with any other country but Russia."<sup>26</sup>

To expedite this process, the Ukrainian side is trying to deepen mili-

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<sup>24</sup> Ibid.

<sup>25</sup> V. Borokhvostov, "Voenno-tekhnicheskoe sotrudnichestvo Ukrainy i Rossii," *Defense Express*, No. 6 (2002), p. 11.

<sup>26</sup> Gorbulin, "Ukraina nachala sistemno podkhodit," p. 4.

tary-industrial cooperation with Russia on two levels: international military cooperation and cooperation between individual enterprises. On May 26, 1993 Ukraine and Russia signed an Agreement on Military-Technical Cooperation, in which they agreed on mutual deliveries of defense products and provision of military services. A second was signed on February 8, 1995, the Agreement on the Order of Mutual Deliveries of Arms and Equipment, Components, and Spare Parts, Organizing Repair and Providing Military Services. According to this agreement, defense products were freed from import and export taxes.<sup>27</sup>

The fulfillment of these agreements, however, was significantly limited after Russia shifted military-industrial cooperation to the level of bilateral international relations. Russian defense enterprises stopped working directly with Ukrainian firms, and cooperation between them became mediated by the state “Disarmament” campaign, which raised transaction costs. For this reason, the Ukrainian side is trying to deepen industrial cooperation on the enterprise level. In particular, the Ukrainian Defense Ministry is fighting for a right to work directly with Russian defense enterprises in its military procurement—a right that Belarus already enjoys.<sup>28</sup> To achieve this goal, and following the Belarusian example, on January 10, 2002 Ukraine ratified the military-political Agreement Between the Government of the Russian Federation and the Government of Ukraine on Defense Cooperation, which stipulates the possibility of mobilizing Ukrainian and Russian industrial reserves in the interests of the two countries’ defense.

The Ukrainian government also lobbies for the interests of the Russian MIC in Ukraine. The degree of protectionism enjoyed by Ukrainian-Russian military-industrial cooperation in Ukraine is unprecedented. The Russian MIC enjoys uniquely beneficial conditions for working in Ukraine. For instance, to preserve large-scale military-industrial cooperation, the Ukrainian side signed an agreement on preserving the military specialization of the Ukrainian enterprises that work with the Russian MIC during a meeting between the heads of state in Dnepropetrovsk in February 2001.<sup>29</sup>

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<sup>27</sup> V. Borokhvostov, “Voenno-tekhnicheskoe sotrudnichestvo Ukrainy i Rossii,” *Defense Express*, No. 6 (2002), p. 10.

<sup>28</sup> “Pervym delom—istrebiteli,” *Mignew*, com.ua, December 7, 2001.

<sup>29</sup> Borokhvostov, “Voenno-tekhnicheskoe sotrudnichestvo,” p. 10.

Similar protectionism of the Russian MIC's interests is apparent in the modernization of military equipment in the Ukrainian armed forces. One example is the Ukrainian government's politically motivated decision to award Russia the procurement order for modernizing the Ukrainian forces' MIG-29 fighter planes, a decision that reflects the common Ukrainian tendency to benefit Russian interests in cases of privatization of large enterprises or government procurement orders. Romania and such NATO countries as Germany, Hungary, and Poland are also modernizing their Russian-produced MIG-29 fighter planes. However, unlike Ukraine, they chose a German firm, DASA, which modernizes the planes to NATO standards. The cost of modernizing one MIG-29 is \$4.8 million;<sup>30</sup> Ukraine agreed to pay Russia more than \$5 million per plane.<sup>31</sup> Russian enterprises will also be given a priority in modernizing other types of Ukrainian military equipment.

Ukrainian military-technological policy thus entails some internal contradictions. On the one hand, Ukraine intends to strengthen its political and economic independence; on the other hand, its actions serve to promote its military-technical reintegration with Russia. As can be seen from the above analysis, such a policy is inconsistent not only with Ukrainian economic and geopolitical interests, but also with Ukraine's national security interests. Developing one-sided military-technical cooperation with Russia risks making Ukraine vulnerable by rendering its defense capabilities dependent on the Russian MIC and Russian military-strategic interests. Such a paradoxical situation is explained not only by the Ukrainian inability to create closed production cycles, but also by the views on defense prevalent among the Ukrainian ruling elite.

Despite Russia's geopolitical demands on Ukraine, the Ukrainian ruling elite is convinced that a war or even a local military conflict with the Russian Federation is impossible. It continues to see Russia as its potential military ally and defender against third-party military aggression. For this reason increasing Ukraine's dependence on Russia in defense and security and reintegrating Ukrainian defense production into the Russian MIC is seen as a logical process, aimed at strengthening the country's defense capability. Whether such a policy is compatible with the national interests of Ukraine as an independent state is another question altogether.

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<sup>30</sup> *Defense Weekly*, July 5, 2000, p. 24–25.

<sup>31</sup> *Defense—Express News*, February 20, 2002.



The reason for this sanguine view of Russian influence is that Ukrainian independence did not lead to a change in elites. The same Soviet *nomenklatura* remained in power, with its old Soviet “postcolonial” thinking still oriented toward Moscow as a ruling center. It does not understand Ukraine’s national interests and does not see the difference between the national interests of Ukraine and those of the Russian Federation. This problem can only be solved when the young, nationally oriented Ukrainian elite, united around such political leaders as Viktor Yushchenko, Yuliia Tymoshenko, and Boris Tarasyuk, comes to power.

The other area in which military-industrial cooperation between Ukraine and Russia is deepening is the implementation of coordinated policies of arms sales to developing-country markets. On December 21, 2001 a Ukrainian state enterprise, “Ukrspetsexport,” and the Russian “Rosoboronexport” signed a general agreement on cooperation on arms exports, with similar agreements planned. According to the signed documents, both sides will act in a mutually beneficial manner, with the goal of increasing imports and exports of defense products. Also planned are coordinated marketing policies for promoting sales of similar products, carrying out joint deliveries to developing-country markets, and organizing joint production of competitive armaments and military equipment and their further promotion on international markets.<sup>32</sup>

Russia sought coordinated policies on arms sales once Ukrainian arms and equipment became internationally competitive in arms markets that had traditionally been dominated by the USSR, especially missile and tank construction. Due to excellent technical characteristics and the relatively low cost of its defense equipment, Ukraine began to displace Russian producers from such traditionally Soviet arms markets as Algiers, Vietnam, and Syria.

On the Ukrainian side, the need for coordinated arms-sales policies in Soviet client states is determined by Ukraine’s limited financial resources and its consequent inability to introduce closed-production cycles for its most competitive products. The loss of its former research and development potential inevitably has had an effect on the competitiveness of its defense products. Ukraine and Russia sell primarily low-technology weapons, but they will lose even those markets as their technological

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<sup>32</sup> “Ukraina i Rossiya podpisali soglashenie o sovместnoy torgovle oruzhiem,” *Podrobnosti UNIAN*, February 24, 2001.

potential drops. The aim of the agreements is thus to join the Ukrainian and Russian research and development potentials in producing armaments for the third-world market. Another agreement is in the works for this specific purpose, an Agreement on Carrying Out Joint Research and Development Work in the Area of Arms and Military Equipment.<sup>33</sup>

However, the Ukrainian bet on Russian scientific-technical potential is hardly well justified: Ninety percent of high-technology and science-intensive production takes place in the seven leading countries, and Russia's share in manufacture and export of such products is no more than 0.3 percent.<sup>34</sup> However, despite this international trend, the Ukrainian leadership chose to focus its new strategy for the development of the Ukrainian MIC solely on Russia. The Concept for Restructuring the National MIC, ratified by the Ukrainian Cabinet of Ministers on February 13, 2002, stipulates, on the one hand, creation of integrated national defense production, and, on the other, its integration into transnational scientific-industrial structures. As V. Gorbulin noted, "national integration can be seen as preparation to developing transnational scientific-industrial structures."<sup>35</sup>

Given that the term "transnational structures" really means Russian military-industrial enterprises, it becomes clear that the Concept defines a strategic course for reintegrating Ukrainian defense production into the Russian MIC. Integrated national defense production, according to the Concept, should consist of seven to nine vertically integrated military-industrial structures, each covering one branch of the defense industry, especially shipbuilding, missile building, and plane and tank construction. Each structure will bring together the achievements and best production capacities in its field.

A large corporation, also set up in each branch, will take on the function of regulating and financing the branch enterprises that were included in the corporation, whose nucleus will consist of the leading branch enterprises. For example, in missile construction the industrial union Yuzhmash

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<sup>33</sup> Yuriy Tolotyuk, "Rossiya i Ukraina khotyat torgovat' oruzhiem vmeste," *Ukrainskaya Pravda*, December 24, 2001.

<sup>34</sup> V. Dombrovskiy, "O nauchno-promyshlennoy politike Rossii na rubezhe vekov." <[http://www.sapi.ru/News/Article3\\_16\\_3\\_00.htm](http://www.sapi.ru/News/Article3_16_3_00.htm)>.

<sup>35</sup> "Perestroyka OPK s vidami na eksport," *Defense—Express News*, February 14, 2002.

will form the nucleus; in tank construction, the Malyshev factory. Powerful vertical structures will be formed on the basis of these enterprises, which will focus financial streams and provide development, manufacturing, marketing, and technical support for the defense industry's output. An important factor will be commercial banks, which will take on the task of financing production of new types of military equipment and the construction bureaus that develop them. The other part of the integrated national defense industry will consist of horizontal structures that develop and produce components for the largest defense projects.

By creating such horizontal and vertical structures, the Ukrainian government hopes to compensate for the absence of closed production cycles in defense-equipment manufacture. Another way to solve this problem, in the view of the Ukrainian government, is to establish joint ventures with Russia for producing the types of armaments that are not made in Ukraine. Such joint production, however, can only take place in cooperation with Russian enterprises, because Ukrainian companies produce only components.

The Concept does not stipulate strengthened state control over the Ukrainian MIC. On the contrary, state regulation is used only as an instrument for restructuring defense production, which would eventually free the state from the burden of financing it, adapting it to free-market conditions, and reintegrating it with the Russian MIC.

The problem of how to finance defense, according to the Concept, must be solved by the national bank system and financial-industrial groups, which would replace the current system of state financing. The process of transition to the new financing system for development and manufacture of several types of military equipment has already begun. The All-Ukrainian Bank offers its full spectrum of financial services to MIC enterprises,<sup>36</sup> despite the fact that large banks are generally more interested in financing holding companies and industrial concerns than separate enterprises, due to the guarantees that the former can give, which simplify the credit procedure and reduce lending risks.

However, the Ukrainian government places its main hope for financing defense production in Russian financial-industrial groups. The current trend of the expansion of Russian capital into Ukraine has a role to play in such hopes. According to analysts, up to 70 percent of

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<sup>36</sup> "Finansovaya bronya," *Defense—Express*, No. 3 (2002), p. 10.

goods produced in Ukraine in 2005 will be financed at least partly with Russian capital.<sup>37</sup>

The Concept also envisions transferring shares in Ukrainian defense enterprises to foreign investors, making stock companies the main form of the organization in the defense sector while stimulating the commercialization of defense enterprises. The commercialization process should hasten the entry of Ukrainian enterprises and financial groups into Russian financial-industrial groups and defense companies. Given the profit advantages of privatization, this method of reintegrating Ukrainian vertically-integrated enterprises with the Russian MIC is more attractive and potentially lucrative for Russia than reintegration with the Belarusian defense enterprises, which are state-owned.

Even while trying to exploit Ukrainian scientific-technical achievements to the fullest, Russia does not, however, intend to invest in Ukrainian research and development projects. Russia is seeking to overcome its technological backwardness and financial deficit by seeking foreign investments and establishing military-industrial cooperation with Western countries and the United States. In the opinion B. Kuzyka, director general of the Russian holding company "New Programs and Conceptions," Germany, France, and Great Britain should become Russia's main partners in military-industrial cooperation.<sup>38</sup>

#### UKRAINIAN, BELARUSIAN, AND RUSSIAN PROSPECTS FOR MILITARY-INDUSTRIAL COOPERATION WITH THE WEST

Russia seeks to achieve two different goals in developing military-industrial cooperation with the West: to catch up on new technologies and to attract foreign investments in the Russian defense industry. The main barrier to achieving these objectives is the fact that the West shows no particular interest in the Russian defense industry. Moreover, western military-political and military-strategic goals are inconsistent with developing such cooperation.

Furthermore, the Russian MIC is also technologically incompatible

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<sup>37</sup> Igor Guzhva, Svetlana Klimposh, Maksim Rubchenko, "Ot samostiynosti k kooperatsii," *Expert*, No. 6 (February 11, 2002).

<sup>38</sup> N. Sungurovskiy, "Restrukturizatsiya OKP Ukrainy: biznes i plan," *Zerkalo nedeli*, May 25, 2002.

with the European defense industry. The European MIC is consolidated, and constitutes a network of large transnational companies that implement coordinated programs and ensure the optimal balance of financial and capital resources among their participants. Therefore, Russia cannot join in as an equal partner. Europe's primary interest in Russia is as a source of raw materials and cheap labor, which is the only sphere where military-industrial cooperation between Russia and Europe is likely, as evidenced by Russia's negative experience when it attempted to enter the European arms market. As a result, Russia's policy of developing military-industrial cooperation with the West changed in several ways.

Russia's offer to sell the best of Russian armaments to European armed forces should be viewed as the first stage of Russia's attempt to cooperate with Europe in the defense sphere. The attempt was not very successful. The only exception was the Czech agreement to accept three new An-70 military cargo planes as a settlement for Russia's debts.<sup>39</sup>

A second, more successful, stage was cooperation with the German firm Daimler Chrysler Aerospace in modernizing the Russian-produced MIG-29 fighter planes employed by the German air force to NATO standards.<sup>40</sup> The third stage was Russia's procurement of European and American components for producing several types of military equipment. For example, through cooperation with United Technologies Corporation, Russia now manufactures airplane engines. In addition, Pratt and Whitney supplies engines for Russian helicopters, and imported components are widely used in the production of electronic systems for new types of military equipment; their share has reached 50 percent. Not a single type of Russian weapon is now produced entirely at home.<sup>41</sup>

The fourth, and potentially most promising, stage of cooperation is in manufacturing A-400M military cargo planes. A Russian finance-industrial group (Kaskol) signed an agreement with Airbus under which separate components and aggregates for Airbus planes, including the A-400M, will be produced in Russia. Another Russian company, Russian Aluminum, supplies aluminum to the European defense giant EADS. By

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<sup>39</sup> "FGUP PO 'Polet' izgotovit tri samoleta An-70 v schet gosdolga Rossii pered Chekhiey." <<http://aviaport.ru/news/AviaContracts/28853.html>>.

<sup>40</sup> *Jane's Defense Weekly* (2000), pp. 28–34.

<sup>41</sup> M. Rastopshin, "Iz programmy vooruzheniy v programmu razoruzheniy," *Nezavisimoe Voennoe Obozrenie*, January 19, 2002.

2006, Russia will supply 30 percent of the aluminum used by EADS.

Regarding development of military-industrial cooperation between Belarus and the West, it appears possible in neither the short nor medium run. Western interest in Belarus is mainly in the sphere of investigating illegal arms trade with “countries of concern.”<sup>42</sup> But the absence of direct cooperation does not exclude the possibility of mediated contacts with European companies through Russian enterprises, for which Belarusian producers could serve as subcontractors.

Prospects for Ukrainian military-industrial cooperation with the West, while not very promising, are not as hopeless as for Belarus. The West is not particularly interested in Ukraine for the same reason that it is not interested in Russia, nor does the Ukrainian government believe in potential cooperative links with the West. The obstacle to such links is that the Ukrainian government has never had a clear strategy for developing independent military-industrial cooperation with the West, and always evaluates the possibility of cooperating with west European companies in defense production under the condition of Russian involvement.

Pursuing the idea of “cooperation with the West together with Russia,” Ukraine has embarked upon several of the stages of cooperation through which Russia had gone. The first stage concerned Ukrainian efforts to cooperate with Germany (together with Russia) to produce a Ukrainian military cargo plane, the An-7x. Ukraine and Russia sought 75 percent of the profits, leaving 25 percent for Germany.<sup>43</sup> The project, however, was unsuccessful, and Ukraine lost hope of joint production of new types of domestically developed military equipment. The second stage involved developing military-industrial cooperation with the countries of central and eastern Europe. This route looked more promising, because east European countries produced equipment of the same type as Ukraine. Central and east European defense industries had the same experience as Ukrainian industry, accompanied by a sharp reduction in defense output. In the Czech Republic production of weapons and military equipment fell by 80 percent, in Poland by 70 percent.<sup>44</sup> Ukraine

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<sup>42</sup> “MID Belorussii otritsaet prichetnost’ strany k nelegal’nym postavkam oruzhiya,” *Defense Express News*, February 7, 2002.

<sup>43</sup> V. Bardak, “An-70,” *Pro and Contra*, October 24, 1999.

<sup>44</sup> V. Korovin, “Strany Vostochnoy Evropy: Problemy dlya prodavtsov sredstv PVO,” *Aviapanorama* (March-April 2002), p. 17.

hoped to revive joint defense production in a combined effort with central and eastern Europe. However, central European countries were skeptical. Striving to join NATO, they had reoriented their defense industries toward cooperation with western European countries. Nonetheless, Ukraine managed to preserve contracts for repair and for supply of components to Poland, Slovakia, Hungary, and the Czech Republic.

Ukraine does not actively seek to import components and aggregates from the West for manufacturing defense equipment at home. The exception is its import from a French company of fire-control systems for Ukrainian T-72 AG tanks, and of 120 mm guns for Ukrainian T-80 tanks from the Swiss Ordnance Enterprise Corporation.<sup>45</sup> The passivity of Ukrainian enterprises in developing cooperation in this area is due both to the restrictions of western European governments, which require a number of sales of weapons produced by their domestic firms, and to Ukraine's primary commitment to working with the Russian MIC.

In the end, because of its orientation toward Russia, Ukraine may lose the opportunity to find a place in the system of European military-industrial cooperation, even as a supplier for European-produced defense equipment. In such a situation it will only be able to access western defense technologies and credits through Russia, and only when Ukrainian producers serve as subcontractors for Russian firms fulfilling European orders for components.

#### RUSSIA'S ROLE

Extremely powerful fragments of what used to be a single Soviet military-industrial complex, inherited by Ukraine, Belarus, and Russia and designed for handling the problems of the Soviet military standoff against the United States and NATO, became the economic basis for these countries' military-industrial cooperation in the first decade after their independence. Despite this powerful basis, defense production in Belarus and Ukraine turned out not to match the needs of their national defense, either in quantity or in quality. As a result of these roots of integrated Soviet defense production, Ukraine and Belarus find it virtually impossible to continue manufacturing defense equipment without close cooperation with the Russian military-industrial complex.

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<sup>45</sup> *Defense News*, December 4, 2000, p. 46.

Despite their common dilemmas, the two countries chose very different policies. Current Ukrainian military-industrial policy will likely transform the Ukrainian defense sector into an appendage of the Russian MIC, charged with producing components for Russian low-technology defense production. Ukraine will thus lose the last vestiges of its national independence, and act not in the interests of Ukrainian security, but in the interests of achieving Russia's goal of reinstating Russia's great power status and influence.

For Russia, reintegrating Ukraine and Belarus into its sphere is one of the most important strategic tasks on the way to this goal. There is a deep conviction in the minds of Russians and the Russian elites that Russian identity includes such features as an imperial people, the nation of Eastern Slavs, a Russian-speaking population, and a distinctive ethnic group.<sup>46</sup>

Such a definition of Russian identity presumes expansion of the Russian state to incorporate the Slavic peoples of the former USSR, primarily Ukraine and Belarus. Public opinion surveys indicate that 64 percent of Russians are convinced that Ukraine and Russia should be united into one state.<sup>47</sup>

Clearly, the Kremlin's implementation of such course of action is the main external threat to Ukraine's national security. But despite the existence of Russian geopolitical claims on Ukraine, the Ukrainian ruling elites are convinced that a war, or even a localized military conflict, with the Russian Federation is impossible. They continue to view Russia as a potential military ally and a defender from possible aggression by third parties. This, combined with the current Ukrainian leadership's tendency to hold views favoring accommodation to Moscow's policy preferences, limits the degree to which Ukrainian policy has actually favored reducing the country's dependence on Russia in the defense-production sphere.

Russia sees military-industrial cooperation with Ukraine and Belarus primarily as a method for achieving its military-political interests and geopolitical ambitions. Russia's economic and defense interests are secondary to its military-political interests, as evidenced in relevant sections of Russia's legislation. The law "On Military-Technical Cooperation between the Russian Federation and Foreign States" declares that the

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<sup>46</sup> Vera Tolz, "Forging the Nation: National Identity and National Building in Post-Communist Russia," *Europe-Asia Studies*, Vol. 50, No. 6 (1998), pp. 993-1012.

<sup>47</sup> *Ibid.*, p. 1016.



main goal of such cooperation is “strengthening the military-political positions of the Russian Federation in various regions of the world” (Article 3), and the military-technical cooperation itself is regulated by “Russia’s military-political interests” (Article 4). In the case of Belarus and Ukraine, the ultimate goal is to integrate the two countries into Russia’s defense and economic spheres, and potentially to incorporate them into a single Russian state. Military-industrial cooperation with Belarus and Ukraine is seen in Russia as an engine for such reintegration and Russification.

The main political problem that stands in Russia’s way is Ukraine’s neutral status and its military-political drift toward NATO. Turning Ukraine away from this course is one of the tasks of Russian-Ukrainian military-industrial cooperation. Reorienting Ukraine is why Moscow links the solutions to questions such as modernizing military equipment, establishing joint ventures, and joint production and sale of new types of armaments and equipment, to Ukraine’s readiness to prolong the Treaty on the Stationing of the Russian Black Sea Fleet on Ukrainian Territory. Other Russian conditions on defense production cooperation include Ukraine’s incorporation into the united regional air defense system of Russia and Belarus, and establishment of joint military units and groups. Moscow sees the potential of Ukrainian-Russian military-industrial relations in the context of transforming the Ukrainian defense industry to promote Russia’s geopolitical interests.

Moscow’s second set of goals for military-industrial cooperation with Ukraine is to secure Russia’s defense capabilities. Ukrainian defense enterprises supply a large number of components and spare parts, as well as technical support, for military equipment still used by the Russian armed forces.

From the economic point of view, Ukraine’s policy of one-sided orientation toward Russia has no value even for Russia. It does not need Ukrainian defense production capacities because its own are underemployed; 70 percent of the Russian defense sector is excess capacity. Nor can Russia derive significant economic benefits from Ukraine as a potential market for Russian defense products. In 2000, Ukraine imported \$11 million worth of Russian military equipment,<sup>48</sup> absorbing no more than

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<sup>48</sup> V. Belokhvostov, “Voenno-tehnicheskoe sotrudnichestvo Ukrainy i Rossii: sostoyanie, perspektivy, problemy,” *Defense Express*, No. 6 (2002), p. 11.

0.25 percent of Russian defense exports, whose total volume in 2000 was \$4.3 billion. Such low numbers largely explain why economic interests cannot be driving Russia's military-industrial cooperation with Ukraine.

Russia's need to develop military-industrial cooperation with Ukraine does lie to some degree in certain production-related factors. First, like Ukraine, Russia lacks closed production cycles in defense manufacturing. Having inherited 70 percent of the former Soviet defense industry's capacity, and 79 percent of its finished goods production,<sup>49</sup> Russia attempted to close its open production cycles without Ukrainian enterprises and organizations. Ukraine's importance for Russia in the military-industrial sphere was diminished as a result. However, the policy was not entirely successful: Ukraine still produces several types of military equipment that Russia cannot manufacture independently. Second, Russia is dependent on Ukraine for the manufacture of high-technology equipment, particularly in the production of missiles and aircraft, areas where Russia's dependence on Ukrainian enterprises ranges from 40 to 60 percent.<sup>50</sup> Third, Ukraine is superior in developing and producing several types of defense equipment and armaments. In these areas, Russia has sought cooperation most actively, showing some interest in organizing joint production of systems and devices for air defense, radio location, radio-intelligence and radio electronic combat, and high-precision weapons.<sup>51</sup>

The fourth Russian motivation is industrial profitability. Russia sees the Ukrainian defense industry as a tool for lowering the production costs of its own defense output by rationalizing costs through specialization.<sup>52</sup> Furthermore, Ukrainian enterprises serve as manufacturers of components, while the final assembly and sale of arms and equipment remains a Russian prerogative and Russia gets a higher proportion of profits. This means that Ukrainian suppliers effectively subsidize Russian producers. Among other results, Ukrainian firms effectively reduce the reserves avail-

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<sup>49</sup> Yu. Safyulin and A. Manachinskiy, "Voyenno-promyshlennyy kompleks Ukrainy: sostoyanie i perspektivy konversii," *Finansovaya Ukraina*, January 3, 1996.

<sup>50</sup> Borokhvostov, "Voenno-tekhnicheskoe sotrudnichestvo Ukrainy i Rossii," p. 12.

<sup>51</sup> V. Bordak, "Vostochnyy vektor Ukrainy stanovitsya dlinnee," *Zerkalo nedeli*, No. 49 (December 12, 2001).

<sup>52</sup> N. Sungurovskiy, "Restrukturizatsiya OKP Ukrainy."

able for technological renovation, leaving Ukraine's defense sector further and further behind. And, fifth, military-industrial cooperation allows Russia to eliminate Ukraine as a competitor on international markets by depriving it of an opportunity to sell its products independently.

## CONCLUSIONS

The effects of Russia's military-political priorities are negative for Ukraine's defense sector. The form of cooperation results in transferring scientific discoveries and the newest technological developments in defense technology from Ukraine to Russia, establishing closed cycles of production in Russia for equipment developed in Ukraine; buying, through privatization, shares of strategically important Ukrainian defense enterprises which produce competitive, high-technology products with no analogues in Russia; and transferring the production of some components from Russia to Ukraine, on condition that Russia maintain full control over final production and sales.

Thus, exclusive orientation toward Russia will not improve Ukrainian defense production, because Russia is shifting toward new generations of arms and attempting to introduce technologies that are not produced in Ukraine. As Russia achieves these goals, it will lose interest in Ukraine as an economic partner. In addition, as it gets closer to the United States, Russia will become increasingly interested in attaching the image of "countries of concern" to both Belarus and Ukraine. Such an image will distract the United States from Russia's own questionable arms sales, and may push Belarus and Ukraine further into Russia's embrace.

One must also note that the Ukrainian government has never had a clear strategy for independently developing military-industrial cooperation with the West, whereas Russian participation has been a necessary condition for cooperating with European military-industrial concerns regarding production of defense equipment.

As long as it is oriented toward Russia, the Ukrainian defense sector will miss the opportunity for defense-industrial cooperation with Europe, and to receive necessary investments and new defense technologies. Only dramatic changes in the Ukrainian military-industrial policy priorities will solve the problem. Such changes should include: expediting Ukraine's entry into NATO; deepening a strategic partnership between Ukraine and the United States in military-political and military-technological

spheres; developing a national defense industry, with heavy reliance on domestic orders; reducing the Ukrainian defense industry's dependence on Russia; developing multifaceted international military-industrial cooperation; and reorienting Ukraine toward military-industrial cooperation with European and American defense corporations.

Ukraine's entry into NATO and development of a strategic partnership with the United States would create beneficial military-political conditions for Ukrainian cooperation with European countries. Such cooperation should, first, substitute for Russian components with higher-quality western equivalents. Second, it should focus on production of components for the final products of European military-industrial enterprises.

The third and most promising direction lies in developing international projects for producing aerospace equipment for civilian needs—an area in which the Ukrainian enterprises are internationally accomplished. Military missile carriers such as the Kosmos, Cyclon, Zenit, Okean, SS-24, and SS-18 are famous the world over. The creators of the SS-18, the construction bureau Pivdenne, as a member of the Ukrainian-Russian consortium Kosmotras, is successfully implementing a project to adapt military missiles for launching satellites. Ukrainian enterprises, such as the South Machine construction factory and the Kharkiv firm Khartron, members of the consortium, will remake 150 SS-18 missiles, which, in accordance with the START-I Treaty, have been taken off duty in Russian strategic forces, into missile carriers for commercial use. Kosmotras intends to use these missiles for commercial launches, which it hopes to carry out for the Teledeisik corporation, which plans to launch 324 space satellites to expand the Internet. The value of this contract would be about \$5 billion. The cost of converted SS-18s is a fourth to a fifth of the cost of western analogues. Joint participation in the international Sea Launch project is another example of international cooperation in the missile-space sphere.

Unlike Belarus, Ukraine aspires to create a national military-industrial complex oriented toward exports in cooperation with Russia. However, the reliance of Ukraine on Russia threatens to transform the Ukrainian defense industry into a mere appendage of the Russian military-industrial complex, relegated to producing components for low-technology Russian defense systems. In this event, Ukraine will lose the last vestiges of its national independence and act not in the interests of Ukrainian

security but in the interests of achieving the Russian geopolitical goal of reinstating Russia as a great power and an influential geopolitical force.

If the Ukrainian defense industry can shift its focus away from Russia to Europe and other international ventures, it has the potential to realize a productive and independent industrial future. Meanwhile, Belarus, lacking the expertise for high-tech projects, will likely remain firmly connected to the Russian industrial past for the foreseeable future.

# Economic Integration and Security in the Post-Soviet Space

IGOR BURAKOVSKY

After the collapse of the Soviet Union, the new successor states faced a dual challenge: first, to secure their independence by creating institutions capable of sustaining their political and economic security, and second, to reconcile long-term national interests with the imperative of integration into international political and economic structures. For no state was this challenge greater than for Ukraine. One of the most industrially developed countries, Ukraine had the potential of shaping developments across the post-Soviet space. But to understand how Ukraine and other newly independent states responded to the challenge, it is important to start with the broader framework of developments in this part of the world. The former Soviet republics, for the most part, followed one of two paths to political and economic self-determination.<sup>1</sup>

The first, the “Baltic way,” focused on joining existing international political and economic organizations, such as NATO, the Council of Europe, and the European Union. Those who chose this strategy—and its most successful adherents were Estonia, Latvia, and Lithuania—placed equal emphasis on avoiding any substantial institutionalized ties with the former Soviet republics.

Thus, from the start, the three Baltic republics declared EU membership to be a national priority and firmly rejected the idea of participating in regional arrangements involving any or all of the former Soviet

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<sup>1</sup> We shall discuss here only agreements meant for forming either economic or political groupings and omit numerous other agreements and treaties, although these contractual arrangements are very important, and form the basis for rather close cooperation in a number of fields.

republics. They did accept some regional groupings, such as the Council of the Baltic States, the Nordic-Baltic-8 Group (formerly the Northern Council), and the Vilnius Group (comprising ten NATO candidate countries), and they established new structures, such as the Baltic Defense Cooperation, embracing several cooperative defense councils. In the process, they made plain that they were definitively outside post-Soviet groupings. Economically, however, they preserved bilateral economic links with the former Soviet republics, often on the basis of free-trade agreements.

The second strategy was more mixed. The new states taking this path have tried to combine the pursuit of closer relations with or membership in existing political and economic organizations, such as NATO, the World Trade Organization (WTO), and the EU, with a quest for more effective political and economic institutional arrangements in the post-Soviet space.<sup>2</sup> Thus, the strategy has two elements: a pro-regional component, focused on developing institutions in the post-Soviet space, and an external component, stressing participation in institutions outside the CIS area. (True, there have also been efforts on the part of some post-Soviet states to form groupings combining membership within and outside the region, such as the Shanghai Cooperation Organization, which brings together Russia, four of the Central Asian States, and China, but these appear to be of secondary importance in influencing their approach to the economics of national security.) Within the second, mixed strategy, however, the emphasis on one or the other element, on either the “pro-regional” or the “external” component, varies considerably country by country. Moreover, their choices have come increasingly under the impact of powerful international economic and political players drawn to the region in pursuit of their own agendas.

#### INSTITUTIONAL CONFIGURATIONS

Three levels of organization mark the institutional map of the former Soviet Union. One is shaped by the various attitudes of the CIS states to international economic structures, principally the WTO and EU. The

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<sup>2</sup> The term post-Soviet space is used here to denote the region comprising the twelve CIS states, and is used interchangeably with “CIS space” or “CIS region.”

state of play surrounding CIS-wide cooperation constitutes the second. Finally, on the third level, there are the processes accompanying sub-regional economic projects.

Starting at the first level, as indicated by Table 5.1, all former Soviet republics, with the sole exception of Turkmenistan, have applied for membership in or, in the case of four states, have already joined the WTO.

**TABLE 5.1**

CIS Countries' Accession to WTO

Country	Current Status
Armenia	Protocol of Accession signed December 10, 2002. The Protocol of Accession is now subject to the ratification by Armenian Parliament
Azerbaijan	Working party established on July 16, 1997
Belarus	Working party established on October 27, 1993
Georgia	Member since June 14, 2000
Kazakhstan	Working party established on February 6, 1996
Kyrgyzstan	Member since December 20, 1998
Moldova	Member since July 26, 2001
Russia	Working party established on June 16, 1993
Tajikistan	Working party established on July 18, 2001
Turkmenistan	No application for accession
Ukraine	Working party established on December 17, 1993
Uzbekistan	Working party established on December 21, 1994

**Source:** Interstate Statistical Committee of the CIS <<http://www.cisstat.com>>

Relations with the WTO are an important factor shaping the economic regime among CIS states. All CIS states can be divided into three groups according to the level of their relations with the WTO. The first group includes the states that have already become members of this organization (Armenia, Georgia, Kyrgyzstan, Moldova). These countries have accepted specific obligations regarding the WTO member-states' access to their domestic markets by fixing import tariffs at a specified level. In practice, these obligations set limits to the range of possible agreements between WTO member- and non-member-states. This was highlighted by the experience of EvrAzES, whose suggested rate of common external import tariffs was found to contradict Kyrgyzstan's tariff obligations before the WTO. In other words, a WTO member-state has



three options if it wishes to enter an economic union with non-WTO-member-states: It can limit its participation in such an organization to the level of a free-trade zone, negotiate a revision in its WTO obligations (possibly by offering compensation to its WTO partners), or lobby for the new union to set such a common external tariff as would not conflict with its WTO obligations. The second group includes the countries that are still in the middle of their WTO membership talks. In such cases, the influence of the future WTO membership on each country's position regarding cooperation with other post-Soviet states depends on how far its membership talks have advanced. Clearly, the more bilateral protocols about access to its markets a country has signed, the more future WTO membership will influence its relations with outside trading partners, since every protocol implies certain obligations before the WTO. The third group is represented only by Turkmenistan, which has not yet applied for membership in the World Trade Organization. In this case, the country's economic links with other CIS states depend entirely on its own preferences.

When it comes to the European Union, all CIS states, except Belarus, Tajikistan, and Turkmenistan, have some form of mutual relationship (see

**TABLE 5.2**

Agreements between the European Union and CIS Countries

Country	Agreement and Date Entered into Force
Armenia	Partnership and Cooperation Agreement, July 1, 1999
Azerbaijan	Partnership and Cooperation Agreement, July 1, 1999
Belarus	Partnership and Cooperation Agreement, signed in March 1995 but is not yet in force. The Interim agreement is not yet in force.
Georgia	Partnership and Cooperation Agreement, July 1, 1999
Kazakhstan	Partnership and Cooperation Agreement, July 1, 1999
Kyrgyzstan	Partnership and Cooperation Agreement, July 1, 1999
Moldova	Partnership and Cooperation Agreement, July 1, 1999
Russia	Partnership and Cooperation Agreement, December 1, 1997
Tajikistan	No Partnership and Cooperation Agreement proposed
Turkmenistan	Partnership and Cooperation Agreement signed in May 1998 but is not yet in force. The interim agreement is not yet in force.
Ukraine	Partnership and Cooperation Agreement, March 1, 1998
Uzbekistan	Partnership and Cooperation Agreement, July 1, 1999

**Source:** Interstate Statistical Committee of the CIS <<http://www.cisstat.com>>

Table 5.2), but these relationships vary considerably. In some cases, such as Ukraine, they involve an official commitment to seek membership; in other cases, most notably Russia, they entail looser forms of cooperation, such as the notion of developing a “common European economic space.”

In general, partnership and cooperation agreements between the EU and post-Soviet states are rather general framework documents that cover such questions as political dialogue, trade, conditions for entrepreneurship and investment, cross-border services, capital transactions, protection of intellectual (as well as industrial and commercial) copyright, and specifics of cooperation in particular areas. These agreements contain no mention of EU membership, and their international trade provisions are limited to most-favored-nation agreements. At the same time the EU agreements with Moldova, Russia, and Ukraine do entertain the possibility of opening negotiations on a free-trade zone. In addition, it should be noted that all sides promise to preserve and develop cooperation with the former Soviet republics. Meanwhile—and this is important—in these agreements the three states recognize the importance of gradually bringing their countries’ laws in line with the EU standards. Ideally, if this provision were implemented, the laws of the former Soviet republics would gradually converge on the basis of European norms and principles. In no mutual agreement between the former Soviet states, however, does this thesis figure, although the states constantly declare this step to be necessary.

At the second level, to understand the dynamic of economic integration in the post-Soviet space one must first be aware of the state of intra-CIS mutual economic links. As evident in the trade statistics below, the dependence of the post-Soviet states on the CIS market differs greatly (Tables 5.3 and 5.4).

In terms of export levels, the CIS countries divide into two groups. One, comprising Belarus, Georgia, Moldova, and Tajikistan, is heavily oriented toward CIS trading partners. Other countries have redirected their exports from the CIS to third-country markets. In this case too the level of reorientation (or trade diversion) varies from country to country (90 percent for Azerbaijan and Russia, more than 50 percent for Armenia, Kazakhstan, and Uzbekistan, and 71 percent for Ukraine). At the same time, however, in neither case has the commodity structure of exports changed measurably. On the contrary, in some cases the share of traditional export commodities has even increased.

When turning to the distribution of imports, again the CIS states fall

**TABLE 5.3**

Share of Exports to the CIS Countries in Total Exports (percent)

	1991*	1992*	1995	1996	1997	1998	1999	2000	2001
Azerbaijan	95	49	45	46	48	38	23	13	10
Armenia	98	89	63	44	41	37	24	24	26
Belarus	91	66	63	67	74	73	61	60	60
Georgia	94	53	62	65	57	56	45	40	45
Kazakhstan	92	60	55	54	46	40	27	26	30
Kyrgyzstan	99.5	76	66	78	53	45	40	41	35
Moldova	97	65	63	68	70	68	55	59	61
Russia	58	22	19	19	20	19	15	13	15
Tajikistan	87	44	34	43	37	34	46	48	33
Turkmenistan	98	41	49	64	60	26	41 <sup>1</sup>	52 <sup>1</sup>	52 <sup>1</sup>
Uzbekistan	94	42	39	21	33	25	30 <sup>1</sup>	35 <sup>1</sup>	34 <sup>1</sup>
Ukraine	87	56	53	51	39	33	28	31	29
CIS average	73	31	28	28	28	27	21*	20*	21*

<sup>1</sup> According to the data of importer and exporter countries.

\* Estimate

**Source:** Interstate Statistical Committee of the CIS ([www.cisstat.com](http://www.cisstat.com)).**TABLE 5.4**

Share of Imports from the CIS Countries in Total Imports (percent)

	1991*	1992*	1995	1996	1997	1998	1999	2000	2001
Azerbaijan	86	65	34	35	44	38	31	32	31
Armenia	81	83	50	32	34	26	23	20	25
Belarus	88	76	66	66	67	65	64	70	70
Georgia	64	41	40	39	36	30	37	35	37
Kazakhstan	88	90	70	69	54	47	43	55	52
Kyrgyzstan	80	83	68	58	61	52	43	54	55
Moldova	87	72	68	61	52	43	41	34	38
Russia	55	14	29	32	27	26	28	34	27
Tajikistan	79	76	59	57	64	63	78	83	78
Turkmenistan	87	93	55	56	55	47	33 <sup>1</sup>	38 <sup>1</sup>	38 <sup>1</sup>
Uzbekistan	88	48	41	32	27	28	25 <sup>1</sup>	37 <sup>1</sup>	36 <sup>1</sup>
Ukraine	81	70	65	63	58	54	57	58	56
CIS average	70	33	43	44	39	38	39*	45*	40*

<sup>1</sup> According to the data of importer and exporter countries.

\* Estimate

**Source:** Interstate Statistical Committee of the CIS ([www.cisstat.com](http://www.cisstat.com)).

into the same two groups: In this case, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and Ukraine depend heavily on CIS suppliers. Azerbaijan, Armenia, Georgia, Moldova, Russia, and Uzbekistan are oriented more toward third countries. Although precise rankings are difficult to establish because national statistics are not in all instances reliable, trends are clear. From these it emerges that only two countries—Belarus and Tajikistan—are in their total trade exclusively dependent on the CIS market. In addition, many of these countries relate asymmetrically to the CIS market. Georgia and Moldova, for example, export to CIS countries but import from outside the region. Another sub-group, principally Kazakhstan, Kyrgyzstan, and Ukraine, buy from within the CIS region, but sell outside. Russia occupies a special place among CIS countries, because of its economic weight. Although decreasingly dependent on CIS trade, it remains an important trading partner for nearly all other CIS states (Table 5.5).

**TABLE 5.5**

Former Soviet Republics' Trade, 2001 (percent)

Countries	% of Trade with EU	% of Trade with Russia	% of Trade with U.S.
Armenia	28	11	8
Azerbaijan	40	7	3
Belarus	27	33	2
Estonia	55	13	3
Georgia	33	9	10
Kazakhstan	22	25	3
Kyrgyzstan	18	15	3
Latvia	56	13	3
Lithuania	49	18	3
Moldova	23	22	4
Russia	39	0	8
Tajikistan	6	15	3
Turkmenistan	12	6	10
Ukraine	23	26	3
Uzbekistan	19	19	4

**Source:** IMF, Direction of Trade Statistics, June 2002.

Invariably the evolution of trends in intra-CIS trade significantly affects the overall development of the CIS as an economic grouping as well as the course of different sub-regional arrangements, a subject to which I will return.

SHAPING INSTITUTIONS IN THE POST-SOVIET SPACE

Generally speaking, currently there are three principal approaches to integration in the post-Soviet space. Each shares a commitment, in some fashion, “to restore the broken ties” from Soviet days.<sup>3</sup> The first of these might be called “broad” integration, and aims to embrace all former Soviet republics minus the Baltic states. In the early years this produced the Commonwealth of Independent States. Later a number of agreements paving the road to closer integration were signed, for example, in September 1993 the Interstate Eurasian Association of Coal and Metal and in April 1995, the Free-trade Zone Agreement. Similarly, the 6 March 1998 Agreement on the Single Agricultural Market can be seen as attempt to move closer toward a free-trade zone. Equally important, the base of economic cooperation among the CIS states has depended on bilateral agreements, such as the free-trade agreements that Ukraine has signed with all former Soviet republics as well as the many agreements on production sharing detailed in Table 5.6.

**TABLE 5.6**

Bilateral Agreements among CIS Countries

	<b>Free trade Agreement</b>	<b>Production Co-operation Agreement</b>
Aim	Substitutes for a CIS regional free trade agreement, until one is negotiated.	To facilitate co-operation between companies of all ownership forms, both sectoral and inter-sectoral complexes, transnational enterprises, and joint ventures.
Content	Non-application of import duties on goods produced by partners to the agreements; application of value-added taxes and excise duties at rates not exceeding the rates established for similar goods produced domestically by the importing country; and limitations on quantitative restrictions on imports.	Provision of preferential treatment of goods and services that are specified in annually approved lists. Non-application of import and export duties, quantitative restrictions, value-added taxes, and excise duties on goods (except finished ones) supplied under production co-operation agreements.

<sup>3</sup> G.N. Egorov, “Economic Transformation, Industrial Potential and the Current Status of the CIS Countries: The Role of Science and High-technology” (Vienna: UNIDO, 2000), p. 29. <<http://www.unido.org/userfiles/PuffK/egorov.pdf>>

While these bilateral agreements differ from each other in the goods covered and have included non-CIS countries, such as the Baltic states, all the former Soviet republics in general and Ukraine in particular have viewed these arrangements as a tool for preserving cooperative links established during the Soviet period. They have served as a measure counteracting economic recession following the Soviet Union's dissolution. After the collapse, the newly independent states inherited only fragments of industrial chains, and have thus been forced to restore production relations, but in a new economic environment.

On the other hand, "broad" integration has had from the very beginning a pronounced political component, including security cooperation, for some but not all of the CIS states. Russia, for example, has constantly tried to transform the CIS into a full-fledged military and political grouping under its leadership. In contrast, Ukraine has opted for rather limited participation in the CIS, regularly stressing the importance of concentrating on economic forms of cooperation. Notably, Ukraine did not become a member of the Customs and Payments Union (CPU) actively promoted by Russia. Such a membership would have contradicted Ukraine's principle of avoiding supranational economic policy institutions. Ukraine believed that it had a good chance of developing independently, without entering into any structures that would require it to give up some sovereignty in favor of supranational bodies. The potential advantages in CPU membership were also far from obvious at the time.

The second approach favors sub-regional over "broad" integration. It concentrates on a variety of specific sub-regional projects, resulting in differential rates of integration. They have appeared in two forms: one that emerges initially as a purely political project and later evolves toward an economic mission; such has been the case with GUUAM, the sub-regional grouping incorporating Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova. The other form concentrates from the start on economic cooperation.<sup>4</sup> Among these sub-regional groups, the Russia-Belarus Union is distinctive. In 1995 the two countries formed a customs union, which in 1997 they transformed into the Union of Belarus and Russia. And in

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<sup>4</sup> In fact, at the moment there is a huge gap between intentions of integration and their implementation, but for the sake of clarity the term "grouping" is used here despite the fact that a number of them are at an early stage of development.

December 1999 they formally proclaimed the Union State of Belarus and Russia. It is the most ambitious post-Soviet project of integration, whose ultimate goal is to create a unified state. Throughout, however, Russia has played the decisive role in determining the speed and scale of integration, including plans to make the Russian ruble a common currency, which in turn has been dictated by Russia's own internal economic and political agenda.

As mentioned earlier, GUUAM was formed as a regional organization to facilitate political cooperation, as well as the transport of Caspian oil and the development of a road network linking the Middle East and Europe. In 2002 the presidents of Georgia, Ukraine, Azerbaijan, and Moldova signed an agreement establishing a free-trade area, signaling their intention to boost economic integration. Ukraine has had a special interest in GUUAM and has developed a reasonably elaborate contractual framework of bilateral cooperation with all of its members, including free-trade agreements. Beyond the general GUUAM agreements signed in August 1999, Ukraine reached an agreement with Moldova establishing common procedures to guide their foreign economic relations.<sup>5</sup> The agreement, the first of its kind for Ukraine, points to the creation of a customs union, and specifically anticipates the coordination of a trade regime to be applied to third countries, common tariff and non-tariff policies, mutually designed exchange controls, and the normalization of customs and border controls.

GUUAM is an interesting case because it unites countries opposed to Russian-led integration attempts. It is also an example of a regional project whose destiny depends predominantly upon the actions and policies of major third parties, such as the United States, the EU, and Russia. For it is their policies that will determine the flow of Caspian energy resources to the world markets and it is the vitality of GUUAM ties with the EU, particularly Ukraine's, that will ultimately shape the prospects of GUUAM.

I would define the economic idea behind GUUAM as an attempt to create an attractive arena for direct foreign investment for players outside

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<sup>5</sup> Agreement between the Cabinet of Ministers of Ukraine and Government of Republic of Moldova On Common Procedure of Regulation of Foreign Economic Relations, August 18, 1999. <<http://www.rada.gov.ua/laws/pravo/new/cgi-bin/search.cgi>>.

the organization. The central idea is to use the transit of oil to facilitate the internal integration of the organization's members. Clearly, if this idea is carried out in practice, GUUAM will instantly become an influential regional player, whose security will become an important concern for the international community. Until then, however, GUUAM is fated to attract the attention of geopolitical players only as one of many regional political projects. Because the members of GUUAM do not have the financial resources to implement their far-reaching goals, the organization has not yet developed economic momentum, which partially accounts for the waning interest of Uzbekistan.

It bears repeating that for such a union the prospects of development depend significantly on the predicted trends in world oil markets and on geopolitical trends. Today GUUAM is in the process of finding the "internal" economic component of cooperation. This is why all GUUAM members (except Uzbekistan) signed an agreement on creating a free-trade zone in July 2002, along with other economic documents.

Today GUUAM's future depends on whether its economic projects are supported by third parties. An example of such support is the GUUAM-USA Framework Program, which aims to promote trade and transportation and to assist in setting up the necessary customs and border controls as well as fighting organized crime and drug trafficking. Right now GUUAM needs to carry out a few small economic projects successfully in order to prove its viability and potential significance.

It is still hard to estimate GUUAM's economic potential. The organization can be described as something of a "sleeper" project, which under the right conditions could enter a phase of active implementation. For that, however, it needs a powerful external push. I would risk comparing GUUAM to the Central European Free Trade Area (CEFTA). Within the framework of CEFTA, the mutual liberalization and development of trade-economic cooperation is determined by the participants' associated membership in the EU—that is, by an external factor that ties all members to a more powerful regional grouping.

The Eurasian Economic Community (EvrAzES) represents still another type of sub-regional grouping with a leading Russian role. The grouping traces back to 1995, when Russia, Belarus, and Kazakhstan formed a customs union, later joined by Kyrgyzstan and then Tajikistan. In October 2000 the customs union was upgraded and became EvrAzES, with the goal of at last achieving a genuine customs union by 2005. In



2002 Ukraine and Moldova were granted observer status. There are several noteworthy dimensions to EvrAzES. Not only is the grouping dominated politically and economically by Russia, but Moscow appears to view it as a partial alternative to GUUAM and the CIS. Thus, from a strategic perspective, Russia may view the grouping as the nucleus for a broader regional arrangement. Second, contrary to previous enterprises, the EvrAzES grouping has already made progress in unifying import tariffs. While information is incomplete, reports are that Russia and Belarus have harmonized 95 percent of their tariffs; Russia and Kazakhstan, 85 percent; Russia and Kyrgyzstan, 14 percent; and Russia and Tajikistan, 60 percent.<sup>6</sup>

At the same time, EvrAzES is the first post-Soviet grouping to encounter the contradiction between efforts to harmonize external tariffs among members and the obligations one member (Kyrgyzstan) has assumed in joining the WTO. In order to raise its import tariffs to the level of the EvrAzES common external tariff currently under discussion, Kyrgyzstan will have to negotiate a change in the terms of its WTO accession. In principle, the solution would be for Kyrgyzstan to opt for a free-trade agreement with EvrAzES, but this would undermine the organization's purpose.

Here Russia's response is critical. In November 2001, the Russian government, in discussions with the other CIS countries, urged a coordinated approach to WTO membership. An uncoordinated approach, Moscow fears, will result in substantial losses for Russia, if, once in the WTO, these countries demand an opening of Russia's markets, as Kyrgyzstan has already done. Not only Russia, but also EvrAzES, will suffer.<sup>7</sup> Finally on May 13, 2002, EvrAzES leaders agreed to consult and coordinate their approach to the WTO, basing a common position on the terms of accession offered Russia, while at the same time protecting EvrAzES efforts to achieve a common external tariff.

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<sup>6</sup> Constantine Michalopoulos, "The Integration of Low- Income CIS Members in the World Trading System" (paper prepared for the CIS-7 Conference; draft as of December 2002). <[http://www.worldbank.org/wbi/attackingpoverty/events/Kazakhstan\\_1202/1c\\_trade\\_cis\\_eng.pdf](http://www.worldbank.org/wbi/attackingpoverty/events/Kazakhstan_1202/1c_trade_cis_eng.pdf)>.

<sup>7</sup> This point was explicitly stated in the report "On the Economic Relations between the Russian Federation and CIS Member-States and Ways of their Further Development." <[http://www.georgia.mid.ru/Georgia/press/3\\_93.html](http://www.georgia.mid.ru/Georgia/press/3_93.html)>.

At this writing, however, general evidence suggests that EvrAzES has not made a material difference to the economic performance of its member states (Table 5.7). EvrAzES integration, to the extent that it has occurred, has not yet yielded visible results, nor has it mitigated the sometimes sharp contrasts in the performance of the partner states.

**TABLE 5.7**

Basic Economic Indicators of EvrAzES and CIS countries

(constant prices as a percentage of the previous year)

	Year	GDP	Industrial Output	Agricultural Output	CPI (December to December)	Investments in constant capital	Freight transported (without pipelines)
Belarus	2000	105.8	107.8	109.0	207.5	102.0	90.0
	2001	104.1	105.4	101.8	146.1	93.9	99.0
Kazakhstan	2000	109.6	114.6	96.0	109.8	149.0	131.0
	2001	113.2	113.5	116.9	106.4	121.0	123.0
Kyrgyzstan	2000	105.0	107.1	104.0	109.6	137.0	105.0
	2001	105.3	105.4	106.8	103.7	83.9	97.0
Russia	2000	108.3	109.0	107.0	120.2	117.0	106.0
	2001	105.0	104.9	106.8	118.6	108.7	101.0
Tajikistan	2000	108.3	109.9	112.0	160.6	—	105.0
	2001	110.2	114.8	111.0	112.5	—	75.0
Average EvrAzES	2000	108.5	109.5	107.0	121.0	119.0	110.0
	2001	105.2	105.3	107.0	118.7	109.0	105.0
Average CIS	2000	107.8	110.0	106.0	120.7	118.0	109.0
	2001	106.0	107.0	108.0	119.1	110.0	107.0

**Source:** <http://www.nalog.ru/forms/0131/4.doc>

The idea of integration in Central Asia and, more broadly, in the post-Soviet space, has been consistently advanced by the Kazakh president, Nursultan Nazarbaev. Since the collapse of the Soviet Union, he has introduced a number of ambitious initiatives, including a CIS oil and gas alliance similar to OPEC. The Central Asian states have also attempted to establish their own regional economic grouping. Kazakhstan, Kyrgyzstan, and Uzbekistan announced an economic union in September 1993 and the next year, an agreement to create a single economic space. In July 1994 they transformed the new regional organization into the Central

Asian Union, which in July 1998 became the Central Asian Economic Community, with Georgia and Turkey formally as observers.<sup>8</sup>

The Central Asian republics, along with Azerbaijan, all face substantial geographic and economic challenges, including the small scale of their economies, their remoteness from world markets, their long-term isolation from global technology and capital flows, their heavy dependence on the primary production of energy, minerals, and other commodities, and their continuing vulnerability to the volatility in international oil and commodity prices. To this one can add their great reliance on the Russian market, still the primary destination for their exports, and the drag of a Soviet-era industrial structure impeding the emergence of an open economy.<sup>9</sup>

This was a major reason these countries came together to form the Central Asian regional grouping, hoping that through it they could create a sub-regional market, thus helping to overcome their relative isolation from world markets, speed industrialization, and in the end contribute to sustained economic growth. Again, however, as in other cases, hopes have vastly exceeded results. The level of intra-regional trade remains small, as illustrated by the Kazakh example (Tables 5.8 and 5.9). The data clearly show that neither trade with partners from EvrAzES (except Russia) nor within the Central Asian Economic Community plays a significant role in Kazakhstan's overall external trade.

One more recent initiative is worth mentioning: On February 24, 2003, Belarus, Kazakhstan, Russia, and Ukraine declared their intention to establish a single economic space, with the ultimate goal of establishing a formal organization for regional integration. On September 19, 2003 the agreement to form the Single Economic Space (SES) along with a document laying out the conception of the SES were signed. These documents define the SES as "an area consisting of the customs spheres of the participants, where the mechanisms of economic regulation are intended to ensure the free movement of goods, services, capital, and labor; where a common foreign-trade policy is carried out, and fiscal, monetary, and foreign-exchange policies are coordinated to the extent

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<sup>8</sup> Members: Kazakhstan, Kyrgyzstan, Tajikistan (1998), Uzbekistan. Observers: Russia, Ukraine, Georgia, Turkey.

<sup>9</sup> *Asian Development Outlook 2002* (Asian Development Bank, 2002), p.5.  
<<http://www.adb.org/Documents/Books/ADO/2002/trends.asp>>.

**TABLE 5.8**

Kazakhstan's Exports by Countries

(Millions of U.S. Dollars and Percentage of Total Exports)

Country	1996	1997	1998	1999	2000
Russia	2484.4	2287.9	1611.4	1107.6	1783.9
%	42.0	35.2	29.6	19.8	19.5
Ukraine	212.5	303.5	263.2	115.0	268.6
%	3.6	4.7	4.8	2.1	2.9
Uzbekistan	290.1	148.4	119.2	66.4	139.2
%	4.9	2.3	2.2	1.2	1.5
Kyrgyzstan	111.6	66.2	62.8	59.5	58.5
%	1.9	1.0	1.2	1.1	0.6
CIS countries	3178.9	2981.9	2169.5	1461.4	2390.4
%	53.8	45.9	39.9	26.1	26.2
The Netherlands	303.0	203.6	275.0	161.2	239.9
%	5.1	3.1	5.1	2.9	2.6
Germany	183.0	353.0	281.5	332.5	566.6
%	3.1	5.4	5.2	5.9	6.2
UK	230.8	548.7	483.5	189.1	231.0
%	3.9	8.4	8.9	3.4	2.5
Italy	197.1	357.3	492.6	418.9	891.9
%	3.3	5.5	9.1	7.5	9.8
EU countries	1095.4	1707.5	1690.5	1283.4	2073.8
%	18.5	26.3	31.1	22.9	22.7
China	458.9	442.2	382.1	473.1	670.3
%	7.8	6.8	7.0	8.5	7.3
USA	59.4	139.2	76.1	80.6	211.0
%	1.0	2.1	1.4	1.4	2.3
Turkey	51.7	102.2	94.4	36.2	64.3
%	0.9	1.6	1.7	0.6	0.7
Switzerland	211.4	285.6	334.5	296.7	488.1
%	3.6	4.4	6.2	5.3	5.3
Other countries	1636.7	1807.6	1575.8	2847.4	4675.3
%	27.7	27.8	29.0	50.9	51.2
Total	5911.0	6497.0	5435.8	5592.2	9139.5
%	100	100	100	100	100

**Source:** Agency of the Republic of Kazakhstan on Statistics, Kazakhstan Economic Trend report <<http://kazakhstan-gateway.kz/economy/foreigntrade/exports.htm>>

**TABLE 5.9**

Kazakhstan's Imports by Countries

(Millions of U.S. Dollars and Percentage of Total Imports)

Country	1996	1997	1998	1999	2000
Russia	2324.6	1967.6	1711.8	1350.6	2459.8
%	54.80	45.9	39.4	36.7	48.7
Ukraine	92.3	93.3	92.7	59.2	79.8
%	2.2	2.2	2.1	1.6	1.6
Uzbekistan	89.3	65.6	96.3	86.7	73.3
%	2.1	1.5	2.2	2.4	1.5
Kyrgyzstan	91.0	63.5	52.7	27.6	31.6
%	2.1	1.5	1.2	0.7	0.6
CIS countries	2945.5	2322.6	2059.6	1594.4	2757.3
%	69.5	54.1	47.4	43.3	54.6
The Netherlands	49.0	70.1	91.7	101.2	64.7
%	1.2	1.6	2.1	2.7	1.3
Germany	197.7	367.7	366.4	287.6	333.7
%	4.7	8.6	8.4	7.8	6.6
UK	76.5	141.4	218.4	232.9	219.4
%	1.8	3.3	5.0	6.3	4.3
Italy	42.2	84.7	89.3	107.1	155.0
%	1.0	2.0	2.1	2.9	3.1
EU countries	553.8	925.0	1044.3	931.9	1016.3
%	13.1	21.6	24.0	25.3	20.1
China	35.8	46.6	50.6	81.4	154.0
%	0.8	1.1	1.2	2.2	3.0
USA	66.3	201.7	270.8	348.7	276.9
%	1.6	4.7	6.2	9.5	5.5
Turkey	151.2	177.0	209.1	112.2	142.6
%	3.6	4.1	4.8	3.0	2.8
Switzerland	45.8	49.5	66.8	42.4	54.3
%	1.1	1.2	1.5	1.2	1.1
Other countries	741.8	1043.6	1245.7	1156.4	1278.5
%	17.5	24.3	28.6	31.4	25.3
Total	4241.1	4291.2	4349.6	3682.7	5052.1
%	100	100	100	100	100

**Source:** Agency of the Republic of Kazakhstan on Statistics <<http://kazakhstan-gateway.kz/economy/foreigntrade/imports.htm>>

needed in securing fair competition and macroeconomic stability.”<sup>10</sup> In effect, it is a question of creating a common market, that is, a form of deep integration that previously Ukraine had rejected. For example, despite considerable pressure, Ukraine had agreed only to observer status in the EvrAzES. Therefore, the decision to sign the Agreement on the Formation of the SES was entirely unexpected not only among Ukrainian experts but even among many politicians and high-level officials in the government. The sharpness of the debate surrounding the issue of the SES prompted the Verkhovna Rada on September 17, 2003, to adopt a “Statement Concerning the SES,” in which it declares its support only for an agreement conforming to the requirements of Ukraine’s constitution, laws, and international obligations.<sup>11</sup> According to the Conception on the Formation of the SES, the first step is to be the creation of a free-trade zone without exceptions or limitations. It seeks to establish a unified policy on tariff and non-tariff regulations, unified rules for competition, the use of subsidies, and other forms of state support, while eliminating anti-dumping, compensatory, and other special defensive measures in mutual trade. In other words, already at this first stage is envisaged the creation of a customs union, that is, a form of union requiring a unified customs policy. These agreements are distinct from others in one essential respect: They anticipate the coordination of national positions in negotiating membership in the WTO. The Conception on the Formation of the SES, in particular, specifies that, if one member enters the WTO before others, it will promote the earliest entry into the WTO of other SES members and, once WTO negotiations are underway, to refrain from advancing demands of their own. Thus, for the first time, a kind of “non-aggression principle” in negotiations with the WTO has been officially set.

Attempts to promote mutual cooperation can only be welcomed, and the creation of regional unions in any form is, in principle, a positive

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<sup>10</sup> Agreement on the Formation of the SES. <[http://www.president.gov.ua/summit\\_documents/1919206050\\_mode\\_print.html](http://www.president.gov.ua/summit_documents/1919206050_mode_print.html)> <[http://www.president.gov.ua/summit/191920689\\_mode\\_print.html](http://www.president.gov.ua/summit/191920689_mode_print.html)>.

<sup>11</sup> When this paper was written, the official documents regarding the creation of a Single Economic Space had not yet been published. The author used news agencies’ materials and the text quoted in Tatjana Silina, “Bespridannitsa,” *Zerkalo Nedeli*, No. 33 (458) (30 August–5 September 2003). <<http://www.zerkalo-nedeli.com/nn/show/458/41470/>>.

development. Regional unions allow weaker countries (such as Ukraine in comparison to Russia) to build their relations with stronger neighbors more effectively. That said, even a brief analysis of the concept of the SES raises important questions.<sup>12</sup>

First, it is unclear that all founding members of the SES understand it the same way. For Russia the priority is to create a customs union at once, with a free-trade area as only one element.<sup>13</sup> Ukraine, on the other hand, has as its priority the creation of a fully functional free-trade area, and does not wish to participate in a fiscal and customs union. Thus, the May 22, 2003 Ukrainian Parliament Declaration “On the Formation of a Single Economic Space between Ukraine, the Republic of Belarus, the Russian Federation, and the Republic of Kazakhstan” underscores that “the main objective of a Single Economic Space consistent with Ukrainian interests is to create a free-trade area without exceptions and limits.”<sup>14</sup>

If Ukraine enters negotiations on creating a customs union, the future of WTO membership talks is called into question. Ukraine has already signed fifteen bilateral agreements on access to its domestic market, strengthening its import tariff obligations. SES negotiations on a common external tariff will inevitably pose problems with respect to WTO agreements: Ukraine will either have to revise its undertakings within the SES or take WTO membership off the agenda. In this case, the SES will face the same situation as EvrAzES did when a conflict arose

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<sup>12</sup> Here we will look at the most important of them, because a detailed analysis of the process of SES creation is still impossible due to numerous legal and political uncertainties, including the fact that when this essay was completed the Agreement had not yet been ratified by the Ukrainian parliament.

<sup>13</sup> According to Prime Minister Kasyanov, “Russia considers a common customs area and a common foreign trade policy to be a minimal level of integration, which also would presume an unhindered migration policy, a common economic policy, common tariffs, and refusal to carry out anti-dumping investigations against each other.” <<http://media.topping.com.ua/news/economy/2003/08/26/186226.html>>.

<sup>14</sup> Postanova Verkhovnoj Radi Ukraini, “Pro zayavu Verkhovnoj Radi Ukraini ‘Pro formuvannya Edinogo ekonomichnogo prostoru Ukraini, Respubliki Bilorus’, Rossijskoj Federatsij, Respubliki Kazakhstan” vid 22 travnya 2003 roku, N 843-IV. <<http://www.rada.gov.ua/laws/pravo/new/cgi-bin/search.cgi>>.

between the desired level of a common external tariff and Kyrgyzstan's WTO obligations.

Thus, Ukraine will have to solve a question of priorities: whether the WTO or the SES comes first. This is well understood in Ukraine, which is why the May 22 declaration emphasizes that the creation of the SES should promote the fastest possible entry of Ukraine into the WTO. Different understandings of SES goals will also inevitably lead to contrasting ways of judging the pace of integration best serving a given country's national interests.

Recently Russia's position with respect to the SES and WTO membership has somewhat changed. German Gref, the Minister of Economic Development, has said that the creation of a customs union under the auspices of the SES will only be possible after all its participants have become members of the WTO. At the same time, Kazakhstan and Belarus have agreed to link their negotiations for membership in the WTO with the Russian position.<sup>15</sup>

Secondly, there is the question of whether Ukraine's commitment to becoming a member of the EU will be compatible with its membership in the SES. In my opinion, Ukraine's entry into a free-trade area with the SES member-states does not prevent its entry into a free-trade area with the EU. However, entering the SES customs union will impede the development of bilateral trade relations with the EU, because foreign-trade policy in the customs union is to be determined by a special supra-national organ. On the other hand, the possibility should not be excluded that under certain conditions the SES may eventually form a common economic area with the EU, as happened with the EU and the European Free Trade Association.

Third, it is not entirely clear whether the idea of the SES can be made compatible with the formation of a pan-European economic space between Russia and the EU. Fourth, the creation of the SES would virtually kill the idea of EvrAzES, because the founding fathers of EvrAzES — Russia, Belarus, and Kazakhstan—would also become the founding members of the SES. This may suggest that Russia is disappointed in the EvrAzES project and is trying to find an effective alternative. Russia also understands that it is not possible to succeed with large-scale integration schemes in the post-Soviet space without Ukrainian participation.

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<sup>15</sup> <<http://www.glavred.info/print.php?news+88470481>>.



Fifth, the discussion about the SES has brought attention again to the prospects of Ukrainian integration into the EU. Clearly, the fact that the EU has not sent a clear signal regarding Ukraine's declared wish to become a member objectively strengthens the positions of those who support speedy large-scale integration between Ukraine and Russia.

In general, the situation around the SES shows that economic and political problems currently command the center of attention in the post-Soviet space, whereas the defense component of national security is receding into the background. Meanwhile, the experiences of different regional unions demonstrate clearly that none of the former Soviet republics is ready to delegate its economic decision making to common or supranational institutions.

The third and final approach to institutional cooperation among the post-Soviet states features regional organizations with third-country participation. Such is the case with the Economic Cooperation Organization (ECO), founded by Iran, Pakistan, and Turkey in 1985 in order to promote economic, technical, and cultural cooperation. ECO is the successor to the organization, Regional Cooperation for Development (RCD), which functioned from 1964 to 1979. The charter of RCD (the Treaty of Izmir) remains the basic document of ECO. The accession of Afghanistan, Azerbaijan, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan in 1992 gave the organization a new impetus, for it was believed that Central Asian membership would facilitate both mutual trade and trade with their southern neighbors. As in other instances, however, actual effects are considerably below theoretical potential, and the countries of ECO continue to interact primarily on a bilateral basis.

The Black Sea Economic Cooperation Organization (1992) is another example of a regional arrangement that brings together former Soviet republics and third countries.<sup>16</sup> Its success too has been limited, with the partial exception of the Black Sea Trade and Development Bank, established June 21, 1999. With an anticipated capitalization of \$1.5 billion,

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<sup>16</sup> BSEC members are Armenia, Azerbaijan, Georgia, Moldova, Russia, Ukraine, Albania, Bulgaria, Greece, Romania, and Turkey. The status of observer was granted to Poland and the Business Council of Black Sea Economic Cooperation in 1992; to Tunisia, Israel, Egypt, France, and Slovakia in 1993; to Italy and Austria in 1995; and to France and Germany in 1999.

the Bank is expected to provide the financial pillar missing in other groupings. Turkey, Greece, and Russia are the main shareholders, each with 16.5 percent of the shares. Reportedly the Bank has already provided \$102 million to regional projects.

The Shanghai Cooperation Organization (SCO) is a third illustration. Set up in 1996 as the Shanghai Five, the organization unites all of the Central Asian states, except Turkmenistan, with Russia and China.<sup>17</sup> The group came together originally to resolve unsettled border issues with China and to explore military confidence-building measures. Eventually it added an economic dimension to its agenda, and still later the struggle against Islamic extremism. Because of China's potential contribution to the economic development of Central Asia, based not least on China's emerging stake in the natural and energy resources of the region, the economic side of the SCO may turn out to be its most significant aspect. For now, however, it mixes security and economic tasks more explicitly than any of the sub-regional groupings. In sum, this complex web of regional and sub-regional arrangements in the post-Soviet space reflects an active search for allies inside and outside the area. Yet, at the same time, in nearly all cases the practical gains from these efforts are modest, to say the least. Thus, one can only speculate about the future.

#### CONTEMPLATING THE FUTURE

Four propositions seem likely to figure in the eventual fate of the various institutional experiments underway among the post-Soviet states. First, it seems clear that any successful regional arrangement, all other factors being equal, will depend on the right configuration of allies. Three key players—Russia, Ukraine, and Kazakhstan—are likely to be decisive in determining institutional outcomes.<sup>18</sup> Russia remains a crucial economic partner for nearly all CIS states, and an important security partner for an important sub-group. Ukraine's importance for security and economic trends in the European portions of the former Soviet Union is nearly as

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<sup>17</sup> The organization changed its name to Shanghai Cooperation Organization in June 2001.

<sup>18</sup> Of course, Belarus, with some reservations, can be also included in this list, but in fact this country has not conducted an independent foreign policy but has followed Russia's course.

great. And so too is the geo-strategic significance of Kazakhstan in Central Asia.

Second, the peculiar features of economic relations inherited from the past are likely to exercise considerable influence well into the future. They start from Russia's centrality to virtually all of the CIS countries, a reality that owes largely to the character of the old centralized Soviet system. Add to this the limited development of horizontal economic links among CIS states (other than Russia), which holds true for trade both within sub-regional groupings and with neighboring countries. Nonetheless the importance of third countries from outside the region has been steadily growing. In this regard, Ukraine's example is representative. Table 5.10 indicates how extensively Ukraine's exports have been reoriented from the CIS to other markets, granted the small scale of Ukrainian trade with any set of CIS countries except Russia.

When turning to imports, Ukraine's primary partners are Russia and Turkmenistan, principally because of its dependency on these two countries for gas and oil supplies (Table 5.11). The data underscore the degree to which at present Ukraine's security depends on its ability to secure the necessary oil and gas supplies from Russia and Turkmenistan. They also suggest that in the medium- and longer-run, Ukraine's security depends on its ability to diversify among energy suppliers.

Finally, economic links among CIS states, whatever the institutional context, are limited primarily to trade relations. Financial flows, in contrast, remain insignificant, as again the Ukrainian example illustrates (Table 5.12). So far, Ukraine has failed to attract significant direct foreign investment from the other CIS countries, all of whom are desperately short of capital themselves. Investment flows from Ukraine to other CIS countries are even smaller (Table 5.13). In the circumstances, even an ideal national regulatory climate will not contribute to an increase in mutual investments, and without this cooperation will remain limited largely to trade.

In short, Ukraine's future economic cooperation with CIS countries will be determined by first, the speed and degree of trade reorientation from the CIS space, that is, on its ability to find markets outside the post-Soviet space; and second, the political and economic agendas of the United States and the EU. (Should Ukraine fail to work out an effective relationship with the EU following EU enlargement, it may be forced to reconsider its European choice and draw closer to Russia.) Yet, third,

**TABLE 5.10**

Geographic Distribution of Ukraine's Commodity Exports

	<b>2001 Amount (Millions USD)</b>	<b>2001 Percentage of Total</b>	<b>2002 Amount (Millions USD)</b>	<b>2002 Percentage of Total</b>
Armenia	22.1	0.1	33.4	0.2
Azerbaijan	45.6	0.3	104.7	0.6
Belarus	244.3	1.5	261.2	1.5
Georgia	36.4	0.2	57.3	0.3
Kazakhstan	117.4	0.7	199.6	1.1
Kyrgyzstan	5.2	0	6.1	0.0
Moldova	274.4	1.7	302.1	1.7
Russia	3680	22.6	3189	17.8
Tadjikistan	34.7	0.2	43	0.2
Turkmenistan	106.5	0.7	112.9	0.6
Uzbekistan	109.3	0.7	68.1	0.4
Europe	5721	35.2	6516	36.3
CIS	43675	28.7	4377	24.4
Total	16265	100	17957	100

**Source:** State Statistics Committee of Ukraine.**TABLE 5.11**

Geographic Distribution of Ukraine's Commodity Imports

	<b>2001 Amount (Millions USD)</b>	<b>2001 Percentage of Total</b>	<b>2002 Amount (Millions USD)</b>	<b>2002 Percentage of Total</b>
Armenia	10.6	0.1	7.4	0.0
Azerbaijan	8.2	0.1	5.3	0.0
Belarus	407.1	2.6	262.8	1.5
Georgia	11.2	0.1	15.8	0.1
Kazakhstan	666	4.2	382.9	2.3
Kyrgyzstan	2.6	0	4.3	0.0
Moldova	64.3	0.4	56.2	0.3
Russia	5813.5	36.9	6317.1	37.2
Tajikistan	1.6	0	2.9	0.0
Turkmenistan	1654.1	10.5	1885.7	11.1
Uzbekistan	193	1.2	27.8	0.2
Europe	4981.7	31.6	5751.1	33.9
CIS	8832.2	56	8968.2	52.8
Total	15775.1	100	16976.8	100

**Source:** State Statistics Committee of Ukraine.

**TABLE 5.12**

FDI from CIS Countries in Ukraine

	As of the beginning 2001			As of the end 2001	
	Quantity of enterprises	Thousand USD	%	Thousand USD	%
Total (all FDI) including	—	3874964.18	100	4406173.27	100
Armenia	12	187.28	—	209.78	—
Azerbaijan	8	57.86	—	66.27	—
Belarus	60	8933.27	0.2	9760.61	0.2
Georgia	11	355.27	—	354.72	—
Kazakhstan	5	247.97	—	313.25	—
Kyrgyzstan	1	—	—	0.62	—
Moldova	56	14467.37	0.4	22296.71	0.5
Russia	753	286567.37	7.4	295133.52	6.7
Tajikistan	—	—	—	—	—
Turkmenistan	1	50.00	—	50.00	—
Uzbekistan	8	18675.54	0.5	18682.82	0.4
Estonia	66	4632.33	0.1	5304.68	0.1
Latvia	68	4275.85	0.1	6008.04	0.1
Lithuania	112	5579.52	0.1	7846.68	0.2

**Source:** State Statistics Committee of Ukraine

Ukraine's approach to the CIS will also be influenced by its need to preserve CIS markets.

The third basic proposition is that integration in the post-Soviet space involves multiple components. Eliminating trade barriers and creating, as Ukraine wants, a preferential trade arrangement is only one component. There are also a "shallow" and a "deep" regulatory component. The shallow dimension applies only to trade; deep integration entails cooperation on regulatory issues going well beyond pure trade issues. Between these two components, to this point, Ukraine has favored constructing a free-trade regime, while Russia has pushed for means of coordinating national economic policies.

Then there is the political component, that is, the actual process of coordinating economic politics. At the moment this component is among the most important. It has a number of very specific interrelated dimensions. First comes the question of how decisions are to be prepared and then made, a matter that touches on the problem of supra-nationalism. In some Russian quarters, the view is strongly held that successful region-

**TABLE 5.13**

FDI from Ukraine to CIS countries

	As of the beginning 2001			As of the end 2001	
	Quantity of enterprises	Thousand USD	%	Thousand USD	%
Total (all FDI) including	—	170342.78	100.0	157528.82	100
Armenia	6	110.32	—	112.78	—
Azerbaijan	2	2.08	—	—	—
Belarus	9	242.84	0.1	471.81	0.2
Georgia	3	883.05	0.5	838.89	0.5
Kazakhstan	1	2.16	—	2.01	—
Kyrgyzstan	—	—	—	—	—
Moldova	2	19.00	—	17.74	—
Russia	72	68120.0	40.0	84887.51	53.9
Tajikistan	—	—	—	—	—
Turkmenistan	1	—	—	11.90	—
Uzbekistan	3	24.05	—	127.51	0.1
Estonia	1	1100.00	0.6	1100.00	0.7
Latvia	2	2.14	—	2.14	—
Lithuania	3	410.52	0.2	410.53	0.3

**Comment:** — data absent or negligible.**Source:** State Statistics Committee of Ukraine.

al integration requires movement toward single statehood.<sup>19</sup> Until now, Ukraine has resisted projects involving a high degree of integration, such as a customs union, if they imply ceding significant authority to supranational bodies.

Similarly, Ukraine has all along maintained a skeptical attitude toward the CIS as a collective organization, preferring to see it as a mechanism for “civilized divorce,” rather than as the forerunner of a new supranational body. Instead Ukraine argues for free trade agreements as a better initial step toward economic integration, leaving the coordination of economic policies at the national level. Belarus, on the other hand, represents the extreme alternative case, supporting not merely a high level of integration, but actually a merger with Russia and the formation of a united state.

<sup>19</sup> Yurii Godin, “Nadezhd na reintegratsiyu stanovitsya vse menshe,” *Sodruzhestvo-internet*, 06 (39), June 27, 2001. <[http://cis.ng.ru/tribune/2000-11-29/1\\_reintegration.html](http://cis.ng.ru/tribune/2000-11-29/1_reintegration.html)>

As for the idea of a monetary union between Russia and Belarus, it should be emphasized that it would be a “small state–large state” union between states whose economic potential is utterly incomparable.<sup>20</sup> To be achieved, the monetary system of the smaller state will have to be absorbed into that of the larger state, which will determine the union’s monetary policy. Thus, one may wonder how attractive the benefits of the union (such as the reduction in foreign-exchange risks and transaction costs) will appear to the smaller state when compared to its loss of monetary independence.

All this is evident in President Putin’s suggestion that the Russian ruble be adopted as Belarusian currency, and his ideas about the role of the Belarusian Central Bank under the proposed arrangements.<sup>21</sup> Is Belarus really ready to transfer an important part of its sovereignty to Russia? The answer to this question will determine what form the emission mechanism of the future monetary union will take in practice.

Because both parties lack a clear vision of how the monetary policy is to be carried out after the introduction of a single currency, one is left with a profusion of contradictory statements on both sides concerning the idea itself and the problems in implementing it.<sup>22</sup> In general, the Russian-Belarusian experience highlights the problems of integrating countries whose economic potential and vectors of economic development are markedly different. In this case, joining a small state to a large economic complex will mean that Belarus’s economic independence will depend not on itself but on Russian economic trends. Whether the resultant economic consequences would be good or bad for either Russia

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<sup>20</sup> Despite lengthy discussions and numerous political statements, it is hard to find a serious economic analysis of the consequences of a monetary union between Russia and Belarus. Among the works I have found I would like to highlight Dmitry Kruk, “Monetarnye soyuzi: vygody i izderzhki,” *EKOVEST* (2002) 2, 3b, pp. 462–498. In my opinion, the author’s arguments against the creation of a monetary union are clearly explained, and I borrow from them here.

<sup>21</sup> Aleksei Oreshko, “Natsbank boretsia za nezavisimost,” *Belorusskie Novosti* (online newspaper *BelaPAN*), September 23, 2003 <<http://www.naviny.by/node.phtml?index=3887>>.

<sup>22</sup> “Rossiya i Belarus’ soglasovali plan vvedeniya edinoj valyuty,” *Russkaya Pravda*, June 10, 2003 <<http://pravda.org.ua/news.php?content=news&id=1055260717>>.

or Belarus is difficult to judge, but it is already obvious that concrete economic and related political problems have come to dominate relations between the two countries. No longer are the purely military aspects of national security in the forefront.

The "Joint Declaration" of the four CIS states of February 24, 2003, setting up a single economic space and establishing a "single regulatory interstate, independent commission on trade and tariffs," does confuse matters. On the surface, it seems to contradict Ukraine's traditional position. But the idea is vague. The "single economic space" is defined as an "area, consisting of the territories of contracting parties, ... where coordinated tax, monetary, financial, exchange rate, trade, and customs policies are intended to ensure the free movement of goods, services, capital, and labor."<sup>23</sup> The treaty explicitly states that a customs union is to precede the formation of a single economic space, suggesting something close to a common internal market. If so, the declaration of Russia, Belarus, Ukraine, and Kazakhstan is very similar to the EvrAzES concept.

Still, it is too early to speak of a radical change in Ukraine's foreign economic priorities, because few previous plans for integration in the post-Soviet space have been implemented, and what progress has been achieved has considerably altered the original intent. Perhaps some of these developments, however, simply suggest a second aspect of the political component, namely that the diplomacy surrounding regional integration often serves to signal a general orientation and specific attachments. Often different regional and sub-regional initiatives are used by national political elites as tools for consolidating their domestic power and counterbalancing the real or perceived influence of countries from outside the region. Economic motives, in this case, are a secondary inspiration. There is yet a third dimension to the political component: the function of confidence-building. Without first building political trust, it becomes very difficult to create and successfully launch cooperative institutions.

Fourth and finally, it is obvious that attempts to achieve integration in the post-Soviet area will continue in the future. At the moment, many of these inchoate structures serve as a useful forum for discussing a number of issues. But they are not likely to amount to much more as long as

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<sup>23</sup> Treaty on Customs Union and Single Economic Space, as of February 26, 1999, signed by Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan. This is in fact one of the documents that paved the road to establishing EvrAzES.



member states lag in implementing domestic economic reform or pursue reform "on the basis of different national patterns."<sup>24</sup> Meanwhile regional cooperation can help to address problems, such as customs procedures, border crossings, transit fees, technical standards, intellectual property rights, and the like.

As for the prospects of different regional arrangements, these will depend, first, upon the ability of participating states to achieve free trade agreements, for, as experience elsewhere demonstrates, one cannot skip this stage, and "jump" to a customs union or an even more advanced level of integration. In the case of a country like Ukraine, its participation in different regional projects will also be affected by the course of its negotiations to enter the WTO.

This is not to minimize the potential significance of the single economic space project of the four countries. At a minimum, it would appear to portend a Russian effort to coordinate the approach of the four countries to the WTO. Beyond that, because three of the four countries are key members of EvrAzES, sooner or later they will have to choose which project to pursue. True, nothing in principle prevents other EvrAzES members from joining the Joint Declaration, but the initiative suggests that Russia either no longer believes in the prospects of EvrAzES, or wants to have more than one instrument for influencing developments in the post-Soviet space.

Ukraine's participation in the initiative also raises a number of questions. If Ukraine seriously wishes to participate in forming a single economic space as a common internal market, it must then abandon the idea of joining the EU.<sup>25</sup> Conceivably, in the future this new group could hope to conclude some form of agreement with the EU, but this can only be in the very long run. Thus, if Ukraine really means to pursue European integration, then for the moment it should limit its participa-

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<sup>24</sup> G. N. Egorov, "Economic Transformation, Industrial Potential and Current Status of the CIS Countries: The Role of Science and High-technology" (Vienna: UNIDO, Vienna, 2000), p. 30.

<sup>25</sup> One can come to this conclusion on the basis of an analysis of the Treaty on Customs Union and Single Economic Space, as of February 26, 1999, signed by Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan. So far other clear definitions of a single economic space are absent, and there are no grounds to believe that this idea as expressed in the declaration of the four presidents has a different meaning.

tion in different post-Soviet regional groupings to the pursuit of free-trade agreements. Moreover, there is a danger that intensive movement toward a customs union or a single economic space will obstruct WTO accession. On the other hand, WTO accession before the emergence of a customs union will compel new members among the post-Soviet states to adjust tariffs in accord with WTO obligations, a prospect much opposed by Russia.

Finally, it should also be recognized that a number of these projects may represent attempts on the part of post-Soviet states to shape or control their relations with Russia, whether Russia is a part of the organization or not. Ultimately, however, neither they nor Russia, but rather forces and countries outside the post-Soviet space, will determine how viable any of these enterprises are.



## CHAPTER 6

# The United States, The European Union, NATO, and the Economics of Ukrainian and Belarusian Security

ROBERT LEGVOLD

**I**t is a challenge to write about something that does not exist. A U.S. or a European policy designed to address the economic dimension of Ukrainian and Belarusian security has never been nor is about to be. The European Union focuses on economic matters, but largely ignores their implications for Ukrainian and Belarusian security. NATO deals with security issues, but, while not dismissing the economic factor, underplays it. And individual governments, such as the U.S., German, British, and French, that in theory could easily wed the two dimensions, do not, or, at least, did not for most of the first decade after the collapse of the Soviet Union. Yet, nothing cuts to the heart of Ukrainian and Belarusian security sooner or more thoroughly than economics, unless it be their uncertain domestic passage, and economics is central to that. Maybe this policy dereliction, however, no longer matters.

Maybe the circumstances bearing on Ukrainian and Belarusian security have so changed in the last few years that not much of a problem remains. Or if it does, given the mounting disarray in Euro-Atlantic relations and the paralyzing splits rending NATO and the EU from within, it may, alas, be sheer fantasy to think the topic has a chance of capturing anyone's attention. Maybe. But these are not the assumptions underlying this chapter. On the contrary, while the issues revolving around Ukrainian and Belarusian security, including the complex role of economics, are, indeed, very different today from ten years ago, they have not disappeared. Second, the importance of these issues, even when measured against the West's other foreign policy priorities, is much greater than policymakers seem to recognize. Thus, it is anything but a luxury or an artifact of a closed historical chapter to weigh past policy in light of the challenges ahead.

There are many reasons why policy has been as it has. Some of them are conceptual; some, political; and some, historical. They start, in ascending order of importance, with the conceptual, that is, with the thinness or even the absence of a useful analytical framework for attacking the problem. This shortfall in analytical tools has four aspects. First, while statesmen and scholars have long recognized the overlap of economics with security, during much of the cold war the two domains were separated. Scholars even more than policymakers treated the “high politics” of conflict, particularly when nuclear weapons intruded, as a realm apart from the “low politics” of trade and foreign investment or even economic warfare.<sup>1</sup> Most of the theorizing and, indeed, much straightforward analysis proceeded along separate tracks.

Second, even where in an earlier literature economics and security were connected, the dominant focus does not help much in understanding the issues raised by today’s Ukrainian and Belarussian cases. As summarized by Jonathan Kirshner, the standard literature dealt mostly with “the political economy of power, the economic causes of war, and the role of the national budget constraint on the construction and execution of grand strategy.”<sup>2</sup> Because in nearly all instances this meant the political economy of a great power’s power or the economic causes of war among great powers, little light has been shed on the universe of lesser players. Nor is the contemporary way of framing the issue particularly helpful. True, the renewed interest in how global market forces constrain security policy and the way different factors affect the “economic sustainability” of security, as well as interest in the linkage between economic failure and political instability, applies as much to countries such as Ukraine and Belarus as it does to the United States and other major powers. But nei-

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<sup>1</sup> For an excellent elaboration of the point, see Michael Mastanduno, “Economics and Security in Statecraft and Scholarship,” *International Organization*, Vol. 52, No. 4 (Autumn 1998), pp. 825–54.

<sup>2</sup> Jonathan Kirshner, “Political Economy in Security Studies after the Cold War,” *Review of International Political Economy*, Vol. 5, No. 1 (Spring 1998), pp. 65–66. (Early illustrations include Albert O. Hirschman, *National Power and the Structure of Foreign Trade* [Berkeley: University of California Press, 1969 <1945>]; E.H. Carr, *International Relations between the Two World Wars, 1919–1939* [New York: Harper & Row, 1966 <1939>]; and Jacob Viner, *The United States in a Multi-National Economy* [New York: Council on Foreign Relations, 1945].)

ther Ukraine nor Belarus has been assessed from any of these perspectives, and even had they been, analysis at this level would only be a building block toward understanding the larger challenge.<sup>3</sup> For the essence of the conceptual problem facing Western policymakers transcends the role played by economic factors in Ukrainian and Belarusian security; it extends to the way this linkage then affects the broader European security environment and, more elusive yet, how U.S. or West European policy can influence the course of events.

Third, to the extent that policymakers, in contrast to academics, have thought about the link between economics and security, it tends to be in terms of statecraft—that is, how economic instruments are to be employed to achieve security objectives. But what U.S. or European leaders make of economic sanctions, the uses of foreign aid, and economic methods of confidence-building among states only obliquely relates to the Belarusian and Ukrainian cases. Without a refined awareness of the complex threads constituting the problem, they are not well-positioned to select optimal tools and strategies for addressing it.

Were Western policymakers or policy analysts to try to fill this gap, a systematic analysis might begin with the plausible range of threats to Ukrainian and Belarusian national security; then consider where and how economic factors enter the picture; and conclude with an assessment of what NATO and the EU can do to influence outcomes in ways benefiting European security in general. Setting aside the so-called “new security threats”—terrorism, drugs, nuclear meltdowns, and the like—Ukraine and Belarus confront four potential underlying kinds of threat.

The first of these, invasion from a militarily more powerful neighboring state or set of neighboring states, is both the most formidable and the least likely. In the abstract, Russia poses this threat for Ukraine, and, although gradually over the first dozen years of Ukrainian independence the fear of an overt Russian military assault has largely faded, Ukrainian defense planners still must somehow design for it. Next door in Belarus the trends are reversed. Not only is the threat perceived to come from the West in the form of NATO, over the 1990s this danger grew more imma-

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<sup>3</sup> For some promising steps in creating the building blocks, see Rawi Abdelal, *National Purpose in the World Economy: Post-Soviet States in Comparative Perspective* (Ithaca: Cornell University Press, 2002); and Andrey P. Tsygankov, *Pathways after Empire: National Identity and Foreign Economic Policy in the Post-Soviet World* (Lanham: Rowman & Littlefield, 2002).

nent in the minds of the Belarusian regime. Indeed, in haphazard fashion defense efforts began to reflect this concern. Yet, because even in the Belarusian case, this gravest of threats remains so remote, it cannot serve as the core of a national security agenda.

One step removed and far more plausible is the risk that powerful neighbors in moments of tension or political wrangling might count on the mere shadow of a sizable military edge to coerce concessions. As a more imaginable peril, the fear that in a political crisis military inferiority will translate into diplomatic disadvantage provides a more immediate spur to national security planning. However, since neither Ukraine nor Belarus can by itself obliterate this threat—because neither can hope to overcome either Russia’s or NATO’s military advantage—their only option is to attach themselves to others who, if need be, can be counted upon to equalize or, better yet, tip the balance. But such alliances are not always easy to come by, and they often carry their own costs, such as the demands made by an overweening alliance partner.

Third, threats to Ukrainian or Belarusian national security may arise from large-scale political-economic leverage in the hands of a hard-bargaining or even predatory adversary. When the other side uses its markets, energy resources, debt, or capital flows to dictate key economic decisions, domestic political outcomes, or foreign policy choices, state sovereignty is menaced as surely as when the coercing is done by brandishing arms. Moreover, the effect need not be produced by an explicit or carefully focused action on the part of another leadership. As Abdelal argues earlier in this volume, the sheer reality of an unequal dependency removes preferred options, and sometimes induces a leadership to shift course without the other side ever having reached for the stick. The effect rather resembles the *droit de regard* a dominant military power acquires over a neighbor’s security choices by simply possessing vast armament and living nearby.

Finally, potential Ukrainian and Belarusian security concerns derive from a fourth category of threat: from civil strife at home or violent conflict in the neighborhood. Between the two, given the challenges each country faces as it attempts to navigate the transition from its Soviet past, the prospect of trouble at home has first claim on its preoccupations. Even when buried in silence, as in the case of Belarus, worry over a rupture in the civil peace constitutes the most imminent and unnerving of all the security threats facing either country. For Ukraine, in particular, how-

ever, the reality of instability on its borders, considering the unresolved conflict over Transdnistr's status, constitutes a further security distraction. Belarus, too, is not entirely free of a comparable concern, were trouble to arise over Kaliningrad.

These are traditional dimensions of national security, and, for the most part, the sorts of challenge to which defense planning and arming are addressed. To leave matters here, however—to ignore the way economics intrudes on national security—is to miss much of the problem confronting Ukraine and Belarus. The economic effect is both direct and indirect, and, when indirect, more substantial and harder to mitigate. Thus, as a direct influence, economic considerations affect national defense in two crucial respects, beyond the economic resources necessary to sustain any kind of defense. First, Belarus and Ukraine inherited from the Soviet Union large, unwieldy, and maladapted military forces, designed to meet the needs of the former superpower in a European war, not the needs of two new independent countries. Slimming and restructuring these forces, therefore, becomes a priority, in the first instance to create a more rational defense establishment fitted to actual national security requirements, but also to produce military forces sustainable in the long run. In the short run, however, economic factors play a harsh and constraining role, because military reform costs money, lots of it, and money is not something either country has.

Second, as is well portrayed in Perepelitsa's chapter, the health, character, and autonomy of the defense industry in Ukraine and Belarus, the elemental underpinning of any middle power's national defense, depend above all on structural economic features. Nowhere are these more unforgiving than in Ukraine and Belarus. Not only do the remnants of the Soviet architecture create dependencies whose organizational and economic imperatives compel leaderships to live with a fragmented, non-viable military-industrial base, they also push them to hawk their arms abroad, even when selling in some markets adds to international instability and angers potential Western supporters.

The indirect effect of economics is still more fundamental. Most obviously economics is at the heart of the dependencies that threaten untrammelled state sovereignty and give to others leverage by which to nudge or force concessions that national leaders would otherwise be loath to make.<sup>4</sup>

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<sup>4</sup> This point is developed much more fully in the Introduction.



The link to national security is at its most elemental, however, where internal stability intersects with economic performance, and in countries like Ukraine and Belarus, facing, albeit not always engaging, profound systemic transformation, the risk that economic hardship will undermine social stability has a special immediacy. Indeed, the virtuous chain between economic reform as essential to sustainable growth and sustainable growth as essential to socio-economic stability frequently runs up against a vicious circle in which politically impeded, half-baked reform weakens economic outcomes and weak outcomes raise the barriers to reform. As a result state capacity shrinks for either ensuring domestic tranquility or mobilizing the resources necessary to address security threats as such.

Because Ukraine and Belarus form the new “lands in between,” the new “gray zone” in a Europe whose security is regularly claimed by Western prime ministers, chancellors, and presidents to extend from the Atlantic to the Urals, one would assume that the security challenges facing Ukraine and Belarus would be of major concern to Western policymakers. One would assume that a good deal of thought would have been given to the elaborate way economics and security come together in these cases, and then to the task of doing something to minimize potential harm, particularly if it risks weakening European security more broadly. But one would be wrong, and for a reason relating to a fourth conceptual shortcoming.

Generally speaking, since the collapse of the Soviet Union the major Western powers, including the United States, have viewed the region through a narrow and fractured prism. Because the West has tended to focus on Russia and to treat other parts of the former Soviet Union either as a function of its Russian agenda or as worthy of serious attention only when they figure in a particular problem (such as the Soviet Union’s left-over nuclear weapons, Caspian Sea oil and gas, or global terrorism), Western policy has from the beginning been without adequate conceptual underpinning. Policy’s point of departure has been stripped-down and disaggregated, rather than broad-visioned and attentive to the complex weave of problems and relationships within the wider region. As a result, policymakers in Washington, Brussels, and Berlin have had little reason to think long or hard about the subtle and often remote impact of economics on Ukrainian or Belarusian security. Indeed, their framework of analysis gives short shrift to the intricate political and security dynamics not

just between Ukraine and Russia or Belarus and Russia, but among the three, and then with other states, including Moldova, the Baltics, and Poland.

Whatever one thinks of the original decision to enlarge NATO by including Poland, the Czech Republic, and Hungary, no one would argue that it was taken in the expectation that it offered a solution to the problem of mutual security for Ukraine, Belarus, and their non-NATO neighbors. On the contrary, these states figured in Western calculations only as loose ends—as left-out states with frustrations and anxieties that needed to be placated, not as states with security problems that needed to be resolved. Mutual security in the European portions of the former Soviet Union, thus, did not actually fit within the U.S. and European conception of post-cold war European security, rhetoric aside. By the same token, neither the European Union nor its key members labored long to understand how economic issues in their own relationship with Ukraine and Belarus fed into the matrix of factors affecting Ukrainian and Belarusian security perspectives.

In the case of the European Union, the reason for the lethargy takes us to the next level of explanation—to the political dimension. Long after the start of the new era, the EU simply lacked the capacity to address the issue. When Soviet power collapsed, the EU had yet to take on responsibility for foreign and security policy or to acquire resources giving it any potential leverage. Foreign and security policy remained the monopoly of the separate European governments, and these, as Heather Grabbe has detailed, were caught up with other tasks internal to the EU. “Few politicians,” she writes, “were in any mood for grand gestures or financial generosity. Re-unifying Germany was the first priority, and the evident political risk and financial expense of that unification made many leaders even more reluctant to commit themselves to enlarging the EU as a whole.”<sup>5</sup> And, if the EU tarried in dealing with the East Europeans, taking nearly two years to decide in principle to expand its membership and another half-decade to begin those negotiations, no wonder the problems of Ukraine and Belarus went unnoticed.

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<sup>5</sup> Heather Grabbe, “Challenges of EU Enlargement,” in Dmitri Trenin and Anatol Lieven, eds., *Ambivalent Neighbors: The EU, NATO and the Price of Membership* (Washington DC: The Carnegie Endowment for International Peace, 2003), p. 67.

Once the EU began to take on responsibility for foreign and security policy, particularly after a “common foreign policy” became a goal under the 1992 Maastricht Treaty, neglect took another form. Gradually European governments, including key members such as France and Germany, passed the buck, leaving it to EU agencies to come up with programs and policies addressed to the secondary intricacies and interstices of the post-Soviet space. The EU was made the principle intermediary between states such as Ukraine and Belarus and a larger Europe. In the shapeless pool of institutions counted on to cope with the challenges raised by the lands to the east, the EU had a central place simply because its sphere was economics, and economics was key to their future. But the EU, even after the 1999 Treaty of Amsterdam elaborated its foreign and security policy mission and endowed it with leadership, tended to define its concerns narrowly, rarely venturing beyond the details of the 1994 Partnership and Cooperation Agreement with Ukraine, the problem of domestic nuclear reactors, and fragmentarily the promotion of domestic economic reform. The Common Strategy for Ukraine adopted by the EU’s Council of Europe in December 1999—a document to which I will return—lays out an impressive and broad-based set of common tasks, some of them integral to the link between security and economics. But in the years since, progress toward these goals has scarcely matched the promise of the document, not the least because commitment has been missing on both sides. Nor was there ever even any effort to produce a strategy for dealing with Belarus.

Now, however, with enlargement set to bring the EU to the borders of Belarus and Ukraine in 2004 and the once strained NATO-Russian relationship transformed, Belarus, Ukraine, and Moldova suddenly constitute an awkward, perhaps troublesome ellipsis in the new Europe. As a result, European leaders have begun to stress more earnestly the EU’s “direct stake in helping address the challenges posed by and within these three countries,” to use British Foreign Minister Jack Straw’s words in a letter to his EU counterparts in April 2002.<sup>6</sup> At the urging of Great Britain and Sweden, EU members have agreed to treat the three countries as a new category (“the Special Status of Neighbors”), and, within it, to develop methods for addressing what Straw in his letter called “the

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<sup>6</sup> Judith Dempsey, “Links Mooted for Neighbours of Enlarged EU,” *The Financial Times* (April 16, 2002), p. 11.

attendant problems of cross-border crime, trafficking and illegal immigration” likely to result from the movement of EU borders eastward.

This, however, remains a narrow agenda. Dealing with Europe’s increased vulnerability to crime, drugs, human trafficking, and illegal immigration, while an immediate and energizing concern, scarcely addresses the larger challenge raised by Europe’s new “gray zone.” Neither the West Europeans nor the United States has yet begun to think their way through the complications likely to arise if these three states remain off to the side struggling with their uncertain domestic transitions; or what may follow if any of them stumbles and falls prey to instability; or, in the specific case of Belarus, how handling a pariah regime can be done in ways that do not freeze or jeopardize the country’s place in a stronger European security regime. Nor are they, given current pre-occupations, well-positioned to address the new and no less serious ways Belarus and Ukraine are capable of reshaping the contours of European politics. Europe and the United States arrive at this point not because of some momentary political oversight, some simple institutional lacuna, or a passing conceptual myopia. The path to the present is the cumulative residue of past practice. It reflects the third part of the story: the weight of recent history.

#### THE PATH TO THE PRESENT

Theoretically, from the outset the United States and Western Europe could have eased the security challenge facing Ukraine and Belarus in four ways: first, by *creating strategic options* at the most basic level. None would have been more basic than to admit these states into NATO and the European Union. Short of that, their room for strategic maneuver could have been broadened by a serious Western commitment to what some call “geopolitical pluralism” in the post-Soviet space. They mean a conscious and coherent U.S. and European posture designed to encourage states like Ukraine to follow an independent course, not least by conveying to Russia a credible commitment to Ukrainian independence.<sup>7</sup> Second, again in theory, Western policy could have focused on counterbalancing threats as such. This would have meant one or all of three things: acting to impede the risk of Russian “encirclement” of Ukraine,

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<sup>7</sup> Zbigniew Brzezinski, *The Grand Chessboard* (New York: Basic Books, 1997).

while reassuring Belarus; working to contain regional instability (in Moldova or around Crimea); and moving to reduce the vulnerability of Ukraine and Belarus qua dependency by opening markets, facilitating access to energy, promoting debt relief, and fostering direct foreign investment. Third, the United States and Western Europe could have sought to aid Ukraine and Belarus in rationalizing their defense postures by promoting military reform with material and technical assistance, enhancing and modernizing defense training through joint exercises and peacekeeping, and opening the doors of their military academies to a prospective officer corps. Fourth and finally, strengthening Ukrainian and Belarusian security might have been thought of as the flip side of a Western commitment to fostering increased state capacity, sustainable growth, and socio-economic stability.

During the first decade of Ukrainian and Belarusian independence, the United States, the European Union, and NATO did in fact profess a commitment to all four kinds of policy objectives (albeit not always formulated as they have been in the paragraph above). Or so their language implied. In practice, however, little then followed. If reality failed to match casual promise, the reasons would appear to be twofold. First, at no point did the United States, the European states, the EU, or NATO make an effort to assess in broad or basic fashion the overall security challenges facing Belarus and Ukraine, let alone to reach beyond and include the economic dimension. Second, neither did any of them ever attempt to integrate the various forms of support they provided these two countries into a coherent strategy addressed to their security agendas. Therefore, no thought could have been given to a further secondary, but vital consideration—namely, how a strategy intended to deal directly with the security predicaments of Ukraine and Belarus might be reconciled with a policy that did the least damage to U.S. and European relations with Russia, and, better, that enlisted Russia in the process of strengthening mutual security in the post-Soviet space.

In the beginning, as a matter of fact, the security relationship was reversed. Rather than considering the place of the West in Ukrainian and Belarusian security, the United States and the Europeans focused on how Ukraine and Belarus figured in their own security concerns. That is, the attention given the two countries dwelt overwhelmingly on the urgency of getting rid of the Soviet-era nuclear weapons stationed in Ukraine and Belarus, lest Europe and the United States suddenly be faced with,

counting Kazakhstan, three new nuclear powers and a non-proliferation regime coming apart at the seams. Understandably, U.S. and European nuclear fears dominated their first concerns; less understandably, they obscured all others.

It was not as though nothing had yet begun to go wrong in the region. On the contrary, scarcely had the Soviet Union collapsed than the Western press was filled with reports detailing the rising tensions between Russia and Ukraine over Crimea, control of the Black Sea Fleet, Ukraine's hostile attitude toward integration of the post-Soviet states under the auspices of the Commonwealth of Independent States (CIS), Russia's seeming refusal to come to terms with Ukrainian (and Belarusian) independence, and, after May 1992, Moscow's decision to hike dramatically the price of oil to Ukraine.<sup>8</sup> Commentators inside and outside Ukraine even feared that Russia might well intervene militarily to protect Russian minorities or if Crimea asserted its independence and Kyiv tried to repress the attempt.<sup>9</sup>

U.S. and European policymakers, however, chose not to focus on the fast-forming security agenda of Ukraine or the less agitated one of Belarus, and instead framed the issue in a fundamentally different fashion. Rather than conceive the problem as one of national security (for Belarus and Ukraine) or mutual security (among Belarus, Ukraine, and Russia), they thought primarily in terms of European security (qua Western security). Most immediately and poignantly this meant getting the nuclear weapons out of Ukraine and Belarus. Although done swiftly and without much fuss in the case of Belarus, with Ukraine the process turned into a testy and arduous affair. A parliament happy to harass its own leadership and a Ukrainian leadership uncertain over whether it really wanted to relinquish the weapons led Kyiv to drag out the bargaining until 1994.

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<sup>8</sup> John Lloyd and Chrystia Freeland, "A Painful Birth," *Financial Times*, February 25, 1992, p. 18; Michael Parks, "Ukraine Concedes Its Fear of Russia," *The Los Angeles Times*, April 29, 1992, p. 8; "Russia and Ukraine: The New Cold War," *The Economist*, May 9, 1992, p. 50; and Steven Erlanger, "Ukraine Finds 'Active Independence' Despite Military and Other Obstacles," *The New York Times*, September 6, 1992, p. 18.

<sup>9</sup> See Edward Mortimer, "Alternatives to Violence: CSCE Commitments to Protect National Minorities Must Be Linked to Economic Benefits," *The Financial Times*, June 24, 1992, p. 19; and "Russia and Ukraine: The New Cold War," *The Economist*, May 9, 1992, p. 50.

Rather than prompting the United States to weigh Ukraine's security concerns, Ukrainian dithering angered Washington. As a result, the Clinton administration initially joined forces with Russia in pressuring the Ukrainians to relent, even threatening to cut off economic aid unless they did.<sup>10</sup> In turn, the Ukrainians grew resentful of the United States' nuclear obsession, its readiness to side with the Russians, and most of all the implication that Ukraine was the threat.<sup>11</sup>

The United States' single-mindedness on the nuclear question, however, only partially accounts for U.S. and European behavior in these early years. Belarus, after all, had obliged the West on the nuclear issue straight away, and yet neither the Americans nor the Europeans paid much, if any, attention to its strategic choices, to the significance of its initial commitment to neutrality and non-alignment (the same stance adopted by Ukraine), or to developments likely to affect its conception of national security one way or another. This lapse may have been subconscious, but it was not inadvertent. On the contrary, it too stemmed from the inverse security equation. Western leaders, when they contemplated tension between Ukraine and Russia or any other combination of post-Soviet states, whatever its source, thought first of the baleful effect this would have on the peace of mind of the rest of Europe. Even steps to organize national defense provoked unease. Thus, Helmut Kohl, one month into Ukrainian independence and at a moment when Leonid Kravchuk was naming commanders to head Ukraine's newly nationalized military forces argued that "it was 'senseless' for the West to provide humanitarian aid and help rebuild the economies of former Soviet republics, if at the same time they were debating setting up forces 'which would disturb the European balance, and tie up financial and technical

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<sup>10</sup> For a U.S. insider's account, see Strobe Talbott, *The Russia Hand* (New York: Random House, 2002), pp. 112–114.

<sup>11</sup> Paula Dobriansky reports after a 1993 visit to Ukraine how many people, including two prominent Ukrainian legislators, Dmytro Pavlychko, the chairman of the international affairs committee, and Bogdan Horyn, a senior figure in the Republican Party, fumed over Ukraine's being cast as a spoiler and a "barrier to nuclear peace," while the country's legitimate security concerns were disregarded. (See Paula J. Dobriansky, "U.S.-Ukraine Relations in the 1990s: A View From Washington," in Sharon L. Wolchik and Colodymyr Zviglyanich, eds., *Ukraine: The Search for a National Identity* [Lanham: Rowman & Littlefield, 2000], p. 123.)

resources which could be used more sensibly in other fields.”<sup>12</sup>

Kravchuk, on the eve of his first visit to Washington, stressed to American reporters the need for security guarantees, saying: “The question of security arises rather acutely when our neighbors tend to present territorial claims. This is especially true of our big neighbor, but other neighbors also have claims on our existing borders. The problem of security does exist, it does exist.”<sup>13</sup> In Washington, Secretary of State James Baker responded by advising his Ukrainian guest that “Ukraine’s best security guarantee was to act like a sovereign state and become quickly immersed in international organizations and treaties,” the latter a reference to the Non-Proliferation Treaty.<sup>14</sup>

The West’s semi-blasé view of Ukraine’s security concerns and the feeble echoes of something similar in Belarus also seem connected to the relatively euphoric state of Russia-West relations in 1992–1993. Neither the Bush and Clinton administrations nor the European leaderships worried overly that Yeltsin and his team, what with their democratic aspirations and liberal foreign policy attitudes, were likely to menace their neighbors. True, in fairly short order, as trouble erupted along Russia’s south, from Transdniestr to Tajikistan, and Russia, or at least some Russian players, including the military, appeared to be mixed up in it, second thoughts arose. Yet, even then, little suggests that Washington, Bonn, or Brussels translated these new misgivings into anything worrying in a Ukrainian, let alone a Belarusian, context.

Still more telling, neither were the United States and most of the West Europeans willing to act vigorously to forestall the threat they did fear—namely, spreading chaos from the agony of domestic reform in the post-Soviet states. When in 1992 Germany pressed the European Community to open its markets to the exports of the CIS states, it was rebuffed by its partners, who thought it enough to offer technical assistance to “foster regional cooperation” among these states.<sup>15</sup> Six months

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<sup>12</sup> Quentin Peel, Chrystia Freeland, and David White, “Kohl Warns CIS Against Military Build-up,” *The Financial Times*, January 28, 1992, p. 2.

<sup>13</sup> Parks, “Ukraine Concedes Its Fear of Russia.”

<sup>14</sup> Erlanger, “Ukraine Finds ‘Active Independence’ Despite Military and Other Obstacles.”

<sup>15</sup> See European Report, European Information Service, No. 1801, October 7, 1992.



earlier, in May, at a G-7 meeting with economics ministers from Belarus, Czechoslovakia, Hungary, Kazakhstan, Poland, Russia, and Ukraine, an initial commitment to open Western agricultural, steel, and textile markets was at the last minute deleted from the final communiqué. The Europeans contented themselves with exhorting their counterparts to keep up the pace of reform and get on with the dismantling of old monopolies, converting arms factories to civilian use, and encouraging the growth of small and medium enterprise. Whether those doing the exhorting meant to do much to facilitate these choices was another matter.

By October 1992 European Community members had agreed to a negotiating mandate for pursuing partnership and cooperation agreements (PCAs) with all twelve ex-Soviet republics, but not until June 1994 was the first PCA with Ukraine concluded, and only in 1998 did it enter into force. A PCA with Belarus, reached in 1995, never took effect. Ukraine, from the start, had indicated a desire to join the European Community, and, while its leadership understood that this would not happen quickly, they expected the Europeans to take the possibility seriously. Steps such as membership in the Council of Europe became for them movement toward the larger reward. In the same spirit, prominent Ukrainian figures, such as Dmytro Pavlychko, the chairman of the Rada's foreign affairs committee, viewed Ukraine's ties with Poland "as its path to Europe," and to this end appealed to Warsaw to press for Ukraine's inclusion in the Visegrad group, the threesome of Central European states with the best chance of EC membership.

Neither Poland nor the Europeans, however, were of the same mind. Much as the Poles cared about Ukraine's security predicament, they were not about to complicate their own road to Brussels by fronting for their neighbors.<sup>16</sup> In Brussels, the Europeans, whatever their foggy, abstract thoughts in principle of admitting Ukraine to their ranks someday, regarded the near, real-world prospect as incredible. Because Belarus and Ukraine were not viewed as plausible members of the EC or NATO, Belarus tended to fade from the West's strategic field of vision, and

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<sup>16</sup> In 1992–1993 Ukraine argued that the so-called "security vacuum" in Central and Eastern Europe would be better filled by creating a regional security zone incorporating Austria, Belarus, the Czech Republic, Hungary, Poland, Slovakia, and Ukraine; to which it got a firm "no" from the Visegrad group in summer 1993.

Ukraine by default was reduced essentially to a “buffer” between Europe and Russia. Moreover, because relations between the West and Russia were more positive than with any of the other post-Soviet states, except perhaps the Baltic states, both the Europeans and the Americans tended to nudge Ukraine and Russia’s other new neighbors toward constructive, cooperative relations with their large neighbor. In the process, they tended to downplay the abrasive security issues arising in these relationships.

First steps and first judgments turned out to have great effect. The way the Americans and Europeans framed the Ukrainian and Belarusian issue at the outset heavily conditioned their subsequent approach. Thus, even when Russia’s relations with the United States in particular, and with the West in general, entered choppy waters in 1994–1995, the original framework continued to influence the West’s response. They continued to stress the pace and character of reform within these societies—that is, what did or did not make them fitting partners in European institutions. Crucial as the link was between reform and the long-term security of these countries, in the short run the hard-edged realities of their evolving security agendas simply did not register with Western capitals.

Scarcely anything better demonstrated the West’s disregard for a comprehensive and systematic consideration of Ukrainian and Belarusian national security than the original decision to enlarge NATO. In dealing with the fear that a security vacuum might emerge in East-Central Europe, the Europeans and Americans left Ukrainian (and, by extension, Belarusian) security as a problem without a solution—and, if anything, more complicated than before. During the same years, 1996–1997, Belarus made this neglect much easier. Under Aleksandr Lukashenko, the country’s lurch to a harsher authoritarianism after the contrived November 1996 referendum turned any thought of the West’s stake in Belarusian security into an irrelevancy. By 1997, the United States under Clinton had announced a formal policy of “selective engagement” toward Belarus, making it the only post-Soviet country for which the United States had a policy with a name.<sup>17</sup> “Engagement,” however, was not to be with the leadership, but rather with civil society and non-gov-

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<sup>17</sup> For more detail, see my chapter, “Belarus in U.S. Foreign Policy,” in Robert Legvold and Sherman Garnett, eds., *Belarus at the Crossroads* (Washington: The Carnegie Endowment on International Peace, 1999), especially pp. 149–51.

ernmental agencies. From this point forward, the United States in tandem with the EU aimed to isolate Lukashenko and his regime. They sought to force Belarus back toward some semblance of democratization and market reform, and sacrificed everything else to that goal, including any role for Belarus in Europe's security dialogue. When the Belarusians probed to see whether they might too work out arrangements with NATO, as the Russians and Ukrainians did in late spring 1997 at the time of enlargement, no one bothered to answer.

During these years, to the extent that the United States, the EU, and NATO addressed Ukraine's security agenda, their contribution was fragmentary and at the easier end of the spectrum. Rationalizing Ukrainian defense through military reform, the conversion of defense industry to civilian production, and military training programs constituted their answer. This they supplemented with ersatz forms of integration: Partnership for Peace exercises, military exchanges, institutionalized ties between NATO and Ukraine and with the ministries of defense of key NATO countries, including the United States. But how Ukraine's more general security concerns might be eased or even whether they should be thought about remained a void.

Meanwhile, throughout the period from 1994 to 1997, Ukraine's anxieties only swelled, and its casting about only grew worse. (At the same time, Belarus, its strategic option reduced to Russia alone, scarcely accepted this turn of events with equanimity, and the unresolved implications for European security of an estranged state located squarely between East and West, Baltic and Black Seas, deepened.) For Ukraine, the underlying uncertainties in relations with Russia mounted, as Kyiv nervously contemplated the success of Vladimir Zhirinovsky's party in the December 1993 Duma elections and then the Yeltsin government's decision to wage war in Chechnya a year later. Added to these inauspicious omens—or so they seemed at the time—Russia and Belarus in 1995 began to take the first steps toward a renewed union and, to Ukrainian dismay, touted it as the foundation for broader "Slavic unification."<sup>18</sup> Nor did the Russians seem to be in any hurry to settle the longstanding divisive issues over the Black Sea Fleet, the status of Sevastopol, national borders, and debt. In fact, in 1995 Yeltsin arranged for the ninth time to cancel his first visit to Kyiv.

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<sup>18</sup> Interfax, October 12, 1995.

Throughout this period, Ukraine pushed for more elaborate relations with the EU, the Council of Europe, and NATO. When the Clinton administration came forward with the Partnership for Peace in late 1993, Ukraine was the first CIS member to sign up, although it was not yet clear whether PfP was intended to be an alternative to or an antechamber for membership in NATO. In June 1995, Ukraine's new president, Leonid Kuchma, journeyed to Brussels to exhort NATO to work out an "enhanced relationship" with his country, and in April 1996 the two sides did produce a document sketching increased direct dialogue between Ukraine and the North Atlantic Cooperation Council (NACC) on European security issues, primarily peace-keeping, arms control, and regional conflict.

In the background, however, NATO, rather than offering relief or hope to Ukraine, was in fact complicating matters. Plans to expand NATO created a dilemma for Ukrainian leaders. On the one hand, they valued NATO as an institution, would have wished to be a member themselves, and categorically objected to conceding Russia a "veto" over enlargement. On the other hand, they feared, as Hennadiy Udovenko, Ukraine's foreign minister, put it, "finding [Ukraine]—even hypothetically—in a position of 'a buffer zone' or a '*cordon sanitaire*' between ... two military groupings."<sup>19</sup> What worried Ukrainian leaders most was a rapid, ill-considered process that added to Russian anger, sharpened the divide between NATO and the CIS's inchoate military structures, and left Ukraine suspended between the two and under increasing Russian pressure to line up with it. So, in 1995–1996, Ukrainian leaders pleaded for a slower and more generous process, one in which enlargement would occur simultaneously with a redefinition of NATO's role and "its evolutionary transformation into a collective security institution interlocking with other international security structures," and not before special arrangements had been worked out between NATO and Russia, Ukraine, and other "non-applicants."<sup>20</sup> Brussels was not listening.

During the same period, Kuchma's people continued to appeal to the EU, particularly to the Germans. Germany's support for a free-trade union between Ukraine and the EU, although resisted within the EU,

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<sup>19</sup> Hennadiy Udovenko, "European Stability and NATO Enlargement: Ukraine's Perspective," *NATO Review*, Vol. 43, No. 6 (November 1995), pp. 15–18.

<sup>20</sup> Ibid.

would have been a step forward. But the Ukrainians wanted more. In September 1995, Prime Minister Pavlo Lazarenko exhorted Chancellor Kohl, on his second visit to Ukraine, to press the Russians to reschedule the Ukrainian debt, much as Western creditors had done for them. Here was an initiative that would have had an immediate bearing on the economic context of Ukrainian security, but apparently Kohl did not see it as such.<sup>21</sup> The next year Kuchma declared Ukraine's intention to work toward associate membership in the EU and WEU, arguing that "the one thing we have to avoid is that the extended EU and WEU should, even briefly, mark the eastern border of the new Europe."<sup>22</sup> And he continued to lean on the Poles for support for Ukraine's entry into the Central European Free Trade Agreement. On neither count were his interlocutors much moved.

Through these years, the United States, the EU, and NATO gradually multiplied various practical forms of cooperation with Ukraine, but despite the favorable impression Kuchma made on Washington and Brussels in the first phase of his presidency, their preoccupation remained with the regime's progress toward markets and democracy. None of them wanted to complicate the agenda by seriously considering what was to be done with Ukraine—never mind Belarus—in the wake of NATO and eventually EU enlargement, or how its security was to figure in their scheme of European security.

Kuchma, faced with two hard realities—one arising from the myth that Ukraine could easily assert itself and shake free of Russia and the second from the deflated hope that the West would welcome Ukraine with open arms—had already begun hedging his bets. He came to office openly acknowledging the need to restore Ukraine's economic relationship with Russia, and accordingly soon led Ukraine gingerly back to increased involvement with the CIS. In October 1994 Ukraine joined the CIS Inter-State Economic Committee. Four months later, in February 1995, Ukraine agreed to be a part of the CIS Joint Air Defense Agreement, as much, it seems, to aid Ukraine's struggling aircraft industry as from considerations of national security. In recalibrating Ukraine's relationship

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<sup>21</sup> Later my co-editor and Anatol Lieven, with this aim in mind, made a similar suggestion. See Anatol Lieven and Celeste Wallander, "Make Russia a Better Neighbor," *The New York Times*, March 14, 2001, p. A23.

<sup>22</sup>Anthony Barker, Reuters, June 26, 1996.

with Russia, Kuchma was careful to underscore Ukraine's unchanged refusal to be a part of more elaborate schemes to integrate the CIS militarily and politically, but there was no mistaking Ukraine's shifting orientation. Not from preference, but from predicament, Ukraine returned to an older slogan of "non-bloc" status (wistfully with respect to NATO; defensively with respect to Russia). While Ukrainian leaders persisted in reaffirming their desire to draw closer to Europe, they now stressed the importance of doing it with, not in opposition to, Russia. They also declared their intention to put the country on good terms with powerful neighbors in both directions. How, in these circumstances, this would prevent Ukraine from becoming a no-man's land between East and West they left unexplained. It was a posture that contented neither the pro-Russian, communist-dominated Left nor the Western-oriented Right; nor, truth be told, did it seem a very solid or durable response even to those who formulated and defended it. But what else to do?

NATO enlargement may have contributed substantially to this queasy state, but it also ushered in a third phase on the path to the present, at least for Ukraine. Belarus remained for the West an outcast state, excluded from the dialogue among NATO, Russia, and Ukraine. To consummate the admission of Poland, the Czech Republic, and Hungary into the organization, U.S. and European leaders had all along striven to work out a parallel agreement by which Russia swallowed, if not blessed, the act. They had also accepted the need to reach out to Ukraine, and in terms no less elaborate than those with Russia. The "Charter on a Distinctive Partnership," signed at the Madrid NATO summit in July 1997, turned out to be an ambitious document—an impressive effort to reassure Ukraine and to create a thickening set of ties.<sup>23</sup> It was also the high-water mark in NATO and the West's relationship with Kuchma's Ukraine.

In 1997, the West in general, and NATO in particular, came as close to embracing Ukraine as at any point in its post-Soviet existence. True, the door to their club remained closed, but they were engaging the country with an expectancy that seemed to point toward ever-closer links. Not only did the Charter with Ukraine spell out an array of new activity across many spheres, it played to its leadership by taking up its political language. Ukraine was cast as an "inseparable part" of the "new democracies of Central and Eastern Europe" with which NATO sought to cooperate.

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<sup>23</sup> <<http://www.nato.int/docu/basicxt/ukrchrt.htm>>.

As in response to Kyiv's most often expressed anxiety, NATO promised to pursue enlargement in a fashion enhancing "the security of all countries in Europe without recreating dividing lines," one recognizing "that security of all states in the OSCE area is indivisible." A portion of the Charter even indulged the Ukrainian appeal for NATO to adapt "to meet the changing circumstances of Euro-Atlantic security" and to change its role "in cooperation with other international organizations such as the OSCE, the European Union, the Council of Europe," and so on. Conspicuously it also warned that "no state can regard any part of the OSCE region as its sphere of influence," and it pledged to "develop a crisis consultative mechanism to consult together when Ukraine perceives a direct threat to its territorial integrity, political independence, or security."

By fall 1997, the NATO-Ukrainian Commission (NUC) at the ambassadorial level had already developed a work plan, and in December at a ministerial meeting the NUC approved the first memorandum of understanding (on civil emergency planning), established a Joint Working Group on Defense Reform (JWGDR), and stressed the importance of using Ukraine's participation in PfP as a tool for improving interoperability with NATO forces and advancing the country's defense reform. Over the next three years, NATO would post liaison officers to Kyiv to facilitate Ukraine's role in the PfP program; Ukraine would make facilities at Yavoriv available for alliance-wide PfP training; and by 2000, under the auspices of the JWGDR, twelve different initiatives had been launched, addressed to everything from retraining for discharged military personnel to defense planning, programming, and budgeting. It also was during this period that NATO and Ukraine touched on the subject of "economic security." In November 1999, at the first meeting of the "Open-ended Joint Working Group on Economic Security," with representatives of the EU and World Bank participating, economic security turned out to mean Ukraine moving smartly forward with economic reform. During this period Kyiv also began to work with NATO's Economic Committee, the agency responsible for writing action plans with the eastern "partner" members of the Euro-Atlantic Partnership Council (EAPC), plans that would focus on the restructuring of defense industries, transparency in defense budgeting, cost-benefit analysis in defense down-sizing, and base closings.<sup>24</sup>

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<sup>24</sup> The EAPC was the successor to the North Atlantic Cooperation Council (NACC).

All of this seemed at the time like the first phase of an increasingly dense web of activity whose cumulative effect would transform the face of the Ukrainian military, bring Ukraine into a close working relationship with NATO, and conceivably set the basis for its incorporation into NATO. It was not to be. By 2001–2002, the armature had begun to turn more slowly, the activity rather than gathering momentum had settled into a useful but discrete and modest spattering of initiatives, “economic security” had come to mean things like foreign-language training for 100 Ukrainian military officers, and in both Brussels and Kyiv exasperation had replaced expectancy.

On the other front, Ukraine’s relations with the European Union also appeared to accelerate during roughly the same years. In December 1999, six months after the EU announced a special “Common Strategy for Russia,” it unveiled the same for Ukraine. Given the country’s pivotal importance as a “regional actor,” the document began, the EU has large “strategic goals” with regard to Ukraine.<sup>25</sup> It means to “contribute to the emergence of a stable, open and pluralistic democracy ... governed by the rule of law and underpinning a stable functioning market economy,” and to “cooperate with Ukraine in the maintenance of stability and security in Europe and the wider world, and in finding effective responses to common challenges facing the continent.” There then followed both a mix of specific urgings and collaborative steps addressed to “support for the democratic and economic transition process in Ukraine” and a short laundry list of measures and reassurances under the heading, “cooperation to strengthen stability and security in Europe.” Mostly these entailed expected good works on Ukraine’s part directed at monitoring arms exports, guarding against proliferation of weapons of mass destruction, and limiting the transfer of land mines and small arms, along with a pat on the back for Ukraine’s role as an observer to the Stability Pact for South-East Europe, its “efforts to promote cooperation and stability” through various sub-regional groupings, such as GUUAM, and the “positive development of Ukraine’s relationship with all its neighbors.”

It also said a good word for the dialogue on “general and specific issues relating to crisis management and security building” underway between the Western European Union and Ukraine. And it referred to

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<sup>25</sup> “European Council Common Strategy,” December 11, 1999, 1999/877/CFSP.



the action plan recently drawn up between the WEU and Ukraine. In June 1999, the WEU's Permanent Council had met with the Ukrainian ambassador (a week after a comparable meeting with the Russian ambassador), to sketch an action plan endorsing an enhanced dialogue among parliamentarians and academics, anticipating Ukrainian observation at WEU military exercises, and indicating WEU interest in using Ukrainian training facilities and potential cooperation in long-haul air transport and satellite imagery.<sup>26</sup>

There was in all of this, however, a strange disconnect. For all the motion, little of the activity and even less of the discourse, including the evocation of economics by NATO and of security by the EU, went very far in addressing the core security challenges facing Ukraine. Nor did the activity and discourse come close to dealing with the place of large-scale economic factors amid these challenges. It is not as though the Europeans and Americans had no reason to think harder on the subject. In February 1999, the NATO Parliamentary Assembly received a report from its Civilian Affairs and Economic and Political Committees based on consultations with the Ukrainian Rada in Kyiv in September 1998.<sup>27</sup> Ukraine, the report made plain, confronted an awkward and harsh set of problems. Rocked by the 1998 financial crisis in Russia, the Ukrainian economy was adrift and sinking, with its wage arrears mounting, unable to meet its domestic and international debt, and, to make matters worse, unaided by "many reforms" that were "moving in the wrong direction." In many quarters, there was a "waning faith in Ukrainian institutions." More troubling and more permanent, Ukraine relied on Russia as a market for 20 percent of its exports and 50 percent of its imports, rendering Russia its largest creditor, and creating a dependence adding to its economic vulnerability and threatening its "autonomy." Put bluntly, the group was told, "Ukraine's future economic and political status remains an open question."

Framing the issue in these terms, however, did not appeal to members of the EU or NATO. Rather than struggle with Ukraine's relevance to

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<sup>26</sup> See the First Part of the Forty-fifth Annual Report of the Council to the Assembly on the Activities of the Council (for the period 1 January–30 June 1999), Document 1661, September 20, 1999, p. 6.

<sup>27</sup> Secretariat Report, "NAA Consultations at the Verkhovna Rada," September 25, 1998, NATO Parliamentary Assembly, pp. 2–5.

European security at a deep and primal level, they chose to treat the country as an ancillary project, something to be dispatched with counseling, exhortations, and discrete measures focused on accessible but secondary problems. The core issue—how to ensure Ukrainian security over the long run and in a fashion enhancing mutual security in Europe—did not make it onto the agenda.

Even less consideration of this issue was given in the case of Belarus. While between 1997 and 1999 Ukraine seemed to be building new bridges to NATO and the EU, Belarus's relations with NATO hit rock bottom. At the end of March 1999, Belarus in tandem with Russia suspended all cooperation with NATO in protest over the Kosovo war, withdrew its permanent representative from Brussels, and cut short all planned PfP activity. With the EU, 1999 appeared less barren than 1997—the year the Council of Ministers decided against a PCA, Belarusian membership in the Council of Europe was blocked, most assistance programs discontinued, and bilateral ministerial relations severed—but the contrast was only marginal. Were Belarus to heed the benchmarks laid out by the OSCE and Council of Europe (its parliament strengthened, opposition parties represented on electoral commissions, state media opened to all political parties, and electoral laws brought into line with international standards), the EU indicated a readiness to lift step-by-step the sanctions then in place. Neither Lukashenko's decision in August to reactivate relations with NATO and resume PfP activity nor the adoption of an Individual Partnership Program for Belarus for 2000–2001 meant that either side was seriously prepared to engage the other. Nor did the EU's faint overtures change the underlying reality that the Europeans had neither the will nor the capacity to imagine on what basis they would engage Belarus.

Belarus's ill-favored standing, however, constituted only an extreme version of an ill-timed burden increasingly impeding the NATO/EU relationship with Ukraine. No sooner had Ukraine moved its relationship with both organizations to a seemingly higher plane than the progress dissipated. True, even in 1999 as the Europe Union was producing its "common strategy" for Ukraine, shadows appeared amid the upbeat planning. The 1999 presidential election had been marred by noticeable abuses. The EU's document nervously notes these, and exhorts Ukraine to do better in future elections.

But Ukraine did not do better. Over the next two years the assault on

a remotely free media intensified, accompanied by the intimidation and, worse, killing of journalists who poked too deeply into the regime's malfeasance; judicial integrity shrank further; and the pleadings of human rights organizations grew louder. One could mark the clear progression of EU disaffection in the reports submitted by the Council of the European Union to the European Council, reports mandated by the "common strategy." The first of these summarized in a bureaucratic monotone a handful of measures taken to "enhance the authority of the courts," bolster non-governmental organizations, organize seminars, teach modern accounting procedures, put Ukrainian policy-makers in touch with European entrepreneurs, and the like.<sup>28</sup> A year later, the report, in more agitated tones, expressed "its profound concerns, particularly at the acts of violence perpetrated against journalists," stressed the need to emphasize for Ukrainian leaders their "contractual commitments" to the Council of Europe to protect an independent judiciary; and reported that EU representatives had "repeatedly" underscored for the Ukrainians "the importance of a stable and transparent legislative, regulatory and institutional framework conducive to promoting a climate more favorable to investment."<sup>29</sup>

Thus, at a juncture when both NATO and the EU appeared readier to look for ways of creating productive links with Ukraine, Kyiv soiled its own reputation, and deflated the West's interest in embracing the Kuchma regime. In Belarus the leadership, by its repressive actions at home and indifference to economic reform, had helped to close the door to any real interchange with the EU, NATO, and key member states. Ukraine despite itself now began to achieve the same effect. The difference, of course, was that the Belarusian leadership chose its course knowing its implications, and indeed added to the effect by adopting an openly hostile attitude toward NATO. The Ukrainian leadership in contrast slid off-course hoping there would be no consequences. In the end, however, the outcome was similar. Whatever the lack of imagination and will on

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<sup>28</sup> See, for example, Report of the Council of the European Union to European Council (Nice), 14202/00, NIS 12, COEST28, PESC549, Brussels, December 4, 2000, pp. 2–4.

<sup>29</sup> Report of the Council of the European Union to the European Council (Laeken), 15195/01, NIS114, COEST44, PESC538, Brussels, December 11, 2001, pp. 3–4.

the part of NATO and the EU, Ukraine—and, it goes without saying, Belarus—made it very hard for Europe and the United States to face up to the challenge of enhancing European security in ways that would also enhance their security.

#### WHERE TO NOW?

September 11 and its sequel recast much of the international setting, including that of Ukrainian and Belarusian foreign and security policy, but it did not do so alone. Other developments also figured significantly, notably the formal decision to bring virtually all of Ukraine's and Belarus's immediate western neighbors into the European Union and NATO. Amid the change, the turnabout in Russian foreign policy dominated. Because Vladimir Putin's decision to rally to the United States in the struggle against global terrorism bespoke a more fundamental foreign-policy choice, the implications for Belarus, Ukraine, and Moldova, the new "lands in between," were potentially profound. Putin now moved to put Russia's relationship with the United States and the West on a different footing, not merely to exploit a momentary tactical opening. In recalibrating Russia's agenda by focusing more on the country's international economic stakes and less on its traditional security preoccupations, he eased around the obstacles that had earlier impeded relations with the West, and opened the way to new forms of collaboration. And, in transforming Russia's relations with the Europeans and Americans, he fundamentally altered the landscape for Ukraine and Belarus.

No longer could Belarus's leadership count on frictions between Russia and the West to generate common cause between Minsk and Moscow. Combined with Putin's brutal terms for moving the Russia-Belarus union forward, delivered to a shaken Lukashenko in June 2002, the regime's phony version of a "multi-vectored" foreign policy seemed suddenly in danger of being replaced by a multi-vectored isolation. Now it was Lukashenko's turn to rail against the mischief-making of Russia's Gazprom and the threat posed by its attempt to grab Belarusian assets.<sup>30</sup>

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<sup>30</sup> Russian TV in September said "Russia's Gazprom is pressing Putin into making Lukashenko more 'compliant' regarding the privatization of Belarusian enterprises. 'Everybody expected us to give our possessions, our modern enterprises, for free,' Lukashenko said. 'Nothing will go for free in Belarus. So they

(Ironically, as Wilson and Rontoyanni note in their chapter, investment-starved Ukraine had during this period begun to adopt a more positive attitude toward Russian DFI.)

For Ukraine the fallout was every bit as awkward. Suddenly there was a real possibility that Russia would move forward with the Americans, Europeans, and NATO, and Ukraine would be left behind. And this would occur as virtually the whole of East Central Europe joined the European Union, again with Ukraine standing on the outside and feeling very alone. In April 2002 Yevhen Marchuk, the chairman of Ukraine's National Security and Defense Council, worried that Ukraine, along with Belarus and Moldova, were in danger of "finding themselves in what some call a grey zone and others a buffer zone."<sup>31</sup> Such was not a happy situation, because, to use his words, "buffer zones in between large historical formations are short-lived. We know it from history that the sovereignty of buffer zones was as a rule wiped out from the outside."

The Europeans too—or at least some of them—grew uneasy over the risks of leaving the Ukrainians, Belarusians, and Moldovans behind. (For the Ukrainians to be now regularly lumped together with these two was a further measure of the ground they had lost.) In April 2002, British Foreign Minister Jack Straw submitted a letter to the EU presidency urging the members to face the problem posed by the EU's three "potential new neighbors," and suggesting that some kind of special status be created for them that would hold out the prospect of gradual trade liberalization "provided they introduce economic and political reforms and improve their record on human rights."<sup>32</sup> This the EU foreign ministers agreed to do, and tasked the Council with defining what the "special status of New Neighbor" might mean. Somewhat inauspiciously, however, they also agreed with Straw's rueful admission that it was "hard to be optimistic about these three."

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have started to press Vladimir Vladimirovich [Putin] into making Lukashenko more compliant. No one is allowed to talk with me in this way." Jan Maksymiuk, "Who's Doing Whom a (Financial) Favor in the Belarus-Russia Union?" *Poland, Belarus, and Ukraine* (RFE/RL), Vol. 4, No. 35 (September 17, 2002).

<sup>31</sup> Interview on ICTV, BBC Monitoring, April 19, 2002.

<sup>32</sup> Judy Dempsey, "Links Mooted for Neighbors of Enlarged EU," *Financial Times* (April 16, 2002), p. 11.

Meanwhile NATO too, in Ukraine's case, felt obliged to offer something to compensate for or, more positively, to complement the new partnership being fashioned with Russia in spring 2002. On the eve of the Rome conference establishing the Russia-NATO Council, the Ukrainians announced "a long-term strategy" pointing toward Ukraine's eventual membership in "the collective security system on which NATO is based." Russia, they argued, had paved the way. And so NATO developed a fresh "NATO-Ukraine Action Plan" intended to "deepen and broaden" the relationship, and indeed "to identify clearly Ukraine's strategic objectives and priorities in pursuit of its aspirations towards full integration into Euro-Atlantic security structures."<sup>33</sup> The Plan was timed for the November Prague summit on NATO's future and the next round of enlargement, the summit at which Kuchma was distinctly unwelcome because of the recent furor surrounding his alleged role in the illegal sale of the Kolchuga radar to Iraq.

Here was the bind: The Europeans and Americans understood that the next round of NATO and EU enlargement, coupled with the new Russian relationship, required that more be done with the inaptly labeled "new neighbors," but for now their hearts were not in the task. Pressing as the need was, the character of the regime in Ukraine and especially that in Belarus made it difficult for them to muster genuine enthusiasm for addressing it. In the case of Ukraine, the talk around Brussels was of "Ukraine fatigue." Thus, rather than ushering in a new phase in the EU and NATO's relationship with the two states, the period after September 11, 2001 seemed to widen the gap between felt need and actual progress.

This was not the only disjuncture. The more the Europeans and Americans cooled to the Kuchma leadership, the more Kuchma seemed to trace in thin air bold designs for the Ukrainian-EU relationship. (By now it was clear the Ukrainians were far more concerned over the implications of the EU's enlargement than NATO's.) In February 2002, for example, he announced a timetable: EU associate membership by 2004; a customs union between Ukraine and the EU by 2007; and then integration into the European Monetary Union.<sup>34</sup> Five months before, at the Yalta EU-Ukrainian summit, the minds of EU leaders were much more

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<sup>33</sup> The full text of the "NATO-Ukraine Action Plan," Prague, November 22, 2002, can be found at: <<http://www.nato.int/docu/basic/txt/b021122a.htm>>.

<sup>34</sup> Interfax, "Ukraine Business Report," February 11, 2002.

focused on the things going wrong in Ukraine, and were at pains to convey to the Ukrainian leader that the Rada elections scheduled for March 2002 would be a “litmus test” of Ukraine’s democratic aspirations.<sup>35</sup> Adding to their misgivings, Europeans were increasingly convinced that the Ukrainian leadership could not make up its mind between a European or a Russian option. Few in Brussels objected to enhanced Ukrainian-Russian ties, but Kuchma’s seemingly fitful nods first to the West and then to the East put them off, not least, because, as one journalist wrote, they looked like a refusal to choose between “two political and economic logics.”<sup>36</sup>

In the Belarusian case, a labored effort to inch matters forward failed symptomatically. In summer 2001 the Foreign Ministry sent a seasoned former deputy foreign minister, Sergiyh Martynov, as its representative to NATO and the EU. By fall he began testing to see whether the EU would modify its demand that Belarus meet fixed “benchmarks,” and substitute a mutually agreed “roadmap,” by which one small step would be reciprocated from the other side, leading to the next small step and then another. The approach resembled a similar effort by the U.S. ambassador to Belarus, Michael Kozak, in early 2001 in advance of the fall Belarusian presidential elections, an initiative in which Martynov had played an important role. Here too, rather than insist on the full and simultaneous implementation of the EU and United States’ conditions for normalizing relations, Kozak sought to work out a “step-by-step” process. By May the outlines had been settled at the working level. When the agreement was submitted to Lukashenko the response was a paralyzing silence. In Brussels the EU had been quite willing to accept the mod-

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<sup>35</sup> In July 2001, when Bush’s National Security Advisor, Condoleezza Rice, traveled to Ukraine, she was still blunter: “The world will be watching the elections in 2002, and not just on the day of the election but throughout the campaign to be sure that all voices have the opportunity to be heard.” When asked whether she thought the government would live up to its assurances, she added: “We are not so easily fooled. The United States knows a free election when it sees one. It knows a free campaign when it sees one.” (“Condoleezza Rice Lists U.S. Concerns about Ukraine,” *Poland, Belarus, and Ukraine Report* (RFE), Vol. 3, No. 32 [August 28, 2001].)

<sup>36</sup> Laurent Zecchini, “L’Europe hésite à renforcer sa coopération avec Kiev,” *le Monde*, April 4, 2002.

ified approach that Martynov sought in fall 2001, and by March 2002 the initial phases of the “roadmap” had been sketched. Then in April, the Lukashenko regime blocked the return of the OSCE monitoring group to Minsk, and again fragile diplomatic rootstock withered.

#### DOING BETTER

On March 11, 2003, the European Commission delivered the promised outline for a new relationship with the “new neighbors.” Entitled “Wider Europe—Neighborhoods: A New Framework for Relations With Our Eastern and Southern Neighbors,” it represented a greater measure of realism mixed with generosity and wisdom than any previous programmatic statement.<sup>37</sup> The EU, its authors admitted, must do a better job of engaging the challenges of reform in these states. The core principle remained the same: The EU would give as good, and only as good, as did each of these states—that is, in proportion to their own commitment to reform. While promising no instant breakthroughs—no assurances on membership, no preferential trade treatment until PCA terms were met—the Commission acknowledged the EU’s “duty” to promote social and political stability, economic success, and the rule of law in these “future neighbors.”<sup>38</sup> It reminded itself that the “incentive to reform created by the prospect of membership” had doubtless been the EU’s most potent foreign-policy instrument. And it confessed that for the EU to play the role that it should in building administrative capacity and easing the costs of social adjustment, it would have to devote far greater funds to the effort than before. As for the question of security, the Commission’s paper promised a readiness on the EU’s part to contribute to conflict prevention and management in the region, noting specifically the prob-

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<sup>37</sup> A good summary is provided in Ahto Lobjakas, “EU Prepares ‘New Neighborhood’ Policy to Reward Eastern Reform,” *Poland, Belarus and Ukraine Report* (RFE/RL), Vol. 5, No. 9 (March 11, 2003).

<sup>38</sup> The original Partnership and Cooperation Agreement with Ukraine had anticipated that in 1998 the two sides might explore whether “Ukraine’s advances in market-oriented reforms” allowed negotiations on a free-trade area to begin. (See Article IV of the *Partnership and Cooperation Agreement between the European Communities and Their Member States and Ukraine*, CE/UKR/en 2, which can be found at: <[http://europa.eu.int/comm/external\\_relations/ceeca/pca/pca\\_ukraine.pdf](http://europa.eu.int/comm/external_relations/ceeca/pca/pca_ukraine.pdf)>.



lem of Transdnistr. And it spoke of the prospect for a dialogue with the new neighbors on the EU's common foreign and defense policies.

The Ukrainians remained unsatisfied; the Belarusians, silent. For the Ukrainians the failure of the EU to note expressly that, at least in principle, one day Ukraine could be admitted to its membership overshadowed everything else. Ukraine's spokesmen did not hesitate to object.<sup>39</sup> In fairness to the Ukrainians, they were no doubt on edge because various European figures, including Romano Prodi and the German foreign minister, had in recent weeks publicly pronounced Ukraine's chances of joining the EU as from poor to non-existent. But the huffiness also reflected a larger and long-standing problem. Too often and to too great a degree, Ukrainian officials and politicians treated their inclusion in the European Union as an entitlement, rather than an earned reward. To this they now added a sense of wounded *amour propre*, seeing themselves classified with the EU's "southern neighbors," the North Africans. Both reactions made it difficult for Brussels to keep the dialogue productively focused.

Meanwhile, by early spring 2003 the U.S. Department of State had completed its own policy review for Ukraine. While annoyed by an all-too-steady series of missteps, from the infusion of arms into the Macedonian military turmoil to the Kolchuga radar scandal, and frustrated by the failure of the Ukrainian authorities to fulfill the promises they made, policymakers were ready to renew efforts to push the relationship forward. Although still couched in terms of tests that the Ukrainians must meet (such as tightening export controls, easing restrictions on NGOs, and respecting an independent media), the plan called for an invigorated dialogue with different parts of the Ukrainian government, intensified military-to-military ties, and an attempt to give life to NATO's new Action Plan for Ukraine. For the Bush Administration, it also mattered that Kuchma's regime was quick to seize the opening offered by the war in Iraq, sending an anti-nuclear, -biological, and -chemical (NBC) battalion to Kuwait and eventually joining the formal list of 45 countries supporting the allied invasion.

Thus, despite the grumbling on both sides, by spring 2003 the Europeans and even more the Americans were both beginning to wrestle

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<sup>39</sup> See Valentinas Mite, "EU Proposals for Future Ties Spark Disappointment," *Poland, Belarus, and Ukraine Report* (RFE/RL), Vol. 5, No. 10 (March 18, 2003).

with the need to rock the relationship with Ukraine out of the rut into which it had settled by fall 2000. True, few in either quarter expected much to happen until after the 2004 election and the hoped-for end to the Kuchma era. Even with Belarus, glimmerings of potential—albeit not yet actual—movement also appeared. On January 1 the OSCE reopened the office of its monitoring group in Minsk and a month later its new head, Eberhard Heyken, arrived. Soon after, fourteen of the EU member states indicated they would lift the travel ban on Lukashenko and his ministers, if the OSCE group were allowed to work unhindered. Later in the month Belarusian deputies were reinstated into the OSCE's Parliamentary Assembly, and experts from the OSCE's OHDIR arrived to consult with Belarus' Electoral Commission in advance of the February local elections. Potentially more significant, however, on March 21 Lukashenko named Serghy Martynov as foreign minister, speaking (not for the first time) of his desire to strengthen the "western vector" of Belarusian foreign policy. "We cannot," he said, "build relations with the U.S. on a confrontation basis."<sup>40</sup>

Two very large imponderables, however, hovered over the scene. First, even if all parties now genuinely meant to invest more in amending the relationship, they were starting from a low, encrusted base, and ahead lay formidable obstacles. It would be wrong to ignore the EU and NATO's cumulative experience with Ukraine or the considerable machinery already in place, but even so, on the core issues of domestic reform—and for that matter defense reform—movement toward the standards of the *acquis communautaire*, or the practical cross-border issues raised by the enlargement of both organizations, the book had scarcely been opened. With Belarus, the book was not even available to open.

Nor would it be easy to break the inertia of the past. In Ukraine, despite impressive economic gains from 2001 forward, few of the obstacles to deep and sustained structural reform had been removed. The political configuration within the Rada remained less than favorable; key bureaucracies, including the military, were often a brake on needed change; the dynamic of regional politics created unhelpful crosscurrents;

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<sup>40</sup> Aleksander Maksymiuk, "Belarusian President Replaces Foreign Minister, Vows to Boost Western Vector," *RFE/RL Newsline* (March 24, 2003). True, but perhaps also tellingly, this occurred a day after heated official denunciations of the United States for launching the Iraq war.

and the regime itself lacked credibility, clarity, and, to judge by its record, willpower. Moreover, the country's economic dependencies and vulnerabilities more or less guaranteed continued wavering in policy at home and abroad. Next door in Belarus, whatever the converging pressures for a shift in course, neither the regime's underlying character nor the feeble stirrings within the body politic suggested that they would easily prevail. Indeed, even as the regime hinted at a desire to unfreeze relations with the West over the first half of 2003, it was cracking down ever more harshly on NGOs and the media, political parties were put on a still tighter leash, and talk began of Lukashenko's plans for circumventing the constitution to put himself in office for a third term.

As a result, the Westerners were likely to remain stuck at the level of "preconditions," struggling to turn small steps into critical mass—into something permitting the Europeans to imagine one or both countries as somehow a part of the integrative processes underway in Western Europe. They too, however, bore the burden of their past. Their constricted and lethargic perspective inherited from the 1990s, combined with their ongoing preoccupation with all the things that made Ukraine and Belarus unfit citizens in the new Europe, left little room for a new, broad-gauged look at security on Europe's eastern front.

If one steps back from the convolutions of the moment, it is not difficult to sketch the heart of the security challenge posed for and by Ukraine and Belarus. In a phrase, it is to achieve internal domestic security in the context of external mutual security. These are not many words, but a tall order. The elements, however, are straightforward. As the Ukrainians have known and acknowledged since the mid-1990s, and the Belarusians have sensed but not said even longer, everything starts from the inside. That is, the essential core of their security agenda inheres in the risk that domestic trends could spin off in an untoward direction—perhaps from a deepening economic crisis, or from unresolved tensions between the modern version of "iron and rye," or from the failure to emplace sturdy institutions capable of absorbing society's centrifugal, aggrieved, or imbalanced forces. This, in the abstract, is for all countries a truism, but for these two, a living truth. Neither country appears imminently threatened, but each is far from safely through the historic passage from one political system to another and simultaneously from one economic order to another.

Other dimensions of the security challenge are subordinate and fre-

quently derivative. The threat to the health and well-being of Ukrainian society posed by the drugs, arms, criminal elements, and even terrorists, which flow too easily in and out of Ukraine serves as a case in point. Similarly there are the perils that arise from potential turbulence in adjacent states—say, the eruption again of violence over the unresolved status of Transdnestr in neighboring Moldova, or, for that matter, the risk of a recrudescence of regional challenge from, say, the Crimea.

The point is not that any of these misfortunes are about to befall Ukraine, or a parallel set, Belarus. The point is that they are thinkable and portentous, the more so that the different parts of the problem populate a set whose most severe form—instability in Ukraine or Belarus—intrudes directly on the underpinning of European security. What would transform this “set” into something ominous is an adversarial or predatory relationship with Russia. That is, the ultimate threat to European security would be Ukrainian or Belarusian instability in circumstances when Russia or elements in Russia saw gain in exploiting rather than dampening it. Indeed, the threat starts sooner. Given history and the relative balance of power, to the degree the dynamic between Russia and one or both of these countries is one of mistrust rather than reassurance, Russia becomes the source, not simply the amplifier, of instability. To complete the somber syllogism, mistrust is more likely to be the dynamic of Russian-Ukrainian or Russian-Ukrainian-Belarusian relations, when the relationship between Russia and Europe’s major players, including the United States, is friction-ridden.

Fortunately, however, the syllogism can work the other way. At the moment, Russia’s readiness to seek partnership with the West has the potential to soften what has become the most serious structural source of Ukrainian insecurity, beyond the threat the country poses to itself: the threat of Russia. A cooperative relationship between Russia and other great powers, in the abstract, does not guarantee that mutual security in the larger setting will prevent an aggressive, unilateral Russian approach to security in the post-Soviet region. Collaboration qua collusion, as the interwar period demonstrated, can as easily be at the expense of countries caught in the middle. Anything that even smacked of Russian-EU or Russian-NATO condominium in Europe would add to, not ease, the security burdens of Ukraine and Belarus. But there is no reason to think that a new relationship between Russia and the West based on (a) Russia’s integration with, albeit not into, the West and (b) Russia’s

emphasis on economic over traditional security concerns would veer in this direction. If anything it should heighten both side's common stake in finding a fair and secure place for Ukraine and Belarus, particularly where economics intersects with security.

For both countries the key to the economics of security appears to be politics. There is little that either Europe or the United States can do by themselves to ease the deleterious effects of economics on Belarussian security, so long as the Belarussian regime refuses to consider change that would permit it to engage with Western institutions. Europe, the United States, and their agencies could do a much better job of including Belarus in the European security dialogue than they have, but, until the leadership of the country alters its political course, they can do little to offer it economic hope or a reinforced sense of security. Russia remains the only external influence capable of nudging Belarus in a fundamentally different direction. For its own reasons, the current Russian leadership does have an interest in seeing economic reform launched in Belarus and the iron fist relaxed, not least, because the integration of the two countries sought by Moscow has no chance otherwise. To the degree that Russia pursues a closer alignment with the West with the aim of better integrating its economy into the infrastructure of the global economy, the more Russia and the West can and should actively coordinate their efforts to encourage change in Ukraine and Belarus, permitting them to come along. Putin's Russia in several different settings has begun tentatively to discuss Belarus with the Europeans and the Americans, but nothing of the positive, ambitious partnership needed has yet begun to take shape.<sup>41</sup>

Not that the process will be smooth or easy. Indeed, two significant obstacles stand in the way. First, the Russian leadership is far from convinced that it wants to share influence with the Europeans or the Americans in Belarus. While Moscow, Brussels, and Washington all have a common interest in stable, progressive change in Belarus, Russian leaders, and still more the political elite, cling to the notion that whatever happens in the country, at the end of the day Russia should remain the

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<sup>41</sup> For example, in February 2003, Uta Zapf, head of the OSCE Parliamentary Assembly working group on Belarus, and Aleksandr Blokhin, Russian ambassador in Minsk, met to discuss Russia's impact on democratic processes in Belarus.

dominant outside influence. Second, the Russian-Belarusian relationship is rapidly slipping from collaboration to scarcely veiled antagonism. In September 2003, as negotiations over the sputtering currency union reached a dead end, Lukashenko sent Putin a stiff note saying the Russian ruble would not be introduced into Belarus in January 2005 as scheduled. A few days later the head of Gazprom announced that Belarus would no longer be supplied with gas at the highly favorable rates negotiated in April 2002. And on September 6, Russian Prime Minister Mikhael Kaasyanov announced that there would be no agreement on a common currency because of the preconditions set by the Belarusians. Even if all this amounted to hardball politics rather than an unbridgeable rift, it was clear that Belarus was less and less ready to accommodate Putin's Russia.

In Ukraine's case, much less stands in the way of a constructive synergy between Russia's new orientation toward the West and the prospect of enhancing the economic base for Ukrainian security. Indeed, the latter-day Ukrainian notion of approaching Europe with—versus against—Russia turns out to be far more apt than Kyiv may have originally appreciated. No one has ever seriously thought that Russia's economic integration with the West would be achieved by incorporating the country into the European Union, and increasingly Russia's interest in an elaborate institutionalized relationship with the EU is also waning. Instead Russia is better advised to achieve WTO membership, using WTO rules to lower the barriers to key trading markets, including Europe, while promoting free-trade arrangements with them. Ukraine, it is wisely argued, should do the same, promoting export-led growth and protecting itself from trade discrimination in both directions—both to the West and what should be a much larger Ukrainian market and to the East and the rough-and-tumble of its crucial trade with Russia.<sup>42</sup>

While some in Washington and Europe worry that lopsided and inequitable deals arranged with heavy-handed Russian investors are depriving Ukraine of freedom and a fair return, implying, therefore, that the grounds for partnership between Russia and the West in addressing the underlying economics of Ukrainian security are flimsy at best, their

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<sup>42</sup> The argument is made most vigorously by Anders Åslund, "A Foreign Trade Policy Strategy for Ukraine," Occasional Papers, Carnegie Endowment for International Peace, March 31, 2003.

concern, in fact, argues for a speedier and more thorough integration of Russia into international regimes.<sup>43</sup> For, from this will come greater transparency and responsibility in the behavior of Russian economic actors, and, provided Ukraine is allowed to march alongside, protection for it as well.

The frameworks and action plans by which the EU, NATO, and the United States attempt to stimulate the transformation of Ukraine's political and economic institutions, promote democratic practice, and facilitate the rationalization of its military through reform are a crucial element in Ukraine's advance, and the more that is done to strengthen them, the better. But the opportunity is much greater. If the Western powers will broaden their vision, and contemplate what might be done with Russia to enhance the economic dynamism of Ukraine and to engage Belarus in progressive change, the new "lands in between" can be made far more secure, and the old slogan of European security from the Atlantic to the Urals can at last come to have meaning.

Ironically, at the moment it is the West that most threatens this opportunity. Or, more accurately, it is the state of relations within the West that poses the ultimate problem. The divide that has opened between major European states and the United States is cracking and weakening NATO to the point that one can ask whether this institution will retain enough energy to influence developments from the "Bug to the Urals." The tension and disarray in Euro-Atlantic relations has also seriously disrupted the internal coherence of the EU, and, while the fractures that have appeared may not threaten the integrity of the enterprise to the same degree that they do NATO, almost certainly they will be a powerful new distraction. As a result the EU too seems likely to have less time and attention to spare Europe beyond its core borders. Yet, alas, the gulf growing in Euro-Atlantic relations, even if the convulsions of 2003 pass, means that Europe must in the future become the architect of its

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<sup>43</sup> Carlos Pascual, the U.S. ambassador to Ukraine, expressed the concern in a presentation to the "Russia and Eurasian Program" at the Center for Strategic and International Studies, January 9, 2003, as reprinted in Johnson's *Russia List*, #7021, January 17, 2003. Others are blunter in fearing that large Russian investors are simply the arm of a Russian government bent on restoring Russian control by economic means. (See Janusz Onyszkiewicz, "Ukraine and NATO," Center for International Relations, Warsaw, 2003.)

own security—and will thus bear the great part of the burden for generating the vision and mustering the will to solve the security problem in its far-eastern half.

Finally, disunity within the West compromises the salutary effect of Russia's reconciliation with the West. If Putin hopes to integrate Russia with the West, the last thing he wants is to be forced to choose sides within a divided West. He has large stakes in relations with both the United States and Europe and has no interest in selecting one party over the other. The problem is that if despite his preferences he is caught in between, Russia then becomes part of a competition, and inevitably its actions will be invidious for one or the other side. So the fear then arises that the awkward tensions in Russia's relations with a fractious West will blow back into the affairs of Ukraine and Belarus. Absent a working partnership between Russia and a united West in promoting a more stable environment in the space between Russia and the new Europe, the vacillations and ambiguities that have otherwise marked Russian foreign policy are likely to continue, and in no sphere more than its response to its two immediate neighbors. Moreover, to the degree that Western Europe, led by the EU, is left to be Europe's security architect (from the Atlantic to the Urals), a West in discord will leave Russia a distracted interlocutor.

The Western powers—the United States, Western Europe, the EU, and NATO—were never the primary source of the security challenge facing Ukraine and Belarus, even if historically they also were never sufficiently an antidote. It would, however, be a sad irony, if at a moment of special opportunity, they became the primary obstacle to seizing it.





# Conclusion

ROBERT LEGVOLD AND CELESTE A. WALLANDER

Europe's new gray zone lies to the east in Belarus, Ukraine, and Moldova. There, caught between an expanding but closed EU and a once imperial Russian master, these countries create a gaping hole in Europe's supposed security system. They are the new "lands in between," Eastern Europe's historically rueful lot. Like Eastern Europe in the nineteenth century and the first half of the twentieth, the big powers that flank them have a large and potentially competing stake in them, and yet, none of the arrangements that bring safety and peace of mind to the rest of Europe offers protection to them. Whether the Europeans or the Americans—to the extent that U.S. security still depends on a stable Europe—know it, trouble in or around any of the three will shake the unsteady new architecture of European security more violently than any other imaginable rupture. Or, even if the peace holds in and for all three, the turbulence from simple tension between Belarus and Ukraine or between either and Russia will significantly affect first Central Europe and then Europe at large. Even short of disorder or tension, as history shows, the restlessness and anxieties of unanchored states in Europe's gray zones often lead to problems among Europe's major powers. Nor need one think only of the ways Belarus and Ukraine could undo political stability in Europe. As the Europeans, indeed, do realize, the three countries are the unsecured backdoor through which all manner of harm—from heroin to human trafficking—makes its way to the West.

None of the authors in this book suggests that either Belarus or Ukraine is a large or looming threat to the peace and stability of Europe, or that the security threats that each faces or thinks it faces cannot be countered. Indeed, a thread running through a good deal of the book stresses how much this is a moment of opportunity, if leadership in all three quarters—Russia, the West, and the two countries themselves—will seize it. For the most part, the international environment has turned out to be more benign than elites in either country once feared. Trends

inside both countries, while scarcely guaranteeing success or even long-term stability, pose no immediate threat. Even better, the recent evolution in Russian foreign policy and the promising turn in Russia's relations with the West open to Ukraine and Belarus the prospect of collaborating in both directions, provided their leaderships are willing to make the right choices at home.

On the other hand, none of us underestimates just how complex and involved the circumstance of these two countries is; how large and unresolved the challenge of providing for national security remains; and, in particular, how centrally economics figures at almost every turn. We began this book by stressing the underlying universal dilemmas written into the linkage between economics and security. Trade and, in an increasingly globalized economy, shared production are essential to every nation's economic growth and prosperity, and growth and prosperity are the props without which there cannot be national security. Simultaneously, however, economic ties, particularly when needed by one party more than the other, erode the autonomy also essential to security. Belarus and Ukraine, as earlier chapters make plain, suffer the dilemma more than most. When it comes to the distribution of leverage in economic relationships with Russia, both are on the short end. Yet, each has responded to the dilemma very differently, even though the contrast has grown fuzzier as each leadership has run up against external realities stubbornly impervious to its original calculations. Explaining the reason for the very different paths chosen by the two countries forms one central purpose of this book. Exploring where these paths have led and how unexpected obstacles have complicated and then rerouted them constitutes the other. Both the explanation and the exploration serve as the basis for considering what each party to the story—Belarus and Ukraine, the United States and Europe, and Russia—can and should do about it, particularly when the “can” and “should” may be quite different. That is the primary task of these concluding pages.

The roots of the problem are not where logic would suggest—at least, not at first glance. They are not in the profound structural constraints that circumscribe the two countries. Not in a historical legacy that makes them prisoner to the remnants of an imperial past. Not in the crushing dependency on Russian markets and energy resources with which they began independence. And not in the shadow cast by a giant, conflicted Russian neighbor. While real enough, these burdens, it would

appear, do not turn out to be decisive. They fail to explain the sharply contrasting Belarusian and Ukrainian conception of threat and choice of strategic course. Being common to the two countries, these overarching constraints cannot alone account for very different outcomes.

As several of our co-authors argue, subjective realities rival, if not trump, structural realities. What counts most is what political leaders and elites make of the past, of economic dependency, and of the Russian factor. Because at the outset Ukrainian leaders saw their country's economic dependence on Russia as the gravest threat to their national independence, everything, including economic reform, took a back seat to escaping it—everything, that is, as Wilson and Rontoyanni underscore, except the sacrifice needed to succeed. In contrast, the Belarusian leadership, even before Lukashenko came to power, regarded Russian influence as natural, even positive. The country's near-complete dependence on Russia for oil and gas, Abdelal argues, was not so much a threat as a solution. Thus, say Wilson, Rontoyanni, and Abdelal, what really mattered was the outlook of political elites, and the outlook of political elites depended on which concatenation of elite views prevailed. So, it would seem, the key to understanding the security challenge in this part of the world, at least as it exists in the minds of Belarusians and Ukrainians, is in reconstructing the lineup among political elites and tracking changes to it.

On closer examination, however, things are more complicated. Ultimately, the structural givens do matter; ultimately, external realities do write the script, do cut and shape the hopes and preferences of those guiding policy. How history and geography have configured the political maps of these two countries goes a long way toward explaining both the distribution and relative strength of elite views. Had western Ukraine been a part of the imperial core as long and as fully as the country's eastern half, rather than sharing Poland's fate for much of modern history, Ukrainian nationalism would look different, and the balance between those naturally suspicious of Russia and those who naturally identify with Russia would differ as well. Had Belarusian national identity been shaped by as sharp a divide as exists in Ukraine, the balance would not be as monochromatically sympathetic to Russia as it is. This is not to say that historical effects are omnipotent, let alone forever so. First, viewed within the still longer time-frame of their pre-seventeenth century "southern Rus" or "Ruthenian" common identity, the two countries have tended, as Wilson and Rontoyanni put it, "to pivot on a fulcrum between the rival attractions of

‘Europe’ and the all-Russian/Soviet/East Slavic idea.” Quoting further, national identity “can still be understood in terms of these divided pulls, with Russophile and Europhile extremes flanking a middle ground in both states,” and nothing guarantees that the momentary tilt among the three will remain immutable. Second, history is a river with many tributaries, leading after several junctures in very different directions, reminding us that contingency and the role of strong personalities often deflect the inertia of history. In the end it is the interplay of historical imprint, politics, and human choice that determines the outcome.

However, if one theme stands out from the analysis in previous chapters, it is how much hard realities have intruded, upsetting and redirecting plans, preferences, and preconceptions. In Ukraine at the outset, the prevailing view had it that economic dependence on Russia constituted the single most important threat to national security, and everything should be sacrificed to breaking it, including economic reform. To frame the challenge in this fashion required a combination of myth-making and wishful thinking, and external realities cooperated in preserving neither. Wilson and Rontoyanni refer to the initial notion that Ukraine had the resources (potentially a self-sustaining internal market), the prospect (potentially a ready set of Western economic partners), and the reason (presumably past Russian economic exploitation) to break away from Russia. Scarcely two years into independence, however, all three assumptions had crumpled. Dependence on Russian markets and energy was simply too great to side-step. Trade collapsed, debts (to Russia) mounted, and old-guard industrialists who suffered the most rebelled. By 1994, as our authors note, Ukraine’s new president was admitting that “Ukrainian statehood cannot be an end in itself,” and by 1997 a new National Security Concept had pretty much come full circle, stressing that national security and national economic welfare were inseparable.

The retreat, of course, was more intricate and winding than this suggests. Many elements interacted: trimming on the part of the nationalists and a shift in their partnership with emerging Ukrainian capital, the gradual easing of the perceived Russian threat, eventually a readiness to work with Russian investors when Western money failed to flow, and so on. We cannot tell from the argument of our co-authors whether these external realities and deceived hopes produced changes in the orientation of the battling camps or whether these changes resulted from other causes and then the new constellation of players adjusted to a world that had con-

founded prior assumptions—or if conceivably the two explanations operated in tandem. However that may be, in the end hard realities in the outside world have been central to understanding the shifting relationship between economics and security in the Ukrainian case.

In the Belarusian case, they have also played a key role, and with the same effect, but in a very different form. The imperious character of hard reality has been slower to develop, and the adjustment on the part of the Belarusian leadership, delayed and partial. Rather than as a peril, from the start and for long the Belarusian political elite regarded Russia's economic embrace as a necessary and largely desirable feature of the country's existence. After more than a decade and a half of independence, as Burakovsky notes, Belarus remains one of two countries (the other being weak and war-torn Tajikistan) that buys and sells almost entirely within the CIS region. Behind this fact lies buried the essence of the Belarusian linkage between economics and security. For Belarus, like Ukraine, has subordinated economic concerns to security calculations, only in this instance the Russian dimension is inverse. What was for Ukraine at the outset a (Russian) threat has become a part of the solution, while next door, what was early the (Russian) solution is increasingly coming to be a threat. Even before Aleksandr Lukashenko's 1994 election, the largely intact *nomenklatura* class that clung to power preferred to keep things as much as possible as they were, rather than risk the disruptions and threat to their control from significant change. Lukashenko has made preserving what he regards as the positive features of the Soviet system a priority of his decade-long rule. This, together with saving his own personal power, then serves as the core of the regime's national security agenda. Just as originally in Ukraine economic progress was sacrificed to security, defined as ending dependence on Russia, in Belarus for much longer economic progress has also been sacrificed to security, defined as preserving the political status quo.

But in the last several years that objective has come under threat, and the unexpected source is Russia. From the beginning Russia has been the mainstay of the Belarusian economy. Its subsidies, particularly in energy, currency-stabilization funds, and role as a customer have sustained the unreconstructed Belarusian economy, and, thus, lent stability to the political regime. While Moscow remains committed to a close Russian-Belarusian partnership, even to integration of the two economies, increasingly under Putin's leadership Belarus's stalled reform is seen as a

hopeless drag on the economic relationship. Rather than cut ties that no Russian leadership would or could abandon, Putin and his people have begun setting far stiffer standards not only for the planned “union” but even for workaday economic relations. While Lukashenko bit by bit has accepted fragments of reform, Russia is pushing for something much deeper and faster, thereby threatening his capacity to dictate the shape of the local economic environment and, by extension, the political landscape. Thus, later than in Ukraine, but as inexorably, original expectations have come or are coming to grief when external realities set in.

At the same time, over the intervening years, the nature of the security challenge facing Belarus and Ukraine has shifted in subtle but profound ways. Less and less are the threats traditional, direct, and militarily suffused. Neither Ukraine nor Belarus faces an adversary in a sour or aggressive mood, ready to reach for the sword or, short of that, to wave it threateningly. Neither any longer need fear that chaos on its borders will spill across onto it, or that frictions within will tear the country apart. Instead with each passing year, the economic factor bears increasingly on their ability to ensure internal safety, stability, and independence. True, in Belarus, the country least threatened by aggressive neighbors or nearby violence, the leadership appears not to know it: Lukashenko still harps on the threat posed by NATO, as in June 2003 when talk of the United States moving bases to Poland provoked a reflexive outburst. “We certainly consider this redeployment a threat to our security and our interests,” he said.<sup>1</sup> “They are running huge risks. They are relocating their forces within the reach of our weapons.” And the evidence suggests that he genuinely believes some NATO countries, none more than the United States, are intent on subverting his rule, if necessary by covert methods. Even he, however, understands that the real threat to his authority and to the country’s stability lies elsewhere. What he rightly really worries about are economic influences, both foreign and domestic, that risk escaping his control.

There is an irony here: At a time when the stronger powers, including the strongest, are increasingly preoccupied with new variations on old security threats, including a vulnerability to catastrophic violence, only this time from global terrorism, Belarus and Ukraine have less to worry

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<sup>1</sup> “Belarusian President Explains Union Setbacks by Coming Election Polls,” BBC Monitoring International Reports, June 4, 2003.

about in this respect; instead they find the economic challenges they long dismissed at the center of their concerns. Neither the Belarusian nor Ukrainian leadership spends much time worrying about weapons of mass destruction or the connection between WMD, global terrorism, and rogue states. If anything, they have been willing to look the other way when elements of their vast but dilapidated military-industrial complex sell arms to these states.

Theirs is a different problem. As Perepelitsa's chapter underscores, the threat is to, not from, their hard-pressed military industry. In countries where defense production long accounted for a high percentage of industrial production (70 percent in Belarus, 35 percent in Ukraine), but whose product neither fits the needs of their new national militaries nor has anywhere to go but foreign markets, this most fundamental prop for and measure of national independence is missing. When 80 percent of defense industry depends on the supply of components from Russia, as is true in Ukraine, and when a still higher percentage of the defense industry depends on Russian orders, as is true in Belarus, national leaders find it hard to reorient—or in Belarus's case even conceive of reorienting—the defense-industrial complex toward national independence.

On the contrary, to Perepelitsa's chagrin, Kuchma and company are more, not less, inclined to tie defense production into the Russian military-industrial complex. Not only do Ukrainian leaders openly accept that Ukrainian forces cannot be re-equipped by any country other than Russia, they lately have actively sought to weave the two countries more tightly together in managing arms exports to third markets and in promoting joint defense production. In Belarus's case, Lukashenko has never pretended that Belarusian defense industry was anything other than an appendage of Russian defense industry. But if he is beginning to waver in his enthusiasm for union with Russia, defense industry will be one of the areas least amenable to breaking free.

Belarus and Ukraine's thorough dependency on Russia in maintaining an industrial base for the nation's defense, not to mention almost the same level of dependency in securing vital energy supplies for the nation's economy, are the sharp surface edges of Ukraine's actual and Belarus's latent core security challenge: namely, how to cope with asymmetric interdependence when it is with a country that Ukraine does not fully trust and that Belarus may yet come to resist. For Belarus the inequality arises at every turn. The stark, elemental form resides in the fact that



Russia subsidizes ten percent of Belarusian GDP, and that without this crutch inflation would be much higher, social services eroded, unpaid wages a mounting threat, and economic growth an exposed fiction. The more subtle form exists in the implacable implication for genuine integration with Russia of the fact that Belarus's economy is five percent of Russia's. So long as the Belarusian leadership chooses to see this lopsided economic relationship as an advantage, national security remains in the background. The moment it comes to have doubts, the picture changes. The more serious the doubts, the more dramatically national security considerations re-enter.

In Ukraine's case the connections are less obvious, less easily disentangled. Putin, as Abdelal suggests, does not hint to his Ukrainian counterpart—let alone tell him—that Russia will refuse to work out a deal on the Ukrainian gas debt or will slap heavy duties on the Ukrainian steel pipeline unless Ukraine knuckles under and concedes Russia this or that foreign-policy objective. But the fact that the Ukrainian steel pipeline cannot overcome EU hurdles, and that Russia in the past has constrained this trade, produce an effect. In dozens of ways in dozens of areas Russia's active economic presence and Europe's inferior economic role slant Ukrainian decision-making. In the most basic sense, scarcely any major domestic choice, whether language legislation or constitutional reform, energy or education policy, occurs without at least a sideways glance toward the East.

Take military reform, one of the spheres where economics most directly impinges on defense: When the Soviet Union collapsed, Ukraine was left with the vast remnants of a military designed and deployed for war with NATO. Its share was nearly 800,000 troops, a Soviet officer corps, and great quantities of heavy armor, all of it controlled from the Soviet center. There was, as James Sherr says, no Ministry of Defense, no General Staff, and no central organs of command and control. They, the troops and officers, "were not an army," but "a force grouping."<sup>2</sup> "They were not equipped, deployed, or trained to defend Ukraine. They were bone and muscle without heart or brain." Ukraine, thus, faced the enormous task of first creating the basic institutions of national defense and then somehow reworking the hulking, maladapted detritus of the Red

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<sup>2</sup> James Sherr, "Ukraine's Defense Reform: An Update," Conflict Studies Research Center (Royal Military Academy Sandhurst), July 2002, p. 1.

Army into a functioning, affordable military shield appropriate to Ukrainian needs.

It has been slow going. Through the first half-decade of Ukrainian independence, enormous energy was expended in simply imposing a national form on the men and arms on Ukrainian territory. In the second half-decade, after the formal promulgation of the 1997 National Security Concept, Ukraine supposedly set about reducing, recasting, and rationalizing its inherited military. But notwithstanding considerable pressure and technical advice from NATO, not much happened. In 2000 the government took another step, adopting the State Program of Armed Forces Reform and Development 2001–2005, a more concrete plan spelling out organizational changes, timetables for moving to an all-volunteer force, a modernized military education system, and the consolidation of services. Three years later, in June 2003, an exercised Kuchma sacked his defense minister and replaced him with Yevhen Marchuk, Ukraine's first civilian minister of defense, because in too many respects too little had been done. In April Kuchma, at a secret meeting with defense officials, had lashed out against a military that seemed incapable of shedding a top-heavy officer corps (stuck on a 1:1.1 ratio of senior to junior officers versus 1:1.7 in "leading states"); that continued to churn out from its military schools from 70 to 300 percent more graduates than needed; whose "combat training standards are too low to enable personnel to carry out their duties effectively"; that allocated one-tenth of one percent of its budget for combat training, three percent for weapons acquisition, and 1.5 percent for research and development; that provided less than \$2000 per serviceman, when \$10,000 was at the very bottom end of an international standard; whose youngest and ablest officers were 60 percent of those leaving the services; and on he continued.<sup>3</sup> In sum, said he, "the current situation is as follows: Ukraine is keeping the largest army in Europe without a real war threat and is unable to reduce its size because of a lack of funds, at the same time spending billions of hryvnias on activities unrelated to ensuring the armed forces' operational efficiency."

Kuchma knew as well as his NATO interlocutors or the community of defense experts that change came so hard because old ways of thinking persisted throughout much of the military hierarchy and because, unsur-

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<sup>3</sup> Unattributed report with large excerpts from a putative but unacknowledged speech by Kuchma in *Svoboda* (Kiev), May 13, 2003.

prisingly, most of the officer corps resisted real downsizing and force rationalization as a direct threat to them. Burdensome as these weights were, still greater was the impact of economics. To execute the military reform promised by the State Program and collateral documents required a budgetary commitment of no less than three percent of GDP. Ukraine, however, has been able to muster barely 1.5 percent. The consequences then echo in the specifics of decay. Air defense units train at 12 percent of program requirements; naval units are at sea 14 percent of a normal schedule; weapons, military hardware, and munitions deteriorate, the bulk of which will become “unserviceable by 2005” and even dangerous to use for training; less than 12 percent of the funds needed to repair and maintain defense facilities are ever available; nearly 50,000 active-duty and 23,000 demobilized servicemen are without housing; and so on.<sup>4</sup> In 2002, Major General Valeriy Muntiy, Assistant to the Defense Minister for Budget and Financial-Economic Activity, warned that without a basic change in defense funding “the armed forces have no more than five years until self-ruination.”<sup>5</sup>

Economics, therefore, gravely hampers the constructive transformation of Ukraine’s defense potential. Often, however, it works its effect in combination with hidebound military attitudes and self-serving rear-guard actions. For example, while downsizing is without question expensive, the military’s claim that reducing men and units costs twice as much as keeping them is more convenient than correct. As Kuchma admonished his military audience, the higher costs apply only to combat units, seven percent of the armed forces, not to support formations. Equally important, the slow pace by which civilians are substituted for old-line military with durable Soviet mentalities, again partly for economic reasons, has helped to preserve dated threat perceptions and traditional responses. Ukraine retains tanks, artillery pieces, and fixed-wing aircraft in far greater numbers than make sense, not simply because getting rid of them costs money, but because the habit of planning for large-scale combat operations with a major adversary (NATO in the old days, more recently Russia, and maybe still NATO) remains ingrained. This then further starves funding for the rationalization of Ukraine’s defense.

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<sup>4</sup> This catalogue is from Kuchma’s speech to the Ministry of Defense cited in the previous footnote.

<sup>5</sup> Sherr, “Ukraine’s Defense Reform: An Update,” p. 3.

Russia figures in this picture in many complex and frequently powerful ways, and so do the United States and NATO. Despite the somber series of delinquencies and deficiencies recited a moment ago, Ukraine *has* gradually embraced a more apt conception of national security. Beginning with the 1997 National Security Concept and bolstered by the law “On the Foundations of National Security,” adopted by the Verkhovna Rada in June 2003, Ukrainian leaders have developed a far more realistic assessment of the hierarchy of threat facing their country.<sup>6</sup> The 1997 concept paper downplayed the stylized notion of general war, and placed higher the threat created by Ukraine to itself; that is, the threat represented by Ukraine’s internal weakness when considered alongside the possibility of instability on or within its borders. Hence, as Sherr notes, the National Concept stressed as the first of nine security challenges “the strengthening of civil society.”<sup>7</sup>

In the law “On the Foundations of National Security” the Ukrainians for the first time acknowledged a still more shadowy, but pressing set of threats: “the ‘merger of business and politics,’ attempts by shadow structures ‘to use the state’s military formations and law enforcement agencies in their own interests,’ monopolization of ‘energy supply sources’ and the perilous ecological condition of the country, which according to Yevhen Marchuk... has been responsible for the deaths of 70,000 Ukrainian citizens since independence.”<sup>8</sup> Russia, of course, was the incarnation of the energy threat, and only Russia among outside players could plausibly be considered the target of concern over “business” mixing with “politics.” So, too, the 1997 reference to local crises exploited by others doubtless meant Russia, although Rumania and Belarus may also have been on Ukrainian minds. Thus, even a more measured and sensible outline of the security challenges facing the country still featured Russia—to the extent that the challenges originated beyond Ukrainian borders.

Here, however, the trail suddenly winds in complex directions. First, although Russia almost certainly best embodied the external dimension

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<sup>6</sup> An excellent analysis of the new Law on the Foundations of National Security and related undertakings is in James Sherr, “New Documents on Ukraine’s Security Policy: A Sound Basis for Action,” Conflict Studies Research Center (The Royal Military Academy Sandhurst), G121, June 2003.

<sup>7</sup> Sherr, “New Documents,” p. 3.

<sup>8</sup> Sherr, “New Documents,” p. 6.

of the new threat hierarchy, the fact that Ukrainian leaders had shifted their threat assessment and, indeed, now centered their concerns on the sources of threat from within, permitted a sounder basis for a rational Ukrainian defense. Alas, however, the new directions were not entirely freed of old biases. The fact that a residual uncertainty over how isolated Ukraine would remain from NATO and how conceivable, albeit improbable, military conflict with Russia was, continued to feed old habits of thought, which in turn thwarted the impulses toward progressive change. Thus, the Russian factor cut in two directions. As a threat it was less crudely perceived, making it easier for Ukraine to focus on genuine security challenges, but the ambiguities of Russia's approach to Ukraine coupled with pockets of old thinking in the Ukrainian defense establishment pulled in the other direction. To add to an already convoluted reality, Ukraine could not move to a more rational defense posture without Russian support. A streamlined military, including lighter, mobile, quick-reacting "forward defense forces," must be a re-equipped military, and, as Ukrainian leaders realize, that could only be done in cooperation with Russian defense industry. Put starkly, Ukraine's progress toward a military better suited to its needs (and eventual NATO membership) depended to no small degree on sorting out the Russian threat and making the most of an unavoidable dependency on Russia.

Nor was the West's role straightforward. NATO, true enough, for years had been the most significant external factor pushing Ukraine toward defense reform. Even before the 1997 "Distinctive Act of Partnership," accompanying the first round of NATO enlargement, and the elaborate web of joint working groups created to nudge Ukraine along, Brussels had begun lobbying Kyiv to cut and reshape its bloated and deformed armed forces. But, while NATO agents and agencies provided good technical guidance, many practical forms of cooperation, and constant inspiration, neither NATO nor, more to the point, the EU would do much to alleviate the core problem—the fundamental lack of resources essential for real reform. Moreover, in the void to which the West consigned Ukraine, the Ukrainians, never sure of how realistic their chances were of ever being welcomed into NATO or the EU, lapsed into the sullen and uncertain behavior of those on their own. Yeltsin's Russia was prone to the same syndrome in the late 1990s, and it produced a prickly, gyrating relationship with the West, particularly the United States. In Ukraine's case the result, beyond a lingering ambivalence over

the nature of the security challenge, has been to include Western organizations as part of the new threat. The 2003 law “On the Foundations of National Security” treats as a danger “interference in the domestic affairs of Ukraine” by international organizations and NGOs.

Or take a second illustration of Russia’s intricate and varicolored impact on Ukraine when economics and security intersect: Officially Ukraine is committed to pursuing its long-term security through integration into NATO and the EU. If anything over the last few years, the commitment has grown more emphatic and elaborate, enshrined in legislation and imposing formal proclamations. At the same time, at an increasing pace since 2000, Ukraine has drifted back toward greater economic collaboration with CIS states. More than that, Kuchma has taken a lead in advocating the creation of a free-trade regime among Ukraine, Russia, Belarus, and Kazakhstan. When the five leaders of these countries signed an agreement in Yalta September 19, 2003, establishing a so-called “Single Economic Space,” pledging to facilitate the free movement of commodities, labor, and capital by synchronizing tariff, customs, and transport regimes, the Ukrainian president was not merely going along with Moscow. He was committing Ukraine to a project that was as much his idea as the Russians’. As he said on the occasion, “When I was signing this document today, I had absolutely no doubt—not for a single moment—that it served the national interests of Ukraine. Under present conditions, when the European markets are closed for us... it’s better to have a real bird in hand than two in the bush.”<sup>9</sup>

He spoke as he did because this step was anything but universally applauded back home. Not only were opposition parties, particularly Our Ukraine, in full throat, his own foreign, economic, and justice ministers had publicly condemned the idea. Joining Russia in forming a free-trade area to the east, they all argued, would impair, perhaps fatally, Ukraine’s efforts to enter the WTO and still more its advance toward EU membership. The schism drove home three points: First, whatever the merit of the argument, virtually any meaningful participation in collaborative economic schemes with Russia was seen as thwarting Ukraine’s safe passage into Euro-Atlantic security structures. Yet, second, unless Ukraine was

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<sup>9</sup> Jan Maksymiuk, “Kuchma Signs Accord on CIS Single Economic Zone with ‘Reservations,’” *Poland, Belarus, and Ukraine*, RFE Report, Vol. 5, No. 5 (September 23, 2003).

ready to risk jeopardizing its near-term economic prospects by standing apart from the “bird in hand,” it had good reason to participate in arrangements enhancing its vital economic ties with its CIS neighbors. At a minimum, it dared not risk isolating itself from partners critical to its short-term economic prospects, whatever the likelihood that the four states would ever create a “single economic zone.”

The tension between the first and second points could be resolved, if all sides trusted the Russian leadership’s stated intentions—and if those intentions were as stated. Putin has insisted that Russia, Ukraine, and Belarus will strengthen their hand in negotiating WTO membership and in dealing with the EU by creating a more potent economic unity among themselves beforehand. But, given Russia’s natural determination to shape a free-trade zone according to its own needs and given the gap between its present practice and the demands of the WTO and EU, it is not clear that the enterprise will ease or speed Ukraine’s or Belarus’s accommodation with these institutions, a fear evident in Burakovsky’s chapter.

This leads to the third point. Russia’s impact on Ukraine’s economic choices is inherently divisive. Emotional and practical impulses collide, and invariably set one segment of the Ukrainian political elite against another. Here one comes to the larger significance of Ukraine’s and Belarus’s uneasy placement. Ukraine’s unresolved location in an undefined Europe (a *Europe européenne*, or a Europe from the Atlantic to the Urals?) already fractures the domestic political consensus in the country. The longer it remains so, the more likely internal discord and tension over the country’s basic orientation will grow. In Belarus the effect is likely to be quite different. As long as Lukashenko retains power, the loss of anchor, should the Russian option begin to dissipate, will not likely impel Belarus to move toward Europe, nor even in the unlikely event that it did would Europe fling open its doors. Instead the regime may well accept a deepening isolation rather than bend to outside pressures. If it does, the risk grows that it will seek solace and commerce within the universe of other pariah states.

#### WHAT IS TO BE DONE?

Ukraine and Belarus have no choice. Consciously or not, systematically or not, they have to respond to the economic dimension of national security. For others on the outside there is a choice: They can continue to

pass over a murky, vast, and shapeless subject, not bothering themselves with the hard but elusive question of what it means to contemplate Ukraine and Belarus as the new “lands between” or to treat their predicament as a tear in the fabric of European security. Or they can rise to the challenge, think past the all-too-understandable inclination to reduce the task to scattered but manageable fragments, and begin to devise a more ambitious and reflective response. What this would entail for Russia is obviously different from what it would mean for the United States and Western Europe, but the discrepancy is not so large as automatically assumed. Indeed, one of the key effects of a broader-visioned policy in both Russia and the West would be to exploit the new grounds for a more synchronized approach to the challenges facing Ukraine and Belarus. We will return to the point. The place to begin, however, is at the core.

### *Ukraine and Belarus*

If relief can be had from the perils and pressures in the economic dimension of national security, it is in the first instance for Belarus and Ukraine to find it. In the end only they can create the underlying basis by which their vulnerabilities are softened and their sense of well-being strengthened. It is an obvious but essential point that, unless they have the wit and will to put their economies on a firm footing, allowing an escape from the infirmities, waste, and impediments left over from the past, they have scant possibility of easing the problem. Domestic economic progress, including changes attracting outside trade, aid, and investment, is a prerequisite for all else.

If, however, they can advance with reform, the prospect of having a measurable effect on their own fate begins to open to them. Already they have choices. The question is at what level they want to frame them: whether in broad, overarching, and fundamental terms, or more immediate, random, event-driven ways. The former is in the nature of “grand strategy,” and, while it is not clear that leaders or policymakers in either country are prepared to tackle the problem at this level, the concept itself clarifies the larger historical stakes and limns the possible.

Choice at the level of grand strategy is between two alternatives: One we will call “risk aversion,” borrowing terminology from economics; the other “balancing,” a commonplace notion in the international relations literature. In both cases we are lifting only the words, for as grand strate-



gy the notion is far more comprehensive than the specific behaviors usually meant. In its essence a risk-averse grand strategy is designed to spread risk; a balancing strategy accepts the concentration of risk and then seeks to offset it. Put less abstractly, the first approach would consciously and vigorously seek to promote deeper economic and security ties both with Europe and with Russia, while doing everything possible to ensure that ties in both directions were compatible. The second road would lead toward a clear alignment with either Europe or Russia, whatever the state of their mutual relations. True, in either case, but especially the first, even a determined and lucid commitment to a grand strategy can go only so far, unless permitted by the policies of the major powers.

The distinction between the two is not that a risk-averting strategy precludes full integration into the collective enterprises of either the West or, alternatively, the East, while a balancing strategy requires it. Integration can be made to fit with a grand strategy intended to spread risk, and a (weak) version of a grand strategy ready to concentrate and confront risk can be pursued even if integration in the chosen direction is out of reach. The distinction is in the spirit animating the choice and in the environment presupposed. The first starts from the assumption that, although risks cannot be eliminated, they can be minimized by having positive and elaborate relations with major neighbors on both sides. Furthermore, it assumes that the aggressive pursuit of involvements with Europe and Russia is not perforce a pursuit of mutually contradictory ends. The second, in contrast, rests on the conviction that the threats to the country over time will come more from one direction than another and that in the end basing security on a reconciliation with that country or group of countries can only be safely achieved by having what the Russians call a *krysha*, or protective “roof,” in the other camp.

In both Belarus and Ukraine, insofar as elements of a grand strategy exist, they have long tilted in the direction of “balancing”—more clearly in the case of Belarus, less uniformly or universally in the case of Ukraine. The most visible inclination has been to feature East or West in defining the core security challenge and, hence, to make affiliation with the other side the overarching goal. In Ukraine, of course, the politics of the issue is far more conflicted than in Belarus, and, depending on the moment and the weight given to Kuchma’s position, it can be argued that traces of both approaches float in and out. Still, over the long haul, the natural instinct among most of the national leadership has been to prefer

Western over Russian ties, even when reality balks.

The reason almost certainly stems from the separation of security from economics. Security when starkly conceived (or felt) makes it easier to classify threats and then to assign roles to other states accordingly. Introduce the economic dimension and the picture grows muddier. It becomes much harder to see challenges and opportunities in black-and-white terms or to overlook the two-sided character of key relationships. Thus, when economics and security are re-linked, a grand strategy focused on building relations in both directions looks less far-fetched from a purely conceptual point of view. Whether it can also meet the test of feasibility is a separate matter and, because the answer depends heavily on Europe's and Russia's policies, we will come back to it in that context.

Either choice, however, has as a fundamental prerequisite: internal reform. Ironically, to succeed a grand strategy of balancing sets this bar higher than a grand strategy of risk aversion. Neither Belarus nor Ukraine can hope to achieve the level of protection that it seeks through alignment without at least making its economic system compatible with the would-be partner, and in the case of Ukraine, both its economic and political systems with the EU and NATO. The alternative strategy also requires reform—and for Belarus it reintroduces the need to amend its domestic political order. But in the case of the risk-averting strategy the adjustments need not be as radical and simultaneous.

This is not the place to rehearse all that needs to be done to push Ukrainian reform to the next stage or to launch the process in Belarus. Rather, here we mean only to sketch the relationship between reform and grand strategy. In three general ways economic reform in the first instance and political reform indirectly but no less critically contribute to national security: first by increasing options, second by reducing dependency, and third by generating resources. Ukraine's choices, for example, are intimately tied to the range of international orientations open to it. If it had its druthers, Ukraine would like to reorient its economy more toward the West, but for the foreseeable future economic imperatives point eastward. A risk-averting grand strategy would seek to deepen economic relations in both directions, but in order to succeed deeper economic relations with Russia and Europe must be made compatible. At the moment Russia has more say in defining the eastern option than Ukraine, and its preferred version is a customs union or common market rather than a free-trade zone, the Ukrainian preference. A customs union,

were it ever created, however, would complicate and perhaps undermine Ukraine's chances of integrating its economy with, let alone into, the EU. (Since Russia has no intention of joining the EU, this is not its concern.) To strengthen its hand in helping to shape the eastern option, Ukraine must have an enhanced Western option, and that can only be achieved through reforms that make Ukraine attractive to Western traders and investors. The point, however, is that rather than striving to avoid entanglement with Russia, the more sensible policy would be for Ukraine to exert every effort to craft a more constructive collaboration.

Or take the issue of dependency: Because Ukraine is increasingly dependent on Russian direct foreign investment, not only do many in the elite worry about undue Russian influence as a result, political leaders care (or should care) about the lack of transparency in the structure of these investments, which allows the broader public interest to be sacrificed to private greed. Yet it is precisely the lack of transparency that causes Western investors to shun involvement in Ukraine. And the problem of transparency can only be fixed by reform. Similarly in summer 2003 Ukraine came under considerable pressure from the Russian government, acting together with BP-TNK, to reverse the flow of oil through the Odessa-Brody pipeline, allowing Russian oil to transit south to Odessa and then out across the Black Sea instead of transporting Caspian Sea oil to Europe as originally planned. If Kuchma was tempted to yield to this pressure, it was not only because Russian officials had linked the issue to a larger 14-year deal on the transit of Russian oil through another Ukrainian pipeline, but because it was again a "bird in hand." That is, it promised an immediate \$60 million in annual revenue, even though the 9 million tons of oil that Russia would pump annually would be less profitable to Ukraine than the 40 million tons of Caspian Sea oil eventually intended for Europe. Even if Ukraine does not ultimately sacrifice long-term to short-term interest in this instance, the temptation will constantly exist as long as an unreformed economy leaves few other options.

More generally, Ukraine cannot hope to generate the resources permitting it to stand on its own feet, provide for its national defense, and ensure its people an adequate economic existence, without integrating its economy into a wider range of global markets by offering a wider array of goods and services. Reform is a double prerequisite. It is essential in order to meet international standards of inclusion, even a first step such as achieving economic market status in the eyes of the EU, which in turn

is essential for progress toward WTO membership. And it is essential at home to produce a diversified economy capable of maximizing the terms of a global trade.

In Belarus's case, the link between reform and security is not fundamentally different, although its embodiment in a risk-averting grand strategy is. The Belarusian regime too has reason to want to increase its range of options. For example, if, as Lukashenko says often enough, Russian investment should be mistrusted because of its political motives, he has a stake in attracting other investors who are less in bed with their governments. That, however, requires at a minimum the first primitive steps toward secure property rights, genuine owner influence over equity investments, and freedom to make market-driven decisions. Similarly, the dependency on Russia that he has always prized now poses new challenges. Russia's September 2003 decision to put its gas trade with Belarus on a "market basis" threatens the regime's capacity to prop up a decrepit agricultural sector and a range of value-destroying industries. The hike in gas rates from \$29 per 1000 cubic meters to something closer to \$50, even if partially offset by increases in transit fees charged by Belarus, will considerably reduce the flexibility Russian subsidies have afforded the Belarusian leadership. If Belarus wishes to preserve the benefits of its dependency on Russia, increasingly it will need to rationalize its basis, and that can only be done through internal reform. The alternative, to hold fast and jury-rig what is likely to become a more thoroughly administered economy, leads to slackening growth and its corollaries.

In the hands of the Lukashenko regime or any likely successor, a risk-averse strategy would almost certainly unfold within a close Russian-Belarusian relationship. Thus, while striving to increase options (and resources), it would aim to restructure rather than reduce dependency. Similarly, even were membership in NATO a prospect, Lukashenko or a successor is unlikely to desire it, unless Russia also moves in this direction. Any plan of joining the EU would also surely have to proceed in step with the development of EU-Russian relations. This does not preclude closer ties with the EU and more constructive relations with NATO, but the conditioning factor is likely to be Russia, whereas for Ukraine it is likely to be the EU and NATO.

To understand the practical implications of the contrast, consider the issue of defense reform. Just as neither a balancing nor a risk-averting grand strategy can advance without the advance of domestic reform, nei-

ther can either country's security be enhanced without military reform. How this looks in the context of a risk-averting strategy, however, differs greatly between the two countries. True, each country faces a similar set of tasks. Each must pare and reshape the distended military mass left by the collapse of the Soviet Union. This involves not merely shedding soldiers and a dysfunctionally large officer corps and then coping with the attendant socio-economic problems. It also requires that each either grafts onto or replaces these forces with radically different formations suited to a fundamentally different set of missions, equipped with fundamentally different arms, and commanded by officers trained in fundamentally different ways.

Again, the challenge exists for both grand strategies, but the fact that a risk-averting strategy is ultimately "conditioned" by a NATO/EU option in Ukraine's case and a Russian option in Belarus's makes a huge difference. Belarusian military reform ultimately depends on Russian military reform (together with the reconstruction of Russian defense industry), given the degree of *de facto* integration of the two militaries, Belarus's utter dependence on Russian arms, and the parallels in threat perceptions. In contrast, NATO has long engaged Ukrainian military reform. The fact that the results have regularly disappointed Brussels and other Western capitals should not obscure the significance of the process itself. It creates a fundamentally different framework for Ukrainian military reform.

NATO's mutually negotiated action plans for Ukraine—and none more than the 2003 plan—emphasize and re-emphasize the importance of embedding defense reform in a broader transformation of Ukrainian economic and political institutions. Nothing of the sort exists for Belarus, not on the part of the West and not on the part of the East. In Ukraine's case, the Action Plan keeps alive the hope among Ukrainian leaders that the country may yet gain entry into NATO, thus serving as a lodestar for change, an impulse again missing in the Belarusian case. For example, NATO's insistence on establishing civilian control over the military has slowly but unmistakably dented the political consciousness of Kyiv. A series of working groups keep Ukrainian minds on the need for reform, including more than a dozen initiatives under the Joint Working Group on Defense Reform, ranging from the retraining of discharged military personnel to defense planning, programming, and budgeting. And the creation of multinational formations, such as the Ukrainian-Polish battal-

ion, the Ukrainian-Hungarian-Slovak engineering battalion, and the Belgian-Ukrainian battalion, provide continual, real-life instructional forums. Belarus benefits from none of this external prodding.

While NATO leverage is scarcely adequate to force change, the standards and encouragement that NATO and key members provide offer the Ukrainian leadership an opening, if it chooses to use it. Therefore, once more, a crucial piece in a risk-averting strategy depends on the initiative that Ukrainian leaders are willing to take. If they wish to deepen their security ties with the West, they must create a foundation, and that can only be done by fashioning a military instrument capable of working with Western institutions.

NATO, however, even were Ukraine let in sooner than anyone expects, answers only a part of the security challenge facing the country. The Russian dimension, now more ramified than ever, remains. Addressing it solely through NATO—or even NATO plus the EU—seems an inferior choice.

A risk-averting grand strategy would recognize that Ukraine's security is bound up with, not juxtaposed to, Russian security. Like it or not, Ukraine cannot soon escape its military dependence on Russia. As in the broader economic relationship, however, it has every reason to work hard to minimize tension between collaboration with Russia and growing military ties with the West. Two fundamental guidelines then follow: First, as we noted earlier in general terms, the logic of a risk-averting strategy requires that Ukraine strive to shape, rather than to flee, its security relationship with Russia. This means contemplating ways that it can add its weight to Russia's when the aim is to mitigate sources of instability in the region or when mutual security could be enhanced. It does not mean that Ukraine should automatically sign on to institutions or enterprises enabling Moscow to commandeer others for narrowly defined national-security purposes. But Ukraine has a great resource if it chooses to exercise initiative. From a geo-strategic and political perspective Ukraine is potentially the second most powerful influence on security in the post-Soviet space. Not only does this suggest that it has a responsibility to exercise leadership within its neighborhood, but also done skillfully and in a spirit of cooperation Ukraine's role can be turned to advantage in affecting the overall security relationship with Russia. Russia cannot alone contain, end, or guide as it might choose, the unresolved conflicts surrounding Transdnistr, Abkhasia, Karabakh, or the north Caucasus.

Russia has reason to cooperate with Ukraine (a) to give the Russian role a legitimacy it lacks on its own, (b) to make external efforts more effective, and (c) to induce the international community to accept Russian initiatives while also lending a hand. It also has reason to avoid the ambiguities and spirals that could be unleashed by uncertainty over Ukraine's future military direction or by the apprehensions that Belarus introduces into the Ukrainian-Russian relationship.

The second guideline returns to the problem of reconciling security cooperation in two directions. The pressures that induce Ukraine to preserve cooperation with Russian defense industry and, in particular, that prompt its arms-marketing efforts in third countries are the pressures that often prejudice European and U.S. attitudes toward Ukraine. A risk-averting strategy would, first, make an honest effort to establish arms export practices conforming to international norms. Second, it would attack the deeper roots of the problem, that is, attempt to attenuate the pressures, which means proceeding with defense conversion. Viewed in perspective, turning hobbled defense plants to more productive use or, where this is impossible, generating alternative economic activity, is not simply a matter of aiding economic reform; it is a critical component of a national security policy.

In Belarus's case it would be naïve to assume that a grand strategy of risk aversion would come easily or have the reach and complexity of a Ukrainian version. Even if one entertains the possibility that Lukashenko may be brought by circumstance to risk some degree of liberalization, without which a strategy of this kind has no chance, Belarus cannot be expected to give Europe and Russia equal attention. Moves toward normalizing relations with the EU, NATO, and the United States are likely to be tentative and modest. But they are far from inconceivable. The EU and the United States, although not yet NATO, stand ready to engage in a step-by-step process to unfreeze the relationship, and in 2003 Lukashenko accepted the advice of some around him to try this path.<sup>10</sup> If the process at last begins, even grudging, minor, but real concessions could lead to a genuine engagement between Belarus and the EU, the United States, and eventually NATO. Should Lukashenko be dissuaded from extending his reign in 2006, another Belarusian leadership, unen-

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<sup>10</sup> Interviews with U.S. and Belarusian officials in Washington and Minsk, September–October 2003.

cumbered by his idiosyncratic convictions, could well be expected to develop a genuine working relationship with Brussels and Washington.

The real challenge facing Lukashenko and any successor is Russia. Belarus has within its reach a close and productive relationship with Russia, but this is slipping away for lack of internal change within Belarus. The Russian dimension of a risk-averting grand strategy, however, requires more than reform measures aimed at reconciling Russian and Belarusian economic interests; it also means jettisoning the quixotic idea of “union” with Russia. Assuming that no sector of the Belarusian political elite nor most of the population any longer wishes to see Belarus re-submerged in a greater Russia, the real task is to create a normal, modernized economic relationship between two sovereign states. Belarusian leaders should be thinking along the lines of the U.S.-Canadian relationship, not the Austro-Hungarian Dual Monarchy.

### *The West*

While success will come only if Belarus and Ukraine lay its foundation, Russia and the West, together or apart, hold the key to the ultimate outcome. It is they who will determine which grand strategy is to be preferred and even more which is feasible. Whether thought of heuristically or practically, it seems to us that between the two alternatives both Russia and the West should want Belarus and Ukraine to pursue a risk-averting rather than balancing grand strategy. If so, logic suggests (what politics permits is another question) that they should design their own policies to facilitate the choice.

One is hard-pressed to see how U.S. or European interests would be served or European security strengthened by having Ukraine align with the West *against* Russia, let alone having Belarus align with Russia *against* the West. Either development or, worse, the two together, seems sure to complicate relations between Russia and the West and to introduce a greater element of friction into Europe’s international politics. Ideally, therefore, sorting out Ukraine’s and at some future point Belarus’s relationship with the EU and NATO ought not to be divorced from these more fundamental stakes.

Reduced to its essence, what should Europe and the United States’ policy toward the “new lands between” be, when addressing the link between economics and security? At the most elemental level we think it should be guided by two purposes: first, to encourage and then enable



Belarus and Ukraine to develop a larger, longer-term, and more coherent grand strategy, one inspired by a risk-avoiding rather than a balancing approach; second, to promote a relationship between the West and Russia that makes this choice possible.

And how might that be done? One side of policy should be designed to foster Ukraine's and Belarus's increased ties with and eventual integration into Europe's core institutions. But there should be a second side as well—a readiness to accept and, indeed, a willingness to help the two countries deepen their ties with Russia and other post-Soviet neighbors. Then, in order to make the two sides of policy work in parallel, Europe and the United States, as they have already begun to do, should intensify the effort to fashion a partnership between Russia and NATO and a more productive relationship between Russia and the EU.

Neither Europe nor the United States can be expected to engineer, let alone pay for, large-scale economic and political reform in Ukraine—and in Belarus, even were they willing, the offer would not be accepted. This does not mean that Washington, Brussels, Paris, Berlin, London, and other western capitals could not do a good deal more than they have to prompt Kyiv to take steps easing the path to integration. That, as Legvold points out in his chapter, is not news to the Europeans. One of the impulses behind the EU's 2003 "Wider Europe Communication" is precisely the awareness that Europe's role has been too meager and sluggish. Although the "Communication" outlines a more sensible and appropriate agenda than any previous document, the working plan that then follows, the so-called "New Neighborhood Instrument," turns out to have a distinctly bureaucratic cast.<sup>11</sup> Much of its focus is on overcoming the institutional balkanization of EU assistance programs (INTERREG, PHARE, Tacis, CARDS, and so on), and, while the range of activity to be supported by a streamlined structure is vast and constructive (from transport and energy infrastructure to human-resource development; from customs management to technology innovation), the agenda suggests neither a clear sense of priority nor, even less, a strategically-driven design.

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<sup>11</sup> Communication from the Commission, "Paving the Way for a New Neighborhood Instrument," /\*COM/2003/033 final \*/. Available at <[http://europa.eu.int/smartapi/cgi/sga\\_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=EN&numdoc=52003DC0393&model=guichett](http://europa.eu.int/smartapi/cgi/sga_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=EN&numdoc=52003DC0393&model=guichett)>.

For the European Union, NATO, and the United States to play an effective part in leading Ukraine forward, all three players need to develop a more sharply differentiated and hierarchically ordered set of tasks. It may meet European needs to work hardest on tightening border management, or it may seem vaguely useful to invest in cultural exchanges, but do either strike at the fundamental institutional impediments on Ukraine's incorporation into European structures? Better, it would seem to us, that the EU order its agenda by, say, using key standards in the *acquis communautaire* as benchmarks, and then tailoring advice and assistance along these lines. Or, in the case of NATO, while constructive and doable to stress training for civil emergencies, enlarging Ukraine's military options depends far more on developing capacities interoperable with NATO forces, acquiring a critical range of NATO-standardized equipment, and cooperating in joint defense projects. Some of these things are on NATO's agenda, but again without a clear sense of priority or a clear distinction between short- and longer-term goals. Other crucial steps have yet scarcely made it onto the agenda, such as schemes for inducing Western participation in defense conversion projects or the creation of special-purpose forces that would have a genuinely useful role to play in NATO.<sup>12</sup>

Beyond stressing forms of cooperation that have some chance of modifying institutions and practices obstructing Ukraine's integration into the EU and NATO, the two organizations need to look harder at the question of Ukraine's standing in the pecking order. Because of deep-seated skepticism over how soon or how fast Ukraine will attempt far-reaching reform, the EU has refused to grant it the "open-door status" enjoyed by Balkan countries, in effect closing the door to membership. Similarly, NATO has been slow to move beyond diffuse "action plans" to an actual membership action plan. If in 2004 a Ukrainian leader comes to power ready to accelerate the next phase of reform and committed to developing Ukraine's Western option, neither institution is poised to extend a genuinely persuasive inducement.

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<sup>12</sup> Most of these ideas are explored in a thoughtful paper by Valentyn Badrak, "Ukraine-NATO Relations Need Military-Technical Cooperation," *Defense-Express*, April 29–30, 2003. Badrak argues that, while developing military and political relations between NATO and Ukraine is essential, unless the process advances to military-technical and defense-industrial cooperation, Ukraine cannot be made ready for NATO membership.

In truth, Ukraine's lack of status with the EU is the clearest proof of the EU's inability to develop a strategic vision for Ukraine, Belarus, and Moldova. The "Wider Europe" initiative applies indiscriminately as well to the new neighbors to the south in the Mediterranean region, because its authors see no reason to discriminate. In May 2003 the Polish foreign ministry produced a paper urging the EU to redress this lapse. It laid out measures framing a more strategic approach to the EU's "Eastern Dimension."<sup>13</sup> It argued that the prospect of an association agreement for Ukraine (and Moldova) should be opened, market economic status granted, a real security dialogue launched, military cooperation expanded, and joint infrastructure projects in transportation, communications, and energy undertaken. We think the Poles are right.

Poland and Lithuania are also the countries pushing the EU and NATO to find a way of engaging Belarus. Lukashenko does not make it easy, but if Europe and the United States are going to step up to the larger problem of Europe's new gray zone, they need to do as the Poles and Lithuanians say. Rather than a policy of isolating the regime, which has been in place since 1997—with very limited results—the United States and Europe ought to adopt a genuine two-track policy. On one track, they should continue pressuring the regime to end its authoritarian abuses and begin restoring the kind of constitutional legitimacy to government that serves as the foundation of modern European international relations. On the other track, they should also engage Belarusians at all levels up to the very top in a serious security dialogue.

The West has precious little capacity to force Lukashenko toward democracy, but it is important that they not legitimize his retreat from it. The step-by-step approach that Washington and Brussels have tried to initiate since 2001 appears to be the only practical way forward. Since early summer 2003 Belarus has been presented with a concrete list of steps to take, some of them minor, others more substantial, each to be reciprocated in kind by the United States and Europe, and then Minsk has been left to choose from the list.<sup>14</sup> While a security dialogue's principal justification rests on its own intrinsic importance, it is not unrelated

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<sup>13</sup> See Taras Kuzio, "Ukraine, Poland, and the EU's Wider Europe Initiative," *Poland, Belarus, and Ukraine*, RFE Report, Vol. 5, No. 25 (July 1, 2003).

<sup>14</sup> Interviews with U.S. and Belarusian officials in Minsk and Washington, September–October 2003.

to this effort. The perceptions and misperceptions of Lukashenko and many within his regime in the security realm, given the way they define security, prejudice the progress that can be hoped for in the political and economic realm. Although not assured, conceivably were Belarus and the West to make headway in a dialogue over Belarus's place in European security, it might help relax rigidities in the other sphere.

In any event and as a final consideration, a genuine two-track policy offers a better basis for rallying Russia to a loosely collaborative approach to the Belarusian challenge. While even its leverage may not be decisive, it is certainly magnitudes greater than the West's. Thus, if the United States and Europe are to address the Belarusian dimension of the gray zone, they had best do it in league with Russia.

Finding ways of working with Russia in addressing the Belarusian challenge both fits with and depends on the second half of a U.S. and European policy aimed at the problem of the new "lands in between." If European security is to be "from the Atlantic to the Urals," then this is a mutual problem. And, if an optimal solution is to enable Ukraine, Belarus, and Moldova to pursue a grand strategy of risk aversion, there needs to be a second half to U.S. and European policy. This, in our view, resides in the posture adopted by Europe and the United States toward a deepening of Ukrainian and Belarusian ties to the East.

The "Communication on Wider Europe" speaks of supporting "initiatives to encourage regional co-operation between Russia and the countries of the Western NIS."<sup>15</sup> This is a good idea, but needs to be broader and more fundamental. The EU has in mind the scope of its technical assistance efforts, and the projects it envisages are simply replicas of the undertakings that it proposes to support in the EU's core program for Ukraine and Moldova. From a more strategic point of view, however, if the United States and Europe do care about encouraging a risk-averting strategy in Ukraine, Belarus, and Moldova, they should, first, favor more elaborate and productive forms of economic (and security) cooperation in the East, but, second, lend their weight to shaping these enterprises in ways that complement, not impede, the integration of these states with and perhaps into Western institutions. Rather than condemning ideas like the "Single Economic Space" embraced by Belarus, Kazakhstan, Russia, and Ukraine in fall 2003 or publicly cautioning the Ukrainians against

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<sup>15</sup> Communication from the Commission, "Paving the Way," p. 8.

becoming involved, as some Western officials did, Washington and Brussels should concentrate on steering this and other undertakings away from arrangements that create greater hurdles to their, including Russia's, incorporation into the larger global economic community. The test should not be whether Ukraine, Belarus, and Russia are right or wrong to band together, but whether the basis of their collaboration serves mutual interests and, equally important, is consistent with, say, progress toward membership in the WTO. Pre-emptive free-trade zones, Ukraine's preference, can be as damaging to broader forms of integration as customs unions, Russia's reported preference. In attempting to influence collaborations of this sort, however, the United States and Europe cannot expect to succeed by cajoling or spirited words. They will need to think more carefully about the way negotiating the terms of Ukrainian and Russian accession to the WTO, or their arrangements with the EU, influences outcomes in this other sphere.

The West's role in fostering constructive economic (and security) cooperation in the East need not be confined to the broad strategic level. Europe and the United States can also serve as a missing link facilitating cooperation. A good example is the resolution of the long-unresolved problem of the Ukrainian gas debt to Russia, energy supplies, and the disposition of pipeline. A major piece of the settlement involved finding a work-around to the problem of who would control a critical segment of the Ukrainian gas pipeline to Europe. Russian gas interests wanted ownership, which the Ukrainian government was not prepared to give, and by bringing Ruhrgas into an international consortium invested with authority the stalemate was broken. Similarly it is not far-fetched to imagine that international security institutions, perhaps even the new NATO-Russia Council, could provide the auspices encouraging Russian and Ukrainian cooperation in dealing with regional security issues in the post-Soviet space.

### *Russia*

There are not many three-person social dances. Nearly all are for two or many. So it is in international relations. But, if Belarus, Ukraine, and Moldova are to be made safe for Europe and themselves, the dance has to be done by three. Unless the three parties—Belarus and Ukraine, the West, and Russia—dance together, the three countries will remain a gray zone. Russia's part in this is ultimately decisive. If it chooses to see the

Belarusian-Ukrainian-Moldovan nexus as a mutual security problem rather than narrowly as a Russian security problem, Ukraine's and Belarus's incentives to treat the relationship in the same way increase, and so do the chances that Western policy can make a difference. If it settles for a more imperious approach, counting on the unequal balance of advantage to bring the other two to heel, the "zone" will remain grayer than ever, and the grand strategy we have advocated will stall before it starts.

At times Russian leaders have behaved as though they understand the disadvantage of Ukraine's adopting a balancing strategy. When in May 1997 Yeltsin went to Kyiv (for the first time), cut the Gordian knot, and signed a treaty of friendship recognizing the territorial integrity of Ukraine and an agreement on the division of the Black Sea Fleet, he seemed to be acting out of the fear that otherwise Ukraine would be driven into the arms of a newly enlarged NATO. Yet, for the dynamic in the region to change dramatically, for a constructive rather than destructive interaction among all parties to become the norm, Russia must make a basic choice. As Wallander argues in her chapter, the only way Russia can produce a stable security environment for itself, free of the turbulence created by the fear of others, is by acting to reassure neighbors. A conscious strategy of reassurance, wise as it may be, is admittedly not the natural recourse of stronger states when those next door are weak and troublesome, when the setting is disorderly, and when the stronger power is not entirely sure of itself. But if the Russian leadership pauses for a moment and thinks seriously about the longer run and the advantages of having confident rather than insecure neighbors, neighbors who welcome rather than mistrust mutual contacts and who are ready to work with rather than against Russia, the risks and inconveniences of restraint and generosity may seem less impractical and discouraging.

True, Russia is not a monolith to be piloted like a close-order formation by a liberal leadership. Its behavior in the outside world, and never more than when dealing with immediate neighbors, reflects the influence of powerful private and semi-private economic interests, some as essential to the state as the state is to them, and not always acting in harmony. Therefore, to assume that Putin or his people could easily adopt a large-hearted, confidence-building approach to Ukraine, or form a united front with the West in prodding Belarus toward reform, ignores reality. Putin's Russia, as Wallander stresses, may have decided to place the challenges of

a globalized economy front and center and may have given priority to economic integration over traditional security concerns—or redefined security in economic terms—but when it acts, the dominant party on the other side is Gazprom or some part of the Russian government acting on Gazprom’s behalf, or, if not Gazprom, then another Russian corporate giant. At least it is if you are in Ukraine or Belarus. It helps that those preoccupied with traditional security issues no longer have uncontested control over Russian foreign policy. And it is better that Russia’s national leaders have linked economics to security in their own country’s case, because it leads them to look as hard for opportunities as for dangers in relations with Belarus and Ukraine. But, when, as noted earlier, state and big business interests are conflated, and state officials publicly assume primary responsibility for defending those interests, the room this leaves for a policy based on the search for common ground with neighboring countries may not be great.<sup>16</sup>

On the other hand, life does generate examples of the price paid when relationships lack the underpinning of mutual confidence. The dramatic flare-up between Russia and Ukraine over the construction of an earthen dam in the Kerch Strait of the Sea of Azov in October 2003 serves as a case in point. Suddenly on October 16, as Russian crews rushed to complete a dike stretching into the narrow channel linking the Sea of Azov to the Black Sea, Ukraine sent several dozen border guards, bulldozers, and excavators to Tuzla Island, the tiny slice of land on their side of the channel. Over the next several days, as the project crept toward the island, passions in Kyiv exploded. Kuchma interrupted a ten-day trip to Latin America and returned home to manage the “crisis.” Parliamentarians from all points on the political spectrum, including the communists, sounded the tocsin of war. Some spoke of speeding Ukraine’s entry into NATO, some of developing a mini-nuclear deterrent. By October 22 Ukrainian border guards were staging a show of force “with shields and clubs and guard dogs. Jet fighters shot missiles into the sea. A dredge dug frantically in the path of the wall, scooping away the landfill as soon as it was dumped.”<sup>17</sup>

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<sup>16</sup> For a pertinent quotation from Foreign Minister Igor Ivanov, see Chapter 2, p. 83.

<sup>17</sup> Seth Mydans, “For Ukraine and Russia, A Tempest in a Strait,” *The New York Times*, October 23, 2003.

Behind the furor were years of feuding over whose sovereignty would prevail in the Sea of Azov and particularly who, as a result, would control the egress into the Black Sea. Earlier in the year Kuchma, to considerable criticism at home, had agreed to treat the sea as an inland waterway with joint stewardship. But the two sides remained at loggerheads over the principle by which water boundaries would be demarcated, and meanwhile Ukraine continued to collect \$150 million a year in transit fees for commerce passing through the Kerch Strait on its way south. The fact that the Russians decided to force the issue with this artifice (Moscow claimed the three-mile-long dam, built at considerable expense and on a twenty-four-hour-a-day crash basis, was actually the brainchild of the local governor of Krasnodar Krai, who simply wanted to protect his shores from beach erosion) is not the real issue. Nor is it the odds that the two sides would have actually come to blows. The Russian prime minister, Mikhail Kasyanov, quickly halted construction on the dike; Kuchma headed for Moscow; and he and Putin moved swiftly to defuse the dustup. The real issue is that it happened at all. Between two normal countries with normal relations disputes do occur, sometimes over fishing rights, sometimes over illegal migration, sometimes over border differences. When the underlay of the relationship is civil and relatively trusting, however, these disputes do not instantly explode into war hysteria. Even when heated, they get routed into some kind of negotiating framework or settlement procedure. Moscow needs to ask itself whether over the long haul it wants the inevitable perturbations in relations with its neighbors, particularly when security and economics mix, to look more like the Kerch Strait brouhaha or like the other alternative.

If the answer is “the other alternative,” then Russia has a stake in the underlying character of the relationship that it is building with Ukraine and Belarus, and that in turn depends to an important degree on the strategic choices the two countries come to prefer. Although Russian leaders and much of the political elite may instinctively assume that Russia will be better off if Ukraine and Belarus do not stray far from a Russian-dominated fold or, at minimum, show a healthy deference to Russian interests, this is not necessarily optimal. Everything depends on how it is achieved. If coerced, deference and cooperation will be flimsy and fleeting. More likely, before they are ever achieved, the other side will bolt, and strain to find an alternative, if possible by looking for partnerships in other directions. On the other hand, if the parallelism in



Belarusian, Ukrainian, and Russian foreign policy is grounded in common interest, if Belarus and Ukraine embrace more elaborate economic and security ties with Russia out of an earnest desire, then alignment will serve Russian interest. This last, however, seems to us likely only if Russia helps to foster risk-averting grand strategies in Ukraine and Belarus. In Ukraine's case this means a strategy rendering a deeper involvement with Russia safe in the context of a deeper involvement with the West, and, in Belarus's case, a strategy rendering Belarus more compatible with Russian interests by make the West a larger and more productive part of its future.

The Russian leadership, therefore, must choose. If it yields to the moment, and continues to focus on maximizing its leverage over Belarus and Ukraine, striving to rally the two to formats advantaging Russia in bilateral economic relations and in its dealings with the EU and the WTO, while defining the interests of Russian special interests as the country's own, it may gain in the short run, but it cannot expect to strengthen stability in the region. By the same token, if it accepts or even welcomes this area as a gray zone whose ambiguities are to be exploited, it closes the door to a Europe that is, in the watchword of the 1990s, "whole and at peace." On the other hand, to see the modernization and revitalization of Ukraine's and Belarus's economic and political systems as relevant to the modernization and revitalization of Russia's economic and political system, and the integration of Ukraine and Belarus into a larger international economic order as helpful to the integration of Russia, may require a statesman's insight and a statesman's will to act on it. It, however, also offers Russia a better chance of having within its neighborhood what the North Americans and the West Europeans have come to have within theirs.

Foreign policy is not an act of charity, and it would be silly to expect Russian leaders not to make the most of Russia's energy resources, its capital—or the capital of its capitalists—and even the shadow of its military power in pursuit of national interest. The point is not whether this leverage should or should not be employed, but how. It can be used coercively or judiciously, for one-sided or mutual advantage, and to close the field to competition or to enlarge and enrich it by encouraging the efforts of many. Whether in dealing with the politics of pipelines or the character of the Single Economic Space, the Russian leadership needs to decide how far it wants to go in forcing Belarusian and Ukrainian choice,

or alternatively how much it stands to gain by reaching accommodations that instill Belarusian and Ukrainian confidence in Russia. Confidence-building, of course, is as diverse as it is inconvenient. Not only does it mean accepting a lesser economic outcome than might have been achieved by applying pressure, but also consciously looking for ways to ease the other side's security concerns; consciously striving to reduce the other side's incentive to ally against Russia; and consciously exploring collaborative approaches to common security problems. In the military area, this requires more than smoothing the way to joint defense production or coordinating arms sales in third markets; it also entails working to eliminate unintended threats implicit in a defense posture, finding ways to build confidence through arms control, and, particularly, in the case of Belarus and Ukraine, to encourage the rationalization of their defense to meet the real-world threats that they do face.

So, in the end, not only is there an intimate connection between economics and security in Ukraine and Belarus as well as in Russia, but the connections are connected. In the long run Russia cannot expect the economic dimension of Russian security to work in its favor unless the economic dimension of security benefits Ukraine and Belarus too. Russia has more than a little role in determining whether that happens. But, as is true for Ukraine and Belarus and equally true for the West, the starting point is to recognize how thoroughly interwoven economics and security are. We hope this book has contributed in some small way to that end.



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