

## 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>

---

<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

---

<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

---

<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>

---

<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

---

<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-

---

<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

---

<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

---

<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-

---

<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-

---

<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

---

<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-

---

<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.