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De facto states and their socio-economic structures in the post-Soviet space after the annexation of Crimea

The paper is focused on the economic problems of *de facto* states in the post-Soviet space after Russia's annexation of Crimea in 2014, creation of the Eurasian Economic Union in 2015 and the signing of the Deep and Comprehensive Free Trade Agreement between the EU and Georgia and Moldova with effect from 2016. It analyzes long-term economic strategies of Transnistria, Nagorno-Artsakh, South Ossetia-Alania and Abkhazia in the context of such changes. On the basis of statistical data and other information, it analyzes their economic problems, which are closely connected with developments in Russia and its geopolitical interests.

Keywords: *de facto* states, economy, Abkhazia, South Ossetia, Artsakh, Transnistria, Russia, GDP.

1. Introduction

Year 2016 is economically interesting, as the EU agreements with Moldova and Georgia (DCFTA) – states which do not control the entire territory that belongs to them under international law – have come into force. Exactly a year before an integration project called the Eurasian Economic Union (EAEU[1]) was launched, which brings together five former Soviet Union countries (Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan) and has the ambition to be a sort of counterweight to the European Union. At the same time, in 2016, a quarter--century will have elapsed since the disintegration of the Union of Soviet Socialist Republics into 15 independent states. Beside them, several specific formations (Transnistria, Artsakh, Abkhazia and South Ossetia) have emerged in the post-Soviet space, which belong to the category of so called *de facto* states. In principle, all are products of Russian colonial policy from different periods

[1] In international practice, the acronym of the new organisation has not been stabilized – both EAEU and EEU can be found in English language. However, Russian uses EAES (*Евразийский экономический союз* – ЕАЭС) unequivocally.

of time – monarchist or communist[2]. Their current existence is also strongly influenced by Russian political and economic support in order to create constant pressure on former federal republics in the European part and the Caucasus region, for which good neighbourhood policy of the European Union was a new alternative after the collapse of the USSR (Hoch et al. 2015). A real existence of four states without international recognition sparked some controversy among members of the EAEU concerning their eligibility for participation in the new integration, it significantly influenced the decision of Armenia to become a full member EAEU, but also a decision to the contrary of Georgia and Moldova to cooperate more with the EU. This way was also chosen by Ukraine, which Russia wanted to draw into the EAEU – it resulted in the annexation of Crimea, supporting pro-Russian separatists in Donetsk and Luhansk region and efforts to bring about similar processes in the entire Black Sea strip of Ukraine in order to change its decision to prefer cooperation with the EU from the EAEU. The annexation of Crimea, however, brought a significantly different effect than Russia intended. Economic sanctions by western countries towards Russia and signing of DCFTA agreements with Moldova, Ukraine and Georgia have significantly changed the geo-economic situation in the European part of the post-Soviet space. They were certainly also reflected in strategies of economic behaviour of the *de facto* states – their evaluation is the main objective of the present study.

The impulse to write this article was derived above all from the fact that there has been only marginal attention devoted to the socio-economic development of *de facto* states so far. Preference is given to studies based on qualitative research of sociological type focused more or less on geopolitical context. Authors who have dealt with post-Soviet *de facto* states in a long-term are not numerous, which is given by the fact that they are economically marginal and politically they represent largely stable elements of the power influence of Russia in the post-Soviet space. In Western literature, this issue has been investigated in long--term mainly by N. Caspersen (2008, 2009, 2012), G. Toal (2013, 2014, 2015) and J. O'Loughlin (2011, 2014), with whom Russian geographer V. Kolossov has been co-operating and also publishing (2011). Their work is focused

[2] The share of the monarchist Russia lies mainly in the genocidal Caucasian War and the annexation of eastern Moldova as a foreground for the conquest of the Balkans. Subsequent changes in the ethnic structure were used by the communist regime to create a tangle of different forms of autonomy in order to keep tension between nations and strengthen the power of the regime. It also dramatically affected the ethnic structure of the Caucasian region.

primarily on internal problems and they have conducted a number of interesting sociological field surveys. Out of Russian authors the "unrecognized states" are examined in detailed particularly by Y.V. Plutenko (2011a, b, c) and S. Markedonov (2011, 2012, 2015), from Caucasian experts publishing in English and Russian and we could mention Armenian political scientist S. Minasyan (2008, 2010) and analyst D. Babayan (2012, 2014) or a Georgian economist V. Charaya (2014), further on from Romanian writers N. Popescu (2006 a, b, c) and Polish M. Kosienkowski (2008, 2012). Significant contributions to *de facto* states have been written also in the Czech language environment, focusing mainly on formation of civil society and democracy. The main authors include geographers T. Hoch (2011, 2014, 2015), V. Kopeček (2010, 2015, 2016) and V. Kopeček et al. (1016a, b), with whom the authors of the study present co-operate.

It tries to fill the gap regarding the lack of studies on the socio-economic development and strategies of economic development. It also responds to the significant change in the international environment since 2014 – i.e. after the Russian annexation of Crimea and the implementation of anti-Russian sanctions by Western countries, the creation of the Eurasian Economic Union and the escalation and subsequent warming of relations between Russia and Turkey. The aim is to present all four *de facto* states, to compare their economic behaviour and development strategy and explain the differences in the behaviour of these internationally unrecognized entities.

The methodology of this paper is based primarily on the analysis of quantitative data, which is, of course, quite difficult to obtain. Although *de facto* states do lead a statistical agenda, it is not publicly available in its entirety. Even the above-mentioned authors of expert studies therefore often take the economic data from various sources available, while they are often just estimates of the leaders of the *de facto* states (presidents, prime ministers, ministers, MPs) valid for a certain date. Various dating of the information then limits the possibilities for comparison between *de facto* states and time sequences of individual countries. Another problem is also an abundance of information from internet servers, bringing biased messages, which are further taken on by other media. The study therefore primarily seeks to fill the lack of statistical data processing[3],

[3] Precisely processed statistical data are provided by Artsakh, although some are available only in Armenian language. Similarly, Transnistria also possesses a good statistical database, although many details had to be traced on the websites of government agencies or the National Bank. The situation is similar in Abkhazia, but a large part of the economic data is only given in Russian rubles and authors were forced to convert in in comparable US dollars. The worst situation is in South Ossetia, which publishes minimum economic data – GDP figures are therefore just built on secondary

socio-economic development of *de facto* states by the analysis of official documents aimed at developing strategies[4], supplementing them with current information on the development of relations of *de facto* states with their external environment. That means not only the maternal states, from which they broke away (Moldova, Georgia, Azerbaijan), but with their so called patron states (Russia, Armenia) that guarantee the existence of these internationally unrecognized entities. Links towards the EU and EAEU or to other countries (especially Turkey) are also examined. For their evaluation, contributions from various analysts, politicians and economists are also used, as well as current media information, mainly processed by academics and qualified experts. To further give them the contemporary dimension the information was supplemented by observations of leading political figures of *de facto* states, as well as current news from reliable information servers. They do not appear in the list of resources, they are only given in the form of Web reference in a footnote.

Processing statistical data allowed the authors to revise many inaccurate or only estimated figures published earlier, or bring the very first statistically sound information in the timeframe 2009–2015. The analysis and subsequent comparison focused primarily on macroeconomic indicators of gross domestic product and foreign trade. These illustrate best the changes not only within the *de facto* states, but also in their external economic relations. The authors are aware that the GDP data collected only in nominal value and current prices carry a considerable degree of inaccuracy (gray and black economy remains unaccounted for – which, e.g. in Abkhazia, is estimated at 53%[5]), however, the *de facto* states do not process data on GDP based on purchasing power parity. Another problem is certainly also the conversion of Russian and Transnistrian rubles to US dollars, which in some cases had to be done by the authors. However the inaccuracies mentioned concern all the *de facto* states and can therefore be perceived as irrelevant for comparison. For comparison with maternal and patron states, the authors based on the GDP statistics of the World Bank.

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data from other than official sources. Data on foreign trade are fortunately preserved in detail in Russian statistics.

[4] In 2013–2015 long-term development strategies of Abkhazia and Transnistria till 2025 were published and South Ossetia till 2030 – Artsakh has not processed such a strategy yet, but it publishes short-term prospects for several years.

[5] http://www.apsnypress.info/news/obem-tenevoy-ekonomiki-sostavlyaet-53-ot-vvp-abkhazii/

2. International legal status of *de facto* states in geopolitical context

The four analysed units are not adjacent to each other, but they have one common element – their territories are sandwiched between two states. One of them is always the maternal country and the second country is the patron state, which supports their separation. The only exception is the Pridnestrovian Moldavian Republic or Transnistrian Moldova (hereinafter referred to as Transnistria or the PMR), which, located between Moldova and Ukraine, remained separated from the patron country – Russia – by the Ukrainian territory (Kosienkowski 2010). For Russia, it is an instrument of influence on both countries, similarly as it is in the case of the Artsakh Republic[6] (hereinafter referred to as Artsakh or ART) between Armenia and Azerbaijan. Even though this republic did not origin directly due to Russian initiative, it is a product of deliberate Russian colonial practice of "divide and rule"[7]. Other two *de facto* states – the Republic of Abkhazia (hereinafter referred to as Abkhazia or RAB) and the Republic of South Ossetia – State of Alania (hereinafter referred to as South Ossetia or SOA) – are de jure part of Georgia. Russia support of their existence advocates a "respect to the wishes of local people to statehood and their refusal to live under the government of Georgia" (Barcin 2015). Russia uses both of the republics to punish Georgia for its independent policy and efforts to break free of Russian influence. Unlike Transnistria and Artsakh both of these republics are officially recognized by Russia as independent states. After the annexation of Ukraine's Crimea in 2014, their "independence" became a matter of debate whether they too will be in the near future incorporated into the Russian Federation.

Developments after the annexation of Crimea, the proclamation of independence of the Donetsk and Luhansk region, efforts to shift the conflict to the

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[6] Artsakh is the official Armenian name of the Nagorno-Karabagh from 10 March 2017, use of which was rare in international practice, but Armenians prefer it and thus local products intended for export are usually labeled Made in Artsakh.

[7] Creating autonomous region of Nagorny Karabakh for territorially concentrated Armenian community in 1923, politically subordinate to the Azerbaijan SSR, was clearly conditioned by the fact that while in Azerbaijan the Soviet power was received relatively favourably (a significant share of workers in refineries), Armenians were the strongest opponents of the new regimeat that time. Even the fact that Artsakh was created as Nagorno-Karabagh in the form of a classical enclave separated from the territory of Armenia by sparsely populated strip of territory called Lachin (in Armenian Berdzor) corridor (with Kurdistan district created within) was evidently a punishment for the Armenian anti-communist resistance. As well as the merger of Nakhichevan region, which was separated by the area of the Armenian SSR, to Azerbaijan.

south of Ukraine with the aim of reviving the tsarist project of Novorossiya, which includes the entire Odessa region (including its western part, which was a part of Moldova until 1940), thus connecting Russia with Crimea and Transnistria provoked an enormous counter-pressure mainly in the EU and NATO. When the annexation of Crimea was officially not supported either by Belarus or by Russia's allies in the Shanghai Cooperation Organization (i.e. China and the republics of Central Asia), and the western countries imposed economic sanctions against Russia, the Kremlin changed tactics. Officially, it proclaimed that besides Crimea it has no interest in other Ukrainian territory (but it continues to support the existence of separate structures in Donetsk and Luhansk), it signed interstate agreements with Abkhazia and South Ossetia and confirmed several times in the media that it has no intention to annex these countries, but only to support their international recognition. At the same, time the leadership of Transnistria was urged to begin negotiations with the government of Moldova on the future status of Transnistria within Moldova (Švec 2015). The Kremlin even suggested some compromise on Artsakh (return of a part of the administrated territory to Azerbaijan), which was, however, rejected by Armenia.

In the summer of 2014, several weeks after the annexation of the Crimea, an agreement was signed to create a Eurasian Economic Union with effect from January 1st 2015. On this date, the existing Eurasian Economic Community (*Eurasian Economic Community* – EAEC), which was operating from 2000, formally terminated. Its members included, however, in addition to the founding states – Russia, Belarus and Kazakhstan – also Kyrgyzstan, Tajikistan and briefly also Uzbekistan in 2006–2008. Armenia, Ukraine and Moldova had an observer status in EAEC. Russia was the main initiator of stronger economic engagement between member states, believing that the planned project of the EAEU would attract the observer states, especially Ukraine. However, the changes in the political orientation of Ukraine disappointed the Kremlin. A small consolation was Armenia's and Kyrgyzstan's joining the EAEU and likelihood that Tajikistan will also join it in the near future. However, the most populous Uzbekistan made it clear that it will not enter the EAEU; the same stance was taken by Turkmenistan and Azerbaijan. The territorial ambitions of the EAEU are expressed in its logo, which depicts a map of the whole of Eurasia – that is, including all of Europe[8].

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[8] This aspiration symbol is nothing new in Russian symbolism – the former USSR had the whole globe as its symbol with the known hammer and sickle laid over it. The message was clear – the whole world will once be ours. Indeed the ribbons around the symbol bear a call on the proletarians of all countries to unite. The ambitions of the

The real state of the EAEU thus did not live up to Russia's expectations. Nor did the allies of the EAU or China[9] recognize the annexation of Crimea. While Belarus and Armenia have adopted a neutral stance, Kazakhstan declared that it continues to consider Crimea a part of Ukraine. Also negotiations on basic document of the EAEU ended with a Russian failure. Kazakhstan and Belarus used the internationally weaken position of Russia and succeeded in eliminating the articles of the treaty, which would have strengthened Russia's influence within the EAEU (e.g. the possibility of creating a common citizenship or a deployment of joint, mainly Russian troops on the territory of the Member States). They also rejected the possibility of incorporating the existing *de facto* states into the new integration, which was sought not only by Russia, but also by Armenia, which has long been negotiating its membership in the EAEU. Its request for the inclusion of Artsakh, however, collided across Pan-Turkic kinship between Kazakhstan and Azerbaijan. At the time of the preparation of the EAEU treaty, the president of Azerbaijan sent a letter to all the presidents, in which he requested that in case of inclusion of Armenia in the EAEU it should not be accepted together with Artsakh. To some extent, this surely represents also an economic problem because Artsakh is politically separated from Armenia, but they form a single economic (and defensive) unit. Armenia demanded that other countries accept this economic unity. It refused the opportunity to build customs offices on the Armenian-Artsakh border, however, it did not meet a positive response. To save their face, Armenian negotiators did not sign the treaty on the EAEU until four months later (although, this did not change the fact that on January 1, 2015 Armenia became along with Russia, Belarus and Kazakhstan a founding member of the EAEU). After the accession of Kyrgyzstan in June 2015, there are already two Turkic states in the EAEU, which unequivocally support Azerbaijan's claims to Artsakh[10]. And it is quite possible that this Pan-Turkic mutuality can also disrupt relations with Russia

EAEU are thus considerably smaller, only Vietnam has expressed interest in cooperation within the framework of free trade with EAEU countries so far.

[9] Within the United Nations, the annexation of the Crimea was recognized only by North Korea, Syria, Cuba, Nicaragua and Venezuela. Against the resolution condemning the annexation (which was vetoed by Russia on spite of being approved by the majority of members) were only Zimbabwe, Sudan, Bolivia and the allies in the EAEU, Belarus and Armenia (which neither recognized the annexation, nor condemned it).

[10] Both states, along with Azerbaijan and Turkey, are members of the *Cooperation Council of Turkic-Speaking States* (CCTSS). This organization, created in 2009, aims at closer cooperation and at its 5th summit in Astana in September 2015 it adopted a resolution on the inviolability of borders and territorial integrity of Azerbaijan.

(it looked very likely after its conflict with Turkey in Syria at the end of 2015, which was resolved the following year).

Similar fate to that of Artsakh was shared by Russia supported Transnistria, Abkhazia and South Ossetia – their integration into the EAEU has been rejected by other members. In fact, these countries face a dilemma of their further development – whether to remain in the current illegitimate state or whether to transform existing economic ties into the political sphere and integrate into the Russian Federation. Although this option may look simple and has a very strong support in Transnistria and South Ossetia (significantly weaker in Abkhazia), the international political environment and geographical conditions, significantly limit such opportunity. After the annexation of the Crimea, Russia has begun to behave more pragmatically again and views *de facto* states primarily as an instrument of power against those states that implement independent policy and pro-Western orientation. In each of these *de facto* states, there are also different opinion streams on their own future, which, however, develop under the influence of new events.

3. Economic strategies of the *de facto* states

All post-Soviet *de facto* states represent globally marginal economies – its GDP has long been under US $ 1 billion[11] (Tab. 1). The highest numbers are given for Transnistria, population of which is comparable to the population of Luxembourg or Cyprus – their nominal GDP is, however, several times higher (60 billion, 22 billion). The same applies to the other *de facto* states showing their GDP only in hundreds of millions of dollars. Their comparison with similarly large and populous states (mostly island states of Oceania and the Caribbean) turns out highly unfavourable. The GDP data in US dollars should, of course, be treated with caution – it is a conversion from Russian rubles, while it is not clear from the sources what exchange rate was used – in some cases data was obtained in RUB and had to be recalculated according to the average value of the rate in a given year. Moreover, these are nominal GDPs at common prices, not taking into account purchasing power parity (PPP), the index of which is not given by any of the countries.

[11] The fact is that the statistics of *de facto* states are not credible and the GDP is also affected by the conversion to USD. Only nominal GDP is detectable, but purchasing power parity is not. Moreover, data for particular years are also given in common prices of the respective year, so comparisons of GDP growth are unrealistic in a longer term. It must also be emphasized that given the high level of corruption and so called grey and black economy, the GDP data is only illustrative.

Table 1. Basic information about the *de facto* states and the structure of their GDP in 2014

Name of *de facto* state	Area in km²	Population in thousands	GDP in millions of USD[b]	Structure of GDP in percentages		
				Primary (A)	Secondary (I)	Terciary (S)
Abkhazia	8 665	243	467[a]	4,8[a]	8,1[a]	87,1[a]
South Ossetia	3 900	51	93[e]	3,5[e]	2,0[e]	94,5[e]
Artsakh	11 458	151	454[c]	18,7[c]	16,9[c]	64,4[c]
Transnistria	4 160	476	870[d]	5,7[f]	28,2[f]	66,1[f]

[a] *Obem i dinamika valovogo vnutrennego produkta – 2015 god*, but according http://www.ved.gov.ru/exportcountries/ab/ it was 709,3 mln USD (probably figure for purchasing power parity); [b] prognosis for South Ossetia according *Strategiya socialno--ekonomicheskogo razvitiya Respubliki Yuzhnaya Osetiya do 2030 goda* for 2014 was unrealistic 176 mln USD; [c] Nagorno Karabakh in figures 2015; [d] *O Pridnestrove – Ekonomicheskii potencial*; [e] *Yuzhnaya Osetiya i karlikovye strany i territorii mira* (figure for 2013), real estimate for 2014 is 87 mln; [f] *Statisticheskii ezhegodnik* 2015.

Source: own elaboration.

Development of GDP *per capita* from 2009 (the subsequent year after the Russian-Georgian war) to 2015 is shown in Table 2. A comparison is also given to the development in maternal and patron countries, which shows that all *de facto* states have a lower level of GDP/capita than their maternal or patron states. This of course is not surprising because at the time of separation the now *de facto* states were already peripheral areas (excluding Transnistria), which another important factor, along with a sense of ethnic marginalization. Development in the last two years, however, clearly reflects the interconnectedness of the small and vulnerable economies of Transnistria, Abkhazia and South Ossetia with Russia and its economic problems, which have been brought not only by a significant and long-term decline in prices for oil and gas, but also by the economic sanctions by Western countries for the violation of territorial integrity of Ukraine.

As it has already been mentioned, individual states vary considerably in some economic indicators. This also applies to their geographic location and the ensuing possibilities and limitations of economic strategy. Abkhazia and South Ossetia are adjacent to Russia and economic contacts with their maternal Georgia are weak – after the Russian-Georgian war, South Ossetia has become completely isolated; Abkhazia pragmatically cooperates with Georgia to a small extent[12].

[12] The reason is that Ingursk hydroelectric plant is located in Abkhazia, but its service facility is in Georgia. Out of existential reasons, the countries agreed on the distribution of energy produced (Georgia receives 60%, Abkhazia 40%). Until recently, Abkhazia

Although official Abkhazian statistics records Abkhazian trade with Georgia as trade with "other countries", Georgian economist Charaia estimates that trade with Georgia amounts to 5–7 million USD per year (Charaia 2014). At the same time, however, he states that according to prof. Khatun Shatiba from Abkhazian University, this trade is tenfold (USD 60 million)[13]. Moreover, Abkhazia is not so strongly dependent on Russia, it has an open access to the sea and Abkhazians still prefer independent existence, while Ossetians long increasingly for unification with North Ossetia-Alania and thus incorporation into Russia.

Table 2. Comparison of GDP *per capita* of the *de facto* states, their maternal and patron countries in 2009, 2013, 2014 and 2015

***De facto* state/** its maternal country[j]/ its patron country[j]	GDP *per capita* in USD			
	2009	2013	2014	2015
Abkhazia	2 394[h]	3 189[a]	2 937[a]	1 866[a]
Georgia	2 530	4 274	3 670	3 797
Russia	8 563	14 487	12 736	9 202
South Ossetia[b]	1 678[g]	1 816[e]	1 650[k]	1 233[k]
Georgia	2 530	4 274	3 670	3 797
Russia	8 563	14 487	12 736	9 202
Artsakh	1 992[c]	2 778[c]	3 049[c]	3 380[c]
Azerbaijan	4 840	7 812	7 884	5 497
Armenia	2 916	3 717	3 874	3 497
Transnistria	1 750[d]	2 076[i]	2 211[i]	1 828[d]
Moldavia	1 590	2 244	2 233	1 845
Russia	8 563	14 487	12 736	9 202

[a] *Obem i dinamika valovogo vnutrennego produkta – 2015 god*; [b] prognosis according *Strategiya socialno-ekonomicheskogo razvitiya Respubliki Yuzhnaya Osetiya do 2030 goda* was 2 320 (2013), 4 030 (2014) and 5 640 (2015) USD (very similar to Georgia in 2013 and 2014); [c] Nagorno Karabakh in figures 2015 and 2016; [d] *O Pridnestrove – Ekonomicheskii potencial*; [e] *Yuzhnaya Osetiya i karlikovye strany i territorii mira*; [g] *Ekonomika Yuzhnoi Osetii uspeshno razvivaetsya*; [h] Ekonomika i biznes; [i] *Dinamika i struktura vnutrennego produkta v 2014 godu*; [j] The World Bank. GDP *per capita*; [k] only estimates.

Source: own elaboration.

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even sold part of their quota of energy to Georgia. For more see: http://aiaaira.com /news/ economy/minus_elektrifikatsiya_vsey_strany/.

[13] The question is whether the significantly higher estimate did not include the aforementioned sale of energy. The fact is that it is predominantly a cross-border trade in agricultural products.

Artsakh and Transnistria do not have a direct border contact with Russia, but they also differ from each other. Artsakh is similar to South Ossetia in that it is both economically and politically strongly dependent on one country – in this case Armenia. The share of followers of a connection with Armenia has not been surveyed of, but with regard to the common ethno-linguistic and religious identity, we can assume that it exists. Expressed preference of independence in referendum in Artsakh (86%) only reflected the reality – it could only be voted for or against independence. Most political parties do not have accession in their program, except for the Movement 88 and the Armenian Revolutionary Federation (Dashnaktsutyun). However, these two parties have not had much voter support in recent years. Relations with Azerbaijan, from which the Artsakh seceded, are null–the difference from the RSO is that the Artsakh politicians do offer cooperation to their Azerbaijani counterparts. But without any success. Transnistria is unique in the fact that its contacts with Moldova have remained very intense, but local residents mostly reject the idea of reunification with the state. Let us look at the economic opportunities and strategy of all four *de facto* states.

Transnistria. Transnistrian economy has conserved inefficient economy of communist type with a strong control by the state. It introduced its own currency (Transnistrian ruble – PRB) with a fixed official exchange rate to other currencies. It should be borne in mind when assessing indicators such as GDP and foreign trade. Although the Transnistrian ruble is heavily dependent on Russian ruble, even after its steep fall in connection with the annexation of Crimea, Transnistria has held its own ruble exchange rate at the same level as before the crisis. The last change occurred in Jan. 20, 2012, when the exchange rate 1 USD = 11.1 PRB was set. This is then reflected in other exchange rates and in the case of the Russian currency it follows the slump of RUB against USD.

The economic situation in Transnistria is much different from the other *de facto* states. In the Soviet Moldova, it represented the industrial core of the country where about 90% of industrial production of the country was concentrated, forming about 40% of Moldovan GDP. In the legal sphere of the local economy several major enterprises of heavy industry producing steel, cement and energy still prevail. Absolutely dominant position has been held by the consortium of the Sheriff Company[14], which is involved in production of more than half of the PMR's budget. Another quarter is attributable to its subsidiaries; Interdnestrkom (telecommunications), Tiroteks (cotton fabrics and garments),

[14] The holding was established in 1993 as a network of supermarkets, which has gradually penetrated into all economic sectors and currently includes 48 companies.

KVINT (the production of wine and brandy) and Moldavizolit (electrical insulation)[15]. During the privatization, companies closely linked to Russian business and political circles mostly assumed control of strategic manufacturing companies. It is obvious that due to the inefficiency and the companies' dependence on subsidies, the investments are of a geopolitical nature (Jelínková 2014). Moldovan metallurgical plant and Ribnitsa cement plant fall directly under the Russian Metalloinvest, the largest power plant in Dnestrovsky falls under Inter RAO and the gas distribution throughout Transnistria falls under Gazprom.

Transnistria has, however, also become a paradise for smugglers of alcohol, drugs, cigarettes, as well as meat and similar goods in the system of re-exports, which allows bypassing Ukrainian and Moldovan payment of import duties and taxes. The most important export item, however, were are weapons. They are not only produced in Transnistria, but there were are also huge ammunition depots of Russian troops from the Soviet period used as trade sources. In addition to ammunition, the main itemsare small arms and components for explosive systems, but also anti-aircraft sets or armoured vehicles. In the peak period, the sales value reached up to US $ 20 billion (Dyčka 2015). Due to corruption, the material was smuggled mainly via the Ukrainian port of Odessa. The contract of 1995 between Russia and Ukraine allowed supplying Russian troops in Transnistria – however, after the annexation of Crimea and the continuing Russian support to Donbas separatists, Ukraine repudiated it in May 2015 and the Moldovan government also tightened its control. Until then, the border on the Dniester was not as strong barrier as the boundaries of the *de facto* states in the Caucasus with their maternal countries. E.g. in sports contacts have remained completely preserved and the football club in the Transnistrian capital Tiraspol participates in the highest football competition in Moldova – as a multiple winner of the league it even represents Moldova in European cups!

An interesting situation took place in the economic sphere. In late 2007, an agreement between the EU and Moldovaon visa facilitation for a large group of citizens and readmission agreement was concluded, which entered into force on January 1, 2008. Autonomous Trade Preferences (ATP) between the EU and Moldova entered into force on April 1, 2008 and had an economic and internal political dimension – in order to declare the origin of goods from Transnistria the companies had to undergo a necessary registration in Chisinau in order to

[15] According to the official website of the Supreme Council of the PMR – see http://www.vspmr.org/file.xp?file=5650.

obtain certificates for export to EU under the ATP conditions[16]. This also explains why 30–40% of Transnistrian exports go to the EU. A similar proportion falls on Moldova itself. However, the inefficient Transnistrian economy survives owing to financial subsidies from Russia, which have long been ranging between 50–70% of the state budget. Subsidies from Russia were also in the form of deliveries of gas for which Transnistria did not pay for many years – Russia has assessed the debt at about 4 billion USD, and from time to time it reminds Moldova that under certain circumstances (i.e. its stronger pro-Western orientation) the debt could be transferred on the country[17].

The PMR development strategy till 2025 attempts to find solutions to the difficult economic situation. The strategy stresses that subsidized food supplies from Russia have devastated the agribusiness complex, which, with the exception of grain, is now only able to cover the need for meat and milk from 5% and the production of sugar has stopped completely. Transnistrian economists realize the importance of the development of light industry and tourism, but also their dependence on Moldova and Ukraine (*Strategiya ... Pridnestrovskoi Moldavskoi Respubliki* 2012).

Russian political and economic problems in connection with the annexation of Crimea, subsequent sanctions and the fall in oil and gas prices have significantly influenced the attitude of Russia to Transnistria. On April 14, 2014, the Supreme Council of Transnistria addressed Russian President Vladimir Putin with a plea to recognize its sovereignty, independence and following the same scenario as in the Crimea (a local referendum) to allow its accession to Russia. Foreign Minister Sergei Lavrov, however, responded by stating that Russia respects the sovereignty and territorial integrity of Moldova, as long as it maintains neutrality and recognizes the special status of Transnistria. Deputy Prime Minister Dmitry Rogozin, who deals with Transnistria in the Russian administration, in turn commented on the then upcoming Association Agreement between Moldova and the EU. He said that if it occurs, Moscow will insist on a revision of economic relations with Moldova and he argued that an agreement with the EU would make Moldova join NATO (Strand 2014). Similarly, Transnistrian Foreign Minister Nina Shtanski responded with words "rapprochement of the EU and Moldova will be a threat to the economy of Transnistria. Our main goal is rapprochement with Russia and membership in the EAEU" (Hermsen 2015).

[16] For more see http://www.businessinfo.cz/cs/clanky/moldavsko-vztahy-zeme-s-eu-19035.html

[17] http://www.mzv.cz/jnp/cz/encyklopedie_statu/evropa/moldavsko/politika/zahranicne_politicka_orientace.html.

It is symptomatic that even in times of economic downturn and significant geopolitical changes the Transnistrian leadership was not capable of thinking realistically. Indeed, even in 2012 it predicted that in the year 2015 the GDP/capita will reach the value 2,500 USD[18]. Even after the fall of GDP by 11% in 2014 they predicted that although the situation remains serious, in 2015 the slump will only be 3.8%. The reality was much worse – in mid-2015, the decline in GDP reached 18.7%, then it slowed down slightly (in the nine months it increased "only" to 20%), but for the whole year of 2015 it amounted to around 22% (*Pridnestrove teryaet…* 2015). However, the government "optimistically" estimates that in 2016, the decline will decrease to 4.5% and a "pessimistically" to 10–15%. However, it is not so optimistic regarding the decline in industrial production and exports – the decline is estimated by 25–35%. To keep the inflation at 2% will be possible only at maintaining the current prices of municipal and state services[19]. Decline in investment is no less dramatic – in 2014 it reached 11% decline, last year it was already 40%, and there is no reason to believe that this negative trend will not continue this year. State budget subsidies from Russia (direct and indirect) have been reduced, but their share of GDP reached to a record height of 93%[20] (Całus 2016). Certainly, remittances, which amounted to USD 270 mil last year, will decline too, since over 80% come from Russia. And its economic problems, together with a fall in the value of the ruble are reflected in this source of income.

In January 2016, therefore, a harsh critic appeared on the official website of the Supreme Soviet[21], pointing to a very high tax burden, which exceeded 33% and compares Transnistria to economically backward developing countries. It refers to the fact that the share of the state budget on GDP is ever increasing and in 2015 it exceeded the level of 50% and in 2016 it is to reach up to 60%. In developing countries, the figure is in the range of 35–40%. It also highlights the increasing exodus of young people abroad, increasing mortality and the fact that one pensioner falls under one working man. President Shevchuk has thus got into a really unenviable situation. The question is whether the economic decline will be reflected in a proper presidential election in November 2016. According to the sociological survey conducted in June 2016, Shevchuk's chances are slim

[18] http://www.rbc.ru/rbcfreenews/20120822034337.shtml.

[19] http://novostipmr.com/ru/news/15-07-23/v-2016-godu-vvp-pridnestrovya-mozhet-sokratitsya-na-10-15.

[20] It is even 1% more than in South Ossetia.

[21] http://www.vspmr.org/news/tribune-deputy/ekonomika-nujdaetsya-v-lechenii-posle-ustanovki-diagnoza.html

(he only has support of 11%, but 50% are strongly opposed to him[22]). However, there is no Western-minded politician on the political horizon and the aging population will hardly change its pro-Russian and strongly anti-Western thinking. Tiraspol understands, though, that it must respond to the Deep and Comprehensive Free Trade Area taking effect (DCFTA – *Deep and Comprehensive Free Trade Area*) between the EU and Moldova (as well as Ukraine and Georgia), which entered into force on 1 January 2016. It may also apply to Transnistria, while according to the opinion of experts it would have a positive impact on GDP growth of 3–4%, 3–5% growth of investment and a growth of exports by 5–10% (Całus 2016). In 10 years, DCFTA will cover all agricultural and industrial products and eliminate their customs tariffs. So far, the negotiators have managed to achieve a two-year transitional period, during which trade will continue and negotiations will continue at the same time. Despite the economic problems of recent years multiplied by the restrictions imposed by Moldova and Ukraine, Transnistria still has a fairly wide range of export goods, which it needs to reach predominantly the European market. The latest data of the Statistic Office of the PMR (*Vneshnaya torgovlya PMR*... 2016) indicate that Moldova remains an important trading partner of Transnistria with about 20% share. The same proportion falls on the EU, mainly due to Romania. Dependence on Russia is by large given by the import (share of around 60%), while exports are much lower (only 10%).

Despite some relative trade success, the economic and especially the financial crisis in Transnistria continues even now, in 2016. During the first months, foreign exchange reserves of the Central Bank decreased and a third of commercial banks suspended the sale of foreign currency to individuals – not only Western currencies, but all, including Moldovan, Russian and Ukrainian[23]. Parliament has therefore set up a commission to deal with the crisis and has asked Russia for financial aid of USD 26.5 million to secure the implementation of the budget. Despite these problems, in the aforementioned sociological survey on the preferences of the presidential candidates in June 2016, 86% of the 1,200 respondents expressed their will to connect to Russia and only 6% were for independence. And the differences between age groups are marginal. It is obvious that people believe that with the annexation of the Crimea it is time to fulfil what 97.1% of participants of the referendum in 2006 expressed for. At

[22] https://wciom.ru/index.php?id=236&uid=115738; survey was carried out by the All-Russian Center for Public Opinion Research (Всероссийский центр изучения общественного мнения).

[23] http://www.rosbalt.ru/world/2016/04/11/1505644.html

that time they supported the independence of Transnistria, but with the promise of a future merger with Russia[24]. Indeed, the number of people who already have Russian citizenship has reached 150–160 thousand and many more still wish to obtain it. Another 80 to 100 thousand people have Ukrainian citizenship, but overwhelmingly they prefer a union with Russia and not with Western-oriented Ukraine (this option was not even offered by the June survey, even though the territory of Transnistria was a part of Ukraine until 1940[25]).

Artsakh. Artsakh or Nagorno-Karabakh as it is usually called in older sources differs from other *de facto* states in that its current territory does not correspond with the original autonomous region of the Soviet period. In a successful military conflict, Artsakh Armenians occupied a stripe of sparsely populated area along the border with Iran and Armenia and created a compact unit with long borders with these neighbours. On the other hand, they lost a smaller part of the territory in the northeast in favour of Azerbaijan. From a political perspective, it appears that for Russia, Artsakh is not a case of confrontation with the West, as is the case of other *de facto* states, where are they are a tool of coercion on Georgia, Ukraine and Moldova, which have given priority to contracts with the EU before the membership in the EAEU. However, the very existence of the unrecognized Armenian entity was crucial to the decision of Armenia to end the talks with the EU and join the EAEU. It was a purely pragmatic decision that the government has made in order to gain an ally that could prevent Azerbaijan to solve the problem by military force (Ghulinyan 2014). But Russia is certainly not willing to sacrifice the important relations with Azerbaijan for Artsakh, knowing that Azerbaijan has been criticized by Western countries for human rights violations. Azerbaijan is also aware that in the event of tough action against Artsakh, it would encounter resistance of Russia, but also the West, which would certainly give word to the influential Armenian lobby. Armenia is content with the status quo as the maximum possible – it is obvious from the long-term behaviour of Russia, that it will support the current state of affairs. And the fact that it sometimes come up with a compromise proposal does not change anything, because it assumes that any compromise will be refused by both sides and thus its influence on both feuding countries will be retained. Therefore, it is not surprising that in last autumn, information on the diplomatic activities of Moscow directed to Armenia appeared in various media, including *Deutsche Welle*, with the aim to arrange the transfer of five territories occupied

[24] http://bel.biz/half-life/mol/pridnestrove-russkij-mir-s-evrosoyuzom

[25] On the other hand, the entire western part of today’s Odessa region was a part of the Romanian Moldovauntil 1940.

Artsakh, but not previously forming its administrative parts. However, it would not affect the areas around Lachin and Kalbajar that form the corridor connecting Artsakh with Armenia. The proposal was immediately rejected, of course. It is understandable, as for Armenia Artsakh represents a part of national identity and a symbol of victory over the Turkic world (a kind of retaliation for the Armenian genocide in the Ottoman Empire). Azerbaijan, however, understands the loss of Artsakh as a national trauma, so the solution of this problem is very difficult. Hostility between Armenians and Azerbaijanis (as well as the Turks) and their roots of hatred go centuries back and are loaded with innumerable feelings of injustice that could only have been suppressed by the communist dictatorship. Armenia may have not reached the inclusion of Artsakh in the EAEU, however, it made clear that it there is no intention of building any customs at the common border.

Artsakh's economy is the most successful among the *de facto* states. It is certainly partly owing to the strong relations Armenia, which has an interest in ensuring that Artsakh is perceived as a stable and economically successful state. Armenia itself has also developed dynamically and in the first years of the 21^{st} century the growth rate of GDP in some years exceeded 10%. After a sharp decline in 2009 (Armenia in 2010), it was able to stabilize and over the last five years, it has been increasing steadily by an average of 4.2%[26]. The economic growth in Armenia and Artsakh is significantly supported by remittances from people working abroad, in Russia and the European Union. Investments, donations and other help from compatriots from the USA, Europe and other countries[27] also represent a considerable share of the solid growth. According to the official statement of the Minister of Finance Tevosian[28], the GDP of Artsakh reached USD 443 million in 2015, which is *per capita* (Tab. 2) comparable with Armenia[29]. From the statistics, it is clear that the economy is developing

[26] http://www.heritage.org/index/country/armenia

[27] Armenians are a very cohesive community, which to some extent resembles the Jewish Diaspora. While Armenians are Christians, their interpretation of Christianity is different from Western Catholicism and Eastern Orthodoxy and thus they have created a relatively closed communityin exile. Repressions, to which they were exposed by the states in which they lived, led to mass emigration, so currently 2 to 3 times more Armenians, or people with Armenian roots, live outside Armenia than in Armenia and Artsakh (mostly in Russia – according to census it is around 1.2 mil., in the USA around 0.5–1.5 mil., in France 0.25–0.75 mil.).

[28] http://nkr-news.com/arcakh/ministr-finansov-nkr-spartak-tevosyan-prognozy-na-2015-j-god-opravdalis.html

[29] According to http://www.heritage.org/index/country/armenia the GDP/inhabitant of Armenia reaches USD 3,505 and according to purchasing power parity it is USD 7,374.

dynamically – the average annual increase in GDP has since 2008 ranged from 8–11%, roughly double the growth of Armenia. Russian TV channel RBK even called the country "Transcaucasian tiger"[30]. According to a government server NKR News there were 13 small hydroelectric plants built in Artsakh in the last 10 years, making it energetically self-sufficient. Gasification is successful too (70% of the economy), tourism is developing (there are already over 100 thousand tourists a year, 16,000 of which come from countries other than Armenia)[31]. The airport in Stepanakert, which has been ready for operation since a modernization in 2012, would be of a great help – however, a fear from a reaction of Azerbaijan has prevented its use so far. The services sector in Artsakh is not as dominant as in Abkhazia and South Ossetia, but it already makes up almost 2/3 of GDP. The share of the agricultural sector is decreasing, although production is still growing – especially of meat, milk and eggs, recently cotton and tobacco has begun to be grown. Industrial production got a big boost after building a large processing plant in Kashen, which mines and processes copper ore with a high proportion of molybdenum. Its two factories have brought 2,400 new jobs and the production greatly enhanced the industrial sector[32]. The share of industry and agriculture in GDP is thus compensated (Tab. 1). The geographical position of Artsakh is reflected in the very high trade dependence on Armenia (almost 90% of exports and about 93% of import). Interestingly, Artsakh has the only positive trade balance with Russia, although this trade is very small (3.2% of export, import 0.5%). Neighbouring Iran is also an important trading partner; the second place after Armenia is, however, occupied by the United Kingdom (*Nagorno Karabakh in figures* 2015).

Further development is expected in connection with the termination of sanctions against Iran. The big neighbour has already discussed gas pipeline through the Armenian territory and the possibility of railway construction[33] with Georgia. Both of these projects would help Georgia greatly to reduce energy dependence on Russia and Azerbaijan, but Armenia would benefit from this as well and so would Artsakh, subsequently.

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[30] http://news.rambler.ru/26078668/

[31] http://nkr-news.com/arcakh/v-2015-godu-chislo-turistov-v-nagornom-karabahe-vyroslo-na-12-protsentov.html

[32] https://massispost.com/2016/01/new-mining-complex-inaugurated-in-karabakh/. The owner of the production plant is Base Metalsunder Armenian mining group Vallex. It also owns an old copper mine with gold occurrence, whose reserves are coming to an end though, in Drmbon.

[33] http://www.president.ir/en/76840

South Ossetia-Alania. In the beginning of the separation from Georgia, South Ossetian political representation declared as its main objective a union with North Ossetia-Alania. At that time, there was a significant decentralization of power happening in Russia, individual subjects, particularly the republics were strengthening their powers at the expense of the Moscow centre, and it seemed that the Russian Federation was heading towards a looser federation within which a unified Ossetia could operate. In October 1995, a permanent inter-parliamentary advisory council was set up, in 1996 both Ossetian capitals – Vladikavkaz and Tskhinvali – signed an agreement on friendship and co-operation and the process was completed on November 9, 1996 by signing the Treaty of Friendship and Cooperation by the governments of North Ossetia-Alania and South Ossetia (Kulova, Fedosova 2014). After the inauguration of President Putin, it was clear that the decentralization of Russia has come to an end and the creation of a unified Ossetia will not be so easy. The inter-Ossetian integration process moved from the political sphere to the cultural and economic spheres. A new stage began to develop after the successful war with Georgia in 2008, and quite unexpected international recognition by Russia. In early 2009, at a joint meeting of representatives of both Ossetian parliaments North Ossetian governor T. Marmayev proclaimed: “South Ossetia is a reality ... The unification of our nation is inevitable” (Kulova, Fedosova 2014). It turned out, however, that the situation is not so simple. Expulsion of majority of Georgians and war damage paralyzed the South Ossetian economy significantly, even though Russia was annually investing considerable sums in South Ossetia economic recovery was inadequate. In the “war” year, Russia provided RUB 3.1 billion to the RSO, but in the following year it was more than three times as much (10.6 billion). In subsequent years, the subsidy steadily decreased – 7.2 (2010), 6.4 (2011), 5.5 (2012), 4.3 (2013), but the economic crisis has led to a new increase to 6.7 (2014) and 6.6 (2015) representing 92% of the state budget[34]. In 2016, the subsidy will rise to 8.2 billion RUB, but given the reduced value of the ruble, it will be roughly at the level of 2013. Total aid from Russia since the war in 2008 has thus amounted to almost RUB 50 billion, and it annually exceeds the produced GDP of the RSO 5–11 times and the country's budget is being constantly bailed out by Russian subsidies of more than 90%. And if we included the expenses of Russia to defend the country and maintain about 4,000 people at the military base, the entire budget of South Ossetia would be exceeded by 140% (Tokmazishvili 2014).

[34] http://polpred.com/?cnt=257

Owing to the Russian subsidies, the South Ossetian economy recovered after the war shortly, but it has been in deep crisis again since 2013. Generally, it is in a very poor condition, the industry has nearly collapsed and most of businesses operate at less than 10% capacity before secession from Georgia. The number of employed in the industrial sector fell to seven hundred[35], and the share of industry on the GDP is only 2% (*Yuzhnaya Osetiya i karlikovye strany* 2015). The biggest factory, Vibromashina, established in 1958 had a monopoly in the USSR in the production of vibration electrical appliances, currently it only produces a small quantity and it has switched to consumer metal processing products (fences, garbage cans, dustbins, etc.). Similar was the fate of Emal'provod, formerly the biggest factory of the entire Caucasus region for the production of enamelled wire. Their production has dropped to one tenth and today it also produces bearings, nails, as well as windows, wood products, lamps and other consumer goods. In addition to this tiny industrial production, agricultural products and timber are still processed, mainly for the needs of the state itself. At present, only half of the initial 28 industrial plants work, while over 50% of the value of the industrial production in 2013 accounted for one large bakery. The only consistently growing sector is the construction industry. Services are at very low level, and despite all efforts the country fails to attract tourists. There are only few thousand tourist arrivals per year, mainly from North Ossetia--Alania, or other Russian subjects. South Ossetian GDP is thus unbelievably deformed (Tab. 1) – similarly to industry, primary sector has a negligible share of 3.5% and the rest, almost 95% falls on the tertiary sector. Hypershare of services, considering the low volume of tourism, is caused by nearly half by the construction carried out by the state (44.5%)[36], b) which is, however, entirely financed by Russia. It is precisely this sector that is significantly better paid – average earnings there are 3 times higher than in industry and 4 times higher than in agriculture (Kokoyev 2013).

The economic downswing is an evidence of how difficult is the path of independent development for a country sandwiched between two states, while it has a completely closed boundary with one of them. The country produces no more than few products for consumption by the population and must, with the exception of some food, import everything. Almost all "foreign" trade is realized

35 http://osinform.ru/19267-puti-stanovleniya-yekonomiki.html

36 Another 4% fall on construction of the private sector, 19.5% on education, 11.5% on health and social services, 4% on culture and arts.

with Russia[37] (of which about 20% takes place with North Ossetia-Alania[38]) and oscillates around 50–60 mil. USD, while import exceeded export more than 20 times. However, this changed significantly in 2015, when imports from Russia fell sharply, but the RSO managed to export mainly its textile production (*Statistika vneshnei torgovli Rossii*)[39]. According to ALANIA inform, expansion of exports of mineral water Bagiata is being planned. And that not only to Russia, but in future also to China[40]. The same source also brought a report on negotiations with Iranian businessmen in June 2015.

An important impulse for industrial production and employment (prospectively up to 300 people) was the opening of a textile factory[41], specialized in working and protective clothing, in Tskhinvali in September 2013. In 2014, their exports have resulted in more than doubling the value of South Ossetian exports (from USD 2.7 to 5.6 million), and in the following year they amounted up to USD 8.1 million. This also completely changed the structure of exports – garments first appeared in 2013 with share of 8.5% of exports, but the following year they already accounted for 80.5% and in 2015 they reached 86.4%. Traditionally, it was presented that the main component exports were fruits and vegetables, but it was true only until 2010, when it accounted for

[37] South Ossetia with its position in the alpine environment between two countries can be likened with European Andorra. It is nearly 9 times smaller in area and has about half as many inhabitants, its GDP, however, is almost 50 times higher. Its service sector is absolutely dominant (80%), where up to 95% employees work of the employed. Andorra lives primarily on tourism, though, and has excellent relations with both neighbours. South Ossetia is from 80% surrounded by Georgia and it is connected with Russia by only one road which is travelable year-round. Its chances to become a tourist center, as Andorra is, are minimal.

[38] According to http://www.rusexporter.ru/research/region/detail/3346/ South Ossetia is the third largest partner of North Ossetia-Alania, the first is, perhaps surprisingly, Georgia with about three times the turnover compared to the SOA (Czechia is on the 5th place).

[39] In the long term, various sources on South Ossetian exports to Russia give as the main export item fruits and vegetables. Russian statistics, however, prove that it is not so – even in 2010, when South Ossetian exports amounted to only USD 1.4 mil., most exports fell on various machines, equipment and parts (40%), while fruits and vegetables formed only 17%. And in 2015, exports of textile products increased sharply, which made up 88% from the record amount of exports. Vegetables and fruits were 4th most exported item with marginal 2%.

[40] http://osinform.org/economic/page/3/

[41] http://region15.ru/articles/4034/; factory belongs to the holding of a successful North Ossetian entrepreneur Taimuraz Bolloev, who became successful by building the Baltika brewery – which he subsequently sold to transnational companies and since 2007 he has built 16 textile and footwear companies.

about a fifth of exports – later their significance has fallen sharply and the main items consisted of various machinery and mechanical appliances, metal processing and in particular ferrous scrap (*Statistika vneshnei torgovli Rossii*). The textile factory has thus brought about a fundamental change and a certain hope for South Ossetia.

It is the country's inability to meet its energy needs which is responsible for the overall economic downturn. Only two small hydroelectric plants are in function and most of the electricity and gas is supplied by Russia. The situation is very similar to Transnistria – Ossetia pays for supplies irregularly and South Ossetian debt is growing steadily (however, after Russia's recognition of South Ossetia's independence, the debt cannot be declared as a debt of Georgia). Moreover, Russia has at its own expense built a gas pipeline from Vladikavkaz to Tskhinvali and Gazprom finances its extension to Dzaurikau. Russia has also opened Transcaucasian Highway and built a new energy grid in Leningor district[42]. Dependence on Russia was further increased by a treaty on positioning of a military garrison in the country for a term of 49 years which was signed in 2010, but with automatic renewal in 15-year periods. Strategy of socio-economic development of the SOA till 2030 is based primarily on the construction of small hydropower plants, thanks to which it could again resume production of construction materials and mining of lead-zinc ores. But the strategy also particularly mentions efforts to build new perspective factories and produce silicon crystals, microchips or para-aramid fibre of Kevlar type (*Strategiya ... Respubliki Yuzhnaya Osetiya...* 2013).

The strategy of integration with Russia is understandable with regard to the situation. The act of April 4, 2012 also saw the emancipation of Russian andits equalization Ossetic, regardless of the fact that most Russians have left the country and currently there is less than 500 of them (1% of the population). After the war in 2008 most Georgians left as well, and their share decreased from 23% to just 9%. Dismal economic situation, however, forced tens of thousands of Ossetians to leaves well and the population of the country has halved as compared to 1970 (when it exceeded one hundred thousand for the first and last time). Therefore, in the final effect, the GDP *per capita* has not fallen markedly even with the economic downturn of recent years. However, with the departure of minorities the share of Ossetians, which was formerly about two thirds of the inhabitants of the country, increased to 90%. The emigration of a part of the population has more dire consequences. As stated by a member of South Ossetian parliament Gennady Kokoyevin his report of 2013,

[42] http://tass.ru/info/1777008; Leningor is oficially called Akhalgori by Georgia

the population is aging, the level of qualification is decreasing, unemployment increasing, the health status of the population is worsening significantly – the occurrence of a variety of serious diseases has increased 2–4 times (Kokoyev 2013) when compared to 2007 (the last year before the Russian invasion). And the difficult socio-economic situation is obviously a fertile ground for corruption and grey economy.

Abkhazia. Out of all the *de facto* states, Abkhazia has theoretically the best conditions for maintaining *de facto* independence. Its geographical seaside location, albeit within a relatively enclosed Black Sea, still compensates for the closure of borders with Georgia and the huge political and economic dependence on its second neighbour – Russia. Compared with South Ossetia and Artsakh, however, it has much more heterogeneous ethnic structure of the population – Abkhazians make up slightly more than half of. The fact that they are the majority in the country, however, is subject to the forced emigration of about a quarter of a million Georgians (which is about as much as the present population of Abkhazia). Relations between Abkhazians and Georgians are very complicated and burdened by historical disputes going deep into the past. Even at the level of reputable historians (e.g. Gamakharia et al. 2014) Georgians see Abkhazians as an immigrant ethnic on the Georgian territory, or Georgians, who were "denationalized" by these immigrants, while the Abkhazian professional circles (see e.g. Achugba 2011) see it the other way around. Yet even historians do not record any major conflicts between the two nations until the Russian annexation after the century-long Caucasian war. It was accompanied by physical liquidation and expulsion of Abkhazians (mostly Muslims, minority Christians and pagans stayed) from their homes. Exact numbers of victims are not known (estimates range from tens to several hundreds of thousands), displaced areas, however, have been demonstrably populated by Russians, Georgians and other ethnic groups. Abkhazians thus eventually became a minority and at the time of the disintegration of the USSR they accounted for just less than 18% of the population of Abkhazia (a little more than Russians and Armenians) – the majority (almost 46%) had already been constituted by Georgians. Abkhazians therefore took advantage of the disintegration of the Soviet Union, and with Russian support they seceded from Georgia and started building their own statehood.

Even though they succeeded, the reduction of the population by half has inevitably brought not only political but also economic problems. With help from Russia the small country has been successfully stabilized, but a fundamental transformation of post-Soviet economy of Abkhazia is still awaited. Relations with Russia were contractually set by the Treaty of Friendship, Cooperation and Mutual Assistance signed shortly after the military conflict between Russia and Georgia in 2008 and by an official recognition of independence by Russia. The following year, data on the gross domestic product of the country was first published and in 2010, the Military Doctrine of the Republic of Abkhazia was adopted. Taking these political and economic steps the country has been trying to convince other countries of its statehood and owing to a big support from Russia it has been granted recognition by several other states. Statistical data in subsequent years showed fairly significant fluctuations in economic growth, which were caused by the fact that they were not converted to the prices of the year, and were also influenced by the exchange rate of the Russian ruble – the official currency in Abkhazia – and rising inflation. Average annual growth in the years 2009–2014 thus reached up to 8%, but in reality it was extremely high in 2010 alone, and in the last two years, it even fell into negative numbers.

Abkhazian economy is highly dependent on Russia and its problems thus necessarily had to reflect in it. Under different conditions, Abkhazia might as well prosper, even when considering their small size[43]. According to its development strategy it has primarily very good location conditions for development of tourism and that all year-long (annual attendance exceeded 900 thousand, of which over 80%, however, were only short visits). In the country there are dozens of spa resorts and the number of facilities has tripled over the last 10 years. The vast majority of clients are Russians, whose purchasing power has, however, been sharply reduced since the Crimean annexation. Thus, the Caucasus mountain and the Black Sea seaside resorts are experiencing problems. The primary sector is gradually diminishing (Tab. 1), although it has a high proportion of exports. Logging, tea growing and especially fishing have dropped down (fishing has dropped to just 5% of its volume in the Soviet period). Horticulture and beekeeping remain important; viticulture has also maintained its export significance (wine and mineral water represent more than half of exports). While the agricultural sector is roughly equally divided between private farms, state and cooperative enterprises, in industry 77% of 132 companies are in private hands (but employ only 67% of employees). Privatization is essential for further development – while since 2004, the private sector in industry has managed to increase their production over 10 years more than five times, the public sector has, in contrast, fallen by a quarter (*Strategiya ... Respubliki Abkhazia*).

[43] According to area and population density, it is comparable to Brunei or Belize, the closest in this respect is Vanuatu in Oceania.

Adverse economic developments in Russia and the geopolitical implications of the annexation of the Crimea have had impact on Abkhazia too. But while open requests for a connection with Russia echoed in Transnistria and South Ossetia adopted a treaty in which the word "integration" appeared, in Abkhazia, even the new pro-Russian government replaced the integration term with the term of a "strategic partnership". In the same year, the Centre for Strategic Studies working for the president prepared a comprehensive document entitled Strategy of socio-economic development till 2025 and submitted it to the government and parliament. After long negotiations and minor adjustments it approved by the parliament in February 2016. This extensive 275 page material analyses in detail the economic development, natural and human resources, regional disparities and the geopolitical environment in which Abkhazia is located. The Strategy provides a detailed SWOT analysis (pp. 93–117), and outlines the steps to achieve the goals. Interestingly, the creation of the Eurasian Economic Union is mentioned only once, but eventual membership is not even considered. On the contrary, it repeatedly stresses security and the country's independence, territorial integrity, protection of national interests from internal and external threats and "state sovereignty and the efforts of people and political leadership to create a self-sustaining national economy" is highlighted among the strengths of the country (*Strategiya... Respubliki Abkhazia*). It also adds a favourable geopolitical climate and traffic-geographical location, rich natural potential, including a clean environment, unique cultural and historical heritage, and last but not least the "guarantee of security and financial support from the Russian Federation". At the same time, however, there is concern about developments in Russia – the Strategy notes that Russia refused to modernize in the sphere of human rights and freedoms (p. 87) and in this context it underlines specific cultural aspects of the Abkhazian population.

There are far more weaknesses than strengths mentioned in the document – from so far only limited international recognition and poor demographic situation, low purchasing power of the population, high level of budgetary subsidies to admitting the inefficient system of management of the state, low legal culture and poor work of the statistics service. The Strategy sees options of improvement primarily in reducing the level of shadow economy, attracting investment, modernizing technologies and specialization in the use of ecological potential of the country and expanding its tourist base. However, a threat is seen in a continuous growth of corruption and shadow economy, or in a potential loss of the country's sovereignty and its inability to regulate its relations with Georgia. Barriers to the growth are seen in the demographic situation, which is predicted to grow slowly till 2020 (with a maximum of inhabitants at 245,819), then it is expected to drop. Interestingly, the strategy does not count with a significant agricultural development but wants a twofold increase in industrial production till 2025.

Although it seems that the Abkhazian politicians continue to try to retain at least formal independence and the inhabitants of Abkhazian nationality also prefer it, however, regardless of their wishes, the economic problems may change the situation. A look at the amount of pensions is expressive – while in 2013 Abkhazian pension was at an average of RUB 1,014 (and it was received by 48,600 people), Russian pension (which was reached by 32,000 people) was 5 times higher – RUB 5,200[44]. It is obvious that the sharp drop in the ruble and the dismal economic situation in Russia will reduce the support for a union with Russia, but with regard to the monetary union, Russia's problems will be reflected in the small Abkhazian economy too. The advantage of increase of Abkhazian exports of agricultural products as a substitute for a ban on imports of agricultural products from Western countries which have imposed economic sanctions on Russia over the annexation of Crimea was only temporary. Indeed, the approved strategy does not presume that the unfavorable ratio 1:5–6 between Abkhazian exports and imports would change. It should remain the same in 2025. It is only their structure which is to change – currently Russia accounts for about 85% of Abkhazian external trade, almost 15% for Turkey and only a fraction of a percent to other countries. Turkey is potentially the most significant "non-Russian" partner, especially because it is home to about 40,000 Abkhazians[45]. Although it seemed that after the separation of Abkhazia people with Abkhazian roots will have interest in moving to the land of their ancestors (Owen 2009), it did not happen. To a large extent this is influenced by the fact that the Turkish Abkhazians cannot speak Abkhazian or Russian, as well as by the fact that they are Muslims, while in Abkhazia Christians or animists outnumber them by far, and the society is strongly atheised (Baarová 2015). Major concerns were raised by Russo-Turkish disputes caused by the downing of a Russian fighter in Syria and the subsequent Russian sanctions against Turkey, which Abkhazia joined after some hesitation in January 2016. It was expected

[44] In Russia itself, however, the average pension in the same year accounted for RUB 9,040.

[45] This figure is given by the global server Ethnologue http://www.ethnologue.com/language/abk, Christian server Joshua states up to 150,000 – see https://joshuaproject.net/ people_groups/10130/TU. Wesseling (1997), citing Turkish sources suggest up to 300,000 people of Abkhazian origin, Owen (2009), citing sources of Abkhazian diaspora gives number of up to 0.5 mil.

that the decline in foreign trade with Turkey will at least partially be compensated by Russian tourists, who as a result of the sanctions were not allowed to travel to Turkey. But already in the middle of the same year, relations between Russia and Turkey settled, which Abkhazia welcomed strongly – trade with Turkey could resume. The fact is that no formal relations between the two countries ever existed. Mutual trade or hiring of Turkish ships by Abkhazian fishermen – all were just private deeds of Turkish businessmen, mostly with Abkhazian roots (Krivenjuk 2016).

On the budget of Abkhazia we can openly demonstrate how financial aid from Russia decreases. According to the treaty of 2014 Abkhazian budget was to be enriched by 9,313 billion rubles in the years 2015–2017, but in 2015 Russia sent only a fraction of the planned amount – 450 million rubles. Finance Minister of Abkhazia Amra Kvarandzia, however, announced that "she has received a statement from Russia that it is merely a redistribution of the total amount promised, affirming that in this year Abkhazia will receive 4,767 billion and in the following year it will be 4,096 billion" (*Byudzhet Abkhazii …*). With the growing economic problems of Russia it is highly unlikely though, and, moreover, the significant fall of the ruble against other world currencies further complicates the situation and Russia would have to dig deep into its Reserve Fund. According to the Finance Minister Anton Siluanov, the volume of the Reserve Fund is getting constantly thinner – early in 2015 it was RUB 5.35 trillion, but 3.67 was used and it is assumed that the budget would have to be subsidized with additional 1.16 trillion from the Reserve Fund, which means that at the beginning of the year. 2017 there will be only 519 billion left. The Minister further stated that in this year, the economic decline will stop and 111 billion RUB will be added to the Reserve Fund[46].

Abkhazian deal with Russia underwent interesting changes in the period 2010–2015 – in 2014 export and import declined by about a tenth, in 2015, however, it declined by another quarter. Abkhazia has significantly reduced mainly imports food, but also the mechanical and electrical machinery, metal products or furniture. But imports of oil and oil products are growing constantly– this should be reflected in the development of all sectors of economy. The structure of exports to Russia has changed fundamentally; the proportion of wine and soft drinks imports has been growing annually – from 27.5% in 2010 to 86.1% in 2015. The second export item was citrus and other fruits; their share, however, dropped significantly when compared to previous years. The exports

[46] http://www.gazeta.ru/business/news/2015/03/02/n_6974929.shtml

of various construction and other materials have decreased to a marginal level – in 2010, these still accounted for half of exports to Russia, but in 2015, they fell below 1%, while their value fell to a hundredth of its original figure.

4. Conclusion

After the annexation of Crimea and no more hidden revisionist and imperialist intentions of Russia, the geopolitical situation of the post-Soviet *de facto* states has become considerably more complicated. It has become increasingly apparent that Russia is strengthening its north-south geopolitical axis, as it was defined by geopolitician Aleksandr Dugin in the 1990s. To the projected Moscow-Tehran axis not only Armenia is drawn, but also of Abkhazia and South Ossetia. By its military involvement in Syria, Russia is trying to stretch this axis further into the Middle East, taking advantage of not only their own alliance with the Shiite government in Syria, but also of Iran's ties to Shiite organizations in other Middle Eastern countries. By the means of this strategy, Russia is trying to disrupt the growing influence of Western countries in Moldova, Ukraine and Georgia intensified by signing cooperation agreements with the EU and the wish of some political groups to build stronger ties with NATO[47]. So far, however, Russia's pressure on these countries by supporting *de facto* states has caused the opposite reaction. For example, Georgia delivered a diplomatic slap to Russia on 20 May, 2011, when the Parliament adopted a declaration on the genocide of the Circassians (and within its framework also of Abkhazians) on the part of the Russian Empire in the Caucasus War of 1760–1864 (Chaindrava 2011). It has become the first country to adopt a legal standard condemning ethnic cleansing, which had significantly changed the ethnic structure in the North Caucasus region. Georgia has thus taken the same step as France some time ago, when it adopted a law on the Armenian genocide in the Ottoman Empire. Another Georgian diplomatic victory can be seen in the fact that the International Criminal Court in The Hague began to deal with the Georgian legal action against Russia based on the crimes against humanity

[47] Alertness toward Russia had been exhibited even by the earlier, more or less pro--Russian oriented governments of these countries, when in 1997 they started consulting foreign-policy steps with Azerbaijan (and from the beginning also Uzbekistan) and after Putin's arrival in 2001, they established the GUAM - Organization for Democracy and Economic Development, in which Turkey and Latviahave observer status (GUAM is an acronym of the initials of member countries).

during the war in South Ossetia[48]. Similarly, the Ukrainian termination of a contract with Russia, according to which Russia could trade with Transnistria through the territory of Ukraine or complaints at the UN on Russia's engagement in the hybrid war certainly cannot be considered as a change of attitude towards Russia.

Azerbaijan stands at the interface of the two geo-strategic axes, with Russia trying to get it into its sphere of interest, however, by supporting Armenia in the Artsakh/Karabagh conflict (and, temporarily, by a hostile policy against Turkey) it pushes Azerbaijan away. That Russia has not been geopolitically very successful in the post-Soviet space in recent years can be evidenced by its reaction to the cancellation of a free trade agreement with Ukraine, which entered into force on 1 January 2016[49]. Ukraine took logically the same step on their part, but for Russia it was certainly disappointing that members of the new EAEU refused to follow the Russian step[50]. These countries still maintain the free trade agreement in the countries of the Commonwealth of Independent States, which was signed in 2011.

Russia is thus left with the major tools for influencing the development of the area, which it considers its sphere of influence, consisting mainly of the separate state formations, which originated and exist with Russian support. Russia has no reason to annex these countries like it did with Crimea, on the contrary, supporting their fictitious independence is a tool to influence the policies of countries that have begun to focus more towards the west. Russia does not want to annex even South Ossetia, although most of the local population is inclined to it. Ossetia reached a placement of a Russian military base on its territory, which allows Russia to control events in all South Caucasian states. Annexation would, on the other hand, cause a conservation of the poor Russian-Georgian relations. The same case is also that of Abkhazia, where the public support of a union with Russia is significantly smaller. Common "defensive" space is a great form of pressure on Georgia too. Statistical data confirms that the fact that *de facto* states have not been admitted into the EAEU has had no economic impact.

No customs have risen at the borders with Russia in the case of Abkhazia and South Ossetia, nor at the Armenian-Artsakh border, and mutual trade continues

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[48] According to The Guardian, it is the first investigation of such kind outside of Africa. For more see https://www.theguardian.com/world/2016/jan/27/icc-inquiry-alleged-war-crimes-south-ossetia-russia-georgia

[49] http://www.themoscowtimes.com/business/article/russia-suspends-free-trade-agreement-with-ukraine/553074.html

[50] http://www.unian.info/economics/1218935-eeu-states-not-supporting-russia-in-waiving-fta-with-ukraine.html

to operate without hindrance. It should be realizes that this trade is of marginal volume[51] and consists mostly of products that cannot get to other states of the EAEU. And in truth, in theory, it should not be a problem to describe any goods as a Russian product, and it is the same in the case of export from Artsakh to Armenia. Indeed, it was a common way how Transnistrian goods reached the EU market. Moreover, nothing prevents Russia from formally concluding a free trade agreement with the *de facto* states. Its membership in the EAEU definitely does not prevent it from such a step[52]. The fact that the *de facto* states were not admitted into the organization did not change the existing practice. Russia has even publicly declared that in case of EAEU projects it will act as an intermediary for Abkhazian companies[53]. Some economists even argue that these indirect memberships are in fact secured by agreements on free trade (with the exception of a few types of goods), which Russia concluded with South Ossetia on March 2, 2012 and Abkhazia on May 28, 2012 and which were approved by the Parliament on December 10, 2013[54].

The establishment of the EAEU is not the first Russian attempt to revitalize its sphere of influence. All member countries of the EAEU are also members of the military and security Collective Security Treaty Organization (CSTO, Russian *Организация Договора о коллективной безопасности – ОДКБ*)[55], of which Tajikistan is also a member. Although at the time of the treaty establishing the EAEU its president Rakhmon said that his country would consider membership, there have been no accession negotiations so far. From Russian support of *de facto* states, it is clear why Georgia, Azerbaijan, Ukraine and Moldova remained outside the integration efforts of Russia to involve countries of the former Soviet Union into its orbit of interests. Comparing the importance

[51] For all the four *de facto* states together the exports to Russia have never exceeded USD 150 mil., which represents a tiny proportion of 0.00003% of Russian import.

[52] E.g. Canada is a member of the NAFTA free trade zone (along with the US and Mexico), but it has separately entered into additional 12 bilateral free trade agreements with other countries.

[53] http://aiaaira.com/news/economy/kompanii_rf_stanut_posrednikami_abkhazii_v_proektakh_eaes/

[54] http://osinform.org/economic/page/6/

[55] The CSTO is a successor of so called Tashkent Agreement (on collective security) from 1992, which entered into force about two years later. The contract was signed for 5 years. In 1999, it was agreed to extend the contract, which was, however, not joined by Georgia, Azerbaijan and Uzbekistan. Therefore, the transformation in the CSTO in 2002, involved only Russia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and Armenia. Although Uzbekistan enteredinto the CSTO in 2006, it terminatedits membershipin 2012. It can be added that the CSTO has observer status at the UN General Assembly.

of these four countries with the significance of the four (or after the Donbas experiment already six) *de facto* states, it is clear that Russia is not very successful with its geopolitical strategy. To what extent will the current European policy of Eastern Partnership succeed is uncertain, however, because the situation in the region is certainly not stable. About the processes in Eastern Post-Soviet Europe writes J. Kurfürst (2014) aptly:

> There are two different points of view of the initial situation. From the geopolitical point of view, the European Union and the countries of Eastern Partnership themselves act as "keepers of the status quo" (keen to preserve the sovereign choice of the countries which are not interested in power reintegration of the post-Soviet space) and Russia as a "revisionist actor" (with an interest in limiting the sovereignty of the countries of Eastern Europe and reintegration of the post-Soviet space by the means of a Eurasian Union). However, there is still also the second point of view. From the perspective of social transformation (relation to the rule of law, political culture, normative framework, role of civil society, etc.), the situation is reversed. Russia seeks to maintain the status quo (authoritarian traits of governance, idle and weak, state-controlled civil society, weak rule of law), while the European Union acts as a revisionist power.

It can be assumed that in the long term, Russia's role as a revisionist power (in terms of geopolitics) will be weaker than the revisionist role of the EU (in relation to strengthening civil liberties and the rule of law), mainly considering the global trends.

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Państwa *de facto* i ich struktury społeczno-ekonomiczne w przestrzeni postsowieckiej po aneksji Krymu

Streszczenie

Artykuł koncentruje się na problemach ekonomicznych państw *de facto* w przestrzeni postsowieckiej po aneksji Krymu przez Rosję w 2014 r., utworzeniu Eurazjatyckiej Unii Gospodarczej w 2015 r. oraz podpisaniu pogłębionej i kompleksowej umowy o wolnym handlu między UE a Gruzją i Mołdawią wchodzącej w życie od 2016 r. Poddaje analizie długoterminowe strategie gospodarcze Naddniestrza, Górskiego Arcachu, Południowej Osetii-Alanii i Abchazji w kontekście tych zmian. Bazując na danych statystycznych i innych informacjach poddaje analizie ich problemy gospodarcze, które są ściśle związane z rozwojem sytuacji w Rosji i jej geopolitycznymi interesami.

Słowa kluczowe: państwa *de facto*, gospodarka, Abchazja, Osetia Południowa, Arcach, Naddniestrze, Rosja, PKB.

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