The Hidden Costs of a Russian Statelet in Ukraine

By William Schreiber

In dismissing the Ukrainian revolution as a "fascist" coup, officials in Moscow have conjured up memories of the turbulent period following the breakup of the Soviet Union, when Russian leaders used similar slurs to justify separatism in Eastern Europe. On March 2, 1992, 22 years ago this week, civil war broke out in Moldova between government and secessionist forces over a narrow strip of land along the Ukrainian border.

Alexander Lebed—the Russian general whose 14th Army unit intervened in the conflict, ensuring the future of the breakaway state known today as Transnistria—boasted of his role in stopping Moldova's "fascists" leaders. Several years later, Lebed entered Russian politics, declaring, without much irony, that his country needed its own version of Chile's right-wing dictator Augusto Pinochet.

A decade later, the Kremlin has the strongman Lebed pined for, Moldova's conflict with its separatist region persists, and Russian troops still occupy Moldovan territory in violation of Russia's international commitments. And now the Russian military has occupied Ukraine's Crimean peninsula, another territory with a large ethnic Russian population and a pro-Moscow secessionist movement, in violation of international law. Moscow's intentions there remain unclear.

"Separation movements in Moldova and the Caucasus in the early 1990s had clear local roots that reflected local aspirations. In Crimea today, it's clear that the aspirations are coming from outside in," said William Hill, a professor at the National War College who worked for many years on Transnistrian conflict negotiations as head of the OSCE mission to Moldova. "Russia has the capabilities to create a de facto separation between Crimea and the [Ukrainian] government in Kiev. But it's hard to see what they will gain from it."

In fact, Russia may actually lose from it—and lose big. Putin's primary objective appears to be preventing Ukraine's new government from making good on its pledge to sign an association agreement with the European Union. And Russia has had some past success in supporting breakaway regions as a means of keeping former Soviet states like Georgia and Moldova from establishing closer relations with the West.

But supporting Crimean separatism is an expensive gamble for Putin—and not just because the West is weighing economic sanctions against Russia in response to its military incursion in Ukraine. On Monday, Russia's MICEX stock index shed nearly $60 billion and the Russian ruble plummeted to a record low on fears over the crisis in Ukraine, forcing Russia's panicked Central Bank to raise interest rates (the ruble and Russian stocks bounced back a bit on Tuesday as tensions in the region appeared to ease). What's more, across the post-Soviet space, the Kremlin's attempts to destabilize its neighbors are destabilizing its own budget.

Before the Crimean crisis, Russia was already footing the bill for three breakaway states: Abkhazia and South Ossetia in Georgia, and Transnistria in Moldova. As these states are unrecognized by the international community—Russia doesn't even recognize Transnistria—they exist to a large extent outside the international economic system. While they may have bilateral agreements with certain countries that generate a modicum of trade, the economic benefits associated with globalization and foreign investment are negligible in these territories. This leaves them highly dependent on Moscow's largesse, which often comes in the form of subsidized pensions, infrastructure projects, and cheap gas.

Georgia's breakaway regions of Abkhazia and South Ossetia, which won de facto independence with the aid of Russian troops after a brief 2008 war, are black holes for Russian tax dollars. In April, the International Crisis Group (ICG) reported that Moscow had earmarked $350 million for infrastructure projects in Abkhazia between 2010 and 2012, with that number expected to triple to $1 billion between 2013 and 2015, but that only half of the $350 million had been spent because of mismanagement and corruption. The group noted that Abkhazia—which is located just miles from Sochi, the site of this year's Winter Olympics—effectively depended on Moscow for a staggering 70 percent of its budget and also received roughly $70 million in pension payments for Abkhaz residents, many of whom have Russian passports. "Abkhazia's economy is like a drug addict on Russian help," the report quoted an opposition figure in the region as saying. "We want real help to support our economic development, not 'facade' assistance."

Russian President Vladimir Putin shakes hands with South Ossetian leader Leonid Tibilov in Sochi, in May 2013. (Misha Japaridze/Reuters)

In South Ossetia, a territory with a population comparable to Altoona, Pennsylvania, Russia is spending nearly $1 billion, or roughly $28,000 per resident, according to a 2010 ICG study (South Ossetia's population is difficult to verify, and estimates range from 20,000 to 70,000). In August, *Radio Free Europe/Radio Liberty* reported that South Ossetia "remains totally dependent on Russian subsidies to rebuild infrastructure and industrial capacity" after its 2008 war with Georgia, and that most of the 27 billion rubles Russia allocated for the province have "vanished without trace," prompting the territory's prosecutor-general to open more than 70 criminal investigations into the mysterious disappearance of the funds (Russia scaled back its funding for South Ossetia in response to this embezzlement).

Transnistria's economy, meanwhile, is heavily dependent on Russian energy and financial subsidies as well, in addition to exports from several industrial plants. Last year, Kamil Calus at the Warsaw-based Center for Eastern Studies estimated that the province had run up roughly $3.7 billion in debt to Gazprom, Russia's state-owned natural gas giant. "The economic model operating in Transnistria is inefficient and can survive only thanks to support from Russia," Calus wrote. And this is by design, he added. Russia "is not interested in the region's economy becoming self-sufficient," Calus explained. "Since Moscow subsidises the inefficient Transnistrian system, it is able to control this breakaway republic and to deepen the divide between Transnistria and Moldova."

These figures may seem like drops in the bucket for a Russian government that just poured $51 billion into the Olympics and plans to spend $440 billion in 2014, but the geopolitical philanthropy Moscow offers to these breakaway regions is a serious drain on Russia's struggling, oil-and-gas-dependent economy.

If Crimea becomes another territory under de facto Russian control, Moscow would likely be forced to pick up the tab yet again. And keep in mind: The peninsula has 2 million inhabitants, which makes it 40 times the size of South Ossetia, eight times the size of Abkhazia, and four times the size of Transnistria. That adds up to a lot of pension payment for Crimea's residents, 20 percent of whom are over the age of 60.

Not only that, but Crimea's economy is particularly vulnerable to isolation. The regional government is currently struggling with a $1-billion budget deficit, and trade and export-based industries like mining and chemical production together comprise almost a third of the Crimean economy. While 40 percent of Crimea's exports head to the "Customs Union" countries of Belarus, Kazakhstan, and Russia, 60 percent head elsewhere (roughly a quarter of exports go to EU countries). Crimea has long promoted its beaches as tourist destinations—and tourism is central to its service economy, with more than 6 million tourists, up 8 percent from 2011, visiting the peninsula in 2012—but this industry is also likely to suffer from a protracted conflict (the effect that becoming a pseudostate has on tourism is a contentious subject; Georgian and Abkhaz officials, for example, can't seem to agree on whether tourism has increased or decreased in the province in recent years).

Faced with these dim economic prospects, Crimea could turn to illicit activities to generate state income. Breakaway regions have a reputation for cultivating smuggling and black markets—whether because they have few revenue streams, because local authorities are busy enriching themselves, or because they are not integrated into the international legal system. In a 2011 investigation of smuggling in Transnistria, for instance, the U.S. Senate Committee on Foreign Relations reported that between 2005 and 2011, authorities along the Moldovan-Ukrainian border carried out 10 interdictions of radioactive materials and interrupted 587 illicit weapons shipments.

On top of it all, according to Hill, the seizure of Crimea may ultimately cost Russia more influence in Ukraine than it gains.

“Having worked with Russian officials, I can tell you they don’t understand social movements,” he told me. “They perceive everything as orchestrated from the top. They don’t understand that they’re risking long-term hostility from across Ukraine.”

Funding separatism is costly enough as it is, without factoring in the incalculable price of losing more of the Ukrainian street.