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# **CAN NEOLIBERAL SMALL STATE THEORY EXPLAIN DE FACTO STATE BEHAVIOUR?**

**The Case Study of Abkhazia's Financial Foreign Policy  
Towards Russia Since 2008**

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# **Can neoliberal small state theory explain *de facto* state behaviour? The case study of Abkhazia's financial foreign policy towards Russia since 2008.**

## **Introduction:**

The dissolution of both the Soviet Union and Yugoslavia in the 1990s led to the emergence of many political entities that go against the traditional norms of Westphalian sovereignty. While the breakup of Yugoslavia brought about many short-lived *de facto* states such as Republica Srpska; others such as Bosnia and Serbia are now officially recognised as UN member states. Similarly, the breakup of the Soviet Union did not only produce fully-fledged but also *de facto* states such as South Ossetia, Abkhazia and Transnistria who still fail to receive international recognition.

Florea (2014) was the first scholar to offer a detailed conceptualisation of these political entities: *De facto* states are polities that are officially claimed by a *de jure* state they seek independence from; the *de facto* state leaders exert the full power monopoly within that area and provide its citizen with social and political order (Florea 2014:791). Moreover, *de facto* states have not been recognised by a simple majority of UN Security Council members and have existed for more than two years (ibid.:792). With this, Florea allows us to clearly distinguish *de facto* states from territories controlled by rebel groups or very short-lived state-like structures resulting from civil war. The recognition of *de facto* states is highly disputed and highly politicised: The United Nations refrains from official recognition as this would violate the norm of state sovereignty (of the state they are *de jure* part of) (Fabry 2012:663). Moreover, UN member states fear that secessionist minorities in their own or other states might feel encouraged if they recognised a newly seceded entity (Ryngaert and Sobrie 2011:480).

Abkhazia, a *de facto* state situated in the Southern Caucasus, has also failed to gain international recognition albeit its period of *de facto* independence from Georgia of nearly three decades (Blakkisrud and Kolstø 2012:281). Abkhazia, populated by the ethnic Abkhaz, had been an autonomous republic in the USSR since 1920 (Cornell 2001:262). In 1931, however, the region was integrated into the Georgian Union Republic and thus integrated into the Republic of Georgia after the collapse of the Soviet Union (Blakkisrud and Kolstø 2008:485). In 1992, Georgia cut Abkhazia's autonomous status through a change in constitution; as a result, Abkhazia proclaimed its independence from Georgia in July of the same year (ibid.). After the subsequent Abkhaz-Georgian war between 1992 and 1993, Russia (under a Commonwealth of Independent States mandate) had stationed a peacekeeping mission in Abkhazia to keep Georgian troops from reclaiming the territory (Ryngaert and Sobrie 2011:481). This peacekeeping mission was terminated by the Russian-Georgian war in 2008, caused by a violent attack by Georgian troops in South Ossetia's capital which resulted in the death of Russian peacekeeping personnel (ibid). Abkhazia quickly became the second front of this war, which led to Russia's decision to officially recognise Abkhazia's independence as a state separate from Georgia (ibid.).

Since 2008, Russia has been the only UN Security Council member state who has officially recognised Abkhazia as a *de jure* state (Girardin et al 2015:538). Moreover, Russia still supports Abkhazia financially and militarily to guarantee its *de facto* separation from Georgia (Blakkisrud and Kolstø 2012:282) – now not under a peacekeeping mandate, but under an officially established diplomatic relations with Abkhazia. However, in 2009, the Abkhazian president Bagapsh stressed that his government was determined to make Abkhazia a “legal and democratic state” independent from Russia (Sputniknews 2009). Since then, Abkhazians are committed to “keep[ing] Russia at arm's length even if it means missing out on economic development” (Blakkisrud and Kolstø 2012:291) to ensure the best protection of their *de facto*

sovereignty. Decreasing Russia's influence can be seen as crucial for the strengthening of Abkhazia's statehood, and to avoid becoming a mere Russian protectorate: At the time of the establishment of the diplomatic relationship in 2008, Russia accounted for 99% of Abkhazia's overall foreign trade (ICG 2010:6). Thus, increasing economic and overall independence has become a *sine qua non* for Abkhazia's sovereignty.

Thus, this dissertation will assess whether Abkhazia could execute its wish for greater independence. Neoliberal small state theory (NSST) emphasises that even small states have sufficient foreign policy-making capabilities to steer political developments in a certain direction. In particular, the approach claims that domestic factors such as individual leaders, economic resources and diplomatic skills determine small state foreign policy-making. Thus, NSST would predict that Abkhazia, albeit possessing smaller power capabilities than Russia, can still determine its economic foreign policy towards Moscow if these domestic factors are given. Thus, the question this research will seek to answer is: Can neoliberal small state theory explain Abkhazia's financial foreign policy towards Russia since 2008? This paper hypothesises that if Abkhazia was successful in strengthening its independence from Russia, this will be observable through diminished aid allocation dependency and diversified foreign trade. The analysis will be conducted through a theory-testing, qualitative analysis; the method used will be process tracing to test the hypothesis formulated.

The main contribution of this research lies in the application of the neoliberal approach within small state theory onto a new field of actors, *de facto* states, thus advancing the academic debate. In addition, the research hopes to contribute to the research on neoliberal small state theory, as this research aims at uncovering whether NSST is an appropriate explanatory framework for the case study of Abkhazia. Accordingly, if the research question is affirmed, this strengthens the neoliberal approach within small states theory. If the research question is

negated, on the other hand, this can pave the way towards further research on classical small state theory as potential explanatory mechanism for the study on *de facto* states.

## Literature Review:

*De facto* states are highly disputed actors in international politics. The disputed nature of those political units is reflected in the disputed terminology used to describe such entities: The terms range from ‘quasi-states’ (Blakkisrud and Kolstø 2008) to ‘unrecognised states’ (Souleimanov et al 2017) to ‘pseudo states’ (Kolossoff and O’Loughlin 1999). The terminological dispute stems from some authors opposing the ‘de facto’ nomenclature, as the lack of international recognition does not equate those entities sufficiently to a state (cf. Yemelianova 2015:221). However, the terminological disputes merely concern the semantic “edges of the definition, while not disputing the basic elements of it” (Pegg 1998:1). Thus, most scholars would agree with Florea’s (2014) conceptualisation of *de facto* states but might disagree with the terminology.

This paper will employ the term *de facto* states for three reasons: Firstly, the term *de facto* states best reflects that Abkhazia possesses a state-like character apart from international recognition as a *de jure* state. The *Convention on the Rights and Duties of States* defines a state as a political entity with “a permanent population; a defined territory; government; and capacity to enter into relations with other states” (SICOAS 1933: Article 1). While Abkhazia arguably meets all criteria, the international community does not recognise Abkhazia as a state, claiming that its recognition would disrupt the “national unity” of Georgia, thus violating the UN Charter (Fabry 2012:663). Secondly, the term ‘*de facto* state’ underlines the fact that notwithstanding the lack of international recognition, Abkhazia has succeeded in upholding both internal institutional stability and political autonomy from Georgia (Kopeček et al. 2016:86). Lastly, for

the Southern Caucasus, the term ‘*de facto* states’ is generally the commonly agreed upon terminology (cf. Berg and Toomla 2009; Florea 2014; Blakkisrud and Kolstø 2012). Academic literature on *de facto* states can be roughly divided into two camps: Studies concerned with the external dimension (such as relations with other states) of the *de facto* states, and studies concerned with the internal dynamics (such as political institution-building efforts).

Within the first camp, scholars have sought to analyse what role international law and state recognition play for *de facto* states. Within this debate, authors analyse how the process of official recognition by the international community has evolved and became more difficult to achieve (Ryngaert and Sobrie 2011). Based on this, Berg and Toomla (2009) construct a “normalisation index” which ranks the world’s current *de facto* states into the categories of negation, boycott, toleration or quasi-recognition. They found that no *de facto* state is receiving complete negation by the international society; instead, most *de facto* states can be classified as boycotted (Abkhazia, Transnistria, Somaliland and Nagorno-Karabakh), only Northern Cyprus could be classified as tolerated, and Taiwan and Kosovo as quasi-recognised, thus receiving the highest amount of international recognition (Berg and Toomla 2009:43).

Alternatively, scholars have sought to assess which factors are responsible for the survival or the failure of *de facto* states. Kolstø and Paukovic (2014), through their study of the failed *de facto* Serb Republic of Krajina, have identified that the necessary conditions for *de facto* state survival: Commitment to nation-building, measures to develop a functioning political apparatus, as well as the support of a patron state. The Republic of Krajina perished as it had neither (ibid.). Similarly, Aliyev and Souleimanov (2017), in their study of the failed Chechen Republic of Ichkeria, conclude that the lack of a patron state combined with economic dependency, ideological fractionalisation between clans, and warlord politics led to the collapse of the *de facto* state. For Abkhazia, predictive case studies have been conducted which concern themselves with the question of whether Abkhazia will survive or perish as an independent unit

from Georgia. Caspersen (2009), for instance, argues that the international isolation will eventually force Abkhazia to give up some of its independence, potentially reuniting with its parent state Georgia. This position, however, has been criticised by scholars that observe a genuine commitment to state independence within Abkhazia which will not be satisfied by solutions entailing the reintegration into Georgia (Blakkisrud and Kolstø 2012:291).

Secondly, another academic subfield concerning itself with the external dimension of states analyses the role patron states play for *de facto* states. Caspersen and Stanfield (2011) argue that one commonality can be found in all patron-and-*de-facto*-state relations: While upholding good relations with the patron states is imperative for *de facto* states, all *de facto* states are also mainly interested in pursuing their own policy agenda, which sometimes causes a conflict in interests (Caspersen and Stanfield 2011:137). However, literature on the relationship between Abkhazia and its patron state Russia mainly focuses on the Russian perspective, focusing on its foreign policy shift in the ‘near abroad’ since the mid-2000: Scholars such as Karagiannis noticed a greater military involvement in the former Soviet republics and a mismatch between Russia’s rhetoric of its responsibility to protect all ethnic Russians and its actual intention of preventing that former Soviet republics gain membership in the U.S.-dominated NATO (Karagiannis 2014:416). With this, scholars argue, Russia is successfully avoiding NATO military presence at its borders by actively supporting anti-Western regimes and stationing Russian troops in breakaway regions (Abushov 2009:204; Tolstrup 2009:940 Souleimanov et al. 2017:6). Accordingly, some authors conclude that most *de facto* states are too unstable and too dependent on their patron state to be considered important actors in world politics (Caspersen 2009; Comai 2017). However, the academic debate on Abkhazia differs slightly from the common academic consensus. Due to its particularly strong internal political stability and state-like characteristics, most scholars nowadays disagree with the definition of Abkhazia as a mere “puppet state” to Moscow

(Blakkisrud and Kolstø 2012:291; Frear 2014:89; Souleimanov et al. 2017:1). These authors can be situated within the second subfield of academic literature, shifting their focus towards an internal analysis of *de facto* states.

This internal camp of *de facto* state literature assesses the process of nation- and state-building of these political entities. Nation-building is defined as the more identity-based aspect of state-building mainly focused on creating a shared identity, a shared narrative and interpretation of history (Blakkisrud and Kolstø 2008:484; Pegg 2017). Identity, in this regard, is seen as the individual's sense of belonging to a group, be it ethnic or (sub-)national (Tajfel 1982). Thus, scholars have attempted to gather primary data to assess whether a shared identity was created between the multiple ethnic identities which cohabit in many *de facto* states. Notably, O'Loughlin, Kolosov and Toal have conducted extensive random interviews in both Abkhazia and Transnistria. For Transnistria, the authors observe a rather homogenous identity with similar opinions between ethnic Moldovans, ethnic Armenians and ethnic Russians (O'Loughlin et al. 2014). In Abkhazia, ethnic Abkhaz, as well as ethnic Armenians and Russians, have displayed a shared set of beliefs, while ethnic Georgians and Migrelians living on Abkhaz territory had diverging views on many of the questions asked by the authors related to Abkhazia's past and future outlook (O'Loughlin et al. 2011). Pegg and Kolstø have observed similar opinion disparities within Somaliland, but along tribal instead of ethnic cleavages (Pegg and Kolstø 2015).

Based on this internal approach to the study of *de facto* states, this research was inspired to focus on a more domestic explanation of *de facto* state foreign policy. To do so, this research employs a theory that has previously only been applied to (small) *de jure* states: small states theory (employed by foreign policy scholars such as Braveboy-Wagner 2010; Lamoreux and Galbreath 2008; Shaohua 2015). This theory will help assess Abkhazia has succeeded to fulfil its foreign policy preferences by looking at domestic variables.

## Theory:

Small state theory focuses on the question of whether small states – usually defined as states with a small size and small power capability (Elman 1995:171) – have any influence on international politics. Two factors have inspired the use of the small state theory framework onto a *de facto* state case study: First, Abkhazia can be defined as ‘small’ in both size and military capabilities: Abkhazia has a geographical size of 8,660 km<sup>2</sup>, a population size of about 240,000 as of 2011 (Frear 2014:2) and a military capability of 20,000 troops (Coggins 2014:177). This fact invites for the testing of an already present theory of similar political units – neoliberal small state theory (NSST) – determining whether it is expandable to the *de facto* state Abkhazia. In addition, the fact that Abkhazia possesses all relevant state-like capabilities described by Florea (2014) (such as democratic elections and stable institutions) makes it possible to equate Abkhazia to a state for the purpose of analysis.<sup>1</sup> Thus, the application of small state theory is deemed appropriate. The academic literature can be divided into two distinct approaches: Those emphasizing the dominance of systemic constraints, and approaches focusing on the power of domestic determinants of foreign policy.

The first approach builds on insights from classical realism which claims that small states cannot shape foreign policy; instead, their policy options are constrained by the fact that greater powers determine the course of action in world politics. Walt (1985), for instance, argues that the only two foreign policy options that small states have are bandwagoning or balancing. Bandwagoning refers to the situation in which a state commits to an alliance with a threatening, greater power to avoid being attacked (Mearsheimer 2014[2001]:139). Balancing – the formation of an alliance against a threatening country – is only an option for small states

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<sup>1</sup> This paper recognizes that *de facto* states are, by nature, a highly politicised issue. Treating Abkhazia as a state for the purpose of this paper has no underlying normative message. Rather, the analysis shall be seen as a purely theoretical contribution to the academic debate.

when the threat comes from another small state (Walt 1985:17). This realist approach within small state theory assumes that domestic variables such as state preferences can only be realised in the foreign policy-making of great powers, as small powers have a “smaller margin of error” with their limited military capabilities and their higher vulnerability (Handel 1990[1981]:3). Thus, this approach argues, joining coalitions with great powers is the only possibility for small states to guarantee their survival (Vital 1971:124).

The second approach within small state theory, the neoliberal approach, claims that small states have more foreign policy capabilities and more options than simply reacting to pressures from great powers. This approach does not deny that it is nearly impossible for small states to exercise power at the systemic level; however, the approach emphasises that small states can wield considerable influence in certain geopolitical areas. Braveboy-Wagner, for instance, argues that strong internal economic capabilities such as valuable resources and technological know-how can empower small states to steer their foreign policy according to their preferences (Braveboy-Wagner 2010:408). Moreover, the skill of building diplomatic relationships strategically – the so-called ‘smart’ power – can empower small states considerably: By seeking relations with other states, small states can exert normative influence and achieve their policy goals (ibid:424–425). Similarly, Lamoreux and Galbreath, for their study of the Baltic States, conclude that Estonia, Latvia and Lithuania possess sufficient power to shape international politics due to their membership in the European Union and NATO (Lamoreux and Galbreath 2008). Similarly, Shaohua (2015) in her study on the small state Taiwan concludes that its coalition with 23 other small states has successfully protected Taiwan from the foreign policy power of China. This approach rejects the notion that small powers have to align with great powers and that great powers always determine the course of action. Instead, the approach argues that small states can wield influence through soft-power mechanisms such as ideology, coalitions with other small states or by leading roles in big international

organisations (Shaohua 2015:23; Chong and Maass 2010:381). Moreover, foreign policy-makers of small states, arguably, have greater freedom in their foreign policy-making as their smallness of the state usually entails simpler decision-making structures (Shaohua 2015:23). Thus, as leaders have greater decisive power in smaller states than in greater (democratic) states, they can influence foreign policy more easily and efficiently. Fredrick Doeser (2013), in his work on “leadership-driven change” notes that Denmark only changed its foreign policy towards a more active and U.S.-friendly one after Denmark’s foreign minister decided on Denmark’s active involvement in the Gulf War. This approach assumes that under certain systemic or domestic conditions which create a window of opportunity, leaders can take advantage of the situation to stir their country’s foreign policy into a certain direction (Doeser 2013:583). These conditions creating a window of opportunity are in accordance with Braveboy-Wagner’s aforementioned factors boosting a small state’s power capabilities (internal economic capabilities such as resources, know-how, and the strategic skill to build trade and diplomatic relationships) (Braveboy-Wagner 2010:408ff.). Thus, if a window of opportunity presents itself, the foreign policy change can be initiated by a country’s foreign policy-maker, but its long-term implementation can depend upon the political preferences of future political leaders or the public opinion (Doeser 2013:583). Similarly, Gustavsson (1999) concludes his study on Sweden’s decision to join the European Community with the statement that a change in foreign policy is caused by a change in the beliefs or perceptions by a country’s decision-makers. In summary, NSST does thus believe that domestic factors such as a country’s leadership, the public opinion or the local economy can empower small states to steer their foreign policy according to their preferences.

The only attempt in academic literature to theorise Abkhazia as a small state for the purpose of small state theory was undertaken by Thomas Frear (2014). While mentioning small states theory in his work, Frear fails to mention that there are two distinct approaches within it

and does not make clear which approach he is considering in his analysis, if at all. He concludes his research by assessing that Russia's involvement with Abkhazia increases at the same time as Russo-Georgian relations deteriorate (Frear 2014:5). With this, he mainly contributes to the literature on Russia's foreign policy rather than on Abkhazia's foreign policy. Moreover, he fails to analyse whether Abkhazia has partaken in small-state theory strategies. Thus, this research aims at providing an appropriate small state theory analysis by testing NSST. This analysis will focus on the aforementioned NSST approaches by Braveboy-Wagner (2010) and Doeser (2013), stating that domestic factors can empower small states to pursue their foreign policy preferences. Thus, a state's economic and strategic capabilities – either on their own or combined with a leader's efforts to change the course of foreign policy – will be seen as factors empowering small states to change their policies. Accordingly, these factors will form the basis of the analysis.

The willingness of Abkhazia to shift its foreign policy towards greater independence from Russia invites for the application of this second, neoliberal approach. As previously mentioned, Russian aid accounted for nearly the entirety of Abkhazia's state budget in 2008 (ICG 2010:6). NSST would predict that Abkhazia, albeit possessing smaller economic capabilities, was still able to execute a more independent economic foreign policy towards Moscow. Thus, the hypothesis tested is the following:

**Abkhazia has implemented its preference for greater independence through a decreasing amount of financial aid that it is accepting from Moscow and through diversified revenue sources since 2008.**

If the hypothesis is found valid, NSST is affirmed as an explanatory mechanism for the case study of Abkhazia. This will pave the way towards future research on whether other *de facto* case studies can be explained by this small state theory approach. If the hypothesis is rejected in the analysis, NSST can be ruled out as an explanatory mechanism for this case study.

## Research Design:

This research will be conducted through a theory-testing single case study design. A single case study allows for a thorough assessment of whether NSST is an appropriate framework for this analysis. Abkhazia, as a single case study, was chosen as its unique commitment to independence and its strong internal political stability suggest that Abkhazia might, indeed, be closer to what we define as an independent state than many other *de facto* states. In comparison to other *de facto* states such as South Ossetia, Abkhazia is said to show a considerably lower degree of Russian influence (Blakkisrud and Kolstø 2012:284). This is indicated, for instance, by the fact that it seems to have a particularly strong commitment to democracy: In 2009, Freedom House rated Abkhazia as ‘partly free’, thus scoring higher than both Georgia and Russia (Freedom House 2009a). South Ossetia, on the other hand, is consistently considered ‘not free’ (Freedom House 2009b). Relatedly, both democratic development and independence were demonstrated in the 2004 presidential elections when Abkhazians cast a protest vote against Raul Khajimba, the presidential candidate backed by Moscow. Instead, Abkhazians elected Bagapsh, married to a Georgian wife, and former Abkhaz representative in the Georgian government prior to the war (O’Loughlin et al. 2011:20). The Abkhazian democracy was therefore sufficiently free from Russian interference to be able to elect a Georgia-friendly and reject a Moscow-friendly candidate. After the election result was announced, Russia threatened to close the borders and demanded new elections; nonetheless, Bagapsh was proclaimed president (Popescu 2006:15). These developments suggest that domestic preferences within Abkhazia might have a greater influence than conventional, systemic small state theory wisdom would suggest. Therefore, the domestic, neoliberal small state theory will be considered and tested for this case study.

This qualitative hypothesis-testing analysis will employ Collier’s (2011) and Beach and Pedersen’s (2013) methodology of deductive process tracing. Process-tracing is the most

adequate method to assess whether a causal mechanism is given between variables within a single case study, thus enabling the researcher to test theories or hypotheses (Beach and Pederson 2013:69). Moreover, process-tracing allows for the most detailed capturing of developments over time by breaking a causal mechanism into individual components (Beach 2017). Thus, process tracing lends itself as the most appropriate tool to test the developments of Abkhazia's foreign policy over time. Process-tracing, in this instance, will be defined as the testing of the causal chain between changes in a domestic factor and a policy-outcome (Ulriksen and Dadalauri 2016:226) – Abkhazia's preference for greater independence and the actual foreign policy, respectively. Thus, the independent variable is Abkhazia's change of foreign policy preference, while the dependent variable is Abkhazia's more independent economic foreign policy towards Russia. This analysis will focus on the *economic* foreign policy due to its indicative power of Abkhazia's state independence: If Abkhazia – notwithstanding its complete economic reliance on Russia in 2008 – was able to increase its economic independence, then this shows that small states have greater capabilities than the realist dictum suggests.

This process-tracing analysis will be conducted in two steps: Firstly, the establishment of a descriptive inference of the dependent variable (i.e. the testing of the hypothesis). Secondly, the establishment of a timeline of the change to assess the causal mechanism behind this change. These two steps are further explained in the next paragraph before moving onto the analysis. The main period considered by this analysis is 2008 until 2018, thus spanning a decade from the point of Russia's recognition to offer a thorough analysis.

Step 1: Descriptive inference – testing the hypothesis:

To test the hypothesis, it is important to establish what the economic situation of Abkhazia was prior to 2008 prior to further analysis. This will help capture the economic

direction Abkhazia was headed prior to the publicly declared decision to increase its financial independence. Thus, the first part of the descriptive analysis section will briefly assess Abkhazia's economic situation between the war in 1993 and 2008. This time period will provide an appropriate counterpart to the assessed decade of 2008 – 2018. Subsequently, the analysis will turn to the descriptive inference analysis of the period post-2008. The previously stated hypothesis will be tested and thus either verified or discarded.

Collier's work assumes that descriptive inference must be established before a causal inference is possible (Collier 2011:824). Accordingly, the crucial task of this research will be to verify that a more independent foreign policy towards Russia post-2008 was, indeed, implemented. In this "causal process observation", case-specific knowledge will have to be collected through a multitude of sources (Beach and Pedersen 2013:73). Thus, as much evidence as possible on Abkhazia's economic development will be collected to assess whether a change in financial foreign policy has occurred. To test the hypothesis, Russia's aid allocations to Abkhazia and Abkhazia's foreign trade revenues, in particular, will be looked at. Accordingly, the analysis will assess whether the amount of Russia's financial aid to Abkhazia has decreased since 2008, both absolutely and in relation to Abkhazia's state budget. Secondly, Abkhazia's foreign trade revenues, i.e. import and export revenue developments, will be assessed. Most importantly, the research will assess whether Abkhazia has conducted trade with Russia exclusively or if the *de facto* state has succeeded in diversifying its source of revenues.

#### Step 2: Causal inference - assessing the process timeline

After a change in financial foreign policy has been identified, the research will have to assess the causal process through a timeline. The descriptive inference from the previous analysis step will allow for the identification of crucial points of policy change since 2008. With process-tracing, these points of change will be assessed and causally attributed to events prior

to this development. As this analysis rests on assumptions from neoliberal small state theory, the causal inference analysis will test the predictions of NSST. In particular, the causal inference analysis will test two main domestic factors that are attributed foreign policy change capability within NSST: Firstly, NSST as interpreted by Braveboy-Wagner, which states that small states can exercise power mainly through economic means or diplomatic ‘smart’ power (2010:409). Secondly, NSST as interpreted by Doeser, who claims that the domestic factors introduced by Braveboy-Wagner change the course of foreign policy-making, but only if this change is initiated by the country’s leadership (Doeser 2013:583). Thus, the timeline analysis of the financial foreign policy developments will be concerned with unveiling which domestic factors (leadership or domestic factors) have caused change.

Before conducting the analysis, a particular aspect regarding the data analysis ought to be discussed: The collection of data for this case study is characterised by certain problems which are recurrent in the study of *de facto* states. Data for many *de facto* states is limited, thus, to circumvent the problem of making inferences with biased data, fieldwork in the country is the only way to verify secondary data or reports made by third parties. However, as primary data collection through fieldwork was not possible in this case, the author has sought to minimise any bias or inaccuracy of data through specific measures: Much of the analysis rests on economic data which was retrieved either from official Abkhaz’ government websites or Abkhazia’s state press agency *Apsnypress* (Апсныпресс). This data is expected to be reasonably reliable due to a phenomenon commonly observed for data published by *de facto* states: Many *de facto* states hope that by publishing transparent, accurate data they can demonstrate their commitment towards democratisation, thus increasing the chances of international recognition through the pursuit of “earned sovereignty” (Pegg 2017:10). Notwithstanding, the accuracy of the data will be further guaranteed by contrasting it with academic literature on Abkhazia, particularly research based on public and civil society opinion

fieldwork conducted by authors in Abkhazia (cf. O’Loughlin et al. 2011; Hoch, Kopeček and Baar 2017; Oltramonti 2015). This academic research is particularly insightful due to the fact that the authors conducted extensive, random interviews with both the general public as well the most important non-state actors within Abkhazia. Other data to back this analysis are reports on Abkhaz-Georgian and Abkhaz-Russian relations by the renowned international NGOs the International Crisis Group and Freedom House, whose data are deemed reliable and therefore used by many institutions or governments.<sup>2</sup> Moreover, several news channels were employed: On the one hand, the analysis relies greatly on the news outlet *Abkhaz World* which was selected by the author as it is committed to providing neutral and trustworthy information about Abkhazia in English<sup>3</sup>. Other auxiliary data elements include news reports about current affairs in Abkhazia from media channels such the Caucasian media channel *Ekhokavkaza* (Эхо Кавказа) by Radio Free Europe, a not-for-profit news outlet funded by the U.S. Congress, or the Georgian news channel *Georgia Today*. Insights by Georgia-affiliated news outlets will help to contrast the given information with the information proliferated by the parent state Georgia. Moreover, if Abkhazia was debated in international media, the news sources include the international news outlets *The New York Times* or *The Guardian* to provide the international community’s perspective.

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<sup>2</sup> For more information on the rigorous and professional data collection process by the two NGOs, refer to <https://freedomhouse.org/report/freedom-press-2016-methodology> and <https://www.crisisgroup.org/how-we-work/methodology> respectively

<sup>3</sup> Abkhaz World’s mission is to prove an authentic insight into Abkhaz public opinion and to translate official information on Abkhazia previously only available in Russian or Abkhazian; cf. <http://abkhazworld.com/aw/about>

## Analysis:

### *Step 1: Descriptive inference*

Background: Abkhazia's war legacy – the years leading up to 2008

Data on Abkhazia's economy between its *de facto* independence from Georgia in 1993 and Russia's recognition in 2008 is scarce. Therefore, to bridge this information gap, Oltramonti (2015) conducted an extensive analysis of Abkhazia's economy during this time through 52 semi-structured interviews and fieldwork in Abkhazia. She concludes that albeit the Abkhaz economy suffered significantly from the war, "it would be mistaken to assume that [the government's] economic activity came to an absolute standstill" (ibid.). Instead, it was a combination of the efforts of external actors and internal stakeholders that characterises this time period:

In 1998 and 1999, the Abkhaz' economy experienced deep contractions as it suffered severely from sanctions imposed by the Commonwealth of Independent States (CIS), an embargo imposed by Georgia and only started its transition towards a market economy in 1998 (Oltramonti 2015:293-296). However, those sanctions created economic opportunities within Abkhazia: The dent in the urban economies, which had been caused by people fleeing the country during the war, was filled by Abkhazians who relocated into the west of the country and into the capital city Sukhum (Oltramonti 2015:293). A "ruralisation of urban centres" followed: Abkhazia's agriculture did not collapse but instead was relocated to urban areas (ibid.). Moreover, Abkhazia's government established trade relationships with Georgian border regions and the Turkish diaspora, exporting metal, cigarettes, petrol, timber and foodstuffs (ibid.). While this prevented complete economic collapse, the economic sanctions still had a toll on Abkhazia, for instance through preventing it from receiving post-war rehabilitation aid from external donors: As aid could only flow through the official channel of a *de jure* state, most countries donated aid directly to Georgia (Francis 2011:240).

Since those sanctions were lifted in 1999, international donors were allowed to enter the country, contributing to Abkhazia's steady recovery. The European Commission's department for humanitarian aid and civil protection (ECHO) conducted food security and shelter rehabilitation programmes until 2007 in the Abkhaz region (ECHO 2016). This aid programme of 99 million euros was allocated to Georgia, the Abkhaz region and South Ossetia, enabling the reconstruction of homes destroyed by the war and providing food security to inhabitants until all regions were self-sustaining (ibid:3; Francis 2011:274). Moreover, in 2004, the European Commission allocated 10 million euros to the rebuilding of Abkhazia's main hydroelectric power plant (ICG 2006:17). While the economic consequences of these measures are difficult to observe for a lack of (Abkhazian / Georgian subnational) data for the respective years, they are—to some extent—indicated by the fact that Abkhazia's government revenue doubled between 2004 and 2007 (Coggins 2014:178; Blakkisrud and Kolstø 2008:493). In 2004, Abkhazia's had a government revenue of 709 million roubles; while in 2007, this had nearly doubled to 1,200 million roubles (ICG 2006:16).

This speedy recovery was favoured by two main traits of Abkhazia's socio-economic structure: Firstly, Abkhazia's mild climate and fertile grounds have made Abkhazia a self-sustaining piece of land in terms of food since long before the independence war with Georgia (Cornell 2001:162). Thus, food production and agricultural activities could quickly resume after the war. Secondly, Abkhazia's landscape makes it possible for the *de facto* state to obtain all of its electricity from hydroelectric plants, making it more energy-independent than Georgia proper (ibid.). Thus, after the reconstruction of the destroyed hydroelectric plant, Abkhazia could draw most of its energy from inside the country (ICG 2006:17). Moreover, the Black Sea coastline has contributed to the economic recovery: After 2001, tourism in the area started expanding (O'Loughlin et al. 2011:16); in 2004, the annual tourist count was up to 350,000 visitors (Coggins 2016:178) and had increased to approximately 700,000 tourists annually by

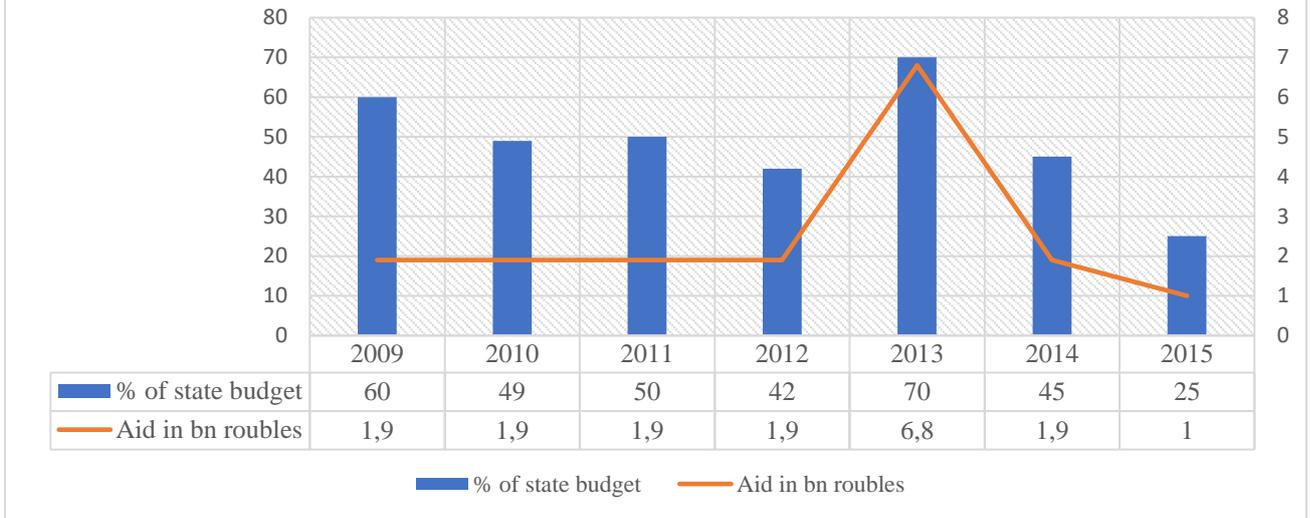
2008 (Gogoryan 2009). Thus, in 2008, Abkhazia had largely recovered from the war. However, Abkhazia was heavily dependent on Russia: In 2008, Russia was still the only source of tourism and trade, accounting for basically all of Abkhazia's foreign revenue (ibid.; ICG 2010:6).

2008 and beyond: The years following Russia's recognition

The years between 2008 and 2014 were characterised by a strong Abkhaz-Russian economic cooperation. Figure 1 shows the amount of Russian aid in billion roubles and as a percentage of Abkhazia's overall state budget. Data for this figure was composed from a multitude of sources. Both the aforementioned Hoch, Kopeček and Baar (2017) and O'Loughlin et al. (2011) have conducted extensive fieldwork in Abkhazia. This primary data is complemented with more economic and academic data by Frear (2014), a regional expert, and the International Crisis Group (ICG).

As evidenced by Figure 1, Abkhazia has retrieved up to 70% and at least 42% of its state budget from Russia's support between 2009 and 2014. In this time period, Russia has provided Abkhazia with 1.9bn roubles as direct budgetary support. In 2013, this sum was exceeded with an exceptionally high additional aid allocation of 4,9bn roubles provided by Moscow for the renewal of Abkhazia's infrastructure (Frear 2014:6; ICG 2013:6). While the sum of the direct budgetary support remained the same in this period, the varying percentages of the aid's share in Abkhazia's state budget is due to Abkhazia's rise in overall state revenue after 2009.

FIGURE 1: RUSSIA'S AID TO ABKHAZIA, IN % OF THE STATE BUDGET



(Sources: Frear 2014:6; Hoch, Kopeček and Baar 2017:336; O’Loughlin et al. 2011:6; Comai 2017:8; ICG 2010:5; ICG 2013:6; Khasik 2016)

Up until 2014, Moscow had consistently provided aid to Abkhazia to finance the deficit which up until 2014 amounted to 16,3 billion roubles (approx.\$211 million) (Khashik 2016). Between 2014 and 2016, Russia promised Abkhazia 16,86bn roubles in subsidies (Harding 2014). However, out of these subsidies, Abkhazia only received 7% by the end of 2015 (Khasik 2016).

In 2009, Abkhazian law on property ownership and foreign investments was changed to open up Abkhazia to greater foreign investment (O’Loughlin et al. 2011:6). While prior to 2009, property leasing and investments could be undertaken by Abkhaz citizens only, the opening-up to foreign investment has led to Russian investors building summer holiday homes in Abkhazia, boosting the local economy particularly during the summer holiday season (O’Loughlin et al. 2011:7). Thus, the change of law mainly opened the market towards further Russian, and not international investment up until 2011. Since the changing of the law, annual aid allocations and infrastructure development programmes have been supplemented with the building of schools and institutions by Russian firms, and Russian investment in agriculture (ICG 2013:7).

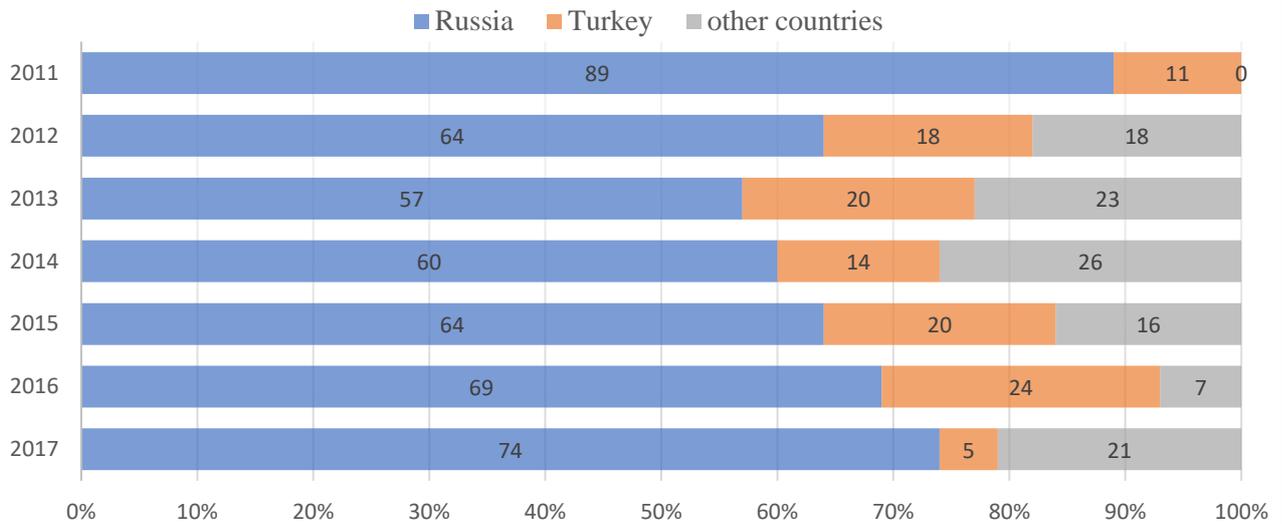
Russia accounted for 99% of Abkhazia's overall foreign trade until 2011 (ICG 2010:6; Ekhokavkaza 2012). Nevertheless, other countries have emerged as important economic trading partners:

Turkey hosts a large Abkhaz diaspora of half a million people (Barry 2009). After 2008, many Turkish Abkhaz whose parents or grandparents had once fled to Turkey have increasingly returned for holidays (Barry 2009). After Russia's official recognition of Abkhazia, most Turkish Abkhaz perceive the risk of a renewed war in Abkhazia as highly unlikely and, thus, many expressed the wish to return to Abkhazia sometime in the near future once the Abkhaz economy has recovered sufficiently (ibid.). The legislative change in favour of foreign investment in 2009 enabled Turkish investors to establish joint ventures with local Abkhaz entrepreneurs, building tourist facilities along the Black Sea coastline (O'Loughlin et al. 2011:16). Although Turkey does not officially recognise Abkhazia as a country, the trade between Abkhazia and Turkey has been developing since 2011 (Figure 2). This trade relationship has been solidified by official state visits by Turkish representatives and president Bagapsh's visit to Turkey in 2011, leading to the signing of economic cooperation treaties (Frear 2014:10). This has translated into a greater share of foreign trade with Turkey: As figure 2 shows, in 2012 – a year after the signing of the treaties – Turkey already accounted for 18% of Abkhazia's foreign trade. In 2013, Turkey accounted for 20% of Abkhazia's foreign trade, 14% in 2014 and 24% in 2016<sup>4</sup>. This shows that the trade relationship with Turkey has remained stable at around 20% bar in the year 2017, providing Abkhazia's with a considerable source of income of 2 billion roubles annually (Ministry of Customs of Abkhazia 2016; Apsnypress 2013, 2014).

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<sup>4</sup> no official data is available for 2015, therefore 2015 shall be treated as an estimate

**FIGURE 2: COUNTRIES ACCOUNTING FOR ABKHAZIA'S FOREIGN TRADE, IN %**



*Source: Ekhokavkaza 2012; Apsnypress 2013; Apsnypress 2014; Ministry of Customs of Abkhazia 2016; Ministry of Customs of Abkhazia 2018. Data from 2011 is based on author's calculations.*

Similarly, trade with other countries has been developing since 2011: With the exception of the year 2016, trade relationships with other countries have accounted for between 16 and 26 percent of Abkhazia's foreign trade after 2011. In 2012, the share of the remaining 18% of 'other countries' included the Baltic countries with 5%, Germany and Moldova with 2%, Ukraine and China at 1% (Ekhokavkaza 2012). The Abkhaz Ministry of State Customs reports trade relationships with more than 40 countries as of 2018 (Ministry of Customs of Abkhazia 2018). This proves that Abkhazia has successfully diversified its foreign trade destinations starting after 2011, with the share of economic turnover of other countries between 11% in 2011 and a high of 43% in 2013.

Furthermore, the trade relationship with China is fortifying since 2017. Previous to 2017, the trade relationship was solely import-based with Abkhazia acquiring Chinese clothing and furniture (Pender 2017). Now, the demand for Abkhaz culinary products such as wine has driven new, small-scale Chinese investments in Abkhazia (ibid.). Simultaneously, Chinese tourism is rising (ibid.). Similarly to the increasing influx of Turkish and Russian tourists, the

influx of Chinese tourists has been boosted by the troubled situation in other popular holiday destinations such as Egypt (Achba 2016) and the financial crisis, which made the cheap resorts in the *de facto* state particularly appealing (Gogoryan 2009). Due to these developments, the annual tourists count reached a new high of 1.5 million tourists in 2017 (Pender 2017).

All these developments have the following implications towards confirming or rejecting the hypothesis: Firstly, the assessment has shown that at least until 2014, Abkhazia has consistently received financial aid by Moscow (Figure 1). However, after this period, the amount of aid received was nowhere near the promised sum. Thus, this point of the hypothesis could only be partially confirmed. Regarding the diversification of trade revenues, however, the hypothesis was confirmed: After 2011, Abkhazia successfully established trade relationships with Turkey and other countries—leading trade with other countries to total between 11% and 43% since then—and encouraged tourism and foreign direct investment. Although Abkhazia's dependence on Russia is still considerable, the overall picture certainly is one of a changed, more independent economy since 2008.

### *Step 2: Causal inference*

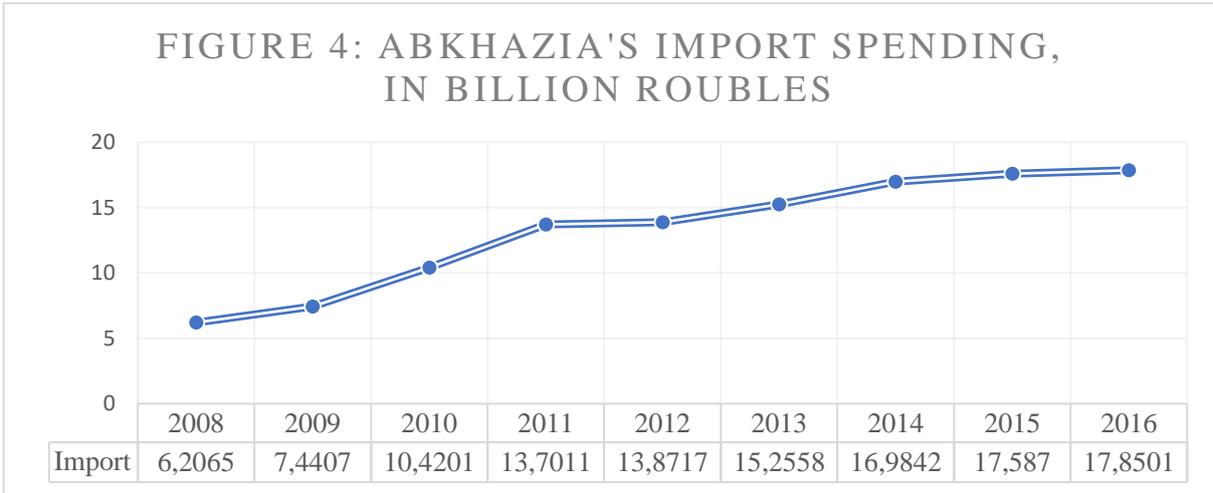
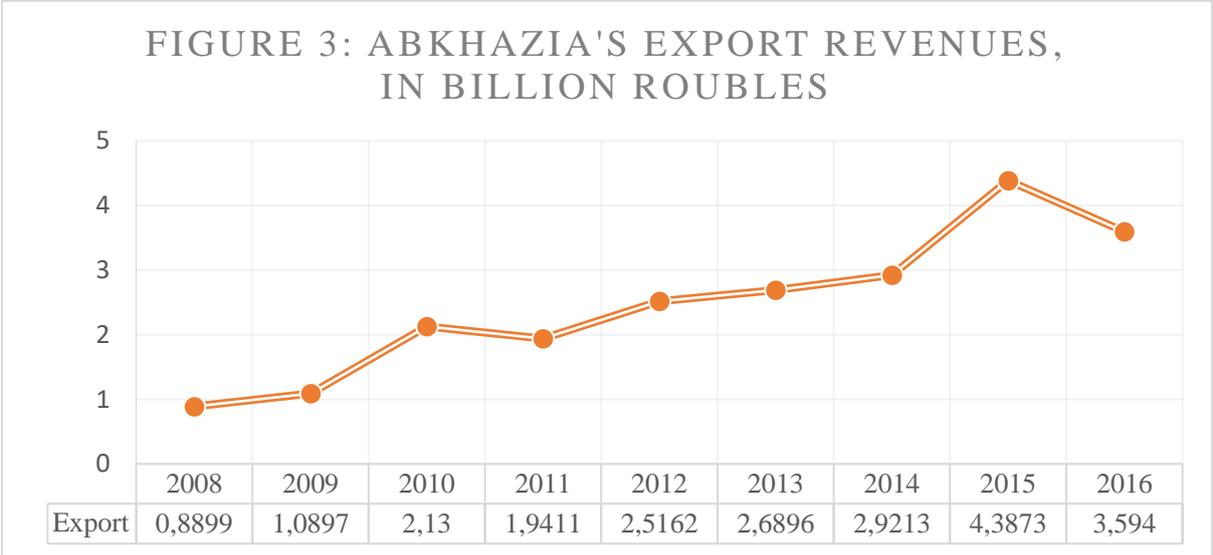
The descriptive inference has shown that a change in aid and trade relations has, indeed, occurred. To better understand the causal process behind the foreign policy developments, it is necessary to revisit the key events assessed in the previous step of the descriptive inference.

The first step towards greater economic independence was made by establishing trade relationships with countries other than Russia. Naturally, this might seem to be a hard undertaking due to Abkhazia's widespread non-recognition which impedes its ability to establish official trade relationships with most countries. Nonetheless, Abkhazia succeeded to establish relations with several countries: Abkhazia has sought to utilise this Turkish diaspora to increase its economic independence from Russia through establishing cooperation treaties

and twinning initiatives with Turkish firms and cities starting from 2012 (Frear 2014:4). Moreover, since 2014, Abkhazia has further invested in reaching out to its Turkish as well as Syrian diaspora community by providing Turkish and Arab versions of the country's official websites as well as social media accounts (O'Loughlin et al. 2011:16).

Abkhazia's efforts to diversify its trade partners was institutionalised with the establishment of four distinct departments dedicated to foreign diplomatic and trade relations: "(1) the Department of the Russian Federation, the CIS, Nagorny Karabakh, Transnistria, Georgia, and South Ossetia; (2) the Department of Latin America, Asia, Africa, and the Asia-Pacific; (3) the Department for Europe, the USA, and Canada; and (4) the Department for Turkey and the Middle East." (Frear 2014:86). Positive results have followed from making foreign relations a priority. As of 2018, Abkhazia holds 19 diplomatic representative missions all over the globe: 3 fully-fledged embassies in Moscow, Caracas and Tskhinval (South Ossetia); 8 plenipotentiary representative offices in Berlin, Tiraspol (Transnistria), Sofia, Athens, Salonika, Ankara, Damascus and Rome; 3 representative offices of the Foreign Ministry of Abkhazia in Amman, Tunis and Vienna; and 3 Honorary Consuls stationed in Beijing, London and Rostov-on-Don (Ministry of Foreign Affairs of the Republic of Abkhazia 2018). Most of these diplomatic relations were established or expanded in recent years. An example of this is the signing of 'protocols of friendship and cooperation' with Italian cities in 2013 and 2014 (Abkhaz World 2014), or the opening of the chamber of commerce to Abkhazia in Berlin in 2017 (Morrison 2017). This foreign policy-making process mirrors what Braveboy-Wagner predicts in her analysis of NSST: The source of a small state's economic power often lies in its economic capacity, or in the 'smart' power of establishing strategic diplomatic and trading relations (2010:409). Indeed, after Abkhazia's efforts to establish smart power relations, a diversified trade followed.

Notwithstanding all the developments regarding foreign relations, it has to be noted that Russia still remains the most important trading partner. Thus, ending the enduring dependency necessitates strengthening the internal economic capacity of Abkhazia. As Figure 3 and Figure 4 show, Abkhazia’s trade balance is negative as the imports considerably outweigh the de facto state’s exports. While Abkhazia has more than quadrupled its export revenues since 2008, the already high amount of import spending has nearly tripled: While Abkhazia is spending 17,85 billion roubles in 2016 as compared to 6,2 billion roubles in 2008; export revenues have only increased from a value of 889 million roubles to 3,59 billion roubles between 2008 and 2016.



Source (Figure 3 and 4): Department of State Statistics of the Republic of Abkhazia 2014, Department of State Statistics of the Republic of Abkhazia 2015, Ministry of Customs of Abkhazia 2018

Particularly Russia ceding to deliver aid after 2014 (as seen in the descriptive inference) has significantly strengthened Abkhazia's wish to pursue policies of greater economic independence: As a consequence, Abkhazia has sought to drastically change its financial policymaking to strengthen its internal economic capacity. In 2016, president Raul Khajimba launched reforms to make "Abkhazia self-reliant and the country's budget unsubsidized" (Khajimba in Khashik 2016). These reforms were fourfold:

- (1) Increasing taxes on imported goods to motivate businesses to use local products; this is expected to generate a revenue of about one billion roubles in the coming years (Khasik 2016). In particular, imported beer was taxed with 30 instead of 10 roubles, and tax for imported cigarettes rose from 5 to 10 roubles (Apsnypress 2015).
- (2) Increasing the state revenue, mainly through the decriminalisation of the shadow economy, which is expected to generate 6 billion roubles once the whole sector is decriminalised (Khasik 2016). Moreover, president Khajimba has invested in rebuilding the Abkhaz tobacco industry and in the development of the local fishing industry (Apsnypress 2015). In addition, loans with subsidised interest rates were granted to local businesses (President of Abkhazia 2016a).
- (3) Increase transparency, efficiency and accountability of the state budget and internal policymaking processes by establishing a new State Treasury Department, which was inaugurated in June 2016 (President of Abkhazia 2016b).
- (4) Decrease the number of state officials; clear figures were not declared, but the number of officials has been cut down by 15% in 2016 (Khasik 2016). Partly, this measure was aimed at cutting down corruption and ensuring that state personnel was sufficiently qualified and motivated (Apsnypress 2017).

All these reforms are planned to be fully implemented by 2022 (ibid.). Khajimba's reforms showed first positive results in the Abkhaz' economy the following year: In 2015, budget

revenues increased by 18.8% compared to the previous year, and the economy grew by 7.8% (Fuller 2016). In 2016, the budget revenue had increased by another 31%, predicted to grow another 13% in 2017 (President of Abkhazia 2017).

The more Abkhazia’s economic and diplomatic capacity grew, the more measures it could pursue to further strengthen its economic independence from Russia. Inversely, the capacity-building tax and budget reforms of 2016, for instance, would not have been possible to conduct in times where Abkhazia’s economy was still weak and structurally dependent on Russia, particularly between 2008 and 2011. The redevelopment of the domestic manufacturing industry and Abkhazia’s growing export trade enabled measures such as the tax increase on imported goods, reinforcing its striving for national economic autonomy. Moreover, as predicted by Braveboy-Wagner (2010:409), the fact that Abkhazia has valuable energy resources through its hydroelectric plants has provided the *de facto* state with a favourable precondition for increased economic independence.

A timetable of the described events will help depict the causal process:

Figure 5: Abkhazia's financial foreign policy

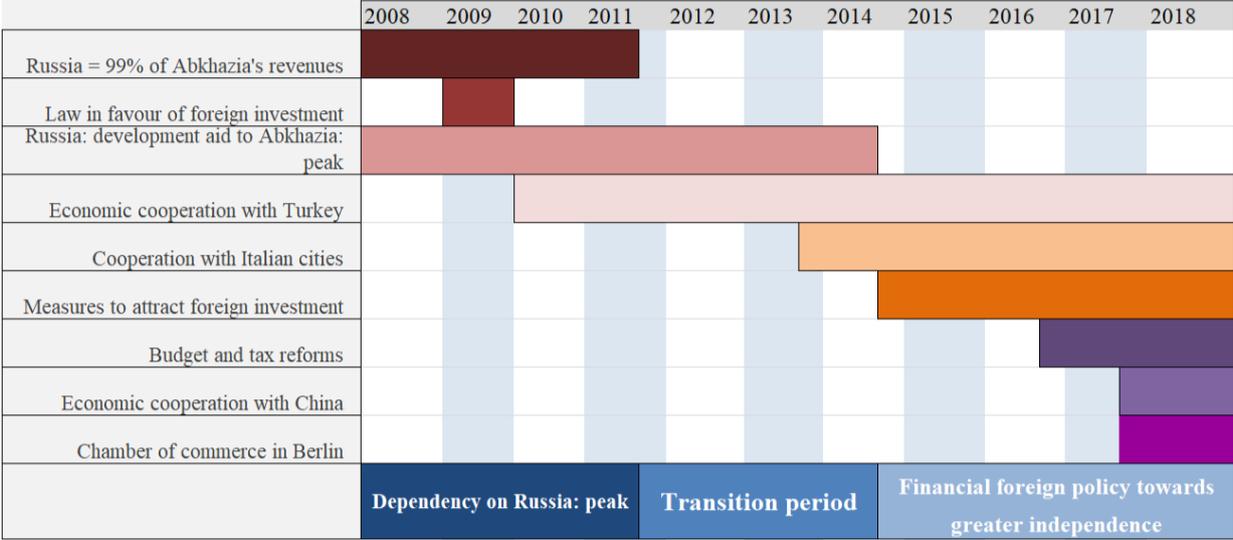


Figure 5 shows the process of the foreign policy change: The peak of Abkhazia’s economic reliance can be identified as the period between 2008 and 2011, demonstrated, for

instance, by the fact that Russia accounted for about 99% of Abkhazia's foreign investment in this period (ICG 2010). Moreover, the Abkhaz economy had yet to recover from the long-term effects of the war with Georgia (Coggins 2014:176). The period between 2011 and 2014 can be assessed as a transition period: Abkhazia is slowly diversifying its foreign trade revenues due to the growing cooperation with Turkey: Turkish tourist flows after 2010 have been followed by Turkish investments in the region (made possible by the change in property law in 2009), eventually leading to the signing of cooperation treaties between Turkey and Abkhazia (Barry 2009; Frear 2014:4; O'Loughlin et al. 2011:16). Similarly, cooperation accords between Italian and Abkhaz cities have been established since 2013 (Abkhaz World 2014). After 2014, a foreign and trade policy increasingly independent from Russia can be observed through the strengthening of trade relationships with other countries such as China, but also many other countries which now host representative offices to Abkhazia (Pender 2017). Moreover, concrete measures to attract foreign investment and to strengthen Abkhazia's internal economic capabilities have been conducted, most notably the tax and budgetary reforms launched in 2016. This identification of distinct phases will allow for the analysis of which domestic factors have been accountable for the change towards greater independence.

To provide a complete NSST analysis which assesses both possible domestic determinants of foreign policy change, this analysis will also test for the individual level of policy change suggested by Fredrick Doerer. Leaders are assumed to be the initiators of foreign policy change; this foreign policy change will succeed if other domestic variables are favourable (Doerer 2013:583). The following analysis will, thus, be concerned with the question whether any of Abkhazia's leaders' wish towards greater independence was the initiator of the change in foreign policy, or whether the individual level of analysis is not salient for this case study.

A timeline of Abkhaz leadership is indispensable for this analysis:

Figure 6: Abkhazia's presidents - timeline

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Sergei Bagapsh	Dark Red				Light Blue	Light Blue		Light Blue		Light Blue	
Alexander Ankvab		Light Blue		Light Blue	Dark Red			Light Blue		Light Blue	
(Valeri Bganba)						Light Blue	Light Red	Light Blue		Light Blue	
Raul Khajimba		Light Blue		Light Blue		Light Blue		Light Red			

Figure 6 shows that Abkhazia saw a change in political leadership three times since 2008. This timetable reveals that the peak of Abkhazia’s independence coincides with former president Sergei Bagapsh’s presidency. Bagapsh had already been in office since 2005, and was re-elected in 2008.

In the first years following the official Russian recognition, Abkhazia’s key political and societal figures knew that a strong cooperation with Russia was necessary to consolidate the separation from Georgia. Hoch, Kopeček and Baar conducted “interviews with important local non-state actors” (2017:332) from Abkhaz civil society, news agencies and key clerical and secular institutions in 2009, 2014 and 2015. Just after Russia’s official recognition of Abkhazia in 2008, most interviewees stated that Russia’s financial assistance was, for now, indispensable to acquire the necessary funds to strengthen the internal democratic structures and economy (ibid:335). However, the same civil society leaders recognised that once this had been done, Abkhazia ought to pursue greater independence from Russia (ibid.:336). This opinion was echoed in the Abkhaz policymaking realm with president Bagapsh declaring that his government was determined to make Abkhazia more independent from Russia (Sputniknews 2009). However, the domestic conditions were evidently not favourable for such a change to happen yet, as a gradual change in economic and foreign policy only occurred after his presidency ended.

The financial policy-making transition between 2011 and 2014 coincides with the term of president Alexander Ankvab who governed from May 2011 and resigned in June 2014.

Notably, he resigned as a consequence of public riots; protesters dissented with the fact that Ankvab had not been committed towards Abkhazia's greater financial independence, for instance by not tackling corruption and promoting better fiscal management sufficiently (Herszenhorn 2014). Hence, during Ankvab's presidency, necessary domestic conditions towards a change in financial policymaking can be found: The recovering economy, the establishment of the trade relationship with Turkey, and the public opinion favourable of such a change. However, Ankvab never expressed a commitment toward greater financial independence from Russia: On the contrary, he frequently met Russia's president Putin, voicing a desire for greater cooperation between the two countries (President of Russia 2013). Thus, albeit a window of opportunity to increase economic independence was present, a change in economic foreign policy did not follow due to Ankvab's lack of commitment. After his resignation, Valeri Bganba took on the role as the acting president for a period of three months before presidential elections could be called.

During Khajimba's presidency from 2014 onwards we see the greatest commitment towards increased financial independence: The solidification of diplomatic and trade relationships through the establishment of representative offices in many parts of the world, the establishment of the Abkhaz Chamber of Commerce in Berlin and, most importantly, Khajimba's tax and budget reforms from 2016 onwards. Khajimba's tax reform, thus far, is the only manifestation of the wish for greater financial independence by an Abkhaz' president. This suggests that in this case, Khajimba was the initiator of Abkhazia's gradual financial policy change. As suggested by Doeser's leader-driven change approach, the implementation of Khajimba's wish for greater financial independence was made possible by a window of opportunity: the recovering Abkhaz economy, the increased export revenues and the

increasingly high number of trade relationships favoured the full implementation of his tax reforms.

## Conclusion:

This research has concluded that domestic factors have empowered Abkhazia to steer its financial foreign policy according to its preference of a greater financial independence from Russia. With this, this analysis has verified the expectations of neoliberal small state theory applied to this case study. This was shown by the fact that Abkhazia was able to implement a more independent foreign policy over the years, particularly since 2014. Two domestic factors, in particular, were verified by this research to have caused this development: Firstly, congruent to Braveboy-Wagner's claim, Abkhazia's increasing economic capability and its 'smart' power to form trading relationships with an increasing number of states. Secondly, Abkhazia's leadership as an influential domestic factor to steer this process. As argued by Doeser, a change in foreign policy can be induced by the leaders of small states and can be fully implemented when a window of opportunity is given. Abkhaz president Khajimba's commitment towards greater financial independence, paired with an already favourable economic and diplomatic environment at the time of his presidency, appears to have led to a successfully implemented change in financial foreign policy-making. Thus, the findings of this analysis have validated small state theory as an appropriate framework for Abkhazia. The implications for NSST: NSST is an appropriate analytical framework for *de facto* states.

The implications for the study of *de facto* states are the following: Albeit generalisation can rarely happen based on a single case study, this research nonetheless hopes to have laid the foundation for future research: This analysis has shown that *de facto* states can serve as the research object for both subfields of small state theory. Therefore, this research has contributed

towards the establishment of small state theory as a possible explanatory mechanism onto other *de facto* case studies. Albeit the *domestic* level of analysis within NSST might not be equally applicable to every *de facto* state, small state theory literature and its two different sub-approaches hold valuable insights for the analysis of *de facto* states: For case studies in which the domestic approach is not feasible, the *systemic/classical* small state theory approach might provide an alternative analytical framework instead. Thus, this thesis hopes to have contributed towards the advancement of a generalisable theory – small state theory – which could bridge a multitude of case studies, allowing for comparative case studies in the future.

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