Eastern Voices

Europe’s East Faces an Unsettled West

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Dramatic developments across Europe’s east are testing fundamental assumptions that have guided Western policies over the past quarter century. At the same time, the United States, western and central Europe have been distracted by a range of home-grown challenges and dangers from other parts of the world, and have been divided over proper approaches to the vast and turbulent space of Europe that is not integrated into the EU and NATO. With this in mind, our two institutions, together with our partner, the Robert Bosch Stiftung, are engaged in an ongoing effort to bring together leading analysts and decision-makers from the United States, Russia, eastern and western Europe to address these new dynamics.

In the first phase of our project we sought to build Western awareness, understanding and, where possible, renewed Western consensus on Eastern policy. We engaged senior officials, regional experts, scholars, foreign policy strategists and other opinion leaders in a Transatlantic Strategy Group as well as in a series of consultations in Kyiv, Moscow, Berlin and Washington, DC. Eminent authors were asked to contribute their perspectives, which resulted in our book *The Eastern Question: Russia, the West, and Europe’s Grey Zone*.

Having focused on Western policy, we have now turned to east European scholars and opinion leaders for their perspectives on challenges facing their countries and the region as a whole, including their views on the role of the United States, the EU and NATO, and their expectations of western and central European countries in this part of the world. We feature their views in this volume, appropriately entitled *Eastern Voices*.

In the third phase of our effort we asked a diverse range of Russian interlocutors for their perspectives, which we feature in a companion volume entitled *The Russia File: Russia and the West in an Unordered World*.

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Daniel S. Hamilton
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Crisis: The New Normal

As of this writing, the war in eastern Ukraine is now in its third year. Ongoing conflict between Russia and the West has become the new normal. Yet the ability of Europeans and Americans to address the Russia challenge is now questioned by turmoil within the West itself. The decision by the United Kingdom to quit the European Union and the election of Donald Trump, an anti-establishment economic nationalist, as the 45th president of the United States, have rocked the very foundations of the West. These and other challenges, such as terrorism, refugee streams, and economic and populist pressures at home, have left the United States and west-central Europe with less confidence and readiness to respond to tensions with Russia or to reach out in any significant way to Europe’s east.

The consequences have become particularly clear with respect to Russia. Vladimir Putin has successfully upgraded his international role through his involvement in the Syrian war. Despite ongoing Western sanctions, Putin has sought to break out of his isolation by positioning himself as an influential leader with whom one must talk if one wants to solve international conflicts. His ability or even his interest in conflict reduction remains questionable, however, and his record of engagement points more to his desire to use such conflicts as opportunities to upgrade his role at the cost of others. Putin’s influence stems more from his role as a spoiler than as a responsible leader. The 2018 presidential election in Russia will be a stress test for the Putin system, but it is unlikely to challenge Putin’s position in any substantial way.

Despite Donald Trump’s reluctance to criticize Russia and his hints that he might recognize Moscow’s annexation of Crimea and review Ukraine-related sanctions as ways to pursue warmer ties with Putin, there has been no improvement in relations between Russia and the United States. U.S. Secretary of State Rex Tillerson, U.S. Secretary of Defense James Mattis, and U.S. Ambassador to the UN Nikki Haley have all called
Russia’s claims on Crimea “illegitimate,” stated that the United States will continue to hold Russia accountable to its Minsk commitments, and that U.S. sanctions against Russia will remain in place until Moscow reverses the actions it has taken there. They have also criticized Russian activities in Syria and in Afghanistan, and Mattis has called out the Putin regime for “mucking around” in other people’s elections—a particularly notable claim coming at a time when federal and congressional investigators are probing alleged Russian meddling in the 2016 U.S. elections. The Trump administration has extended current sanctions to encompass additional Russian individuals and companies, and the U.S. Congress has also become even more assertive with regard to Russia, including efforts to impose even further sanctions.

Trump’s view of Putin has also evolved, and he believes that in the current atmosphere—with so much media scrutiny and ongoing probes into Trump–Russia ties and election meddling—it won’t be possible to “make a deal,” as the President himself has framed it. The best that may be expected is agreement to reduce the risk of inadvertent incidents that could lead to major conflict; to manage differences in ways that do not allow them to erupt; and to contain other potential disruptions from third issue areas. After initial hesitations, President Trump has affirmed the U.S. commitment to Article 5 of the North Atlantic Treaty, has reinforced U.S. participation in NATO’s forward presence in the Baltic states, Poland and Romania, and increased U.S. funding for the U.S. military in Europe.

As the U.S. administration’s approach to Russia continues to evolve, it is likely to be further influenced by the question whether to supply lethal defense aid to Ukraine, for which there is strong support in the Congress, and by debate over Russia’s violation of the INF Treaty.

In short, despite much rhetoric about a new dawn in U.S.–Russian relations, bilateral ties are arguably the worst since before the Gorbachev era. U.S. and Russian leaders share limited interests and very different world views of what drives the international system. EU–Russian relations also remain tense, with no signs of change, as exemplified by the EU decision to extend sanctions on Russia until at least mid-2018 without any controversial discussion. Russia’s meddling into the French and German elections has further alienated the relationship. With Emmanuel Macron, a EU-friendly president has been elected in France who will strengthen the tandem with Germany and who has a critical view of Russia’s role in Europe.
In March 2016 EU foreign ministers agreed on five guiding principles for EU-Russia relations.\(^1\) They include full implementation of the Minsk agreement; closer ties with Russia’s former Soviet neighbors; strengthening the EU’s resilience to Russian threats like cyber attacks and disinformation; selective engagement with Russia on issues such as counter-terrorism; and increased support for people-to-people contacts. These principles show the limited ambitions of the EU with Russia at the moment. There is still no regular exchange between Moscow and Brussels; EU member states are still searching for a new approach to Russia.

Tensions with Russia extend to Syria, Iran, and other issues. Yet the key source of conflict between Russia and the West continues to be over their common neighborhood in Europe. Russia’s leadership believes that Western activities in this region are a threat to its hold on power at home. It is not only willing to pay a much higher price to assert influence over the common neighborhood with the EU and NATO than any Western state, it has shown it is prepared to use force to protect what it believes is Russia’s sphere of influence. The post-Soviet region is Russia’s primary area of interest, as it is intimately tied to the Kremlin’s image of Russia as a regional and global power.

Russian aggression and intimidation is not the only factor challenging Europe’s eastern lands beyond the EU and NATO. Internal conflicts and tensions are equally relevant. Corruption and crony capitalism, kleptocratic elites, and festering conflicts are draining resources from countries that are already fragile and poor. Their instabilities have mixed with Moscow’s revisionism to form a combustible brew.

**Demand for More Western Engagement and (Co-)Ownership**

With these considerations in mind, we asked authors from eastern Europe and others focused on the issues and concerns of the region to offer their own perspectives. What is strikingly clear from their essays is that the societies and elites in throughout the region are uncertain what they can expect from the EU and the United States at this time of rapid change and ongoing vulnerabilities. Growing frustration is the result. Many authors warn against growing fatigue and populism in these countries.

U.S. disengagement under President Obama as well as Donald Trump’s unpredictability and disinterest has strengthened this perception. The deep identity crisis of the European Union, and the trend toward renationalization among many of its member states, limits the EU’s soft power and capability to act. Self-doubts within European societies, as well as the lack of credibility of European leaders to reform the EU and their countries, challenge the EU as a role model also in its eastern neighborhood.

The West’s unwillingness or inability to act offers the Kremlin opportunities to destabilize the common neighborhood. Although the Russian leadership has no functioning social, economic or political model to offer, it is able to use the weakness of the West (and of its post-Soviet neighbors) to make short-term gains and prevent substantial reforms in the region. At the same time, vested interests in the six countries in the EU’s Eastern Partnership (EaP)—Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine—are the best insurance for Russia that reforms will proceed only sluggishly, if at all. But our authors all agree that without substantial Western support, EaP countries are unlikely to advance sustainable reforms or substantial progress toward modernization.

In Ukraine, the current leadership has put the reform process more or less on hold, despite ongoing pressure from within society. EU member states lack both the will and a viable concept that could enable them to take more ownership in the Ukrainian reform process. Yet there will be no substantial reforms in the country without a “sandwich” strategy that can leverage pressure from inside and outside Ukrainian society.

Individual Ukrainians need to be able to identify reform measures directly with tangible results that have a positive impact on their personal lives. The introduction of visa-free travel to the EU in June 2017 is a prominent example. While such travel is still too expensive for many Ukrainians, most understand that Ukraine’s turn to the West and reforms related to it have given them one more important liberty—that of freedom of movement.² Additional practical measures, clearly tied to the reform process, will remain important.

For Ukrainian society it is also crucial that the United States and the EU stick to the sanctions they have imposed on Moscow related to the Kremlin’s annexation of the Ukrainian peninsula of Crimea and Russia’s military intervention in parts of the eastern Ukrainian regions of Donezk and Luhansk. The EU’s decision to extend sanctions until at least mid-2018, and the Trump Administration’s decision to impose additional sanctions on Russian individuals and companies, are strong signals of support. Angela Merkel’s May 2017 meeting with Vladimir Putin in Sochi confirmed that the Russian leadership is not contemplating any compromise or flexibility in the Normandy negotiations addressing these issues. While EU leaders are likely to reward any positive signal from Moscow in eastern Ukraine with concessions, Vladimir Putin sees no reason to compromise. The Minsk process is at a stalemate, and Ukrainian security remains under threat. Continued military assistance to Ukraine thus remains crucial.

The reform process in Ukraine would also receive a positive jolt if a clear final destination—for instance the perspective for eventual EU membership—were visible. An EU commitment to this effect remains elusive, however.

In the meantime, Ukraine has yet to find a way to make reforms irreversible. In her chapter, former Ukrainian finance minister Natalie Jaresko argues that “fatigue, populism, and vested interests” are the primary challenges for Ukraine. Igor Burakovsky contends that successful reforms will depend not only on ongoing pressure from civil society, but on co-ownership of reforms by the EU. At the same time, the EU and international financial institutions like the IMF have to deal with the absorptive capacity of the recipient country.

This is also true for other countries of the region. Overcoming vested interests is the main challenge for reforms in all EaP countries. Moldova, which lacks sufficient economic and human resources to change the rules of the game while an oligarch owns the country, is the “bad practice” example of state capture in the region. Corrupt Moldovan politicians claiming to be “pro-European” have discredited the term among the broader public, and the EU accepted this charade because it needed a success story. Martin Sieg explains in his chapter how Moldovan elites use the geopolitical polarization between Russia and the EU to distract from their internal power struggles and to preserve their own vested interests. He points out that Moldova is not able to overcome this situation on its own. Its most critical need is to develop the human capabilities necessary for an effective reform agenda. Yet as long as the young generation continues
to leave the country for work, either to Russia or the EU, the country is
left with insufficient domestic pressure for change, and lacks the critical
mass of human expertise necessary to implement meaningful reforms.

Sieg recommends putting the transformational agenda at home ahead
of geopolitics. In addition to offering financial support under tough con-
ditionality, the EU has to assume much more active co-ownership of the
reform process. Priorities include focusing on game-changing reforms
and creating institutions that can challenge vested interests. He cites as
an example the Romanian anti-corruption directorate, which was estab-
lished with the strong support of the United States during the accession
process to the EU, and which has the necessary power and capabilities to
conduct and control the whole process of investigation and prosecution.
Legal reforms, the quality and independence of courts and judges, and
strong rule of law are the backbone of any sustainable reform process.

Georgia has gone most far in its reforms but has bumped up against
limits in its efforts to deepen its relations with the EU and NATO. It now
has an Association Agreement, including a Deep and Comprehensive
Free Trade agreement and visa-free travel with the EU. But what comes
next? As Kornely Kakachia argues, despite the many flaws in its strategy
the West remains the main guarantor of Georgia’s democratic consolida-
tion and its security, which remains under strain. Because of its geopolitical
location and the crisis of the West, Georgia has to remain flexible in its
foreign policy. It needs strategic patience with regard to Euro-Atlantic
integration, but has to perform as the best kid on the block when it comes
to implementation of democratic reforms and the EU Association Agree-
ment. A successful reform process will make it more difficult for the EU
to refuse Georgia deeper integration.

Even though the Georgian government has to manage popular expec-
tations regarding the future prospects of integration into Euro-Atlantic
institutions, the West can do more. The EU needs to develop a more dif-
ferentiated approach towards EaP countries based on their democratic
achievements and their strategic importance. EU member states have to
counter Russian propaganda and stepped-up activities in the common
neighborhood. Individual Georgians need to experience the benefits of
being part of the EUs EaP policy on a daily basis. What is needed, according
to Kakachia, is access to the EU labor market, and greater financial assis-
tance ties to the reform agenda in such crucial areas as strengthening the
rule of law and good governance. Stuttering implementation of reforms
is the main weakness of the Georgian government and of that of many other countries in the region.

The sustainability of Georgia’s reforms, and in fact the survival of the Georgian state itself, is dependent on the country’s security situation. Russia’s occupation of Abkhazia and South Ossetia, and the ongoing security threat it represents, renders Georgia vulnerable. EU and U.S. support for good governance, the rule of law and social and economic reforms by the EU must be linked in the popular mind with an improvement of the country’s security. Ultimately, prosperity will only be possible in a safe environment. The games Russian leaders play with the security of their neighbors need a more serious answer. At the same time, the EU needs to step up its engagement with the occupied territories, and not leave Georgia alone. For Benedikt Harzl, the EU has to invest more in communication and academic mobility with the occupied territories. Thomas de Waal argues that the EU’s policy of “non-recognition and engagement” for Abkhazia and South Ossetia is the right strategy for both the EU and the United States.

More Western ownership and responsibility is also needed in the Nagorno-Karabakh conflict. Russia is using the conflict to play the conflict parties against each other, which prompts Anar Valiyev, in his chapter, to demand more engaged Western mediation. U.S. disengagement and EU weakness has left a significant vacuum in the region, which Russia is willing to fill. Yet instead of development and good governance, Russia offers stagnation and ongoing vulnerability. Thomas de Waal goes a step further by recommending a “technical expert group” for the Karabakh conflict that can work on scenarios for peacekeeping, reconstruction, rehabilitation of transport links and assisting the return of internally displaced persons. For de Waal, the main Western activities in the South Caucasus should be assistance for state building rather than for strategic alliance building.

Stepan and Hasmik Grigoryan argue that both Armenian and Azerbaijani authorities are using the Nagorno-Karabakh conflict to stay in power by mobilizing the public. More meetings between Armenian and Azerbaijani authorities and parliaments organized by the OSCE and the EU could help to facilitate common joint projects as a basis for building trust. But the main driver of change is likely to be more person-to-person contact and trust-building between the societies of both countries. The authors recommend an upgraded Western role in demanding more accountability from the Armenian authorities with regard to human rights, democracy
and the rule of law. Furthermore, more Western engagement with regard to economic relations with Armenia is needed, for instance EU agreement to open its market to agricultural products.

In Azerbaijan, the current economic and political model is in a deep crisis, particularly because of low prices for oil and gas. Valiyev argues that the lack of economic diversification and good governance, together with the ongoing Nagorno-Karabakh conflict, renders Azerbaijan vulnerable to external and internal shocks. He highlights the country’s priority need for a well-trained young generation that can modernize public administration, public health, education, and the law system. Changes can only come from within, which for the current leadership seems to be the biggest threat, which leads it to conduct a repressive policy against civil society and any kind of opposition. How this young generation can break up the decrepit structures and the clientelistic system, however, remain an open question. Valiyev recommends greater Western investment in the exchange of young people, and in education, in Azerbaijan. Joint educational programs would strengthen Western soft power in the region and could create a new generation of change. In addition, the West should invest in commercial infrastructure and transportation projects that could compete with the Russian-led Eurasian Economic Union, and that could make Azerbaijan and Georgia a regional hub between Asia, Central Asia, and Europe.

Even worse is the economic situation in Belarus, which remains dependent on Russian subsidies and credits. Dzianis Melyantsou argues that the West should stop demonizing Belarus president Aleksandr Lukashenko and to stop calling Belarus the last dictatorship of Europe. He argues that the country is willing to make greater process in normalizing relations with the West, even though it is run by an authoritarian regime. Melyantsou argues that the way to challenge Lukashenko is not by preaching democratic transformation but to advance a pragmatic agenda that leverages economic and political conditionality to help modernize the country and make it more stable and predictable, also with regard to Russia, which is challenging Belarusian sovereignty. Visa facilitation and readmission agreements between the EU and Belarus could be signed in 2017. Initiating an updated Partnership and Cooperation Agreement is possible. But the West should not forget that rapprochement with Belarus will not change the rules of the game as long as Lukashenko is in power. His economic model strongly depends on Russian subsidies, which will limit any attempts at democratization or opening up of the Belarus economy. Although Lukashenko’s model is under pressue, he
continues to try to play both sides to extract as much as benefit as he can from both Russia and the EU, while being careful not to commit to any really substantial changes.

**Recommendations**

First, for most of our authors Western co-ownership in the reform processes is crucial for the post-Soviet countries. Without serious conditionality from the EU and the IMF, it will be difficult for domestic reformers to overcome the resistance of vested interests in such crucial areas as fighting corruption, or reforming the judiciary, banks and financial systems. In addition, in both Ukraine and Moldova, direct involvement of EU member-state experts in the reform processes is required. Such measures are linked to the credibility of the West, which also means fighting seriously against corruption, not only in the EaP countries but also in the West itself. How and why can Ukrainian and Moldovan oligarchs launder money through Western banks and pay for real estate in Europe and the United States with stolen money without fear of prosecution? What does it say about Western credibility when government officials and legislators trumpet the need for east Europeans to fight corruption but ignore the role of Western financial and banking system in supporting corrupt eastern oligarchs?

Second, security is at the heart of any sustainable reform process in eastern European countries. Institution building means also modernization of the military and of security forces with Western support. Failing a true membership perspective from NATO, the Alliance’s partner countries must be able to show a direct correlation between drawing closer to NATO and enhancing one’s security. All of this will need much more EU and U.S. engagement in the security of EaP countries and establishing in the popular mind a direct link between the sacrifices required for domestic transformation and the payoff of greater security and prosperity.

Third, greater co-ownership in the post-Soviet conflicts is crucial. That means not only more investment in person-to-person contact with the inhabitants of occupied territories, but also more U.S. and EU member state responsibility in international efforts to address and relieve such conflicts. Accepting Russia as the main negotiator in any one of these conflicts will not bring any breakthrough. On the contrary, it will fuel regional frustrations with Western disinterest.
Fourth, human mobility and greater educational opportunities are critical to a better future for the people of eastern Europe. More academic mobility with the EU is an important demand by many authors. Investing more in the next generation of reformers, while also encouraging their involvement in the reform process of their respective countries through a tough conditionality policy, is important to many authors.
Chapter 1

The Rise of Threatened Majorities

Ivan Krastev

The pivotal scene in many science-fiction novels has the protagonist traveling back into the past to rewrite the rules of the experiment in order to undo the catastrophic results that unfolded the first time round. In history this option does not exist. Yet many in the West have reached the point when they want that everything would have been done differently in 1989.

The post-1989 liberal order is unraveling before our eyes, in three distinct but interrelated ways: (1) The West is losing power and influence in the international system, as reflected in a rising China, a resurgent Russia, and a proliferating number of armed conflicts in different parts of the globe, (2) The Western model of market democracy is losing its universal appeal, as we can see from the widespread backlash now taking place against globalization (understood as the free movement of goods, capital, ideas, and people around the world), and (3) The West’s own liberal-democratic regimes are facing an internal crisis that is usually encapsulated as “the rise of populism.”

This unraveling is working its most devastating and far-reaching effects in Europe, where the post–Cold war order was born and shaped. After Brexit, the prospect of a full or partial disintegration of the European Union is no longer unthinkable. An increasingly authoritarian Turkey could leave NATO—perhaps voluntarily, or perhaps by expulsion. Belgium, Spain, and the United Kingdom could break up. The establishment of illiberal regimes in Hungary and Poland—complete with media controls, hostility to NGOs, disrespect for judicial independence, and intense polarization—has many fearing that central Europe is sleepwalking its way back to the 1930s.

Poland is a particularly worrying case. It is the poster child for successful post-communist transition, and its economy has been Europe’s strongest performer for at least the last decade. Thus the 2015 election wins of the conservative-nationalist Law and Justice (PiS) party came as a shock. In
light of what has happened in Poland, it is hard to explain away the degeneration of liberal regimes as primarily due to global economic woes.

Unlike many of the rising stars of European populism, PiS leader Jaroslaw Kaczyński is not a corrupt opportunist who simply tries to capture the mood of the masses and dances along EU red lines while being careful not to cross them. Instead, he is a true ideologue of the twentieth-century sort. And not unlike Turkey’s President Recep Tayyip Erdogan, he understands politics in terms of Carl Schmitt’s distinction between friends and foes.

Why have Poles voted for the very same populists whom they threw out less than a decade ago? Why have Polish voters, who opinion polls tell us still form one of Europe’s most pro-European electorates, put Euroskeptics in power? Why have central and east Europeans increasingly begun to vote for parties that openly loathe independent institutions such as courts, central banks, and the media? These are the questions that define the new central and east European debate. It is no longer about what is going wrong with post-communist democracy; it is about what we got wrong regarding the basic nature of the post-communist period.

Back to 1989

A little more than a quarter-century ago, in what now seems like the very distant year of 1989—an annus mirabilis that saw rejoicing Germans dancing on the rubble of the Berlin Wall—an intellectual and U.S. State Department official named Francis Fukuyama captured the spirit of the time. With the Cold War’s end, he argued in a famous essay, all large ideological conflicts had been resolved.¹ The contest was over, and history had produced a winner: Western-style liberal democracy. Taking a page from Hegel, Fukuyama presented the West’s victory in the Cold War as a favorable verdict delivered by History itself, understood as a kind of Higher Court of World Justice. In the short run, some countries might not succeed at emulating this exemplary model. Yet they would have to try. The Western model was the only (i)deal in town.

In this framework, the central questions were: How can the West transform the rest of the world and how can the rest of the world imitate the West? What institutions and policies need to be transferred and copied?

Coincidentally, on the heels of “the end of history” came the dawn of the internet as a mass phenomenon deeply affecting economies, societies, and everyday life. The two seemed to go together, so that the end of history entailed imitation in the sphere of politics and institutions at the same time that it called forth innovation in the field of technologies and social life. Global competition would increase, but it would be competition among firms and individuals rather than ideologies and states. Its net result would be to bring countries together.

“The end of history” vision had some doubters—Fukuyama himself put a question mark on the title of his original essay—but many found it attractive owing to its optimism and the way it put Western liberalism, and not this or that anti-liberal revolutionary movement, at the heart of the idea of the progress. What Fukuyama articulated so effectively was a vision of post-Utopian political normality. Western civilization was modern civilization, was normal civilization, was the natural order of the modern world.

It is this vision of the post–Cold War world that is collapsing as we watch. It is only by contesting its major assumptions that we can address the problems we face today. The question posed by the unraveling of the liberal order is not what the West did wrong in its efforts to transform the world. The pressing question is how the last three decades have transformed the West.

Rumor has it that after the Germans tore down the Berlin Wall, the British diplomat Robert Cooper, then the top planner at the Foreign Office, had rubber stamps made reading “OBE!” (“overtaken by events”). Cooper then asked his colleagues to go through the existing files, stamping as needed. It is time to bring out the OBE stamp again. In order to make sense of the changes now afoot, we need a radical change in our point of departure. We need to reimagine the nature of the post-communist period.

At the same time that Fukuyama was heralding history’s end, U.S. political scientist Ken Jowitt was writing of the Cold War’s close not as a time of triumph but as an epoch of crisis and trauma, as the seedtime of what he called “the new world disorder.” A respected Cold Warrior who had spent his life studying communism, Jowitt disagreed with Fukuyama that its end was “some sort of historical surgical strike leaving the rest of the world largely unaffected.” In Jowitt’s view, the end of communism “should

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be likened to a catastrophic volcanic eruption, one that initially and imme-
diately affects only the surrounding political ‘biota’ [i.e., other Leninist
regimes], but whose effects most likely would have a global impact on the
boundaries and identities that for half a century have politically, econom-
ically and military defined and ordered the world.”

For Fukuyama, the post-Cold War world was one in which borders
between states would officially endure even while losing much of their rel-
ance. Jowitt instead envisioned redrawn borders, reshaped identities, pro-
iferating conflicts, and paralyzing uncertainty. He saw the post-communist
period not as an age of imitation with few dramatic events, but as a painful
and dangerous time full of regimes that could be best described as political
mutants. He agreed with Fukuyama that no new universal ideology would
appear to challenge liberal democracy, but foresaw the return of old ethnic,
religious, and tribal identities. Jowitt further predicted that “movements of
rage” would spring from the ashes of weakened nation-states.

In short, Jowitt foretold in outline al-Qaeda and ISIS.

For more than two decades, at least as regards Europe, it looked as if
Fukuyama was right and Jowitt was wrong. Yet it is Jowitt’s analysis of the
post–Cold War era as a time of global identity crisis and redrawn state and
communal boundaries that can help us make sense of the current state of
politics in Europe generally, and in central and eastern Europe in particular.

For two decades, Europe’s new democracies scrupulously adopted the
West’s democratic institutions and the EU’s required laws and regulations.
Voting was free and fair, and elected governments colored within the dem-
ocratic lines. Voters were able to change governments, but not policies.
Social inequalities were growing, some groups lost status, and populations
moved within and across national borders, but none of this stirred the
waters of electoral politics much. In many ways, Europe’s young democ-
racies were like diligent first-generation immigrants, trying hard to fit in
and going quietly home after work.

There was some noisy populism, but it seemed to be more style than
substance, a matter of reform’s “losers” blowing off steam with protest
votes. Populism, however, was always more than that. Jan-Werner Müller
convincingly argues that populism “is not anything like a codified doctrine
but it is a set of distinct claims and has what one might call an inner logic.”

3   Ibid.
4   Jan-Werner Müller, What Is Populism? (Philadelphia: University of Pennsylvania Press,
It is more than what Cas Mudde calls “an illiberal democratic response to undemocratic liberalism.”

Populism’s key feature is hostility not to elitism but to pluralism. As Müller says, “Populists claim that they and they alone, represent the people.” “The claim to “exclusive representation is not an empirical one; it is always distinctly moral.” Kaczynski is not representing all Poles but the “true Poles.” Almost half of Turkey opposes Erdogan’s policies, but he feels sure that he is the only spokesperson for the people because the “true Turks” vote for him. It is populism’s exclusionary identity politics that bears out Jowitt’s grim vision.

Migration and the Rise of Identity Politics

Of the many crises that Europe faces today, it is the migration crisis that most sharply defines the changing nature of European politics. Many Europeans associate migration with the rising risk of terror attacks, with the Islamization of their societies, and with the overburdening of the welfare state. Worries over migration are behind the popularity of right-wing populism, the victory of Brexit, and the growing East-West divide within the EU that is casting doubt on the idea of “irreversible” European integration.

Migration is about more than influxes of people; it is also about influxes of images, emotions, and arguments. A major force in European politics today is majorities that feel threatened. They fear that foreigners are taking over their countries and endangering their way of life, and they are convinced that this is the result of a conspiracy between cosmopolitan-minded elites and tribal-minded immigrants. The populism of these majorities is not a product of romantic nationalism, as might have been the case a century or more ago. Instead, it is fueled by demographic projections that foreshadow both the shrinking role of Europe in the world and the expected mass movements of people to Europe. It is a kind of populism for which history and precedent have poorly prepared us.

The migration crisis, whatever EU officials in Brussels might say, is not about a “lack of solidarity.” Instead, it is about a clash of solidarities—of

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6 Müller, op. cit., p. 3.
national, ethnic, and religious solidarity chafing against our obligations as human beings. It should be seen not simply as the movement of people from outside Europe to the old continent, or from poor member states of the EU to richer ones, but also as the movement of voters away from the center and the displacement of the border between left and right by the border between internationalists and nativists.

The scandal of central and east Europeans’ behavior, at least as seen from the West, is not so much their readiness to build fences at the very places where walls were destroyed only twenty-five years ago; it is rather their claim that “we owe nothing to these people.” Publics in the east seem unmoved by the refugees’ and migrants’ plight, and leaders there have lambasted the EU’s decision to redistribute refugees among member states. Prime Minister Robert Fico of Slovakia has said that his country will accept only Christians, citing a lack of mosques in Slovakia. In Poland, Kaczynski has warned that newcomers may bring disease. Hungary’s Premier Viktor Orbán has argued that the EU’s first duty is to protect its member states’ citizens, and called a referendum on whether Hungary should obey the Brussels requirement to accept foreigners. Such votes are no longer exceptional: There are now 34 EU-related referendums under consideration in 18 of the 27 remaining member states.

This regional resentment of refugees may look odd, given that for most of the twentieth century central and east Europeans so often emigrated or took care of immigrants, so it could be expected that they will easily identify with people running from hunger or persecution. Moreover, at least as far as Syrian refugees are concerned, hardly any are to be found. In 2015, only 169 entered Slovakia, and only eight asked to stay. But what remains most striking is how much ethnic and religious identities matter despite almost three decades of European integration.

Central and eastern Europe’s position on refugees is no accident. While it represents a local version of the popular revolt against globalization, it also has roots in history, demography, and the twists of post-communist transitions. History matters in this history-wrecked region, where tragic experience so often cuts against globalization’s rosier promises. More than any other places in Europe, the post-communist countries know not only the advantages but the dark sides of multiculturalism. These states and nations emerged in the late-nineteenth and early-twentieth centuries. While western Europe’s attitudes toward the rest of the world have been shaped by colonialism and its emotional legacy, central and eastern European states were born from the disintegration of empires and the outbursts
of ethnic cleansing that went with it. Before Hitler and Stalin invaded in 1939, Poland was a multicultural society where more than a third of the population was German, Ukrainian, or Jewish. Today, Poland is one of the most ethnically homogeneous societies in the world—98 percent of its people are ethnic Poles. For many of them, a return to ethnic diversity suggests a return to the troubled interwar period. It was the destruction or expulsion of the Jews and Germans that led to the establishment of national middle classes in central and eastern Europe.

Curiously, demographic panic is one of the least discussed factors shaping central and east Europeans’ behavior towards migrants and refugees. But it is a critical one. In the region’s recent history, nations and states have been known to wither. Over the last quarter-century, about one of every ten Bulgarians has left to live and work abroad. And the leavers, as one would expect, have been disproportionately young. According to UN projections, Bulgaria’s population will shrink 27% between now and 2050. Alarm over “ethnic disappearance” can be felt in these small nations. For them, the arrival of migrants signals their exit from history, and the popular argument that an aging Europe needs migrants only strengthens a gathering sense of existential melancholy.

At the end of the day, however, it is central and eastern Europeans’ deeply rooted mistrust of the cosmopolitan mindset that stands out most sharply. They have no confidence in those whose hearts are in Paris or London, whose money is in New York or Cyprus, and whose loyalty belongs to Brussels. Being cosmopolitan and at the same time a “good” Bulgarian, Czech, Hungarian, Pole, or Slovak is not in the cards. Was not communism, after all, a form of “internationalism?” For Germans, cosmopolitan attitudes may offer a way to flee the Nazi past; for central and east Europeans, they are reminders of something very different. In western Europe, 1968 was in large part about solidarity with the non-Western world; in central and eastern Europe, it was about national awakening.

Two Faces of 1989

At the core of the populists’ claim to legitimacy is a revision of the legacy of 1989. They see 1989 as “a revolution betrayed.” In reality, there were two 1989s. One was the “1989” of cosmopolitan intellectuals such as Václav Havel and Adam Michnik, while the other was the “1989” of nationalists such as Kaczyński. For a while, they coexisted peacefully because joining the West and the EU was the best way to guarantee a per-
manent escape from Russia’s zone of influence. Yet the tension between cosmopolitanism (as represented by European integration) and nationalism never went away. The Yugoslav wars of the 1990s muted the nationalists for a time, but the paradox of European integration is that it weakened class identities (the very identities on which the west European democratic model had been built) while strengthening the ethnic and religious markers of belonging. For these small states, integration with Europe and “structural adjustment” meant that major economic decisions such as the size of the budget deficit were effectively removed from the arena of electoral competition. What remained was identity politics.

Central and eastern Europe could import Western political institutions, but could not import the social identities that support them. There were social democrats but not strong trade unions, and classical liberals but not much of a real business community. The Cold War sealed the borders between capitalism and communism, but kept the internal class borders inside each system fairly easy to cross, at least compared to what is the case in a traditional society. The post–Cold War world reversed this situation. After 1989, previously impermeable territorial borders became easy to traverse while borders between increasingly unequal social classes became harder to cross.

Until the 1970s, democratization was making societies less unequal. The promise of democracy, after all, was also the promise of egalitarianism. In countries where millions could vote in competitive elections, it was assumed that those at the top would need the electoral support of the have-nots. Western Europe’s post-1945 social democratic compromise reflected a calculated effort by the “haves” to make capitalism legitimate in the eyes of mass electorates. Central and eastern Europe’s failure to import Western-style social identities after the Cold War also reminds us that these identities were already on the decline in post–Cold War western Europe. The welfare state and liberal democracy in western Europe were not simply shaped by the Cold War; in an important sense, they were pre-conditioned by it.

What we are seeing now in Europe both east and west is a shift away from class-based political identities and an erosion of the consensus built around such identities. The 2017 Austrian presidential election and the Brexit referendum revealed alarming gaps between the cities and the countryside, between the more and less educated, between the rich and the poor, and also between women and men (far-right populism’s supporters tend to be found mainly among the latter). The migration of blue-collar
workers from the moderate left to the extreme right is one of the major
trends in European politics today. Economic protectionism and cultural
protectionism have joined hands. The internationalist-minded working
class is no more, having faded along with Marxism.

It is not facts or rational arguments that shape political identities.
Democracy is supposed to be government by argument. Yet in Poland,
Law and Justice has profited greatly at the polls from conspiracy theories
about the April 2010 Smolensk air crash. Belief in these theories—and not
age, income, or education—is the strongest predictor of whether someone
backs Kaczynski’s party.

The belief that President Lech Kaczynski (Jaroslaw’s twin brother) was
assassinated when his plane went down in Russia has helped to consolidate
a certain “we.” This is the “we” that refuses to accept official lies, that
knows how the world really works, that is ready to stand for Poland. The
theory of the Smolensk conspiracy mined a vein of deep distrust that Poles
harbor regarding any official version of events, and it fit with their self-
image as victims of history. Law and Justice supporters were not ready to
accept Donald Tusk’s claim that Poland is now a normal European country,
run by rules and not by shadowy puppet masters. It should come as no
surprise that the new Polish government does not believe in accidents. In
its view, all of its critics are connected with one another, and they are all
working together to undermine Poland’s sovereignty. Trust, in this mindset,
must not extend beyond some inner circle (of, say, the ruling party). “Inde-
pendent” institutions such as courts, the media, or the central bank cannot
be trusted because their independence is an illusion: Either “we” control
them, or our enemies do.

For populists, the separation of powers is a piece of elite trickery, a devi-
ous mechanism for confusing responsibility. People who refuse to place
trust still want to place blame. The paradox of the current populist turn
is that while many voters think making the executive all-powerful is the
only way to make it accountable, the likelier reality is that the undermining
of all independent institutions will open the road to an even greater lack
of accountability.

The Polish case poses the question why we should expect people given
the right to elect their own government to choose shielding minorities
over empowering the majority. The sobering truth is that liberal democ-

"The Rise of Threatened Majorities"
rights and liberties—including those of minorities who may be unpopular—is what makes liberal democracy truly liberal, and it is more a matter of happy accident than we might like to think. Only in very rare cases do the powerful feel a need not just to guard their own property but also to protect the rights of powerless minorities. Similarly, it is rare for a majority to think of itself as a possible future minority and thus be willing to embrace constitutional provisions that limit the majoritarian concentration of power.

The real appeal of liberal democracy is that losers need not fear losing too much. Electoral defeat means having to regroup and plan for the next contest, not having to flee into exile or go underground while all one’s possessions are seized. The little remarked downside of this is that to winners, liberal democracy denies full and final victory. In pre-democratic times—meaning the vast bulk of human history—disputes were not settled by peaceful debates and orderly handovers of power. Instead, force ruled. The victorious invaders or the winning parties in a civil war had their vanquished foes at their mercy, free to do with them as they liked. Under liberal democracy, the “conqueror” gets no such satisfaction.

So perhaps we should be asking not why liberal democracy is in trouble in central and eastern Europe today, but rather why it has done so well at the task of consolidation over the last two decades. Here we must note that this success was rooted in a certain political identity that was doomed to disappear. This was the identity of the post-communist voter, haunted by shame at having been a part (even if a small one) of the old, unfree regime, but also inspired by the desire to find a place in the new order of freedom and democracy. Having seen real state repression, this voter was ready to “think like a minority” even when in the majority. Communism’s role in shaping the self-restraint of this voter was communism’s unintentional gift to the cause of liberal-democratic consolidation.

The defining characteristic of the populist moment in central and eastern Europe is the disappearance of this ex-communist identity and the fading of communism as the central reference point. The migration crisis made it clear that other identities had taken center stage.

Migration: The Twenty-First Century Revolution

A decade ago, the Hungarian philosopher and former dissident Gáspár Miklós Tamás observed that the Enlightenment, in which the idea of the
EU is intellectually rooted, demands universal citizenship. But for meaningful citizenship to be available to all, one of two things has to happen: Either poor and dysfunctional countries must become places in which it is worthwhile to be a citizen, or Europe must open its borders to everybody. Neither is going to happen anytime soon, if ever. In a world of vast inequalities and open borders, migration becomes the new form of revolution.

People no longer dream of the future. Instead, they dream of other places. In this connected world, migration—unlike the utopias sold by twentieth-century demagogues—genuinely offers instant and radical change. It requires no ideology, no leader, and no political movement. It requires no change of government, only a change of geography. The absence of collective dreams makes migration the natural choice of the new radical. To change your life you do not need a political party, you only need a boat. With social inequality rising and social mobility stagnating in many countries around the world, it is easier to cross national borders than it is to cross class barriers.

In a world where migration to Europe is the new form of revolution, European democracy easily turns counterrevolutionary. The failure or unwillingness of governments to control migration has come to symbolize the ordinary citizen’s loss of power.

Migration also dramatically changes the lives of host communities. The media are full of stories about people who have found themselves in a totally foreign world, not because they moved but because others moved to them. Left-wing intellectuals in the West like to talk passionately about the right to preserve one’s way of life when the subject is some poor indigenous community in India or Latin America, but what about middle-class communities closer to home? Have they such a right? If not, why not? Can democracy exist if the distinction between citizens and non-citizens is effectively abolished?

History teaches us that liberal democracy fares poorly in times of identity-building and the redrawing of borders. Democracy is a mechanism of inclusion but also of exclusion, and counter-revolutionary democracy is not an oxymoron.

The unraveling of the liberal order renders problematic the European project of trying to extend democracy beyond the nation-state. Elections
can help to manage the inner tensions of an existing political community, but can they create a new one? The process of European integration has put into question some of the political communities defined by European nation-states, but it has failed to bring into being a European *demos*. Leaders such as Orbán and Kaczyński offer illiberal democracy—majoritarian regimes in which the majority has turned the state into its own private possession—as an answer to the competitive pressure of a world where popular will is the only source of political legitimacy and global markets are the only source of economic growth. One might argue that the rise of such majoritarian (and hence illiberal) regimes is an inevitable result of the backlash against globalization. And one may question how stable these regimes will prove to be. But one thing is clear: the European project as we know it cannot long survive in an environment dominated by populist governments. The critical question, then, is who has more staying power, the EU or these regimes?
Chapter 2
What Ukraine Should Demand of Itself and from the West
Natalie A. Jaresko

Once again, the world is grappling with historic challenges, as it did when the Soviet Union fell in 1991, and once more, Ukraine is at the forefront of these challenges. The Kremlin’s attempt to destroy Ukraine’s European aspirations is simply one of Russia’s many challenges to the post-World War II international liberal order. The actions of the Kremlin—be they in Ukraine, Georgia, Moldova, and Syria; in the U.S. electoral process; or in the funding of far-right and far-left political parties throughout Europe—have but one purpose: to destroy the transatlantic partnership and the principles of the post-World War II order and peace. Ukraine is simply one of the battlegrounds, but it is a key because it is in Europe. Unity of the transatlantic partnership and of the democratic nations is critical. Unity of support for the Ukrainian transition process is a serious part of this battle, because Ukraine’s successful democratic, rule-of-law based transformation is key to ensuring a Europe whole, free and at peace.

Where We Began

To understand the transition in Ukraine and where it is headed, one must fully understand the situation at the time I was asked to serve as Ukraine’s Finance Minister in December 2014. The country was in the midst of a set of crises which, as some argued, would foretell the end of the independent Ukrainian state. Ukraine had been attacked by the largest standing army in Europe. Seven percent of our territory had been illegally annexed or occupied by the Kremlin’s forces in Crimea and eastern Ukraine. This territory represented some 20% of our GDP. Key natural resources, including coal needed for the thermal power plants in Ukraine, were located in occupied territories. The Crimean Tatars, the indigenous people of Crimea, were forced from their homeland for the second time in a century. The numbers of internally displaced persons fleeing the war zones was growing, reaching almost 2 million today, and challenging our social, education and health systems even beyond the normal challenges
of a transition state. We were reeling from the corruption and mismanagement of the previous regime, which fled only after the Revolution of Dignity, or Maidan, during which over a hundred citizens gave their lives for Ukraine’s European, free future.

The economy was in a free fall, with less than one month’s import coverage of hard currency in the nation’s central bank, the majority of the banking system in dire straits as a result of related party lending and mismanagement, our currency fluctuating widely day to day, and unemployment was growing. A budget deficit of 6.7% of GDP in 2013 and no access to international financial markets meant complete disarray in funding state obligations, be it pensions or wages in the state sector. The economic decline, which in essence began after the Lehman crisis in 2009, worsened with the trade and transit blockades instituted by the Russian Federation (exports to Russia declined some 65%). The war itself scared away many investors, domestic and foreign. Ukraine had to reckon with a $40 billion balance of payments gap over the next four years. And finally, perhaps most critically, the social contract between the state and the people of Ukraine had been massively damaged by the actions of the previous regime, raising the question whether any of the institutions of governance truly were serving the interests of the Ukrainian people.

None of these critical challenges began with the Revolution of Dignity. They were a result of more than two decades of incomplete reforms, corruption, and lack of clear political will to ensure the successful integration of Ukraine into an ever-more competitive global economy and the family of democratic nations. At the same time, the Revolution of Dignity was an important turning point, as the problems were magnified by the attack on Ukraine’s sovereignty and territorial integrity. The Revolution of Dignity also marked an important positive inflection point in Ukraine’s history—one in which civil society matured and became active as never before: demanding, proposing and identifying specific reforms, organizing reform implementation, and not allowing for reversal or deceleration of reform efforts. Civil society, as never before in Ukraine’s history, is now acting as an all-important check and balance on state institutions and political will.

In the midst of perhaps the most difficult circumstances in European history, Ukraine must fulfill the desire and demands of the Ukrainian people during Maidan, to ensure that Ukraine is a democratic state governed by the rule of law, with a competitive economy able to succeed in an ever more competitive global economy—and, I must underline, a nation at
Table 1. The Ukrainian Economy

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<td>Real GDP growth (year over year %)</td>
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<td>0.3</td>
<td>5.5</td>
<td>0.2</td>
<td>0.0</td>
<td>-6.6</td>
<td>-9.9</td>
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<td>Nominal GDP (in billion current US$)</td>
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<td>136.0</td>
<td>163.2</td>
<td>175.7</td>
<td>179.6</td>
<td>132.3</td>
<td>90.5</td>
<td>87.2</td>
<td>95.3</td>
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<td>Nominal GDP/capital (current US$)</td>
<td>2655</td>
<td>2983</td>
<td>3590</td>
<td>3873</td>
<td>3969</td>
<td>3095</td>
<td>2125</td>
<td>2052</td>
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<td>Consumer Price Index (end of period, year over year %)</td>
<td>12.3</td>
<td>9.1</td>
<td>4.6</td>
<td>-0.2</td>
<td>0.5</td>
<td>24.9</td>
<td>43.3</td>
<td>12.4</td>
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<td>Unemployment rate (ILO definition, $)</td>
<td>8.8</td>
<td>8.2</td>
<td>7.9</td>
<td>7.6</td>
<td>7.2</td>
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<td>Overall government balance (including Naftogaz, % of GDP)</td>
<td>-8.7</td>
<td>-7.4</td>
<td>-4.3</td>
<td>-5.5</td>
<td>-6.7</td>
<td>-10.0</td>
<td>-2.1</td>
<td>-2.3</td>
<td>-3.1</td>
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<td>Public expenditures (including Naftogaz deficit, % of GDP)</td>
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<td>46.6</td>
<td>50.1</td>
<td>50.0</td>
<td>50.3</td>
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<td>Total public debt (US$ billion)</td>
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<td>36.8</td>
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<td>73.1</td>
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<td>Total public debt (% of GDP)</td>
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<td>Current account balance (% of GDP)</td>
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<td>-6.3</td>
<td>-8.1</td>
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<td>Exports (US$ billion)</td>
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<td>83.7</td>
<td>86.5</td>
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<td>65.4</td>
<td>47.8</td>
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<td>Imports (US$ billion)</td>
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<td>69.6</td>
<td>93.8</td>
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<td>70.0</td>
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<td>Gross international reserves (US$ billion)</td>
<td>26.5</td>
<td>34.6</td>
<td>31.8</td>
<td>24.5</td>
<td>20.4</td>
<td>7.5</td>
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<td>15.5</td>
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<tr>
<td>Net FDI inflow (% of GDP)</td>
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<td>4.2</td>
<td>4.3</td>
<td>3.8</td>
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<td>3.4</td>
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<td>UAH/US$ exchange rate (end of period)</td>
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<td>8.0</td>
<td>8.0</td>
<td>8.0</td>
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<td>15.8</td>
<td>24.0</td>
<td>27.2</td>
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Sources: IMF, Government of Ukraine
peace. The Revolution of Dignity and the sacrifice of Ukrainians then and now during the war in the east, reflects the Ukrainian people’s declaration to stand for European values, where dignity and freedom—political, social, and economic—are truly inalienable rights.

What Have We Accomplished?

We have accomplished a great deal in these three years—more, in fact, than any other country has ever done in such dire circumstances and against such incredible odds. And more than any Ukrainian government has done in our independent history.

We renewed our democracy with elections at every level of government and began the task of rebuilding the social contract. Presidential elections in May 2014, Parliamentary elections in October 2014, and local elections in October 2015 gave citizens the opportunity to choose their representatives at all levels and begin the process of renewing responsibility for the citizenry and communities.

We developed a vibrant, active, and demanding civil society that acts not only as a check on the system, but also often is the initiator of systemic changes, from e-procurement to e-declarations. Fragmented and diverse, but unyielding, these non-governmental groups have focused on every element of life, from taxation to environment, from support for veterans to battling corruption.

We built an international coalition of support, which included support of the G7 and other partners, and was critical not only to fighting the war, but also to putting together the necessary financial package to balance our forecast balance of payments gap of $40 billion. The key role was played by the International Monetary Fund (IMF), which quickly concluded first a stand-by agreement in March 2014, then a deeper and more front-loaded Extended Fund Facility (EFF) of $17.5 billion in March 2015. Our bilateral and multilateral partners committed to an additional $7.5 billion in financial support, while the remaining $17.5 billion gap was covered by successful restructuring of our external commercial debt. It was these funds, together with the most critical reforms enacted in 2015, which enabled the stabilization of the economy.

We restored macroeconomic stability and have achieved a moderate level of economic growth, avoiding the total collapse predicted by naysayers when I entered government in 2014. Real GDP growth year on year was
forecast to reach 1.5% in 2016 and 2.5% in 2017. Gross international reserves have reached $16 billion, or the equivalent of four months of imports. We reduced the total government budget deficit (including the Naftogaz deficit) from over 10% of GDP in 2014 to just over 2% of GDP in 2015. We were able to reduce total public expenditures from over 50% to just over 44%, despite the necessary prioritization of some 5% of GDP spending on defense and security to address the war on our territory.

We rebuilt and restored our military after years of decimation and destruction. The initial priorities included optimizing the command and control structure, but also included reform of the public procurement practices, enabling more efficient and targeted spending. More recently, these reforms have included transitioning toward a contract army, with more than 50,000 contracts for military service in the Armed Forces of Ukraine signed since the beginning of 2016. These reforms, and the efforts of countless volunteers in the process, have successfully stopped the aggressor in its tracks and recovered some 60% of territories earlier occupied. Moreover, with the help of our transatlantic partners, we have maintained sanctions in place, keeping the Kremlin at the negotiating table to work through a diplomatic course toward peace and restoration of our sovereignty and territorial integrity.

We eliminated our dependency on natural gas from one single source and implemented substantial energy sector reforms, and have begun the long process of reducing usage and becoming more energy efficient. For over a year, Ukraine has not imported natural gas from Gazprom. This was made possible as a result of comprehensive reforms and financial support for those reforms provided by our partners.

First, Naftogaz underwent anti-corruption corporate governance reform, implementing international audits, establishing a board of directors with independent board members, as well as moving out from under the direct authority of the Ministry of Energy. Moreover, it has committed to unbundling (reorganizing) operations for transportation and storage of natural gas in line with the European Third Energy package. It has ended its monopoly on the domestic market and a law on the natural gas market paves the way to deeper reforms.

Second, household tariffs for gas were united at import parity prices, eliminating the rent seeking opportunities that existed and were subsidized by the state. The savings from this measure alone totaled 8% of GDP. All of these reforms gave the international community confidence in the seri-
ousness of our resolve in the energy sector, and they put together a $1 billion in revolving financing for Naftogaz, which enables it to purchase natural gas when prices are lowest, utilizing our massive underground storage tanks, as well as to maximize usage of the reverse flow connections from Europe for the import of the gas.

We have engaged in one of the largest clean ups of banking systems in history. Some 80 of over 180 insolvent banks were closed by the National Bank of Ukraine. Related party transactions and mismanagement led to insolvency or illiquidity throughout the system, destroying trust in the banking system. Tackling these issues enabled the remaining banks to rebuild trust with both the retail and commercial sectors. For the liquidation done to date to have the appropriate effect on future owners, however, those bank owners who have deliberately used related party transactions or other means to defraud their depositors must be brought to justice.

We have begun the long and difficult battle against vested interests that over 20 years have captured much of the state and public policy, for example, by eliminating all intermediaries in our gas trade, which for a long time was the largest source of corruption in the country.

Ukraine is advancing a four pronged-strategy to fight the vested interests’ hold on the economy and the political system:

First, we have tackled vested interests by eliminating many of the privileges, preferences, and corruption schemes. We have implemented a series of reforms that have saved Ukraine up to $5 billion:

- We rid ourselves of all trade gas intermediaries that stole billions of dollars without producing any added value for the country. This is the single most important decision Ukraine has ever taken to tackle corruption.
- We have equalized household gas tariffs to import parity, effectively putting an end to massive energy stealing and rent seeking behavior that coexisted with multiple prices in the marketplace.
- We have fixed many of the corrupt loopholes that allowed tax evasion, including the transfer pricing law, which puts an end to the largest tax evasion schemes used over the past 20 years.
- We introduced an electronic VAT system to put an end to the scandalous practice of fraudulent VAT refund claims, estimated in 2014 at up to $1 billion per year.
• We have started to systematically audit and change the corporate governance at Ukraine’s state-owned enterprises, with competitions for top positions and independent board members.

Second, we have started eliminating the space for corruption to reappear by fostering transparency.
• We have introduced an e-procurement system throughout the central and local governments, as well as state owned enterprises that improves transparency, cuts down on opportunities for corruption and saves public funding.
• We have given open access to state property registers to the public.
• We have implemented e-data, a fully transparent Treasury system online.
• We have just completed the first e-declarations of all public servants, requiring full disclosure of all assets and income. Over 100,000 officials have already submitted these forms, while some 1,000 judges reportedly stepped down rather than submit the information.

Third, we have started building new institutions, staffed with newly hired people paid at a market salary level, to bring corrupt criminals to justice.
• A new National Police force was established in over 30 cities as of today. In each city, masses of former officials have been dismissed.
• The newly established National Anti-Corruption Bureau has begun hundreds investigations of alleged corruption, including judges, prosecutors, civil servants, university rectors and more.
• The newly established national Agency to Prevent Corruption will now investigate the sources of funding of the recently submitted e-declarations. False information results in criminal liability.

Fourth, finally and perhaps most importantly for the success of Ukraine’s transition, we have just adopted constitutional reform of the judicial system. To a state governed by the rule of law, there must be a free and fair judicial system. To ensure compliance with the law, there must be reverence for the law and fear of the consequences of breaking that law. Thus, this fourth element is absolutely key to completing the cycle of anti-corruption reform. The reform includes:
• Reduction of the number of levels of courts and opportunities to appeal, from four to three.
• The creation of a specialized Higher Anticorruption Court.
• Limitation on judges’ immunity.
• Requirement for judges to submit e-declarations, with a mismatch between property and income a ground for dismissal.
• 8,000 judges to undergo assessment before being reappointed.

This has been the longest and most successful reform process Ukraine has experienced in its 25 years, having lasted almost three years, spanning two governments, and three IMF tranches.

What We Still Need To Do

Despite the massive political will invested in these reforms to date, they are far from being irreversible. Moreover, the macroeconomic stability that has returned to Ukraine is far from being sufficient to create the improved living standards, consumer purchasing power, and real wage increases needed by the population after decades of decline. There is much to do to ensure the irreversibility and return to levels of economic growth that will serve the interests of the Ukrainian people.

To start, I suggest an effort to create a major investment paradigm shift for both domestic and foreign investors. Day to day, cumulatively effective reforms in all the areas above should continue, from anti-corruption to state-owned enterprise corporate governance reform. However, to enable a dramatic and urgent change in the frame of mind of investors, both domestic and international, bold and sweeping changes are necessary to bring the Ukrainian investment opportunities to the forefront of decision makers in a way that challenges them to put aside the past 25 years of marginal reform history and focus instead on the remarkably positive changes. There are many such possible investment paradigm shifts, but I will focus on just a select number.

Land Reform. Formation of a free land market is likely to be the single most awaited investment paradigm shift. Ukraine is the only democratic country in the world where this market does not exist. Moreover, given the natural agricultural advantages in Ukraine, this is one area very likely to spur new investments not only in basic agriculture, but in all the subsidiary sectors such as equipment, chemicals, and seeds, as financing becomes available and efficiencies increase. Moreover, with the already record-level of harvest in 2016 of 64 mmt, enabling a land market and circulation of these assets, frozen to date, will enable investors to seriously consider investment in infrastructure, from ports to river transport to ele-
vators and processing facilities. All these elements come together to give new impetus to the banking sector in Ukraine. EasyBusiness (Annual Report 2015, Deregulation in Ukraine) estimated that the result would be the eventual circulation of $125 billion and employment of up to 1.5 million people.

**Deregulation.** Ukraine ranked 160th of 180 countries in the world in the Index of Economic Freedom in 2017, and 83rd of 189 countries in the world in the Ease of Doing Business Ranking. The objective of massive and sweeping deregulation would be a complete change in the business environment encouraging competition, eliminating excessive control and regulation, while reducing corruption massively at every level. To date, several laws have already been enacted, including most recently a Cabinet of Ministers resolution cancelling some 100 regulatory acts. Massive deregulation will get the positive attention of investors and result not only in savings from reduced corruption, but real economic growth and new investments.

**Complete the privatization process.** Ukraine has approximately 300 state-owned enterprises that could be lawfully privatized, plus another 100 that could be removed from the list of strategic enterprises forbidden to privatize. There are an additional 1,500 that are nearly worthless, and could be privatized or liquidated. The value of completing all possible privatization in a short period of time would be a major signal to investors. It would signal that the government of Ukraine is no longer interested in managing enterprises and wishes to create a level playing field, ensure competition, and attract new investment. Completion of this privatization process, e.g., a selloff, after 25 years of half-steps, would not only send a major positive signal to investors, but would also end decades of inefficient subsidies and a major source of corruption. Of course, the process would need to be simple, open, transparent, and fair. However, completion of this drawn-out transitional step would be remarkably well-viewed by investors and worth much more than the revenues that might be raised by waiting.

While we complete many of the economic reforms begun and ensure the investment environment maximizes interest among domestic and international investors, Ukraine must also focus on ensuring its longer term competitiveness in a world experiencing the fourth industrial revolution, the technology revolution. Technologies have become transformative at a rate that is unlike any of the previous industrial revolutions. The changes will be in the social and economic systems that shape our lives, such as
artificial intelligence eliminating entire job classifications, but creating others. The role of government in this situation is to prepare society for this progress. Key in the preparation is education and training. Most of Ukraine’s educational system functions in a traditional manner and is not prepared to prepare students today and in the future for the challenges of the changes being brought about by disruptive technologies. Public policy and funding need to enable the educational system to not only keep up with the needs of the job market, but keep up with global technological changes to ensure Ukraine’s global competitiveness.

What We Need the West To Do

Today, Ukraine’s transition stands at a critical juncture. We have much work to do to ensure these changes, and all these massive efforts result in irreversible change. We face three primary challenges—fatigue, populism, and vested interests.

The success of reforms over the past three years has caused fatigue, given rise to dangerous populist rhetoric, and caused vested interests to actively fight back to stop interference with their cash flows. Moreover, the Kremlin continues to invest all its resources in this hybrid war in an attempt to destroy the New Ukraine and the example its success would serve in the region.

So now is the time to redouble our efforts. Ukraine needs to continue down this reform path and make structural reforms that will improve the business environment, and increase domestic and foreign investment. The international community, in particular international financial institutions (EBRD, EIB, IFC, OPIC, DEG, FMO, etc), must redouble efforts to support reformers in Ukraine and the continuation and strengthening of the reform process. In particular, I have suggested the creation of a $25 billion, five-year international support consortium for investment into Ukraine’s infrastructure, broadly defined, linked to key outstanding reforms. We need to develop a parallel stream of support for Ukraine to the existing IMF macro financial program. This second stream would be focused on those areas that would win over the hearts and minds of the Ukrainian people: roads, schools, hospitals, e-government services, and more. The consortium must be large enough to create and maintain political will for reforms, while modernizing the country to benefit the citizenry.
In sum, enormous work has already been completed in Ukraine’s transition. It is crucially important to recognize these achievements to date. However, the transition process is clearly not yet over. The Ukrainian people deserve sustainable growth and prosperity. To accelerate and support the reforms underway, and support the reformers fighting fatigue, vested interests and populism, not to mention or underestimate the billions of dollars the Kremlin is investing in the hybrid war of military, economic, trade, cyber and propaganda, we must remain united, stay focused and engaged. Too much is at stake. There are no parallels to the challenges Ukraine faces today in European history. Ukraine is today at the forefront of the challenge to the international liberal order. Ukraine’s success is the success of the Free World.
Chapter 3
The Preconditions for, and the Nature of, Current Ukrainian Reforms
Igor Burakovsky

Ukraine’s economic problems have historical roots: a chronic absence of fundamental institutional and structural changes has resulted in an inefficient economic system and a low level of international competitiveness. The potential of Ukraine’s current economic model has been exhausted, therefore economic crisis has become inevitable.

The Revolution of Dignity became the signal that Ukrainian society would no longer tolerate the status quo. The changes that were demanded sought the large-scale political, economic, and social modernization of the country. The necessity of deep structural and structural reforms has been publicly acknowledged by all successive governments. Yet while many declarations of intent to launch reforms have been issued, the country has failed to produce, much less implement, any real reform strategy. As a result, social and economic problems and imbalances have accumulated. Ukraine’s economic slowdown began in 2012, and in 2013 the country experienced a real economic crisis (Table 1). Domestic economic problems, in turn, were exacerbated by negative external economic and political developments.

To better understand the scope and peculiarities of the challenges facing Ukraine, the following points should be taken into account.

First, Ukraine entered the current crisis following a period during which there was systemic postponement of fundamental institutional and structural changes. Ukraine’s economic and political system has been characterized by a high level of monopolization, which resulted in overall economic inefficiency and state capture. The prevalence of large-scale corruption generated such phenomena as a corruption tax and exacerbated the inefficiency of public institutions.

Increasingly, the government been unable to meet its social obligations; the unreformed social welfare system has been unable to serve societal needs, while the crisis of the “pay as you go” pension system became chronic as the Pension Fund demanded growing direct budget transfers from the central government. In addition, Ukraine is suffering through a
Table 1. Ukraine’s Economic Dynamics

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<tbody>
<tr>
<td>GDP (hryvnia, billions, current prices)</td>
<td>1079.3</td>
<td>1300.0</td>
<td>1404.7</td>
<td>1465.2</td>
<td>1566.7</td>
<td>1988.5</td>
<td>2383.2</td>
</tr>
<tr>
<td>Volume change (%)</td>
<td>4.1</td>
<td>5.5</td>
<td>0.2</td>
<td>0.0</td>
<td>6.8</td>
<td>-9.8</td>
<td>2.3</td>
</tr>
<tr>
<td>Export, goods, %, year change</td>
<td>3.9</td>
<td>2.7</td>
<td>-5.6</td>
<td>-8.1</td>
<td>-14.2</td>
<td>-13.2</td>
<td>-4.6</td>
</tr>
<tr>
<td>Import, goods, % year change</td>
<td>11.3</td>
<td>15.4</td>
<td>3.8</td>
<td>-3.5</td>
<td>-22.1</td>
<td>-17.9</td>
<td>4.6</td>
</tr>
<tr>
<td>GDP deflator, %, year change</td>
<td>13.8</td>
<td>14.3</td>
<td>8.1</td>
<td>3.1</td>
<td>14.8</td>
<td>38.9</td>
<td>17.1</td>
</tr>
<tr>
<td>CPI, as of the end of the period</td>
<td>9.1</td>
<td>4.6</td>
<td>-0.2</td>
<td>0.5</td>
<td>24.9</td>
<td>43.3</td>
<td>12.4</td>
</tr>
<tr>
<td>Government and government-guaranteed debt, % of GDP</td>
<td>40.5</td>
<td>36.3</td>
<td>36.6</td>
<td>40.6</td>
<td>70.3</td>
<td>80.3</td>
<td>80.9</td>
</tr>
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</table>

Not including temporarily occupied Autonomous Republic of Crimea, city of Sevastopol and non-controlled eastern areas.

Source: State Statistical Service of Ukraine (Ukrstat); World Bank; estimates of the Institute for Economic Research and Policy Consulting.

A comprehensive set of security challenges, ranging from security of property rights and social security to cybersecurity and personal (physical) security.

Second, Ukraine has already implemented the strategic task of transitioning from a planned economy to a market economy; the market economy is in place. But now Ukraine must “upgrade” its market system making it more efficient economically and better able to provide for societal security.

Essentially, this upgrade must be a large-scale, three-fold modernization of the economic policy-making process, the production and technological foundations of the Ukrainian economy, and the social security system.1 Two quantitative indicators of success over the medium run could be whether Ukraine can narrow the gap between its GDP per capita and the EU average (or other indicator of the same kind), and whether it can rank higher on the Human Development Index.

The key to modernization is to implement so-called “second generation reforms” (SGR), a concept originally presented by former IMF President Michel Camdessus. This is a very useful tool to develop policies enabling “middle and low income countries to grasp the opportunities presented by the globalization process.”2

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According to Camdesuss, “second generation” reforms are aimed at “ensuring that the State fulfills its proper role in a market economy, by creating a level playing field for all sectors and implementing policies for the common good, particularly social policies that will help to alleviate poverty and provide more equal opportunity.”

SGR consist of four fields of government interventions to achieve specific goals, geared to the particular circumstances of a particular country:

- **Financial system**: soundness of banking systems, greater transparency, better data dissemination and the liberalization of capital accounts.

  To achieve these goals Ukraine must rid itself of insolvent banking institutions, take measures to ensure greater transparency of ownership structures, improve banking supervision, switch to inflation targeting, and other related activities.

- **“Good governance”**: reducing corruption, encouraging transparency of public accounts, improving public resource management and the stability and transparency of the economic and regulatory environment for private sector activity.

  To achieve these goals Ukraine must make the fight against corruption comprehensive and sustainable by establishing proper law enforcement institutions, creating a modern system of public finance management, reforming the public procurement system, combining deregulation measures with the process of creating new regulations according to Ukraine’s international commitments. Special attention must be paid to modernization of the tax administration system.

- **Composition of fiscal adjustment**: reducing unproductive expenditures such as military spending and focusing spending on social sectors.

  Since Ukraine must respond to Russian aggression, it must increase its military expenditures. Taking into account the fact that Ukraine has to rebuild its armed forces virtually from scratch, the country has to invest heavily in the development of its military capacities and military-industrial complex. At the same time the government has to ensure the best possible cost-efficiency ratio.

  Ukraine’s social security system remains, in its basic design, a legacy system from Soviet times, which is simply not commensurate with

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3 Ibid.
current social and economic realities. It is widely acknowledged that the system is financially unsustainable and difficult to manage technically, as it covers a large number of benefits operated by various governmental agencies.

The major challenge in this area is to implement comprehensive pension reform. The current “pay as you go” model has been virtually bankrupt for a long time. The pension fund has been unable to perform its functions without regular multi-billion hyrvnia transfers from the central budget. The country has to properly address issues of pension age, types of pensions, pension financing schemes and related challenges.

- **Deeper structural reform**: civil service reform, labor market reform, trade and regulatory reform, agrarian reform.

The key challenge for Ukraine here is to fight corruption, which has become not only the barrier hampering “normal” development of the nation but poses a real menace to the very existence of the state.

In practical terms labor market reform implies adoption of a new labor code to reflect new economic, social and employment realities. The aim of trade reform is to elaborate and launch a full-fledged active trade promotion policy to assist national companies to enter global value chains. Regulatory reform should encourage the creation of an internationally competitive national business climate. In agriculture Ukraine must finally decide to permit agricultural land sales.

This list of problems is not exhaustive and can be expanded. The very nature of the problems enumerated shows that the fundamental essence of the reforms is a large-scale upgrade and fine-tuning of the current market economy system.

**Economic Reforms: Strategy and Environment**

On the economic side, Ukraine declared its readiness to push forward an ambitious reform agenda. In 2014 Ukraine adopted a strategy for sustainable development entitled “Ukraine 2020.” This document contained a list of 62 reforms and special programs to be implemented. Ten reforms and programs were defined as priorities.

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Analysis of this and other policy documents shows that very few issues have been left untouched. Three reasons stand behind this approach. First, the sheer quantity and magnitude of interrelated problems make it nearly impossible for the government to enumerate all issues to deal with. Second, Ukrainian society has demanded quick and comprehensive changes, and the government is under pressure to demonstrate that it understands what is to be done. Third, many of the officials involved in the economic reforms openly admit their firm intention to push this transformation through at full speed, in a sort of counterintuitive reaction to the failures of previous reform experiences.5

Attempts to launch comprehensive reforms at full speed on all fronts simultaneously, however, have been doomed to failure. So the government objectively has to concentrate its efforts on a relatively limited number of problems. Taking into account the objective necessity to receive external financial assistance from international financial institutions (namely the IMF), the Ukrainian government and the National Bank of Ukraine have concentrated their efforts on implementing measures. Later, in order to manage the reform process more consistently, the Government drafted a special policy document—the Medium Term Plan of Government Priority Actions until 2020.6

In sum, the reform environment can be characterized as rather challenging and complicated. Five issues are particularly important to understand in this context.

First, the Revolution of Dignity generated high expectations within Ukrainian society of real changes for the better. But current economic hardships, coupled with the absence of visible reform progress, are affecting the mood of population. Therefore there is a danger that public support for reforms could evaporate, potentially setting the stage for another political crisis.

Second, the Revolution of Dignity and de facto Russian aggression against Ukraine resulted in an unprecedented level of international readiness to assist Ukraine politically and economically. Such efforts, however, were also tied to high expectations by the international community that

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Ukraine could quickly advance comprehensive reforms, even though tangible results could hardly be expected within a short period of time.

Third, the government turned out to be weaker and more corrupt than had previously been considered. In essence, Ukraine must advance its functional reforms at the same time it carries out a wholesale vetting and recasting of the very public service that must administer such reforms. The strength of pro-reformist elements varies considerably by government agency. The acute shortage of both in-house technical expertise and policy-making skills in a number of agencies has limited the government’s ability to elaborate, pass, and implement strategic decisions.

Fourth, de facto Russian aggression has demanded proper political, military, diplomatic and financial responses that compete for the time and attention of leading officials. The annexation of Crimea and the occupation of a number of Luhansk and Donetsk regions have caused social and economic losses. The nature and scale of these losses has yet to be fully understood, which generates additional political and economic uncertainty. Ukraine’s internal political and economic developments depend in part on the strategy of Ukraine’s Western allies of containing Russia’s aggressive policies in general and its approach to Ukraine in particular, and also in part on the ups and downs of Ukraine’s troubled economic relations with Russia.

Fifth, the political situation in the country remains unstable due to quite complicated relations among democratic forces, and consequently the weakness of the democratic coalition in the Parliament. Under these circumstances the government very often does not enjoy the political support it needs to carry out reforms.

The Consequences of the War

The economic and policy implications of the war require special attention. A full analysis is beyond the scope of this chapter, therefore I will just briefly mention a few issues.

In macroeconomic terms, we can speak of physical losses and losses due to the contraction of economic activities, diversion of financial and material resources to the military, and military-related needs. The list of these effects is rather impressive, taking into account the fact that Russia’s aggression took place when Ukraine was experiencing severe political crises (Box 1).
The microeconomic dimension can be illuminated by business opinion polls. In 2015, 53% of respondents stated that the war negatively affected their economic and financial standing, while 29% of respondents did not experience any impact. In 2016 these figures were 41% and 34%, respectively.7

As far as the political dimension is concerned, the war in a very brutal way simply revealed the real scale of institutional and economic problems that had accumulated. Generally speaking, the impact of war on the reform process is threefold.

First, the country has to accelerate the process of reforms in order to increase the positive capacities of the government. At the same time, the necessity to counteract Russian aggression affects the content and timing of policy decisions.

Second, the war diverts scarce institutional and financial resources from other activities. At the same time, war-related political, economic, and

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social problems have become an issue of political competition and not a factor of political consolidation.

Third, the existence of non-controlled territories poses the question of how Ukraine can secure its economic sovereignty in general and structure economic and other relations with occupied territories in particular—should it fully isolate these regions (economic blockade)? Should it limit economic interaction to some extent? Or should it find some other arrangement? Needless to say, this problem has clear-cut internal and external political dimensions.

Reforms to Date

Ukraine has already undertaken a number of bold and intensive political and economic reforms. The most significant ones are summarized here, together with the most important reform challenges still to be addressed.

**Planning reforms.** Institutional setting for elaboration and implementation of the reforms has been established but its efficiency leaves much to be desired. The Government has already adopted quite a large number of strategic policy documents defining the principles and priorities of reforms in different sectors, though their quality differs. At the same time there is an acute need for a strategic policy vision regarding trade facilitation, export promotion, SME development etc.

**Public service reform.** The Law on Public Service was adopted in 2015. The Law On Service in Local Self-Government Bodies was adopted in 2016. This law determined the principles of employment in the local self-government bodies transformed or created in the process of decentralization. Open competition to join public service was launched. A number of measures were undertaken to decouple political and public service positions within the Government.

**Public finance reform.** Formally, the priorities of public finance reform were formulated in the Strategy on Development of Public Finance Management System adopted by the Government of Ukraine. This document envisaged quite radical changes in all the components of public finance management system. The aim of the Strategy is to build modern and public finance management system able to provide high quality public

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8 Стратегія розвитку системи управління державними фінансами, схваленою розпорядженням Кабінету Міністрів України від 1 серпня 2013 р. № 774. Офіційний вісник України, 2013 р., № 82, ст. 3052.
services by means of efficient accumulation of financial resources and its (resource) proper allocation according to medium and long-term priorities of social and economic development.

The major results of can be summarized as follows:

1. **Public Procurement.** The Law on Public Procurement was adopted, mandatory procurement through a special electronic system was introduced, and the number of exemptions from competitive bids was reduced.

2. **Strengthening Control over Public Finance.** A Law on the Accounting Chamber was adopted that strengthened its independence and broadened its powers, particularly with regard to auditing the revenue side of the budget.

3. **Making the Budgeting Process More Transparent.** A Law on the Transparency of Public Financial Expenditures was adopted. This law ensures public access to budget information, and envisages the development of a single web-portal that would inform the public about budget expenditures of spending agencies, state and communal enterprises as well as mandatory social insurance funds and the Pension Fund.

4. **Tax Administration Changes.** The government suspended a number of tax privileges and implemented electronic VAT administration to reduce the number of VAT reimbursement-related fraud, and took steps to improve transfer pricing control. A number of measures were also undertaken to improve the system of state-funded investments management.

At the same time, parallel to implementing this strategy, the government had to concentrate its efforts on budget consolidation (i.e., strengthening budget discipline and optimizing expenditures), tax administration reform and budget decentralization (enlarging the powers and the resource base of local governments). A series of measures resulted in a reduction in the budget deficit from 4.9% in 2014 to 2.3% in 2015, while in 2016 the budget deficit made up 3.1%.9

In February the government adopted a new Public Finance Management Strategy for 2017–2020.10 The problem of the quality of public

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10 Ibid.
Finance management is considered to be key, as the level of general government expenditures is rather high; according to the IMF, these expenditures made up around 43.2% of GDP at the end of 2015.11

The strategy also calls for the implementation of medium-term budgeting. It is expected that budget resources will be allocated according to development priorities for the next three years; clear development goals over five years will be identified; and key indicators will be put into place to measure the efficiency of the strategy’s implementation.

**Private banking sector reform.** 2015 became a pivotal time for banking sector development. The process of cleaning balance sheets was completed, and banks began to implement capitalization plans. While most had already managed to implement three year plans earlier, growing reserves resulted in record high losses for the banking sector as a whole.

**Government-owned banking sector reform.** Government-owned banks accounted for 51.3% of net assets as of the beginning of 2017 (from 28.1% as of the beginning of 2016) and 59.1% of household deposits.12 Such a dramatic growth of the government’s presence in the banking sector resulted from the nationalized rescue of Privatbank, Ukraine’s biggest commercial bank, in an effort to prevent a full-blown banking crisis. This situation immediately created a number of challenges for the government and forced the National Bank of Ukraine to draft a special policy document entitled “Basic Approaches to the Strategic Reform of the State-Owned Banking Sector.”13

It is widely acknowledged that the low efficiency of state-owned banks is due to the persistence of two problems. The first is political influence over internal decision-making processes. Here we can speak about a specific form of state capture in which various political-economic groups compete for the management of state enterprises and banks in order to secure various economic privileges for their businesses. The second problem is the absence of proper corporate management. Government banks were managed more or less directly by governments and were used to finance governmental policy actions.

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12 НБУ. Огляд банківського сектору. Випуск 2, Лютий 2017.
Today, all government-owned banks may be classified as follows:

- Traditional government-owned banks (Ukreximbank and Oschadbank). These banks are slated to become privatized in the short term. The government will determine clear principles regarding their development and the strategic goals that are to be incorporated within the individual strategies of these banks. It is expected that implementation of best managerial practices and the achievement of strategic goals will create necessary preconditions for their privatization between 2018 and 2020.

- Nationalized banks (Ukrgazbank, Rodovid, PrivatBank). In each of these cases the government does not intend to be the long-term owner. An “exit strategy” will be elaborated for every bank individually.

**Privatization.** In 2016 the State Property Fund failed to launch large-scale privatization due to political and economic uncertainties. Privatization revenues generated 300 million hryvnia, only 1.9% of the total anticipated.

**Decentralization.** Certain powers have been transferred to local communities, and the process is off to a promising start: due to financial decentralization, local budget revenues increased 41.6% from 2015 to 2016, while the local share of total revenues increased to 21.8% in 2016 from 18.5% in 2015.14

**Trade and trade-related reforms.** The provisional application of the Deep and Comprehensive Free Trade Agreement started on January 1, 2016, in addition to other parts that had already been applied provisionally in November 2014. A Strategy and Action Plan for the Development of the Technical Regulation System until 2020 was adopted in August 2015. Ukraine revised and adopted a number of laws and implementing acts related to horizontal quality infrastructure and sectoral technical regulations. In 2015 the National Standardization Body was established. Ukraine is now working to adopt EU harmonized standards and has already introduced conformity assessment procedures based on EU principles and practices.

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14 Звіт про хід і результати виконання Програми діяльності Кабінету Міністрів України у 2016 році, р. 193.
Ukrainian Reforms and International Assistance

Given its serious macroeconomic, structural and institutional problems, Ukraine is seeking external assistance of three kinds: financial resources it cannot mobilize through markets; expertise that it can compensate at below-market rates; and an external commitment to compensate for weak domestic political institutions.\(^\text{15}\)

The active engagement of the international community in the Ukrainian reform process raises six principal issues:

1. **Ownership of Reforms.** It is clear that the country that initiates reforms has to be the owner of reform policy. In fact, as Willem Buiter has noted, “country ownership is a property of programmes, processes, plans, or strategies involving both a ‘domestic party’ (generally a nation state) and a foreign party.”\(^\text{16}\) At the same time, the international community also has its stake in Ukrainian reforms, so to some degree we may speak about “co-ownership of reforms”—but this also implies a certain level of co-responsibility for the results of the reforms.

2. **Scope of Assistance.** The scope of international assistance is determined on the supply side by the agenda of international financial institutions, donor countries, and donor non-governmental institutions. From the demand side it depends upon the scope of problems the country has to deal with as well as recipient country absorptive capacity.

3. **Efficiency of International Assistance.** Efficient implementation of donor programs depends on the assistance priorities and ways of providing assistance, donors’ coordination schemes as well as a nation’s institutional capacity to formulate its needs with regards to international assistance, and its ability to ensure necessary pre-conditions.

4. **Mismatch between Donor-Driven and Country-Driven Demand for Good Governance and Democracy.** This mismatch appears to result from poor “external” understanding of the nature of problems to be solved, as well as selfish and irresponsible approaches by specific recipients of international assistance.

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\(^{16}\) Ibid., p. 223.
5. **Sustainability of Donor-Supported Activities, Institutions, and Policies.** Ukrainian (and not only Ukrainian) experience proves that donor-financed activities, institutions, and policies (good practices) start to decline when the central or local governments cannot take over full financial and managerial responsibility for them.

6. **The Problem of Proper Selection of Best Practices.** Different donors providing technical assistance in one and the same field may have different understandings when it comes to what practices are to be implemented. It is natural that foreign experts base their advice on their experience, but it is also true that proposed policy interventions usually have taken place “in different contexts, with different purposes, different population groups, and significantly different opportunities, involving challenges within widely varying cultural, political, and resource environments.”17 As Vimont states, “More comprehensive knowledge among EU experts of current bottlenecks on the ground could bring an added value to the reform efforts.”18 And this comment is true for all foreign experts in Ukraine. At the same time, local peculiarities cannot be an excuse for inability to introduce generally acknowledged principles of relevant policy interventions or regulatory standards.

The role of the international community in supporting Ukrainian reforms deserves special study. Meanwhile, it is worth mentioning that international assistance plays both a political and an economic role.

The political role is performed through co-participation of the international community in the formulation of policy and the implementation of reforms, as well as the transfer of best political experience and regulatory practices. The economic dimension is closely related to the political one: the international community provides financial resources to support the elaboration and implementation of agreed policies (conditionality principle).19

International political and economic assistance is of critical importance for Ukraine, and today Ukraine enjoys an unprecedented level of such support. At the same time, Ukraine today requires not only dialogue on

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18 Vimont, op. cit., p. 7.
19 Co-participation can assume various forms, ranging from structured cooperation with the IMF and EU (conditionality regime) to less rigid programs (technical assistance) that do not envisage any explicit formal commitments from the Ukrainian government in terms of policy changes.
the essence and timing of the reforms but also various discussions of a number of strategic issues. As Pierre Vimont rightly states, “Europe should not ignore the question of Ukraine’s future relationship with the EU and should engage in an open and honest conversation with Ukraine on this issue.”20 The other issue could be the role of Ukraine in the new international security architecture. These discussions are very important, not only for Ukrainian politicians but for Ukrainian society as a whole. Ukraine’s active engagement in such discussions could help to alleviate the public feeling that Ukraine is only a passive recipient of assistance and advice, whose priorities are imposed from the outside, and demonstrate that Ukraine is a welcome member of the international community, whose opinion matters.

**Challenges and Risks Ahead**

Macroeconomic stabilization can be achieved relatively quickly, and Ukraine managed to do it in 2016. In my view, we may speak about the first signs of economic recovery. Other things being equal, the economic recovery will further persist and even slightly strengthen.

The recovery is rather fragile, however, and fundamental conditions for long-term sustainable economic growth are yet to be put in place. Therefore the government and the National Bank of Ukraine have to continue working in this direction. At the same time, large-scale modernization of the economy is a more lengthy process and requires more efforts.

These efforts should be concentrated in the following priority areas:

The business climate has yet to be dramatically improved: despite a number of bold steps undertaken by the government, corruption and a poor regulatory environment remain problematic. Political uncertainty, coupled with “traditional” problems of legal protection of investors’ rights, also negatively affects the investment image of the country.

Another problem is the quality of logistics; in 2016 Ukraine ranked only 80th in the world, according to the World Bank Logistics Performance Index.21 In order to sustain and increase investors’ interest in Ukraine, the government has to virtually double its efforts to solve long-standing prob-

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20 Vimont. op cit., p. 4.
lems in order to create a business-friendly environment both in regulatory and physical terms.

Ukraine faces the challenge of how to combine leadership in reforms with public consultations. The Ukrainian government has yet to develop a proper system of public input, although formally such a system is already in place. The problem is how to make dialogue productive, representative, and timely. Despite the apparent simplicity of this idea, international experience has proven more than once that “it is only in a limited number of cases that there is a realistic prospect for putting together a consultative process (let alone a process that actually drafts the programme and designs the conditionality) that can make any claim to being representative of the interests, wishes, and views of the majority of the country’s population.”22

A realistic assessment of the perspective for Ukrainian reforms also requires adequate understanding of political and economic risks.23 Eight are particularly important:

First, there is the risk of suspending cooperation with the IMF. IMF conditionality serves as the anchor for reform, while the IMF and other IMF-related funds are the principal source of financing the current account deficit until Ukraine regains access to international private capital markets.

Second is the risk of reform fatigue. Public frustration with the speed and results of the reforms carries the danger of non-democratic revenge, the rise of “traditional” and “patriotic” populism, and the loss of some reform results gained so far.

Third are financial risks. The failure of the banks to fully implement capitalization programs will undermine prospects of securing financial stability in the medium run.

Fourth, there are external political risks associated with changes in the domestic political agenda of donor countries, and attempts to decouple “economic” support of Ukraine from political pressure upon Russia. In pure economic terms, low rates of economic growth by Ukraine’s major trading partners could endanger Ukraine’s own economic recovery and growth prospects. There are also a number of economic and political risks associated with current isolationist trends in the world.

22 Buiter, op. cit., p. 225.
The escalation of Russian aggression against Ukraine poses the major political and security risk, and its mitigation critically depends upon the nature of actions taken by the international community. At the same time, virtually all risks related to economic cooperation with Russia have already materialized.

There is also major internal political risk associated with the political crisis in the country, accompanied by massive social unrest. This crisis will negatively affect efforts by civil society to promote reforms and monitor their implementation.

Seventh is the risk of corruption. Failure to launch a full-fledged anti-corruption policy and demonstrate tangible results will result in public frustration, slowing reforms and damaging the willingness of international community to support Ukraine’s reform efforts.

Finally, there is the risk that the reforms of the judiciary and the public prosecutor’s office will stall. These reforms are crucial to ensure that the rule of law prevails in the country at large and that it is seen as playing an indispensable role in fighting corruption. A corrupted judiciary cannot try corrupted persons.

**Conclusion**

Ukraine has already undertaken a number of surprisingly impressive steps in the right direction. Today the country has to achieve a real breakthrough in reforms and make them irreversible. In other words, the point of no return has to be passed.

Economic reform in Ukraine must succeed. For Ukraine it will mean that the country is mature enough to finally emerge from the post-Soviet zone. The failure to ensure the success of reforms within a relatively short period of time possible will put at stake the entire country’s democratic and developmental perspectives. For Western partners, it will mean that universal democratic and economic values are indispensable foundations of economic prosperity. Though it is Ukraine’s responsibility to achieve success, its failure would have quite a substantial negative demonstration effect for other countries as they struggle to find the most appropriate model for their own political and economic development.
Chapter 4
Ukraine’s Foreign Policy and the Role of the West

Olexiy Haran and Petro Burkovskiy

Facing challenges from Russia, the West is struggling to preserve its principles of collective responsibility for regional security in Europe and to develop a common approach toward necessary yet politically painful and economically costly efforts to limit Putin’s actions and plans. At the same time, leading Ukrainian foreign policy decision-makers are desperately pursuing the twin goals of freezing the Donbas conflict and maintaining international support for the country.

In this chapter we begin with a general analysis of mutual perceptions from both sides, then proceed to identify key interests and concerns regarding the war in Donbas, and analyze whether the political aspects of the Minsk agreements can be implemented. We then suggest some recommendations on the way ahead.

We argue that Putin’s success in attacking Ukraine, which is impossible to achieve without undermining unity among Western powers, could embolden him to exert his power and influence in wider Europe. Moreover, as U.S.-EU ties are likely to undergo some stress after elections on each side of the Atlantic in 2016 and 2017, Russia will to be tempted to take advantage of such turbulence by pressing forward with its goals in Ukraine and pushing the so-called “grey zone” of insecurity westward before a new equilibrium is found within the Euro-Atlantic area.

Ukrainian Perceptions of the West amid War with Russia

Following the events of 2014–2016, Ukrainian decision-makers have accumulated a number of concerns about Western attitudes toward Russian aggression in Crimea and the Donbas. First, the Crimea annexation ultimately destroyed Ukrainian trust in Western security assurances. This issue was openly raised by Ukrainian President Petro Poroshenko in his

The helpless reaction of the UN and the OSCE in February–March 2014 proved that existing international, global and regional organizations that are designed to deal with security matters have little impact when a member state faces aggression from another member state, particularly if that other state is a nuclear power. Consultations foreseen by the Budapest Memorandum were never held. In April 2014 negotiations were conducted in Geneva with participation of the United States, the EU, Ukraine, and Russia. Together the parties released a joint statement\footnote{U.S. Department of State, “Geneva Statement on Ukraine,” April 17, 2014, http://www.state.gov/r/pa/prs/ps/2014/04/224957.htm (accessed November 22, 2016).} However, for reasons unexplained in public, the “Geneva format” was not renewed. Instead, further negotiations have been conducted in the so-called “Normandy format,” which includes Ukraine, Russia, France, and Germany (but not the United States and the United Kingdom, two of the signatories to the Budapest Memorandum).

At the very beginning of the crisis, the new Ukrainian authorities had little hope for Western support, given the weak international reaction to the 2008 war between Russia and Georgia.\footnote{Ukrainian skepticism regarding Western support was well illustrated by the discussion between acting head of Ukrainian security service, Valentyn Nalyvaychenko, and Ukrainian prime minister Arseniy Yatsenyuk, who even cited his phone conversation with U.S. vice president Joe Biden. See Official Copy of Transcript of the National Security and Defence Council meeting on 28th of February 2014 [in Ukrainian], Ukrainska Pravda, February 22, 2016, http://www.pravda.com.ua/articles/2016/02/22/7099911/ (accessed November 22, 2016).} According to Ukrainian officials, their Western counterparts urged maximum restraint without offering any kind of practical support to stop and contain Russia. Russia’s annexation of Crimea also cast doubts over the readiness and willingness
of major Western powers to fulfill their NATO obligations should a similar crisis arise in the Baltic region. Russia continues to benefit from such anxieties and vague Western political commitments. In addition, by engaging in provocative and dangerous behavior in the Baltics, which it justifies publicly as a “reaction” to NATO “reinforcements,” Russia makes it easy for pro-Russian political players in Germany, France, Italy and other countries to advance arguments against any military assistance to Ukraine as a non-member of Alliance.

Although the United States and the EU sanctioned Russia, and NATO responded to Russian provocations towards the Alliance’s eastern neighbors, this policy remains dependent on a consolidated approach that is itself reliant on the perception that all NATO member states are sharing the burden, as well as on the ability of political leaders to withstand domestic pressures. In 2015–2016, however, the debates that erupted over how to deal with the even more urgent migration crisis revealed serious fissures within the European Union. Moreover, statements by U.S. President Donald Trump have also raised serious concerns in both western and eastern Europe whether the new U.S. administration might advance new approaches that would question long-standing principles that have guided U.S. foreign policy towards Europe.5

Second, Kyiv believed that the Western powers only began to develop efficient countermeasures against Russia after they suffered directly from the consequences of the Kremlin’s aggression in Ukraine. It took the destruction of the MH 17 aircraft and three hundred passenger deaths, including EU citizens, in July 2014 before the West was ready to impose sectoral sanctions6 on the Kremlin because of Russia’s military intervention (and still, in February 2015 these sanctions were connected to implementation of Minsk-2, and not to the clear withdrawal of Russian troops, which had been the initial reason for introducing sanctions). When the city of Mariupol came under indiscriminate rocket attack in January 2015, however, resulting in 30 deaths and hundreds of injured, the EU did not manage to augment its economic sanctions.

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Other examples emerged in the trilateral negotiations between Ukraine, the EU and Russia about launching the EU-Ukraine DCFTA (Deep and Comprehensive Free Trade Agreement, which was a component part of the EU-Ukraine Association Agreement signed in 2014). Consultations about implementation of the DCFTA dragged out due to Russian objections, resulting in delay of the DCFTA for one year until January 1, 2016.

At the same time, when the Russian energy company Gazprom threatened to cut gas supplies to Ukraine due to unsettled arrears and penalties, the EU Commission and major EU countries intervened very actively and forced the Russian gas giant to disconnect its claims to Ukraine from its transit business with the Ukrainian company Naftogas. Moreover, Ukraine was given loans and bank guarantees that facilitated alternative gas contracts with the European energy companies and, consequently, diversification of gas imports.\(^7\)

Third, Ukraine is concerned about a possible agreement between the West and Russia to reset their relations at the cost of Ukraine’s territory and sovereignty. This perception is fueled particularly by the European approach to implementation of the Minsk agreements. For instance, after German Chancellor Angela Merkel met with Ukrainian President Poroshenko in Berlin in February 2016, the German government continued to insist on constitutional reform in Ukraine and Russian involvement in determination how the local elections in Donetsk and Luhansk were to be held.\(^8\) French president Hollande reiterated this position in an address to the Parliamentary Assembly of the Council of Europe.\(^9\)

The key point is that from the very first Minsk agreement in September 2014, Russia and Ukraine each pursued contradictory goals. According to


our reading of Poroshenko’s peace plan\textsuperscript{10} and Putin’s peace arrangement,\textsuperscript{11} as well as the Protocol on the results of consultations of the Trilateral Contact Group, signed in Minsk on September 5, 2014\textsuperscript{12}, Moscow linked peace with limiting Ukraine’s sovereignty by means of federalization and a “special status” for the Donbas. Kyiv, on the other hand, saw peace as a tool to recover occupied territories and escape from Russian military pressure.

Despite unbridgeable differences between Ukraine and Russia about the ultimate destination of the Minsk agreements, the EU and the United States not only insist on implementation of these flawed agreements, they also seek selective cooperation with Russia, regardless of the Kremlin’s long-term goals.

Within the EU, initial steps were taken to engage in new cooperation with Russia in January 2015, just when Russian troops were trying to seize the strategic town of Debaltseve, in violation of the Minsk-1 agreements. An issues paper prepared by the European External Action Service under Federica Mogherini, High Representative of the European Union for Foreign Affairs and Security Policy, suggested to “engage with Russia in the short- to medium-term” due to “significant interests on both sides.”\textsuperscript{13} Debaltseve was seized in a month, four days after the Minsk-2 agreements entered into force. The return of Debaltseve to Ukraine was not even discussed in the negotiation process until late 2016.

The EU Global Strategy, also prepared under Mogherini, states that “the EU and Russia are interdependent” and that cooperation must include “climate, the Arctic, maritime security, education, research and cross-bor-

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der cooperation . . . deeper societal ties.”14 In our view, that is a political mistake, which was poignantly explained by Robert Cooper: “Russia’s ambition seems to be ensuring that its neighbours are weakened by conflict and poor government. How this benefits Russia is hard to understand; it certainly does not benefit us. Perhaps that is the point.”15 As long as Russia views “common interests” as European dependence on any kind of Russian assistance, resources or cooperation, including dealing with troubles in countries between Russia and the EU, it will use such instruments to demand concessions. Essentially, the current Russian regime is ruling the country not by giving Russian society more opportunities to develop itself and therefore seeking more benefits from international cooperation, but by tying people’s welfare more tightly to state power and its projection abroad. From this point of view, Russia will not swap stabilization of Ukraine for offers of deepened trade or cooperation from the West.

It is just a matter of time before the instrument of selective cooperation backfires and destroys a tenuous European solidarity. Competition among individual countries to win more benefits from “selective cooperation” with Russia will always cast a shadow over the need for a common policy. For example, during the December 2015 EU summit, Italy already questioned the EU approach to sanctions against Russia, as German energy companies lobbied their government to approve Nord Stream 2.16 This was repeated at the October 2016 EU summit, when Italian Prime Minister Matteo Renzi initially resisted new sanctions on Russia17 (although he ultimately joined the consensus), and just a few days later the EU Commission changed regulations regarding access to the European internal gas markets in a way that favored German and Russian companies.18

So far it seems that the main message of those who are trying to shape the Trump Administration’s foreign policy attitudes is a vague promise to the Russian leadership of reciprocity and mutual respect. For instance, Newt Gingrich hinted that in the past fifteen years Russia was treated unfairly as the “Soviet Union” while being “a relatively large power with a relatively powerful military.”

At the same time, former State Secretary Henry Kissinger, who was invited to several meetings with Trump and Mike Pence during and after the campaign, when asked about his attitude toward Russia and Ukraine, said that he would “try to make Russia a partner in a solution” of the crisis in the Donbas. Kissinger presented his general framework of “diplomacy to integrate Russia into a world order which leaves scope for cooperation.” With regard to Ukraine, he speculated that “Russia can contribute to this by forgoing its aspiration to make Ukraine a satellite; the United States and Europe must relinquish their quest to turn Ukraine into an extension of the Western security system. The result would be a Ukraine whose role in the international system resembles that of Austria or Finland, free to conduct its own economic and political relationships, including with both Europe and Russia, but not party to any military or security alliance.”

However, in the case of Ukraine, Kissinger suggests “autonomy” for the parts of the Donetsk and Luhansk regions as an element of a peace solution, which contradicts his “neutrality” examples of Austria and Finland and falls in line with Putin’s plans to control Ukraine, using leverage afforded to him by such “autonomous regions.” Moreover, Ukraine had non-bloc status between 2010 and 2013 and Budapest “security assurances” from the Russian nuclear power, but that did not prevent Russian aggression in 2014.

The main problem of this realistic approach is that it is based on the outdated stereotyped perception of Ukraine as a “divided nation,” in which internal struggle between parts of the country “would lead eventually to civil war or breakup”; a perception influenced by a Russian imperial

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interpretation of history. However, Ukraine’s most recent history has shown that the country lost territories not due to civil unrest but only after well-organized and disguised external military aggression, the effect of which has been to consolidate Ukrainian society and bring different regions closer. Should political realism prevail in the new U.S. Administration, these facts would have to be respected. On the other hand, if Ukraine is perceived by the new U.S. Administration as a “toxic asset” that only increases costs because of its domestic troubles, then the realist approach demands that the West transfer this burden to Russia, especially if Moscow wants to claim it.

In short, it is too early to make certain predictions about Trump’s attitudes toward the Russian-Ukrainian conflict, although there is a clear intention to change the basic approaches to U.S.-Russian relations set forth by Obama and George W. Bush. It should also be remembered that the probable policy shift of the new Administration is marred by Senate investigations into potential Russian links and contacts, including potential business interests, of the President and associates such as Secretary of State Rex Tillerson and, even more important, evidence of hostile Russian intrusions during the U.S. electoral campaign. For a democratically elected government it would be a challenge to isolate a new approach to Russia from the need to respond to allegations that Russia sought to manipulate public opinion during the elections. Both Moscow and Kyiv will follow the news from Washington on these matters in order to understand whether the new Administration has a new strategy toward them and their conflict, or decides to avoid making decisions and taking risks.

In sum, despite massive direct and indirect Western support during the war years, Ukraine is concerned about the short-term nature of such support and the fragile unity underpinning Western approaches when it comes to imposing real costs on Russia.

**Western Perceptions of the Conflict**
**Between Ukraine and Russia**

The West is preoccupied with working with Russia on conflict resolution for a number of reasons that go beyond the Kremlin’s possession of nuclear arms, the necessity to engage Russia in Syria, on Iran or the Korean peninsula, negotiations on the Arctic, climate change, or other issues.
First, Russian claims over Ukraine are not considered to be completely illegitimate. It was common practice to treat Ukraine as a “grey zone” between EU/NATO Europe and Russia\(^\text{22}\) and to consider that under certain conditions Ukraine could join re-integration projects inspired by Moscow. The failure of the Euro-Atlantic integration reforms of the “Orange revolution” governments, and the pro-Russian stance of the Yanukovych presidency, seemed to support that view of Ukraine.

In addition, growing Russian assertiveness, which included both hostile actions toward former Soviet republics and economic incentives for key EU countries (Italy, Austria, Germany, and France) and euroskeptic or pro-Russian governments in central-eastern Europe (Hungary, the Czech Republic, Slovakia), prompted ideas of respecting Russian “special interests” and favoring its partnership over relations with other CIS countries.

The most recent examples of using economic and trade-related arguments to justify renewed relations with Russia have been provided by center-left governments in Austria and Greece\(^\text{23}\) as well as a broad coalition of parliamentary business lobbyists in the French Senate\(^\text{24}\) and the National Assembly.\(^\text{25}\) It is worth mentioning that in February 2015 Francois Fillon, the frontrunner in the 2016 French Republican presidential primary, called German and French leaders to support Russia’s interest in a neutral Ukraine and to reject the notion that Russia intended to capture Ukraine.\(^\text{26}\) Since that time he has only strengthened his stance about returning to close dialogue with Putin regardless of his behavior.\(^\text{27}\)

These calls have been even stronger in countries that depend on Russian energy imports. Both the center-left Prime Minister of Slovakia, Robert

Fico, and the right-wing Prime Minister of Hungary, Viktor Orban, included revival of trade with Russia as a key concern for their countries, since each has suffered from Russian countersanctions.28 According to Dariusz Kalan, much of Russia’s influence in these central-eastern European countries, especially Hungary, has been based on lucrative, corruption-laden business deals.29

However, it was the Obama Administration that started the “reset policy” toward Russia, only months after the 2008 Russian-Georgian war, despite Russia’s de facto annexation of Abkhazia and South Ossetia. And it took two years for the Obama Administration to review its relations with a more authoritarian Russia, initially opposing congressional efforts to penalize Russia and then only reluctantly approving some selective restrictive measures, such as the Magnitsky Act.30

The essence of the initial Western inability to confront a new reality and to contest Russian claims over Ukraine may be found in widespread Western acceptance of Putin’s own characterization of his aggression against Ukraine as a “crisis in Ukraine.” The term “Ukrainian crisis,” used often in international media, is simply not correct. Ukraine’s domestic crisis ended with the escape of Yanukovych to Russia, the return of the 2004 constitutional reform, which prevents monopoly of power, and the smooth legitimization of new Ukrainian authorities. These developments were in fact key reasons why Putin decided to intervene, in an attempt to divert Ukrainian efforts from its reform agenda and aggravating the country’s economic and political situation.

As the war broke out, it became evident that Russia had enough strength to defeat and capture three Baltic states before NATO could respond. According to U.S. Lieutenant General Ben Hodges, commander of U.S. Army Europe, the situation has not changed much after two years of conflict.31 It is true that the July 2016 NATO Warsaw summit adopted deci-

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sions that raised the stakes for Russia in case of military escalation. However, a country without NATO backing has even less chance to survive an encounter with the Russian military machine.

Therefore, the major Western powers think that re-arming Ukraine could not deter escalation of the conflict, since Russia could definitely launch a preventive invasion to defeat the Ukrainian army before Western assistance and a military buildup could make Ukraine’s defense forces strong enough to withstand full-scale attack. In 2015, just a few days before talks in Minsk, speaking at the Munich security conference, German Chancellor Angela Merkel ruled out the idea of strengthening the Ukrainian army, since she did not believe it would persuade Putin that he might suffer military defeat. At the same time French President Francois Hollande warned that the only alternative to negotiations was war.

However, European leaders seemed to be “led from behind” by the Obama Administration on this matter. On the eve of the Russian assault of Debaltseve in February 2015, Ben Rhodes, a deputy national security adviser and one of President Barack Obama’s closest aides, told CNN that supplying weapons to Ukraine was not an answer to the crisis in Ukraine. Later, in March 2015, it was revealed that this decision was made contrary to advice from the Secretary of Defense, the Chairman of Joint Chiefs of Staff and the Director of National Intelligence.

Hopefully, there is gradual evolution of the views in France and, especially, in Germany to support economic sanctions against Russia and backing of the EU financial aid loans for Ukraine. As for the United States, in both Republican and Democratic camps there is a consensus that Ukraine must obtain lethal arms to protect itself, although this should not take

shape as a unilateral American decision without the consent of key EU and NATO allies. During his confirmation hearings, Secretary of State Tillerson suggested that in 2014 he would have recommended supplying weapons and offering air surveillance to Ukraine to respond to Russian aggression in Crimea and eastern parts of the country.37

Second, many Western authorities tend to believe that Ukraine is part of the problem, and that it can be influenced at relatively lower cost and can be controlled in the process of peace-making. The West is inclined to forget about its own strategic intelligence failure when it came to Russia’s easy takeover of Crimea, and is tempted instead to lay the blame on weak Ukrainian security and defense institutions and radical nationalistic movements that were operating within the broad protest movement of the Euromaidan.

In February 2014, the actions of Russian special forces troops in Crimea not only caught the West by surprise, they did not correspond to prevailing Western perceptions of Russian policy tools and Russian goals in Europe and the CIS. As Daniel Treisman has observed, “Before the operation in Crimea, Putin’s decisions could generally be rationalized in terms of costs and benefits, but since then, his foreign policy calculus has been harder to decipher.”38

On the other hand, the Ukrainian leadership is far less unpredictable and its parochial interests could be easily identified and targeted by soft and hard political tools. According to then-U.S. Assistant Secretary of State Victoria Nuland, “The ability of the United States and the international community to continue to support Ukraine depends upon the commitment of its leaders . . . to clean up corruption, restore justice, and liberalize the economy.” If very detailed demands are not met Ukrainian elites are threatened to “slide backwards once again into corruption, lawlessness, and vassal statehood.”39


We expect that the new U.S. administration, relying on a cooperative Congress, will make its support for Ukraine even more dependent on Kyiv’s commitment to reform itself and fight corruption. Washington, not Brussels or other European capitals like Berlin, London or Warsaw, provides the lion’s share of military and financial assistance for Ukraine and shapes IMF loan requirements, which are two crucial elements for Ukraine’s survival. Therefore, Ukraine’s leaders, who are incapable of closing the gaps between their promises and their actions, face a hard choice: either subdue their egoistic interests and spur domestic changes, or continue feuds for power and wealth only to end up with an imposed peace agreement as a part of possible broader pact between the new U.S. administration and Putin.

Meanwhile, the EU also faces a certain problem with influencing Ukraine. The Dutch advisory referendum rejecting the Association Agreement and internal disagreements about reforming the Schengen regime have compromised two of the soft power tools available to the EU to influence Kyiv’s decision-makers.

Moreover, the Netherlands demanded that the European Council conclusions regarding Ukraine of December 15, 2016 be supplemented by an annex about the implementation status of the EU-Ukraine Association Agreement. From the Ukrainian point of view, this document was approved to assure Dutch voters that the EU is not going to impose any obligations on EU member states that may go beyond what was concluded in the Association Agreement. This impression was strengthened by the fact that the EU sanctions against Russia were extended until June 2017. However, there is a risk that these political provisions could be used by the new governments in the Netherlands, France, Germany, and may be Italy, to block new decisions to assist Ukraine in the fields of security, mobility of citizens and support of the reform process. In this case, this annex could be seen as the Union’s failure to conduct a proactive policy in the Eastern Neighborhood.

In addition, EU-Ukraine trade relations cannot by themselves be an immediate game changer. Despite high expectations, the economic results of the Deep and Comprehensive Free Trade Agreement (DCFTA) between Ukraine and the EU would be rather modest. According to the European Commission, even though EU countries in 2015 accounted for 40% of

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Ukraine’s exports and 34% of Ukraine’s imports, overall trade has stagnated since 2008, due to structural problems of the Ukrainian economy. In addition, according to the Economist Intelligence Unit, Ukraine’s two major export drivers in 2015–2016 were agricultural products and metals (44.3% and 24.5% of all exports, respectively, between January and June 2016), both of which may suffer from “greater economic uncertainty in the EU following the UK’s Brexit vote.” In short, the DCFTA and Association Agreement are likely to have more political than economic short-term significance for Ukraine, which means that the EU cannot expect Ukrainian concessions on a peace deal in return for more favorable trade conditions.

Third, most Western interlocutors believe that the Minsk agreements are the only real way to stop the war. The Minsk agreements’ success, however, relies on the presumption that the gradual removal of sanctions could prompt Russia to withdrawal from the Donbas. This view is shared by the German, French, and former Italian ministers of foreign affairs. One possible explanation for such behavior is their need to balance their respective countries’ interest in Russian resources with their respective security commitments as part of the EU and NATO.

Many Western leaders are attracted to the theory that deep and comprehensive economic ties serve as safeguards against hostility. Therefore, according to this line of thinking, improving economic relations would nudge positive domestic developments in post-Soviet Russia. These expectations grew bolder in 2008–2012, during the Presidency of Dmitry Medvedev, despite Russia’s invasion of Georgia. Germany played the role

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of engine in developing a strategic partnership between the EU and Russia. As German President and former Foreign Minister Frank-Walter Steinmeier has stressed, Europe needs Russia “as a partner for security and stability in Europe—and far beyond,” and Russia “faces formidable modernization challenges: renewing infrastructure, investment, creation of a socially just society,” which can be addressed through partnership and mutual integration with Germany and the EU.46

Meanwhile, Russia’s interest in building such a “Partnership for Modernization”47 with the EU, and Germany in particular, did not prevent the regime from rigging the 2011 Duma elections and using force to crack down on the 2012 Bolotnaya protests. Despite growing evidence of the Kremlin’s authoritarian turn, key European states sought to maintain a cooperative approach toward Russia. It was argued that since “it is Russia which is far more dependent on economic and energy relations with its most important markets: EU member states,” the EU and key European countries such as Germany could use asymmetric interdependence “to create new formats for dialogue with Russian society” and spur gradual changes in the country keeping economic and security cooperation with a “difficult state” like Russia.”48

However, Russia’s attack against Ukraine and the annexation of Crimea has proven that mutual economic interdependence is considered by Russian authorities to be a tool, not an obstacle, for aggressive policy. Indeed, there was an evident asymmetry in economic relations between Ukraine and Russia. In 2013 Russia’s imports from Ukraine amounted to $15.8 billion (or 5% of its total imports and 24% of Ukraine’s exports). This was the largest share among the Commonwealth of Independent States, and Ukraine was one of Russia’s largest trading partner.49 Nonetheless, that same year Russia blocked billions of dollars worth of Ukrainian exports,

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making it clear that it was prepared to incur some economic losses in exchange for political concessions.\textsuperscript{50} The same pattern of behavior was repeated when the Kremlin ordered asymmetric trade countersanctions against EU and Turkish producers in 2015 (first and fourth trade partners respectively).\textsuperscript{51} Furthermore, Putin authorized the invasion in Ukraine despite the risk of losing one of its biggest natural gas markets, its traditional transit route for energy into Europe, an important market for Russian exports, and severing cooperation between Russian and Ukrainian companies in certain sensitive areas.

From this point of view, the EU’s search for a modus vivendi with Moscow cannot ignore Russia’s interpretation of interdependence as a kind of weapon.\textsuperscript{52} In this context, proposing the gradual removal of sanctions without a clear demonstration of how and when they can also be expanded and strengthened only proves to Moscow that it can wait and influence certain European countries to secure more favorable conditions. In short, sanctions are not goals in themselves in the context of conflict in the Donbas, they have become a test of the EU’s ability to carry out a coordinated and substantive response to violations of the post-WWII order in Europe and of the U.S. commitment to protect its democratic allies.

To conclude, the West is facing a difficult dilemma as it approaches the limits of its limited engagement in the conflict between Russia and Ukraine. It faces suspicion, hidden agendas, and zero-sum game thinking on the Russian and, to some extent, the Ukrainian side.

Stakes and Levers of the West and Ukraine in the Conflict

In order to understand how the conflict in the Donbas shapes Ukraine’s response, including its choice of the foreign policy tools, one needs to take into account the following:


• After two years of conflict Russia has consolidated its military and political control over its proxies in the Donetsk and Luhansk regions;

• Since most Ukrainian combat-ready troops are concentrated in the Donbas and military reserves are limited, Russia has a good reason to conduct limited military operations to exhaust the country’s defense and coerce it to a humiliating peace agreement or even try to provoke a change of regime;

• Russia has been pursuing a goal of a regime change in Ukraine even if it means greater violence and further destabilization of a neighbor;

• War in the Donbas is perceived by majority of Ukrainians as a struggle for national survival. According to polls, 52% of Ukrainian would choose armed or civil resistance against foreign intervention, while 3% would flee abroad.53

• Putin’s aggression contributed to a dramatic shift in Ukrainian society over the past two years. A May 2016 poll by the Democratic Initiatives Foundation showed that support for joining the Eurasian Economic Union collapsed to 14% (support to join the EU is 59%). Support for joining NATO skyrocketed to 43% (25% is in favor of non-bloc status), and a potential referendum would be won by NATO supporters. These changes in geopolitical attitudes happened in all regions of Ukraine.54 Also, DIF polls in the liberated areas of the Donbas show that a majority of respondents choose an all-Ukrainian identity over a regional one. Even in the Donbas (which is under control of Ukraine), less than 7% of respondents said they support the separation of the so-called ‘LNR’ and ‘DNR’ (“People’s Republic of Luhansk” and “Donetsk National Republic”) from Ukraine.55

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54 In the east and south the option for a Customs Union or military union with Russia collapsed as well, and the number of EU and NATO supporters increased dramatically. In these regions the supporters of “non-allied status” still dominate. However, to a great extent they are demoralized and not politically active. According to the polls, if referenda on EU and NATO membership would take place, they would be won in the east and south as well. See Ilko Kucheriv Democratic Initiatives Foundation, opinion poll press release, July 6, 2016, http://dif.org.ua/article/gromadska-dumka-pro-nato-noviy-poglyad (accessed November 22, 2016).

• At times the Ukrainian leadership plays into Russian hands and dam-
ages the trust of Western partners by discrediting its own reform
processes. Its bargaining position on the occupied territories is also
not very clear, even to Ukrainian experts.

There are significant limits to Ukraine’s ability to negotiate compro-
mise in the framework of the Minsk agreements. Ukraine will pursue a
number of non-negotiable priorities in the nearest future, among them
“securing continued international support for Ukraine’s sovereignty and
territorial integrity, including non-recognition of Russia’s annexation of
Crimea; reorienting its economy as quickly as possible toward Europe;
and seeking continued international assistance to ameliorate the country’s
economic situation.”

If these goals are sacrificed in the process of peace-making in the Don-
bas, the whole deal would soon fall apart due to huge domestic resistance
in Ukraine and highly expected Russian interference. A closer examination
of the implementation elements within the Minsk agreements reveals that
they cannot result in stable peace.

Although military cooperation with the West is very important for
Kyiv, the main point of concern is Western attitudes towards Ukraine’s
economic restructuring. Among the first who called for “a modern-day
equivalent of the Marshall Plan” for Ukraine was George Soros, who
urged the U.S. and German governments, as well as the IMF, to rescue
the country from financial collapse and to stop treating Ukraine like
“another Greece.” It is apparent, however, that in the midst of the Brexit
debacle the EU is more concerned about and focused on its own internal
problems rather than troubles on its periphery.

Nevertheless, it is crucial for the West to understand that providing
Ukraine with a standard bailout easing, which stipulates mainly austerity
measures, instead of huge investments in productivity-growth spots and
close oversight of performance, would just preserve the oligarchic monop-

vember 22, 2016).
57 George Soros, “Sustaining Ukraine’s Breakthrough,” Project Syndicate, February 26, 2014,
https://www.project-syndicate.org/commentary/george-soros-calls-on-the-eu—and-ger-
many-in-particular—to-take-the-lead (accessed November 22, 2016).
58 George Soros, “Last Chance for Ukraine and Europe,” Project Syndicate, March 30, 2015,
https://www.project-syndicate.org/commentary/ukraine-eu-last-chance-by-george-soros-
nostic economy, which can result only in another destabilization and violent turmoil in the next election cycle. And the resulting domestic troubles will invite just another Russian invasion, as in 2014.

So far, Ukraine has no additional resources to sustain the postwar reconstruction of the Donbas. The current economic policies of austerity and energy market liberalization depend on close cooperation with EU financial institutions, U.S. credit guarantees and a credit lifeline from the IMF. However, the West is reluctant to commit even more resources or relieve Ukraine from its sovereign debt, so that the country can channel saved money to the post-conflict areas.

As an example, Ukraine’s negotiations in March 2015 with a pool of private lenders and bondholders, most of them from United States, resulted in no necessary assistance from the U.S. government, as if there was no war going in the Donbas or the annexation of Crimea had never happened. Indeed, it was not feasible to let Ukrainian elites become “free riders” and main beneficiaries of a “haircut” and debt relief. However, a restructuring deal between private lenders and Ukrainian government placed the debt burden on the public and over the medium term undermined the well-being of the common people, who remain the main agents of civil society and proponents of Western institutions of democracy and rule of law.

It is true that the Ukrainian economy is struggling to find its way to recovery and modernization. In addition to the negative impact of the Crimea annexation and war in the Donbas, the performance of the national economy is constrained by such serious factors as corruption, lack of innovation, an absence of long-term capital investment, depreciation of critical infrastructure, the low labor costs and high capital outflow rates. According to the latest WEF Competitiveness Index, Ukraine’s basic requirements for competitiveness, so far, have been extremely low. Without immediate


61 See the results of the polls below in the text.

implementation of the long-term decisions to reform the economy, the Ukrainian government cannot endure external and internal security threats linked to the conflict in the Donbas.

The most important counterargument about the Minsk agreements is that their implementation has not been owned by the Ukrainian people, including those who live in the conflict zone. From the very beginning the work of the trilateral contact group and its foreign facilitators on ceasefire, demining, exchange of POWs, election issues has been carried out without the consent of the people and their representatives in the national parliament and local councils, volunteer organizations and civil activists. According to the May 2016 poll of the Democratic Initiatives Foundation, only 13% of Ukrainians believe that elections in the DNR/LNR or their ‘special status’ would lead to peace in the Donbas. 43% of Ukrainians consider these elections impossible in the near future, and 21% consider that these elections may happen, but only under Ukrainian law. As a consequence, it is crucial that Western powers understand and agree with the red lines Ukraine has established as necessary to maintain Ukraine’s sovereignty and essential for any sustainable peace, as they engage in peace negotiations with Russia.

Finally, Ukraine wants to understand how the West views the future of Crimea’s status and ways of defusing possible conflicts between Russia and Ukraine over this territory. In an interview on ABC’s “This Week” on July 31, 2016, Republican presidential candidate Donald Trump suggested that the people of Crimea would rather be part of Russia. Although his remarks were widely condemned, there is no secret that the West de facto accepted the seizure of Crimea. Sanctions related to Crimea are quite weak and often violated by Western companies. While Western powers and institutions do not recognize elections to the Russian Duma from Crimea, in general they seem to accept tacitly the results of Russian Duma elections, despite illegitimate voting in the occupied Crimean constituenc-

cies for all-national Russian parties’ slates. In the Ukrainian view, such voting delegitimizes the entire Duma.

A Constitutional “Special Status” for the Occupied Areas in the Donbas?

With the Minsk-2 agreement, Western powers and Russia not only imposed constitutional changes on Ukraine, President Poroshenko himself went beyond his authority by agreeing to change the constitution (Clause 11). It will be almost impossible for Poroshenko to collect the 300 votes (out of 450) needed for the second reading of the constitutional changes. Also, this attempt would lead to destabilization, as he would be accused of having betrayed national interests.

What are the main arguments against a constitutional “special status” for the occupied areas? First, Russia’s plans for the “Bosnianization” of Ukraine go even beyond so called “Finlandization.”66 To achieve it, the Kremlin may try to use footnotes to Clause 11 of the Minsk-2 accords. In contrast to the constitutional unitary status of Ukraine, it is designed to give autonomy and therefore legitimization of separatist-held areas in the Donbas (including legitimization of so-called “people’s militia” and appointment of judges and prosecutors with “participation” of Russia’s proxies). Clause 8 would make Ukraine (and, consequently, the West and international organizations) pay for the reconstruction of the destroyed Donbas economy.

Second, trying to avoid new escalation, Western partners have pressed Ukraine to implement Clause 11 on constitutional changes, ahead of implementing ceasefire and ahead of implementing other clauses from 1 to 10. In the eyes of Ukrainians this smacks of “appeasing” Russia for its aggression. Kyiv stresses that it can have dialogue only with those representatives of the occupied areas who are legitimately elected, that is, according to Clause 9, under Ukrainian law and OSCE monitoring. Kyiv also demands withdrawal of foreign troops, according to Clause 10.

Elections in the Occupied Areas “Under Ukrainian Law and OSCE Monitoring”? 

It is difficult to imagine free and fair elections on the territory controlled by Russian security services and armed half-criminal units. Who will have the right to vote? More than one and a half million pro-Ukraine voters have left the Donbas, but they need to have the right to vote. Who will be able to run? Should the amnesty be provided to those who were killing, torturing, and kidnapping Ukrainian citizens? Who will provide security at the polling stations? Ukrainian police or armed Russia’s proxies? Which electoral system should apply? The same one as in Ukraine (based on party lists) or a different one? Will Ukrainian parties and mass media be able to function freely? At present, there are no Ukrainian media at all in these areas, only Russian channels.

Moreover, two main issues remain unsolved. First, Kyiv’s control over the Ukrainian-Russian border has not been restored. Unfortunately, according to Minsk-2 this should happen at the end of the peace process (Clause 9). Kyiv asked the EU to consider deploying an EU mission on the border (like EUBAM on Ukrainian-Moldovan border) but there has been no response yet. Second, there has been no withdrawal of foreign troops, mercenaries, illegal armed formations, and Russian military equipment (as required by Clause 10 of Minsk-2).

Without demilitarization of the region it is difficult to imagine free elections. The OSCE does not have the capacity to monitor the whole region. Some argue that “EU policymakers should therefore discuss a step-by-step approach for lifting the sanctions depending on progress on the Minsk accords.”67 In this regard, Ukrainian experts are concerned that some Western politicians are going just to tick the box to obtain a pretext for reducing or lifting sanctions on Russia. By agreeing to formal elections, Russia would like to create a camouflage for presenting the Russian-Ukrainian conflict as Ukraine’s internal problem and involve Kyiv into direct dialogue with Russia’s proxies.

These concerns are shared not only by political opponents of President Poroshenko but also by the expert community in Ukraine. In principle,

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Poroshenko will be able to collect enough votes (only 226 out of 450) to get the special election law passed. His idea is to proceed after the elections to restore Ukraine’s border control (which is questionable, given Russia’s position) and to involve former separatists into the formal structures under control of Ukrainian state. By doing that he may be able to present himself as a peacemaker for domestic consumption and to secure Western approval, but this long and controversial approach could also erode his support and thus risk further destabilization.

Recommendations

- **Increase military assistance to Ukraine both by providing necessary equipment for the army and supporting modernization of Ukraine’s indigenous defense industry.** Support for the army should entail defensive lethal arms, encrypted command and communication systems, unmanned aerial vehicles and modern reconnaissance equipment. Modernization of Ukraine’s indigenous defense industry should include joint ventures to restore naval, air and missile defense capabilities.

- **Consider the possibility of establishing a special legal bilateral framework, similar to the U.S.-Israel memorandum of understanding, to regulate military assistance between Ukraine and the United States, or at least provide Ukraine with the status of a major non-NATO ally** such as Egypt, South Korea, Morocco or Pakistan.

- **Include Ukraine into the NATO’s Enhanced Opportunities Program** (Georgia is already part of this program, together with Sweden, Finland, Jordan, and Australia).

- **Consolidate existing international sanctions against Russia and establish single legal and political framework for all existing sanctions,** contemplating their cancellation only after Russia’s withdrawal from the Donbas and beginning of a political dialogue about the future of Crimea. Consideration should be given to including cultural and sport events conducted in Russia as part of such sanctions, even though this does not seem very realistic given the weak Western response to the annexation of Crimea (compared with the boycott of the Moscow Olympic Games after the Soviet invasion to Afghanistan).

- **Additional measures need to be taken,** including strict implementation of the “Crimean part” of the sanctions regime, and increasing
international monitoring of the situation in Crimea, including defending the rights of Crimean Tatars, who are again facing repression.

• **Sanctions against the Russian delegation in the Parliamentary Assembly of the Council of Europe should not be lifted** given that there is no progress regarding the situation in Crimea and the Donbas. Illegitimate voting in occupied Crimean constituencies for all-national Russian parties’ slates is cause not to recognize the legitimacy of the entire Duma.

• **Promote policies, companies and trans-border projects that help to reduce the presence of Russian energy resources in the European and Ukrainian markets.** The best case scenario presumes EU-U.S. cooperation to reduce the share of Russian oil and natural gas in the European markets, including its substitution with alternative sources and reversing existing joint projects between Russian and European energy companies. It is especially important to support Ukrainian efforts to substitute Soviet-era nuclear power stations with modern Western stations and assist in the development of indigenous Ukrainian nuclear fuel production and alternative renewable energy installations.

• **Develop a common multilateral approach, agreed among all stakeholders, for the short- and long-term financial support of Ukraine,** which can be maintained despite Russian efforts to continue the conflict in the Donbas. It is essential to make such support conditional on Ukraine’s achievement of real transparency and accountability in domestic politics.

• **Continue pressure on Ukrainian leaders on anti-corruption and judicial reforms.** For example, it is important to put under severe scrutiny and audit all kinds of foreign assets, including offshore entities, owned by Ukrainian public persons. One of the most effective mechanism of Western assistance has been support of non-governmental watchdogs, think tanks and independent media, including the emerging Suspilne Movlennia (state-owned former national broadcasting company), which has investigated corruption cases and helped to launch e-declarations for civil servants and government leaders.

• **Immediate EU implementation of a visa-free regime for Ukrainians should be supplemented by legal countermeasures against Ukrainian**
government officials (including former public officers) and their associates who are responsible for, or complicit in, ordering, controlling, or otherwise directing, acts of significant corruption. The model for such a legal step is provided by the draft of the Global Magnitsky Human Rights Accountability Act.68

- **Act to constrain neighboring countries from unfriendly actions or open assistance to Russian actions that destabilize Ukraine** (e.g., Hungarian policy in Transcarpathia).

- **Withdrawal of Russian troops and heavy weapons, demilitarization of the Donbas, return of all Ukrainian hostages and POWs, restoration of law and order, and international monitoring/control over the Ukrainian-Russian border are all preconditions for any consideration of special constitutional states for presently occupied area of the Donbas or elections in the occupied areas.** Anything less will reward the Kremlin for its aggression. Without that, both special status as well as elections in the occupied areas look like legitimization of Russia’s de facto control over occupied areas. If Russia agrees to leave the Donbas but has reservations against hypothetical injustices there once it is gone, it is possible to use the experience of Israel-Egypt relations over Sinai to reach an agreement on a gradual disengagement and demilitarization of the Donbas according to a negotiated division of the occupied territories into the zones. This should include lower presence of both Ukrainian and Russian armed forces on the Ukrainian-Russian border, enforced by an international observer contingent on all roads and transport routes between two countries in the former area of conflict. If this does not work, one can not exclude that the Minsk agreements need to be renegotiated. In any case, until withdrawal and restoration of Ukraine’s sovereign control over its border, sanctions cannot be reduced. They appear to have been the main tool stopping Russia’s military attack.

- **An effective ceasefire is necessary for Kyiv to concentrate on domestic reforms.** There are successful examples of countries like West Germany, South Korea, and Israel where Western economic and security assistance appeared to be decisive factors. More recent examples include Cyprus, which joined the EU despite having a frozen conflict on its territory; and Moldova, which entered into a visa-free regime and association agreement with the EU despite the conflict over

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Transnistria. In the latter case, despite Western overtures Moldova’s ruling coalition was unable to start effective struggle against corruption. That is why Western support and pressure for reforms in Ukraine remain crucial.
For nearly two decades Georgia has been working harder than any other country in the post-Soviet space, with the exception of the Baltic states, to develop stable political institutions, sustainable security, and a functioning democratic system. Georgia publicly committed to establishing the rule of law and building democratic institutions many years ago, but the signing of the Association Agreement (AA), with the European Union (EU) on June 27, 2014 made its obligations on human rights, democratization, and good governance legally binding as part of the European integration process. The agreement not only brought Georgia closer to the EU; it also reaffirmed Georgia’s position as the center of gravity for Western engagement in the South Caucasus and the area covered by the EU’s Eastern Partnership. Establishing a sustainable, law-based system of governance has become central to Georgia’s aspirations to become a fully-fledged member of the democratic family of nations, and this goal is repeatedly supported by politicians of all persuasions.

While the signing of the AA with the EU and Brussels’ decision to grant a visa-free regime for Georgia and Ukraine are significant steps forward, the country has a credibility problem due to Tbilisi’s continued lack of progress in reinforcing its unconsolidated democracy.

The past few years have also brought challenges, including democracy fatigue. While the majority of the population still supports alignment with the West, Euro-Atlantic skepticism is growing due to continuous disappointments, and pro-Russian forces are gaining momentum. Elite and popular attitudes toward the West, especially NATO, are noticeably less sanguine than they were just two years ago.¹ Weakening support for the

Euro-Atlantic course can pose a serious problem for the process of democratic consolidation in Georgia, including the institutionalization and maturation of Georgia’s democracy. If the West wants Georgia to remain firmly in its camp, it will eventually have to make a serious commitment, rather than calling for vaguely defined close relations. The West’s reluctance to get involved in strategic issues may harm both the democratic processes in Georgia and the West’s reputation.

This chapter discusses current political challenges in Georgia stemming from the ongoing democratization and Europeanization processes. The chapter argues that while Georgia’s Euro-Atlantic integration is not in the cards at the moment, the West should strongly support Georgia’s irreversible Europeanization and the step-by-step inclusion and close political association of Georgia to the EU and the broader transatlantic community. As there is no clearly defined goal from EU and NATO, the country needs a clear road map from its Western partners on how to move forward without damaging its Euro-Atlantic identity. The chapter also focuses on the flaws of the Georgian government and failures in Western strategy, and proposes some recommendations to fix them. The chapter ends with a list of recommendations addressed to the Georgian government and civil society actors, as well as policy makers in the EU and the West.

Georgia’s Euro-Atlantic Prospects and Reality

Georgia looks to the West, yet it seems that constructing a durable democracy and a productive economy in an unstable security environment is a major challenge for the country. Although the current Georgian administration has been less visible on the international stage than its predecessor, Tbilisi is still on track with its Europeanization policy and has started a new chapter of internal development—“irreversible Europeanization.”

The main objectives of Tbilisi’s self-declared course include closer association with the European Union, obtaining a Membership Action Plan (MAP) from NATO, securing economic support from the West, and instituting a visa-free regime under the Eastern Partnership program. This trajectory is supported by all major political parties in the country. The new course also envisages engagement in constructive dialogue with Russia.

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without sacrificing Georgia’s national interests, but stopping short of formal diplomatic relations with Moscow. This policy, however, is not widely supported by the opposition.\(^3\) Overall, although there is no indication that Georgia will become a member of either NATO or the EU in the near future, most Georgians continue to support membership in both organizations, which they perceive not only as a guarantee of security but a symbol of their belonging to the West.\(^4\)

While the country’s Western friends expect the Georgian political class to deliver on promises to improve the democratization process, incentives offered by the Euro-Atlantic community are not sufficient, especially as each Western carrot comes with a Russian stick. While few Georgians would disagree that NATO membership is desirable, it is not entirely assured that Western integration will prevail over the issue of territorial integrity. Understanding this reality, the Kremlin tries to exploit any weaknesses in Tbilisi to regain influence over Georgian politics after losing leverage following the 2008 war. As Georgia is not a member of any regional security organization and its NATO prospects remain uncertain, Moscow also attempts to lure Georgia back to its security realm by hinting that some face-saving solutions might be found with regard to Abkhazia and South Ossetia under the auspices of the Moscow-sponsored Eurasian Union. As a result of this situation, the Georgian public has been widely exposed to Russian propaganda. A media monitoring report conducted by the Tbilisi-based Media Development Foundation,\(^5\) which studies anti-Western propaganda, documented a significant increase in the intensity of anti-Western and pro-Russian discourse in Georgian media in the past year.

In this delicate situation, constant and consistent dialogue between Georgia and its Western partners can help ensure that the country remains on the path to democracy and Euro-Atlantic integration regardless of political pressure from the Kremlin. The West also needs to change its government-centered approach and focus more on societal level interac-

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\(^3\) Kornely Kakachia, “Europeanisation and Georgian Foreign Policy,” in *The South Caucasus Between Integration and Fragmentation*, (Brussels: European Policy Center, May 2015), pp. 11–18.


tions. One of the major weaknesses of the current Europeanization process is the gap between Georgian society and the rest of the EU, which exists due to the lack of common experiences and participation in common public debates. Georgia is part of Europe in terms of rhetoric, but in reality there is very limited knowledge and understanding in Georgia about EU realities, European perceptions toward Georgia and the implications of international events/developments to Georgia. The EU is perceived as a foreign policy goal and addressed from the perspective of seeking membership, even though Georgian society could start integration into the NATO/EU public space without formal membership in the political organization by expanding participation in common discussions.

But this also requires the Euro-Atlantic community to take concrete steps to further Georgia’s integration with the Alliance and to avoid policies that combine polite assurances in public with private indifference or aversion. If Georgia does not receive some sort of upgrade in its status with NATO or EU in the near future, it may result in a serious blow for the domestic forces that support Georgia’s Euro-Atlantic integration. This could also dampen popular enthusiasm for the country’s integration with the West, which may lead to the erosion and eventual crumbling of the nationwide consensus on the issue. Georgia needs a political compass or clear road map from its Western partners on how to move forward without damaging its Euro-Atlantic identity.

**Strengthening the Democratic Agenda: Democracy and Sustained Reform Matters**

Building a modern, sovereign state has been the top priority for the Georgian leadership over the past 25 years, a task which has consumed most of the country’s energy and material resources. As Georgia is proud to be a front-runner in European integration among Eastern partnership countries, the Europeanization of the country has become the principal ideological tool for Georgian political elites. Europeanization is primarily driven by internal dynamics, and it has been one of the few issues the government and the opposition have agreed on. The signature and ratification of the Association Agreement with the EU is seen by Georgia’s political elite as a guarantee to cement the country’s pro-Western track. It also

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serves as a modernization action plan, which has a significant impact on the social, economic and political landscape of the country.

In recent years, Georgia has managed to enhance its political plurality. In 2012, for the first time since its independence from the Soviet Union, the country experienced a peaceful transfer of power. The country’s party politics are more diverse than ever before, and a transition from a semi-presidential to a parliamentary system of government has helped balance the distribution of power, which previously was overly concentrated in the hands of the president. However, Georgia’s ability to consolidate its political institutions around a durable democratic culture is uncertain and still faces a number of challenges.\textsuperscript{7} Left unchecked, these challenges could undermine the country’s relations with the West, its stability, and the social and economic bases of the Georgian state. Today, when Georgia’s drive for Euro-Atlantic integration seems to have stalled, democratic reforms will be critical to Georgia’s acceptance in the Euro-Atlantic community.\textsuperscript{8} This raises the question: what should be at the top of the agenda of the Georgian government and public at this point?

While Georgia is far ahead in terms of democratic development compared to its immediate neighbors, the state of Georgian economics, democracy, and political stability is still far from the Western standards it aspires to meet. Although the country’s legislative framework has changed significantly in recent years, the application of a democratic electoral process remains a serious problem. The weak delegation of authority, poor communication with the general public, the failure of government agencies to execute the tasks they need to complete, and weak horizontal links between the political institutions all remain problematic. With the current geopolitical uncertainties amid Western strategic and civilizational protectionism, Georgian democracy looks increasingly “like an island, and not the beacon of Western-style liberalism as it was once hailed.”\textsuperscript{9} As the country has shown ample commitment to Euro-Atlantic integration, a choice that is tied up in the strings of democracy promoting conditionality, large seg-


ments of its population have not seen any benefits from the democratic reforms they keep hearing about. The Georgian Dream government’s announced goal is to transform the unconsolidated democratic system into a representative, European-style liberal democracy. This has translated into new concerns over where the government—which enjoys a constitutional supermajority—is headed and how much it can be trusted. The possibility that one party will hold carte-blanche is widely feared based on Georgia’s recent history as well as some of the government’s controversial initiatives. Oppositional forces and civil society have already started to speak up about this potential threat.

Another major obstacle for Georgia to become a European democracy is the persistence of an informal system of political governance, whereby an unaccountable public figure, like former Prime Minister Bidzina Ivanishvili, who is believed still to have a say in government decisions, is able to exert undue influence on the government. Ivanishvili, who is outside democratic control and beyond any institutional checks and balances, is believed ultimately to be calling the shots, even though he has not held an official post since he stepped down as prime minister at the end of 2013. The Ivanishvili factor alone makes many Georgians question government transparency. The strongest risk posed to Georgian leadership is the continuing dependence of the nation and its ruling party on the financial resources and the personality of Ivanishvili. Until recently, doubts remained about the government’s competence to deal with the opposition responsibly. This concern led to Western officials issuing numerous warnings about selective justice and the persecution of political opponents. This ambiguous situation puts Georgia in a vulnerable position vis-à-vis both its commitment to democracy and its foreign policy orientation, and increases regime and institutional uncertainty about the future. As Georgia’s democratic transition is still fragile, informal governance and obstacles to the functioning of government branches is a blow to the institution-building process. It will be impossible for the country to move to the next stage of democratic development as long as informal governance is a reality and democratic institution-building is undermined by the lack of competent and independent institutions. Such a system of management also runs contrary to European values.


Against this background, Georgian society must demonstrate its commitment to further develop its democracy. However, it has become obvious that at present Georgian society lacks both strong political will and experience in democratic governance. There is a lack of know-how on how to organize effective party structures as well as on how to formulate appropriate electoral platforms and build a consensus in a polarized society, which is an essential ingredient of a democratic system. To date the biggest problem for Georgia’s unconsolidated democracy has been the lack of societal forces or a political grouping powerful enough to effectively balance the government. Opposition political parties were not able to offer a challenging political agenda during the election campaign and were incapable of uniting behind a clear program for democratic change. In short, while Georgia has made some progress in recent years with respect to democratic consolidation, there is a growing impression that more must be done to consolidate and institutionalize its democracy. Despite slight improvements on the Democracy Score (improved from 4.64 to 4.61), Georgia’s governance is still considered by Freedom House’s Regime Classification as a hybrid regime. It is in the interest of the Georgian public to focus on the importance of developing a competitive political landscape by strengthening and democratizing political parties, and deepening their roots in society. It is essential that political parties in the parliament make a genuine commitment to implement key reform priorities. This commitment should go beyond the political parties in parliament and include political parties not represented in parliament, as well as civil society at large. The parliament’s strong political will and effective commitment, as well as exercise of its oversight role, are crucial for the implementation of key reform priorities. If Georgia can build a consensus-based society based on a respect for the rule of law, and if it receives assistance from the international community, the country will have a better chance to create a tolerant and pluralistic political culture.

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As EU integration-related reforms are directly related to the development of state capacities in countries like Georgia, the accession carrot continues to be a strong motivation for partner countries to take up new commitments in many areas of integration. According to the last European Commission ENP progress report, while Georgia has acted on most key recommendations, it still needs greater judicial and self-government reform, a stronger investment climate, protection of human rights, and access to economic opportunity for all who seek it. It also needs to develop a more tolerant and pluralistic political culture. Although the progress made by Georgia in fulfilling European standards in the areas outlined by the Action Plan is impressive and a large number of reforms were intro-

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duced, Georgia, as an EU Partner country, needs to follow the recommendations set by the joint working document developed by the European Commission and the European External Action Service for EP countries. This document aims to identify 20 key deliverables for 2020, intended to contribute to the joint work of EU Member States and EP countries and step up actions in four key priority areas: a) economic development and market opportunities; b) strengthening institutions and good governance; c) connectivity, moving towards diversified and vibrant economy, creating favorable conditions to create jobs in new sectors, attracting investments and fostering employability.

In conclusion, to boost Georgia’s successful transformation, its policymakers need to bring the country’s style of governance closer to a functional system of checks and balances in which more power resides with the parliament. There are no easy quick fixes to these impediments, as some of them are rooted in Georgian political culture and will take a long time to change. As Georgia’s Western partners, the United States and the EU can play a role here by focusing more on Civil Society Organizations (SCO) as the main reform agents. The EU and the United States should increase their leverage to empower citizens and SCOs in their push to reform their own governments. Moreover, the EU should make its assistance to the Georgian government conditional on the sufficient inclusion of citizens’ representatives and NGOs in the process of democratic reforms.17 NGOs can play an important role in monitoring the reform process, using benchmarks highlighted in Eastern partnership roadmap (Electoral standards, Regional and local authorities, Judiciary, Common Foreign and Security Policy, fight against corruption, fight against cybercrime, etc.) to assess the state of progress achieved by Georgia in EU integration affairs and in its implementation of obligations. As participants in the EU’s Eastern Partnership Civil Society Forum, SCOs play some role in ongoing constitutional and electoral reforms, supporting rule of law and freedom of the media. The NGO sector can play a decisive role in combating the influence of anti-Western voices and Russian anti-Western propaganda in Georgia, and advocating for greater accountability, transparency and a reform-oriented agenda. While civil society in Georgia may not be as strong as before the Rose Revolution, the transformational role of civil

society seems to be the most important phenomenon for the country and should not be underestimated. Various activists, NGOs and civil society groups have become real players at different levels of authority, including the highest offices in the land. All parties across the political spectrum also need to demonstrate how, by behaving like responsible actors, they can lead the country toward a more stable and peaceful transition aimed to consolidating its infant democratic governance. Though Georgia has maintained a democratic trajectory in its domestic reform process, areas such as media freedom still need improvement. These aspects are especially important because they will set the stage for the political transformation that will follow and the United States and the European Union must redouble their efforts to support Georgia.

**Georgia in the West’s Strategic Calculations: Time to Rethink?**

Georgia is strategically important for the West, as it “lies on one of the most significant energy transit routes of the post-Cold War era—the southern route for oil and gas exiting the Caspian Basin to Mediterranean, European, and global markets.” Conversely, by pursuing the so-called shelter strategies of bilateral and multilateral alliances, the West remains vital for Georgia’s security and development. Securing Georgia as an independent, integrated, stable, and economically successful democracy is in the interests of both NATO and the European Union, as this projects the interests and values of Western countries and institutions toward all intersecting regions. Losing Georgia and the South Caucasus in general would be incredibly unhelpful if the West hopes for continued reductions in global petroleum prices, and energy independence from unfriendly, or potentially unfriendly, states. Despite the number of challenges Georgia faces, the country actively contributes to global security and stability through the various actions and measures undertaken in different fields. First of all, Georgia actively contributes to international peace and security

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thought ISAF to make international security more resilient to adverse developments. In per-capita terms, Georgia’s contribution to ISAF was second only to the United States, and the country has consistently spent more than 2 percent of its GDP on defense.21

This contribution should enhance stability and security, not only in the Euro-Atlantic area, but also beyond its borders. Georgians have been fighting shoulder to shoulder with allied forces without caveats in the most dangerous region of Afghanistan. In spite of losses, the country remains committed to ISAF as well as to the post-ISAF reality, and has offered to contribute to supporting Afghan National Security Forces. Although Georgia’s level of cooperation with NATO is unmatched among the other post-Soviet republics, the stalled process of acquiring MAP is frustrating for the country’s elites and public. This is not because Georgia is failing to meet expectations. As former U.S. Ambassador to NATO Douglas Lute noted while still in office,22 Russia and the “strategic envi-


“environment” that it created in its neighborhood has “put a break on NATO expansion” for the foreseeable future. As a result many Georgians question NATO’s credibility and value-based approach. Some even think that if the Alliance is truly based on values, NATO would have admitted Georgia several years ago and not Montenegro, which signed an accession protocol in 2016.23 While Montenegro’s incorporation into NATO sends a positive signal that the door remains open to future aspirants, Georgia skeptics inside NATO claim that Georgia cannot be defended militarily and that inviting Georgia to join would unnecessarily antagonize Russia.24

Consequently, the gradual death of Euro-Atlantic conditionality—the policy linking the prospect of Euro-Atlantic integration with substantial local reforms—has left Western states with few means to exercise leverage over Georgia. While both the EU and the United States agree that Georgia, together with Ukraine, is a special case in the post-Soviet space, they do not seem to agree on the geopolitical future of these countries. Both the EU and the United States want to establish a democratically-governed “ring of friends” in post-Soviet space that is not troubled by violent conflicts, dysfunctional societies, and flourishing organized crime. The West has also shown that it is willing to provide Georgia with aid but is unwilling to protect Georgia at any cost.25

The U.S. Approach

The U.S. government and Congress recognize Georgia as an indivisible part of wider Europe, with broad bipartisan support for Georgia in the Senate and the House. The bilateral relationship between the two countries has been strong through many administrations in both Washington and Tbilisi, and the United States has become one of the main international guarantors of Georgia’s sovereignty. Following Russia’s aggression in 2008, $1 billion in assistance was pledged to Georgia for economic recovery. The United States has expressed strong support for Georgia, which is reflected in the U.S. Georgia Charter on Strategic Partnership, signed in

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January 2009, which states that “our two countries share a vital interest in a strong, independent, sovereign, unified, and democratic Georgia.” Donald Trump’s election as U.S. president, however, may bring tremendous uncertainty to Georgia. During his pre-election campaign he made it clear that he is no longer interested in promoting global democracy and hinted that the United States would become less engaged with the rest of the world.

A major foreign policy challenge for Tbilisi will be how the new U.S. Administration will deal with Russia’s new international assertiveness and foreign military adventures. It is incumbent for countries in this region, including Georgia, that enjoy support from Western allies to make it clear that any new U.S.-Russia cooperation should not come at the expense of the interests of friends and allies. For instance, after Russia cemented its military presence in the occupied breakaway regions of Abkhazia and South Ossetia and neglected to fulfill its obligations under the agreement it signed at the end of the conflict, many in Tbilisi feared that Washington would throw Georgia under the bus in the name of a new reset with Russia. President Trump has since made a U-turn in foreign policy, however, now describing the NATO alliance as a “bulwark of international peace and security.” Trump admitted that the United States was “not getting along with Russia at all” and that relations between the two global powers may be at an “all-time low,” so earlier fears may have been seem overwrought.

A deeper problem is the growing number of Europeans calling for a return to business as usual. When taken together, it seems that Western resolve to confront Russia over Georgia or Ukraine is weakening. Apart from the endless arguments over whether granting MAP to Georgia would encourage Russian President Vladimir Putin to further escalate tension with Tbilisi, this unwillingness also stems from the fact that most European governments do not believe Georgia’s territorial integrity matters that much to their own security.

Georgia remains a successful example of what can be achieved with the support of EU and NATO, and it remains a model for other countries. Moscow does not seriously accept Tbilisi’s assurance that Georgia can be an equally reliable partner for both Russia and the West. Russia’s position also makes it clear that Moscow will never, or at least as long as the current regime or one similar to it is in place, be comfortable with a Georgia that either seeks to join NATO, enjoys strong ties to powerful Western countries like the United States and the United Kingdom, or simply wants to chart its own foreign policy course. Finding new approaches to this challenge requires energy, creativity and a willingness to take risks, as well as a few breaks. Georgia’s Western partners recommend strategic patience towards Moscow on the road to European and Euro-Atlantic integration. But, without a clear strategic objective, there is little sense to maintaining such patience. Georgia needs to receive a very strong, united message from the new U.S. administration regarding its Euro-Atlantic integration as well as how to deal with expectation management at home (ongoing cooperation to host training exercises with the United States and the United Kingdom is a good step in this direction, but not enough). Moreover, as there still many uncertainties in global politics, the Georgian government must be nimble in its efforts to maintain a close relationship with Washington and prevent Georgia from being a casualty in the budding relations between Presidents Trump and Putin. Whether or not it can accomplish this in the near future will have a tremendous bearing on the future of Georgia’s security and, indeed, its sovereignty.

The EU Approach

The recent refugee crisis has profoundly influenced the politics of the European Union at both the supranational level and the level of individual member states. Its repercussions have been strongly felt in southeastern border countries, including Georgia. As Georgia maintains a steady pace towards integrating with European space, and its bold reforms are truly unparalleled in any other country in the vicinity, Brussels is struggling with as-yet obscure efforts to lay down a formidable and far-reaching pan-European project that could include Georgia.29

Interestingly, while Washington sees Georgia as a European country and part of the European security architecture, many in EU member states have a different perception of the role of Georgia in a wider European context. While the EU aims to support democracy to the Eastern Partnership countries, it is denying Georgia the prospect of one day joining the European club.\(^\text{30}\) Even though successive governments have been outspoken on their intention to become an EU member, the country has never been considered for candidate status. To some, Georgia and the South Caucasus are simply not “Europe.”\(^\text{31}\) Many question the importance of this unstable and conflict-ridden region for Europe. In addition, EU Commission President Jean-Claude Juncker has ruled out further admissions for the duration of his term, saying that the EU needs time to accommodate the last group of new members.\(^\text{32}\) Moreover, whereas the EU has been willing to assist Georgia in its democratic transition, it has not always invested enough resources to assist the Black Sea country, especially in terms of hard security and territorial conflicts. EU policymakers are especially reluctant to get involved in Georgia’s ongoing tensions with Russia.\(^\text{33}\) The EU’s reluctance harms both the democratic processes in Georgia and the West’s reputation, which makes Georgia’s place in Europe and its European perspective the subject of controversy.

European integration perspectives for the Georgian state remain relatively vague, divergent interests and inclinations within the EU are having an impact on security issues, with a clear-cut polarization between core member states and the expansion-driven east European states. Eastern European states have a vision of a wider, more robust and open Europe that surpasses the vision of most EU members. They also have shared aspirations regarding the democratization of Eastern Partnership countries. While their foreign policy and interests might differ significantly in details, they share an attitude of support and camaraderie toward Georgia and other neighbors like Ukraine and Moldova. In the meantime, it seems

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that the core European countries, which are still dealing with Brexit and other important issues, may require some respite for sorting out internal challenges and recalibrating an approach to extending further eastward. Due to the current enlargement fatigue among both the population and the political elites of EU member states, the EU may not be able to grant Georgia (and other Eastern Partnership states) a membership perspective in the short or even medium term.\textsuperscript{34}

In this delicate situation, EU partners recommend strategic patience to Tbilisi, and they hope that Georgians will accommodate it responsibly and with an understanding typical for a European nation.\textsuperscript{35} But that is where the EU approach risks failure: the lack of a full-fledged membership perspective may significantly thwart Georgia’s European aspirations. Strategic patience is frustrating in its lack of results. Without a clear strategic objective, such patience does not make sense. At the same time, however, the mentioned respite and recalibration could allow for a pause on the Georgian end too, allowing for a deepening of institutional and civic reforms, enhancing approximation with EU legal requirements and standards, and, most importantly, a much-needed accumulation of wealth and upgrade of living standards to the levels commensurate with those of the member states.

How Can Georgia and the West Move Forward?

Many uncertainties exist in Western politics. For Tbilisi, this means Georgia needs to do more than just secure stronger support from its close partners (the United States, central European and Baltic countries); it also needs to overcome the reluctance of other “Georgia skeptic” member states who seem content with the Alliance’s existing composition. Rather than pinning the blame for this on the Europeans, the Georgian government should acknowledge that, over the past decade, it has not done as much to build ties with European partners as it did with the United States. While close relations with Washington are essential, Tbilisi needs to be proactive with specific EU member states to help them overcome any lin-


gering reservations. The example of Swedish and Polish support in the establishment of the Eastern Partnership indicates that continuous support from European countries on Georgia’s path to NATO and EU integration has been, and remains, vital. Despite the fact that membership in the EP did not contain the promise of eventual EU membership, it played an important role in consolidating the pro-European foreign policy vector of Georgia, Moldova and Ukraine. Specifically, Georgia must consolidate its links with Germany, the country that has the most persuasive powers in European affairs. Germany’s support of Georgia is essential for its prospective integration with the EU and with NATO. Georgian elites still have to make better inroads with Berlin’s policymakers. Georgia’s quest for a European perspective needs strong backing from at least one EU heavyweight (like Germany or France), just as France pushed for Romanian accession to the EU in 2007. Even though the long-term strategic decision to move closer to the EU and NATO is non-negotiable for Tbilisi, it is not clear that Germany is prepared to play a dedicated role in upholding Georgia’s objectives.

While Germany does not principally object to Georgia joining NATO, Berlin has no clear concept of how to deal with Georgia’s strategic aspirations to become part of Western institutions. Germany remains unconvinced about Georgia’s Euro-Atlantic future, especially in regards to granting Georgia a NATO MAP. The German government’s reservations put pressure on pro-Western political parties and unintentionally contribute to the increased popularity of Russia and the Eurasian Economic Union (EEU) in Georgia. In general Berlin, together with its European partners, creates uncertainty about Georgia by exercising some ambiguity about the country’s European prospects. While it remains to be seen what direction the new U.S. Administration will take toward post-Soviet countries, strong transatlantic support could be crucial to revive a German-Georgian strategic partnership. If the new U.S. Administration is particularly keen on sharing the burden of global crisis management, it could outsource some tasks to Germany, its most important partner in Europe, prompting Germany to take the lead in areas such as Georgia’s Europeanization project. To date, the West has failed to put forward a


cohesive foreign policy on Georgia: the Georgian public sees Germany’s changing Russia policy as sobering, and they feel that Germany’s strong support for Georgia’s Western aspirations is essential, if not vital, for the future of their country.

While European integration has been a mantra in Georgia, the overall focus of the discussion has been either too technical or too high-level and political and, as a result, has failed to put the right emphasis on a wider process of Europeanization that would go beyond specific EU accession or association criteria. The fixation on technocratic benchmarks has not only downplayed dubious local political practices, but has also diluted public commitment to reform. Often forgotten in these discussions is the complex reality of Europeanization as a two-way street, whereby EU-wide challenges and discourses in EU member states impact Europeanization processes in the neighborhood. One of the challenges affecting Georgia and other EP countries is the intellectual disconnect between those societies and the European Union. With the new visa-free regime enforced with the EU, the Georgian government needs to strengthen the country’s participation in the common public debate with European counterparts. The government, as well as the NGO sector, should do its best to increase the public’s understanding of the European realities and issues that drive public policy in the EU states by engaging in people-to-people dialogue. This is important as the positive developments related to the visa liberalization process have not yet had an impact on the everyday lives of the Georgia people, many of whom still confront widespread unemployment and poverty. More accurate handling and realistic self-assessment of Georgian–EU and NATO-Georgian relations by the government could also contribute to managing high expectations regarding the Euro-Atlantic integration process.38 In addition, the government also needs to continue the ongoing information campaign, which stresses that visa liberalization does not automatically grant the citizens of Georgia access to the EU labor market.

On the other hand, joining the European Economic Area (EEA)—including free labor mobility—might be the best-case middle-term scenario for Georgia. The Georgian government should seek a special

arrangement with the EU that would allow Georgian workers to enter the EU labor market for a limited time of period. As unrealistic as that may seem right now, against the background of the migrant crisis and the rise of far right in the EU countries, in the long term the opening of the EU labor market may prove to be a win-win solution for both parties: aging EU countries will need to develop more sophisticated mechanisms of controlled immigration to sustain their social systems, and Georgia, together with other EP states, can provide low-cost workers with fewer integration problems. To alleviate anxieties among the population in EU member states, additional control mechanisms can be established to put temporal and segmental limits on the labor force coming from the EP states.

As the EU greenlights Georgia’s long-awaited visa-free travel, both Washington and Brussels need to make sure this privilege also covers the Russian occupied territories of Abkhazia and South Ossetia. Additionally, Tbilisi has to do its part by constructively participating in the Geneva discussions; enhancing Georgia’s engagement policy towards the breakaway regions; and taking pragmatic steps to further open channels of communication, encouraging trade, education, travel, and investment across the administrative boundary line.

Conclusion

Despite the many flaws in its strategy, the West is still the main guarantor of Georgia’s democratic consolidation and its unstable security. Georgia is perceived by the EU as a promising neighbor on its eastern frontier: it remains a successful example of what can be achieved with the support of EU and NATO in Eastern Partnership countries. In recent years, Georgia has made major advances in its relations with the EU and Georgia’s pro-Western orientation has always enjoyed high approval ratings from the public. Georgian society remains committed to liberal values and democracy despite geopolitical challenges and some disillusionment with Europe. By signing the Association Agreement (AA) with the European Union on June 27, 2014, Georgia created a new momentum for Georgia’s Europeanization project. Regardless of the fact that the agreement does not guarantee EU membership in the foreseeable future, there is an assumption among the Georgian public that it will create the necessary conditions for

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potential membership negotiations, should the parties be interested in
advancing their cooperation. Regional pundits and Georgia watchers agree
that the success of the project will be judged by how well the government’s
politics and agreements are implemented in the country.

Georgia possesses a strong track record with regard to reforms and con-
tributions in North Atlantic security, and the country needs to keep active
and be more visible in the international arena so that Georgia is not for-
gotten by the Euro-Atlantic community, but rather is included and rewarded
for the progress it has made. But given the European Union’s inward focus
and the uncertainties surrounding the new U.S. Administration’s policies
toward the Eastern Partnership countries, Tbilisi has little choice but to
keep its options open to maintain some flexibility in its foreign policy. As
the international strategic environment is turning more hostile to value-
based policy, Tbilisi has to pursue strategic patience with regard to Euro-
Atlantic integration, and should wait for a window of opportunity despite
the fact that, at some point, strategic patience for Georgia is little more
than a euphemism for doing nothing and hoping for the best.

Georgia’s NATO membership has been put on hold, which means it is
important for the Georgian government to conduct an effective expecta-
tion management policy in order to ensure the continuing support of the
population toward the NATO integration process and to forestall disap-
pointment with the Western policy of prolonging membership decisions.
In the current reality, when full membership in EU and NATO is not in
sight, Georgia should concentrate on two main objectives: further deep-
ening economic integration and achieving free labor mobility with the
EU. Moreover, it is high time to concentrate on the implementation of
the Association Agreement with EU and continue reforms. The country
needs to be at the forefront of democratic reforms and strengthen its
image as a bastion of modern democratic reforms—that is the only way to
attract the attention of the West. There is also an opportunity for the
Georgian government to implement reforms and show Western partners
a clear vision of how to achieve a good governance model.

At the same time, further democratization and liberalization—as well
as a peaceful end to Georgia’s conflicts—are unrealistic without the credible
security conditions that would create a new framework for stable domestic
development. Georgia still sits outside the European “zone of democratic
peace” that is mostly comprised of EU and NATO member states. Geor-
gia’s Western friends need to develop a new strategic vision toward the
country, as Tbilisi’s appetite is growing and the carrots offered by the
Euro-Atlantic community are not enough, especially as each Western carrot comes with a Russian stick. If Georgian security is not sufficiently guaranteed, the situation may reach a point when Georgian public will no longer be able to afford futile enthusiasm. In order to avoid this situation, Georgia needs a political compass, an idea of where it is heading that has been approved by the Western powers. A clear commitment by the EU (and NATO) to accept Georgia’s European perspective could be a strong inspirational incentive to stick to democratic reforms even without the immediate accession perspective. However, this must be followed by the step-by-step inclusion and close political association of Georgia to the EU and the broader trans-Atlantic community. Whether or not this can be done in the nearest future will have tremendous bearing on the future security, and indeed sovereignty, of Georgia. It may also settle domestic security fears and act as a deterrent to future conflicts, and could stimulate democratic consolidation in Georgia. The more stable and successful Georgia becomes, the more it will encourage neighboring countries to pursue meaningful democratic reforms.\(^{40}\) The obstacles seem insurmountable at times. But, despite these challenges, Georgians must stay the course on the long road to democracy. And the United States and Europe must continue to walk with them. Finding new approaches to this conundrum requires energy, creativity, the willingness to take risks, and a few lucky breaks.

As the EU is not ready to deepen its relations with Partnership countries and is giving no sign that it wants to reciprocate Georgia’s “West-ophilia,” any further Western policy should consciously pursue the longer-term strategic vision set below. The EU should develop a more differentiated approach to the EP countries that is based less on geography and more on democratic achievements and strategic importance. The EU should wage a battle of narratives to contest Russian propaganda, while also offering new incentives, such as more economic benefits or new and more advanced ways of integration, to stabilize democratization reforms and stipulate the government’s continuing adherence to democratic norms. Moreover, the EU should continue financial assistance to Georgia, alongside the IMF, the European Investment Bank and the EBRD. Macroeconomic assistance must be tied to a reform agenda to improve public finance

management, increase efficiency of the social safety net, and to adopt policies supporting the implementation of the DCFTA.

Agriculture is a socially important sector of the Georgian economy, as over 42% of the population lives in rural areas. The EU and the European Investment Bank should allocate funding and considerable investment projects. If that succeeds, the sector could play a key role in increasing employment, reducing poverty, and strengthening the country. However, a real improvement in the situation could be brought about by foreign investment, the development of domestic production, increasing exports (including onto EU markets), and finally by opening up the EU’s labor market to Georgians. Access to the EU labor market represents the main (and, perhaps, only) channel for an immediate tangible improvement of life for many ordinary Georgians. In addition, Brussels should be more consistent in applying democratizing pressure on the Georgian government to prevent any autocratic backsliding and avoid being identified with officials’ misdeeds. While working with government, it is also essential to increase funding for SCOs and make them the main local partners in policy dialogue with the government, both in terms of policy adoption and policy implementation, as well as the reform monitoring process.
Twenty five years after Armenia, Azerbaijan, and Georgia became independent states, the South Caucasus remains a strategically sensitive region between Europe and Asia, Russia, and the Middle East. It is still struggling with the legacy of the conflicts that broke out as the Soviet Union collapsed. Economic development lags behind its neighbors and unemployment and emigration are enduring problems.

The South Caucasus is still a region more in potential than in reality. The three nation-states have grown apart and resemble one another far less than they did 20 years ago. The future development of both Armenia and Azerbaijan is still hostage to the most dangerous unresolved conflict in wider Europe, the dispute over Nagorny Karabakh. An outbreak of fighting in April 2016, in which up to 200 people died, was a reminder that this is a smoldering conflict that is currently nearer to full-scale war than to peaceful resolution.

The long-term cost of the Karabakh conflict on Armenia and Azerbaijan is high. Armenia, the victorious party in the war of the early 1990s, still has its borders with Azerbaijan and Turkey closed, and is overly dependent on Russia as its security patron. Azerbaijan has mostly resolved the acute humanitarian problems it suffered as a result of the Karabakh conflict and it has benefitted from a decade of oil-fuelled prosperity after 2003. But the end of the boom and a turn to more authoritarian rule has made Azerbaijan much more inward-looking and fragile.

This makes Georgia a strong contrast to its two neighbors. Unlike its neighbors, Georgia has acquired the “habit of democracy” and held genuinely competitive elections in October 2016. A pro-Western consensus has been maintained through the very different periods when the country was led by Eduard Shevardnadze, Mikheil Saakashvili and Bidzina Ivanishvili. Its institutions—parliament, courts, media, civil service—are growing stronger.
Importantly, Georgia is helped by the fact that its unresolved conflicts in Abkhazia and South Ossetia are not a brake on domestic progress and aspirations for Euro-Atlantic integration. Opinion polls show that ordinary Georgians still care about the loss of the two breakaway regions but that domestic issues are uppermost in their minds. Also, the 2008 war with Russia and Moscow’s recognition of Abkhazia and South Ossetia as independent states is a huge obstacle to any ambitions Russia has of pulling Georgia back into its orbit. The de facto loss of the two territories is painful for Georgia, but also leaves it free to move faster towards Europe.

Russia continues to be the most important big neighbor for all three South Caucasus states. Since 2013 it has managed to strengthen its relationship with Azerbaijan, while incorporating Armenia into the Eurasian Union. Trade and communication links between Russia and Georgia have been restored since 2012, even though the two countries still have no formal diplomatic relations.

Yet a quarter-century of independence has confirmed the statehood of the three countries and given them plenty of tools to resist Russian influence and advice if they wish to. Knowledge of the Russian language and exposure to the Russian media are all slowly decreasing and Russia’s image has suffered as a result of the Ukraine conflicts.

Both the crisis in Ukraine and the conflict in Syria have had a generally negative impact on the region. The sight of the Maidan movement in Ukraine helped persuade the government of Azerbaijan to crack down harder in order to stifle dissent. As the crisis began in 2013, Armenia, under pressure from Moscow, went down “the road not taken” by Ukraine, agreeing to abandon its plans for an Association Agreement with the EU and to join Russia’s Eurasian Union instead.

The Syrian conflict, which is not far from the Caucasus geographically, also had a direct impact on all three South Caucasus countries. Armenia took in tens of thousands of Syrian Armenian refugees. Azerbaijan and Georgia (as well as the Russian North Caucasus) saw recruits from their countries join the ranks of so-called Islamic State and must now craft policies to deal with returnees from Iraq and Syria.

More broadly, these two crises have pushed the Caucasus down the agenda in both the United States and the European Union. With resources stretched and no obvious breakthroughs in sight, “conflict management” is now the order of the day. Ten or 15 years ago, when the peace processes in the region were more dynamic it was possible to recommend radical
steps and hope for full resolution of the conflicts. Now, it is more realistic to pursue incremental change and to see the protracted conflicts in the context of societal development in the region as a whole.

25 Years of Relations with the West

After a surge of romantic expectations in the 1990s, relations between Western countries and the three states of the South Caucasus are much more pragmatic than they were. Georgian scholar George Mchedlishvili sums up the mood as “Adoration No More.”¹ Yet behind this more pragmatic relationship lies a much thicker web of relationships than 20 years ago, especially in Georgia.

Expectations about the transformative role the West would play in the region after the break-up of the Soviet Union look rather naïve in retrospect. Western leaders would never give a very high priority to a region with 15 million people—certainly in comparison to their close neighbor and former imperial power, Russia.

Arguably, the occasions when U.S leaders have paid the closest attention and pushed certain policies for the region have also produced mixed results. Three times in the last 25 years, the South Caucasus has been a “policy project” in Washington. The first time was when the Clinton administration strongly promoted the idea of the Baku-Ceyhan oil pipeline in the 1990s. BTC, as it became, was ultimately a success, but initial high-level U.S. backing for it politicized the project in a way that probably made it harder to accomplish. The project was seen in the 1990s by the energy companies as commercially unviable and was only vindicated in the early 2000s when economic circumstances changed.

The second project was when President George W. Bush adopted post-Rose Revolution Georgia as a model of democratic change and visited Tbilisi in 2005. This was a boost to reformers in Georgia but also emboldened President Saakashvili to be more intolerant of his domestic opposition and to be more antagonistic towards Russia than was wise. As Georgia headed towards conflict in 2008, its government had unrealistic expectations about the degree of support they would receive from Washington. A third project was support for the Armenia-Turkish normalization process

in 2007–2009. This was the right policy, but close U.S. involvement complicated the process, as the U.S. government wanted to resolve its own domestic political Armenian issue and probably pushed the process too hard and too fast as a result.

In contrast to these high-profile interventions, a slower policy of appealing to the hearts, minds and wallets of the citizens of Armenia, Azerbaijan and Georgia has been less visible but more effective over the longer term. Here again the contrast is striking between Georgia’s relationship with its Western partners and that of Armenia and Azerbaijan.

In the early 1990s, the three countries started from a roughly level position. Armenia and Georgia in particular were recipients of some of the highest per capita aid grants from the United States of any countries in the world. (Azerbaijan was held back by Section 907 of the Freedom Support Act imposed by the U.S. Congress in 1992 at a time when it had the upper hand in the Karabakh conflict against the Armenians).

One persistent disappointment for Armenia is that it has a large and prosperous worldwide diaspora, that is, by some estimates, twice as large as the three-million-strong population of the Republic of Armenia itself, and yet Armenia remains one of the poorest of the post-Soviet states. In 2015 Armenia’s GDP per capita was $3,500, compared for example to around $9,000 in Russia and Turkey and $17,000 in its former Soviet co-republic Estonia. There are evidently missed opportunities here, on both sides. On the side of the government of Armenia, there has been a reluctance to allow diaspora Armenians to invest on a “level playing-field” which has deprived the country of potentially huge amounts of investment. On the diaspora side, there has been a reluctance to invest in the “real economy” of Armenia and back a political reform agenda, with foreign Armenians preferring to put their money in churches or cultural projects or to lobby for genocide resolutions in foreign parliaments. Now that the centenary of the 1915 Armenian Genocide has passed, there is an opportunity for the U.S. Armenian diaspora in particular to re-focus its energies on the socio-economic problems of Armenia.

All this leads to the conclusion that supporting long-term state-building is more valuable than the short- and medium-term pursuit of strategic alliances in the South Caucasus.

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Changing Aid Priorities

In the early 1990s, there was an understandable focus on post-conflict aid. Gradually, years of post-conflict humanitarian assistance have mostly eliminated the problems faced by internally-displaced persons (IDPs) from the conflicts. Azerbaijan’s tent-camps have closed down and its hundreds of thousands of IDPs have mostly received new housing. The main issues that still face these IDPs are of being more integrated into the Azerbaijani economy and having more input in decisions about their futures. In other words, IDPs suffer more from political marginalization than economic hardship that stems from their status.

A World Bank study on Georgia from February 2016 reports that IDPs and non-IDPs now have roughly the same levels of poverty, although IDPs have higher levels of unemployment. The study advocates making a transition from a status-based approach in which the status of IDP automatically qualifies someone for financial support to a needs-based approach that focuses more on the economic condition of the aid-recipient in question.

Generally, the focus now is for long-term development aid to the three countries. Georgia is by the far most suitable candidate to receive this kind of aid, chiefly for two reasons: it has dramatically lower levels of corruption than the two other countries, and its civil society is much stronger. After the 2003 Rose Revolution, Georgia received a large influx of aid from bilateral donors, especially the United States (this went mainly to the government, which had the perverse result of weakening civil society for a while). In 2008, following the war with Russia, Georgia received an unprecedented aid package of one billion dollars from the United States, one quarter of which was in direct budgetary support.

Two sectors of U.S. aid to Georgia are worth singling out: defense and security, and education. The United States’ support for the Georgian security sector dates back notably to the launch in 2002 of the 18-month-long $64-million-dollar Train and Equip Program with the Shevardnadze government in Georgia. Although nominally launched to combat the threat

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of terrorism in the Pankisi Gorge, it set the precedent of bringing U.S. troops to Georgia and began a period of close military cooperation. Georgia subsequently committed troops to the U.S-led missions in Iraq and Afghanistan and has received substantial U.S funding to modernize its armed forces.

The United States has persistently lobbied for Georgia to get a Membership Action Plan and be put on the pathway to NATO membership. However, resistance from France, Germany, Italy and others consistently blocks Georgia’s membership perspective. In the absence of that, NATO strengthened its relationship with Georgia by making it an Enhanced Opportunity Partner in 2014. That led to the creation of the NATO-Georgia Joint Training and Evaluation Centre (JTEC) in 2015, which trains the Georgian military and a further package of assistance in 2016.

Given the skepticism of several leading NATO members—and what many would say is a de facto veto on membership from Russia—this pursuit of a strong bilateral military relationship both with NATO and with the United States has achieved much of what a MAP would deliver without the formalities: a professionalization of the armed forces and strong links with the world’s major military power.

Armenia and Azerbaijan have spent heavily on their militaries for the wrong reason—to prepare for war with each other over Nagorny Karabakh. That has also prevented Western countries from playing a direct role in military reform in both countries. Russia is the major supplier of weapons to both countries and Armenia’s security patron. Yet modernization has also taken place and, thanks to one section of the Armenian Defense Ministry, Armenia has a surprisingly good relationship with NATO.

Education is another example of aid from both the United States and EU countries which has made a difference. A whole generation of younger Georgians has studied in Western universities. In acknowledgement of the effectiveness of this, it was announced that the number of Fulbright scholars going from Georgia to the United States would be doubled to 16 every year. The Second Compact of the Millennium Challenge program for Georgia, which came into force in 2014 and is worth $140 million over three years, focuses on education and in particular on science, technology, engineering, and math (STEM). One big success story is GIPA, the Georgian Institute for Public Affairs.

The main caveat is that there has been a too strong focus on higher education as opposed to school education, and that investment in education
is too much of an elite project. This dilemma faced the strategists of the Millennium Challenge—as they planned an investment in higher education in Georgia, they were concerned that the secondary school system was not turning out graduates who were capable of taking advantage of the new opportunities.

Again, Georgia is ahead of its peers. Armenia also has a good higher education system, but it suffers from lack of funding and an old-fashioned Soviet-era approach to teaching. With the exception of two elite institutions (the Oil Academy and Diplomatic Academy), Azerbaijani higher education is unimpressive. Very little of the revenues from the oil boom went into education, which now receives only 2.1 percent of overall spending from the state budget—well below the European average of 4.8 percent.6 In August 2016, one of the country’s few independent universities, Caucasus University, was shut down and then brought under the control of the state, because of its alleged ties to the Fethullah Gulen movement in Turkey.7 Many of its Turkish instructors were dismissed and deported.

A Differentiated European Approach

The European Union has become an important actor in the South Caucasus, again much more in Georgia than the other two countries. EU policy has evolved towards the three countries to demonstrate that a deeper commitment receives more support. This is illustrated by the evolution of the Eastern Partnership (EaP) project, launched in 2009. Initially it offered similar things to all six countries in the project. Then, as it became obvious that some countries were more serious than others about collaboration and integration with the EU, the slogan “more for more” was devised. More recently, the EU has acknowledged that while the idea of the EaP has a bureaucratic purpose and means that the six countries involved command more attention in Brussels as a result, it needs an individually tailored approach to each country in turn.

In Armenia and Azerbaijan, the ruling elites are too focused on preserving their own regimes and the oligarchic economic structures to welcome the EU’s normative democratization agenda. In Azerbaijan, the relationship has been renamed “strategic” and is focused almost exclusively

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on energy. In Armenia, efforts are underway to salvage parts of the Association Agreement that was under discussion in 2013, when the Armenian leadership opted instead to join the Russia-led Eurasian Union. Talks on a new Partnership and Cooperation Agreement are said to be friendly but slow, as the two sides identify what can and cannot be a part of the package. The fact that membership of the Eurasian Union is incompatible with the EU’s DCFTA, necessarily narrows the fields of collaboration between Brussels and Yerevan.

In Georgia, the EU provides more than €100 million in funding annually (not counting aid from the member states), not counting its role as a security provider through the European Union Monitoring Mission, set up after the 2008 conflict.

The Association Agreement which came into force in July 2016 deepens the relationship with the EU. It promises Georgia an important carrot of visa liberalization (Georgia fulfilled the criteria the EU demanded of it however final approval was delayed in September 2016). The Deep and Comprehensive Free Trade Agreement (DCFTA) also promises Georgia preferential access to the EU market, although the consensus is that this will take up to seven years to have an impact. Hopes that visa liberalization and the DCFTA will, as in Moldova, prove attractive to Abkhazia are almost certainly over-optimistic, but they serve the long-term aim of making Georgia a more attractive and less threatening country for the Abkhaz and South Ossetians.

The EU lags behind the United States in one key respect in Georgia: its communication is poor. The United States is much more effective in delivering a message, advertising its aid programs and making an impact on the Georgian public. The EU is hampered by its multi-national structure, bureaucratic language and failure to project a clear message. This raises an interesting question: can Washington and Brussels work more effectively together to maximize their strengths, with the EU having greater leverage and the United States a stronger public profile in Georgia?

Dealing with Enduring Conflicts

The United States has had an active role in the negotiating processes for the three conflicts in the South Caucasus: the Armenian-Azerbaijani conflict over Nagorny Karabakh and the conflicts over Abkhazia and South Ossetia.
It is very important to differentiate between the Karabakh conflict and the Georgian conflicts. Despite the factor of the Armenians of Nagorny Karabakh—who started the dispute in 1988 and should never be underestimated—it is essentially a full inter-state conflict between Armenia and Azerbaijan, each of whom are able to compete diplomatically in the international arena to influence others. Partly for this reason, the role of Russia is also very different in this case. Moscow is a co-mediator on Karabakh with Washington, and since the late 1990s France, Russia and the United States have collaborated well as co-chairs of the Minsk Group. There are differences, but they are not fundamental ones. In Georgia, Russia intervened directly on the side of Abkhazia and South Ossetia and became a party to the conflict in 2008.

**Karabakh**

There is little room for innovation or radical thinking in the Karabakh conflict. The contours of a possible peace agreement are well known, all good ideas have already been proposed. For several years, the focus has been more on conflict management than on conflict resolution.

As a co-chair of the OSCE Minsk Group on Nagorny Karabakh, the United States must also act in the knowledge that Russia is the most active and controversial of the three mediators. Moscow has a close relationship with both sides and works with Baku and Yerevan on a number of other bilateral issues. Russia has reasons for wanting to maintain the status quo and also reasons for wanting to see the conflict resolved.

However, it is a mistake to think that the keys to the conflict lie in Moscow. The local actors are the main decision-makers—even if they find it useful to blame the Russians from time to time. The basic problem is that resistance to resolution of the conflict from Baku and Yerevan—for both of whom the dispute is also a useful instrument of regime legitimization—is always greater than external pressure to make peace. There is no appetite for an imposed solution from the Great Powers to what is regarded as a serious but not urgent problem. In Western capitals, the conflict makes it on to the agenda only when there is a serious breakdown of the ceasefire.

Currently, there is an increased sense of urgency amongst the mediators since April 2016 when the most serious fighting between the two sides broke out since the 1994 ceasefire. This fighting cost up to 200 lives on both sides and was fought with new sophisticated weaponry supplied by Russia to both sides. The cause of the violence was probably a calculation
on the part of Azerbaijan that a limited military operation would disturb the composure of the Armenians, re-focus international attention on the conflict and distract public opinion from economic problems.

Since the four days of fighting, Presidents Ilham Aliev and Serzh Sargsyan have been considering a phased peace-plan, authored by Russian foreign minister Sergei Lavrov, that focuses on the first phases of the “Basic Principles” framework agreement first drafted on paper on 2007. This would allow the two sides to move forward on initial steps in a peace plan without having to tackle the almost-impossible issue of final status of the disputed territory itself. The Armenians will return some Azerbaijani territories outside Nagorny Karabakh, tens of thousands of IDPs will be allowed to return, communication routes will re-open, a peacekeeping force will be installed on the eastern border of Nagorny Karabakh, which will also receive enhanced international status.

What can Washington do within these constraints, beyond continue to push the current peace plan? First of all, together with France, the United States should act as a brake on any attempt by the Russians to promote any unilateral initiative, one for example that involves Russian peacekeepers on the ground. Second, the United States can do more to be the public face of the OSCE Minsk Group, which has become closed and impenetrable to the publics on both sides of the conflict. Third, the United States, together with its European partners, can start working on fleshing out the substance and details of a future agreement: the details of how a peacekeeping force can be deployed, of economic reconstruction, restoration of transport links and so on. This will reinforce the push for peace as it faces resistance on the ground. In the meantime, the small OSCE ceasefire monitoring group needs to be substantially increased and given a stronger mandate—it was devised at a time when the Line of Contact was far less dangerous than it is today.

**Georgia**

It is currently unrealistic to talk of “conflict resolution” in Abkhazia and South Ossetia. The best that can be hoped for is slow “conflict transformation.” As far as Russia and the Abkhaz and South Ossetians are concerned, Moscow’s recognition of Abkhazia and South Ossetia as independent states in the wake of the August 2008 war with Georgia “solved” the conflicts there and created new irrevocable realities on the ground, backed up by extra deployment of military forces. Although no other major states have followed Russia’s example, it is almost impossible
to anticipate Moscow revoking its decision of 2008, which means that the Abkhaz and South Ossetians have no incentive to engage on status or sovereignty issues for the foreseeable future. Two bilateral treaties signed in 2010 further integrated the economies and governments of the two territories into the Russian Federation. That means that conflict resolution here will be a very protracted business. In the case of Abkhazia, people-to-people contacts across the boundary with Western Georgia are limited, in South Ossetia there are virtually no contacts at all.

There is a difference in tone, if not in substance, between the U.S and European approaches to these conflicts. Both express support for Georgia’s territorial integrity and call for a peaceful resolution to the disputes.

These conflicts are multi-dimensional. Their origins are indigenous to the region and due to the negative dynamics of Georgian-Abkhaz and Georgian-Ossetian relations stretching back at least to the beginning of the 20th century. However, the Russian factor became an issue in both conflicts in the 1990s, and from 2008 we can talk about a Georgia-Russia conflict being mapped on to the earlier conflicts in and around these territories. Many in Georgia now retrospectively represent the conflicts as being Georgian-Russian from the start in what looks like an attempt to efface Georgians’ own responsibility for what happened in the years 1989–1992.

The consensus view in the United States, reinforced by Russia’s annexation of Crimea in 2014, is that the conflicts in Abkhazia and South Ossetia are solely about Russian occupation. The Congressional Appropriations Bill for 2017 promised increased assistance for Georgia as part of an overall aid package worth $930 million, “which will help countries such as Ukraine to respond to instability caused by Russian aggression.”

A strong focus on the Russia angle of the conflicts leads to the conclusion that the local actors have no agency and that the only solution lies in Russian “de-occupation.” Given, Russia’s long-term investment in these territories, this risks being a counsel of despair.

The European Union has a slightly different emphasis, having adopted a strategy of “non-recognition and engagement” for Abkhazia and South Ossetia in December 2010. This balances a firm policy of not recognizing the sovereignty of the breakaway territory with a policy of reaching out to the societies there and also to the de facto governments. South Ossetia remains closed, but the EU has a package of programs in Abkhazia in education, healthcare and even the police. Although very compared to the spending coming from Russia, they are a demonstration of goodwill and
keep the door open for fuller engagement in the future. The post-2012 Georgian government has accepted this strategy.

The EU is also one of the three co-chairs of the Geneva talks, which are held four times a year and are the only forum where all the parties to the conflict can meet in one place. Achievements here are very minor and there are far more quarrels than agreements, but the format also keeps alive the possibility for resolution of bigger issues in the future.

The United States should engage with Abkhazia in this spirit and give opportunities for its residents to travel and study abroad on a “status-neutral” basis. This would be a reminder to the people in Abkhazia that they are still citizens of the world and constitute a commitment to keep borders open as much as possible in the hope of transforming the conflict for the better in the future.

**Policy Proposals**

- Continue a policy of broad-based incremental support and assistance in the South Caucasus on the basis of state-building rather than “strategic alliances.”
- Encourage the U.S. Armenian Diaspora to focus on more practical policies in Armenia and back a reform agenda.
- Keep up a focus on education, with a greater emphasis on higher education.
- Coordinate with the EU on better messages and presentation of programs.
- Continue to build a bilateral military relationship with Georgia, in the absence of a NATO perspective. Continue to promote NATO cooperation with Armenia and Azerbaijan with an emphasis on wider international issues beyond the region.
- Maintain U.S support for the Nagorny Karabakh OSCE Minsk Process, while promoting more open debate in society. Enhance European engagement through a more active French role in coordination with the EU as a whole.
- Create a “technical experts’ group” for the Karabakh conflict that can work on scenarios for peacekeeping, reconstruction, rehabilitation of transport links, assisting the return of IDPs etc. This will make the Minsk Group’s draft political plan more credible and be a
pledge of international assistance if the local leaders show more political will to agree to a settlement.

- Declare a policy of “non-recognition and engagement” for Abkhazia and South Ossetia in coordination with the EU.
- Within that policy, devise more ambitious schemes for assistance in the education and health sectors in Abkhazia.
Chapter 7

Stepping Up the EU’s Engagement in the Conflicts of the Caucasus

Benedikt Harzl

The territorial disputes of the Southern Caucasus, which have remained unresolved for more than two decades, are a permanent reminder that the optimism that prevailed during the period 1989–1991 has given way to a more sobering and rather painful assessment of the state of nation-building in this volatile region on the east European periphery. Abkhazia, South Ossetia, and Nagorno-Karabakh stand, in this context, not only for three distinct—and in some ways intertwined—territorial entities that have defied effective jurisdiction by their metropolitan states and have managed, over time and with enormous external assistance, to assume de facto state functions, which also include more than the possession and exercise of the monopoly of power. They also represent an unprecedented humanitarian catastrophe. Well-documented evidence points to a staggering number of about two million people throughout this region who have

1 With the adoption of the Belovezh Accords in December 1991, the Soviet Union formally ceased to exist.

2 Throughout this chapter, Georgia and Azerbaijan are referred to as “metropolitan states” in the context to the disputable territories. The author of the present work rejects the terminological concept of a “mother state” or “parent state” and equally problematic denominations which fail, in his opinion, to escape the bias trap. The term “metropolitan state” resonates much better with regard to international law scholarship in the field. See Jorri C. Duursma, Fragmentation and the International Relations of Micro-States. Self-Determination and Statehood (Cambridge: Cambridge University Press, 1996); James Crawford, The Creation of States in International Law (Oxford: Clarendon Press, 1979).

3 This chapter does not analyze or assess the extent of external support for the secessionist movements in each of the three cases. It treats the de facto states resulting from the armed conflicts as consolidated entities that will exist for an indefinite time. Nevertheless, support by third states has always been a crucial factor in these conflicts, yet is not the only source of support.

4 Charles King has framed this quite convincingly: “The territorial separatists of the 1990s have become the state builders of the 2000s creating de facto countries whose ability to field armed forces, control their own territory, educate their children ... is about as well developed as that of the recognized state of which they are still notionally a part.” See: Charles King, “The Benefits of Ethnic War—Understanding Eurasia’s Unrecognized States,” in World Politics 53(4):524–552, 525.

5 De facto states do, albeit at a modest level, offer health care and other public services.
been forcibly displaced due to the ethnopolitical mobilization and subsequent armed conflicts that have taken place since the late 1980s.⁶

These conflicts, which have shaken the entire region since the collapse of the Soviet Union, have also been thoroughly covered by academic scholarship. They have received particular scholarly attention through methodological lenses emphasizing the geostrategic importance of the South Caucasus region. Located between the Black and the Caspian Seas and at the intersection of Christianity and Islam,⁷ the region has triggered competing desires by Great Powers and those that deem themselves such. Accordingly, those frozen conflicts of the region, which present themselves as entirely intractable in nature, have turned into a permanent bargaining factor within the geopolitics of the South Caucasus, whereby ethnic diversity becomes, if one strictly follows this logic, a liability for the stability of the region and of individual countries, and whereby peoples are pushed and pulled into different directions. In part, this picture resonates very well with national stereotypes of the local actors, be they state or de facto state actors. For instance, the widespread Georgian narrative designates a problematic definition of the institutional accommodation of ethnic and cultural diversity. According to this narrative, autonomous territorial formations on Georgian soil have been “mines”⁸ planted by Russia in order to considerably weaken the Georgian state. Likewise, the French co-chairmanship in the OSCE Minsk Group—which includes Turkey as a member—has always aroused suspicion in Azerbaijan, given the assumed pro-Armenian bias of the French foreign policy involvement. Therefore, the external factor in both ameliorating and exacerbating the territorial disputes has always been a primary objective of academia and academic political advocacy in this context.⁹ This is not to argue that the respective societies have shared these local narratives unanimously. However, every so often they

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⁶ The first documented instances of organized violence in Azerbaijan and Nagorno-Karabakh were reported as early as 1988.
have been too easily and rather uncritically picked up by observers, shaping our way of-sometimes insufficiently-understanding these conflicts.

This interplay between local narratives and outside observation has not always been entirely helpful. On the one hand, in light of this interplay, conflicts such as those in Georgia have come to be viewed only through the lenses of proxy wars, thereby providing rather lazy analysis. It would be inaccurate to maintain that Abkhaz separatist ideology had been instigated, much less invented, by the Kremlin. By dismissing sources of support other than those provided by patron states such as Russia, we run into the trap of buying into the preferred discourse of all conflict parties. Through the portrayal of these territorial issues as lying exclusively within the logic of geopolitics, conflict parties on all sides—including the leadership of de facto states—can easily lean back and choose not to engage in substantial talks or visions of how to ameliorate the status quo. The result of this stalemate is evident: territorial conflicts are essentially conflicts over identity and belonging, and are addressed as a binary choice between engagement at the request of the metropolitan state, or no engagement at all. Yet, by choosing not to engage in and with the de facto state, both the metropolitan state and the EU are condoning the stronger embrace of parent states, particularly the Russian Federation, which entities like Abkhazia and South Ossetia have to accept, even if reluctantly, due to lack of alternatives.

Defining the Problem: An Unsatisfactory Stalemate

As neither isolation nor outright opposition has produced any vision of a settlement, can we deal with entities like Abkhazia, South Ossetia or Nagorno-Karabakh at all? And if yes, on what basis?

The international system is much more kinetic than mainstream international relations theories portray it. We are not confronted with a binary situation in which the either-or dichotomy must guide our reasoning and our policies. The classical and rather realist view, according to which a state is either sovereign or it is not a state, is—whether we choose to admit it or not—seriously challenged by the continuous existence of these de facto states of the South Caucasus. This chapter aims to inject some

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11 In this regard, the South Caucasus represents only a part of the broader picture, with many unrecognized entities widespread all over the world.
fresh blood into the discussion on engagement strategies, and their potential components, with the de facto states in the South Caucasus.

I argue that the de facto states, representing the most notorious outcome of the 1990s wars, do not represent an anomaly in international politics, or a blind spot that moves outside of the application of international law. The view that the rational faces the irrational may reflect our understandable desire to grasp some notion of these entities. Yet, this desire is not entirely helpful in coming closer to understand the nature of de facto states. These entities have become indicators of a consolidated permanent dichotomy between the clash of (external) self-determination and the territorial integrity of states, as evidenced by their ability to defy effectively the jurisdiction of Georgia and Azerbaijan.

While reintegration of Abkhazia, South Ossetia and Nagorno-Karabakh into Azerbaijan and/or Georgia appears to be highly unlikely, the other extreme—recognition—will also not ameliorate the crisis. The counter-productive decision of the Russian Federation to recognize Abkhazia and South Ossetia in 2008 probably removed the local population’s last incentive to engage constructively in discussions over sovereignty and/or a future power-sharing deal under a common roof of the metropolitan state, the Republic of Georgia. In this regard, Thomas de Waal is correct when he comments that it is inaccurate to speak of the possibility of conflict resolution, and that it would be better to speak of a slow “conflict transformation.” Moreover, Russia’s most dreadful decision has actually narrowed the independence of Abkhazia and South Ossetia rather than strengthening it. Both South Ossetia and Abkhazia are less autonomous today than they were prior to 2008. Therefore, in order to address the issue of de facto states, we also have to critically reflect upon our imagination, as well as doctrines on sovereignty. This constellation—a stalemate between a shaky entity and a metropolitan state—represents to some extent the outcome of this limited way of reasoning.

Yet what does this constellation of metropolitan states vis-à-vis the de facto states, which will soon have existed for three decades, mean? It means, on the one hand, that de facto states are, at least in a short and mid-term perspective, here to stay. Given the current lack of incentives to reengage in sovereignty issues and the sharing of sovereignty in all of the South Caucasus conflicts, they cannot be treated as anomalies. At the same time, and on the other hand, the metropolitan states will do what they can to

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12 See Thomas de Waal’s chapter in this book.
prevent these territories from gaining international legitimacy, let alone recognition. Therefore, it must be underlined that no immediate remedy, either for the secessionist entity or for the legitimate metropolitan state, is available under international law.\(^\text{13}\)

Paradoxical as it may seem, continuing this very unstable equilibrium of peace seems to be in the short-term interest of both the metropolitan and the de facto states. States such as Georgia and Azerbaijan can lean back comfortably, since they have made sure that their breakaway territories are under effective international isolation. This is something for which they have furnished legislation, making it impossible for the de facto authorities of Sukhum/Tskhinvali and Stepanakert to enjoy the privileges of full statehood.\(^\text{14}\) Azerbaijan has also enacted legislation to isolate Nagorno-Karabakh. The most visible of these restrictions concern individuals who travel to Nagorno-Karabakh. Since travelling to this de facto state is considered a severe criminal offence under Azerbaijani law, these people are permanently banned from entering Azerbaijan.\(^\text{15}\) Likewise, the law on occupied territories of Azerbaijan also prohibits economic activities in Nagorno-Karabakh. This issue has even led to some temporary unease in U.S.-Azerbaijani relations.\(^\text{16}\)

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\(^{14}\) Georgia’s Law on Occupied Territories, which was adopted in 2008 immediately after the Russian diplomatic recognition, is a valid case in point. Not only does this law ban all domestic and foreign companies from conducting any kind of economic activities, the law also prohibits foreign citizens from traveling to Abkhazia and South Ossetia without authorization of the Georgian authorities. The law also signifies a backpedaling on the part of Georgia. Georgia has formally recognized Abkhazia in many different agreements of the 1990s as its counterpart with which it has to find a solution, since 2008 it depicts only the Russian Federation as a military occupying force, whereby no standing whatsoever is given to Abkhazia or South Ossetia. The situation of Nagorno-Karabakh seems to be less volatile in this respect, since Armenia assumes the function of a kin state rather than a patron state, forming one common political and economic space with Nagorno-Karabakh.

\(^{15}\) The list of people declared *persona non gratae* has been growing over the years and includes some prominent names such as Kaupo Känd, legal senior advisor to the High Commissioner on National Minorities of the OSCE; Otto Luchterhandt, one of the most outstanding German professors of international law; EU special representative in the South Caucasus Peter Semneby had been on this list between 2012 and 2015; Spanish opera star Montserrat Caballe, and recently the Israeli-Russian blogger Alexander Lapshin.

\(^{16}\) There was an exchange of notes between the U.S. and Azerbaijani delegations to the OSCE on the subject of U.S. companies providing commercial services in Nagorno-Karabakh. After the U.S. was criticized for not intervening against these U.S. firms, U.S. Ambassador to the OSCE Daniel Baer responded that “Our embassy in Baku has emphasized to the government in Azerbaijan that it is not against U.S. law for American companies to operate in the territories.” See: http://www.osce.org/pc/271256?download=true.
For the time being, this shaky equilibrium will remain. At the same time, this situation enables the metropolitan states to avoid engaging in a possibly painful discussion about a future legal status of these territories within their respective constitutional configuration.17 Such a discussion, which would need to extend far beyond the mere guarantees of human rights in a democratic system18 to the inhabitants of these three entities, would automatically touch upon the root causes for these conflicts, and thus raise issues related to the responsibility and accountability of respective political elites who are partly still in power. In addition, the appetite for complex power-sharing arrangements within the state structures in the post-Soviet space is rather marginal, as the empirical record of conflict resolution throughout in this volatile region shows.19

Hence, we arrive at a most unsatisfactory result: both the lack of progress in overcoming territorial divisions between all relevant stakeholders (including state- and non-state actors) and the lack of political solutions on the ground mirror the lack of available tools on how to deal with those entities—at least in a short and medium term. The situation has hardened to a point where the de facto states have so successfully defied reintegration into their metropolitan states that reintegration through peaceful means is unlikely, if not entirely impossible. They are here to stay for a while, having defied those who predicted that they would be forcibly incorporated into their metropolitan states, and those who forecasted that they would quietly acquiesce to the metropolitan states’ rule. This unsatisfactory situation compels us to open a new critical space for discussion on the de facto states and the manner in which they ought to be dealt with by the EU as the key force of positive transformation in the region.

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17 As of this writing there is not one comprehensive settlement proposal on the table. Georgia has been even backpedaling, going way behind the 1990s agreements with the Ossetians and the Abkhaz.

18 Which, particularly, Azerbaijan is currently unable to provide.

19 One can quote the simple but accurate one-liner of the British legal scholar Ivor Jennings, who already discovered in 1953 while focusing on India: “Nobody would have a federal constitution if he could possibly avoid it.” Ivor Jennings, Some Aspects of the Indian Constitution (Oxford: Oxford University Press, 1953), p. 55. This seems to be even more true for the post-Soviet record of conflict resolution efforts in the South Caucasus: metropolitan states and their contesting separatist regions have only been able to agree on very rudimentary principles for conflict resolution.
De facto States Amidst Reputation and Double Standards?

Proposing a policy of engagement for the de facto states of the South Caucasus means walking in a political and scholarly minefield. This is in particular due to problematic outside perceptions of these de facto states.

The contemporary de facto states that grew out of separatist ideologies and wars in the 1990s suffer from a serious image problem. They are often characterized as “black holes” and as source of insecurity for the whole region in which they are located, posing threats to both their neighbors and their metropolitan states. In addition, media as well as governments depict them as utterly corrupt and impoverished entities, creating an image that these statelets are safe havens for criminals. In addition, the way in which they have emerged often not only involved warfare, but also ethnic cleansing. The case of Abkhazia and the displacement of nearly the entire Georgian population do not stand alone. One may even add the short-lived temporary de facto state of the Serbian Republic of Krajina to this equation. According to the prosecutors of the ICTY, the leadership of this unrecognized republic was largely responsible for crimes connected to the “forcible removal of a majority of the Croat, Muslim and other non-Serb population.” Moreover, the governments of the metropolitan states often simply do not accept the term “de facto state” or the label “unrecognized state.” Their point of view, which they also translate into vast bulk of legislation, clearly depicts these territories as being under military occupation by a third state, be it Armenia, Turkey (as in the case of the

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20 The deliberations in this subchapter are also strongly based on Nina Caspersen’s most important thoughts on the image problem with which these anarchical badlands seem to struggle. See Nina Caspersen, Unrecognized States (Cambridge: Polity Press, 2012), pp. 20–24.


23 See the indictment against Milan Martic, The Prosecutor of the Tribunal against Milan Martic, Case No. IT-95-11, July 14, 2003.

24 See, for instance, Georgia’s law on occupied territories, which severely restricts access to and economic exchange with Abkhazia and South Ossetia. Likewise, one can consider Ukrainian Law No. 234-19-VIII of March 17, 2015, “On recognition of certain regions, cities, towns and villages in Donetsk and Luhansk regions as temporarily occupied territories,” which offers similar propositions.
Turkish Republic of Northern Cyprus) or Russia. Therefore, they disregard any analysis which does not prioritize the role of the relevant patron or kin state.

This reputational dilemma is, however, not only a reputational issue *per se*. It poses additional problems for three distinct yet intertwined reasons: First, it not only strengthens the case for a strict non-recognition policy\(^{25}\) by the international community, it deem s engagement with these entities and their political elites as something that is potentially unethical or dangerous.

Second, these categorizations may even narrow the analytical lenses through which we are able to explain and understand the nature of these entities. By focusing only on the displacements and the humanitarian circumstances through which the entity has emerged, an observer may fail to grasp how successfully political institutions have been built in these statelets in the past decades. Similarly, the dimension of state legitimacy, both internal and external, and the corresponding pivotal aspect of the de *facto* state’s relation to its society, is dismissed as irrelevant. Alternatively, as Caspersen aptly argues, by concentrating too strongly, for instance, on the economic interests and drivers of political elites, one may become trapped into paying inordinate attention to the greed thesis in conflicts.\(^{26}\)

The overemphasis on the negative attributes may potentially prevent us from grasping the notion and meaning of internal sovereignty within these statelets. The same is true for viewing these states only in terms of the support provided by patron states and/or kin states.

Third, accepting these images and attributes will also involve and lead to some degree of bias in these utterly politicized conflicts. Indeed, total neutrality in these matters is a myth since it seems to require that an opinion on a given subject has not yet been formed. Yet, the downside of being overly partial is disastrous: accepting or endorsing the terminology of “occupied territories,” which some governments and parliaments have done in relation to the conflicts over Abkhazia and South Ossetia,\(^{27}\) can and will reduce the incentive of the population of these entities to seriously

\(^{25}\) Caspersen, op. cit., p. 21.

\(^{26}\) Ibid., p. 22.

\(^{27}\) For instance, in July 2011, the U.S. Senate unanimously approved a resolution calling upon the Russian Federation to withdraw its “occupying forces” from Abkhazia and South Ossetia. See https://www.shaheen.senate.gov/news/press/us-senate-unanimously-passes-shaheen-graham-resolution-affirming-us-support-for-georgian-sovereignty.
engage in conflict resolution talks or to attempt to elevate the dispute to the level of power-sharing.

This situation is additionally compounded by the difficulties in accessing those territories and the relative scarcity of reliable and comprehensive information about these entities. As Galina Yemelianova aptly puts it, the unpreparedness of Western scholarship to grasp the conflicts of the South Caucasus has allowed East European and Eurasian studies, which were long unaware of conflicts and political processes in non-Russian regions, to conceptualize these conflicts around a Russia-centered paradigm.\(^{28}\) Needless to say, this has led to downsides not only in scholarship but, consequently, in the way these entities are dealt with from a policy-relevant point of view.

This problematic dimension revolving around the *de facto* states has been one of the most serious stumbling blocks in the past efforts to devise policies that could have helped to draw the *de facto* states, particularly Abkhazia and South Ossetia, slightly more out of the Russian orbit. Yet this dilemma becomes somewhat relativized when focusing on entities that count as fully recognized states, but with no empirical capabilities whatsoever to govern their respective territories. Indeed, the “essentially normative”\(^{29}\) shift in international law after 1945 has provided for state-building of former colonies without, in countless cases, satisfying the classical criteria of statehood for these colonies. This in turn has often led to the creation of *quasi-states* which have a seat in the General Assembly of the UN, participate in intergovernmental organizations and whose diplomats are accredited to other nations, yet, whose governments have very little capability to run a state effectively or control its territory. Yet, the *quasi-state*, as it appears, is treated as highly respected member of the international community, despite the fact that those entities are often run by warlords and the only form of governance is unorganized or organized violence. Indeed, those warlords do not necessarily challenge the territorial integrity, let alone on an ethnic basis, of the respective state but are often in control of the country or of some parts of it.\(^{30}\) The *de facto* state, on the

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30 The argument of double standards does have some legitimacy if one, for example, provides the case of Liberia and Charles Taylor. Even before he became elected President, French companies imported tropical timber from enterprises under his control. Not only did this
other hand, despite a documented high degree of excellent governmental capabilities in many cases—one should only think of the astounding economic performance of Taiwan—is treated with ignorance, caution, rejection or sometimes even as a pariah.31

In other words, the reputational dilemma of de facto states has often been a brake in the formulation of clearly defined policy proposals. However, it should not be a brake to the extent to which dealing with those entities becomes ipso facto undesirable. Unfortunately, the guiding policy of both the metropolitan state and the international community has been to pretend that these polities do not exist.

The Europeanization of Georgia as a Case in Point: Sukhum/i and Tskhinval/i Out of Reach for Brussel’s Positive Transformation

Yet, the crux of the matter is that choosing not to have a consistent policy framework with regard to these entities will not help either, and has not produced any tangible result. This can be, paradoxically, demonstrated by the EU’s enhanced engagement with Georgia since the initiation of the Eastern Partnership program.

The conflicts over the disputed territories have not been a logjam either in progress in domestic political affairs or in rapprochement with the EU. Even if seemingly at odds with common political sense—if one recalls for instance the staggering number of internally displaced persons in Georgia—the territorial dismemberment of Georgia has, over the long run, facilitated the consolidation of the country’s political stability. It has thus increased its domestic institutional capacity, leaving a lot of free space for a straightforward integration with the EU through various the instruments provided by Brussels.32 The humanitarian implications of the armed con-

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31 Treating a de facto state as a pariah does not only involve legislation on the illegality of border crossing or business dealings, but also includes active opposition, which regularly takes the form of embargos. This has been the case in Northern Cyprus with the ban on direct international flights or import bans imposed by the EU.

32 One can think of the TACIS, ENPI, the PCA, the Action Plan or the recent Association Agreement, which will require Georgia to adopt a full program of legal approximation with EU law.
licts in the 1990s, possibly with some exception in the case of Azerbaijan, have gradually been overcome and absorbed by Georgia. Therefore, one could critically pose the following question: why would the Georgian government want to radically amend the status-quo in relation to Abkhazia and South Ossetia? Why would Tbilisi change its rhetoric and abandon the misconception, according to which the governments of the de facto states are Kremlin puppets, entirely lacking any independence whatsoever?

Part of the answer lies in the rapprochement with the EU. EU integration and rapprochement with the West has always been a primary objective of Georgia, Moldova, and Ukraine, which in 2014 joined the club of states with a territorial issue. However, the issue of breakaway states has not been very high on the agenda with regard to the negotiations with the EU on the conclusion of the Association Agreement (AA) of states such as Georgia. Correspondingly, the AA is only inapplicable to Abkhazia and South Ossetia pursuant to the Protocol to the AA, which recognizes that the central government of the Republic of Georgia/Moldova fails to establish jurisdiction over these disputed territories. Only a decision by the Association Council could, in theory, include these territories within the scope of application of the agreement. Hence, these territories have never substantially been a stumbling block in the way of the countries’ bid for European integration.

33 The IDP community in Azerbaijan, however, still remains an important political vehicle for the legitimacy of the totalitarian regime under President Ilham Aliyev.

34 Azerbaijan chose not to engage into negotiations on an Association Agreement with the EU, yet Baku remained strongly interested in maintaining strong ties to the West.

35 The negotiated text of the EU-Ukraine Association Agreement did not contain any specific provision with regard to its scope of application in Crimea or the Donetsk and Luhansk oblasts. These territories became annexed or broke away from Ukraine only after initialing of the Association Agreement. Therefore, products originating from Crimea would, theoretically, still fall into the scope of the DCFTA. Yet, the Council of the EU imposed an import ban on goods from Crimea and a full ban on investment with a prohibition to supply tourism services on the Crimean peninsula. See http://www.consilium.europa.eu/en/policies/sanctions/ukraine-crisis/.

36 See Protocol I of the Georgia-EU Association Agreement (a similar provision on Transnistria can be found in the Protocol II of the Moldova-EU Association Agreement). Nevertheless, the text of the DCFTA could, one day, theoretically also apply to these breakaway states. Pursuant to the Georgian and the Moldovan AA, the Association Council adopts a decision, when the full implementation and enforcement of the norms of the DCFTA is guaranteed (See in both cases Article 462 (2)).

37 In the case of Moldova, following an informal agreement between the authorities of Chisinau and Tiraspol, the DCFTA was extended to the territory of Transnistria. See Benedikt Harzl, “Keeping the Transnistrian conflict on the radar of the EU” (Vienna: ÖGfE Policy Brief 24, 2016)
The potentially problematic fallout of this situation can hardly be overlooked. While the separatists, as Caspersen so elegantly puts it, may “have won the first round”\(^38\) in securing military victories on the ground, the metropolitan state seems to have more pull in the long run, particularly by preventing the de facto state from effectively making use of its war-won independence and, thus, having very little incentive to engage in comprehensive discussions with their counterparts about a future power-sharing deal. In this constellation it is highly unlikely that the government of the metropolitan state agrees to anything beyond some modest form of territorial-cultural autonomy, thus, further narrowing down the avenues for sincere dialogue or even negotiations.\(^39\) Hence, after more than two decades after the wars, one may ask to what extent the governments of the metropolitan states are sincerely committed to the idea of territorial unification, what they are willing to do to become more attractive, and, finally, what they are willing to sacrifice to this end.

In the meantime, the de facto states still fail to obtain loans from international credit institutions\(^40\) or to secure foreign direct investments due to political unpredictability as well as the lack of rule of law, and their citizens face enormous problems when attempting to travel abroad, since their passports are not considered to be valid travel documents.\(^41\) Therefore, the immediate question to be raised in this context is one of potential costs as a consequence of this non-engagement policy.

Some problematic implications are already unfolding. In the case of the Georgian breakaway states, Russia has signed treaties on alliance and

\(^{38}\) Caspersen, op. cit., p. 47.

\(^{39}\) For instance, in 2014 Georgia’s Prime Minister Irakli Garibashvili offered the people living in Abkhazia and South Ossetia “broad autonomy” within the “united, sovereign and independent Georgia.” See http://agenda.ge/news/23430. In other words, there seems to be little critical reflection in Georgia on decentralization or on the already existing façade autonomy of Adjara. Similarly, Azerbaijan’s President Ilham Aliyev only proposes “local autonomy” to Nagorno-Karabakh. See http://www.tert.am/en/news/2016/10/18/baku/2166243.

\(^{40}\) Caspersen, op. cit., p. 42; this would be particularly needed for the reconstruction of war-destroyed infrastructure in these territories. The patron or kin state will not be able to carry this burden alone.

\(^{41}\) This even applies sometimes when the residents of these statelets are citizens of their internationally recognized patron or kin state. In this regard, it seems that the Armenians of Nagorno-Karabakh are better off than the Ossetians or Abkhaz. In the latter case, the citizens of these de facto states fail to travel to Europe on their Russian passports since the EU governments bar the issuance of Schengen visas to passport holders whose Russian passports were issued in these territories. As a matter of fact, these passports are often issued by the Russian embassy to Abkhazia or South Ossetia.
strategic partnership with Sukhum/i and Tskhinval/i that even extend to
the military dimension, whereby local militia are to be gradually integrated
under Russian command. This seems to indicate that both de facto states
are being driven into Russia’s arms, not least due to the complete lack of
an alternative development scenario. From this perspective, it appears that
the mantra of “illegal military occupation” is in a way a self-fulfilling
prophecy, being the direct result of non-engagement. Apart from this,
Caspersen notes another important direct implication of inaction:

The parent states often hope that time is on their side: They hope
that the unrecognized state becomes gradually weaker due to in-
ternational isolation, while they themselves have the time to build
up a stronger army.42

This is a precise description of the conflict dynamics over Nagorno-
Karabakh, which again escalated into serious armed conflict along the so-
called “line of contact” as recently as April 2016. Hence, inaction of the
metropolitan states when it comes to the push for dialogue and some form
of ties with the de facto states can only be overcome meaningfully by a more
robust and proactive role of the EU in reaching out to both the metro-
politan states and these disputed entities. Even if all three South Caucasus
states have very different expectations and interests, which accordingly
have to be addressed in a differentiated manner,43 the European perspective
and rapprochement with the West overall is still a top priority and a foreign
policy objective, given the lack of other attractive cooperation as well as
development scenarios. Hence, it will be up to the EU to seek engagement
in order to keep the vision of conflict resolution alive, even as a very distant
possibility.

Engagement without Recognition: Not an Entirely New Idea

How can a vision for conflict resolution be kept on the agenda without
involving, to some degree, the de facto states, which have already grown
into consolidated political entities? Discussing and reflecting on potential
engagement with secessionist entities in the Caucasus is not an entirely

43 Daniel S. Hamilton and Stefan Meister, “What the West Must Do,” in Daniel S. Hamilton
and Stefan Meister, eds., The Eastern Question: Russia, the West and Europe’s Grey Zone (Wash-
new phenomenon. In 2009, the Council of the EU, after relentless efforts by Pete Semneby, at the time the Special Representative for the South Caucasus, unveiled a policy of non-recognition and engagement with the separatist entities of the Caucasus. It reflected a modest shift in the level of analysis of these conflicts. Interaction, rather than restriction and isolation, was now the EU’s primary objective when it came to addressing these entities.

In addition, a number of outstanding scholars have begun to problematize the issue of engaging with de facto states in the Caucasus. In a very thought-provoking piece for the Washington Quarterly in 2010, Alexander Cooley and Lincoln Mitchell not only yielded the first scholarly impulse for those debates, they also outlined some interesting ideas on how to engage Abkhazia without recognizing it. For instance, both authors mentioned the possibility to allow a limited number of Abkhaz individuals to travel to the EU or the United States with their Abkhazian passports, as this could be seen as a benign and positive political signal to the secessionist entity. Likewise, people-to-people contacts, inter-societal dialogue as well as academic mobility for Abkhazian students were part of their set of recommendations in which they also emphasized the need for economic diversification of Abkhazia and the possible means to reach that goal. Only some months later, the need for de-isolation and transformation was equally recognized by Sabine Fischer in another policy paper, in which she proposed entering into a “structured dialogue” with the authorities of the de facto states. Similarly, the famous scholar and political observer of Caucasus-related issues, Thomas de Waal, has recently focused on education as an integral ingredient of an enhanced EU profile in the secessionist entities of the South Caucasus.

What these approaches have in common is that they start from the assumption that maintaining isolationist policies vis-à-vis these entities is counter-productive. They also repudiate the notion that the authorities

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46 See http://carnegieeurope.eu/2017/01/17/enhancing-eu-s-engagement-with-separatist-territories-pub-67694. Many others who cannot be named here for reasons of space constraints have also meaningfully contributed to these discussions. It is also important to note that Georgia has come up with its own engagement strategy. The problem, however, is that the engagement strategy devised by the Georgian government is seriously hampered by the law on occupied territories.
of the *de facto* states are Kremlin-directed puppets who are unable or incapable of formulating autonomous decisions. Moreover, they all agree on the need to stimulate inter-societal dialogue, people-to-people contacts as well as academic mobility. To follow these normative goals, thus the argument, a limited exchange with the *de facto* state is the only way to keep the vision of conflict transformation alive, notwithstanding the risk of creeping recognition and bolstering the confidence of the authorities of *de facto* states.

Yet, given the fact that windows of opportunity close very fast—the South Ossetians recently voted in a referendum to rename their republic and endorsed a very pro-Russian political stance—it is high time for the EU to move beyond fragmented policy papers to develop a better structured framework with its underlying components to reinvigorate the discussions and debates necessary to keep these conflicts on the agenda. In light of the limited time horizon, the following points will attempt to contribute to this necessary debate in a more systematized way.

A first avenue is to explore what engagement should *not* be about.

### What Engagement Does *Not* and Must *Not* Mean

To lay out the contours of a comprehensive engagement strategy, the concerns of the metropolitan state have to be seriously addressed. It must be made clear to both the metropolitan state and the *de facto* state that this policy is not about recognition and under no circumstances whatsoever will it end with the formal recognition of those entities. Diplomatic recognition is still an affirmative act by governments and it is fully within the discretionary competence of states whether to recognize diplomatically other entities or not. Even hypothetically keeping the possibility of recognition on the table would not only undermine the EU’s credibility, it could send a dreadful signal to other would-be secessionist groups, since contrary to the orthodox declaratory doctrine, recognition is an act of state-building, as it *bolsters* statehood. Having the metropolitan state on board is absolutely critical for the success of a policy of engagement. Hence, the individual provisions have to be designed in a way that would make them beneficial also to the metropolitan state, serving the mutual interests of the actors on both sides of the administrative boundaries.

Apart from this, the *de facto* states, too, deserve to be treated with honesty: EU engagement policy must not nourish unrealistic hopes, even if
the governments of the *de facto* states believe these hopes to legitimate after years of isolation and rejection.

Second, policy makers and the conflict parties should be aware that an engagement policy is not supposed to bring about quick solutions or expected to serve as a panacea. The very idea of engagement ought to be embedded within the concept of gradual conflict transformation rather than the overly ambitious goal of conflict resolution. This means accepting that, for the time being, the conflicts over Abkhazia and South Ossetia are totally intractable and will require much more than just a reiteration of already-known positions. Rather, this policy has to look inside the societies on both sides of the administrative boundaries and focus on people *within* the conflict parties and *within* the societies and regions affected, and should deal with their main concerns. This suggests adoption of a comprehensive and wide-ranging approach that will need to provide support for groups within the society in conflict rather than for the political mediation of outsiders.\(^{47}\) In this context, one must also be prepared for possible setbacks, since no guarantee can be given that this policy framework will eventually help stitch the divided societies together.

Finally, with the option of diplomatic recognition off the table, an engagement policy does not and must not assess the juridical standing of those entities. For instance, Abkhazia appears to have fulfilled the objective criteria of statehood pursuant to main landmarks of the Montevideo Convention of 1933. Diplomatic recognition by Russia, which is still a great power, has strengthened some of the elements described in the Convention. Indeed, its consolidated statehood, albeit still a *de facto* state, entitles Abkhazia theoretically to invoke certain rights against third states, such as the prohibition of force in accordance with Article 2 (4) of the UN Charter.\(^{48}\) Yet, at the same time, Abkhazia has failed to build an operating state actively participating within the international community on the basis of

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\(^{47}\) This is strongly based on John Paul Lederach’s concept on conflict transformation. See John Paul Lederach, *Conflict Transformation Across Cultures* (Syracuse: Syracuse University Press, 1995).

\(^{48}\) It goes without saying that this is hotly disputed, since it would enable invocation of Article 51 of the UN Charter, which could be made use of by any other state. Indeed, governments usually repudiate the applicability of Article 2 (4) of the Charter, as they also are uneasy with the applicability of the Common Article 3 of the Geneva Conventions of 1949, since this would mean admitting to being no longer in control of a given territory. I maintain, however, that the prohibition of force is applicable, as both Georgia and Abkhazia have concluded various agreements over the 1990s in which both have, as conflict parties, vowed not to use force as means of conflict resolution.
this achievement. Therefore, the discussion should cease to revolve around the current legal status of the de facto states, and should equally abandon feckless discussions about sovereignty. Rather, it should focus on governance issues within these entities. Indeed, governance always takes place, both in unrecognized and recognized states, even if we refuse to admit this. Therefore, it would be helpful to abandon the vociferous and omnipresent rhetoric on territorial integrity and/or military occupation, as this has rendered these terms more or less meaningless.

**What Engagement Should be About**

Until now, it seems that the primary purposes of engagement strategies and ideas as outlined above remain largely ambiguous. Should an engagement policy represent an end in itself or is it about mitigating the isolation of those territories, together with the desire to drag those entities ever so slightly out of their strong Russian embrace? Discussing the purpose of this policy is crucial in identifying instruments that could and should be applied within this framework. I offer a set of interconnected dimensions that specify both the purpose and the identity of this policy framework.

First, engagement without recognition is about reestablishing destroyed lines of inter-societal communication. The collapse of communication after the South Ossetian war in 2008⁴⁹ has been one of the key features influencing the political process in Georgia, whereby not only people on both sides of the administrative boundary were deprived of opportunities to interact, but it has become increasingly difficult for intergovernmental organizations as well as NGOs to generate knowledge and insights from the affected region. An engagement policy should thus be guided by the belief in the agency of civil society and the equally important belief in societal change.

The need for communication and the belief in societal change suggest some policy instruments. For instance, the EU could expand to citizens of the de facto states its academic mobility programs both for early stage researchers as well as for more advanced academics. Such a step, stimulating academic mobility, may not only help the younger generation to escape

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⁴⁹ The situation in Abkhazia is still much better, as people are allowed to cross the administrative boundary over the Enguri river. Mobility along the South Ossetian boundary, on the other hand, has come to a total halt.
the siege mentality and environment of their statelets; it would open up new encounters of mutually stimulating exchange possibilities. The same applies to politicians of these statelets, who should be given the possibility to be invited to public workshops and round tables in Brussels or Washington. This all can further advance the goal of spreading EU values and making them better understandable on the ground.50

It goes without saying that this will require some degree of flexibility, primarily with regard to diplomas issued by institutions of higher education in those entities and the thorny issue of university affiliations of those students and academics. However, this is not an insurmountable obstacle. Even Serbia, which still continues to regard Kosovo as part of its territory, had managed to reach an agreement with Kosovo on mutual recognition of university diplomas in 2011. Indeed, accepting diplomas or involving, for instance, the Abkhazian State University into the Erasmus program does not prejudice any position about the juridical nature of the contemporary de facto state of Abkhazia. The same holds true for passports and for the admittedly controversial and delicate question of whether or not to allow a number of Abkhazians and South Ossetians to travel with these travel documents to EU countries. It has to be kept in mind that passports are, after all, not more or less than evidence of identity, and accepting a passport as valid travel document does not constitute necessarily the recognition of a separate citizenship.51 Alternatively, the EU may encourage the international community to devise status-neutral travel documents like the UNMIK documents which were handed to the Kosovars prior to Kosovo’s recognition by the United States and most EU states in 2008.

Similarly, if the economic diversification of these entities is in the vital interest of both the de facto state52 as well as the international community, one could think about the perspective of offering trade relations. This is not unusual and not contingent on diplomatic recognition. Even during the Japanese occupation, the Chinese maintained trade relations with the puppet state of Manchukuo, and so did Croatia with the Republika Krajina

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50 At the same time, this policy must also provide for citizens of the metropolitan state to participate within these encounters and, possibly in joint summer courses, meet their counterparts from the unrecognized entities in neutral settings in the EU.

51 Citizens of Northern Cyprus are already allowed to travel with their passports to the United States and a number of EU states.

52 The Abkhazian diaspora and business community of the Black Sea in Turkey have sought for many years to make use of the trade turnover between Abkhazia and Turkey to counter the overly dominant position of the Russian Federation. See Eric Reissler, “Can Turkey De-Isolate Abkhazia,” in *Turkish Policy Quarterly* 12(3):125–135, 132.
during its occupation. Also today, well-documented state practice seems to confirm a trend allowing enterprises to participate in international trade and commerce regardless of whether they are based in recognized states or not.\textsuperscript{53} Since this opening up is predominantly in the interest of the \textit{de facto} states, it should not come without conditions. This could not only help the EU to regain some leverage in a seemingly intractable stalemate along the false dichotomy of territorial integrity vs. self-determination, it could essentially provide some real influence on critical governance issues in those entities which would otherwise remain absolutely unaddressed.\textsuperscript{54}

Finally, the idea of establishing a status-neutral field presence of the OSCE on the ground in Abkhazia and South Ossetia is attractive as well. The OSCE still is the most inclusive European security organization and could be preferable to others in this context.\textsuperscript{55} Yet, there is no reason why such an office cannot be institutionalized by the EU. In order to navigate the delicate issue of strict status neutrality, the EU could find an appropriate role model for this in the American Institute in Taiwan, which is an excellent example how diplomatic and consular ties can be privatized. Being officially a non-profit NGO, yet, receiving its money through appropriations to the U.S. State Department, and with many of its personnel seconded by the State Department, it serves as \textit{de facto} representation of the United States in Taipei.\textsuperscript{56} In addition, this is not an end in itself: it can be used to send signals and generate knowledge of the situation on the ground.

**Conclusion**

What this engagement policy ought to be about is focusing on the \textit{de facto} states’ involvement and inclusion into international society while not

\textsuperscript{53} To exemplify, the foreign corporations acts of Australia and the UK provide for companies from unrecognized territories to sue and be sued before their domestic courts. This also seems to be fully in line with WTO logic, which does not require members to be recognized states, but rather, “states or separate customs territory possessing full autonomy in the conduct of its external commercial relations” (See Article XII WTO).

\textsuperscript{54} This could open up ways to address human rights abuses and the still widespread discrimination on ethnic grounds, which are still prevalent issues in those entities.


\textsuperscript{56} Scott Pegg, “De Facto States in the International System,” in \textit{Institute of International Relations/The University of British Columbia} (Working Paper No. 21, 1998), p. 10. Additionally: Section 7 of the Taiwan Relations Act authorizes the employees of the American Institute in Taiwan to fulfill the functions and services of U.S. consular officials.
antagonizing the metropolitan state. Accordingly, it is about recognizing that such a policy is fully in line with international law and not about finding loopholes within the law. The terminology of an “acceptable breach,” which is sometimes used in the context of humanitarian interventions,\(^{57}\) would in this particular context be entirely inaccurate. Just to the contrary: the \textit{de facto} state does have, as Pegg aptly puts it, a “juridically cognizable existence.”\(^{58}\) And there is no serious reason why it cannot be incorporated into international society in some way. International law provides a vast array of instruments to deal with entities that have gradational forms of sovereignty. Thus, it is capable of accommodating for the existence of such entities.

Indeed, there are some understandable reasons for metropolitan states to oppose these policies as their fear of creeping recognition is not fully imagined: every form of interaction in, or with, \textit{de facto} states can enhance those entities’ confidence and could contribute to a further alienation between \textit{de facto} and metropolitan state. However, the question has to be raised what alternatives are available, given the closing time window to keep the vision of conflict resolution alive. Hence, ample effort must be invested to convince the metropolitan state that, at least in the long run, this policy is beneficial to its interests as well. And it will be up to the EU, which is still the only actor in the South Caucasus providing a positive transformation scenario and not viewing the region in terms of geostrategic competition, to step up its engagement and start devising a comprehensive policy.

\(^{57}\) This term, which actually represents an oxymoron, has been thoroughly problematized by David Wippman, “Kosovo and the Limits of International Law,” in \textit{Fordham International Law Journal} 25(1):129–150, 135.
\(^{58}\) Pegg, op. cit., p. 16.
Chapter 8
Azerbaijan’s Foreign Policy: What Role for the West in the South Caucasus?

Anar Valiyev

Since gaining independence twenty-five years ago, Azerbaijan has pursued three major foreign policy goals: resolution of the Karabakh conflict based on the territorial integrity of the country; preservation of its own independence and security; and finally becoming the major regional player by using its energy and geographical positions. Azerbaijan’s foreign policy actions may be considered a kind of “silent diplomacy,” which Baku is using to gradually develop Azerbaijan’s role in the region, playing off of contradictions among other powers. During this time, Baku has taken some bold actions that indicate its policy is not dependent on regional powers and that its interests are to be taken into account.

Today, looking at the fast-changing situation in the region, we can conclude that none of these goals have been fulfilled completely. In fact, the country is facing more challenges than before. The Karabakh conflict remains one of the most problematic issues. In terms of security and trade, Azerbaijan is still struggling to find its place in the mosaic of such institutions as the EU and the Eurasian Economic Union. In addition, the sudden drop in oil prices and the inability of the country to create a diverse economy has become another headache for the political establishment. Moreover, the lack of needed investments decreases the chances that the country will become a regional hub. This chapter reviews current problems challenging the country and recommends ways the transatlantic community can deal with Baku on pressuring issues.

Security Challenges

The Karabakh conflict continues to haunt the Azerbaijani establishment. Events of the last two years have shown that the conflict is not only far from settlement, it could turn into a full-blown war. Events in Ukraine, sanctions against Russia, and a looming new Cold War put the Azerbaijani government in an uncomfortable position. For the last few years Baku has
been building good relations with Russia, hoping to persuade Moscow to side with Azerbaijan in resolving the Karabakh conflict. Massive arms purchases from Russia, a benevolent foreign policy toward Moscow, and Baku’s unwillingness to deepen relations with the European Union and NATO have all created a reasonably positive image of the country in the eyes of the Russian establishment. Some might describe Azerbaijan’s policy as a kind of Finlandization, akin to the Finnish pursuit of neutrality after World War II in the face of a hostile Soviet Union. Russia’s occupation of Crimea and its support for separatists in the Donbas have complicated Azerbaijan’s position, however. While the Azerbaijani government fully supports Ukraine, Baku cannot afford to spoil relations with Moscow due to the latter’s significant leverage in the Caucasus. Azerbaijan is left with the option of trying not to irritate Russia while staying on the side of those who object to Russia’s intervention.

At the same time, the crisis in Ukraine and fear of interrupted natural gas supplies have led to renewed EU attention to an alternative transport system for delivery of gas from the Caspian region to European states. European consumers have even begun to express interest in revitalizing the idea of a trans-Caspian gas pipeline that would deliver Turkmen gas to Europe via Azerbaijan.

Overall, the crisis in Ukraine has made Baku’s geopolitical alignment a valuable prize along this new east-west divide. Baku has tried to use the situation in Ukraine to its own advantage by calling attention to parallels with Azerbaijan’s own separatist conflict. President Ilham Aliyev has repeatedly pointed out that the West is applying double standards: it imposes sanctions against Russia for its occupation of Crimea and support of separatism in the Donbas while it has never considered sanctions against Armenia for the occupation of Karabakh.

Meanwhile, the United States during the Obama administration disengaged from the region and relations with Azerbaijan deteriorated. Constant criticism of Baku regarding human right violations and initiating a Turkish-Armenian rapprochement without taking into consideration Azerbaijan’s interests were major events shaping relations between Washington

and Baku. Moreover, the Obama administration did not show any interest in energy issues in the region, in contrast to the Clinton and George W. Bush administrations. Washington did not endorse the Nabucco project, the construction of a pipeline from the Caspian Sea to Europe. At the same time, the Obama administration’s disinterest in a resolution of the Karabakh conflict allowed the Russian administration to monopolize the negotiation process.

U.S. disengagement from Iraq and Afghanistan also affected Azerbaijan. Baku lost its strategic value for the United States as a major transportation hub for the U.S. Army. The number of high-ranking visits of U.S. officials also diminished. Moreover, the situation was further exacerbated by the fact that for some period Baku did not even have a U.S. ambassador, due to delays and holds in the Senate confirmation process. Of course, it is important to admit that Baku also played a role in the deterioration of relations by cracking down on civil society and shutting down U.S.-sponsored NGOs and projects including Voice of America and Radio Liberty.

Confronted with U.S. disengagement and facing growing Russian expansionism, Baku tried to pacify or at least not irritate the Russian establishment as well as to buy Russian loyalty through arms purchases. Over the last four years, Azerbaijan has imported about $3.35 billion in arms, of which 80% has come from Russia, including two S-300 missile systems, 94 T-90S tanks, 20 Mi-35M helicopters, and 100 BMP-3 armored vehicles. Azerbaijan has also purchased 25 Su-25 planes and 93 T-72M1 tanks from Belarus, Russia’s ally. Meanwhile, the Russian establishment did not rush to help the region in resolution of Karabakh conflict. Moreover, Russian indecisiveness and support of separatism led to the resumption of military actions in Karabakh in April 2016. The four-day clashes between Armenian and Azerbaijani forces left hundreds of people dead from both sides and stoked fear that such incidents could reoccur.

The security situation in the region has deteriorated since the April 2016 hostilities. Following the shock of defeat, the Armenian side began massively purchasing military equipment in an effort to change the balance of power or deter future Azerbaijani actions. At a September 2016 military parade dedicated to the 25th anniversary of Armenian independence, Yerevan presented Russian-made Iskander mobile short-range ballistic missiles. The appearance of Russian Iskanders in Armenia is likely to spark a new arms race in the South Caucasus and creates new challenges for security.

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3 Ibid.
in the region. It is highly unlikely that the weapon will actually be used against Azerbaijani cities by the Armenian/Russian side. Still, their presence on Armenian territory puts Baku in an uncomfortable position. Even if these few Iskanders do not change the overall military balance in the region, Baku will nonetheless strive to obtain similar weapons if only to maintain parity with its regional archrival.4

Meanwhile, the Karabakh conflict will continue to be a headache for Azerbaijan for a long period of time. The conflict will exert tremendous negative impact on the future of the country, from the perspective of both democratic and economic development. The years of Western disengagement from the problems of the region created a vacuum into which an increasingly aggressive Russia has inserted itself. Rather than seek peaceful resolution of the conflict, Moscow saw an opportunity to use the conflict to bolster arms sales and to meddle in the respective countries’ foreign policy agendas. By 2016 neither the United States nor the EU have the same degree of leverage in the region as does Russia. In fact, the involvement of the Russian establishment has increased the chances that the countries could go to war.

European Union or Eurasian Economic Union: Where to Go?

Cooperation with the European Union is one of Azerbaijan’s foreign policy priorities. Azerbaijan looks to the EU as a market for its resources and with the hope that the EU can become a force to counterbalance Russia in resolving the Karabakh conflict. For the last twenty-five years, the EU has been an important partner for Azerbaijan, providing around €333 million in technical, humanitarian, emergency, and food assistance. EU investments of €35 billion make it the largest investor in Azerbaijan. Moreover, the share of EU countries in Azerbaijan’s foreign trade was 47%, far more than the country’s trade with any other partner.5 The Azerbaijani public has traditionally regarded the EU with a comparatively high level of trust. However, for the last decade the EU has lost many Azerbaijani

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supporters due to its inability to stop Russian aggression against Ukraine and its struggle to master its own economic crisis, including Greece’s ongoing challenges. In 2010–2013, the percentage of respondents who distrusted the EU grew to a record 30–33% while the percentage of those who trusted the EU dropped to roughly 20%. Nonetheless, almost 50% of Azerbaijanis surveyed in 2011–2013 consistently supported the country’s membership in the EU. Only 11% were against such membership, while significant numbers were still either neutral or undecided.6

The shocking results of the 2016 UK referendum rejecting EU membership, however, has further rocked Azerbaijani elite and popular perceptions with regard to future cooperation with the EU. As the main investor in Azerbaijan, the UK has often played the role of EU front man in the country. Moreover, the UK’s specific energy interests in Azerbaijan allowed Baku to promote its interests within the EU, since London had been the country’s major EU defender. That was the case with the gas pipeline to Turkey and Europe, the Baku-Ceyhan pipeline, as well as several other megaprojects of the region.

It is hard to believe that Baku will stop cooperating with the EU, despite the Brexit vote. However, the departure of its major EU supporter will make it more difficult for Azerbaijan to garner the same degree of support for its projects. Moreover, Baku fears that growing skepticism of EU countries toward cooperation with non-EU countries in wider Europe could endanger future cooperation. The EU may be expected to concentrate more on its own problems rather than expanding its influence to the east. This is especially alarming if one takes into consideration the recent warming of relations between Baku and Brussels on many issues. In this situation, the future of the ill-fated Eastern Partnership initiative, launched in 2009, will become even more problematic. Moreover, Eastern Partnership countries, and Azerbaijan in particular, are quite skeptical whether EU institutions are likely to be able to cope with the EU’s internal problems.

The record of the Eastern Partnership initiative with Azerbaijan has been mixed. Azerbaijan secured EU support for trans-Anatolian and trans-Adriatic pipelines to transport Azerbaijani gas to Europe. Baku was also successful in negotiating a visa facilitation and readmission agreement that eased the visa process for Azerbaijanis. But that was the program’s only real success. While countries such as Armenia, Moldova and Ukraine

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signed or were on the edge of signing EU Association Agreements, the EU did not feel that Baku fulfilled the conditions for such an agreement.

By the time of the 2013 Vilnius summit it became clear that Baku was not interested in an Association Agreement but rather preferred a separate Strategic Modernization Partnership Agreement. The EU, however, could not close its eyes to human right violations in Azerbaijan, given mounting numbers of political prisoners and a crackdown on civil society. Azerbaijan’s political establishment, in turn, began to disengage from reform commitments it had made, since such commitments would require greater political tolerance and economic liberalization, which irritated the government and generated discontent among the elites. Moreover, increased oil prices had caused the country’s coffers to fill again, rendering Baku arrogant enough to disengage from earlier agreements and to set forth its own version of cooperation with the EU.

Such negative attitudes were certain to affect public perceptions of the Eastern Partnership. A survey conducted by Caucasus Research Resource Center highlights growing levels of mistrust toward the EU in Azerbaijan over recent years. In 2008 Azerbaijani trust toward the EU reached a peak. But following the Russia-Georgia war perceptions darkened, so that by 2013 “trust” in the EU had fallen to just 8%, and the “somewhat trust” level hovered near 22%, while a plurality (37%) of those polled expressed a “neutral” attitude toward the EU.

Trust toward NATO in Azerbaijan reflects the same perception that people have toward the EU. In a Gallup poll conducted in February of 2017, around 21% of those surveyed associated NATO with protection of the country. Sixteen percent viewed NATO as a threat, while 44% viewed the alliance as neither threat nor protection. It is interesting to observe that among the post-Soviet countries, Azerbaijan has the lowest number of people who consider NATO as a threat, following Georgia (8%). Meanwhile, Azerbaijan has the highest percentage of the population neutral with regard to NATO, followed by Moldova (38%). Such a high percentage of neutral sentiment in Azerbaijan is related to the perception that NATO responded weakly to the Russian threat in Georgia and Ukraine.

Given growing euroskepticism, the Russian-driven Eurasian Economic Union (EEU) might appear to be the preferable choice for Azerbaijan. Baku’s membership in the Commonwealth of Independent States (CIS) has not brought anything negative to Azerbaijan. On the contrary, it eased Azerbaijani-Russian relations after a tense period in the early 1990s and, with its visa-free regime, addressed the problem of high unemployment in Azerbaijan by allowing for massive labor migration to Russia. Joining the EEU now would increase the ability of Azerbaijani products to penetrate neighboring markets. In addition, the import of cheap Russian food products would decrease prices and benefit a large share of the population.

The overall cost of joining the EEU, however, is far greater than these benefits. Azerbaijan’s largest trading partner is not Russia but the EU. Joining the EEU would not alter the structure of Azerbaijan’s imports, it would raise the cost of vital products as it would force Azerbaijan to impose EEU-level tariffs on various goods. Moreover, free trade with the EU would be less damaging to Azerbaijan’s agricultural sector. The cost of agricultural products in the EU is comparatively high, and at least not less expensive than Azerbaijani products. Given transportation costs, it will not be profitable for EU states to export agricultural products to Azerbaijan. This is not the case with Russian, Belarusian or Kazakhstani agricultural products. Imports from EEU members could destroy Azerbaijan’s agriculture sector, which employs about 40% of the country’s workforce.

**Efforts to Become an Economic and Transport Hub**

Azerbaijan is located at the crossroads of major Eurasian land and air transportation corridors. Since gaining independence, the Azerbaijani government has actively tried to make the country a bridge between Europe and Asia. After the collapse of the Soviet Union, the European Union initiated projects to re-connect post-Soviet states with the markets of Europe and Asia. A May 1993 conference in Brussels launched the Transport Corridor Europe, Caucasus and Asia (TRACECA) program as a way to spur intermodal transport initiatives. The program received its second wind at a summit in Baku in 1998, when member states established a Baku-based Intergovernmental Commission and Permanent Secretariat. Since then, the EU has invested around $800 million into capital projects and the renovation of ports, railroads, and roads along the TRACECA corridor.

Member states have also pursued integration of their infrastructure, tariffs, and logistical chains. By 2007, trade among TRACECA members
surpassed $40 billion, while their combined trade with the EU reached $290 billion. Of this, 70% of the trade was in oil, with most of the transportation occurring along the Azerbaijani-Georgian segment of the corridor. Azerbaijan and Georgia are the two states that have most benefited from TRACECA. The corridor has also been useful to hydrocarbon states Kazakhstan and Turkmenistan.

Overall, however, the limited non-energy export base of most members of TRACECA, coupled with obstacles related to border delays and controls, custom offices, and corruption, have limited its potential to emerge as a major trade corridor.

Given lower oil prices and less oil profits, Azerbaijan has intensified its efforts to diversify its economy and revive TRACECA and, especially, transportation links with Central Asian states. In January 2015, the working group of the Coordination Committee of the trans-Caspian international transport route (running from China to Turkey) met in Baku and reached an agreement to intensify container service on the China-Kazakhstan-Azerbaijan-Georgia-Turkey route. Azerbaijani authorities believe that by 2020 around 300–400,000 containers can be transported via this route, bringing billions of profits to its participants. At the start of August 2015, the first container along the route arrived from China at the newly constructed Baku International Sea Trade Port. The container reached Baku in a record six days, traveling more than 4,000 kilometers. This event has appeared to signal a new era in regional transportation links and a revival of the TRACECA concept.

The countries of the region have been the main motors behind this new burst of initiative; the EU has not been actively involved. Over the last decade, Azerbaijan has invested billions of dollars into commercial infrastructure and transportation projects. It is finalizing construction of the largest port in the Caspian Sea (in Alyat, 60 kilometers south of Baku), it has helped construct the Baku-Akhalkalaki-Kars railroad, and it is turning the Baku airport into a modern hub. Billions have been invested into the road system, significantly decreasing travel times between the Caspian Sea and the Azerbaijani-Georgian border, 550 kilometers west of Baku. The main idea of these projects is to position Azerbaijan as a lucrative link between Asia, Central Asia, the South Caucasus, and Europe. Baku under-

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stands the importance of implementing diversification strategies in anticipation of the depletion of the country’s hydrocarbon reserves. 9

Despite the attractiveness of East-West Corridor, Azerbaijan does not reject the idea of a North-South corridor from Russia to Iran. Azerbaijan was in favor of this project, but both Russia and Iran lacked much interest in pushing it forward. However, the economic crisis, sanctions against Russia, and the opening of Iranian markets, may afford the opportunity to revitalize the project. On April 7, 2016, the foreign ministers of Azerbaijan, Iran and Russia met in Baku to discuss the North-South transport corridor. On April 20, Azerbaijan and Iran launched construction of 8-kilometer railway linking the borders of Iran and Azerbaijan that will be finished by the end of this year. Meanwhile, the Iranians have accelerated work on the construction of the Rasht-Astara railway that would link the rail systems of Iran, Russia and Azerbaijan, allowing Russian goods to reach the Persian Gulf in record time. Moreover, Baku had already given a $500 million loan to Iran to finish the project. Finally, on August 8, 2016 the presidents of Russia, Iran and Azerbaijan met in Baku and gave life to a new transport corridor, calculating that a route through Azerbaijan would increase trade and significantly reduce freight costs, particularly trade heading from Russia to India and back.

Economically, Baku understands the need to diversify, given the volatility of oil prices and the country’s limited reserves. Politically, Baku expects that becoming both a major energy supplier to the EU and a major transportation hub will contribute to making Azerbaijan a political heavyweight in the region, enabling it to strengthen its position in future negotiations with the EU on trade preferences, political engagement, and potentially even membership.

Azerbaijan’s desire to become a regional transit hub is inspired by the success of two countries: Singapore and the United Arab Emirates (Dubai specifically). The main infrastructure projects Azerbaijan is implementing today resemble those undertaken by these two success stories. In particular, Dubai’s Rashid and Jabal Ali Ports, Free Economic Zones, international airport, and other state-of-the-art projects represent vivid models for Baku planners, and the emir of Dubai, Mohammed bin Rashid Al Maktoum, is a revered frequent visitor. Following Dubai’s emphasis on port development, Baku is constructing an enhanced port at Alyat—“the Jewel of the

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Caspian”—which includes the port, an International Logistics Center, and a Free Economic Zone. The whole project is estimated to cost around $870 million, and it is expected to handle 10 million tons of cargo and 40,000 containers a year (with an eventual capacity of up to 25 million tons of cargo and 1 million containers). Other transportation links have also been needed.10

Meanwhile, Azerbaijan is considered as the key geographical territory for many integration projects happening in the region. Today, Azerbaijan is at the center of three major integration initiatives—the European Union, the Eurasian Economic Union and the recently established OBOR (One Belt One Road) initiative championed by China. All three initiatives more or less target Azerbaijan. Still, official Baku was putting a lot of hope on the East-West corridor as the way to get closer to the EU.

Whether Azerbaijan’s major transportation projects are sustainable is a significant question. Dubai appears an appropriate model for Azerbaijan according to certain parameters (political regime, economy, geographic location). However, contrasts between the two can disrupt Baku’s plans.

First, geographical constraints prevent Azerbaijan from becoming a regional player. Cities and states that have become successful usually contain ports with ocean access. Singapore, Hong Kong, and Dubai are at the center of sea trade routes. Baku, on the other hand, is effectively landlocked; the Caspian Sea does not have ocean access.

Second, compared with Dubai and Singapore, Azerbaijan does not have as much resources to implement so many large projects. Third, unlike Dubai or Singapore, which boast diversified economies, Azerbaijan’s economy remains dependent on oil, a highly volatile commodity. Baku is currently trying to switch from oil to gas as Azerbaijan’s main commodity of export. However, gas is also volatile and requires massive infrastructure investment as well as appropriate markets. As Iran begins selling its gas, EU customers may end up with abundant amounts.

Third, Dubai’s success was highly dependent on historical circumstances: surplus international capital seeking profitable investment possibilities in the 1990s and early 2000s. Dubai took advantage of these opportunities and amassed physical and human assets in a relatively short time. Azerbaijan’s rapid development, in contrast, began during a period of global financial and economic crisis, when excess capital rushed to save

economies in Europe and elsewhere. The only investment that spurred development in Azerbaijan was its own, which it received from the sale of oil and gas.

Finally, starting in 2014 Azerbaijan began to experience serious economic difficulties. After the shocking devaluations of February and December 2015, when the Azerbaijani manat depreciated by almost 100%, the government turned its attention to efforts that might mitigate the crisis and alleviate the situation by promoting more business activity. Dozens of licenses for entrepreneurial activities were eliminated, while tax and custom authorities were rendered more transparent. Apparently trying to break the monopolistic nature of the economy, the government also eliminated some duties and taxes for import-export operations. Moreover, the government began to make the tourism sector’s long-standing priorities to facilitate international travel, and further liberalize its visa regime. However, in-depth analysis shows that these actions have not yet resulted in any significant impact. The economy remains monopolistic and foreign investors are not rushing in. Most of the reforms do not target root problems and are more “cosmetic” in nature. The lack of free competition, no respect for private property rights, as well as the absence of independent courts, have, and will, continue to make these new economic initiatives fruitless.

As a result, the Azerbaijani government is most likely to face serious problems in near future. To fulfill its commitments to expand oil and gas development in the region, including the SOCAR-backed TANAP (trans-Anatolian) and TAP (trans-Adriatic) pipeline projects, Azerbaijan is in dire need of massive investment.

**Domestic Problems:**
**Corruption, Monopolistic Economy, and Bad Governance**

For much of a decade Azerbaijan experienced a financial windfall due to high oil prices. The influx allowed Baku to spend money on many areas previously ignored, especially regional development. However, most of the programs and development initiatives were short-term in nature and did not achieve long-lasting effects. Given its substantial resources, Azerbaijan stopped looking for international assistance or listening to international advisers regarding economic restructuring. Moreover, the oil-dependent economy was marked by prevalent corruption and dense interlinkages between business and politics. As in many countries of the
former Soviet Union, Azerbaijan’s small business sector is not very well developed, since the country pays more attention to development of large corporations and companies, usually belonging to some of the public officials. Thus, decisions of the government are very often taken and implemented for the benefit of large businesses, make it impossible for other companies to compete.

Another hindrance to business in Azerbaijan is the presence of monopolies. Certain areas of the Azerbaijani economy are controlled by a company under the patronage of a public official. Other companies are disadvantaged because custom offices or tax agencies prevent from becoming involved in a monopolized business. The monopolists, in turn, are able to increase prices to reap additional profits without repercussions.

Corruption remains one of the country’s endemic problems. For the last decade, Azerbaijan has occupied the highest positions on Transparency International’s Corruption Perception Index. Corruption is prevalent in almost every sphere of social life and considered one of the country’s challenges in its transition to a market-based economy. Azerbaijan has not shown much improvement over past decades. Corruption is most visible in large-scale privatization, small scale privatization enterprise restructuring, price liberalization, and competition policy. This has become the major challenge for the Azerbaijani government. Endemic corruption emanating from the bureaucratic apparatus and public administration system hampers investments and innovations. For years Baku has been unable to solve this problem, although some positive changes have happened in governmental services following the establishment of the centralized ASAN-service, one-window system, which helps citizens to get services without delay and bribes. Nevertheless, Azerbaijan still ranks low on various indexes of transparency and corruption. Most surveyed businesses mention corruption as the major obstacle for investments and doing business in the country.

Azerbaijan began to experience serious economic difficulties in early 2015. After the shocking devaluations of February and December 2015, when the Azerbaijani manat depreciated by almost 100%, the government turned its attention to efforts that might mitigate the crisis and alleviate the situation by promoting more business activity. Dozens of licenses for entrepreneurial activities were eliminated, while tax and custom authorities were rendered more transparent. At the macroeconomic level, the government established the position of Presidential Assistant on Economic Reform tasked with creating a roadmap for economic reforms. The team
began by prioritizing the sectors of Azerbaijan’s economy that they deemed best positioned to create jobs and attract investments. However, in-depth analysis shows that these actions have not yet resulted in any significant impact. The economy remains monopolistic and foreign investors are not rushing in. Most of the reforms do not target the root problems and are more “cosmetic” in nature. The lack of free competition, no respect for private property rights, as well as the absence of independent courts, have, and will, continue to make these new economic initiatives fruitless. As a result, the Azerbaijani government is likely to face serious problems in near future.

All of these problems, including the unwillingness to start reforms, stems from the fierce opposition of the bureaucratic apparatus occupied by the former Communist nomenclatura or their heirs. These bureaucrats perfectly understand the dangers real changes pose to their positions, and so torpedo most reforms. Most institutional reforms, innovations or changes are done halfway or in a such manner, that they do not change the nature of the system itself. As a result, no major or profound reforms have been implemented. The recent so-called Road Map, adopted by the government as a strategic plan for taking the country out of crisis, does not envision fundamental reforms. Instead, it discusses mostly cosmetic reforms and unfulfilled plans. It is hard to expect that official Baku will be able to solve the country’s perpetual crisis with the current team or its understanding of “reform.”

Given these entrenched interests, Azerbaijani establishment tends to look at other post-Soviet countries for models of development. Sadly, Baku replicates most Russian policies, whether they be economic issues or dealing with civil society. Russia’s model of authoritarian development appeals to the Azerbaijani establishment. The country may adopt a pro-Western façade and rhetoric, but nature of the system resembles the Russian model of management. Azerbaijani elite behavior over the past number of years demonstrates a tendency to “bandwagon” with the Russian foreign policy agenda and to avoid harsh criticism of the Russian establishment. Moreover, when EU or U.S. criticism becomes particularly vocal, Baku tends to turn to Moscow. As long as the post-Soviet nomenclatura retains power, it is unlikely that Baku would opt for full-fledged cooperation with either the EU or the United States.
What Can the Transatlantic Community do to Help Azerbaijan?

Azerbaijan today is at a crossroads. The failure of economic development, absence of democratic governance, the looming Karabakh conflict, and growing Russian ambitions in the South Caucasus make Baku very vulnerable to external and internal shocks. Azerbaijan today, as never before, needs massive and urgent assistance from the transatlantic community. There are few critical areas that requires immediate attention and assistance where Western help could be crucial.

*Train a New Generation of Public Administrators*

One of the most important areas for Azerbaijan today is growing a new generation of public administrators who can replace the old nomenclatura bureaucrats. The key to success in public administration reform is education. The EU and the United States could allocate resources and help Azerbaijan re-train its public servants and foster the new generation of civil servants. The EU already engages considerably in these activities, but could do more. The United States should revive and reinvigorate educational programs training young Azerbaijanis in public administration, public health, education as well as law. The U.S. Muskie Fellowship program, shut down by Congress in 2009–2010, was one of the best U.S. initiatives that provided training for hundreds of young Azerbaijanis in areas critical to governance. Numerous other U.S. programs could be re-launched that would allow young Azerbaijanis to gain experience and necessary know-how. Unfortunately, of overall U.S. assistance to Azerbaijan of $10 million in 2015, only $600,000 (6%) was directed toward education.

*Assist in Institutional and Economic Reforms*

The West should help Azerbaijan strengthen the effectiveness of parliament, increase transparency and build an impartial legal system; strengthen political and civic participation by developing civic leadership skills and enhancing institutional transparency and credibility; promote anti-corruption advocacy and the establishment of legal advice centers; and improve the status of women by raising public awareness of issues that affect them.

*Help to Revive Civil Society*

Over the past decade the Azerbaijani government has done everything it could to discredit and eliminate civil society. As of early 2017 Azerbaijani
civil society has been marginalized; no major non-governmental organizations are active. Only recently has Baku begun to loosen conditions enabling NGO activity. Nevertheless, it is difficult to regenerate NGOs overnight or to create favorable conditions for them. Transatlantic efforts should lend support to NGOs and public civil organizations, focusing on helping such groups raise their public appeal, impact and membership base. Such support can help plant the seeds of grassroots democracy in the country.

**Help Baku Become Regional Hub**

Over the last decade, Baku has invested billions of dollars into commercial infrastructure and transportation projects to position itself as a lucrative link between Central Asia, the South Caucasus, and Europe. However, the recently established Eurasian Economic Union (EEU) can now be expected to compete more robustly with major transport corridors that might bypass Russia. In this context the political support of the transatlantic community cannot be underestimated. Azerbaijan’s political establishment still remembers that Clinton administration support allowed the Baku-Tbilisi-Ceyhan pipeline to be built and launched. The pipeline allowed the region get closer to the West and brought long-awaited financial and energy independence from Russia. Building a new transportation link between Central Asia and Europe via Azerbaijan/Georgia would be another step bringing the region closer to the West and sending a strong signal to the EEU about the region’s identity.

**Provide Political Support for Azerbaijan’s Territorial Integrity**

Today, the majority of the Azerbaijani public is dissatisfied with the lack of clarity from the transatlantic community with regard to the territorial integrity of the country. While Western governments express constant support for Georgia’s sovereignty over Abkhazia and Ossetia, they are reluctant to recognize Azerbaijan’s sovereignty over Karabakh, which leads the Azerbaijani public to accuse them of double standards. The transatlantic community should clearly state its support for the territorial integrity of the country as well as render political support to Baku. This would mean Baku would no longer need to to seek political support from Moscow and could use EU or U.S. support to negotiate a peace agreement. At the same time, both the EU and the United States should engage actively in the resolution of the Karabakh conflict. Given the current level of confrontation between Russia and the West, fruitful cooperation on this issue is
unlikely. Instead, the transatlantic community should work directly with Azerbaijan and Armenia to accept Western, rather than Russian, mediation. To make Western mediation attractive for both sides, the West should consider a developmental package similar to the Marshall Plan for Karabakh and surrounding territories. Moreover, helping to build down each sides’ enmity would limit the chances of full-scale war or instigation of conflict from third parties.

**Increase the Transatlantic Community’s Soft Power in Azerbaijan**

It is very hard to underestimate the soft power of the West in Azerbaijan and in the South Caucasus in general. Besides the technological advancements, entertainment industry, or even travel preferences, the Western education system is a major destination for Azerbaijani students who wish to continue their education abroad. Thousands of Azerbaijani students are currently studying in the United States or Europe. Many students are studying in Europe though joint programs between consortium of European universities through Erasmus and other EU programs. Many graduates of EU and U.S. universities have returned to find jobs in the Azerbaijani government. Establishing joint educational programs with Azerbaijani universities or creating new programs to educate Azerbaijani youth could be great stimulus for people and improve the positive image of the West.

In addition to education, the West should pay specific attention to the media space of the region. Today, most of the information Azerbaijani received is via local, Russian or Turkish sources. That deprives people of unbiased information and boosts Russian influence. Airing of TV channels across the country, or establishing news services in the Azerbaijani language would allow local populations to get first hand information, bypassing other sources of information. So far, only BBC and Radio Free Europe have Azerbaijani language services, and their airing is limited.

**Conclusion**

Azerbaijan as well as the whole South Caucasus is currently at a crossroads. U.S. disengagement and EU weakness have created a significant vacuum that Russia has filled. If the situation continues, the West risks losing Azerbaijan, and with it, access to the Caucasus and Central Asia. Thus, the transatlantic community should actively reengage in regional affairs. Washington and Brussels should assist Baku in its efforts to cope
with economic crisis and its initiatives to become a regional hub, while not ignoring the issues of bad governance, lack of transparency and corruption that plague the country, and work with Baku to tackle these problems. The year 2017 offers momentum for the West to return to the region. However, If Western momentum is lost, Azerbaijan may easily fall prey to the competing pro-Russian Eurasian Economic Union and the reservoir of trust the EU and the United States have sought to build over decades is likely to dissipate.
Chapter 9

Transparency and Rule of Law as Key Priorities for Armenia

Stepan Grigoryan and Hasmik Grigoryan

With the growing tension between East and West, and with the rejection of common international rules by Russia, the question of how the post-Soviet states should construct their foreign relations remains of utmost importance. Armenia, a landlocked country in the South Caucasus, has yet to accomplish its transition from socialism to democracy and market economy. Moreover, efforts along these lines have regressed, and the authorities do little to implement reforms or to establish a healthy system of checks and balances. In recent months the country has been overwhelmed by protests. The authorities neither address domestic problems nor satisfy protestor demands. Instead, the Armenian government frequently resorts to disproportionate use of police forces against peaceful protestors. With political prisoners and hundreds of detained civil activists, journalists, and politicians, it will be impossible to build an independent and prosperous country.

Armenia has a rich history and culture, but at the same time it has experienced dark historical periods. The Armenian Genocide of 1915 and the unresolved Nagorno-Karabakh conflict shape Armenian identity. However, such historical issues have been instrumentalized by the Armenian government. Instead of building the future, Armenian authorities emphasize the past. Policies based on past grievances lead the Armenian government to become more and more dependent on Russia. Armenia needs to tackle corruption, falsified elections, a corrupt judiciary and many other problems—and Western partners whose efforts are based on democratic values, free and fair elections, and respect towards human rights have a crucial role to play.

This chapter offers background on Armenia’s relations with various actors, historical matters that shape Armenian identity, and the failure and lack of will to improve the country’s current situation. It then discusses the role of the West and its importance for Armenia. We seek to answer why Armenia slowed down its reform efforts, what the West needs to do to improve the situation in Armenia.
Regional Actors

After its independence in 1991, Armenia went through a difficult development path. It began to construct its relations with various regional actors. In terms of political, economic and social development, Armenia started to partner with various international actors such as the European Union (EU), Council of Europe (CoE), OSCE, UN, and NATO. In terms of its security, Armenia preserved its relations with Russia. It is a member of the Russia-led Collective Security Treaty Organization (CSTO), and hosts a Russian military basis in its second largest city of Gyumri. It also sought to forge relations with neighboring countries as well as the United States and a number of different European countries.

Newly-independent Armenia quickly found itself in a tough situation, however. Right after independence, war broke out between Armenia and Azerbaijan. The results of the war have defined power alignments in the South Caucasus. Turkey, in support of Azerbaijan, closed its border with Armenia. Armenia and Azerbaijan have remained hostile. Armenia connects itself with the world via its remaining two neighbors, Iran and Georgia.

Two specific characteristics define Armenian domestic and foreign policy. The first is Armenia’s history, the second is the country’s relations with various players.

Once independent, Armenia was able to present to the world its two identity issues. The first was the Armenian Genocide during the Ottoman Empire in 1915, when 1.5 million innocent people were massacred and another million was scattered all around the world. The second was Nagorno-Karabakh, which was transferred to Azerbaijan in 1921, when the majority population of that region was ethnic Armenians. Nagorno-Karabakh is a symbol of national identity for Armenians. The war between Armenia and Azerbaijan erupted in 1992 and lasted until 1994. The war started with the fall of the Soviet Union, when Armenians living in Nagorno-Karabakh demanded independence from the Azerbaijani Soviet Republic. Azerbaijan, in turn, elevated the principle of territorial integrity over the principle of self-determination, and started a war to preserve its territory. As a result of the war, Armenia gained Azerbaijani territories around Nagorno-Karabakh, which became a security buffer zone. Currently Nagorno-Karabakh remains a de facto state with its own governmental institutions. On the other hand, Azerbaijan considers the Azerbaijani territories around Nagorno-Karabakh as territories occupied by Armenian armed forces. Whether one views the conflict from the perspective of Armenia or Azerbaijan, the important fact is that the conflict
remains unresolved and escalates sporadically. The Four Day War of April 2–5, 2016, once again underscored the importance of the Nagorno-Karabakh conflict and the fragile stability that surrounds it. Although the ceasefire is restored, each side suffers casualties on an almost daily basis—and the elites of each country use the conflict to stay in power and maintain public support.

**Cooperation with the EU and Armenia’s Turn to the EEU**

As a country with a closed border and an unresolved conflict, it is highly important for Armenia to preserve diversified relations with Western actors. Armenia launched its cooperation with the EU as soon as it proclaimed independence, receiving expertise and financial aid in various fields. The EU is both a major donor (since independence, the EU’s direct financial assistance to Armenia has already exceeded $1 billion) and Armenia’s biggest trade partner. EU countries accounted for over 30 percent of Armenia’s total foreign trade turnover. The Russian Federation ranks second, accounting for 24% of Armenia’s total foreign trade turnover.¹

A new stage of Armenia’s cooperation with the EU commenced in November 2006, when the new European Neighborhood Policy Action Program (ENP AP) was approved and entered into force, providing Armenia with an opportunity to intensify political, economic and cultural relations with the EU, enhance regional cooperation, and take on greater responsibility in conflict prevention and resolution.²

On May 26, 2008, Poland and Sweden put forward an initiative to strengthen EU cooperation with a number of CIS countries, referring to such cooperation program as the Eastern Partnership (EaP). The project envisaged deepening of EU cooperation with Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine, and included proposals to intensify visa dialogues with the EU, strengthen trade relations, create free trade zones for services and agricultural products, cooperate on issues of environmental

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protection and the social sphere, and cooperate in the field of energy security and other areas. It is noteworthy that the Eastern Partnership program is different from the ENP, because it not only covers institutional cooperation between the European Commission and the Government of Armenia, but also includes cooperation with civil society institutions. The EaP Civil Society Forum (EaP CSF) was founded in Brussels on November 17, 2009. This is a very significant innovation, since it provided the opportunity to use the full potential available in the countries-participants of the EaP program for its successful implementation. In addition, it created certain conditions for a trilateral dialogue among the Armenian government, Armenian civil society, and the EU.

In the framework of the Eastern Partnership, it was envisaged to simplify the EU visa regime with the EaP countries, as well as prepare Association Agreements with the EU. Negotiations on an Armenia–EU Association Agreement commenced in July 2010. The agreement was supposed to replace the existing Partnership and Cooperation Agreement. The actual Association Agreement consisted of two parts: political (including better governance issues, the rule of law, human rights, sectoral cooperation, etc.) and the agreement on Deep and Comprehensive Free Trade Area (DCFTA) contemplating liberalization of trade between Armenia and the EU.3

It is noteworthy that Armenia undertook various reforms in the framework of the EU Eastern Partnership program. The EaP Index 2013 shows relatively good scores for Armenia in various sectors. Six negotiation rounds on the DCFTA with the EU were held and concluded in July 2013. Armenia and the EU also signed Readmission and Visa Facilitation Agreements and lifted visa requirements for EU citizens traveling to Armenia.

According to the EaP Index, Armenia’s electoral environment improved. Parliamentary elections in 2012 in Armenia and Presidential elections in February 2013 were much better organized. However at the same time there was an abuse of administrative resources to the advantage of the ruling party, vote-buying, the non-participation of some influential candidates in the elections. Such violations served as evidence that European standards were not entirely being met. The Index noted that rallies and demonstrations were held without any obstacles, but that the Armenian Government was not fighting corruption very efficiently and no effective corruption

monitoring system was in place. Interestingly, in the summer of 2013 the Armenian leadership repeatedly declared its readiness to sign the EU Association Agreement, with special emphasis on the importance of the DCFTA agreement for Armenia. In July 2013, the EU and Armenia announced that the draft Association Agreement was ready and only pending some editorial changes.  

This deep and active cooperation between Armenia and the EU halted on September 3, 2013, when the president of Armenia announced that the Armenian government planned to join the Russia-backed Eurasian Economic Union (EEU). Since then, the areas of cooperation with the EU have decreased. The DCFTA, the main part of the Association Agreement, was frozen.

More than two years later, in December 2015, the EU and Armenia opened negotiations on a new framework to deepen bilateral relations that would replace the current Partnership and Cooperation Agreement, and reset EU-Armenian relations within the wider framework of the recently-reviewed European Neighborhood Policy and of the Eastern Partnership. The framework under negotiation does not, however, include a DCFTA, which was the core of the previous Association Agreement, and aimed at wide cooperation in the economic sector. After eight succeeding rounds, as of February 2017 the two sides had still not reached agreement on such a framework.

Switching back to Armenia’s commitments with the EEU, on January 1, 2015 Armenia became a member of the EEU, transferring some of its sovereignty to that organization, especially in the field of trade and markets. Upon joining the EEU, Armenia slowed down the reform process even further. This unexpected decision highlighted the degree to which the Armenian government is dependent on Russia, and that it lacks the will to construct a real sovereign state with its own foreign and internal policy.

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This is reinforced by Russia’s own geopolitical approach, which considers post-Soviet territories as its own area of influence, as well as by Armenia’s reliance on Russian support in its conflict with Azerbaijan and the presence of Russian forces on Armenian territory.

After Armenia joined the EEU, Russia began dictating terms in many different areas. In 2016 the Armenian leadership agreed to merge its air defense system with that of Russia and to create joint military units. A growing number of economic assets were also handed to Russia: even the gas pipelines connecting various regional centers of Armenia were transferred to Russian monopoly Gazprom (against some “debt,” which appeared out of nowhere), despite the fact that they were built with the EU and World Bank funding. The electricity supplier to Armenia, the CJSC Electric Networks of Armenia, founded in May of 2002 as a merger of four state regional companies, is a subsidiary of the Russian OJSC RAO UES International CJSC. These examples underscore that cooperation with Russia and EEU membership is eroding Armenia’s sovereignty in the economic, energy, and defense fields.

Why did Armenian authorities agree to EEU membership? We believe the Russian leadership gave some promises of support to the Armenian government on the Karabakh issue. Such support has not been in evidence, however, as became clear during the April 2016 war in Nagorno-Karabakh, and by the fact that in 2015–2016 the Kremlin sold advanced offensive weapons to Azerbaijan. Another reason why the Armenian leadership was not able to resist “pressure” from Russia and refused to sign the EU Association Agreement is that high-ranking Armenian public officials own many businesses in Russia and are reliant on Russia to maintain their positions of authority, given their own political illegitimacy tied to rigged elections.

Armenia’s Membership in the OSCE and the Council of Europe

Thanks to cooperation with the OSCE and the Council of Europe, Armenia started to undertake reforms in human rights and many other political sectors. Armenia became a member of the OSCE in 1992, and a

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member of the CoE in 2001. Armenia joined a number of European conventions, including those related to human rights (freedom of assembly and expression, freedom of media, equality of citizens before the law regardless of their origin or beliefs, rights of women and children, etc.). These principal tools currently provide the opportunity for the citizens of Armenia to fight for their rights and are a major deterrent against the temptations of the authorities to inflict large-scale repression on political opposition and the active part of civil society. It is thanks to Armenian commitments to the OSCE and the CoE, for instance, that criminal penalties for belonging to religious minorities were excluded from Armenia’s Criminal Code. The abolishment of the death penalty, which was a direct result of Armenia’s CoE membership, brought serious changes to Armenia’s legal culture.

The European Court of Human Rights (ECHR) is another important European institution that has allowed Armenians to defend their rights. Many Armenian citizens who exhausted all legal remedies in the Armenian courts with regard to their claims, have appealed to the ECHR. Even in today’s situation, many Armenian citizens have managed to win cases by appealing to the ECHR against Armenian authorities. This offers a chance that Armenian courts will be more careful in rendering clearly illegal decisions or in executing political orders.

Armenia has received significant legal support from the Venice Commission of the CoE. Its legal advice and evaluation of the constitutional reforms in Armenia in July 2005 and December 2016 were very important for the country’s civil society. Certainly, there were a lot of controversies and heated debates around these reforms, but the mere presence of such prestigious institutions meant that Armenian authorities could not blithely contravene human rights legislation.

Exceptionally important is the assistance of the OSCE and the CoE in ensuring that the Electoral Code of Armenia complies with democratic principles and norms. This process has of course had its setbacks, the most important of which has often been the unwillingness of the authorities to conduct genuinely democratic elections. For example, after the February 2008 presidential elections, a serious political crisis started in Armenia, due to opposition allegations of widespread and serious voter fraud. The authorities used force against various peaceful rallies and arrested a significant number of opposition figures. These events led to the adoption of resolutions 1609 and 1620 of the Parliamentary Assembly of the CoE, condemning the actions of the Armenian authorities and demanding sanc-
tions on those responsible for the deaths of civilians. A number of international organizations, including the CoE, started discussions on the presence of some people in Armenia who fall under the concept of “political prisoner.” This pressure by the CoE and the OSCE led to the Armenian authorities, over the course of 2009 and 2010, to release by amnesty most of the opposition figures who participated in the March 2008 protest rallies.

During the subsequent four years (i.e., 2009–2012) the level of political freedom somewhat increased, as manifested in more transparent and competitive parliamentary and presidential elections of 2012 and 2013. All parties and presidential candidates had the opportunity to speak on television and to meet freely with voters. Nonetheless, observers from those influential Armenian non-governmental organizations that monitored the electoral process noted a number of serious violations: abuse of administrative resources, electoral bribes, and most importantly, manipulated vote counts on election day. Both the improvements and the abuse of administrative resources were also confirmed by the OSCE Election Observation Mission in Armenia.

Despite clear abuses, the deterrent role of the OSCE and the CoE continues to be exceptionally important. Recently, for instance, under pressure from these organizations, Armenian authorities released a significant number of prisoners (including politicians and journalists) who participated in protest rallies in June and July 2016.

Following constitutional reforms in December 2015 (according to which Armenia will transform into a parliamentarian state) and in advance of April 2017 parliamentary elections, the OSCE and the CoE have strongly supported Armenian efforts, which have included a government-opposition dialogue, to prepare a new Electoral Code that meets standards set forth by both organizations. The opposition demanded that Armenian citizens living abroad (estimated at 500–600,000 people) be excluded from

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election lists; that the names of citizens who voted be published; that ID cards be required for voting (to avoid repeat voting); that surveillance cameras be installed at all polling stations to prevent planted ballot papers; and a number of other important amendments. These amendments, which with some reservations were adopted by the Armenian authorities, offer some reason for optimism that the April 2017 elections will be more democratic and transparent.

At the same time, unfortunately, we often notice inconsistencies in the actions of the Armenian authorities, due to which, parallel to certain progress we see fallbacks. For instance, even though Armenian authorities argued that changing the country’s constitutional order by shifting it to a parliamentarian form of government would strengthen the role of political parties and generate stronger political bonds with Armenian citizens, significant electoral fraud again took place in October 2016 in municipal elections in the cities of Vanadzor and Gyumri. Those elections proved how unwilling Armenian authorities are to respect the choice of the Armenian people, and therefore are unable to adequately respond to current challenges. Opposition parties in Vanadzor, for example, have been boycotting sessions of the city council, and today there is a serious crisis in the governance of the city. This time, unfortunately, the response from the Council of Europe or the OSCE had been insufficient, in part because local elections in Armenia are not observed by international actors.

Despite these instances, the joint observation missions of the OSCE and the CoE play an important role in ensuring democratic and transparent elections. For many years they have monitored Armenia’s parliamentary and presidential elections. Their reports (often very critical) have played an important role in preventing some violations during the elections, and have helped to improve Armenia’s electoral legislation. We have highlighted only a few examples, but suffice it to say that both organizations have made a difference in establishing the rule of law in Armenia, fighting against violations of rights and freedoms of citizens, preventing electoral fraud, and strengthening the development of civil society institutions, as

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12 In Vanadzor, for example, three opposition forces who together received about 50 percent of votes signed a memorandum of cooperation after the election, which according to the constitutional reforms automatically gave them the right to propose a candidate for the mayor of Vanadzor. Nonetheless, authorities manipulated the closed election of the mayor to approve the candidate from the ruling Republican Party, despite the fact that during the elections this party received only 37 percent of the votes. The situation in Gyumri was similar.
well as ensuring freedom of mass media, and improving governance based on basic democratic principles.

**The Role of the OSCE Minsk Group in the Nagorno-Karabakh Conflict**

The OSCE is the principal international actor working towards a peaceful settlement of the Nagorno-Karabakh conflict. In 1994 the OSCE Budapest Summit established the OSCE Minsk Group, which continues to work on the conflict. The United States, Russia and France co-chair the Minsk Group, which also includes Belarus, Germany, Italy, Sweden, Finland, and Turkey, as well as Armenia and Azerbaijan.\(^\text{13}\)

To frame a way forward to resolution of the conflict, in 2009 the Minsk Group presented in L’Aquila the Madrid Principles, based on non-use of force, territorial integrity, and equal rights and self-determination of peoples. The basic contours have been accepted by both Armenia and Azerbaijan in principle. The Principles set forth a number of steps:

- return of the territories surrounding Nagorno-Karabakh to Azerbaijani control;
- an interim status for Nagorno-Karabakh providing guarantees for security and self-governance;
- a corridor linking Armenia to Nagorno-Karabakh;
- future determination of the final legal status of Nagorno-Karabakh through a legally binding expression of will;
- the right of all internally displaced persons and refugees to return to their former places of residence;
- international security guarantees that would include a peacekeeping operation.\(^\text{14}\)

Despite the Principles, the conflict not only continues, it is marked by an escalating dynamic. Even though the conflict is protracted and has not devolved into a large-scale war, skirmishes are common. Escalation along the Contact Line or sniper fire claim both Armenian and Azerbaijani victims. The situation heated up again in April 2016, when Azerbaijan initiated military actions and for four days heavy fighting broke out across the Contact Line.


The Four Day War of April 2016 once again highlighted the importance of the Nagorno-Karabakh conflict and the fragile stability that surrounds it. Although the ceasefire has been restored, each side reports daily casualties. Because elites in both Armenia and Azerbaijan use the conflict to maintain public support while slow-rolling domestic reforms, the temptation toward sporadic escalation is high.

Unfortunately the OSCE did not respond to the April 2016 conflict quickly or consistently. The Minsk Group took on the role of observer rather than active moderator or negotiator, and has not played much of a role since that time. This weakening of the OSCE is troubling, particularly in the aftermath of Russia’s annexation of Crimea, which has caused post-Soviet countries to worry more about their security, and generated greater concern that Russia will use the leverage of the Nagorno-Karabakh conflict to advance its own interests. Greater cooperation with the EU, a soft power, would not guarantee Armenia’s security, and Armenia is not a member of NATO. This leaves the OSCE as a critical actor for the region. It needs to intensify its efforts to resolve the conflict peacefully.

Armenia’s Vibrant Civil Society

Perhaps one of Armenia’s strongest achievements is its civil society. Armenian civil society strives towards Western values and seeks to establish democratic conditions in the country. It is a positive phenomenon that in recent years Armenian civic engagement has increased, led first and foremost by young people who understand the need to change the country’s elites. Civil society activists, mostly young people, have realized their responsibility and are engaged on social issues. They stopped the construction of high-rise buildings in a park in Yerevan, they prevented an increase in public transportation fees, and organized mass protests in June 2015 to fight higher electricity tariffs. These protests, which attracted massive attention all over the world, were called the “Electric Yerevan.”

It is also worth mentioning movements against the constitutional reforms of 2015, those related to enhanced security of Nagorno-Karabakh in

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April 2016, those supporting of armed group “Sasna Tsrer,” which occupied a police patrol service regiment in Yerevan in July 2016, the yearly “Anonymous Parades,” the protests of “Nairit” chemical plant workers, and many other vivid examples of active efforts within Armenian society pushing for major reforms in the country. These efforts are important evidence that Armenia has a strong civil society, expressed particularly through such movements as well as individual civil activists and those who fight undemocratic steps undertaken by successive Armenian governments.

Unfortunately, the authorities have responded to these peaceful activities with a disproportionate use of force, arbitrary and numerous arrests and detentions, and beatings of political opponents and journalists. Andrias Ghukasyan, a member of the “Get Up, Armenia” movement who was arrested in July 2016, is one of a number of political prisoners being held by the Armenian authorities. This is the situation of Armenia today.

Nonetheless, despite political oppression, endemic corruption and weak rule of law, Armenian civil society in Armenia is persevering in its efforts to build a democratic state. It remains one of the important sectors with capacity to prevent the total transformation of Armenia into an authoritarian state.

Political Recommendations

Rigged elections are one of the main important problems for Armenia. The elites must change if there is to be a healthy political environment. The OSCE, CoE elections observation missions, the EU and the United States need to demand accountability from Armenian authorities when it comes to potential violations of the commitments they have made regarding respect for human rights, democracy and the rule of law. Accountability remains an important tool inhibiting Armenian authorities from falsifying elections.

The West also needs to intensify the struggle against corruption. There should be an independent commission of influential experts who would monitor and assess the level of corruption in an independent way.

Economic Recommendations

Western actors need to establish a mechanism that would stimulate growth in the regions of Armenia. Equal distribution of power and wealth would assist in the development of the Armenian economy and agriculture. Western actors also need to provide financial aid in the fight against the monopolized economy.

Recommendations on the Nagorno-Karabakh Conflict

The Nagorno-Karabakh conflict is of utmost importance to the Armenian nation. At the same time it is the topic that is used by both Armenian and Azerbaijani authorities to remain in power by mobilizing the public. International organizations, mainly the OSCE, need to organize frequent meetings between Armenia and Azerbaijan both on the presidential and ministerial levels. Frequent meetings will render the authorities of the conflicting sides accountable for their actions.

At the same time the EU needs to organize frequent parliamentary meetings. These meetings could be moderated by EU member state deputies and attended by members of the Armenian and Azerbaijani parliaments. Such meetings would facilitate common joint projects in various sectors (cultural, economic and political).

It is also of utmost importance that the OSCE deploy a mechanism on the Contact Line of Nagorno-Karabakh that can identify which side commits cease-fire violations.

Finally, the West needs to activate Armenian-Azerbaijani projects at the level of civil society to build greater trust among the ordinary people of Armenia and Azerbaijan. Projects may include mere meetings, joint training opportunities, or cross-border cooperation regarding such practical issues as security of water supplies or agricultural development.
Chapter 10
Moldova: What It Should Expect from the West and What It Should Expect from Itself

Hans Martin Sieg

Transformational and Geopolitical Challenges

Since Moldova’s November 2014 election, the country’s image has changed drastically from the “success story” of the EU’s Eastern Partnership to that of a “captured state.” Moldova’s politics continue to be defined by corruption and vested interests, which take advantage of weak state institutions and public administration, and ineffective judiciary and law enforcement agencies. This environment has enabled hostile takeovers of financial companies, often through concealed offshore operations, for criminal purposes, money-laundering schemes, and a spectacular banking fraud, which was uncovered in autumn 2014. Low incomes have prompted hundreds of thousands of Moldovans to leave the country in search of a better life. Rivalries for political power, control over institutions, and economic assets have generated growing crises within different ruling coalitions, resulting in rapid changeover in governments, the break-up of major political parties and the formation of new parliamentary majorities with precarious democratic legitimacy.

All of these factors have subjected Moldova to an unrelenting series of governmental, economic, financial, and social crises since early 2015. The deeper causes of these crises can be traced to much earlier developments, however, and are deeply rooted in local structures. Since 2009 the political system has essentially turned from semi-authoritarianism to a more pluralistic but also increasingly oligarchic model. As a consequence, Moldova’s Europeanization has remained largely superficial. Over this period, Moldova’s rapprochement with its Western partners has contrasted starkly with its lack of progress in strengthening liberal democracy, market economy and the rule of law. At the same time, society and politics increasingly became subject to geopolitical polarization. When the first pro-European
coalition was formed in 2009, European integration was promoted by all major parties and enjoyed broad support within the population. As Russia’s opposition to the Eastern Partnership hardened and European integration failed to bring tangible change, however, Moldovan parties and public opinion split over the competing models of European and Eurasian integration, and a new and strong pro-Russian opposition emerged.

As a result, both reform forces within Moldova, and the EU and the United States as Moldova’s predominant development partners, face a problematic dichotomy between geopolitical competition with Russia and the transformational agenda. In the short run the consequence is a dilemma: how to insist on real change and democracy if the only viable alternative seems to be a takeover by pro-Russian forces? In the long run, however, a geopolitical orientation towards the EU or the West can only be sustainable with transformational success, without which Moldova will not break the vicious circle of socio-economic decline, political instability and regional insecurity. The Western development model, however, is likely to become discredited—in fact, this has already partly happened. Focusing on geopolitical stability rather than on transformation, therefore, is likely to be a self-defeating strategy.

Russia can only play the role of geopolitical competitor by capitalizing on vulnerabilities generated by Moldova’s own domestic challenges—corruption, dysfunctional institutions, a deficient rule of law, and oligarchic control over politics and economic assets—that result in political deadlocks, lack of development, and polarized societies. Russian interference has not created these challenges, but Russia can profit from them. The key obstacle for transformation has been the entrenched strength of vested interests in conjunction with weak institutions and a weak civil service. These interests are not aligned with any particular geopolitical preference. They are well established within all political camps, which means that they also must be overcome within those forces who claim to be pro-Western.

For this reason, the transformation of Moldova, as in other post-Soviet countries, is not likely to follow the model of transformation as set forth by central-eastern European countries on their path to NATO and EU accession. Within the NATO and EU enlargement processes, NATO and EU each provided standards and support for reforms, but left it to local elites to implement them and to reap the benefits. This worked because in each of these countries transformation was generally supported by a broad domestic consensus that embraced both governing and major opposition parties and ensured the continuity of reforms despite changing gov-
ernments. In eastern Europe there is also a broad willingness for change within the society and among elites, but they face the veto power of vested interests, and the geopolitical polarization of societies can mean that the respective opposition, upon coming to power, may not continue the same basic domestic and foreign policy objectives, but fundamentally alter the course of the country. It is therefore questionable whether local elites can substantially reform their countries on their own.

EU instruments and U.S. leverage can be a powerful combination for change, if closely coordinated and applied thoroughly. In supporting change in Moldova, Western development partners should explore a new type of partnership to support and empower local reformers in ways that could help them target local resistance to reforms. This would not require infringing on the country’s sovereignty, but it would require an important shift in how to deal with transformational policies. Instead of merely supporting reforms, Western interlocutors need to assume co-responsibility for them by combining rigorous external pressure with greater direct participation in both the design and implementation of such reforms.

A House Divided: What Can or Should Moldova Expect from Itself and from Others?

Moldovan society has found it difficult to reach a broad consensus about the desired course of the country, both with respect to which geopolitical preferences and which development model to follow. These difficulties begin with national identity, which has remained rather weak and divided along cultural or ethnical lines. Equally important are competing historical narratives that cut across ethnic and cultural lines. These lines are also a predominant factor in dividing the political landscape between different parties, majorities and opposition. The political left is more connected to Moldovan than to Romanian identity, takes a pro-Russian stance, and is influenced by Soviet historical narratives. The political right is more connected to Romanian than to Moldovan identity and is influenced by Romanian or Western historical narratives. The two camps split over their competing narratives of the Second World War. Consequently, there is even not a universally accepted term for the country’s citizenship. Whereas governments under the leadership of the Party of Communists (PCRM) ran campaigns to promote a specific Moldovan identity, the idea of a Moldovan nationality is rejected by considerable parts of society and elites as a politically motivated invention.
Up to around one third of Moldova’s population consists of Russian speakers, most of whom belong to different minorities, with Russian media providing their most important and often only source of information (while native Romanian speakers also usually understand Russian, many native Russian-speakers have command only of the Russian language). The Romanian-speaking majority is also divided among different historical narratives and between those who identify as Moldovan and those who identify as Romanian. A cultural Romanian identity is particularly pronounced among elites on the right, yet only a small minority of society supports unification with Romania and others parts of society, in particular minorities, stridently oppose it. Since these identity divisions correspond to political divisions, it is quite difficult to build the type of consensus within society necessary to embark on really national projects. Every major political project tends to polarize the society along identity lines.

The diversity of identities within Moldova is also reflected in the Transnistria conflict. The predominantly Russian-speaking parts of Moldova on the left bank of the Dniester River formed a breakaway region supported by Moscow after an armed struggle in the early 1990s. While different identities dominate on both sides, the Transnistria conflict lacks the ethnic divisions, expulsions and hatred that characterize other “frozen” conflicts throughout eastern Europe. Accordingly, conflict settlements efforts have failed primarily because of the different political interests of the key actors involved: Transnistria demands far reaching self-determination, right-bank Moldova is not prepared to accept anything except limited autonomy, and Moscow is interested in providing Transnistria with far-reaching veto powers, including on foreign relations, in a reunified state.

The Transnistria conflict has often been referred to as an obstacle for Moldova’s domestic transformation. However, this is convincing only at first glance. There may be some business interests linked both to the status quo and to the political leaders on both sides. But it would be difficult to find an instance where Transnistria or effects of the conflict have prevented right-bank Moldova from implementing reforms. In fact, as opinion polls regularly indicate, Moldovan society attributes little priority to the conflict. Likewise, since 2009 Moldovan governments have dedicated little attention, and only very limited resources, to conflict settlement efforts, so that it has also not distracted considerable capacities. Even more than Russian interference, Transnistria has rather served as an excuse than been a cause of lacking reforms.
For these reasons, Moldova has also become highly polarized geopolitically, between those looking to Russia and those looking to the EU and the West. To some extent, such geopolitical leanings can be traced to a tendency to look to external powers to fix Moldova’s problems, which reflects the country’s long history as part of greater empires. But different geopolitical vectors also reflect varying preferences as to the most appropriate development model for the country. There is almost universal discontent with the current situation in Moldova. Those favoring closer integration with the West seek a better alternative based on democracy and the rule of law. Those favoring closer relations with Russia favor the Lukashenko/Putin model of a strong leader who would be expected to crack down on vested interests and corruption.

Socioeconomic trends are another obstacle to a common agenda. Moldova is perhaps the only remaining country in Europe where the rural population still accounts for the majority of society. The middle class is a minority. Moldova suffers from the massive emigration of young, skilled and well-educated people. One third of the working population has left the country. Up to 30% of the economy has become dependent on remittances. This has not only increased the share of dependents, it has strengthened clientelist mentalities within the society that tend to reinforce authoritarian sentiments and drain support for liberal reforms seeking to improve the rule of law and establish a market economy.

Nevertheless, the geopolitical divide in Moldovan society has largely been created by external actors. In fact, to a large extent the divide has been generated by pro-Western and pro-European forces that have discredited themselves. Opinion polls consistently demonstrate that the vast majority of the population would prefer good relations with both Russia and the West. For this reason, the neutrality guaranteed by the constitution has always been supported by a clear majority, while support for NATO accession has remained limited. European integration, however, had initially been backed by a broad majority in the society, when pro-European coalitions first came to power in 2009, shortly after the EU launched its Eastern Partnership program.

Three developments changed this situation. First, as Russia’s opposition to the Eastern Partnership hardened, Moscow responded with its own model of integration in the form of the Eurasian Economic Union, which confronted Moldovan society with a choice between two incompatible options. This was accompanied by an increasingly polarizing propaganda campaign by Russian media.
Second, Moldovan parties split over the issue of European integration. While the PCRM—by far the largest party until the November 2014 elections—had supported European integration while in power, it increasingly started to oppose it after being forced into opposition in 2009.

The third and most important factor was that pro-European coalitions discredited themselves among wide swaths of the public. One reason for this was the continual infighting between the two strongest men within the coalition, Vlad Filat, the leader of the Liberal Democratic Party (PLDM) and Prime Minister between 2009 and 2013, and Vlad Plahotniuc, the dominating figure behind the Democratic Party (PDM). Their conflicts escalated into a number of major coalition crises. While Plahotniuc commanded greater resources, Filat was initially more successful in mobilizing electoral support. Both men, however, drew their resources from considerable business interests and remained closely associated with them. In the public eye, the conflicts between them where thus largely seen as fights for control over economic assets and key state institutions; and the coalition became more and more associated with corruption.

At the same time, the coalition largely failed to deliver. In its rapprochement with the EU, Moldova registered successes in the form of speedy negotiations on an Association Agreement with the EU, signed in 2014, and by being the first country in the Eastern Partnership to obtain visa-free travel to the Schengen area. But on crucial domestic reforms—concerning the rule of law, the building of functioning and independent institutions, fighting corruption, and restricting oligarchic control over the state and the economy—little progress was made. As popular confidence in the government declined, so did support for European integration. And because increasing competition with Russia in the post-Soviet space prompted Western leaders to support rather than to distance themselves from the pro-European coalition in Chisinau, in the popular mind the EU and the West also became increasingly associated with corruption.

In the gravest of the coalition crises, Plahotniuc forced Filat out of the Prime Minister’s office in 2013, bringing the coalition to the brink of collapse. Under new Prime Minister Leanca the government managed to conclude the crucial Association Agreement with the EU and to basically restore public confidence. Thus the “pro-European” parties still gained a majority in the election of 2014. But the different and changing majorities that were formed thereafter in parliament largely disconnected the government from public support.
Two developments brought about this loss of public confidence. The first was the extent of the banking fraud that came to light after the election. The second was the formation of a number of governments in defiance of the election results and of public opinion. At first, despite previous pledges to re-establish the pro-European coalition, Plahotniuc and Filat choose to build a new majority involving the PCRM. This did not only prove to be highly unpopular but resulted in a row of governmental crises which shook Moldovan politics, leading to the resignation of two Prime Ministers in 2015. A number of different coalitions and majorities were formed over the course of the year, during which major parties nearly disintegrated and political actors which had presented themselves as clear antagonists in previous elections seemed to switch sides and join common ranks.

Behind the scenes various power struggles were under way. In October 2015 Filat was arrested and the PLDM was eliminated as a competing force. A new parliamentary majority under the de facto leadership of Plahotniuc was formed by splitting the PCRM and PLDM parliamentary groups1 and bolstering the PDM, which had only won 16% in the election but was poised to control a broad majority of members of parliament. The most important offices, including that of the Prime Minister and of the Speaker of Parliament, were filled with close associates of Plahotniuc, who was initially nominated to become Prime Minister but was denied by the President, and then assumed the unofficial role of a coordinator of the coalition.

At the same time, shortly after the November 2015 elections, it was revealed that a massive fraud scheme in three Moldovan banks had resulted in a loss of around $1 billion—equivalent to 15% of Moldova’s GDP—that required a bailout from the state budget. In the court of public opinion, the coalition and its leaders were heavily implicated. The lack of a thorough investigation and prosecutions—at first the only person arrested in connection with the bank fraud was Filat—reinforced public mistrust.

As a consequence, government approval ratings plummeted and the entire Moldovan party system was reconfigured. The country’s previously two largest parties, the PCRM and the PLDM, dropped respectively to around 5% and 2% support. The remaining coalition parties, effectively the PDM with the Liberal Party as junior partner, together have since not

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polled much above 10%, with disapproval ratings up to 90%. On the left, new and essentially pro-Russian parties have been established, in particular the Party of Socialists (PSRM) which now enjoys the highest public support. New political parties have also emerged on the right, but face considerable resource constraints and still need to consolidate.

Perhaps most important, the pro-European electorate has turned overwhelmingly away from the government and now supports new opposition parties, in particular the Party Action and Solidarity (PAS), led by former education minister Maia Sandu—known for her strong stance on reforms—and the Party Dignity and Truth (PDA), led by Andrei Nastase, who also led public protest movements against the coalition in 2015–2016 and thus became known as the most radical opponent of Plahotniuc.

The banking crisis and murky parliamentary maneuvering triggered a protest movement in spring 2015 that continued to organize large-scale demonstrations well into 2016. These protests were initiated and largely driven by the pro-European part of the society, though later the leaders of the pro-Russian parties also joined in. Nonetheless, the protest movement also highlighted the dilemma faced by Moldova’s pro-European forces: on the one hand they want to protect the European course against a potential takeover by pro-Russian parties, but they also must contest the government’s claim to be the guarantor of a pro-Western course.

The loss of government credibility, incessant political divisions and the weakening of the pro-European forces also affected public opinion. Following the November 2014 elections support for European integration, which had remained on a par or was somewhat stronger than support for Eurasian integration, dropped to considerably lower levels in a number of opinion polls.

With its demand for early parliamentary elections, the protest movement became a serious threat to the coalition. It likely triggered the return to direct presidential elections, which were brought about by a controversial ruling of the constitutional court and held in November 2016. The pro-European opposition rallied behind the candidacy of Maia Sandu in the first round of voting, forcing the candidate of the coalition to withdraw.

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In the second round, however, Igor Dodon of the pro-Russian PSRM won, which was not at all surprising. Publicly, Plahotniuc endorsed Sandu as the remaining pro-European candidate. But this was not real support. Being the politician with the highest disapproval rating his endorsement could only discredit Sandu. And the media controlled by Plahotniuc also participated in discreditation campaigns against Sandu. Sandu and the new pro-European opposition seem to be the far more fundamental antagonists to the de-facto Plahotniuc government than the pro-Russian forces.

The presidential election was only superficially a geopolitical choice. In reality it pitted a broad de facto alliance of status quo interests encompassing both Dodon and Plahotniuc against serious reform interests represented by Sandu. Both Dodon and the current coalition have an interest in highlighting geopolitical divisions as a means to attract support from their respective international partners. Whether the different factions will find an arrangement or will seriously contest each other, their struggles are primarily about the distribution of power and assets within Moldova and only secondarily about geopolitics. Dodon has promised a referendum on the Association Agreement with the EU, yet such an initiative can hardly succeed, much less be implemented, against the current coalition. In this respect Dodon’s election hardly marks a geopolitical shift.

One surprising result of the election was the very good result obtained by Maia Sandu. With a budget of only a few tens of thousand dollars, she relied largely on social media to fight most of the mass media and in the face of far larger administrative resources and funding wielded by her opponents. The ability of new pro-European parties to unite behind a common candidate means that the most consequential result of the presidential election could be the re-establishment of a third political force in Moldova. If they can manage to survive and sustain their unity, the political landscape will be divided into three strong camps: the pro-Russian parties, the current coalition around Plahotniuc, and the new pro-European opposition.

The re-emergence of strong pro-European parties could help re-establish the credibility of a European development model and regain a popular majority support for it. The mistrust in the pro-European electorate likely runs too deep for the current government coalition, even if it would implement serious reforms, to ever win over its support again. Only an independent and credible pro-European opposition can be expected to mobilize again the part of the electorate that supports democratic transformation based on the rule of law. The re-emergence of a strong pro-European force in Moldova also means that the West does not face the unappealing
geopolitical choice between the current coalition and pro-Russian forces. And this can help the West to avoid the geopolitical trap created by supporting one unattractive coalition over another, which in the past has simply pushed voters away from Western causes. The West has now gained additional options to distinguish between the values and interests for which it stands, and those promoted by the coalition, which should also give it greater leverage to exert more pressure for reforms.

Moldovan support for European integration has shrunk primarily because of deep disappointment and loss of confidence in Moldova’s own system, rather than rejection of a Western development model per se. European integration promises considerably greater middle- and long-term benefits for Moldovan society, but it also requires change, which can be painful; time, which can be frustrating; and trust that the government would actually implement necessary reforms, which is questionable. A considerable part of the electorate has lost faith in the government and to an extent also in pro-European elites. If people believe European integration is nothing but an empty promise, it is only rational that they wonder why they should pay a price for it, for instance through heightened tensions with Russia, which can dispense considerable short-term benefits—such as reduced energy prices and loans—and threaten immediate costs—such as imposing trade sanctions and limiting access for migrant workers.

Under these circumstances, who defines what Moldova should expect from itself and from its international partners? The government wields constitutional authority and declares itself to be pro-European, but it has limited democratic legitimacy and low approval ratings. The strongest opposition forces are pro-Russian, but according to nearly all opinion polls they do not represent a majority. The second largest opposition bloc consists of pro-European forces who are still in the process of organizing themselves essentially from the scratch. The current government—essentially the PDM—organizes only the smallest part of the electorate in the political center which sways the balance.

There is broad consensus across Moldovan society that the country must find a way out of the decline and stagnation that have shaped its evolution from independence till today. Socio-economic trends are deteriorating. Emigration is accelerating. Corruption, together with deficient rule of law and protection of rights, hampers economic development and keeps foreign direct investment at a low level. The rent-seeking nature of the economy neither attracts nor generates much investment or innovation,
which impairs the country’s competitiveness and increases its dependence on finance from abroad, in the form of remittances, loans or international assistance, none of which may be sustainable.

Where could the necessary investment for an economic turnaround come from, if not from the West? And what other development model is actually available to Moldova? The key question for Moldova is how to make a transformational reform agenda really work that is based on respect for the rule of law, a functioning state and a real market economy.

Moldova’s Western development partners, in turn, need to ask what they should expect from Moldova. The country’s limited transformational progress could prompt Western partners to scale up their support or scale down their objectives. Here Western development partners are advancing two interests, each of which contains contradictory elements. First, they have an interest in prevailing in their geopolitical competition with Russia, which suggests that at least in the short run they should support a pro-Western government, despite its poor track record on reforms. Yet without serious transformational change, this approach risks becoming self-defeating, as it could discredit a pro-Western course that fails to produce results in favor of a turn to other models.

Regardless of geopolitics, Western development partners and particularly the EU also must have a strong interest in transformational change in Moldova, as in other European post-Soviet countries, because further socio-economic deterioration can accelerate the spread of all sorts of illegal trafficking and other forms of organized crime operating from these territories into EU space, while systemic corruption and growing private influence over public authorities can undermine the legitimacy of the state, which in turn can lead to state failure or even disintegration. Indeed, the social and economic decline of societies and the capture and disintegration of states in the post-Soviet space pose equal or even greater threats to regional stability and the security of the EU than the geopolitical ambitions of Russia. The strategic interests of the EU and Western development partners in general are challenged by the failure of transformational reforms in the post-Soviet space, and time is not on the side of the reformers. This raises the question: what are the key obstacles to change?
Where Expectations Meet Realities:
Systemic Challenges for Change

The lack of transformational progress in Moldova is not due to a lack of forces for reform or a lack of desire for change within society, but rather to the challenges that reformers have to overcome. In Moldova, reformers need to fight on two fronts. Due to the geopolitical polarization of society, they face a strong pro-Russian opposition that threatens to fundamentally reverse their transformational and geopolitical course, while at the same time they have to overcome strong vested interests in their own camp. These vested interests, not Russia, have prevented substantial reforms from materializing, but Russia's geopolitical competition has strengthened the power of these interests. Concerns about Russia pushed Western development partners to support pro-EU governments, largely irrespective of their reform records, and in fact to ease up on pressures for reform. This has directly strengthened the veto power of vested interests, because they have been able to threaten to sway the balance because a pro-Western and a pro-Russian course. In effect, it changed the political rationale of reform forces from pushing for reform towards compromising on reforms in order to stay in power.

The second and more fundamental problem is the power of vested interests themselves, which in Moldova, like in other post-Soviet countries, are much more deeply entrenched than it had been in central-eastern European countries that underwent far-reaching transformation processes in the wake of their accession to the EU. One key characteristic is the emergence of oligarchic structures—meaning the mutually reinforcing control by or crucial influence of business people over economic assets, mass media, political parties and key state institutions. The power of vested interests rests on a number of mutually reinforcing factors.

Corruption has been identified by all opinion polls as a key concern of the population. A recent poll by IRI in April 2016 shows that over 90% of Moldovan citizens consider corruption as a big or very big issue and about 78% consider that some vested interests groups govern Moldova. The extent and acceptance of corruption is closely connected to low pay scales in public services, which are far below comparable jobs in the private sector, and for higher officials effectively below subsistence levels for per-

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sons of similar education and qualification. Still, considerable numbers of decent professionals serve, at least temporarily, in public offices. But low pay scales lead to high fluctuation rates, which further weaken institutions.

Low pay scales make office holders susceptible to extracting or accepting bribes or to taking parallel payments in exchange for political alignment. For those affected, the result are dependencies that supersede the hierarchy and duties of public office, reinforced by vulnerability to prosecution and blackmailing, which creates a vital self-interest in the status quo. Corruption can be termed as systemic in Moldova, not because officials are generally corrupt, but because corruption is such a regular occurrence that institutions or the civil service have little or no defenses against it. Corruption does not only impair the functioning of state institutions and hamper economic development. It makes institutions vulnerable to the influence of vested interests and resistant to reform.

Due to this vulnerability, state institutions actually may have been overtaken by vested interests. A term that became known in Moldova and was even taken up by the Secretary General of the Council of Europe to describe this situation is that of the “captured state.” Key targets have been institutions that can provide direct resources of power, such as judicial, law enforcement and financial authorities as well as key regulatory bodies. In Moldova this process actually accelerated with the so-called pro-European coalitions since 2009, when coalition leaders agreed not only to distribute governmental positions among them but also control over key non-political institutions such as tax and custom authorities, law enforcement agencies, and important regulatory bodies. In effect, personal or clientelist loyalties can prevail over professional hierarchies and duties in public offices and result in the emergence of parallel structures of command, rewards, and sanctions, which can bypass control by constitutional authorities in parliament and government. Those who control these authorities can protect and redistribute the possession of economic assets, enforcing loyalties and punishing defectors or opponents.

Control over judicial and law enforcement authorities appears to have become a key instrument to extend and cement power. One indicator has been the removal of Renato Usatii and his party—whose high showing in the polls had become a threat to the ruling majority—from participating

in the November 2014 elections. The handling of the banking fraud raises more questions: how could a fraud of this size happen, without being noticed and without intervention by relevant oversight and law enforcement agencies—and despite the fact that there had been warnings already much earlier. One of these warnings came from former finance minister Negruta, a person with a solid reputation for integrity who was then convicted in court over a dubious accusation.

In addition, subsequent governments appeared to be unwilling or unable to seriously investigate or prosecute those responsible, despite the fact that the EU made further budget support dependent on both an investigation and an agreement with the IMF. An independent investigation initiated by former Prime Minister Leanca was at first put on hold after its scoping phase, only to continue in late 2015 after considerable international pressure. Initially the only person prosecuted for the banking fraud became former Prime Minister Filat. His arrest was motivated by a confession of the chief executive of the largest bank concerned, Ilan Shor, who also turned out to have used middlemen to become the owner of large shares of all the banks involved. Shor remained free, could even run for a mayoralty in the local election of 2015, only to be arrested in 2016 before the visit of a crucial IMF mission to Moldova, but released into house arrest after its departure. The third prominent figure to be arrested—in July 2016 in Kiev and extradited to Moldova—in connection with the banking fraud was Veaceslav Platon, who has been since a long time a person with a dubious image, but who also happened to be an adversary of the coalition’s leader.

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6 Regardless of the reason cited for his removal—party financing from abroad—the timing was political, coming immediately after the expiration of the period before the election until which Usatii could have switched to running for another party. And since a failed attempt to remove Usatii would have likely resulted in a surge of votes for him from an infuriated electorate, it could have hardly been initiated without prior knowledge of how the courts would rule.


Irrespective of their responsibility or guilt, the prosecutions of Filat and Platon appear to be rather selective justice, and like in the case of Negruta a number of other criminal prosecutions have also raised questions about political implications. The arrest of the former communist parliamentarian Grigory Petrenco, after a demonstration in front of the Prosecutor General’s office, has been listed by the U.S. Department of State as a possible case of a political prisoner. The leaders of the protest movement were threatened with prosecution for instigating public unrest. A sense of intimidation has grown among pro-European opposition parties in particular. Members of the pro-Western opposition complain about threats of prosecutions, and court proceedings seem to be directed at politicians and officials, also at local levels, to encourage alignment with the coalition. One rather high profile example is the removal from office of the major of Taraclia—who also happened to be a leader of the Bulgarian minority—over the alleged felling of some trees without permission. Only following great pressure from Moldovan civil society and Western ambassadors has he been reinstated. In public opinion, the justice system is nearly as universally mistrusted as government or the political parties.

The economic structure is a largely rent-seeking economy divided into monopolistic or oligopolistic structures. Opaque ownership schemes and offshore connections can be used to conceal operations, including hostile takeovers by criminal elements, money laundering schemes or the massive bank frauds. Because access to finance is difficult, corruption is rampant, and rule of law and protection of rights are deficient, the share of small and medium sized enterprises has remained small, as has been the amount of foreign direct investment.

The extent and opaque nature of state enterprises as well as their possible privatization offers ample opportunities for those in power to tap into or channel financial flows, including for purposes of maintaining or extending political loyalties and control. Sales of state owned enterprises and entities in which the state is an important shareholder comprise 18% of Moldova’s GDP. Despite their large procurements budgets, state-owned enterprises are not required to comply with public procurement standards,

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12 Institutul de Politici Publice, “Barometrul de Opinie Publica,” April 2016, p. 34.
which is a factor creating an environment for embezzlement. Nor are they subject to a rigorous reporting framework or accountability standards.

Control of vested interests over parties or parts thereof generates political leverage over constitutional powers. It can also safeguard vested interests from interventions by state authorities or from politics. One key instrument for this has been to create financial dependencies of party structures and/or relevant members. In the two largest of the so-called pro-European parties which governed since 2009, the PLDM and the PDM, financial control got effectively established by Vlad Filat and Vlad Plahotniuc respectively. The formation of the recent parliamentary majority, and in particular the split of the PLDM and the PCRM, suggests that such control had been extended to considerable parts of other parties, crossing also geopolitical preferences. In both cases the splitting of MPs from their former parties and subsequent joining of the new majority contradicted key preferences for which they were elected in the first place.

Selectively or abusively enforced legislation on illegal party-financing, anti-corruption and transparency, and other means of retribution against or deterrence of donations from other sources can be used to shield this dependence against potential competitors within or by other political parties. Laws on state financing of parties would still have to take effect. Poverty, bureaucratic restrictions and a society that is not used to contribute via membership fees impedes broader party financing. Bottom-up party building is particularly difficult due to the lack of a deeply rooted civil society. Pro-Russian forces appear to be able to rely on foreign support. But pro-European parties now in opposition are constrained by a lack of resources. Thus, even without directly manipulating elections, democratic processes can be effectively checked by narrowing down—and eventually controlling—the choices that voters have in the first place.

Finally, control over the media reinforces control over parties in order to consolidate political power. Mass media ownership is usually a political rather than an economic investment made or held not for financial return but to promote particular interests or parties, discredit opponents or withhold publicity from them in the first place. A somewhat positive develop-

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ment was registered in March 2015, when amendments to the Audiovisual Code were passed by the Parliament,\textsuperscript{14} thus increasing the transparency of media ownership. However, a prohibition on registering companies in offshore areas that has been used to conceal media ownership is missing; and media ownership has not been limited. There is evidence that Vlad Plahotniuc now controls four of the five television stations with national coverage and a large part of the advertisement market, which could also impede financing for independent media.\textsuperscript{15} A previous business partner and later opponent of Plahotniuc, who subsequently was sentenced in absence by Moldovan courts, owns Jurnal TV, the only mass media with broad coverage that is strongly critical of the government. Leftist parties receive still support from Russian media. But the pro-European opposition has little access to independent mass media.

Under the current coalition, Moldova seems to have reached an unprecedented extent of oligarchic control. Such amalgamation of economic and political power can hardly be reconciled with Western standards of democracy, the rule of law, or a market economy. However the challenges resulting from the influence of vested interests are systemic, they cannot be reduced to nor changed with just one individual actor. The dynamics of vested interests follow an intrinsic logic, as the weakness of state institutions creates a dilemma even for those in charge. As long as no external guarantor exists, even if key representatives of vested interests accepted the need for substantial change, relinquishing control would lead not to the establishment of independent institutions but rather to the hostile takeover of an adversary, turning an asset into a threat.

Liberating a captured state may not be easier than liberalizing an authoritarian one. It does not only must the manner in which power is exercised within the state be changed, state institutions themselves must be reconstructed by eradicating the parallel and informal chains of loyalty, command and control that hide behind their facade.


How to Support Real Change: What Could Moldova Expect from the West?

Three major struggles have defined Moldova’s development since 2009. The first and probably most obvious for external observers has been the geopolitical polarization between the supporters of European and Eurasian integration. The second, which escalated in a number of coalition crises, was a struggle for power and influence between the two leaders of the pro-European coalitions, Vlad Filat and Vlad Plahotniuc. The third struggle has been between reform forces and vested interests. Because reformers and vested interests worked within the same pro-European parties, with the former often dependent on the resources of the latter, this was the least visible but probably the deepest and most consequential struggle.

Of these conflicts, the first saw the prevalence in government of coalitions declaredly pro-European, but against considerable pro-Russian opposition. The second ended with Vlad Plahotniuc prevailing with uncontested and far-reaching control over government institutions and the parliamentary majority. Consequently, the coalition now clearly has the coherence and power to enable it to focus on far-reaching reforms. It is less clear, however, whether this also means a breakthrough for reform forces against vested interests, since so far the record and profile regarding reforms of political actors within the coalition has remained rather low and has failed to garner public confidence. Therefore, a new split has opened up within those political forces that declare themselves to be pro-European, with the overwhelming majority of the traditionally pro-European constituency in the electorate according to all opinion polls now supporting new parties in the opposition. Yet, without maintaining and extending support in the electorate, European integration and a Western development model in Moldova can hardly be sustainable.

Under these circumstances, reform forces—whether within or outside of government—may not be able to overcome the resistance of vested interests to serious reforms, in which case neither confidence in the European model nor Moldova’s geopolitical course can likely be maintained over the longer run. In order to change the situation, the policies and instruments of Western development partners would need to get more directly involved in reforms, effectively aligning their efforts with reform forces within Moldova. This would require accepting a kind of a joint responsibility for reforms—meaning that if the government would not or cannot implement crucial reforms, the EU and the United States would
proceed from requiring general reform goals towards producing concrete reform proposals and reinforcing reform implementation directly with their own instruments. It also means that these instruments would need to take effect at all stages in which reforms could be frustrated: their design, its implementation and the selection of key personnel.

This can be done without infringing on sovereignty. But it would require not just a stricter but a fundamentally upgraded conditionality, with a readiness to fully exploit EU and U.S. leverage. In doing so the EU and the United States would need to put the transformational agenda before geopolitics. A readiness to compromise on reforms for geopolitical interests can render all conditionality toothless, since it can be easily exploited by vested interests. Vested interests within pro-European or pro-Westerns camps can play with the threat of a geopolitical turn. But they also remember the Maidan in Ukraine and still need the West for political legitimacy and financial support. By compromising and experiencing a further loss of credibility, Western development partners could make such a geopolitical turn possible.

So far, conditionality has largely been defined by general standards to be met, such as they are outlined in the international commitments Moldova has made, most significantly in the Association Agreement with the EU. To insist on general standards and to leave it to the government how to meet them, however, offers ample opportunities for vested interests to obstruct or divert reforms from the background, including by responding to reform pressure with superficial or pocket reforms which look nice but change little. Measuring real success requires a detailed understanding of the desired reforms, and not only the desired outcomes, in the first place. In addition, eventual resistance can only be identified clearly—and pressure be applied in a targeted way—in the implementation of concrete and individual reform steps.

Western development partners should therefore respond to a lack of progress, first of all, by making quite concrete the individual reforms required. Often, for crucial reforms, there are models from other countries that can be largely transferred. It needs a mechanism that would work out—rather impartially—the reforms required. A basic example for how such a process could work is a peer review mission on the judiciary the EU has carried out recently in Moldova—whereby experts from judicial authorities of EU member states identified specific reform requirements in Moldovan institutions. It could also be possible to involve independent local experts or civil society.
The commitments Moldova made in particular in the Association Agreement with the EU can justify, in case of failure to meet these commitments, to extend conditionality to reform proposals put forward by the EU and other Western development partners themselves. In case of rejection, these commitments can also justify to respond by suspending financial support or even parts of the Association Agreement, as Moldova remains free to opt out of it itself. Western development partners can also use more public diplomacy and be more outspoken about reform requirements and eventual resistance.

Effective conditionality also needs clear priorities. Since most institutions and areas of legislation require some kind of reform, it would otherwise always be possible to sidetrack conditionality by presenting minor reforms as success, which do not meet much resistance. But avoiding resistance cannot meet success, as the most important reforms are also the most difficult to assert. Crucial preconditions for all other progress to occur are related to state building, in particular the functioning of state institutions ensuring the rule of law: the functioning and independence—from political actors, oligarchic control and corrupted interests—of the judiciary, the law enforcement authorities, and key regulatory bodies. In addition, legislation on the transparency of state enterprises, offshoring, media control and party financing would be crucial in limiting the leverage of vested interests.

When prioritizing reforms, Western development partners should focus on game-changers—reforms that cannot easily be frustrated or bypassed by vested interests, but will broadly and effectively change the rules of conduct for all actors in the country. An example which could well be transferred to Moldova, is the Romanian anti-corruption directorate (DNA), which came into being also with strong support of Western development partners, not least the United States. In practice it would mean the creation of one authority responsible for all charges of high-level corruption, which has the necessary powers and capabilities to directly conduct and control the whole process from investigation to prosecution, not needing to rely on the co-operation of any other authority, and with a strong independent position for the institution as well as for the prosecutors involved. The result would be an institution strong enough that even the most powerful oligarch could not be sure to control it nor to be able to bypass or block its proceedings.

In the implementation stage, in particular more human resources and stronger mandates would be needed. One key instrument can by the
employment of missions to contribute directly to reforms in state institutions. Existing instruments like the EU high-level advisory missions lack manpower and leverage. To provide the necessary resources, would require the EU to align the Eastern Partnership more closely with the instruments of EU Common Foreign and Security Policy. Stronger missions would require mandates that—while remaining non-executive—can go beyond advisory and training tasks, to include also assisting, monitoring and reporting, eventually also participation in the vetting of officials—in order to obtain both the intelligence and the capacity for targeted reforms and to back reform forces on the ground. As individual advisors can be sidelined and depend in their effectiveness on those advised, they would also require strong mission headquarters tasked to pro-actively take up reform requirements with all relevant authorities on the national level.

Prime Minister Leanca promoted the concept for a EU rule of law mission in which 60–70 judges and prosecutors from EU states would have been deployed for a number of years in the major courts and prosecutors’ offices to monitor proceedings and support judicial reform implementation on the ground. A central mission headquarters was to be tasked to report on progress and shortcomings and to elaborate with the relevant constitutional institutions of government and parliament the reform measures required to overcome problems. Such a mission should have provided the EU with the possibility to apply reform pressure on all levels of the judicial system, to support decent and reform-minded elements within the system, and to obtain both the intelligence and the leverage to push for crucial and specific decisions.

A direct deployment of external personnel can strengthen implementation capacities and help neutralizing institutions from political influence and informal structures of control. To share or participate in executive functions has generally been a red line for Western development partners out of concerns for sovereignty. But Ukraine has provided a model for employing foreigners in governmental positions by granting them citizenship—which is an example that could be taken up by Moldova as well. Western development partners could support this by identifying and seconding suitable personnel and providing financial assistance for their employment. They could also launch programs that could finance the employment in key positions of members of the diaspora—which could be a considerable source of independent, knowledgeable and competent professionals.
Western development partners can provide crucial capacities in investigating the banking fraud as well as other major economic crimes in terms of investigators and intelligence. This way, a serious investigation can be ensured, the recovery of stolen assets supported, prosecutions be enabled and a future repetition of such crimes better deterred. In this respect, the role of the United States may be particularly crucial because of its probably unique possibility to track flows of funds internationally. Providing such independent resources can also serve as a general example of how Western development partners can directly capacitate reformers within Moldova.

The best reform concept for any state institution can only succeed—or be frustrated—through the selection of personnel. This problem can be addressed in two ways. The first is to raise payments for positions of responsibility in the public service comparable to those in the private sector and thereby increasing their financial independence. Though raising pay scales will not reduce corruption in itself, it is a precondition for doing so. Western development partners can both push and ease such a reform by offering compensating budget support in a regressive form, by paying for instance 80% percent in the first year, 60% in the second, 40% in the third and so on. In return, development partners can request the application of high professional standards for the selection and promotion of the public servants affected, with officials from the EU or the United States eventually being admitted to monitor procedures.

A second and even more crucial requirement is the selection of an independent and competent leadership for key law enforcement and regulatory bodies such as the prosecutor general’s office or the national bank. Trust in national institutions is so low that most independent candidates may not even apply in a competition organized just on the national level; and even if selected they would hardly meet the minimum public confidence to act with the necessary authority and independence. Therefore, first Leanca, and thereafter also other Moldovan politicians, suggested organizing competitions with EU representatives jointly participating in the selection of candidates. It would likely not matter much if for concerns over sovereignty EU representatives would be limited to consultative votes, as their participation itself could transform the procedure towards more transparency and accountability, and outvoting their advice would likely cause considerable political repercussions.

So far, Western development partners have been reluctant to involve themselves to a greater extent in the reform processes of other countries out of concerns to interfere in their internal affairs. In reality however, the
lines between foreign relations and domestic politics are already blurred in Moldova, in particular with respect to European integration. Even more because of low approval ratings at home, foreign recognition—which gets transmitted already by official meetings with EU and US representatives—has become a crucial aspect of domestic legitimacy. In consequence, Western development partners will be associated with those with whom they interact in Moldova, and the more so, the less they get involved distinguishing their own profile of values and policies in the domestic discourse.

More involvement rather than less is what the pro-Western constituency would generally expect and welcome. It could also provide crucial assistance for the government or reformers within the coalition in considering and implementing institutional reforms: an external involvement that can help ensuring the establishment of institutional independence that really strengthens public accountability and the rule of law instead of leading just to a change of ownership. More commitments still mean more risks, since in case of failure more commitments can mean more blame; and by themselves alone, Western development partners cannot ensure a successful transformation. This could only be possible by capacitating and joining the efforts of the reform forces in Moldova. However, just on their own also these reform forces may not possess the capacities or the necessary leverage for successful reforms. And in the final analysis, the risk of more involvement may be outweighed by the risk of a failed transformation.
Chapter 11

Belarus-West Relations: The New Normal

Dzianis Melyantsou

The new geopolitical environment formed after the annexation of Crimea and the war in the Donbas, together with emerging threats and challenges, are presssing both Belarus and the West to revise their policies in the region as well as their relations with each other. In this new context, Belarus is seeking a more balanced foreign policy and, at least towards the Ukrainian crisis, a more neutral stance.

Compared to the less-than-successful Belarus-Western efforts at a new normalization between 2008 and 2010, this new effort promises to be more sustainable, for a number of reasons. Minsk is more motivated to achieve greater independence from Russia and to advance a new pragmatic bilateral agenda with the European Union, and in Western capitals there has been a shift in perception regarding threats and challenges that has brought new life to geopolitical considerations.

This new “normalization,” however, is also likely to face significant limits. Abroad, Minsk will have to fulfill its obligations as a member of the Eurasian Economic Union and the Collective Security Treaty Organization (CSTO). At home, it can only allow modest domestic political liberalization, since the government still prioritizes political stability over closer ties with the West.

The History of Belarus-Western Relations

Relations between independent Belarus and the West have been difficult. After the Soviet Union collapsed, the newly proclaimed Republic of Belarus started to build democracy and established diplomatic relations with Western countries. It signed a Partnership and Cooperation Agreement (PCA) with the European Union and welcomed U.S. President Bill Clinton to Minsk in 1994. But after Alexander Lukashenko started to consolidate his authoritarian rule and returned to the idea of integration with
Russia, relations with the Western democracies deteriorated dramatically. In the response to an unconstitutional referendum in 1996, repressions against political opposition, and manipulated elections in 2001 and 2004 the EU and the United States imposed personal sanctions against a number of Belarusian officials, including President Lukashenko, and restricted political and economic cooperation with Belarus. EU member states declined to ratify the PCA, and Belarus was labeled in the West as “the last dictatorship in Europe.”

Despite deterioration of the relations with the West and the sanctions, Belarus felt confident because it enjoyed economic and political support from Russia, with which Minsk developed relatively deep integration. Loans as well as oil and gas subsidies from Russia formed a base for the Belarusian economic model, allowing Minsk to sustain quite high living standards for citizens and thus to ensure the political loyalty of the population to the incumbent authorities.

The situation started to change in the mid-2000s, when Putin’s Russia tried to revise its relations with its closest allies and made several attempts to reduce the level of economic support for Belarus, which led to a number of conflict situations and trade wars. Close relations with Russia were preserved, as Russia remained the only supplier of energy resources and was a major market for Belarusian heavy and outdated industry. But since that time official Minsk began to think about a more diversified trade and foreign policy, and improving its relations with the West.

Another important motivation was economic: after the Big Bang enlargement in 2004 the European Union became the second trade partner for Belarus after Russia, and it was critically important to ensure good and stable political relations with the EU in order to sustain economic stability and create a balance to the Russian vector of Belarus’s foreign policy.

The first serious attempt to normalize relations between Belarus and the European Union took place in 2008–2010, when after the Russian-Georgian war Minsk did not recognize as independent the separatist Georgian territories of Abkhazia and South Ossetia; released all political prisoners; decreased the level of repression against domestic opposition forces; and softened its rhetoric towards the West.

Belarusian authorities also made some small steps to organize more opens and competitive campaigns during parliamentary (2008) and presidential (2010) elections. In response, the European Union suspended
personal sanctions against almost all Belarusian officials. That paved the way for visits by Lukashenko to Lithuania and Italy after years of isolation. Relations with Washington remained at a very low level throughout this period, however, especially after the diplomatic crisis in 2008, which led to a decrease of diplomatic staff and withdrawal of ambassadors.

This wave of normalization ended with the crackdown on the opposition demonstration on the day of presidential elections (December 19, 2010). The EU reintroduced sanctions and stopped contacts with Belarusian top officials. Nevertheless, Belarus retained its membership in the Eastern Partnership, which became almost the only platform for intergovernmental communication between Minsk and Brussels.

In 2012–2013 Minsk again took steps to normalize relations with the West. This process has been going slowly and has been painful, given the huge distrust that had accumulated following the first unsuccessful normalization attempt. The crisis in Ukraine and Minsk’s neutral position towards Kyiv gave a significant impetus to the process. Today we can say that the relations between Belarus and the West have entered a new phase of sustainable normalization that is gaining momentum.

**What Does Belarus Want from the West?**

Belarusian authorities, Belarusian society, and the Belarusian opposition all have different interests when it comes to relations with the West. The Belarusian government is primarily interested in more financial and technical aid, loans, investments, and transfer of technologies. It is also very much interested in access of Belarusian goods to the European and American markets. Besides this, Minsk is seeking geopolitical balance between an increasingly aggressive Russia and the West to ensure its own security and stability as a “situationally neutral” country. To this end, official Minsk is prepared to make some concessions towards the West (e.g. less repression against political opponents and human rights dialogues with the United States and the EU), but only to the extent that they do not undermine the established political system.

According to a recent research conducted by the Office for Democratic Belarus, Belarusian society is primarily interested in the EU first as a partner to help with economic reforms and development (32.6% of respondents) and as a trade partner (23.1% of respondents). Only 8.9% of Belarusians think that Belarus could benefit from cooperation with the
EU in the sphere of democracy and good governance. The EU is also an attractive destination for shopping and tourism for ordinary Belarusians. Per capita, Belarus is the leading country in the world when it comes to Schengen visas.

The United States is less interesting and important than the EU for ordinary Belarusians. Moreover, 52.4% of the population consider the United States to be as a hostile country. Nonetheless, Belarusians express positive attitudes towards the United States (55.7%) and Americans (60.6%). One third of respondents say that Belarus should restore good relations with Washington.

Belarusian opposition and civil society organizations (including human rights groups) en masse consider the EU and the United States as democracy promoters and donors of financial support for pro-democratic organizations in Belarus. Therefore the ideal scenario for the opposition would be increasing pressure of the West upon the Belarusian government to democratize and to include the opposition in the decision-making process (as a variant—Polish-style round table with the mediation of the West). Yet the Belarusian opposition is almost completely financed by Western sources and enjoys weak support from Belarusian society. According to public opinion polls, the overall rating of the political opposition rarely exceeds 20% while the level of distrust reaches more than 60%.

The New Normalization

In some ways, today’s normalization resembles the 2008–2010 initiative to improve relations with the West. Belarus has approached each effort with two major goals: first, to counterbalance Russia’s political influence; and second, to secure Western investments and loans. To these ends, official Minsk liberalized the political climate inside the country, pursued greater

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independence from Moscow in foreign policy, and significantly softened its rhetoric towards the West. Each time the powerful triggers of détente were conflicts in the post-Soviet space inspired by Russia and the West’s negative reaction to Russia’s activities. And each time Minsk sought to use these crises to enhance its independence and its role in the region.

Despite these similarities, the new normalization is characterized by significant differences that render it more promising, and ultimately more sustainable. First, the war in Ukraine influenced the security environment in the region more seriously than the Russia-Georgia war, and demanded a clearer position from Belarus. Belarusian authorities were seriously frightened, and moved to strengthen their defense capacities and to stake out more independent positions from Russia in all spheres. Since 2014 Belarus conducts military exercises and trainings of the Border Guards and territorial defense troops (National Guard) almost every month. President Lukashenka ordered to start Belarus’s own missile program to achieve more independence from Russian armament. Belarus also has adapted its Military Doctrine to the new security environment.

Second, both Minsk and Western capitals have learned the lessons of the previous round of normalization and thus lowered the bar with regard to their expectations. Today the parties prefer slow but sure steps towards each other. They are focused on confidence building measures and on concrete questions of constructive cooperation, temporarily taking sensitive political issues out of agenda.

Third, since 2013 the EU and Belarus have been advancing a more comprehensive agenda for their relations. Minsk and Brussels have started sectorial dialogues on topics ranging from border security to environment and food safety. They are continuing negotiations on visa facilitation as well as on readmission agreements to manage the return of irregular migrants. In addition to the Eastern Partnership, a Belarus-EU coordination group was established as a new platform for communication following their earlier Dialogue on modernization. In 2015 the EU also defined a list of possible measures (essentially the normalization road map) that Brussels could implement to deepen its relations with Belarus should there be continuous positive dynamics inside the country. Taken together, these initiatives affirm the serious interest of both parties in deepening their dialogue.

Fourth, to make the process of normalization with the West more effective, this time Minsk has decided to make a special effort to improve its
relations with the United States, as a way to make the process more sustainable, given U.S. weight in international politics.

Fifth, Western countries have also changed their attitude towards Belarus and its leader, against the backdrop of Russia’s aggressive actions as well as instability inside Ukraine and other regions bordering the EU. For the West today, Belarusian stability, controllability as well as the position towards the conflict in Ukraine have become more important than democracy promotion.

**The Ukrainian Factor**

Whereas the conflict in Georgia influenced Belarus’s security only indirectly, the Ukrainian conflict has given Belarus an unmarked border of more than 1,000 km with a belligerent country. Before 2014 trade turnover with Ukraine reached more than $6 billion, making Kyiv a very important trade partner for Minsk. Russia’s annexation of Crimea and hostilities in the Donbas caused a twofold reaction from official Minsk. First Minsk authorities were irritated because their closest military ally did not inform them about a military operation in an important neighboring country. This irritation translated into harsh public criticism by Lukashenko of the Kremlin’s behavior, as well as a scramble to stay clear of the conflict. Second, Belarusian authorities were genuinely frightened by the Russian actions. This fear prompted efforts to strengthen their defense capabilities and to tout Belarusian national identity.

Before the Ukrainian crisis, no one in Belarus really believed that Russians could wage war against Ukrainians, given that they are ethnically, culturally and historically close nations. The war in Donbas raised concerns for Lukashenko and his team that the Kremlin might do the same to them.

Belarus is the only country within the Eastern Partnership that fully controls its territory and has no territorial claims and conflicts with its neighbors. Nevertheless, after the Ukrainian crisis Belarusian authorities have made efforts to improve the readiness of their military forces and to enhance their military independence to adapt to the new security environment. To this end Belarus’s military doctrine was updated, a new martial law was passed in 2014–2015, and an updated defense plan was signed by

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5 Belarus and Ukraine have finalized an agreement on their border and now the border is being demarcated.
the President. According to defense minister Andrej Raukou, the new military doctrine is focused on “tendencies connected with planning of colored revolutions and mechanisms to change constitutional order, undermining of territorial integrity of a state by inspiration of internal armed conflicts.”6 The document also includes a wider list of internal and external threats, and for the first time states the need for an “active position of the state in prevention of a military conflict by taking preemptive measures of strategic containment.”7 Obviously, these changes were inspired by the conflict in Ukraine.

To prevent the possible infiltration of militants and trafficking in weapons from the territory of Ukraine, Belarusian authorities have started taking measures to enhance the security of the Belarus-Ukraine border both in terms of infrastructure (demarcation of the border has been started) and in terms of countering possible attacks. In the course of 2014–2015 Belarus organized a number of exercises near the border with participation of the military forces, territorial troops and the border guard to test their ability to close and protect the border.

Throughout 2014–2015 Russia pressed Belarusian authorities to establish on Belarusian territory Russian air force base, officially in order to reinforce the air defense system of the Union State of Belarus and Russia, but actually to control Belarus and Ukraine. As of the present moment the topic of the Russian air force base on the Belarusian territory seems to be not an issue any longer as Belarusian leadership strongly opposed this idea. Objectively, there is no military need for Moscow to have such base. But from the Kremlin’s perspective the base could serve multiple political purposes: demonstrating to Kyiv its vulnerability; presenting Belarus as a loyal Russian ally; and offering a response to NATO’s buildup in the Baltics and in Poland.

Belarusian authorities have also taken a number of steps to strengthen Belarusian national identity and expanding the use of the Belarusian language. Lukashenko has urged preparation of a new and more patriotic school textbook on the history of Belarus. Previously banned Belarusian-speaking music bands can now perform. A representative of the opposition Belarusian Language Society was allowed into the Parliament. Although

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this trend toward greater “Belarusianization” was evident before Ukraine’s second Maidan, the Ukrainian crisis has accelerated the process.

Sustainable Normalization

The experience of the previous normalization showed that the mutual expectations the West and official Minsk had of each other were too high. The West demanded democratization with the help of the Belarusian opposition, which was absolutely unacceptable to Lukashenko, who as an autocratic leader cannot implement democratic reforms without losing power. And Brussels and Washington were severely disappointed when security forces cracked down brutally on an opposition demonstration on election day, September 19, 2010, fearing that it could signify the beginning of a Belarusian version of Ukraine’s “Orange Revolution.”

Minsk also was unrealistic to expect that the West would be open to granting multi-billion loans and greater EU financial assistance in exchange for a release of political prisoners and non-recognition of Abkhazia and South Ossetia. Such expectations were formed in part by European politicians themselves: during their visit to Minsk just before the 2010 presidential elections, the foreign ministers of Poland and Germany Radoslaw Sikorski and Guido Westerwelle, promised €3 billion for Belarus in case the elections would be more free and fair. While the election day crackdown ensured that no Western assistance would be forthcoming, until that point the Belarusian leadership did try to ensure a much freer campaign than in the previous elections in 2006.8 In the end, Lukashenko’s need to maintain control outweighed his interest in Western assistance, and following the elections official Minsk reverted to the same repressive policies and anti-Western rhetoric.

These episodes have all added realism to Belarus-Western relations. Today the parties understand each other’s motives and limitations much better, and are not setting impossible goals. Realizing that the Belarusian authoritarian regime is stable enough and does not intend to democratize in order to be closer to the EU, Brussels prefers to work in areas that do not cause rejection by Minsk and do not affect the fundamentals of the Belarusian political system. The EU now tends to promote liberalization in Belarus indirectly, for instance through humanitarian projects, tourism,

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8 Official Minsk differentiated the electoral campaign, which they believed to be more open, and the events of the electoral day’s evening, which they believed to be a threat.
and assistance to small and medium-sized enterprises. Today the main goal is not democratization but rather stability on its eastern borders. Rap-
prochement should be reached by simplifying Schengen visa procedures, securing a Mobility partnership and reaching a level of trust conducive to starting negotiations on a new agreement establishing contractual relations.

For their part, Belarusian authorities understand the EU’s limitations and do not expect quick progress or large financial benefits from normal-
ization. According to Belarus foreign minister Uladzimir Makiej, Belarus and the European Union have agreed to address only solvable problems and to bring sensitive issues out of agenda. The past three years have shown that this approach has been more successful, and enabled the parties to move further in the process of normalization, than between 2008 and 2010.

**The New Agenda**

Relative sustainability of the process of normalization has been achieved inter alia due to formulating a comprehensive agenda of both bilateral and multilateral cooperation. Over the past two years, relations with the Euro-
pean Union have been developing mainly within the framework of the Eastern Partnership initiative (ministerial formal and informal meetings, expert roundtables) and the Dialogues on modernization and their sub-
sequent format, the Belarus-EU Coordination Group, which held its first meeting in April 2016. Belarus and the EU have also reopened the Human Rights Dialogue. Minsk and Brussels have also continued negotiations on visa facilitation and readmission agreements (the process is at the final stage) and on a Mobility Partnership, and have signed a Cooperation Arrangement on an Early Warning Mechanism in the energy sector.

In January 2015 the EU elaborated an internal document entitled “The list of possible additional concrete measures to deepen the EU’s policy of critical engagement with Belarus” (or informally the “29 measures”), which, as mentioned earlier, could be considered as a normalization roadmap. Belarusian authorities have made a number of steps in liberalizing the domestic political environment (e.g., they have freed political prisoners) and took a neutral position towards the crisis over Ukraine. In return the EU has implemented a number of measures from the list, including lifting

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sanctions, resuming contacts at a high political level, and increasing financial assistance. In fact, as of this writing 12 of the 29 measures have been implemented by the European Union. Minsk has also stated that it was ready to start negotiations on a new agreement on partnership and cooperation with the EU.

In the framework of the Belarus-EU Coordination Group, eleven priorities were elaborated in which the EU could assist Belarus in its modernization process:

1. Support the development of enterprises, creation of a specialized agency.
2. SME internationalization (development of an SME strategy, access to finances for exports, availability of advisory services for export).
3. International and EU standards, rules of origin, and technical regulations.
4. Investments and business climate (increasing awareness in Belarus about EU/international standards, developing harmonization and compatibility of Eurasian Economic Union and EU standards, addressing problems and hidden barriers in attracting foreign investments, development of e-government).
5. Optimization of the radiation control network and modernization of automated system of radiation control in Belarus.
7. Provision of public access to environmental information.
8. Connecting Belarus’ electricity system with neighboring countries.
9. Modernization of transport infrastructure in Belarus and at Belarus-EU border crossing points.
11. Establishment of a National Human Rights Institution in Belarus.¹⁰

Thus, today official Minsk is involved in an intensified dialogue with Brussels in a number of spheres, including political, economic and security issues, with participation of many governmental officials as well as experts and diplomats. In the framework of this interaction, mutual benefits are

being achieved and mutual trust are being built. This type of trust- and confidence-building process could help to avoid misunderstandings and crises in future.

**Washington’s Importance**

Belarus’s interest in improving its relationship with the United States is quite obvious—the country wishes to ensure its security. The United States is regarded by the Belarusian administration as a superpower capable of and ready for tough actions in its foreign policy. Stronger relations with the United States offer hope that Washington will not seek destabilization in Belarus by financing the opposition and supporting revolutionary scenarios. U.S. support would also be important to Belarus’s efforts to accede to the World Trade Organization, and it would prove useful to Minsk’s campaign to expand its trade relations as well. Furthermore, because the Kremlin’s foreign policy is becoming unpredictable, it is increasingly relevant for official Minsk to find a way to offset the pressure of Russia. Additional leverage in the form of cooperation with the United States may become a very valuable tool.

It should be noted that in this new foreign policy framework that has been shaped under the impact of the war in Ukraine, a reset of Belarus’s relationship with the United States is even more important to Minsk than the normalization of its relations with the European Union, because the Belarusian authorities perceive the United States as a leading power—once it revises its approaches, the EU will eventually change its policies accordingly. Belarus’s focus has been shifted towards the United States also because the Ukrainian crisis made it obvious to official Minsk that the European Union is incapable of providing real support in case of confrontation with Russia.

The interest of the United States in restoring its relationship with Belarus is less apparent. Before the Ukrainian developments, Belarus was of little significance to Washington and was only relevant in the context of logistical support for NATO troops in Afghanistan—as one of many options. Therefore, the United States could afford a principled position in criticizing the Belarusian autocratic regime and imposing sanctions with little regard for the consequences.

However, as the Northern Distribution Network (NDN), of which Belarus is part, became increasingly significant (mostly because Pakistan
lost its relevance for transit and NATO started to withdraw its troops from Afghanistan), and in view of the dramatic changes in the geopolitical situation resulting from the war in Ukraine, the approach of the U.S. administration started changing. Belarus became more interesting for a number of reasons: a) as a safe transit area in Eastern Europe, b) because Minsk served as a negotiation platform for Normandy format, c) neutral Belarus is of critical importance for security of Ukraine’s northern border.

In 2010 Belarus also became part of one of the NDN routes to transit non-lethal goods to Afghanistan within the framework of NATO’s International Security Assistance Force (ISAF) operation. In 2011, Belarusian rail lines carried 587 20-foot-long containers (TEU) and 789 40-foot-long containers (FEU) of NATO freight one-way toward Afghanistan. In 2012, the traffic on the Belarusian railway more than doubled to 1,630 TEU and 1,823 FEU. However, in the first half of 2013, the volume of transit dropped, and so did the volume of funds anticipated for 2014, because NATO’s combat operations in Afghanistan had concluded, and troops needed to be withdrawn from the country.

In April 2013, NATO Secretary General Anders Fogh Rasmussen and Belarus Foreign Minister Uladzimir Makiej approved an additional agreement to extend the terms of the original agreements on the transit of NATO cargoes to and from Afghanistan. In addition to non-lethal cargoes, the new agreement allowed two-way (from the United States and western Europe to Afghanistan and back) transit of NATO’s armored vehicles, without armament and ammunition, through the territory of Belarus.

Apparently, the intensification of the relationship between Belarus and the United States in 2014 was stimulated by official Minsk’s skillful balancing maneuvers with regard to the Ukrainian crisis. President Lukashenko’s support for the new Ukrainian authorities and condemnation of separatists were hailed in Washington. In September 2014, representatives of the US Agency for International Development, the State Department and the Ministry of Defense stated during a visit to Minsk that they were “pleased that the Belarusian authorities have not gone so far as to recognize the annexation of Crimea by Russia and that Minsk agreed to host a meeting to find ways to solve the Ukrainian conflict.”

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Thus, Belarus’s neutral position in the conflict and its peacemaking efforts have brought more American attention to the country and made Washington explore possibilities for expanded cooperation, which resulted in a series of visits at quite a high level. For its part, official Minsk began capitalizing on its position on Ukraine, hoping to improve its relationships with the West. Prime Minister Mikhail Miasnikovich made this clear as he spoke at the opening of the Belarusian-American Investment Forum in New York: “I sincerely believe that this forum and a series of other major political events initiated by Belarus, including the Ukraine peace process, will result in a serious reset of the relationship between Belarus and the United States.”

In September 2015 the first high-level official visit took place when Patrick Kennedy, U.S. Under Secretary of State for Management, met with Lukashenko in Minsk. And in March 2016 President Lukashenko met with Deputy Assistant Secretary of Defense Michael Carpenter. During the meeting Lukashenko noted that it was impossible to stabilize the situation in Ukraine without the United States.

In addition, according to an investigation conducted by BuzzFeed News, Minsk played some role in U.S. strategy in Syria. In 2014 the U.S. Special Operations Command (SOCOM), through several intermediary companies, acquired 700 Russian-designed Konkurs missiles from Belarus. The State Department licensed this deal. This case, together with other recent developments, underscores that Minsk and Washington had achieved enough trust that further steps toward greater normalization could be expected.

Belarus and the United States also have increased their diplomatic representation: the number of American diplomats in Minsk grew from 5 to 9; in 2016 Minsk and Washington accredited military attaches and started discussions on military cooperation. In addition, the United States provided temporary Treasury Department sanctions relief on nine Belarusian entities in November 2015 in response to the August 2015 release of political prisoners by Belarusian authorities.

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Thus, the combination of geopolitical conditions and growing mutual interest in the normalization of relations (trade, non-proliferation, etc.) paved the way for a gradual and quite tangible process of unfreezing the bilateral relationship. Nonetheless, there is still much to be done before the relationship could be considered “normal.” For instance, the United States still maintains sanctions against sixteen Belarusian officials for violations of human rights, and the level of diplomatic representation remains low.

Not The “Last Dictatorship in Europe” Any More

The EU has also reconsidered its attitude towards Belarus and Belarusian authorities. First, developments in Ukraine have shown that forced European integration on geopolitically contested territories, together with support for anti-government protests, can lead to instability and war, and that perhaps a stable and rather soft (e.g., compared to Azerbaijan or Russia) Belarusian authoritarian regime is not an absolute evil. Moreover, in 2014–2016 Minsk made some steps in liberalizing domestic political climate: all political prisoners were freed, opposition was able to campaign openly during at least two electoral campaign and to organize demonstrations in the center of Minsk without any repressions; civil society activists and opposition leaders got more access to the state media without censorship.

Second, compared to Putin, Alexander Lukashenko is no longer perceived by the West as a “bloody dictator” who should be removed as soon as possible.

Third, the new image of Minsk as the “place of peace” (according to the Pope) is not compatible with demonization of Belarusian authorities and the demanding tone traditionally used by Western leaders.

Fourth, Brussels finally understood that since Minsk did not plan to integrate with the EU, the usual conditionality policy was not applicable to Belarus, and that the EU should offer something different to influence the country.

Fifth, the EU apparently became disillusioned with the Belarusian opposition as a strong and realistic alternative to the incumbent government. It now additionally engages with Belarusian state institutions in spheres of mutual interest. And since the Belarusian authorities refrain from repression against their political opponents and demonstrate more openness during electoral campaigns, the degree of EU criticism has
dropped, so this contributes to the continuation of the policy of gradual normalization.

Finally, the September 2016 parliamentary elections brought sensational results. For the first time in more than a decade, two opposition candidates became members of the House of Representatives, the lower chamber of the Belarusian parliament.14 And though the ODIHR election monitoring mission did not recognize the elections as completely compliant with OSCE standards, it noted good organization of elections, bigger number of registered candidates (including opposition) and more possibilities for candidates to campaign (e.g. debates on state television).15 This is likely to offer the European Union some reasons, following the example of 2008, to point to some progress in Belarusian domestic political life and pave the way for more intensive cooperation, at least in some areas.

What Next?

Both Minsk and the West have learned the lessons of the previous “normalization” and now are cautiously trying to build more stable and comprehensive relations on the basis of mutual interests. For now these mutual interests are common border control, combatting illegal trafficking, environment protection and food safety, transit infrastructure, and security in the region. In these spheres Belarus could be a cooperative partner.

In short, a depoliticized dialogue and cooperation in numerous spheres could be an effective mechanism. Belarus now desperately needs financial resources to overcome its economic crisis. The West could use conditionality to help modernize the country and make it more stable and predictable, rather than to push exclusively a democratization agenda, which, most probably, would only provoke Minsk’s irritation and resistance, as it has before.

Nevertheless, one should remember that there are clear red lines which Belarus cannot cross on its way to improving relations with the West and aligning with European standards. First, Belarus remains a close ally of Russia, is deeply dependent on energy subsidies from Moscow and is a

14 Hanna Kanapatskaya of the United Civil Party and Alena Anisim of the Belarusian Language Society.
member of the Eurasian Economic Union. In this regard, the goal to establish a Deep and Comprehensive Free Trade Agreement with Belarus (as one of the stated goals of the Eastern Partnership) seems unrealistic. On the other hand, some trade agreements and a renewed Partnership and Cooperation Agreement are quite achievable, and also desired by Belarusian authorities. Second, being a consolidated authoritarian regime, Belarus definitely will not consider genuine democratization as one of the possible concessions towards the West during the normalization process. Today (and in the foreseeable future as well) domestic political stability is of preeminent importance to Belarusian authorities. Alignment with the West is a secondary goal. Therefore, to achieve practical progress in the relationship it will be more useful and effective to focus on a non-political agenda of mutual interest, namely issues such as trade, environment, border security, energy, transport, and education.

If the normalization process continues without interference by external players (Russia) or disruption by domestic shocks, Belarus and the European Union could finalize the Visa facilitation and Readmission agreements in 2017 and start negotiating an updated Partnership and Cooperation Agreement, as well as an interim trade agreement that could function until the PCA enters into force. This would lend new impetus to trade and create a basis for institutionalized cooperation on the political level. In domestic politics, official Minsk could introduce a moratorium on the death penalty and further reform the electoral system to encourage greater participation of political parties and revitalization of the Parliament. But it is unrealistic to expect that at this stage the Belarusian government will ensure truly democratic and fully transparent electoral processes and consider the opposition as a legitimate part of the political system and not just as clients of the West.

In relations with the United States, realistically achievable results over the next two years could include a return of ambassadors (after the diplomatic crisis of 2008) and lifting of all sanctions imposed on Belarusian officials and enterprises. Official Minsk would be also cooperative in the security and legal spheres, as well as a facilitator with regard to the Ukrainian crisis.
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