

PROTECTING THE EUROPEAN CHOICE

edited by
Andrew Wilson



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Mark Leonard and Andrew Wilson

Introduction: Protecting the European Choice

The European Union brought forward the signing ceremony for the Deep and Comprehensive Free Trade Agreements with Moldova, Georgia, and Ukraine and put pen to paper in June, while Russia was still preoccupied with Ukraine. But the EU is still proceeding on autopilot and has not yet had a chance to fundamentally rethink its strategy towards the Eastern Partnership (EaP) countries.

The idea of co-operation in the region is dead – at least for the foreseeable future. A Russian analyst at a recent ECFR event explained that “the common neighbourhood does not exist”. Yet there has been precious little progress in determining what could be created in its place. Since its inception, the EaP was a low-cost and apparent value-for-money exercise in ambiguity – neither a substitute for EU membership nor a prelude to it. Since the Ukraine–Russia crisis erupted, it has developed into a de facto crisis-management policy, and it is not clear whether the EU institutions and member states are prepared to pay the costs of this, let alone a more robust neighbourhood policy.

Much of the debate so far about the failure of the Vilnius summit and the broader policy towards the EaP countries has focused on procedural problems. Some have asked if EU policies were overly provocative towards Russia. Another critique is that the process was too technocratic – that is, focused too much on trade. And, more fundamentally, many have argued that the EU didn’t match resources to policy and did not do enough to protect the countries caught between Brussels and Moscow. The essays in this collection make it clear that Ukraine, Moldova, Georgia, and Armenia have many vulnerabilities vis-à-vis Russia, and in many areas, including trade, energy, security, territorial vulnerabilities such as Crimea, ethnic minorities, migrants and their remittances, Russian interference in domestic politics, and cultural battles. Each country has a different set of pressure points, none of which are

likely to disappear in the foreseeable future. Thus, if the EU is serious about maintaining the EaP it will have to do more than simply protect the policy status quo. It will have to be committed to spending a lot of blood and treasure to protect countries at the sharp end of Russian pressures, whether Russia is sated after the Crimean adventure and Donbas misadventure or not. The EU also has to think about how to respond if Russia raises the stakes once again – will it recommit or retrench? But the primary purpose of any policy rethink must be to develop new instruments to help the EaP states deal with the new types of pressures they will face.

The other key aspect of a new policy is Russia. The common neighbourhood may have disappeared, but Russia's desire to retain influence in its neighbouring states is not dissipating, nor is Moscow's relevance to Europe. Zbigniew Brzezinski once said that the EU's neighbourhood policy (ENP) was based on a category mistake. Europeans thought the policy's goal was to change countries such as Ukraine, but its real function was to change Russia. The ENP has traditionally operated on two levels, transforming the periphery and changing Russia; but the former was not possible without the latter. The second dimension of the approach – changing Russia – did seem to work, in that Russia changed its own neighbourhood policy to compete with the EU in Ukraine and the other EaP countries through EU-style means. Russia began using its idea of soft power (carrots and sticks, EU-style integration) and it thought that it was winning when Ukrainian President Viktor Yanukovich refused to sign the Association Agreement in November 2013. But it turns out Russia had very different ideas about permissible persuasive powers – and about the validity of the post-Cold War order. More fundamentally, Russia's entire approach shifted after the uprising in Kyiv in February 2014 and the annexation of Crimea. It is no longer competing like-for-misunderstood-like in soft-power terms, but has used military force, albeit disguised as “hybrid war”.

As the four studies collected here also show, Russian pressure, for all its strength and breadth, is often self-defeating – most obviously in Ukraine, which now has a much more pro-European government than any previous government since independence in 1991. Two other states – Moldova and Georgia – still have their “European Choice” precariously on track.

Both the Russian and EaP countries' dimension of the neighbourhood policy have therefore collapsed, now that Russia has broken with the paradigm and used military force to change borders. In the new environment, countries

such as Ukraine will find it difficult to transform themselves, and Russia will not compete on the EU's terms. That means that the EU must develop a new double strategy towards Russia and the periphery.

A fundamental policy reverse

A new policy will have three elements. First, it should be recognised that the “Monnet method” that eventually created the EU – start with economic integration (the Coal and Steel Community in the 1950s, the Single Market in the 1990s) and political integration will follow – did not work in Eastern Europe. In fact, we need to reverse the Monnet method. Security and state building need to come first, then we move ahead with economics. The EU needs to pay more attention to the shortcomings of local societies, whose biggest problems are political: a lack of democracy, human rights, and rent-seeking elites. These states cannot ensure their own security and need support from Europe on this before economic co-operation can become effective. The EU's non-political approach can be an asset, but in the case of highly politicised and insecure states, such as Ukraine, it has been a liability. In fact, the core of a new strategy has to be the realisation that the challenge is not to build potential member states, but to build states – as most of these countries, to varying degrees, have gravely insufficient security systems and dysfunctional state structures. Elements of this kind of job – such as security sector reform and intelligence – might be better suited for member states acting bilaterally or in groups than for the European Commission. Also, because of the serious weaknesses of the states involved, the EU needs to develop instruments to help the EaP countries with the new types of pressures that Russia has applied and will continue to apply. And finally, the EU needs a vision of how to engage with the region in a new security framework. Given the severity of the crisis in Ukraine, this is the most difficult immediate task, particularly as it is triangular, involving the West, Russia, and the local states. NATO has reaffirmed its collective security commitments to worried individual member states, especially the Baltic states, but that only emphasises the security vacuum for those left outside NATO's Article 5 assuring collective defence. Russia often justifies its approach to the EaP countries in terms of broader security concerns. Ukraine should not be dissuaded from asserting its right to defend its sovereign territory. A broader pan-European security discussion is the only way to address both Russian and EaP country concerns.

The EU's role in transforming the post-Soviet countries in Central Europe through the accession process has been an amazing success story. The union's ability to reform its failed neighbourhood policy and confront the arising security threats may well be the defining challenge of EU foreign policy in the next decade. The protesters in the Maidan risked their lives for reform and the European dream; the EU must now show that it, too, believes in its own dream and can find the will and the means to support and protect the people and governments that choose the European path.

**UKRAINE
UNDER
POROSHENKO**

Andrew Wilson

1

Continuing challenges to European integration

Despite being in a constant state of crisis since last November, Ukraine has made significant achievements. Petro Poroshenko was elected president in May with the most widespread support the Ukrainian populace has ever bestowed. The new government has also become more effective against Russian-backed separatists in the east. However, the tragedy of Malaysia Airlines flight MH17 shows that Ukraine still faces severe pressure and heavy costs if it fails to address Russian subversion head-on. Meanwhile, much of the reform agenda is stalled and oligarchs retain significant influence. Yet Ukraine is not the “failing state” of Russian propaganda. It can achieve more if it is given the right support, even while it struggles with armed conflict.

The government in Kyiv might need encouragement to see that security need not come before, or at the cost of, pushing forward with reforms. Europe should avoid pressing Ukraine into misguided ceasefires that lock in the problems of weak statehood. Ukraine needs to be given the space to make a new start and meet some of the expectations of the delayed revolution of February 2014. The Ukraine problem cannot be solved, however, without recognising the true nature of Russian pressures against Ukraine. On the one hand, Europe should not look at Ukraine solely through the lens of what Russia thinks or threatens. On the other hand, the current imbroglio can never be transcended without a clear-sighted and tough-minded policy to restrain Russia.

In February something resembling a revolution took place in Ukraine, and it is still unclear how it will end. Petro Poroshenko was elected president in May, in large part because he seemed to promise both reform and stability, but no-one knows what he can deliver. The revolution was not exactly over before it began, but February’s agenda of radical change has been seriously sidelined by the summer’s essentially wartime conditions. Some argue that the anti-terrorist operation in the Donbas should be the new president’s priority. This operation

would require compromises, including backing the oligarchs who have been helping both to fund the operation and to prevent trouble from spreading to other parts of Ukraine. Others argue that the original protest movement was a last chance to reform Ukraine's corrupt and dysfunctional post-Soviet state. Indeed, since Moscow bolsters its antagonism with the claim that Ukraine is a "failing state", reform would help to address the Russian threat as well. At the time of writing, the fate of the anti-terrorist operation in eastern Ukraine hung in the balance. Ukraine had made significant gains since ending its ceasefire of 20–30 June, and Russia needed to decide whether to escalate or whether it could stand to see its proxy forces defeated.

The signing of the economic parts of the Association Agreement with the European Union at the end of June will help Ukraine. However, the new agreement could also provoke further harsh reactions from Russia. Poroshenko said in his inauguration speech on 7 June that "the time of inevitable positive changes has come". But, he said, "to implement them, we need first of all peace, security, and unity. A real war, planned and unleashed in the Ukrainian Donbas, became an obstacle to enormous opportunities that opened for the European modernisation of Ukraine after the fall of tyranny."¹ The EU can still do a lot to help keep Ukraine on track in such trying circumstances – most fundamentally, by encouraging it to be bold.

Poroshenko's priorities

Despite the insecurity and upheaval in the country, Poroshenko's position as president is reasonably strong. First and foremost, he has been popularly elected, which undermines Russia's argument that the new authorities have been exercising power illegitimately since February. He received a big share of the vote and a broad mandate: he took 54.7 percent overall and came in first in every voting region in Ukraine, the first time this has happened in any Ukrainian election. Some voting was possible in the Donbas despite the unstable circumstances: the official turnout was 15.1 percent in Donetsk and 38.9 percent in Luhansk. Across Ukraine, those who openly supported the old regime won less than 10 percent of the vote, and the far right received only 2 percent. Even the various forces directly representing the "Maidan" failed to make a big impact on the campaign.

¹ For the full text of the president's speech, see "Address of the President of Ukraine during the ceremony of inauguration", President of Ukraine's official website, 7 June 2014, available at <http://www.president.gov.ua/en/news/30488.html> (hereafter, "Address of the President of Ukraine").

Despite all the talk of the moral authority of the Maidan leaders, their various candidates won less than 10 percent. The one negative feature of the election was the “anti-politics” campaign of the crudely populist Oleh Liashko, leader of the Radical Party. Liashko favoured a tough line against “terrorists”, which won him 8.3 percent of the vote, making him the third-highest polling candidate in the election.

Poroshenko will be defined by whether he breaks with previous traditions. His personal wealth makes him an oligarch and also renders him vulnerable to Russian pressure. He has a factory in Lipetsk, Russia (his chocolate company, Roshen, has 12 percent of the Russian market) and his ship-repair business has recently obtained a €180 million contract in Russian-occupied Sevastopol. Poroshenko has promised to put his business interests in trust, which would be a first in Ukrainian politics. However, he seems to want to make an exception for his TV station, Channel 5, which ironically could be his most potent political asset.

The president’s power has also been reduced by the recent reversion to the “Orange” constitution, which was in operation between 2006 and 2010. And the constitutional commission set up by parliament is planning to limit the president’s power still further. Poroshenko will have to make skilful use of his election mandate by acting as prompter-in-chief as well as commander-in-chief, while making sure not to exceed his formal powers.

Poroshenko still has to deal with Yuliya Tymoshenko, who ran an old-fashioned campaign, full of populist promises and deal-brokering with local elites, but only managed to win 12.8 percent of the vote. She is quiet for the moment, but her supporters are well-entrenched and will fight hard to preserve their positions in government and the legal sector, and as local governors. Tymoshenko has been accused of dealing, in order to preserve her power, with the oligarchs (and with Rinat Akhmetov in particular), with discredited local elites (such as Hennadiy Trukhanov in Odessa, an old stalwart of the corrupt ruling elite), with elements of the shadow business interests aligned with the ousted president Viktor Yanukovich, known as the “Family”, and with the Russians.

Poroshenko does not yet have a mandate for deep root-and-branch reform. However, this could change. At present, Poroshenko only has a handful of direct supporters in parliament. This is a weakness in the short term, but it will force him to press strongly for new parliamentary elections in the autumn. These elections will also be the last big “revolutionary” campaign of the various groups that speak in the name of the Maidan. Poroshenko has yet to formally launch

his own political party, though polls say that before it even exists, his putative Solidarity grouping would top the vote with 24.9 percent. Its ally, the Ukrainian Democratic Alliance for Reform (UDAR), would get 9.4 percent. Tymoshenko's Fatherland Party would receive 15.1 percent, while the right-wing Freedom Party continues its decline, with 4.1 percent. Right Sector would get only 1.1 percent. Among the anti-coalition forces, the Communists would receive just 6.3 percent of the vote and the Party of Regions would win 3.3 percent. The centrist Serhiy Tihipko's Strong Ukraine party would get 6.2 percent and the unpredictable Oleh Liashko's Radical Party would receive 4.5 percent.²

In other words, reformist forces would most likely have a much stronger position in a new parliament than they do now. But if Poroshenko does not move fast, new forces will emerge. The old government party, the Party of Regions, is likely to be succeeded by three to five new projects. Yanukovich's former chief of staff, Serhiy Lyovochkin, is everywhere, funding Liashko's Radical Party as well as UDAR and the new Party for the Development of Ukraine. Moreover, elements of the old Yanukovich Family feel confident enough to launch their own projects. The Communists have ditched their veteran leader, Petro Symonenko, who was too close to the old Party of Regions, and could now become allies of Russia's closest ally, Viktor Medvedchuk, former President Leonid Kuchma's last chief of staff. This shift is taking place in part because they may soon be banned by the Kyiv administration.

The relationship between Poroshenko and the various Maidan forces has yet to be clarified. Many Maidan supporters voted for Poroshenko after he became the first real oligarch to support their protests, but he is still part of the old elite. Some formal co-ordinating organisations emerged during the protests, such as the Maidan Public Council, the Maidan All-Ukrainian Union, the Civic Sector of Maidan, and the Reanimation Package of Reforms, a civil society initiative that aims to score all post-Maidan government policy initiatives.³ Particular bodies monitor particular sectors; for example, the Centre for Military and Political Studies, set up by the military blogger Dmytry Tymchuk, monitors the conflict in the east. But the Maidan forces have yet to launch an influential party or parties, apart from the Democratic Alliance, which won just two seats on the Kyiv city

² Oles Oleksiyenko, "The Birth of a New Political Reality", the Ukrainian Week, No. 9 (75), June 2014, available at http://img.tyzhden.ua/Content/PhotoAlbum/2014/05_2014/23/Book9.pdf.

³ Oles Oleksiyenko, "The Birth of a New Political Reality", the Ukrainian Week, No. 9 (75), June 2014, available at See the Reanimations Package of Reforms website, available at <http://platforma-reform.org>.

council in May. Most of the Maidan supporters are at least authentic new voices, apart from the largely moribund Public Council made up of the great and the good. But they will need election rules to be changed if their voices are to be heard alongside well-financed traditional parties. However, most Maidan activists are politically purist. Rather than considering running for election, they talk about monitoring the government from outside. Poroshenko and the reformist minority of government ministers speak warmly about the value of the Maidan keeping them on their toes. But they may soon grow weary of constant carping from the outside. It would be better if more Maidan activists worked to join government rather than just criticise it.

Precarious security

Ukraine's security services have improved their performance since March. Partly this is because of the non-lethal aid they have received from the United States. But the main reason is that Russian President Vladimir Putin has taken a step back (but no more than one) from supporting his proxies in eastern Ukraine, even as he supplies them with more up-to-date arms. Putin seems trapped in the paradoxes of "hybrid war". More obvious forms of intervention would invite condemnation from the West. But even though Putin does not want to engage in large-scale intervention, neither does he want to see his defeated proxy forces flooding back into Russia.

Some important internal reforms have also helped matters for the Ukrainians. Some 20,000 volunteers have been integrated into the armed forces since April, when the acting interior minister, Arsen Avakov, announced the creation of a new professionally trained militia. At the beginning of May, conscription was re-introduced. The Ministry of Internal Affairs claims to be the main funder of the new militia, but local and regional authorities as well as the private sector have been invited to contribute. Certain oligarchs have stepped up to provide funds in order to exploit the opportunity to protect their interests, at a time when their positions are threatened by the purported cleansing of the system. Meanwhile, NGOs and activists have developed crowdfunding methods such as the Co-ordination Centre of Ukrainian Patriots, which have provided channels both for money and for the new patriotic mood.

The government has fast-tracked volunteers into a National Guard under the authority of the interior minister and into new battalions under the Ministry of Defence. These new forces initially manned containment checkpoints, while the

regular army was used for more proactive tasks. The scarce professional security forces of the Security Service of Ukraine (SBU) were used more sparingly. Widespread defections took place in the spring, but the Ukrainian authorities are confident that the situation is now more stable. The security forces are now smaller but, supposedly, more loyal.

On the other hand, the authorities may be turning a blind eye to the activities of nationalist groups such as Right Sector. These groups did not appear to be fighting in the Donbas at the start of the conflict, but they have a presence there now.⁴ Politicians such as Liashko and Right Sector leader Dmytro Yarosh have been able to conduct publicity stunts in the east. On 9 July, Liashko turned up in Sloviansk, just after the separatists fled, to be filmed berating the chair of the city council.⁵ One of Poroshenko's early missteps was to claim that the situation in the east could be solved "within hours".⁶ This claim was unrealistic and also implied that the new president intended to crack down hard. His inauguration speech rightly called for a minute's silence to remember those who died in Kyiv fighting for Ukraine's independence.⁷ However, this left out the larger numbers of people who have by now died elsewhere in Ukraine, in the months of conflict in the Donbas and in Odessa in May.

The manner in which the rest of the anti-terrorist operation is fought will be crucial. A much-quoted opinion poll taken in April showed that only 20–30 percent of locals in the Donbas region supported the hard-line separatists. A slightly smaller percentage backed Kyiv, leaving about half in the middle ground.⁸ The growing violence temporarily alienated much of that middle. This shift clearly embarrassed Putin, who had proudly boasted of the opposite in his victory speech after the annexation of Crimea, saying that "there was not a single armed confrontation in Crimea and no casualties".⁹ But the undecided middle ground in the Donbas is also a problem for Kyiv. The rebellion is not about to deflate quickly just because of external pressure, but nor will the rebels be soon victorious.

4 See "Mustafa Naiem poznaiomov Yarosha z Semenchenkom", Hromadske.tv, 9 July 2014, available at <http://www.youtube.com/watch?v=nd65YwnqGg8>.

5 See Oleh Liashko, "Liashko navodit' lad v Slov'yans'ku", 9 July 2014, available at <http://www.youtube.com/watch?v=AaKoVfDrKS4>.

6 Alec Luhn and Shaun Walker, "Poroshenko promises calm 'in hours' amid battle to control Donetsk airport", the Guardian, 26 May 2014, available at <http://www.theguardian.com/world/2014/may/26/poroshenko-peace-donetsk-airport-air-strike-separatists>.

7 "Address of the President of Ukraine".

8 For the survey data, see "Mneniya i vzglyady zhitel' yugo-vostoka Ukrainy: Aprel' 2014", ZN.UA, 18 April 2014, available at http://zn.ua/UKRAINE/mneniya-i-vzglyady-zhitel'ey-yugo-vostoka-ukrainy-aprel-2014-143598_.html.

9 Vladimir Putin, "Address by President of the Russian Federation", 18 March 2014, available at <http://eng.kremlin.ru/news/6889>.

It seems likely that it will go on as some kind of local disorder, whatever the military situation on the ground. Labelling everybody involved a “terrorist” does not help. Ultimately, a political solution will have to be found – although, for Poroshenko, this would mean working with local elites, not with self-appointed separatists.

On 20 June, Poroshenko announced his peace plan, but his call to disarm exacerbated internal tensions within the ranks of the separatists. Two rounds of negotiations were held in late June, producing a controversial Russia-backed plan involving Medvedchuk. Putin is godfather to Medvedchuk’s daughter, and Medvedchuk has spent the last few years serving Russian interests as head of the anti-EU NGO, Ukrainian Choice. Russia’s plan had been to install him as governor of Donetsk, alongside a similar figure, Nestor Shufrych, in Luhansk. Thus, the two regions would remain parts of the Ukrainian state, but semi-detached, and the separatists would know that Medvedchuk answered to Putin.

However, 27 Ukrainians were killed during the ceasefire from 20–30 June, and critics argued that the break in fighting allowed the separatists to regroup and resupply. Even so, rapid gains were made on the ground when the anti-terrorist operation was resumed on 1 July. For this reason, Kyiv believes that any new ceasefire proposal would disproportionately benefit Russia. Putin will face nationalist criticism if he abandons his proxies in the Donbas, but he can probably sit out any grumbling in the short term. But without Medvedchuk or another loyalist reliably installed as governor, Russia’s first instinct has been to prolong the conflict. New arms supplies to the Donbas led to the downing of ten Ukrainian aircraft in late June and early July, even before the fateful attack on Malaysia Airlines flight MH17 on 17 July. The disaster sharpened many dilemmas and created new ones: how to organise investigation and recovery, whether to accept a ceasefire that would clearly serve the rebels’ interests, and whether to even continue speaking to Russia in the circumstances. The fundamental choice between political or security approaches remains a problem for the Kyiv authorities.

Constitutional reform and lustration

Many reforms have been promised, including those that Poroshenko pledged on the campaign trail. So far, hardly any have been delivered. Some reforms have been begun but face challenges, while others are seemingly completely stalled.

Ukraine has made most progress in what is often one of the most difficult areas in political transitions: rewriting the rules of the game by means of constitutional reform. Yanukovich's authoritarianism was based on his strong-arming of the Constitutional Court in October 2010, when he convinced the court to agree to restore the 1996 constitution. This constitution gave the president more power than the "balanced" version adopted after the Orange Revolution in 2004. In February, Ukraine again reverted to the 2004 "Orange" constitution. But the "Orange" constitution was adopted in haste ten years ago. It never worked well in practice, instead causing constant conflict between the president, the parliament, and the prime minister. As well as addressing these problems, constitutional reform must take into account the fact that, after the annexation of Crimea and the conflict in the Donbas, the regions urgently need to be given more power.

Poroshenko submitted key constitutional amendments to parliament and to the Venice Commission on 26 June. If the amendments are adopted, they would make three important changes. First, they would tidy up the division of responsibilities. It would now be much easier to impeach the president, after the lessons learned from the mess of trying to remove Yanukovich in February. And parliament, rather than the president, would be responsible for declaring a state of emergency.

Significant decentralisation has also been promised. Ukraine's four tiers of government are to become three: central, oblast-regional, and local communities (hromady). This is meant to serve as an alternative to formal federalism, which the authorities in Kyiv fear would lead to the "Bosnianisation" of the state. The middle level – oblast-regional – would be given much more power, including the right to introduce Russian as a second local language. However, one possible source of trouble is that the hromady would have the right to petition for internal border changes. This would mean that, for example, the western parts of Donetsk oblast could choose to join neighbouring Dnipropetrovsk, as the powerful current governor of Dnipropetrovsk, Ihor Kolomoisky, would like.

The third change involves presidential power. The president would have representatives in each of the regions. The Constitutional Court in Kyiv would have the right to rule on the constitutionality of actions taken by lower-level units, and the president would then attempt to enforce these rulings through his representatives. This is clearly intended as a reserve mechanism in case there is further trouble in the regions in the short term. However, it is a recipe for conflict in the longer term. The first Ukrainian president, Leonid Kravchuk,

also experimented with presidential representatives (*predstavnyky*) in 1992, but they tended to become controlled by local elites and did not last long.

One of the central demands of the Maidan activists was the lustration of the system – that is, the removal of the people who misgoverned the country under Yanukovych. The Maidan movement established two organisations, the Lustration Committee headed by Euromaidan activist Yehor Sobolyev and the Anti-Corruption Bureau led by journalist Tetiana Chornovol. Both organisations are currently operating as non-governmental civic organisations. The two groups mainly consist of volunteers and operate through grass-roots activism and social media. They have made commendable efforts in trying to push reforms forward, but they are often patronised by the central government as amateur enthusiasts. Both bodies remain underfunded and have openly clashed with the new government over initial attempts to carry out the lustration of judges.¹⁰ An Interim Special Commission of the High Council of Justice will sit for one year to evaluate the performance of judges. Five members of this body are from the Lustration and Anti-Corruption bodies, but they are outnumbered by five representatives of the parliamentary factions and five from the Supreme Court (the old judiciary). While the Lustration Committee has pushed for a more radical approach to tackling corruption, parliament has taken action only selectively and has often turned a blind eye to the continuation of illicit practices.

Parliament and the oligarchs – the same old game?

A more general problem is that so much of the old regime remains intact. Almost the only casualties of the revolution were those who ran away – and even some of those continue to operate shadowy business interests within Ukraine.

After the ousting of Yanukovych, parliament has become the key decision-maker, setting and enforcing the agenda. The informal *modus operandi* of parliament remains effectively unchanged. Internal webs of influence are still dominated by oligarchs who hide behind formal political parties. The Party of Regions has lost more than half of its members, but these have mainly gone to the new so-called centrist factions and to the ranks of the “independents”. The coalition parties (Fatherland and Freedom, with UDAR’s voting support) lack a majority on their

¹⁰ “Glava lyustratsionnovo komiteta Sobolev i aktivisty ne dopustili “vyborov” glavy Khozsuda”, Censor.NET, 11 April 2014, available at http://censor.net.ua/news/280650/glava_lyustratsionnogo_komiteta_sobolev_i_aktivisty_ne_dopustili_vyborov_glavy_hozsuda.

own. Strikingly, they have failed to gain members since February. Therefore, they have resorted to the same old ways of making deals behind closed doors.

Factions in parliament, as of 16 July 2014, compared to June 2013 (number of MPs, out of 450 in total) ¹¹

	July 2014	June 2013
Current Coalition		
- Fatherland	86	92
- UDAR	41	42
- Freedom	35	36
New Centre		
- Economic Development	40	–
- Sovereign European Ukraine	35	–
- For Peace and Stability	34	–
- Independents	73	34
Old Guard		
- Party of Regions	78	207
- Communists	23	32

The interim government’s capacity for lustration and for other reforms is further diminished by its fragility and its need for support from other political forces. The “super-majorities” that forced through changes in February and March can no longer be relied on. Voting in parliament has become much tighter and the new centrist oligarchic factions hold the balance of power. The largest of these is Economic Development, linked to Dnipropetrovsk’s governor, Ihor Kolomoisky, which holds 40 seats. The second largest is Sovereign European Ukraine with 35 seats, linked to the oligarch Ihor Yeremeyev. These two were joined in June by For Peace and Stability, founded by former members of the Party of Regions Vitaly Hrushevskiy and Yevhen Balytskiy and former Communist Party member Oleksandr Prysiashniuk. For Peace and Stability has 32 seats. These parties now exercise significant power to slow or stop proposed changes. The much-trumpeted new Procurement Law, for example, was a worthy attempt to crack down on the

¹¹ See “Deputats’ki fraktsii i grupi VII sklikannia”, Verkhovna Rada Ukraini, available at http://w1.c1.rada.gov.ua/pls/site2/p_fractions.

biggest source of corruption under Yanukovich, but it was passed by only one vote, at the second attempt. Most of the rest of the government's reform agenda is stalled.

One or two individual oligarchs are in trouble. Ironically, the separatists in the Donbas have run a strong populist campaign against them, stronger than anything yet to emerge from the Maidan. Ukraine's richest man, Rinat Akhmetov, is a native of the region and has tried to balance both sides to protect his assets in the Donbas, but he is running out of room for manoeuvre.

Collectively, though, the old oligarchy is temporarily stronger. Oligarchs have been allowed to run the regions as a price for insulating them from the separatist movement in the Donbas. The most obvious example of this trend is the naming of the oligarch Ihor Kolomoisky, Ukraine's second- or third-richest man, as governor of Dnipropetrovsk. In return for supposedly providing "order" and preventing the separatist virus spreading from the Donbas, he runs his own militia and his businesses remain untouched. He also exercises power in Kyiv, and one of his allies, Ihor Palytsia, has taken over as the new governor of Odessa. But Kyiv has also allowed the old guard to stay on in cities such as Kharkiv, after the oligarchs cut off funding to local separatists.¹² Many of the new battalions fighting for Ukraine in the east are supported by the oligarchs, which will make it even harder to take the arms out of Ukrainian politics in the long run.

Former Party of Regions members are also selling their support in exchange for being allowed to continue illicit practices, and for political appointments and preferential access to the state coffers. For instance, Kolomoisky's bank, PrivatBank, has a preferential relationship with the National Bank of Ukraine; it has reportedly received the largest amount of financial support given to any financial organisation.¹³ Kolomoisky and Ihor Yermeyev are struggling for control of the state-owned company UkrTransNafta, which controls Ukraine's oil transportation system.¹⁴

Behind the scenes, the oligarchs are struggling to take over the assets of the old Yanukovich Family. Kolomoisky has allegedly targeted the interests of Serhiy

¹² Oliver Carroll, "Why Ukraine's Separatist Movement Failed in Kharkiv", the New Republic, 22 June 2014, available at <http://www.newrepublic.com/article/118301/kharkivs-kernes-returns-different-city-after-being-shot>.

¹³ "Bank Kolomoiskovo poluchil naibol'shuyu podderzhku ot NBU", *Ekonomicheskaya Pravda*, 6 April 2014, available at <http://www.epravda.com.ua/rus/news/2014/04/6/436027/>.

¹⁴ "Iz-za chevo possorilis' Yermeyev i Kolomoisky", *Insider*, 11 May 2014, available at <http://www.theinsider.ua/business/5346fd2930d4e>.

Kurchenko, the youthful front man for the shadow business of Yanukovych's son, Oleksandr. Other members of the Family survive and even prosper: for example, Vitaliy Khomutynnik is doing well as a member of the Economic Development parliamentary faction.

Institutional degradation and Russian influence

It is often claimed in Kyiv that there is no alternative to using the oligarchs to establish order in the east, because official institutions are simply too weak to do the job alone. This is false and fatalistic. Ukraine cannot remain in the precarious situation of effectively having two presidents: Poroshenko as the elected president in Kyiv and Kolomoisky in Dnipropetrovsk. More traditional channels of power clearly need to be strengthened and reformed. The armed forces suffered major neglect under Yanukovych. The security services have been thoroughly infiltrated by Russians. The tax and customs services are deeply corrupt. Reform of the procurement procedures has barely begun, which resulted in a rowdy demonstration outside the prosecutor's Kyiv offices on 18 June. Ironically, the new procuracy is supposed to be investigating massive corruption in the construction of its own new office building. This institutional weakness is the main reason that a powerful Russian lobby still exists within Ukraine, in spite of the ongoing anti-terrorist operation. Ukraine is still a weak state open to too many forms of influence.

Many members of the old Russia lobby fled to Russia during or after the uprising in February. But many remained, and Russian money can still buy new allies. The Yanukovych Family is still influential. The separatists in the Donbas are mostly being funded by Family money. And this money is not necessarily coming from Family members in exile – much of the cash comes out of the back door of local businesses such as the holding company MAKO and the All-Ukrainian Development Bank (VBR), which are still controlled by the exiled president's elder son, Oleksandr. The Yanukovych Family controlled local administrative structures for a long time and has kompromat (compromising information) on all the local elites. This enables them to twist arms (sometimes from abroad) to ensure support remains strong for the local separatists.

¹⁵ "U parlamenti namagaiut'sia stvoriti "russkuiu gruppu" – ekspert", *Ukrains'ka Pravda*, 7 June 2014, available at <http://www.pravda.com.ua/news/2014/06/7/7028410/>.

There is still a so-called Russia Group of maybe 20 deputies in parliament.¹⁵ Moreover, many official parties contain so-called grey cardinals who represent oligarchs' interests, and often Russian interests, behind the scenes.¹⁶ Needless to say, they care little about lustration or reform. One of these grey cardinals is the deputy party leader of UDAR, Vitaliy Kovalchuk, who has reportedly been an influential figure in brokering the alliance between Vitaliy Klitschko and Petro Poroshenko, which has since been endorsed by Dmytro Firtash, a gas lobby oligarch.¹⁷ Another example is current Head of Presidential Administration, Serhiy Pashynsky. He is considered to be Tymoshenko's grey cardinal, and has links with Andrey Portnov, who was one of Yanukovych's key legal advisors during the Euromaidan crisis.¹⁸ Portnov has fled to Russia, and has reportedly been involved in advising the Russian authorities on legal issues related to the annexation of Crimea and on Russia's version of draft changes to the Ukrainian Constitution.¹⁹ Portnov also claimed to exercise influence on the work of parliament's Temporary Special Constitutional Commission, and is reported to be trying to use his political connections with current members to encourage the commission to come up with a draft of the constitution that is more to Russia's liking. Many figures linked with both Yanukovych and Portnov still hold key positions in the judiciary. Yaroslav Romanyuk still heads the High Council of Justice, and the new head of the Arbitration Court (the most important court for business disputes) is Bohdan L'vov, an old ally of Portnov.

Russia still has most of its old instruments of pressure over Ukraine. A new round of economic sanctions would hit Ukraine hard. A serious energy cut-off could come next winter. If Russia sees setbacks in the Donbas, it may shift to the economic front. Russia may try to hit east Ukrainian businesses particularly hard, either to undermine the potential long-term effect of the DCFTA or to isolate the Donbas from its application.

¹⁶ "Off the record: Serye kardinaly novoi vlasti", *Ukraïns'ka Pravda*, 20 April 2014, available at <http://www.pravda.com.ua/rus/photo-video/2014/04/20/7023122/>.

¹⁷ "Rasporyaditel' 'UDARa' Koval'chuk – stavlennik gruppy Firtasha, - eks-glava Ivano-Frankovskovo 'UDARa'. Dokumenty (obnovleno)", *Censor.NET*, 28 April 2014, available at http://censor.net.ua/news/283063/rasporyaditel_udara_kovalchuk_stavlennik_gruppy_firtasha_eksglava_ivanofrankovskogo_udara_dokumenty.

¹⁸ "Serhiy Pashynsky – drug Portnova i seryi kardinal Yulii Tymoshenko", *Antikor*, 14 March 2014, available at http://antikor.com.ua/articles/3694-sergej_pashinskij_drug_portnova_i_seryj_kardinal_julii_tymoshenko; "Serhiy Pashynsky prodolzhaet zanimat'sya reiderstvom i bespredlom", *Antikor*, 15 April 2014, available at http://antikor.com.ua/articles/5057-sergej_pashinskij_prodolzhaet_zanimatjsja_rejderstvom_i_bespredelom.

¹⁹ "U Putina pishut novuyu Konstitutsiyu dlya Ukrainy", *Insider*, 17 April 2014, available at <http://www.theinsider.ua/politics/534edbo8add3e/>.

How Europe can help

The West has supported negotiations in the Donbas without fully grasping the implications of the talks. Viktor Medvedchuk's involvement helps keep Putin on board, but a high price will be extracted in the long run. If Medvedchuk becomes governor of the Donbas, the region runs the risk of becoming a Russian enclave. Rinat Akhmetov's empire would survive under Medvedchuk, but Russian business would also move into the area.

This is why Kyiv had strong incentives to continue the anti-terrorist operation. The EU has too often called for "both sides" to commit to peace talks, and has shown little sympathy for Ukraine's right to establish order in its own sovereign territory. The tragedy of flight MH17 has to be followed by adequate investigation; some kind of ceasefire was necessary, but not the kind that would again allow the separatists to regroup and recover – especially as most evidence points to them as the guilty party. The EU should be thinking instead of concrete means of helping Ukraine cope with Russia's hybrid war. It should also be considering the fact that there will be massive reconstruction costs on the ground.

The EU may find it difficult to identify institutional ways to deal with the security challenge, but EU member states can help. They should follow the US lead by providing non-lethal military aid as well as assistance for law enforcement bodies in eastern Ukraine. After the Maidan protests, Ukrainian domestic law enforcement is short of basic materials such as helmets and shields.

The EU should keep up the pressure on sanctions. The threat that further measures will be taken is not the only reason why Putin is at the moment more willing to compromise, but it is part of the picture. The EU should not allow the US to get too far ahead on sanctions. It should continue to concentrate on measures that magnify indirect effects such as capital flight and difficulties with loan access.

Western financial aid has helped to stabilise the situation in Ukraine. The EU has promised Ukraine €11 billion over seven years. This figure would include €1.6 billion in macroeconomic financial assistance, with €610 million to be provided in the short term, as well as €1.4 billion in grants, including €140 million to be disbursed in 2014 for strengthening institutions and financial capacity. A further €8 billion would come from the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), plus a possible €3.5 billion from the Neighbourhood Investment Facility.

The International Monetary Fund's programme was worth \$17 billion, with \$3.2 billion provided up-front. The World Bank aims to provide up to \$3.5 billion by the end of 2014. The US has offered a \$1 billion loan guarantee plus \$184 million for crisis response, security assistance, reform assistance, and building law enforcement capacity.

The overall amount should be enough for now. The threat of bankruptcy has been averted. Gas payments need a political and legal solution, not a short-term financial one. Ukraine could be confident of victory against Russia in the lawsuits on gas contract revision that it has taken to the Stockholm arbitration court. Providing bigger sums in aid would be counterproductive, since it would reduce the incentives for reform and the money given would be in serious danger of theft. It is up to Ukraine to put its house in order. Official estimates of total corruption in the Yanukovich years are as high as \$100 billion. Huge amounts were simply stolen from the budget, through phantom firms and fake procurement schemes. The budget will rebound quickly if the right reforms are made, showing the way forward despite the fact that GDP is likely to fall between 3 and 5 percent in 2014. A big push on the delayed reforms should be encouraged after the parliamentary elections, should they be held in the autumn.

It is not the case that the IMF package will lead to social explosion in eastern Ukraine – quite the opposite. The swift introduction of a targeted compensation programme would strengthen the central government's position by showing that it is doing its best to help the poorest members of society.

However, if aid is to be absorbed, it needs institutional capacity. The EU should step up its efforts to help reform Ukraine's hollowed-out state structures. Given the chronic weakness of local institutions and the relative strength and new prestige of civil society, the EU should be ready to set up new formal co-operation structures with local NGOs. It could perhaps create an EU–Civil Society Forum. Maidan activists should also be encouraged to rise above the assumption that all politicians are corrupt and need to be vigilantly criticised from the NGO level. NGOs and Maidan activists need to create as well as to criticise. Some are already in government, but a healthier long-term relationship will necessitate creative interaction from both sides. The EU should not only continue with its plans to provide greater funding for local NGOs, but should also tie that funding to the development of more proactive and productive strategies.

On energy policy, much has been done to facilitate reverse flow from Central Europe. But the EU should also be looking at innovative solutions such as buying gas directly from the Ukrainian system or even purchasing it at the Ukraine–Russia border. The European Commission’s judgments against Gazprom should also be made to apply in Ukraine. Russia must be deterred from exploiting Ukraine’s Black Sea energy deposits off Crimea.

Clearly, it is asking a lot of the new government to undertake reforms under the enormous pressures it now faces. Many are openly questioning whether it can even try to reshape the system under the current conditions, or if a deal with Russia must come first. It has been clear that Russia wants the new government in Kyiv to fail. Russia could still use the situation in the Donbas to destabilise the government’s efforts on an ongoing basis. Therefore, Russia must be encouraged to help stabilise the situation on the ground.

Normally, it is a good rule to front-load difficult changes in the early months of “extraordinary politics”, while the new incumbents are still popular. Delay, even for the best of reasons, means nothing gets done. The best thing that the EU can do is to provide support for those in Kyiv who still want to reform, even as the conflict in the Donbas continues.

**CAN
MOLDOVA
STAY ON
THE ROAD
TO EUROPE?**

Can Moldova stay on the road to Europe?

Summary

In 2013 Russia hit Moldova hard, imposing sanctions on wine exports and fuelling separatist rumblings in Transnistria and Gagauzia. But the second half of 2014 could be much worse. Russia wants to undermine the one remaining “success story” of the Eastern Partnership (Georgia being a unique case). It is not clear whether Moldova can rely on Ukraine as a buffer against Russian pressure as fighting with separatist forces continues in its eastern regions. Russia wants to see a change in the Moldovan government at the November 2014 elections.

Moldova is fearful of moves against its estimated 300,000 migrant workers in Russia and an escalation of the Transnistrian conflict towards a “civilised divorce”. The ruling coalition is fragile, but has so far been able to resist Russian pressure, with the exception of some very opaque business deals. The EU must prepare a menu of measures to help Chisinau resist the likely range of Russian pressures in 2014 and beyond. Moldova must help itself by being more serious about stamping out corruption. The EU should also restrain Romanian talk about “reunification”, which only destabilises the situation in Moldova further.

Moldova is considered a success story of the European Union’s Eastern Partnership (EaP) initiative. In the five years since a pro-European coalition came to power in 2009, Moldova has become more pluralist and has experienced robust economic growth. The government has introduced reforms and has deepened Moldova’s relations with the EU, completing a visa-free action plan and signing an Association Agreement (AA) with provisions for a Deep and Comprehensive Free Trade Agreement (DCFTA). So Moldova is now progressing into a more complex, more rewarding phase of relations with the EU. Implementing the AA agenda will

spur economic growth and will multiply linkages with Moldova's biggest trading partner, the EU. However, Moldova's progress down the European path promises to be very challenging. Russia's diplomatic and military victories in its own "near abroad" (Armenia and Crimea) will likely encourage it to increase its pressure on Moldova. And Moldova's fragile governing pro-European coalition faces domestic challenges ahead of parliamentary elections scheduled for November 2014.

Moldova's track record

Almost 70 percent of Moldovans believe the country is heading in the wrong direction, according to opinion polls conducted in November 2013 by the Moldovan research organisation, the Institute for Public Policy. But while other unpopular governments in Eastern Europe have earned their reputations through inaction, the Moldovan government's public opinion problem is partly the downside of unpopular but necessary reforms. When the pro-European coalition came to power in 2009, Moldova's economy was undergoing a sharp downturn: in 2009, GDP declined by 6.5 percent on the previous year. The country was also facing a dangerous budget disequilibrium, with a deficit of 6.3 percent of GDP. As a result of austerity measures under IMF supervision and tighter revenue collection, the budget deficit was cut to 2.1 percent in 2012. The improved macroeconomic situation laid the groundwork for Moldova's economy to take off. In the past few years, it has registered some of the fastest growth rates in the region: 7.1 percent in 2010, 6.4 percent in 2011, and 8 percent in 2013, after a dip to 0.8 percent in 2012. In the first quarter of 2014, the economy continued to grow by 3.6 percent.

Some of the factors behind Moldova's economic recovery were external. Remittance flows, which made up 24 percent of GDP in 2012, continued to sustain domestic consumption. International donors allocated €1.9 billion to Moldova in 2011-2013. But the government deserves credit for attracting funds in exchange for reform and for implementing big infrastructure projects. Parts of the national road system have already been repaired. Feasibility studies and tenders for other projects are almost completed, so more roads and irrigation systems will come on stream in 2014. These projects will create new jobs and help the construction sector – the number of construction sites spiked by 50 percent in 2013. They will also have a lasting impact on the economy. Better roads will shorten the time for moving goods across the country and irrigation systems will improve agricultural performance, especially during dry summers. Exports are growing faster than imports. The government has improved the investment

climate and its e-governance strategy has helped to limit bureaucratic hurdles. As a result, Moldova has climbed from 94th place in the World Bank's Ease of Doing Business Index in 2010 to 78th place in 2014.

The improved business climate has attracted more foreign investors, who have encouraged Moldova's gradual re-industrialisation. German automotive component supplier Dräxlmaier first moved to Moldova in 2007 and is now expanding its production of spare parts for cars. Austrian cable maker Gebauer & Griller entered the Moldovan market in 2012, and by the end of 2014, the company will have invested €18 million in its production facilities in the country. After 20 years of independence, Moldova has finally begun to build a gas interconnector with Romania to ease its dependence on gas imports from Russia and help implement the EU's Third Energy Package.

On sectoral reforms, the visa-free action plan with the EU provided the leverage for the government to undertake the most drastic reform of the police in two decades. The institution was reorganised, salaries were increased, and more disciplinary procedures were initiated against police officers accused of misbehaviour. A border police force was formed and the notoriously corrupt traffic police were replaced by police patrols equipped with traffic enforcement cameras. Deaths from traffic accidents dropped by 30 percent in the first five months of 2013. Public trust in the police surged from just 10 percent in 2010 to 31 percent in 2013. As a result of these reforms, Moldovans with biometric passports have been able to travel visa-free to the EU since April 2014.

The Ministry of Education has shut down some understaffed, under-attended schools, which had been a drain on public funds. High school graduation exams have been reformed, by multiplying the number of observers, installing video cameras to supervise pupils, and instituting thorough cross-checks of test papers. The reforms caused outcry among parents, students, and opposition parties, but the shadow networks that used to fix exam results have been significantly disrupted. The number of pass marks achieved in Moldova's high school exams declined by 20 percent in 2013.

The Ministry of Justice increased remuneration, professional evaluation, and disciplinary responsibility for judges. Several judges were demoted or suspended because of disciplinary violations or accusations of corruption. However, much more still needs to be done on justice reform, and stronger political will is needed to implement more thoroughgoing reforms.

The picture would be incomplete without also noting Moldova's failures. The government's disapproval ratings are not only the result of austerity and unpopular reform. The authorities have not been successful in tackling pervasive corruption. Moldova's score in Transparency International's Corruption Perception Index actually dropped one point in 2013. The country's National Anticorruption Center (CNA) has been reformed, and the newly established National Integrity Commission (CNI) has been empowered to investigate conflicts of interest and the income declarations of high public officials. But neither institution has lived up to expectations. CNA officers ignore high-level corruption and even initiate cases to intimidate political opponents. The embryonic CNI is under heavy political pressure. Its budget for 2014 has been reduced, and it seems there is no political will to beef it up. Moldova also wasted time on bogus reform of the General Prosecutor's Office, while the Prosecutor General himself, Valeriu Zubco, was embroiled in political controversy and removed from office in 2013. Although the new Prosecutor General, Corneliu Gurin, has promised serious reform, powerful actors both inside and outside the institution oppose any real change. A blueprint for reform was presented in 2013 and approved by parliament in 2014, but unless real steps are taken to make progress on its implementation, it may remain only a declaration of intent.

Moldova's investment climate has improved, but foreign investors still complain of harassment from tax authorities and of vested political interests trying to push them out of the market. Even Drăxlmaier, Moldova's top exporter in 2012, has had trouble with the State Fiscal Inspectorate. Greater deregulation and de-monopolisation would make investors feel more welcome. The government and the National Bank have failed to establish order in the banking sector, an essential mainstay for any market economy. In the last four years, "raider attacks" against financial and bank institutions have increased, while judges involved in sanctioning illegal share ownership transfers have escaped largely unpunished. The European Bank for Reconstruction and Development has appealed to Moldovan authorities to prevent non-transparent share transactions in the country's biggest commercial bank, Moldova-Agroindbank. The state gave up its majority shareholding in the troubled Banca de Economii, a move that raised eyebrows in Moldova and abroad, because the bank was reported to be involved in the Russian money-laundering controversy known as the Magnitsky affair. The CNA refused to investigate or to cooperate with European colleagues on the matter. The true owners of Moldovan banks hide behind shell companies registered overseas. Experts claim that around 70 percent of the banking sector is controlled by Russian investors. Without a drastic overhaul of the sector,

international financial institutions, the main source of long-term finance, will limit their cooperation with local commercial banks.

According to international watchdogs, Moldova's mass media is partially free. Current legislation states that one person cannot own more than two national media outlets of different types. However, the government has not introduced amendments to require the full disclosure of ownership of TV channels and radio stations. A new broadcasting code containing these provisions has been drafted, but the bill is in limbo in a parliamentary committee, allowing the further over-concentration of mass media outlets in the hands of a few private players intermingled with political interests.

Moldova has failed to improve its legislation on political parties. A bill envisaging state budgetary support for political parties was submitted to parliament in 2013. The legislation was aimed at making party finances more transparent and decoupling parties from powerful, non-transparent sponsors pursuing private agendas. But the very forces that the bill intends to combat are currently preventing the legislation from moving forward.

Internal risks for 2014

Since 2009, Moldova has been governed by a centre-right, pro-EU coalition, but the ruling parties are continually at odds with each other. In March 2013, the coalition of the Liberal Democratic Party, the Democratic Party, and the Liberal Party fell victim to a no-confidence vote, after bitter internal infighting that was successfully exploited by the opposition Communist Party (PCRM). A fragile replacement coalition was restored two months later. It was composed of the Liberal Democratic Party, the Democratic Party and the newly formed Liberal Reformists party (who were an offshoot of the Liberal Party which had left the previous coalition). The reformed coalition signed the Association Agreement with the EU on 27 June 2014 and it was ratified in the Moldovan Parliament just five days later, well before November's scheduled parliamentary elections in order to narrow down the PCRM's options, should it manage to reclaim power.

In May 2013, the coalition leaders, former Prime Minister Vlad Filat and former Speaker of Parliament Marian Lupu, took a step back, and were replaced by two well-regarded diplomats, former Foreign Minister Iurie Leanca and former ambassador to Germany Igor Corman. A more detailed coalition document was negotiated and, unlike the previous arrangement, the agreement was

made public immediately after it was signed. The coalition has managed to institutionalise weekly dialogue between members of the alliance at several levels. As a result, the coalition parties' leaders have so far been relatively restrained in attacking each other in public, and the two main coalition parties (the Democrats and the Liberal Democrats) have slightly improved their standing in opinion polls. At the same time, the coherence of the governing and legislative process has been enhanced. In November 2013, the ruling coalition organised a public demonstration in support of European integration that brought more than 100,000 people to the main square of Chisinau in the biggest public demonstration in Moldova in two decades. On the back of a strong economic rebound, the government has passed a generous, socially-oriented budget for 2014, with a 19 percent increase in expenditure, 66 percent of which will go on social welfare. This should help to win back the sympathy of the electorate.

In spite of their renewed confidence and greater cohesion, however, the coalition's resilience is being sorely tested in 2014. The alliance remains a fragile construction built out of necessity rather than based on trust. The coalition agreement may have put a dent in some personal animosities, but it has not addressed the fundamental conflicts that crippled the alliance in 2013. During the upcoming pre-electoral and electoral period, when stakes are high, rivalry will resurface, all the more so since those politicians currently taking a break from high office, such as Filat and Lupu, are campaigning intensively in the regions. Even though the coalition's basis for cooperation is now better institutionalised, its viability is still too dependent on the often non-transparent agreements reached by coalition leaders. Combined with the lack of serious progress on fighting corruption, this saps the ruling alliance's public credibility and makes the government more vulnerable to the opposition's attacks. Moreover, in 2014, some coalition members might exploit "anti-corruption policy" to change the power equilibrium ahead of the elections, which could easily cause one or more parties to make an early exit from the coalition.

The coalition is under continuous attack from the opposition. The first threat is the Liberal Party, which left the governing coalition in 2013. It still sees itself as a pro-European force, but it is constantly sniping at the other centre-right parties and their often unpopular reforms (for example, in education), even though these reforms have been praised by foreign donors and EU officials. This can only cannibalise Liberal Democrat voters and aid the rise of the PCRM, which is promising voters political stability and better management instead of the constant brawls that characterise the relationship between liberal parties.

The PCRM campaign is eclectic and opportunistic. Until recently, it offered a big dose of geopolitics framed in Manichean terms, as a choice between the EU and the Russia-dominated Eurasian Customs Union, between foreign and “traditional” values, and between statehood and the dissolution of Moldova as a state. However, the Communist message has now become more ambiguous and less anti-European. They are clearly aiming to win over the pro-European, less educated, and poorly-informed rural electorate.

The PCRM has serious limitations. Its still popular but aging leader, Vladimir Voronin, is at 72 years old physically less fit for an active campaign. In the regions, the Communists face dissatisfaction with the PCRM’s strategy and leadership: several mayors and local councillors have defected to the ruling parties. Differences are visible at the national level too, as Voronin has openly attacked the party’s main ideologist, Mark Tkachuk. And the party’s capacity to mobilise support is in decline – its anti-EU demonstration in Chisinau had a turn-out of only 7,000-8,000 people. Nevertheless, the PCRM polls around 25 percent, still making it a political force to be reckoned with. If the ruling coalition falls again as a result of internal conflicts, Communist support could soar. Despite three failed votes of no confidence in the autumn, the PCRM will persist in its efforts to harass the government. It is, however, not so close now to the Kremlin which is apparently dissatisfied with the PCRM’s inability to bring down the government. Weakened by internal divisions, the PCRM could attract the Democratic Party as an alternative ally (a strategy favoured by Russia) to the pro-European coalition after the elections. Until then, without strong partners to work with, the Kremlin will, alongside its use of economic embargoes, increasingly rely on the leaders of Transnistria and Gagauzia.

External risks for 2014

In 2014, Russia continues to be the source of most of Moldova’s external threats. Until recently, Ukraine has helped Moldova to deflect pressure from Russia, but in light of recent events, Ukraine’s main focus is its own survival. Over the last four years, Romania has been very supportive of Moldova’s European agenda. But Romania too has elections in November 2014, which has led to a sudden revival of talk about “reunification”, playing into the Communists’ hands.

Russia

Promoting chaos and feeding armed conflict in Ukraine has kept the Kremlin busy so far in 2014, but Moldova will also receive a sizeable share of Russia's attention. The elimination of the "teacher's pet" would be another symbolic victory for Russia in the region. It could strike a deadly blow to the Eastern Partnership as a whole by replacing the government with a centre-left coalition headed by the PCRM, or simply by helping to bring about protracted political conflict. Russia will also seek to provoke overreaction from the Moldovan side (for instance, in Transnistria and Gagauzia), which, besides increasing tensions, could have a negative effect on Moldova's relations with the EU and raise concerns among EU member states about Moldova's readiness to implement the Association Agreement. As one European diplomat warned Moldova: "Do not get provoked, otherwise we will not be able to help you much."

If these short-term objectives are not accomplished, Russia will try to ensure that a weak coalition emerges after the election. A less robust governing alliance might only pay lip service to the Association Agreement and might be more susceptible to backtracking under pressure on key commitments towards the EU. By installing a "slacker government" in Chisinau, Russia will seek to buy more time to achieve its long-term objectives in Moldova.

Russia is prepared to commit both resources and political will to this vision, as evidenced by its Christmas gifts to Ukraine (\$3 billion, with \$12 billion more promised) and to Belarus (\$2 billion). Its successes in Armenia and partially in Ukraine have boosted Russia's confidence that it can influence events in its favour in Moldova as well. Russia will seek to demonstrate how painful Moldova's drive towards the EU could be, using public and private actors to target Moldova's weak points and trigger multiple crises for Moldova's government and economy.

Many Moldovan workers were employed in Sochi for the Winter Olympic Games. Even though it has other infrastructure projects in train, such as the 2018 FIFA World Cup, the Kremlin could resort to different harassment strategies against Russia's 200,000 Moldovan permanent workers as soon as the Olympics end. It will likely also prevent around 100,000 seasonal workers from entering the country. According to the Moldovan diaspora in Russia, since January 2014 around 6,000 Moldovan citizens were barred from entering Russia. The Federal Migration Service claims that 190,000 Moldovan citizens are already banned from entering Russia for violating the conditions of their short-term stay. The Moldovan authorities claim the figure in 2013 was 19,500, but even if Russia's

numbers are inflated, the Kremlin could quite easily turn them into reality. Recently, the State Duma eliminated the legal loophole that allowed Moldovans to sidestep the 90-day limit on visa-free stay in Russia. From January 2014, anyone entitled to visa-free stay in Russia cannot spend more than 90 days in the country in any 180-day period.

If Russia expels Moldovan workers, family budgets will be hit hard and one of the pillars of Moldovan economic growth will be undermined. In 2013, migrant workers sent almost \$1.6 billion home, and 68 percent of these remittances came from Russia. Although some sectors of the Moldovan economy face labour shortages, the government knows that it cannot rapidly integrate a massive influx of workers into the labour force. The PCRМ will say that ploughing a middle course between Russia and the EU could have prevented these problems.

Russia absorbed close to 30 percent of Moldovan alcohol production in 2012. In September 2013, Russia imposed a ban on imports of wine from Moldova on the pretext of “quality” concerns regarding Moldova’s product. Intensive talks with Russian authorities hit the wall in the late autumn, with Russia banking on increasing its influence by doing cumulative damage to the Moldovan economy. According to the Moldovan authorities, the damage could reach as much as \$40 million per annum. Russian officials had hinted at a total or partial ban in 2014 on fresh vegetables and fruit, and a temporary ban on fruit imports originating from Moldova was imposed in July 2014. Moldovan exporters of fresh produce are even more dependent on the Russian market – in some instances up to 90 percent of crops go to Russia. Moldova’s agricultural sector employs approximately 28 percent of the country’s workforce and generates 18 percent of GDP (2013). A Russian embargo could slow down economic growth and create pockets of popular discontent, strengthening the Communists’ anti-government campaign in rural areas. For this reason, the PCRМ supported the Russian wine embargo in 2013.

High-level Russian officials have already alluded to the possibility of using the country’s energy exports to exert influence. Russia is still Moldova’s only source for imported gas. Although the contract between Moldova’s Moldovagaz and Russia’s Gazprom has been extended until the end of 2014, “technical problems” on the pipeline crossing the breakaway Transnistrian region could be used to explain a temporary suspension of gas deliveries to the Moldovan side of the Nistru. Russia could also threaten not to extend the gas contract into 2015 and could insist on concluding a new agreement that would be contingent on Moldova’s withdrawal from the EU’s Third Energy Package.

Russian officials have also warned Moldova about the need to “consult” people about association with the EU, and have hinted that the country might “lose wagons” on its road to Europe – implying that particular regions might break away. The Transnistrian leadership’s calls for a “civilised divorce” reflect the Kremlin’s signals to Chisinau. To underline its point, Russia spared Transnistrian companies from the wine ban it imposed on Moldova. Even as Moldova works towards adopting the EU acquis, Transnistria is getting ready to approve amendments that make Russian legislation part of its “legal” framework. The Transnistrian “parliament” is also preparing to harmonize legislation with Customs Union standards. Moreover, the Russian GONGO Eurasian Integration has announced infrastructure projects in the region worth \$60 million. Their implementation will fuel the kickback economy and should keep the Transnistrian political elite loyal. However, just how far Russia is ready to go on the de jure recognition of Transnistria remains an open question. For two years in a row, the OSCE Ministerial Council (of which Russia is a part) has adopted declarations on the Transnistrian conflict negotiations that confirm the sovereignty and territorial integrity of Moldova. But provocations in Transnistria, especially if they trigger a harsh reaction from Moldova, could encourage Moscow to argue otherwise.

Prodded by the Kremlin, Tiraspol could easily stir up conflict over several issues. The status of the eight Latin-script schools in Transnistria administered by the Moldovan authorities remains a flashpoint. Agreement still has to be reached on access for Moldovan farmers from the Dubasari region to their fields and silos in Transnistria. And in the “security zone” and the city of Tighina/Bender (located on the Moldovan right bank of the river Dniester), Transnistrian militia and Moldovan police are still in uneasy cohabitation. Russia and Transnistria will act together to continue the militarisation of the region. In November 2013, Transnistria pledged to withdraw the additional military contingent it unilaterally stationed in Tighina, but in February 2014 it introduced paramilitary forces at checkpoints there, which impeded the movement of military observers trying to monitor the “security zone”. It is rumoured that Transnistria has plans to fortify its “border checkpoints” along the administrative line with Moldova in 2014. Moscow will keep pushing Moldova to accept the modernisation of its armed forces’ equipment (for instance, the introduction of armoured personnel carriers). If Moldova refuses, Russia could as a last resort deliver some military cargo via Tiraspol airport, following the refurbishment of its military runway in 2012.

The Russian officials’ reference to “wagons”, in the plural, betrays Russia’s intentions to scale up its involvement in the autonomous region of Gagauzia.

Mihail Formuzal, and Russia's ambassador promised to be watchful of Gagauzian autonomy in 2014. In February, the Gagauzian local authorities held a referendum where 98 percent allegedly voted for accession to the Customs Union, which amplified tensions between Chisinau and the Gagauzian authorities in Comrat. Moldovan courts declared the referendum illegal. Shortly after the referendum, Russian Rosspotrebnadzor lifted the wine ban against several companies from Gagauzia. The major contenders for the role of bashkan (governor) of Gagauzia, to be elected at the end of 2014 or early 2015, will likely play the Russian card in the local elections to boost their chances of victory. The referendum, therefore, provided a one-off opportunity for candidates to prove their Eurasian credentials ahead of the main local political battle.

Ukraine

On key economic and security issues, top Moldovan officials regard Ukraine as Moldova's buffer or "airbag", softening the impact of Russian pressure. Ukrainian suppliers play an important role in Moldova's energy mix. DTEK, owned by Ukrainian oligarch Rinat Akhmetov, covers around 20 percent of Moldova's energy needs. In 2009, in the middle of its gas row with Russia, Ukraine supplied Moldova with natural gas from its own stores. Although Kyiv allowed Moscow to introduce 20 heavy-duty vehicles for Russian troops in Transnistria in 2012, it resisted Russia's requests for transit through its territory because it was concerned that the move did not have the consent of the Moldovan authorities. Kyiv continues to push for the conclusion of the demarcation of the border between Ukraine and Moldova, in spite of Transnistrian attempts to hold up the process. As chair of the OSCE presidency in 2013, Ukraine represented a stabilising force in opposition to Transnistrian and Russian efforts to escalate the conflict.

However, Chisinau is unsure how well the "airbag" will function with Ukraine engaged in military operations on its own territory. The Kremlin knows that a Ukraine that fully controls its east and south insulates Moldova. Before the Vilnius Summit in November 2013, Kyiv and Chisinau agreed that Ukraine could provide gas through the north of Moldova if Russia ceased deliveries. After Gazprom stopped gas flows to Ukraine in June 2014, Moldova was not severely impacted. However, if the gas crisis between Russia and Ukraine drags on until the winter, Moldova is likely to face gas shortages. The Ukrainian company DTEK is an important player on the Moldovan energy market. If the fighting in Ukraine intensifies or spreads, DTEK may have difficulty meeting its contractual obligations towards Moldova. If Russia can destabilise the situation

in southwestern Ukraine, particularly Odessa, this certainly would represent a direct threat to Moldova. As well, any Russian attempt to provoke Ukraine from Transnistria would also pose a security threat to Moldova.

Romania

Romania has actively lobbied in Brussels since 2009 for more intensive engagement between the EU and Moldova. It has worked to create gas and electricity interconnections with Moldova, co-financing projects with the EU or investing money from its own budgetary resources. Bilaterally and through the EU, Romania has helped the Moldovan government to draft legislation, to train public servants, to tackle floods, and to reform and create public institutions. Romanian advisers within the EU's High Level Advisory Mission helped with major reforms in education, in the police, and in the energy sector. Moldova is the number one recipient of Romanian development aid; Romania recently pledged €20 million for the Moldovan education system. Bucharest has also called for the speedy withdrawal of Russian troops and arms from Transnistria and the replacement of the Russian-led "peacekeeping" mission with international civilian monitors.

However, Romania has presidential elections in November 2014. As the campaign get under way, bickering between the prime minister, the president, and the ruling coalition has increased. This discord risks diverting attention from vital energy infrastructure projects. In November 2013, Romania's outgoing president Traian Băsescu declared that the country's next national project should be reunification with Moldova. This statement sparked heated debate and accusations of populism, which rapidly spilled over to Moldova. Although in Romania, 62 percent support reunification with Moldova, only 15 percent of Moldovans support the idea, so Romanian declarations on unification raised alarm in Moldova. Tensions were increased when, in December 2013, Moldova's Constitutional Court overturned Moldova's studiously ambiguous language policy and declared Romanian the official state language. Along with Romania's continuing failure to ratify the 2010 border regime treaty with Moldova, these issues have given the PCRM grounds to gin up fears of Romanian overreach.

Protecting Moldova

Moldova's top officials are reluctant to speak openly about Russia's tactics. Instead, they seek to keep all channels of dialogue with Russia open without giving up on their European priorities. Russian Deputy Foreign Minister Karasin visited Chisinau in 2014 as part of this non-confrontational approach, which in the short run aimed to win time until the Association Agreement could be ratified. The EU should support a continuation of this approach in its bilateral track with Russia. The EU should send a strong signal that it will continue watching out for Moldova, and that if Russia brings economic pressure to bear, the EU will show solidarity with Moldova. To make this position clear, several high-level EU officials (including President of the European Council Herman van Rompuy and President of the European Commission José Manuel Barroso) have visited Chisinau, and this show of support must continue through the autumn. The EU should also restrain unhelpful voices within its own camp. Romanian talk of reunification could be very toxic given the Russian annexation of Crimea. Given the volatility of Moldovan politics in 2014, the EU should be ready to mediate between the coalition partners.

To neutralise Russia's energy levers, the EU should support Moldova's energy cooperation with Romania and Ukraine. By August 2014, the Iasi-Ungheni gas pipeline between Romania and Moldova should be on stream. But without a compressor station, it can only transport limited volumes of gas (up to 0.5 billion c/m), and it can supply only the regions of Moldova in its immediate vicinity, Ungheni and Nisporeni. It cannot supply the capital, Chisinau, which is obviously the biggest gas consumer. The EU should, therefore, push for the rapid construction of a compressor station in Iasi so that the interconnector can work at maximum capacity (1.5 billion c/m, equal to Moldova's total annual consumption if Transnistria is excluded). The EU should speed up plans for construction of the Ungheni-Chisinau gas pipeline.

The EU can, if necessary, facilitate a solution between Ukraine and Moldova on emergency gas supplies during the winter season. Moldova is in talks with Romania to diversify its electricity supplies, but Romania can only provide up to 25 percent of the necessary volume, and because of its low transmission capacity, it can reach only some regions of Moldova. Ukrainian energy producers will, therefore, be crucial for Moldova's energy security in the short and midterm. The EU should give financial support for more electricity interconnections to boost transmission capacity between Romania and Moldova.

The EU should make plans to deal with possible Russian trade restrictions. Besides increasing import quotas for Moldovan vegetables and fruits (already introduced in the AA) and bilateral/trilateral consultations with Russia on DCFTA implications, the EU should swiftly unlock funds aimed to modernize Moldova's agricultural sector. The EU could also devise short-term financial compensatory measures should Russian embargo take a heavy toll on Moldovan economy.

The EU should also pay close attention to Transnistria and Gagauzia. During the summer of 2013, Moldova's vigilant diplomacy along with EU support forced Russian and Transnistrian leaders to abort further escalation of tensions in the security zone. A similar but upgraded strategy should be employed throughout 2014. More visits to Transnistria by EU officials and member state diplomats accredited in Chisinau will be needed. The EU should put the Transnistrian conflict on its agenda with Russia. It needs to signal that any aggressive attempts to escalate conflict will have real costs. Such messages are unlikely to result in the long-term settlement of the conflict. But they could at least help to dissuade Russia from "managed destabilisation" in 2014 as the Transnistrian "parliament" appealed to Moscow to recognize its independence and reunite with Russia. The Kremlin prefers to take action in the region at times when other players are distracted by more urgent issues. Russia is trying to outmanoeuvre the EU in Transnistria by pumping in more money. But Abkhazia and South Ossetia should serve as reminders that Russian aid can be mismanaged by non-recognised entities in the post-Soviet space.

The EU and Moldova have the upper hand in trade relations with Transnistria, because together they absorb almost 70 percent of Transnistria's exports. The EU should use this advantage to discourage Transnistria from further provocations and nudge it towards participation in the DCFTA. Transnistrian companies that have undergone certification in Chisinau and that comply with EU standards should be allowed to benefit from the provisions of the DCFTA. The application of Autonomous Trade Preferences for companies in Transnistria will expire by the end of 2015, which will give Transnistrian companies even greater incentive to abide by the new regulations.

Last but not least, the EU should step up its efforts to mediate between Chisinau and Comrat, the capital of Gagauzia, and should work to dissuade both sides from taking hasty decisions. The EU has planned a three-year development program in Gagauzia worth €5 million, which gives it leverage to exercise positive influence on the authorities in Comrat.

Even in the face of the wine embargo, the selective expulsion of workers from Russia, the Kremlin's encouragement of separatism, and its threats to cut off energy during winter, 40 percent of Moldovans would vote to join the Customs Union instead of the EU. Russia can still capitalise on what remains of its "soft power" in Moldova: nostalgia for the Soviet Union and its cultural products, the conservative message of the Russian Church, and the Russian-language mass media and GONGOs. This soft power could help Moscow to slow down or even derail implementation of Moldova's European agenda. The EU, therefore, must significantly upgrade its public diplomacy in Moldova, by framing its message in terms of the economic development of what remains a very poor country. The Kremlin often does business based on illusory advantages, such as gas discounts whose value will diminish as Russia increases its domestic gas prices. By way of contrast, the EU should advertise the practical solutions it can provide, such as energy efficiency projects based on biomass that could cut energy bills in winter. Press releases and press conferences with Moldovan officials will only help a little to raise the EU's visibility and win over Eurosceptics in Moldova. The EU should create a map showing all the projects it has sponsored so far in Moldova and should distribute it as widely as possible both in hard copy and electronically. Every trolleybus procured, every road rebuilt, and every hospital renovated with EU money should have large signs indicating the project's sponsor.

The EU's public diplomacy should extend throughout the regions, penetrating rural areas as well as Russian-speaking cities such as Balti and areas populated by national minorities such as Gagauzia and Taraclia. Outreach should not take the form of one-off events, but should be part of a systematic effort to explain to various categories of citizens what the EU has already done and what European integration could mean for Moldova's future. Although 44 percent of Moldovans favour European integration, for many of them it remains an abstract concept. The civil sector could be of great help in popularising European integration. A more robust public diplomacy could dilute the attractiveness of Russia's appeal to the past, as well as producing a better-informed public, who in the end will smooth the application of the EU's transformative power in Moldova.

GEORGIA'S VULNERABILITY TO RUSSIAN PRESSURE POINTS

Sergi Kapanadze
Georgia's vulnerability to
Russian pressure points

3

Summary

Georgia signed and ratified the Association Agreement with the EU in record time on 18 July. Given the dramatic turn of events in Ukraine and the conflicts that Georgia's past Western integration efforts have roused, Tbilisi still has good cause to worry. Russia has made its disapproval of a European path for its small, southern neighbour clear and is likely to utilise whatever means it has to derail Georgia's European ambitions.

This paper analyses the various economic, political, and military pressure points that Russia can target. Georgia has decreased its dependency on Moscow substantially since its last dramatic conflict with Moscow in 2007. However, this memo argues that Russia still has the means to influence Georgia's foreign-policy choices by attacking strategic bilateral vulnerabilities that include wine exports, remittances, investment, winter oil supplies, domestic divisions, and the occupied regions of Abkhazia and South Ossetia.

While few of the pressure points that Russia can push are lethal in and of themselves, their cumulative impact could have a profound effect on Georgia's domestic political stability and economic viability. All the more worrisome after the Crimean annexation is Moscow's substantial sway in Georgia's occupied regions, which provides the Kremlin with great destabilising potential. Therefore, the Georgian government's confidence that it is better able to withstand Russian pressure than Ukraine is misguided and deeply dangerous.

Since the Association Agreement fallout in Ukraine, it has become abundantly clear that Russia is prepared to fight to protect what it considers its sphere of influence and to block the countries in the “common neighbourhood” from moving closer to the European Union. This is certainly true of Georgia, where Russia has tested a wide range of instruments over the last 20 years to retain influence over its former vassal. From economic embargoes, the expulsion of Georgian citizens, and the occupation of Georgia’s territories, to terrorist attacks and direct interference in domestic politics, Russia has applied an array of tactics to undermine the Georgian state, intensifying the pressure whenever Georgia attempted to enhance its relations with the West.

Russia’s leaders have repeatedly made it clear that they will not accept European integration for the Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine). Even though Georgia has signed and ratified the Association Agreement with the EU, Tbilisi and Brussels need to prepare for a response from Moscow. This memo outlines Moscow’s potential pressure points, and identifies those where there is particular cause for concern. Although Georgia is not overly dependent on Russian gas, its reliance on Russian oil has been increasing. Moreover, Georgia has enough economic, social, and security vulnerabilities vis-à-vis Russia to be destabilised by a combined assault from Moscow. From a wine embargo and remittance blockage, to stoking domestic discord and anti-EU sentiment, Russia has a number of leverage points with which to weaken Georgia. In particular, as is glaringly evident after the Crimea annexation, Russia’s influence over the occupied regions of Abkhazia and South Ossetia in Georgia provides powerful possibilities to subvert Tbilisi and its European aspirations.

Georgia: A Battleground of Conflicting Interests

Since the parliamentary elections of 2012 and the presidential elections of October 2013, Tbilisi has been governed by the Georgian Dream coalition, created by the billionaire Bidzina Ivanishvili in 2011. The coalition consists of a number of political parties united against ex-president Mikheil Saakashvili and his United National Movement party. After Ivanishvili and his coalition won the parliamentary elections in 2012, Saakashvili gave up most of the presidential powers voluntarily, despite the fact that the new constitution, which changed Georgia’s super-presidential system into a parliamentary system, did not take effect until October 2013. As a result, a year-long period of strained cohabitation ensued. But the two political forces managed to find consensus on

several important issues, including constitutional changes and some foreign-policy questions.

In March 2013, the Georgian parliament adopted a bipartisan resolution on foreign policy. European and Euro-Atlantic integration was deemed “the main priority of the country’s foreign policy course”. Even though the resolution is very clear on Georgia’s foreign-policy ambitions, it also contains some ambivalent paragraphs that indirectly acknowledge Russia’s security interests in the region. For instance, Paragraph 12 of the resolution reads:

Georgia will contribute to rapprochement of positions of the United States, EU and the Russian Federation, as well as of other states in South Caucasus, in line with the interests of our country and principles of the Helsinki [Final Act].¹

This rather awkward statement acknowledges that Georgia is a battleground of conflicting interests. After the elections, the Georgian Dream coalition released a memo outlining its foreign policy vision (called “14 points”). Two articles are particularly relevant: Point 7 reads that “Georgia’s policy should not be directed towards performing a role of a strategic player in the processes of ongoing confrontation on a global and regional scale”, and two paragraphs further it goes on to say that “it is in the interests of Georgia to no longer be on the list of differences between the West and Russia”. These statements demonstrate the pathos of foreign-policy vision that exists in Georgia’s current foreign-policy elite – that Georgia should be a quiet actor keen on integrating into the EU without upsetting Moscow. This might seem naïve, but it is an approach that has been explicitly promoted by foreign-policy decision makers, including the former prime minister Ivanishvili and the current prime minister Irakli Gharibashvili. Yet the question remains, what will Georgia’s government do if Russia aggressively contests its European aspirations, as it did the Saakashvili administration’s courtship of NATO in 2007–2008?

If Russia decides to up the pressure on Georgia, it has a number of options. Russia’s pressure points can be grouped into three categories: economic, political, and security.

¹ “Parliament Adopts Bipartisan Resolution on Foreign Policy”, Civil.ge, 7 March 2013, available at <http://www.civil.ge/eng/article.php?id=25828>.

Russia's Economic Leverage

Georgia's economic dependence on Russia is different than that of Ukraine, Moldova, and Armenia. Georgia has four central areas of economic vulnerability in relation to Russia: investments, trade, energy, and remittances.

Investments

Georgia's core economic sectors are relatively diversified, as are foreign direct investments (FDI) in the country. According to Geostat, Georgia's statistics office, the five largest investors in Georgia in 2013 were the Netherlands (\$180 million), Luxembourg (\$145 million), China (\$98 million), Azerbaijan (\$95 million), and Turkey (\$74 million). Russia does not even make the list of the ten top investors.² In 2012, Georgia received a total of roughly \$911.6 million in FDI, with about half of that coming from the EU member states (\$440 million). Former Soviet states accounted for only \$86 million, with only \$20 million of this coming from the Russian Federation. In fact, since 1996 Russia has never accounted for more than 10 percent of Georgia's total FDI and the proportion has steadily sunk, to 2 percent in 2012. The data from 2013 shows that Russian investments have become negative (minus \$1.29 million).³ Thus, immediate Russian FDI withdrawal does not pose a serious threat to Georgia.

The structure of future FDI in Georgia, however, could be an issue. The Georgian economy is highly dependent on FDI and it is widely believed that FDI of over one billion US dollars a year is required to keep the country's economic growth over five percent. Currently, the government is attributing great importance to the co-investment fund that it created after coming to power in 2012. It has already been announced that over \$5 billion has been pledged by various investors to this fund, including by the previous prime minister Ivanishvili. If Russia's role in the co-investment fund increases dramatically, and if Western FDI decreases, this would bestow Moscow with a new degree of leverage – leverage that it might be more willing to apply than in the past. Previously, when Russian companies invested into Georgian electricity and banking sectors, they were wary of using their presence for political reasons, knowing that they could not influence Georgian politics

² Geostat (National Statistics Office of Georgia), Foreign Direct Investments, available at http://geostat.ge/index.php?action=page&p_id=140&lang=eng (hereafter, Geostat, Foreign Direct Investments).

³ Geostat, Foreign Direct Investments.

without serious financial repercussions. But the Putin regime and its allies in the business community might be willing to pay a high price to assert itself geopolitically.

Trade

With Russia's accession to the WTO, Georgia acquired additional WTO-based instruments to compel Russia to lift the trade restrictions it implemented in 2006. Russia had closed its market for Georgian agricultural products, wine, and mineral water. However, because of WTO membership and improved bilateral relations between Tbilisi and Moscow after the change of government in Georgia, Russia's consumer-protection agency lifted restrictions on the Georgian products and trade resumed. Exports to Russia subsequently quadrupled, from \$45 million in 2012 to \$190 million in 2013. The value of exports to Russia is now higher in absolute numbers than at any other time since Georgia's independence, almost \$40 million higher in 2013 than in 2005, the year before the embargo. Georgian exports to Russia will probably continue to grow as the government has been touting Russia's open market to Georgian producers.⁴

Wine exports are a particular case of both economic and symbolic importance. Surprising many, Georgian wine sales quickly rebounded once Russia lifted the embargo. In the last six months of 2013, close to 21 million bottles of wine were exported from Georgia to Russia. This compares with a total of 52 million bottles before the embargo, about 5 percent of the Russian wine market. Georgian wines now have a 2.5 percent share of the Russian market, with solid growth prospects. Crucially, 50 percent of total Georgian wine exports go to Russia, indicating a growing dependence.⁵ In the first quarter of 2014, almost 70 percent of Georgian wine exports went to Russia.⁶

Thus, although Georgia's foreign trade is quite diversified, with no single partner accounting for more than a quarter of overall trade, the growing share of exports to Russia does render the Georgian market vulnerable, and particular sectors, such as wine, more so. We have seen the Russian consumer-protection agency

⁴ Geostat (National Statistics Office of Georgia), External Trade, Georgian exports by countries, available at http://geostat.ge/index.php?action=page&p_id=137&lang=eng.

⁵ FactCheck Georgia, "Gigla Agulashvili speaks about the 2013 harvest and wine export", Factcheck.ge, 30 April 2014, available at <http://factcheck.ge/en/article/gigla-agulashvili-speaks-about-the-2013-harvest-and-wine-export/>.

⁶ Nino Evgenidze, "Georgian wine export, threats and benefits", Radio Free Europe/Radio Liberty, 30 April 2014, available at <http://www.radiotavisupleba.ge/>.

politicise trade and ban certain products when political relations with Russia deteriorate, not only in Georgia, but also in the Baltics, Moldova, Ukraine, and Central Asia.

Energy dependence

Georgia is not overly dependent on Russian energy. In fact, though it was dependent on Russian imports until 2006, Georgia has become a net electricity exporter to Russia since 2007.⁷ In January–April 2014, Georgia imported from Russia only 216 million kwt/hr of electricity, which is almost six times less than in the last four months of 2006. In the spring and summer months, when its hydroelectric capacities are at peak levels, Georgia also exports to Russia several hundred million kwt/hr of electricity. In 2013, Georgia sent 370 million kwt/hr to Russia. The Ministry of Energy expects exports to grow in 2014.⁸ Thus, Georgia has a net independence from Russia in terms of electricity supply, though it does still rely on Russian electricity in the winter.

As for the import of gas and oil, Georgia's main trading partner remains Azerbaijan. Georgia's imports of oil and oil products in 2010–2013 is shown in the chart opposite (Figure 1).⁹

As the chart illustrates, imports from Russia have increased in the last three years by a factor of almost five, while the cost of the hydrocarbons imported from Russia tripled. Thus, while the total share of Russian oil is only about one eighth of total imports, there is a growing dependence.

The dependence on Russian natural gas is following an opposite trajectory. In 2013, Georgia imported almost 1.5 times less natural gas from Russia than in 2010.¹⁰ In the same period, Georgian imports of natural gas from Azerbaijan were 11.5 times higher in 2013 than in 2010.¹¹

⁷ ESCO – Electricity Market Operator, Electricity Import/Export Statistics, available at http://esco.ge/index.php?article_id=43&clang=1 (hereafter, ESCO, Electricity Import/Export Statistics).

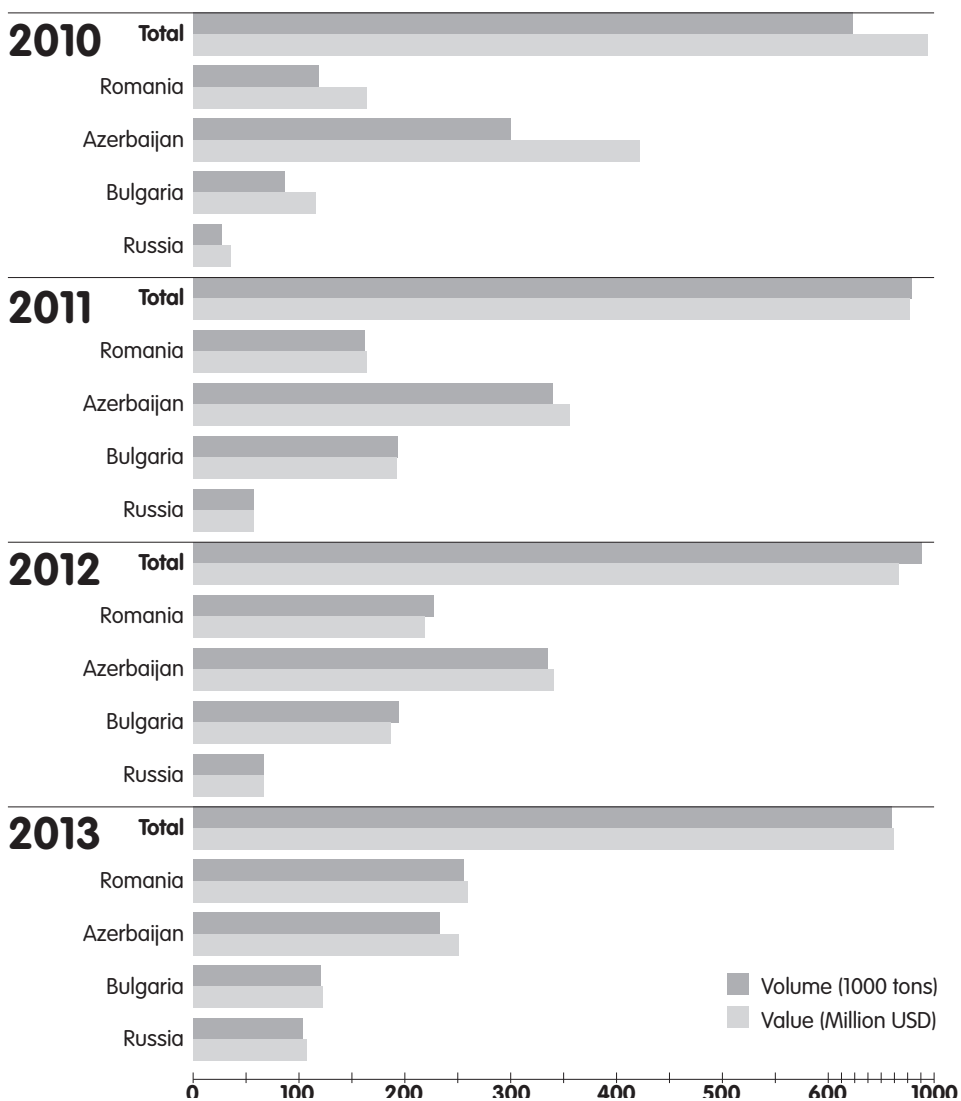
⁸ ESCO, Electricity Import/Export Statistics.

⁹ Chart based on the information retrieved from Geostat and the Ministry of Energy through official correspondence with Georgia's Reforms Associates.

¹⁰ 50,948 million tons in 2010; 37,093 million tons in 2013.

¹¹ In 2010, 97,533 million tons; and in 2013, 1,123,695. Information retrieved through official correspondence with the Georgian Statistics Office by Georgia's Reforms Associates (GRASS) in January 2014 (hereafter, GRASS).

Figure 1
Georgian hydrocarbon imports



Remittances

Remittances from Russia have traditionally provided a significant share of Georgia's economy. In 2013, Georgia received \$1.47 billion in remittances, 54 percent of which came from Russia.¹² And both the volume and the share of remittances out of Russia has increased in recent years. For instance, remittances from migrants in Russia grew from \$498 million in 2010 to \$801 million in 2013.¹³

Thus, a remittance ban is one of the most potent economic weapons in Moscow's arsenal. Which may be why Russia deliberated taking this action during the conflict in 2006.¹⁴ However, remittance ban is a complicated instrument that comes with credibility costs for Moscow as well as practical challenges. It is difficult to compel all international companies, such as Western Union, to stop sending remittances to Georgia, and only partial compliance translates to complete policy failure. Even if Moscow did manage to get all the official companies to commit, alternative options might still render the policy ineffective, as Georgians could transfer money from or via Ukraine or Belarus, or for instance rely on Hawala – informal, often person-to-person, money transfers.

As well as their money transfers, Moscow could also go after Georgian migrants who reside and work in Russia. While the official figures are usually underestimated by Georgian government agents, it is likely that there are at least a few hundred thousand Georgian citizens living in Russia, if not a million, as Human Rights Watch reported in 2007.¹⁵

Unlike other EaP states, Georgia has already suffered from an ethnic-based expulsion policy from Russia. In 2006, during a tense period that included the ban on Georgian wine imports, Russian authorities expelled ethnic Georgian migrant workers en masse. This was Moscow's response to the so-called "spy scandal", which erupted after Georgia apprehended a Russian intelligence ring in the country, arresting four Russian and ten Georgian citizens. In response, several thousand Georgians in the Russian Federation were deported to Georgia, mainly in aircraft usually used to transport cattle and goods. Two people died as a result of these deportations.

¹² GRASS.

¹³ GRASS.

¹⁴ Oleg Gladunov, "Migrants' money will stay in Russia", *Rossyiskaya Gazeta*, 5 October 2006, available at <http://www.rg.ru/2006/10/05/finansy.html>.

¹⁵ "Singled Out. Russia's Detention and Expulsion of Georgians", Human Rights Watch, 2007, p. 4, available at <http://www.hrw.org/sites/default/files/reports/russia1007webcover.pdf>.

Though the deportations of 2006 were a shock (and devastating for the people involved) they did not have an impact on Georgia's economy. Many of the deported Georgians started their small enterprises and businesses in Georgia, and many more made their way back to Russia, through either Ukraine or Belarus. The overall unemployment picture remained unchanged (13.8 percent in 2005, 13.6 percent in 2006, and 13.3 percent in 2007).¹⁶

In fact, the deportations may have hurt Russia's reputation more than anything. Georgia's government sued the Russian Federation in the European Court of Human Rights, which declared the case admissible in 2009. The final verdict is expected in 2014, and it is likely that Russia will lose.

Despite the relatively neutral picture for the Georgian economy, because of the high cost involved for the deported, one hopes that Moscow will not again target Georgian immigrants in Russia.

Sowing Political Discord

Russia can manipulate political and societal forces within Georgia to push an anti-EU and pro-Russian agenda. As Georgia starts to implement the visa-liberalisation action plan and Deep and Comprehensive Free Trade Agreement (DCFTA), opponents of European integration will emerge, whom Russia can support to bolster anti-EU sentiments. Among such groups are two relatively marginal political parties and the Georgian Orthodox Church.

Two political parties, one headed by the former speaker of parliament Nino Burjanadze (Democratic Movement – United Georgia) and another by Kakha Kukava (Free Georgia) are open advocates of the Kremlin and against European integration. Kukava's party has negligible ratings, while Burjanadze managed to garner 10 percent of the vote in the 2012 presidential elections. With more financial and strategic support from Moscow, these parties could have a disruptive effect on domestic efforts in Georgia to move ahead with integration.

The Georgian Orthodox Church has deeply entrenched beliefs and positions that are traditionally linked with the Russian Orthodox Church and ill-matched

¹⁶ Geostat (National Statistics Office of Georgia), Employment and Unemployment, available at http://geostat.ge/index.php?action=page&p_id=146&lang=eng.

with European values of tolerance, pluralism, and accountability. Despite the clear position of the ailing Patriarch Ilia II that Georgia's European integration is important, it is not clear if the patriarch's entourage shares this view. Some painful reforms are likely to awaken the ire of the church, including the anti-discrimination laws and biometric passports.

Anti-discrimination legislation is generally interpreted by the Georgian Orthodox Church as infringing on "traditional" Georgian values as well as the *primus inter pares* role of the church in Georgian politics and society. The church openly opposes policies that promise equal opportunity despite religion, sexual orientation, and ethnicity. In Moldova and Georgia, the Georgian Orthodox Church openly opposed the anti-discrimination legislation, staging protests, threatening to withdraw support for the government, and even "excommunicating" supporters of the legislation.

Another example of the church not supporting pro-European policies is reflected in its attitude towards biometric passports. The church, somewhat strangely, opposes biometric documents, finding them to be contrary to its values and threatening to the souls of the believers. Biometric passports, however, are essential for receiving visa-free travel with the EU, hence further confrontation on this issue is inevitable.¹⁷

Beyond these particular forces, we can expect resistance to grow within Georgian society as the country moves on with the implementation of the DCFTA, and particularly with the transposition of a number of EU directives and regulations in other fields. Georgia must implement over 320 directives and regulations in the next few years, effectively restructuring the Georgian economy. These changes will fuel opposition among anti-EU interest groups who oppose the government's EU path and advocate suspending the DCFTA and Association Agreement to "save the Georgian economy". Moscow will likely support such groups, with which the church will likely be aligned. This clash could be dramatic, spurred as well by large circulation populist newspapers in Georgia that spread pro-Russian propaganda, usually blended with Georgian nationalistic language and hate speech.

Moscow could also decide to bolster the separatist movement in Samtskhe-Javakheti, a predominantly Armenian-populated region, which has traditionally

¹⁷ Giorgi Liponava, "Why Instead of Words?", *Tabula*, 14 September 2011, available at <http://www.tabula.ge/en/story/70168-why-instead-of-words>.

enjoyed close links with Armenia. In recent years, the Georgian government has invested in the region, and its economic development has improved, as major infrastructure has been rebuilt. However, Javakheti is still one of the poorest regions in Georgia and the major infrastructure project – the Baku-Akhalkalaki-Kars railway, which connects Azerbaijan with Turkey through the Javakheti region – is viewed by some local actors as an anti-Armenian conspiracy by the Turkish nations. Russia has the resources to stir separatism in Javakheti, relying on its traditional intelligence contacts (a Russian military base was located in Javakheti until 2007) and separatist-minded local elements, some of whom were arrested by the Saakashvili government but have been released by the Georgian Dream coalition as part of a wide amnesty in 2013. As the Crimean events show, Moscow claims the right to intervene in foreign states to “protect” Russian citizens. There are reports of Russian passports being distributed in Javakheti, as well as other ethnic minority populated areas in the EaP.¹⁸

Advancing Insecurity through the Occupied Regions

Where Russia holds the most trump cards vis-à-vis Georgia is with the two occupied regions, Abkhazia and South Ossetia (considered by Moscow to be independent). The two regions have been embroiled in a conflict with Tbilisi since the early 1990s. In the years since, close to half a million people have been forced to leave their homes and few have returned. In 2008, after the five-day war with Georgia, Russia recognised the independence of these regions and attempted to gain their international recognition. Through a mixture of military contracts, monetary assistance, personal favours, and bribes, a few countries obliged.¹⁹

Russia can easily use the occupied regions to hinder Georgia’s rapprochement with the EU – by directly threatening annexation, but also by using the regions to destabilise the adjacent areas.

As the events in Crimea in early 2014 showed, Russia could go as far as

¹⁸ Eka Janashia, “Moscow Distributes Passports in Georgia”, *The Central Asia-Caucasus Analyst*, 7 May 2014, available at <http://www.cacianalyst.org/publications/field-reports/item/12966-moscow-distributes-passports-in-georgia.html>.

¹⁹ Venezuela, Nicaragua, Nauru, Tuvalu, and Vanuatu recognised the independence of Abkhazia and South Ossetia. Vanuatu (in 2012) and Tuvalu (in 2014) reversed their decisions, and it is widely believed that with the change of governments in the other countries, reversal of recognition is inevitable.

annexing either occupied region or both. South Ossetia, though, is the most likely candidate. For years, some actors in South Ossetia have argued for reunification with the Russian region of North Ossetia – despite the fact that South Ossetia is a relatively new political creation and had no land connection with Russia until the Roki Tunnel was built through the Caucasus mountains in 1984. After Crimea, any whisper of annexation from Moscow is a powerful threat. This scenario is particularly worrisome because the Soviet-era borders of the autonomous district of South Ossetia are open to multiple interpretations. Russian military leaders and diplomats could produce maps that envisage a larger territory for South Ossetia than it currently controls, and even a small extension would have serious consequences for Georgia. The country’s only East–West highway is just south of South Ossetia, and other critical infrastructure, such as the electricity transmission line Kartli 2 and the Baku–Supsa pipeline, are also just beyond South Ossetia’s current borders.

Russia could also continue using the occupied regions to instil terror and instability in the adjacent areas. In recent “borderisation” campaigns, for instance, Russian border guards, who are officially guarding South Ossetian “state borders”, set up barbed-wire partitions, artificially dividing households, sometimes even leaving the house on one side of the wire and the lavatory on the other.

Drawing barbed-wire borders is not the end of it. Russian border guards and military intelligence officers were believed to be behind dozens of terrorist and sabotage attacks in Georgian territory between 2008 and 2012. Kidnappings in the vicinity of the Administrative Boundary Line (ABL) between South Ossetia and Georgia are a common occurrence. Shootings and lootings near the ABL, which have declined in recent years, can be easily ratcheted up again by Russian troops. Between 2009 and 2011, ten terrorist attacks were carried out or attempted in Georgia, including one near the office of the Labour Party and another at the US embassy in Tbilisi. Naturally, it is difficult to prove Russia’s culpa in such events. Abkhazia and South Ossetia are impermeably sealed for the international community, and the Georgian government’s past attempts to trace suspected perpetrators have been fruitless. In the terrorist attacks of 2009–2011, for example, intelligence implicated Russian military intelligence and deemed the primary suspect to be a Russian military officer, Yevgeny Borisov, who was stationed in Abkhazia. However, Moscow refused to co-operate with the investigation, and Tbilisi was unable to gather sufficient evidence against Borisov.

Recently, concerns have been raised in Tbilisi that Russia could press Georgia into using its territory as a transit for military cargo to Armenia. This has worrying implications, as refusing Russia could lead to a military intervention, which Georgia's current government is not prepared to face. On the other hand, if Georgia agrees to allow Russian military travel through Georgia's territory on the North–South route, it risks becoming a permanent military corridor for Russian troops, which could effectively block the country's transportation arteries and cause destabilisation in the regions populated with ethnic minorities.

Another destabilising practice Russia might invoke is to renew its attempts to convince states or international organisations to recognise Abkhazia and South Ossetia. Since 2008, Georgia has mobilised all its diplomatic resources and successfully countered Russia's efforts. Russia has only seen mild success, including the aforementioned four recognitions and membership of such international organisations as the International Domino Federation and the World Futsal Association. Very often, monetary assistance, political support, state visits, and other “carrots”, including significant sums of money, have been directly linked with recognition. In the case of the Micronesian island state of Nauru, the sum of \$50 million and investments in the island's critical infrastructure have been cited.²¹ To gain recognition from the Polynesian country of Tuvalu, Moscow allegedly offered several hundred thousand dollars as a bribe to the then prime minister Willy Telavi.²¹ (Tuvalu reversed its recognition in 2014, after Telavi lost his majority to Enele Sopoaga, in August 2013.) In the past couple of years, Georgia has scaled down its efforts to block recognition in order to avoid tension with Russia while a bilateral dialogue between the prime minister's special representative, Zurab Abashidze, and Russia's Deputy Foreign Minister Grigori Karasin is taking place. Russia has continued its efforts, but with a lower profile. Embassies, for instance, are still tasked with raising the issue of recognition with various world leaders. Thus, should Russia want to contest Georgia's Association Agreement with the EU, it could likely once again step up its diplomatic war over recognitions.

In relation to the occupied regions, Moscow could also decide to torpedo ongoing negotiations and dialogue formats. The Geneva International Discussions are

20 Ellen Barry, “Abkhazia is Recognized – by Nauru”, the New York Times, 15 December 2009, available at http://www.nytimes.com/2009/12/16/world/europe/16georgia.html?_r=0.

21 “In PACE Speech Saakashvili Slams Government”, Civil.ge, 22 January 2013, available at <http://www.civil.ge/eng/article.php?id=25666>.

currently the only forum in which the status of the occupied regions is being discussed, and everything about it is contested – whether they are mediated talks or international negotiations and even whether Russia and Georgia are negotiating, or, as Russia claims, Moscow is mediating between Georgia and Abkhazia and South Ossetia. It is widely believed that the Geneva talks is a better format for Tbilisi than Moscow, for several reasons. First, the talks are in an international format, in which the EU, UN, and OSCE play a mediating role, thus sidelining Russia from the go-between position it enjoyed until 2008. The talks also feature agenda items that put Russia on the defensive, such as a pledge not to use force (a pledge that Russia has not given, though Georgia has) or the implementation of the 12 August ceasefire and international security arrangements (Russia strongly opposes any international presence). Thus, Moscow would welcome the opportunity to foil the Geneva talks in favour of a bilateral Georgian-Russian dialogue, without any EU, UN, OSCE, or US involvement. In any case, the Geneva talks are likely to be one of Russia's first targets, should it seek confrontation with Georgia.

A more circuitous option Moscow might chose vis-à-vis the occupied territories would be to gain leverage by finding a solution to the Abkhaz and Ossetian issues. Moscow could, for instance, endorse a confederation path. The tactic would likely be to assure the Georgian leadership that if they would only co-operate, say by halting further EU integration steps, Moscow would help them restore Georgia's territorial integrity in agreement with the region's leaders in Sokhumi and Tskhinvali. Georgia's political elite would be unable to resist pursuing such a deal, even if it meant pausing European integration. This would be all the more appealing, as the goal of EU and NATO memberships sometimes seems to be postponed *ad calendas Graecas*, and the Georgian political elite grows disillusioned with the EU and NATO.

However, this path poses risks for Russia, which are likely obvious to Moscow. If Russia manages to internationalise the process of a confederation agreement, involving the EU and other international partners, and channel the discussion in the context of European integration of Georgia, Russia would jeopardise its credibility, also with Sokhumi and Tskhinvali, were it to withdraw its pledge of support.

Unpredictable Russia

It is hard to make predictions when it comes to Russia. As one of Russia's great romantic poets, Fyodor Tyutchev, writes: "It is hard to understand Russia with your mind; you can only believe in Russia." We cannot know whether the Kremlin will use all or some of its available instruments to deter Georgia's EU integration. It is also difficult to predict if Georgia's government will react with as much restraint as the Ukrainian government has done. Many variables will determine the evolution of these scenarios, perhaps the most important being the developments within Ukraine itself. Ukraine is a big prize for Russia. Kiev is central to the political equilibrium in the EU's eastern neighbourhood, and also determines whether the EU's interest in the Eastern Partnership will be political only or also carry a significant economic dimension. Without Ukraine, the market potential of the Eastern Partnership area is quite meagre.

If Russia does decide to use all or many of the instruments available to it, Georgia will be hit hard. Their cumulative weight could have a profound impact on Georgia's domestic political stability and economic viability. Therefore, the Georgian government's confidence that it is stronger and more able to withstand Russian pressure than Ukraine is misguided and dangerous. It is likely that Russia will press Georgia with the various leverages available. Georgia needs to acknowledge its vulnerabilities and warn its EU and NATO allies of the threat, so that when the pressure mounts they are not caught on their heels – as they were in Ukraine.

ARMENIA'S STRATEGIC U-TURN

Richard Giragosian

Armenia's Strategic U-Turn

4

Summary

The Armenian president's surprise decision to abandon a planned Association Agreement with the European Union in favour of joining the Russian-led Customs Union derailed the country's Western orientation and deepened Armenia's position within the Russian orbit. The U-turn triggered a new perception of the Armenian government as insincere and incompetent, weakened the course of reform, and undermined the credibility of reformers within the Armenian government. Yet even as the Armenian government pushes ahead with its stated goal of joining the Customs Union, good relations with Europe remain an important policy objective.

Although the Armenian leadership has closed the door to Europe, they did not lock the door, and both Yerevan and Brussels are committed to salvaging some sort of relationship from the aftermath of the decision. But the recent resurgence of Russian power and influence, including an assertive campaign targeting the new Ukrainian government, suggests that Armenia will likely face greater pressure from Moscow, resulting in even less room for manoeuvre and fewer options for Armenia. The EU needs to recognise Armenia's limitations as a partner and come up with new ways to engage and empower the country.

During a meeting with Russia's President Vladimir Putin on 3 September 2013, Armenia's President Serzh Sargsyan announced a sudden shift in policy, in what was later seen as the opening shot in a new Russian campaign to push back the European Union's eastward engagement. The Armenian president announced his intention to pursue membership of the Russian-dominated Customs Union. In doing so, he effectively dismissed the EU's alternative offer of an Association Agreement and a related Deep and Comprehensive Free Trade Agreement (DCFTA) with the union.¹ The unexpected declaration caught many EU officials off guard, since Yerevan had offered Brussels little notice of any course correction of this kind. The abrupt move also blind-sided many in the Armenian government, as officials in Yerevan scrambled to define and then defend the bombshell that their president dropped in Moscow.

Armenia's surprise surrender

Armenia's decision to commit to joining the Customs Union was quickly labelled as a policy "U-turn", reflecting the degree of surprise within both the EU and Armenia.² The decision came as such a shock because it ended any prospects that Armenia would initial the Association Agreement with the EU as planned. And the timing of the announcement made the surprise even greater, since Armenian officials had failed to inform or warn the EU that an about-face was looming. However, in hindsight, the move was not as surprising as it seemed at the time. First, Sargsyan's abrupt summons to Moscow by Putin for a last-minute meeting not only suggested a new sense of urgency in Moscow, but also demonstrated the inherent asymmetry of the Armenian-Russian relationship. Understanding this imbalance sheds some light on what the atmosphere must have been like during the Armenian president's eleventh-hour decision to give in and give up so much, so quickly. For the Armenian president, whose personal relationship with Putin has long been seen as strained and tense, Armenia's weakness as an overwhelmingly junior partner in the "strategic partnership" with Russia invited subordination and submission.

Another factor that helps to explain the Armenian decision was the later confirmation of a new Russian policy on EU engagement in the post-Soviet

¹ The Armenian government successfully completed preliminary negotiations over the Association Agreement in July 2013, and was expected to initial it at the November 2013 Vilnius Summit.

² The phrase was coined by Swedish Foreign Minister Carl Bildt.

space, what Moscow defines as its “near abroad” or natural sphere of influence.³ In light of more recent events, it is now clear that there was a shift in policy in Moscow before the one in Yerevan. Russia decided on a new, much more assertive course of pushing out and pushing back against EU engagement in the former Soviet space. This change in Russian policy was in part a belated reaction to the EU’s Eastern Partnership (EaP) and the Association Agreements that have been negotiated with several EaP member states.⁴

Armenia’s case confirms this belated shift in Russian policy: Moscow presented no opposition throughout Yerevan’s nearly four-year process of negotiations with Brussels. It would also seem that Moscow seriously underestimated the EU, both in terms of its attractiveness to former Soviet states and in terms of its resolve in forging significant ties with the EaP countries. Russia made the mistake of considering the EU to be an insignificant geopolitical actor incapable of becoming a serious rival within Moscow’s sphere of influence. Moscow’s realisation of its error and subsequent change of direction was further demonstrated by its imposition of coercive measures and trade sanctions against Ukraine and Moldova. Armenia became little more than a sacrificial pawn, whose surrender and submission was designed to send a message of Russian strength and to deter European aspirations elsewhere.

The actions of the Russian military in Crimea in February–March 2014 and then Moscow’s direct violation of Ukrainian territorial integrity signalled Russia’s more assertive and aggressive reaction to European engagement. On a broader level, Moscow’s shift in stance stems from a much deeper campaign to consolidate Russia’s power and position, both in its influence within the former Soviet space and against the United States and the West elsewhere, as evidenced in the case of Syria. The policy has an important political dimension: this combative stance bolsters Putin’s personal image as a firm and decisive leader, and the projection of a strong Russia provides a much needed degree of power-based legitimacy. Putin has been seen to display strong leadership as the defender of Russian interests through a more assertive “power posture”.

Aside from Russian pressure, the Armenian president’s decision was also based on a combination of his own personal and political calculus. In the context

³ For more on this, see Richard Giragosian, “The South Caucasus: The Limits of a Resurgent Russia”, Heinrich Böll Foundation, 6 February 2014, available at <http://georgien.boell-net.de/web/52-1612.html>.

⁴ The Eastern Partnership (EaP) was initiated in 2008 seeking closer relations with six former Soviet states (Armenia, Azerbaijan, Georgia, Belarus, Moldova, and Ukraine), as part of the earlier European Neighbourhood Policy (ENP).

of Armenia's domestic politics, the shift in policy strengthened the Armenian government's position, because it neutralised attacks from the opposition over Sargsyan's westward-looking strategy. For months, the Armenian opposition, led by former president Levon Ter-Petrosyan's Armenian National Congress (ANC), criticised the government over the planned Association Agreement with the EU, arguing that it threatened the country's vital alliance with Russia. The second largest political party, Prosperous Armenia, also threw its weight behind the argument. This party has adopted an increasingly confrontational stance towards the Sargsyan administration. Sargsyan's policy reversal brought short-term political gain by neutralising the issue, stripping the opposition of its main policy stance.

The Armenian president's successful bid to co-opt the opposition was made even easier by the hypocrisy inherent in the opposition's policy. The ANC previously adhered to pro-Western liberal positions, so its new pro-Russian stance undermined its credibility. And the Prosperous Armenia party is riven by divisions: an essentially pro-Western camp led by former foreign minister Vardan Oskanian was increasingly coming into conflict with the more pro-Russian stance of the party's leader, wealthy businessman Gagik Tsarukyan, and of the party's political patron, former president Robert Kocharyan.

Insecurity and lost opportunity

In the weeks after the September 2013 policy reversal, the Armenian government struggled to defend its decision. Some government officials explained that Armenia was faced with an unwelcome choice between the EU and the Customs Union. They tried to argue that the country should be allowed to engage with both sides, dismissing the reality that the two commitments are necessarily exclusive. But neither the public nor the EU accepted this version of events. The discourse then shifted to an argument based on more traditional security considerations. The government contended that the country could not endanger its security relationship with Russia. This line of reasoning had more success in securing support among the Armenian public and limiting the political damage of an embarrassing strategic reversal.

The security argument seems logical, given Armenia's position as the host country of Russia's only military base in the region and its membership of the Russian-led Collective Security Treaty Organization (CSTO). But on a deeper level, the decision was driven more by Armenia's insecurity than any

striving towards real security. The underlying factor in Armenian insecurity is the country's pronounced over-dependence on Russia, even as Armenia's "strategic partnership" with Russia has become more and more one-sided and asymmetrical. For much of the past decade, Armenia's dependence on Russia has increased. Russian businesses and government enterprises have steadily acquired a hold on several sectors of the Armenian economy. They have gained control of much of the country's energy sector, its sole nuclear power plant, and the Armenian railway network, as well as winning a significant market share in the mining and telecommunications sectors. Seen from this angle, it is clear that the Armenian president's decision was motivated more by concerns about insecurity than considerations of security.

With Moscow's seemingly effortless success in forcing Yerevan to backtrack on its intention to finalise pending agreements with the EU, Armenia has clearly missed an opportunity to overcome the challenges of geographic isolation, marked by the closure of two of its four borders, and of economic insignificance, whereby its small size, marginal market, and entrenched corruption have impeded its longer-term development.⁵ In the short term, the Armenian government remains hard-pressed to regain confidence and restore credibility after renegeing on its planned initialling of the Association Agreement and related DCFTA.⁶ The retreat also sacrificed years of difficult negotiations. And it put the government's entire reform programme in jeopardy, since the decision to join the Customs Union actually offers meagre, if any, trade or economic benefits. If Armenia does become a member of the Customs Union, the result will be even more damaging. Membership would place Armenia even more firmly within the Russian orbit, condemning it to a future of being little more than a captive to Moscow's grand Eurasian Union project.⁷

The weakness and vulnerability of the Armenian position also undermines the country's reliance on "complementarity", a policy that involved maintaining a delicate balance between its strategic partnership with Russia and its pro-Western orientation. This policy of complementarity served as the strategic framework for Armenia's "squaring of the circle", smoothing out the inherent contradictions between its reliance on Russia and its Western aspirations.

⁵ See Laurence Peter, "Armenia rift over trade deal fuels EU-Russia tension", BBC News, 5 September 2013, available at www.bbc.co.uk/news/world-europe-23975951.

⁶ The EU's DCFTA represents more than a standard free trade agreement, covering not only the liberalisation of trade in all areas, by lifting customs barriers and trade quotas, but also the harmonisation of partner countries' trade-related legislation with EU standards and the *acquis communautaire*.

⁷ First launched in 2011, the Customs Union is composed of Belarus, Kazakhstan, and Russia.

Complementarity, although seemingly a merger of two incompatible policy directions, is in fact a natural result of Armenia's historical and geopolitical situation. It tries to meet Armenia's strategic imperative towards security by continuing to rely on its alliance with Russia as well as cultivating a positive relationship with the West. Armenia has consistently worked to avoid any direct or open challenge to Moscow. But the policy of complementarity has tended to elevate the country's strategic significance to the West, while enhancing its value as Russia's only reliable ally in the region.

The Customs Union and the Eurasian Union

In the aftermath of Russia's military incursion into Crimea, it seems likely that Moscow will renew its focus on consolidating its sphere of influence through the use of the coercive economic and restricted trade measures of the Customs Union, as a foundation for a revamped project of reintegration within the former Soviet space in the form of the proposed Eurasian Union. This move could be seen as the natural expansion of existing Russian-led projects of reintegration, based on the Commonwealth of Independent States (CIS) and the Russian-dominated Customs Union. But the concept of the Eurasian Union is at the moment both incoherent and undefined: it lacks practical benefits and seems very short on substance. Even the potential economic incentives are fairly weak, with membership offering rather meagre and marginal economic benefits for most of the potential partners – any gains would mostly accrue to Russia. But in many ways the most significant limitation is the “loss” of Ukraine, which now seems determined to accelerate its signing of an Association Agreement with the EU. Ukraine's absence adds a potentially insurmountable obstacle to the viability of the Eurasian Union, as well as bringing the utility of the Customs Union into question.

Despite the optimism of senior Armenian officials, the outlook for Armenian membership in the Customs Union is neither as simple nor as secure as the Armenian government at present seems to believe. There are serious obstacles in the way, including the lack of a common border with any of the other Customs Union members: Russia, Belarus, and Kazakhstan. And there appears to be no coherent economic advantage to Armenia's membership. In fact, the Armenian government itself clearly articulated the structural impediments to the Armenian candidacy throughout its earlier negotiations with the EU. At that time, even the then Prime Minister Tigran Sargsyan stressed that

“the structure of the Armenian economy is very different from that of the Customs Union’s countries that [...] pursue a policy of supporting domestic manufacturers through quite high customs duties”. The premier noted that “on the whole, the level of such duties in the Customs Union is twice higher than those levied in Armenia”, adding that entering the Customs Union would be “very complicated, if not impossible”.⁸ Armenia would also have to overcome structural obstacles that would require a complex process of legislative, regulatory, and even constitutional reform to meet the requirements for Customs Union membership.

A third, external reason that casts doubt on Armenia’s bid for the Customs Union is the seeming ambivalence of existing members towards Armenia’s participation. Moscow seems hesitant to expend the political and economic capital necessary to ensure Armenia’s entry into the Customs Union. And Belarus and Kazakhstan are reluctant to extend the preferential terms needed to secure Armenian membership. The absence of political will among the Customs Union members, and more importantly in Moscow, suggests that the main Russian motivation for orchestrating Armenia’s September 2013 announcement was having Yerevan say no to the European Union rather than having it say yes to the Customs Union.

Fewer options, looming challenges

Armenia has lost an important opportunity to deepen its ties with Europe and must overcome a daunting set of obstacles if it is to become a member of the Customs Union. Since the beginning of 2014, the outlook for Armenia’s ascension to Customs Union membership has dimmed. Despite an accelerated effort by the Armenian government, a series of unexpected objections and obstacles have derailed Armenia’s membership bid.

Two of the three members of the Customs Union, Belarus and Kazakhstan, have raised new protests over any preferential treatment for the Armenian application, forcefully arguing against Russia’s initial backing. And as even Russia’s support for Armenian membership has waned, especially in light of the “loss” of Ukraine, the timetable for Armenia to join has been repeatedly

⁸ Emil Danielyan, “PM Cites Another Hurdle To Armenian Entry Into Russian Bloc”, Radio Free Europe/Radio Liberty, 4 February 2013, available at <http://www.azatutyun.am/content/article/24892837.html>.

delayed and deferred. As Armenia's membership in the Customs Union seems increasingly remote and even unlikely, the missed opportunity of the Association Agreement with the EU remains a significant setback – even more pronounced as neighbouring Georgia has recently signed its own Association Agreement, suggesting a new division within the already deeply divided South Caucasus region.

And beyond that, Armenia now must face a new threat: its options have become fewer and there are serious challenges ahead. Armenia's dependence on Russia is now deeply entrenched, and a resurgent Russia is visibly ratcheting up bilateral pressure. This new environment threatens to derail Armenia's hard-won success in maximising its strategic options to overcome its isolation. For example, Armenia's "strategic partnership" with Russia has become steadily one-sided, with Yerevan demoted to the role of junior partner to Moscow far too often and much too much. Now, the future course of Armenia's relations with its neighbours, such as Georgia, Iran, and Turkey, may be subject to much greater Russian scrutiny.

Armenia's vulnerable position as a small hostage state within a tightened Russian orbit suggests that the country will have a difficult time resisting several looming challenges from Moscow. The first will likely centre on Armenian defence reform. In the same way as Russia has resisted Armenia's economic embrace of Europe, Moscow may now target Yerevan's expanding role within Western and Euro-Atlantic security structures. Armenia has tried to deepen ties with the West, both through bilateral agreements with a wide range of countries (such as France, Germany, Greece, and the US) and through active participation with NATO's Partnership for Peace (PfP) programme. Even so, Armenian military planners and officials have been prudent, repeatedly ruling out NATO membership while maintaining the country's active participation within the Russian-led CSTO security bloc.

Russia may try to reverse Armenia's steady drift away from relying on its strategic partnership with Russia and its membership in the CSTO as the sole sources for its military security. Russia has grown increasingly impatient with the Armenian embrace of Western-style defence reforms, including its work with American and NATO military advisors. With Russia's much more assertive posture in its "near abroad", there is a clear danger that Moscow may try to limit Yerevan's defence reform and modernisation. In the short to medium term, the visibility of Armenian defence reformers' "Western embrace" may now be difficult to sustain. Moscow may seek to halt Armenia's deepening

of ties with NATO and to exert greater pressure on Armenia's pro-Western reformers. Russia may move to constrain Armenia's Western-oriented NATO-supported military education reforms and could even seek to block Armenia's operational contribution to peacekeeping deployments abroad, which have included missions under Western command in Kosovo, Iraq, and Afghanistan. It could also challenge Armenian military planners and endanger operational plans to expand Armenian peacekeeping operations in Lebanon and Mali.

In light of these looming challenges, the EU now needs to explore alternative measures to engage and empower embattled Armenia. Its calculations should be based on a more realistic recognition of the limits and liabilities of Armenia as a partner. Yerevan's challenge will centre on the country's capacity and its leaders' determination to withstand a fresh onslaught of Russian pressure and coercion. Both Armenia and the EU need to face up to the fragility and vulnerability of the Eastern Partnership countries and to a resurgent Russia that seems intent on pursuing confrontation over co-operation and provoking conflict over consensus.

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