



The Vilnius Moment

PONARS Eurasia Policy Perspectives

March 2014

Institute for
European, Russian,
and Eurasian Studies

THE GEORGE WASHINGTON UNIVERSITY

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The Vilnius Moment

PONARS Eurasia
POLICY PERSPECTIVES
March 2014

*The papers in this volume are based on a PONARS Eurasia/IESP policy
workshop held in Chisinau, Moldova, December 5-7, 2013.*

PONARS Eurasia is an international network of academics that advances new policy approaches to research and security in Russia and Eurasia. PONARS Eurasia is based at the Institute for European, Russian and Eurasian Studies ([IERES](#)) at the George Washington University's Elliott School of International Affairs. This publication was made possible by grants from Carnegie Corporation of New York and the John D. and Catherine T. MacArthur Foundation.

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Cover image:

A Moldovan veteran laughs while listening to newly elected Moldovan President Nicolae Timofti's speech outside the Republican Palace in Chisinau, Moldova, Friday, March 16, 2012. Moldova's Parliament elected Nicolae Timofti, 65, a judge with a European outlook as president, ending nearly three years of political deadlock in the former Soviet republic. (AP Photo/John McConnico)

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Foreword

Cory Welt and Henry E. Hale
The George Washington University

This collection, *The Vilnius Moment*, is based on the proceedings of a December 2013 workshop of the Program on New Approaches to Research and Security in Eurasia (PONARS Eurasia), held in collaboration with the European Institute of Political Studies in Moldova (EIPSM). The workshop, “The Future of the EU-Russia Neighborhood,” centered on the development of EU relations with its Eastern neighbors in the aftermath of the November 28-29 Eastern Partnership Summit in Vilnius.

At the time, no one could have foreseen the momentous developments that were to take place in Ukraine in the aftermath of the Vilnius Summit. At the workshop, we explored the significance of the association agreements that Moldova and Georgia initialed with the EU. We grappled with the Ukrainian decision to postpone the signing of its association agreement and the rapid rise of the Euromaidan movement. We assessed the future of EU and Russian relations with other Eastern Partnership states, Armenia, Azerbaijan, and Belarus, and sought to understand how a heavily technocratic series of agreements had given rise to such acute geopolitical competition. The persistence and transformation of the Euromaidan movement, the heavy-handed reaction of Ukrainian authorities, the tragic violence and sudden collapse of the regime, and, finally, the Russian intervention in Crimea – all still lay ahead.

This volume includes 13 policy memos originally prepared for the workshop. Most of these were published online from December 2013 to March 2014 and are reprinted here in original or mildly revised form. Four memos by Eiki Berg, Ludmila Coadă, Tamar Khuntsaria, and Yuriy Matsiyevsky are new to the volume.

Part I addresses EU and Russian policy toward the “common neighborhood” and EU-Russian relations. *Eiki Berg*, *Andrey Makarychev*, and *Andrey Devyatkov* assess the rise of EU-Russian competition in the region and the unintended emergence of the EU as a geopolitical actor. *Yulia Nikitina* assesses the negative impact geopolitical competition has on states in the region and argues that the EU and Russia should focus more on “regional empowerment” than on integration and dependence in either direction. *Serghei Golunov* examines the pitfalls and possibilities of an underappreciated aspect of cross-border cooperation across EU and Russian borders – the “grey trade” in consumer goods between the Baltic States, Poland, and Russia.

Part II focuses on Moldova and Georgia. *Ludmila Coada* and *Tamar Khuntsaria* discuss the accomplishments of these Eastern Partnership “frontrunners” while exploring the economic and social challenges that lay ahead. *George Gavrilis* analyzes the political economy of Moldova’s Transnistrian conflict and cautions against assuming that Moldova’s closer association with the EU will inevitably resolve the longstanding dispute.

Part III centers on Ukraine. *Olexiy Haran* and *Maria Zolkina* chart Ukraine’s zigzag path toward European integration and argue that Ukraine’s divided population is not as much of an obstacle to a westward course as it might seem. *Yuriy Matsiyevsky* assesses the ways in which a competitive authoritarian regime might have evolved if Viktor Yanukovych had stayed in power, as well as the causes for the regime’s demise and the challenges Ukraine faces in consolidating its democracy.

Part IV investigates the foreign policies of other Eastern Partnership states and the ways in which “client” states can influence patrons. *Sergey Minasyan* and *Anar Valiyev* explore the nuances of Armenian and Azerbaijani foreign policies toward the EU and Russia and argue that both states are likely to continue trying to navigate a middle course. *Arkady Moshes* analyzes an economic spat that was the latest episode in the love-hate relationship between Belarus and Russia, concluding that Russian fears of “losing” Eastern Europe have given Minsk disproportionate leverage over Moscow. Finally, *Scott Radnitz* explores the use of lobbying in Western capitals by Azerbaijan and Georgia as a balance against the greater political heft of international and domestic opponents.

We know you will find these policy perspectives informative and thought-provoking. Many individuals were instrumental in the production of this volume, as well as the organization of the workshop that generated it. In addition to all authors and conference participants, we would like to especially thank our colleagues and co-organizers at EIPSM, Viorel Cibotaru and Alexandru Platon; Managing Editor Alexander Schmemmann; Program Coordinator Olga Novikova; Visiting Fellow and Russian Editor Sufian Zhemukhov; Graduate Research Assistant Daniel Heintz; IERES Executive Associate Caitlin Katsiaficas; and IERES Director Peter Rollberg.

PONARS Eurasia is a network of 100 academics, mainly from North America and post-Soviet Eurasia, who advance new policy approaches to research and security in Russia and Eurasia. Its core missions are to connect scholarship to policy on and in Russia and Eurasia and to foster a community, especially of mid-career and rising scholars, committed to developing policy-relevant and collaborative research.

PONARS Eurasia, together with the George Washington University’s Elliott School of International Affairs, expresses its deep appreciation to Carnegie Corporation of New York and the John D. and Catherine T. MacArthur Foundation for their support.

Do They Really Have a Choice?

EASTERN PARTNERSHIP STATES BETWEEN THE EU AND RUSSIA

Eiki Berg
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As promising as it might have seemed beforehand, the November 2013 Vilnius Summit has had an indeterminate impact on the future of Eastern Europe and the Caucasus. The EU claims that the Eastern Partnership (EaP) and its related Association Agreements constitute a set of policy instruments that prospective candidate states should voluntarily accept in order to align themselves closer to core European values. These include the rule of law, respect for human rights, good governance, and the development of a market economy. Russia's contrasting view sees these partnering initiatives as attempts to expand the EU's sphere of influence into a traditionally Moscow-centric post-Soviet space. Russia has proposed an alternative scenario for the post-Soviet space, namely the establishment of a Eurasian Union on the basis of a customs union. The EU in turn has responded with concern that Russia is attempting to strengthen its grip on states in the common neighborhood and revive its imperial ambitions. The only issue on which both parties agree is that moving further along either integration track will automatically exclude the possibility of moving along the other.

The EU's Integration Endeavors and Failures

To the EU, the eastern "neighborhood" represents a buffer zone between internal stability and a chaotic external environment that threatens illegal immigration, organized crime, disease, and poverty. Together with attempts to remedy these problems, the EU aims to promote its values and style of governance, trying to make "them" look like "us." How to organize the borderlands and relate to the "otherness" there and beyond are among the geopolitical questions the EU has sought to address in a quasi-imperial way, whereby power projection involves varying and outwardly-declining degrees of conditionality and external governance.

The institutional format of EU relations with its Eastern neighbors has gone through several stages. The EU first signed Partnership and Cooperation Agreements (PCAs) with countries (except Belarus) in 1998-99, then launched European Neighborhood Policy action plans (ENPs) in 2004-06, and finally shifted to the EaP framework in 2008-09. These led to negotiations between 2009-13 with Ukraine, Moldova, and Georgia on Association Agreements that include Deep and Comprehensive Free Trade Areas (DCFTAs). If ever signed, these agreements would replace the existing PCAs and facilitate political association, economic integration, and

even visa-free regimes—albeit without offering an EU membership perspective. Technically speaking, the EU is willing to share everything with its Eastern neighbors except its institutions.

Thus far, the EU approach has been to make external relations conditional on a predefined set of norms. This has been driven by a sincere belief that Europeans can make their neighborhood a more civilized place—if they have the confidence and capacity to export their ideas and if their normative power projection contains an appropriate mix of attraction and coercion. In reality, the situation has been more complicated: the EU uses coercion inconsistently and in self-limiting ways (contrast its approaches to Ukraine and Azerbaijan); it thinks about its neighbors only at times of crisis (i.e., the Georgian-Russian war); it does not speak with one voice in prioritizing relations with neighbors (Poland, Sweden, and the Baltic states versus the rest); its performance suffers from a credibility gap (positive talk, but more sticks than carrots); and its patronizing approach with outsiders (based on the unidirectional and unconditional transfer of rules and norms) is at odds with the voluntary idea of partnership.

Russia's Integration Endeavors and Failures

For Russia, the “common neighbourhood” is part of an area of “privileged interests” that was once part of the Soviet Union and with which it shares close cultural, ethnic, and historical links. Some level of institutionalized regionalism, including economic integration, exists via the CIS, the Collective Security Treaty Organization (CSTO), and, most recently, the Customs Union of Russia, Belarus, and Kazakhstan that may lay the foundation for a future Eurasian Union. The “near abroad” has been a key foreign policy interest for Russia since 1991-92. During Vladimir Putin's first two presidential terms (2000-2008), Russia became more determined and accumulated more resources to pursue its (re-)integration objectives. Putin's third presidential term has been marked by more pronounced calls for substantive integration.

Russia has tried to re-assert its influence in the common neighborhood in different ways. It has utilized hard and soft power: use of force and military bases; trade, sanctions, investment, and employment; language and religion; media and visa-free travel. It has pursued conflict management with respect to a number of disputed territories. It has also supported political partners, while openly resisting “color revolutions” in the post-Soviet space.

Russia's approach has made basic neighborly relations conditional on the fulfillment of its own expectations. Moscow has been driven by the conviction that ever since the collapse of Soviet Union, Russia has had an exceptional role to play in the post-Soviet space that includes providing security and order, fostering economic ties between the Russian core and the non-Russian periphery, guiding regional development, and helping to resist against hegemonic values and Western moral exploitation. Indeed, Russia has given its all to deter potential protagonists. Its military strike against Georgia (2008) utilized a disproportionate level of force relative to what was needed to secure peace in a disputed borderland. On several occasions, Russia imposed sanctions on

imported Moldovan wines and banned Georgian mineral water and wine as part of a political campaign to punish those states for their pro-Western policies. Russia also cut gas flows to Ukraine, intimated a threat to its territorial integrity if it were to opt for NATO membership, and, now, has sent military forces into Crimea. The Russian Customs Service also earlier temporarily blocked goods coming from Ukraine as a warning of the potential consequences if Ukraine were to conclude a DCFTA with the EU.

Choices in the Neighborhood

The reactions to these choices among the states in the region has been amazingly diverse. Given Armenia's reliance on Moscow for security, it decided to withdraw from Association Agreement negotiations in September 2013, and instead apply for membership in the Customs Union. In November, Ukraine too decided to suspend its preparations to sign an Association Agreement with the EU and instead proposed to set up a joint commission to promote ties between Ukraine, Russia, and the EU.

On November 28, the heads of EU member states gathered for the Eastern Partnership Summit in Vilnius and initialed agreements with Moldova and Georgia. Ukraine refused to sign its Association Agreement, leading to a level of public unrest in Ukraine that surpassed even that of the Orange Revolution (2004-2005). Although EU policy-makers continued to insist that the door remained open, it was unlikely that EU carrots would be sweeter to the previous Ukrainian government than those offered by Russia, which had bought \$15 billion in Ukrainian Eurobonds and cut the price of gas to Ukraine by 30 percent.

Ukraine's U-turn in its integration priorities threatened to trigger a domino effect in neighboring Moldova. Without a Ukrainian change of heart, Chisinau would have found it ever harder to resist Russian pressure to abandon its path toward European integration. Even the visa-free travel that the EU has promised might not be a sufficiently attractive incentive to Moldovans, many of whom have received Romanian (EU) citizenship, thereby already entering the EU through the back door.

In contrast, Armenia's decision to join the Customs Union could give new impetus to EU-Georgia relations. Closer integration with the EU is likely to come with strings attached: a condition that the Georgian government avoid selective justice against its political rivals. This demand is likely to bear fruit, unlike in Ukraine, where the case of imprisoned former prime minister Yulia Tymoshenko proved fatal to the opening of a new page in EU-Ukraine relations.

As for the other two states, little progress can be expected. Azerbaijan will not try to conclude a free trade agreement with the EU due to its lack of membership in the World Trade Organization (WTO), a basic requirement. The EU is also not likely to undertake dramatic changes in its approach to Belarus due the human rights violations and persecution of political opposition in the country.

So, with the possible exception of Georgia, will the EaP fail to bring in countries located along the EU's eastern border?

This is a question to which the EU would do very well to respond. The geopolitics of the neighborhood are arguably about organizing the broader European space. Both the EU and Russia are able to project power to a certain extent in the common neighborhood yet they differ considerably in their capacity to effect change. Short of offering the prospect of membership, what else could make the EU, “a norm-imposing power,” attractive for Ukraine? Without security guarantees, what could be appealing about the EU for Armenia, where many see it as an exporter of “perverted values”?

The politics of brutal pressure seem to work better in the post-Soviet space, where openness to the European kind of soft values is often interpreted as weakness. If these countries have to choose between a familiar, albeit unpleasant, past and a potentially promising yet unknown future, they could yet prefer the first option and stay entrenched in their own comfort zones. In this case, an inconsistent and divided EU that lacks credibility and effective instruments will not be of much help.

The EU in Eastern Europe

HAS NORMATIVE POWER BECOME GEOPOLITICAL?

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The November 2013 Eastern Partnership (EaP) summit in Vilnius played a key role in the transformation of the concept of the EU as a normative power. The summit was not only a focal point for developing the EU's eastward policy, it has repositioned the EU as a geostrategic actor. Even Germany, which is usually cast as an "advocate" for Russia, joined other EU member states in support of the "European choice" of Ukraine, Moldova, and Georgia. The urge to counter Russian aspirations in these countries has created a rare period of European foreign policy unity. At the same time, the ability of the EU to effectively adopt a geopolitical approach in Eastern Europe is limited because of a series of structural and institutional factors. In the end, the outcome of these contemporary East-West tussles will depend more on actions on the ground than on various balances of power between Brussels and Moscow.

The EU Plays Geopolitics

Most European experts would not rank countries like Moldova or even Ukraine at the very top of the EU's foreign policy priorities. Yet in EU discourse, the EaP's success is often referred to as a pivotal element of EU political actorness. EU elites gradually reconsidered their previous skepticism about Moldova, Georgia, and Ukraine and believed it possible for these states to engage in a normative rapprochement with the EU. The Vilnius summit was to be a major indicator of the EU's ability and commitment to effectively act in and help shape the future of Eastern Europe and the South Caucasus.

Such a policy, however, requires a readiness to engage in clear competition with Russia. Indeed, the EaP project essentially reflects the desires of the most ardent proponents of the EU's normative expansion to jettison a "Russia first" philosophy. The attempt to drastically decrease the Russia-centric nature of its Eastern policy has led the EU to mirror some of the instruments that Russia itself uses in the region. The EU has not only increased funding and technical support for Moldova and Ukraine. Multiple visits to Chisinau and Kyiv by representatives from EU member states (including Poland and Sweden as EaP initiators and Germany as the traditional leader of *Ostpolitik*) have clearly established the EU's eagerness to play the role of mentor, articulating these countries' national interests as grounded in the preservation of their pro-European orientation. This resembles what Moscow has been desperately doing for years – trying

to articulate the national interests of Moldova and Ukraine as part of the Russian-led Eurasian integration endeavor (currently exemplified by the work of Russian presidential envoy to Transnistria, Dmitry Rogozin, and presidential economic advisor, Sergey Glazyev).

The EaP has made the EU increasingly assertive in its challenge to the status quo that Russia pursues with regard to states of the region. This relates, in particular, to the question of frozen conflicts. Stimulating the reunification of Moldova and its breakaway region of Transnistria is part of the EU's far-reaching vision for the EaP area. According to EU Commissioner Stefan Fule, the Deep and Comprehensive Free Trade Area (DCFTA) is a good basis for reunifying Moldova, since Transnistria's non-participation in the DCFTA can cause the region serious economic problems. A similar logic applies to Georgia, which is eager to expand to the breakaway territories of Abkhazia and South Ossetia the economic benefits that will stem from its Association Agreement with the EU, thus paving the way for the country's reunification.

That said, Brussels has entered into a geopolitical struggle with Russia without having at its disposal—or even desiring to have—the corresponding military force (which was Russia's trump card in Armenia's case) or mercantilistic power (which derailed Ukraine's Association Agreement). The EU's understanding of geopolitics differs from classical geopolitical approaches and is closer to what is known as “critical geopolitics.” This school of thought claims that geopolitics still matters, but instead of struggles of hard power the conflict is one of identities that are transformed via competing discourses, communications, and narratives. By this interpretation, geopolitics is about rearticulating actors' geographical affiliations and getting them to reconsider their belongingness to certain geographic spaces. It is more about choices than control. The shift, for instance, of what was formerly known as Eastern Europe into Central Europe may be understood in this way. Similarly, the EU is now eager to have its more easterly neighbors move closer to the EU-based normative order.

Reasons for “Geopoliticizing” the EU Approach

The EU's eagerness to strengthen its geopolitical muscle and challenge Russia in its so-called “near abroad” is a result of at least two related factors that suggest fragmentation within the EU rather than its consolidation.

The first is the growing activism of Poland and Germany as co-shapers of the new political landscape in Eastern Europe. “We don't want to let Ukraine shift toward the Euro-Asia orbit or toward any kind of Russian hegemony,” said Andreas Schockenhoff, an influential German MP in charge of Russian policy. “There is a big strategic competition taking place. We are not convinced that it is in Ukraine's interests to be exposed to Russian interference.”* The Baltic states have also contributed to elevating the political importance of the EaP region for the whole of the EU.

The second is the predominance of European, particularly German, economic

* Judy Dempsey, “Can Merkel's Russia Policy Work?” *Strategic Europe*, Carnegie Europe, September 30, 2013.

lobbyists in the policymaking process. They do not necessarily support the EaP as a political project but still advocate for economically tying Russia's neighbors to the EU market without Moscow's consent. For example, the powerful German Committee on Eastern European Economic Relations openly advocates such an approach. However, the insignificant volume of trade between EaP states and the EU makes these economic arguments seem but justification (at least to Russia) for the EU's "truer" geopolitical intentions.

The geopoliticization of EU policy toward the EaP region is not as unusual as it might seem. The EU has conducted itself in geopolitical fashion before—for example, in accepting Bulgaria and Romania, two states that turned the EU into a full-fledged Black Sea actor. The EU's mild stance toward nondemocratic regimes in Azerbaijan (an EaP state) and Kazakhstan (an OSCE member) is based to a large extent on geopolitical logic. Some well-positioned politicians within the EU are also not immune to geopolitical thinking. For example, Romanian President Traian Basescu often makes provocative statements about Moldova as a Romanian country taken away from Romania by the Soviet Union and now under pressure by Moscow. Lithuanian Foreign Minister Linas Linkevicius has implied that the Russian exclave of Kaliningrad could hypothetically face an economic blockade if Moscow were to continue blocking the access of Lithuanian dairy products to Russia. Still, the geopolitical aspects of the EU and its individual members are not consistent or straightforward. They are activated at certain times and suppressed at others.

The EaP's implementation illustrates this trend. The elevation of Yulia Tymoshenko's case to the top of the EU's Ukraine agenda made its entire policy toward Ukraine quite fragile. The focus on Tymoshenko reflected a certain normative path dependency based on the EU's previous political commitment to this case as a demonstration of Ukrainian selective justice. Ultimately, however, political disagreements—such as Kyiv's refusal to release Tymoshenko for medical treatment—were less a stumbling block to concluding an Association Agreement than was the EU's refusal to provide a certain level of economic commitment to the Ukrainian government. Yet, as subsequent developments have shown, the whole controversy became deeply politicized—and geopoliticized. Facing a choice between two competing centers of power, Yanukovich decided to halt association with the EU. In the meantime, the EU came to see its Ukraine association project as geopolitical rather than purely technocratic. The EU's determination to bring Ukraine closer to Europe was increasingly reinforced as the pro-European rallies in Kyiv expanded.

Moldova's drift toward Europe cannot be taken for granted either. It cannot be ruled out, for example, that the country's anti-European and authoritarian-leaning Communist Party will gain power in parliamentary elections later this year. Its leader, Vladimir Voronin, has indicated that if it does, the party will revise all decisions that have brought Moldova closer to the EU. The prospect of having Moldova's Association Agreement fall victim to Moldovan domestic politics could strengthen the political commitment of the EU to Moldova in the coming months.

Challenges with the EU's Geopolitical Turn

Ultimately, however, the ability of the EU to mold its international identity along geopolitical lines is constrained by a number of factors. First, the EU's strategy remains grounded in "positive incentives" that do not necessarily provide an effective balance against Moscow's predominantly "negative incentives." Moreover, the EU's positive incentives are conditional and may bear fruit only in the long run, while Russian pressure and receivables exert immediate effect.

Second, the EU's turn to geopolitics is structurally incomplete. In most cases, Brussels avoids making hard political decisions on whether to accommodate authoritarian and corrupt governments or sanction them for non-compliance with EU policies. Ultimately, it was Kyiv and Yerevan, not Brussels, that decided to put negotiations on hold. The decision not to close the door on Ukraine, taken under the influence of the Baltic states and Poland, leaves it up to Kyiv to make the ultimate decision.

Third, the essence of the tentative EU geopolitical project is understood in different ways within the EU. In particular, a split remains between "maximalists" who adhere to the EU-led concept of a wider Europe and "pragmatists" who in principle may accept, for example, that the loss of Transnistria could be an affordable price to pay for Moldova's Europeanization, in much the same way that the recognition of the status quo in Kosovo is a precondition for Serbia's integration into the EU.

How Feasible is the Idea of a Common Neighborhood?

Is there an alternative to this geopolitical game? The concept of Eastern Europe and the South Caucasus as a "common" neighborhood has not gained much acceptance in either the EU or Russia. For many years, the two parties have failed to agree on a coordinated approach to the states between them. The EaP has only exacerbated the deficit of common solutions.

Following the Ukrainian government's suspension of negotiations with the EU, Moscow called for a trilateral (EU-Russia-Ukraine) framework for further talks. Brussels immediately rejected this proposal, saying only that the EU does not engage third parties in its bilateral discussions. Such a position seems to contradict Brussels' stated commitment to multilateral diplomacy as a foundation of EU foreign policy. It also raises the question of whether the EU really wants to transform Russia's "near abroad" into a common neighborhood or to detach Eastern Europe from Russia's sphere of influence.

These two scenarios differ greatly. A common neighborhood would, to a large extent, be grounded in the idea of "great power management" – with the EU and Russia as the key political stakeholders. An intention to disassociate Ukraine, Moldova, and other states from Russia, on the other hand, assumes adoption of power balancing strategies. But since Russia and the EU possess drastically different instruments of power, this would most likely trigger multiple asymmetries and conflicts.

Stuck between these two perspectives, the EU tends to oversimplify the situation on the ground. The most typical explanation for the EaP's current difficulties is Russian

pressure on its neighbors. Without questioning this factor, we can also identify structural underpinnings of Russia's hegemony in post-Soviet Eurasia. Russia established its military presence in EaP states at times when neither the EU nor NATO were very eager to engage with the region. Furthermore, the policies of Russia's neighbors often themselves make Russian pressure possible, an illustrative case being Armenia's intransigence on the issue of Nagorno-Karabakh.

Conclusion

Controversies surrounding the EaP have revealed the conceptual incompatibility of EU- and Russia-led integration projects. Rhetorically, the Kremlin echoes the old EU narrative about "Europe from Lisbon to Vladivostok" but has substituted its original content, based on the universality of European norms, with an underconceptualized idea of two integration projects that will gradually merge with each other. Yet Russia's policy of attracting states like Vietnam and Syria to the Customs Union reveal an intention not only to diversify economic relations but to economically counter-balance the EU. This devalues Russian assertions that Ukraine or Moldova would ultimately be able to retain their European identities even as parts of a Eurasian Union.

This situation ought to make us reconsider the extent to which the post-Cold War environment grants smaller states freedom of maneuver between major world powers. In Eastern Europe, the likelihood of becoming a "double periphery" of both Russia and the EU is greater than the prospect that these countries will be able to use their location to become strong international actors.

This is not to say that *realpolitik* is destined to be the only game in Eastern Europe. The limited success of the Vilnius summit has reinvigorated a plea for a common Europe without dividing lines and strengthened a normatively explicit pro-European domestic agenda within Ukraine. Despite attempts to substitute normative arguments with economic and financial ones, norms and values may still enjoy formidable political resonance in Eastern Europe in the coming months.

Winning the Hearts of Eastern Partnership States

Yulia Nikitina

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Russia and the EU have been increasingly competing for the loyalty of Eastern Partnership (EaP) states or, as Russia calls them, states of the “common neighborhood.” What is the nature of this competition, in terms of values and political incentives? Do the EaP and Customs Union projects really contradict each other? If not, what can be done to overcome this false rivalry? In this memo, I argue that EaP states misinterpret the nature of both European and Eurasian integration processes, leading them to conclude that these projects are mutually exclusive. In fact, both the EU and Russia want their neighborhood to become more prosperous and stable, and the best way to do this is to not deprive EaP states of choice.

Zero-Sum Game?

After the Ukrainian decision to suspend its Association Agreement (AA) and Deep and Comprehensive Free Trade Area (DCFTA) with the EU, the prevailing opinion in the West (as well as in Russia) was that Kyiv changed its plans under pressure from Moscow (“unjustified economic and trade measures” in the words of Stefan Fule, EU Commissioner for Enlargement).^{*} Ukrainian officials contributed to this perception by justifying their decision on the basis of a newly-found realization that closer association with the EU would complicate Ukraine’s relations with CIS states and the Customs Union and suggested the creation of a trilateral EU-Russia-Ukraine commission to discuss trade issues. There are other factors that led to a pause in the Ukrainian association process: the state of the Ukrainian economy, which was not quite prepared for a free trade agreement with the EU, and Viktor Yanukovich’s unwillingness to release Yulia Tymoshenko, which was a European precondition for signing the AA. Nonetheless, the political discourse around the AAs has been shaped in terms of a zero-sum game between Russia and the EU, with mutual accusations of blackmail against Ukraine.

Russia and the EU have pretended not to play a zero-sum game, but the tensions surrounding the Armenian and Ukrainian cases have proven otherwise. First, the EU perceived Armenia’s decision to join the Customs Union as a sign of Yerevan’s weakening desire to cooperate with Europe. Accordingly, it did not seek to uncouple the political AA from the DCFTA, which might have been a logical response. Along the same lines, Russia consistently stressed that if Ukraine were to sign its AA, it would not be able to join the Customs Union. The Ukrainian government was wise to call for the

^{*} <https://twitter.com/StefanFuleEU/status/403606050236268545>

creation of a trilateral commission to escape this stalemate, but chances for a mutually beneficial settlement were and continue to be low, as long as all sides insist on the incompatibility of the two integration projects.

International relations theory usually analyzes the EU as more of a normative power than a realist one like the United States. But by participating in zero-sum games with Russia in the “common neighborhood,” the EU has acted in a more realist fashion. Did Russia draw the EU into this game? Moscow says otherwise, claiming on various occasions that Russia is against dividing lines on the European-Eurasian landmass, either in the sphere of security or economy. Moreover, Russia presents European-Eurasian cooperation (including a visa-free regime with the EU) as the main panacea against the unpredictable development of the Russian regime, which the West fears so much.

An important step in overcoming the zero-sum game may be for the EU and Russia to recognize that they are really playing different games. At the September 2013 Valdai Club discussions with international experts and media, Russian President Vladimir Putin said that there are two main spheres of international competition at present: a) economics and technology and b) ideas and information.* In the “common neighborhood,” the EU and Russia have been competing in both spheres but not at the same time: Russia has been competing with the EU in the economic sphere, while the EU has been competing in the ideational sphere. This is why the EU perceived Armenia’s shift toward the Customs Union (i.e., an economic project) as a weakening of democratic commitment, without mentioning the economic consequences of the decision. Russia, for its part, expressed greater concern, at least at a rhetorical level, about the economic consequences of Ukraine’s AA. To prevent Ukraine from signing, furthermore, Russia used economic leverage, since it was unable to clearly formulate a viable political and ideational alternative.

The fact that Russia and the EU are playing different games (economic vs. ideational) can be explained by their different understanding of “best practices” when fostering the national development of a post-Soviet state. The Russian logic of development starts with economic stability and, in the end, leads to working democratic institutions. The European logic of development starts with working democratic institutions, which lead, finally, to economic stability. Ukraine, after the Orange Revolution, seemed to adopt the European logic of democracy first, but this path did not lead to the expected economic stability. There are two possible ways of interpreting the situation: either the European scheme is not working, or it was not true democracy in Ukraine. Russia seems to prefer the first interpretation, the Euromaidan, obviously, the second one.

Unfortunately, there is no easy way to reconcile these differences. There is no scholarly consensus on whether economic growth and development foster democracy or vice versa. It is unlikely that Russia and the states of the EU, with their disparate

* <http://kremlin.ru/news/19243>

experiences of state- and nation-building, will come to agreement on a single possible path of development.

“Regional Empowerment” as a Solution

Is there any way Russia and the EU can agree on a way forward for the states of the “common neighborhood”? One possibility is a notion we can dub “regional empowerment.” In psychology, empowerment refers to self-actualization. In management, it refers to the practice of sharing information and power with employees so that they take greater initiative while feeling greater responsibility for outcomes. In sociology, empowerment refers to a social process that allows people, mainly marginalized groups, to gain control over their own lives.

By regional empowerment, I mean a process of regional cooperation that allows participating states to take responsibility for their own fates and control of their own political, economic, and social development. In such a scenario, external assistance is limited to experience-sharing. Conceptually, regional empowerment is not so different from regional integration. I introduce a new notion to show that the main practical difference between the two is how project-launchers and potential new members perceive the EaP and the Customs Union.

Those who launched the EaP and Custom Union (and prospective Eurasian Union) projects see them as instruments of modernization aimed, essentially, at regional empowerment. According to the Eastern Partnership Joint Declaration of the 2009 Prague Summit, the Eastern Partnership is “a forum to share information and experience on the partner countries’ steps towards transition, reform, and modernization.” At Valdai in September 2013, President Putin similarly noted that “Eurasian integration is a chance for all the post-Soviet space to become a self-sufficient center of global development and not periphery for Europe or Asia.”* As argued above, however, the EU and Russia do not recognize each other’s efforts as such due to their different understandings of the stages of national development.

In the meantime, states in the “common neighborhood” tend to perceive EaP and Customs Union/Eurasian Union projects as geopolitical instruments and integration projects where more developed states sponsor the rest of the group. They believe that the EU and Russia pursue and are willing to pay the cost of integration for the sake of geopolitical influence. Being objects of geopolitical games might bring dividends in the short term but hampers national development in the long term.

Practical Implications

What follows from the clash of these two logics of development? How can either the EU or Russia win the EaP countries’ hearts? Not only is there no magic recipe to do that, the question itself is not formulated correctly. No one should be competing for their hearts; EaP states should strive and be ready to invest in their own development themselves, regardless of external incentives.

* <http://kremlin.ru/news/19243>

In practice, Russia and the EU have already begun to convey this message to EaP states. In particular, Russian political and academic elites increasingly believe that Moscow should not seek political integration with neighboring states, which will perceive it as oppression. However, Russian efforts to make its post-Soviet neighbors aware of their responsibility tend to still be perceived as political pressure (i.e., gas wars, the August 2008 war, and the Customs Union/Eurasian Union). The rise of gas prices for Ukraine in the mid-2000s was a consequence of Russia's decision to de-politicize economic relations with post-Soviet states. In the case of Georgia, Russia's recognition of South Ossetian and Abkhazian independence was the only way the Russian government believed it could legally make President Mikheil Saakashvili abstain from the use of force against separatist republics. The Russian actions made the Georgian government look for new legal and economic rather than military ways to make Georgia more attractive to the two separatist territories. In the end, Georgia will likely succeed.

Russian trade restrictions toward Ukraine in the final months before the Vilnius summit had a similar goal of demonstrating the consequences of entering into a free trade area with the EU. Europeans refused to sponsor Ukrainian reforms that Kyiv would have had to carry out in order to fulfill its AA commitments. The EU's refusal is an important step that demonstrates to EaP countries that political commitments need to be fulfilled. The deliberate refusal of both Russia and the EU to compete for EaP countries' loyalty will make these states more sovereign and responsible for their own fate, regardless of their foreign policy orientation and choice of integration vector.

Unfortunately, it is proving difficult for both sides to break out of the regional zero-sum game. In continuation of its economic logic, Russia decided in mid-December to invest \$15 billion into Ukrainian government bonds and to lower gas prices for Ukraine, which reinforced a zero-sum logic and lessened Ukraine's ability to be more responsible and self-reliant. Europeans, in their turn, provided moral support for the direct democracy of the Euromaidan opposition. The game is not over yet.

The Grey Trade of the EU-Russia Borderlands

ECONOMIC OBSTACLE OR OPPORTUNITY?

Serghei Golunov
Independent researcher

The grey trade in consumer goods and raw materials has been widespread along the borders of the Russian Federation since the 1990s. In the northwest, where Russia meets EU member states, the activity is well-established, providing consumers with a variety of discount products and profit to local shuttle traders. Despite the legal, taxation, and logistical drawbacks at the state level, it might be argued that this trading is one of the more dynamic and successful forms of cross-border cooperation. However, the trade has seen occasional discord and even public protest (on both sides of the border) in reaction to the ever-tightening official cross-border policies and restrictions.

This memo focuses on the development and impact of shuttle trading in the EU-Russian borderlands. First, I consider the major trends of this phenomenon in Russia since the early 1990s. Second, I look at the drivers and typical practices of the trade. Third, I analyze its economic and other impacts as well as the reaction of authorities. Fourth, I consider the recent trend of politicization of shuttle trade issues, which has emerged in reaction to the toughening of official EU policies that seriously affect economically disadvantaged areas that have high rates of unemployment on the EU's side of the border.

Russian Trends in the 1990s-2000s

In the early 1990s, catastrophic declines in production, mass impoverishment, and dramatically increasing unemployment, combined with a liberalization of entry and exit requirements for international travellers, made cross-border shuttle trading an attractive option for many people in the post-Soviet region. An increasing number of shuttle traders went “abroad” to buy consumer goods with the purpose of reselling them at home. Of course, not everyone involved in such activities was successful. The imported goods were not always in demand, and many shuttle traders had to deal with racketeers robbing them en route and when they sold their goods at market.

By the end of the 1990s, the Russian shuttle trade business began to decline. This was due to several reasons. First, the economic situation in the country began to improve and many people were able to find more stable and less risky jobs. Second, Russian customs policies, which had already been protectionist and unfriendly to shuttle trading, began to tighten. For example, in 2006, travellers were allowed to bring to Russia only 35 kilograms of consumer goods per month; in 2011, this limit was increased to 50 kilograms. From the other side of the border, it is also significant that in 2003

Poland—a primary destination for Russian merchants—introduced a visa regime for Russian citizens when it joined the EU.

In general, the shuttle trade remained profitable mainly in borderland areas where the proximity of a border greatly contributed to low transportation and visa costs (as many consulates were purposefully opened in borderland regions) both for Russians and inhabitants of adjacent states, such as Finland, Estonia, Latvia, Lithuania, and Poland.

Drivers and Practices of the Cross-Border Shuttle Trade

The majority of citizens living in borderland areas suffered greatly in the first years after the collapse of the USSR. There was a disintegration of economic ties between Russia and neighboring states, and many enterprises lost their partners and markets. Rather quickly, inhabitants of such areas perceived a wide range of opportunities to sell goods across the nearby borders due to sharp differences in, for example, fuel prices, food products, alcohol, medicine, and clothing. The “new” international borders between Russia and the Baltic states were poorly protected in the first half of 1990s. Until June 1992, they were even considered internal in Russian legislation, which gave shadow entrepreneurs a unique opportunity to transfer goods (including huge amounts of scrap metal) virtually risk- and penalty-free*.

In the EU-Russia border regions, especially in the Ida-Viru county of Estonia, the Latgale region of Latvia, and in the Warmia-Mazury district of Poland, shuttle trading served as an important source of income for Russians, particularly during those economically uncertain and depressed times. The flow of goods was mostly westward because Russian prices were lower than prices in neighbor states.

In the Kaliningrad exclave, the flow of goods brought by shuttle traders was reciprocal: Poles bought cheap cigarettes and fuel while Kaliningrad residents bought a wide range of consumer goods that were less expensive than those supplied from within Russia, since Russian customs barriers, delivery challenges, and weak competition among local producers created high prices.

Over time, some techniques became routine. Small-scale traders in fuel, for example, in order to avoid customs duties, filled the petrol tanks of their vehicles and sold it on the other side. Naturally, large fuel tanks were in high demand—people installed large tanks in their vehicles or bought cars like Volkswagen Passats that have large fuel tanks. Some even created fake bus routes to use large vehicles. At the Narva-Ivangorod border area, a major border crossing zone between Russia and Estonia that can be crossed on foot, the range of goods is diverse and new small-quantity techniques have been developed, such as using baby strollers.

Often, the shuttle trade represents the so-called “ant trade,” when goods brought through borders in small lots are actually controlled by larger entrepreneurs or systematically bought by them after a border is crossed. For instance, some bus and

* For more, see Serghei Golunov, *EU-Russian Border Security: Challenges, (Mis)perceptions, and Responses* (London: Routledge, 2012), especially Part V.

shuttle van drivers crossing the Russian-Finnish border distribute cigarette cartons among passengers and threaten to not give them a lift next time if they refuse to cooperate. Some companies even organize free or low-cost tours to Finland for those who are ready to assist them in exporting and importing goods. In Poland, cross-border traders that have established connections with petrol-filling stations are actually nicknamed *mrówki* (“ants”). Similar schemes are also flourishing in other EU-Russia borderland regions.

Effects and Official Reactions

Already in the 1990s, the vigorous cross-border activity of shuttle traders started to cause traffic congestion at checkpoints. Russia-EU cross-border cooperation programs modernised some checkpoints and adjacent roads, but congestion problems remain.

Another major effect of the shuttle trade was its competition with legal businesses specializing in fuel, tobacco, and some foodstuffs. In most cases (with the partial exception of Kaliningrad), Russia has had a relatively tolerant attitude toward such activities as they predominantly involve the purchase of Russian goods thereby bringing profit and additional jobs to borderland regions. The effect of shuttle trading on neighboring EU member states (especially the Baltic states and Poland) was more controversial. On the one hand, it served as employment for many inhabitants of borderland regions suffering from high unemployment: specifically, in the above-mentioned regions of Ida-Viru (Estonia), Latgale (Latvia), Warmia-Mazuria (Poland), as well as Klaipeda county in Lithuania—all places where the unemployment rate has fluctuated from 15 to over 20 percent. This was the main reason that authorities in these states were long reluctant to undertake firm measures against grey traders. There was a real fear of heavy socioeconomic consequences. On the other hand, the trade became a serious threat to legal EU petrol and tobacco producers and sellers, whose business costs are high.

In 2008-09, the Baltic states and Poland at last decided to implement firmer measures against the grey tobacco trade, diminishing the daily norm of allowable imports from 200 to 40 cigarettes (in Finland the norm allowing imports of 200 cigarettes has remained unchanged until now). This made grey cross-border trade in cigarettes unprofitable and thus some shuttle traders switched to gasoline while others have chosen to bring in cigarettes illegally. At the beginning of the 2010s, the share of illegal cigarettes in the Latvian market was estimated at 50 percent, in Lithuania at 25 percent, in Estonia at 25 percent, and in the Polish market at 15 percent. It is worth mentioning that in Estonia and Poland the cigarette consumption rate (more than 1500 per adult per year) is above the consumption rate in the majority of EU member states, while in Finland, Latvia, and Lithuania it is much lower but also significant (600-800 per adult per year)*.

* Cigarette consumption, see:

http://www.tobaccoatlas.org/products/cigarette_consumption/annual_cigarette_consumption

The subsequent wave of customs restrictions targeted illicit trade in fuel (gas is still almost twice as expensive in the EU than in Russia). In 2011, Lithuania started to collect excise duties for fuel in tanks from motorists who crossed the Russia-EU border more than five times a month. In 2012, Latvia introduced a similar excise duty for those who crossed the border more frequently than once a week. That same year, Estonia started to charge “suspicious” vehicles for fuel that the authorities estimated to be more than sufficient for reaching their destination in Estonia. In 2013, Poland started to charge “fees” to motorists who crossed the border more than ten times a month.

As usually happens in such cases, some loopholes continued to exist: for instance, some fuel traders bought petrol from long-distance truck drivers crossing the EU-Russian border. However, generally such measures dealt a very serious blow to cross-border shuttle traders whose most popular activities now became subject to greater restrictions.

Politicization Trends

Thus, after being cautious for a long while, Polish and Baltic states’ authorities finally enacted tougher policies toward domestic shuttle traders at the end of the 2000s. Because such measures deprived many people in depressed borderland areas of an important source of income, they led to popular discontent.

In some cases, restrictions on shuttle trade have led to mass protest actions, an atypical phenomenon for these regions. In February 2012, inhabitants of Latvia’s Latgale region reacted to the introduction of petrol excise duties by organizing several demonstrations and pickets in the cities of Riga and Rezekne and signing petitions against the new measure. Some activists even called for granting autonomy to their region. In northern Poland, the introduction of excise duties caused even stronger protests. In May-June 2013, protesters organized mass actions near the Polish-Russian border and sent a petition to the Polish constitutional court. They managed to be heard not only by mass media but also by major opposition parties. In the end, Polish customs regulations were only slightly modified, to make them more compliant with existing law and somewhat more flexible.

Although in these and other cases, protesters did not succeed in obtaining major concessions from authorities, the overall trend can be considered an alarm. If unemployed inhabitants of borderland regions do not find other options to continue their shuttle trade or, alternatively, do not find jobs in their regions or outside them, authorities can face great challenges in the future. In the Ida-Viru county of Estonia, where Russians are a majority of the population, the potential for local protests is considerably softened by the emigration of young people to other parts of Estonia and to other EU states.

It should also be noted that protests against tightened customs policies together with demands for greater autonomy are not atypical for Kaliningrad. In October 2013, local civic activists in the city of Kaliningrad organized an Internet campaign calling for a protest against an ongoing Russian “customs war” with Lithuania. Finally, the meeting

was cancelled as Russia ceased its close inspection of every Lithuanian vehicle crossing the border.

Conclusion

The grey shuttle trade along EU-Russian borderlands has arguably been more successful in many respects than any official cross-border cooperation. It is difficult to identify any form of the latter that would provide opportunities for income on the other side of a border for so many people and that would stimulate cross-border movement to such an extent. At the same time, shuttle trading greatly damages certain legal businesses (that also provide many jobs) and is one of the main reasons for traffic congestion that repeatedly paralyzes cross-border traffic movement.

Because the flow of goods bought by shuttle traders is directed mainly westwards, Russia remains relatively open to such activity as it provides borderland regions with additional incomes and jobs. The activities of Kaliningrad traders who buy cheaper consumer goods in Poland are less welcomed. While Finland remains relatively tolerant toward trade in such popular goods as petrol and tobacco, the Baltic states and Poland have after many years of relative tolerance resorted to restrictive and penalizing policies. Such restrictive measures have caused an atypically strong, although short-term, protest reaction in some borderland regions that suffer from severe unemployment. It remains unclear whether active unemployed borderlanders will react to unfavorable changes by increasing their political activity or will manage to adapt to new circumstances by resorting to novel grey trading practices or finding jobs outside their depressed regions.

The Vilnius Summit and Beyond

CAN MOLDOVA PROGRESS IN ITS RELATIONS WITH THE EU?

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Since the late 1990s, European integration has been the most relentlessly discussed subject in Moldova. The topic has been the centerpiece of every ruling party's program and the lead political discourse among the public and in the daily news. Now, at last, the "poorest country in Europe" has made a real choice. Moldova decided in favor of European values, drawing closer to the European space to which it geographically, historically, and culturally belongs. This move was due to an alignment between society, government, and Brussels, culminating in the initialing of an EU Association Agreement (AA) in November 2013 and positioning the country as a rare success story of the Eastern Partnership (EaP)—even though the AA still needs to be "signed" and further reforms implemented.

The outcome of the Vilnius summit generated euphoria across Moldova. Political association with Europe would be strengthened, economic integration could yield benefits, and travel could be facilitated through the easing of visa restrictions (something the EU has expressed a willingness to fast-track). A shift occurred in Moldova-EU relations from a stage of words and declarations to one of actual action. Earlier, the lack of perceptible results from the EU-Moldova dialogue in the framework of the EaP initiative had left room for doubts and incertitude when it came to the credibility and perspective of this relationship.

The results of the Vilnius summit were based on the EU's assessment of the progress of participants within the EaP. With Belarus being far from European values, Azerbaijan showing little interest in getting closer to the EU, and Armenia and Ukraine both rethinking their foreign policy priorities, Moldova and Georgia were the only states that displayed sufficient progress toward meeting EU requirements.

Moldova's path to the Vilnius summit, however, was neither easy nor short. Two phases reflect the past dynamics of Moldova-EU relations since the European Neighborhood Policy (ENP) was launched:

- The first stage covered the period between 2004 and 2009, with the development of the ENP to the official announcement of the EaP. This period was characterized by a lack of trust and ambiguous relations between Moldova and the EU. Despite a general belief that the launch of the ENP would revive Moldova's pro-European integration, Chisinau was reluctant to proceed with reforms, offering only unproductive pro-European rhetoric.

- The second phase began with the establishment of the EaP in March 2009, an event that preceded the rise to power of the Alliance for European Integration in Chisinau after the parliamentary elections that took place in July. The EaP became the new government's priority, making Moldova's pro-European narrative much more credible and moving its European integration process from the point of simple declarations to that of real action.

The initialing of the Association Agreement in Vilnius constitutes an important step in this second phase, but it should also prod Chisinau to accept the responsibility of continuing to work on reform. Moldova is not the first EaP state to initial an AA with the EU, but it has a good chance to be the first to sign one. For this to happen, Moldova will have to demonstrate a clear commitment to reform, strengthen its institutions, modernize governance and society, build a functioning market economy, fight corruption, improve standards, and more.

One complication to take into consideration is that Moldova's political environment and society remain heavily polarized, with right-wing and center-right parties advocating for European integration, left-wing parties against it, and only half of Moldova's citizens supporting the nation's accession to the EU.

Nonetheless, Moldova's European course appears to be taking root. The approximately 50 percent of people supporting European integration appear to be the more active segment of the population. More than 100,000 people were present at the Great National Assembly Square at the start of November in support of European integration. In contrast, an anti-European event held later that month had a very poor turnout.

Benefits

The initialing (and expected signing later this year) of the AA is expected to bring dividends to the Moldovan state, its ruling parties, and to society in general. First, it will be an important step for Moldova's European integration course as Chisinau meets EU standards and as the EU opens its door to Moldovan citizens and products. Second, it should positively impact Moldova's territorial reintegration. Even though Moldova's breakaway region of Transnistria sees Moldova's initialing of the AA as potentially generating instability and tension, Brussels claims it might actually lead to a solution. Third, the signing of the AA will be the main political weapon of political parties from the governing Coalition for European Integration during the upcoming parliamentary elections. Apart from learning that they could stay in power only in a coalition, the three ruling parties—the Liberal Democrats, the Democrats, and now the Liberal Party of Reform—have understood that they can keep their electorate mostly thanks to the progress achieved in Moldova's relations with the EU. Finally, signing the AA will put an end to Moldova's longtime balancing act between Eastern and Western policies that have made Moldova vulnerable and unreliable in the eyes of both its Eastern and Western partners. By finally shedding its “post-Soviet” label, it will detach itself from the Soviet and post-Soviet past in the same way the Baltic states did years ago.

East vs. West

Sharing a western border with the EU is a key advantage for Moldova. It makes its European integration course both dynamic and plausible. The EU has been open about needing a secure border in the east and a politically and economically stable neighborhood. It has played a huge role in promoting democracy and rule of law in Moldova, as well as stimulating modernization within the country's economy. Without reliable support from the EU, the reform process would have certainly shown weaker results. Though it is generally accepted that the EU as a whole did not give enough attention to the EaP, its Eastern European members were highly involved in encouraging their own eastern neighbors in their European aspirations. In the case of Moldova, Romania played a significant role in lobbying for the country's European integration (the two nations share a common history, culture, and language). President of the European Commission José Manuel Barroso voiced his appreciation for Bucharest's contributions in supporting the continuing Europeanization of Moldova following a meeting in November 2013 with the Romanian and Moldovan Prime Ministers. Later in January 2014, assistant U.S. secretary of state Victoria Nuland commended Bucharest for supporting Chisinau in the areas of energy independence and education and also for the leadership that Romania demonstrated within the EU advancing the EaP.

While the West appears to be favorable to Moldova's European integration, the picture is totally different in the East. There had already been many discussions on whether Ukraine would sign the AA in Vilnius long before Kyiv decided to delay its association deal with Brussels on the eve of the summit. There were also many hopes in Chisinau that with Ukraine on the same road, it would be easier to find a solution for the set of long-lasting problems that Moldova faces—primarily the issue of Transnistria. However, then-Ukrainian President Viktor Yanukovich, who had offered up pro-European rhetoric, appeared unprepared and unwilling to meet EU standards. Russia's role in helping Ukraine turn down the AA cannot be neglected, with the former managing to persuade Yerevan and Kyiv both that Eurasian projects would probably better fit their interests.

Paradoxically, Russia was not able to derail Moldova from its westward road—in fact it was a stimulating factor in Moldova's European ambitions as it had banned imports of Moldovan wine, expelled Moldovan workers, and denied access to Russian gas supplies. Moldova began to see Russia as an unattractive and unreliable actor. In Chisinau, Russia has never been seen as a promoter of reform or open to dialogue. Moldova has been trying to reduce its dependence on Russian energy supplies by diversifying its markets and energy sources. At the same time, it seems that Kremlin is not going to passively watch another post-Soviet state de-couple itself from Russia's sphere of interest. Remarks by the Russian Ambassador to Moldova about Moscow's plans in 2014 to pay more attention to the Gagauzia and Taraclia districts, which are alongside Transnistria, constitute real challenges to Moldova's territorial integrity. It seems that Moscow would like to slow Moldova's pro-European drive and could play a more active role on the Moldovan front in 2014.

Conclusion

Moldova is motivated to continue its pro-European course. The European integration process is seen as capable of generating solutions to unresolved problems. Other integrationist projects have not brought about positive transformation. Moldova has made its choice but there still are forces, both at home and abroad, which oppose its European course. The main actions Moldova must take in order to keep moving toward the EU are sustaining political will, continuing the process of reform, building trust between ruling political parties, and mobilizing its citizens. Tangible outcomes remain to be seen but by accomplishing these objectives, the governing Coalition for European Integration will be able to prove that a pro-European course is not a fleeting narrative or just a way to remain in power.

Moldova's (Not So) Troubled Borders

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Days after Moldova had initialed its Association Agreement with the European Union at the Vilnius Summit in December 2013, officials at breakaway Transnistria's de facto Ministry of Foreign Affairs mocked Moldova's bid for European integration stating, "The Moldovan leadership is in Brussels a lot, so they can become European quicker than the rest of Moldova's population." A ministry official also decried myths depicting breakaway Transnistria as a hub for trafficking drugs and dirty bombs and described a number of measures that Moldovan officials were allegedly taking to strangle and blockade Transnistria.

Among these measures was the decision by authorities in Chisinau, Moldova's capital, to set up migration control posts along the Dniester River, which bounds the western edge of Transnistria. Moldovan officials explained that they had set up the migration control posts ahead of the Vilnius Summit to demonstrate to the EU that they are serious about disrupting illegal migration and contraband flowing from Transnistria across Moldova and toward the EU. As Moldova was once also included in the derogatory phrase "black hole," Moldovan officials were keen to show that they had made strides in border control but that they still needed Western security assistance.

The EU and other border aid donors such as the United States tend to define the problems along the region's borders as directly related to capacity gaps. That is, cash-strapped, institutionally deficient countries like Moldova would better deter illegal immigration and more ably prevent arms and narcotics trafficking if they had stronger and more professional border management institutions. Thus, Western security assistance to Moldova is aimed at these security and capacity gaps.

In reality, lapses in border management have less to do with weak capacity and more to do with political will. Officials in Moldova and its breakaway region approach their borders as opportunities for economic statecraft and revenue and less so as institutions to deal with trans-border threats. This means that European and U.S. aid will only go so far.

The State of the Border

The War of Transnistria in 1992 created an intractable problem for Moldova's borders. When separatists took over a long sliver of territory on the left bank of the Dniester, Chisinau effectively lost the ability to control a 470-kilometer stretch of its border with Ukraine.

Moldova, including Transnistria and EUBAM's area of responsibility



Source: EUBAM Press Pack, 2013

In the decade that followed, officials in the breakaway capital of Tiraspol engaged in a flurry of state-building activities that included creating a parliament, courts, a central bank and currency, as well as military, police, customs, and border control services. A 2006 International Crisis Group report declared that Transnistria had developed all the institutional markings of a state.

Authorities in Chisinau faced a dilemma after the loss of Transnistria. They were unable to deploy border guards and customs officials along much of the border with Ukraine; at the same time, they were unwilling to police the internal border with the Transnistrian region along the Dniester lest this create the appearance that Chisinau was setting up a de facto border and thereby acquiescing to the loss of the territory. Chisinau tried to resolve the dilemma by lobbying Ukraine to beef up its border controls and pestered Ukraine's officials to grant Moldova's border authorities access from the Ukrainian side.

Throughout this period, EU and U.S. officials pressured Moldova to improve border security. Helge Blakkisrud and Pål Kolstø (University of Oslo professors who

have written extensively on post-Soviet nation-building) report that in 2002 an EU Parliamentary delegation referred to the region as a “black hole of illegal trade, trafficking, and smuggling.” In 2004, European officials again raised the alarm that arms smuggling appeared to be in full swing along the Ukraine-Moldova border. Officials from Moldova, Transnistria, and Ukraine bristled at the criticism, and a spokesperson for Ukraine’s frontier guard sarcastically reflected, “If Europe was as liberal with its assistance as it is with its criticism, we would have no more problems.”

European officials ultimately decided to help Moldova and Ukraine to manage their borders. This aid came mostly in the form of the European Union Border Assistance Mission to Moldova and Ukraine (EUBAM), launched in November 2005. The initiative was doubly urgent as Romania was preparing for entry to the EU, and concerns abounded that Moldova was not ready to shoulder the responsibility of sharing a border with an EU member state. At the same time, EU officials were eager not to be outdone by U.S. assistance, which supported both states on customs reform and supplied a host of high-tech equipment for detecting radiological substances at border crossings. Moldova’s authorities welcomed the EU mission, maintaining high hopes that it would disburse lucrative aid and counterbalance some of Russia’s influence (Moscow had disbursed substantial amounts of economic aid to the breakaway region and maintained a troop mission in Transnistria).

With a healthy budget and presence across Moldova and Ukraine, EUBAM set out to modernize and improve the capacity of border management authorities. The program’s initiatives included training officers in border agencies, technical assistance (such as computers, thermal imagers, and vehicles), and confidence-building measures designed to increase trust between Moldovan and Ukrainian officials.

Playing Chicken at the Border

In the months after EUBAM set up shop, local papers published reports on smuggling rings. These reports indicated that the contraband going across the border was not quite weapons-grade material, however, noting that in May 2006 more than 40,000 tons of chicken had been shipped into Transnistria through Ukraine’s Black Sea ports. The quantity raised suspicions as it amounted to 66 kilograms (146 lbs) for each resident of Transnistria. According to some reports, the poultry was being reloaded into smaller trucks, smuggled back into Ukraine to avoid import taxes, and sold at below-market rates. Another explanation suggested that the chicken never actually made it to Transnistria but that Moldovan export certificates were being used abroad to disguise the provenance of the poultry, and that both Transnistrian and Moldovan officials were involved in the illicit use of the certificates. Either way, estimated profits amounted to approximately \$1,000 per ton of chicken. As a member of the EU mission stated, “They make more money than they would dealing weapons.”

This episode of smuggling is as consequential as it is colorful. It has played an important role in shoring up Tiraspol’s elites and state structures (structures that were well-developed and revenue-hungry as Blakkisrud and Kolstø indicate in their work on Transnistrian state building). EU representatives familiar with Moldova noted that such

large-scale and efficient smuggling necessarily involved official collusion. Notably, the poultry imports were registered to a company named “Sheriff,” a highly dominant Transnistrian enterprise that includes petrol stations, supermarkets, car dealerships, food production, telecommunications, and the football club FC Sheriff Tiraspol. In a study of the Transnistrian economy, Kamil Calus notes that Sheriff’s official contributions alone constituted as much as 30 percent of the breakaway region’s tax budget. The company has a history of close relations with Transnistrian customs officials and, allegedly, the family of Igor Smirnov, the territory’s former de facto president, in order to secure reductions in taxes and import duties as well as preferential “access” to the border.

At the same time, Moldova’s own border institutions have been sites of lucrative economic and political battles. Official collusion with cigarette smuggling has been a long-standing problem across the Moldovan-Romanian border, as has trafficking and out-migration that is illegal or secured with fraudulent documents. As one Moldovan columnist quipped in a December 2013 op-ed in *The New York Times*, “If illegal immigration were an Olympic sport, we would be the gold medalists.” According to some accounts, the former-governing coalition Alliance for European Integration was riven by infighting a few years ago because of struggles to control key revenue-generating ministries and agencies, including customs.

Chisinau and Tiraspol certainly see their borders as security institutions and as means to shore up their overlapping sovereignty claims, but they also see them as tools of economic statecraft and revenue building. In some cases, this means asserting more control over the border, in some cases less. Officials in Chisinau and Tiraspol have incentive to control the border more when licit trade flows entail lucrative customs taxes, registration fees, and tools. At a border crossing near Bendery, Transnistrian officials have set up a well-staffed border crossing where customs rates, duties, and import allowances are prominently advertised and collected. As revenue over customs and flows is lucrative, neither side wants to give up, and this has been the source of recurring disputes. Officials in Tiraspol, for example, repeatedly note that Transnistrian companies registered in Moldova are subject to double taxation (such as sanitary fees, environmental fees, and customs duties), despite assurances that the companies would not be paying taxes to the Moldovan government.

At the same time, Chisinau and Tiraspol have less incentive to control the border when it comes to illicit flows of goods and people. Neither Chisinau nor Tiraspol have much incentive to end smuggling given the role contraband plays in infusing their economies with revenue. During the poultry smuggling scandal, Ukraine’s national security adviser estimated that illicit trade with the Transnistria region was \$250 million per year, an amount equivalent to the annual breakaway region’s government budget.

Does It Matter in the End?

Given these economic realities, it is hard to see why Chisinau or Tiraspol should change their behavior at the border, and donor countries need to confront the limitations of their security-sector assistance. Instead of continuing to focus on the capacity gap and the

perks of closer association with the EU, those who dispatch security and development assistance must think more about how the aid they give will affect the bottom line of rulers and state budgets.

European policymakers should continue to fund EUBAM's work to professionalize and train border authorities with long-term horizons. At the same time, it is important to be realistic that donors cannot promote a short-term transformation of the region's political economy, which keeps borders from functioning "better." Due to political and financial constraints the EU cannot offer Chisinau (or Tiraspol, for that matter) large-scale aid and transfers that would diversify the region's economy and increase the appeal of licit activities.

Nor is the EU in a position to make its border and security assistance conditional on better performance on the part of recipients. The EU's leverage in border and security assistance is still in stasis in Ukraine given the political upheaval there and uncertainties about which way the country will ultimately lean—toward Moscow and the Customs Union or toward greater association with the EU. At the same time, the EU's leverage in Moldova is hampered by Chisinau's emergence as front-runner for establishing a Deep and Comprehensive Free Trade Area with the EU. For the time being, Brussels needs Moldova to move toward closer association to resuscitate the wounded EU brand. This geopolitical reality makes it difficult for European policymakers to demand better performance on border management from aid recipients. But this may not matter. The past decade has shown that the price of letting the status quo continue along Moldova's borders is affordable as far as European security is concerned.

The EU's Association Agreement with Georgia

ASSESSING THE DOMESTIC POLITICAL AND ECONOMIC IMPLICATIONS

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EU-Georgia relations have entered a new phase. Georgia took a step closer to the European Union at the third Eastern Partnership Summit in Vilnius in November 2013 when it initialed an Association Agreement (AA) with a Deep and Comprehensive Free Trade Area (DCFTA). The agreement is to be signed later this year, provided that Georgia meets all necessary conditions.

The AA represents a bilateral dimension of the EU's Eastern Partnership (EaP) initiative, launched at the Prague Summit in May 2009. The overall objective is to support the political and economic approximation to the EU of the latter's six eastern neighbors, Georgia included.

Structurally and policy-wise, the AA/DCFTA is the most advanced of the cooperation mechanisms that the EU has offered to Georgia (and to other eastern partners) over the past twenty years. The weight of the AA lies in its relatively enhanced conditional structure, i.e., clear future benefits linked to the imposition of domestic reforms. This does not imply reactive enforcement, such as application of penalties in case of non-compliance. Instead, it consists of clearly formulated programmatic benchmarks for the implementation of EU requirements. Within the scope of the AA, the EU embarks on a so-called "more for more" approach, meaning that the EU offers concrete carrots in exchange for commitments to deep and comprehensive political reforms. Although the agreement does not open a possibility for accession to the EU, the benefits of the AA/DCFTA are still attractive: deepened and intensified political dialogue, full access to the EU market, and visa liberalization.

The EU-Georgia AA is a thick and comprehensive document of around 1,000 pages. The European Commission released the text of the agreement after its initialization at the EaP Summit at the end of November 2013. The AA is structured into three major parts. The first part focuses on political dialogue, association, and respective reforms; cooperation and convergence in the field of foreign and security policy; and convergence in areas of justice, freedom, and security. The provisions of the DCFTA, which is an integral part of the AA, are covered in the second (economic) and third (sectoral) parts of the agreement. This includes convergence and cooperation in fields such as: trade and trade-related matters, national treatment and market access for goods, technical barriers to trade, sanitary and phytosanitary measures, customs and trade facilitation, intellectual property rights, and competition. In addition, the agreement covers sectoral areas, such as tourism, agriculture and rural development, consumer

protection, cooperation on employment and social policy, public health, education, culture, sports, civil society, and cross-border and regional cooperation.

The convergence reforms that the EU has set forth in the scope of the association process are complex and require serious domestic political and economic commitments. This raises questions about the AA's potential benefits, as well as the anticipated costs and risks of compliance. This memo analyzes the potential domestic implications of the AA for Georgia.

Georgia's European Way

The political implications of the AA for Georgia are multifaceted. To begin with, the EU association process is a litmus test for Georgia's new political administration to demonstrate (domestically and internationally) its European way and commitment to fundamental democratic reforms.

The country's previous ruling elite, under President Mikheil Saakashvili, proclaimed its European identity and made EU integration a major foreign policy objective. However, the government's public discourse was never consistently followed by an adequate level and quality of reforms necessary for European approximation. The previous administration was not enthusiastic about implementing the EU's "deep and comprehensive" regulatory reforms due to high convergence costs. Instead of targeting long-term sustainable development and growth, Tbilisi proceeded with marginal reforms and used the possibility of EU approximation as a political tool to sustain EU support and financial assistance.*

Georgia's 2012 parliamentary election and 2013 presidential election brought a new administration to power. Over the past year, the new government has demonstrated a somewhat accelerated speed of reforms for EU approximation, the fruits of which were reaped at the Vilnius summit. Yet the government's main political challenge is ahead. Now that the AA has been initialized, it is time to commence implementation of its provisions. This means that the government has to embark on large-scale "deep and comprehensive" reforms both at legislative and policy levels, as well as at the institutional level. The AA's political section requires extensive convergence to EU norms and requirements in the field of justice, freedom, and security. Particular importance is attached to the consolidation of the rule of law and the reinforcement of institutions at all levels in the areas of administration in general, and law enforcement and the administration of justice in particular. Cooperation will notably aim at strengthening the judiciary, improving its efficiency, safeguarding its independence and impartiality, and combating corruption. Respect for human rights and fundamental freedoms will guide all cooperation on justice, freedom, and security.

The process of democratization in Georgia is still at its beginning. The recent presidential elections marked further progress in Georgia's democratic credentials. However, it is vital that Georgia remain a pluralistic democracy with effective checks

* For more, see Tamar Khuntsaria, "Prospect of Deep and Comprehensive Free Trade Area (DCFTA) – Is there a European Way for Georgia?" Center for Social Sciences, Tbilisi State University, September 2012.

and balances and further strengthens its democratic institutions. Although elections are an important step, they are just a first step and need to be followed by substantial political reform. The ruling elite, among many important aspects of democratic consolidation, need to ensure that political power (that was fully concentrated in the hands of the executive over the last decades) is both *de jure* and *de facto* distributed between executive and legislative branches. For building genuine democracy, it is also crucial that the courts are freed from political pressure, media freedom is guaranteed, and the rule of law prevails.

Another implication of the AA is that closer association with the EU creates stronger international guarantees for the security and territorial integrity of Georgia. The EU is neither an influential nor a unitary international actor in power politics, particularly when confronting Russia. Yet, the EU's firm support for Georgia's territorial integrity and non-recognition of Abkhazia and South Ossetia is vital for the country's diplomatic efforts to resolve these conflicts and in its fragile relationship with Russia. The EU shall continue to remind Russia that it has to comply with the "six-point agreement." Concerns regarding "borderization" activities along the administrative boundary lines have grown, and reiterated EU support to Georgia is one of the few diplomatic instruments with which the country may confront any aggression from Russia. It is in Georgia's interest that the EU remain fully engaged in conflict resolution efforts, using the variety of tools at its disposal (including the EU Monitoring Mission, the Geneva discussions, pressing on the possibility of reopening the OSCE mission in Georgia, and political statements and support).

However, there is another side to the coin—an enhanced EU-Georgia dialogue and intensified "Europeanization" of Georgia provides an impetus for Russia's expansionist appetite, which in turn endangers Georgia's security and territorial integrity. To this end, it is intriguing that the anticipated signature of the EU-Georgia AA coincides with the NATO summit in London in September 2014. Georgia's aspiration to NATO membership and expectations to elevate its "aspirant status" at the upcoming NATO summit are likely to increase Georgia's security concerns vis-à-vis Russia. Therefore, in the process of association, the EU and Georgia should ensure that constructive dialogue with Russia prevails, making it clear that this is not a choice between Moscow and Brussels, and that both the EU and Georgia seek good relations and cooperation with Russia.

Finally, Georgia's commitment to the EU has significant political implications for the future of the EU's Eastern Partnership at large. The situation has changed since Vilnius. The idea of the Eastern Partnership weakened and its future became blurred as Armenia and Ukraine withdrew from the association process before the summit in favor of the Russian-led Customs Union. The future of the EU's engagement and political impact in the region remains uncertain. Among the original six EaP partners, only Georgia, Moldova, and, again, Ukraine have proclaimed European integration as foreign policy priorities and expressed a readiness to conclude their association deals. To save the EaP and sustain its political levers in the region, it is important for the EU to strengthen programmatic and financial support to all three.

Having learnt a bitter lesson, the EU has put Georgia and Moldova on the AA fast track, aiming to sign agreements “as soon as possible and no later than the end of August 2014.”* However, this unconditional acceleration of the timetable gravely limits EU conditionality concerning the required reforms in Georgia and Moldova and may lead the quality and level of their democratic performance to stagnate.

Trade and Economic Growth

One of the most important implications of the DCFTA for Georgia is the possibility of diversifying its export market by deepening trade with Europe. Export diversification has become vitally important for Georgia since Russia’s 2006 embargo and 2008 war, which ultimately closed the vast Russian market for Georgians. Even as trade is reopened, it is probable that the market will remain unstable and unpredictable due to the existing political and security context. Therefore, for sustainable development of its exports, Georgia needs to penetrate the EU market, one of the world’s largest, most stable, and strictly regulated. In addition, approximation to European norms in the long term offers the best chance of stable and incremental growth for the Georgian economy.

Currently, the EU is one of Georgia’s main trading partners. Nearly 26 percent of Georgia’s external trade is with the EU.† However, total bilateral trade with the EU, Georgian exports in particular, is very low. According to Eurostat‡, EU exports to Georgia increased by 29.5 percent in 2012, while exports of Georgian products to the EU decreased by 4.9 percent. In 2012, EU imports exceeded Georgian exports by more than 3.5 times, while the latest statistics of the second quarter of 2013 shows that EU imports exceeded Georgian exports by about 2.5 times. See the table below for the import/export trends over the past 5 years.

Total goods: EU Trade flows and balance, annual data

Period	Imports			Exports			Balance	Total trade
	Value	Growth*	Share in	Value	Growth*	Share in	Value	Value
			Extra-EU			Extra-EU		
	(€ million)	(%)	(%)	(€ million)	(%)	(%)	(€ million)	(€ million)
2008	735	60.3	0.0	1,214	11.4	0.1	479	1,950
2009	517	-29.6	0.0	878	-27.7	0.1	360	1,395
2010	567	9.6	0.0	1,153	31.3	0.1	586	1,720
2011	614	8.3	0.0	1,597	38.5	0.1	982	2,211
2012	584	-4.9	0.0	2,068	29.5	0.1	1,484	2,652

Source: Eurostat Comext-Statistical Regime 4

* Conclusions of the European Council, EUCO 217/13, 19/20, December 2013.

† Geostat: www.geostat.ge/cms/site_images/files/english/bop/FTrade_06_2013_ENG.pdf

‡ Eurostat: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113383.pdf

Thus, there is need for further diversification of Georgian exports to the EU market, which can be achieved with the help of the DCFTA. Once fully implemented, the DCFTA is expected to have a significant economic impact in Georgia. According to a Trade Sustainability Impact Assessment study commissioned by the EU, the DCFTA can increase Georgia's exports to the EU by 12 percent and imports by 7.5 percent. In the long term, Georgia's GDP could increase by 4.3 percent (292 million euros), provided that the DCFTA is implemented and its effects are sustained.*

Moreover, the DCFTA provides Georgia with an opportunity to reform and strengthen its trade-related legislation and respective institutions. Georgia has enjoyed its current trading scheme with the EU, the EU Generalized System of Preferences (GSP+), since 2005. This has implied removal only of tariff barriers, however, and does not deal with non-tariff barriers (such as strict food safety standards or sanitary and phytosanitary requirements). Correspondingly, it has not had the desired impact on growth of Georgian exports to the EU.

The economic impact of the DCFTA, however, will not be immediate. Time is needed to develop and stabilize the domestic business climate, ensure proper functioning of related state and non-state institutions, help business adapt to a new economic reality, and comprehend ways to explore emerging export markets. Ample financial resources and patience are needed to implement the reform package. The short-term effects of the DCFTA are associated with more challenges than gains, and the cost of the reforms is to be shared by state, business, and customers alike. Moreover, the government is likely to face social discontent as a result of the possible closing down of businesses in some sectors and job losses. Also, competition for foreign direct investment and the costs of modernization may be much higher than available investments, and companies (particularly SMEs) are likely to face transitional problems. In the view of some experts, the regulatory changes imposed by the European Commission in terms of development policy may be burdensome and equivalent to taxing Georgian production, endangering its growth and economic sustainability.† Customers will enjoy better quality and more diversified products and services on the market. However, these benefits may be accompanied by higher prices for goods and services, as well as an increased gap between the wages of skilled and unskilled labor, possible job losses, and potentially declining incomes.

Conclusion

The process of concluding the AA/DCFTA with the EU will be challenging for Georgia both politically and economically. EU approximation requires the government to undertake extensive reforms that may not be immediately popular among voters. On the security front, deepening political ties with the EU raises the risk of escalated tension

* Ecorys-Case, "Trade Sustainability Impact Assessment in support of negotiations of a DCFTA between the EU and Georgia and the Republic of Moldova," Final Report, October 2012.

† "An Appraisal of the EU's Trade Policy towards its Eastern Neighbours: the Case of Georgia," Group D'économie Mondiale Sciences PO Paris, Centre for European Policy Studies (CEPS) in Brussels and New Economic School of Georgia, 2011.

and aggression with Russia. Notwithstanding these challenges, EU association is an irreversible strategic development route for Georgia, which has no better alternative. Above all, it promises the country long-term, stable, and sustainable development, an enhancing of its economy, and a strengthening of its democracy.

At the moment, there is time to prepare. To enter into force, the AA has to be signed, then ratified by all 28 EU member states' parliaments, the European Parliament, and by the Georgian parliament. This is a lengthy and complicated process. During these years, sustaining the government's political determination and firm commitment to the European perspective, as well as the EU's strong support, will be crucial.

Ukraine's Long Road to European Integration

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Different presidents have come to power in Ukraine under different foreign policy slogans, but none have been able to conduct a coherent foreign policy. Moreover, at one time or another, each of them—Leonid Kravchuk, Leonid Kuchma, Viktor Yushchenko, and Viktor Yanukovych—have issued formal declarations that state that European integration is Ukraine's strategic goal. However, the need to deal with Russian economic and informational warfare has created recurring challenges and stumbling blocks for Ukraine's leaders (as well as voters). We witnessed this trend once again in the leadup to the European Union's Eastern Partnership (EaP) Summit in Vilnius in November 2013, when Yanukovych declined to sign the Ukraine-EU Association Agreement (AA). This caused massive pro-EU protests in Ukraine—the “Euromaidan,” named after the main square in Ukraine's capital, the same place that had been the symbolic center of the 2004 Orange Revolution.

A Legacy of Multi-Vector Diplomacy

In the mid-1990s, former president Leonid Kuchma began a series of maneuvers to strengthen the Ukrainian state. He weakened separatist forces in Crimea, concluded a Treaty on Friendship, Cooperation, and Partnership with Russia, which finally recognized Ukraine's borders, and even signed a NATO-Ukrainian Charter on a Distinctive Partnership in 1997.

But while Kuchma navigated between Russia and the West through a policy of multi-vector diplomacy, he ultimately moved cautiously in one direction – toward the West. While distancing himself from Kravchuk, whose policies the more Russified eastern Ukraine judged too nationalist, Kuchma had to take into consideration the position of those who had voted for Kravchuk in Ukraine's western and central regions. In June 1998, Kuchma issued a decree that approved of a “Strategy for Ukraine's Integration into the EU,” through first “association” and eventually full membership. Later, in 2003, the parliamentary faction of the Party of Regions (led by then-Prime Minister Viktor Yanukovych) unanimously voted for a “Law on Fundamentals of National Security in Ukraine,” which clearly stated that Ukraine's aim was to join NATO and the EU.

This, however, could only take Kuchma so far. In the 2004 presidential elections, the Kuchma administration did everything possible to prevent Viktor Yushchenko from

winning by presenting him as a radical nationalist who would “oppress” the Russian-speaking population. This stood in contrast to portrayals of candidate Yanukovych, who was positioned as “a great friend of Russia.”

One of the main reasons for Yushchenko’s success was that he used slogans that were common to the whole country and appealed to European values, social justice, rule of law, and the struggle with corruption. His emphasis on issues of social justice helped to overcome anti-Western stereotypes and the polarizing strategy of his opponents. In the end, however, the country emerged from the Orange Revolution extremely polarized.

The Yushchenko Era: Good Slogans, Mixed Results

For many years, Brussels refused to recognize Ukraine as a potential member of the EU. The most positive signal it sent to Kyiv was right after the Orange Revolution in January 2005, when the European Parliament passed a resolution on the results of Ukraine’s election, which proposed:

“...giving a clear European perspective for the country and responding to the demonstrated aspirations of the vast majority of the Ukrainian people, **possibly leading ultimately to the country’s accession to the EU.**” [emphasis by authors]

It also recalled:

“...the provisions of Article 49 of the Treaty on European Union, which state that **EU membership is an option for all European countries that satisfy the relevant conditions and obligations; looks forward to a sustained transition process in Ukraine that would bring the country towards this objective, and commits itself to assisting and supporting Ukraine in this process.**”

Even these formulations, however, were not developed in the subsequent EU-Ukraine Action Plan for 2005-2007, which had been prepared when Kuchma was still in power and many analysts in Brussels believed Yanukovych would succeed him.

Under President Yushchenko, Kyiv emphasized that its aim was to join the World Trade Organization, the EU, and NATO. It tried to prod the EU into action by abolishing visas to EU citizens. But Brussels, preoccupied with the French and Dutch vetoes of the EU constitution, was not ready to send positive signals to Ukraine. After fifteen years of negotiations, Ukraine finally joined the WTO in 2008; the opposition Party of Regions, under Yanukovych’s leadership, joined all parliamentary factions with the exception of the Communists in voting to ratify Ukraine’s membership. Yushchenko also opened the way for negotiations on Ukraine’s AA with the EU, to include the establishment of a deep and comprehensive free trade area (DCFTA). His government also began negotiations to cancel visas for short-term visits of Ukrainians to the EU.

At the same time, contrary to his conduct in the 2004 campaign, Yushchenko divided society in the 2010 presidential campaign by spoiling relations with the Kremlin,

openly supporting NATO membership, and glorifying anti-Soviet partisans from the World War II-era Organization of Ukrainian Nationalists. As a result, Yushchenko narrowed his already shrinking base and finished with just five percent of the vote. For his part, Yanukovych campaigned not only on the disappointment caused by the performance of the Orange government but also on alleged Western passivity, arguing that “if the EU does not want us, let us look to Russia.” He also exploited anti-Western sentiment. Thanks to the electoral rhetoric on both sides, Ukraine lapsed back into a polarized state.

Yanukovych, the AA, and a New Authoritarianism

Paradoxically, Brussels accelerated negotiations on an AA and visa-free regime only after the Orange forces lost the 2010 presidential election and Yanukovych began backsliding from democracy (including changing the constitution and using “politically selective justice,” as the EU formulated it, against his political opponents, chief among them former Prime Minister Yulia Tymoshenko). Brussels and Washington decided to engage the democratically-elected Yanukovych in political dialogue. After the “Orange chaos,” the West seemed happy that Ukraine was speaking with one voice and that its relations with Russia had improved. However, the West overlooked the nature of Yanukovych’s leadership. Only at the end of 2010 did the European Parliament express its first serious concerns about his authoritarian tendencies.

In July 2010, Yanukovych broke, to a certain extent, with Ukrainian foreign policy tradition. The Ukrainian parliament adopted a new law on the fundamentals of Ukraine’s foreign and domestic policy that excluded integration with NATO and established a policy of “non-alignment” aimed at appeasing the Kremlin. At the same time, the law emphasized that EU membership was still a priority. If successful, Yanukovych’s foreign policy could thus evolve from its initial pro-Russian overtures into a new version of Kuchma’s multi-vector policy.

Despite Yanukovych’s authoritarian leanings, the EU ultimately decided not to repeat the situation that occurred under Kuchma, when isolation from the West pushed the president back toward Russia. Ukrainian civil society and even Tymoshenko herself supported this position. After some hesitation, the EU decided to initial the AA in March 2012 but again wavered for almost a year. Finally, at the February 2013 EU-Ukraine summit, Brussels mentioned the possibility of signing an AA with Ukraine later in the year. However, Yanukovych took domestic political steps contrary to Brussels’ expectations and continued to maneuver between the EU and Russia.* The window of opportunity for signing the AA with the EU began to narrow.

In August 2013, Russian economic and psychological pressure on Ukraine, which included a temporary halt to all Ukrainian imports, appeared to push Brussels and Yanukovych toward each other. Directed by the presidential office, the Party of Regions began voting in September and October alongside the opposition to pass a set of so-

* See: Olexiy Haran, [President Yanukovych's Growing Authoritarianism: Does Ukraine Still Have European Prospects?](#), PONARS Eurasia Policy Memo No. 265, July 2013.

called “Euro-integration laws” that were necessary for signing the AA. It also sought to convince the public of the advantages of EU integration.

Public Opinion and Foreign Policy

At first blush, Yanukovych’s new multi-vectorism was arguably supported by Ukrainians’ ambivalent geopolitical orientations: different polls have shown that the Ukrainian people tend to say “yes” to both the EU and the Customs Union with Russia, Belarus, and Kazakhstan. This ambivalence helped Yanukovych use relations with the EU as a counterweight against Russia and vice-versa.

Nonetheless, Yanukovych’s tack toward Europe also had a popular justification. According to a May 2013 poll by the Democratic Initiatives Foundation (DIF) and the Razumkov Center, when given a choice, 42 percent of respondents favored entering the EU while 31 percent favored entering the Customs Union (see Table 1).

Table 1.

In which Direction of Integration Should Ukraine Move? (“Give only one answer.”)

	West	Center	South	East	All of Ukraine
Entering the EU	72.2	48.8	32.9	20.7	41.7
Entering the Custom Union of Russia, Belarus, and Kazakhstan	7.4	21.9	39.5	50.4	31.0
Entering neither EU, nor the Custom Union	10.2	15.3	13.8	13.5	13.5
Difficult to say	10.2	13.9	13.8	15.5	13.7

Source: DIF/Razumkov Center (May 2013)

Unsurprisingly, half of respondents from eastern Ukraine and about 40 percent from southern Ukraine supported integration into the Customs Union. Since these regions were the main electoral bases for Yanukovych and the Party of Regions, this created a peculiar political situation for the ruling party as it had to explain to its voters why the government was opting for the EU (setting aside that such an intent was laid out in the PR’s programmatic documents). Therefore, by signing the AA, Yanukovych was not going to stop playing his multi-vector game, especially on the eve of the 2015 presidential election when he would need the votes of the electorate in the east and south.

At the same time, there was a significant undecided population that could be persuaded to support EU integration. The largest number of undecided happened to be in the east, at 15.5 percent, which meant that there was (and is) the potential to conduct a successful pro-EU informational campaign in this region. Yanukovych could also increase supporters in the center of the country by presenting himself as a potential promoter of Euro-integration. The number of those undecided was about the same in the

center as in the south, at 14 percent. Considering the general trend of support for European integration in the center of the country, it is clear that if the Party of Regions worked at it, it would have been able to increase the number of Euro-integration proponents in this region as well. The fact that younger Ukrainians (18-29 years old) in all regions have a greater European orientation also attests to the possibility that Yanukovych could have secured a Euro-majority. In the May 2013 survey, 54 percent of youth supported the EU, while those over 60 supported the Custom Union over the EU by 45 percent to 30 percent.

Decision Time

After enduring Russian pressure, Yanukovych hoped that the EU would take into account geopolitical considerations that would diminish the significance of the Tymoshenko case, which formally was considered as one of the key obstacles to signing the AA. The “Cox-Kwasniewski” mission of the European parliament came up with a compromise: the EU would not demand the full legal rehabilitation of Tymoshenko in exchange for her pardon by Yanukovych and permission to leave for medical treatment in Germany. Tymoshenko agreed, but Yanukovych ultimately consented only to a temporary stay in Germany for medical care. In the end, Yanukovych tacked back toward the east before the Europeans could decide what to do. He decided to postpone signing the AA in Vilnius in November, cracked down on ensuing protests, and agreed to take Russian financial support, including a long-demanded discount on Russian gas, as compensation for his new policy.

Conclusion

Despite the fact that the goal of European integration is not viewed by a majority of Ukrainians as a vehicle that can become a “national idea,” developing relations with and integrating into the EU is still viewed by most in a “positive light.” Seventy-five percent of those polled by the DIF and the Razumkov Center from December 20-24, 2013, called the Euromaidan the most important event of the year. If Yanukovych had signed the AA with the EU, it could have created a favorable climate for forging a national consensus on EU integration on the eve of the 2015 presidential election. In the end, he lost this chance, and Ukraine’s new government will chart a new course.

Belarusization, Hybridization, or Democratization?

THE CHANGING PROSPECTS FOR UKRAINE

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In November 2013, when Ukrainian President Viktor Yanukovych refused to sign an Association Agreement with the European Union at the Eastern Partnership Summit in Vilnius, there was a moment when it was worth pondering the reasons behind his decision. But a brutal crackdown the next night on protesters gathered at the Maidan, Kyiv's central square, revealed the true face of Ukraine's authorities. Yanukovych went to Vilnius not to negotiate a deal but to barter for one. Considering the intransigence of the EU on the question of setting Yulia Tymoshenko free, he decided to extract as much as he could in return: 160 billion euros to "compensate" Ukraine for the anticipated loss of trade with Russia, renewed credits from the IMF and World Bank, EU responsibility for the modernization of Ukraine's gas pipelines, and the lifting of import restrictions on certain Ukrainian goods. One more condition—to bring Russia into negotiations on the Deep and Comprehensive Free Trade Area (DCFTA) between Ukraine and the EU—was the last straw for the EU. Nonetheless, in spite of their growing frustration, EU officials searched for a compromise, hoping that reason would prevail in Kyiv. Already in Vilnius, Yanukovych was offered a plan that opened the door to greater financial assistance if Ukraine were to sign the agreement, but it came to naught as Yanukovych demanded a written commitment that the EU was unwilling to deliver. Three meetings with Russian President Vladimir Putin finally sealed his plans; Ukraine was offered a \$15 billion bailout, of which only \$3 billion were actually provided, and a 30 percent discount on natural gas. These were his dubious rewards for not signing the AA.

Yanukovych's style was not well understood in Europe. After the failure in Vilnius and the violence on the Maidan, several things became clear: First, the failure to sign an AA with Yanukovych when he was president was in fact better for the EU and the Ukrainian people than if he had signed it (the EU-Ukraine AA will eventually be signed, just with another elected leader of Ukraine). Second, Yanukovych could have survived at least until early elections had he not tried to violently disperse people from the Maidan. The startling turnover of power has opened the road for democratization, after a period when Ukraine's ruling regime was oscillating heavily between hard Belarusian-style authoritarianism and a softer "hybrid" regime.

Competitive Authoritarianism, Ukrainian-Style

For much of its time in power, the Yanukovych government seemed to be taking on the style that political scientists Steven Levitsky and Lucan Way would call a hybrid

“competitive authoritarian” regime. This theory is based on three variables: the density of ties to the West (linkage), incumbents’ organizational power (the scope and cohesion of state and ruling party structures), and a state’s vulnerability to Western democratizing pressure (leverage).^{*} Analyzing these factors in 35 states between 1990 and 2008 they arrived at the following conclusions: where linkage to the West was extensive, as in Eastern Europe or the Americas, hybrid regimes democratized in the post-Cold War period; where linkage was low, as it was for the post-Soviet states, democratizing pressures were weaker. In these latter states, regime outcomes were driven primarily by the organizational power of incumbents. Where the state and governing party were well-organized and could prevent elite defection and crackdown on protest, incumbents were able to overcome opposition and maintain power. Otherwise, they were vulnerable to even weak opposition challenges. In such states, a third factor, vulnerability to Western leverage often led to regime change. In the absence of high Western linkage, however, such change did not lead to a consolidated democracy. The matrix in Table 1 presents the outcomes of regimes as the result of interaction of Western leverage and organizational power.

Table 1. Explaining regime outcome

	High leverage	Low leverage
Strong power	Unstable authoritarianism	Stable authoritarianism
Weak power	Regime change (not always democratization)	Regime survives

Source: adapted from Levitsky and Way (2010)

Levitsky and Way’s theory cannot account entirely for outcomes, but it is instructive to review its application in Ukraine over time—at the onset of the Orange Revolution and during Yanukovich’s rule (results for 2004 are calculated by Levitsky and Way, and the results for 2012 are calculated by the author).[†] The analysis tell us that at medium values of all three dimensions, the regime is unstable but survives.

Table 2. Linkage, Leverage, and Organizational Power

Dimension	2004	2012
Linkage	Low	Medium
Organizational Power	Medium-low	Medium-high
Leverage	High	Low/Medium

^{*} Steven Levitsky and Lucan A. Way, *Competitive Authoritarianism: Hybrid Regimes After the Cold War*, Cambridge University Press, August 2010.

[†] A detailed explanation of the 2012 scores is provided in Yuriy Matsievsky, “Western Leverage vs. Organizational Power: sanctions and the prospects for the Ukraine’s regime survival,” submitted to the inaugural issue of the *Journal of Ukrainian Politics and Society*.

In fact, in Ukraine two pathways seemed possible until Yanukovych's fall: "Belarusization" and "hybridization."

"Belarusization"

After his refusal to sign the AA, the former Ukrainian president attempted a "hard" Belarusian scenario. However, the use of excessive force only emboldened the protests. He tried some sort of middle ground, attempting to retain power by making some concessions to the West, the opposition, and the public. But this also failed. Had he succeeded in dispersing the protestors, Yanukovych doubtlessly would have tried to co-opt, corrupt, and blackmail the opposition and use "administrative resources" and "political technologies" to secure his grip on power until 2015 and beyond.

"Hybridization"

For a while, Yanukovych was trying to wear the protests out by openly ignoring those at the Maidan while trying to intimidate the public. Unlike many more overt authoritarian regimes, the Yanukovych regime was lacking in levels of legitimacy, natural resources, skillful security personnel, and a professional bureaucracy. In a hybridization scenario, the regime might thus have relied on informal rather than formal instruments of power. He might have used his vast patronal network and shadow funding from the "family," made some decorative changes to the cabinet, engaged in wily social and political maneuvering, abused more administrative resources, and used bribery and blackmail to secure victory in the next election.*

Western Leverage

Despite these scenarios, Western leverage was actually larger than might have been expected, given Ukraine's poor economic performance, growing debt pressures, and the potential for change in Western policies (from engagement to punitive action).

Personalized sanctions, for instance, might have tipped the balance in favor of the West and put Yanukovych's survival under threat. For this leverage to be effective—to make Yanukovych abstain from violence and potentially abdicate—at least three conditions would have had to been met. First, personalized sanctions had to be applied when the regime was at its most vulnerable position (*timing*). Second, sanctions had to be extensive, targeting not only the president but also the ruling "family." The threat of extending the "black list" to the oligarchs might also have pushed them to defect to the opposition, which, in turn, could have undermined the unity of the regime (*scope*). Three, sanctions had to be coherent; they should have reflected the unified position of the United States and the EU (*cohesion*).

Personalized sanctions were eventually announced in the aftermath of violence, but these were not key to changing the government's behavior. If sanctions had been applied immediately after the *Ukrainian* parliament passed a package of "laws on

* See: Y. Mostova, "Battle time" (*Chas boyu*), *Dzerkalo Tyzhnia*, available at: <http://gazeta.dt.ua/internal/chas-boyu-.html>

dictatorship “(on January 16), they might have encouraged defection and prevented almost one hundred deaths in the streets of Kyiv.

Why Did Yanukovych Finally Lose Power?

During almost three months of protest, Yanukovych appeared immune to “people power.” He managed to prevent any significant defections from within three key pillars of his regime: the Party of Regions parliamentary faction, the “oligarchs,” and the security sector. With the West imposing no sanctions and Putin at his side, Yanukovych virtually neutralized structural democratizing pressures. All this indicated that Yanukovych could have survived until the next presidential election, whenever it was to be held.

The fall of Yanukovych was caused by several factors. First, the regime lost the “information war.” Throughout the three-month crisis, there were at least three national TV channels (Channel 5, News 24, and Espresso TV) and three online TV channels (Hromads’ke [Public TV], U-stream, and Spil’no TV) that were permanently broadcasting from Kyiv’s central square. Though disrupted, mobile and Internet connections allowed protestors to maintain constant communication.

Second, after the parliament adopted the “laws on dictatorship” in mid-January, eleven regions effectively left government control. This duality of power, severe political crisis, massive mobilization, and subsequent split of elites indicated that the crisis was turning into a revolution.

Third, the power structure eventually cracked after a third attempt to violently disperse the Maidan failed. Despite the reshuffling of the leadership of the armed forces, there was a constant danger that the officers would not obey orders. After one unsuccessful attempt to engage the armed forces, the military stayed out of the conflict. Meanwhile, the Party of Regions faction shrunk by almost 40 percent, from 205 to 127 deputies. One of the first acts of the new parliamentary majority was to repeal the so-called “anti-terrorist operation,” which lifted the burden of the security forces to support the regime.

Finally, the spirit of protestors was higher than that of the entire security apparatus. The protestors’ “insistence on truth” played a decisive role in the victory of the Maidan. European mediators reached a compromise with Yanukovych and the opposition, but the people at the Maidan refused to accept it in the wake of massive bloodshed.

Challenges to Democratization

This paper was drafted in the immediate wake of the Vilnius summit, when there was a “stalemate” between protestors and the Ukrainian government. I thus focused on the above two scenarios in which the regime survives. A third scenario, democratization, appeared to be irrelevant as Yanukovych distanced himself from the West and drew closer Russia’s orbit. However, the new transition government reclaimed the AA as a top priority of Ukraine. Signing the agreement, as Levitsky and Way’s theory suggests,

will enhance Ukraine's linkage with the West, which makes the third scenario—democratization—relevant again.

Both “Belarusization” and “hybridization” have failed. Now Ukraine is entering the second phase of its revolution—reestablishing the monopoly on the legitimate use of force and regaining control over the state's territory. Even though Ukraine has moved toward a “democratization” phase, however, several real challenges—including but not limited to Russia's military intervention in Crimea—may prevent the new government from returning to the path of democratization.

Russian leverage, military or otherwise, will play a significant role in the short-to medium-term. Putin could hardly miss an opportunity to destabilize Ukraine, while preparing the ground for annexing Crimea. Ukraine cannot maintain its territorial integrity without support from the West. It is imperative that the West not make mistakes and constructively contain Russia from further destabilization. While the West was watching rather than acting, Putin acted. Now it is the turn of the West to prove that liberal and democratic values still matter.

The second challenge is the need to provide for political and economic stabilization. This requires not only free and fair presidential and parliamentary elections but also the passage of a “stabilization package” that could curb corruption, restore the rule of law, and improve the business climate. The transition period will be painful, because long-delayed systemic reforms may increase social discontent.

Third, the new government has to tackle cultural challenges: to develop and implement consistent ethnic, linguistic, and identity policies. None of these areas have been seriously addressed in the past.

To sum up, Ukraine needs a total “reset.” It is now to be seen whether the society is mature enough to sever itself from destructive legacies and find the strength to move forward.

Conclusion

If Yanukovych had signed and implemented the AA, he could have solved the problem of his personal political future while opening the door for Ukraine's democratization. However, the risk of losing power made him abort the deal, which resulted in a severe political crisis and his subsequent loss of power. Ukraine's crisis turned into a revolution.

Despite toppling Yanukovych, internal security and territorial integrity remain the most urgent issues for the new government. There is a high probability that military action and violence will persist, which can endanger the country's path of democratization. To prevent instability, the United States and the EU should offer Ukraine some sort of “Marshall plan” to assist its systemic recovery. Moreover, Ukraine should be provided an explicit EU membership perspective after it signs the AA.

In a sense, Ukraine has returned to the starting point. While there is a huge potential and willingness of Ukrainians to get out of its corrosive state of hybridity, where Ukraine has remained for most of its independence, the magnitude of the

challenge is huge. Ukrainians have demonstrated how much they cherish freedom. Now it is a time for the democratic world to help Ukraine join the community of free nations.

From Moscow to Vilnius

ARMENIA'S NEW ATTEMPT TO RECONCILE THE IRRECONCILABLE

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Emerging from a September 2013 meeting in Moscow with Russian President Vladimir Putin, Armenian President Serzh Sargsyan expressed his readiness to join the Russian-led Customs Union (CU) and disassociated Armenia from plans to initial an Association Agreement (AA) with the European Union. Yerevan had spent four years in successful negotiations with Brussels, but it was clear that national security considerations were paramount and Moscow held this card. Once again, Armenia sought to reconcile the irreconcilable and maintain its foreign policy balance between Russia and European structures.

Armenia's U-Turn: Caught Between Disbelief and Inevitability

The domestic perceptions of Sargsyan's Moscow declaration were contradictory. On the one hand, the rejection of the AA was an emotional shock for the political elite and the politicized part of civil society. Both publicly and privately, their reaction was mostly negative. The majority of ruling and opposition elites had been arguing for greater integration of Armenia with the EU rather than with Russia and the CU. The only difference was that representatives of the ruling elite talked less openly about Armenian-Russian politics than those from the opposition and civil society, for fear of aggravating Moscow's already wary attitude toward the Armenian government. At the same time, the ruling elite better understood the pragmatic necessity of declaring Armenia's intent to join the Customs Union.

The clear prioritization of security considerations led to simplified public criticism. Unable to find rational counter-arguments to the security consideration, detractors offered a different interpretation of the decision, saying that it stemmed more from concern about the welfare of Sargsyan's governing regime. This, however, was an empty argument. There were no electoral or non-electoral factors threatening the government (the nearest elections, parliamentary, are scheduled for 2017). Moreover, the personal political costs for Sargsyan turning down the EU after four years of negotiations were so high that one could hardly imagine something that could have a greater negative effect on his image.

Still, despite disappointment in the abrupt reversal of Armenia's European integration policy, opposition parties and civil society may actually benefit. Brussels will now increase its support to their sectors. As Traian Hristea, head of the EU delegation to

Armenia, stated, “Taking into account the country’s decision to join the Customs Union, ties with civil society have become much more important to us.”*

As for the less politicized segments of society, the decision was largely met with indifference. This is largely due to a lack of public awareness regarding the advantages and disadvantages of the two integration projects. Most information about the two projects resides within only a thin layer of political elites, journalists, and the politicized part of civil society; wider audiences in Armenia hold vague and superficial notions about the agreements. The main advantage of EU integration, many erroneously believe, is that it will quickly lead to a European standard of living for Armenia. The main disadvantage, at least in the minds of more conservative parts of Armenian society, is the need to respect “unacceptable” European imports like LGBT rights. The main overall expectation from joining the Customs Union is that Armenia will receive cheap gas from Russia, although some also feared a loss of sovereignty and the start of a Soviet revival.

At the same time, negative media coverage of the decision demonstrated the preponderance of Western influence in Armenian civil society. This was most visible during the unprecedented protest actions against Putin’s visit to Armenia in early December. Although there were few protesters—only several hundred activists (joined by a few hundred journalists and policemen)—they represented diverse parts of Armenian society. There were anarchists, defenders of LGBT rights, members of the political opposition, and local staff of international organizations and Western embassies.

Keeping a Foreign Policy Balance and Minimizing Political Costs

The failure of almost four years of intensive and successful negotiations with the EU could not pass without serious political costs for Armenia in its relations with the EU. Sargsyan’s Moscow maneuver did not result in a catastrophic shift in Brussels’ position, but it still had a negative impact. Armenia sought to diminish the blow by expressing its readiness to initial the AA without the Deep and Comprehensive Free Trade Area (DCFTA). European officials, who had negotiated the AA as an integrated package, predictably rejected the offer.

For some EU officials, such as Commissioner for Enlargement Stefan Füle, Armenia’s refusal was an almost personal matter, but European officials also had more serious reasons to demonstrate inflexibility regarding Armenia’s choice. As the “Ukrainian question” turned into a zero-sum game between Brussels and Moscow, the EU believed it needed to stand firm and thereby also demonstrate support to Ukraine in its resistance to Russia. This required inflexibility toward Armenia’s suggestion to sign the AA without the DCFTA. At the same time, EU officials recognized that freezing relations with Armenia would only strengthen Moscow’s position. It went forward with agreements on visa facilitation and readmission, which sent a positive signal to Armenia.

* “The European Union Intends to Review the Planned Programs with Armenia–Traian Hristea,” *IA Regnum*, October 22, 2013, <http://www.regnum.ru/news/1723019.html>

Yerevan also tried to reduce the negative impact of its declaration to join the CU by making the rounds in the capitals of several EU member states. The Armenian authorities worked “Old Europe,” through visits by Sargsyan to Paris and Brussels and a visit of Minister of Foreign Affairs Edward Nalbandian to Germany, while also appealing to countries like Poland and Lithuania in “New Europe,” which could be expected to view Armenia’s decision with sympathy.

In the meantime, Armenia sought compensation from Russia for its foreign policy choice. Obviously, Moscow’s main purpose for pressuring Yerevan was not so much to force it to join the Customs Union (which would have dubious economic benefits for Armenia and Russia) but to prevent Yerevan from initialing the AA in Vilnius. Predictably, during his visit to Armenia, Putin demonstrated Russia’s readiness to provide economic relief to its ally, first and foremost by decreasing the price of natural gas and tying Armenian gas prices to Russian domestic gas prices until 2018.

Moscow’s main levers, however, were related to Armenian security and the Nagorno-Karabakh conflict. In the beginning of October 2013, the Russian air force announced its intent to increase its presence in Armenia, mainly through a new squadron of combat helicopters. Simultaneously, it was announced that the Armenian air force would be equipped with new types of Russian helicopters and combat jets. Also in October, the commander of the 102nd Russian military base in Armenia emphasized (if not for the first time) that Russian troops could openly side with their Armenian allies in case of a renewed war over Nagorno-Karabakh, “in accordance with the Russian Federation’s obligations in the framework of the CSTO.”* During a visit of Putin and Sargsyan to the 102nd Gyumri military base, “Smerch” multiple launch rocket systems (MLRS) were exhibited in Armenia for the first time. Finally, the Armenian parliament ratified a new and more preferential agreement on military-technical cooperation between Russia and Armenia (which, for example, allows Armenia to purchase more sophisticated and advanced arms and weapons directly from Russian military-industrial facilities without any intermediary structures).

Conclusion

The goal of Armenia’s foreign policy “between Moscow and Vilnius” is to maintain a political balance and minimize political costs by keeping the EU option in standby mode while acquiring new security guarantees from Russia.

This policy may yet bear fruit. There are signs that Armenia-EU cooperation will continue along various tracks, just at different speeds. During the Vilnius summit, the EU and Armenia made a joint statement in which they stressed the importance of revisiting their relations and agreed to “update” the EU–Armenia ENP Action Plan.† Already in the second week of December, the European Parliament ratified and gave its consent to the participation of Armenia in EU Agencies and Programs, which gives

* “Russian Base in Armenia Signals Role in Possible Karabakh War,” *RFE/RL–Armenia*, October 31, 2013, <http://www.azatutyun.am/content/article/25154047.html>

† Joint Statement between the Republic of Armenia and the European Union, Vilnius, November, 29, 2012, http://www.mfa.am/en/press-releases/item/2013/11/29/eu_js/

Armenia access to the EU's programs in culture, education, environment, aviation, medicine, and science. Under more favorable external conditions, Armenia should be able to more easily resume the process of European integration. Even if Armenia fully enters the Customs Union, it will still have closer relations with the EU and NATO than other CU (or CSTO) members. It will participate in a simplified visa regime and many other EU programs that are similar to an AA framework. At the same time, Armenia will retain security guarantees from Russia and the CSTO, which will maintain the fragile peace over Karabakh and a military balance in Armenia's arms race with Azerbaijan.

Ultimately, however, Armenia's prospects for maintaining a successful foreign policy balance—moving forward on both integration processes—is dependent on a series of unanswered questions. Will Moscow maintain its level of interest in keeping Armenia distant from the EU? Will Armenia be able to ease Russian fears regarding the impact of EU integration on the Russia-Armenia military alliance, especially against a backdrop of growing dissatisfaction with Russian policy among Armenian society? And what will be the state of relations between Brussels and Moscow and its impact on Yerevan leading up to the Eastern Partnership Summit in Riga in 2015?

Azerbaijan's Elite between Scylla and Charybdis

EU OR CUSTOMS UNION?

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The Azerbaijani establishment is in a bind. With two neighbors (Turkey and Georgia) now oriented toward the EU and three (Armenia, Russia, and Kazakhstan) opting for the Customs Union (CU), Azerbaijan is trying to balance between the two for as long as possible. Tilting either way has its pros and cons; neither offers a win-win situation.

The Pros and Cons of the Customs Union

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

However, the overall cost of joining the CU is far greater than these benefits. Azerbaijan's largest trading partner is not Russia but the EU. In 2011-2012, between 48-52 percent of Azerbaijani exports went to the EU, while between 26-32 percent of Azerbaijani imports came from there. Azerbaijan exported mainly energy resources and imported machinery, vehicles, textiles, and foodstuffs. Joining the CU would not alter the structure of Azerbaijan's imports, but it would raise the cost of vital products as it would force Azerbaijan to impose CU-level tariffs on various goods.

Moreover, free trade with the EU would be less damaging to Azerbaijan's agricultural sector. The cost of agricultural products in the EU is comparatively high, and at least not less expensive than Azerbaijani products. With transportation costs, it will not be profitable for EU states to export agricultural products to Azerbaijan. This is not the case with Russian, Belarusian or Kazakhstani agricultural products. Imports from CU members could destroy Azerbaijan's agriculture sector, which employs about 40 percent of the country's workforce.

Azerbaijani political and economic elites oppose CU membership. In December 2012, Azerbaijani President Ilham Aliyev said that Azerbaijan did not see that joining the CU (or the Common Economic Space) made economic sense (although he stressed that once Azerbaijan sees the benefits of any association, it would join without hesitation). At the same time, joining the CU would undermine the position of many local oligarchs,

who are very close to the government and who reap considerable benefits from the Azerbaijani economy's monopolistic nature. While oligarchs in Armenia and, to some extent, Kazakhstan and Ukraine have business interests in Russia, Azerbaijani-based oligarchs have their businesses concentrated in Azerbaijan and Turkey. For these oligarchs, joining the CU raises the specter of the economic "Armenianization" of Azerbaijan—the swift buying out of the economy by Russian oligarchs and companies. Ethnic Azerbaijani oligarchs who live in Russia, like Lukoil president Vagit Alikperov and billionaire Telman Ismayilov, do not have sizeable business interests in Azerbaijan. They have little ability to influence the Azerbaijani political establishment to move toward the CU.

The Azerbaijani public is also not so keen on the CU. The October 2013 Biryulevo ethnic riots in Russia electrified Azerbaijani society and became a source of anti-Kremlin feelings. In early October, an Azerbaijani migrant in Moscow, Orkhan Zeynalov, fatally stabbed a Russian citizen, Yegor Shcherbakov. A few days later, a crowd of Russian nationalists provoked riots and led to the destruction of the Biryulevo market, where many migrants work. Zeynalov was arrested, but his humiliating detention and interrogation, as well as the anti-migrant hysteria that surrounded the case, sparked a wave of negative emotion in Azerbaijan. Although many Azerbaijanis understood that the harsh circumstances of his detention were meant to extinguish the massive protests in Moscow, they greatly damaged Russia's reputation in Azerbaijan. Many Azerbaijanis (experts included) considered the case against Zeynalov to be a fabrication designed to put pressure on Baku to join the CU. Some politicians in Moscow have used the Zeynalov case as justification to call for introducing a visa regime with Azerbaijan (as was the case with Georgia back in 2006-2007).

Controlling travel and deporting Azerbaijanis from Russia would lead to even more tension. According to Russia's last census, there are over 600,000 Azerbaijani citizens in Russia. Unofficial estimates put the number at up to 2 million. These migrants account for a large share of financial transfers from Russia to Azerbaijan. According to Ruslan Grinberg, director of the Institute of Economics of the Russian Academy of Science, private remittances sent from Russia to Azerbaijan amounted to \$1.8-2.4 billion a year in 2009-2010. Although this is not a large share of Azerbaijan's GDP, it is a major factor in poverty reduction, especially in rural areas. Surprisingly, however, the Azerbaijani government has not shown much concern about this. Azerbaijani ambassador to Russia Polad Bulbulogly has even noted that Azerbaijan is ready to institute a visa regime with Russia, if the latter insists.

Although media attention toward the Zeynalov case has waned, it is hard to underestimate its impact on Azerbaijani perceptions of Russia. Seeing how Russian law-enforcement agencies treated one Azerbaijani citizen was enough for many to conclude that the Russian-led CU is not for them. The ghost of Russian xenophobia and nationalism will continue to cast a shadow on ordinary Azerbaijanis' perception of Russia. The episode also further spurred greater official interest in forging a closer relationship with the EU, where Azerbaijani citizens have not been treated with humiliation and deprivation.

Eventually, Kremlin officials began producing statements trying to pacify the tense mood. Mikhail Shvydkoi, special presidential envoy for international cultural cooperation, told journalists in Baku that relations with Azerbaijan are one of the priorities of Russian foreign policy, and that this policy does not depend on isolated, especially criminal, incidents.

European Union: Pros and Cons

Cooperation with the European Union is one of Azerbaijan's foreign policy priorities. For the EU, Azerbaijan's strategic location and European dependency on gas and oil make it a valuable partner. For its part, Azerbaijan looks to the EU as a market for its resources and with the hope that the EU can become a force to counterbalance Russia in resolving the Karabakh conflict. In the past, EU assistance has been critical to Azerbaijan; since 1991, the EU has provided 333 million euros to Azerbaijan in technical, humanitarian, emergency, and food assistance. There are many benefits to deeper cooperation with the EU via an Association Agreement. EU investments in the non-oil sector may also be critical for Azerbaijan's efforts to diversify its economy.

A more active EU policy in Azerbaijan could win the hearts of many. The Azerbaijani public has traditionally regarded the EU with a comparatively high level of trust. In 2008, around 40 percent of respondents trusted the EU while under 20 percent did not. The Russian-Georgian war and the financial crisis had a negative impact on the Azerbaijani level of trust in the EU. In 2010-2011, the percentage of respondents who distrusted the EU grew to a record 30-33 percent while the percentage of those who trusted the EU dropped to almost 20 percent. Only in 2012 did the level of trust in the EU again surpass the level of distrust, reaching 32 percent versus 22 percent. Still, many Azerbaijanis are either neutral or undecided. At the same time, almost 50 percent of Azerbaijanis surveyed in 2011-2013 have consistently supported the country's membership in the EU. Only 11 percent are against such membership, while significant numbers are still either neutral or undecided.

Table 1. Trust toward the EU

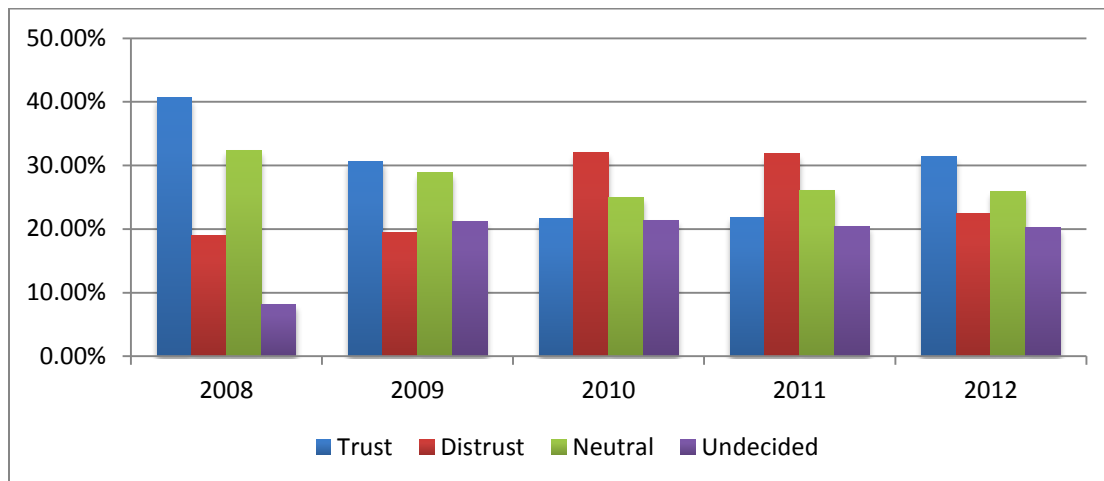
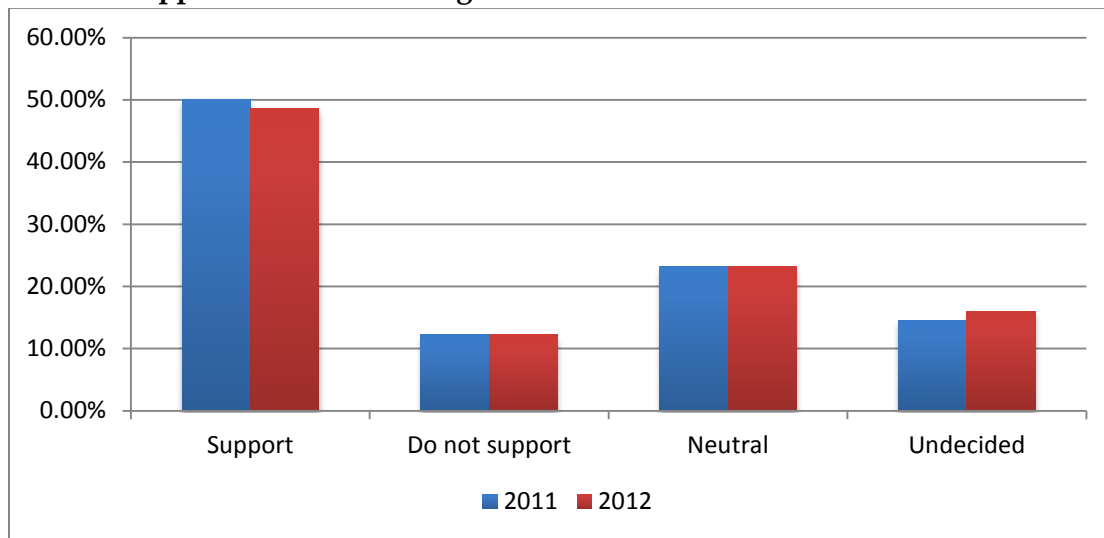


Table 2. Support toward becoming an EU member

There is, however, one major problem with EU association that makes the Azerbaijani elite uncomfortable: the EU's constant criticism of human rights violations, corruption, and the absence of reforms in Azerbaijan. The Azerbaijani establishment understands that continued movement toward the EU will force Azerbaijani elites to pursue significant reforms in public administration, respect human rights, and open up local markets. This all leads to the further democratization of the country, something that could undermine the current government over time. Thus, the Azerbaijani elite is ambivalent in its approach toward EU-led projects. It wants to be part of these projects but without significantly changing the country's system of governance. Nonetheless, the government is continuing to negotiate a large-scale partnership agreement with the EU that envisions various aspects of cooperation including trade and political partnership.

Conclusion

Azerbaijan is left with the option only to procrastinate. Azerbaijani elites understand that their country's future lies with greater integration into Europe. Sooner or later, Baku will opt for deeper cooperation. For now, however, the costs are too great. As for the CU, Baku does not wish to openly ignore Moscow's interests; it hopes to bide its time until the CU discredits itself. In the worst case, Baku may opt to sign some kind of political declaration promising to keep its markets open to Russian goods and services.

The situation may change after the twin TANAP and TAP gas pipeline projects across Turkey and southeast Europe are implemented. Azerbaijan will then become a vital partner for the EU and a major component of its energy security. This may lead Baku to believe this will lead to greater economic and security guarantees for the country and its elites, dampening concerns about the consequences of closer integration with the EU. Until that time, Azerbaijan walks a thin line between the EU and the CU, as the EU focuses its integration efforts elsewhere and Russia attentively watches its every step.

Russian-Belarusian Relations after Vilnius

OLD WINE IN NEW BOTTLES?

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Tension in the relationship between Belarus and Russia has remained in the shadow of the more visible discord between Russia and Ukraine, stemming from the latter's now-spoiled efforts to sign an Association Agreement with the EU at the Eastern Partnership Summit in Vilnius in November. The quarrel between Belarus and Russia arose from a bout of assertive behavior on the part of Belarusian President Alexander Lukashenko. For those who assume Lukashenko long lost his freedom of action vis-à-vis Moscow, this was an unusual turn of events. Yet it is easy to explain. Lukashenko perceived an opportunity to exploit his status as Russia's most valuable ally to increase economic subsidies, a necessity for securing reelection in 2015. Given Russia's strong and publicly declared interest to rapidly proceed toward the creation of the Eurasian Economic Union, Lukashenko's gambit is likely to succeed.

New Controversies

The symbol of the current phase in Russian-Belarusian relations is the so-called "Baumgartner case." Vladislav Baumgartner, a top manager at the Russian potash company Uralkali, was arrested in Minsk in August. Uralkali and the Belarusian company Belaruskali had a cartel agreement, but this year their cooperation unraveled to the severe detriment of Belarus. Minsk interpreted the collapse of the cartel as a plot by Russian economic actors. Baumgartner was invited to Belarus for negotiations with Belarusian Prime Minister Mikhail Miasnikovich. After the meeting yielded no results, Baumgartner was detained and placed in a KGB detention cell and then under house arrest. Embezzlement charges were brought against him. Meanwhile, an international warrant was issued to arrest one of the co-owners of Uralkali, Suleiman Kerimov, one of Russia's richest businessmen and a Federation Council member from Dagestan. Four other citizens of Russia were implicated in the case; reportedly, the Belarusian secret services tried to abduct one of them in Moscow in October. As a precondition of Baumgartner's release and transfer to Russia, Lukashenko publicly demanded full compensation of the damages Belarus allegedly incurred. Baumgartner was extradited back to Russia at the end of November, but only after a criminal investigation was instigated against him back home (and upon return, Baumgartner found himself again behind bars). Kerimov's assets in Uralkali were sold to new owners evidently more to Lukashenko's liking.

In this memo, I do not intend to explore all possible explanations for Russia's mild reaction and why Russia chose not to apply serious pressure to achieve the release of one of its citizens. There are many versions, linked primarily to the non-transparent interplay of interests within Russia's top echelons of power. It is also not critical for our purposes to determine what Minsk has specifically gained from this action in financial terms.

What matters is that Lukashenko was able to openly challenge Moscow and, indirectly, the Russian business community. In doing so, Lukashenko scored public relations points on the domestic front as an anti-oligarchic campaigner—he took a Russian citizen hostage, demanded ransom, and played a “cat-and-mouse” game that went unpunished. He was also able to paint Moscow's inaction as a sign of Russia's weakness vis-à-vis Belarus rather than a sign of strength.

In the meantime, Lukashenko has stepped up criticism of Russia's most important contemporary foreign policy project, the Eurasian Customs Union (CU). In October, Belarusian Deputy Prime Minister Vladimir Semashko blamed CU regulations for losses to the country's auto and agriculture machine-building industries. In particular, he criticized the introduction of a new recycling fee on all cars (earlier it was levied only on cars imported from outside the CU). This was estimated to cost Belarusian companies \$350 million a year. Lukashenko himself has spoken out against Russian duties on crude oil imports which are refined for export (only crude oil refined for domestic consumption is exported from Russia to Belarus duty-free). For this the price tag is far higher (\$4 billion). Lukashenko's political message is unambiguous: if Russia wants the CU to grow into a full-fledged economic union, money has to stay inside Belarus.

Furthermore, Minsk has not sided with Russia in its conflict with Ukraine. In line with a foreign policy tradition that includes good relations with Mikheil Saakashvili's Georgia and non-recognition of the independence of South Ossetia and Abkhazia, Minsk has demonstrated an understanding of Ukraine's desire to turn toward Europe. Lukashenko paid a productive visit to Kyiv in June and warmly received Ukraine's Prime Minister Mykola Azarov in Minsk in October. Significantly, Belarus did not join the ban that Russian authorities imposed on the import of Ukrainian chocolates in August. In this case, Minsk's motivations are rather Machiavellian – if Ukraine were to join Russia-led reintegration projects, Belarus would have to compete with Ukraine for Russia's benevolence and would lose in importance.

A Gamble or Sober Calculation?

This is not the first time Lukashenko has employed the tactic of creating a problem in relations with Russia that can only be solved by granting Belarus additional economic benefits. His motivation this year is clear: from January to September, Belarus' GDP grew only 1.1 percent rather than the “planned” 8.5 percent, and its trade deficit increased substantially. The country's economic situation is troubling. Unless massive Russian subsidies arrive, Lukashenko's political support is likely to suffer, complicating prospects for his reelection in 2015.

But the real question is not why Minsk wants more from Russia, but why Lukashenko believes Moscow will be receptive to his wishes at this time. One reason for Minsk's confidence is clear. After it became obvious that Ukraine would not join the CU—regardless of whether it signs an Association Agreement with the EU—Belarus found itself in a key position with respect to the fate of the Eurasian integration project. For Moscow, it has become imperative to make sure Belarus stays on board. Minsk and Astana both have numerous complaints about (and demands on) Moscow's Eurasian project; it may be easier for Moscow to pay off Minsk alone than to face any type of united resistance.

A similar dynamic holds in the matter of CU enlargement. For now, the prospects for enlargement are uncertain. Armenia's accession to the CU is much less important for Moscow than simply securing its rejection of an Association Agreement with the EU. It is also doubtful that Tajikistan and Kyrgyzstan, both CU candidates, would be able to guarantee the implementation of any commitments they might make, but if either of them were to become a serious candidate, Moscow could expect a "bill" from Minsk. This is particularly true in the case of Kyrgyzstan, given the open diplomatic conflict between Minsk and Bishkek that resulted from the former's grant of political asylum and citizenship to overthrown Kyrgyz president Kurmanbek Bakiyev. The leaders of the two countries have gone so far as to boycott meetings in their respective capitals: Lukashenko did not attend the CSTO summit in Bishkek in May 2013 and Kyrgyzstan's President Almazbek Atambaev reciprocated by not coming to Minsk for a top CIS gathering in October.

Second, Belarus' role as Russian military ally is increasing in importance. A Russian air base will be established in Belarus in the near future. Three C-300 air defense complexes have already been deployed in the country and four more are on their way. A large-scale joint exercise ("Zapad-2013") was conducted in September and there are plans to hold another ("Union Shield-2015"). Traditionally, the Belarusian leader has been very skillful at playing on Moscow's geopolitical phobias and in appealing to the Russian defense establishment. It is likely that Minsk will again be able to turn Russia's growing military-political dependence on Belarus into benefits for the regime.

Third, Minsk is well aware of infighting among Russia's ruling elites, including on approaches toward Belarus, which makes it impossible for Moscow to have a coherent Belarusian policy. There have always been quarrels between "financial pragmatists" and "geo-politicians," as well as conflicting economic interests. The novelty of the moment is the interest of Rosneft president Igor Sechin, one of Putin's closest collaborators and one of Russia's most influential figures, to concentrate into a single company (Rosneft) all exports of Russian crude oil to Belarus. These flows are currently spread between eight companies. This provides Lukashenko enormous opportunity for lobbying and making deals (like trading exclusive privatization rights in a Belarusian refinery for increased and guaranteed deliveries) with one Russian actor who would then protect his interests in Moscow, if necessary, against the position of the Russian government as a whole. Revealingly, when the Russian cabinet of ministers indicated that it was going to cut deliveries of oil to Belarus in connection with the

Baumgartner affair, Sechin expressed displeasure with this and even paid a visit to Minsk.

Fourth, Moscow's capability to challenge Lukashenko's position within Belarus is very low, as is the credibility of any threat to "find a replacement." A defamation campaign that ran in Russia in 2010 did not affect the Belarusian president's ratings. Moscow's decision not to protest against political repression, which has included as its victims individuals who advocate retaining close ties with Russia, has undermined Moscow's chances to create a powerful pro-Russian opposition grouping.

Fifth, Minsk currently requires less political protection vis-à-vis the West. EU policy toward Belarus has proven to be inefficient and uncoordinated. Targeted sanctions and demands to free political prisoners have gone hand-in-hand with economic cooperation, active diplomatic contacts, and, most importantly, the treating of Minsk as a partner in the context of the Eastern Partnership. This policy culminated in suspending the visa ban against Belarusian Minister of Foreign Affairs Vladimir Makey, formerly the head of Lukashenko's presidential administration who shares political responsibility for repressions, and a search for a formula that would enable Belarus to participate in the Eastern Partnership summit in Vilnius at a high political level. Of course, even if EU economic sanctions were a reality, their impact on Russian-Belarusian relations would be unclear. The need to ask greater support from Russia might make Minsk less self-confident, but the perceived legitimacy of the claim of "a friend in need" might also help raise subsidies even higher. Given the reality, however, Minsk is able to simply ignore any EU rhetoric about sanctions.

The Best Option for Russia? More of the Same

At present, the range of scenarios for the evolution of Russian-Belarusian relations in the short- to mid-term is quite narrow. Generally, Moscow ought to be satisfied with current developments. The possibility for Minsk to conduct a more balanced foreign policy has been eliminated. Even hypothetical pre-conditions for this are emerging very slowly, if at all. Although some actions by Lukashenko may be disturbing for the Kremlin, enthroning a more obedient figure in Minsk is impossible and anyhow would be risky since a substitute would not necessarily be able to run the machinery built by and for the incumbent. If this state of geopolitical affairs, Lukashenko's loyalty, and the promotion of integration projects has a price, it is one that must be paid.

Therefore, a more likely scenario is one of "status quo plus," which involves a bailing out of Lukashenko. In monetary terms, the needs are not exorbitant. Taking into account that in 2012 Russian oil and gas subsidies alone made up almost 16 percent of Belarusian GDP, a modest increase of one or two percentage points would hardly affect the Russian economy, provided oil prices stay high. In addition, some money could return to Russia if as part of a package deal Russian companies receive assets in Belarus and some non-tariff export barriers are lifted. All in all, it was not surprising that at the October 2013 CIS summit in Minsk Putin confirmed that Russia would be ready to abolish all oil export duties for Belarus beginning January 2015.

A less likely scenario is a “plateau scenario,” which depends less on the Kremlin and more on factors beyond its control, primarily whether the economic slowdown in Russia becomes protracted. If so, the project of creating the Eurasian Economic Union might have to be postponed. This would cancel the urgency of buying Minsk’s consent. However, the level of Russian subsidies would still need to be high, otherwise Minsk could re-activate its search for other external sponsors, in the West or even in China, which could find Belarus attractive as an entry point into CU markets. Popular support for integration with Russia, already gradually in decline, could plunge abruptly.

Overall, however, it seems a revision of the current paradigm is unlikely. This would require a much broader overhaul of Russian foreign policy priorities, something not at all on the horizon. Lukashenko has long positioned Belarus as Russia’s last remaining geopolitical client state on its Western front. Any real intrigue concerns only the amount of Moscow’s generosity.

The Lobby Hobby

HOW SMALL COUNTRIES BUY RESPECT ABROAD

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The post-Soviet states have recently begun to excel in the nebulous world of global public relations. The elements of this approach to foreign policy include, but are not limited to, hiring public relations firms, lobbying local legislatures, wining and dining opinion leaders, and actively engaging international media outlets. The goals are not always transparent but may include attracting foreign investment, winning membership in international organizations, changing laws, whitewashing violations of international norms, and changing other states' foreign policies. The lobby hobby is a global enterprise, one that is especially popular among authoritarian states—especially those with resource riches to spare—and it appears to be a permanent part of states' foreign policy portfolios.

This memo examines the recent lobbying efforts of Western governments by two Caucasus countries: Georgia and Azerbaijan. They are not the only states in the region to employ lobbying—Kazakhstan and Turkmenistan, among others, are also known to burnish their reputations by hiring PR firms and prominent public figures. But these Caucasus cases are revealing of how small states with no exposure to Beltway practices until the 1990s can punch above their weight in shaping international opinion. Although these states have different objectives, they share a predilection for selectively and strategically focusing their resources to gain the greatest advantage—an approach I refer to as asymmetric diplomacy.

Caucasian Frustration (and Retaliation)

Like other dubiously democratic and unfairly stereotyped countries, Georgia and Azerbaijan have sought to shape both elite and public opinion in favorable ways. To that end, their rhetoric intended for external audiences emphasizes strategic significance (crossroads between Europe and Asia, corridor for oil and gas), history (ancient civilization, longstanding religious traditions, disrupted statehood, struggles for independence), and values (multiethnic tolerance, observance of international treaties, efforts to protect human rights and conduct fair elections). In these tropes, they resemble not only other post-Soviet states, but many Middle Eastern and African ones as well.

However, Georgia and Azerbaijan do not face ordinary foreign policy challenges. Both share the distinction of having part of their internationally recognized territory occupied by foreign states. As a result, their objectives are not limited to improving their

image. Lobbying is also a means of balancing *against* their adversaries: for Georgia, Russia (as well as rival domestic politicians); for Azerbaijan, Armenia.

Furthermore, both states perceive themselves as starting from a disadvantage. While Russia has had trouble getting a hearing in the court of American public opinion, what it lacks in soft power it more than compensates for in economic and military power, a fact that makes global persuasion all the more important for Georgia. Azerbaijan has the opposite problem, dominating Armenia economically but unsatisfied with the status quo of “frozen conflict” and lagging behind Armenia in lobbying the U.S. Congress. Asymmetric diplomacy helps both countries make up some of their perceived disadvantage by concentrating resources where their adversaries are weaker (soft power for Georgia) or where their most deployable asset can make the greatest impact (money for Azerbaijan).

The Emergence and Evanescence of Old-fashioned Diplomacy

The peripheral post-Soviet states emerged onto the scene in 1991 with little wherewithal for diplomacy. Georgia and Azerbaijan had been independent states briefly in the 1920s, but this did not translate into infrastructure for the development of foreign ministries. As a result, they were forced to learn fast, even as they struggled with domestic and international conflict. These years were formative, as both lost pieces of their territory to states that would become foreign policy fixations: Russia, for Georgia; Armenia, and to a lesser extent Russia, for Azerbaijan. They also sought allies early on. Azerbaijan, under the leadership of Abulfaz Elchibey, saw Turkey as a kindred spirit, due to cultural ties and support in the war with Armenia. Georgia found common cause with Azerbaijan in resisting Russian pressure, as well as to an extent with Iran, due to trade ties.

The replacement of nationalist firebrands by Soviet-era officials with gravitas allowed both states to stabilize their foreign policy and build a diplomatic infrastructure. Both Eduard Shevardnadze and Heydar Aliyev worked to cultivate relations with actors outside the region and gain memberships in established international organizations. To this end, both sought and gained admission into the NATO Partnership for Peace program, while Azerbaijan signed a major deal with Western oil companies in 1994 and Georgia joined the World Trade Organization in 2000. In this period, both countries relied on conventional diplomacy to advance their interests.

In the subsequent decade, several changes led both countries to diversify their diplomatic portfolios. First, a younger generation of politicians with global awareness replaced Soviet-era apparatchiks and rose to positions of power, a result of the Rose Revolution in Georgia and the succession of Heydar Aliyev by his 41-year-old son Ilham, both in 2003. Second, both countries stabilized their political systems, freeing up resources to pursue a broader range of foreign policy goals. Third, the backlash against Western democracy promotion in the 2000s produced a shared cynicism toward lofty rhetoric emanating from Washington, DC, and about politics in the West in general. As a result of these factors, we have seen states play by looser rules in their foreign relations, supplementing conventional diplomacy with money as a means to win friends and influence public opinion.

In Georgia, President Mikheil Saakashvili and his cohort of Western-educated revolutionaries entered the government intending a radical reorientation of Georgia's foreign policy. Saakashvili faced an open door in gaining access to the highest levels of the U.S. government. He was highly regarded by President George W. Bush, who saw the reformer as both a vindication of his "freedom agenda" and a bulwark against Russia. Saakashvili also cultivated ties with leaders in Congress, conservative think tanks, and the media. He enjoyed the enthusiastic support of influential senator (and future presidential candidate) John McCain and hired neoconservative Randy Scheunemann as a foreign policy advisor to cultivate contacts inside the Beltway.* Saakashvili also appeared in Western media outlets including BBC and CNN's Larry King touting democracy in Georgia and lashing out at Russian imperial designs for the benefit of English-speaking audiences.

After 2008, Saakashvili expanded the use of lobbying firms to influence opinion for two reasons. First, Saakashvili's friend George W. Bush was no longer president, having been succeeded by Barack Obama, who was not an ideological bedfellow and was pursuing a "reset" to smooth over relations with Russia. Second, following the 2008 Russia-Georgia war, Saakashvili's stock dropped in the United States after the authoritative EU fact-finding report on the Georgia-Russia war assigned much of the blame to Georgia. In 2010, the Georgian government retained the Podesta Group and the Gephardt Group, lobbying firms comprising former Democratic Party heavyweights who also had close ties to the Obama administration.†

These new channels of communication became critical for Saakashvili when his party found itself facing serious competition from the Georgian Dream party, led by billionaire Bidzina Ivanishvili. The 2012 election, pitting two larger-than-life personalities against one another and having geopolitical ramifications, was filtered through global lobbying firms. Ivanishvili used a small part of his massive resources to counter his rival's message, retaining London-based lobbying firm BGR (for \$25,000 a month), Washington-based National Strategies to manage his Twitter account and website and sponsor a documentary, and Patton Boggs, a "powerful" lobbying firm in Washington, DC.‡ Saakashvili secured a face-to-face meeting with President Obama in the White House before the election. Ivanishvili responded by buying full-page ads in *The New York Times* and *Washington Post* lambasting the incumbent's policies and stoking doubts about his intentions. This PR arms race may have developed because both figures intended to deter election fraud by the other, or to preemptively cultivate allies in case an inconclusive election result required international mediation.

In Azerbaijan, the adoption of lobbying did not come about so abruptly. As the Caspian oil deals began generating revenues and a younger generation entered the

* <http://harpers.org/blog/2013/10/the-bloom-comes-off-the-georgian-rose/>

† <http://www.civil.ge/eng/article.php?id=21965>; <http://www.civil.ge/eng/article.php?id=22061>

‡ <http://thehill.com/blogs/global-affairs/asia-pacific/286425-k-streets-gravy-train-runs-dry-as-georgia-moves-past-election>;
http://thecable.foreignpolicy.com/posts/2012/01/30/inside_the_other_georgian_lobbying_effort_in_washington

foreign service, the government began investing in improving the country's image abroad. Part of the effort was intended to soften the rough edges of the younger Aliyev's authoritarian regime. To this end, officials from the Council of Europe would be wined and dined in Baku as part of a campaign of "caviar diplomacy." According to the European Stability Initiative, this strategy succeeded in coaxing members of the parliamentary assembly of the Council to whitewash the conduct of Azerbaijan's elections, beginning in 2006.*

To get its voice heard in American politics, Azerbaijan, with the help of energy companies, has been able to assemble formidable coalitions of political heavy-hitters. The U.S.-Azerbaijan Chamber of Commerce, founded in 1995, boasted Henry Kissinger and James Baker as advisors. More recently, the Azerbaijan America Alliance (AAA) was founded by the son of Azerbaijan's transportation minister and a former chair of the Bank of Azerbaijan.† According to its website, its mission is to "foster an atmosphere of mutual understanding and respect between the people of Azerbaijan and America." It seeks to highlight three issues: the Nagorno-Karabakh conflict with Armenia; Section 907 of the Freedom Support Act of 1992, which prohibits democracy aid to Azerbaijan without a presidential waiver; and the Khojaly massacre.‡ The AAA has not only held "gala dinners" with influential policymakers in Washington, including John Boehner and at least four U.S. Senators, it has also hosted a convention in Baku that included, among others, former senator Richard Lugar, Ambassadors Richard Morningstar and Matthew Bryza, and former governor and commerce secretary Bill Richardson.§ Azerbaijan has also, like Georgia, hired a number of Washington-based lobbying firms, including the Podesta Group and the Livingston Group, to influence U.S. politics. Its lobbyists aggressively countered media criticism of Azerbaijan's 2013 presidential election, which independent observers deemed highly flawed.**

Another component in Azerbaijan's PR strategy involves increasing name recognition abroad, devoid of any context about the country or its politics. To this end, the younger Aliyev's regime took it upon itself, bizarrely, to export the elder Aliyev's cult of personality: there are now at least 15 statues and busts of the late Heydar Aliyev in parks across the world.†† The regime also aims to set insignificant but splashy world records, including the world's tallest flagpole (until it was outdone by Tajikistan in 2011) and a notional kilometer-high building planned as the centerpiece of a \$100 billion city of artificial islands in the Caspian Sea.

The Azerbaijani government has also worked to disseminate information specifically about the Khojaly massacre by taking out advertising space in Times Square

* http://www.esiweb.org/pdf/esi_document_id_131.pdf

† <http://thehill.com/business-a-lobbying/197681-azerbaijan-plants-flag-in-dc-lobbying-scene->

‡ The Khojaly massacre refers to a 1992 episode in the Nagorno-Karabakh war in which Armenian irregular soldiers attacked and killed over 150 ethnic Azeri civilians.

§ <http://usazconvention.org/sessions.html>

** http://www.nytimes.com/2013/10/11/world/asia/observers-say-azerbaijan-election-marred-by-fraud.html?_r=0

†† <http://www.rferl.org/content/azerbaijan-biggest-export-heydar-aliyev/24727872.html>

in New York and the Washington subway system, among other sites.* More intriguingly, it has lobbied foreign national and sub-national legislatures to pass resolutions recognizing the event as a genocide or crime against humanity. To date, such resolutions have been passed by 11 countries and 12 U.S. states, including Arkansas, New Mexico, West Virginia, and New Jersey.† This campaign mirrors longstanding efforts by Armenian lobbies to gain recognition for the 1915 Armenian genocide.

The Future of Asymmetric Diplomacy

All of these activities beg the question of whether asymmetric diplomacy is worth the expense. On the one hand, the costs are small. A few million dollars a year is a small outlay compared with the cost of foreign missions and increased military spending, especially for Azerbaijan. Part of the perceived benefit comes from simply putting their countries “on the map” for publics that know close to nothing about them. With such a low base of knowledge, the investment to create positive associations in the minds of U.S. voters and pressure groups might yield long-run returns. Likewise, having a few sympathetic congressmen or political reporters on one’s side might make some difference when relevant legislation is being considered, especially if most lawmakers have no stake in the matter.

On the other hand, the tangible payoffs are negligible. Although Karabakh is Azerbaijan’s foremost foreign policy concern, neither occasional speeches by Congressmen nor legislative resolutions about Khojaly are likely to change U.S. policy, which advocates a negotiated solution. Nor will it change the regional balance of forces, which, with presumed Russian involvement, favors Armenia. Saakashvili’s lobbying in the United States did not secure U.S. defensive action for Georgia after Russia invaded its territory (although it may have contributed to the Bush administration’s push to prematurely bring Georgia closer to NATO, which probably helped precipitate the war). Neither did Saakashvili’s scaremongering about his opponent sway the 2012 election in his favor.

And yet lobbying will likely persist. Even if there are few measurable outputs, politicians take a certain glee, difficult to quantify, in bringing their adversaries down a peg. This argument is supported by a new development in old-fashioned diplomacy: the opening in 2006 of an Azerbaijani consulate in Los Angeles, a city with few Azerbaijanis but the largest concentration of Armenians outside Armenia. The first consul-general at that posting made that rationale explicit: “One of our objectives is to make the Azerbaijan point of view known here.”‡ Having one’s talking points circulating in the public sphere, whether in *The New York Times* or U.S. subway stations, brings psychic benefits to self-proclaimed Davids when they finally strike back against perceived Goliaths, whether their adversaries be the Armenian lobby or Vladimir Putin (and his proxies). Meanwhile, influential and high-priced lobbying firms benefit when rivals on

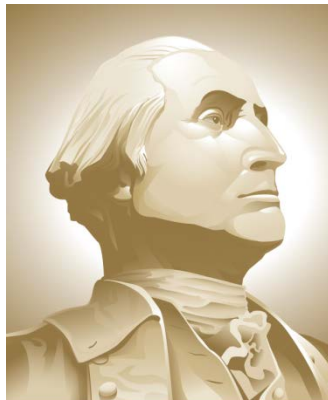
* <http://azerbaijanamericaalliance.org/2013-khojaly-awareness-campaign>

† <http://files.preslib.az/projects/khojali/rukhojali/gl5.pdf>

‡ http://www.azer.com/aiweb/categories/magazine/ai143_folder/143_articles/143_suleymanov_elin.html

both sides of a conflict engage in a communications arms race and seek more of their services; perhaps they are the true winners.

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