

EaP Think Bridge

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Monthly analytical digest

Armenia in Transition: Turning Point or Tipping Point?



With parliamentary elections in Armenia quickly approaching, a profound period of transition is nearing its apex

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EaP Think Bridge is a platform uniting expert communities in the countries of Eastern Partnership region to fill the gap in distributing analytical products for stakeholders

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What do we know about our neighbours?

We are building a bridge between the Eastern Partnership countries –the intellectual one.

Unified by the Eastern Partnership policy, the countries are mainly focused on the cooperation with European institutions. At the same time, they disregard the substantial potential of the partnership within the region. After all, despite the geographical proximity, shared past, and, to the great extent, similar difficulties, Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine extremely differ from each other in terms of their political and social situation. Nevertheless, the neighbours take it slow to learn from each other's success or failures. And sometimes they just do not get accurate information from neighbouring countries, especially given the widespread influence of Russian propaganda.

Bringing together expert communities of the Eastern Partnership, EaP Think Bridge Initiative aims to tackle this problem. This bridge between the leading think tanks of the region is an opportunity to receive the latest first-hand analytics. We are pleased to present the result of this cooperation – the monthly EaP Think Bridge Digest.

The first issue opens with the analysis of the situation in Armenia on the threshold of the parliamentary elections in April 2017. Considering the escalation of conflict in Nagorny Karabakh and the uneasy situation in the country, the elections do not seem to be a predictable culmination of the well-ordered and planned transition to a parliamentary form of government anymore.

An important part of each digest issue is a short analytical overview of the month in six countries. It is a kind of photograph of the domestic political situation, economy, and foreign policy of the country. No unnecessary information included, only the most important data from local experts, and a clear scheme of analysis that enables to trace the dynamics of events. Let's start with the overview of 2016, which was the year of upheaval, change, and hardship for the region.

Currently, with the support of the F. Ebert Foundation Regional Office "Dialogue Eastern Europe", our bridge is built between the following analytical centres: Centre for Economic and Social Development (Azerbaijan), Regional Studies Centre (Armenia), Centre for Strategic and Foreign Policy Studies (Belarus), Liberal Academy Tbilisi (Georgia), Foreign Policy Association (Moldova), and Foreign Policy Council "Ukrainian Prism" (Ukraine). But we are open for cooperation, and we are looking forward to your ideas for the "Guest Expertise" section.

Olga Chyzhova,
Editor in Chief
EaP Think Bridge Digest

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Armenia: Challenges, Changes and Choice

Richard Giragosian, Regional Studies Center

For Armenia, this past year was marked by the onset of a new period of daunting challenges, changes and choices. From a serious round of fighting over Nagorno-Karabakh in April to a July hostage standoff that lasted two weeks, 2016 was a time of trouble for the Armenian government.



Armenia's security reliance on Russia has only deepened in recent years/ Mi-8 combat helicopters over Yerevan on Independence Day celebrations

DOMESTIC POLICY

A Two-Week Hostage Standoff as Diagnosis for Society

After the Armenian government succeeded in an abrupt effort to amend the constitution, which was endorsed by a contested national referendum in December 2015, the country began preparation for a move to a new parliamentary form of government. This change only enhanced the significance of the coming parliamentary elections, set for April 2017, and further elevated the political posturing and pre-positioning by all political parties.

And at the same time, a recent surge in clashes over Karabakh conflict through much of last year has further exacerbated the closed nature of internal politics, which has been marked by an environment that has only forced out more moderate views in favor of a more militant stand within the domestic political spectrum.

And the closed political space only exacerbated a degree of desperation, which culminated in the seizure of a police station in the Armenian capital in July by a small, but well-armed group affiliated with a small, marginal fringe, but radical,

political opposition group. In what became an intense two-weeks, the country was gripped by a standoff between police and the gunmen who initially took several policemen hostage in the assault to only then also took more hostages from a group of medical personnel who sought to aid the wounded.

While many understood, and some even supported the criminal actions of the gunmen, the episode was very much the aberration for Armenia. Regardless, the real lesson from the incident was that the simmering discontent and sense of desperate frustration within society could no longer be ignored or denied by the authorities.

ECONOMY

Stagnation & The Cancer of Corruption

Beyond the serious implications from these political changes, the country still faced mounting challenges, ranging from continued economic stagnation and anemic growth to a serious decline in remittances. But the core challenge is more internal than external, and stems from the “cancer of corruption” that remains the fundamental obstacle to reform and development.

The imperative to address the country’s economic weakness has also forced Armenia to rely less on its membership in the Russian-led Eurasian Economic Union (EEU), which has largely failed to meet expectations for increased trade and economic gains. Instead, Armenia has looked to the West, and has successfully garnered essential financial support from the World Bank

and International Monetary Fund (IMF), which extended an additional \$71 million in fresh loans.

The new Western funding follows the adoption of a new Armenian state budget for 2017 that imposes sharp cuts in public spending by about \$210 million. The IMF also disbursed a fresh \$21.2 million installment of a \$112 million lending program for Armenia that was launched in 2014, thereby raising the total amount of funding to \$90 million available to date.

There is a belated recognition that Russian interests are not necessarily supportive of Armenia

At the same time, this economic weakness also enhanced the necessity for Armenia to pursue a commitment to regaining and restoring its relations with the European Union (EU), with accelerated talks over a new framework agreement on relations to replace the failed Association Agreement.

FOREIGN POLICY

Armenia in a Region at Risk

The Nagorno-Karabakh conflict has long been an essential factor of Armenian foreign policy, and presents a dynamic and direct challenge. The inherent challenge of managing a stalled peace process, coupled with ceasefire violations and border skirmishes, have only elevated and exacerbated the political significance and severity of the Karabakh issue.

In the wake of the most serious clashes since the 1994 ceasefire agreement was first reached, fighting in April 2016 not only confirmed that the “frozen” conflict over Nagorno-Karabakh had entered a new, much more serious combat phase, but also posed new risks to the delicate state of regional security and stability. Against that backdrop, Armenia faces an equally important set of choices over the country’s strategic direction of its foreign policy, defined and driven by a crisis in relations with Russia and a turn to the West.

Largely driven by the unresolved Nagorno-Karabakh conflict, Armenia’s security reliance on Russia has only deepened in recent years. Yet in 2016, the asymmetry and the limits of any demonstrable benefits from its strategic

“partnership” with Russia have tended to cast fresh doubt on Armenian expectations of Russian support. And as Russia has emerged as the primary arms provider to Azerbaijan as well as Armenia, there is a belated recognition that Russian interests are not necessarily supportive of Armenia.

Although Armenia remains hostage to a wider “region at risk,” the country has largely embarked on a new course aimed at overcoming the threat of isolation. In a strategic sense, Armenia is becoming more successful in maximizing its strategic options, and is now beginning to challenge the dangers of its over-reliance on Russia as its primary security patron and partner.

Moreover, as Armenia’s “strategic partnership” with Russia has become steadily one-sided, Yerevan has begun to finally see that although close relations with Russia are essential over the longer term, the imperative is now to maximize its options and garner dividends from a more concerted embrace of the West. Thus, although Armenia has yet to graduate from this “region at risk,” the deeper trends clearly suggest a more prudent policy aimed at finally overcoming Armenia’s isolation and building a new degree of stability and security.

Azerbaijan: Belt-Tightening and Balancing Foreign Policy

Vugar Bayramov, Center for Economic and Social Development

2016 for Azerbaijan has been a year of new outburst in Nagorno-Karabakh conflict, oppression of civil society and long-lasting consequences of oil prices drop. Country manages to fulfill its obligations with Western partners and balances between the EU and Russia in its foreign policy.



Drop in oil prices heavily affected the situation in oil-exporting Azerbaijan

DOMESTIC POLICY

Civil Society Meltdown Continues, Despite Some Improvements

The political arena in Azerbaijan was remarkable with stagnant civil activism on one hand and strong oppression of civil society members and organizations on the other. In the beginning of 2015, the government has launched a crackdown on civil society, limiting

the activities of NGOs by freezing their bank accounts and arresting some activists. Later, the legislation for NGO's was partly facilitated with the establishment of a [single-window system](#) for registration of donor organizations in October, 2016, which is in force starting from January 1st, 2017. However, the scope of implementation of this novelty is ambiguous; in the opinion of some experts, the system may leave the registration of human rights-related organizations outside the coverage.

Nagorno-Karabakh conflict remains one of the main factors shaping the political development and foreign policy of Azerbaijan. After a relatively stable period, the conflict witnessed two noticeable outbursts in August 2014 and April 2016. In-between, in November 2014, during the full-scale military drills in Nagorno-Karabakh, an Armenian

Mi-24 army helicopter was downed by Azerbaijan. As a result of clashes in August 2014, more than 20 officers and soldiers from both sides have died according to official statistics – although the real number is assumed to be much higher. Reportedly, the death toll for the ‘Four Day War’ in April 2016, reached 200 people from both sides.

ECONOMY

Recession Takes Toll

As an oil-exporting country, Azerbaijan was hardly hit by a recent sharp drop in oil prices starting from early 2014. In an attempt to maintain the fixed exchange rate of national currency manat, the country's monetary authorities have carried out comprehensive interventions to foreign exchange market. However, these attempts were futile and not able to keep manat from falling. As a result, the Central Bank was forced to two sharp devaluations in 2015, resulting in more than 50% depreciation of manat in total. After the second devaluation, the Central Bank announced the shift to floating exchange rate, though the regime is not pure, but managed floating regime, which led to highly volatile exchange rate of manat throughout 2016. Towards the end of 2016, manat has reached its lowest level against currencies. It is expected that the national currency will continue to depreciate given that US Federal Reserve has increased the interest rates.

Declining oil revenues has also led to shrinking budget revenues and expenditure. The latter is introduced for discussions in the 2017 [state budget](#) proposal, where the government intends to pursue

Human rights issues created complications for the relations between Western Countries and Azerbaijan

fiscal austerity. On one hand, the recent increase of utility tariffs for electricity and natural gas consumption by the Tariff Council and on the other hand seriously surging [prices of consumption goods](#) mainly imported from abroad as a result of currency depreciation reduced the well-being of population. The reduction in social spending is expected to aggravate this already complex situation.

Given that, Asian Development Bank has approved a 500 million dollars' [loan](#) help to Azerbaijan, which will contribute to a 1.4 billion stimulus package for job creation, social assistance and economic diversification.

FOREIGN POLICY

Azerbaijan Remains a Reliable Partner for the West and Close Neighbours

Azerbaijan pursues a balanced foreign policy towards the European Union and United States on one hand, and Russia and its allies on the other. Due to its geographical position, Azerbaijan plays a role of a reliable partner of the West on the energy and military security including the participation in failed “Nabucco” project, US-led military operations in Afghanistan and logistical support for the military operations for International Security Assistance Force in Afghanistan.

However, human rights issues created complications for the relations between Western Countries and Azerbaijan. The United States Congress held hearings on the human rights issues

in Azerbaijan, threatening to extend [the Magnetsky Act](#) to Azerbaijani officials also. With the new adopted legislation, US and EU donor organisations activities, and local NGOs cooperating with them were put on hold.

Moreover, Azerbaijan has failed in signing Association Agreement with the European Union alongside Ukraine and Georgia. But recently the EU announced the launch of negotiations on a [new comprehensive agreement](#) with Azerbaijan.

The relations with Russia and the close neighbours Turkey and Iran are developed at the new level of political-economic cooperation between this so called “security and economic cooperation” alliance. The Russia-Azerbaijan-Iran alliance tries to build a North-South Transport Corridor which may change the region's geopolitical order, bringing Baku closer to Russia, and moving away from US and EU.

Belarus: Establishing Dialogue with the West and New Components in the State Ideology

Arseny Sivitski, Center for Strategic and Foreign Policy Studies

2016 was marked for Belarus with the mild liberalization of its domestic policy in favour of enhancing dialogue with the West. The country is preparing to abandon the socio-economic model of economy and tries to remain neutral balancing in the foreign policy.



OSCE Office for Democratic Institutions and Human Rights representatives at the Communist party propaganda picketing in parliament election period

DOMESTIC POLICY

Mild Liberalization and Belarusization

The main event in the 2016 political life of Belarus was the parliamentary elections held on September 11. The report of the OSCE Office for

Democratic Institutions and Human Rights on the results of the parliamentary election campaign, along with the critical assessments, also mentioned the positive aspects and steps of the Belarusian authorities aimed at further work in improving the electoral process taking the recommendations

into account. This may be interpreted as a partial recognition of the elections. Such assessment of the election results is largely caused not only by the geopolitical circumstances but also the fact that for the first time in many years the democratic opposition representatives — E. Anisim and A. Konopatskaya — were among the deputies of the House of Representatives of the National Assembly. This, in turn, contributed to the partial legitimization of the Belarusian parliament in the eyes of Western countries that traditionally did not recognize this Belarusian policy institute.

Belarus named 2016 the Year of Culture. The Belarusian authorities have used the event to promote Belarusian language, history, culture, etc. According to the ideologists, these activities and initiatives were designed to cultivate national identity among Belarusians, thereby adding the national component to the traditional ideology of

patriotism. It is obvious that these innovations in the cultural policy and state ideology were inspired by the Russian-Ukrainian conflict, quite indicative for the Belarusian authorities.

The government is to the gradual take-down of the Belarusian socio-economic model

The whole gravity of this new approach was shown when, in December 2016, the Investigative Committee of the Republic of Belarus initiated criminal cases for inciting ethnic hatred against the pro-Russian journalists Yuri Pavlovets, Dmitry Alimkin, and Sergey Shiptenko, who collaborated with such websites as Regnum, Lenta.ru, Eurasia Daily. In their publications, they questioned the sovereignty of Belarus and made insulting remarks against the Belarusians, their history, language, and culture.

ECONOMY

Continuing Recession and Belt-Tightening

Negative trends in the Belarusian economy, which could be seen in 2016, put highly in doubt the viability of the Belarusian socio-economic model, characterized by the Belarusian authorities as a socially oriented one. In fact, the year of 2016 confirmed the trend of gradual refusal from this model in the context of the large-scale revision of the scope of financial support for various sectors of the economy and social sphere, due to insufficient revenue during the crisis in relations with Russia.

The number of employees in the economy continued to decline: from the beginning of the year, enterprises have fired 98 thousand employees, which is more than they had hired. The tariffs for public services have also increased. Thus, the growth in the percentage of utility service compensation by people increased from 48.5 % to 60 % by the end of 2016. The Belarusian authorities were forced to carry out the tough monetary policy, which led to the stabilization of the national currency. At the same time, a decrease in providing credits for enterprises and housing construction companies could be noticed, along with the growth of enterprise indebtedness and deterioration of bank assets quality.

The Belarusian authorities had decided to

abandon the practice of directed lending of state-owned enterprise. That helped to stabilize the exchange rate of the national currency. However, due to the lack of low-cost loans, companies shortly increased the size of loan arrears. As a result, the share of toxic assets in banks' balance sheets increased from 6.8 % to 14.9 %, thereby creating the necessary preconditions for the crisis in the banking system.

State level activities are aimed at adding the national component to the traditional ideology of patriotism

In view of this, the authorities launched the inventory of the machine-building and agricultural sectors of the economy. They established the Asset Management Agency, which is intended to unwind banks' balance sheets from subprime loans to agricultural organizations with liquidating consistently insolvent companies through court action. A question was raised about the avoidance of production capacity duplication in the industry, which may outline one of the areas of public sector optimization (liquidation of inefficient duplicate capacities). In fact, we can say that the government is preparing to reform the economy, but at this point without the privatization instrument.

In general, the Belarusian authorities continued to pursue the policy of reduction of social obligations to the public. Virtually, it is about the gradual take-down of the Belarusian socio-economic model.

GDP is expected to show a decline by nearly

3% in 2016. It was considerably caused by the reduction of monthly oil deliveries to Belarus by Russia (from 2 to 1.03 million tonnes) that resulted in lower volumes of oil processing, the slowdown of the recovering dynamics in the industry, and a 10 % decrease in wholesale trade.

FOREIGN POLICY

Balancing Behaviour and Striving for Neutrality

As in the previous 2 years, in 2016 the Belarusian foreign policy was influenced by the new strategic situation in the region caused by the ongoing Ukrainian crisis and new “cold war” between Russia and the West. In these circumstances, Belarus reaffirmed its role as a donor to regional stability and security. Despite the Russian side’s desire to turn the Belarusian territory into the military and political foothold to put pressure on the countries of NATO, the EU, and Ukraine, the official Minsk expressed commitment to the security guarantees announced earlier by the Belarusian leadership. These guarantees say that the Belarusian territory cannot be used by foreign troops for military aggression against neighbouring countries, and foreign military bases and troops cannot be placed on the Belarusian territory. Finally, the focus on the peaceful, predictable foreign and defence policy was documented in the new Military Doctrine, which entered force on July 26, 2016.

Relations with Russia continued accumulating recessionary trends, thereby provoking a number of conflicts, including oil and gas, transit, meat and dairy, and other “trade wars.” In fact, Moscow continued putting comprehensive pressure on Belarus, which includes not only the economic leverages but even military and political and information ones. As a result, A. Lukashenko, as a mark of protest against Kremlin’s policy towards Belarus, was forced to ignore the summits of the Collective Security Treaty Organization and the Eurasian Economic Union in St. Petersburg on December 25–26, 2016. Minsk criticized the Eurasian integration processes and refused to sign the EEU Customs Code for this reason. Specifically, it was stated that the EEU had taken

no important decisions, while the Union itself was being transformed into a political project. In addition, the Russian side did not fulfil its obligations in the framework of the EEU and the Union State, especially on the equal-netback energy pricing issue in regard to Belarus.

Belarusian territory cannot be used by foreign troops for military aggression against neighbouring countries

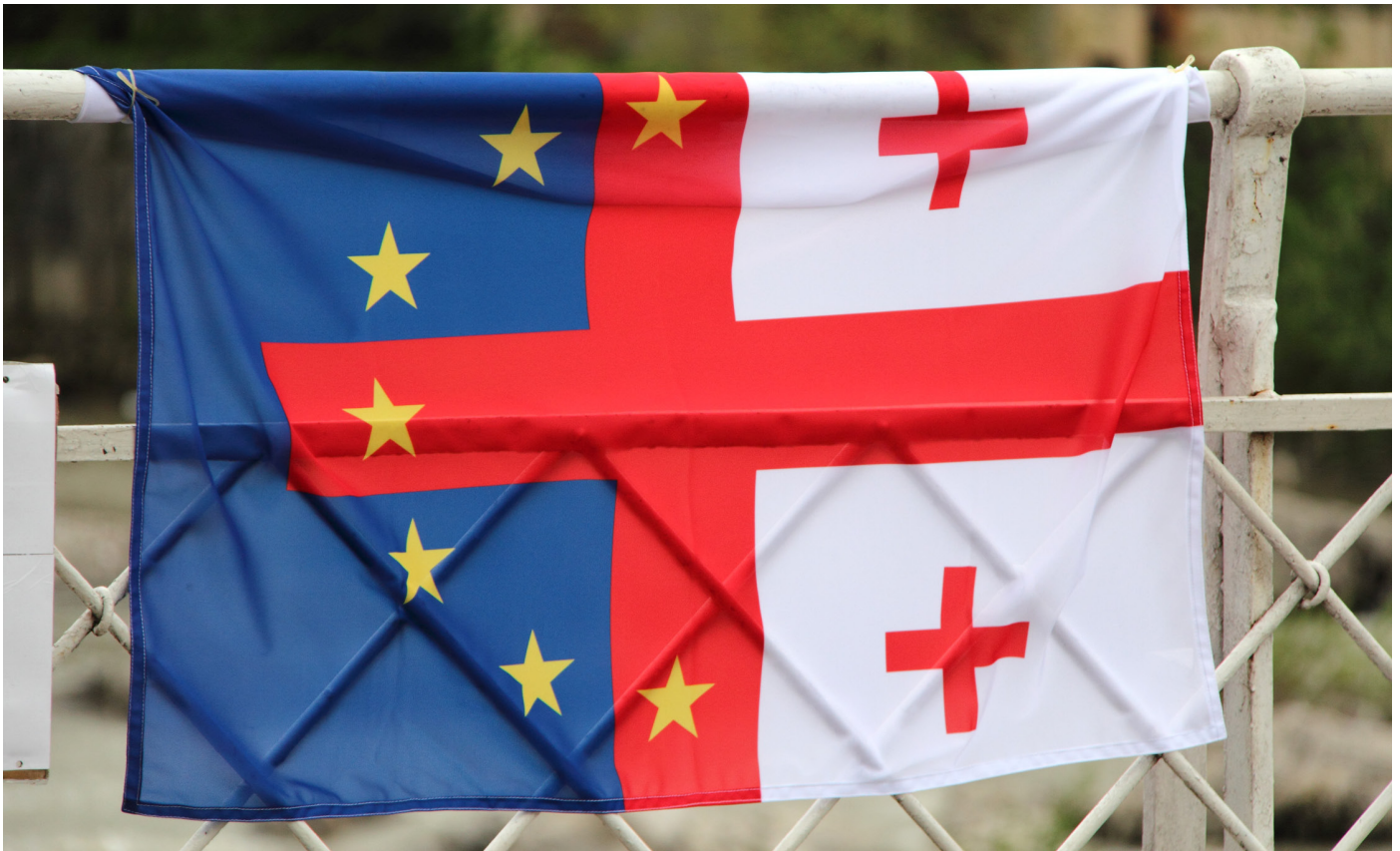
The growing crisis in relations with Russia intensified the Western and Eastern vectors of the Belarusian foreign policy. The country continued normalizing its relations with the EU and the United States. Minsk declared its readiness to start negotiations on the signing of the framework partnership and cooperation agreement with the EU, which never entered force in 1995. The full normalization of relations, which primarily lies in the movement toward the complete cancellation of all American political and economic sanctions, was declared as the main priority objective in the relations with the United States.

Belarus also continued deepening its cooperation with China and studying the issues of participation in the Chinese initiative “One Belt, One Road.” At the end of September 2016, A. Lukashenko had a working visit to Beijing, where the joint declaration “On the Establishment of Relationship of Trust-Based Comprehensive Strategic Partnership and Mutually Beneficial Cooperation” was signed, which is the highest level of relations between China and other countries. Before, China had had such level of relationship only with Pakistan, Great Britain, and Russia. The inclusion of Belarus in this list shows that China has real strategic intentions to turn Belarus into one of the key links in the framework of the Silk Road Economic Belt.

Georgia: Pro-Western Powers Lose Supporters though EU Membership Has No Alternative

Lasha Tugushi, Foundation "European Initiative - Liberal Academy Tbilisi"

The parliamentary election shaped the political agenda of 2016 for Georgia bringing the anti-West party the seats for the first time while the drop of the national currency rates hit the reputation of the government. But the course for EU membership was legislatively stated as the one with no alternative.



Main vector of Georgia's foreign policy lies in the pages of the Georgian passports

DOMESTIC POLICY

The Top Party Prize - Constitutional majority

In 2016 political life in Georgia was turning around the parliamentary elections. Thus, on November 18, the 150-member newly elected parliament in its first session shaped three key issues:

- A political force informally led by billionaire Bidzina Ivanishvili's, The Georgian Dream, won a constitutional majority of parliamentary seats, gaining 115, or $\frac{3}{4}$, of all MPs' seats.

- A political force led by Former President Mikheil Saakashvili virtually is in microscopic minority, only gaining 27 seats.

- The third political force, which magically cleared the 5% threshold, is a political party notorious for its conservative, nationalistic discourse and anti-Western, anti-Turkish rhetoric.

Immediately after announcement of the election results, Saakashvili's United National Movement split virtually in two opposing factions - one supporting Saakashvili, while the other one turning against him. The latter group believes that a citizen of Ukraine can't hold the honorary position of president. In their view, the party is without a formal leader. Their favorite is the former Speaker of Parliament David Bakradze.

Tensions in the former ruling party approach the

boiling point. The party convention is set to be held in the second half of January, which will decide whether the party bursts into two parts. Saakashvili overtly called his opponents «freaks». The fact is that a split is weakening the party.

At the same time the pro-Western political spectrum seriously impoverished, two strong pro-Western parties have been virtually 'orphaned'. The defeated Republican Party and Free Democrats have been abandoned by their leaders. Republican Speaker of the previous Parliament and former Defense Minister Irakli Alasania of the Free Democrats distanced themselves from their

parties. These two political hara-kiri's by overtly pro-Western forces seem quite alarming.

Despite of this general sense of instability which has been formed in the country, which renders anti-Western, pro-Russian political forces increasingly attracted in the eyes of the population, despite that majority of the citizens still supports pro-Western policy. Such situation clearly motivates the ruling political establishment to resort to authoritarian, conservative political agenda, in spite of a need of swift and overwhelming democratic reforms being implemented in the country.

ECONOMY

Georgian Currency in the Process of Melting

The ruling party, Georgian Dream, soon after winning in the parliamentary elections faced serious challenges, as Georgian national currency lari's (GEL) exchange rate drops to the record low, triggering mass displeasure.

On December 18, 2015, GEL exchange rate against the dollar was 2.3977, on December 18, 2016 it was 2.6837. The value of lari fell by about 12%. This reversal has been felt particularly bitter since May, when the exchange rate was 2.1459. The new «National Banker» started with a positive dynamic in lari-dollar exchange process. However, after the election the rate started dropping again, hitting rock bottom lows. In the country where prices on virtually all commodities are attached to the dollar, this process is painful for almost all citizens and, in

turn, hits the reputation of the government.

The price hike on consumer goods is between 20% to 30%. In order to revive the economy, the government has announced a sharp reduction of the state apparatus, as well as the administrative costs in the budget of 2017 are expected to be adjusted.

Newly elected parliament passed a resolution stating the foreign policy priority is Georgia's EU membership, without an alternative

The situation has been alleviated by a couple of positive indicators:

- According to the Tourism Administration, 6,350,825 international visitors came to Georgia in 2016, which is 7.6% higher than in the previous year
- According to the Wine Agency, Georgia exported 50 million bottles of wine to 53 countries, that is 38% more than in the previous year

FOREIGN POLICY

Georgia's Wait for Visa Free Regime

The New Year visit to Georgia of two US senators, the Republicans John McCain and Lindsay Graham, and the Democrat Amy Klobucher carried a strong signal of marking the geopolitical frontier of the free world. Their trip started in Ukraine, continued to Georgia and ended in the Baltic States.

Vladimir Putin has illegally annexed a part of Georgia, but Georgia will one day be free, united and independent, Senator John McCain said to journalists at the NATO-Georgia joint training and evaluating centre.

At this time the main vector of Georgia's foreign policy lies in the pages of the Georgian passports. Debate on the issue when Georgian citizens will be granted visa-free travel to Europe, is reminiscent of Shakespearean dramatic reading periphrasis 'with

visa or without a visa, that is the question.' Citizens have constantly heard from media that Georgia fulfilled all the obligations which had been imposed in order to get a visa-free regime with the EU.

Despite of its repeatedly proven pro-Western course, it was a novelty that the newly elected parliament passed a resolution stating the foreign policy priority is Georgia's EU membership, without an alternative, and that the Association Agreement between Georgia and the EU is not the ultimate goal. Georgia strives for EU membership in line of Article 49 of The European Union Treaty. In 2013, a similar resolution was adopted by the Parliament, but it put emphasis more on integration than on membership.

And what about the other side, there is growing perception that in Europe, which Georgians think is their home as well, perhaps expediency weighs over the justice.

Moldova: New President & Old Issues

Victoria Bucataru, Foreign Policy Association

In 2016 Moldova returned to direct voting for the president. The results of the campaign revealed the divide in the society between those in favor of deeper integration with EU and closer ties to Russia.



2016 brought few successes to the domestic reforms agenda of Moldova

DOMESTIC POLICY

Polarization of the Society

In January 2016, the Cabinet of Prime Minister Pavel Filip was elected by 57 out of 101 MPs. However the authority of the new formed Government was questioned by the massive street protests as well as the rush of the voting procedure itself. Among others issues, this particular matter stood out and was cause for concern – the Parliament hearings lasted hardly half an hour. Officially, Filip's Government had engaged in a reform process which promised closer ties

to the European Union and full implementation of the Association Agenda. Nevertheless, the developments of the domestic reform agenda have brought few successes. This is related to technical issues rather than deep institutional progress in the field of anticorruption (according to Transparency International's 2015 [Corruption Perceptions Index](#), Moldova was ranked 103 out of 168 countries and territories surveyed in), justice and freedom of media (freedom of the press status is estimated by the [Freedom of the Press 2016 Report](#) as partially free) characterizing the democratic environment.

On March 4th, the Constitutional Court (CC) reintroduced direct voting of the president with a decision which repealed the amendments adopted on July 5, 2000 by the Communist ruling, empowering the Parliament to elect the president by 3/5 of MPs. [The reasons presented by the CC](#) referred to previous political deadlocks and alleged procedural violations in 2000. With no public consultation and participation of the legislative branch, the transparency and legitimacy of the CC has been significantly undermined.

In autumn, after two rounds of elections (October 30 and November 13) Moldovan citizens elected Igor Dodon, a pro-Russian oriented political leader as the third directly elected President of Moldova. Dodon, the former leader of the Socialist Party, had won the presidential elections by a margin

of 4%, defeating his rival Maia Sandu, leader of the Action and Solidarity Party (52.11% - 47.89%). iv Regardless of insignificant media support and limited financial resources, Maia Sandu, former Minister of Education, managed to gather a large and impressive group of supporters by promoting a pro-European reform agenda.

Overall, the election results revealed the deep polarisation of Moldovan society divided merely by geopolitical factor and the confrontation between east and west development patterns. Moreover, the institutional shortcomings and violations registered during the elections emphasised the institutional fragility and intensified allegations of direct influences on the part of the oligarch Vladimir Plahotniuc, the country's least popular politician, recently nominated as the head of the Democratic Party.

ECONOMY

Development Assistance at the Edge

At the end of 2016, after a long process of negotiations, IMF Executive Board approved [178.7 million US-Dollar arrangements](#) under the Extended Fund Facility and the Extended Credit Facility for Moldova. Following this decision the European Commission resumed its budget support assistance providing the Moldovan Government with 45.3 million Euros under four programmes: Economic stimulation in rural areas (ESRA), European neighbourhood Programme for Agriculture and Rural Development (ENPARD), Public Finance Policy Reform, and Vocational Education Training. Regardless the financial

and backing crisis which affected Moldova's credibility, the Parliament ventured to approve in first reading the draft law on the liberalisation of capital and fiscal incentive (Draft Law no. 452). According to [the Position Note](#) presented by civil

Moldova faced loss of trust as well as reassessment of relations with foreign development partners

society experts the legislative initiative related to tax and capital amnesty could generate a higher risk of tax evasion, increase corruption and money laundering. Moreover, it undermines the rule of law, the integrity of the public sector and the banking system reform process required as prerequisites for the budget support assistance.

FOREIGN POLICY

Road to European Integration

2014 saw the signing of the Association Agreement (AA) which included the Deep and Comprehensive Free Trade Area (DCFTA, June 2014) and the finalization of the visa liberalization process (April 2014). Moldova's initial momentum has since reached a point of inertia regarding its road to European integration. This has manifested itself in several forms: the failed attempts to form a stable and credible Government, the fight between oligarchic camps and the concentration of power, the banking scandal as well as the selective justice

procedures. The last point has led to a serious loss of trust as well as reassessment of relations with foreign development partners, especially the [European Union](#) (EU).

The banking crises (\$1 billion theft) critically affected the country's financial system and as a consequence led to the [suspension of assistance](#) from the International Monetary Fund (IMF), World Bank (WB), and EU. By the end of 2016, international financial assistance had been resumed only after complying with [the pre-established conditionality](#) and ensuring macro-economic stability.

Ukraine: Between the War with Russia and Internal Challenges

Sergiy Gerasymchuk, Foreign Policy Council “Ukrainian Prism”

The main events of 2016 in Ukraine include: the resounding resignations and emergence of new political players; movement on the thorny path of reforms; unstable economic growth amid increasing social demands; the on-going war with Russia and negotiations with the European Union, as well as the increasing turbulence of the international system, which is also reflected in the domestic policy.



Approving of the Ukrainian edition of the Resolution on “The Situation with Human Rights in the Autonomous Republic of Crimea and Sevastopol (Ukraine)” by the United Nations was the achievement of the Ukrainian diplomacy

DOMESTIC POLICY

“Fresh Faces” & “Old-Time Leaders”

The change of the government is among the most resounding political events of 2016. In April, Arseny Yatseniuk resigned and was replaced by Vladimir Groisman’s government. Many experts suggested that the government’s resignation would lead to the coalition rupture and early elections, but President Poroshenko and Yatseniuk managed to find a compromise and avoid that scenario.

No less resounding resignations shook Ukraine at the end of the year, when, in November, Mikheil Saakashvili left the office of the Head of Odesa Regional State Administration, which

caused a domino effect—resignation of the so-called Georgian team members: Chief of the Main Department of the National Police of Ukraine in Odesa region Giorgi Lortkipanidze and the Head of the National Police of Ukraine Khatia Dekanoidze. Saakashvili’s new political power aims to take the place of the off-system opposition.

The people’s deputy of Ukraine Nadezhda Savchenko and her movement RUNA seem to try to carve out the same niche. Savchenko’s political career story is a whirlwind. A servicewoman, illegally captivated by Russia and convicted there, she has been in the centre of attention of the Ukrainian and world media for a long time, having become a self-sacrificing symbol. Due to the difficult negotiations

with Moscow, Savchenko was released on May 25, awarded the title of Hero of Ukraine, and took her place in the Ukrainian parliament. Now she is promoting the ideas of direct talks with the leaders of terrorists in the so-called “Donetsk and Luhansk People’s Republics”, acts as an opponent to the authorities in power, and, directly or indirectly, accompanies the forces opposing to President Poroshenko’s policy.

Despite the resounding resignations and new political players, the Ukrainian voter’s preferences in 2016 remained on the side of the “old-time” political forces. At year-end, the “finalists” of the presidential election in 2014 —Yuliia Tymoshenko and, currently a little behind the latter in the

ranking, Petro Poroshenko — remain the leaders of electoral preferences.

It should be noted that, despite the political instability, Ukraine continued advancing on the path of reforms. The notable examples of success in this direction include: implementation of the public servants’ electronic income reporting carried out under the pressure of the public and the EU institutions; launch of public procurement procedures via the Prozorro electronic system (which greatly reduced the corruption level during government tenders); and introduction of the public servants competitive selection scheme, which has become a major step to the reforming of the Civil Service of Ukraine as a whole.

ECONOMY

Slow Growth Against High Expectations

Political instability reflected in the Ukrainian economic indicators. In the third quarter of 2016 Ukraine’s GDP increased by 1.8 % as compared to the third quarter a year before. Fitch Ratings upgraded the forecasts of Ukraine’s economy growth in 2017 up to 2.5 % as compared to the previous forecast of 2 %. However, such indicators are not sufficient enough to improve the social situation against the background of

increasing social demands. Even the attempts of the Cabinet of Ministers in power to increase the social component of the economy — in particular,

Despite the political instability, Ukraine continued advancing on the path of reforms

the minimum wage growth up to UAH 3,200 (about USD 120) — in 2017 may not be enough to protect the government from large-scale social protests.

FOREIGN POLICY

Russia, the EU, Achievements & Failures

The conflict with the Russian Federation remained the dominant topic in the foreign policy of 2016. Approving of the Ukrainian edition of the Resolution on “The Situation with Human Rights in the Autonomous Republic of Crimea and Sevastopol (Ukraine)” by the United Nations was the achievement of the Ukrainian diplomacy. However, despite some Ukraine’s victories on international platforms, there is no reason to talk about any sufficient progress in resolving the situation. Russia accused Kyiv of organizing the sabotages in Crimea. Ukraine’s conducting of military drills resulted in threats from Moscow to hit straight the Ukrainian missile launchers. In November—December 2016, the OSCE representatives registered the record number of violations of the ceasefire since the establishment of the OSCE Special Monitoring Mission in 2014.

Thus, the complex of circumstances indicates that it is no use expecting the settlement of relations with the Russian Federation in the near future.

Some progress is noticed in Ukraine’s relations with the EU. For instance, the Free Trade Agreement between Ukraine and the EU came into force on January 1, 2016. At the same time, smaller results were achieved by Kyiv in negotiations with the EU on the granting of the visa-free regime for the citizens of Ukraine, and blocking of the Association Agreement final ratification by the Netherlands may be regarded almost as a failure on the European direction. The situation may grow worse in 2017 on the back of the elections in France and Germany and the assumption of power in the US by Donald Trump’s administration, which did not show any affection to Kyiv.

The above says that the achievements in 2016 remain limited by the unstable political situation in Ukraine, the EU, and the US. Accordingly, the Ukrainian domestic and foreign policy and economy will be still full of challenges next year.

Armenia in Transition: Turning Point or Tipping Point?

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Strasbourg, France, April, 2016: Armenian diaspora protest outside Azerbaijan Embassy against the 2016 clashes in Nagorno-Karabakh

With parliamentary elections in Armenia quickly approaching, a profound period of transition is nearing its apex. According to the government's initial plan, a transformation to a parliamentary form of government was seen as the most effective way to hold power amid a potentially troubling transition of political elites. But that early degree of optimism and confidence was quickly eroded in the wake of the sudden outbreak of intense fighting over Nagorno-Karabakh in April 2016 and a startling hostage stand-off incident that dragged on for two weeks in July. Against that backdrop, the country's coming election in April 2017 is no longer a predictable culmination of an orderly and planned transition. Rather, the April election now stands as a crossroads for Armenia, as either decisive turning point or as possibly divisive tipping point, with the country's stability and security in the balance.

Introduction

For Armenia, political transition has always been difficult. And with the absence of free and fair elections as a mechanism for peaceful change, the process of succession has long been fraught with an inherent danger of violence and confrontation. Armenia's political elite holds little experience of orderly political transition and, unlike neighboring Georgia, the country has no precedent for the peaceful handover of power from an incumbent government to an opposition.

Having been led by only three presidents, each of these three administrations beset by weak institutions and a meager record of acceptable elections, any change in political leadership is marked by a degree of unpredictable risk. This risk of political unrest or even outright violence in Armenia is also rooted in the distinctly daunting period of recent Armenian political history, where the country's first president was forced to resign by the combined pressure of the second and third Armenian presidents.

Averting Risk

Largely in order to avert the inherent risk in political change, Armenia's ruling political elite sought to stage its own orderly and orchestrated transition, opting for a systemic transformation. This transformation, away from a strong presidency to a more diffused parliamentary form of government, sought to provide the foundation for a more predictable and manageable transition.

Initially, this plan worked, as the Armenian government succeeded in pushing through a rushed national referendum on a set of constitutional amendments in December 2015. For many observers, the Armenian government's obvious rush to transform the country into a new parliamentary form of government was both sudden and startling, especially as the government did a poor job to define or defend the imperative to move so quickly. And more troubling, for many Armenians, the poor conduct of the referendum itself, which was seriously tainted by a litany of documented and widespread voting irregularities and charges of abuse, seemed yet another missed opportunity for deepening democratic reform. And most crucially, the referendum did little to convey trust or restore confidence in the integrity of the now even more important election for a new parliament.

Faced with the limits of public mistrust and a lack of confidence in the government's commitments to holding a free and fair election in April 2017, the ruling Republican Party began to embark on a new strategy to improve its image and standing. Yet even this effort was meager in scale and only focused on the margins of the party and government.

Shattering the “Myth of Invincibility”

Ironically coming one year before the pivotal parliamentary election, an unexpectedly serious outbreak of fighting over Nagorno-Karabakh in early April 2016 caught the Armenian leadership unprepared. Although the Armenian military

Political elite stages transformation away from a strong presidency to a more diffused parliamentary form of government

response was both prudent and proportional, demonstrating a rare degree of prudent restraint, the political aftermath was much more significant. More specifically, the fighting not only shattered the long-standing myth of Armenian military “invincibility,” but also eroded confidence in the Armenian government as apparent shortages of equipment and shortcomings in force preparedness became publicly known.

For a government that relied on an image of confident leadership and military security to offset

Quick appointment of a new premier reflects the need for the Armenian government to demonstrate a new image of stability and confidence

shortcomings in democracy and political reform, the negative impact of the April fighting dealt a serious blow to its carefully constructed political imagery. A related blow came with the revelations of inadequate equipment along the front line, which not only undermined public confidence but also confirmed suspicions of corruption within the defense sector.

The net result, therefore, was a dual shift in the political context. First, corruption within the armed forces was not only exposed, but it was also no longer tolerated. In fact, state corruption was now seen as an elevated and more significant threat to national security. Never before had corruption captured such a degree of severity and been seen to undermine security in Armenia.

A Hostage Stand-Off

Through the months that followed the April fighting over the unresolved Nagorno-Karabakh conflict, the Armenian government struggled to regain a degree of control and repair an image of weakness. Although hindered by a lack of popular support and an equally low level of public legitimacy, the Armenian government was greatly helped by two factors.

First, as the immediate emotional impact of the clashes subsided, the government sought to reinforce its position by appealing to a more nationalist call for national unity. And a second factor, the absence of any credible political opposition force, only helped the government to assume a mantle of nationalist posturing.

But despite a seemingly quick return to normalcy, the simmering level of discontent and deepening dissent only fester, in part exacerbated by the government's reflexive return to an arrogant but risky position that ignored popular demands for change within Armenian society.

With a combination of mounting discontent and an unresponsive government, the situation of seeming calm was shattered in July when a determined by desperate group of armed men stormed a police station in the Armenian capital in July 2016. The criminal act, carried out by gunmen affiliated with a small marginal, but radical opposition group.

While many ordinary Armenians understood the desperation, and some even supported the criminal actions of the gunmen, the two-week incident was not only unusual, but represented an aberration for Armenia. Regardless, the real lesson from the incident was that the simmering discontent and sense of desperate frustration within society could no longer be ignored or denied by the authorities.

Changing Horses

Responding to the events of both April and July, the Armenian premier and much of his cabinet became the first victims, with a sweeping reshuffle in September 2016. With the quick appointment of a new premier, reflecting the need for the Armenian government to demonstrate a new image of stability and confidence, there are now two significant observations.

First, the new prime minister is challenged by a similar situation that President Sarkisian faced when he first assumed the presidency. More specifically, Sarkisian began his first term as president in 2008 in the immediate wake of the March 1, 2008 post-election violence that left at least 10 dead in a violent confrontation between protesters and police. That legacy haunted Sarkisian for some



Prime minister of Armenia - Karen Karapetyan

time, well into his first term, driving him to distance himself from his predecessor, Robert Kocharian, whose responsibility for that violence as president at the time tended to only hinder and hobble the start of the Sarkisian Administration.

Likewise for the new premier, the legacy of entrenched corruption, a sharply polarized public, and the inheritance of not only an economic downturn but also deeply rooted public mistrust of government, pose even greater challenges from the start. And while this backdrop may explain the political reasoning behind his appointment, it will only make his debut even more difficult and daunting.

Second, the current political context in Armenia is dominated by the coming parliamentary elections in April 2017, which are only more significant given the December 2015 decision to switch to a new parliamentary form of government. In this context, both the former prime minister and his successor will be essential for the ruling government's capacity to dominate the elections, largely through the use (or abuse) of the advantages of incumbency, or a reliance on so-called "administrative resources" of leveraging the government's extensive perks of political patronage and by pressuring civil servants and state workers to vote for the ruling party.

The new prime minister, Karen Karapetian, is a familiar and largely respected face in Armenian politics. And the new premier also offers a number of new political considerations. First, unlike many of the more prominent members of the ruling political elite, the 53-year old Karapetian holds a much more impressive degree of professional experience outside of Armenia, having established his own career rising to senior executive positions in Russian subsidiaries of the Gazprom gas concern.

But this is also a potentially negative aspect as well, suggesting that he has or must have held close ties to the Putin Administration. This also comes at a bad time politically, given the recent crisis in relations between Armenia and Russia, making the traditional political appeal of a pro-Russian figure with close Kremlin connections much less attractive to the ordinary Armenian. Moreover, the fact that Karapetian has mainly lived in Russia for the past six years further means that although he can be seen as distant and remote from a recent round of political scandals and crises in Armenia, his “white knight” image of rescuing Armenia from outside the system will not endear him to the powerful vested interests and oligarchs controlling Armenia’s closed political and economic system.

Moreover, Karapetian also has a political track record that suggests his earlier weakness in standing up to or challenging the country’s infamous oligarchs. This is also the reason behind his surprising decision to step down as the mayor of Yerevan in 2011, citing “personal reasons,” after holding the post for less than one year and returning to Moscow.

Thus, despite some sense of optimism over his appointment, the return of Karapetian as the country’s new prime minister should not be seen as a significant success for reform or democracy. Rather, the change of political personalities does not infer any substantive shift in policies, which means that the country’s fundamental problems only remain unaddressed. From this perspective, the move may be yet another ‘missed opportunity’ for real reform and sincere

change in Armenia. And more dangerously, it has become only more risky for any incumbent Armenian government to continue to ignore popular demands and pressing expectations for change in the country.

The Outlook

Therefore, in terms of the outlook for Armenian domestic politics, two distinct scenarios are expected in the run up to the country’s parliamentary election in April 2017.

It became very risky to continue to ignore popular demands and pressing expectations for change in the country

First, the ruling Republican Party will most likely adopt a new stress on national security, aimed to both repair its own damaged image in the wake of the loss of territory in the April fighting and to restore its political posture as a strong and decisive party capable of leadership and statesmanship. This greater emphasis on national security will be difficult for the government, however, as the political ramifications from the April clashes was the stark recognition that corruption is a direct threat to national security.

Yet with the expectation for yet another outbreak of hostilities and open warfare over Nagorno-Karabakh in the early months of 2017, the domestic Armenian (and Azerbaijani) political landscape will tend to be dominated by an agenda drive by security and defense issues.

The second likely scenario will be a “race to the bottom” by much of the country’s aspiring opposition parties, more comfortable with putting forward alternative personalities rather than presenting viable policies or platforms. This will only elevate the nationalist rhetoric and once again, deprive the Armenian voter of much of a choice or even a voice in the coming elections. Thus, it remains unclear whether the April election will mark a significant turning point or a serious tipping point for the country.

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