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Eastern Partnership monthly analytical digest



Moldova between two fires:

The 2016 presidential election
and the balance of power

Will Moldova continue its pro-Western path
or will it look more towards Russia
after electing Igor Dodon?

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Calm before the storm?

As for political life, January is traditionally a lull month for the Eastern Partnership. However, despite of long holidays and endless days off, the beginning of the year gave a start to the processes that will be important for further developments in the region.

In Armenia two distinct opposition coalitions were formed that want to challenge the ruling Republican Party in the April parliamentary elections. The Azerbaijani government is trying to overcome the consequences of the economic crisis and thus launched the implementation of the road-maps for 11 main sectors of the economy. In Belarus, the President proceeded with the mobilization rhetoric openly pointing at its eastern neighbor as the threat for state sovereignty and statehood. Due to the heavy dependence on Russian gas, Georgia was forced to sign a disadvantageous gas deal with Gazprom. And Ukraine in the context of yet again escalating conflict with Russia drew the red lines which it refuses to cross in its negotiations.

The traditional short review of the month in the EaP Think Bridge Digest depicts all the major events in the region.

At the same time in Moldova the newly elected president, Socialist-leader Igor Dodon, takes his first steps in the office, moving beyond pre-election rhetoric. Symptomatic Dodon chose Moscow as a distinction for his first official foreign visit. What made Moldova, the “champion” of the Eastern Partnership and the “success story” on the path to European integration, vote for an openly pro-Russian candidate? And does this choice mean the reversal of foreign policy – from Brussels to the Kremlin? The answers are provided by the analysts of Foreign Policy Association of Moldova.

Do you want to share your comment on the latest developments in the Eastern Partnership? We are open to cooperation under the “Guest Expertise” section and are waiting for your materials at info@prismua.org.

Olga Chyzhova,
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Armenia: Preparing for political battle

Richard Giragosyan, Regional Studies Center (Armenia, Yerevan)

For Armenia, January was dominated by domestic political developments: the positioning of parties and new coalitions, each seeking to maximize their chances for the country's April parliamentary election.



The ruling Republican Party may face an unexpected challenge in the upcoming election

DOMESTIC POLICY

Distinctly different political coalitions

The ruling Republican Party is buoyed by a pronounced sense of confidence as it prepares to garner an overwhelming majority of seats in the Armenian parliamentary election set for April. Though the recent developments have tended to add a degree of unpredictability to this scenario. The incumbent Armenian authorities may face a fresh and unexpected challenge. The new political landscape may also cast doubt over the election outcome and suggest that the dominant Republican Party may suffer from a danger-

ous degree of over-confidence.

This new political landscape includes two distinct political coalitions. The first, more recent grouping includes the former Foreign Minister Vartan Oskanian, the former presidential adviser Viktor Dallakian, and more significantly the former Defense Minister Seyran Ohanian. For this coalition confidence is rooted in the presumed political advantage of having such well-known and experienced political personalities. Oskanian, having served for roughly a decade as the country's foreign minister, and Ohanian, who had also served in the government until October 2016, offer a degree of gravitas to this fresh bid to challenge the Re-

publican Party and its leader, the incumbent President Serzh Sarkisian.

Yet there are two serious problems for this political grouping. First, the very fact that the coalition is led by prominent former officials is also its main weakness. With serious public mistrust questioning the sincerity of their true opposition credentials, these three former officials may become too tainted by their previous experience. The second major impediment is the group's decision to strive to tactically align with the second "pseudo-opposition" force. Talks with the oligarch Gagik Tsarukian, the leader of the Prosperous Armenia Party, who recently [returned](#) to Armenian politics, only further undermine the coalition. From this context, most observers see

Tsarukian as a weaker, yet more submissive figure. His political support for the government is seen by many in adopting a position designed to siphon off the votes from the country's real opposition.

However, it is the second, early coalition that is much more significant. Formed in December, a new political opposition force united in an electoral bloc named "Yelk" ("way out"). Seeking to present a unified list of candidates to challenge the ruling Republican Party in the parliamentary election, this new coalition is composed of two of the country's newest and strongest political opposition forces, including the "Bright Armenia" party, "Civil Contract" and an older, established party "Hanrapetutyun" (Republic).

ECONOMY

An economic promise

Aside from the political changes, the economic challenges facing the country have only forced the Armenian government to respond by exaggerating the economic outlook. This politically helpful message [argues](#) that economic growth in Armenia will significantly accelerate, from the growth of a mere 0.5 percent last year to a projected 3.2 percent increase in GDP. This statistical "wishful thinking" is based on a calculation by the Armenian authorities, flawed by the lack of any economic evidence yet providing a temptingly positive pre-election promise.

In part to deliver some economic good news prior to the election, the Armenian Prime Minister Karen Karapetian embarked on an official visit to Moscow that resulted in Russian pledges to increase its invest-

ment in the Armenian economy, and the promises of Moscow's backing the Armenian plan to establish a free economic zone along the Armenian-Iranian bor-

The new political landscape may cast doubt over the election outcome

der. The visit also prompted Russian officials to voice their support for the Armenian proposal to create a Russian-Armenian "investment fund" that would finance business projects in Armenia. The public success of the Armenian premier's visit as his first foreign trip was largely expected, especially given the fact that Karapetian enjoys close ties to the Kremlin. The Prime Minister lived and worked in Russia from 2011 to 2016, holding senior executive positions in local subsidiaries of the Russian state-affiliated Gazprom energy corporation.

FOREIGN POLICY

Russia tries to reassert control

The recent announcement of the formation of a new "joint" Armenian-Russian military command unit represents a new challenge to Armenian sovereignty and statehood. On one hand, the move itself can be seen as fairly benign, and appears to be a logical component of both Armenian-Russian security relationship and Armenia's membership in the Russian-led Collective Security Treaty Organization (CSTO). However, this development poses a deeper danger and more serious risk. More specifically, this may be Moscow's attempt to use this new "joint" command structure to not only gain great influence over Armenian defense reform, but also possibly utilize the unit as a mechanism for later deployment of peacekeepers in Nagorno-Karabakh.

In the broader context, this move is only the latest Russian response to a deep and widening crisis

in Armenian-Russian relations. This also follows previous moves by Moscow to reassert control over Yerevan. For Yerevan the crisis in relations with Moscow represents deepening dissatisfaction not with the relationship itself, but over the unequal terms of the "strategic partnership." Faced with a dangerous degree of its mounting over-dependence on Russia, there is a new concern over the asymmetry and lack of parity inherent in the relationship. Moreover, the challenge has also been driven by the emergence of Russia as the leading arms provider to Armenia's rival Azerbaijan. It further exacerbated by the events of April 2016, when an Azerbaijani offensive, relying on a large arsenal of Russian-supplied weapons, marked the most destructive fighting over Nagorno-Karabakh since a 1994 ceasefire was first reached. Thus, future Russian arms sales to Azerbaijan will surely do demonstrable damage to the already strained Armenian-Russian relationship.

Azerbaijan: Tensions in relations with Armenia

Vugar Bayramov, Center for Economic and Social Development (Azerbaijan, Baku)

The public discourse in Azerbaijan during January was largely dominated by new tensions in its conflict with Armenia. Along with the continuation of the currency crisis this meant a tough beginning of the year in the country.



The conflict over Nagorno-Karabakh dominated the public agenda again

DOMESTIC POLICY

Public outrage

Following the armed clash at the contact line that lasted from 29 December 2016 till 01 January 2017, the conflict over Nagorno-Karabakh dominated the public agenda again. At least four soldiers died during the military escalation. The body of Chingiz Gurbanov, one of the soldiers, was not returned to Azerbaijan despite the [appeals](#) of the Defense Ministry to the Baku office of the International Committee of the

Red Cross (ICRC), the OSCE Minsk Group, and the Personal Representative of the OSCE Chairperson-in-Office Andrzej Kasprzyk. The refusal to return the body caused public outrage in Azerbaijan and shaped the discourse within the country during the whole month.

As a continuation of the conflict, Azerbaijan [voted against](#) the extension of the OSCE Yerevan Office mandate, [stating](#) that the transparency of the Office should be ensured.

Azerbaijan is also trying to [negotiate](#) with Belarus on the extradition of the arrested Russian-Ukrainian-Israeli blogger Alexander Lapshin, who visited Nagorno-Karabakh without Baku's official consent.

Changes in NGO status

At the same time, January brought a slight improve-

ment to the issue of NGO status in the country. The Cabinet of Ministers reached a decision to amend the registration rules of grant agreements. The changes have softened the current NGO legislation. However, the local NGO community [points out](#) existing obstacles and calls for their further elimination.

ECONOMY

Strategic road-maps approved

Following the economic crackdown, Azerbaijan tries to reform and liberalize its economy. Hence Strategic Road-maps on National economy have been [introduced](#). The measures include creating new entities for regulating agencies, revisiting customs rules, changing the status of numerous governmental agencies, introducing a floating exchange rate regime, etc. These strategic maps cover 11 main sectors of the economy. Alongside the strategic economic road-maps, a working group was established to ensure the implementation of development plans in these sectors.

Meanwhile, the economic challenges Azerbaijan has been facing after the sharp drop of oil prices continue to arise. Despite the extensive efforts of

Following the economic crackdown, Azerbaijan introduces Strategic Road-maps on National economy

the authorities, they have not been successful up to now and moreover proved inefficient to keep the rates of national currency, manat, from falling. By the end of January, the USD – AZN exchange rate went down to 1.97.

The shortage of the US Dollars on the market caused [panic](#) among businessmen importing products from abroad. This in its turn created a huge demand for the [black market](#). To minimize the consequences by the end of the month, the government [announced](#) a fully free-floating exchange rate.

FOREIGN POLICY

Multi-vector efforts

A few important international visits took place during January and indicated the direction of further development of Azerbaijani foreign relations.

In late January a delegation led by the President of the American Jewish Committee (AJC) John Shapiro visited Azerbaijan and [had a meeting](#) with the President. Among many issues, the representatives of the delegation [expressed hope](#) that “the new US administration will be a new chapter in relations with Azerbaijan”.

Because of its negative human rights records, Baku did not have productive relations with Washington in the recent years. The victory of the Republican Party nominee, Donald Trump, in the United States presidential elections caused Azerbaijan to increase its efforts in establishing stronger links with the USA. Azerbaijan has pragmatic relations with Israel and the Jewish Diaspora in America, and intends to use these connections to positively influence the Azerbaijan – US relations.

The efforts to relaunch negotiations on the cooperation agreement with the European Union continued during the visit of EU high-level representatives, namely Christian Danielsson, Director General for Neighbourhood Policy and Enlargement Negotiations in the European Commission, and Thomas Mayr-Harting, Managing Director for Eastern Europe and Central Asia in the European External Action Service. During their visit European officials met with President Ilham Aliyev to discuss the EU – Azerbaijan relations.

The 44th meeting of the Ad Hoc Working Group for Elaboration of the Caspian Sea Legal Status Convention [was hosted](#) in Baku on the level of deputy foreign ministers. The controversial issue of the legal status has been on the table for a long time, halting Caspian Basin fossil-fuel resources to be exported to the EU market via a passing underneath the Sea. Russia and Iran were less interested in the successful implementation of the plan, and hence the legal status of the Caspian Sea was left undetermined up to now. With the recent changes, there is a growing hope for the future of the project.

Belarus: Threats to the independence and sovereignty

Arseniy Sivitskiy, Center for Strategic and Foreign Policy Studies (Belarus, Minsk)

January brought Belarus a spike in its tensions with Russia, ranging from usual trade wars to blatant statements made by President Lukashenko.



The ban of Belarusian meat and dairy produce imports to Russia caused new tensions between countries

DOMESTIC POLICY

Mobilization rhetoric intensifies

In January Aleksandr Lukashenko stuck to fairly active mobilization rhetoric. His New Year [address](#) was focused on the task of ensuring peace and security for Belarus and its need to «keep the gunpowder dry». As he attended the Holy Spirit Cathedral on Christmas, President Lukashenko stated that there are forces that would like to see the independent and sovereign Belarus disappear. On January 10, at the ceremony for the distribution of awards, including the Spiritual Renaissance Award, a special award for artists and cultural leaders, and the Belarusian Sports Olympus award, Lukashenko [stated](#) once again that «the common

task of the current generations of Belarusians is to preserve the country and pass it on, free and independent, to those who come after them». Similar statements were expressed in Lukashenko's address at the old-calendar New Year reception.

Lukashenko expressed a similar message on January 17 at the talks with Sudan President Omar Hassan Ahmad Al-Bashir. He [highlighted](#) the fact that Belarus consistently implements its own foreign policy based on national interests rather than instructions from the world power centers, supports the development of relations with all states from the perspective of mutual respect, non-interference with domestic affairs, and recognition of diversity in development vectors.

On January 26, at the PhD and Professor diploma distribution ceremony, Lukashenko stated that science and state ideology need to intertwine, especially when attempts are made to question sovereignty and independence of Belarus. It was then that the President also [said](#) that the “broth-

erly Ukraine” is now fighting for its independence.

The expert community has no doubt that in all of the above cases, Lukashenko was speaking of Russia as a source of potential challenges to the independence and sovereignty of Belarus.

ECONOMY

Financial burden on the population increases as reforms take place

The economic situation in Belarus continued to evolve in line with the trends set in previously. On one hand, the real sector stabilized thanks to the stabilization of the Russian market and demand for Belarusian produce there. On the other hand, the continuation of negative trends has been propelled both by the distortions accumulated in the economy earlier, and by artificial problems such as limited supply of Russian oil, the restriction of Belarusian foodstuffs on the Russian market and others.

In order to balance out its resources, the state is increasing financial pressure on the population. From January 1, 2017, VAT grew 5% for all telecommunication services in Belarus. Heating charges have gone up 17% since the beginning of the year; gas charges for households during the heating season [went up](#) 17% from January 1 as well. Electricity rate remained unchanged. The government’s plan to ensure 75% compensation by household consumers of the cost of utility services provided to them by the end of 2017, and 100% by

the end of 2018 (as stipulated in the International Monetary Fund requirements) was approved.

Therefore, the current actions of the Government and the National Bank fully comply with the requirements of Western and Chinese creditors and partners. It is probably safe to predict that these strategic priorities will remain unchanged in 2017. Meanwhile, the new Chief of Staff team will be smoothing out the image losses caused by these steps. In this context, President Lukashenko [stated](#) once again that average monthly wages should reach \$500.

President Lukashenko’s messages focused on the task of ensuring peace and security for Belarus and its need to «keep the gunpowder dry»

Given all these developments, some progress is due in the most «hopeless» area of reforms: the reform of the state-owned real sector. In January, the State Community Property Agency [initiated](#) a «national privatization» campaign for open joint stock companies in which the state owns less than 25% of shares. This is probably the first one of a number of positive signals the authorities are going to send to investors in 2017.

FOREIGN POLICY

The conflict with Russia becomes ever more obvious

The relations between Belarus and Russia developed in the vector framed by the key points of conflict in the relations of the two countries. They continued to exchange sharp statements regarding the ban of Belarusian meat and dairy produce imports to Russia. Blamed by Sergey Dankvert, Head of the Russian Agricultural Produce Control Agency, both the officials of the Belarusian Ministry of Agricultural Produce and Aleksandr Lukashenko himself criticized the Russian counterpart. Notably, the attempts of pro-Russian lobbyists to push Belarus to sue the Russian Agricultural Produce Control Agency continued and intensified. Mikhail Miasnikov, First Speaker of the Council of the Republic of Belarus (the upper house of the Parliament) suggested this first, followed by the ministers of the Eurasian Economic Commission [Sergey Sidorski](#) (Belarus representative) and [Tatiana Valovaya](#).

However, such an action makes no sense (since the post-soviet space has no international courts that can issue binding verdicts). Moreover, it can turn into a political defeat for Belarus. The country can only file a complaint with the Court of the Eurasian Economic Commission regarding the violation of the EEC norms, not agreements within the Union State framework. This move can provide the ground for the soonest possible «writing off» of the bilateral integration project

between Belarus and Russia. Minsk, however, is in no rush to do so: the legal framework of the Union State gives the Belarusian side more options to protect its positions and promote its interests compared to the EEC framework.

In the area of oil and gas relations, January saw growing tensions as well. Even the figures known as «doves» (such as the Russian Ambassador to Belarus Aleksandr Surikov) no longer speak of finding solutions to the issues of dispute in the shortest time possible. Meanwhile, the Belarusian government (Vice-Premier Vladimir Semashko) has claimed that the given issues should be solved within the first quarter of 2017. According to estimates by Russia’s Vice Prime Minister Arkadiy Dvorkovich, Belarus’ [debt](#) for the Russian gas supply so far is \$550 million. Because of this debt, Russian suppliers [will cut](#) oil exports to Belarus by another 12% (down to 4 million tons). At the same time, the Russian side is trying to block Minsk attempts to find alternative energy sources or to make the search more costly to Belarus. On January 17, Sergey Lavrov, Russia’s Minister of Foreign Affairs, made a fairly tough [statement](#) on the Russian-Israeli blogger Aleksandr Lapshin: Lavrov said that it is unacceptable to extradite Lapshin to Azerbaijan, as demanded by Baku. Yet, given the solid intention of the Belarusian side to meet the request of Azerbaijan counterparts, Aleksandr Lukashenko might have reached specific arrangements with Ilham Aliyev on mutual steps in political and economic spheres, and is willing to implement those steps.

Georgia: Gas issues with Russia heat up the political landscape

Lasha Tughushy, Fund “Liberal Academy Tbilisi” (Tbilisi, Georgia)

The split in the Georgian opposition ultimately set in after the establishment of a new party and parliamentary fractions. All focus in terms of international developments has been on gas talks with Russia and the controversial contract with Gazprom.



Georgia's financial loss from the new gas contract with Russia is nearly fourfold

DOMESTIC POLICY

A Christmas «gift» for Misha

The day before the Orthodox Christmas, Giga Ugulava, one of the United National Movement (UNM) leaders and the former mayor of Tbilisi, was released

from arrest. A favorite of President Saakashvili in the past, he later joined the ranks of many those party fellows who split with the UNM. The dissenters set up a new party, European Georgia. The court's verdict on

the release of Ugulava came in time for the new party convention, an issue that sparked the most tensions yet within the UNM. The split affected the Parliament, too. Only 6 out of 27 MPs that got into the legislature with Saakashvili's party remain in it. Another influential leader of the UNM, ex-Interior Minister Vano Merabishvili (he is still in jail, unlike Ugulava) remains silent and neutral.

Shortly before, two other strong pro-Western parties

also experienced the split, namely the Republican Party (led by Parliament Speaker David Usupashvili) and Free Democrats (a so-called party of former diplomats led by ex-Defense Minister Irakli Alasania). Surprisingly, some leaders of Free Democrats have switched to the ruling party and ended up in top offices. This ultimate demonstration of the split in the UNM, the strongest opposition party, deals another blow to the already weakened pro-Western political wing.

ECONOMY

New gas contract proves costly

The cold political landscape in January was «heated» by the gas issue. Heavily depending on Russian gas, Georgia's government dropped a convenient transit-based contract with Gazprom. Previously the country got 10% of the total amount of transit gas going from Russia to Armenia. The new contract remains a commercial secret, but the form of payment for transit was changed for exclusively monetary. Based on the available information, Georgia's financial loss from the deal is nearly fourfold. This decision was followed by the sharp reaction of society as the Georgian side also faced increased political risks.

Georgia thus entered into a two-year contract with

Gazprom. In two years from now Georgia will enter a new era: facilities built for the second phase of the Baku – Tbilisi – Erzurum pipeline will be launched. A cautiously optimistic forecast suggests that this will allow for nearly 20 billion cubic meters of gas to be

Two years from now facilities built for the second phase of the Baku-Tbilisi-Erzurum pipeline will be launched

transited through the territory of Georgia. This is important in terms of Georgia's energy security since the project will meet much of the country's demand for gas. The rest will be purchased directly from SOCAR, Azerbaijani state-owned company.

FOREIGN POLICY

Gas games

In this situation, Georgian experts are [alarmed](#) by Russia's great interest in acquiring the main gas pipeline which, once reconstructed, will allow the reverse transportation of Iranian gas to Europe. The problem is that such a pipeline would compete with the current Baku – Erzurum project.

In 2005 and 2006, the government of Georgia was close to a similar deal. Then, the US Administration interfered and blocked the contract. The Trump Administration does not view the strengthening of Iran's position favorably as well. This might be the reason why the Russian government is rushing to acquire the Georgian segment of the pipeline before the situation in Washington stabilizes. The thing is that Gazprom has owned the Armenian section for a long time now.

Once the deal is done with Georgia, the circle will close.

Other issues on the international agenda included the two-day visit of Israeli President Reuven Rivlin to Georgia. The visit took place despite of the terrorist attack in Israel shortly before it. This was the third official visit of the Israeli President to Georgia. The parties focused on economic cooperation, trade dynamics and direct investments.

By the end of January all eyes were on the European Parliament that prepares to grant visa-free regime to Georgia. Expectations were optimistic, even though debates focused on one question: what would happen after the EU takes the positive decision? What would Georgia's and Europe's position about the European prospect for the country be?

Moldova: Dodon Is moving beyond rhetoric

Natalia Stercul, Foreign Policy Association of Moldova (Moldova, Chisinau)

The key events of January 2017 included the actions of Moldova's President aimed at establishing direct contact with the leader of Transnistria, a complex economic situation that urged the European Commission to allocate financial assistance to Moldova as well as Igor Dodon's visit to Moscow and his statements on the change of Moldova's foreign policy vector.



The first top-level meeting on the territory of Transnistria took place right before President's trip to Moscow

DOMESTIC POLICY

Transnistria on the agenda

January 2017 turned out to be fairly controversial for the country's political life. The most important events probably include the official meeting of Presi-

dent Dodon with Vadim Krasnoselsky, the leader of Transnistria. It was the first top-level meeting in the past eight years that took place on the territory of Transnistria and caused a [storm of opinions](#) and comments from local analysts and experts. It resulted in

a decision to take a comprehensive approach to current problems in Moldovan-Transnistrian relations. [The approach](#) includes discussions with experts from both banks of the Dniester, as well as in the 5+2 format (Moldova, Transnistria, Russia, Ukraine, OSCE, USA, EU), aiming to develop specific recommendations and mechanisms for the conflict resolution. On the one hand, the visit can be viewed from the per-

spective of President Dodon's interest in solving the Transnistrian crisis. On the other hand, the fact that it took place before Dodon's trip to Moscow seems quite controversial. Moreover, the issue of federalization for the Republic of Moldova (as envisaged by the Resolution of the Party of Socialists led by the newly-elected President Dodon) remains open; therefore this causes reasonable concerns.

ECONOMY

Macro-financial assistance as a tool of the EU's crisis response

As the Republic of Moldova is facing an extremely complex economic situation, the EU's financial support will have a huge impact when dealing with it. On January 13, 2017, the European Commission decided to provide 100 million Euros to Moldova under the new program of macro-financial assistance to cover short-term financial needs of the country, as agreed by the Republic of Moldova and the Interna-

tional Monetary Fund. Of this amount, 40 million Euros will come in the form of grants. 60 million Euros will be provided as short-term loans under convenient terms. The macro-financial assistance is a tool of the EU's [crisis response](#) available for partner states bordering the EU.

President Dodon made the statement focused on possible abolition of the Association Agreement with the EU as the agreement has not brought any benefits

This timely step on the part of the EU allows for the stabilization of the economic situation in Moldova.

FOREIGN POLICY

Can Moldova's priorities change?

Experts have been concerned about the statement President Dodon made during his visit to Russia on January 17, 2017. The statement focused on possible abolition of the Association Agreement with the EU as the agreement has not brought any benefits. This was followed by an immediate [response](#) from the Government of Moldova and a wide group of politicians, experts and analysts. In particular, the Prime Minister [Pavel Philip said](#): "We will not approve any interference with the Association Agreement with the EU. The Agreement is part of our governance platform, a strategic pillar of our activity".

Clearly, Russia has always been a strategic partner of the Republic of Moldova and these relations should be maintained and developed. Yet, Moldova has chosen the European foreign policy vector of development and has thus undertaken certain commitments which it has to comply with. Not only the EU supports Moldova's aspirations, but also it provides significant financial assistance to promote democratic reforms.

The analysis of January developments leads to the following conclusion: a dual nature of Moldova's foreign policy has taken shape and is manifesting itself. It can lead to destructive trends and processes that could further aggravate the already difficult political and economic situation in the country.

Ukraine: A lull in domestic policy in the context of international battles

Sergiy Gerasymchuk, Foreign Policy Council “Ukrainian Prism”

The January holiday break in Ukraine resulted in drowsy dynamics of domestic political process. The impression of stability allowed international financial institutions to make cautious projections on its further economic development. Meanwhile, Ukraine’s active position on the international level and the attention paid to it by international players remain intense.



The Ukrainian side outlined clear red lines regarding the solution of the conflict with Russia

DOMESTIC POLICY

Christmas lull

The season of January holiday break affected the dynamics of domestic political activity in Ukraine. Probably the most notable political [statement](#) was made by Verkhovna Rada Speaker Andriy Parubiy. He said that Ukraine is not going to have snap parliamentary elections in 2017. Despite the fact that such a scenario is

being lobbied by Moscow both in Ukraine and in the Republic of Moldova, Ukraine will not follow Russia’s provocations, and the current coalition will remain united.

Despite Speaker Parubiy’s optimism, the risks of resumed political battles in Ukraine in the coming months are high since they are inspired both from the outside and from inside the country as well.

ECONOMY

Cautiously optimistic forecast

The World Bank provides cautiously optimistic forecasts on the development of Ukraine's economy in 2017. GDP is projected to [grow](#) 2%. This forecast will be realistic if there is positive security dynamics and political stability.

In February Ukraine is expecting the next \$1 billion tranche from the International Monetary Fund, while the EU has pledged to provide 100 million Euro of additional assistance to establish the [Energy Efficiency Fund](#).

Meanwhile, work continues on the reform of NaftoGaz

Ukrayiny National Joint Stock Company. In particular, Board Chairman Andriy Kobolev [said](#) the company will be split and the function of gas transportation will be delegated to an independent operator. In addition to that, the company will no longer need to be subsidized and will even be able to contribute nearly 60 billion hryvna (approximately \$2 billion) to the state budget. This optimistic forecast is based on the fact that the company's profit exceeded 20 billion hryvna in 2016. Meanwhile, the government opponents claim that NaftoGaz profit growth is the result of increasing utility rates. Speculations on this issue are likely to continue.

FOREIGN POLICY

Minsk process, red lines and hope that springs eternal

The topic shaping Ukraine's foreign policy remains to be its conflict with the Russian Federation. In January the Ukrainian side outlined clear red lines regarding the conflict solution in the [article](#) of Deputy Chief of Staff Kostiantyn Yeliseyev published at the Wall Street Journal. According to Yeliseyev, Kyiv is not prepared to reject EU and NATO integration, has no intention to make concessions to Russia regarding the territory of the Autonomous Republic of Crimea and the Donbas, and will not consent to hold elections on the territory of the Donbas until Russian troops withdraw. According to the Russian side, the last point is not in line with the previous Minsk Accords (Moscow agrees to return control over the border to Ukraine only after local elections are held in the Donbas).

Another January scandal was the statement made by Marine Le Pen, the leader of the National Front and a candidate for presidency in France, who said that the annexation of Crimea was [not illegal](#), and Ukraine's response to it: the Security Bureau of Ukraine (SBU) put her on the persona non grata list.

Also, Ukraine prepared a lawsuit against Russia and filed it with the International Court of Justice in the Hague. In it, Ukraine [blames](#) Moscow for violating international conventions in Crimea and the Donbas.

At the same time, there was a fairly sharp [statement](#) made by Sebastian Kurz, Minister of European, Integration

and Foreign Affairs of Austria, the country that chairs the OSCE this year. During his visit to Ukraine on January 3 – 4, he made the following statement: even though the issue of Ukraine remains a priority for the Austrian Chairmanship, the efforts of the OSCE in the regulation of the conflict are not sufficient and the Minsk Accords should remain the foundation for the negotiating process.⁸

Ukraine prepared a lawsuit against Russia and filed it with the International Court of Justice in the Hague

Federica Mogherini, the High Representative of the European Union for Foreign Affairs and Security Policy, [mentioned](#) the need to fulfill the Minsk Accords among the priorities of 2017.

The Kremlin, too, does not see any reason for amending the Minsk Accords, as Russia's Foreign Minister Sergey Lavrov [stated](#) clearly, while German Chancellor Angela Merkel and French President Francois Hollande have [agreed](#) with the Russian President to preserve the Normandy Format.

Before the end of his term in office, US Vice President Joe Biden visited Ukraine on January 16. During his meeting with Ukraine's President Poroshenko he also stated that the fulfillment of the Minsk Accords is Ukraine's best hope to move forward as a united country. In his [response](#) to the question of Ukrainian journalists on how Kyiv relations with the Trump Administration will develop, Mr. Biden said: "Hope springs eternal".

Moldova between two fires: The 2016 presidential election and the balance of power

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Electing Dodon has called into question whether Moldova will continue its pro-Western path or it will look more towards Russia

The Republic of Moldova is one of the poorest European countries in the process of democratic transition with a declared pro-European pattern of development. Although Moldova does not rank among the major international players, both the West and Russia are paying greater attention to the small country situated at the East-West crossroads. After the Constitutional Court in Moldova judged in favor of direct presidential elections, Moldovans went to the polls on October 30, 2016 for the first time in 20 years. Igor Dodon, the pro-Russian leader of the Socialist Party, and Maia Sandu, leader of the center-right Action and Solidarity Party, both qualified for the runoff. Dodon defeated Sandu by 4 percentage points to win the presidency (52.1% – 47.89%). The campaign emphasized the nation's geopolitical controversy as Dodon favored a pro-Russian approach, while Sandu was pro-European Union (EU). Up to this point, Moldova had continuously declared a pro-European domestic and foreign policy vector based on the Association Agreement signed in 2014 and ratified by all EU member states. Electing Dodon, however, has called into question whether Moldova will continue its pro-Western path or it will look more towards Russia. In addition to the geopolitical controversy, the issues of deep-rooted corruption in the society and its fragile institutional structures also emerged during the campaign.

Foreign and domestic Influences

In March 2016, Moldova's Constitutional Court (CC) [ruled against](#) the indirect election of the president through Parliament disregarding public debates or consultations on the matter. The decision was perceived as a controversial one, highly influenced by the ruling elites, led by Vladimir Plahotniuc, the country's richest oligarch and its least popular politician. Allegedly, the goal was to divert public attention from the reported [one billion dollar theft](#), representing one eighth of Moldova's GDP. The CC's decision was triggered also by the mass street protests organized by new central-right movements backed at some point, genuinely or not, by pro-Russian oriented parties with an anticorruption message. It was assumed that the direct election of the president by the people of Moldova would enhance the political legitimacy of the government in the eyes of the public and would reduce the high level of mistrust towards governmental institutions.

Although the candidates did not necessarily focus on geopolitical issues during the electoral campaign, foreign policy considerations were important to the voters. Dodon managed to mobilize the pro-Russian electorate by promising to reopen the Russian market to Moldovan goods, promoting Eurasian integration, and creating facilities for Moldovan working migrants. Moreover, his anticorruption messages appealed to people disappointed in the current ruling elites. Dodon represented, almost solely, the left wing of the electorate, as the Party of Communists did not nominate a candidate and the popular leader of 'Our Party', Renato Usatai, could not run because he did not meet the required age qualifications.

Maia Sandu, on the other hand, during the first round of elections, faced competition among right-wing voters. Two Romania-unionist candidates, and the former prime-minister Iurie Leancă, among others, also ran for the office. Sandu did not directly address foreign affairs issues but as a Harvard graduate with experience at the World Bank, she clearly positioned herself as a pro-EU candidate. Sandu also promoted an anti-corruption and anti-oligarchy platform. In spite of the multitude of right-wing candidates, the short campaign period, limited financial resources, the disinformation campaigns run against her and little access to media, Sandu managed to come in second in the primary.

The international environment is an important part of Moldova's domestic and foreign policy puzzle. After the 2009 parliamentary elections, the EU welcomed the new Alliance for European Integration (AIE) created by the winning pro-European parties to promote democratic reforms and good governance. The EU [viewed the AIE](#) as a stable partner on the Western border of the EU, and [prized](#) Moldova as the "success story" and the "front-runner" of the Eastern partnership. But the Alliance failed to implement the reforms and the ruling parties' leaders were involved in corruption scandals to the growing disappointment of

the population. After the 2014 parliamentary elections, the EU [invited](#) the winning pro-European parties to create an "accountable government". It was only after the ratification of the European Union – Republic of Moldova (EU-RM) Association Agreement that the EU leadership [addressed](#) "politicization of state institutions, systemic corruption, public administration reform aimed inter alia at enhancing the effectiveness of regulatory bodies, transparency and accountability in the management of public finances" in Moldovan politics with a stronger voice. This was a clear shift of the EU leadership's approach towards Moldova



The CC's decision in favor of direct presidential election was triggered also by the mass street protests organized by new central-right movements

political elites. The EU reacted to the one billion dollar fraud and other alleged political corruption scandals. The International Monetary Fund (IMF), the World Bank (WB) and the EU [froze](#) financial aid to Moldova in 2015. The EU promised to restart financial assistance to Moldova when a new ruling coalition would be formed and the government would secure a financial agreement with IMF.

Although the candidates did not necessarily focus on geopolitical issues during the electoral campaign, foreign policy considerations were important to the voters

Russia's 'special interest' in Moldova is based on several issues, the Transnistrian conflict being one of the most important. As a self-proclaimed pro-Russian region in Moldova, the Kremlin considers the Transnistrian region to be an advance post of regional security. 1 200 Russian troops and some 20 000 tons of ammunition are [still present](#) in the Transnistrian region due to Russia's refusal to implement the 1999 Istanbul agreement. The Kremlin sees the pro-Russian Transnistria as a counterbalance to the efforts of the US and the EU to promote their interest in Moldova. Russia regards Transnistria as a guarantor of Moldova's neutrality and is viewed as a tool in deterring the rapprochement between Chisinau and NATO. The Transnistrian administration gave tacit support to the pro-Russian candidate Dodon in the presidential elections, and encouraged people to vote by providing free transportation to the polls.

Over the years the Kremlin has continually supported left-wing parties, such as the Party of Communists, the Party of Socialists and the leftist, populist “Our Party”. The Socialist leader Igor Dodon secured President Vladimir Putin’s support before the 2014 parliamentary elections in Moldova. In the 2016 presidential elections Russia backed up Dodon by favorable media coverage and Patriarch’s Kirill’s blessing.

The Kremlin, as well, has tried to use the autonomous region of Gagauzia to pressure Chisinau’s leaders. The Russians supported the referendum in Gagauzia to join the Eurasian Customs Union (now Eurasian Economic Union). With the support of the Gagauzian administration, Dodon won 98.89 percent of Gagauzian vote in the runoff.

It seems that Russia will persist in pressuring Chisinau’s leaders via the secessionist regions of Transnistria and Gagauzia, to undermine Moldova’s orientation toward Western Europe. To neutralize Russia’s efforts, Moldova’s leadership should continue their commitment towards implementing democratic reforms, fight corruption, and come up with social inclusive policies for the territories with high secessionist potential.

The current state and the forecast for the future

Socialist leader Igor Dodon’s victory in the presidential elections might lead to the assumption of a pro-Russian vector for the future of Moldova’s foreign policy. But, electoral rhetoric does not always translate into policies. Moreover, the Moldovan Presidency has limited responsibilities. The power to make decisions regarding foreign and domestic affairs resides in the hands of the Parliament and the Government. In practical terms, the president does not have the power to repeal the EU-Moldova Association Agreement. Currently, the Prime-Minister Pavel Filip is the leader of the EU-leaning coalition that still controls the legislature. Moldova has already established strong ties with the European Union through the EU-RM Association Agreement including the Deep and Comprehensive Free Trade Area (DCFTA). Taking into account the country’s cultural and political polarization, any decision on a radical shift of Moldova’s foreign policy vector would be met with large demonstrations and street protests.

The political setting after the presidential elections is balanced by a pro-Russian president and a pro-EU parliament. Although the next parliamentary elections are scheduled for 2018, Dodon has already [announced](#) the willingness to initiate early parliamentary elections in 2017. Having the largest number of seats in the Parliament, the new elected president believes that the Socialist party could obtain a majority in parliament thus weakening the pro-European Coalition. Early elections are welcomed as well by ‘Our Party’ leader, Renato Usatii, who supported Dodon in the second round of the presidential election.

However, not all political parties are supportive of this initiative. The leader of the Democratic Party, an allegedly very influential politician Vladimir Plahotniuc, [stipulated](#)

that the new President does not have the legislative power to declare the early parliamentary elections, and this would be detrimental to the strategic interest of the country. The Democratic Party (PDM) announced that they support reforming the electoral system so that half of the members of the parliament are elected on party lists, and the second half in single-member districts. As the PDM has significant financial and media resources and holds many governmental positions, Plahotniuc hopes his party can increase its share of seats in the next parliamentary election.

Russia’s ‘special interest’ in Moldova is based on several issues, the Transnistrian conflict being one of the most important

On the center right, Maia Sandu and her Party for Action and Solidarity (PAS) gained name recognition during her run for president. Even though she did not win the presidential election, she has gained support on the national level and from members of the Moldovan diaspora. Sandu boosted her public support with her anti-corruption message and pro-European orientation. In order to be competitive in the next parliamentary elections, PAS needs to focus on a communication campaign on the grass roots level in the northern and southern regions of Moldova, to build up local support, to create territorial organizations, and establish a strong team with well known and trusted leaders.

It is still too early to predict the behavior of the other center-right political parties, the Liberal Democratic Party, the Liberal Party of Moldova, and the Democratic Party. There are questions about the probability of them forming a consolidated bloc with PAS to counterbalance the political influence of Dodon’s and Usatii’s leftist parties. The new strong, uncompromised political force with the pro-European orientation would preserve the political balance in the country.

The president does not have the power to repeal the EU-Moldova Association Agreement

On the international level, the ongoing conflict in Ukraine and Russia’s escalating cyber warfare has increased security threats in the region. As a result, international organizations and the European Union have revised their policies in regard to Moldova. In 2016, the Moldovan government renegotiated its agreements with the IMF and the WB. Following this news, the EU guaranteed Moldova the access to 15 million Euro to carry out a public administration reform, and 45.3 million Euro of budget support assistance. To secure the EU financial interest, a new collaboration was [established](#) between the European Anti-Fraud Office (OLAF) and Moldovan National Anti-Corruption Center (CAN) to prevent corruption and to monitor the implementation of the financial projects. The future collaboration of the European institutions with Moldova will be determined by stricter monitoring of how these funds are spent.

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Foreign Policy Association (Moldova) is Moldova's leading foreign policy think-tank, committed to supporting Moldova's Europeanization, integration into the European Union and a viable settlement of the Transnistrian conflict.

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