

EaP Think Bridge

№8

August 2017

Eastern Partnership monthly analytical digest

From free trade zones to common economic space



The group of three countries that signed the Association Agreement may not look like a common economic space at the moment, since Georgia, Moldova and Ukraine prioritize their bilateral relations with the EU

Issue 8
August 2017

Editor in Chief:
Olga Chyzhova

Editorial Board:
Nikolaos Gavalakis
Richard Giragosian
Vugar Bairamov
Arseny Sivitsky
Lasha Tugushi
Victoria Bucataru
Olga Melykh
Sergiy Gerasymchuk

Contacts:
info@prismua.org
www.prismua.org/
eap-think-bridge

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

The views and opinions expressed in articles are those of the authors and do not necessarily reflect the position of EaP Think Bridge Digest Editorial Board and The Friedrich Ebert Foundation



Supported by the Regional Project «Dialogue Eastern Europe» of the Friedrich-Ebert-Stiftung

A game for three or every country for itself?

While the countries of the Eastern Partnership are not ready to act as a united region politically, there does not seem to be too many obstacles for launching a pragmatic economic cooperation or even a common economic space

Those countries already signed the Association agreement with the European Union should be in the avant-garde of such an integration. However, in reality Georgia, Moldova and Ukraine are once again more concentrated on the bilateral track of relations with the EU. Furthermore, these countries have yet to enjoy the advantages of the Free Trade Area with Europe as of now. The prospects of the common economic space within the frames of the Eastern Partnership were examined by a Ukrainian expert Yurii Vdovenko.

Meanwhile, the traditional political peace and quiet in the region was not a feature of this summer. July and August turned out to be unusually hot for all six countries.

In Azerbaijan the first lady Mehriban Alieva is getting more political weight, this may mean that there is finally an opportunity for a major power change in the country. As for Armenia, a fight to become a prime-minister with new powers as a result of the soon-to-be political system transformation continues, however, no official statements have been made yet.

The rest of the countries were concentrated on their foreign policy games. Belarus, while still experiencing Russian pressure, chooses to put its eggs in several baskets. Georgia hopes to get back on track of the USA interests after Mike Pence visiting the country. As for Moldova, it had to explain the changes made to the electoral system to the Western partners. While Ukraine hosted a number of the important visits and events, however, not resulting in any significant changes.

These and other important developments in the region can be found in our analytical reviews.

Olga Chyzhova,
Editor in Chief
EaP Think Bridge Digest

Table of Contents

JULY-AUGUST IN REVIEW

ARMENIA: A SUSPENSEFUL SUMMER	4
Richard Giragosian, Regional Studies Center	
AZERBAIJAN: POLITICAL CHANGES TO COME?	6
Ahmad Alili, Center for Economic and Social Development	
BELARUS: BETWEEN “HELSINKI-2” AND “ZAPAD-2017”	8
Arseny Sivitsky, Center for Strategic and Foreign Policy Studies	
FIERY SUMMER IN GEORGIA	11
Lasha Tughushi, Foundation «European Initiative - Liberal Academy Tbilisi»	
MOLDOVA ON THE EDGE OF DEMOCRACY	13
Daniela Gologan, Foreign Policy Association of Moldova	
UKRAINE: UNUSUAL ACTIVITY INSTEAD OF SUMMER RECESS	15
Oleksii Krysenko, Foreign Policy Council «Ukrainian Prism»	

ANALYTICA

FROM FREE TRADE ZONES TO COMMON ECONOMIC SPACE	18
Yurii Vdovenko, Foreign Policy Council «Ukrainian Prism»	

Armenia: A suspenseful summer

Richard Giragosyan, Regional Studies Center (Armenia, Yerevan)

Despite a relatively calm summer, the Armenian domestic politics were plagued by the unresolved question over the future plans of the incumbent president and whether he would seek to become the country's next head of state once the transformation to a parliamentary government is completed in April, 2018. Despite some gains in the energy sector, the Armenian government reiterated its upbeat promises over the economy, and unveiled a sweeping new five-year reform program. The foreign policy remains a prisoner of the Karabakh conflict, as the increased tension and the escalating clashes only exacerbated the risk of the renewed hostilities



Armenia experiences a boost in energy sector with international investment. Armenian Nuclear Power Plant.
Photo by wikimedia.org.

DOMESTIC POLICY

Ruling party defends embrace of Russia

Although the Armenian domestic politics were relatively calm though July and August, some lingering tension remains over the future of the country as it prepares for a systemic transformation to a [parliamentary form of government](#) in April, 2018. In his statements in July, the President Serzh Sarkisian added to the suspense over his possible move to become the country's new head of the state, which under the new system will be the post of a prime minister, by refusing to rule out such a move.

Meanwhile the Armenian Prime Minister Karen Karapetian met some senior European diplomats in Yerevan in early July to present his government's [five-year reform program](#). The newly adopted strategy is aimed at fighting the corruption, boosting the exporters and improving the country's investment climate, as well as the judiciary reforming. The government's rather extensive 120-page plan was criticized for an untenable five-year baseline based on an assumption of the projected economic growth of at least five percent annually, a figure at odds with much lower estimates by both the local economists and the IMF and World Bank.

In comments in early July aimed at a [diffusing of a deepening crisis in Armenian-Russian relations](#), the ruling Republican

Party spokesman and the deputy parliament speaker Eduard Sharmazanov argued that although Russia continues to sell arms to Azerbaijan, it will not “impede” the Armenia’s “strategic military-political relations” with Moscow. The defensive response comes as an answer to a widespread criticism over the Azerbaijan’s procurement of over \$5 billion in the [offensive weapons systems from Russia](#), including the recent shipments of the artillery and the rocket launchers last year.

The issue is especially sensitive given the fact that such Russian arms sales have only continued even after [an April 2016 offensive by Azerbaijan](#) that stood out as the most serious military clashes since

a fragile ceasefire was reached in 1994. Despite its role as a mediator of the Nagorno-Karabakh conflict, Russia emerged in the recent years as a primary weapons provider to both Armenia and Azerbaijan, although as a member of the Russian-led Collective Security Treaty Organization (CSTO) Russia provides weapons to Armenia at the steeply discounted prices.

Although Russia continues to sell arms to Azerbaijan, it will not impede the Armenia’s strategic military-political relations with Moscow

ECONOMY

Boost in energy sector

The beleaguered Armenian energy sector was given a boost in July with the announcement of a new \$80 million loan from the Asian Development Bank (ABD), designed to improve operations of the national power distribution network, and to increase the reliability of the electricity supplies. The loan also seeks to “help the Electric Networks of Armenia (ENA) improve the private sector electricity distribution in the country by reducing distribution losses from around 10% in 2016 to around 8% by 2021”, and to improve the distribution network and introduce the international standards of the management.

The Russian-owned electricity distributor is plagued by more than seven years of losses and is saddled with \$220 million in outstanding debts to the Armenian power plants and the commercial banks since it was acquired by a Russian-Armenian billionaire from the Russian state-affiliated Inter RAO in October, 2015. That acquisition was spurred by the onset of the [weeks of demonstrations](#) in Armenia in June, 2015 after an attempt to raise the electricity prices despite a poor service and the blatant corruption. The Armenian government quickly backed down by offering of the state subsidies to cover the price rise, and instead sought to diffuse the crisis by orchestrating the sale.

The Armenian energy sector was also supported by a new 30 million Euro grant from the European Union, which installed the country’s first-ever solar-powered bus stops as a part of a broader EU effort to promote renewable energy. The remainder of that assistance is financing the ongoing construction of a new Armenia-Georgia electricity transmission line. Although the overwhelming majority of the electricity is generated by the natural gas imports from Russia and the country’s sole nuclear power plant, which is also Russian-managed, Armenia has been seek-

ing to offset its energy dependence on Russia by expanding renewable energy and seeking the alternative gas suppliers, such as Iran and Turkmenistan.

In addition to the EU, the United States also sought to bolster the Armenian energy security, and in July, the U.S. Ambassador Richard Mills suggested that Armenia could “attract billions of dollars in investments from the U.S. energy companies” if it liberalizes its energy sector. Those comments also follow the \$250 million acquisition of the Armenia’s largest hydroelectric complex in 2016 by a U.S. firm. Another key element of the energy sector is nuclear power, and the Armenian government reiterated in July and August its plans to replace its aging nuclear power plant with a new facility. In a statement by the Deputy Prime Minister Vache Gabrielian, however, the government admitted that it has yet to secure the estimated financing for a new nuclear power plant, and instead announced that it was extending the life of the 420-megawatt reactor by some ten years, with the help of the Russian loans to purchase the equipment and to pay for the additional safety measures.

In a confident, although questionable display of optimism, the Armenian Finance Minister Vartan Aramian insisted that the Armenian economy was set to post the annual growth of about 5-6% over the coming years. The comments in early July were backed by the minister’s claims that the government’s ambitious projections for the annual increases in GDP, matched by a dramatic decrease in the official poverty rate from around 30 percent currently, will be driven by the expanded exports as “the key engine for growth”. But in contrast to much more modest estimates by the International Monetary Fund and the World Bank, whose projections are a more realistic 3-3.2% increase in GDP for 2017, especially after the country’s zero GDP growth in 2016 and amid an economic contraction in Russia.

FOREIGN POLICY

The ceasefire violations intensity increased

Against a [backdrop of a stalled diplomacy and a real risk of the renewed fighting](#), the Nagorno-Karabakh conflict only increased tension in July and August. An upward spiraling of the ceasefire violations continued, and the tension markedly increased in this period since a 43-year old Armenian villager was detained by the Azerbaijani authorities after crossing into Azerbaijan in late June. Later in July and through August, the intensity of the ceasefire violations increased, with a deadly round of skirmishes and sniper fire that left two Azerbaijani civilians dead after the Armenian forces responded to the Azerbaijani mortar attacks from the positions in a close proximity to a village.

While the deadly incident triggered a series of allegations by each side accusing the other of starting the fight, the subsequent violations quickly escalated with the deployment and use of the serious offensive weapons systems, including the multiple-launch rocket launchers, in the first such case since the April,

2016 fighting. For its part, the Armenian Foreign Ministry called on the Azerbaijani government to comply with the confidence-building agreements that were reached by the Armenian and the Azerbaijani presidents in 2016. Those agreements called for an expansion of the OSCE monitoring, to deploy more field observers in the conflict zone and investigate the ceasefire violations, although Azerbaijan subsequently rejected the measures on the ground that they would only “cement the status quo” in the absence of any progress in the peacebuilding process.

Against that backdrop, the Armenian and the Azerbaijani foreign ministers did meet in Brussels in mid-July, in preparation for a subsequent meeting in New York on the sidelines of the UN General Assembly set for September. The meeting and the ministerial talks, however, were overshadowed by the developments on the ground and there was little sign of any diplomatic breakthrough. By late August, there was one change, as the United States announced the appointment of Andrew Schofer as the next co-chair of the Organization for Security and Cooperation in Europe’s (OSCE) Minsk Group.

Azerbaijan: Political changes to come?

Ahmad Alili, Center for Economic and Social Development (Azerbaijan, Baku)

The signs of the first lady Mehriban Aliyeva trying to challenge her husband on the presidential post became more evident in Azerbaijan. In the meantime the government is trying to improve the economic situation even by some unpopular steps and normalize the relations with Russia



Last standing independent media outlet Turan is closed in Azerbaijan after the arrest of its editor Mehman Aliyev.
Photo by Human Rights House Network.

DOMESTIC POLICY

Ex-president calls for Mrs. Aliyeva's presidency

The first President of Azerbaijan Ayaz Mutallibov expressed his [will to support](#) the candidacy of Mehriban Aliyeva for the next presidential elections in 2018. "I have no intentions to create a political party. Nevertheless, I deal positively with a Mehriban Aliyeva's candidacy in the presidential elections. I would like to use all the means of support for the Mehriban Aliyeva candidacy. If she decides to be a candidate, I am ready to make a public statement to the people".

Mutallibov believes Azerbaijan always needs stability, "especially if you follow the geopolitical changes around".

Mehriban's husband, the current President of Azerbaijan Ilham Aliyev, has been in the office since 2003. He himself "inherited" the office after his father, Heydar Aliyev, who was a leader for the previous ten years.

Aliyeva, the first lady of Azerbaijan, a doctor by education, the head of the Olympics committee of the country, [has been appointed](#) as the First Vice-President following the constitutional referendum in September, 2016.

The candidacy of the first lady for the next presidential elections [has been speculated](#) since then, but no official

or public declaration of the intent was made. Some experts see such intentions as a sign of her farther's [influential clan of Pashaev](#) strengthening and of the Aliyev's clan weakening.

Turan information agency closed down

On 25 August the Turan Information Agency made a public statement on suspending its activities.

Following the arrest of Mehman Aliyev, the agency director, on the tax evasion charges, the bank accounts of the agency were frozen. The media agency staff found functioning under these circumstances very difficult though promised to update the news site at the expense of their own funds and enthusiasm in the near future.

The U.S. State of Department urged the government of Azerbaijan to release Mehman Aliyev.

The Turan Information Agency was established in the early days of the independence of Azerbaijan and has been a reliable source of the information for many years. The incident is among quite a few cases after the EU-Azerbaijan negotiations started that endanger the positive trend in the EU-Azerbaijan relations. Turan was the last standing free media outlet in Azerbaijan, so the Western partners express concerns about the freedom of speech in the country.

No official or public declaration of the intent to run in the next presidential elections was made by the first lady

ECONOMY

Increase in gasoline prices

On 15 July the Tariff Council set up a new regulated [retail price for gasoline AI-92](#), at 0.90 AZN (about \$0.53) instead of the previous 0.70 AZN (about \$0.41) by the liter. The request for the price change came from the state-owned national oil and gas company SOCAR.

SOCAR justified its action by improving the quality of the produced fuel, making the oil refinery and production attractive for the investment, upgrading and refurbishing the oil refining industry. The representatives of the government also commented the case by arguing even after the AI-92 retail price increase in Azerbaijan is lower than in the most member states of the Commonwealth of Independent States.

The move comes after the natural gas prices increase, the state budget revision and the increasing of the transfers to SOCAR, and amid media speculations over the non-liquidity of the SOCAR's activities. The experts assess this case as a necessary additional step to help SOCAR overcome its financial difficulties. As the stability of the national oil and gas company is important for the oil-oriented economy of the country.

Agrarian politics becomes top priority

Azerbaijan started the implementation of [the Strategic Roadmaps for the economic reforms](#). On 10 August the

President Aliyev signed a [State Program](#) on the development of the tobacco products in the Republic of Azerbaijan in 2017-2021. The program intends to abolish all taxes (except the basic ones) for the tobacco producers, subsidize the sector, and in 2021 produce 12 thousand tons of tobacco.

Following the economic slowdown in 2015, the government has taken series of steps to improve the situation regarding the non-oil sector in Azerbaijan, diversify and increase its export and make the country less dependent on the raw materials.

IBA agreed with investors

On 18 July the International Bank of Azerbaijan (IBA) reached an [agreement with the international creditors](#) and secured the necessary votes to proceed with the announced \$3 billion restructuring plan.

Previously, in June, the IBA applied to a New-York court for a bankruptcy, and in its turn it judged in favor of the bank with fending off the creditors while the restructuring plan will be fulfilled.

The problems with the management, investment and loan policy, macroeconomic issues in the country, risky investment projects created the current difficult situation for the country's largest lender.

FOREIGN POLICY

A new Sochi meeting

On July, 22 the President of Azerbaijan Aliyev and the President of Russia Putin had an unexpected meeting in Sochi. No information on the intended meeting was released beforehand. As well as the follow-up messages did not reveal much about the meeting. The presidents discussed the regional security issues and economic cooperation, as well as the Nagorno-Karabakh conflict.

The meeting comes after the several months of the [tensions between Moscow and Baku](#). Following the NATO produced airplane purchase by Azerbaijan, Russia created some obstacles for the Azerbaijani agricultural products import and [annulled the license of a diaspora organization](#) of Azerbaijan.

Although, following the meeting no overt positive trend was witnessed, the news on the negative development stopped.

Belarus: Between “Helsinki-2” and “Zapad-2017”

Arseni Sivitsky, Center for Strategic and Foreign Policy Studies (Belarus, Minsk)

Some positive dynamics in the Belarusian economy allowed its authorities to flirt with the country’s population and get more points preparing for the future elections. Meanwhile in its foreign policy, despite Belarus demonstrating its ally obligations for the coming military drills, it is still under the Kremlin’s pressure



Alexander Lukashenko personally controlled the «harvest fight» collecting political points from the rural areas voters.

Photo by president.gov.by.

DOMESTIC POLICY

“Harvest fight” and “mobilization of wages”

One of the key agenda points of the Belarusian authorities was yet another «[harvest fight](#)» announced by the President of the country. Earlier on the President demanded that high officials are personally present “in the field” and responsible for controlling the harvesting course in the regions, Alexander Lukashenko provided a personal example by going to the various regions of the country himself. His visits to [Brest](#), [Mahilyow](#) and [Vitebsk](#) regions were conducted in such a way that he could combine the formats of controlling

authorities and communicating with ordinary people.

It is worth mentioning that media coverage of Lukashenko’s visits was targeted primarily at those living in the rural areas and small towns. To more sophisticated city dwellers these staged regional trips looked artificial. There are stronger opinions among the observers that the Belarusian authorities are ultimately “stuck” in the transit epoch between the agricultural and industrial economies and cannot escape the frames of that epoch’s management.

Another target of the Belarusian authorities mobilization in the given period was the growth of wages in the entire country and its regions. For example, Alex-

ander Lukashenko announced that it is necessary to secure average monthly wages on the level of 1500 Belarusian roubles (approximately \$750) by 2019. However, if wages are consistently going up in Belarus (even though it is not enough to follow the timeline determined by the government) the population income continues to go down despite the economy recovery (in the first six months real income decreased by 0.8% against the same period last year), with enterprises continuing to dismiss more people than they hire.

Against this backdrop such a “mobilization of wages” appears to be pure populism. The ideological

pressure of the authorities concerning the increasing wages issue may be reflecting an attempt to secure the electoral consolidation in the coming local electoral campaign in February 2018. Such games with expectations, however, can be rather dangerous in case of economy losing its positive dynamics for any reason. Having made a bet on a social contract “loyalty in return for prosperity”, the authorities can find themselves in a dead-end situation in case of yet another flare-up between Belarus and Russia, which will put under threat the stability of oil supplies and other aspects of the economic cooperation.

ECONOMY

Positive dynamics

In early August the economy showed some positive dynamics. In January-June, 2017 the Belarusian [export of goods and services increased by 19.4%](#) to \$16.760 billion against the same period of the previous year. The mid-year goods and services trade balance significantly grew making up \$420.5 million against a deficit of \$135.8 million in January-June last year, with a slower rate of the goods export growth, which corresponds with the Russian economy providing less positive incentives. However, in overall the dynamics is still positive.

Therefore, the gross domestic product of Belarus went up by 1.1% to 56.7 billion roubles (about \$29.3 billion) in January-July, 2017 against the same period last year. To sum up, the Belarusian economy has been showing the positive dynamics for five months in a row, despite not keeping up in terms of its agriculture due to the weather moving harvesting to a later term. During January-July the industrial manufacturing volume increased by 6% to 50.8 billion roubles (\$26.3 billion) in comparable prices. Such a growth was observed in 10 out of 13 sectors of the manufacturing industry, with the biggest growth being in machinery and equipment manufacturing (21.1%), wooden and paper manufacturing (16.6%), and chemical manufacturing (15.9%). The volume of agricultural manufac-

turing decreased by 4.9% to 7 billion roubles (\$3.63 billion). Thanks to the positive economy dynamics the Belarusian international reserve assets [went up as well](#). As of 1 August, 2017 they made up an equivalent of \$6.665 billion.

Despite Belarus demonstrating its ally obligations to Russia in the military and political spheres, the proof of which is presented by the joint military drills, Kremlin continues to put some pressure on Minsk

As for the other economic news, some special attention was paid to the authorities intending to increase the utility charges twice by the end of 2017 (in September and December). Such a rate of the utility charges increasing, in fact, allows the authorities to fulfill those conditions that served as a “stumbling rock” in their negotiations with the International Monetary Fund. However, against the backdrop of the IMF negotiations freezing the point of such a serious haste is still unclear. Taking into account the need to liquidate cross-subsidization as soon as possible, such steps taken by the authorities seem appropriate. It is quite possible that restarting the negotiations with IMF may be behind the move as well. However, the political aftermath of such steps may turn out to be quite considerable.

Eggs in different baskets

The key international event, namely the 26th session of the OSCE Parliamentary Assembly, took place in Minsk on 5-7 July. This development was used by the Belarusian authorities in order not only to demonstrate the important international role Minsk is now playing and its influence on the international arena, but also to officially announce the previously mentioned initiative of a [“new Helsinki process”](#), with Minsk being the place to host the latter.

Moreover, [Alexander Lukashenko](#) demonstrated some quite vague ideas regarding the essence of “Helsinki-2”. He called it a wide-ranging dialogue (“a negotiating process”) aimed at “overcoming the existing differences in the relations between the states in our common space – in Euro-Atlantic region and Eurasia». In accordance with the enlarged geographical problem field (including Eurasia) Lukashenko suggested to increase the number of participants in this dialogue including China (as well as the other Asian countries). Moreover, he stated that there may be a more active role for the smaller states in this process (in its own way a new, more respectable analogue of a “Non-Alignment Movement” as a place for a more active and even leading international role for Belarus).

Suggestions made by the Belarusian side seem quite “trustworthy” and are built in such a way that refusing to support them may look like an aggressive wish to “settle scores” instead of facilitating cooperation in the region. Meanwhile, this initiative does not provide any clues on how exactly the contradictions between the key players may be resolved. The essence of the current situation is that the mutual suspicions and threats between Russia and the West are, in fact, much more important than the threats presented to each of them by the transnational threats, such as terrorism, drug trafficking, migration (moreover, these very things can serve as the foreign policy instruments to opposing actors). Furthermore, the joint declarations or even documents on the mutual interests when it comes to joint threats cannot change anything in this particular situation.

On July, 12 the Deputy Chief of the General Staff of the Armed Forces of Belarus hosted a [detailed briefing](#) on the Belarusian-Russian strategic drills “Zapad-2017” which presented a reason for more concerns coming from the Western countries. “Za-

pad-2017” will take place mostly on the Belarusian territory on September, 14-20. According to the idea and scenario of the event, it maintains the defensive policy and the topic of maneuvering is determined as a “Preparation and use of the troops (forces) to provide the Military Security of the Union State”. A total of 12 700 military personnel will take part in the event, with 10 200 people and 680 pieces of military equipment being present.

The Belarusian side intends to invite approximately 80 observers to the military drills, namely observers from the UN, OSCE, NATO, CIS, CSTO, the Red Cross, Latvia, Lithuania, Poland, Ukraine, Estonia, Sweden and Norway, as well as the military attaches accredited by the embassies in Belarus. Such a transparency is a sign of Minsk wish to hold drills in such a way that they are not considered as the ones undermining the regional stability and security by the international society. Moreover, despite some sorts of speculations and rumors, the Belarusian authorities do not intend to allow the Russian military contingent stay on the territory of Belarus after the drills are finished.

Despite Belarus demonstrating its ally obligations to Russia in the military and political spheres, the proof of which is presented by the joint military drills, Kremlin continues to put some pressure on Minsk. In particular, Vladimir Putin suggested setting in motion Russian oil supplies to oil refineries in Belarus by using the Russian railway and port infrastructure to transport the oil products, which may become a source for some new conflict situations in the oil and gas sectors. Nevertheless, the Russian government [approved a loan of \\$700 million to Belarus](#), however, this loan is only to be used in order to refinance the Minsk obligations to Moscow to repay the debt Belarus had developed earlier on.

Against this background there was a considerable activity towards intensifying the political and military contacts with China. On 25 July [the Belarusian Interior Ministry and the Chinese Public Security Ministry](#) signed a protocol aimed to expand the anti-terrorist cooperation (including the information exchange, joint operations and technical assistance from China). Beijing expects that Minsk ensures safety of the industrial park “Great Stone” and other facilities within the framework of the [Chinese initiative](#) “One Belt, One Way”, as well as the related cargo traffic flows.

Fiery summer in Georgia

Lasha Tughushi, “Liberal Academy Tbilisi” Foundation (Georgia, Tbilisi)

While the efforts of the entire country were concentrated on the fight with a sudden wildfire disaster, the south of Georgia could boast a successful touristic season. As for the Georgian foreign policy, the main attention was drawn to its partnership with Ukraine and a return to the orbit of the American interests



Wildfires in the Borjomi Gorge reached disastrous scale unseen before.

Photo by nato.int.

DOMESTIC POLICY

Disaster fighting

There has never been such a hot summer in Georgia before. In the West of the country, to be more precise, in Ozurgeti Municipality of Guria region, the air temperature reached 43 degrees Celsius. Not only was the country's 19th century record of 42 degrees broken, but also a wildfire started simultaneously in several places, reaching a disastrous scale unseen before.

The Borjomi Gorge wildfire was being fought by everyone: special forces, army, volunteers, fire fighters including those from neighboring Azerbaijan and Armenia, pilots from Turkey, Belarus and Azerbaijan, a total of 4 thousand people. The damage done by the wildfire has not been finalized as of today.

A criminal investigation was open into the origin of the wildfire. Some suspicious objects and petrol tanks were found in the forests, including those places where the fire started. It is worth mentioning that this time the wildfire started in Borjomi in exactly the same forest where 2008 a Russian aviation bombing resulted in raging fire during the Russian-Georgian war. Then the speculations followed and tensions escalated due to the fact that the official Georgian authorities directly asked for help from the relevant Russian institutions.

The Georgian fall 2017 is expected to be quite hot as well, this time from a political perspective. For instance, the [new Constitution](#) is supposed to have its third and final reading in September. However, there are still complaints expressed by the opposition and the civil society, first of all, concerning the [changes to the electoral system of the country](#). On 6 September thanks to the Venice Commission that facilitated this meeting, the next round of negotiations on the constitutional issues is to take place with the political parties participation. It is highly likely that this will be the last chance to come to an agreement which would not only improve the system but will also facilitate lower political polarization and the improvement of the electoral process itself. “Georgian Dream” has got enough votes in the Parliament in order to pass the Constitution in its third reading, however, a legal victory cannot turn into a political one. Unfortunately, given the difficult geopolitical conditions Georgia finds itself in, the internal political discourse is a feature of the new democracies. The political forces keep figuring out who is an angel and who is a demon.

Moreover, the local elections taking place already this October are bound to turn the capital city of Tbilisi into the contradictions epicenter and the main target for the political parties.

Adjarian khachapuri, sea and mountains

The growth of the Georgia's touristic potential is largely dependent on its level of the regional development. The tourists are especially interested in the Georgia's Adjarian region.

In January–July, 2017 793,243 foreign tourists visited Adjara, they were mostly from Israel, Ukraine, Iran, Turkey, Russia and Azerbaijan. 59% more foreign tourists arrived in Adjara landing in Batumi international airport against last year statistics. Out of 25 airlines operating in Batumi 8 are new ones. Within the last 4 years the number of flights increased threefold.

Adjara has the potential to develop not only its sea tourism, but also its mountain tourism. The

construction of the Khulo-Goderdzi road is being launched and is to be finished by the end of 2019. It is a rather challenging terrain and it is practically a new road that is supposed to be constructed. The road is aimed at making the resorts of Goderdzi and Beshumi, as well as the Alpine Botanical Garden easily accessible. The dozens of hotels have already been built in these places.

The main direction for Adjara's resort potential development is to achieve the goal of being attractive to the tourists all year round.

The tensions escalated due to the fact that the official Georgian authorities directly asked for help from the relevant Russian institutions

FOREIGN POLICY

Ukrainian pirouette

On 17 July the President of Ukraine Petro Poroshenko paid his [first official visit](#) to Georgia. During the visit he met the President of Georgia Giorgi Margvelashvili, as well as the Georgia's Prime Minister Giorgi Kvirikashvili, and the Chairman of the Georgia's Parliament Irakli Kobakhidze.

The main discussion points during these bilateral negotiations included regional security, Russian occupation, economy and tourism issues. On the last day of his visit President Poroshenko went to Batumi and Mestia. Moreover, the President of Ukraine together with his Georgian counterpart came to see the occupation line. Mr. Poroshenko also paid his tribute to the Georgian soldiers who died protecting the Ukraine's territorial integrity. The Presidents of both countries signed the "Declaration on the Establishment of a Strategic Partnership" in Tbilisi.

Poroshenko called his visit to Georgia to be a "historical" one, the Georgia's Prime Minister Kvirikashvili to be his "close friend", and Tbilisi as "our strategic partner Ukraine puts a lot of trust in". He has also stated that Georgia "feels like home".

The meeting, however, did have an awkward twist taking into account the factor of the Georgia's former President Mikhail Saakashvili. Earlier on the Georgian law enforcement agencies had twice demanded Saakashvili extradited to Georgia. A criminal investigation had already been launched into the Saakashvili's case. However, even though many people both in Georgia and outside of the country believe that this criminal investigation has a political side to it, official Tbilisi's stand is that the Saakashvili's career advancement in the Ukrainian political system looked quite strange in regard of the strategic relationship between Georgia and Ukraine.

Almost immediately upon his return to Ukraine the President Poroshenko sidelined his opponent Saakashvili by stripping the latter of the Ukrainian citizenship.

The Saakashvili's paradox is that he, being the former president of one country and the former governor of another one, is in fact a stateless person. Today his "spectre is haunting Europe". He crosses borders of the various countries using some unknown documents.

Political truths are not black and white. According to some politicians and political experts in Georgia, bearing in mind their own strategic interests, Georgia and Ukraine value their relations and will continue to develop their partnership, and we can see the proof of this already today, including many examples in social and political spheres.

Pence triangle

The 48th U.S. Vice President Mike Pence arrived in Georgia with his spouse on the dawn of 31 July for a [two-day visit](#). The Pence's visit to Georgia is a part of his European tour to Estonia, Montenegro and Georgia, the countries "concerned over the Russian aggression". According to analysts, this visit means that the USA is again devoting deliberate attention to their new untraditional partners. During the visit all cooperation areas were carefully examined, however, occupation was named the main one, as reported to mass media by the Ambassador of Georgia to the USA David Bakradze.

It is also noteworthy that a day before the Pence's arrival the "Noble Partner-2017" multinational military drills had been launched in Georgia. About 2,800 military personnel from eight NATO member-states and their partners including the US, UK, Germany, Turkey, Georgia, Slovenia, Armenia and Ukraine took part in the drills.

Moldova on the edge of democracy

Daniela Gologan, Foreign Policy Association of Moldova (APE) (Moldova, Chisinau)

In the period of July-August, the Moldovan political environment has been challenged by the changes introduced in the electoral system, as well as the controversial messages delivered by the public officials portraying a deeply polarized political elite and the society. The adoption of the mixed electoral system decreased the trust of the development partners and provoked a heated discussion with the civil society representatives



Joint Moldovan-Ukrainian border checkpoint at Kuchurgan - Pervomaisk was inaugurated.

Photo by gov.md.

DOMESTIC POLICY

Moving to the mixed electoral system

One of the most important development in the Moldova's domestic policy, during the last two months, was the adoption of a law on the mixed electoral system. Despite the huge public opposition and the Venice Commission's opinion against the initiative of switching from a proportional representation to a mixed electoral system, on 20 July the draft law was adopted by the Moldovan Parliament in the second reading with the vote of 74 MPs. The law was rapidly [promulgated](#)

[by the President of the Republic of Moldova](#) in the afternoon of the same day. In the meantime, the protests were carried out in the city center of Chisinau by the opposition groups denouncing the publicly unsupported change.

The mixed electoral system may lead to a continuous series of partial election in the single-member district, it will increase the costs for organizing of the parliamentary elections and election campaigns, as well as the risk of corrupting the voters, especially in the single-member district and/or the MPs. There is a [high probability of the excessive fragmentation](#) of the electorate, and the emergence of some social and ethnic conflicts.

Even though most of the Members of the Parliament and the president embraced the change of the electoral system, [the decision was criticized](#) by the European Commission: “Thursday’s vote of the Parliament of the Republic of Moldova to implement the changes to the country’s electoral system goes directly counter to the recent recommendations of the Venice Commission and the OSCE Office for Democratic Institutions and Human Rights”.

Joseph Daul, the president of the European people’s party (EPP) and Bart Somers, the president of the Alliance of Liberals and Democrats for Europe (ALDE) in a [joint statement](#) called on the EU institution, including the European External Service, as well as on the Council of Europe to immediately evaluate the decline of the rule of law and the democratic standards in the Republic of Moldova, and re-evaluate as soon as possible the EU-Moldova Association Agreement.

Another recent initiative which caused the reactions within the civil society organizations refers to the draft law on non-governmental organizations, namely the undebated provisions introduced by the Ministry of Justice referring to the restrictions on foreign funding and activities of

the political nature. According to a declaration signed by 28 NGOs, the proposals represent an attack on the non-governmental organizations that are active in the public policies promoting or any other activities aimed at the participatory democracy developing. The absolute majority of the Moldovan NGOs benefit from the funds provided by the development partners. Such [measures will deprive them from funding](#) while the foreign political organizations and foundations working in the Republic of Moldova would be forced to cease their activity”.

The civil society representatives argue that the [newly introduced provisions](#) in the law on non-governmental organizations are imposing an [unnecessary additional reporting](#) burden to the tax authorities, as well as obligations to publish the reports confirming the origin of the organization’s financial means and the income of the NGO leaders. On the other hand, the latest changes introduced some severe penalties for a non-compliance with these requirements, including the hefty fines, the exclusion from the government-run financial mechanism that facilitates and encourages [voluntary donations to the NGOs](#) by the tax payers and the [potential closure](#).

ECONOMY

Development assistance at risk

On 4th of July, the European Parliament approved the EU-financial support for the Republic of Moldova, according to which Moldova would benefit in 2017-2018 of 60 million Euros as a loan and 40 million Euros as a grant, to be disbursed in three installments. [The preconditions for this macro-financial assistance](#) consists of the respect for the effective democratic mechanisms, including a multi-party parliamentary system, the rule of law and the respect of human rights.

The adoption of the mixed electoral system caused some concerns in the European Union. The Commissioner Johannes Hahn in a press conference mentioned that

this change in the Moldova’s domestic policy could have an impact on the delivery of at least the first tranche of the development assistance. The EU officials believe that ignoring the recommendations of the Venice Commission questions the real commitment of the political elite in power in Chisinau towards a rapprochement with the EU, and decrease their credibility.

The latest changes in law introduced some severe penalties for NGOs, including the hefty fines, the exclusion from the government-run financial mechanism that facilitates and encourages voluntary donations to the NGOs by the tax payers and the potential closure

FOREIGN POLICY

Towards common border management

In July, 2017 the inauguration of the Moldova-Ukrainian joint border checkpoint at Kuchurgan-Pervomaisk took place. At the moment, the joint border checkpoint’s activity is carried out based on the Intergovernmental Agreement on the Organization of Joint Control and the Interdepartmental Protocol. [Similar control](#) has been carried out for several years at the Moldovan-Ukrainian border crossing points Briceni-Rososhen, Criva-Mamaliga, Larga-Kelmen and Giurgiulesti-Reni. With this occasion the Ukrainian President Petro Po-

roshenko [reassured the Kyiv’s readiness to contribute](#) to “the full restoration of the Moldova’s territorial integrity”. The newly established border control should increase the security of both countries and reduce the risk of smuggling. Moldova will take the full control over a very important segment of the Moldova-Ukrainian border, the Transnistrian segment, uncontrolled till recently. The border cooperation will also facilitate the life of the economic agents thus fostering the economic activity. In medium and long term a better administration of the state border could be foreseen, and the joint Moldovan-Ukrainian customs control will allow a more efficient control of the flows of persons and goods.

Ukraine: Unusual activity instead of summer recess

Oleksii Krysenko, Foreign Policy Council “Ukrainian Prism” (Ukraine, Kharkiv)

July and August traditionally form a period for vacations and a kind of a “political recess” in Ukraine. These months used to be rather calm when it came to politics. However, this summer was quite eventful in terms of the important issues both inside the country, as well as on the international arena



Ukraine - EU Summit ended with no common statement.

Photo by consilium.europa.eu.

DOMESTIC POLICY

Stress before vacations

The hostilities in Donbas remain an essential factor for the domestic policy development. In July the military tensions escalated to the highest degree this year (however, August saw the tensions somewhat relaxed). Overall the number of the Ukrainian military casualties reached 24 in July. The absence of the will to stop the war on the Russian side allows for a rather

large political segment (first and foremost the opposition) to be parasitic on “the peaceful settlement of the conflict”.

The key domestic policy development in July was the Prosecutor General’s Office and the Specialized Anti-Corruption Prosecutor’s Office of Ukraine appealing to allow six MPs of the Verkhovna Rada of Ukraine to be brought to prosecution. Despite the fact that only the representative of the Opposition

bloc Mikhail Dobkin was allowed to be fully prosecuted (the appeal was partially granted concerning three other MPs while there was no permission to bring to prosecution two MPs), the fact remains unprecedented. According to the Prosecutor General of Ukraine, the new appeals regarding the Ukrainian MPs are to be expected in the fall.

The “cherry on top” of this period was the former Georgian president and the former governor of Ukraine’s Odessa region Mikhail Saakashvili being stripped of his Ukrainian citizenship. The President issued this decree on 26 July the decision was based on Saakashvili submitting the false information when granted the Ukrainian

citizenship. Mikhail Saakashvili is a quite popular political figure in Ukraine and the decision made by the President Petro Poroshenko sparked heated discussions inside “the national democratic camp” evoking versions that this decision was dictated, first and foremost, by the political party activity of Saakashvili and his team.

The key domestic policy development in July was the Prosecutor General’s Office and the Specialized Anti-Corruption Prosecutor’s Office of Ukraine appealing to allow six MPs of the Verkhovna Rada of Ukraine to be brought to prosecution

ECONOMY

Careful growth and moderate optimism

The most high profile development of July in the economy sector was the failure of the negotiations between the management of the state enterprise Boryspil International Airport and the Irish airline Ryanair regarding the latter starting flights to Ukraine. The failed negotiations demonstrated that the reforms in Ukraine are extremely slow while the state economy sector proved difficult to reform at all.

Another interesting development took place when Ukraine stopped supplying electricity to the occupied territories of the Donetsk region starting from midnight of 26 July basing its decision on the Donetsk electricity debts. The power supply to the territories of the Luhansk region and the Crimea had been suspended earlier. This fact speaks about the final economic separation of Ukraine and the occupied territories.

Despite the fact that the economy of Ukraine is the economy of a country at war (as of July, 2016 the total damage due to the ruined infrastructure in the Donbas region because of the Russian aggression made up approximately \$50 billion), overall the Ukrainian tendency of the economic growth and its macroeconomic indicators demonstrated some moderate optimism in the first six months of this year. For example, according to the State Statistics Service of Ukraine, the average nominal annual wages in Ukraine (from June, 2016 to June, 2016) increased by 37,9% and as of July, 1 made up 7,360 UAH (around \$285). Moreover, the first six months of 2017 saw the sales of 36,375 new passenger cars, which is 35% more against the same period last year. Ukraine ranked 64th among 128 countries in terms of its social performance, according to the Social Progress Index 2017.

The national currency, hryvna, went up by 4% from the beginning of the year as of 1 July. According to the

July results, the NBU reserves remained almost the same as last month and made up \$17,8 billion, and on August, 4 Ukraine paid back \$450 million to the IMF under the stand-by program of 2014.

The state budget of the first half of 2017 closed with a budget surplus of UAH 29 billion (about \$1,1 billion) (according to the results of the first six months last year the budget deficit made up UAH 35,1 billion – about \$1,35 billion). The Ukraine’s investment attractiveness index increased according to the results of the first six months: 3,15 points on a 5-point scale (in 2016 the index made up 2,85 points). The gross domestic product of Ukraine grew by 2,5% in January-June, 2017 (given its much more moderate forecast — 1,8%). The volume of natural gas in the Ukrainian underground gas storage facilities made up 14 billion cubic meters as of 17 August which is 21% more volume against the same date last year. In January-July, 2017 the Russian gas transit via the territory of Ukraine made up 52,3 billion cubic meters, which set a 6-year record.

The export of the Ukrainian goods in the first six months of 2017 made up \$20,65 billion, while import — \$22,53 billion. Therefore, the trading goods deficit made up \$1,88 billion. In the first half of 2017 the export of the Ukrainian services increased by 9,6% against the same period last year and made up \$5 billion. The import of services grew by 7,1% and made up \$2,52 billion. The surplus of the export-import in services made up \$2,47 billion.

However, despite reaching a certain macroeconomic stability, the government still lacks strategic understanding of the economic reforms. For instance, on July, 25 the government announced its decision to liquidate the state aircraft manufacturing and service concern “Antonov” in the frames of the decisions to restructure the aircraft engineering sector taken earlier, and pass its production capabilities to another state concern “Ukroboronprom”. In fact, this is not an

optimal strategy to provide for a smooth crisis exit for the nation's aircraft engineering sector, since it is a yet another step to "nationalize" the Ukrainian aircraft manufacturing.

Furthermore, in spite of its reformational rhetorics, the Ukrainian economy remains weak and primary industry oriented. For example, in the first half of

2017 Ukrainian metal workers reduced steel making by 17,2% against the same period last year (instead the export of ironstone increased). Yet, the agriculture goods export made up \$8,77 billion or 42,5% from the total Ukrainian export in the first half of 2017 (the Ukrainian agricultural export increased by 28% or by \$1,91 billion against the same period last year).

FOREIGN POLICY

Many signals – few results

There was quite a lot of the Ukrainian foreign policy developments in July. On July, 9 the State Secretary of US Rex Tillerson visited Ukraine (just after the G20 summit in Hamburg, 7-8 July). On the same day the Secretary General of the United Nations Antonio Guterres visited Kyiv. The Secretary General of NATO Jens Stoltenberg visited Kyiv on 10 July – on the day when the meeting of the Ukraine-NATO Commission took place (marking the 20th anniversary of the Charter). And on 12-13 July the Head of the European Commission Jean-Claude Juncker and the President of the European Council Donald Tusk came to Kyiv, also in the frames of the 19th Ukraine-EU Summit.

These visits mostly had a symbolic function acting as a moral support without providing any strategic obligations. Having agreed to the existing Ukrainian priorities within the Euroatlantic integration, nevertheless, according to the results of the meeting, the Ukraine-NATO Commission only agreed about starting "a discussion about getting an action plan regarding the alliance membership", and as for the results of the Ukraine-EU summit, the final statement was ruined because of the phrase regarding the "European aspirations" of Ukraine. Even this reminder about the future European prospects for Ukraine annoys the Western European partners.

The President of Belarus Alexander Lukashenko paid an official visit to Kyiv on 20-21 July. Among the other things the key goal of the visit appeared to be the sector of security. To be more precise, his aspiration to persuade the Ukrainian President that the joint war games of Russia and Belarus "West-2017" (just as well as the military and technical cooperation between the two countries) are not aimed against Ukraine.

The President of Ukraine Petro Poroshenko's important visits included:

1) On 16 July he went to Moldova to meet the Prime Minister of Moldova Pavel Filip within the frames of launching a joint Ukraine-Moldova border checkpoint "Kuchurgan" at the Transnistrian part of Ukraine-Moldova border.

2) On 17 July he was in Georgia within the frames of the "thawing" relations with the current Georgian elite and among other things, his participation in a business forum. These visits can provide a new incentive for GUAM reanimation and increase the role of Ukraine as a regional leader.

On 7 July the US Secretary of State Rex Tillerson tapped former U.S. ambassador to NATO Kurt Volker to be special representative to Ukraine. The later immediately took off to the antiterrorist zone and announced the results of his visit in a statement: "The situation in the East of Ukraine is not a frozen conflict, but a hot war" and "Russia is already in Ukraine with all its heavy weapons. Right now there are more Russian tanks there than in all Western European countries combined. It is a very, very large military contingent", "...there can be no recognition, no legitimacy for the Russian steps in the Eastern Ukraine and in the Crimea».

Special attention should be paid to an unexpected twist in the evaluation of the foreign interference in the 2016 American presidential elections. In fact, on 25 July the US President Donald Trump tweeted that the Ukrainian efforts sabotaged his presidential campaign quietly working to boost his opponent Hillary Clinton. The Trump's position singled an unpleasant message for the Ukrainian ruling class having openly supported Hillary Clinton at the time. With the sanctions bill against Russia, Iran and North Korea passed in the US Congress in the background, this incident took a backseat, however, in the longer term such evaluation of the Ukraine's role in the presidential elections may create significant difficulties for the communication of the authorities on both sides.

A notorious New York Times publication published on 14 August created quite a stir in the foreign policy, with the publication stating the North Korea's missile success may have been linked to an alleged purchase of the engines from "a Ukrainian factory with the historical ties to the Russia's missile program". The Ukrainian side officially rejected the allegations regarding Ukraine participating in the transfer of the rocket engines (rocket technologies) to North Korea.

From free trade zones to common economic space

Yurii Vdovenko, Foreign Policy Council “Ukrainian Prism” (Ukraine, Kyiv)



Ukrainian, Moldovan and Georgian share in the EU's foreign trade is still insignificant.
Photo by eurotv.md.

The group of three countries that signed the Association Agreement may not look like a common economic space at the moment, since Georgia, Moldova and Ukraine prioritize their bilateral relations with the EU.

A year ago the Minister of Foreign Affairs of Ukraine Pavel Klimkin initiated the common economic space launching in the frames of the Eastern Partnership. According to him, the countries that signed the Association Agreement should be in the avant-garde of this process. However, this initiative is left without any further development as of now, while the intergovernmental economic cooperation in Georgia, Moldova and Ukraine is based on the rules of the World Trade Organization and such formats as the GUAM Organization for Democracy and Economic Development and the Commonwealth of Independent States (CIS) Free Trade Area.

When evaluating the timing and the importance of the new economic cooperation launching within the frames of the Eastern Partnership, it is rational to take into account the experience these three countries have had within the frames of the Deep and Comprehensive Free Trade Area (DCFTA) based upon the European approach and practice.

Georgia

The EU-Georgia Association Agreement was provisionally applied since 1 September, 2014 and fully entered into force on 1 July, 2016. However, the Georgia's developing relations with the EU do not result into any serious improvement or revolutionary changes in its economy.

After the Deep and Comprehensive Free Trade Area entered into force the total structure of the Georgian export changed considerably as the export to the CIS countries significantly dropped. The EU export share in the total Georgian export increased from 20.9% in 2013 to 29% in 2015, while the CIS export share dropped from 55.5% to 38% at the same period due to the extremely difficult economic situations in Ukraine and Russia. In 2016 the EU was the main trade partner for Georgia; its share in the total trade volume of Georgia made up 31% (27% before DCFTA entering into force), including 27% export and 31% import.

The Georgia's foreign trade turnover made up \$12 billion in 2016, which is 20% more against the previous year, with the export going down by 4% throughout the year and making up \$2.1 billion, and import going up by 27% to \$9.9 billion. Its trade with the EU member states increased by 14% making up \$3.6 billion, with the increase mainly thanks to the growing import of the European goods to Georgia, while the Georgian produce export to the EU is still decreasing by 12% to \$571 million. The decline was mainly brought about due to the prices changing on four key positions, which make up approximately 60% of the Georgian export: mineral fuel, nuts, fertilizers and mining industry products. The trade with Georgia makes up 0.1% of the EU's total trade volume. The main European importers from Georgia are Bulgaria, Italy and Germany. As a result of the Free Trade Area kiwi, blueberries, nuts, garlic and wine are exported to the EU, the growth of the copper and petroleum products export can be observed, and honey started to be exported at the end of 2016.

The export dropped in Georgia's trade with the Commonwealth of Independent States (CIS) countries as well. In 2016 the Georgia's foreign trade turnover with these countries went down 3% and made up only \$2.7 billion, with the export decreasing by 12% to \$ 739 million. The CIS share in the Georgia's foreign trade turnover made up 23% including 35% export and 20% import.

Overall the Georgia's three largest trade partners have been the same throughout several years. Canada takes the first place (\$1.8 billion), Turkey ranks second (\$1.5 billion) and Russia comes third (\$0.9 billion). However, Russia ranks first in the export volume with Georgia (\$206 million), followed by Turkey (\$174 million), Azerbaijan (\$153 million) and Armenia (\$151million).

Yet over the course of time the impact made by the Free Trade Area on the national economy brings about some significant results, to be more precise from January to March 2017 the Georgian export to the EU coun-

tries grew by 44%, with the Georgia's national economic policy focusing not so much on the intensifying trade but on attracting the direct foreign investments. The pre-conditions for this included the basic reforms in order to simplify the managing business, as well as the institutional and judicial changes made in order to truly use the advantages of the Free Trade Area. As of today the European companies made approximately 50% of all direct investment to Georgia after 2010, which makes the EU the country's most preferable partner.

The international organizations forecast that it is exactly DCFTA that will determine the further growth for the Georgian economy. The experts from the European Bank for Reconstruction and Development believe that in 2017 the Georgia's economic growth will reach 3.9%. According to the World Bank, in 2017-2018 the Georgia's economic growth will be one of the highest among the

Georgia's national economic policy focusing not so much on the intensifying trade but on attracting the direct foreign investments

Eastern Europe and the Central Asia countries. The International Monetary Fund reports that the Georgia's economic growth will make up 4.5% this year and in 2018 it will increase to 5%. In order to reach the forecasted results Georgia is concentrating its efforts in four main directions: the reforms aimed at creating jobs; the education reform aimed at the economic development; the regional development and infrastructure modernization; and the government reform in order to boost the state institutions efficiency and transparency.

Moldova

The Free Trade Area with the EU started to fully function in Moldova in July. 2016, even though the association agreement was already signed in June 2014, accompanied by the constant pressure coming from the Russian Federation.

The EU is the Moldova's biggest trade partner with a total foreign trade turnover of \$3.3 billion according to 2016 results, with trade volume increasing by 1.5% against 2015. Yet the trade tendencies still have different directions — in 2016 the export to the EU grew by 7.7% to \$1.2 billion while the import dropped by 2% to \$2 billion, providing for a deficit of \$800 million. About 65% of the Moldova's export comes to the EU, mostly agricultural products, textile and machines. The Moldova's share in the EU foreign trade turnover, just the same as the Georgia's share, makes up only 0.1%. After signing the association agreement several groups of goods in the Moldova's EU export structure (mostly the export to Romania, Italy, Germany and Great Britain) are seeing an increase, namely sunflower seeds, nuts, grapes, dried fruits, wheat, barley, sugar, paper, clothes and bedding.

When evaluating the DCFTA impact on the Moldovan

economy, it is best to take into consideration that in 2008-2015 there was an asymmetrical trade regime between Moldova and the EU, in the frames of which the Moldovan goods were not liable to customs duties when exported to the EU, while the European goods were liable to duties when imported to Moldova.

Despite the Russian sanctions after Moldova signed the Association Agreement, namely introducing customs duties and banning imports on some goods, the trade relations between the countries are still on a rather high level. The Russia's share in the Moldovan export makes up to 12% (only Romania has more). Overcoming the economic aftermath of the Russian sanctions is rather difficult for Moldova since the limitations were introduced to the goods manufactured in the sectors providing a high number of jobs for its citizens, such as agriculture, beverage, textile and optical equipment manufacturing.

The cooperation between Moldova and the EU is not limited by trade only. The European countries (first and foremost the Netherlands, Cyprus, France and Spain) are the main investors in the Moldovan economy, ensuring more than a half of all direct foreign investment (53.4%).

Official Chisinau expects that in the short-term perspective of 2020 the Deep and Comprehensive Free Trade Area will provide for a 5.4% GDP growth, intensify its trade with the EU — 16% export and 8% import growth, as well as the annul customs duties on 99% of goods. According to the World Bank forecast, the Moldova's 2017-2018 economy growth will make up 2.8% and 3.3% respectively. In its turn, the IMF increased its 2017 economic growth forecast from 3% to 4.5%. Its 2018 the forecast remained almost the same — 3.7% instead of 3.8%.

Despite the Russian sanctions after Moldova signed the Association Agreement the trade relations between the countries are still on a rather high level

Ukraine

The Ukraine's history with the Deep and Comprehensive Free Trade Area agreement is anything but simple. The trade part of the EU-Ukraine association agreement was partially implemented only after 1 January, 2016, and it is expected to be fully implemented starting from 1 September, 2017. Moreover, the European side liberalized its customs regime already in 2014, cancelling 95% of the customs duties on the manufactured goods and 84% on the agricultural goods. On 1 January, 2016 Ukraine cancelled its import duties on about 70% of goods coming from the EU, and there are transitional periods for the rest of the goods.

During the DCFTA period the European Union became the Ukraine's main trade partner, even though its share in the EU's foreign trade does not exceed 1%. In 2016 the Ukraine's export to the EU started to increase after two years when the Ukraine's foreign trade volume dropped because of the Russian aggression, the worldwide raw material price dropping and the economic recession and made up \$16.4 billion, while the import made up \$19.5 billion. As a result, the EU became the Ukraine's biggest trade partner — its share in the Ukraine's export made

up 35.8% and 43.7% in the import. There is a positive dynamics in the first DCFTA year: when the export went up by 7.6% while the import increased by 8.5%. The total trade volume between Ukraine and the EU increased by 8.1% in 2016. The tendency of the intensifying cooperation is getting stronger, and in 5 months of 2017 the export to the EU made up \$6.8 billion, that is 25.2% more against the same period of the previous year.

The driving power behind the growth is agriculture and food manufacturing. According to the 2016 results, their share in the export growth made up more than 80%. The consumer goods manufacturing (with more than 80% of the produce being exported to the EU) along with the timber and wood processing industry and the engineering sector (with over 50% of the produce exported to the EU) can be found in an advantageous position.

The export range is getting wider thanks to the produce with a high degree of processing and added value, and therefore, the share of the processed produce, which reached 44% in 2016, is getting bigger. The biggest impact in the export growth to the EU is made by such goods as sunflower oil, car spare parts, electrical equipment, wooden goods, wires, electric water heaters and furniture.

The negotiations with the EU regarding the additional trade preferences continued in 2017. The Council of the European Union approved a wider range of a tax-free import for the Ukrainian goods within the three years time

limit, while Ukraine introduced some protective measures contradicting with the association agreement, to be more precise, the lumber export ban and the scrap metal export duties. These actions brought about the EU's negative reaction and have already resulted in the second tranche of a macro-financial aid being postponed.

Overall, despite the fact that DCFTA has a positive impact on the economic relations between the EU and Ukraine, the foreign trade balance with the EU is still negative, and the most goods supplied to the European market are the raw materials and the semi-manufactured goods. And it is highly unlikely that this tendency can be changed now without higher competitiveness of the Ukrainian goods and more export coming from the basic sectors of the Ukrainian industry.

The Ukraine's stronger European aspirations, as forecasted, have chilled its relations with Russia both politically and economically. It resulted in a lower goods turnover, some contradictions in energy, trade and economy, as well as in introducing sanctions on the both sides. Russia suspended its free-trade deal with Ukraine on 1 January, 2016 due to the Ukraine's DCFTA agreement with the EU. The total export volume from Ukraine to Russia continued to go down and according to 2016 results made

up \$3.6 billion (25.6% less against 2015), while the import decreased by 31.3% to \$5.1 billion. The Ukraine's negative balance made up \$1.5 billion.

Despite this dramatic fall, Russia remains the Ukraine's largest trade partner, and its 2016 share reaches 10% of the foreign trade turnover (12.7% in 2015 and 18.2% in 2014). At the beginning of 2017 there was a significant growth of export as a result of the Ukrainian metal and engineering produce selling, which confirms that there are difficulties when it comes to the Ukrainian manufacturers of the high-tech goods with high added value repositioning on the European markets.

Unfortunately, the situation with the European investments attracting and their volume increasing remained the same and despite expectations, the level of the foreign investments is still quite low. The lack of the structural changes in the investment climate improvement, the promised and expected advantages for the European business in Ukraine after the implementation of the DCFTA are still not seen.

Conclusion

The given reality can be characterized as a slow but positive dynamics instigated by the Deep and Comprehensive Free Trade Area impact on the economies of Georgia, Moldova and Ukraine, first and foremost its impact on the development of the bilateral foreign trade ties of all three countries with the EU. The experience of the first years DCFTA's implementation confirms the difficulty to adapt both the legal regulations and the business environment to the new conditions on one hand, and the EU readiness to make some certain indulgences providing, for instance, the additional autonomous trade preferences, on the other hand.

The transition to the European standards of doing business is going rather slowly and without many ben-

The agricultural export growth to the EU was helpful for the partial compensation for the loss the Ukraine's agriculture manufacturers suffered on the Russian market

efits in a short-term period. Simultaneously, more signs of a long-term EU standards adaptation are seen. Bringing national legislation into the compliance with the European norms faces a lot of challenges. Sometimes the provoking contradictory decisions that give preferences to the EU-negotiations rather than to the internal economic reforms.

All three EU partner countries have a univocal trend of the national business repositioning from being Russia-oriented towards the European market, even though the Russian Federation is still playing a significant role in the economic lives of the countries. When implementing the DCFTA, all three countries faced the aggressive Russian counteractions against their integration into the European economic space with further foreign trade connections reduced. However, the DCFTA with the EU does not allow to substitute all the losses from the closed Russian market.

As a result, the following recommendations remain relevant while having three key points:

- to the EU authorities: to consider new opportunities for the better integration to the economic sector of the three countries that signed the association agreement;

- to the Ukrainian, Moldovan and Georgian authorities: to concentrate their efforts on bringing national legislations into the compliance with the European norms within the time frames set by the association agreement, as well as to intensify the cooperation between themselves in order to provide constant coordination;

- to the business of the three respective countries: to react faster on the opened opportunities and use the existing mechanisms for the better adaptation to the changing conditions and for the better entrance to the European market.

INITIATIVE BY:



Foreign Policy Council “Ukrainian Prism” (Ukraine) is a network-based non-governmental analytical center, the goal of which is to participate in providing democratic ground for developing and implementation of foreign and security policies by government authorities of Ukraine, implementation of international and nation-wide projects and programs, directed at improvement of foreign policy analysis and expertise, enhancement of expert community participation in a decision-making process in the spheres of foreign policy, international relations, public diplomacy.

www.prismua.org

SUPPORTED BY:



Regional Project «Dialogue Eastern Europe» of The Friedrich-Ebert-Stiftung promotes mutual understanding and exchange between Armenia, Azerbaijan, Belarus, Georgia, Moldova, Russia and Ukraine as well as to support regional dialogue between these countries with Germany and the European Union. The Friedrich-Ebert-Stiftung is a non-profit German political foundation committed to the advancement of public policy issues in the spirit of the basic values of social democracy through education, research, and international cooperation.

www.fes-dee.org

IN PARTNERSHIP WITH:



The Regional Studies Center (Armenia) is an independent think tank based in Armenia. The RSC conducts a wide range of strategic analysis and objective research, implements a number of educational and policy-related projects, and develops policy initiatives aimed at bolstering political and economic reform and conflict resolution in the broader South Caucasus region.

www.regional-studies.org



The Center for Economic and Social Development (Azerbaijan) is a leading Azerbaijani think tank specialized in economic and social policy issues working with and establishing bridge between the government and the various representatives of civil society. The Center was set up in 2005 to promote research and analysis into domestic economic and social issues for the purpose to positively influence the public policy decision-making processes.

www.cesd.az



Center for Strategic and Foreign Policy Studies (Belarus) is a non-governmental non-profit independent think tank, the mission of which is to promote the opportunities for the Republic of Belarus in the international arena by analyzing international processes, and developing programs and projects.

www.csfps.by



The foundation Liberal Academy Tbilisi (Georgia) is a non-governmental, nonprofit organization, committed to promoting core democratic values, supporting peace-building and European and Euro-Atlantic integration and with that fostering the democratic development of Georgia and the

whole Southern Caucasus region.

www.ei-lat.ge



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.

www.ape.md