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Ukraine, Georgia and Moldova between Russia and the West

The three countries over the past five years have benefitted from increased trade with the EU, without however strengthening the rule of law to boost investments and lift them out of economic stagnation. The elites remain unwilling or unable to break vested interests, despite the pressure exercised by the Western actors, and partly because of Russian attempts to counterbalance or undermine pro-Western forces.

By Henrik Larsen

Ukraine, Georgia, and Moldova are the most important countries between Russia and the West in a geopolitical competition that has intensified since the annexation of Crimea in 2014 with large-scale military exercises and heated diplomatic incidents. China, by contrast to the Western Balkans, does not play a significant geopolitical role in the region. Russia seeks to maintain a sphere of interests with Moscow-friendly governments in power, while the West seek to win countries over by encouraging them to undertake deep and comprehensive reform. The competition over the three countries plays out as Western efforts to strengthen their resilience and Russian attempts to undermine their aspirations toward prosperity, functioning democracy and closer association with the West.

Georgia's Foreign Minister together with his Moldovan and Ukrainian counterparts and EU foreign policy chief Josep Borrel after a meeting in Brussels, June 2021. *Francisco Seco / Reuters*

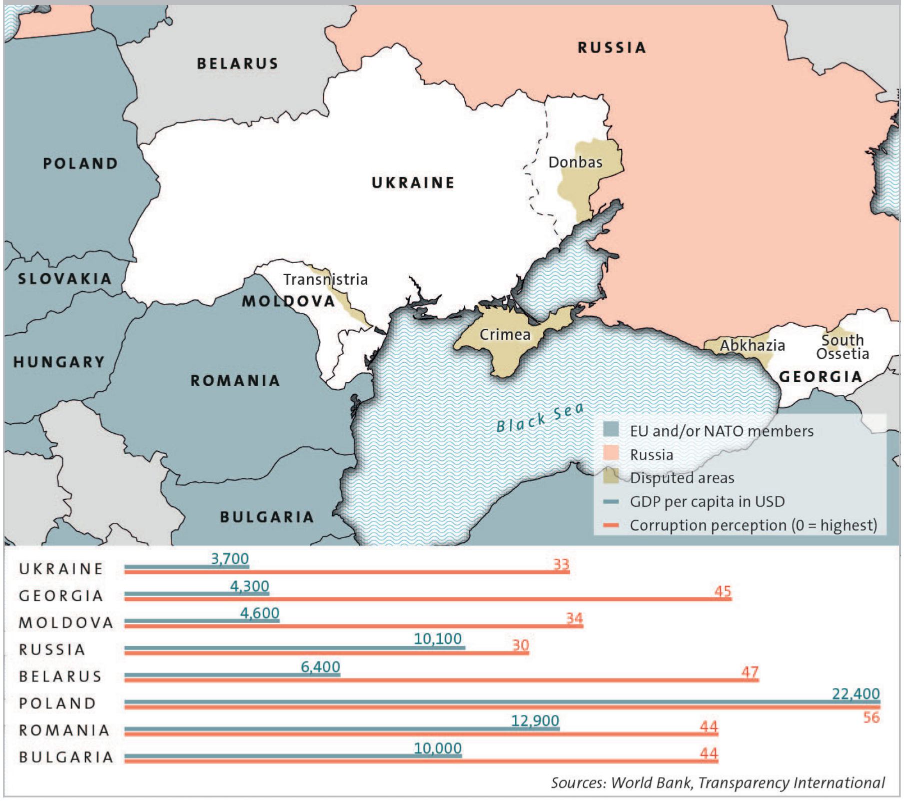
Ukraine, Georgia, and Moldova are unique in the way the geopolitics is intertwined with the domestic tension between self-serving elites and societies demanding increased accountability. The countries struggle to achieve growth and governance that would benefit their entire populations. In the domestic politics, however, this has become synonymous with alignment with the West to an extent that it generates geopolitical repercussion and increases internal division. Belarus and Armenia suffer from the same type of domestic tension between elites and society but without the sharp geopolitical choice, since they are firmly within Russia's economic and geopolitical sphere.

Russian Leverage

By compromising the countries' territorial integrity, Russia managed to essentially block any aspiration to join NATO (and the EU, should that question become relevant in the future). Russia has supported and intervened militarily on behalf of breakaway regions where it enjoyed historical, cultural and linguistic ties, beginning with Moldova's separatist region of Transnistria in 1992. Russia intervened militarily on behalf of Georgia's separatist regions of Abkhazia and South Ossetia in 2008, by which it effectively froze NATO's membership promise to Ukraine and Georgia at the Bucharest Summit earlier that year. Russia intervened militarily again in Ukraine in 2014 by annexing Crimea and supporting Donbas separatists, in reaction to the Euromaidan revolution that ousted the Russia-friendly government of Viktor Yanukovych.

Russia's willingness to use military force to preserve a sphere of interests makes the Western countries accordingly unwilling to increase security cooperation with the countries out of fear that it would give Russia a pretext to reignite or expand the existing territorial conflicts. NATO limits its cooperation to strategic advisory and trust funds, while individual countries such as the US, Canada, the UK, and Lithuania have provided limited additional military equipment and training. While Moldova always declared itself neutral, Russia's military actions pushed Ukraine and Georgia's NATO membership prospects into the unknown. Russia's strengthened Georgia and Ukraine's Euro-Atlantic aspirations but neither Georgia so far convincingly implemented key requirements for joining the alliance such as depoliticized security agencies, procurement and defense reform, and increased civilian control over the armed forces.

GDP and Perceptions of Corruption in the Region



Sources: World Bank, Transparency International

Western Economic Appeal

The West has the potential upper hand when it comes to trade and economics, which hold the potential to fundamentally transform the countries and lift them out of external dependency. Ukraine, Georgia and Moldova are poor countries compared to Russia and especially the EU but unlocking their potential for growth requires them to undertake the necessary reform.

Russia in 2010 launched the Eurasian Customs Union, since 2015 the Eurasian Economic Union, to consolidate and institutionalize its economic and geopolitical ties with many of the post-Soviet states. Georgia was never interested, while Moldova was geographically too distant (however, it became an observer in 2018). Because of the Euromaidan revolution in 2013–14 and despite offering favorable gas prices and financial subsidies, Russia failed to include Ukraine, a country of critical size for the realization of its Eurasian project. Russia managed to consolidate its ties with Belarus and Armenia but pushed countries that did not join it further away through economic restrictions against them.

Ukraine still has not recovered economically to its pre-2014 level.

Ukraine, Georgia, and Moldova in the end all opted for Association Agreements with the EU, formally putting them on the track of European-style economic reform and integration. The Association Agreements essentially include a so-called Deep and Comprehensive Free Trade Agreement (DCFTA), through which the EU seeks to export its vast legislative body (*acquis*) to the three countries, without offering the perspective of membership. The DCFTAs are more than classical free trade agreements because they not only remove import tariffs but also open service sectors, provided that the countries meet certain conditions, such as phytosanitary standards and competition and public procurement policy. In theory, exporters will no longer have to pass tests with EU agencies and bodies but with their own domestic authorities, and their products will receive the accreditation of EU quality standards, conducive to the closer integration into global value chains and the inflow of foreign direct investment.

In reality, the countries follow much bumpier paths, given the domestic difficulties in adopting and implementing reform and, not least, building a rule-of-law system that can enforce them. Today, around five years after the entry into force of the DCFTAs, Ukraine, Moldova, and to some extent Georgia have experienced clear growth in trade with the EU. Conversely, in terms of foreign investments and domestic growth, which are indicators of qualitative change, the countries are stagnant. Ukraine as the territorially and geographically biggest country still has not recovered economically to its pre-2014 level. Understanding why that is so requires a more in-depth impression of the political processes for each country that can account for how the structural factors (fail to) translate into reform.

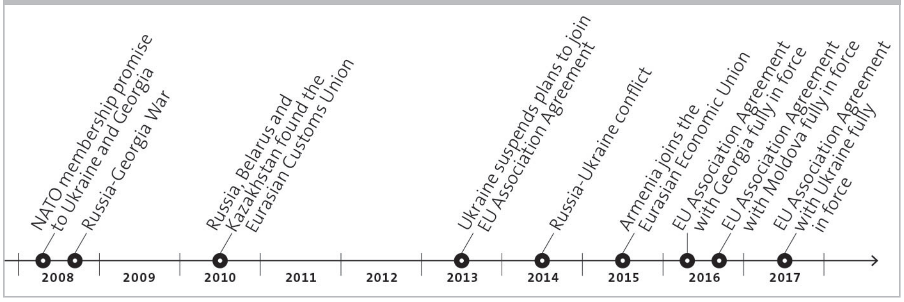
Ukraine

In 2014, the International Monetary Fund (IMF), the EU, the US, and other Western sponsors pledged 17.5 billion USD to Ukraine in exchange for measures to stabilize the country's economy after the conflict with Russia and the decision to revert to the Association Agreement. Ukraine's political elites generally remained self-serving and entangled in business interests, but they became more dependent on Western support and more sensitive to public perceptions when they deviate from their official reform requirements. Conditionality was successful in pushing through much-needed banking and to some extent gas sector reform, but much less so in the privatization of and the introduction of corporate governance structures in Ukraine's many state-owned enterprises, which perpetuate market monopolization. Moreover, Ukraine introduced an export ban on wood in clear breach of the free-trade commitments of the Association Agreement. Meanwhile, its customs service remains corrupt and inefficient.

Ukraine's Western sponsors recognized that economic growth and the inflow of foreign investment was hampered by not only monopolization but also widespread corruption and the lack of trust in the judiciary. To this end, they required that Ukraine establish a specialized rule-of-law infrastructure for high-level corruption to handle politically often sensitive cases. However, political interference has consistently undermined the anticorruption effort, and the low number of convictions and ineffective preventive measures has failed to seriously raise the risk of being caught and punished. The Western sponsors and the Ukrainian pro-reformists politicians and civil society so far did not affect a reform breakthrough, whereby the anti-corruption laws would be effectively implemented and enforced. Powerful oligarchs were interested neither in increasing domestic competition, nor in reducing the space for corruption in the political system, from which they benefit and perpetuate their influence.

Entrenched interests are the main reason why Ukraine remains unable to reform its political-economic system that would benefit its population at large. However, Russia is also a factor in this. Russia's attempt to sow discord about the country's decisions to join the Association Agreement with the EU dates to 2014, when (to the detriment of its own trade interests) it severed many of its economic ties to Ukraine. The Kremlin has some share in the perpetuation of the entrenched interests and fueling public dissatisfaction about Ukraine's European choice as well. It does so through oligarchs who support pro-Russian parties and who can influence public opinion through mass media ownership. In early 2021, Ukrainian President Volodymyr Zelensky sanctioned the pro-Russian oligarch and leader of the pro-Russian "Opposition Platform" political party, Viktor Medvedchuk, including by shutting down three of his television channels (on allegations of spreading disinformation, but thereby also getting rid of critical voices).

Timeline of Geopolitical Events



Georgia

Georgia defined its development as a starch geopolitical choice in favor of EU and NATO integration and away from Russia, for which the signing of the Association Agreement in 2014 had huge significance. Then-president Mikhail Saakashvili was the main driving force behind the country's early fight against corruption, for free-market reform, and the removal of trade barriers with the EU. Trade with Russia resumed somehow after 2013 with the coming to power of the rival party, Georgian Dream, with a slightly more pragmatic view. Georgia's implementation of EU free trade measures is advanced, from phytosanitary standards, intellectual property rights, to competition, customs, and public procurement. The country is also advancing in the deeper levels of legislative approximation with the EU – its banking sector, for instance, avoided the failures and frauds that Ukraine and Moldova experienced.

> Georgia's problems pertain to the rule of law, namely politically motivated prosecutions and a judiciary enjoying low public trust.

Georgia's problems rather pertain to the rule of law, namely politically motivated prosecutions and a judiciary enjoying low public trust and continuing to bend to the executive power. Four waves of judicial reform since 2013 proved ineffective. In addition, Georgia over the past years suffered from a democratic backslide with a political system characterized by the capture of one powerful oligarch, Bidzina Ivanishvili, who briefly served as prime minister and who continues to finance and exert influence through the Georgian Dream party, which has governed incessantly since 2012. Georgian politics has effectively deteriorated into a one-party rule, with an election system and irregularities disfavoring the opposition party, which boycotted the 2020 parliamentary election and whose leader was arrested. The one-party rule endangers Georgia's otherwise good business environment. Many observers believe it is prone to clientelism, often favoring those with political connections.

The EU and the US played a mediating role in Georgia's political crisis. The former withheld macro-financial assistance, which resulted in a deal stipulating concrete steps for electoral and rule-of-law reform. Meanwhile, Georgia's economy has suffered a severe contraction because of the government's inability to bring the coronavirus under control, showing its dependency on continued external financial support.

Moldova

Although geographically close to the EU, namely Romania, Moldova followed a more balanced path in the interest of keeping Russian trade and investments in the energy and banking sector, and as a major market for expatriate workers. Against the backdrop of seeking closer ties with the EU, in 2004, Moldova rejected a Russian federalization plan that would have given the separatist region of Transnistria veto power over foreign policy decisions, not least over what concerns the country's integration into NATO and the EU. The country has a long history of political instability, which in 2009 resulted in a popular uprising following a disputed election that gave the victory to the pro-Russian communist party. A re-election gave the victory to the more pro-European opposition parties in a government coalition that signed the Association Agreement with the EU in 2014.

Russian economic restrictions failed to prevent this from happening but nourished economic dissatisfaction that likely contributed to the election victory of the more pro-Russian socialist and communist parties later that year. Moldova is the country whose exports benefitted most from the removal of tariff barriers with the EU, and it has shown a so far fairly good record of the technical implementation. Like Ukraine and Georgia, Moldova's rule-of-law deficits prevent it from tapping into its deeper economic potential. Despite having largely put in place the legal and institutional framework, the country is unable to tackle money laundering and corruption, as well as to increase transparency in the state-owned enterprises and trust in the judiciary. A bank scandal shocked the country in 2014, when 1 billion USD – 12 percent of its GDP – went missing. The EU, the IMF, and the World Bank withheld macro-financial support for Moldova to encourage bringing officials at the highest level of government to justice.

Like Ukraine and Georgia, Moldova's rule-of-law deficits prevent it from tapping into its deeper economic potential.

In 2020 and in 2021, Moldova elected a new government and a new president, Maia Sandu, who avoided making an issue of the East-West dichotomy and vowed to end "the rule of thieves" and to fight economic insecurity. She defeated the incumbent, Igor Dodon, who is a self-declared socialist and bets on renewed popular dissatisfaction with the inability to affect reform and stagnation during the country's continued covid crisis. Russia used to back Dodon as its main entry of influence, although the economic situation would have to seriously deteriorate for any political force to dare change Moldova's official course of closer integration with the EU.

Economic Stagnation

Ukraine, Georgia, and Moldova in the around five years that passed since the Association Agreements entered into force are reaping the free-trade benefits with the EU, but without achieving the structural change that would allow them to tap into their bigger economic potential. For the Western actors, the price of keeping the countries afloat in the absence thereof seems to be that of permanent subsidy. Conditionality linked to macro-financial support manages to make elites take incremental steps forward but are not enough to prevent them from afterward backsliding, while they often use "European choice" as a leverage to extract financial or political concessions.

Yet, it is in the countries' own interest to define their destiny as economic resilience rather than geopolitics, where the options are limited due to Russia's willingness to use military force. Giving up the separatist territories is politically impossible in either of the three countries, and Moscow has no interest in conflict resolution. The more the countries can emphasize the implementation of the Association Agreements and strengthening the rule of law and democracy as a fight against economic insecurity rather than as a geopolitical choice, the more the process will be surrounded by stability. The drive for economic development is a question of the countries themselves delivering, possibly as a question of generational and slow cultural shifts.

For more on Perspectives on Euro-Atlantic Security, see CSS core theme page.

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