POST-SOVET EURASIA

A stable crisis

Since 2014, the situation in post-Soviet Eurasia has been dominated by the Ukraine conflict. All the problems associated with it remain unsolved. Both politically and economically, Russia remains the deciding factor in the region, though an increasing number of countries are attempting to free themselves from Moscow’s grip.

Since February 2014, when the mass Euromaidan demonstrations brought down the regime of Viktor Yanukovych, post-Soviet Eurasia has been dominated by the Ukraine crisis. It has become a reference point for the politics of each country in the region. This is seen, for instance, in the moves made by autocrats who fear that they might be the next victims of regime change. This fear triggered repressive and defensive measures in line with the Moscow model soon after the revolution in Kiev, as well as propaganda denouncing the chaos and bloodshed of the revolution as an inevitable feature of all such democratization efforts. The crisis has also fueled a renewed Cold War between Russia and the West, which has initiated an escalating spiral of reciprocal sanctions and military rearmament. This makes it difficult even for those not directly involved to avoid confrontation mode and the competing integration overtures of East and West. And, finally, the recession in Russia and the economic crisis triggered by the drop in oil prices have affected all the region’s national economies to varying degrees.

All of these problems remain unsolved. Despite repeated ceasefire agreements, the Ukraine crisis remains at an acute pitch in the Donbass, and tensions between Russia and the West show no sign of easing. Even with the price of oil stabilizing at around $50 per barrel in mid-2016, almost every country in the region lingers some distance below former growth rates. With no further political upheavals since then, the greatest challenge has been to manage economic problems and prevent collateral damage. This has resulted in a kind of habituation – crisis mode as a fact of day-to-day life.

This state of affairs has led to growing disparities within the region, but no breakthrough in transformation – this is the dual message of the BTI 2018. The regional average shows that all three BTI indices have shifted only marginally since the BTI 2016. Nonetheless, unlike with most other regions, they have all experienced an uptick since the BTI 2016, which at least suggests stabilization. At the same time, the development paths of individual countries are clearly heading in very different directions, which is particularly apparent in economic transformation. Ukraine managed the greatest improvement in the reporting period, and is now the region’s economic transformation front-runner. The country consolidated its economic position following near collapse, and introduced some fundamental reforms. Conversely, the drop in oil prices has now registered with full effect in the respective national economies of the raw material-dependent autocracies. This is particularly true of Azerbaijan, where 90% of the country’s export revenues come from unprocessed energy sources, along with a significant portion of the budget.

The range in terms of the state of democracy across the region is even more pronounced. As with the BTI 2016, this dimension is headed up by Mongolia, while the autocratic regime of Turkmenistan fares worst, as it traditionally has. Belarus made the greatest political progress as a result of Alexander Lukashenko’s recent efforts to draw closer to the European Union, but some skepticism regarding the durability of this approach is warranted in light of similar advances in the past. In Tajikistan, on the other hand, President Emomali Rahmon has done everything he can to not just establish family hegemony in the Central Asian fashion, but also to consolidate it through increasing repression.
The death of Uzbekistan’s President Islam Karimov in September 2016 wrested power from the hands of his family, although long-serving Prime Minister Shavkat Mirziyoyev would certainly not have come to office without the consent of its leading members. The sincerity of his reform proclamations remains to be proven. The greatest deterioration in governance came in the Republic of Moldova, which has become the victim of a near-total “state capture” by oligarch Vladimir Plahotniuc.

Post-Soviet Eurasia is witnessing an increasing divergence in national priorities and strategies. The Ukraine crisis has, however, united the region’s countries in one respect – they are each attempting to extract themselves from Moscow’s political hegemony in their own way, Russia’s long economic shadow notwithstanding. This reduces Russia’s power to set the regional agenda.

Treading familiar pathways

While some Eurasian autocrats may be experimenting with political liberalization, they are holding tight to the status quo. The most interesting laboratory for transformation in the region continues to be Ukraine. But now the agreed-upon reforms must be implemented.

At first glance, the classification of countries as democracies and autocracies seems to map directly onto the geopolitical split in the region, which remains unchanged in the BTI 2018. The three Eastern Partnership countries in the region that are bound to the EU by association agreements – Ukraine, Georgia, Moldova – appear alongside Mongolia in the stable group of defective democracies. Meanwhile, the eight-strong group of autocracies comprises four of the five countries in the Eurasian Economic Union’s sphere of influence around Russia, plus Azerbaijan, Tajikistan, Turkmenistan and Uzbekistan.

The exception proving the rule of two fixed, homogeneous blocs was Eurasian Economic Union member Kyrgyzstan, which has numbered among the BTI’s highly defective democracies since 2012 and has now been upgraded to the status of defective democracy. In the pro-EU camp, on the other hand, Ukraine consolidated its development, but Moldova’s democracy is coming under increasing pressure. The experience of these two countries underscores the fragility of transformation processes in Eurasia.

By contrast, the consolidated autocracies find themselves on a stable development path – admittedly a path of negative development that makes evolutionary change increasingly unlikely. One opportunity for such evolutionary change arose in Uzbekistan with the death of long-serving President Islam Karimov in September 2016. Even if it is too soon to offer a definitive judgment, the staging of the transfer of power as well as the very limited changes initiated since then invite skepticism. But Uzbekistan, at least, has achieved an organized, peaceful transfer of power without recourse to dynastic succession and, overall, the signals are pointing to a cautious opening.

Geopolitical division with diverging trends
The same cannot be said for neighboring neo-patrimonial autocracies. On the contrary, Tajikistan’s President Rahmon has set about extending his family’s authority. Rahmon’s oldest son was appointed mayor of the capital, Dushanbe, in January 2017, while his daughter now serves as his chief of staff. At the same time, the president has stepped up repression against the Islamic Renaissance Party. There are similar developments in Azerbaijan, where a constitutional referendum in September 2016 saw the term of the presidency extended to seven years and the creation of a new position – first vice president. On February 21, 2017, Ilham Aliyev conferred this title on his wife, Mehriban Aliyeva, prompting speculation of a future position swap. Here, the pawn would become king in name only in a game where falling oil revenues allow little scope for distribution and the will to implement urgently needed economic reforms increasingly clashes with oligarchical interests; political reforms are not even up for debate. There is a fear that the unresolved conflict around Nagorno-Karabakh will once again provide a welcome distraction from internal politics. The undiminished volatility of this situation manifested itself in April 2016, which saw the heaviest fighting since the 1994 ceasefire.

Opponent Armenia, which held its own constitutional referendum in December 2015, is nominally pursuing a path toward parliamentary democracy. To maintain his influence while facing term limits, President Serzh Sargsyan is looking to curb the power of the once-almighty office of the president. In any case, the parliamentary elections of April 2017, in which the ruling RPA party only just managed an absolute majority, indicated that it may be harder to pull the strings in the background. One dubious model for these developments might be Georgia. There, the ruling Georgian Dream party managed to win a constitutional majority in 2016, the opposition is paralyzed, and the parliament has largely served as a vicarious agent of the executive – while party founder Bidzina Ivanishvili has been operating successfully in the background for years.

The re-entry of Belarus into the group of moderate autocracies is due to the partial liberalization that the regime has been experimenting with for the past two years. In 2016, two opposition candidates made it into parliament for the first time in 12 years. Since then, there have also been consultations with Belarusian NGOs, and the government handed down its first human rights plan. This issue also found its way into talks with the EU, which suspended sanctions against Belarus following the release of all political prisoners in October 2015. Admittedly, the limits of this liberalization became apparent after the assessment period for the current BTI. Following protests against a law targeting “social parasites” in February and March 2017, more than 200 demonstrators were temporarily detained. This did not result in a re-introduction of sanctions; Belarus is apparently too important a partner in the Ukraine crisis, especially in light of the country’s recent moves to distance itself from Moscow. Also worth noting is the fact that detention figures during Russian demonstrations against corruption and Putin, which Alexei Navalny instigated to remarkable effect around the same time in March 2017, were significantly higher.
Ukraine remains the most interesting laboratory for transformation in the region. Certainly, the leadership of President Petro Poroshenko represents the old oligarchical system in many respects, with constant efforts to torpedo the reform process and the OSCE monitoring commission revealing that Kiev is anything but a bystander in the ongoing fighting in the east of the country. At the same time, pressure from civil society and the international community has managed to set numerous reforms in motion. But while administrative and judicial reforms and the creation of an independent agency for combating corruption are certainly essential, it is only their implementation that will decide whether the democratization of Ukraine actually bears fruit this time – or whether it will be buried by the oligarchy, as it was after the Orange Revolution.

In the shadow of the giant

The fall in the prices of export commodities and, above all, Russia’s recession and politically motivated import restrictions have left their traces. Many of the region's national economies need to modernize and diversify. But some rulers opt for prestige projects instead.

For now, at least, the days of double-figure growth rates and record exports are a thing of the past for the resource-rich national economies of the region. In Mongolia, for example, the drop in prices for its main export goods, copper and coal, as well as the brake on growth in its all-important trading partner, China, saw its own growth rates fall to 1% in 2016. Although public revenue has declined by around 75%, spending has tripled since 2011. This resulted in a budget deficit that was running at 19.5% of GDP prior to the parliamentary elections in June 2016, with the country only forestalling insolvency thanks to $5.5 billion in emergency aid from the International Monetary Fund (IMF) in May 2017. In Kazakhstan, which has been dealing with steady decline since 2010, economic conditions remained fraught, as they are in Azerbaijan and Belarus, as well.

Many economies in the region remain burdened by the most significant external factor – Russia. Its foreign trade, monetary and migration policies exert a decisive influence on the economic destiny of its neighbors. Here, the import restrictions Russia imposed in response to the EU association agreements have left considerable traces in Ukraine (foodstuffs, industrial and defense goods as well as suspension of the CIS Free Trade Agreement), Moldova (wine, meat) and, since 2006, Georgia. While there has been a significant proportional increase in trade with the EU, it has not been enough to offset this loss.

The tightening of Russian immigration rules has also had a severe impact, leading to a dramatic and ongoing decline in remittances. This was particularly hard on Russia’s southern neighbors, source of the majority of migrant workers. In Tajikistan, for example, which before the crisis had the world’s highest dependency on such transfers – 43% of the country’s GDP, according to the World Bank – volumes halved from $3.7 billion in 2013 to $1.85 billion in 2016. In Moldova, where outward-bound migrant workers represent around 40% of the working population, income dropped from $2.2 billion to $1.5 billion.

Russia itself has been in recession until late 2016, and its future prospects are hardly encouraging. This has further slowed the exchange of goods between what is by far the region’s largest country and its neighbors. For some time, there has been intensive and contentious discussion in Russia on the best way to deal with the crisis. In May 2017, this discussion officially entered the decisive phase with the run-up to the presidential elections in 2018. Here, we find two concepts up for debate. The first is the liberal concept of former Finance Minister Alexei Kudrin, which is supported by the business wing of the government. It calls for greater investment in the education sector, accelerated expansion of infrastructure, lower defense spending, (renewed) rapprochement with Europe, and fundamental reform of the state apparatus. The “Stolypin Circle” around Boris Titov, chairman of the “Delovaya Rossiya” business association, has proposed a dirigiste-Keynesian alternative which draws support from the kind of patriotic circles that regard liberals in the government as a fifth column of the West. Its program calls for an easing of monetary policy and currency controls along with the promotion of import substitutes and comprehensive state industrial programs, not least in the defense sector. Putin is disposed toward the economic policy of the former and the security policy of the latter, which might result in an uneasy compromise.

In principle, Azerbaijan is faced with much the same challenges. A (green) modernization strategy is urgently required, particularly given the finite prospects for the country’s oil revenue model. Oil production is already receding, and gas reserves are too low to provide an adequate replacement. But 2016 – trumpeted as the year of “profound economic measures” – brought no change save a slight reduction in the amount of (diminishing) public funds wasted on pointless prestige projects, such as the Formula One race in Baku. Patriarchal logic determines that when bread is in short supply, the circuses should play on. Meanwhile, much of the rural population, cut off from such spectacles, gets by with subsistence farming. Nursultan Nazarbayev is pursuing a similar policy in Kazakhstan, as the 2017 Expo and the (failed) bid for the 2022 Winter Olympics illustrate.
Resource-rich countries in a tailspin

Many of the reforms required in the region have actually been implemented in Ukraine in the last two years, as the disastrous economic situation necessitated either dirigistic crisis intervention or radical reform measures. This includes tax reform and a restructuring of public procurements as well as reform of the banking sector (which caused a third of banks to close and the nationalization of the largest, oligarch Ihor Kolomoyskyi’s “private bank”) and the energy sector (where gas concern Naftogaz turned a profit for the first time in 2016). Also worth mentioning here is decentralization, which offered joint corporations greater scope for financial action. But these measures have yet to be implemented. Perseverance is particularly vital here, as Ukraine’s EU association (like that of Moldova) requires the kind of harmonization that will not yield short-term competitive or prosperity gains.

Strong men and the chinks in their armor

While the Governance Index offered some improvements on regional average, only a handful of governments are serious about reforms. In Russia, the side effects of extreme personalization are apparent.

Compared to results for political and economic transformation, the change in governance is more pronounced. But, as in the past, the BTI could only find evidence of good transformation management in Mongolia and Georgia, and even those countries fell short of their past peaks. And even the markedly positive swings seen in Belarus and Uzbekistan must be viewed in relative terms, as the transformation management of both governments remains particularly weak.

Only a handful of countries are undertaking serious efforts, including Ukraine, the paragon of transformation opportunities and prospects in the region. Ukraine’s ability to stick to its path is all the more remarkable in light of the ongoing war in the east of the country and growing disillusionment among many segments of the population, as reflected in the fall of politicians’ approval ratings and the rise of right-wing populism. To date, both of these factors have not yet led to the reduction of either democratic rights or the opportunities for participation in civil society ushered in by Euromaidan. International donors continue to play a key – and, for the moment, indispensable – role in furthering the reform process.
The way representatives of the old corrupt structures continually torpedo this process, and the methods they use, were revealed in February 2016, when Economics Minister Aivaras Abromavičius resigned. He explained in detail how the office of the president, no less, tried to persuade him to appoint undesirable people to his ministry or entrust them with the leadership of state-run enterprises, as well as the kind of pressure applied in the process – the withdrawal of personal security, for instance. This conflict between the still-dominant powers rooted in oligarchy and the government’s considerably weaker forces of reform is by no means over. In some ways, it is the same situation with conflict management in Ukraine’s east, which may in theory be sticking to the schedule of the Minsk II ceasefire agreement that is continually reaffirmed on all sides, but has now clearly arrived at a dead end. Here, too, motivation can only come from external forces.

This is not the case for Russia, even if its political leadership is also anything but homogeneous. The undisputed top of the heap is Vladimir Putin. In the last two years, the president has parted ways with a number of associates who appeared to be characteristic supporters of his power cartel, replacing them with young technocrats. The fact that extreme centralization and personalization of decision-making processes and control can induce paralysis was vividly illustrated by an incidence of one of post-Soviet Eurasia’s fundamental evils – the hostile takeover of private companies or, in more concrete terms, their covert and / or illegal expropriation by competitors, bureaucrats or criminal cartels. This phenomenon is widespread and even presents a major problem in small countries, such as Moldova. It is one of the greatest hindrances to the development of a viable private sector and, of course, it also makes a mockery of the rule of law. Putin realizes this, and sharply criticized the phenomenon in the “poslanie,” his annual keynote speech to the Federal Assembly, in December 2015. The Russian television broadcast pressed the point by showing Yury Chaika, the prosecutor general, who at the time was involved in one such corruption case himself. But since then? No change.

In one area, however, Putin’s words have an immediate effect – foreign and security policy. With the annexation of Crimea and the additional aggravating factor of the economic crisis, this has proven to be a new and effective source of legitimation for his regime. Russia as an anti-Western bulwark, a nuclear superpower on a level with the United States, an intervention force capable of global action – this is evidently consolation enough for the fact that, since 2009, the social contract of continually rising incomes has been rendered null and void. But this comes at a high price – an enduring loss of confidence and confrontation with the West as well as an implicit obligation to stage ever-greater demonstrations of power – including military power.

The neo-patrimonial regimes of Central Asia are even more heavily personalized than Russia. The lack of democratic governance in Turkmenistan is seen in the fact that President Gurbanguly Berdymukhamedov reserves the right to initiate all-important projects by personal decree, a style of rule that the late President Karimov also cultivated in Uzbekistan. By contrast, his successor, Mirziyoyev, attempted to gain legitimacy among the population beyond the electoral route by setting up an online discussion forum with the motto “The people should not serve officials, rather officials should serve the people” – a principle that had largely been ignored. Meanwhile, Azerbaijan demonstrated that even autocratic regimes can tackle corruption successfully. The country established the Azerbaijan Service and Assessment Network (ASAN) online service centers to make government services more accessible to citizens. The network issues all personal documents in a remarkably orderly and efficient manner, which circumvents contact with officials.

Who’s leveraging anger at the elite?

Although it is no longer as stark, the regulative division of the Eurasian region that established itself in the course of the Ukraine crisis has endured for four years. Russia remains the dominant “regional power,” but Moscow is no longer the all-deciding center that once provided the region’s autocracies with orientation and a geo-strategic anchor in their efforts to forestall regime change. When the sense of acute danger abated, so too did the will to pursue a course of confrontation with the West, particularly after Russia itself called this approach into question. Moreover, the events in Ukraine revealed not just the risks that imperil the stability of autocratic regimes, but also the danger represented by Moscow’s imperial impulses. These two factors now dominate the calculations of Eurasian countries.

Similarly, populist tendencies and domestic crises in the second pole, the European Union, mean that its regulative principles are increasingly subject to critical reflection. The Dutch referendum on the association agreement with Ukraine and the restrictive specifications subsequently imposed by the European Council in December 2016 are one example of this. Consequently, the expectations of association partners Georgia, Moldova and Ukraine are muted.
Common to the two groupings is that the economic problems that emerged in 2014 in the wake of falling energy prices – and the consequent chain reaction triggered by Russia – are by no means over. Government response amounts to little more than crisis management. Only the rudiments of structural reform are apparent. One economic policy marker is approaching in the form of the 2018 Russian presidential election. Vladimir Putin is facing the tangle of oligarchical and bureaucratic interests that dominate his regime. But whether he opts for a more liberal or a more dirigiste course (or a mix of the two), there is little to indicate that his fourth attempt at a fundamental reform plan will have any greater chance of becoming reality than his first three.

For the EU partners, as well as the wide-ranging process of harmonizing with the EU acquis defined in association agreements, Georgia is tasked with tapping new sources of growth beyond agriculture, Moldova must neutralize the veto power of the oligarch Plahotniuc, and Ukraine requires the complete restructuring of a state and economy previously tailored to the interests of the post-Soviet oligarchy. One thing is already clear – without the comprehensive, visible, long-term and sustainable solidarity of the EU, this process will fail.

Ukraine still represents an exception to the largely static equilibrium that has persisted in recent years. While the social and economic performance of the other regimes is limited, so far they have managed to quell protests with the ubiquity of their repression mechanisms. But, as Euromaidan and the Arab Spring both demonstrated, sometimes all it takes is a spark to bring an end to ossified regimes – no warning given. Repression alone will not forestall this, not even in the imposing form of Russia’s 400,000-strong National Guard established in July 2016, which answers directly to the president.

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The rise of new and dangerous actors makes it even more difficult to predict the stability of the status quo. This applies to fundamentalist Islam, which in Central Asia and Azerbaijan promises not just social care, but is also highly skilled at mobilizing anger against an elite that it accuses of having been corrupted by secularism and against the associated decadence of the regime. Although it is subject to similar repression, Islamism is gaining influence in inverse proportion to secular, pro-Western opposition forces. Its radicalism, fanned by hundreds of IS militants from the region (with more expected from Syria and Iraq), is a direct function of repression and represents a real danger, not just to autocratic regimes. This makes the task of devising inclusive strategies that enable a gradual transformation to greater participation all the more urgent. At present, however, these strategies are nowhere to be seen.