

Georgia and Moldova: Staying the Course

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The West's response to the recent Russian aggression in Ukraine has clearly demonstrated the limited immediate ability of the United States and the EU to challenge Russia's actions. The U.S. and the EU are, however, in search of a long-term strategy that could, if needed, impose substantial costs on the Russian Federation.

Some elements of the strategy were embedded in the EU's Eastern Partnership project, which was designed after the Russian-Georgian war and the ensuing Russian occupation of Georgian territories. The intent of the project is to expand the area under the umbrella of Western values and to promote economic rules and trade with countries in the immediate vicinity of the EU which aspire to further European integration. While participant countries were not provided with a perspective of membership, the project was clearly initiated to bring those countries closer to the EU. The Eastern Partnership initiative, led by Sweden and Poland, was launched in 2009, and by November 2013, Georgia and Moldova had initialized an Association Agreement (AA) with the EU, which they signed in June 2014.

The magnitude of Russia's resistance to the EU's Eastern Partnership initiative was vividly demonstrated by Moscow's steps to prevent Armenia from initializing the AA, as well as by the pressure applied to Ukraine, which Russia persuaded not to sign the AA, just days before the Vilnius Summit (These cases are studied in detail in the contributions of Armen Grigoryan and James Sherr to this volume). Instead, both Armenia and Ukraine announced that they would open negotiations with the aim of joining the Russian-led Eurasian Customs Union (ECU). The EU's immediate reaction was that countries engaged in the Eurasian Customs Union could not sign an AA or a Deep and Compre-

hensive Free Trade Agreement (DCFTA) thus closing the doors for Armenia's and Ukraine's integration with Europe—for the moment. That decision led to a change of government in Ukraine, which then provoked Russia's annexation of Crimea and escalation from proxy to full scale warfare in the Donbass.

The governments of Georgia and Moldova initialized their Association Agreements in November 2013, and were promised that final agreements would be ready for signing by the fall of 2014. As the situation in Ukraine evolved, and Russian pressure increased, the EU brought forward the target date for the finalization of the trade and political deals with Moldova and Georgia from August to June.¹

Russia's resolve regarding Ukraine suggests that it is unlikely to stand by while Georgia and Moldova implement the Association Agreements. Instead, Moscow appears likely to exert significant pressure on these countries in order for them to change course. Moldova seems particularly vulnerable to Russian pressure—and will probably remain so after the signing of the AA.

The Economic Choice: ECU vs EU

Despite recent economic problems, the EU remains a major magnet for trade, investments, as well as labor migrants from many parts of the world. The EU economic area is far superior to the ECU in terms of market size, purchasing power, infrastructure development, standard of living, technological advancement, social indicators, level of education, labor standards, and freedom of expression. Even citizens of the Russian Federation, the most powerful economy in the ECU, are trying to migrate to the EU in search of better opportunities. Thus, the Association Agreement will bring Georgia and Moldova closer to a larger, richer, better developed and more technologically advanced partner than would integration in the ECU.

The EU is the largest trading partner for Georgia (26 percent of its total trade, including 30 percent of imports and 20 percent of exports) and even more so for Moldova (53 percent of its total trade). The EU is also the number one investor in these countries. In 2012, the EU's total turnover from trade with the Eastern Partnership countries amounted to €74.6 billion, out of which Georgia account-

¹ Laurence Norman, "Europe Accelerates Agreements for Georgia Moldova," *Wall Street Journal*, March 21, 2014, <http://blogs.wsj.com/brussels/2014/03/21/europe-accelerates-agreements-for-georgia-moldova/>.

ed for €2.6 billion, and Moldova €3 billion. The EU's exports to Georgia mainly consist of machinery and transport equipment, mineral fuels and related materials, chemicals and other manufactured goods. The EU mainly imported raw materials and mining products, fertilizers, wine, mineral waters and nuts from Georgia. The EU's exports to Moldova mainly consist of mineral fuels, as well as electrical machinery and equipment.²

The Deep and Comprehensive Free Trade Agreement unlocks a market of 500 million people, which could easily absorb products from small countries like Georgia and Moldova. It should also stimulate significant investment in these countries. According to the European Commission, the DCFTA will increase Georgia's exports to the EU by 12 percent and imports by 7.5 percent. Georgia's GDP could increase by 4.3 percent (or €292 million) in the long term provided that the DCFTA is implemented and that its effects are sustained. For Moldova, the change in national income is estimated to be around €142 million, i.e. 5.4 percent of the country's GDP, while both its exports to and imports from the EU are expected to increase by as much as 16 percent and 8 percent respectively—which will likely lead to an increase in wages and lower prices for consumers.³ These numbers clearly demonstrate the benefits of the DCFTA and the AA for Georgia and Moldova. But there are also costs associated with implementing the DCFTA. One significant cost is the requirement for compliance to EU trade and safety regulations. It will take some regulatory adjustments before access is granted to the EU market, particularly regarding sanitary and phytosanitary requirements. The process of legislative and regulatory harmonization will be long and costly, but Georgia and Moldova have to comply with these regulations in any case, if they want to export goods to the EU. The incentive of tariff-free access to such a large market will positively impact the process of regulatory reform. In addition, the process is transparent, the requirements are known and they have a technical, not a political, nature. As long as countries comply with those requirements, the DCFTA will enable greater access to European markets.

² European Commission, "Georgia and Moldova one step closer to a privileged trade relation with the EU," *European Commission*, November 29, 2013, <http://trade.ec.europa.eu/doclib/press/index.cfm?id=994>.

³ *Ibid.*

Another potential cost may be tariffs imposed by the Eurasian Customs Union members on Georgian and Moldovan products—which would affect sales to Belarus, Russia and Kazakhstan, as well as other future members of the Eurasian Union. Until recently, Georgia and Moldova enjoyed tariff-free access to those markets for wine and other products. But Russian politicians are already discussing possibility of imposing import tariffs on Georgian and Moldovan products. Moreover, Russia has other ways of limiting the import of goods such as sanitary requirements, licensing and certification. The decisions regarding such non-tariff barriers are heavily influenced by politics and the rules are less clear and universal than those of the EU. Russia's chief sanitary inspector banned imports of Georgian and Moldovan wines in 2006 on the grounds of allegedly low sanitary standards of the products without any clear justification for the decision. The ban has since been lifted for Moldovan wines, but it was re-imposed again in September of 2013, after Moldova's definite steps towards the EU Association Agreement. Georgian wines were allowed back into the Russian market in 2013 because of Russia's obligations to the WTO, although only after lengthy negotiations and a series of inspections of Georgian vineyards. Non-tariff agreements can therefore not be seen as guarantors of access to the Russian market.

The advantage of the ECU over the EU's DCFTA is that Georgian and Moldovan products are well known and in demand in ECU member countries, and require less marketing and promotional efforts. After the opening of the Russian market for Georgian wines in the middle of 2013, Russia immediately became, once again, the largest export destination for Georgian wines. But political risks associated with operations on the Russian market, namely the fact that trade and economic issues are linked to Russian strategic ambitions, make the long-term cost of operations in the Russian market very high. The cost to producers of the ban on sales on Georgian and Moldovan wines in 2006 was very significant. An additional cost is the non-transparent and corrupt nature of Russian bureaucracy and business practices, which raises risk factors and increases the Russian government's leverage over business. Thus, on balance, the costs of the Customs Union outweigh the benefits for Georgia and Moldova.

Evolution of Government Positions and Public Opinion

There are similarities as well as differences in the evolution of government positions and public opinion between Georgia and Moldova on the issue of integration with Europe vs. the post-Soviet space.

Throughout different governments and administrations, the Georgian leadership has consistently expressed a clear determination for sovereignty and greater independence from foreign influence, and European integration has been seen as a mechanism for achieving that ultimate goal. The rhetoric in favor of European integration increased after the Rose Revolution, under President Saakashvili. While actual government policies were not always in correspondence to European values, the process of integration advanced significantly, in particular after the Russian-Georgian war in 2008 and the initiation of the EU's Eastern Partnership program. Georgia also had a very pro-active NATO policy, initiated by President Shevardnadze in 2002, and advanced by President Saakashvili prior to the Bucharest Summit of 2008. However, it ended just short of granting Georgia and Ukraine a roadmap towards actual NATO membership. But the Summit still declared that Georgia and Ukraine would ultimately join the alliance. Many experts and policymakers see the pro-active Georgian NATO policy as a major trigger for the Russian aggression against Georgia in 2008 that left two Georgian territories—Abkhazia and South Ossetia—under Russian military occupation.

After the change of leadership in Georgia following the 2012 Parliamentary and 2013 Presidential elections, Georgia toned down the anti-Russian rhetoric of the Saakashvili administration and participated in a dialogue with Russia on social and economic issues, which improved the bilateral relationship somewhat. While still pursuing NATO membership through the existing NATO-Georgia Commission and Annual National Plan, the new Georgian leadership made the EU Association Agreement its major policy priority, and a more immediate objective than NATO membership.

Moldova has had a more cautious approach to Euro-Atlantic integration. While Moldova participated in NATO's Partnership for Peace program, Moldova never registered interest in membership. Also, several Moldovan administrations have been more reserved regarding the idea of European integration, and a decade of communist rule definitely slowed the process. But one important

point that is greatly underestimated in Moscow—as well as in some Western capitals—is the fact that Russia itself pushes countries out of its own orbit through its aggressive imperial ambitions. Even the communist government of Moldova, relatively loyal to Moscow, was under significant Russian pressure to offer more concessions and to hand over more elements of its sovereignty. This led to a change in the Moldovan leadership, which consequently adopted more pro-active policies on European integration.

One issue that brings Georgia and Moldova together is the leverage that Russia has over the two countries due to their respective unresolved conflicts. Both Georgia and Moldova went through separatist conflicts in the 1990s following the collapse of the Soviet Union. Russian-supported separatist movements in the Russian-populated areas of Moldova led to a *de facto* separation of the Transnistria region from Moldova. The same process took place in Georgia's autonomous units, Abkhazia and South Ossetia. The Russian leadership has used these conflicts as tools of pressure and coercion for two decades. In fact, Russia used these conflicts to force Georgia into the Commonwealth of Independent States in 1993, since Georgia initially, together with the Baltic States, refused to join this newly created Russian-led organization at its creation in 1992.

But again, there are some differences: Russia recognized the independent statehood of Abkhazia and South Ossetia after the 2008 war with Georgia. Russia gained close to zero international support for this, and the decision has also caused Russia to lose some degree of leverage over Georgia. Furthermore, Russian recognition complicates the potential future reintegration of those regions into the Georgian state. In the case of Moldova, Transnistria remains an unrecognized territory, and the threat of recognition of the territory as an independent state has a significant effect upon the decision-making of the Moldovan leadership, as well as on public opinion.

Nonetheless, Russia still retains significant leverage over Georgia. To begin with, there are other ethnic minorities, in particular in southern Georgia, which could be manipulated by Russia. Moscow also has the option to annex the currently occupied territories, particularly South Ossetia. Furthermore, Russia could instigate a complete ethnic cleansing in Abkhazia, which still has a significant ethnic Georgian population, as well as undermine Georgian politics by the

use of subversive, Russian-funded, groups. And finally, Russia could pressure Georgia to use its territory for access to Russian military bases in Armenia. These are all instruments that could cause serious political problems for Georgia, but none of these could realistically force the Georgian leadership to renege on its Association Agreement with the EU. The Russian leadership understands this and is consequently neither likely to exercise these instruments immediately nor simultaneously, but rather in a gradual way in order to achieve Moscow's longer-term objectives. Georgia needs both soft power, as well as hard security deterrents, in order to face this pressure.

These factors have led to significant differences in terms of public support for European integration in Georgia and Moldova. More than 70 percent of Georgians support the country's EU and NATO integration. The level of support has varied depending on international political realities. In polls conducted in April 2014, 77 percent of Georgians surveyed supported EU integration and 71 percent supported NATO integration. While the level of support has declined slightly in comparison to results from polls taken in November 2013, recent polls show that the number of respondents who think that Russia is "a real and existing threat" to Georgia increased by fourteen percentage points to 50 percent in April 2014; 32 percent think that Russia "is a threat to Georgia but it is exaggerated." The portion of respondents who think that Russia is "no threat to Georgia at all" declined from 23 percent in November 2013 to 13 percent in April 2014. This is a clear reflection of Russian actions in Ukraine. In the same poll, only 16 percent of Georgians said that integration with the ECU is preferable for Georgia.⁴

Moldova's population is more favorable towards the Eurasian Customs Union than Georgia's. Being asked to choose only one option between support for the EU or the ECU, a slight plurality of respondents (44 percent) preferred the EU to the ECU (40 percent). However, if the respondents are asked to choose between three options: EU, ECU, or cooperation with both entities, 25 percent would choose cooperation with both, compared to 32 percent choosing the EU and 36 percent the ECU. The survey also shows a noticeable trend of decline in support of the EU among the population due to dissatisfaction with the perfor-

⁴ Civil Georgia, "NDI-Commissioned Public Opinion Survey," *Civil.ge*, May 5, 2014, <http://www.civil.ge/eng/article.php?id=27198>.

mance of the pro-European government in Moldova. A 2009 survey had shown a preference of integration with the EU over Russia by a margin of 25 percentage points, shrinking to 4 in 2013.⁵

NATO membership is not on the agenda of any major political group in Moldova, and at this point there is no significant public support for Moldovan NATO membership either.

Russian Economic Leverage over Georgia and Moldova

Russia has since 2005-2006 lost most of its economic leverage over Georgia. Previously, Russia's economic hold over Georgia was due to Georgia's energy dependency, the dependency of Georgian agricultural and agribusiness products on the Russian market, and Georgia's dependence on remittances from Georgians living and working in Russia. Russia has lost the first two instruments of economic leverage. Georgia's participation in the strategic energy transit projects and its switch to Azerbaijani oil and natural gas has allowed Georgia to become independent from Russian supplies. Furthermore, Russia's own policy of banning Georgian products in the Russian market has pushed Georgia to diversify and to find new markets. Also, while exports of some products, like wine, never fully recovered to the pre-embargo levels, their quality has increased dramatically. Income per unit of exported Georgian wine has also increased significantly, allowing growing income from sales. As for exports of mineral waters, their export sales surpassed the pre-Russian embargo export levels by 2012. This demonstrated the lack of success of Russian embargo on Georgian products, as Georgia was able to diversify relatively rapidly.

However, remittances from Russia still have a significant impact on the Georgian economy. Georgia is an import-dependent country with a large current account deficit, which is partly offset by remittances. Remittances play a significant role in Georgia's GDP, since they support an important part of the country's consumption. In 2006, following the Russian embargo on Georgian products, the Russian government also started to send back some Georgian labor

⁵ Survey commissioned by the Slovak Atlantic Commission, "Polling Memo: EU Remains Attractive But Not a Default Option for Moldovans," *Central European Policy Institute*, January 2014, <http://www.cepolicy.org/sites/cepolicy.org/files/attachments/memo.pdf>.

migrants, which had a negative impact on the Georgian economy. The return of Georgian wines and mineral waters to the Russian market in 2013 will increase Georgia's dependency on the Russian market. But in the short run it cannot translate into major political leverage.

Because of its Soviet legacy, Russia still holds considerable influence over Moldova's economy. Russia accounted for 30 percent of Moldova's exports and supplied 16 percent of its imports in 2012.⁶ However, it should be noted that the EU accounts for 54 percent of Moldova's trade, making it Moldova's largest trading partner.⁷ In an effort to stop Moldova's pivot towards Europe and the EU, Russia has employed its economic muscle to keep Moldova within its sphere of influence and perhaps move it closer to the Russian-led Eurasian Customs Union.

Before Moldova and the EU initialized the Association Agreement in the end of November 2013, Russia's most notable use of its economic weapon was its ban on imports of Moldovan wine. On September 10, 2013, Russia's highest public health official, Rospotrebnadzor chief Gennady Onishchenko, stated that Moldova lacked measures to control the quality of its wine exports and that the wine contained impurities.⁸ He thus banned the import of Moldovan wines into Russia, which echoed an earlier Russian ban on Moldovan wines from 2006 to 2013. Russia has accounted for 21 percent of Moldova's wine exports⁹ and has been the single largest market for Moldovan wines,¹⁰ and the ban will thus have important effects—though not crippling ones—on one of Moldova's most important export industries. Russia's ban on wine could also signal its willingness

⁶ The Economist Intelligence Unit, Countries, Moldova, Neighborhood Watch, March 14, 2014, [http://country.eiu.com/\(F\(czxiCKz_KXxEUROaJCTsvScl5zmBuwIWtNzsKdHLJBIB-JznAf5RAQveG5J_VOYbd99ws2Wv9G_vCGw8r6bjsAoo4zNrUVzu66TQNUbjsCsl\)\)/Moldova/ArticleList/Analysis/Politics](http://country.eiu.com/(F(czxiCKz_KXxEUROaJCTsvScl5zmBuwIWtNzsKdHLJBIB-JznAf5RAQveG5J_VOYbd99ws2Wv9G_vCGw8r6bjsAoo4zNrUVzu66TQNUbjsCsl))/Moldova/ArticleList/Analysis/Politics).

⁷ Robert Coalson, "Analysis: Pressure Mounts On Moldova As It Nears Long-Sought EU Accords," *Radio Free Europe/Radio Liberty*, August 21, 2014, <http://www.rferl.org/content/moldova-eu-agreements-russia-analysis/25257646.html>.

⁸ Andy Heil, "Dour Grapes: Russia Bans Moldovan Wine, Again," *Radio Free Europe/Radio Liberty*, September 11, 2013, <http://www.rferl.org/content/moldova-wine-russia-import-ban/25102889.html>.

⁹ *Ibid.*

¹⁰ Vladimir Socor, "Moldova's European Choice Vulnerable to Russian Economic Leverage," *Eurasia Daily Monitor*, February 21, 2014.

to ban the import of Moldovan fruits and vegetables, which would hurt Moldova's important agricultural industry.

Before the initialization of the AA, Russia's Deputy Prime Minister, Dmitri Rogozin, also threatened Moldova over its energy imports—Russia accounts for 95-97 percent of Moldova's energy imports.¹¹ On September 3, 2013, he stated, "Energy is important, the cold season is near, winter on its way. We hope that you will not freeze this winter."¹² Russia did not cut off Moldova's energy supply following the November 2013 initialization, but this was an ominous signal. Previously, in September 2012, Russia's Energy Minister, Aleksandr Novak, attempted to stop Moldova from passing a protocol to enter the EU's Energy Community by promising a lower price for natural gas.¹³ Moldova ultimately stopped its accession to the Energy Community, largely because of Russian pressure. Russia has a pattern of employing its energy exports as a weapon against Moldova, and is doing so again in an effort to derail Moldova's European aspirations

After the initialization of the Association Agreement, Russia has taken several muted steps to punish Moldova for its closer ties to the EU. The most important of these concerns Moldovan migrant workers residing and working in Russia. Approximately 300,000 to 400,000 Moldovans work in Russia, and they send home more than \$1 billion in remittances each year.¹⁴ Because of Russia's nebulous residency and work permit laws, more than half of these people are allegedly in breach of them, with 21,500 Moldovans working in Russia having been repatriated back to Moldova or having been prohibited from returning to Russia. 288,000 more are considered at risk and may become subject to similar measures.¹⁵

¹¹ Claire Bigg, "Moldova, Georgia Brace For Russian Retaliation After EU Pact," *Radio Free Europe/Radio Liberty*, August 21, 2014, <http://www.rferl.org/content/feature/25184812.html>.

¹² Vladimir Socor, "Rogozin Threatens Moldova with Sanctions over Association Agreement with the European Union," *Eurasia Daily Monitor*, September 4, 2013.

¹³ "Russia Offers Moldova Gas Discount If EU Energy Links Cut," *RFE/RL*, September 12, 2012.

¹⁴ Vladimir Socor, "Moldova's European Choice Vulnerable to Russian Economic Leverage," *Eurasia Daily Monitor*, February 21, 2014.

¹⁵ *Ibid.*

Another way in which Russia could derail Moldova's aspirations of an Association Agreement with the EU is by exploiting its extensive business ties with Moldova. For example, in September 2013, the Moldovan government granted a non-public tender to run Chisinau International Airport to an essentially unknown Russian company based in Eastern Siberia. Even though the Moldovan Constitutional Court suspended this decision a week later,¹⁶ it still goes to show how easily Russian companies could acquire key stakes in vitally important Moldovan operations. Furthermore, former Moldovan Prime Minister Ion Sturza believes that Russian companies could easily snap up Moldovan assets in future rounds of the privatization of Moldovan public property. This would set a dangerous precedent and encourage further Russian incursion into Moldovan economic interests.¹⁷

Finally, Russia could also use its extensive ties to Transnistria and the Gagauz Republic to foment unrest in Moldova. Russia is essentially Transnistria's only backer and Transnistria is home to many Russian-owned businesses. In January 2013, Russia even announced that it wants to open a consulate in Tiraspol, which would further cement Russia's presence and importance in the area.¹⁸ Similarly, the Turkic Russian-speakers of the Gagauz minority held an unauthorized referendum in February 2014 in their autonomous province—the Gagauz Republic—where they voted in favor of the Gagauz Republic's accession to the Eurasian Customs Union (97 percent in favor) and overwhelmingly voted to support its secession from Moldova if Moldova no longer remains independent (99 percent in favor). Russia could certainly use its influence in these areas to create further difficulties for Moldova's signing of an Association Agreement.

¹⁶ REF/RL Moldovan Service, "Chisinau Airport Concession Suspended," *Radio Free Europe/Radio Liberty*, August 21, 2014, <http://www.rferl.org/content/moldova-chisinau-airport-concession-suspended/25102490.html>.

¹⁷ Vladimir Socor, "Moldova, the European Union and the Vilnius Summit (Part Two)," *Eurasia Daily Monitor*, November 20, 2013.

¹⁸ Stephen Blank, "Russia Places Moldova in an Energy and Sovereignty Vice," *Eurasia Daily Monitor*, January 23, 2013.

Conclusions

In conclusion, Russia still has a substantial menu of options to destabilize Georgia and Moldova in order to prevent or delay the advance of these states towards greater integration with the EU through the implementation of the Association Agreements. The case of Ukraine demonstrates that Russia is willing and capable to use all the available means, including military power, to prevent the advance of the value-based political and economic system to Russia's neighborhood, which President Putin sees as a major threat to the political future of his regime. In this regard, the final outcome of the developments in Ukraine will have a tremendous impact on Russian strategy in Moldova and Georgia. If Russia succeeds in establishing a separatist *de facto* independent regime in the southern and eastern parts of Ukraine just as Russia managed to do in Georgia and Moldova in the early 1990s – and this appeared likely as this book went to press – Russia will be emboldened to do more damage to the sovereignty and independence of those smaller countries. As a result, it will be extremely difficult for Moldova and Georgia to resist Russian pressure in the long run without substantive support and help from not only the EU, but also from the United States. The international community needs to make sure that the sovereignty and territorial integrity of the UN member states is reinstated as a norm of the international relations in the wider Black Sea region.