

German–American Dialogue on the Post-Soviet Space

2nd Workshop Report

The second workshop of the two-year project, “German–American Dialogue of the post-Soviet Space,” took place September 26–27 in Washington, D.C. The event was organized by the Institut für Europäische Politik and the German Marshall Fund of the United States, with the support of the *Transatlantik-Programm* of the Federal Ministry for Economic Affairs and Energy (BMWi), and with funding from the European Recovery Program (ERP). More than 50 experts from national administrations and EU delegations, embassies, parliaments, and think tanks from Germany, the U.S., Moldova, Ukraine, Georgia, and Romania convened in the U.S. capital for the event, “Supporting transformation in the EU’s Eastern Neighborhood – A test case for European integration and transatlantic cooperation.”

Panel I – Defining key obstacles to transformation in countries of the EU’s Eastern Neighborhood

The workshop began with an introduction to the current global context and an overview of the key obstacles to transformation in Eastern Partnership (EaP) countries. Both sides of the Atlantic are going through turbulent times. The apparent stability of the post-Cold War era has been challenged by radicalization, Russian revisionism, and populist movements that threaten the integrity of democracies throughout Europe and in the U.S. Spheres of influence dominate the discourse once again and have reinforced a dangerous East–West dichotomy. This has made state-building and development efforts in the countries concerned all the more challenging.

Participants discussed the various obstacles to supporting free and open societies in Europe’s East. First, the Soviet legacy continues to have an impact on the performance of public administrations and contributes to weak economies, widespread clientelism, shrinking populations through emigration, political instability, and a slow pace of progress. Second, the nature of this space is highly politicized due to perceptions of EU/NATO encroachment on Russia’s sphere of influence. This has contributed to a geopolitical struggle, in which Russia seeks leverage by forging economic dependencies, pressuring governments, and perpetuating frozen conflicts that exacerbate the prospect for transformation. Russia has no interest in the success of transitions due to domestic and foreign policy reasons. Third, the EU and the U.S. are currently facing their own set of internal challenges. In light of Brexit, increased migratory pressures, and ongoing fallout from the euro crisis, the EU is working to keep the European project afloat. In the U.S., it is uncertain to what extent the new administration will be engaged in Europe’s neighborhood or how committed it will be to the future of NATO. Both the internal and external challenges require attention, although participants noted that the focus should be on domestic reforms first because they will impact the external challenges (i.e., the “magnet theory”).

The bulk of the discussion focused on domestic challenges, the predominant issue being corruption. Although the focus was on Moldova, participants also highlighted examples from Georgia and Ukraine. In Moldova's case, there is still a long way to go to stabilize the political system. In Ukraine, the U.S. has communicated its policy well and its anti-corruption efforts are beginning to show a positive impact, but there needs to be a stronger push for reforms. Georgia has managed to cut back significantly on low-level corruption but still needs to tackle high-level corruption as well as serious security and economic challenges. In all three countries, democratic institutions are still weak and require the support of stronger civil societies. This struggle can be partially attributed to a strong mistrust in democratic processes. After all, democracy does not have a proven track-record in these countries. State structures have been co-opted by a parallel system that finances government officials and lacks real political parties, as Moldova demonstrates. Participants noted that corruption is not just "sand" in the system but rather the "oil" that keeps it running and maintains the power of vested interests, making it virtually impossible to find incentives that can address this. Therefore, change must take place on the systemic level, as the oligarchs will not willingly give up their power.

The effects this has on society were also discussed. People seem to be losing faith in the promise of democracy, and many feel betrayed by their European partners. In Moldova, there is an impression that the country has not been sincere about implementing reforms and that the Association Agreement (AA) is often used for political maneuvering. The leadership in Moldova seems unsure about what it wants for its country. Rather than making a clear decision, it has taken a balanced approach between Russia and the EU. Some participants found that the EU is partially to blame for this, charging it with benevolent neglect. It is unclear if the implementation of the AA and Deep and Comprehensive Free Trade Agreement (DCFTA) will ultimately lead to an EU membership. The EU was also criticized for cooperating with elites that are pro-EU in theory but not in practice. Although diplomacy requires cooperation between governments, such actions demonstrate that conditionality is failing and that the credibility of the EU is slipping. Alternatively, the EU could place more exigent political demands on the ruling elite prior to engaging with them on bureaucratic reforms. Participants noted that there needs to be will for change on behalf of the citizens before transformation can succeed. This requires a strong national identity and clear direction, which is only beginning to take shape in Moldova.

The power of the Soviet legacy in Europe's Eastern Neighborhood should not be underestimated. If democratic challenges persist in central Europe after 45 years of Soviet influence, it is unsurprising that EaP countries face even tougher challenges after 70 years. One should not underestimate the impact of an additional 25 years of a Russian state model. Another consideration is that the EU has fewer instruments at its disposal for EaP countries than it did for the Central and Eastern European Countries (CEECs). The Western Balkans, where the EU's transformative power has also been challenged, was a priority in the 1990s but even the enlargement agenda has been put on hold. Moreover, Russia is more defiant about EU integration with the Commonwealth of Independent States (CIS), which is spearheading its own regional integration project. Although a country like Moldova seems too small to fail, the most well-intentioned policy prescriptions may require generational change. Only one generation has

passed since its independence, and change will most likely require a few more cycles of leadership. In the meantime, the EU and U.S. should have more “strategic patience” when it comes to the pace of reforms; difficult reforms only have long-term impacts. At the same time, the transatlantic alliance must stay committed and engaged with the reform processes and maintain a “strategic urgency.”

There was some disagreement over the extent to which the post-Soviet countries control their own destinies. The ongoing geopolitical struggle with Russia has left countries like Armenia with no alternative but to turn away from the EU. As one participant noted, it is difficult to move forward on reforms when Russian tanks are in your backyard and propaganda is rampant. Russia sees everything through a geopolitical lens, including the Western-values discourse. Although the West should focus on the states that are open to consolidating their democracies, it should not give up on countries with the most oppressive governments, namely Belarus and Azerbaijan. As long as geopolitics continues to steer the paths of these countries, they will continue to be trapped in a dangerous gray zone. Therefore, it is important that the EU and the U.S. remain united on Russian sanctions, while also engaging with Russia on issues of mutual concern.

Despite the current state of disarray, EU–U.S. cooperation persists and must continue to demonstrate unity in supporting struggling democracies. To this end, efforts from both sides need to be more visible in these countries. This not only means drawing attention to projects on the ground, but also encouraging acts of solidarity by the highest levels of government. The EU remains elusive to many citizens and needs to engage more actively in positive publicity. This could be achieved with more people-to-people exchanges, such as an “Erasmus” for the EaP countries. Although reforms are a long-term process, there should also be quick wins to keep the momentum going. Furthermore, it would behoove the EU and U.S. to have a joint “brand” to indicate unity of purpose and to cooperate more on funding and strategic assistance.

Panel II – Analysis of U.S. and EU policies towards the Republic of Moldova – lessons learned and future scenarios

In the second panel, participants discussed the U.S. and EU policies towards Moldova that are currently in place, the associated challenges, and how these can be improved going forward.

The United States Agency for International Development (USAID) plays an important role in administering U.S. financial aid to Moldova. To promote better governance structures, USAID supports Moldova through a number of initiatives, including grassroots programs, civil society support, and judicial reforms. In addition, the U.S. works to strengthen Moldova’s economic independence by supporting free-market reforms, assisting local governments with delivering public goods, and supporting micro-enterprises. To make Moldova more competitive in regional markets, USAID supports its key industries, such as information and communications technology (ICT), wine production, and tourism. In terms of Foreign Policy, the U.S. has supported Moldovan integration with Europe and the Euro-Atlantic community since its

independence in 1992. The U.S. looks to the EU as the gold standard of integration through technical assistance.

For its part, the EU has been in an ongoing dialogue with Moldova to strengthen cooperation using the framework of the European Neighbourhood Policy. The primary tools for promoting further approximation and integration have been the AA and DCFTA. Participants questioned whether this model is still effective since the benefits for the EaP countries are not visible enough for local populations and commitments by political elites are often rhetorical exercises. Nevertheless, the DCFTA has had some positive effects and EU membership continues to be attractive in spite of the roadblocks ahead. The discussion continued by shedding light on some of these barriers. Three areas that were highlighted were the justice sector, the implementation of the AA/DCFTA, and the disruptive influence of vested interests.

Justice reform was described as the pinnacle of transformation, although the results in this area have been insufficient. It was felt that development partners have not adequately pressured the governments to change, even though public confidence in judicial institutions is consistently low and there has been virtually no progress. Participants agreed that an independent judiciary and a reformed case-review process are critical to political transformation. They offered the following three suggestions: (1) the reform of law enforcement institutions should be better streamlined and coordinated because there are too many institutions responsible for fighting corruption; (2) the current national anti-corruption agency should focus on high-level cases in order to concentrate its resources and expedite litigation processes; and (3) an independent media is necessary to hold the judiciary accountable. Both the U.S. and EU should build on their efforts to guarantee freedom of speech and strengthen the audio-visual code. This means providing more Western TV and radio channels and reducing the concentration of media ownership.

Problems are not only linked to endemic corruption, but also to an overly centralized government and excessive emigration from the country. Brain drain is an ongoing problem, as hundreds of thousands of citizens have “voted with their feet” since the Party of Communists of the Republic of Moldova rose to power in 2001. Participants agreed that the EU and U.S. should cooperate more closely to overcome these challenges. The nature of cooperation should be more structured and formal; it can even be conceptualized as a “NATO” for development. This includes a stronger working relationship not only between development agencies, but also between the various country missions to Moldova. Furthermore, the EU and U.S. should support reforms in Moldova by sending experts to supervise and counsel on decision-making processes. This means that selection committees should be monitored by independent regulatory agencies and advisors, which would increase the political costs for the appointment of institution heads. Efforts should also be made to increase the salaries of public servants. This could be initially achieved by co-funding, which could be phased out over time.

As a third discussion point, the participants focused on vested interests. In Moldova, these have revealed themselves in many forms: corruption, remittances, a controlled media, and dysfunctional political parties are all a reflection of the state capture. This in turn translates into

low support for democratic institutions. The political parties are especially susceptible to corruption because they have no tradition of membership fees and the existing rules concerning donations are too bureaucratic, thereby impeding ordinary donations. This has opened doors for illegal financing, resulting in parties supported by off-shore jurisdictions. Suggestions on how to improve the fight against corruption include strengthening co-ownership and conditionality. The former would require a stronger focus on impact and more vigilance on the implementation of reforms, which demands more interventions in domestic affairs without encroaching on the state's sovereignty. The latter would require a willingness to abandon a project if the preconditions are not met. The case for positive conditionality was made by referencing the positive effects this approach had on Georgia. It was noted that deep-running reforms, such as the establishment of a similar institution like the Romanian DNA, will always be controversial and require a certain amount of leverage. The EU and U.S. should therefore not be afraid to use it. A final consideration is to recruit external labor (i.e., Moldovan expats) as additional human resources. Ukraine is an example of this, as it employs foreigners in its state institutions by offering them citizenship.

The panel closed with questions on whether the protest movement is strong enough to take powerful oligarchs out of power, or if the state has reached a point of resignation. Participants wondered how to build up the technical capabilities of civil society at the local level. Concerning the cooperation between civil society and government, it was stated that activists who transition from civil society to government would quickly become disillusioned and in many cases also expatriate.

Panel III – Fostering political and economic transformation in the post-Soviet space – EU and U.S. policies in comparison

The third panel discussion made comparisons between the German and American approaches to political and economic transformation in the post-Soviet space. Although both cooperate closely on some issues, participants touched on some differences in policies and perceptions, and identified areas for closer cooperation.

One point that was highlighted is Russia's place in the political discourse. In the U.S., Russia is regarded as the biggest challenge to transformation. The National Security Council, the State Department and German Chancellery work together very closely to keep Russia in check. The U.S. is also very cautious of Russia's interest in undermining efforts within multilateral formats, such as the Organization for Security and Co-operation in Europe (OSCE) Minsk Group or the Normandy format, which risk creating more confrontations between Russia and the U.S. in light of the war in Syria. Germany's position on Russia has been more mixed, although it has consolidated its stance since the beginning of the crisis in Ukraine and supported the sanctions.

There is Russian political influence in both countries but its presence is felt more strongly in Germany, where the fringes of the political spectrum tend to sympathize with Russia's actions. Although Merkel has been very critical of Russia, the Foreign Minister and the Minister for Economic Affairs and Energy have both favored a more cooperative approach. A further divide can be seen within the business community, where big industries have tended to be more

Russia-friendly than small and medium-sized enterprises (SMEs). The younger generation is also more critical than the old, which seems to be more supportive of a détente, in line with Germany's prior *Ostpolitik*.

Another noted difference is the position towards EU membership. Americans tend to think more favorably about EU membership as a means to overcome the problem of gray zones. This is an example of a policy that worked in CEECs such as Bulgaria, which overcame its oligarchic business model. Many have argued that there needs to be more reciprocity throughout the process, or else reforms will only be transitional. This can take the form of a membership option or visa liberalization, which Moldova gained in April 2014.

There are also discrepancies when it comes to funding. A U.S. speaker remarked that a particular challenge for USAID is working with a very limited budget. Over the years, there have been extensive cuts to the Bureau for Europe and Eurasia, likely because of a stronger focus on the Middle East. The budget was more than halved in the last two decades, which drastically limits the room for maneuver. For this reason, joining resources with the EU is a particular priority. The U.S. budget for the Bureau for Europe and Eurasia in FY16 was 176 million USD, which covered 14 countries (including the Balkans, EaP countries, Cyprus, and Russia). For its part, the EU has provided extensive budgetary aid but this is thought to have been less effective than project support due to the lack of oversight and control.

The discussion also compared the impact of EU and U.S. policies within EaP countries, in which critical voices from NGOs highlighted case studies from Belarus and Ukraine. In Belarus, the suspension of sanctions was thought to represent mission creep within the EU. The EU was criticized for having neglected its principles on democracy and human rights and having no clearly defined baseline. Instead, the EU must have sustained and principled positions going forward. The existing European institutions in the regions—OSCE, Council of Europe, and European Court of Human Rights—were thought to be losing relevance. Participants noted that new mechanisms may be required to define the EU's benchmarks.

The case study on Ukraine underscored the importance of change agents and mid-level bureaucrats, including the young generation, in advocating for change within government and civil society. Transformation at the highest political levels does not happen without significant pressure, making it a less-fertile area for transformation. A good strategy, therefore, is to support civil society while pressuring the political elite; e.g., the IMF put significant pressure on Ukraine to implement further reforms before it dispersed its payment tranche, which was a successful strategy for sparking government reforms with the input of civil society. The IMF also cooperated closely with U.S. Embassies and other stakeholders on the ground to assist Ukraine with gaining energy independence from Russia and fighting against the corruption of state-owned oil and gas companies. The IMF put similar demands on Moldova by making its loan disbursements contingent upon banking-sector-reform progress.

Working dinner: The way ahead: How to complement EU and U.S. policies to foster real transformation in the post-Soviet space

The working dinner allowed for a discussion on the way ahead for transatlantic cooperation towards the EaP countries, with a special focus on Moldova. There was agreement on the fact that, beyond promoting transparency in rule-of-law institutions, supporting economic development would be the key to progress in the Eastern Neighborhood. On the one hand, financial sectors should be regulated by stronger laws in the target countries, which also reduce opportunities for money laundering. On the other hand, the EU and U.S. should provide investment insurance to encourage the inflow of foreign direct investments (FDIs). At the same time, there is a need to increase the conditionality on the political elites who have few incentives to change the system. Fighting corruption, supporting financial investigations, and freezing assets (to the extent that it is possible) could all increase pressure on oligarchs to become part of the solution instead of remaining key obstacles to transformation.

The EU and U.S. should be cautious about focusing too much on the geopolitical dimension. The impression that big powers are vying for control in these countries inhibits the development of an internal democratic understanding and national self-determination. External democracy promotion has been less successful than democracy assistance that focuses on the reform-minded forces within the countries. People-to-people contact should be supported and the role of the diaspora in the EU and U.S. strengthened. This fosters mutual understanding and links with the region and ensures that western liberal democratic societies remain attractive.

Working breakfast: Moldova before the presidential elections – an inside out perspective

The working breakfast provided an opportunity to discuss the political situation in the Republic of Moldova before the presidential elections scheduled for the October 30th (first round) and November 13th (second round). In March 2016, the Moldovan constitutional court decided that the constitutional revision from 2000, which provided for the indirect election of the President by parliament, was unconstitutional. The new president, elected by popular vote, is expected to have a more powerful role within the political system and to potentially deepen the geopolitical divide within the Moldovan population.

The first speaker stated that if the presidential elections were free and fair, it would be a good signal for the next parliamentary elections in Moldova. The hope was expressed that the voter turnout would be high and that issues concerning the voter registration could be solved. However, major challenges were anticipated in both elections for the diaspora. To ensure free and fair elections, USAID is providing support in coordination with the Moldovan Government. A particular risk is the manipulation of public opinion due to a highly centralized media landscape, but cautious optimism was expressed regarding the upcoming elections.

This assessment was challenged by another speaker, who considered the possibility of free and fair elections in a strongly biased media landscape illusory. There is very little national TV news coverage on promising center-right candidates, resulting in less support for the pro-European side. Moreover, the opposition parties on the center-right are deeply fragmented and require

more cooperation in order to agree on a candidate. It is expected that a low voter turnout would increase the chances of the socialist candidate to win the elections. The outcome of the presidential elections could cause a threat to the pro-European course of the incumbent government, since the socialist candidate expressed his willingness to call for a referendum on the AA with the EU and for stronger ties with Russia.

During the discussion, the roles of the EU and U.S. and their impacts on the pre-election phase were assessed. It was concluded that, due to the fragmentation of the center-right spectrum of the political arena, there is no reliable partner. Furthermore, there were strong doubts about the ruling 'pro-European' government renewing itself as a pro-European force in times of declining EU-support. Therefore, the general outlook on the upcoming presidential elections was not very optimistic.

The workshop was the second of four workshops in the framework of the German–American Dialogue on the post-Soviet space. The third workshop in this series will take place in spring 2017 in Berlin.