



Post-Soviet Eurasia

A step in the right direction

After years of stagnation, post-Soviet Eurasia is heading out of the curve in an upward regional trend led primarily by Armenia, the site of another “velvet revolution.” Strikingly, however, traditional patterns seem to apply less and less in explaining developments in the region. Neither proximity to the EU or Russia nor exportable raw material wealth seems to have had a significant impact on transformation trajectories within the region.

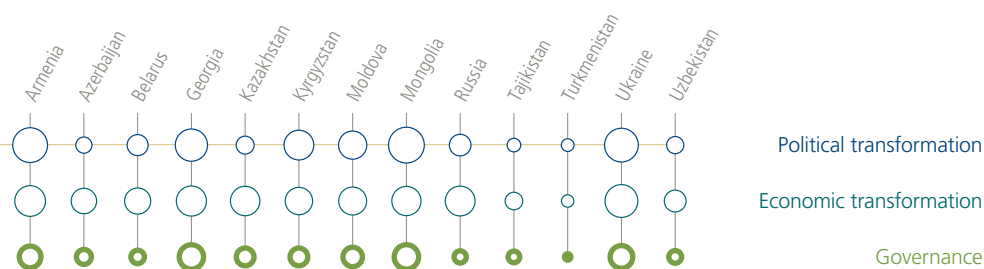
For the first time in quite some time, there is encouraging news from this part of the world: In contrast to most other regions, the average scores for post-Soviet Eurasia are pointing upward in all three analytic dimensions of the BTI 2020. Signs of stabilization that first emerged in the BTI 2018 have since solidified. However, it should be noted that this progress is still taking place at a very low level. This applies in particular to the region’s democracy status, as Eurasia, with a score of 5.02 points, just edges out the civil-war-plagued region of Middle East and North Africa and, more recently, Southern and Eastern Africa. A similar picture emerges for the Governance Index, where Eurasia once again ranks only somewhat ahead of last-placed Middle East and

North Africa, with a score of 4.39 points, but fares somewhat better in terms of economic transformation, with a score of 5.41 points.

Although regional trends point on average uniformly upward, this belies a growing volatility and heterogeneity in developments throughout the region. The exception here is Russia, which has shown remarkable consistency in all three dimensions of the BTI since 2006, with a slight downward trend. Throughout the rest of the region, transformation trends are much more disparate. For example, three countries achieve the best democracy-status score ever recorded in the BTI 2020: Belarus, Uzbekistan and Armenia, which has achieved the greatest point-score gain of all countries since the BTI 2018 (+1.98

points). Much to everyone’s surprise, the country experienced a classic color revolution in spring 2018 that brought about the fall of autocrat Serzh Sargsyan and ushered in regime change. No longer a moderate autocracy, Armenia now forms with Mongolia the region’s top duo of defective democracies. Azerbaijan and Tajikistan, on the other hand, have reached a new low point in their political transformation, while autocratic Turkmenistan, with a score of 2.75 points, remains the region’s worst performer.

With its worst score in BTI history for the state of economic transformation, Turkmenistan once again ranks at the bottom. The region’s best scores are recorded by Belarus, Kyrgyzstan, Mongolia and Uzbekistan. These positive developments are due



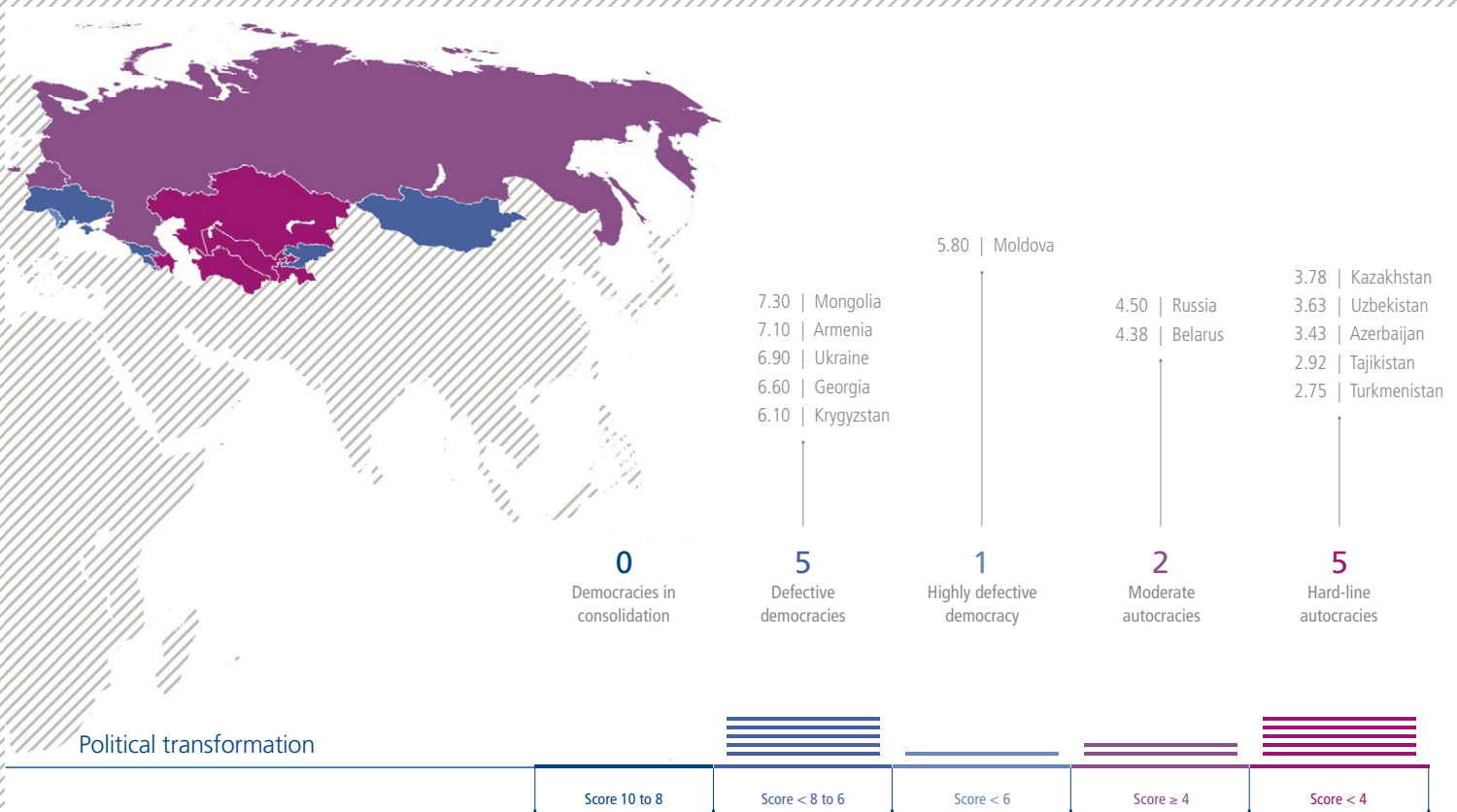
in no small part to the fact that the economic and currency crises triggered by falling oil prices in 2015 and exacerbated by the negative impact of Russia's recession could be contained in most countries as tensions in global energy markets eased. In Ukraine, efforts to further consolidate the state and economic development continued with additional reforms that were introduced after the shocks of 2014/2015. Finally, the Governance Index scores for Armenia, Belarus, Ukraine and Uzbekistan are at their highest levels since the BTI 2006. Developments in Moldova once again took a significant turn for the worse as a result of ongoing state capture by oligarch Vladimir Plahotniuc.

Despite increasingly divergent trends, considerable structural similarities remain

entrenched across the region. Oligarchic power structures – be they neopatrimonial in character, controlled by state bureaucracies, or a product of state capture by ultra-rich business magnates – continue to shape the region. This reflects the shared legacy of the Soviet Union and the initially chaotic nature of transformation rather than the ability of the regionally dominant power, Russia, to influence developments in Eurasia. As external powers, neither the European Union nor China has been able to compensate significantly for these developments.

Instead, the findings of the BTI 2020 show that the distinction within the subcontinent between those states that are linked to the European Union and those that are members of the Eurasian Economic Union

(EAEU) is programmatic in nature and driven less by political and socioeconomic realities. This applies similarly to the distinction between democracies and autocracies as well as that between commodity-exporting and -importing countries. The changes underway in the region took place less along these dividing lines than within each group, though the reasons for such changes vary considerably.



Neither Brussels nor Moscow is pointing the way forward

Eurasian Economic Union member Armenia has taken the largest transformation step forward of all BTI 2020 countries, while EU association partner Moldova took steps to rid itself of state capture at the hands of an oligarch, though only after the end of the review period. The region's politically charged split into two is softening.

The regional dichotomy between a roughly equal number of democracies and autocracies remains unchanged. However, the distinction between those countries that are linked to the European Union by association agreements (Georgia, Moldova, Ukraine) and those within Russia's sphere of influence as part of the Eurasian Economic Union (Armenia, Belarus, Kazakhstan and the accession candidate Tajikistan) seems to be losing its relevance.

The exceptions to this rule have been Kyrgyzstan and Mongolia, both of which have already been cultivated by Brussels and Moscow in the past. The cases of Armenia and Moldova, which show contravening trajectories, demonstrate that the opportunities and risks of political transformation do not necessarily line up with what one might expect in terms of geopolitical orientation. A closer, more differentiated examination of the state

of affairs is needed, for example, with regard to the group of defective democracies. Countries in this group are characterized by the fact that, at least over the past 10 years, they have preserved the institutional core of competitive, free and largely fair elections in the spirit of Robert Dahl's polyarchy. Democracy functions in these countries as a kind of "organized uncertainty" (Adam Przeworski), although there have been efforts to curb the fair conduct of elections, in particular.

Such efforts have proved least successful in Mongolia, where elections regularly result in a change of government. The most recent example was in July 2017, when Khaltmaagiin Battulga, the candidate of the opposition Democratic Party (DP), won the presidential elections with 50.61% of the vote. This was all the more remarkable given that the ruling Mongolian People's Party (MPP) had won 65 of the 76 seats in the parliamentary elections

just one year earlier, while the then-ruling DP party had won only nine seats. Voter turnout in Mongolia is traditionally extremely high, but public distrust of parliament and political parties is also quite high. This lack of trust has been fueled most recently by a public scandal that came to light in 2018 involving members of the government, parliament and even the attorney general, who diverted nearly \$1.5 million from the country's sovereign wealth fund to family members.

We see a similar state of affairs in Kyrgyzstan, where presidential elections held in October 2017 resulted in the victory of the country's former prime minister, Sooronbay Jeenbekov, with the support of incumbent Almazbek Atambayev and his Social Democratic Party. Atambayev was not permitted to run after having served two terms in office. Ömürbek Babanov, also a former prime minister and one of the country's



Population: 3.0 mn

Life expectancy: 74.8 years

GDP p.c. PPP: \$10,324



Political transformation BTI 2006 – BTI 2020

best-known businessmen, came in second place running on the ticket of the business-oriented Respublika Ata-Zhurt party. Immediately after the elections, however, Babanov left the country in the midst of investigations brought on by the office of the prosecutor general. Nevertheless, this election marked the first democratic change of government in the country's history.

In Georgia, the ruling Georgian Dream party, with businessman Bidzina Ivanishvili as its puppet master, leveraged its constitutional majority to further diminish presidential powers in the transition from a presidential to a parliamentary system. These efforts have been driven by events in 2018 that took place during the country's last presidential elections to be held by direct vote. Opposition party United National Movement (UNM), led by exiled Mikhail Saakashvili, effectively forced a second round of elections involving UNM candidate Grigol Vashadze and the (independent) candidate supported by the governing Georgian Dream party, Salome Zourabichvili, who eventually won by a narrow margin thanks to a massive propaganda campaign combined with the mobilization of administrative resources.

The case of Armenia demonstrates, however, that even autocracies can suffer a regime ouster in the face of blatant constitutional violations. The impressive course taken by Armenia's Velvet Revolution and the gains its advocates have achieved have opened a window of opportunity for genuine democratic reforms. Events in Ukraine and Moldova, however, document just how rocky this path can be. In Ukraine, there is an ongoing struggle between oligarchic structures (largely represented by former President Petro Poroshenko) and the voices of reform (backed in part by some seats in parliament, civil society activists and foreign donors). The two sides have since been locked in a stalemate. Public dissatisfaction with this state of affairs resulted in the

election in April 2019 of the comedian and presidential satirist Volodymyr Zelensky as the country's new president, with 73% of the popular vote. The fact that President Zelensky owes (not only) his TV career to the long arm of notorious oligarch and sworn Poroshenko opponent Ihor Kolomoyskyi raises concerns that the president's announced fight against corruption will get lost in the mire of a battle against only one faction.

Moldova faces a very similar challenge after a single oligarch, Vladimir Plahotniuc, captured the entire state and brought the country's transformation process to a halt. In fact, until parliamentary elections in February 2019, he maintained control over the country's main media outlets, the judiciary, and the government. Throughout his rule, he mainly relied on his financial capacity to fuel antagonisms between the country's two political blocs: the pro-Russian bloc represented by the Socialist Party and its allies, and the pro-European bloc, which is represented primarily by the liberal party alliance ACUM. The fact that ACUM and the Socialist Party, under former liberal presidential candidate Maia Sandu, proved able to reach an agreement and build a coalition government in June 2019 is anchored in one overriding common goal: to put an end to state capture. However, the fragility of this lowest common denominator was demonstrated by the government's dissolution after only five months in office in fall 2019.

Armenia: Revolution with charisma

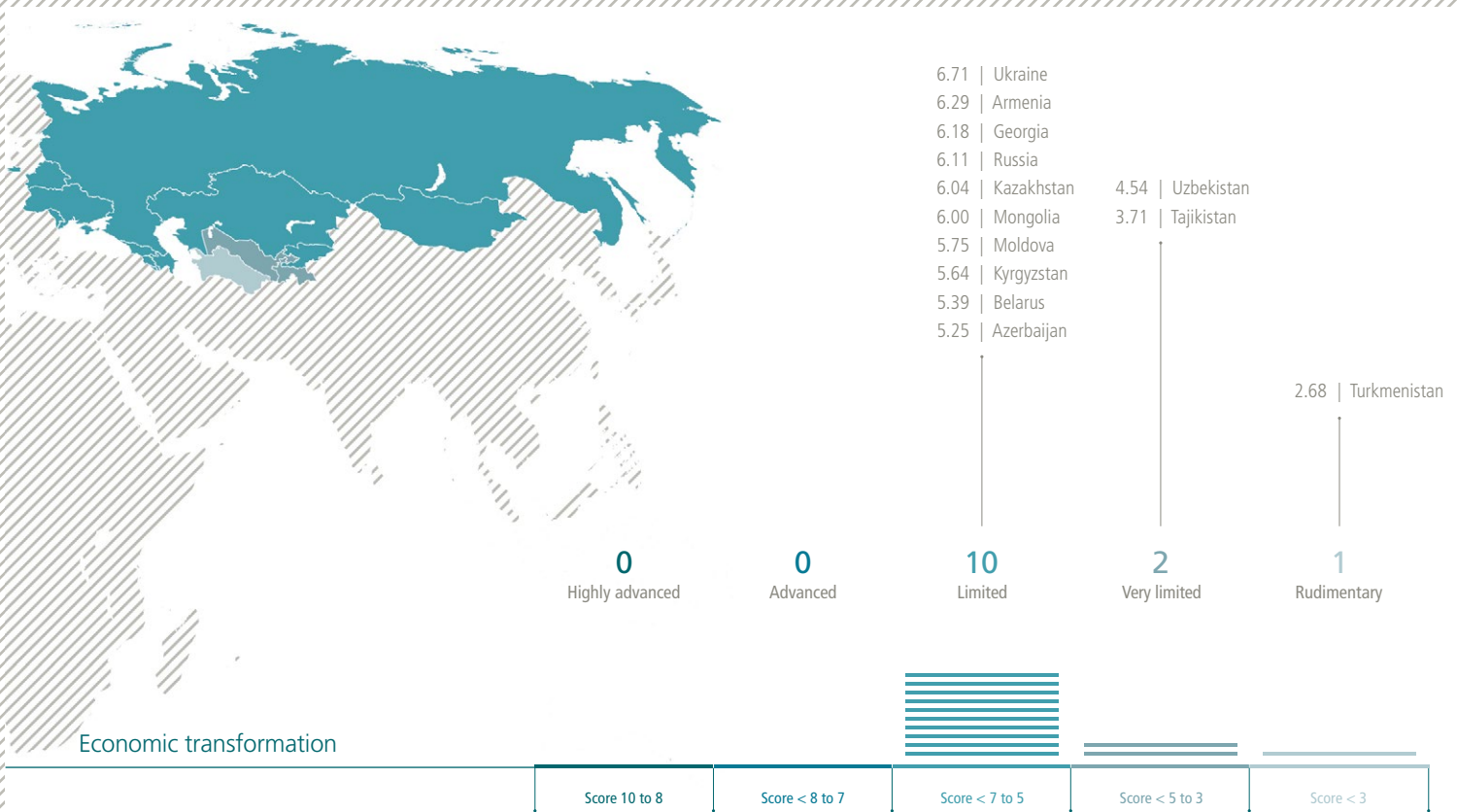
When hundreds of thousands of Armenians took to the streets to chase a corrupt and authoritarian government out of office, even the experts were surprised, as the ties between the country's political and economic elites had seemed too strong, the opposition too weak and the population too apathetic. While the BTI 2018 country report stated that, as recently as January 2017, "significant changes are highly unlikely", at the same time, it pointed to a new development in civic activism that was focused on local issues, largely spontaneous and driven by social media. This kind of activity laid the groundwork for the country's own Velvet Revolution.

The 2018 protests were triggered by President Serzh Sargsyan's attempt to cement his 10-year grip on power by having himself elected prime minister after his term as president had ended. Spreading peacefully, the demonstrations were decentralized and self-organized. Sargsyan resigned after six days, but the protests only subsided once the old ruling party reluctantly elected the opposition leader, Nikol Pashinyan, to be prime minister. His "My Step Alliance" secured more than 70% of the vote in the early parliamentary elections that followed.

Pashinyan enjoys considerable popularity, though the challenges he faces are as great as the public's expectations. There will be no quick fix for all the hard work required to dismantle the country's oligarchic structures, to effectively fight corruption while boosting the economy, to implement fundamental judicial and electoral reforms, and to defuse the smoldering conflict in the Nagorno-Karabakh region. That said, Armenia has rarely been so well-positioned to take an additional step forward.



The full country report is available at
www.bti-project.org/arm



Short-term recovery

Higher commodity prices, positive growth rates and a stabilized market for migrant workers have all helped create some respite for Eurasia after years of crisis. However, hardly any of the region's economies have been subject to successful structural policy reform. The most prominent example is Russia, where grand plans have become ensnarled in the country's power structures and the thicket of interests.

In comparison to the BTI 2008, the economic climate in post-Soviet Europe has improved considerably. BTI scores for the region reflect significantly positive developments on select measures in all countries except Turkmenistan. The primary triggers for this improvement are positive growth rates. However, the consistently high figures communicated by international financial institutions for Tajikistan, Turkmenistan and Uzbekistan must be treated with some caution, as they are often based on unreliable figures delivered by the governments in these countries. And even front-runner Ukraine, following the dramatic setbacks of 2014/2015, remains well under the already woefully low levels of growth reached in the pre-revolutionary period.

Many countries are benefitting from the fact that the market for migrant labor has stabilized enough in the last two years

that remittances have in some cases been able to compensate for the drastic slump seen since their peak in 2013. For numerous countries in the region, migrant workers' remittances are an indispensable source of income. In Kyrgyzstan and Tajikistan, they account for just over one-third of the countries' gross domestic product (GDP). These inflows are significant even in the relatively economically large and populous countries of Ukraine (11.4% of GDP) and Uzbekistan (9% of GDP), showing a strongly increasing trend in the former and a slowly decreasing trend in the latter. The primary source of such transfers is the labor market in Russia. However, remittances originating here have declined considerably in recent years due to the Russian economy's recession, along with the country's stricter immigration regulations.

In the more general area of economic transformation, too, the region's traditional patterns of differentiation are becoming increasingly less useful with regard to explaining individual countries' gains and losses. On the one hand, this applies to the division into countries respectively oriented toward the European Union (EU) and the Eurasian Economic Union (EAEU). Today, it is not clear that any country which has chosen the Europe-focused path, and which has signed both an association and a free-trade agreement with the EU, is in fact making significant and consistent progress. Even four years after its conclusion, the economic and welfare gains seen as following from an EU association agreement still represent a distant promise. However, the diminishing utility of previously valid heuristics also applies to the division of the region into countries that possess exportable resources – pri-

marily energy sources – and those that must import these (and do not have their own competitive export portfolios). Despite the recent recovery in energy prices, this factor also does not have a consistent and uniform impact on macroeconomic performance or the willingness to pursue economic reforms.

The fact that gas and oil exporters, such as Russia and Azerbaijan, have been unable to match earlier growth rates despite significantly increased prices for crude oil indicates that their single-faceted growth models have clearly exhausted themselves. Much the same is true for natural gas exporter Turkmenistan and for Uzbekistan, whose primary export goods are natural gas, gold, cotton and uranium. However, there appears to be little appetite for drawing policy conclusions from these circumstances that will advance structural change. In Russia, the regime’s complacency is reminiscent of the Soviet Union of the 1970s. The country’s autocratic power structures and the thicket of oligarchic-bureaucratic interests are quite clearly hindering fundamental changes. As a result, the public is exerting growing pressure on the regime and showing an

increased willingness to engage in protest. In the fall of 2018, this discontent was directed against the government’s pension reforms, which significantly raised the official retirement age despite previous electoral promises. Such protests have also been prompted by the establishment of Moscow garbage dumps far from the city and the construction of churches in green spaces, as was recently announced in Yekaterinburg.

Following his re-election, President Putin established a set of “national projects” that promise improvement and feature fixed goals and expenditure programs stretching through the end of his term. For example, the plans foresee spending \$98 billion for infrastructure measures, \$74 billion for road construction, \$26 billion for the health-care sector, and \$88 billion for housing construction, trade and digital transformation. Putin’s expectation that these plans will create a decisive breakthrough represents logic harking back to that of Gosplan, the State Planning Committee of the Soviet Union. On the other hand, such concepts should prompt little surprise in a country where the government’s share of the economy has risen from 38% in 2006 to 71% today,

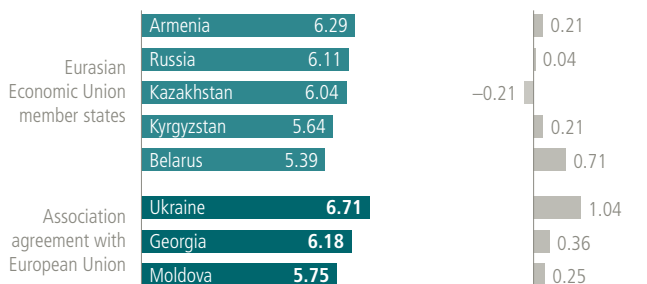
and where the share of the economy attributable to private-sector small and medium-sized enterprises is barely 16% and declining further – and especially since such companies, if they are economically successful, continue to face the perpetual risk of a hostile takeover by rivals or even public officials. Though there is much talk of a business-friendly investment climate, the reality is very different.

Shavkat Mirziyoyev’s Uzbekistan is taking a very different path. A seemingly endless series of presidential decrees since the end of 2016 has served to mobilize the depressed economy, opening it in the style referred to as authoritarian modernization. Many of these reforms remain as yet only on paper. However, the evidence of practical progress, which the president routinely inspects on-site and in person, is in fact visible on all sides. For example, in 2017, more than 30,000 new small businesses were registered, an increase of 130% in comparison to the previous year. Even the number of enterprises in the monopolistic foreign-trade sector doubled in the four years between 2013 and 2017.

Linkages to EU or EAEU alone do not explain dynamics in economic transformation

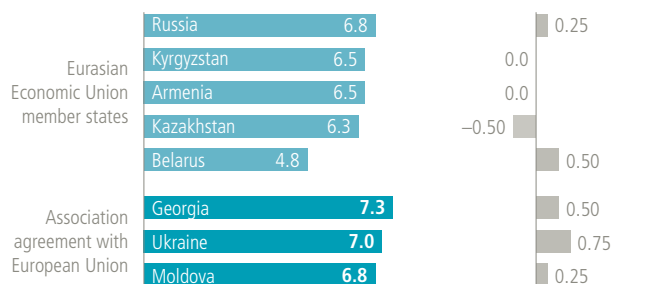
Economic transformation status

Score changes, BTI 2014–2020



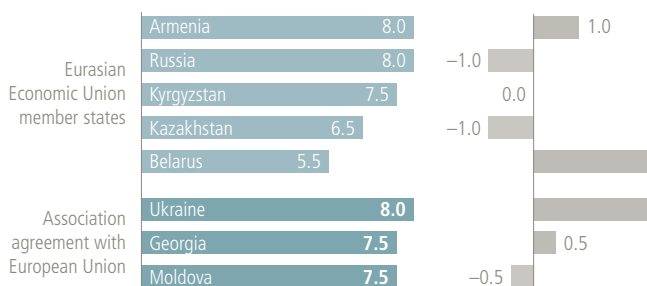
Organization of the market and competition

Score changes, BTI 2014–2020



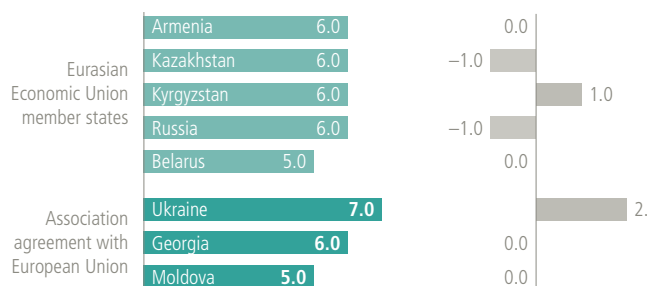
Monetary and fiscal stability

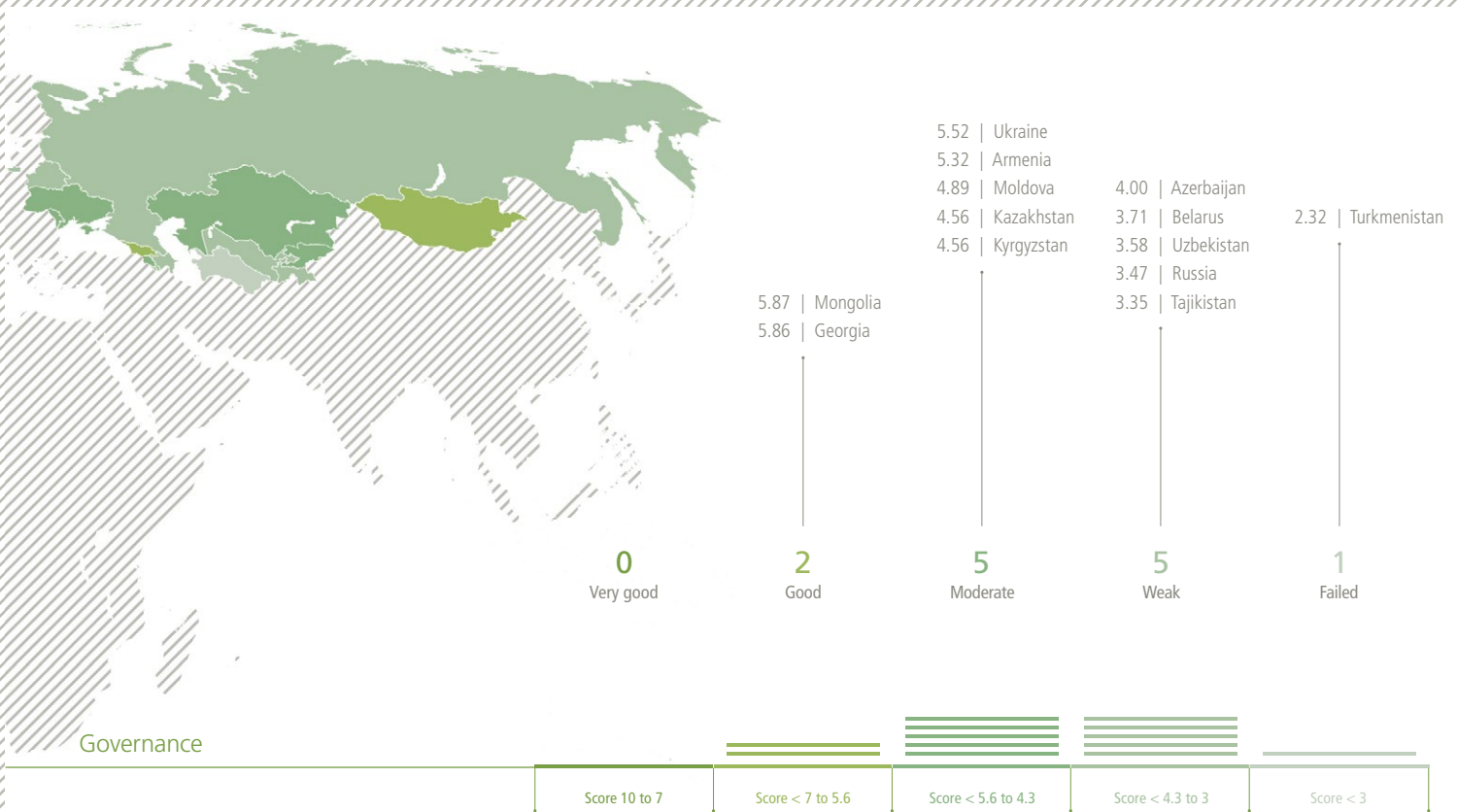
Score changes, BTI 2014–2020



Economic performance

Score changes, BTI 2014–2020





Fundamental problems persist

Eurasia's governance performance has shown a heterogeneous picture in recent times. Yet, no matter what the country's starting level or with what degree of seriousness decision-makers are pushing their projects forward, core problems – such as systemic corruption and weak institutional infrastructures – are proving difficult to combat.

Within the post-Soviet Eurasian region, Armenia and Uzbekistan show the greatest Governance Index gains in the BTI 2020. At the same time, both countries are illustrative of fundamental problems that exist across the post-Soviet area. The new leadership in Armenia, like its counterparts in Georgia and Ukraine, is beginning to modernize the country's governance with participative and performance-oriented management methods, and is seeking to eradicate fundamental problems, such as corruption. For its part, Uzbekistan must first create the kind of institutional infrastructure that is already present in countries such as Russia, Kazakhstan and even Azerbaijan. In this respect, both countries are moving in the same direction, but are currently situated at quite different levels. In neither case is there any guarantee of success given the less-than-

favorable socioeconomic and political environment, nor can we expect to see any unencumbered dynamic of change anytime soon.

In Armenia, the parliamentary elections in December 2018 showed that there is a broad public consensus behind democracy and a market-economic system. In Uzbekistan, by contrast, it remains to be seen whether the new government's commitment to democracy is sincere. President Mirziyoyev's activities have thus far been limited to top-down technocratic solutions. Armenia's new government was stuck in a transitional phase until the December 2018 elections, so it focused on conducting free and fair elections. It succeeded brilliantly in this goal, especially considering the far from propitious environment. For example, both the parliament and the media were under the control of the old oligarchy, while the me-

dia remains so today. The new government formed in January 2019 has been able to act more freely, but is reaching its administrative limits. One problem is that many of the new and often very young actors in government and parliament have little expertise.

President Mirziyoyev has also cited the lack of expertise in Uzbekistan, complaining in December 2018 of a shortage of as many as 500,000 specialists. However, a reform of the civil service is pending. Open positions continue to be filled on a highly non-competitive basis, and governmental and administrative styles perpetually oscillate between hierarchical-bureaucratic command and the use of personal networks. In addition, civil society organizations are rarely consulted. This said, Mirziyoyev did create a council of experts in January 2019 that includes businesspeople, academics and foreign consul-

tants. Compared to the opaque style of governance under Karimov, it is also progress when ministers and members of parliament are officially urged to defend their policies on television, and when the media is allowed to be critical of the implementation of reforms.

One focus in Uzbekistan has been the fight against corruption. In this regard, however, the necessary legal and administrative foundations must first be established. Implementation of this task has been extremely slow. President Mirziyoyev signed the country's first law on this issue, the Anti-Corruption Act, on January 4, 2017. This was followed by a five-year action plan covering the years 2017 through 2021, which included additional reform proposals for the public administration and the rule of law more generally. An anti-corruption program for the 2017–2018 period built upon these previous elements. In May 2018, the president decreed that civil servants must disclose their income and assets on an annual basis, as is common practice in most other countries of the region. In addition, echoing policies in Azerbaijan and Kazakhstan, a “single window” for access to government services was introduced with the goal of limiting contact with administrative staffers and reducing opportunities for bribery. Armenia is considerably further along this path. Here, discontent over the prevalence of corruption served as an important initial trigger for the mass protests. Thus, eliminating corruption proved to be a focus for the new government even during the transition phase. One of the tasks still outstanding is to engage in a detailed review of civil servants' income declarations and to pursue inconsistencies in a systematic way.

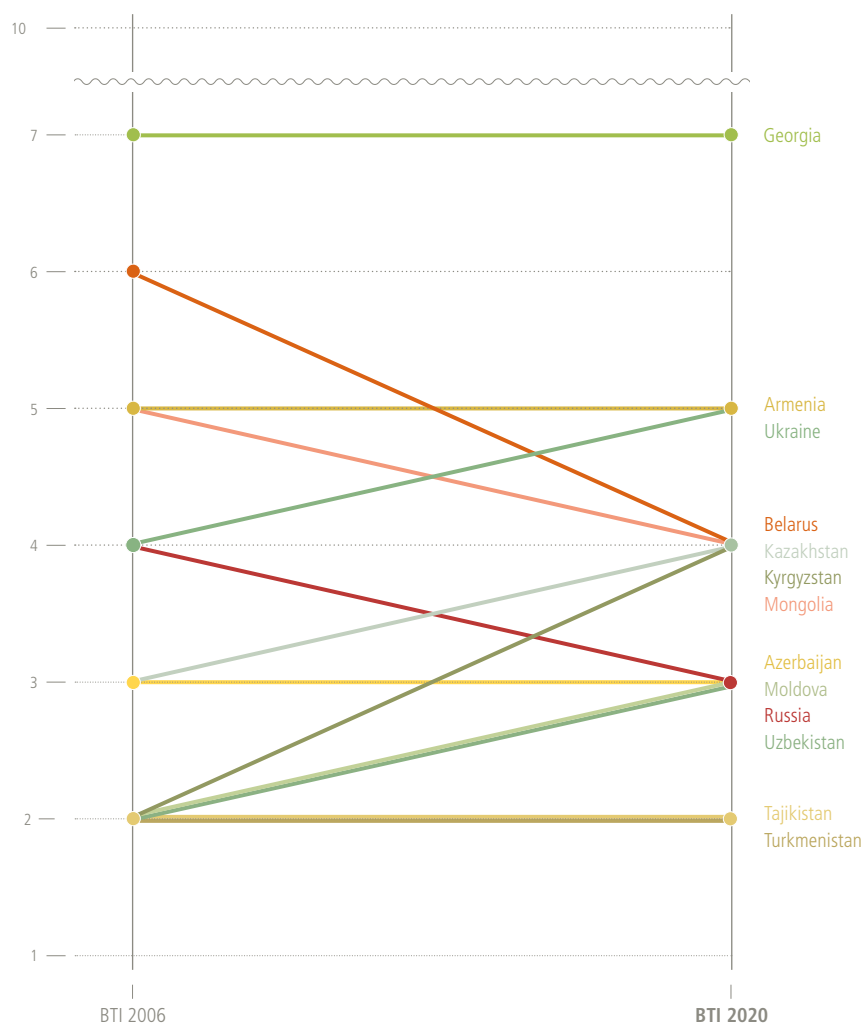
Kazakhstan has also paid particular attention to corruption. This has involved the use by President Nursultan Nazarbayev, whose term in office runs through March 2019, of countless speeches to lament the presence of this evil. According to the country's national Anti-Corruption Agency, bribes alone annually cost the country \$3.7 billion. The leadership is apparently worried not only about Kazakhstan's image, but also about the

country's investment climate. The Anti-Corruption Agency of the Republic of Kazakhstan – the product of a series of institutional mutations, an anti-corruption law revised in 2015, and a 10-year National Anti-Corruption Strategy lasting through 2025 – currently creates the framework for anti-corruption work at the national level. At the regional and local levels, so-called public councils have been operational since 2016. These serve not only as forums for participation, but also as points of contact for the population to report incidents of office abuse and corruption.

These measures are certainly suitable for curbing the culture of corruption. However, they do not address the systemic corruption resulting from the paternalistic character of

the regime. Moreover, they are regularly instrumentalized for political purposes or are otherwise subject to political influence in the way they are implemented. For example, in March 2018, former Economy Minister Kuandyk Bishimbayev was sentenced to 10 years in prison on charges of having embezzled \$3 million. Since every representative of the political elite, without exception, can be confronted with allegations of corruption, the trigger compelling such action is and remains a political motive. A contrasting example can be seen in the case of the four Kazakh banks that had to be closed in 2017 and 2018 due to criminal lending activities, but which did not result in any legal proceedings against the well-connected owners.

The fight against rampant corruption: few promises kept



“Anti-corruption policy” indicator score, BTI 2006–BTI 2020



Bridge-building opportunities

The growing diversity within post-Soviet Eurasia makes it increasingly difficult to rely on the explanatory power of the classical divisions in the region, whether this be between the EU-oriented and the EAEU-oriented countries or between resource-rich rentier economies and the region's resource-poor economies. The roots of the current political camps date back to the Ukraine crisis of 2013/2014, which took place amid a fierce competition over EU versus EAEU routes of integration. Evoking a shared sense of battling regime change, Moscow stood as a political and geostrategic anchor that promised the autocracies of the region a host of economic advantages. For its part, Brussels attracted its association partners in part by acting as a counterweight to Russia and its post-imperial impulses, but also by promising those states willing to undergo transformation on EU terms the ability to join the affluent family of European countries.

Yet this kind of juxtaposition no longer holds water. Whereas EAEU member state Armenia was the site of yet another velvet revolution in 2018 and, thus, like Ukraine in the wake of the Orange Revolution, reviled by Moscow, the persistence of state capture in EU association partner Moldova would, according to Brussels, rather be expected in the dysfunctional political systems under the influence of Russia's gravitational pull. Both cases have made the pattern of confrontation within the region more complex and

have influenced the responses to conflict on both sides. Moscow, for example, refrained from intervening in Armenia with support for the old regime, while the new leadership, for its part, was careful to assure Russia of its continued loyalty. This behavior on the part of the new government, while not aligned with its reform agenda, does correspond with the country's security interests. Moscow also tolerated the Comprehensive and Enhanced Partnership Agreement (CEPA) that the old regime reached with the EU in November 2017, which overlaps considerably with the country's original association agreement and merely does away with free trade. The agreement is designed to serve as a compass for transformation in Armenia that is accompanied by financial assistance from Brussels.

Moscow was also the first capital to recognize the new government in Moldova under the avidly pro-European Prime Minister Maia Sandu in June 2019. The combined intervention of Russia, the EU and the United States also made it possible for oligarch Vladimir Plahotniuc, who had dominated everything in the country until that point, to literally flee the country. Since Moldovan President Igor Dodon and his Socialist Party have, for the time being, renounced their declared opposition to EU association, it would behoove the EU to explore opportunities for approaching the EAEU. The cases of Armenia and Moldova could thus help build bridges from both sides.

Although Eurasia as a whole has recently been able to recover in economic terms, this recovery has been very uneven: The former drivers of economic growth and resource-rich countries of Azerbaijan, Kazakhstan, Russia and Turkmenistan are – unlike the rest of the region – for the most part stagnating after having already experienced a deeper recession. This development places limits on these rent-dependent autocratic regimes' capacity to distribute economic gains, which increases the public's appetite for protest. Countless larger and smaller expressions of discontent suggest that, behind their pompous facades, these regimes are facing a growing risk of instability.

This also affects the question of successions, which always involve unique risks, as the example of Kazakhstan revealed in 2019: Whereas Uzbekistan's Shavkat Mirziyoyev proved able in 2016 to garner an unchallenged election result of 88.6% following the old pattern, Nazarbayev's hand-picked successor, Kassym Tokayev, faced the debacle of demonstrations and thousands of arrests after having received only 71% of the vote in Kazakhstan's June 2019 election. And whereas Mirziyoyev initiated a comprehensive reform agenda to overcome the barriers to growth in Uzbekistan, Tokayev started his time in office with a proven populist tactic: canceling the debts of 3 million Kazakhs.



This summary is based on the post-Soviet Eurasia regional report by Hans-Joachim Spanger. Together with the full reports for each country in the region, it is available at

www.bti-project.org/pse





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