

# **The EU Soft Power: The Macroeconomic Assessment of the Pro-European Path in Moldova and Georgia**

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## ***Abstract***

*In November 2016 the Republic of Moldova, after 8 years of loyalty to the pro-European Union course of political and economic orientation, has chosen a strongly pro-Russian Igori Dodon as its president. In Georgia, the post-Soviet state strongly resembling Moldova in terms of its history and relations with the EU, however, the pro-European orientation is as strong as ever. This thesis will explore the forces that are behind the stay on or the divergence from the pro-European orientation in Georgia and Moldova. Looking at the trends prevailing in the media regarding the political shift in Moldova, as well as analyzing the macroeconomic and institutional changes throughout the pro-EU time, this study demonstrates, on the examples of Georgia and Moldova, that the European Union's economic attraction, the core of the EU's soft power, and the ability of the EU to keep post-Soviet states loyal to the pro-EU path, is directly related to the EU's ability to fulfill the economic expectations of post-Soviet countries. Such finding is important for improving the EU external relations policies, in particular European Neighbourhood Policy, as well as Eastern Partnership.*

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## ***Introduction***

Georgia and Moldova are two post-Soviet states that have had a remarkably similar history after the fall of the USSR. Despite being largely different from the geographical and cultural points of view, both countries are post-Soviet republics with complex relations with Russia, problematic economies, and issues concerning integrity and sovereignty (the frozen Transnistria conflict in Moldova; South Ossetia and Abkhazia *de facto* independence in Georgia). More recently, the countries have become similar in another way - the pursuit of political and economic vector aimed at closer relations with the EU and Western world, as well as alienation from Russian influence.

While being similar in numerous aspects, especially regarding the relations with the EU, Georgia and Moldova seem to have diverged recently from the same path they have been following previously. While Georgia, led by Giorgi Margvelashvili as its president, a politician aiming at more balanced relations with Russia and the West, is still following the pro-European path as its primary political and economic orientation, Moldova seems to be distancing itself from the pro-EU path, indicated by the election of Igori Dodon as the president in the end of 2016, a former economist known for calls of closer ties with Russia and alienation from the EU.

The results of 2016 presidential elections came as shocking for both the EU and the supporters of the pro-EU orientation. This is due to the fact that throughout a certain period of time, Moldova, along with Georgia, were considered as the exemplary cases of the successful exercise of economic, or, in more overarching terms, soft power by the European Union. Soft power, or the means of gaining political allegiance via attractive qualities, such as the EU's economic prosperity and functional institutions, was successfully exercised in 2004 in Georgia and 2009 in Moldova, when pro-EU governments were elected in each of the states. Such success was attributed to the fact that both Georgia and Moldova are developing transit economies with corrupted governmental institutions and low standards of living, and, as such, having the prospects

of prosperity and stability similar to that of the European Union was the decisive factor in choosing pro-EU direction for the populations of both countries.

Due to such major change in the political and economic orientation of Moldova, it becomes important to identify the reasons behind Moldovan recent re-orientation towards Russia. More specifically, it is crucial to understand what the European Union has done right in the case of Georgia and has done wrong in the case of Moldova, which has led to the political and economic reorientation of the latter. Under these circumstances, this paper will explore the differences that occurred in Georgia and Moldova throughout the rule of the pro-European governments in each of the countries. Given the fact that the prospect of economic prosperity and better quality of life were the main incentives in choosing the pro-EU vector in both Moldova and Georgia, the paper will focus on the macroeconomic progress, as well as institutional changes that Moldova and Georgia made during their pro-EU course in respective economies while assessing the differences between the abovementioned countries. Based on the analysis, this thesis argues that the strength of the European Union's economic attraction, the core of the EU's soft power, and the ability of the EU to keep post-Soviet states loyal to the pro-EU path, is directly related with the ability of the EU to fulfill the economic expectations of post-Soviet countries. While in Georgia the promises and expectations of the better economic situation and livelihood have been fulfilled overall, in Moldova the EU's soft and economic power attractiveness has largely diminished as a result of unfulfilled expectations.

Throughout the paper, the author will demonstrate the complexity of the relations between the EU, Georgia, and Moldova. First, the author will introduce the reader to the concept of soft and economic power, the tool of political and economic attraction for Moldova and Georgia from the European Union's perspective. Secondly, the paper will outline the history of the relations between the EU-Georgia and the EU-Moldova and will discuss the key moments and motivations

behind the abovementioned post-Soviet states turning pro-European. Finally, the paper will analyze the progress in the economic situation and prospects for better life after 13 years of pro-European government in Georgia, and 8 years of pro-EU government in Moldova, and will highlight the differences that led to continuation of the pro-European path in Georgia and the divergence from it in Moldova.

The contribution of this research to the overall knowledge is two-fold. First, the given analysis provides an up-to-date understanding of Moldova's shift in political orientation, one of the most recent and unexpected upsets in the EU's external relations, supported by data and empirical research. While numerous speculations exist regarding Moldova's recent re-orientation, an empirical analysis of the issue will solidify the understanding of the real situation. Secondly, the thesis contributes to the EU policy-making knowledge, specifically such branches of the EU external relations policy, as the European Neighborhood Policy and the Eastern Partnership. Being able to understand and identify the key reasons of the success and failure in attracting the post-Soviet states, such as Moldova and Georgia, to stay pro-European will help in more careful tailoring of the future policy-making aimed at the relations with the abovementioned states.



## *Literature Review*

The literature on political entities being able to influence political vectors of states and via the means of soft and, particularly, economic power is abundant.

Vincent Wei-cheng Wang, professor of political science at the University of Richmond, in his “Financial Crisis and Asia’s Changing Balance of Power” addresses the issue of the shift in influence between the powerful players in Asia as a result of global financial crisis of 2008. As Wang mentions, “the GFC (Great Financial Crisis) is shaping up as a geopolitical as well as a geoeconomic event – particularly in Asia, an economically dynamic region where America's staying power and China's growing aspirations intersect”<sup>1</sup>. The author continues by claiming that the relative economic weakening of the US and the strengthening of China has allowed the latter to spread its influence in Asia. As he notes, as a result of China’s economic rise, “countries in the region are increasingly beholden to China's interests and strategies”<sup>2</sup>. Finally, Wang uses the example of the Cold War, where “trade flows followed geopolitical alignment”. Due to the fact that China has taken over the role of the US as the main trading partner of several Asian states, such as Japan, South Korea, and Taiwan, Wang believes that such change “introduced a potential source of “schism” in the relationship between the USA and its traditional Asian allies and arguably diluted the USA's capacity to use economic incentives to extract political allegiance”<sup>3</sup>.

While Wang speaks of the economic power as an important source of geopolitical and geoeconomic influence in Asia, similar mechanism is applicable to the European context, the main focus of the given research. Nielsen and Vilson in their “The Eastern Partnership: Soft Power

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<sup>1</sup> Vincent Wei-cheng Wang, "Financial Crisis and Asia's Changing Balance of Power," in *Power in a Changing World Economy: Lessons from East Asia* (London), 41.

<sup>2</sup> Ibid., 52

<sup>3</sup> Ibid.

Strategy or Policy Failure?” discuss the issue of the European Union’s influence while focusing on the context of the Eastern Partnership.

In their paper, Nielsen and Vilson mention the influence of the European Union on the neighboring countries and, in particular, the countries of the Eastern Partnership, which are Ukraine, Moldova, Georgia, Belarus, Armenia, and Azerbaijan. While the authors discuss in detail the European Neighbourhood Policy and the Eastern Partnership, two interrelated cooperation activities between the EU and its neighbours, Nielsen and Vilson mention soft power as the tool of influence chosen by the EU.

Soft power is a concept developed by a well-known political scientist Joseph Nye. Coined as the opposite of the hard power or coercion, soft power is the ability of the state, or, in the given case, the EU to “obtain the outcomes it wants in world politics because other countries – admiring its values, emulating its example, aspiring to its level of prosperity and openness – want to follow it”<sup>4</sup>. Indeed, Nielsen and Vilson quote the EU leaders, who claimed that the Eastern Partnership is the attempt to “project EU soft power into post-Soviet space”<sup>5</sup>. As the European Security Strategy, a document drawn in 2003 to outline the European Union’s security strategy and objectives, claims, the soft power in the context of Eastern Partnership and in general would be projected, among other things, via “[extending] the benefits of economic and political cooperation to...neighbours in the East”<sup>6</sup>. Indeed, Nielsen and Vilson also note economic power as one of the main sources of the EU’s soft power. As the authors mention, “EU’s past achievements in delivering economic integration and prosperity through the single market and its well-regulated, prosperous and balanced market economy” are a major source of the EU’s soft power<sup>7</sup>. Quite

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<sup>4</sup> Joseph S. Nye, *Soft power: The Means to Success in World Politics* (New York: PublicAffairs, 2006).

<sup>5</sup> Kristian L. Nielsen and Maili Vilson, "The Eastern Partnership: Soft Power Strategy or Policy Failure", *European Foreign Affairs Review* 19, no. 2 (2014): 243, <https://www.kluwerlawonline.com/abstract.php?area=Journals&id=EERR2014012>.

<sup>6</sup> *Ibid.*, 244

<sup>7</sup> Nielsen and Vilson, "The Eastern Partnership: Soft Power Strategy or Policy Failure", 246

clearly, then, one of the main tools of the EU to gain political allegiance from its Eastern neighbours is the Union's economic power, or, the soft power of attracting others through its economic position.

Wang, as well as Nielsen and Vilson focused on the broad aspects of economic power and its influence in the contexts of Asia, the EU, and the European Neighbourhood Policy/Eastern Partnership participating states. In contrast, Richard Giragosian in his "The European Neighbourhood Policy: An Armenian Perspective", a contribution to "Reviewing the European Neighbourhood Policy: Eastern Perspectives", reviews the case of a failed application of the EU's economic and soft power in the case of Armenia, a scenario that strongly resembles the current situation in Moldova.

As Giragosian mentions, EU's last engagement with Armenia "abruptly ended in a "strategic U-turn"", when Armenia refused its ambitions for the Association Agreement with the European Union in favour of Russia-led Eurasian Union<sup>8</sup>. The author explains such an unexpected unfolding of events, among other things, by the fact that €3.2 billion available to the EaP states were "never clearly promoted, nor were the specific projects or the improvements they brought to the daily life of ordinary citizens"<sup>9</sup>.

The case of Armenia and its failed engagement with the EU is important to take into consideration in the context of the situation of Moldova and Georgia. First, it demonstrates the fact that if the benefits of the economic attraction of the EU are not obvious to the population, the political realigning is possible. Giragosian emphasizes that the failure in Armenian case was largely due to the fact that "the practical benefits of the Association Agreement and the Deep and

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<sup>8</sup> Richard Giragosian, "The European Neighbourhood Policy: An Armenian Perspective," in *Reviewing the European Neighbourhood Policy: Eastern Perspectives*, series 4 (The German Marshall Fund of the United States, 2015), 7.

<sup>9</sup> Ibid.

Comprehensive Free Trade Area (DCFTA) were never articulated, let alone defined or defended”<sup>10</sup>. In addition, and as a result of unclear economic benefits from alignment with the EU, the public support for the Association Agreements and cooperation with the EU was small, which allowed the realignment to the Russian geopolitical orbit even easier. According to Giragosian, “Armenian public was little swayed and less seduced by the EU”<sup>11</sup>. He adds that even “for many businessmen, dealing with Russian and other post-Soviet markets was more comfortable and familiar”<sup>12</sup>. All of these factors strongly affected the decision of political alignment of Armenia.

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<sup>10</sup> Giragosian, "The European Neighbourhood Policy: An Armenian Perspective," 7.

<sup>11</sup> Ibid., 8.

<sup>12</sup> Ibid.

### *Historical Background*

Before going deep into the economic progress made by Moldova and Georgia throughout the pro-EU path, it is important to provide a historical background of the abovementioned states in relation to their path towards the European economic and political orientation. Providing such background is important in order to understand the context, under which each of the post-Soviet states has stepped onto the pro-European path, as well as the main motivations that made Moldova and Georgia to turn pro-EU.

#### *Moldova and Europe: pre-AEI*

Similar to other post-Soviet states, Moldova received an opportunity to manage its external relations independently only after the fall of the Soviet Union. As such, after gaining independence on August 27, 1991, the former Soviet Republic of Moldova has made its first steps towards the EU in 1994, when the Partnership and Cooperation Agreement (PCA) was signed. The PCA, which came into force in Moldova in 1998, was signed not only with Moldova, but also with Russia and nine other Eastern European, South Caucasian and Central Asian states after the USSR collapsed. As the EUR-Lex states, “the aim of these agreements is to strengthen their [former Soviet states] democracies and develop their economies through cooperation in a wide range of areas and through political dialogue”<sup>13</sup>.

While the PCA was the first step in re-orienting Moldova from its Soviet past into the European future, the next step was the inclusion of Moldova in the European Neighbourhood Policy (ENP) by the EU in 2004. European Neighbourhood Policy continued the promotion of economic prosperity, political cooperation between the EU and Moldova, and similar. Matters

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<sup>13</sup> "Partnership and Cooperation Agreements (PCAs): Russia, Eastern Europe, the Southern Caucasus and Central Asia," EUR-Lex Access to European Union law, September 29, 2010, , accessed June 12, 2017, <http://eur-lex.europa.eu/legal-content/SK/ALL/?uri=URISERV%3Ar17002>.

such as development and approval of the EU-Moldova Action Plan in 2005, as well as granting of the EU Autonomous Trade preferences followed after the inclusion of Moldova in ENP<sup>14</sup>.

While the relations between Moldova and the EU were developing at the steady pace since Moldova's independence, the time period between 2000 and 2008 cannot be described as the boom in Moldova's political and economic orientation towards the EU. This is due to the fact that in the time mentioned above Moldova was governed by the PCRM and its leader Vladimir Voronin serving as the President. Voronin's rule was volatile in terms of direction, in which Moldova was supposed to move. Initially, Voronin's rule could be described as pro-Russian. This is evidenced by calls for "the development of advantageous ties with all states of the world ... and especially Russia" in the election campaign, as well as by launching "a marked shift in policy toward Russia"<sup>15</sup>. Later on, however, "Voronin has been much more willing to integrate more closely with the West, as shown by his policy of trying to gain eventual EU accession and his acquiescence to some of the PACE resolutions"<sup>16</sup>. Despite this fact, the rule of PCRM was still largely regarded as pro-Russian until it was replaced by the pro-European parties in 2009.

#### *Moldova and Europe: pro-European path*

The real boom in the relations between the EU and Moldova occurred between 2009 and 2016. Such boom was possible due to the so-called Twitter Revolution, which occurred in Chişinău, the capital of Moldova, as a result of the previously mentioned PCRM allegedly winning the majority of seats in the Parliament as the outcome of elections<sup>17</sup>.

<sup>14</sup> ENP Country Progress Report 2009 – Republic of Moldova, report, May 12, 2010, , [http://europa.eu/rapid/press-release\\_MEMO-10-182\\_en.htm?locale=en](http://europa.eu/rapid/press-release_MEMO-10-182_en.htm?locale=en).

<sup>15</sup> Paul Quinlan, "Back to the Future: An Overview of Moldova Under Voronin," *Demokratizatsiya: The Journal of Post-Soviet Democratization* 12, no. 4 (2004): 494, doi:10.3200/demo.12.4.485-504.

<sup>16</sup> Ibid., 495

<sup>17</sup> Alina Mungiu-Pippidi and Igor Munteanu, "Moldova's "Twitter Revolution", " *Journal of Democracy* 20, no. 3 (July 2009): , <http://www.journalofdemocracy.org/moldovas-twitter-revolution>.

The Twitter Revolution took place as a reaction to the large mismatch between the projections and the actual outcomes of the 2009 elections. As such, “opinion polls consistently showed the Communists with around 35 percent support”, while during the elections they received 50 percent of the votes <sup>18</sup>. Such mismatch resulted in mass-demonstrations, with approximately 20,000-30,000 protesters taking to the streets. Due to the fact that it was one of the first instances of demonstrations organized via social networks, the protests became known as “Twitter Revolution”.

The Twitter Revolution was a turning point in the relations between Moldova and the EU. The demonstrators, who disagreed with the results of the election, were demanding closer ties with the EU, as well as Romania, which was a new EU member at that moment (joined in 2007), and with which Moldova has deep cultural and historical ties. Such demands were made particularly clear once several protesters replaced the flag of Moldova with the flags of the European Union and Romania on the Presidium and the Parliament buildings<sup>19</sup>. Although the protests were unsuccessful in removing the Communist Party from the government, they did force the Communists to launch the recount of votes. Receiving only 60 out of 61 necessary seats to choose the new President, elected by the Parliament, the Communists were forced to dismiss the Parliament and have elections once again. This time, however, the PCRM received only 48 seats in the Parliament. The remaining opposition parties took their opportunity and formed an Alliance for European Integration (AEI), hence forcing PCRM in opposition and launching a new era of Moldova-EU relations.

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<sup>18</sup> Mungiu-Pippidi and Munteanu, "Moldova's "Twitter Revolution", 138

<sup>19</sup> Sabina Zawadzki and Dmitry Chubashenko, "Moldova blames Romania after anti-government riots," Reuters, April 08, 2009, , accessed June 12, 2017, <http://www.reuters.com/article/us-moldova-election-idUSL756670920090408>.

The AEI, as well as similar coalitions that followed it later, such as the Pro-European Coalition, as well as the Political Alliance for a European Moldova, pushed for, as is obvious from their names, redirection of Moldova's political and economic orientation towards the EU. One of the major points of the AEI after becoming a ruling majority in the Parliament was integration of Moldova with the EU, as well as a work towards signing the Association Agreement between the EU and Moldova, as mentioned in the "Declaration Regarding Formation of the Governing Coalition Alliance for European Integration"<sup>20</sup>. Despite numerous ups and downs of the overall time in the government of pro-European coalitions, the abovementioned goal was largely achieved. Such success is indicated by the EU-Moldova Association Agreement (AA), which was initiated in 2013, signed in 2014, and came into full force in 2016. This success is especially remarkable given the fact that Moldova was the first of three countries in the process of forming Association Agreement with the EU, Georgia and Ukraine being other two, to receive the full benefits of the AA.

#### *Motivations and Reasons for the pro-European path*

Overall, the support of the Moldovan population for the pro-European parties can be described as a desire of achieving a better quality of life. The rule under Voronin did little to improve the dire situation of Moldovan people in 8 years of PCRM in the government. According to Quinlan, "the greatest success for the Voronin government has been the revival of the economy", with GDP going up steadily at 6 percent or more since 2001, major decrease in inflation and the rise of real wages by approximately 30 percent in just first two years of PCRM being in the government<sup>21</sup>. Despite this fact, however, the economy of Moldova before PCRM was so low that

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<sup>20</sup> "DECLARAȚIE privind constituirea Coalitiei de guvernare Alianta pentru Integrare Europeana," Timpul - Știri din Moldova, August 9, 2009, , accessed June 12, 2017, <http://www.timpul.md/articol/declaratie-privind-constituirea-coalitiei-de-guvernare-aliana-pentru-integrare-europeana-3502.html>.

<sup>21</sup> Quinlan, "Back to the Future: An Overview of Moldova Under Voronin," 498.



the progress described above was hardly impressive and, more importantly, hardly life-changing for the general population. According to one of the reports to the World Bank from an expert on Moldova, Moldova's economy was practically in a survival mode after the fall of the USSR, losing subsidies from the USSR funding, which amounted to 25 percent of its GDP, as well as bearing trade losses, suffering major inflation and similar <sup>22</sup>. Such context makes the successes achieved by the PCRM and Voronin in Moldovan economy arguable at best.

While the economic successes of PCRM were not in any way life changing for the population, Voronin's tight control on the governmental institutions and affairs in the country presented another major problem, which pushed the public to turn pro-European. 8 years under Voronin's rule could be described as largely authoritarian. Tight control over local television and radio, decrease in independence of the judiciary branch, and the overall decrease in the freedom of speech and democracy were characteristic once the PCRM was in power <sup>23</sup>. It is worth noting that the decreased levels of democracy as such did not seem to be of major concern to the Moldovan population. The public polls conducted a few years after the PCRM took over the rule demonstrated that "the Moldovan electorate is at least as indifferent, or even hostile, to the democratic political forms"<sup>24</sup>. While the democracy, or lack thereof, was not an issue for the population, however, the high levels of corruption certainly were. Throughout the rule of PCRM and the presidency of Voronin, Moldova was ranking as one of the most corrupted countries, according to various international corruption monitoring reports. In 2002 and 2003, for instance, Transparency International ranked Moldova 93<sup>rd</sup> out of 102 surveyed countries, and 102<sup>nd</sup> out of 133 countries on the international corruption ranking list <sup>25</sup>. Tightened control over legislation and

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<sup>22</sup> Solonari, Vladimir. "The Political Economy of Moldova." In *The World Bank Group*. Proceedings of Lucerne Conference of the CIS-7 Initiative, Switzerland. January 2003.  
<http://web.worldbank.org/archive/website00504/WEB/PDF/SOLONA-6.PDF>.

<sup>23</sup> Quinlan, "Back to the Future: An Overview of Moldova Under Voronin,".

<sup>24</sup> Solonari, "The Political Economy of Moldova," 4.

<sup>25</sup> Quinlan, "Back to the Future: An Overview of Moldova Under Voronin," 498.

judicial sector by PCRM did not contribute to solving the issue of corruption, hence pushing the population to desire changes.

As one may observe from the information above, the main issues of pre-EU oriented Moldova and, as it follows, the push factors towards the European path were a combination of poor economic performance, tightened control on democratic rule, and never-ending corruption. At the time of the Twitter Revolution, the abovementioned issues were either largely missing, or present at much less significant levels in the European Union, especially in its leading and more developed Western states. This fact served as a major pull factor for the support of the pro-European reorientation. Under these circumstances, it came as no surprise that the Association Agreement, the highlight of the pro-European path by Moldova and the main selling point to the public by the pro-European parties, addressed precisely these issues.

*Georgia and Europe: Before the Rose Revolution*

The story of the relations between Georgia and the European Union is remarkably similar to that of Moldova. After declaring its independence from the Soviet Union on April 9, 1991, Georgia, for the first time in over 70 years, was able to manage its foreign policy on its own. As such, the Office of the State Minister of Georgia on European and Euro-Atlantic Integration states that “the EU-Georgia relations started in 1992 following the recognition of Georgia’s Independence by the European Union”<sup>26</sup>. Similar to Moldova, the interaction between the EU and Georgia started with the Partnership and Cooperation Agreement, which was being prepared since 1994, signed on 22 April 1996, and entered into force in 1999. As the abovementioned Office of the State Minister of Georgia on European and Euro-Atlantic Integration claims, the agreement foresaw “continuous process of approximation and harmonisation with EU standards”<sup>27</sup>. In addition to PCA, Georgia has been a beneficiary of Generalized Scheme of Preferences (GSP) starting 1995, “which allows developing countries to pay less or no duties on their exports to the EU”<sup>28</sup>. It is worth noting that Moldova was also the beneficiary of GSP until recently, another similarity between Georgian and Moldovan relations with the EU.

Again, similar to the Moldovan case, the next step in the relations between the EU and Georgia was the inclusion of the post-Soviet state in the European Neighbourhood Policy (ENP). In the end of 2006, Georgia adopted the ENP Action Plan, signed by Georgian Foreign Minister Gela Bezhushvili and the European Union Troika represented by German Deputy Foreign

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<sup>26</sup> "Georgia-EU cooperation," Office of the State Minister of Georgia on European & Euro-Atlantic Integration, accessed June 12, 2017, <http://www.eu-nato.gov.ge/en/eu/cooperation>.

<sup>27</sup> Ibid.

<sup>28</sup> "Generalised Scheme of Preferences (GSP) ," European Commission Directorate-General for Trade, accessed June 12, 2017, <http://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences/>.

Minister of State Günter Gloser, Commissioner for External Relations Benita Ferrero-Waldner, and Finnish Foreign Minister Erkki Tuomioja<sup>29</sup>.

An interesting peculiarity in the comparison of the EU-Georgia relations and the EU-Moldova relations is the fact that inclusion into ENP, the common step towards the integration with the EU that both of the post-Soviet states have made, happened in Georgia while the turning point in the EU-Georgia relations, the Rose Revolution, already took place and the pro-European government was already in power. As such, Georgia has been able to step on the pro-European path much sooner than Moldova and be exposed to the EU's influence for a more pro-longed time period. This also meant that Georgia avoided the period of largely pro-Russian party being in power, such as PCRM was in Moldova when the ENP agreement was signed, one of the major obstacles in the history of EU-Moldova relations and one of the drastic differences between Georgia and Moldova on their path towards the EU.

*The Rose Revolution, the pro-European path and the Association Agreement*

Moldova and Georgia have another striking similarity in their relations with the EU. Such similarity is the revolution as the event that served as a defining moment in the future relations between the EU and the former Soviet states. While in Moldova this was the Twitter Revolution, in case of Georgia the defining moment was the Rose Revolution.

As mentioned earlier, the Rose Revolution in Georgia served as a turning point in the foreign policy of Georgia, reorienting politically and economically from predominantly strong ties with Russia to the closer relations with the EU. Unlike in Moldova, the Rose Revolution in Georgia took place in 2003, not long after the 90s, the roughest period for the post-Soviet states from the socio-economic perspective. As such, the negative impacts of the fall of the Soviet Union, which

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<sup>29</sup> Civil Georgia, "EU, Georgia Sign ENP Action Plan," Civil.Ge, , accessed June 12, 2017, <http://www.civil.ge/eng/article.php?id=13747>.

the majority of former USSR states, including Georgia, experienced in the 90s, were still very much felt by the population. Indeed, as Papava and Tokmazishvili note in their “Becoming European: Georgia’s Strategy for Joining the EU”, “many Georgian economists and politicians maintain that the domestic economic crisis was a key reason for the Rose Revolution in November 2003”<sup>30</sup>.

The dispute over parliamentary elections in 2003 sparked the anger of the already dissatisfied public. Similar to the Moldovan context, the parliamentary elections were seen by the protesters as unfair, confirmed by the reports of numerous international monitoring missions<sup>31</sup>. The peaceful protests were deemed as the Rose Revolution due to the protesters led by the opposition leader, Mikheil Saakashvili, carrying roses while demonstrating against then President of Georgia Eduard Shevarnadze and his government. Mikheil Saakashvili, the unofficial winner of the elections, as well as the public, managed to force Eduard Shevarnadze, a former Soviet diplomat and the President of Georgia, to step down and be replaced by the new government led by Saakashvili.

The government formed by Saakashvili has set towards the pro-European path of economic and political orientation right away. Being strongly pro-European and pro-Western in general, Saakashvili and his government, “began working toward EU accession by strengthening state power, reforming governmental structures, bringing Georgian legislation closer to that of the EU, developing infrastructure, and resolving to maintain annual economic growth at approximately 6 percent in the medium term”.<sup>32</sup>

While the popularity of Saakashvili has eventually faded and he was replaced by Giorgi Margvelashvili as the President of Georgia in 2013, Saakashvili managed to reach one of the main

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<sup>30</sup> Vladimer Papava and Michael Tokmazishvili, "Becoming European: Georgia’s Strategy for Joining the EU," *Problems of Post-Communism* 53, no. 1 (2006): 27, doi:10.2753/ppc1075-8216530103.

<sup>31</sup> "State of emergency in Georgia," CNN, November 23, 2003, , accessed June 12, 2017, <http://edition.cnn.com/2003/WORLD/europe/11/22/georgia.protests/>.

<sup>32</sup> Papava and Tokmizashvili, "Becoming European: Georgia’s Strategy for Joining the EU," 29.

goals in integration with the European Union, the start of negotiations for the Association Agreement, as well as Deep and Comprehensive Free Trade Area (DCFTA) Agreement in 2010 and 2012, respectively. Margvelashvili, while emphasizing the importance of “improving Georgia’s “difficult” relationship with Russia”, has officially confirmed that “deepening the former Soviet Republic’s ties with Europe are a key priority”<sup>33</sup>. Indeed, this fact is also acknowledged by the EU, which states on the official website of the European Council and the Council of the European Union that “the EU and the government of Georgia agreed to continue to work together towards a further deepening of Georgia's political association and economic integration with the EU”<sup>34</sup>. As such, Margvelashvili’s government continued what was started by Saakashvili and finalized DCFTA negotiations with the EU, as well as initiated, signed, and adopted the Association Agreement between the EU and Georgia. As of July 1, 2016 the Association Agreement with DCFTA between the Georgia and the EU is in full force.

*Motivations and Reasons for the pro-European path*

As mentioned earlier, one of the strongest push factors that motivated Georgians to refuse Eduard Shevardnadze and his government and turn towards the pro-European and pro-Western leadership was the dire economic situation in the country. Indeed, Georgia was one of the states that was struck the hardest in the decade after the fall of the Soviet Union. In just one year, 1992 to 1993, Georgia’s GDP fell by 80 percent. Once Shevardnadze became the President in 1995, however, the situation did not change drastically. As Papava and Tokmazishvili note, “during this phase, the shadow sector comprised an essential part of the economy, and this had many negative and painful consequences for civil society”<sup>35</sup>. By 2003, after 8 years of Shevardnadze’s presidency,

<sup>33</sup> "‘Europe is our choice’ - Georgia's president-elect Margvelashvili," Euronews, October 28, 2013, , accessed June 12, 2017, <http://www.euronews.com/2013/10/28/europe-is-our-choice-georgia-s-president-elect-margvelashvili>.

<sup>34</sup> "EU relations with Georgia," European Council - Council of the European Union, March 28, 2017, , accessed June 12, 2017, <http://www.consilium.europa.eu/en/policies/eastern-partnership/georgia/>.

<sup>35</sup> Papava and Tokmazishvili, "Becoming European: Georgia’s Strategy for Joining the EU," 27.

Georgia was able to attain only “73 percent of its 1990 economic growth”, a clear failure of Shevarnadze’s government to revive the economy.<sup>36</sup>

Furthermore, the public financing under Shevarnadze was extremely weak. The state was unable to collect enough taxes to provide for the public needs, which led to the state budget comprising an insignificant part of the country’s GDP. Papava and Tokmazishvili mention that “because of the government’s numerous failures in all aspects of the budgeting process, the budget crisis of 1998–2003 became a dominant characteristic of the Georgian economy”<sup>37</sup>. While in 1995 the size of the state budget comprised 5 percent of the Georgian GDP, throughout the presidency of Shevarnadze it has reached only 12 percent, a meager number, especially in comparison to other states of the former USSR.

While poor economic situation in general was a major push factor away from Shevarnadze government and towards the EU, Papava and Tokmazishvili argue that it was the increasing income gap that made the population take to the streets in 2003. As the authors note, “a sharp contrast developed between the impoverished population at large and the wealthy few who had gotten rich, usually by illegal means”.<sup>38</sup> Such contrast was largely due to the corrupted practices within the government, the economic activities within the state, and similar. As in many other post-Soviet states, the corruption in Georgia during the presidency of Shevarnadze was deep, being present at all levels of the society.

All in all, the high levels of corruption, along with failure to develop the state from the economic point of view, were the factors that contributed to the population rejecting Shevarnadze and choosing to step on the path toward the European Union. Similar to the case of Moldova, the relatively low levels of corruption and the economic successes of the EU, especially in comparison

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<sup>36</sup> Papava and Tokmizashvili, "Becoming European: Georgia’s Strategy for Joining the EU," 27.

<sup>37</sup> Ibid.

<sup>38</sup> Ibid., 28.

with the alternative of relations with Russia and post-Soviet states, were large attraction points for Georgians, whose state was crumbling after over a decade of independence due to the abovementioned issues.



## *Methodology*

The poor economic situation and corruption have been mentioned by many authors as causes of political change. As Amy Friedman notes in her “Economic Crises and Political Change: Indonesia, South Korea, and Malaysia”, the Asian economic crises of 1997-1998 were a major cause of political change in the abovementioned countries. The author notes that political change in Asia came as a result of frustration from citizens regarding the economic situation, as well as in hope of “greater openness and accountability” of the government.<sup>39</sup> Brooks and Brady provide a similar argument while assessing the influence of the U.S. citizens income on the Presidential elections. As the authors demonstrate in their work, the voting behavior can be described by the following diagram income => economic evaluations => vote choice, where individuals’ income affected their assessment of the economy and, as a result, influenced their voting choices.<sup>40</sup>

Looking at the local context, it has been largely claimed that the failure of the pro-European government in Moldova to deliver on the promises mentioned in the previous section was the main reason of election of the President Dodon and Moldova’s re-orientation away from the EU and towards Russia. The Ukrainian media outlet Segodnya.ua, in its analysis of the reasons behind the election of Dodon, has mentioned the high levels of corruption and the deterioration of the living standards as the main drivers for political re-orientation in Moldova. The article claims that the main lesson to extract from this situation is that (translation) “if one does not fight corruption and conduct reforms, the electorate might become disenchanted in the pro-European powers and will vote for populists, who often collaborate with Kremlin”<sup>41</sup>. The

<sup>39</sup> Amy Freedman, "Economic Crises and Political Change Indonesia, South Korea, and Malaysia," *World Affairs* 166, no. 4 (2004): 186, doi:10.3200/wafs.166.4.185-196.

<sup>40</sup> Clem Brooks and David Brady, "Income, Economic Voting, and Long-Term Political Change in the U.S., 1952- 1996," *Social Forces* 77, no. 4 (1999): 1343, doi:10.2307/3005879.

<sup>41</sup> Zeleniuk Kristina, "Урок для Украины: почему Молдова выбрала пророссийского Додона [Lesson for Ukraine: Why Moldova chose the pro-Russian Dodon?]," *Segodnya*, November 14, 2016, , accessed June 12, 2017,

German international broadcaster Deutsche Welle (DW) provides similar conclusions, claiming that the deterioration in the pro-European support is due to distrust towards the pro-European corrupted government, as well as increasingly negative socio-economic situation.<sup>42</sup>

As such, in order to identify the differences between Georgia and Moldova that have led to the different economic and political alignments of the abovementioned states, I will analyze the data on the changes in economic well-being, as well as institutional changes of each of the countries. Namely, I will analyze changes in the macro-economic indicators and corruption levels of both Georgia and Moldova. The deterioration of the economic indicators and corruption levels will be the indicator of the weaker European soft power/weaker attraction of the pro-EU political and economic orientation. Similarly, the positive changes in the abovementioned indicators will demonstrate the strength of the EU economic and soft power over Georgia and Moldova.

The analysis of the macroeconomic indicators and corruption levels for each state will be performed in the timeframe of the pro-European governments being in power in both Georgia and Moldova. As such, for Georgia the starting point of the analysis is 2003, the year during which Mikheil Saakashvili and pro-European government came to power in Georgia. The end point of the analysis is the present time, since the current president of Georgia, Giorgi Margvelashvili is still leading his country towards the European path.

For Moldova the starting point of analysis is 2009, the year when 8 years of rule of the Party of the Communists of the Republic of Moldova (PCRM) were over and the Alliance for European Integration (AEI) took over the governing of the state. The end point of the analysis for Moldova

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<http://www.segodnya.ua/politics/pnews/urok-dlya-ukrainy-pochemu-moldova-vybrala-prorossiyskogo-dodona-769841.html>.

<sup>42</sup> Iulia Semionova, "Пророссийский президент-социалист: чего ждать Молдавии от Додона [Pro-Russian President-socialist: what should Moldova expect from Dodon?]," Deutsche Welle (DW), November 14, 2016, , accessed June 12, 2017, <http://p.dw.com/p/2SeY8>.

is November 2016, which marked the election of the allegedly pro-Russian President Igori Dodon, a former member of the PCRM.

The data will be collected and analyzed on the following macroeconomic indicators: gross domestic product, consumer price index changes/inflation rate, as well as changes in income per capita (GNI per capita, Atlas). While indicators such as GDP indicate the overall changes in the economies of Georgia and Moldova, looking at the indicators such as inflation, and income per capita changes is important due to them being most noticeable by the population, hence affecting the support of the population for a given political and economic direction taken by Georgia and Moldova. Additionally, changes in the corruption ranking of each of the countries will be evaluated. Evaluating whether the success has been achieved in the fight with corruption during the pro-European path is important due to the fact that corruption was one of the major push-factors in Georgia and Moldova when choosing the pro-EU orientation.

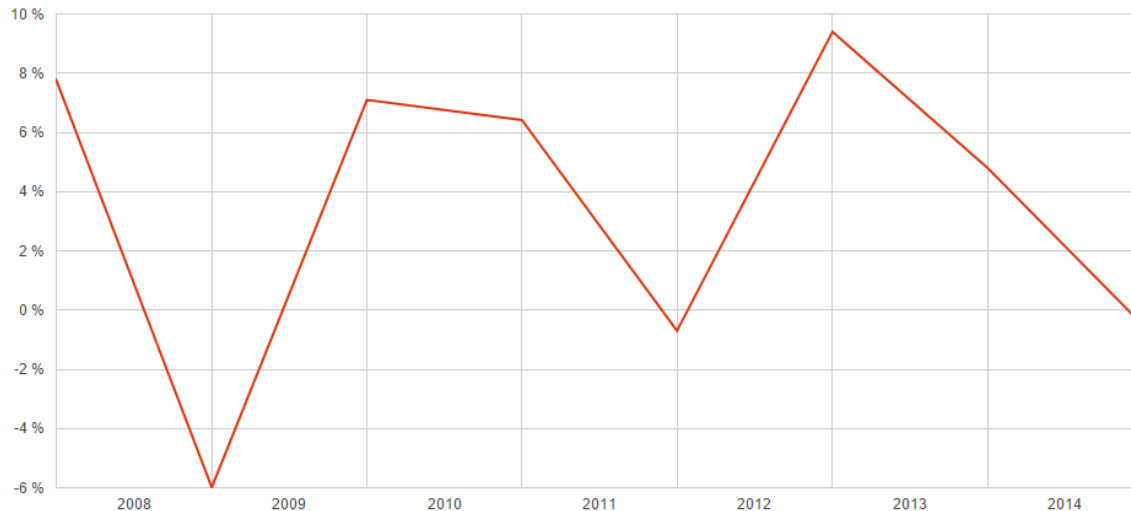
Finally, the comparative analysis between Georgia and Moldova will be conducted and the reasons behind each of the post-Soviet states to remain on the pro-European path or to diverge from it will be discussed. Such comparison will be useful to identify differences between Georgia and Moldova, two post-Soviet states with virtually identical history with the EU, which have led to the different outcomes in terms of political and economic orientation, e.g. continuing to stay on or leaving the pro-European path. As mentioned earlier, the identification of such key differences would contribute to the potential improvements to the European Neighbourhood Policy and, specifically, the Eastern Partnership strategies.

## *Data Analysis*

### *Gross Domestic Product: Moldova and Georgia*

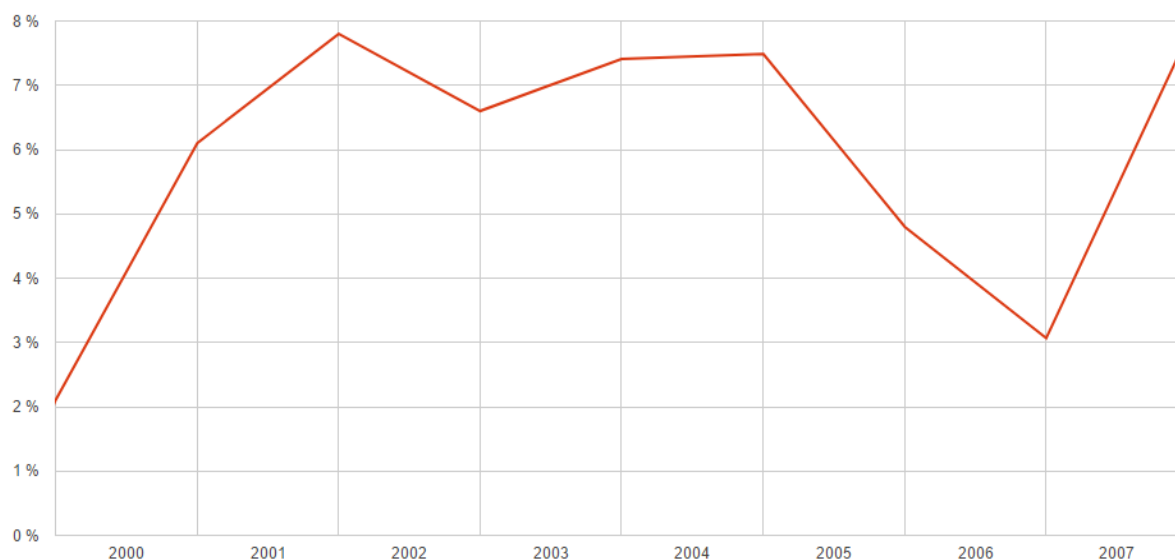
Gross Domestic Product (GDP) is the most commonly used macroeconomic indicator to analyze the economy of a given state. As such, this section will focus on the real GDP growth in Moldova and Georgia throughout the pro-European course of political and economic orientation, will compare these indicators to the ones during the previous governments in Moldova and Georgia, and will analyze how these indicators affected the pro-European future of the former Soviet states. The data presented in this section, as well as the following sections on macroeconomic indicators, is taken from the World Bank public data.

Real GDP growth rate in Moldova between 2009 and 2016, the period of the pro-European parties being in power, can be described as volatile. According to the data from the World Bank, in 2009 Moldova's GDP growth was at its worst in the 21<sup>st</sup> century, reaching almost - 6%. Such drastic drop was hardly the result of the pro-European direction of Moldova, given that the pro-European path in Moldova has only started in 2009. Additionally, 2009 was the year when the Global Financial Crisis was ravaging around the world, hence most likely affecting such a drop in the real GDP growth. Nevertheless, such poor results were a rough start for the pro-European government, which promised its population economic prosperity as one of the outcomes of the pro-European orientation. Despite the negative start, the pro-European government rehabilitated itself in the next few years, with GDP growth reaching 7.1% and 6.4% in 2010 and 2011, respectively. The next four years can be described as highly unstable economic growth of the country. As such, in 2012 Moldova's economy shrunk by -0.7 %, expanded by 9.4% in 2013, one of the highest indicators in the history of Moldova, kept growing by 4.8% in 2014 and, finally, shrunk by -0.5% in 2015, the last year available in the World Bank data for Moldova.

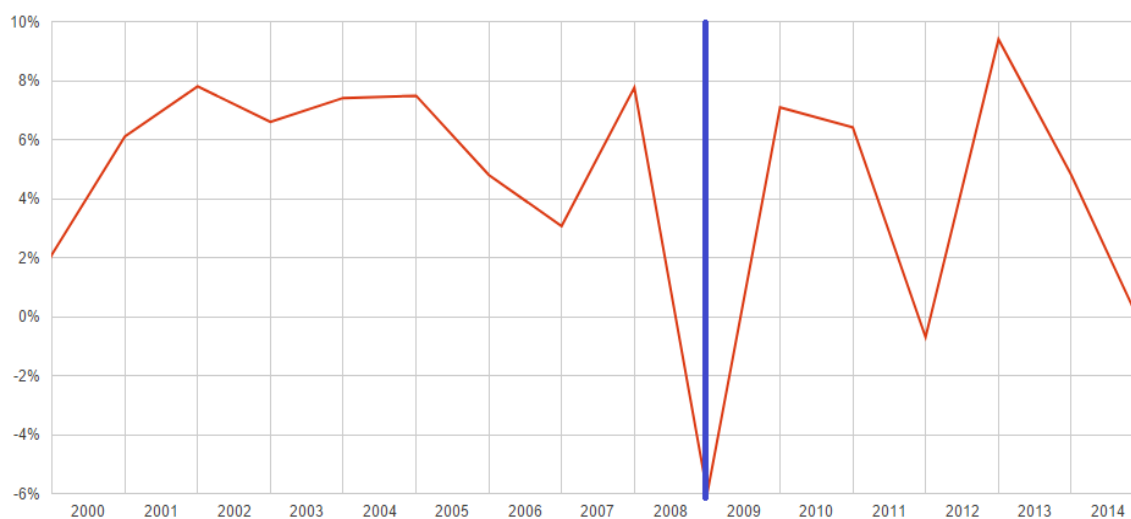


*Figure 1: GDP growth rate of Moldova 2008-2015.*

In comparison to the previous government under PCRM and Vladimir Voronin, the pro-European government has done poorly in terms of improving the economic performance of the country based on the GDP growth rate. As such, in contrast with the pro-European government, PCRM has never reached a contraction of the economy/negative growth rate. Starting in 2000, when the GDP growth of Moldova was only at 2.1%, the real GDP went up steeply afterwards. In 2001, the GDP growth rate grew to 6.1%. Starting from 2001 and until 2008, the last year of PCRM in power, the GDP growth rate of Moldova was fluctuating between 6% and 8%. It is worth noting, however, that the only exception to the trend was 2007, when the GDP growth rate was at its lowest throughout the PCRM government, reaching only 3.1 %. It is also worth noting that the performance of the economy was record breaking in the history of Moldova, reaching rates between 6% to 8% for the first time since gaining independence. While, as was mentioned earlier, such growth was not necessarily seen as radical by the population, whose standards of living did not change drastically, it was nevertheless a serious improvement after the troublesome 90s and, as can be observed, it was overall higher and more stable than the growth during the pro-European parties' rule.



*Figure 2: GDP growth rate of Moldova 2000-2008*



*Figure 3: GDP growth rate of Moldova before and after stepping on the pro-EU path*

In the case of Georgia, the pro-European government has been doing much better than its counterpart in Moldova in terms of boosting the national economic performance. As such, the Saakashvili government, in contrast with Moldova, had a very solid base to start, with approximately 11.1 % of real GDP growth in 2003, a year right before Saakashvili was elected as

the President. While the growth somewhat decreased in 2004, marked by 5.86% growth rate, the economy of Georgia has been steadily expanding over the years until the economic crisis of 2009. As such, from years 2005 to 2007, the real GDP of Georgia has been increasing by 9.6%, 9.4%, and 12.3%, respectively. Years 2008 and 2009, the years of the global financial crisis, as well as the conflict of Georgia with Russia, hit the economic success of Georgia and its pro-European government, with real GDP growth falling to 2.3% in 2008 and -3.8% in 2009. Despite this fact, however, Georgia has been able to recover rather quickly and step onto the growth path once again. Between the years 2010 and 2012, the last year of Mikheil Saakashvili's presidency, Georgia's economy bounced back to the growth rate between 6.2% and 7.2%, a rather successful comeback after the economic crisis and a brief war with Russia. Although Saakashvili was replaced by Margvelashvili in 2013, a more moderate, but still a proponent of the pro-European and pro-Western orientation of Georgia, the real GDP of Georgia kept on growing, although at more modest rates, varying from 4.6% and 2.8% between 2013 and 2015, the last year available in the World Bank data.

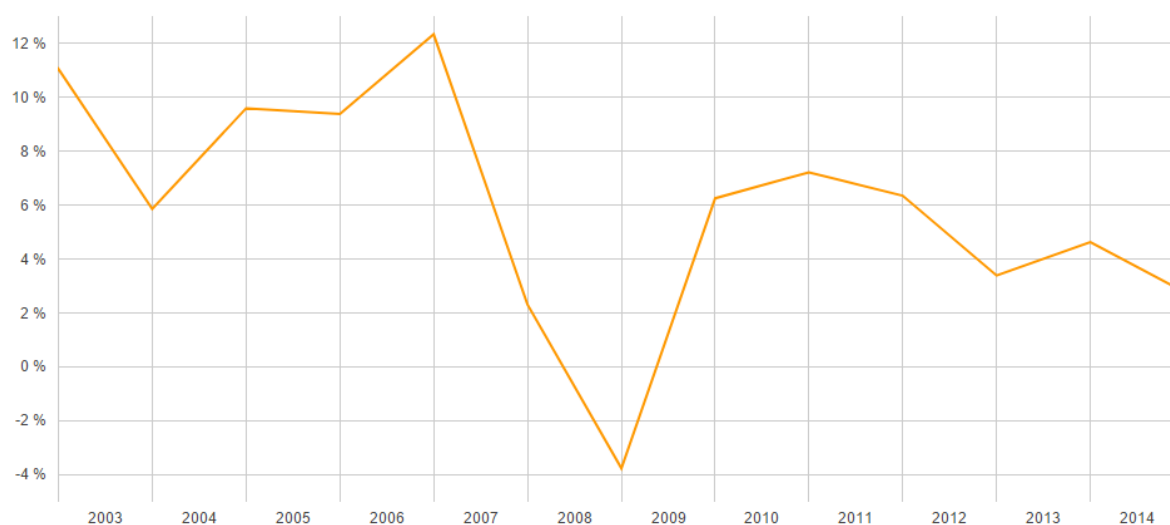
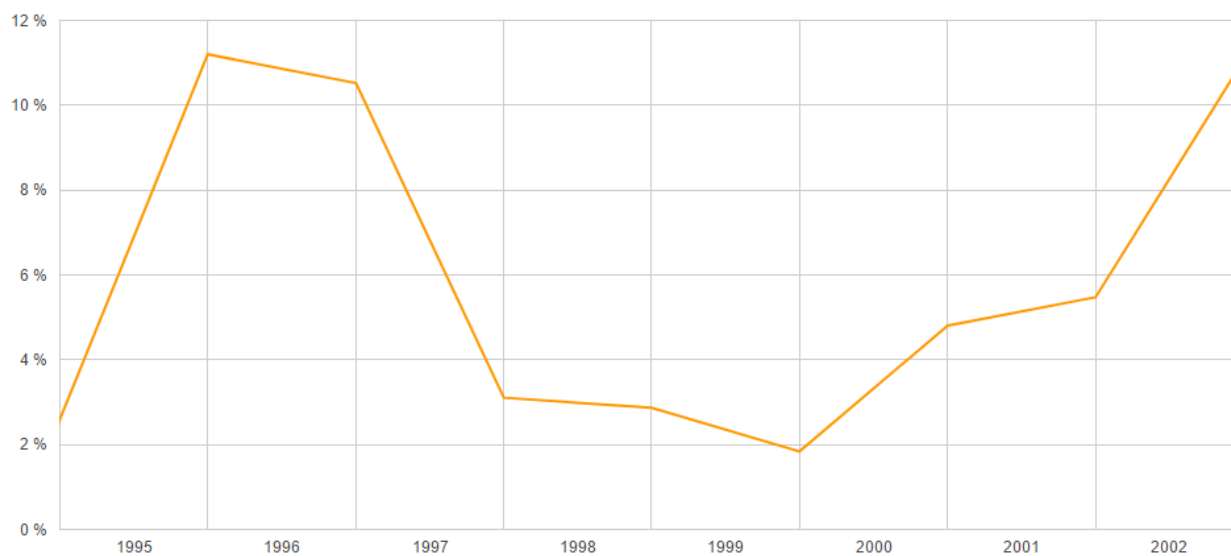


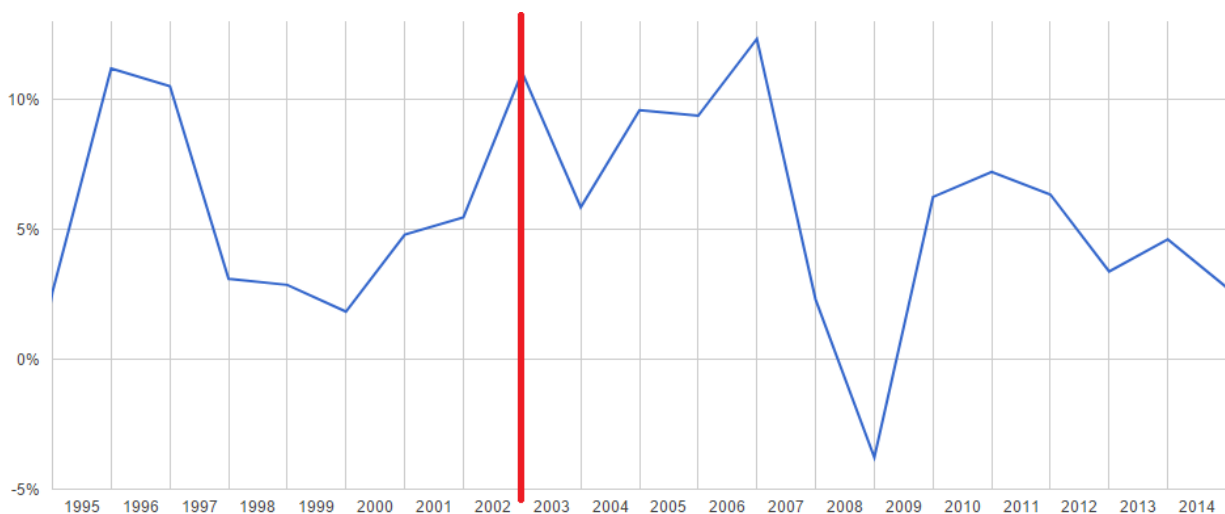
Figure 4: GDP growth rate of Georgia 2003-2015

In comparison with the previous government led by the President Shevarnadze, Saakashvili's government has certainly performed better in terms of revitalizing the Georgian economic growth. Between the years 1995-2003, the years of Shevarnadze's presidency, the real GDP growth of Georgia was modest at best. While the first two years, 1996 and 1997, as well as the last year of Georgia under Shevarnadze were marked by remarkable results, indicated by 10-11% growth of Georgian economy, the years in between were not so positive. As such, the majority of Shevarnadze's presidency was marked by the growth rate between 1.8% to 5.5%, with years 1998-2000 marked by only 2-3% growth, and 2001-2 marked by 4.8% and 5.5% rates. Given Georgia's miserable economic situation in 1990s, such results were hardly an achievement, hence demonstrating the real success of Saakashvili pro-European government's economic policy.



*Figure 5: GDP growth rate of Georgia 1995-2003*





*Figure 6: GDP growth rate of Georgia before and after stepping on the pro-EU path*

Overall, as one can see from the data presented above, the performance of the pro-European governments in Moldova and Georgia regarding the economic growth of the respective nations is largely different. While Saakashvili government has been able to maintain a rather steady and strong economic growth of Georgia throughout his presidency, a trend that the current President Margvelashvili is able to continue successfully, the performance of the Alliance for European Integration in Moldova and other pro-European parliamentary coalitions can be seen as mixed at best. The volatility of the economic growth in Moldova demonstrates the inconsistency in the economic policy of the pro-European government. More importantly, it does not demonstrate the promised economic prosperity, an important factor that must have been present to maintain the strength of the EU soft power over Moldova.

While the ability or inability to maintain high and stable economic growth affects the likelihood of the population to continue supporting the pro-European government and, as it follows, the pro-European path, it is the comparison to the previous, non-Western oriented governments in Georgia and Moldova that demonstrates the improvements, or lack thereof, during the pro-EU path in the abovementioned states.

The pro-European government in Georgia clearly outperforms the times of Shevarnadze presidency. While during Shevarnadze's government Georgia's economy was performing poorly, the pro-European government led by Saakashvili managed to launch the real GDP growth of Georgia into double digits and keep it stable until the economic crisis. Thus, good economic performance, as well as outperforming the previous government makes the pro-European orientation a preferable option for Georgia from the economic growth point of view. It demonstrates the strength of the European soft power in Georgia, where the promises of economic prosperity are being visibly fulfilled, hence contributing to the higher likelihood of the Georgian population supporting the pro-European path.

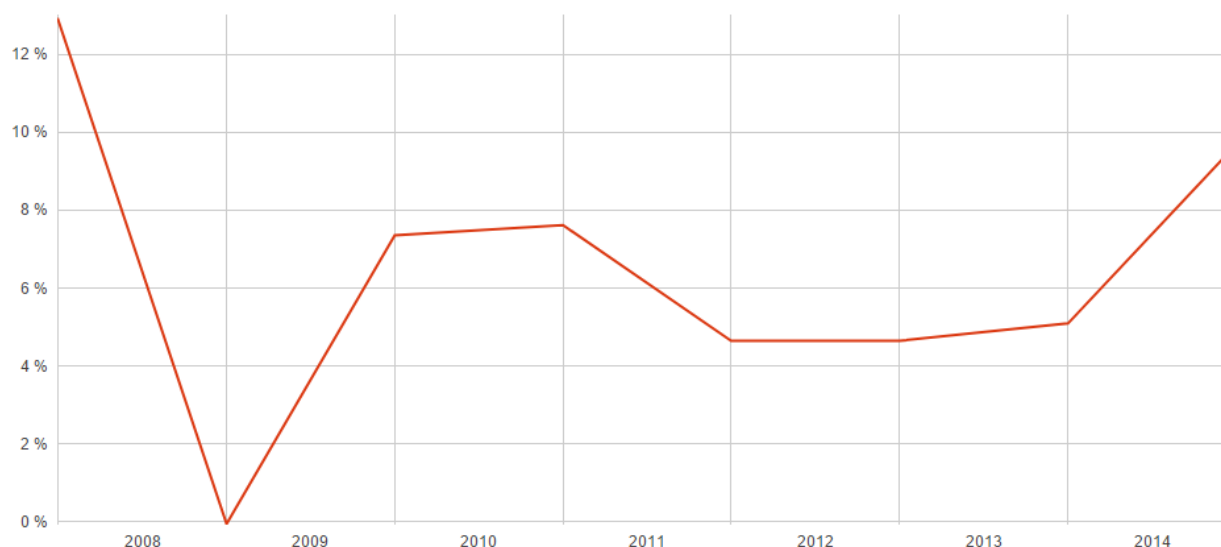
In contrast, however, the pro-European government in Moldova has been performing much worse in comparison to the times of Voronin and PCRM. While the times of PCRM rule pushed Moldova for the record breaking and stable growth approaching almost 10%, the pro-European coalitions did not manage to successfully run the Moldovan economy, as demonstrated by the volatility in the real GDP growth rate. As such, the pro-European government failed to resonate with the motivations that pushed the Moldovan population to choose the pro-EU course from the economic growth point of view, hence undermining the EU's soft and economic power in Moldova, and diminishing the attraction of the pro-EU path.

### *Changes in Consumer Price Index/Inflation*

The changes in gross domestic product indicate the state of the economy of a certain country in general. In order to evaluate the strength of the economic power and attraction of the EU for Moldova and Georgia, however, it is important to look not only at the general picture, but also at the indicators that affect the populations of the aforementioned countries in a more direct way. One of such indicators is the change in the consumer price index in Moldova and Georgia, or the rate of inflation.

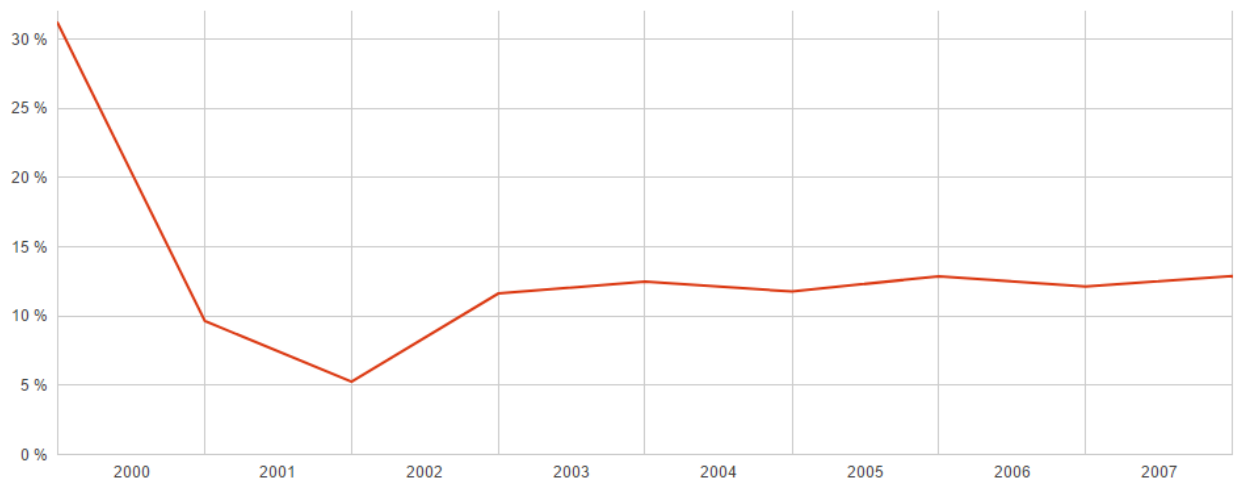
Unlike the situation with GDP, the pro-European path of Moldova between 2009 and 2015 can be characterized as a period when the inflation rates have experienced a certain improvement. Similar to GDP, the pro-European government had a rough start in 2009 from the point of view of the inflation, when the deflation rate reached -0.06%, a massive drop from inflation of 12.9% in 2008, a situation largely regarded as undesirable by the economists due to the negative effects on the economy. Despite this fact, however, the inflation rates have become much more acceptable, although still high, starting with the year 2010. As such, in 2010 and 2011 inflation in Moldova reached 7.35% and 7.61%. The positive situation with inflation rates in Moldova improved further in the following years, having 4.64% inflation rate in 2012 and 2013, and 5.09% in 2014. In 2015, however, the last year for which the World Bank data is available, inflation reached 9.68%.

The major downside made in the progress towards improving the situation with inflation was the volatility, with which the inflation was changing throughout the pro-European path. The volatility of rates, as well as their relatively large size during certain years, made the inflation rates less stable and less predictable, a factor that affects the daily lives of the population in a negative way due to factors such as menu costs, affected bond yields, and other concepts related to inflation.

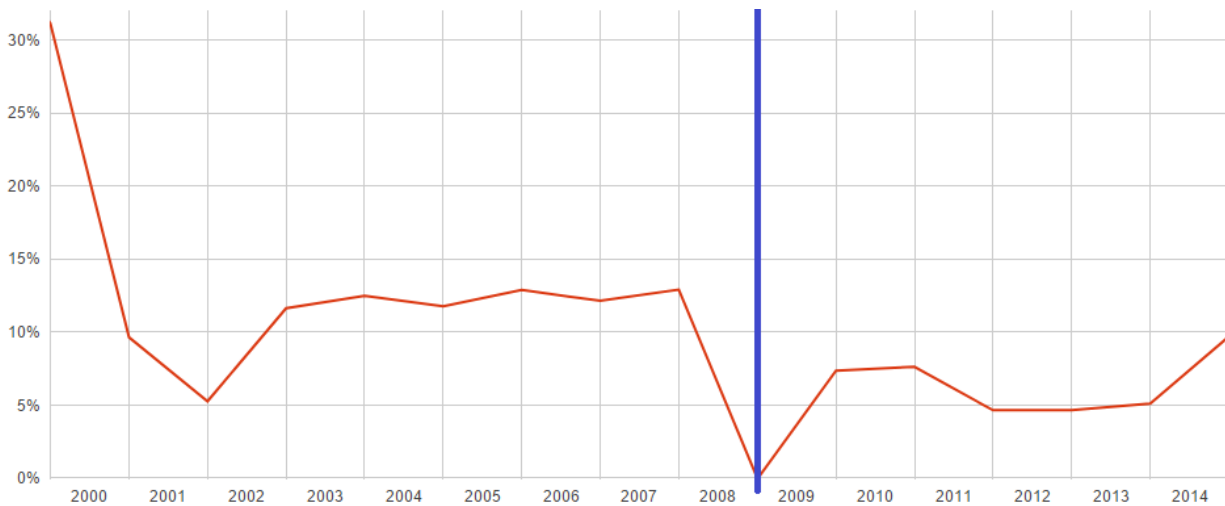


*Figure 7: Inflation rate of Moldova 2008-2015*

In terms of size of inflation, the pro-European government in Moldova managed to outperform the previous pro-Russian PCRM government. As such, throughout 8 years of being in power, PCRM has been maintaining a fairly stable, but also high level of inflation. While 2002 was the year of exceptionally low inflation rate of 5.25% under PCRM, the rest of the years from 2001 to 2008 were characterized by rather high inflation rates varying between 9.64% in 2001, and 11-13% during other years. It is worth noting, however, that the PCRM government managed to decrease the inflation drastically, bringing it down from approximately 30% in 2000, the year the PCRM and Voronin were elected to govern Moldova. It is also important to mention that while the inflation rates throughout the rule of PCRM were high, so was the economic growth, a fact that could partially justify high inflation rates during PCRM rule. The relative stability of inflation rates during PCRM government throughout high economic growth was also a factor that served in favor of PCRM and Voronin.



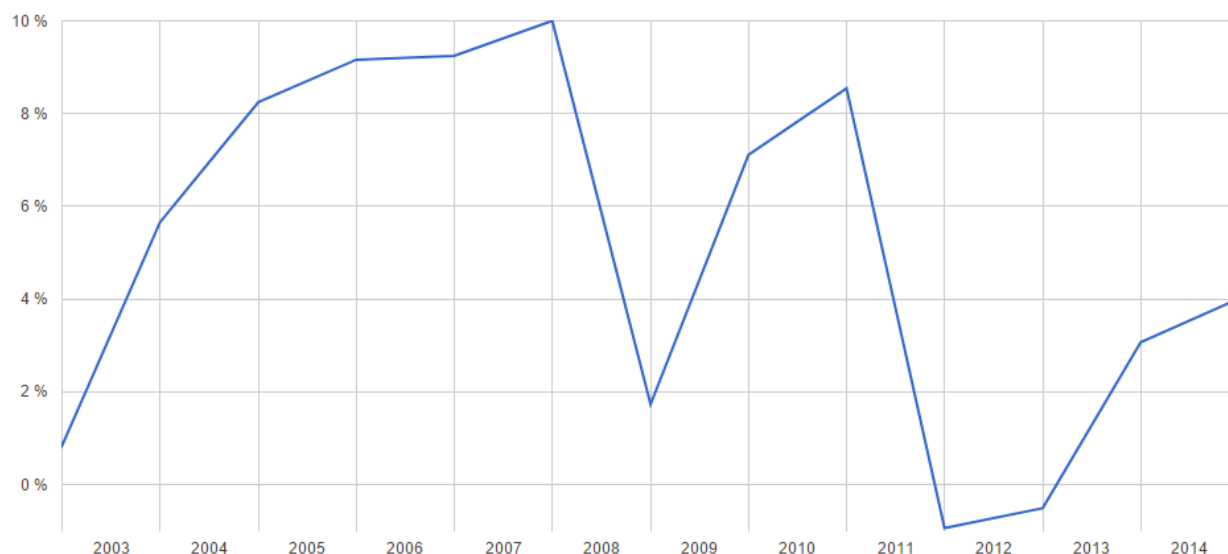
*Figure 8: Inflation rate of Moldova 2000-2008*



*Figure 9: Inflation rate of Moldova before and after stepping on the pro-EU path*

The situation in Georgia during the pro-European government is similar from the inflation perspective. While Georgia has been on the pro-European path much longer than Moldova and, hence, faced a more volatile trend in the inflation rates, the pro-EU government has nevertheless managed to maintain the healthy levels of inflation in Georgia throughout its rule since 2003. As such, from 2004 to 2008, in light of the economic growth, the inflation rate in Georgia was slowly increasing, starting with 5.66% in 2004 and reaching the highest inflation rate throughout the rule

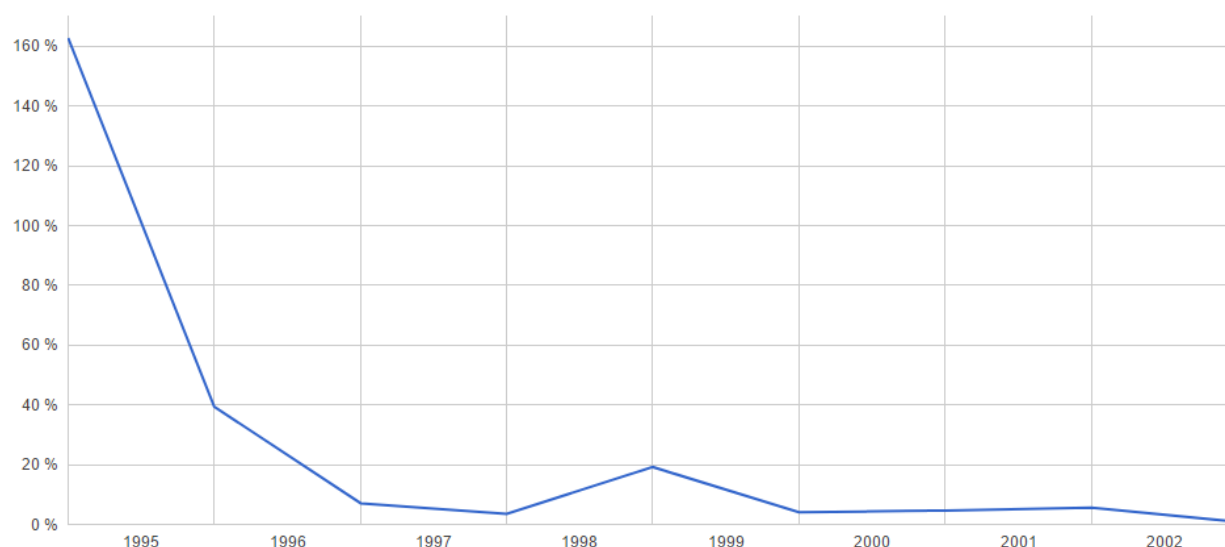
of pro-EU government, 10%, in 2008. While the inflation rates in Georgia fluctuated in 2009, the time of the financial crisis, and 2012-2013, when Georgia reached the negative inflation rates/deflation of -0.94% and -0.51% respectively, the pro-EU government has nevertheless managed to maintain the healthy inflation rates, which reached 3% and 4%, during the moderate economic growth of 2014-2015. Overall, the times of the pro-EU government in Georgia, especially during the times of Saakashvili government, were times of largely predictable inflation rates, as well as relatively healthy ones in terms of size, given the rapid growth of Georgian economy.



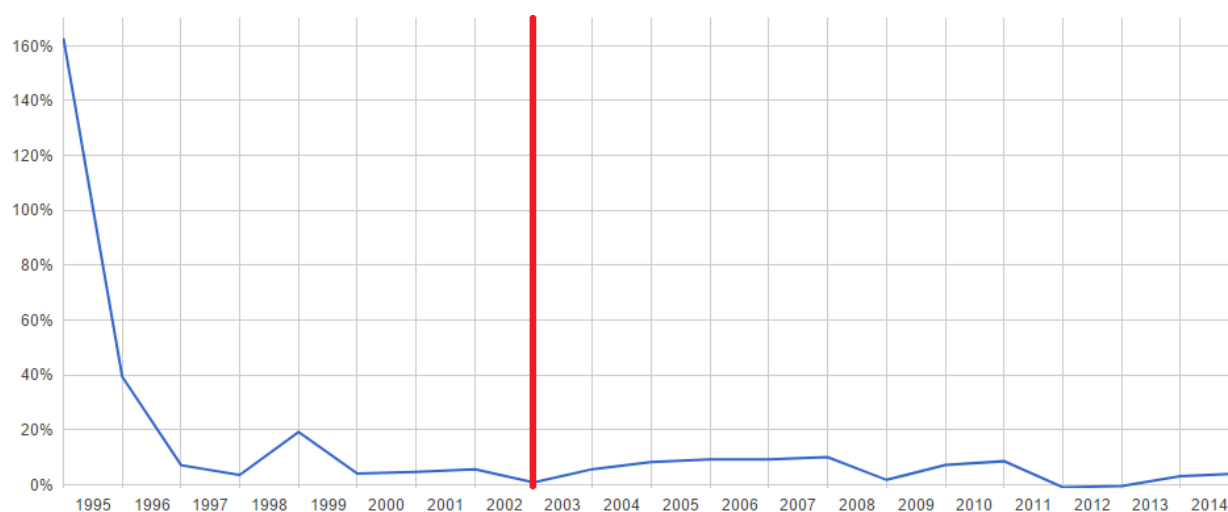
*Figure 10: Inflation rate of Georgia 2003-2015*

In comparison to the pro-European path of Georgia, the previous government led by Eduard Shevarnadze has managed to maintain a rather low rate of inflation. As such, the Shevarnadze government has managed to bring down the massive inflation rate of 162% in 1995 to 39% in 1996 and only 7% in 1997. From 1997 and until 2003, the inflation rate was kept relatively stable, varying from approximately 3.5% to 5%, with exception in 1999, when it reached 19%, and 2003,

which was characterized by 0.84% inflation rate. As such, Shevarnadze times can be characterized as times of lower and more stable inflation rates. Given the rapid economic growth of Georgia during the pro-EU orientation, however, as well as hardships it had to face, such as the military conflicts with Russia and the global financial crisis, the Shevarnadze government did not outperform the pro-European times of Georgia drastically, hence making the situations similar from the inflation point of view.



*Figure 11: Inflation rate of Georgia 1995-2003*



*Figure 12: Inflation rate of Georgia before and after stepping on the pro-EU path*

Overall, based on the data presented above, both Georgian and Moldovan pro-European governments have performed rather similarly in terms of controlling inflation. Unlike the situation with GDP, both Georgia and Moldova have managed to maintain healthy for a given economic growth, although volatile, levels of inflation. In Moldova, inflation rates were kept relatively low on average starting from 2009, the start of pro-European path, and until 2015, the last year with available data from the World Bank. In Georgia, the inflation rates were kept somewhat higher during the pro-European government. This fact, however, was accompanied by a rather high economic growth. As such, one may claim that the pro-European governments in Moldova and Georgia overall succeeded in making the situation better from the inflation point of view.

Certainly, to measure the real success of the pro-European path and how it compares to the alternatives, it is important to see the changes the pro-European governments have made as opposed to the previous, non-EU oriented governments in Moldova in Georgia. As such, the situation becomes mixed when comparing the successes of Moldovan and Georgian pro-EU governments to the previous non-EU governments.

In Moldova, the pro-European government has succeeded to reduce inflation rates in comparison to PCRM government. While during the times of the PCRM rule the yearly inflation rates were mostly in the double digits, the pro-EU government has managed to maintain the inflation at much lower and acceptable levels. From the inflation reduction point of view, the pro-European political and economic orientation is a clear winner in comparison to the more pro-Russian orientation proposed by the previous PCRM government. Despite this fact, however, the volatility of the inflation rates during pro-EU times, as well as much slower economic growth, does not make inflation reduction a major success. As such, taking into account the slow economic growth and the volatility of inflation rates, the reduced inflation rates in Moldova during the pro-



European times did not affect the quality of population's life drastically. Due to this fact, one may conclude that the reduced inflation rates did make a significant contribution to the attraction of the pro-European path and the strength of the EU's soft power in Moldova.

In Georgia, the situation is also not clear, although in the opposite way. While the inflation increased during the times of pro-European government in comparison to the times of Shevarnadze, the economic growth increased as well. Both of the governments, however, have managed to keep the inflation rates relatively low and somewhat volatile. As such, the influence of the pro-European path and the EU economic power is hardly visible in the case of Georgia from the inflation rate point of view. Under these circumstances, purely from the inflation rate changes perspective, one may hardly judge whether the pro-European path is a preferable option for the Georgian population, hence making pro-European and previous alternative paths of political and economic orientation roughly equal.

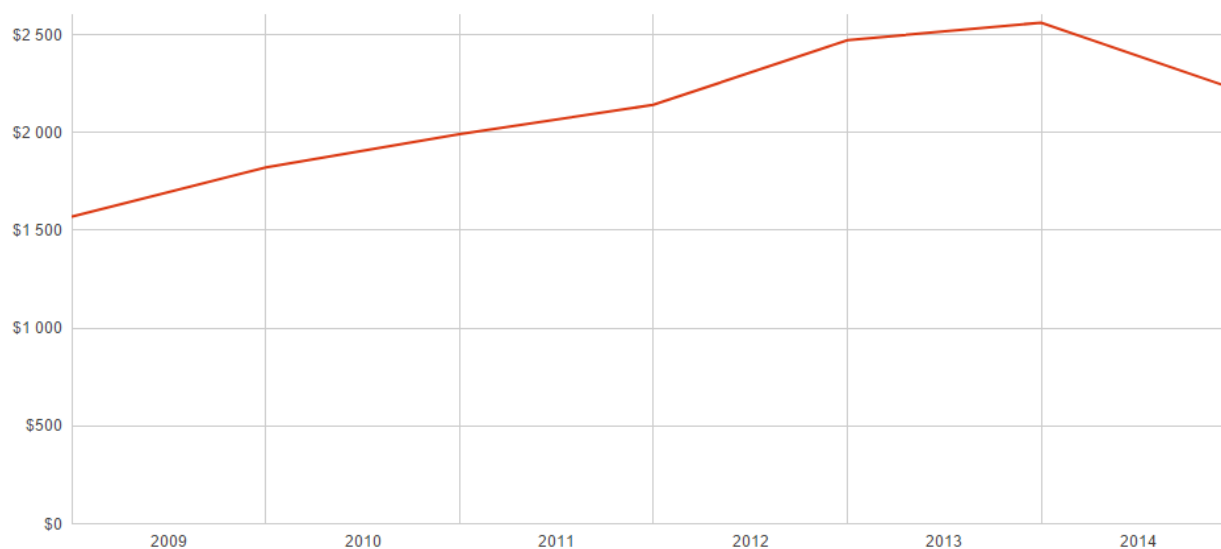
### *GNI per Capita, Atlas Method*

The income per capita is another macroeconomic indicator directly affecting the population. While there are numerous ways to measure income per capita in the nation, such as GDP per capita, median income, average salary, and similar, this section will focus on Gross National Income (GNI) per Capita, Atlas Method, the method developed by the World Bank. Although, like others, GNI per capita is not an ideal measure of income per capita and the population's economic well-being in general, the World Bank notes that "it has proved to be a useful and easily available indicator that is closely correlated with other, nonmonetary measures of the quality of life"<sup>43</sup>. GNI per capita Atlas Method possesses several advantages over another relatively accurate way to measure the well-being of the population, GNI per capita in purchasing power parity. One of such advantages is smoothing the fluctuations in prices and exchange rates while calculating GNI.

In Moldova, the GNI per capita has seen an increase since the start of the pro-European path. The income per capita based on GNI was increasing constantly since 2009. As such, in 2009, the start of the pro-European rule, GNI per capita in Moldova was only 1570 USD. The pro-European rule in Moldova managed to increase these numbers by approximately 66%. In 2014, the peak of the GNI per capita throughout the rule of pro-EU parties, the indicator has reached 2560 USD. In 2015, however, the indicator went down and reached approximately 2220 USD.

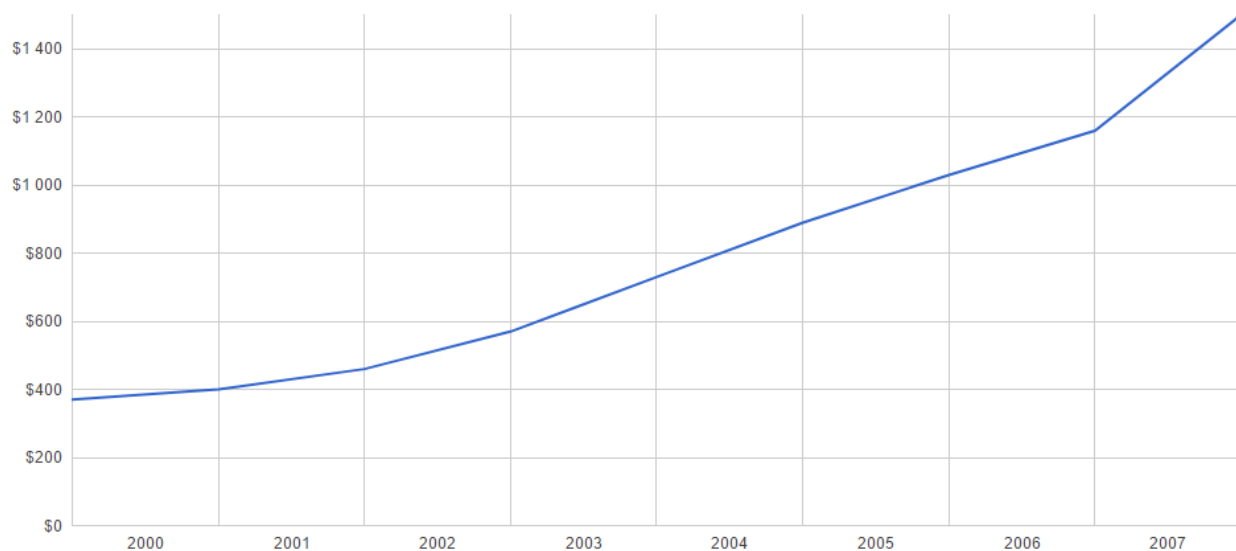
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<sup>43</sup> "Why use GNI per capita to classify economies into income groupings?," The World Bank, , accessed June 15, 2017, <https://datahelpdesk.worldbank.org/knowledgebase/articles/378831-why-use-gni-per-capita-to-classify-economies-into>.

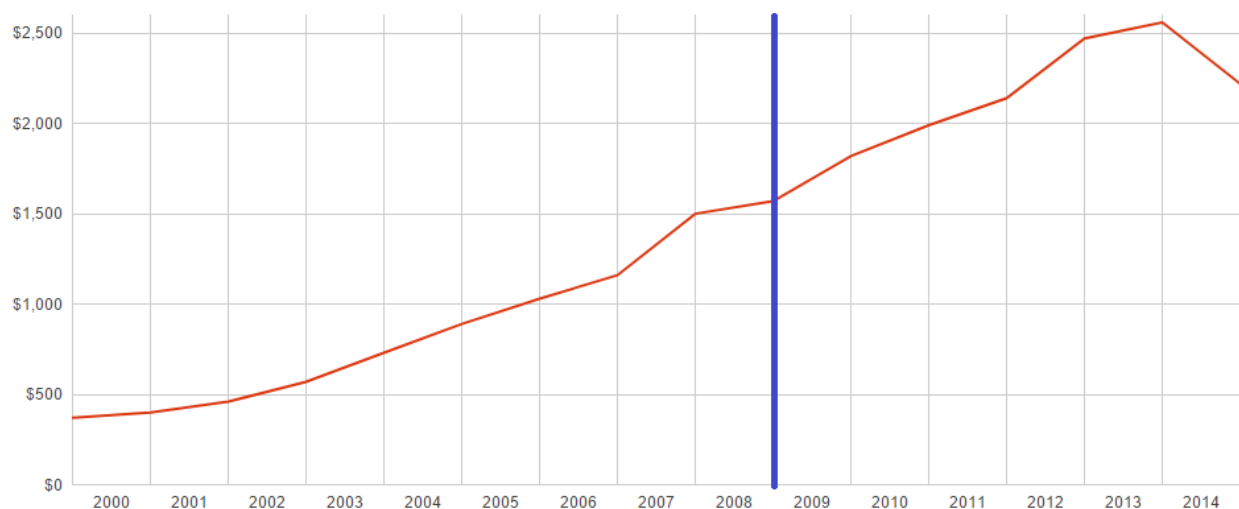


*Figure 13: GNI per Capita Atlas Method in Moldova, 2009-2015*

While the pro-European path has brought growth in GNI per capita to Moldova, the previous PCRM government has progressed drastically as well in bringing the GNI per capita indicator up. As such, the difference between 2000, the year PCRM and Voronin started their rule, and 2008, the last year of PCRM governing Moldova, was slightly above four fold in terms of GNI per capita. While in 2000 the indicator has only reached meager 370 USD, by 2008 it has managed to reach 1500 USD, a massive increase. It is also worth noting that the growth of the GNI per capita has been constant, without volatility, having had its major spike between 2007 and 2008, the last two years of PCRM rule, when GNI per capita increased from 1160 USD to 1500 USD.



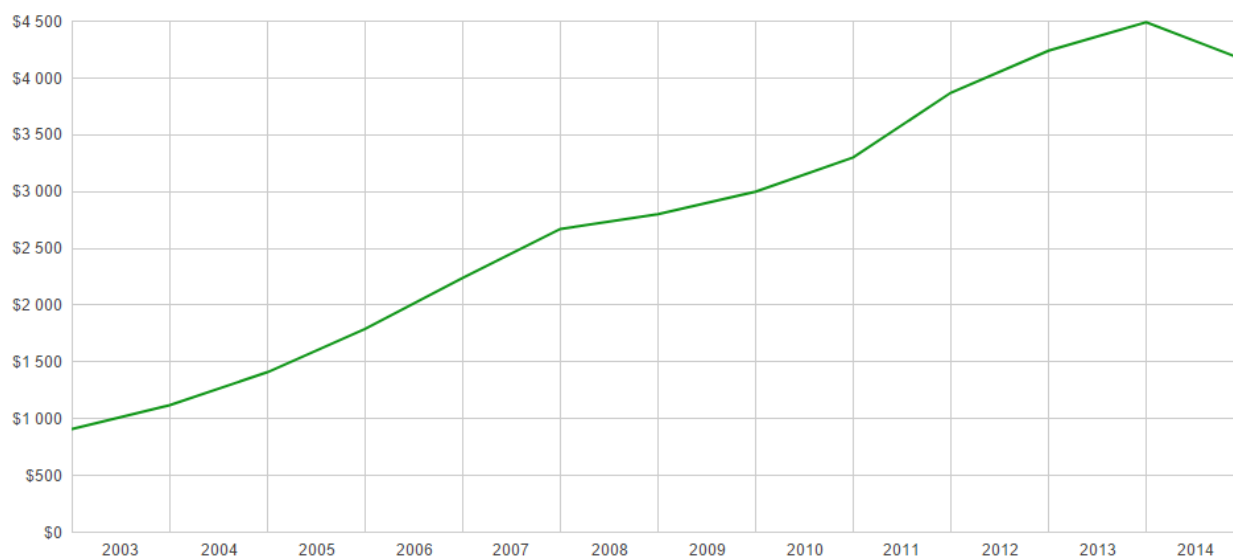
*Figure 14: GNI per Capita Atlas Method in Moldova, 2000-2008*



*Figure 15: GNI per capita of Moldova before and after stepping on the pro-EU path*

The pro-European government of Georgia has also been able to increase the GNI per capita throughout their rule. According to the data from the World Bank, the GNI per capita calculated using the Atlas method has improved drastically in Georgia between 2003, the starting year of the pro-European path for Georgia, and 2015, the last year, for which the data is available. As such, unlike in Moldova, where the increase was relatively modest, the GNI per capita in Georgia in the abovementioned period has gone up more than four and a half times, a truly remarkable result.

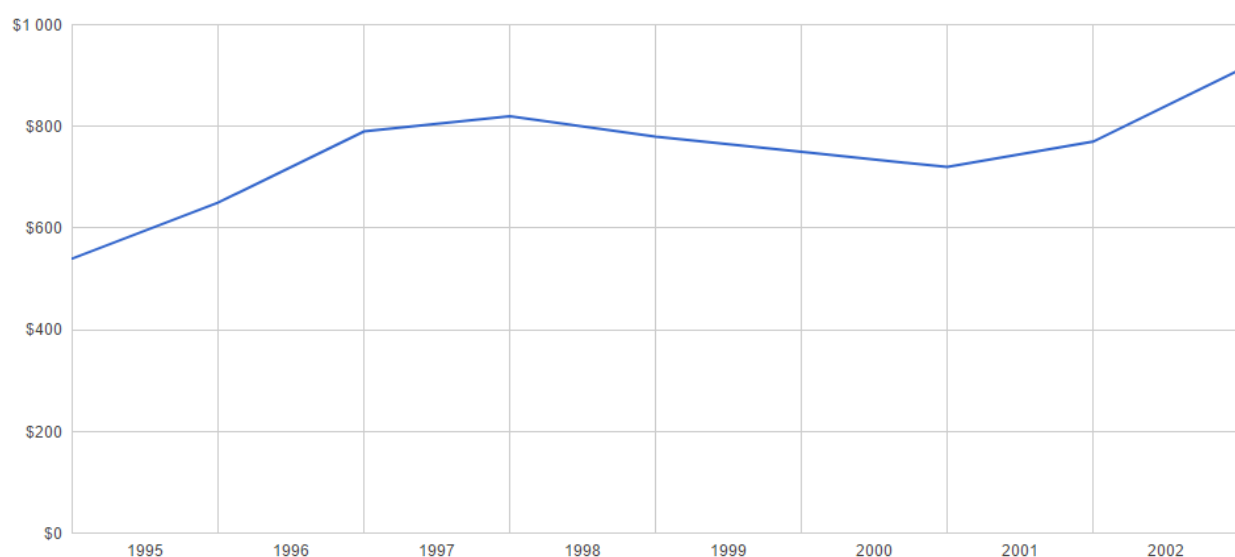
While in 2003 the indicator reached meager 910 USD, by 2015 the GNI per capita was at whopping 4160 USD, a clear indicator of the economic success of the pro-European path in Georgia. The GNI per capita in Georgia has been going up steadily since 2003, reaching its maximum of 4490 USD in 2014 and decreasing slightly only once in 2015 to the point of 4160 USD. The speed, at which the GNI per capita in Georgia was changing, was also remarkable. While in 2003 it was only 910 USD, the GNI per capita was almost doubled in just 3 years, reaching 1790 USD in 2006, almost tripled by 2008 with 2670 USD per capita, more than quadrupled in 2012 with 3870 USD and, finally, reached almost five-fold size by 2014, reaching 4490 USD per capita.



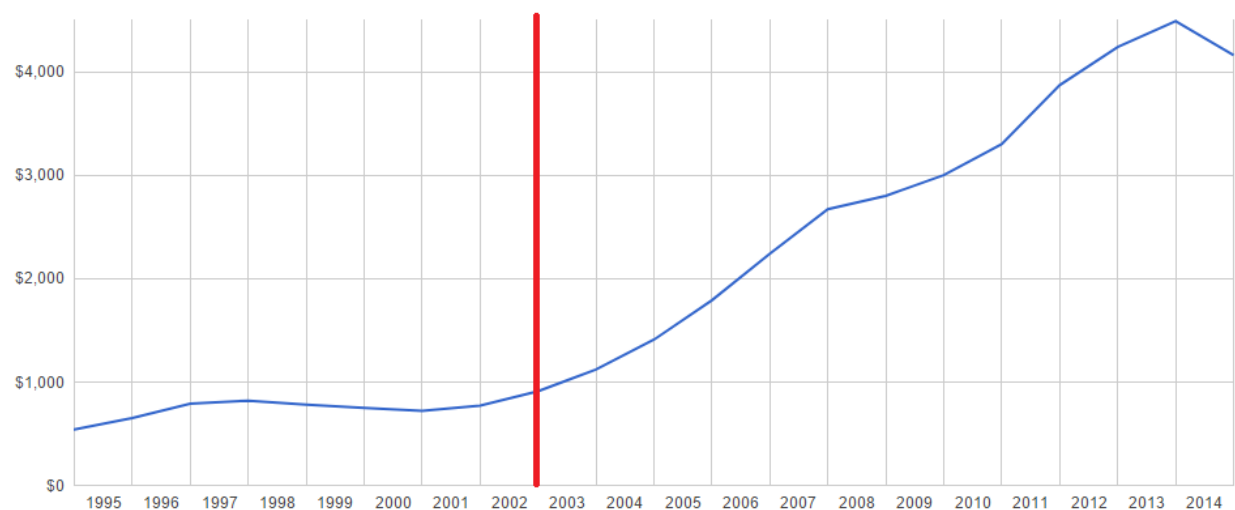
*Figure 16: GNI per Capita Atlas Method in Georgia, 2003-2015*

The progress in GNI per capita achieved in Georgia throughout the pro-European path is even more impressive when comparing it to the progress made during the previous Shevarnadze government. The Shevarnadze government has not been very successful in improving the economic situation of Georgia from the GNI per capita point of view. While there was an upswing from 1995 to 1998, where GNI per capita in Georgia has increased from 540 USD to 820 USD,

the changes in the indicator were volatile, constantly decreasing and only slightly increasing between 1998 and 2003, the year Georgia stepped onto the pro-European path. In 2003, after 8 years of Shevarnadze government, the GNI per capita of Georgia was only at the mark of 910 USD, not even a double of the 1995 mark, a poor result given the dire economic situation of Georgia at that time, as well as in comparison with the results achieved after Georgia stepped on the pro-European path.



*Figure 17: GNI per Capita Atlas Method in Georgia, 1995-2003*



*Figure 18: GNI per capita of Georgia before and after stepping on the pro-EU path*

Overall, as the data above demonstrates, in the case of Moldova the increase in the GNI per capita throughout the time of the pro-European path, despite having taken place, was hardly impressive. Although the growth of the abovementioned indicator from 2009 to 2015 was present, it was not dramatic enough to be noticeable by the population and to convince the attitudes within the population of Moldova to stay largely pro-European. Such fact becomes especially obvious in comparison with the achievements of the previous, largely pro-Russian PCRM government, which has managed to increase the GNI per capita massively between 2000 and 2008. The less than impressive performance by the pro-European government in Moldova demonstrates the failure to deliver on the promises of a prosperous economic situation, as well as on expectations of the population for the quality of life to improve in Moldova from the economic point of view while on the pro-European path. As such, failure to deliver on the abovementioned promises and expectations, as well as underperformance in comparison with the previous government pursuing an alternative political and economic orientation, weakened the EU's attraction trait, the economic power, to the population of Moldova, which contributed to the shift in the political orientation closer towards the pro-Russian path.

By similar logic, the success of the pro-European government in Georgia to significantly boost the GNI per capita allowed for it to continue staying on the pro-European path. The pro-European path in Georgia has paid off remarkably both in absolute terms, as well as in comparison to the previous government. In absolute terms, Georgia has managed to increase its GNI per capita by approximately four and a half times between 2003 and 2015, a truly remarkable and very noticeable change. While a significant achievement in itself, such results are especially impressive in comparison to the poor performance by the previous Shevarnadze government, which in the dire

economic situation with low GNI per capita numbers has not managed to even double the indicator in Georgia. The economic success of the pro-European government in Georgia has most certainly strengthened the confidence of the Georgian people in their choice of the pro-European political and economic orientation as the right one. Moreover, it has strengthened the EU's attractive power over Georgia, ensuring that Georgia stays pro-European in the future.



### *Corruption*

While the changes in the macroeconomic indicators are important to look at while assessing the strength of the EU's soft and economic power on Moldova and Georgia, it is also critical to evaluate the changes in the corruption levels in the abovementioned states. As was noted in the previous sections of the paper, high levels of corruption, along with poor economic situation, were the main factors that pushed Moldova and Georgia to step on the pro-European path. As such, the changes in the levels of corruption in each of the countries will demonstrate the current attractiveness of the pro-European path in Moldova and Georgia. The following data is taken from the Transparency International website, which publishes annually the ranking of countries based on the corruption perception. Transparency International ranks all the countries in the world using corruption perceptions index, where 0 equals to complete corruption and 100 equals to no corruption. According to its score, each country has a rank assigned to it, where higher rank means more corruption in relation to countries with lower rank.

According to the Transparency International, Moldova's corruption perception index throughout the time of the pro-European path has been volatile. In the first three years of the pro-European government, the corruption index of Moldova has worsened, shifting from 33 out of 100 to 29. The situation somewhat improved starting in 2012, with corruption index being 36 and staying at the mark of 35 until 2015. In 2015, however, the corruption in Moldova has worsened again, indicated by the mark of 33, and the mark of 30 in 2016. It is also worth noting that Moldova's corruption rank among other countries has worsened as well throughout the pro-European times. From 2009 to 2011, Moldova's rank moved from 89 to 112. While the situation has somewhat improved in 2012, when ranking was at 94, the situation has become much worse further on, reaching an all-time high corruption rank of 123 in 2016.

In comparison with the previous PCRM government, known for the deep corruption across the country throughout its rule, the situation in Moldova did not improve during the pro-European times, but in fact has somewhat worsened. As such, during the times of PCRM, Moldova has reached some of the lowest corruption indexes throughout its history, with an all-time low index of 21 in 2002 and staying around the same number until 2003. The situation has improved in 2005, when Moldova reached the index of 29. While PCRM reached its best performance in terms of corruption index in 2006, reaching the index of 32, it left the power in Moldova in 2008 with the corruption index of 29. As such, no real progress was made during the pro-European times in Moldova from the corruption perceptions index point of view, which stayed in approximately same numbers from 2008 until 2016. In terms of the corruption international ranking, however, the PCRM seems to have slightly outperformed the pro-European government of Moldova. The worst result of PCRM in terms of corruption ranking was 114, 9 points lower than the worst performance of the pro-European government. Additionally, despite being known for high levels of corruption, the PCRM government ranked lower than 100 in most of the years, while the pro-European government scored above 100 for all of the years except for 2009 and 2012.

Similar to the case of Moldova, Georgia was also known for its deep corruption after the fall of the USSR. Unlike Moldova, however, Georgian pro-European government has been largely successful in improving the situation with corruption in the country. As the Transparency International data indicate, the corruption perception index in Georgia has been on a steep rise since 2003, the year of Georgia stepping on the pro-EU path, meaning that people perceived less corruption being present in the country every year starting from 2003. As such, starting with an all-time low corruption perception index of 18 in 2003, Georgia throughout its pro-European path has been able to improve the situation with corruption drastically, having a constant increase in the corruption perception index until 2009, when it reached the mark of 41. While the index has

been stagnating in Georgia from 2009 to 2011, being around the same mark, it continued growing from 2014 onwards, reaching an all-time high of 57 in 2016. Given the serious improvements in the corruption perception index in Georgia, it would only make sense that the corruption rank among other countries would improve as well. Indeed, Georgia has made drastic movements through the international corruption rankings. In 2004, one year after the start of pro-European path, Georgia ranked as 133<sup>rd</sup>, the worst result in the history of Georgia. Afterwards, however, the post-Soviet state has experienced a constant and steep improvements in international ranking, becoming 99<sup>th</sup> least corrupt country by 2006 and, eventually, the 44<sup>th</sup> least corrupt country in the world by 2016, an all-time best performance for Georgia.

The improvements in the situation with corruption in Georgia during the pro-European path was a real marvel once compared to the previous Shevarnadze government. While the data on corruption from the times of Shevarnadze government is incomplete, it still provides for an understanding of the overall direness of the situation with corruption in pre-EU path Georgia. Transparency International provides corruption data on Georgia from 1999 onwards, 4 years after Eduard Shevarnadze has become the president. As such, before stepping on the pro-European path, Georgia has been performing poorly in terms of corruption perception index. In 1999, corruption perception index in Georgia was 23, an extremely low mark. While the data is missing for 2000 and 2001, the situation in Georgia did not change drastically by 2002, when the country scored only 24 points on the index. By 2003, the last year of Shevarnadze government, Georgia was at one of the lowest points in the history, scoring 18 points on the corruption perception index and indicating the dramatically negative situation with corruption. It should come as no surprise, then, that in terms of corruption rank among other countries, Georgia has not been performing well either before the pro-European path. As such, in 1999 Georgia was only 84<sup>th</sup> least corrupted country in the world. While in 2002, the situation did not change drastically, ranking Georgia as

85<sup>th</sup>, by 2003 Georgia's ranking has deteriorated even further, making Georgia 124<sup>th</sup> least corrupted country.

Overall, based on the data presented above, one may clearly see the lack of success of the pro-European path in Moldova to make real changes in improving the dire situation with corruption. The pro-European government in Moldova did virtually nothing to decrease the levels of corruption, as indicated by the similarly low corruption perception indexes in Moldova between 2009 and 2016. In addition, Moldova has become even more corrupt in relation to other countries of the world, as indicated by the negative shift in Moldova's position on the international corruption ranking compiled by Transparency International. The lack of progress made by the pro-European path in the fight with corruption is especially noticeable in comparison to the previous PCRM government. Known for the widespread corruption, the PCRM times were identical to those of the pro-European path from the corruption perception index point of view and more positive while looking at the corruption international ranking of Moldova.

Similar to the macroeconomic indicators, the inability of the pro-European government in Moldova to succeed in improving the situation with corruption demonstrates the failure to deliver on the promises of a better life, as well as on appropriation of the European institutional framework, known for the low levels of corruption. As such, due to the inability of the pro-European path to change the dramatically negative situation with corruption, the failure of the pro-EU government to deliver on the promises and expectations of a better-functioning institutional framework, as well as the slight underperformance in comparison to PCRM government, the pro-EU vector of orientation has become less attractive for Moldova, and the EU's soft power has become weaker over the former Soviet state. As a result, the inability to improve people's lives from the corruption point of view has contributed to the alienation from the pro-European path and re-orientation of Moldova towards Russia.

In comparison, the case of Georgia is diametrically opposite. As in the case with the macroeconomic indicators, the success of the pro-European government in fighting corruption contributed drastically to Georgia's preference of continuing its movement on the pro-European path. The situation with corruption in Georgia has improved not only in absolute terms, where Georgia has experienced drastic improvements both in corruption perception index and corruption ranking throughout the times of pro-European government, but also in relative terms, where in comparison with the previous Shevarnadze government, the situation with corruption in Georgia has changed positively at an incredible pace. As such, due to successfully decreasing corruption, delivering on the promises made and fulfilling the expectations of the pro-European path in the population, the Georgian pro-European government has reaffirmed the pro-EU path as the right vector of political and economic orientation for Georgia. Such achievements strengthened the attractiveness of the European path in Georgia, hence increasing EU's soft power over Georgia, and contributing to the guarantee of Georgia continuing being politically and economically allegiant to the EU.

### *Conclusions and Limitations*

To summarize, the inability of the pro-EU path in Moldova to meet the expectations of the population in terms of economic situation and corruption served as a major factor in the EU's failure to retain Moldova on the pro-European course of political orientation. The weakness of the European soft and economic power is demonstrated by the macroeconomic indicators that are important from the electorate's point of view, such as GDP growth, inflation, and income per capita changes. Each of these indicators either did not face major improvements, such as inflation, or faced drastic slowdowns in comparison to the previous pro-Russian government. In addition, corruption, a major concern of the population during the times of PCRM, has deteriorated even further. Similarly, the significant improvements in the same indicators in Georgia ensured that the attraction of the pro-European path in the country is strong, hence guaranteeing Georgia's continuing political loyalty for the EU and demonstrating that the EU's soft power is strong when the expectations of economic prosperity and less corruption, the main attractive points of the EU's economic power to Moldova and Georgia, are fulfilled.

The case of Moldova and Georgia is an important lesson to learn from for the future strategizing and planning of the EU's external relations, specifically the countries of the Eastern Partnership. While being individual examples, Moldova and Georgia resemble many other post-Soviet states of the Eastern Partnership, which are divided between orienting themselves politically towards Russia or the EU. Not only promising, but ensuring the economic prosperity of these countries is the key for the EU to attract the countries of Eastern Partnership and keep their political loyalty.

Surely, the given study has limitations. One of such limitations is the simplification of the picture of political orientation. In both Georgia and Moldova, the post-Soviet legacy and nostalgia are still relatively strong, hence potentially affecting the population's political inclinations. In

addition, Moldova's historical connection with Romania further complicates the analysis of the country's political choices. The limited variation of the macroeconomic indicators analyzed in the given thesis also adds to the simplification of the real situation in Moldova and Georgia. Although the given analysis vividly demonstrates the significance of fulfillment of economic expectations for the EU's soft power in the post-Soviet states, a more sophisticated and complex analysis is required for the portrayal of the situation in Moldova and Georgia with higher accuracy.

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