REDEMOS

RECONFIGURING EU DEMOCRACY SUPPORT. TOWARDS A SUSTAINED DEMOS IN THE EU'S EASTERN NEIGHBOURHOOD

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Economic drivers and barriers to democratisation

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Executive summary

This policy paper provides insights into economic drivers and barriers to democratisation in each of the six EU eastern neighbourhood (EN) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) and at the regional level. It offers seven region-level and fifteen country-specific recommendations regarding the integration of economic considerations into the EU's democracy promotion policies towards its EN.

At the regional level, the paper suggests that the EU takes long-term fragmentation as a starting point for developing any policies vis-à-vis the region. It is recommended to approach the deepening of economic ties with most of the EN countries through a strategic lens, and thus as an investment into the EU's ability to withstand the rapidly growing geoeconomic competition with Russia and China. Whilst preserving the Eastern Partnership (EaP) as a region-wide forum for dialogue and engagement is recommended, the EU should also be encouraged, to the extent possible, to foster in a much more concerted and systematic manner intra-regional economic integration, for instance, involving Ukraine, Georgia, Moldova and Azerbaijan under the auspices of the Organization for Democracy and Development (GUAM). Both economic potential and democracy in the EN region can be also encouraged through the development of EU- and EU member state-level reintegration support programmes for highly-qualified professionals, originating from the region, and continued funding of educational and capacity-building programmes for small- and medium-sized enterprises (SMEs) leaders in the region. Finally, the paper argues to consider – whenever the political circumstances allow – engaging in dialogue with national authorities in EN countries on the improvement and change of national immigration and residence policies for the purpose of attracting human capital from other world regions (e.g. Central and Southeast Asia, Latin America) to move to the EN on a temporal or permanent basis, not least with a view to fill knowledge and expertise gaps and enhance innovation capacity.

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List of acronyms and abbreviations

AA	Association Agreement
ADB	Asian Development Bank
BTI	Bertelsmann Transformation Index
CEPA	Comprehensive and Enhanced Partnership Agreement
CIS	Commonwealth of Independent States
DCFTA	Deep and Comprehensive Free Trade Agreement
EaP	Eastern Partnership
EN	Eastern neighbourhood
EU	European Union
FDI	Foreign Direct Investment
FTA	Free trade agreement
GDP	Gross Domestic Product
GUAM	Organization for Democracy and Economic Development
IMF	International Monetary Fund
IT	Informaton technology
ICT	Information and communications technology
NDICI	Neighbourhood Development and Cooperation Instrument
NSS	Nation Statistics Service
PCA	Partnership and Cooperation Agreement
SOE	State-owned Enterprise
SME	Small- and Medium-sized Enterprise
USD	United States Dollar

1 Introduction

Drawing directly or indirectly on classic modernization theory and the "basic modernization hypothesis" (Lipset, 1959), which posit that economic development creates the structural conditions necessary for democracy to emerge and survive, the relationship between the level of economic development and the level of democracy has been subject of intense scholarly debate and scrutiny for decades, in particular through large-scale quantitative studies and meta-analyses.[1] For example, Huber, Rueschemeyer and Stephens (1993) poignantly summarise the results of this burgeoning literature, existent by that time, as establishing "a steady (though not perfect) association between economic development and democracy".[2] In particular, they pointed out that it is not necessarily the level of economic development itself that facilitates democracy but the consequences it has for the socio-economic structure and self-organisation of various groups, such as workers, youth or women. Self-organisation is, in turn, addressed in the literature as a crucial predictor of democratic transition, as well as democratic peace.[3] Similarly, Knutsen demonstrates that clear linkages exist between economic development and thus modernization on the one hand and, on the other, the "electoral component of democracy", while emphasizing that the link "between development and other components of broader understanding of democracy" is less straightforward.[4] In contrast, there is broad scholarly consensus that uneven economic development and inequality are widely associated with polarisation at various scales that undermines democracy.[5]

Alongside these well-established associations, the relationship between economic development and democracy manifests important peculiarities, dependent on a plethora of factors, such as, for example, the structure of the economy, its degree of industrialization, urbanization, national wealth, the level of education, the size and role of the middle class, or regional trade links. For instance, resource endowment, and in particular access to and use of oil and gas rents, tends to strengthen dictatorial regimes and creates considerable obstacles for democratic transition[6], while – among others – regional trade agreements are likely to promote democracy by elevating democratic rule to a fundamental value of the respective association.[7] By the same token, other factors, such as foreign aid, may have ambivalent effects on democracy, dependent on the extent to which it influences the capacity of governmental and non-

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[1] E.g. Muller, Edward N. 1995. 'Economic Determinants of Democracy'. *American Sociological Review* 60(6): 966-982. https://doi.org/10.2307/2096435; Knutsen, Carl Henrik. 2012. 'Democracy and economic growth: A survey of arguments and results'. *International Area Studies Review* 15(4): 393-415. https://doi.org/10.1177/2233865912455268.

[2] Huber, Evelyne, Rueschemeyer, Dietrich and John D. Stephens. 1993. 'The Impact of Economic Development on Democracy'. *Journal of Economic Perspectives* 7(3): 71-86. http://www.jstor.org/stable/2138443.

[3] DiZerega, Gus. 1995. 'Democracies and Peace: The Self-Organizing Foundation for the Democratic Peace'. *The Review of Politics* 57(2): 279-308. https://www.jstor.org/stable/1408281; Haffoudhi, Houda and Mehdi, Racem and Abdelkader, Gam. 2016. 'Understanding Democratic Transition Using Self-Organizing Maps: A Special Focus on Arab Spring Countries'. http://dx.doi.org/10.2139/ssrn.2907305;

[4] Knutsen, Carl H., Gerring, John, Skaaning, Svend-Erik, Teorell, Jan, Maguire, Matthew, Coppedge, Michael, Lindberg, Staffan. 2018. 'Economic development and democracy: An electoral connection'. *European Journal of Political Research* 58(1): 292-314. https://doi.org/10.1111/1475-6765.12282

[5] Hudson, Ray. 2015. 'Uneven Development, Socio-Spatial Polarization and Political Responses'. In *Understanding Geographies of Polarization and Peripheralization,* edited by Thilo Lang, Sebastian Henn, Wladimir Sgibnev and Kornelia Ehrlich. Springer Nature.

[6] E.g. Ross, Michael L. 2001. 'Does Oil Hinder Democracy?' *World Politics* 53(3): 325-361. https://doi.org/10.1353/wp.2001.0011

[7] Collins, Stephen D. 2010. 'Regional Trade Agreements and Democracy Promotion: Measuring the Influence of Democracy Requirements in Regional Trade Agreements'. *Politics and Policy* 38(4): 737-764. https://doi.org/10.1111/j.1747-1346.2010.00256.x

governmental actors, their individual aid absorption capacity and aid usage, as well as the relationship between them. The multiplicity of variables, influencing the democracy-development nexus, and the complexity of their interplay makes it essential for donors, such as the EU, to understand contextual peculiarities that influence this nexus in the countries and regions they target.

This is particularly the case as far as the EU's EN is concerned, as post-communist countries have contradicted the generally positive relationship between economic development and democracy put forward by classical accounts of modernisation theory. As was argued elsewhere, 'Europe's formerly communist countries – have contributed to the generation of ambivalence regarding the co-variance between economic development – a conventional proxy for modernization – and democracy'.[8] Drawing on Epstein et. al. (2006), Lankina and Libman (2019) thus argue that whilst many post-Soviet countries did indeed demonstrate rather high levels of economic development and, according to the modernization paradigm, would have been prone to democratization and eventually democratic consolidation, they transitioned into hybrid regimes or even turned authoritarian.

Against this background, this paper will present the analysis of major economic drivers and barriers for economic development in each of the six eastern neighbourhood countries and at the regional level. Based on the general literature review and available insights into the post-Soviet transition to democracy and market economy in the region, a carefully selected set of economic drivers and barriers shall be examined. At the same time, it is important to not that what the literature considers to be drivers often needs to be discussed through the lens of barriers as well, as in some cases, such as Armenia, Azerbaijan and Belarus, these alleged drivers deincentivise domestic regimes from pursuing further democratic reforms or, even worse, are being exploited by non-democratic regimes and serve as tools to consolidate their autocratic rule. Thus, table 1 offers and overview of key drivers that are being discussed:

Table 1. Economic drivers and barriers to democratisation in the Eastern Neighbourhood

Country / level	Economic drivers	Economic barriers
Armenia	• Foreign aid and investment • Economic growth and fiscal stability • Trade and export growth • Strong respect for and enforcement of private property and private enterprise rights.	• Economic dependence on Russia in the context of geopolitical tension and deterioration of security climate • Economic inequality, unemployment and informal employment
Azerbaijan	• Economic growth • Wide-spread Internet access Deepening of the EU-Azerbaijan economic ties	• Pervasive regime control over the market • Russia's direct investments • Weak institutional and legal framework, incapable of guaranteeing the protection of private property Corruption and inefficient legal framework that hinders private sector development
Belarus	• Private sector development (in exile)	• Dominance of state-owned enterprises (SOEs)

[8] Lankina, Tomila and Libman, Alexander. 2019. 'Soviet Legacies of Economic Development, Oligarchic Rule, and Electoral Quality in Eastern Europe's Partial Democracies: The Case of Ukraine'. *Comparative Politics*, 52(1): 127-176. https://doi.org/10.5129/001041519X15624348215945; Peng, Liu. 2024. '"Losers in the age of democratization. Lessons from Post-Soviet Societies'. *Communist and Post-Communist Studies*, 58(1): 1-27.

		• Poor business environment, hampering private sector development within the country • Sanctions and strengthening economic links to Russia
Georgia	• Trade and exports • Business and investment climate	• Internal political instability and the ‘foreign agents law’ • Weak productivity and high unemployment rate Corruption and oligarchic influence
Moldova	• Economic integration with the EU • Foreign aid and investment • Economic growth and fiscal stability • Services and ICT sector	• Multi-faceted crisis stemming from Russia’s invasion of Ukraine • Poor business environment, including corruption
Ukraine	• Economic integration with the EU • Decline in oligarchic influence, especially following Russia’s full-scale invasion of Ukraine • Deregulation and digitalization	• Long-standing oligarchic influence • Economic effects of Russia’s war against Ukraine, including the devastation and economic demodernisation of Russia-occupied territories
Regional level	• Strategic geographical location, potentially fostering economic ties with both Europe and Asia • Transition away from command economy • Operational trade or cooperation agreements with the EU with all countries in the region, except for Belarus • Digitalisation and the development of ICT sector	• Geopolitical and geoeconomic turbulence, fostered by the EU’s, Russia’s and China’s clashing ambitions and interests in the region • The lack of intra-regional integration links • Emigration and shortage of human capital

Drawing on the analysis of these economic drivers and barriers to democratization, the paper will suggest country- and region-specific recommendations which focus on ways and means to better take into account and utilize economic factors when pursuing external democracy support action across the EU’s eastern neighbourhood.

2 Armenia

Armenia is classified as a "partly free country" and as a "transitional regime" by the Freedom House Index.[9] Democratisation benefits from strong economic growth, foreign investment, and trade, particularly with the EU, along with substantial GDP increases driven by infrastructure projects. However, significant barriers include heavy reliance on Russia, aftermath of the Nagorno-Karabakh conflict, economic inequality, and political instability. Despite a high GDP per capita and substantial informal economy, persistently high unemployment and poverty rates complicate democratisation efforts.

Economic drivers of democratisation

Foreign aid and investment. Armenia receives significant support from international donors, including the EU and the US. The EU's Resilience and Growth Plan allocates EUR270 million for Armenia from 2024 to 2027, aimed at bolstering socio-economic resilience and supporting trade diversification.[10] The 2021-launched Economic and Investment Plan mobilised over EUR550 million worth of investments through grants, blending and guarantees in Armenia by 2024. The US has also provided nearly USD31 million in humanitarian aid since 2020 to support displaced persons and refugees. In the framework of the EU-Armenia Comprehensive and Enhanced Partnership Agreement (CEPA) in force since 2021[11], the EU has been actively supporting Armenia's economic development through various programs and, including a new partnership agenda and visa liberalisation dialogue.[12] Diversification efforts in sectors like IT, where a significant influx of Russian, Ukrainian, and Belarusian professionals has bolstered the labor market, also contribute positively to the democratisation process.[13]

Economic growth and fiscal stability. Armenia's economy demonstrated strong but declining growth with a 12,6% increase in GDP in 2022, 8.7% in 2023 and 5.9% in 2024.[14] This growth was driven by exports, particularly in precious and semi-precious stones, textiles, and machinery.[15] In 2025, the growth is expected to constitute 6%, driven by government investment in infrastructure and housing. The services and industries (including constructions) sectors are projected to grow by 9,4% and, respectively, 7,4% in 2025. Armenia has shown robust economic growth, particularly in Q1 2024, with a 14.3% increase in economic activity compared

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[9] Freedom House. 2024. 'Armenia'. Accessed 10 April 2025. https://freedomhouse.org/country/armenia

[10] Ghazanchyan, Siraniush. 2024. 'EU and US support a stable, peaceful, secure, democratic, and prosperous future for Armenia: High-level meeting held in Brussels'. *Republic Radio of Armenia,* April 5th. Accessed 10 April 2025. https://en.armradio.am/2024/04/05/eu-and-us-support-a-stable-peaceful-secure-democratic-and-prosperous-future-for-armenia-high-level-meeting-held-in-brussels/

[11] EU External Action Service. 2021. 'The EU and Armenia Comprehensive and Enhanced Partnership Agreement enters into force'. Brussels, 28 February. Accessed 10 April 2025. https://www.eeas.europa.eu/eeas/eu-and-armenia-comprehensive-and-enhanced-partnership-agreement-enters-force_en

[12] Metsola, Roberta. 2024. 'The newly agreed EU-Armenia Partnership Agenda as well as launching of a dialogue on visa liberalisation with Armenia are clear signs of our enhanced relations'. *Aravot.* Accessed 10 April 2025. https://en.aravot.am/2024/07/31/351761/

[13] Berstelsmann Transformation Index. 2024. 'Armenia'. Accessed 10 April 2025. https://bti-project.org/en/reports/country-dashboard/ARM

[14] ARKA News Agency. 2025. 'Armenia's GDP grew by 5.9% in 2024, amounting to about 10.1 trillion drams - official statistics' *ARKA,* 20 February. Accessed 10 April 2025. https://arka.am/en/news/economy/armenia-s-gdp-grew-by-5-9-in-2024-amounting-to-about-10-1-trillion-drams-official-statistics/#:~:text=In%20nominal%20terms%2C%20Armenia%27s%20GDP,8%2C501%20dollars%2C%20and%207%2C857%20euros.

[15] Asian Development Bank, 'Armenia'. Accessed 10 April 2025. https://www.adb.org/sites/default/files/publication/863591/arm-ado-april-2023.pdf

to the previous year. Robust growth can create a more favorable environment for democratic reforms by increasing public trust and resources for governance improvements. The International Monetary Fund (IMF) commended Armenia for its economic and fiscal performance amid negotiations for a precautionary standby agreement, as the fiscal deficit narrowed from 4.6% of GDP in 2021 to 2.2%.[16]

Trade and export growth. Due to its strategic location, Armenia represents a crucial transit and trade hub between Europe and Asia. This position can be further leveraged to attract foreign investments and partnerships, contributing to economic stability and democratisation efforts. For instance, according to the WTO data, Armenia's goods exports in 2022 totaled USD5.3 billion, reflecting a 77.3% increase from the previous year, while imports were valued at USD8.7 billion, up by 63.7%.[17] In terms of services, Armenia exported USD4.1 billion and imported USD2.5 billion, marking year-on-year increases of 240.7% and 90.3%, respectively. The National Statistic Service (NSS) reported this trend to sustain in 2023 and 2024, giving ground for optimism as to economic stability and growth in the country, fostering a favorable environment for democratisation.[18] With this, Armenia's integration into global markets and its trade relationships, particularly with the EU, enhance economic stability and encourage political reforms. The presence of international organisations like the ADB and their investment projects further support economic growth and stability.

Strong respect for and enforcement of private property and private enterprise rights. According to the 2024 Bertelsmann Transformation Index (BTI) Report on Armenia (2024), the country has a robust legal and institutional framework that functions to protect individuals' and legal persons' property rights.[19] At the same time, Armenia has adopted adequate legislation for the confiscation of illegally obtained property, as well as for investigating the sources of undeclared income: thus in 2022 alone, state prosecutor's office initiated lawsuits seeking the confiscation of property worth over USD100 million.[20] These developments create strong legal and social foundations for democratic progress, given the strong correlation between the enforcement of private property rights as an aspect of institutional quality, on the one hand, and the enforcement of private property rights, on the other hand.[21]

Economic barriers to democratisation

Economic dependence on Russia in the context of geopolitical tension and deterioration of security climate. Historically, Armenia has relied on Russia for economic and security support. However, this relationship has strained due to Russia's actions with regard to Nagorno-Karabakh and the broader geopolitical fallout from the Russian war of aggression against Ukraine.[22] Russia is Armenia's largest trade partner and controls critical infrastructure, including railroads and gas pipelines. Additionally, 50% of the tourists visiting Armenia are

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[16] See fn. 11.

[17] Lloyds Bank. 2025. 'Armenia: Economic and Political Overview'. Accessed 10 April 2025. https://www.lloydsbanktrade.com/en/market-potential/armenia/trade-profile#:~:text=According%20to%20figures%20from%20the,an%20increase%20of%2063.7%25).

[18] Credit Agricole Group. 2025. 'Economic and political overview in Armenia. Accessed 10 April 2025. https://international.groupecreditagricole.com/en/international-support/armenia/economic-overview

[19] Berstelsmann Stiftung. 2024. 'BTI 2024 County Report. Armenia'. Accessed 10 April 2025. https://bti-project.org/fileadmin/api/content/en/downloads/reports/country_report_2024_ARM.pdf

[20] Ibid, p.24.

[21] Acemoglu, Daron. 2003. 'The form of property rights: oligarchic vs democratic societies'. *NBER Working Papers Series* 10037. Accessed 10 April 2025. https://www.nber.org/system/files/working_papers/w10037/w10037.pdf

[22] CIVILNET. 2024. 'World Economic Forum report reveals top risks to Armenia'. *CIVILNET,* 5 March. Accessed 10 April 2025. https://www.civilnet.am/en/news/766814/world-economic-forum-report-reveals-top-risks-to-armenia/

Russian nationals.[23] This dependency limits Armenia's ability to pursue an independent democratic agenda and subjects it to significant external pressure.[24] Dependency on Russia affects Armenia's economic sustainability, especially from an energy-wise perspective, as natural gas imported from Russia is by far the largest contributor to total energy consumption. Economic retaliation from Russia could negatively impact Armenia's economy, further complicating democratisation efforts.[25]

Economic inequality, unemployment, and informal employment. Despite economic growth, inequality and unemployment remain persistent issues. The government's target to reduce unemployment to below 10% and increase private sector labor income share to 25% of GDP by 2026 highlights the ongoing challenges in achieving equitable economic development as the IMF estimated Armenia's unemployment rate at 13.5% in 2023 and projects it to remain relatively stable around 14% in the coming years.[26] Changes in the financial system also pose risks to economic stability, which in turn hampers the democratisation process by exacerbating social tensions and reducing trust in government institutions. The national poverty rate in Armenia is estimated at 24.8%, with a GDP per capita of USD 18,942, according to the World Bank.[27] Additionally, about 40% of the workforce is involved in the informal economy, which contributes 36% of the country's gross domestic product.

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[23] See fn. 15.

[24] Kochinyan, Areg. 'Why the world must support Armenia's "defeated democracy" against Russian hybrid warfare'. *LSE Blog,* 12th July. Accessed 10 April 2025. https://blogs.lse.ac.uk/crp/2024/07/12/why-the-world-must-support-armenias-defeated-democracy-against-russian-hybrid-warfare/

[25] Berstelsmann Stiftung. 2024. 'Transformation Atlas. Armenia: Overall Results'. Accessed 10 April 2025. https://atlas.bti-project.org/1*2024*CV:CTC:SELARM*CAT*ARM*REG:TAB

[26] The Government of the Republic of Armenia. 2024. Accessed 10 April 2025. 'Investor presentation'. https://minfin.am/website/images/files/706f6265.pdf

[27] See fn.11.

3 Azerbaijan

Azerbaijan's economy, driven by substantial oil and gas reserves, presents both opportunities and challenges for the country's democratisation process. Despite economic advancements, Azerbaijan remains an authoritarian state with limited political freedoms. The Freedom House Index classifies Azerbaijan as "not free" country, and as a "consolidated authoritarian regime", quoting the power being "heavily concentrated in the hands of Ilham Aliyev and his extended family, rampant corruption, and persecuted opposition".[28]

Economic drivers of democratisation

Economic growth. In 2024, Azerbaijan's economy grew by 4.1 %. Whilst the oil sector grew by 0.3%, the non-oil sector demonstrated impressive growth of 6.2%[29]; this sector includes agriculture, manufacturing, and services, which are gradually becoming more significant contributors to the economy. As a result of the steady increase in national revenue mainly from exports of natural resources, the share of the population living under the national poverty line was 5,5% in 2023[30], compared to 49% in 2001[31], although in the last decade, economic progress has significantly slowed down in this regard, as the same percentage of the population living under the poverty line has only marginally decreased since 2016 when it was 5,6%.[32] In this vein, economic growth may be seen as a factor, exhibiting correlation with the levels of public deliberation between various actors and thus contributing to the democratisation of the regime.[33]

Growth of Internet access. The vast majority of the Azerbaijani population has access to the internet**,** as official data states that 74% of all households and businesses are online.[34] Despite reports of internet surveillance, as well as online censorship and harassment, the increased access to the Internet exposes the population of Azerbaijan to content produced in democratic countries and the EU, showcasing the realities, benefits, and freedoms enjoyed by the citizens living under democratic regimes. Access to Internet facilitates opportunities for freelancing and teleworking, thus contributing to the improvement of the overall socio-economic situation in the country and, potentially, the rise of public deliberation and democratisation. Yet, it is noteworthy that whilst as much as internet access can act as a driver, it is a powerful tool in the hands of the Azerbaijani government to manipulate the online environment and spread disinformation. Moreover,

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[28] Freedom House. 2025. 'Azerbaijan'. Accessed 10 April 2025. https://freedomhouse.org/country/azerbaijan

[29] Interfax. 2025. 'Azerbaijan's GDP grows 4.1% in 2024 – State Statistics Committee'. Accessed 10 April 2025. https://interfax.com/newsroom/top-stories/109187/

[30] Asian Development Bank. 2025. 'Poverty data: Azerbaijan'. Accessed 10 April 2025. https://www.adb.org/where-we-work/azerbaijan/poverty#:~:text=In%20Azerbaijan%2C%205.5%25%20of%20the,day%20in%202023%20was%200.1%25.

[31] International Monetary Fund. 2023. 'Azerbaijan Republic: Poverty Reduction Strategy Paper'. 14 May. Accessed 10 April 2025. https://www.imf.org/en/Publications/CR/Issues/2016/12/30/Azerbaijan-Republic-Poverty-Reduction-Strategy-Paper-16497

[32] Asian Development Bank. 2025. 'Poverty data: Azerbaijan'. Accessed 10 April 2025. https://www.adb.org/where-we-work/azerbaijan/poverty#:~:text=In%20Azerbaijan%2C%205.5%25%20of%20the,day%20in%202023%20was%200.1%25.

[33] Chandra, Siddharth, and Nita Rudra. 2013. 'Reassessing the Links between Regime Type and Economic Performance: Why Some Authoritarian Regimes Show Stable Growth and Others Do Not'. *British Journal of Political Science* 45(2): 253-285. https://doi.org/10.1017/S0007123413000355

[34] Ministry of Digital Development and Transport of the Republic of Azerbaijan. '74% of existing households and businesses in country have broadband Internet access'., 15 April. Accessed 10 April 2025. https://mincom.gov.az/en/media-en/news/74-of-existing-households-and-businesses-in-country-have-broadband-internet-access

the authorities routinely block websites and remove content, thus restricting political opponents' access to the internet.

Deepening of the EU-Azerbaijan economic ties. Azerbaijan's economy is heavily reliant on its oil and gas sector, which constitutes approximately 86% of the country's export revenue. Although in 2024 important EU importers (Italy, Greece and Bulgaria) reduced the amount of gas imports from Azerbaijan[35], by2027, Azerbaijan intends to double its sales to the EU to 20 billion cubic meters, while its current total production is 47,2 billion cubic meter).[36] Azerbaijan's strong interest in deepening its ties with the EU would potentially give Brussels a stronger voice and leverage in bilateral relations and might, from this perspective, prove a democratisation driver. Yet, as the painful lessons from Russia's war against Ukraine demonstrate, deep economic ties with an autocracy can also backfire. Moreover, further qualification is needed in so far as hydrocarbon revenues provide the regime with important resources that help it consolidate its autocratic rule.

Economic barriers to democratisation

Pervasive regime control over the market. Due to the authoritarian nature of the regime, the economy is dominated by companies, associated with the regime. A limited number of holding companies with close ties to the government dominate the economy. Existing laws and regulations thus play no significant role in the real economy as they cannot be applied to protect SMEs in the face of unfair competition and preferential treatment applied by the government in favor of large companies associated with the regime.[37] Public procurement procedures remain nontransparent in this environment, rules and regulations being either circumvented or ignored, while the structural reforms in the field are insufficiently progressing. Besides, the economy remains highly reliant on the hydrocarbon sector and possesses a vulnerable banking system with significant dollarisation issues and an underdeveloped private sector credit market. The banking sector, while adhering to some international standards, remains underdeveloped with limited capacity to support economic diversification. The stock market is also weak, which limits investment opportunities for domestic and foreign investors.[38] It is thus hardly a surprise that economic freedom and innovation are not progressing satisfactorily, while socio-economic barriers are present in a significant manner. Azerbaijan ranks 95th among the 132 economies on the Global Innovation Index 2024[39] and 75th out of 184 countries on the latest Index of Economic Freedom).[40] At the same time, according to the World Inequality Database, 10% of the wealthiest Azeris owned close to 57% of the share of total national wealth, which, in turn, leads to a disproportionate distribution of power and influence over the political processes and serves as a barrier to democratisation.[41]

Russian direct investments in Azerbaijan. Even though Azerbaijan had signed bilateral investment conventions with a number of important Western democracies and developed economies such as the US,

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[35] Interfax, 'Italy, Greece, Bulgaria cut gas imports from Azerbaijan 5.2% in 2024 – Eurostat'. Accessed 10 April 2025. https://interfax.com/newsroom/top-stories/110179/

[36] The Report. 'Azerbaijan announces forecasts for oil and gas production and export in 2023'. Accessed 10 April 2025. https://report.az/en/energy/azerbaijan-announces-oil-and-gas-production-and-export-forecasts-for-2023/

[37] Berstelsmann Stiftung. 2024. 'Transformation Atlas. Azerbaijan: Overall Results'. Accessed 10 April 2025. https://atlas.bti-project.org/1*2024*CV:CTC:SELAZE*CAT*AZE*REG:TAB

[38] *Ibid.*

[39] WIPO. 2025. 'Azerbaijan ranking in the Global Innovation Index 2024'. Accessed 10 April 2025. https://www.wipo.int/gii-ranking/en/azerbaijan

[40] Heritage Foundation. 2024. 'Economic Freedom Country Profile. Azerbaijan'. Accessed 10 April 2025. https://www.heritage.org/index/pages/country-pages/azerbaijan

[41] World Inequality Database. 2023. 'Evolution of average income, Azerbaijan, 1970-2023'. Accessed 10 April 2025. Azerbaijan - WID - World Inequality Database

France, Germany, and Finland, Russia remains a top source FDI in Azerbaijan.[42] For instance, in 2023, Russia invested close to 300 million USD in Azerbaijan in 2023[43], in over a dozen of projects. Given the fact that Russia has embarked on a full-scale project of shattering the democratic prospect of the post-Soviet region, the leverage it gets in Azerbaijan as a result of its FDI in that country *is a barrier to its democratisation.*

Weak institutional and legal framework incapable of guaranteeing private property. The BTI index assesses that property rights are not secure in Azerbaijan.[44] This concerns intellectual property, as well as other assets and real estate that are at risk due to gaps in the legislation and "pervasive corruption" enabling influential figures close to the ruling regime to expropriate homes and private spaces for personal gains. Out of the 7 indicators analyzed by the BTI, the one concerning private property is ranked the lowest (4 out of 10).

Corruption and inefficient legal framework hindering private economic development. Azerbaijan ranked 153rd out of 180 countries on Transparency International's Corruption Perceptions Index 2024.[45] The BTI Transformation Index assesses that the largest obstacle to conducting business in Azerbaijan "remains the widespread corruption", while the legal and institutional framework is not implemented to tackle the phenomenon, as the beneficiaries of illegal and non-transparent procedures, including of privatisation of public assets, are "companies closely connected with the government"[46]

[42] Lloyds Bank. 2023. 'Foreign Direct Investment in Azerbaijan'. Accessed 10 April 2025. https://www.lloydsbanktrade.com/en/market-potential/azerbaijan/investment#:~:text=The%20biggest%20share%20of%20the,%2C%20transportation%2C%20tourism%20and%20information%2F

[43] Interfax. 2024. 'Azerbaijani-Russian trade may break 2023 record in 2024 - Azerbaijani deputy PM'. Accessed 10 April 2025.https://interfax.com/newsroom/top-stories/99907/#:~:text=%22Russia%20is%20among%20the%20five,being%20implemented%20in%20the%20country.

[44] Berstelsmann Stiftung. 2024. 'Azerbaijan Country Report 2024'. Accessed 10 April 2025. https://bti-project.org/en/reports/country-report/AZE.

[45] Transparency International. 2024. 'Azerbaijan. Corruption Perceptions Index'. Accessed 10 April 2025. 2024 Corruption Perceptions Index - Explore… - Transparency.org

[46] See fn. 42.

4 Belarus

Belarus is a landlocked country in Eastern Europe. It is classified by the World Bank as an emerging upper middle-income country.[47] Belarus is an authoritarian state with widespread persecution of opposition leaders, civil society leaders and activists.[48] Belarusian economy is highly centralised and marked by the dominance of state-owned enterprises (SEOs).[49]

Economic drivers of democratisation

Private sector development (in exile). Economic stability and the Soviet-style welfare state with the prominent role of SEOs have for decades been central to the regime's legitimation strategy in Belarus.[50] Nonetheless, the 2020/2021 protests in Belarus showcased the dissatisfaction with the state of affairs, ruining the stability-focused social contract (*Ibid*). People working in the private sector were the most prominent group among the protesters, with the liberalisation of economy as their core demand.[51] The share of workforce, employed in private sector, grew from 37.8 % in 2012 to 44.7 in 2019, thus promoting the emergence of a middle class, ready to take part in politics.[52] The violent suppression of the 2020/2021 protests by the Lukashenka regime forced a significant share of protesters and those dissatisfied with the regime to emigrate and relocate their businesses. Russia's invasion of Ukraine gave further impetus to the relocation of Belarusian SMEs, as they lost contracts with Western suppliers and clients due to sanctions.[53] Support to Belarusian SMEs and their leaders in exile can be seen as potentially conducive to the democratisation of Belarus, should the conditions for regime change emerge. Yet, the consolidation of Lukashenka's authoritarian regime, its dependence on Russia and poor business environment leaves little chances for Western actors to facilitate the resurgence of Belarus' private sector within the country.

Information Technology. Between 2005 and 2022, the IT industry has been one of the major drivers of Belarusian economy. The main reason for the outstanding performance of IT sector in Belarus deals with special treatment it had received, including tax and security benefits, visa and residence benefits for foreign employees and little administrative control.[54] Moreover, IT industry had served as an export driver for Belarusian economy, pushing for its greater openness to trade with the West. Lukashenka's regime

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[47] World Bank. 2024. 'World Bank list of economies (July 2024)'. Accessed 10 April 2025. https://www.ifrs.org/content/dam/ifrs/shop/world-bank-list.pdf

[48] Freedom House. 2024. 'Belarus'. Accessed 10 April 2025. https://freedomhouse.org/country/belarus/freedom-world/2024

[49] Hartwell, Christopher, Bornukova, Kateryna, Kruk, Dmytro, and Benedikt Zoller-Rydzek. 2022. 'The Economic Reconstruction of Belarus: Next Steps after a Democratic Transition'. *European Parliament Research Service,* March. Accessed 10 April 2025. https://www.europarl.europa.eu/RegData/etudes/STUD/2022/653663/EXPO_STU(2022)653663_EN.pdf

[50] Krawatek, Felix, and Julia Langbein. 2022. 'Attitudes towards democracy and the market in Belarus: what has changed and why it matters'. *Post-Soviet Affairs* 38(1-2): 107-124. https://doi.org/10.1080/1060586X.2022.2029034

[51] Krawatek, Felix, and Gwendolyn Sasse. 2021. 'Belarus protests: why people have been taking on the streets -new data'. *The Conversation,* 4 February. Accessed 10 April 2025. https://theconversation.com/belarus-protests-why-people-have-been-taking-to-the-streets-new-data-154494

[52] Glod, Katia. 2021. 'Belarus's New Age of Civic Activism Is Changing the Country'. *Carnegie Europe,* 22 February. Accessed 10 April 2025. https://carnegieendowment.org/research/2021/02/belaruss-new-age-of-civic-activism-is-changing-the-country?lang=en&center=europe

[53] Naūrodski, Sierz. 2022. 'Business Migration from Belarus to the EU after August 2020'. *German Economic Team.* Accessed 10 April 2025. https://www.german-economic-team.com/wp-content/uploads/2023/04/GET_BLR_PP_01_2022_EN.pdf

[54] Alachnovič. Aleś. 2023. 'The Rise and Fall of the IT industry in Belarus'. *German Economic Team.* Accessed 10 April 2025. https://www.german-economic-team.com/en/newsletter/the-rise-and-fall-of-the-it-industry-in-belarus/

complicity with Russia amidst its invasion of Ukraine closed the golden era for Belarusian IT sector and exports of ICT services. Nonetheless, similar to relocated private sector, generally, Belarusians IT entrepreneurs and companies may become a driving force for Belarus' democratisation in case of a regime change.

Economic barriers to democratisation

Dominance of SOEs. Already prior to the 2020/2021 protests, SOEs' inefficiency was widely regarded as Belarus' key economic challenge.[55] In the absence of privatisation, the government-owned business manifests the signs of degradation, yet state ownership and control limit the potential for improving SOEs' governance with no changes to their ownership structure.[56] SOEs' degradation may result in negative social consequences, such as higher unemployment rates due to the difficulty for individuals to switch from the work for SOEs to a private sector job. High brain drain rates may, nonetheless, compensate for this challenge, as SOEs are reported to struggle with finding new employees and are forced to offer ever higher wages to potential candidates.[57] High wages in public sector are, in turn, expected to give rise to inflation and the devaluation of national currency due to increased consumption. This development is likely to hamper Belarusian economy long-term, exaggerating negative effects from Belarusian economy's strong connection to the Russian one with its 'deteriorating economic outlook'.[58]

Poor business environment, hampering private sector development. Like the dominance of SEOs in Belarusian economy, poor business environment can be seen as an immediate economic consequence of the preservation of Lukashenka's authoritarian regime. Belarus scores 152nd among 184 countries in the Index of Economic Freedom.[59] With its economy marked as 'repressed', Belarus demonstrates lowest scores on three rule of components of the indicator, such as property rights, judicial effectiveness and government integrity. These challenges constitute the key factor, hampering the development of private sector. Property rights regime in Belarus can be generally characterised as 'restrictive' and 'rooted in the Soviet legal tradition'.[60] Following the consolidation of Lukashenka's regime and the adoption of the Law of the Republic of Belarus "On the seizure of property on 21 December 2022, 'property confiscation has become another tool of political repression'.[61] Moreover, the Lukashenka's regime succeeded in subjugating Belarus' already weak judiciary, with strong vertical control over lawyers exercised through the Ministry of Justice of Belarus.[62] The

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[55] World Bank. 2019. 'Why Belarus needs economic reforms'. 20 Augst. Accessed 10 April 2025. https://www.vsemirnyjbank.org/ru/news/video/2019/08/20/why-belarus-needs-structural-economic-reforms

[56] See fn. 47, p.15.

[57] Sviatlana Tsikhanouskaya. 2024. ' Stagnation, inflation, brain drain: Aleś Alachnovič on challenges for Belarusian economy in 2024'. 6 February. Accessed 10 April 2025. https://tsikhanouskaya.org/en/news/stagnation-inflation-brain-drain-ales-alachnovic-on-challenges-for-belarusian-economy-in-2024.html

[58] World Bank. 2023. 'Belarus'. Accessed 10 April 2025. https://thedocs.worldbank.org/en/doc/d5f32ef28464d01f195827b7e020a3e8-0500022021/related/mpo-blr.pdf

[59] Heritage Foundation. 2025. 'Belarus'. Accessed 10 April 2025. https://www.heritage.org/index/pages/country-pages/belarus

[60] See fn. 47, p.10.

[61] JURIST Staff. 2024. 'Belarus dispatch: property confiscation has become another tool of political repression' . *JURIST Staff,* 21 February. Accessed 10 April 2025. https://www.jurist.org/news/2024/02/belarus-dispatch-property-confiscation-has-become-another-tool-of-political-repression/

[62] Radio Liberty Belarus Service, and Alena Shalayeva. 2023. ''Catastrophic Situation': How Lukashenka's Government Subjugated Belarus's Already Weak Judiciary'. *Radio Liberty,* 18 November. Accessed 10 April 2025. https://www.rferl.org/a/lukashenka-government-subjugates-belarus-judicary/32690306.html

post-protests period is thus marked by the exaggeration of pre-existing stumbling blocks to private sector development and democratisation in Belarus.

Sanctions and strengthening economic links to Russia. Belarusian economy is traditionally strongly linked with the economy of the Russian Federation. Belarus joined the Russia-led Customs Union in 2010 and, subsequently, the Eurasian Union in 2015. Between 2010 and the Lukashenka's regime engagement in Russia's invasion of Ukraine, he sought to develop economic linkages with both Russia and the West. The sanctions, introduced by the West in connection to electoral fraud and the suppression of protests in 2020, were primarily of a symbolic nature and did not prevent Belarus from steadily increasing its exports to the EU in 2021.[63] The 2020/2021 sent ambiguous signals to the Lukashenka's regime as to the West's credibility and did not prevent his regime from assisting Russia in its war against Ukraine. The sanctions the West has continuous imposed on Belarus in this connection led to a decrease of Belarusian exports of goods to the EU from EUR5.6 billion in 2021 to EUR1.4 billion in 2023.[64] To adapt to sanctions, Belarusian economy developed new trade routes and redirected the exports of its key products (fertilisers, refined oil products) via Russia at higher logistical costs. The unexpected 3.9% growth of Belarusian economy in 2023 prompted Belarusian leadership to declare its successful adaptation to sanctions. Such adaptation, however, further deepened Belarus' economic and fiscal dependence on Russia and increased the vulnerability of its economy to geoeconomic pressures, facing Russia.[65]

[63] Astapenia, Ryhor. 2023. 'Rethinking Western policy towards Belarus'. *Chatham House Russia and Eurasia Programme Briefing Paper,* April. Accessed 10 April 2025. https://www.chathamhouse.org/sites/default/files/2023-04/2023-04-04-western-policy-belarus-astapenia.pdf

[64] European Commission. 2024. 'Belarus'. Accessed 10 April 2025. https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/belarus_en

[65] See fn. 56.

5 Georgia

Georgia ranks 35th in the 2025 Economic Freedom Index of the Heritage Foundation, being considered "moderately free".[66] The country's economic freedom score is higher than the world and regional averages. Georgia is a small transitional market economy being classified as a partially free country and as a transitional regime by the Freedom House Index.[67]

Georgia has made notable gains in income growth and poverty reduction over the past decade. The annual inflation rate in Georgia edged up to 2.2% in June 2024 and currently constitutes 3%. In the medium term, growth is expected to converge to its potential rate of around 5%.

Economic drivers of democratisation

Trade and exports. Georgia has an open trade regime and an extensive network of preferential trade agreements. Georgia stands out as the sole country in the region to maintain a free trade regime with both the European Union and China. The Georgia's 2024 International Trade Report marked the fourth record-breaking year in a row for Georgia exports, with companies exporting USD53.1 billion in goods to 219 markets.[68] This impact reflects the vitality and diversity of the Georgia's economy. Despite U.S. exports contracting in 2023, Georgia exports have achieved sustained growth for the last decade, increasing 37.6% since 2015. Leading customers for Georgia products include Canada, Mexico, China, Germany, Singapore, the Netherlands, Belgium, Japan, the United Arab Emirates, and Poland. Georgia currently ranks 12th among U.S. states for dollar value of exports. Aerospace products represent Georgia's No. 1 export, exceeding USD 11.1 billion. Top aerospace markets for Georgia included Singapore, Germany, Poland, Hong Kong, and Belgium. Motor vehicles were the second largest export from Georgia in 2023, exceeding USD 4.1 billion, as the Port of Brunswick also announced a record year for autos. Top markets for automotive exports include Canada, the United Arab Emirates, China, Mexico, and Germany. Global economic uncertainties, including potential recessions in key trading partners like the EU and continued geopolitical tensions, could nevertheless dampen demand for Georgian exports.[69] Moreover, it is important to point out that in spite of a ten year implementation period of the Deep and Comprehensive Free Trade Area (DCFTA) with the EU, trade with the latter has, by and large, stagnated while Georgian trade with Russia has grown significantly.

***Consumption*.** Investment and consumption (both private and government) were the main economic growth drivers in 2023. They were stimulated by improved business confidence, rising wages and falling inflation, as well as by the impetus provided by the spending and the creation of new businesses by migrants from Russia, the latter being a fact that raises serious questions about growth sustainability. The contribution of net exports turned negative in 2023 as, despite growing revenues from tourism, lower external demand, especially for metallurgical products, weighed on growth of exports, while imports increased slightly faster than exports. On the supply side, the value added in services and construction increased significantly, driven by high domestic demand, while it declined in manufacturing.

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[66] Heritage Foundation. 2025. 'Georgia'. Accessed 10 April 2025. https://www.heritage.org/index/pages/country-pages/georgia

[67] Freedom House. 2025. 2025. 'Georgia'. Accessed 10 April 2025. https://freedomhouse.org/country/georgia

[68] Explore Georgia. 2024. 'Georgia's 2024 International Trade Report'. Accessed 10 April 2025. https://georgia.org/international/trade/annual-trade-report

[69] Turp-Balasz, Craig. 2024. 'Economy in focus: Georgia'. *Emerging Europe,* 11 September. Accessed 10 April 2025. https://emerging-europe.com/analysis/economy-in-focus-georgia-2/

As for the 2024 and 2025 projections, private consumption is set to be the main growth driver thanks to strongly increasing real wages, continuous employment growth and rising loan volumes supported by lower interest rates.[70]

Business climate and foreign direct investment. With a favorable business climate, Georgia ranks high on international rankings for transparency, competitiveness, and economic freedom. Georgia has implemented over the past years a number of reforms with positive impact to the increase of foreign investor confidence. Georgia's WTO membership and its association agreement with the EU have further facilitated investment inflows. As a result, Georgia has been able to attract sizable levels of FDI (8.2% of GDP equivalent, on average, during 2016–2022). FDI in Georgia has been highly concentrated in a few, mostly nontradable, sectors, such as energy (21.8%), real estate (21.5%), and finance (13.5%).

Nevertheless, amidst turbulent internal political environment and tensions in Georgia's relations with the West , in 2024, FDI flows to Georgia dropped by nearly 30%.[71] In 2024, foreign direct investments in Georgia amounted for USD1.33 billion (compared to USD1.902 billion in 2023). The sectors attracting the most investment include real estate, tourism, and infrastructure.The United Kingdom is the largest investor (24.6%), followed by the Netherlands (22.6%), Türkiye (10.6%), and the United States (9.6%). Yet, as far as the two former – two consolidated democracies – are concerned, it is noteworthy that neither one has exploited this leverage to exert pressure on the anti-democratic Georgian Dream-led government.

Economic Barriers

***Internal political instability,* the „foreign agent" law & frozen EU accession process.** On 3 March 2022, Georgia applied for EU membership. In December 2023, Georgia was granted candidate status by the EU.

However, the "foreign influence" law - adopted by the Georgian Parliament in May 2024 - pushed Georgia away from EU accession dream. Despite facing massive protests in 2024, the ruling party remained steadfast in its commitment to passing legislation that it claims will safeguard Georgia's sovereignty.[72] While the main term used in the bill has been modified from "foreign agent" to "organisation pursuing the interests of a foreign power", the core content remains unchanged: Organisations receiving foreign funding, regardless of the type of activity, must publish annual financial reports, with penalties for violations. The Georgian "foreign influence" law goes beyond domestic policy, signifying the country's geopolitical pivot. It suggests a move away from Western integration and potentially back towards Russia's sphere of influence. By mirroring the Russian legislation and potentially harming civil liberties, Georgia considerably alienated itself from the EU. While both the Georgian and Russian governments frame these laws as safeguards to national security, Western leaders, human rights organisations and democracy experts argue they stifle dissent and curtail civil liberties. Following the adoption of the "foreign influence" law, during the European Council held in June, EU leaders decided to put Georgia's EU accession process on halt. Likewise, the EU has frozen its Georgia-earmarked support from the European Peace Facility, worth EUR30 million for 2024.[73]

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[70] European Commission. 2024. 'Georgia'. Accessed 10 April 2025. https://ec.europa.eu/economy_finance/forecasts/2024/spring/spring_forecast-2024_ge_en.pdf

[71] Razmadze, Mariam. 2025. 'Foreign direct investment in Georgia drops nearly 30% in 2024'. *Georgia Today,* 11 March. Accessed 10 April 2025. https://georgiatoday.ge/foreign-direct-investment-in-georgia-drops-nearly-30-in-2024/#:~:text=The%20National%20Office%20of%20Statistics,compared%20to%20the%20previous%20year.

[72] De Varax, Alexis. 2024. 'Georgia's "foreign agent" law: why is it not European?'. *GFSIS,* 18 August. Accessed 10 April 2025. https://gfsis.org/en/georgias-foreign-agent-law/

[73] Bacchini, Federico. 2024. 'EU begins suspending direct funding to Georgia's government: 'Just the first step'. *EU News,* 9 July. Accessed 10 April 2025. https://www.eunews.it/en/2024/07/09/eu-suspension-georgia-government-funds/

***Weak productivity and high unemployment rate*.** In the last post-COVID period the job market experienced a strong recovery, with unemployment falling from 20.6% in 2021 to a record low of roughly 16.4% in 2024.[74] However, the currently high unemployment rate remains a structural issue that could negatively impact poverty levels and hinder long-term growth. Weak productivity and limited high-quality job creation are representing structural issues that threaten economic growth. About a third of workers remain engaged in low-productivity agriculture, and Georgia also has a large share of self-employed in other sectors.

***Corruption and oligarchic influence**.* Among the many disagreeable aspects of corruption is evidence that it slows economic growth through a wide range of channels.[75] Corruption lowers investment, causes the loss of tax revenues leading to adverse budgetary consequences and, therefore, retards economic growth. Oligarchic influence significantly affects Georgia's domestic political affairs, and opposition figures have faced physical attacks. Corruption in government persists and media freedom is undermined by intimidation and pressure against journalists. Executive and legislative interference in the courts remains a structural problem, as does a lack of transparency and professionalism surrounding judicial proceedings. The government controls the judiciary and law enforcement institutions, both of which provide impunity for those elite members who engage in corruption.

[74] National Statistics Office of Georgia. 2024. 'Employment and unemployment'. Accessed 10 April 2025. https://www.geostat.ge/en/modules/categories/683/Employment-Unemployment

[75] Maoro, Paolo. 2013. 'The persistence of corruption and slow economic growth'. *IMF Working Paper WP/02/213.* Accessed 10 April 2025. https://www.imf.org/external/pubs/ft/wp/2002/wp02213.pdf

6 Moldova

The Republic of Moldova is classified by the World Bank as an upper middle-income country.[76] The Economic Freedom Index ranks Moldova with an overall score of 58.3 out of 100 in 2025, a slight increase compared to 57.1.[77] The Freedom House Index 2024 classifies Moldova as a partly free country with a score of 60/100. Moldova is a transitional or hybrid regime according to the latest Freedom House Nations in Transit report.[78]

The country faced significant challenges stemming from Russia's invasion of Ukraine, and the subsequent energy and refugee crisis and an inflation increase not seen in over 20 years - 34.62% in October of 2022. Following the severe recession in 2022, Moldova's economy has recovered, yet slower than anticipated. While risks still remain high but are slowing down, a relatively robust medium-term growth is forecasted. Although the macroeconomic situation has stabilised, the growth drivers are quite limited and will be generated firstly by private consumption, stimulated by the easing of monetary policy and lower inflation, and secondly a slow recovery of exports.

Economic drivers of democratisation

Economic integration with the EU. The EU-Moldova Association Agreement, including the DCFTA, was signed in June 2014 and has been fully applicable since July 2016. Similar to the EU-Ukraine AA, the EU-Moldova AA has brought the country closer to the EU Internal Market. Numerous consumer protection, quality assurance, public procurement and competition standards Moldova had to implement based on the AA are conducive to democratisation through their focus on transparency, envisaged government officials' accountability and the protection of individuals' rights in the economic domain.[79] Similar to the Ukrainian case, the AA/DCFTA and EU support for its implementation have prompted the reorientation of Moldova's trade from Russia/CIS markets to EU markets, making the EU the main trading partner.[80] Notably, the AA/DCFTA implementation also contributed to the Moldovan economy's integration into European manufacturing value chains, thus making it less dominated by agriculture.

The granting of EU candidate country status to Moldova in June 2022 gave a strong political impetus to the country's rapprochement with the EU. Moldova's status as a candidate country for EU accession represents a unique window of opportunity that facilitates the access to preferential funds for development and allows the country to achieve its development goals. Aside from that, it encourages reforms particularly in the justice sector and enhances the rule of law and anti-corruption efforts with benefits both for the economy and the national budget, as well as for citizens in general. Moldova's potential EU accession may also facilitate

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[76] World Bank. 2024. 'New World Bank Report on Moldovan Economy Outlines Key Reforms Necessary for Accelerating Growth, Aligning with EU Standards'. 25 November. Accessed 10 April 2025. https://www.worldbank.org/en/news/press-release/2024/11/25/new-world-bank-report-on-moldovan-economy-outlines-key-reforms-necessary-for-accelerating-growth-aligning-with-eu-standa

[77] Heritage Foundation. 2025. 'Moldova'. Accessed 10 April 2025. https://www.heritage.org/index/pages/country-pages/moldova#:~:text=Moldova%27s%20economic%20freedom%20score%20is,countries%20in%20the%20Europe%20region.

[78] Freedom House. 2025. 'Moldova'. Accessed 10 April 2025. https://freedomhouse.org/country/moldova

[79] Freyburg, Tina, Lavenex, Sandra, Schimmelfennig, Frank, and Anne Wetzel. 2011. 'Democracy promotion through functional cooperation? The case of the European Neighbourhood Policy'. *Democratization* 18(4): 1026-1054. https://doi.org/10.1080/13510347.2011.584738

[80] European Commission. 2024. 'Moldova'. Accessed 10 April 2025. https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/moldova_en#:~:text=The%20EU%20is%20Moldova%27s%20biggest,destined%20for%20the%20EU%20market.

future reintegration of Transnistria into Moldova, as Transnistrian business elites are interested in economic opportunities that EU accession inevitably entail.[81]

Foreign aid and investment. Data from the National Bank of Moldova (2024) shows an increase by 11.9 % in the volume of foreign direct investment (FDI) which amounted to USD5.5 billion.[82] Though this increase can to some degree be attributed to high exchange rate fluctuations (45%), comparisons with earlier data reveal relative stability of FDI inflows to the country. As of the end of 2023, 86 % of foreign investments were coming from EU Member States, while CIS countries contributed only 13%. These figures are illustrative of the aforementioned reorientation of the Moldovan economy away from Russia and the CIS to EU markets. Moreover, since FDI requires a transparent and predictable business environment with high accountability of the authorities, the country's dependence on FDI, especially amidst the geopolitical turbulence, caused by Russia's war against Ukraine, can be seen as conducive to democratisation.

A similar logic is applicable to financial assistance. The EU is the largest provider of financial assistance to Moldova.[83] The EU supports socioeconomic development and reforms in Moldova, with financial and technical assistance through the Neighbourhood Development and Cooperation Instrument (NDICI). Conditionalities attached to EU assistance are designed to promote democratisation, requiring the government to demonstrate progress in various reform areas, such as respect for the rule of law and the promotion of democratic mechanisms and human rights. Since 2021, the EU has reaffirmed its support for Moldova by making available EUR2.2 billion in loans and grants. Funding is funneled through various financial instruments such as macro-financial assistance, direct budget support, EU programmes, and projects with international financial institutions guaranteed by the EU.

Economic growth and fiscal stability. Despite the economy's vulnerability to external shocks, such as the COVID-19 pandemic and Russia's war against Ukraine, Moldova's economic performance has been relatively strong over the past few years. While economic growth in 2023 was mainly driven by the agriculture sector, economic growth in 2024 is due to the increase in private consumption. According to the data by the Ministry of Finance, Moldova ended 2023 with a budget deficit of over 16 billion lei, almost twice as much as in 2022 and equal to 5.91% of the country's GDP.[84] The high deficit was generated by revenue underperformance and budget under-execution. In spending, the 2023 budget prioritised responding to the cost-of-living crisis, ensuring energy security, and addressing low civil service capacity. In 2024, however, the situation considerably improved, with the deficit constituting 3.9% of GDP. In sum, these measures and the expected increase in private consumption are likely to improve socio-economic conditions in Moldova and thus have the potential to further democratisation.

Service and ICT sector: The GDP structure is progressively moving from heavy industry and agriculture towards services. The tertiary sector represents 58.4% of the GDP, employing nearly one-third of the workforce (32%).[85] It is driven by the insurance, legal consultancy, and telecommunications sectors. While

[81] Deen, Bob, and Zweers, Wouter. 2022. 'Walking the tightrope towards the EU. Moldova's vulnerabilities amid war in Ukraine'. *Clingaendal Institute,* September. Accessed 10 April 2025. https://www.clingendael.org/pub/2022/walking-the-tightrope-towards-the-eu/, Chapter 3.

[82] National Bank of Moldova. 2024. 'Indicators'. Accessed 10 April 2025. https://www.bnm.md/bdi/pages/reports/dbp/DBP20.xhtml

[83] European Commission. 2024. 'Moldova. Membership status: candidate country'. Accessed 10 April 2025. https://enlargement.ec.europa.eu/european-neighbourhood-policy/countries-region/moldova_en#eu-funding-and-support

[84] See fn. 81.

[85] Lloyds Bank. 2025. 'The economic context of Moldova'. Accessed 10 April 2025. https://www.lloydsbanktrade.com/en/market-potential/moldova/economical-context#:~:text=The%20tertiary%20sector%20now%20represents,ICT%20sector%20is%20also%20growing.

Moldova has a negative balance of trade, the service sector is the only sector with a positive balance of trade. The export of services exceeded in 2023, for the first time, 40% of all Moldovan exports, according to IDIS Viitorul analysis.[86] The ICT is the most dynamic service sector, which has developed in recent years and still has a great potential. In the past years, Moldova's ICT sector basically doubled its contribution to the country's economy and increased its export volume five times.[87] Individuals, engaged in this vibrant service sector, have a potential to collectively represent an important driving force in society and promote SMEs' involvement into public policy-making.

Economic barriers to democratisation

Multi-faceted crisis stemming from Russia's invasion of Ukraine. Russia's invasion of Ukraine and the prolonged war has resulted in multiple economic challenges for Moldova, straining resources, inflating prices and making it difficult for the government to host almost a million of refugees from Ukraine.[88] The year 2022 was particularly challenging for the Moldovan economy, with the country's GDP falling by six percent. This figure can be partially attributed to the severe energy crisis Moldova faced in 2022, as Russia's Gazprom used its leverage to manipulate prices whilst Ukraine became unable to export electricity to Moldova due to Russia's attacks. Notwithstanding these challenges, in February 2023, total Moldovan exports reached a peak, amounting to USD4.35 billion. Though by July 2024 this figure decreased by USD539 million (to USD3.8 billion), the Moldovan economy is recovering from the shocks generated mainly by Russia's invasion of Ukraine.[89] The continuing war with its complex geoeconomic dynamics, nonetheless, has the potential to generate new shocks for the country's economy, with likely negative spill-over effects onto Moldova's polity.

Poor business environment, including corruption. A favourable business environment is central to a country's economic growth and the improvement of socio-conditions for its population. As mentioned earlier, focused on the rule of law, transparency and accountability, a favourable business environment tends to demonstrate a positive relationship with democracy. Moldova's economy is considered "mostly unfree" according to the 2024 Index of Economic Freedom.[90] Moldova's economic freedom score is 58.3, making its economy the 97th freest in 2025. Even though Moldova manages to attract FDI from Europe, the foundations of economic freedom are neither well-established nor strongly protected in Moldova. To make the business environment favorable, Moldova needs strong public institutions, rule of law, resizing of the state company sector, as well as effective anti-corruption measures. Notably, Moldova scored 43 (out of 100) in the Global Corruption Perception Index in 2024.[91] With a slight improvement (by 3 steps) in the rating between 2023 and 2024, Moldova is struggling with systemic corruption as a critical challenge to the business environment, alongside weak rule of law and, particularly, the lack of judicial independence.[92] Entrenched and wide-spread corruption hinders a tangible improvement of Moldova's socio-economic situation in many ways and has

[86] Procoupciuc, Maria. 2023. 'Analysis: In 2023, for the first time, the export of services will exceed 40% of Moldova's total exports'. *IDIS Viitorul,* 08 November. Accessed 10 April 2025. http://viitorul.org/ro/content/analiz%C4%83-exportul-de-servicii-va-dep%C4%83%C8%99i-%C3%AEn-2023-pentru-prima-dat%C4%83-40-din-tot-exportul

[87] EU4Digital. 2023. 'The transformation of Moldova's IT sector was presented at the SUM IT UP 4 IMPACT event'. 5 May. Accessed 10 April 2025. https://eufordigital.eu/ro/moldovas-it-sector-transformation-showcased-at-sum-it-up-4-impact-event/

[88] Zaharov, Igor, and Carolina Bogatiuc. 2024. 'From Crisis to Catalyst: The Impact of Russia's War on Moldova's Domestic and Foreign Policies'. *PONARS EURASIA,* 29 May. Accessed 10 April 2025. https://www.ponarseurasia.org/from-crisis-to-catalyst-the-impact-of-russias-war-on-moldovas-domestic-and-foreign-policies/

[89] *Ibid.*

[90] See fn. 76.

[91] Transparency International. 2024. 'Corruption Perception Index: Moldova'. Accessed 10 April 2025. https://www.transparency.org/en/countries/moldova

[92] World Justuice Project. 2024. 'Moldova'. Accessed 10 April 2025. https://worldjusticeproject.org/rule-of-law-index/country/2024/Moldova/

been resulting, more often than not, in a reduction of domestic investment, the discouragement of FDI, the promotion of overspending by respective governments, and distortions as far as the composition of government spending is concerned, i.e.away from education, health, and infrastructure maintenance toward less efficient but more manipulable public projects.[93]

[93] Markevych, Maksym, and Marina Marinkov. 2024. 'Corruption and Economic Growth in Moldova: A Reexamination'. *International Monetary Fund* 003. https://doi.org/10.5089/9798400268137.018.

7 Ukraine

Ukraine is an emerging upper middle-class open economy at the heart of Eastern Europe. Its distinctive characteristics include its large surface area (603.628 km 2); more than 60% of this area is covered with fertile black soils. As of April 2025, roughly 18% of Ukrainian territory is occupied by Russia. Because of Russia's invasion, the population of Ukraine is estimated to have decreased from 44 million in 2021 to 37 million in 2023.[94] Ukraine, nonetheless, remains one of the biggest countries in Europe by population size. Ukraine was rated as "partly free" in the 2024 "Freedom in the World" report, as Ukrainians' political rights and civil liberties are limited due to the martial law.[95]

Economic drivers of democratisation

Economic integration with the European Union. The EU-Ukraine Association Agreement (AA), including the Deep and Comprehensive Free Trade Area (DCFTA) was signed in 2014 and entered into force in 2017. The AA/DCFTA provides not only for the gradual removal of 94.7 % of tariff lines but offers Ukraine a prospect to become gradually integrated into the EU's Internal Market. To harness this opportunity, Ukraine has already introduced EU norms and standards in numerous domains, such as technical barriers to trade, consumer protection, public procurement and competition law. Many of these standards are conducive to democratisation, since they concern transparency, accountability of government officials and contribute to individual's right in the economic domain.[96] Moreover, the EU has supported AA/DCFTA implementation through multiple funding and capacity-building programmes for small- and medium-sized enterprises (SMEs). This support strengthened SMEs' role in political processes, contributing to their representativeness and inclusiveness. Already prior to the war, the AA/DCFTA implementation has also had noticeable political effects, as Ukraine's economy underwent a reorientation from the Russia/ Commonwealth of Independent States (CIS) markets towards EU markets.[97] Such a reorientation decreased the opportunities for Russia to use its economic interdependencies with Ukraine as a tool for political coercion, undermining democracy. Russia's invasion and the granting of EU candidate country status to Ukraine gave a strong impetus to the AA/DCFTA implementation and completion of outstanding reforms, needed for Ukraine to join the Single Market.

Decline in oligarchic influence, especially following Russia's full-scale invasion of Ukraine. Far-reaching influence of post-Soviet oligarchy has long been perceived as a barrier to both Ukraine's economic development and democratisation. The gradual decline in oligarchic influence first became noticeable after the 2013/2014 Euromaidan Revolution and the signing of the AA/DCFTA, as Ukraine started to sever its economic connections with Russia.[98] The launch of anti-corruption institutions additionally contributed to the decline of oligarchs' influence between 2014 and 2022. Russia's invasion and its effects gave a new – and this time a sudden – impetus to the weakening of oligarchs. "Many have lost paper wealth as Russian forces destroyed their factories", and wartime broadcasting rules limited oligarchs' access to TV channels as a dominant pre-war tool of political influence.[99] Coupled with EU support, the decrease in oligarchs' power

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[94] World Bank. 2024. 'Population, total – Ukraine'. Accessed 10 April 2025. Population, total - Ukraine | Data

[95] Heritage Foundation. 2024. 'Ukraine'. Accessed 10 April 2025. https://freedomhouse.org/country/ukraine

[96] See fn. 78; Rabinovych, Maryna. 2024. 'EU-Ukraine "deep" trade agenda: the effectiveness and impact perspectives'. *International Politics* 61: 1078-1096. https://doi.org/10.1057/s41311-022-00384-x

[97] *Ibid.* See also Zachmann, Georg, Dabrowski, Marek, and Marta Domínguez-Jiménez. 2020. 'Ukraine: trade reorientation from Russia to the EU'. *Bruegel,* 13 July. https://www.bruegel.org/blog-post/ukraine-trade-reorientation-russia-eu

[98] Siedlin, Oleksandr. 2024. 'The Collapse of Ukraine's Oligarchy in Ten Years of War'. *Focus Ukraine,* 14 March. Accessed 10 April 2025. https://www.wilsoncenter.org/blog-post/collapse-ukraines-oligarchy-ten-years-war

[99] Hall, Ben. 2023. 'The crackdown on Ukraine's oligarchs', *Financial Times,* 5 December. Accessed 10 April 2025. https://www.ft.com/content/b16bf75d-ce45-4d4d-ab39-32af6d7e089b

opens a space for other actors, such as local communities (hromadas) and SMEs to engage into political debates.

Deregulation and digitalisation. First post-Euromaidan attempts to deregulate Ukraine's economy move Ukraine into the top 30 rankings in the World Bank's Doing Business Rating as far as the 2015-2020 reform wave is concerned. Though hampered by the COVID-19 pandemic, this reform wave resulted in the abolition of numerous redundant Soviet standards and the liberalisation of permit and licensing procedures for businesses.[100] Prior to the full-scale invasion, digitalisation efforts were taking place largely in parallel with the deregulation reform. A milestone in Ukraine's digitalisation was the launch of the "Diia" app in 2019 that allows Ukrainian citizens access to digital documents and offers opportunities for online business registration and the acquisition of necessary permits and licenses.[101] Digitalisation of public services and functional ecosystem of IT start-ups contributed to Ukraine's wartime resilience and evolved further amidst the war.[102] In this vein, the 2023 new wave of deregulation reform demonstrated strong synergy with digitalisation, as many regulatory instruments are expected to be digitalised. Compared to the 2015 edition, the ongoing deregulation wave is marked by extensive consultations with businesses; it also enjoys support under the EU's Ukraine Facility (2024-2027).[103] Both deregulation and digitalisation contribute to democratisation through demonopolising economy, promoting media freedom, as well as pluralism and inclusivity in a society.

Economic barriers to democratisation

Long-term oligarchic influence. Oligarchic influence is recognised by the scholarly literature to have hampered both Ukraine's economic and political development, especially between the independence and the 2014 Euromaidan Revolution.[104] As Puglisi wrote, "the systematic plunder of economic resources, perpetrated under the oligarchic system, has imposed great costs upon Ukrainian society, condemning it to a vicious circle of underdevelopment, administrative weakness and inability to implement change"[105]. By 2014, only 10 % of Ukrainian wealth was estimated to come from sectors not dominated by rent-seeking.[106] Though the Euromaidan is currently believed to give a start to the gradual decrease of oligarchic influence, early post-Euromaidan works showcase oligarchs' ability to adapt to the new regime.[107] The Euromaidan Revolution also failed to address the challenge of mainstream media resources' concentration in the hands

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[100] Fouani, Manal. 2021. 'Deregulation and the SDGs in Ukraine'. *UNDP Ukraine,* 8 December. Accessed 10 April 2025. https://www.undp.org/ukraine/speeches/deregulation-and-sdgs-ukraine

[101] Ukraine Now. 2024. 'Digital country'. Accessed 10 April 2025. https://ukraine.ua/invest-trade/digitalization/

[102] Fedorov, Mykhailo. 2023. 'Ukraine's digital revolution is proving vital for the country's war effort'. *Atlantic Council,* 27 July. Accessed 10 April 2025. https://www.atlanticcouncil.org/blogs/ukrainealert/ukraines-digital-revolution-is-proving-vital-for-the-countrys-war-effort/

[103] Sologub, Ilona, and Viktoriia Vyhovska. 2024. 'Ukraine's plans for institutional reforms'. *Vox Ukraine,* 15 May. Accessed 10 April 2025. https://voxukraine.org/en/ukraine-s-plans-for-institutional-reforms

[104] Puglisi, Rosaria. 2003. 'The rise of Ukrainian oligarchs'. *Democratization* 10(3): 99-123. https://doi.org/10.1080/13510340312331293947; Pleines, Heiko. 2016. 'Oligarchs and Politics in Ukraine'. *Demokratizatsiya: The Journal of Post-Soviet Democratization* 24(1): 105-127.

[105] Puglisi, Rosaria. 2003. 'The rise of Ukrainian oligarchs'. *Democratization* 10(3): 99-123. https://doi.org/10.1080/13510340312331293947, p.99.

[106] The Economis. 2024. 'Planet Plutocrat'. 15 March. Accessed 10 April 2025. https://www.economist.com/international/2014/03/15/planet-plutocrat

[107] Pleines, Heiko. 2016. 'Oligarchs and Politics in Ukraine'. *Demokratizatsiya: The Journal of Post-Soviet Democratization* 24(1): 105-127.

of oligarchs and their misuse of media to impact politics.[108] As mentioned above, Russia's invasion of Ukraine deprived Ukrainian oligarchs of both economic resources and political influence, thus opening a space for more democratic governance of economic development and SMEs' stronger role in economic policy.

Economic effects of Russia's war against Ukraine, including the devastation and economic demodernisation of Russia-occupied territories. Russia's full-scale invasion of Ukraine has brought about immense human suffering and massive destruction of Ukraine's infrastructure. As of February 2024, the World Bank, United Nations and European Commission estimated the cost of Ukrainian reconstruction at USD524 billion, and direct damage from the war amounts to USD176 billion.[109] These losses include the destruction of around two million housing units, 8.400 km of motorways and major roads, and Ukraine's non-atomic energy infrastructure. The war has had severe social consequences, with the poverty level reaching 25.6 % in June 2024.[110] It also contributed to inequality, as different regions are affected by the war to a different extent. As of early 2024, the number of internally displaced persons in Ukraine reached 3.7 million, and many of them lost property and jobs, when leaving occupied territories.[111] Over 4.2 million Ukrainians enjoy temporary protection in the EU, 6.3 million are based in Europe (including the EU), and their number globally is reported to be over 6.9 million.[112] Notwithstanding the drastic workforce outflow, unemployment rates in Ukraine are relatively high (13%).[113] Though Ukraine's economy managed to grow by 5.3 % in 2023 and 2.9% in 2024 after a 29.1 % decrease in 2022, it remains severely dependent on foreign assistance.[114] In combination, poverty, inequality due to the war's different effects on Ukrainian regions and displacement create prerequisites for societal polarisation and de-democratisation. Russia-controlled territories of Ukraine experience the regime's constraining 'de-modernisation' policies, with the population having no say as to economic and political processes.[115] Nuanced reintegration policy would be needed to compensate for de-modernisation and de-democratisation in these areas of Ukraine, should they be deoccupied.

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[108] See, for instance, Orlova, Dariya. 2016. "Ukrainian media after the EuroMaidan: in search of independence and professional identity". *Medienpolitik International* 61: 441-461.

[109] United Nations. 2025. "Ukraine: post-war reconstruction set to cost $524 billion". 25 February. Accessed 10 April 2025. https://news.un.org/en/story/2025/02/1160466

[110] Samoiliuk, Maksym. 2025. "Ukraine War Economy Tracker". *Centre for Economic Strategy*, 3 April. Accessed 10 April 2025. https://ces.org.ua/en/tracker-economy-during-the-war/#:~:text=According%20to%20them%2C%20in%20June,to%2025.6%25%20in%20June%202024.

[111] Rakic, Drazen. 2024. 'Two years of war: The state of the Ukrainian economy in 10 charts'. *European Parliament Research Service.* February. Accessed 10 April 2025. https://www.europarl.europa.eu/RegData/etudes/BRIE/2024/747858/IPOL_BRI(2024)747858_EN.pdf

[112] UNHCHR. 2025. 'Ukraine Refugee Situation'. Accsessed 10 April 2025. https://data.unhcr.org/en/situations/ukraine

[113] See fn. 110.

[114] See fn. 109.

[115] Malyarenko, Tetyana, and Borys Kormych. 2023. 'New Wild Fields: How the Russian War Leads to the Demodernization of Ukraine's Occupied Territories'. *Nationalities Papers* 52(3): 497-515. : https://doi.org/10.1017/nps.2023.33

8 The regional level

The EU's eastern neighbourhood is a heterogenous space with strong economic potential owing to strategic location, (at least partial) market economy development since the collapse of the Soviet Union and strong digitalisation trends. Geopolitical and geoeconomic tensions between major powers in the region, resulting in conflicts and the lack of intra-region integration, hinder the development of such potential, in particular, through fostering emigration and 'brain drain'.

Economic drivers of democratisation

Strategic geographical location, potentially fostering economic ties with both Europe and Asia. EU neighbours in Eastern European (Ukraine, Moldova and Belarus) and the South Caucasus (Georgia, Armenia and Azerbaijan) have favourable geographical location to the extent that these potentially enable them to develop trade and investment links with both Europe and Asia. These countries may also serve as transition hubs, fostering Europe's trade with Russia, Central Asia and Southeast Asia.

Transition away from command economy. Another important potential economic driver of democratisation, to a different extent shared by the six eastern neighbours, deals with the transitioning away from a command economy, characteristic for the Soviet Union they used to belong to. Ukraine, Moldova, Georgia and Armenia joined the WTO in early 2000s, while Azerbaijan received an observer status and Belarus' WTO accession process was suspended due to the regime's support for Russia's invasion of Ukraine. Even though neither of the countries of the region can be characterised as a fully-fledged market economy, private sector has a role to play in each of them, even in Belarus and most certainly in Azerbaijan. Nevertheless, the business environment is not ideal in any of the six countries, and a weak rule of law and the absence of an independent judiciary aggravates doing business in these countries and prevents SMEs from becoming a politically important force on both the country and regional level.

Operational trade or cooperation agreements with the EU with all countries in the region, except for Belarus. Following the collapse of the Soviet Union, the European Communities / EU concluded framework Partnership and Cooperation Agreements (PCAs) with all the new independent post-Soviet states in the 1990s-early 2000s. Except for the EU-Belarus PCA, these agreements were ratified by the EU. Since then, the EU concluded three ambitious AAs/DCFTAs with Ukraine, Moldova and Georgia, and deepened its relations with Armenia through a CEPA. Even though Azerbaijan is inclined to pursue the transactional 'business only' approach in its relations with the EU, deeply rooted EU-Azerbaijan energy interdependencies make a major rift in the relationships unlikely.[116] Existing agreements and ties offer opportunities for the EU to further deepen economic linkages with countries of the region and use such opportunities as the basis for its potential conditionality approach.

Digitalization and the development of the ICT sector. The EU's eastern neighbourhood is highly digitalised, and the ICT sector used to flourish even in Belarus prior to the 2020 falsification of elections. The development of the ICT sector contributes to democratisation in several ways, i.e. by enhancing socio-economic conditions in a country in general, by promoting political participation and by offering new digital venues for such participation, especially to young people. The digitalisation-democracy nexus may, nonetheless, be more complex and depends on the specific political environment, as digital tools and the efforts of the ICT sector may be directed on developing digital surveillance tools and other solutions, hindering democratic participation.

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[116] Ahmadzada, Shujaat. 2024. 'Can Energy Ties Prevent an Azerbaijan–EU Rift?'. *Carnegie Europe,* 8 April. Accsessed 10 April 2025. https://carnegieendowment.org/russia-eurasia/politika/2024/04/can-energy-ties-prevent-an-azerbaijan-eu-rift?lang=en

Economic barriers to democratisation

Geopolitical and geoeconomic turbulence, fostered by the EU's, Russia's and China's clashing ambitions and interests in the region. Voluminous scholarship and policy analyses have explored geopolitical tensions in the EU's eastern neighbourhood.[117] These tensions also have strong geoeconomic repercussions, causing the fragmentation of trade and investment links in the region and inevitably resulting in decreasing gains from trade and welfare. Moreover, Russia uses its economic power and statecraft to solidify authoritarian regimes in the region and support security elites in secessionist *de facto* states, such as Transnistria in Moldova, and Abkhazia and South Ossetia in Georgia.[118] Competition with Russia and China and designing responses to their aggressive influence-seeking strategies (e.g. Russia's energy blackmail) distracts resources the EU could have invested into immediate support for democratic forces in the region. On the other hand, however, competition with others contributes to EU actorness and its leverage in all countries of the region, except for Belarus.

The lack of intra-region integrative links. This challenge is an immediate consequence of the fragmentation, caused by geopolitical turbulence in the region. Founded in 2001, the Commonwealth of Independent States (CIS) has been the key regional integration project in the post-Soviet region after the Soviet Union collapsed. As of mid-2024, four eastern neighbourhood countries are still CIS members, notably Azerbaijan, Armenia, Belarus and Moldova, the latter of which has left the organisation in the Spring of 2026. Georgia left the CIS in 2009, and Ukraine, though it signed and ratified numerous CIS agreements, was never technically a member, since it never ratified the CIS charter. In October 2013, Armenia, Belarus, Kazakhstan, Kirgizstan, Tajikistan, Moldova, Russia and Ukraine joined the CIS Free Trade Agreement, which only focuses on partly liberalising trade in goods. Since 2015-2016, Russia and Ukraine do not apply this agreement to each other. Armenia's and Belarus' accession to the Russia-led Customs Union, and Ukraine's Moldova's and Georgia's opting for AAs/DCFTAs with the EU prevented further elaboration and deepening of the CIS FTA. Amidst Russia's full-scale invasion, Ukraine prepares to denounce the CIS FTA. Instead, Georgia, Ukraine, Azerbaijan and Moldova recently signed a new free trade deal under GUAM that is regarded as the most obscure regional bloc, despite common challenges the parties face and the potential it bears.[119] In a good case scenario, free trade can become a means to revive the bloc as a regional integration channel.

Emigration and shortage of human capital. Conflicts but also the lack of socio-economic opportunities cause active emigration from the region, with EU Member States, USA and Canada as preferred destination countries. Outmigration, the lack of human capital and, particularly, the 'brain drain' hinder economic growth and innovation, thus contributing to de-democratisation. Mass outmigration may also cause societal polarisation and radicalisation, as those who left the country struggle to find common ground with those who stayed.

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[117] See, for instance: Samokhvalov, Vsevolod. 2018. "Russia and its shared neighbourhoods: a comparative analysis of Russia-EU and Russia-China relations in the EU's Eastern neighbourhood and Central Asia". *Contemporary Politics* 24(1): https://doi.org/10.1080/13569775.2017.1408171

[118] See fn.80.

[119] Sanchez, Wilder Alexander. 'GUAM 2.0: Can Free Trade Revive the Forgotten Regional Bloc?' *Geopolitical Monitor,* 3 October. Accessed 10 April 2025. https://www.geopoliticalmonitor.com/guam-2-0-can-free-trade-revive-the-forgotten-regional-bloc/?__cf_chl_tk=k8xB71JSo_3QGSs5E6lv62qD7.UeaQ_PZY3U5CcLg6Q-1744357449-1.0.1.1-m0wnQe35sQIP9N2GI_loTJWctEUZOC.DAaeJ8kfuM3M

9 Conclusions and policy recommendations

The EU's eastern neighbourhood countries and the region as a whole have a complex background, shaped by post-Soviet legacies, severe challenges related to the transition to democracy and market economy, ongoing conflicts and geopolitical tensions. Economic integration with the EU has been an important driver of democratisation for the majority of the countries in the region, especially Ukraine, Moldova and Georgia. Seeking to obtain FDI and external aid, these countries, as well as Armenia, managed to strengthen their systems for property rights protection and – to varying degrees – the business environment as a whole. Digitalisation and the development of the ICT sector have also played a positive role in democratisation processes, for instance, in Ukraine and in Belarus prior to 2020 elections. Nonetheless, authoritarian regimes in Belarus and Azerbaijan, enjoying economic support from Russia, continue exercising extensive control over the economic life, and private firms have little to resist to SOEs' resources and influence. Thus, based on the analysis, the paper offers the following policy recommendations:

Recommendations as regards the regional level:

- To take inevitable long-term fragmentation as the starting point for developing any policies vis-à-vis the region.
- To approach the deepening of existing economic ties with the countries of the region as the investment into the EU's ability to withstand the geoeconomic competition with Russia and China, yet not leaving democratic conditionality out of play.
- To preserve the Eastern Partnership as an umbrella forum for region-wide discussions and primarily depoliticised projects.
- To the extent possible, support the intra-region economic integration, in particular, the revival of GUAM.
- Possibly, conduct consultations with Ukraine, Georgia, Moldova and Azerbaijan as to the opportunities of deepening the new GUAM trade agreement and the EU's potential role in this process.
- To offer reintegration support programmes for highly qualified professionals, entrepreneurs or civil society activists, coming from the region, currently residing in the EU and seeking to come back to their home communities.
- To continue funding educational and capacity-building programmes for SMEs leaders and entrepreneurs from the region to promote bottom-up intra-region and European integration.
- To launch dialogue with national authorities in EaP countries as to the improvement of their immigration and residence policies for the purpose of attracting human capital from other world's regions (e.g. Central and Southeast Asia, Latin America) to move to EaP countries on a temporal or permanent basis.

Ukraine-specific recommendations:

- To continue supporting Ukraine's economy amidst the war, with the focus on further improvement of business environment and support for SMEs.
- To utilise momentum, offered by the Russian invasion and the opening of EU-Ukraine accession negotiations, to emphasise political conditionality, especially when it comes to the rule of law and anticorruption.

Moldova-specific recommendations:

- To provide economic assistance to Moldova, targeted the way to help it immediately address the repercussions of the Russia's invasion of Ukraine.
- To emphasise the enforcement of property rights and anticorruption measures under EU political conditionality.

- To offer grants and other support opportunities to ICT sector, in particular, to encourage the development of digital democracy instruments.
- To consider using opportunities the accession process grants for deepening links between Moldova and Transnistria and the latter's potential reintegration.

Georgia-specific recommendations:

- To find ways to balance between supporting Georgia's economy and using financial assistance as a means to address the challenge of de-democratisation in the country.
- To develop measures to support employment in Georgia, in particular, through providing support to SMEs.
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Armenia-specific recommendations:

- To deepen economic ties and regulatory cooperation with Armenia through CEPA, *inter alia*, through offering technical assistance and capacity-building aimed at its implementation.
- To engage into dialogue with Armenian political elites as to new cooperation areas and, potentially, reducing Armenia's dependence on Russia (while Armenian population and elites are disillusioned in cooperation with Russia following the most recent episode of the Nagorno-Karabakh conflict, and this gives political room for the discussion).
- To support the development and spreading of digital democracy instruments.

Azerbaijan-specific recommendations:

- To keep control of the EU's energy dependence on Azerbaijan.
- To offer capacity-building and other forms of support to Azerbaijani entrepreneurs, seeking to do projects in non-oil sectors of the Azerbaijani economy.

Belarus-specific recommendations:

- To continue using sanctions against Belarus as the means to limit Russia's capacity to circumvent EU sanctions, as well as limiting the capacity of the Lukashenka's regime as such
- To offer various forms of support to Belarusians in exile, including community-building for professionals, e.g. in ICT, so that they can potentially act as a political force.

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