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constitutional reform
doing business
anti-corruption latin alphabet

STRATEG**EAST**
WESTERNIZATION
REPORT
2019

e-state movement freedom
free elections **tax reform**
whistleblower protection
peaceful protests

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ABOUT STRATEG EAST



StrategEast is a strategic center whose goal is to create closer working ties between political and business leaders in the former Soviet countries outside of Russia and their peers in the U.S. And Western Europe.

StrategEast believes nations from the former Soviet Union share a heritage that has resulted in common obstacles to the formation of stable, efficient, market-oriented democracies. We hope to appeal to political, business, and academic leaders in post-Soviet countries and the West, helping them better understand one another, communicate across borders, and collaborate to support real change.

Our work is focused on the 14 former Soviet states outside of Russia. This post-Soviet, non-Russia (PSNR) region includes: Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

StrategEast focuses on six key issue areas that are especially influential to the transition to Western political and economic systems: fighting corruption, implementing a Western code of business conduct within a post-Soviet business environment, modernizing infrastructure, promoting independent press and civil society, energy transparency, and leadership impact.

StrategEast is a registered 501c3 based in the United States.

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INTRODUCTION



Exactly one year has passed since publication of the StrategEast Westernization Index 2018 – a research project which, for the first time ever, compared the degree of adherence to Western values in post-Soviet non-Russia (PSNR) countries.

Today it is my pleasure to present the Westernization Report – a document in which our experts from the fourteen PSNR countries describe events which will most likely affect the degree of westernization in their respective countries.

Our experts selected a wide variety of events – from the transition to the Latin alphabet in Kazakhstan to blockchain innovations in Lithuania, and from tax reform in Uzbekistan to the peaceful revolution in Armenia. It is not easy to discern clearly defined tendencies in the PSNR region’s development from this vibrant variety; however, I would like to draw two critically important conclusions.

First, the region as a whole is demonstrating positive trends. In nine of the fourteen countries studied, events selected by our experts will undoubtedly facilitate further progression towards Western values.

In two cases – the constitutional reform review in Georgia and measures to battle corruption in Kyrgyzstan – it would be premature to make any inferences about potential outcomes. In the process of implementing those legislative measures, much will depend not just on the authorities, but in equal measure on the activeness of the civil society which will need to “protect” the results of those reforms.

The Westernization Report allows StrategEast and other adherents of Western values to view the future of the entire PSNR region with cautious optimism.

The second important tendency is that, in the majority of countries, events which had a positive effect on the degree of Westernization were initiated by the government. While it was logical to expect that from the obvious leaders of our rating – Estonia and Latvia, and to some degree from Ukraine – the actions of the governments of Kazakhstan, Uzbekistan, Azerbaijan, and Belarus once again proved that “top-down westernization” was possible in countries with a wide variety of political systems.

I dare hope that this past year StrategEast also contributed to the Westernization of post-Soviet countries. We had the opportunity to present our position and our values to representatives of governments, civil societies, and the business community at numerous conferences, panels, and personal meetings in Uzbekistan, Kazakhstan, Kyrgyzstan, Moldova, Ukraine, Belarus, Georgia, Azerbaijan, and Latvia. The number of those presentations is in the hundreds.

I trust that we were able to convey to many of those with whom we met the advantages gained by following the principles of the rule of law and protecting private property rights in building a state and a society in any given post-Soviet country. We also made an effort to explain those advantages, including the economic benefits of following the listed principles, to the participants of our Young Leadership Program – young deputy ministers from PSNR countries who completed an internship organized by our Center in the U.S.

Overall, the Westernization Report allows StrategEast and other adherents of Western values to view the future of the entire PSNR region with cautious optimism.

The Baltic states have achieved the most progress, and in a number of areas of state structure have themselves become models for the West. Government agencies in the countries of Eastern Europe and Transcaucasia are slowly but consistently bringing their legislatures into conformity with the principles of the rule of law and protecting private property rights. In Central Asia, the processes of Westernization have intensified in the “big” countries – Uzbekistan and Kazakhstan – which can lay the foundation for analogous processes in the more conservative Tajikistan and Turkmenistan.

Will these outlined trends be confirmed or disproven? The StrategEast Westernization Index 2020, to be published next year, will examine that issue quantitatively.

Anatoly Motkin

Founder and President

StrategEast



ARMENIA

Post-revolutionary Westernization - an Equation with Four Unknowns

by **Boris Navasardyan**

2018 was a year of deep core changes in Armenia's internal politics. There is a high degree of likelihood that these changes will lead to the rapprochement of its state and society systems with Western models. Conversion of these changes into institutional transitions must have an effect on the political component of the StrategEast Westernization Index and translate into a broad distribution of Western lifestyle characteristics.

Armenia's "Velvet Revolution" relegated to the background many foreign policy and international relations issues. In this sense, 2018 ended up being

a polar opposite to the preceding two-three years, which were filled with numerous events tied into the development of relationships with various partners.

On one hand, in July 2017, the parties completed the process of ratifying the "Agreement on the creation of a joint force of the Russia and Armenian military."¹ On the other hand, on April 24, the European Union (EU) and the Republic of Armenia (RA) signed "The Comprehensive and Enhanced Partnership Agreement" (CEPA).² In doing so, the country's leadership partially satisfied the expectations of those who supported and encouraged European integration of Armenia and



Armenian "Velvet Revolution." Yerevan, Armenia. August 17, 2018. Image source: Parzzival / Shutterstock.com

What obstacles still remain in the way of active implementation of the EU-Armenia framework agreement in 2019?

The Armenia-EU Comprehensive and Enhanced Partnership Agreement (CEPA) is at the core of the smooth implementation of Armenia's reform agenda. This landmark document, which has not only laid the new groundwork for our bilateral relations, but also become an important instrument for Armenia to advance its reforms and partnership with the EU based on the system of common values.

For the last few months, the new Armenian government has demonstrated its commitment and political will to deliver the effective implementation of the Agreement. The Interagency Commission on the CEPA has worked out a draft of the CEPA implementation road map. It was discussed with EU colleagues on November 27, 2018, in Yerevan at the first Armenia-EU Partnership Committee. The government-CS dialogue on unhindered implementation of the CEPA is maintained on a regular basis, with the aim of acquiring the latter's expertise and views.

Armenia-EU cooperation is also about the political will to implement our mutual commitments. It is essential for both sides to bring palpable results for our citizens, boost people-to-people contacts, as well as provide increased opportunities for safe and legal migration.

In that context, Armenia looks forward to launching the Visa Liberalization Dialogue, an important mutual commitment, which is clearly stipulated in a number of multilateral and bilateral documents, including CEPA, yet remains unfulfilled. Armenia has undertaken consistent steps towards the efficient implementation of the Visa Facilitation and Readmission Agreements; and we hope that the EU will duly evaluate progress made by Armenia and develop the required Visa Liberalization Action Plan. In turn, Armenia will strive for sustainable implementation of the respective benchmarks to pave the way for ultimately establishing the visa free regime for the citizens of Armenia.

Anna A. Naghdalyan
Spokesperson of the Ministry of Foreign Affairs
Republic of Armenia

who felt cheated in September 2013 when President Serzh Sargsyan suddenly announced his intention for the country to join the Eurasian Economic Union (EAEU) headed by Russia. This about face practically turned down the Association Agreement with the EU, the negotiations on which had been completed just a month and a half earlier.

However, this did not serve to reduce the public displeasure with the government that was monopolized by the Republican Party of Armenia (RPA) led by Sargsyan. Adding to the primary reasons for this displeasure – social and economic problems, corruption, and abuse

of power causing a progressing emigration – were the amendments to the Armenian Constitution adopted in December 2015. This was underscored by the fact that, according to election observers, the corresponding referendum was conducted with major violations. The amendments heralded the transition from a presidential system of government to a parliamentary one (read, a "super-premier" system) allowing the president, whose second (and last) term was running out in April 2018, to remain at the state's helm as prime minister. Thus, against the background of broad public outrage caused by these machinations, the official nomination of Sargsyan to the post of prime minister upon the end

of his presidential term served as the detonator of civil protest.

The most powerful protest movement - “My Step”, was headed by Nikol Pashinyan – the head of the Civil Contract party and The Way Out parliamentary alliance. The movement managed to achieve the resignation of Sargsyan from the post of Prime Minister on April 23, just six days after the Parliament had elected him to that post. On May 8, the National Assembly, where the RPA had maintained a majority, yielded to public pressure and was forced to elect Pashinyan as the new Prime Minister. The Way Out alliance, which had only nine parliamentary seats, was formed by the Civil Contract, Bright Armenia, and Hanrapetutyun (The Republic) parties, which had positioned themselves as pro-Western. The alliance’s goals included joining the EU and expanding the cooperation with NATO. Representatives of the alliance have repeatedly voiced the need to leave the EAEU and expressed their concerns regarding Armenia’s membership in the Collective Security Treaty Organization (CSTO).

The core of “My Step” was comprised by young party and civil activists known for their faithfulness to the ideas of democratization, European integration, and taking Armenia out of the Russian sphere of influence. The same category of politicians who participated in projects financed by Western donors, and some of whom were educated in American and European universities, occupied key positions in the new government. From this viewpoint, any assumptions that there would be changes to the country’s foreign policy discourse looked natural. However, even prior to their ascent to power, during the April protests, Pashinyan and his associates emphasized that their movement was directed specifically at solving the country’s internal problems and did not have geopolitical aspirations.

Further steps taken and statements made by the new government confirmed that the Armenian revolution lacked a foreign policy agenda. In the course of his

meetings with Vladimir Putin, Pashinyan assured the Russian president that Armenia considered its strategic union with Russia and cooperation in the EAEU and the CSTO a priority. However, this should not lead one to make the assessment that this means the absence of any changes in the nature of Armenia’s relations with Russia and the West.³ Relying on a high degree of legitimacy and the unprecedented support of his country’s citizens – something his predecessors lacked – Pashinyan is planning to build foreign relations following the principle of national interests’ priority, and completely avoiding both “selling sovereignty” and developing relations with one partner to the detriment of relations with another.

An excellent illustration of this was the situation surrounding the former CSTO Secretary-General Yuri Khachaturov. Armenia’s Special Investigation Service brought charges against him regarding events, which took place on March 1, 2008, when 10 people were killed during the dispersal of opposition protesters. Khachaturov was at that time in charge of the Yerevan Military Post and, according to the prosecution, authorized illegal use of the army to suppress the opposition protests. He was arrested in August 2018, then was freed on bail but recalled from his position in the CSTO. Armenia proffered another candidate to replace him, but the partners rejected it, suggesting a Belarusian representative instead. Yerevan was categorically opposed to that, which the partners perceived as a one-two punch striking the organization’s reputation – first a criminal case against its secretary-general, and then the creation of a dead-end situation with the appointment of his replacement.

The March 1 events laid the ground for the straining of the Armenian-Russian relations. The Special Investigation Service also charged Mikael Harutyunyan, who in 2008 headed the Armenia’s Ministry of Internal Affairs, but the Russian authorities have been refusing to extradite the former minister who now lives in Russia and has a Russian citizenship. The situation is even more

tense around Robert Kocharyan, who was independent Armenia's second President (1998-2008) and is considered the primary suspect in this case, accused of overthrowing the constitutional government. The Russian Foreign Minister Sergey Lavrov has issued a statement in which he accused the new Armenian authorities of committing political persecution.⁴ The Russian media was flooded with publications which noted the close relationship Putin had with Kocharyan, who allegedly was one of Putin's only three foreign "friends," the other two being Silvio Berlusconi and Gerhard Schroeder. The Putin's wishing to Kocharyan of a happy birthday, at the time when the latter was already under investigation, was widely covered in the media.

Against the backdrop of the nervousness which periodically arises in the relations between Armenia and Russia, an entirely different atmosphere surrounds meetings with Western leaders. During her visit to Armenia, on August 24-25, 2018, the German Chancellor Angela Merkel walked downtown Yerevan with the Armenian leader,⁵ participated in his beloved pastime of taking selfies with his compatriots, and saw for herself demonstrations of his great popularity. Pashinyan also held three meetings with French President Emmanuel Macron (Pashinyan also met with Putin three times), and each of those meetings offered testimony to the cordiality of their relationship. At the funeral of the great Charles Aznavour, the late French singer of Armenian descent, in Paris on October 6, the French and Armenian leaders were equally honored.⁶ The following week, during the XVII International Francophonie Summit, which took place in Armenia on October 11-12 and was attended by official delegations from more than 80 countries, The Prime Minister of Canada Justin Trudeau appeared with Pashinyan wearing identical colorful socks, bearing the image of the Armenian flag.

While each of these could be looked at as individual events with no direct connection to international

relations, it must be noted that, since the transition of power, Armenia has not entered into any significant new agreements with the West but has sent representatives to Syria as part of the Russian military mission (albeit exclusively to perform humanitarian functions). However, it is impossible not to see in those events the signs of rapprochement with Western partners in terms of political mentality and culture. In particular, the March 1 incident is notable because using methods of governing, and solving internal conflicts by force, commonly accepted in many post-Soviet countries, are considered criminal offenses in today's Armenia.

The attitude towards this and other subjects that were of most salience in the last few months, speaks volumes of a fundamentally new state of affairs in the country. In spite of acute revolutionary processes having taken place, there were zero casualties.⁷ The rights of not a single political force were violated. None of the media outlets, regardless of their political outlook, have encountered any illegitimate obstacles to performing their activities. And in the prosecution of even the most scandalous cases of corruption, the rights of suspects and defendants have been scrupulously protected. The election of the new Prime Minister, the dissolution of the National Assembly, and the scheduling of pre-term elections, all took place in strict conformity with procedures provided for by law.

All this bears testimony to the existence of a solid foundation for the country to make a breakthrough, to take upon a new quality which will bring Armenia substantially closer to the standards of Western democracy. Still, as mentioned above, the substantial progress in this direction has not yet been noted on institutional and systemic levels. Moreover, if gauged by the most considerable Westernization resource – the framework agreement with the EU, the preliminary implementation of which commenced June 1, 2018 – the process has actually slowed Armenia's getting out of the state of intra-political uncertainty supposes the shift of emphasis towards foreign policy and international

cooperation. But only specific measures undertaken by the newly formed (in December 2018) Parliament and government of Armenia in the course of the next few months will provide the assessment of their readiness and ability to balance, and increase the effectiveness of work in these directions. In our “equation,” this is “unknown number one.”

The specificity of the relationships between the EU and the “new” Armenia in the process of implementing the Agreement – which was signed by the “previous” Armenia – lies also in the fact that Pashinyan and his team are not inclined to view bilateral cooperation as an expectation of praise or criticism from the European Union for carrying out the reform agenda, which the EU itself drafted. Instead, the new Armenian leadership believes that no one can be more interested in reforms than itself; therefore, it is not reward or criticism that are expected from Europe, but rather help – and in much greater volume than the slipshod dethroned government could have expected. Only time will tell how prepared the Brussels bureaucratic apparatus will be to such a regiment of relations with Armenia. This is the “unknown number two.”

One also shouldn’t underestimate the degree of Russia’s preparedness to come to terms with the new Armenian reality. Certain Russian political science and media circles keep referring to the subject of “colored revolutions” when discussing processes taking place in Armenia. They also talk of the “insincerity” of the new authorities, the “anti-Russian” chapters in the

biographies of Pashinyan’s team members, and so on. The “unknown number three”, therefore, is to what degree all of this should be considered a part of diversity of opinion in the Russian society, and to what degree it should be deemed an indirect expression of the Kremlin’s official position. Considering that, the keyword in Armenian-Russian relations is “safety,” and keeping in mind the presence of unfriendly neighbors – Azerbaijan and Turkey – the uncertainty gets only greater. It would not be amiss to remember that security concerns were exactly what played a major role in Armenia’s change of course from European to Eurasian integration in September 2013.

Finally, one cannot fail to touch upon the concept of the “collective West” as it applies to the subject of Armenian Westernization. The interaction of Nikol Pashinyan with Donald Trump being limited to a passing handshake, the very fresh appointment of an Ambassador of Armenia to the U.S. the expectation of a new American Ambassador in Yerevan, and the strictly reconnaissance nature of the US National Security Advisor John Bolton’s visit to Armenia⁸ - all attest to the continued existence of uncertainty regarding the United States’ participation in the fate of the “new” Armenia. Moreover, in order to fully understand the perspective of the Armenian foreign policy being westbound requires answering the question whether the U.S. and its European partners’ approach to problems of countries in the region are the same or different. And this is the “unknown number four.”

AZERBAIJAN

Has the Country Made Significant Progress Improving Its Business Climate?

by Gubad Ibadoghlu

Azerbaijan was put on the list of ten countries that attained noticeable results by the number of reforms, according to the World Bank's Doing Business 2019 report. Compared to 2017, Azerbaijan moved up 32 positions to take 25th place among 190 countries, leaving many countries in its wake. Azerbaijan ranked high among the CIS countries and made the list of 25 most developed countries, which included neighboring Georgia. The Doing Business 2019 report states: "Azerbaijan as a part of the European and Central Asian region set up a record among ten countries with their best indices by having carried out reforms in eight areas in 2017-2018, and thus promoting the business activity."⁹

The Doing Business ranking is an important indicator of successful changes both for the Government of Azerbaijan and for the StrategEast Westernization Index (in particular, its economic part). As reported by the Westernization Index, Azerbaijan belonged to the "moderate" group of countries; the country ranked among the top 40 business-friendly states according to the Doing Business ranking. The new ranking demonstrated further positive economic Westernization which will definitely have a positive impact on the country's performance in the next StrategEast Westernization Index. Even last year it was evident that economic Westernization, unlike other areas, is the strongest sphere for positive developments in Azerbaijan. For example, according to the "Western Share in the Sales of Goods" indicator, the country



View of Caspian shipyard and oil rigs of Caspian Drilling Company in the suburbs of Baku, Azerbaijan. April 27, 2017. Image source: aquatarkus / Shutterstock.com.

appeared to be among the four most progressive states, outranked only by the three usual leaders – Estonia, Latvia, and Lithuania.

The Doing Business has been carried out by the World Bank since 2004 as a means to analyze business regulation reform. Azerbaijan ranked 80th of 189 countries in the Doing Business 2015 report, and climbed to 63rd position in the 2016 report. The 2017 Report listed Azerbaijan in the 65th spot, and said that Azerbaijan was one of the 29 countries that successfully carried out three or more reforms. In the Doing Business 2018, Azerbaijan ranked 57th, having improved by eight positions. Finally, with 78.64 points out of the maximum 100, Azerbaijan showed a huge improvement in the Doing Business 2019 rankings, and rounded out the group of top 25 countries of the 190 countries ranked by the World Bank.

What are the next steps for Azerbaijan to integrate into the global economy?

Since 2016, the government of Azerbaijan, guided by the Strategic Road Maps for the Development of National Economy, has intensified far-reaching economic reforms aimed at promoting sustainable economic development. Having attained the 35th rank in the Global Competitiveness Index of the World Economic Forum in Davos, Azerbaijan strives to ensure continued growth by maintaining economic and financial stability, further developing the non-oil sector of the economy, promoting high technologies in the priority economic areas, developing infrastructure, and reforming governance, and boosting efficiency in the public sector. In 2018, the country took significant steps to further expand and deepen economic reforms. As a result of the industrialization policy, implemented in Azerbaijan, the total industrial output grew 2% and non-oil manufacturing expanded by 10.8% in 2018, while agricultural production increased by 4.5%. As aggregate household income grew 9.5%, the inflation rate was contained at only 2.6%. The Azerbaijan's economy attracted more than \$ 9.0 billion in investments, of which \$ 5.6 billion was in the non-oil sector. Compared to the previous year, foreign trade grew about 40%.

Azerbaijan has proven itself as a reliable partner with its positive track record in supporting energy security, both regionally and globally. Developing its abundant energy resources, particularly by continuing to work on the successful completion of the Southern Gas Corridor, Azerbaijan plans to export natural gas to international markets by 2020. The 2018 was a significant year for Azerbaijan's energy policy development. The official opening of the Southern Gas Corridor was celebrated in Baku, in May 2018, and June saw the commencement of the TANAP gas pipeline project. Successful completion of the Southern Gas Corridor will open new horizons for Azerbaijan. Making the most of these new opportunities, the country can implement ground-breaking infrastructure projects in countries in the region that stand to benefit from the launch of the Southern Gas Corridor, including projects related to gas supply management. Along with improving Azerbaijan's foreign exchange revenues, these projects will develop new gas infrastructure in

countries where we operate and enhance the overall efficiency of the Southern Gas Corridor.

Capitalizing on its location at the intersection of major regional transport and trade corridors, Azerbaijan endeavors to become one of the most competitive and attractive countries in the world from the standpoint of transport and logistics infrastructure. The largest seaport on the Caspian Sea, the Alat International Commercial Seaport was put into operation in May 2018. Currently, Azerbaijan is an active participant in both the East-West and North-South transport corridors, and the volume of cargo shipped through these corridors is rapidly increasing. For example, from the beginning of 2018, the volume of cargo shipped through Azerbaijani territory via the North-South transport corridor multiplied more than one hundred times.

In this context, the agenda of Azerbaijan's foreign economic relations will consist of expansion and deepening of bilateral economic cooperation, development of the regional format of economic integration, simplification of trade procedures, and strengthening of economic relations with partner countries.

Does Azerbaijan intend to accede to the WTO and sign the Deep and Comprehensive Free Trade Agreement with the European Union in the nearest future?

Currently, preparation for the membership in the World Trade Organization is carried out in line with the pace of the economic development of our country and our economic interests. The matter of when to join the WTO may be contemplated after the successful implementation of the State Programs for the development of the non-oil sector, as well as the Strategic Roadmaps to be realized by 2020, and upon achieving expected results in diversification of the economy and growth of the non-oil export. We are hopeful that the reforms, currently proposed by various members for improving the Organization from within, will have a positive impact on acceleration of Azerbaijan's negotiations for accession to the WTO on fair terms and with consideration for specific characteristics of the Azerbaijani economy.

Azerbaijan and the European Union were negotiating the Association Agreement in 2010-

2013, and the Deep and Comprehensive Free Trade Agreement was an integral part of the Association Agreement. In 2013, Azerbaijan withdrew from negotiations on the Association Agreement, thereby automatically shelving the Deep and Comprehensive Free Trade Agreement.

**Ministry of Foreign Affairs
Republic of Azerbaijan**

The objective of this article is to identify Azerbaijan's success as outlined in the Doing Business rating. To answer the questions raised by the first group, it would be expedient to present the official stand on the issues. According to the Decree Number 2199, passed on July 13, 2016, the President of Azerbaijan approved a plan of action "on improving the business climate in the Republic of Azerbaijan and further improving the country's position in international ratings."

It is evident that in adopting documents, cited above, the government authorities voiced their interest in improving the country's ratings in the above-mentioned reports. At issue are reports on global competitiveness, economic freedom, global innovations, and global capabilities.

According to the Doing Business report, Azerbaijan has made considerable progress in eight indicators out of ten. Above all, one should note the "Dealing with Construction Permits" and the "Getting Credit" indicators where the country attained the greatest progress. In the Doing Business 2017 rating, Azerbaijan was ranked 127th in dealing with construction permits, as the permitting process required 21 procedures and took 203 days. The report exposed the lack of general layout or detailed plans of territories, construction permits for a significant number of separate structures, lack of an electronic address system, non-use of a single window, and several other factors.

Beyond any doubt, there is progress in the construction

permits area. Following appropriate amendments to the legislation adopted in March 2018, the number of procedures necessary in dealing with construction permits was reduced from 21 to 10, the processing time needed for issuance dropped to 30 days, and acceptance into service decreased from 30 to 20 days. The obligation to grant technical conditions in compliance with the single window principle has been placed on the ASAN (easy) service. Also, a portal of electronic services for the issuance of construction permits has been created. However, requests via the ASAN service or portal of electronic services are not yet being made very frequently.

One of the main causes of this situation lies in the fact that companies keep operating using traditional methods, and corruption has been one of the "methods" that has not yet been eliminated. Another problem is linked to the registration of property, which is typically encountered both by individuals and business entities. Thus, problems of multifamily housing acceptance/commissioning and the issue of property documentation remain unsolved for now. As to the development of the Baku general plan, the Boston Consulting Group, a global management consulting firm, has joined the process and that work is underway.

In regards to the notable progress with the "Getting Credit" indicator, the official statement is that the following reforms have contributed to that success: creation of the first private credit bureau, which uses data from providers of mobile and communal services along with banking and non-banking credit organizations; introduction of scoring and other rating systems; and the launch of the State Collateral Registry under the country's Financial Market Supervision Authority (FIMSA).

However, all these efforts notwithstanding, there has been no discernible progress in the area of entrepreneurs' access to financial resources and expanding the number of credit organizations' customers. Thus, according to the State Statistical Committee, as of September

1, 2018, the volume of credit investment in January-September 2018 was down 0.6% from the first nine months of 2017 and down 26.5% compared to the same period in 2016. Thus, further improvements are still needed for the progress demonstrated in the "Getting Credit" indicator to be truly convincing.

There is also Azerbaijan's deficiency in terms of international integration. For example, despite talks having been conducted since 1997, Azerbaijan is still not a member of the World Trade Organization (WTO); moreover, despite the participation in the Program of Eastern Partnership since 2009, the country has not yet signed the Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union. At the same time, Azerbaijan withdrew from the Extracting Industry Transparency Initiative (EITI)¹⁰ on March 10, 2017, did not change its status as an inactive member in the open government partnership (OGP),¹¹ and even closed a local branch of Transparency International in 2017. Considering that, Azerbaijan, as a member of global initiatives, fails to comply with many requirements in the sphere of transparency and struggle against corruption, the country's major improvement in the "Doing Business" index appear unfounded.

The overall investment climate in Azerbaijan continues to improve, although significant challenges persist. Thus far, the country continues to depend on oil and gas production to account for about 90 percent of its export revenue (2017).

One of the main challenges for the business sector of Azerbaijan is in finance. According to the Economist Intelligence Unit (EIU),¹² the banking market of Azerbaijan is uniform and concurrently fragmentary, poorly developed, and notable for a weak model of corporative management. The EIU report underlines the insignificant share of bank lending into GDP, as well as an insignificant intermediary role of credit-financial organizations in the national economy. In the meantime, the influence of the state and the political

elite on the sector is growing. According to Global Findex 2017,¹³ the banking system of Azerbaijan has been losing its position in terms of trend and international comparisons since 2014.

As stated earlier, other major challenges include Azerbaijan's delayed accession to the WTO and signing of the DCFTA. Azerbaijan applied for the WTO membership in June 1997, and the working party has held fourteen meetings since its establishment in July 1997. Azerbaijan has contributed much effort into the working party process in the over 21 years since its establishment: the country has submitted roughly 400 documents, including over 300 pieces of legislation, to the working party, and responded to over 2,000 questions. However, the government imposed higher tariffs on some imported goods, including agricultural products, to promote domestic production and reduce imports. This means that Azerbaijan is not going to accede to the WTO in the short- or mid-term periods. Despite this, during the last year, the government has been working to integrate the country more fully into the global marketplace, seeking to attract foreign investments, undertake further needed economic reforms, and maintain growth. The Government of Azerbaijan has adopted 12 Strategic Roadmaps on future socio-economic development. These Roadmaps cover all sectors of the economy focusing on sustainable development, green economy, and sustainable consumption and production.

Azerbaijan has improved its position in the World Economic Forum's (WEF) Global Competitiveness Ranking, having risen from 37th to 35th position in the 2017-2018 report.¹⁴ Azerbaijan ranked third among the developing countries in the WEF's annual Inclusive Development Index 2018.

The top five nations investing into the economy of Azerbaijan (Inward Direct Investment) in 2017 were Great Britain (26.5%), Turkey (13.3%), Malaysia (9.7%), Russia (7.1%), and Switzerland (6.3%). As for the top

five countries where Azerbaijan invested (Outward Direct Investment), those were: Turkey (52%), Georgia (16%), Switzerland (5%), the UK (5%), and the U.S. (3%).

As reported by the Azerbaijan's Ministry of Taxes, over 100 companies with foreign investments operate in the country. The Ministry registered 25,508 taxpayers, including 23,828 individuals and 1,680 legal entities (114 of which are enterprises with foreign investments), according to the report. The Ministry further reported that foreign companies operating in the economy's non-oil sector have expanded their interests. For instance, whereas earlier those companies were represented in areas including manufacturing, construction, and transport, now they are also engaged in trade, tourism, and the service industry.

Among foreign companies operating in Azerbaijan's non-oil sectors are Estonian SKYBUS, Austrian

Vega International Car-Transport & Logistic-Trading GmbH, French Airbus DS Geo SA, and Norwegian Qinterra Technologies AS and EPI Limited. A number of international companies, including BP, Chevron, Equinor (former Statoil), Petronas, Itochy, and TPAO are operating in the country's oil and gas sector.

Having reviewed the information presented in this article, one could argue that Azerbaijan has effectively improved its business climate by undertaking a series of institutional transformations and reforms – a fact that is supported by the Doing Business report. However, the reform process is still significantly challenged by deficiencies in several areas, including transparency and the fight against corruption. For Azerbaijan, it is now important to demonstrate progress in those areas where the country is lagging behind modern and powerful economies in order to assure sustainable development for the benefit of its entire society.

BELARUS

Can the ICT Sector Drive Economic Development?

by **Andrey Egorov**

Against the backdrop of general economic difficulties in Belarus – where, following a long period of growth, a slowdown has been observed since 2012, and 2014 saw the decline of the actual standard of living¹⁵ – the growth dynamics of the ICT sector look very impressive. In the past 10 years, ICT has grown almost fifteen-fold – from less than \$100 million in 2007 to \$1.4 billion in 2017.¹⁶ A number of projects, such as Viber, World of Tanks, Maps.me, Apalon, and MSQRD, brought Belarus international fame. The world’s media started referring to the country as “the Silicon Valley of Eastern Europe”,¹⁷ and the Belarusian president announced the goal to turn Belarus into an IT state.¹⁸ This rapid development of the industry was aided by the 2005 creation of Belarus High Technologies Park (HTP), a special economic zone with preferential tax and legal status for software companies. In 2017, a new presidential decree extended HTP’s special status through 2049 and expanded its capabilities.¹⁹ Decisions like these greatly contribute to the broader integration



Building complex of the High Technologies Park. Business incubator of High Technologies Park and the office of EPAM. Belarus, Minsk, January 2017. Image source: ElROI / Shutterstock.com.

of Belarus into the global system of technical innovation in this new digital age, potentially promoting the economic Westernization of the country (see Indicators 3.3 “Western Share in the Sales of Goods” and 3.4 “Western Investments into the Country’s Economy” of the StrategEast Westernization Index).²⁰

Considering its obvious successes, the phenomenon of the Belarusian ICT raises a number of questions. Why was the ICT sector growing despite the general economic downturn in Belarus? How foreseeable or random is this phenomenon? What is the reason for this growth? Can the model for the development of this industry as a whole, and HTP in particular, be applied to other sectors of the economy?

In the 1990’s, the sphere of informational technologies was outside the scope of the special governmental policy interest. The first companies that appeared in the early- and mid-1990’s sprung up in the private sector and were usually founded on the basis of old Soviet scientific research institutes of computer science and electronics or launched by businessmen who came from the scientific, educational, and engineering environment of that industry. The businesses were primarily involved in the assembly and sales of computing equipment, development of software to order for major Western companies (IBM, SAP, and others), and system integration for state, and major private companies using solutions already available on the global market.²¹

The latter part of the 1990’s saw the development of outsourcing companies, a number of which has secured its position in the current Global Outsourcing

It is a known fact that 90% of innovations produced by the IT industry of Belarus are being exported. Is the government planning any measures to encourage and/or incentivize the domestic consumption of innovations in Belarus?

With the advent of blockchain, finances will change much like the media market has changed over the past fifteen years with the advent of the internet. Blockchain is the new internet and has the potential to really help business. Cryptocurrencies and blockchain are the new finances and knowledge economy, based on faith not in institutions, but rather in mathematical formulas. Decentralization is an inevitable process in this increasingly complex world. Countries that are lagging behind the market's increasing demand for decentralization will suffer the fate of the Soviet Union.

Many states are considering the path towards digital economy and innovation. But Belarus was the first in the world to draft the most progressive legislation for the crypto-industry, drafting it from scratch and within a short span of time. Many EU countries have attempted to create the conditions for blockchain businesses, but supranational legislation remains an obstacle.

The ability of crypto-businesses to operate in a country is an effective means of increasing that country's GDP. For example, the cryptocurrency exchange that has been launched in Belarus will help solve the task of raising funds for the development of the country's real economy. Any company, with any ownership structure, can issue its own tokens, tokenized assets, and list them on the exchange.

Thanks to the Decree Number 8, "Regarding the development of a digital economy," the High Technologies Park residents can enjoy the free movement of services, IP, capital, and workforce. Freedom is the primary aspect of the Decree and a stimulus for the development of the IT sector and the consumption of innovations by the domestic market.

Moreover, there is no need to travel abroad in order to gain a unique experience working in an international project, to make money, and to succeed. One can become successful in Belarus, where a young person can learn professions of

the future in areas like artificial intelligence, neural networks, autonomous vehicles, augmented reality, eSports, blockchain, and cryptocurrencies. This is an inspiration for the younger generation.

Viktor Prokopenya
Technological Entrepreneur
Founder, VP Capital

100 rating (EPAM, IBA Group, Intetics, and Itransition). In the 2000's, famous European IT brands started opening development centers in Belarus (e.g. the Danish-Ukrainian Ciklum, Polish Ericpol, and German SAP). Closer to 2010, Belarus started to expand from domestic outsourcing companies into product developers. Those included developers of online games – the Melesta games (whose well known projects include Farm Frenzy and Toy Defense), wargaming.net (famous for their World of Tanks, World of Warplanes, and World of Warships multiplayer online games). From 2011–2016, Belarusian companies completed a number of major transactions. In 2011, Belarusian businessman Viktor Prokopenya sold Viaden Media, operating in the industry of online entertainment, as well as health and gaming app development, for nearly \$100 million. In 2014, Japanese electronics giant Rakuten purchased Israel-founded Viber together with its Belarusian offices in Minsk and Brest. The same year, Peter Skoromnyi and Matvey Timoshenko sold their Apalon startup (one of the world's leaders in developing mobile apps for the Apple App Store, Google Play, and Amazon App Store) to the American InterActiveCorp, while Yury Melnichek and venture investor Yuri Gurski sold the mapping service Maps.me to the Russian Mail.ru Group, and two other Belarusians, Eugene Nevgen and Sergey Gonchar, sold the MSQRD photo/video app to Facebook for an estimated \$50-100 million.²²

The government's first effort to promote the development of the industry took place in 2001, when a presidential decree created the InfoPark association²³

whose membership of about 60 companies received tax incentives. The next – and most notable – step in providing state support was the 2005 founding of the High Technologies Park (HTP);²⁴ this initiative was actively lobbied by former ambassador of Belarus to the U.S. and presidential advisor on science and technology Valery Tsepkalov. HTP provides to its residents a broad spectrum of benefits including exemption from tax on profits, VAT, and local taxes, reduction of the individual income tax rate (9% instead of 13%) and of the mandatory insurance contributions for company employees, exemption from customs tariffs and the VAT on the importation of technological equipment, and other benefits. The management of HTP and decision-making on providing resident status to companies is carried out by the HTP's supervisory board. The status of HTP was established by presidential decrees (The Decree Number 12 "Regarding High Technologies Park" of September 22, 2005,²⁵ and The Decree Number 8 "Regarding the development of a digital economy" dated December 21, 2017²⁶), which greatly limited the ability of other state agencies to meddle in HTP's operation.

HTP rather quickly concentrated a large number of companies (100 in 2011 and 238 in 2018) and became the primary provider of IT services in Belarusian export. The HTP's share in the export of IT services constituted 86% in 2016, and 17.6% in 2017. By 2018, the entire ICT sector made up about 0.5% of Belarus's total GDP of 3.7%, providing more than 30,000 jobs which is approximately 1% of the working population.²⁷ The average salary in this sector is 4.5 times greater than the average in other sectors of the Belarusian economy.²⁸

Several factors contributed to the growth of the ICT sector in Belarus:

High degree of the development of the human assets including the existence of professional technical and engineering personnel and a system of educating and training them.

A rather low level of R&D and developer labor costs compared to the cost of R&D and labor in developed countries.

Relative freedom and limited interference of the state in sector regulation. For IT, where the state companies' share is minimal, the traditional for Belarus inequality of conditions for state and private companies were not an obstacle to the development. Besides, HTP has been and remains to a large degree an independent territory with special conditions of governance where direct control is exercised only by the presidential administration.

Preferential treatment and tax incentives for the ICT companies.

In the beginning of 2017, in spite of barely ever having previously spoken on the subject, Belarusian President Alexander Lukashenko spoke of the necessity to build a digital economy in Belarus and create an IT state.²⁹ The primary reason for this turnaround is in the withering of revenues from the re-exportation of Russian oil and the crisis of traditional industries of the Belarusian economy. The country's economy acutely needs a new growth spurt, and the ICT sector has become considered the possible starting point. In particular, it has been reported that the IT industry of Belarus should reach \$50 billion USD by 2025 – an amount approximately equal to the country's current total GDP.³⁰

The Presidential Decree Number 8 extended the preferential status for High Technologies Park. It also considerably expanded the number of benefits and the list of allowed types of activities for HTP residents. Finally, it implemented for HTP residents' legal innovations which were beyond the scope of traditional legal regulation. Among the new benefits for HTP and its residents were: new incentives directed at promoting the development of product-based companies. For example, companies were allowed to directly purchase advertisement with Facebook and Google;³¹ the allowed activities list was expanded to include the development of biotech,

medical, aviation, and space technologies, cybersports, educational services, etc.; and an experimental legal environment including elements of the British law was introduced which, for example, permits activities involving blockchain and cryptocurrencies (de facto the decree regulates the entire system of legal relationship with cryptocurrencies, which makes the Belarusian case one of the first attempts in the world to introduce a systemic regulation of the sphere).³²

The new decree was well received by the Belarusian business community and led to the record-high increase of the number of HTP residents as well as its companies' revenues. In the first half of 2018, HTP's exports increased by 40%, and from March 2017, the number of residents grew by 160 companies, reaching 388.³³ However, even such growth does not set Belarus apart in comparison to other countries of Central and Eastern Europe: the growth rate is comparable to that of Ukraine's, and the number of individuals working in the field is approximately at the same level as in Ukraine, Russia, and Poland, and notably less than in Czech Republic, Finland, Lithuania, and Estonia. As to the share of IT in the GDP and the sector's total revenues, Belarus comes up short halfway or more compared to Estonia, Czech Republic, and Romania.^{34,35} Moreover, the continuing growth of HTP and the IT industry do not necessarily mean that the Belarusian economy is turning into one that's modern and competitive on the global market. Today's 2-3% annual growth³⁶ is clearly nowhere close to bringing the standard of living in Belarus to the relative level of countries leading the way in Central and Eastern Europe. Achieving an annual growth rate of 6% in the midterm (roughly 10 years) perspective, and 5% in the long term (about 20 years),³⁷ in just the ICT sector, even if the actual dynamics are maintained, won't be sufficient to drag Belarus out of its extended period of stagnation.

Unfortunately, it is also highly unlikely that the HTP model can be adapted for the development of other industries in the Belarusian economy. The paradox of

the IT industry's development in Belarus lies in the fact that the government, rather than purposely creating the necessary conditions for IT, instead provided for its free development within the framework of specifically designed legal and administrative environment. However, such solutions are not quite a good fit for machine building, agriculture, or customer service – the areas which are being dragged down by the highly ineffective state sector (which makes up a large portion of the industry) and the inequality of conditions for state and private companies. Development of other industries, which cannot be fenced within special zones, requires broad reforms including privatization and restructuring of state companies, institutional reforms, providing for the independence of courts, guarantees of private property and investments, educational reforms and so on. Unfortunately, in most areas of life, those measures are off limits for the Belarusian authorities.³⁸

The general conditions of the authoritarian political and economic model, which exist at the national level and significantly limit political rights and freedoms of economic activity, will serve as significant obstacles to development. This will inevitably include the ICT sector. The telltale symptom here is the industry players' realization of the diminishing returns from the obsolete system of Belarusian education and science which formerly was one of its growth drivers. Today the top IT entrepreneurs are dreaming about the creation of a modern university in Belarus.³⁹

The demand for general reform of the Belarusian systems, stemming from developing sectors of the economy, will undoubtedly increase. However, it remains to be seen whether the Belarusian government will be able to positively respond to this growing social demand.

ESTONIA

The E-State Has Overcome Its Biggest Challenge to Date

by Maili Vilson

According to the StrategEast Westernization Index 2018, the Estonia's Westernization has been exemplary in all spheres, i.e. in terms of politics, law, economy, and culture, as well as lifestyle. However, it is especially in the political and economic domains that Estonia's Westernization should be noted. The country's performance in terms of effective and innovative

governance is well above the European average thanks to its dedication to develop its e-state facilities to achieve a more reliable and accessible state for its citizens and a more open business environment for investors and companies, domestic and foreign alike. The e-Estonia, however, has also brought along new challenges both for the state, which must guarantee the safety of its digital systems, and for the citizens, who must adjust to a new era of governance.



ID card reader with Estonian ID. Narva, Estonia. January 16, 2018. Image source: Serov Aleksei / Shutterstock.com.

Estonia is known as one of the most advanced digital societies in the world: 99% of its public services are accessible online, almost one third of voters participate in the national election through i-Voting, and 94% of tax returns are submitted electronically in a matter of minutes. As of October 2018, roughly 45,000 foreign nationals have become Estonian e-residents in order to manage their business from anywhere in the world. In 2018, Estonia moved forward with the establishment of a “data embassy,” piloting a project that stores critical databases in a secure data center located abroad, ensuring the state will continue functioning in the event of a cyber-attack or invasion.

Naturally, the ambitious aim of building an inclusive digital society can only be achieved in a transparent and open society, and Estonia is the country which has the most internet freedom in the world.⁴⁰ In late 2017, however, the country faced the biggest crisis of its e-state when a flaw in its ID card chip was discovered. What could have, in the worst-case scenario, suspended the entire success story of Estonia, instead served as a valuable lesson that may be useful for the rest of the world.

The Estonian ID card is a government-issued mandatory document used for identification and travel within the European Union. In addition, when connected to a smartcard reader and running appropriate software, it can be used as a means of electronic authentication to access various public services online and sign documents using a digital signature that is equal to a physical one. The system was introduced in 2002, and today an eID holder can access online banking, take part in the electronic voting, buy prescription medicines, and complete many other transactions. The use of e-services has become so interwoven with the everyday life in Estonia that people cannot imagine their life without it, and the service providers have adjusted to the situation, closing physical service centers and taking their interactions online.

What are the three most urgent issues Estonia needs to address to ensure the reliability and security of its digital ecosystem, including the eID?

Three biggest concerns/issues:

Addressing adequately the supply chain risks across platforms and technologies.

Raising digital skills across the critical sectors and society as a whole.

Creating a future cyber workforce that would enable to ensure security of all services within our society.

Hannes Krause

Head of Policy and Analysis

Cyber Security Service

Estonian Information System Authority

In September 2017, a security risk was discovered, associated with the chip produced by one of the biggest chip manufacturers in the world and installed in every Estonian ID card issued since 2014, consequently affecting approximately 800,000 eIDs. The risk concerned an encryption issue which could have potentially led to identity theft of Estonian citizens or e-residents holding the eID. No real incidents were reported, but the existence of even the theoretical risk meant that the use of the eIDs had to be restricted. The first task for the Estonian officials was to establish a way to maintain e-services, because reverting to the already abandoned paper-based operations was impossible.

The government held several crisis meetings behind closed doors before Jüri Ratas, the Prime Minister of Estonia, informed the public of the situation on September 5, 2017. It took time to establish the extent and consequences of the risk. The Security certificates of the eIDs were recalled until more could be learned about the issue and potential solutions. Estonia gathered

all its cybersecurity and IT experts and cooperated with private companies to develop a security update that would guarantee the security of the eID and allow it to be used again instead of revoking them entirely. An update was released two months later, but the process did not immediately go as planned due to the overburdening of technical systems. The certificates were blocked until they could be updated remotely. Gradually, the updates were made available to all cardholders, and today the overwhelming majority of the IDs used electronically have been renewed. After failed compromise negotiations, Estonia sued Gemalto, the digital security company and manufacturer of the ID card, for violation of security requirements and a breach of contract – demanding a compensation of €152 million. It is estimated that the ID card crisis cost Estonia close to €4 million.⁴¹ But what did it mean for the Estonian digital society and, more importantly, what was the reaction of the country's citizens?

The outcomes of this incident, which can be considered the biggest cybersecurity crisis in Estonia since the 2007 cyberattacks, include many aspects relevant not only to Estonia but to the rest of the world.

The overarching conclusion is that Estonia addressed the security risk very well, and that the crisis is likely to become a textbook case from which other countries and institutions can learn. The technical assessment and possible solutions were mapped in a matter of days, and their implementation took approximately two months. The situation was also a crisis communication exercise: although it has been debated whether using the Prime Minister as the spokesperson for the incident was justified, keeping the public informed was one of the cornerstones of the government's reaction, and its importance, in retrospect, cannot be underestimated.

On a societal level, according to statistics, the risk did not shake the Estonians' trust in their e-state. In the local elections held in October 2017, the share of internet voters was the highest ever – as many as 31.7% of

votes were cast online.⁴² In a paradoxical manner, the crisis provided an opportunity to explain the possibilities of the eID to the public even more, which in turn has resulted in an even wider use of e-services in 2018.⁴³ Naturally, digital literacy of citizens can and should be continuously improved, especially concerning data protection and online security in general.

ON A POLITICAL LEVEL, THREE ASPECTS SHOULD BE HIGHLIGHTED.

First, the transparency of the process: the decision to reveal as much information as possible in a crisis situation can explain the public's continued trust in the e-state, but it also encouraged a deeper debate over the issue. There is a consensus among different political actors that the e-state and its development is one of the key priorities of Estonia, as it is not only about providing more convenient public services to its citizens, but also about the cost effectiveness of the state, its economic growth and innovation.

Second, the need to dedicate more resources to guaranteeing the security of the digital ecosystem: as a result of this incident, the new State Budget Strategy for 2019-2022 allocates €118.4 million to modernizing and maintaining the existing developments, promoting innovation, and addressing cybersecurity issues.⁴⁴

Third, and most important, the incident has evoked a wider debate on developing the e-state. As noted by President Kersti Kaljulaid: "We are proud of our e-state but it is clear that our dependence on e-services has essentially become a security matter."⁴⁵ There is a need to develop a joint e-state policy, a comprehensive understanding which addresses not only the opportunities to be provided or the technical execution thereof, but also the legal space in which it is based, as well as division of tasks between the various actors. There is also the matter of ethical issues behind developing a digital state; for example, how much should the digital systems know about us?

On a technical/expert level, the learning curve has probably been the steepest. The potential security risk highlighted the weakest links in the digital ecosystem. While no technology is perfect, and the state must constantly invest in technological innovation, the system of digital solutions is extremely complex, and it is clear that having control of the entire technological process is too costly for any state. What Estonia needs to do is invest in human resources. The Reports made after the crisis revealed that the country lacked enough specialists in security solutions, especially in cryptography, and individuals capable of monitoring the quality of the process. The state must provide more training and improve cooperation with experts, including universities and private companies, where much of the expertise is based today.

In addition, the risk assessment practices and clear action plans need improvement. More attention has been dedicated to developing the system than assessing potential risks. Developing a common strategy as opposed to ad hoc solutions can help; however, the question now revolves around how much detail of the

technicalities of the risk should be made accessible to the public. While in terms of testing and durability this could prove extremely beneficial, there are also security risks against which the system must be safeguarded.

To what extent did the crisis undermine Estonia's ambition to proceed with the e-state and reach 10 million e-residents by 2025? It is clear that the reputation of Estonia as a digitalized country and e-state was affected; however, the negative effects pale in comparison to the lessons learned. The fast reaction speed, the successful solution in which almost all affected citizens were able to continue using electronic authentication in a matter of a few months, the accumulation of technical know-how, and the transparency of the process provided a crucial experience for the future where digital innovation will continue to be the key. In addition to everything else, the transparency of the public governance, the openness of the business environment, and the respective 2% of GDP gained using eID annually is, for a small country like Estonia, an invaluable gain, and an experience from which now all others can learn.

GEORGIA

Where Does Constitutional Reform Lead To?

by **Salome Minesashvili**

In 2017, Georgia underwent a major constitutional reform. After several months of contentious discussions, the constitutional amendments were adopted in October 2017. Those amendments will change the country's government from a semi-presidential to a parliamentary system and the electoral system from a mixed majoritarian/proportional to a fully proportional one. One may ask why these reforms should be

considered within the scope of Georgia's Westernization process. The reforms addressed the issue of balance of power between branches of government, a basic element of the democratic system, and one that had been deemed problematic in Georgia since the country's independence. Moreover, the changes set a challenge for the ruling party in Georgia to break from the traditionally one party-led constitutional amendments and demonstrate the democratic functioning of power.



Office of the "Georgian Dream" Party. Tbilisi, Georgia. July 3, 2013. Image source: ET1972 / Shutterstock.com.

Indeed, these changes came in the context of long-sought amendments demanded by the civil society and political parties to turn the existing system into a more democratic and competitive one.⁴⁶ Moreover, the Venice Commission has also recommended changes to Georgia, urging further strengthening of parliamentary power.⁴⁷ Compliance with the standards of the Venice Commission, the Council of Europe's advisory body for legal affairs, is an inseparable part of legal Westernization.⁴⁸

The need for amending the existing system stems from the fact that Georgian ruling authorities frequently abused the country's semi-presidential and mixed electoral system for the purpose of concentrating their power.⁴⁹ The first series of fundamental changes to the 1995 Constitution were adopted after the Rose Revolution; those changes further augmented presidential powers and, in fact, turned Georgia into a country with "superpresidentialism." The Venice Commission recommended revisions to the system for "a better balance between the state powers."⁵⁰ The subsequent 2010 changes weakened presidential powers at the expense of increased influence of the Prime Minister, a move towards a more parliamentary model, but one criticized for serving President Saakashvili's intention to remain in power as Prime Minister.⁵¹ But Saakashvili's party lost in the 2012 parliamentary elections and the new ruling coalition, the Georgian Dream party (GD), promised to amend the constitution. The 2017 reform was intended to accomplish this transition to the parliamentary system and "create European parliamentary democracy."⁵²

However, despite taking a step towards a more democratically acclaimed electoral system, the controversial reform process questioned its truly democratic character. The long-demanded reform once again turned out to be custom-tuned to the political needs of the party in power. As a result of this one-party led process, the final constitutional amendments lacked wide political and public approval and challenged some

What are the advantages of an indirect presidential election in Georgia over a direct one?

An active discussion on the main directions of constitutional reform, including the presidential election rule, was held during the 2017 constitutional reform in Georgia. The discussion was conducted not only in the State Constitutional Commission, but also among wide societal circles. An Unanimous support for the establishment of a classic parliamentary government in Georgia showed the authors of the new edition of the Constitution the necessity for the change of presidential election model, because, in constitutionalism, it is not very characteristic in the parliamentary system for the president to be elected directly – this is also corroborated by international practice.

Taking this into account, the constitutional changes adopted by the Georgian Parliament ensure the complete conformance of Georgia's Constitution with the fundamental principles of constitutional law, and the formation of a constitutional system that best corresponds to the country's long-term democratic development.

Tornike Cheishvili
Advisor to the Chairman of the Parliament of Georgia

basic principles of constitutionalism. Moreover, despite the initial promise made by the government that no amendments negatively evaluated by the Venice Commission would be adopted,⁵³ the eventual changes only partially met the Commission's recommendations.

The governing Georgian Dream party initiated reform back in 2013, as they came to power after a decisive victory over the United National Movement. The reform aimed at changing the traditionally strong-president system by transforming Georgia into a fully-fledged parliamentary system. But owing to intra-coalition split

and lack of legislative support, the proposal came to naught.⁵⁴ However, in the 2016 parliamentary elections, the GD won 115 out of 150 seats in the parliament, thus gaining constitutional majority. The constitutional reform proposal was re-launched in December 2016, and a 73-member Constitutional Reform Commission was created. The Commission initiated a list of amendments with two major points which had also proved to be the most contentious.⁵⁵

First, the President of Georgia would no longer be elected by a popular vote but instead by a college of 300 electors comprising members of parliament and bodies of Adjara, Abkhazia, and local self-governments. The President would remain commander-in-chief, but the National Security Council (headed by the president) would be abolished. Overall, the President would lose powers over foreign and domestic policies and remain an arbiter between different branches of government. This meant that the President would only maintain a ceremonial role in Georgia. Second, the parliamentary elections would become fully proportional, and majoritarian mandates would be abolished. At the same time, parties would be banned from forming electoral blocs while having to overcome the 5% threshold necessary for gaining seats in the parliament. In addition, the mandates of parties that would not overcome this threshold would be transferred to the party with the most votes.⁵⁶

Generally, the move to a proportional system was welcomed domestically and by the Venice Commission, but the specific proposed system was harshly criticized.⁵⁷ The Venice Commission addressed the proposal and recommended some comprehensive changes.⁵⁸

Georgia has been characterized as having a strong presidential system and has frequently seen concentration of power within the executive body as a consequence. In 2010, the Venice Commission suggested a move to a system with less presidential and more parliamentary power.⁵⁹ However, considering

the conflicting relations of the President Giorgi Margvelashvili running with the ruling party, domestic actors perceived the change as a personal attack on him since presidential powers overlapped with those of the Prime Minister.⁶⁰ President Margvelashvili criticized the GD frequently and several times used his constitutional powers to counter some of their decisions. In order to elect the president, the Election Board was not required to reach the qualified majority. Therefore, since half of the board members would have been MPs, this created a threat that the President would most likely be a candidate of the parliamentary majority. As a result, the Venice Commission suggested a better system of checks and balances to ensure this would not happen.⁶¹

A move towards proportional representation was generally praised by the Venice Commission, since the previously used mixed system largely led to an overwhelming majority of a single party.⁶² But, in reality, the proposed form of amendments would likely lead to the same outcome. The strongest party would guarantee itself the majority rule because the 5% threshold rule was too high for small parties, party coalitions were prohibited, and the mandates from the losing parties would be redistributed to the party with the most votes. These conditions were considered to be detrimental to smaller parties and to pluralism in general.⁶³ In fact, the research conducted by the Caucasus Research Resource Centers (CRRC) showed that, in Georgia's fragmented political environment, the proposed reforms would significantly boost the incumbent party's chances.⁶⁴ The Venice Commission therefore suggested the following changes: decrease the threshold, allow party blocs, and change the mandate allocation system.

But the major critique from the Venice Commission concerned the lack of domestic consensus around the constitutional reform. The GD seemed to be sidelining outside voices while drafting the constitution. In the end, seven political parties left the Commission, accusing the GD of an attempt to cement its political

power.⁶⁵ The proposal also caused displeasure of the presidential administration, which boycotted the Commission and started a public campaign – “The Constitution Belongs to Everyone” – for wider public engagement.⁶⁶ Respectively, the Venice Commission recommended: “all stakeholders should seek to reach the widest possible consensus for this major constitutional reform.”⁶⁷

In order to understand to what extent the ruling party complied with the Venice Commission’s suggestions and managed to ensure domestic consensus over the reform, one needs to look at the following arguments.

First, the GD postponed the implementation of proportional representation until the 2024 parliamentary elections. The 2020 parliamentary elections will still be held using the mixed system. The postponement of the proportional system was deemed “regrettable” by the Commission,⁶⁸ while civil society representatives in Georgia called the delay “a grave threat to democracy.”⁶⁹ According to some reports, this decision was a compromise reached by the Georgian Dream with its current majoritarian MPs in order to allow them to hold on to their seats longer.⁷⁰

As for the new system, the GD made several compromises but only partially met the Venice Commission recommendations. Specifically, as a concession, the party postponed indirect presidential elections from 2018 to 2023 and allowed using a lower threshold (3%), and party blocs only in the 2020 elections. However, starting with the 2024 elections, some of the major Venice Commission recommendations would not be considered. Despite the suggested changes, the 5% threshold for parties was maintained as well as prohibition of party blocs. As a compromise, instead of allocating the mandates of parties who did not reach the threshold to the party with the most votes, the mandates would be proportionally distributed to all winning parties. In regard to presidential elections, indirect elections would

require a qualified majority in the first round of voting.⁷¹ Due to this selective compliance with the requirements, the proposed reform still carries the threat of favoring the strongest party in the parliament.⁷²

As a result, the GD also failed to guarantee a wide domestic consensus. The constitution was adopted without participation of the opposition parties in the parliament, who boycotted the vote. The opposition criticized the amendments as a mechanism to serve the ruling party in its effort to hold on to power in the future. But the GD secured the approval by majority. After the Parliament adopted the revised draft version of the constitution in September 2017, the President vetoed the bill and requested that the proportional system be implemented in the year 2020 instead of the envisioned 2024. He further requested that the requirement that the bonus system that favored stronger parties be abolished and electoral blocs be allowed. The Parliament overrode the veto by 117 votes and adopted the amendments. This criticism was voiced while Prime Minister Giorgi Kvirikashvili and Speaker of the Parliament Irakli Kobakhidze both hailed the changes as a step forward towards democracy.⁷³

Eventually, responding to a wide range of criticism, additional amendments were proposed by the GD and meetings were held at the Parliament of Georgia with academics, civil society, media representatives, and different constitutional bodies. The opposition parties and the President did not participate due to a lack of consensus. Just before the final reading of these amendments in March 2018, the Venice Commission expressed its regret “concerning the lack of agreement on the most crucial constitutional issues in Georgia” and underscored that “any major constitutional reform should seek to obtain the widest possible consensus.”⁷⁴

The consensus is further questioned due to lack of public engagement. The reform restricted electoral rights of the population and stripped them the right to directly choose the president. However, the ruling

party made this major decision without public support. One could argue that a change on such level should require approval from the voters themselves through a referendum.⁷⁵ However, not only was that never on the agenda, but according to a National Democratic Institute (NDI) poll conducted in January 2018, 69% of the Georgian population did not know about the amendments to the constitution, and only one fourth were aware of the reform.⁷⁶

The Georgian case is a good example of how what's otherwise a step towards democratic consolidation can deviate from democratic principles. Even though, a change from the mixed government system was generally praised by the Venice Commission and sought by domestic actors, the adopted system only partially possesses elements of the proportional system. Therefore, the adopted changes could easily backfire. The current, extremely polarized political environment in Georgia makes such concerns even more valid. Whereas polarization is generally an element of the democratic principles such as pluralism and diversity,

extreme polarization, beyond the accepted boundaries, in fact challenges democratic consolidation.⁷⁷ In Georgia, parties have no clear ideological divisions, political competition is not about mobilizing supporters but about personal attacks on the opponents. As a result, elections often turn into a zero-sum game with a winner-take-all approach, and losing parties face persecution. Because of polarization, the Georgia's society is split into hostile camps and in several cases human rights have been politically instrumentalized.⁷⁸

The constitutional reform not only reflected this polarization but further promoted it by increasing tensions between the ruling party, opposition, civil society, and expert community. Moreover, by adopting the amendments without a wide political consensus as well as bypassing the Venice Commission's recommendations, the Georgian Dream reinforced an established tradition of a single party-led constitutional reform, questioning benefits of the reform for the democratic consolidation in Georgia.

KAZAKHSTAN

The Latinization of the Kazakh Alphabet – Two Steps Forward, One Step Back

by Zhar Zardykhan

Following centuries-long imperial Russian and Soviet domination which led to crucial and mainly forced transformations in all spheres of life, Kazakhstan, like many newly-emerged states in the post-Soviet space, set up its own path towards independence state and nation-building. Sharing common chronic anomalies of the Soviet past with numerous other newly emerging nations, Kazakhstan, nevertheless, had certain features unique not only to the Central Asian region, but the entire former Soviet due to its peculiar geography, history, culture, and demographics. Being a bridge (or rather, being stuck in) between Europe and Asia, the East and the West, Muslim and Christian worlds – and perhaps even the past and the future – the country experienced, to say the least, an identity crisis, which could easily be noticed in the inconsistency of its foreign and domestic policy endeavors.



Letters in Kazakh language make up the famous phrase meaning “Spiritual renewal” said by President of Kazakhstan Nursultan Nazarbayev. Astana, Kazakhstan. October 12, 2018. Image source: Roman Yanushevsky / Shutterstock.com.

This pattern does not seem to diminish over time, as more than a quarter century after Kazakhstan’s independence controversial policies by the government as well as uncertain reception by the population mar many important attempts related to its identity, culture, and place in the world. They seem to have become especially noticeable in the last few years, as an unprecedented rise in ethnic clashes and separatism plagued the post-Soviet space, both in governmental and societal spheres. After almost a quarter century of relatively peaceful coexistence in the most parts of the region, we witnessed the forced annexation of Crimea by Russia and the lingering armed conflict in Eastern Ukraine, the events which raise anxious concerns in Kazakhstan as well.

In the meantime, as it has been in the last few decades, the government undertakes numerous ambitious programs of “modernization” (“Westernization” is a term often omitted from the official lexicon as to not alarm Kazakhstan’s influential neighbors who have been promoting the anti-Western stance as the foreground of their official policies). Most of those endeavors, however progressive they may sound, tend to be vague and unrealistic top-down state-branding projects with little or no output or feedback from the population. As is often the case in Kazakhstan, the entire state apparatus and public institutions feel obliged to promote the newly issued project, which creates tremendous visibility and a sense of total involvement of the entire country without bringing in

Are the authorities planning to conduct a convincing and friendly information campaign to rule out all conspiratorial connotations around Latinization?

An explanatory work in Kazakhstan has been conducted at different levels and in different formats since the proclamation of independence and even some time prior to that. This issue was raised at the highest level (official presidential assignments to all state entities) in 2006 and 2012. The launch took place in 2017. Earlier we had an inopportune economic and demographic situation and needed time to prepare. In addition to reasons that were well-known, one of the primary reasons was the complete mismatch between the Russian graphics and the nature of the Turkic languages, including Kazakh. All the aspects of this issue have been repeatedly discussed in mass media including TV, and in numerous scientific works. At present, this process has almost no overt opponents in Kazakhstan. There is psychological resistance of the “lazy layman,” as well as the “behind-closed-doors” reluctance or even protest (also implicit and hidden) of the majority of the

Russian population which has simply gotten used to a different situation. But as of this moment, the most important achievement lies in the fact that today in our Republic those who agree and those who disagree are unanimous in recognizing that this is the choice of Kazakhstan itself, a choice which no one should challenge and does not intend to challenge. This was made possible thanks to the lengthy and multidirectional explanatory work. That is, speaking in an exaggerated and a bit redundant manner, I would say this: now both those who agree and those who disagree concur that this needs to be done.

As to the process of transition to the new graphics, it is being extended until 2025. There are approved work plans for all state entities for each year. And, of course, a budget has been approved and a variety of events has been scheduled, including those of promotional and explanatory nature. Such a campaign is intensely underway.

Erden Kazhybek

Director

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the contemplation of the need, expected outcomes, and urgency of the program.

As a consequence, today the country is under the spell of the ambitious yet still incomprehensible the “Modernization of Consciousness” project (Ruhani jangyru), which dwells on various – often controversial – factors like the revival of spiritual values, preservation of the national identity, promotion of competitive capacity, pragmatism, veneration of science and, of course, the modernization of consciousness. Among the key pillars of this program, most of which are of rather controversial and even metaphysical nature, are the prospects of the Latinization of the Kazakh alphabet which stands aside as a viable and tangible plan with clear cut goals and possible implications. It ought to be mentioned that the topic of Latinization

was not initiated through the “Modernization of Consciousness” program; it had been lingering for years in public and governmental rhetoric, so in a way it was attached to the program later, becoming perhaps the most widely and ardently discussed issue in the country since the vagueness and ambiguity of other parts of the program left no room for taking a stance.

Along with obvious practical and technical advantages, the Latinization of the Kazakh alphabet was presented in a presidential address as a vital endeavor to integrate into the global technological and information realm, as well as an efficient tool to facilitate international communication and cooperation, and goes hand in hand with the ambitious plan to intensify the study and teaching in English in Kazakh secondary schools.⁷⁹ Some of these aspects, namely the Language and Cultural

Westernization and Westernization of Lifestyle, were well reflected in the StrategEast Westernization Index 2018.

The current attempt to Latinize the Kazakh writing system is not a pioneering invention, but rather a revival attempt: the Latin script was officially used in the Kazakh language during the Soviet era for almost twelve years, between 1929 and 1940. Besides, the current Cyrillic version is not the only official writing system used with the Kazakh language; a modified Arabic script, which was the official way of writing Kazakh for centuries until the Latinization of 1929, is still officially in use among the huge Kazakh diaspora abroad – primarily the 1.5 million Kazakhs in China.⁸⁰ In fact, one of the key motivations behind the Latinization attempts is to embrace the 4.5 million-strong Kazakh diaspora, a great part of which – namely the Kazakhs in China – lack comprehension of the Cyrillic script. So, to some extent, the Latinized version of Kazakh is intended to facilitate communication among the Kazakhs around the world, most of whom are familiar with and have access to Latin script on their electronic devices.

The introduction of the Latin script is indeed an effort to modernize, or even Westernize, the writing system, and not an attempt to introduce an alphabet which would be distant from Russian, as the country is often accused. (If that was the case, the revival of the Arabic version of written Kazakh that has been in use in the region for almost a millennium, and is still in use by Kazakhs abroad would serve the purpose.) Interestingly, the need to Latinize the Kazakh (as well as Uighur) scripts for the Kazakh citizens of the People's Republic of China has become an idea so widely promoted that the State Ethnic Affairs Commission approved its implementation back in 1960 with the intent that by 1976 the older script would no longer be in use; however, the Cultural Revolution and the death of Mao halted the realization of that project.⁸¹

Although the intention to switch the written Kazakh to Latin script by 2025 was already expressed by President Nursultan Nazarbayev in his December 2012 annual address and designated “a matter of principle,”⁸² the heated debate around the new writing system spilling far beyond the borders of Kazakhstan and the Kazakh-speaking world flared up only in 2017 following the release by the Parliament of the first official draft of the new alphabet.⁸³ Despite the fact that worldwide the news of the prospective switch to the Latin alphabet was received as a progressive step, Russian media and officials were among the harshest critics of the new endeavor, bringing in a broad variety of non-scientific claims and conspiracies. Even the Russian Orthodox Church, whose spiritual and worldly duties are hardly limited to graphic and phonetic obstacles posed by the typographic composition of Kazakh literary texts, was among the audible heralds. For instance, Hilarion Alfeyev, Metropolitan of Volokolamsk and Chairman of the Department of External Church Relations, issued a lengthy video interview on one of Russian state TV channels where, among other things, he argued why Latin was not the writing system that best fit the Kazakh spirit, that Latinization would not facilitate learning English, and that it would have a negative impact on the development of the nation.⁸⁴

Unlike the Russian Orthodox clergyman, the vast majority of Russian experts and analysts were less concerned about the disadvantages of expressing the “Kazakh spirit” through Latin script, seeing instead a global geostrategic plot to undermine Russia's rightful claims over the region. As an example, according to political analyst Arkady Dubnov, the Latinization was a way to detach the post-Soviet world from the symbols connecting them with Russia and the “Russian world,”⁸⁵ while others, like Mikhail Delyagin, Advisor to the Security Council of Russia, saw a deliberate move out of Russian influence and towards the cultural and political sphere of the West.⁸⁶ Some were even more creative in their inferences, seeing behind the Latinization not

a Western plot, but that of China. Andrey Fursov, Director of the Russian Institute of System Strategic Analysis, apocalyptically predicted that by switching from a “Slavic” alphabet to Latin, the Central Asian states would actually pass not into the Western realm but that of China, adding that by moving away from Russia they actually move away from civilization.⁸⁷

However, despite the allegations of shady schemes surrounding the Latinization of the Kazakh alphabet in media and public forums, the primary motivation behind the project appears to be technical necessity, while the most ardent opponents inside Kazakhstan and abroad happen to be persons with little or no familiarity with the Kazakh language, as is the case with almost all Russian analysts commenting the subject. The current, Cyrillic, version of the Kazakh alphabet has 42 letters, which is nine more than used in the Russian language, and consequently that’s nine more characters than the standard Russian keyboard layout. However, since nine characters of the Russian language (в, ё, ф, ц, ч, щ, ъ, ы, э) that have become an integral part of the Kazakh alphabet are never used in genuine Kazakh words, the specific Kazakh phonetic letters (ә, ғ, қ, ң, ө, ұ, Һ, і) are spread across the numeric and function key sections of the keyboard, making the typing process difficult due to the need to use additional key combinations, as well as the unnecessary compression of the virtual keyboard button size caused by the excess number of letters, many of which are not used in Kazakh.

In addition, due to the uniqueness of the current Kazakh alphabet which was created in the pre-digital era, as well as the relatively small number of its users worldwide, very few fonts support the phonetic Kazakh letters, depriving the typed Kazakh language from the aesthetics of thousands of design fonts. Similarly, those phonetic letters are very often lost due to being not recognized by many platforms and requiring proper encoding. This issue specifically affects PowerPoint presentations, websites, and even emails, and has become a primary driver of the adoption of specific

Kazakh phonetical signs (or combinations thereof) from widespread Western languages, rather than other Turkic or Slavic languages (e.g. ä, ç, ñ, ö, ü instead of ә, җ, ñ, о’/ø, ú).

The ambitious plan did not go as smoothly as expected: within less than six months (September 11, 2017, October 26, 2017, and February 19, 2018) the government had to announce three different official versions of the alphabet, each time addressing the flaws of the previous version as a result of it being severely criticized by the public all over the Internet due to its impractical or confusing nature, and at the same time creating new flaws and inconsistencies. Meanwhile, numerous public and private institutions rushed to change their signs, menus, and even publish books in the newly announced alphabet, just to find out in a few weeks that the alphabet had been changed once again. Weirdly, numerous alternative versions of the alphabet were produced by private enthusiasts which often addressed problems much better than the official versions, but the government kept carrying on, ignoring the criticisms and feedback and often failing to justify their choices, mainly because there was no designated entity or responsible person. The latest version of the alphabet, by the way, has been heavily criticized for the adoption of diacritic acute signs for six characters, which are not used in widespread languages using Latin script, and thus are not phonetically or typographically recognizable (for instance, ó rather than ö).

In any case, unlike many other vague governmental initiatives, the population of the country, as well as Kazakh-speakers abroad, seem very enthusiastic about the endeavor, taking active part in online discussions and even presenting their own solutions; however, questions and complaints are still often expressed related to the matter.

KYRGYZSTAN

Starting the Fight against Corruption as a Consequence of Democratic Processes

by Tamerlan Ibraimov

2018 was an unprecedented year for Kyrgyzstan when it came to the scale of criminal cases brought against former and acting government officials. At present, under investigation are two former prime ministers, two former mayors of the capital city of Bishkek, a former deputy presidential chief of staff, former minister of energy, several customs and taxation agencies' chiefs, nearly all the former bosses of the national energy corporation, as well as several lower-ranking officials and company heads. A member of the Jogorqu Keñes (Parliament of Kyrgyzstan) who was unofficially one of the wealthiest people in the country has fled abroad.⁸⁸ Corruption schemes are constantly being unearthed and arrests are being made.



President of Kyrgyzstan Sooronbay Ceenbekov. Brussels, Belgium. April 12, 2018.
Image source: Alexandros Michailidis / Shutterstock.com

The anticorruption rhetoric and, what's more important, specific steps to clean house in the state machine were enthusiastically received by the Kyrgyz society. Corruption indeed plagues all areas of life in Kyrgyzstan. Prime Minister Mukgammedkalyi Abylgaziev has stated that in 2017 losses from crimes of corruption totaled 670 million som (approximately \$9.7 million USD).⁸⁹ That is just the official number based on facts that have been discovered and led to active investigations. In reality the situation with corruption is most likely significantly worse, and losses from it are several times greater. Unsurprisingly, according to various public opinion polls, corruption has firmly established itself as one of the top three problems that the country is facing.⁹⁰ According to the international Corruption Perceptions Index, Kyrgyzstan is in the 135th spot, which indicates the grave seriousness of the problem.⁹¹ The Kyrgyz society has long and consistently demanded the launch of a real fight against public official thievery. The civil society, which has traditionally been strong in Kyrgyzstan, justly believes that without this fight it is impossible to build an effective system of state government.

Why are anticorruption processes a part of the Westernization of Kyrgyzstan? Representatives of Western countries and international organizations working in Kyrgyzstan constantly speak about the damage caused by corruption and the dire need to implement systematic measures to combat it, formally and informally. However, the primary reason why the country's leadership must wage an uncompromising war on corruption is the relatively high degree of political freedom in Kyrgyzstan.

According to the StrategEast Westernization Index 2018, the degree of political freedom in Kyrgyzstan scores 6 of 10 possible points. This is more than Armenia (5) or Kazakhstan (3), but less than Georgia (7) or Latvia (8).⁹² Of note, in the year following the presidential elections, the situation with political freedom in Kyrgyzstan has not seen any deterioration; on the contrary, to a certain extent the situation has improved. Freedoms of the press and speech – important attributes of Western political culture – have been having an increasingly greater effect on the shaping of government programs and plans. The society, civil activists, and political parties are using the right to free speech and the multitude of mass media to constantly criticize the authorities for the existence of corruption and call upon them to launch a real fight against it. Ignoring public opinion, which is constantly and massively voicing opposition to the stranglehold of corruption, can be damaging to any political power in a country.

Any government elected in compliance with democratic procedures has no choice but to respond to the demands of its society. The democracy in Kyrgyzstan is far from perfect; however, since its independence, Kyrgyzstan has already elected its fifth president. Despite all the existing issues with democracy, this speaks of the government's needs to react to its people's demands. The lack of previous presidents' understanding of this has already twice (in 2005 and 2010) led to public uprising and early change of power in Kyrgyzstan.

In an attempt to meet public expectations, President Sooronbay Jeenbekov, who came to power at the end of 2017, proclaimed the fight against corruption as one of his top priorities. In reality it started on February 9, 2018, when, while addressing the Kyrgyz Security Council, the president harshly criticized the work of law enforcement and judicial agencies and ordered the appropriate authorities to take drastic, decisive measures in the fight against corruption, which was identified as a problem threatening national security.⁹³

What measures will be taken to improve the efficiency of the system for checking the declarations of incomes and expenses of government officials?

The Government of the Kyrgyz Republic, pursuant to paragraph 5, of sub-clause 4, of clause 3, of the resolution, "On the Amendments to Certain Decisions of the Government of the Kyrgyz Republic" (No. 305) as of June 29, 2018, provided for the improvement of mechanisms for examining and analyzing the information specified in the Unified Tax Return of an individual who acts or occupies a public or municipal position (hereinafter referred to as the UTR).

Making those relevant amendments allowed significant improvement of information sharing between authorized public bodies who hold the information; as well as creation of a structural unit in the State Tax Service (STS) with the aim to check the returns as required.

In total, 48,327 state and municipal officials have submitted the required UTR for 2017.

Beginning July 1, 2018, the STS is conducting full-scale check of the tax returns of public and municipal officials. Currently, over 43,994 UTRs have been checked. Among them were the UTRs of 1,102 individuals holding top political, main administrative, and other special positions. UTRs of 317 of those officials were found to reflect inaccurate information, and those UTRs have been sent to the General Prosecutor's office for legal assessment. In addition, more than 50 UTRs are being prepared for submission to the prosecution authorities regarding customs officers and tax inspectorate employees which also reflected inaccurate.

In total, throughout the whole Republic, materials were sent to the prosecutor's office regarding 4,047 state officials whose UTRs contained incorrect or inaccurate data, as well as information regarding 1,278 state and municipal officials who did not submit the returns. Fines totaling 748,000 soms have been issued thus far, of which 122,000 soms have been paid.

This remains one of the most important topics in the country. Throughout the world, a system

of checking the returns of government officials has been used actively and effectively in order to prevent and suppress the corrupt practices.

For the purpose of coverage on the STS website, a summary of 1,072 declarants holding or formerly holding political, main administrative and special positions have been published.

Pursuant to the instructions of the President of the Kyrgyz Republic, a working group was established with the aim of improving legislation in the field of declaring income and expenses. The working group has finalized the Draft Law of the Kyrgyz Republic On Amendments to Certain Legislative Acts of the Kyrgyz Republic in the Field of Income Declaring. In particular, the revised Draft Law introduces the concept of “close relatives”, whose returns are subject to checking, and expands the list of grounds for a complete check of the UTR from two to seven.

Plans call for introduction of new grounds for the mandatory complete checking of the UTRs, including:

- if the return is submitted by an official holding a responsible or especially responsible position, or if his/her position is associated with a high level of corruption risks;
- obtaining information from individuals and legal entities, mass media, and other sources concerning possible reflection of inaccurate information in the return;
- publication of information in mass media concerning acquisition by the declarant or his/her close relatives of movable and immovable property, the value of which 20 thousand times exceeds the amount of the calculated indicator;
- revealing the facts that the declarant or his/her close relatives made transactions on acquisition of property, shares for the total amount exceeding the total income of the declarant for the last three years; and
- revealing or obtaining information concerning presence in the bank accounts of the declarant or his/her close relatives of non-cash funds in the amount 20 thousand times exceeding the calculated indicator, with the exception of the salary of the declarant or the relative.

The Draft Law also stipulates that the employees of judicial, supervisory, and law enforcement bodies will assume obligations on disclosing the information constituting banking, tax, and customs secrets, and also that the exploitation by them or their family members of other people’s property for personal purposes will constitute the ground for checking the reflection of this property in the tax returns of persons who provided such property for use in order to determine the legality of its acquisition.

The Draft Law was sent to the Government Office of the Kyrgyz Republic.

The amendments to the Law on Declaring will allow our citizens to take an active part in identifying the illegal property or activity of officials.

Considering the above-mentioned amendments, currently amendments and additions to the form of the Unified Tax Return are being developed and made; these amendments will allow us to track more closely the expenses and incomes of our officials; and it will become increasingly difficult for them to hide their property.

Belek Akhmetov

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That was preceded by two other notable events. The first was the fall 2017 presidential elections themselves during which the future president made a promise that the anticorruption fight would be a key element of his work. At the time, practically all candidates made such promises, but there was no certainty that any of them would carry through with those promises after being elected. The second event, which served as a specific trigger for a series of arrests that followed it, was the Bishkek thermal power plant accident that happened in January 2018 when temperatures in Kyrgyzstan dropped unusually low. For a number of days, people were freezing in their quickly cooling apartments, and public outrage grew in geometric progression. The

accident was controlled, but the people demanded that the situation be meticulously investigated. The unusual aspect of that accident lay in the fact that just a few months prior to the incident the power plant had been thoroughly modernized on a \$386 million USD loan received from China.⁹⁴

The investigation that ensued disclosed to the public scandalous facts: the costs of materials and labor were artificially inflated. For example: common flat-nose pliers were purchased at the cost of \$320 USD (their average real price was \$40 USD), dry chemical fire extinguishers were bought for \$1,600 USD a piece, while their market value was approximately \$200 USD, and so on. These were just a few numbers made public in the media.⁹⁵ The real scale of this embezzlement of loan funds – money that the country will still need to repay – will be the focus of the investigation. Public demands now call for a strict investigation of the incident, not so much the cause but the reason why the costs of modernizing the plant were inflated and whose pockets were lined with money in the process. This gave the start to a criminal investigation and mass arrests of government officials.

The criminal prosecution and arrests of high-ranking state officials did not elicit an unanimously positive reaction from the society. The majority of the population supported the president's 2018 February Security Council speech and the measures which followed it, but a segment of the population thought that the arrests were a weapon in the political war of the current president with his predecessor.

It should be noted that the current President Jeenbekov and his predecessor, Almazbek Atambayev, were members of the same party and throughout the campaign the latter promoted the former as his successor. However, almost immediately following the election major disagreements arose between the two politicians. Atambayev attempted to continue influencing the country's politics, but Jeenbekov positioned himself as a president who was independent in all respects.

Atambayev launched a public criticism campaign against Jeenbekov, to which the new president did not formally respond but needed to take some action in order to meet public expectations. That was why the arrests of allegedly corrupt officials – many of whom were considered teammates of the old president – were perceived with skepticism by a part of the population and judged to be political warfare rather than real anti-corruption work.⁹⁶

One of the reasons why a part of the population is skeptical about the anti-corruption measures is the alleged selectiveness of the “fight.” The people wonder why some accused corrupt officials go to prison while others walk free.

Another reason why the anti-corruption policies of the Kyrgyz government are viewed with skepticism by a portion of the society is the absence of systemic measures. Generally, the public positively perceives scandalous arrests and criminal cases since schemes of corruption have permeated all spheres of the country's life deeply and over the course of many years. According to the majority, cleansing the country of corruption should indeed be started with specific people, but arrests alone won't beat corruption.

The country needs systemic changes. Understanding that, the country's leadership announced several reforms. One of them – judicial and legal reform – is already underway, according to the authorities.⁹⁷ Changes have been made to a whole number of the codes of law, measures have been drafted to monitor the work of judges, while those justice employees who have discredited themselves by corruption and unprofessionalism are periodically being fired. Time will show whether a reduction of corruption and establishment of true independence in courts will be attainable in real life. At this point the society is standing by for the results and is not rushing to categorical conclusions.

The second planned systemic reform measure has to do with the intention to establish an effective system of

checking government officials' statements of income and expenses. Per presidential instructions, the Security Council of Kyrgyzstan joined the country's taxation agencies in this statement checking process. Effective control over income and expenses should be one of the chief mechanisms used to identify non-employment income and empower the long-term systemic fight against corruption. Thus far not everything is going smoothly. The controlling agencies have already admitted that the verification process has been running into major difficulties stemming from the shortcomings of the legislation and the checking process methods.⁹⁸ Much still needs to be done in the area of perfecting the legal foundation and the methodology in order to make this process effective.

The third area that the government has taken upon addressing is reforming Kyrgyzstan's law enforcement agencies. So far this mostly means the Ministry of Internal Affairs (MVD). During his meeting with non-governmental organizations in July 2018, the president supported the idea of conducting a reform of the GUOBDD – subdivision of the police responsible for road safety (formerly widely known as the GAI).⁹⁹ A workgroup including representatives of the MVD and the civil society has been created to conduct this reform. This workgroup has already developed a reform strategy that received approval of the president, and the plan is to practically implement the strategy in 2019. Key elements of the planned reform include: a radical replacement of personnel by means of an open competition, training newly hired employees, increasing their salaries and providing them with technologies and equipment, and implementing effective anti-corruption mechanisms to control the employees' work. In many ways, the measures proposed by the workgroup are similar to ones previously implemented in several other countries of the former USSR (Lithuania, Georgia, and Ukraine). As to other law enforcement agencies – for example, Office of the Attorney General and the GKNB (State Committee for National Security) – at this time they are thought to be beyond the scope of reforms.

Actions taken by the authorities in the last year bring a degree of hope that the anti-corruption policy in Kyrgyzstan will become systemic and irreversible. However, no one can make such guarantees. It is especially clear in view of shortcomings which have already become evident. It is well known that several elements are needed to implement real changes: political will, understanding of the reform process, and resources. There are positive and negative aspects concerning each three of those components. Overall, one can observe that the primary driver propelling Kyrgyzstan in the forward direction is still the state's relative openness to public opinion. Concerns that tumultuous revolutionary events of 2005 and 2010 might happen again constantly persuade the government to hold a dialogue with the society and maintain a willingness to answer key questions posed by the people. If an informed and competent political leadership is added on top of this, then it won't be long until real change for the best happens. Some elements of the current anti-corruption policy can serve as a clear demonstration of that.

LATVIA

Legal Westernization and Westernization of the Mindset

The protection of “whistleblowers” is a topic that in recent years has gained utmost importance in the Western world. Major European institutions, such as the European Council, European Parliament, and European Commission, pay increasing attention to the issue, and the OECD has made it one of its priorities. Latvia has finally followed the trend, and in October 2018 its outgoing Parliament approved the Whistleblower Protection Law. The law will enter into force in May 2019. It is a result of active advocacy and work of, first and foremost, the civil society. Meanwhile, monitoring and criticism by international organizations, often comparing a whistleblower to the more negatively perceived concept of an “informer,” has had undeniable influence on the Latvian state agencies involved in the development of the law. As has been highlighted in the StrategEast Westernization Index 2018,¹⁰⁰ despite some human rights issues persisting in the country, for

the most part Latvia has been doing the homework assigned to it by the international organizations. It is a member of and complying with key legislation in most areas. Additionally, the report illustrates Latvia’s progress in the sphere of battling corruption. Along with the increasing transparency of the Latvian anti-corruption watchdog Corruption Prevention and Combating Bureau of Latvia (KNAB), the law on whistleblower protection is yet another step moving further along in this area.

The European Commission defines whistleblowers as “persons who report (within the organization concerned or to an outside authority) or disclose (to the public) information on a wrongdoing obtained in a work-related context, help prevent damage and detect threat or harm to the public interest that may otherwise remain hidden.”¹⁰¹ Whistleblowing is a crucial means of safeguarding public interests and averting violations of laws and regulations at all levels of public administration entities, businesses, and international organizations. Protection of whistleblowers serves as an encouragement for people to speak out against wrongdoings, since those people face a high risk of retaliation and scepticism from colleagues, employers, and even government institutions and the society. In fact, whistleblowing is one of the cheapest and most efficient ways of discouraging and exposing corruption, misappropriation of funds, embezzlement, money laundering, and a number of other types of misconduct. Therefore, whistleblowing should be one



European Commission First Vice-President Frans Timmermans gives a press conference on the Commission proposal for the protection of whistleblowers at the EU Headquarters in Brussels on April 23, 2018. Image source: Alexandros Michailidis / Shutterstock.com.

of the top priorities in anti-corruption strategies on local, national, and international levels, as it leads to “effective detection, investigation and prosecution in breaches of [...] rules.”¹⁰²

Organizations such as the OECD and the Council of Europe have long insisted that all their members adopt laws to regulate and protect whistleblowing initiatives. For the OECD, whistleblowing is a crucial part of corruption prevention in private and public sectors since the employees of any company or organization are in the best position to become aware of fraud or other wrongdoings taking place within that company or organization. Ensuring whistleblower protection empowers them to draw attention to violations, and in the long run whistleblowing promotes “a culture of public accountability and integrity.”¹⁰³

The OECD has been encouraging countries to review their whistleblower protection measures for the past 20 years, dating back to the 1998 “Recommendation on Improving Ethical Conduct in the Public Service.” In 2009, the OECD adopted the “Recommendation for Further Combating Bribery of Foreign Public Officials in International Business Transactions,” which required the Anti-Bribery Convention members to ensure whistleblower protection measures in both private and public sectors.¹⁰⁴ Latvia joined the OECD in July 2016 and is therefore obliged to adjust its legislation to conform to OECD standards. The Council of Europe, in turn, adopted official legislation in April 2014 by the “Recommendation CM/Rec(2014)7 on the protection of whistleblowers” that sets forth principles to guide Member States in their national legislation and regulations as to adjust their legal systems to provide for appropriate protection of whistleblowers.¹⁰⁵ Once again, the recommendations and legislation adopted by the Council of Europe are binding for Latvia, which has been its member since 1995.

More active talk on whistleblower protection within other European institutions is a logical result of high-

The Public Administration and Local Government Committee of the Saeima of Latvia, the Saeima committee responsible for drafting the Whistleblower Protection Law, has provided a response to our question: “What is a bigger issue – legal application of the Whistleblower Protection Law, or changing the morally negative connotation associated with whistleblowing in society?”

I believe that both of these issues need to be viewed together, as they complement each other. The adoption of the law and the protection of the whistleblowers is very important, but if society does not see the positive change made possible through whistleblowing, then its negative opinion will not change. Therefore, the first step is to begin application of the law as of May 1, 2019, and only then will we be able to assess any shifts in public opinion regarding the new whistleblowing legislation.

Sergejs Dolgopolovs
Chairman of the Committee

profile scandals like Dieselgate, Luxleaks, the Panama Papers, and the Cambridge Analytica revelations, and the public pressure which ensued in their wake. All these cases succeeded in demonstrating the important role whistleblowers play in exposing wrongdoings that harm public interests, and that no organization can be immune to such exposés. The ideas regarding EU-wide legislation on whistleblower protection were first voiced in the European Parliament.¹⁰⁶ However, active talks in the European Commission started only recently, following the non-binding “Resolution 2016/2224(INI) of 24 October 2017” adopted by the European Parliament, which invited the European Commission to present legislative proposals on whistleblower protection.¹⁰⁷ On April 17, 2018, the European Commission adopted a “package of measures to strengthen whistleblower protection as a means to unveil unlawful activities and help enforce EU law”.¹⁰⁸

As of April 2018, Latvia was one of two EU countries (the second was Cyprus) that still had no specific laws on whistleblower protection, while sixteen more countries had only partial legislation.¹⁰⁹ The new proposal aims to protect whistleblowers in private and public sectors¹¹⁰ with a three-tier reporting mechanism “consisting of internal reporting channels; reporting to competent authorities – if internal channels do not work or could not reasonably be expected to work and Public/media reporting – if no appropriate action is taken after reporting through other channels, or in case of imminent or clear danger to the public interest or irreversible damage.”¹¹¹ In addition, the law plans to make illegal any retaliation against whistleblowers and, in the event such retaliation should take place, to ensure that the whistleblower has access to free legal aid and is exempted from liability for disclosing information.¹¹²

Ideas to implement whistleblower protection in Latvia have been present for approximately ten years. An important turning moment was the 2009-2010 State Fiscal Service data leak orchestrated by Ilmars Poikans with an aim to highlight the amounts paid in salaries to public servants during the financial crisis and subsequent austerity measures. The ensuing retaliations against Poikans (although his role as a whistleblower is still being questioned) and journalists reporting on the issues contributed to the formation of public opinion on whistleblowing. However, it is not very clear-cut, as criticism towards public authorities in general has been a very common trend in independent Latvia. The situation with reporting wrongdoing on company and personal levels differs considerably. Because of the Poikans case and civil-society organizations’ active work, whistleblowing has kept its place in the spotlight.

Between 2012 and 2015, whistleblowers reported on approximately 200 wrongdoings such as fraud involving the EU Funds, “reiderstvo” (illegal asset-grabbing), and instances of using political clout to make money. In January 2015 the State Chancellery, Prosecutor General,

KNAB, and Director of “Delna” Society for Openness (the Latvian charter of Transparency International)¹¹³ signed a memorandum for development of whistleblower protection by the end of 2015.¹¹⁴ To a large extent this was a result of performing the obligations set out in the United Nations Convention against Corruption, as well as pre-accession promises made to the OECD. After lengthy discussions, first in sectoral ministries and later in the Government, the Latvian Government finally passed the law to the Parliament in March 2017, but it got “stuck” there for almost two more years. Following long debates in the first two readings, the law was finally (and quietly) adopted in the third reading on October 11, 2018, by the incumbent Parliament¹¹⁵ (the 2018 Parliament elections in Latvia took place on October 6).

The Whistleblower Protection Law will take effect on May 1, 2019. It will enable whistleblowers to expose offenses that negatively affect the interests of the public or specific social groups. It will ensure the protection of whistleblowers reporting through one of three whistleblowing mechanisms:¹¹⁶

- **an internal whistleblowing mechanism;**
- **reporting to an appropriate institution with authority; or**
- **reporting through the whistleblower focal point¹¹⁷ or a union (including trade unions).**

If there are objective reasons why the above mechanisms cannot be used or if the reported wrongdoing is ignored for a long time with no objective cause cited, the whistleblower can share the information publicly (without sharing confidential information and abiding to general data protection rules).¹¹⁸ According to the Law, whistleblowers may disclose cases of “corruption, fraud, professional neglect, negligence or abuse of power, tax evasion, misappropriation of public funds or embezzlement, breaches of public health, building safety, environmental, food safety or occupational safety regulations, public order risks, as well as human rights, public procurement, financial

and capital market, competition and other specific violations.”¹¹⁹ After disclosure of such information, the whistleblower’s (and his/her family members’) identity is protected by the law, while the identity of the suspect is also concealed until the wrongdoing has been proven. In case the whistleblower or his/her family experiences retaliation, the law guarantees access to free legal aid and advice, as well as access to temporary civil and administrative protective orders. The Law also guarantees that the whistleblower will not be prosecuted.

Although in the legal realm Latvia has finally adjusted to the European standards, it remains to be seen how well those terms will be implemented in practice. The main challenge is the systemic adaptation to new legal norms and ideas, and the whistleblowing concept is not only new, but also morally complicated. One needs to draw a line between the moral duty to protect public interests and the potential personal exposure to retaliation as well as severing ties with colleagues and employers. On the other hand, law enforcement authorities must maintain impartiality in a system that has long been permeated with a mindset that informing on anyone is dishonorable. Andrejs Loskutovs, a lawmaker and former Head of KNAB, commented in 2015 that while working on a law regarding the protection of whistleblowers, it is also necessary to change the public attitude towards reporting injustice and breaches of law, all in order to ensure that the society does not see whistleblowers as “stukachs” (a word derived from a derogative term in Russian used to

describe someone who reports on others for personal gain, in particular, informing on the activities, attitudes, ideas, etc., of their friends/colleagues/neighbors to agencies of oppression and persecution during the Soviet times, i.e. a “rat” or “snitch”). The people will need to gradually adopt the concept that reporting wrongdoings is a correct and honorable action aimed at the protection of society from dishonest officials, and to learn to respect individuals who are not indifferent to injustice.¹²⁰

Latvia is gradually adjusting its legislation to Western standards, although more frequently it is driven by obligations imposed by international organizations than by local lawmaker or public initiatives. The adaptation of the whistleblower legislation, despite being a somewhat clumsy and very lengthy process, shows that the process is irreversible. In addition, it has demonstrated that in Latvia the civil society (albeit in combination with international obligations) can have true impact on legislation – by NGOs and the civil society actively exposing issues in the society and by lobbying aimed at implementing specific legislation. Latvia still has a long way to go in order to change the mindset of the society to accept the immense value that whistleblowing has as an integral part of a just and well-functioning democracy. The legal mechanism in this case serves as a critical step that needs to be followed by active work of responsible institutions – not only in implementing the law, but also in educating the society.

LITHUANIA

At the Center of Fintech and Blockchain Innovations

by Dovilė Šukytė

In the StrategEast Westernization Index 2018¹²¹ Lithuania's economic progress scored 23 points out of 25. The country is closely following fast-changing business trends and, accordingly, is creating a favorable environment for local and foreign companies. For example, it takes only three days to set up a company in Lithuania, and it can be done by using an e-signature. The country positions itself as one of talent and innovation, with good infrastructure and connectivity,

and a quality lifestyle. All these qualities, although not easy to achieve, should not be surprising. Lithuania, whose population is 2.8 million, is one of the most educated countries in Europe; more than half of the population speaks at least two foreign languages.

Despite security challenges posed by neighboring Russia, Lithuania has managed to turn its geographic location into an advantage by positioning itself as a bridge between Europe's East and West, as well as a bridge between Europe and the West. Its EU



Minister of Finance of the Republic of Lithuania Vilius Šapoka attends Eurogroup finance ministers meeting at the EU Headquarters. Brussels, Belgium. January 21, 2019. Image source: Alexandros Michailidis / Shutterstock.com.

membership and business-friendly environment make Lithuania an attractive destination for businesses seeking access to the European market.

What is surprising and noteworthy is Lithuania's ambition and those results the country has already achieved in becoming the premier Baltic hub for blockchain and financial technology (fintech). By attracting global brands with their fintech development programs, establishing the Vilnius Tech Park (which is the largest of its kind in the Baltic-Nordic region), and opening the Blockchain Centre, Lithuania has placed itself on the map among the most forward-looking and innovative countries in the world. The country is pioneering legislation for blockchain-based projects. For example, Lithuania is one of the first countries to issue guidelines for launching initial coin offerings (ICOs), projects enabling start-ups to raise funding in cryptocurrencies. As a result, in 2017 Lithuania experienced over 43% annual growth of fintech companies, with their number increasing from 82 to 117.¹²² Moreover, since 2017, Lithuanian start-ups have raised €500 million through ICOs and blockchain firms, placing Lithuania third in the world after the United States and China.¹²³ These are only few results of the ambitious plan to become a hub for fintech and blockchain technology and to further boost the Lithuanian economy¹²⁴.

Both terms – “fintech” and “blockchain” – might sound futuristic and difficult to distinguish to most, but Lithuanians are learning quickly and are already discovering their advantages. Fintech is a business which provides financial services by using software and modern technologies. Fintech companies aim to be more user friendly to their customers than traditional banks, thus often being highly competitive with them.¹²⁵ A good example is Revolut, which offers a card similar to a bank card, but requiring no official visits to the bank as it allows the user to activate the card via a mobile app and instantly receive services including free international money transfers and fee-

Which regulations and legal acts related to fintech and blockchain activities are in the pipeline? What is their role in benefiting the Lithuanian economy?

Lithuania is at the forefront of financial technologies. With 170 fintech companies, Lithuania is a regional fintech hub in Europe.

When it comes to legal acts related to fintech and blockchain activities that are in the pipeline, there are currently proposed amendments to the Republic of Lithuania Law on the Prevention of Money Laundering and Terrorist Financing which would:

- regulate cryptocurrency exchange operators and initial coin offerings (ICOs); and
- allow driver's licenses to be used for identification purposes.

These changes would benefit the Lithuanian economy by:

- introducing more legal certainty in the fields of cryptocurrency usage and ICOs;
- strengthening risk management of cryptocurrency usage and ICOs; and
- creating better value proposition for companies considering Lithuania as a location for their European license.

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free global spending at the interbank exchange rate. Out of 117 fintech companies in Lithuania, 50% offer digital payment solutions, while 22 are into lending, nine are in blockchain, and the remaining 29 provide other services.¹²⁶ Revolut's Vilnius office is one of those companies; it came to Lithuania in 2017 to boost its presence in the Baltics and has been actively growing its presence.

The blockchain technology is much more complicated, mostly because it's in the very early stages of development. It is "where the internet was in 1992, and it's opening up a wealth of new possibilities that have the promise to add value to numerous industries, including finance, health, education, music, art, government, and more."¹²⁷ A blockchain is a network of users capable of exchanging information and executing transactions without the service of middlemen. For example, by means of ICOs the value of start-up shares is decided upon by the start-ups themselves and their network participants, so there is no interference by any central authority or the government. Thus, trust, which in this case equals the users' reputation, is what matters most in blockchain.

Transparency and security are other key traits. All information within the network is accessible to any user, including transactions executed by other users. Also, the blockchain is resistant to modification of data. Once information is entered – and it is entered by the users themselves – it cannot be altered "without the alteration of all subsequent blocks and the consensus of the network."¹²⁸ Even though no concrete steps have yet been made, the Lithuanian officials are already talking about using blockchain technology-based solutions to improve the quality and efficiency of public services. Lithuanian Minister of Economy Virginijus Sinkevičius named the following blockchain applications: storing land and real estate acquisition transactions, marriage records, and data concerning patients' health and treatment.¹²⁹ By making such data available to other network participants, transactions like payments by health insurance companies for treatment costs, could be verified in no time.

In 2018, Lithuania became an official member of the Organization for Economic Cooperation and Development (OECD). The current Lithuanian Government's program¹³⁰ takes into account the OECD's and other international organizations' recommendations to pay greater attention to science,

technology, and innovations, and commit to promoting the development and export of fintech, digital services, and products. It also mentions preparedness for the fourth industrial revolution, which includes the blockchain technology, and strengthening the cybersecurity infrastructure.

In order to support local and attract foreign fintech companies, particularly ones from non-EU countries, over the past two years Lithuania has been heavily investing in creating a friendly business environment. Since fintechs offer the alternative to traditional bank services, they require licences, as well as access to the payment infrastructure. In order to facilitate the process, the Bank of Lithuania has launched its Newcomer Program, which, using a one-stop shop principle, provides assistance to fintechs interested into setting up base in Lithuania. Vitas Vasiliauskas, Chairman of the Board of the Bank of Lithuania, confirms that Lithuania offers one of the fastest and most flexible licensing regimes in the EU.¹³¹ Requests for licenses can be submitted in English and it takes just three months – the shortest time in Europe – to receive an electronic money and payment institution license. A specialized bank license for core banking activities requires the minimum capital of €1 million, five times lower than for traditional banks. Compared to other EU countries, the Bank of Lithuania provides access to the Single Euro Payment Area (SEPA), which includes 34 countries, for a broader circle of financial market actors. Also, fintechs are allowed to issue their own International Bank Account Numbers (IBAN).

It takes only three days to establish a fintech company by using e-signature in Lithuania. Starting in 2017, owners and employees of start-ups from non-EU countries are eligible for a special start-up visa. By the end of Q1 2018, 150 applications for this start-up visa were registered, of which 33 had been approved and 12 companies had already launched operations. Among visa recipients are start-ups from China, Russia, South Korea, and Ukraine. When commenting

on his decision to establish operations in Lithuania, Russian entrepreneur Andrey Drobitko, co-founder of an augmented reality drawing tool called SketchAR, mentioned accessibility and affordability allowing him to further develop the project and spread it to the rest of Europe.¹³²

Development of a supportive start-up eco-system is another area where Lithuania has excelled. Attraction of Barclays to Lithuania in 2009 led to the opening of the Rise Vilnius fintech hub in 2016. It is a place where start-ups connect and with the help of Barclays' network of experts and specialists scale up their businesses. The creation of Rise placed Vilnius among such megacities as London, Mumbai, Tel Aviv, New York, and Cape Town, where Barclays owns similar spaces.¹³³ The same year the Vilnius Tech Park, the biggest of its kind in the Baltic and Nordic countries, was opened.¹³⁴ It offers a space for entrepreneurs to learn and grow, and currently connects over 50 innovative companies. The latest development was the opening of the Vilnius Blockchain Centre in 2018.¹³⁵ Founder of the Blockchain Centre, Antanas Guoga, a Lithuanian entrepreneur, politician, and currently a Member of the European Parliament, has declared his ambitions to turn Vilnius into a "global crypto capital." He admits that economically Lithuania is still far behind Western Europe, but it is specifically because of this reason that the country has little to lose,¹³⁶ which enables it to embark on revealing the full potential of the blockchain tech and its applicability to the needs of the public and private sectors.

Lithuania's another achievement in attracting fintech and blockchain technology-based businesses is a well-developed communications infrastructure. Lithuania offers fast and cheap internet. The country holds the ninth position globally in terms of 4G availability and is number one when it comes to the speed of public Wi-Fi.¹³⁷ The networks are constantly being upgraded to support data-heavy operations. Attention is also given to strengthening cybersecurity systems; at the time of publication there were three public and six

private cyber incident response teams.¹³⁸ Furthermore, Lithuania offers a rich talent pool. The country is a leader in Central and Eastern Europe in terms of the numbers of graduates in math and exact sciences and is investing into preparing more IT graduates. There is also good command of foreign languages: 84% of young professionals speak English,¹³⁹ which also adds desirability to the Lithuanian workforce.

Finally, of all the Lithuanian efforts to be open and accommodating to innovative businesses, the most admirable – as well as complicated – is the country's ambition to offer regulatory clarity to blockchain technology-based projects. In 2018, the Lithuanian Ministry of Finance published Guidelines on the legal framework for ICO projects. According to Finance Minister Vilius Šapoka, the issuance of ICO guidelines, which cover regulatory, taxation, and accounting areas, is an attempt to achieve the balance between promoting innovations and safeguarding the resilience to potential shocks of the financial system, protecting customers, and preventing money laundering and financing of terrorism.¹⁴⁰ Also in 2018, a law on crowdfunding was adopted to provide more transparency to clients and investors. Furthermore, the crowdfunding law served as the foundation for the launch of the world's first security ICO platform, DESICO. The main quality of this platform is a scam-free environment with the capacity to exclude suspicious and fraudulent projects.¹⁴¹ Since 2013, more than \$270 billion has been raised in ICOs (as mentioned earlier, Lithuanian ICOs alone raised €500 million over the past two years).¹⁴² The process did not fully avoid scam schemes; fake ICOs were organized and profited off the accounts of investors. Lithuania also seeks to protect its start-ups from politically motivated investments. Russia is seen as the main adversary motivated to obtain major shares in Lithuanian start-ups and then use them for political pressure and influence. Furthermore, the Russian criminal world is known for targeting the Baltic states for money laundering operations – particularly Latvia. Therefore, the Lithuanian actions are steps forward in

providing cryptocurrency start-ups with a legally safe environment where they can develop, expand, and raise funds.

The questions of how and to what extent traditional institutions can regulate innovative business processes remain open. After all, blockchain technology was invented in the quest for direct connection and efficiency, while traditional regulatory institutions are famous for the lack of both.

Also, the Lithuanian fintech hub is experiencing a problem of gender inequality. Only 20% of entrepreneurs

are women, and they are facing discrimination, being unable to break into the “crypto boys’ club.”¹⁴³ In addition to developing women empowerment programs, Lithuania will need to figure which public services can be improved by applying the blockchain technology.

Finally, a massive information campaign needs to be undertaken – first, to encourage traditional companies to apply, or look for synergies with fintech and blockchain technologies, and second, to educate and prepare Lithuanian society for the fourth industrial revolution, because fintech and blockchain are only a part of what is coming.

MOLDOVA

Is Moldova playing with democracy?

by Leonid Litra

In 2018, the Moldova's decline of standards in the area of democracy took a new turn. On June 3, the capitol city of Chisinau held the second round of mayoral elections. The opposition candidate got the majority of votes; however, the elections results were later declared null by the courts.

Moldova's process of gradually deteriorating democratic standards dates to 2014. During this period, Moldova went through a series of domestic shake-ups

which had a significant impact on society and relations with the European Union and the United States. The Moldova's honeymoon with its supportive partners (mainly the EU) ended with the 2014 uncovering of a theft from the banking system totaling \$1 billion. The main perpetrators of this bank fraud have not yet been punished and the money has not been recovered (other than approximately \$50 million), which creates suspicions over the real interest of the Moldovan government to show the progress being made on the \$1 billion theft dossier.¹⁴⁴



Anti-government rally after the election of the Mayor of Chisinau. Chisinau, Moldova. June 24, 2018. Image source: snob / Shutterstock.com.

Which actions does Moldova plan to undertake in order to strengthen the trust of its international partners?

Being a small country, Moldova must promote a more intensive and innovative foreign policy, maximizing the effects of any measures undertaken. And that is exactly what we are doing, and what is very well reflected in conduct by the Government and the Ministry of Foreign Affairs in the international arena.

In fact, Moldova has already gained a reputation as a reliable partner in promoting the achievement of the United Nations Sustainable Development Goals (SDGs). We will continue to do so, supporting and being active and vocal in multilateral formats, within the U.N. in particular but also in regional fora. I would particularly underscore the experience we have accumulated in designing modern, inclusive, and human-centered policies for the development of the country, applying technologically advanced tools for policy design and formulation. This is why Moldova was – and remains – an active supporter of such initiatives as the SDG impact, that foresees the involvement of private sector, with investors working together with Governments to find solutions with a global impact.

The Republic of Moldova is also taking an active role in joining international efforts to address threats to international peace and order or regional security. It is a complex, ever-

An additional layer of escalation was added in 2017 when the governing Democratic Party decided to change the electoral system from proportional to a mixed one. The change was disapproved of by the opposition and the international community. Despite the Venice Commission's recommendation not to change the electoral system due to the threat that would pose to the multi-party system and because of lack of consensus, the Democratic Party (led by Vladimir Plahotniuc) and the Socialist Party (led by the incumbent president Igor Dodon and some independent MPs) voted to make the change. Moreover, representatives

changing environment, with multiple factors to be taken into consideration. Dealing with hybrid threats or addressing problems related to human rights versus artificial intelligence is one of the questions we have prioritized on our agenda, where we are trying to have a greater involvement, working closely with our international partners.

At the same time, it is well understood that building trust and developing partnerships also depends a great deal on the internal developments within the country. In that respect, Moldova continues to work towards achieving the overall goal of integration into the EU, strengthening the principles of rule of law and market economy in line with the European model. An Association Agreement with the EU has been implemented since 2014, offering a wide perspective for political association and economic integration via a Deep and Comprehensive Free Trade Area. Thus, in line with this Agreement, considerable efforts have been put into implementing in recent years a series of reforms, including in public administration, healthcare, and education. One of the most visible and sizable has been the so called regulatory reform – which addressed the effort to advance economic stability by reviving the business climate. Controls, reporting, and other bureaucratic procedures were reduced to the necessary minimum, and special facilities and incentives were offered in order to develop new competitive economic sectors. One of the results of this effort is that IT parks have become a success story for Moldova.

In conclusion, one could say that Moldova's strategy is to promote a consistent and reliable foreign policy based on effective multilateralism, but also upon reaching a maximum convergence on foreign, security, and development policies with strategic partners, coupled with an efficient, pro-European, internal reform agenda.

Tatiana Molcean

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of Plahotniuc's party stated that the changes were made with a constitutional majority and that the Venice Commission "does not have the right to impose an electoral system."¹⁴⁵

On top of the existing problems, the annulment of Chisinau's mayoral elections held on June 3, 2018, was the last drop for a part of the population: the people took to the streets with large-scale protests. It was also the proverbial straw that broke the backs of Moldova's partners: the EU and the US. The opposition candidate, Andrei Nastase, backed by Maia Sandu, earned 52.57% of the vote to win the second round of elections against the Socialist Party candidate, Ion Ceban. After losing to Nastase, Ceban filed a complaint against him for violating the electoral legislation, accusing Nastase of breaking the elections law by violating the day of silence (one day before the elections), since Nastase recorded and posted a video calling on people to participate in the elections and make their voices heard (although he did not name any candidates). Ceban also alleged that foreigners participated in the electoral campaign. The Court dismissed the latter accusation but ruled that Nastase, along with Ceban, had indeed violated the day of silence and that his video could have had a significant impact on the elections. Despite Nastase seeking justice in the Court of Appeals and the Supreme Court (June 25, 2018), the decision was affirmed.¹⁴⁶ Now, the elections will be held according to the regular schedule of local elections which are planned for 2019.

The decision to annul the election, especially based on the release of a video, was a novelty for Moldova, and most people tried to find real reasons why the governing party did not let Andrei Nastase take his seat as the Mayor of Chisinau. Certainly, the argument that the Democratic Party did not want Nastase, along with Maia Sandu and the opposition camp, to strengthen their positions ahead of the 2019 parliamentary elections could be a plausible explanation; however, governing politicians denied any involvement. Many

believed that the result was unexpected to the governing politicians, and that actually the Democratic Party originally expected their candidate, Silvia Radu (who ran as an independent), to step in during the second round of elections where there was a high probability that she could have beaten Ceban. (Radu surprisingly failed to make the second round). Then they thought Ceban, who could have been a mayor agreeable to the Democratic Party, would beat Nastase in the second round, but that did not happen. Therefore, one of the key reasons for the election annulment was the desire to avoid creating the impression that the Democratic Party was not in control of the situation.

Since the imprisonment of the former Prime Minister Vlad Filat in 2014, the Democratic Party led by Vlad Plahotniuc has been, broadly speaking, the only party in charge of policymaking in Moldova. The 2016 presidential elections, a certain kind of competition was created – the Socialist Party and its leader Igor Dodon. The Socialist Party has a unique relationship with the Democrats, manifested mainly by cooperation – and some contention over a few issues. More serious and real competition is posed by the Action and Solidarity Party of Sandu and the Dignity, and the Truth Platform Party of Nastase; these parties have positioned themselves in opposition to the ruling elite. The victory in mayoral elections by a representative of the opposition would have given the "wrong" signal to domestic players. Many of the actors in Moldova's political system are relying on the Democratic Party as the entity in control of the situation. Therefore, the Nastase's victory could have undermined the unofficial network and system of subordination allegedly managed by the Democratic Party.

By annulling the election, the ruling political elite and Vlad Plahotniuc sent a clear signal that they are in control and thus prevented a rearrangement of local political actors which influence decision-making in Moldova. For the sake of balance, one must note that Plahotniuc and his party have denied any involvement in

the decision to annul the mayoral election – as in many other decisions which are suspected of having been adopted with Plahotniuc’s approval. Moreover, in many instances the Democratic Party accused the opposition of disseminating negative and false information about Plahotniuc and his party. Despite this, he seems to have a solid control of the developments in Moldova, and is determined to keep his control after the parliamentary elections.

Despite the protests against the decision to annul the election, the Moldovan society accepted the decision and, while criticizing the governing elite, started, along with the opposition parties, to prepare for parliamentary elections scheduled for late February 2019. The Democratic Party managed to retain power, but entered into conflict with the EU – which became much more vocal than before. The EU has criticized the decision to annul the election as “non-transparent” and “undermining the trust of Moldovan people in its institutions” and called for a swift resolution.¹⁴⁷ The government did not make any decisions as they claimed to exert no influence on the judiciary, and tried to negotiate with the EU a re-launch of the cooperation.

The EU continued its criticism in an open manner, especially when – on top of the dispute over the elections – Moldova, failing to observe the legal procedure, expelled several Turkish citizens allegedly associated with the Gullen group. (President Dodon allegedly played the key role in this incident.) Against the background of all the EU’s disappointments with Moldova, Brussels suspended the €100 million macro-financial assistance program and direct budget support. Moreover, the European Parliament adopted a very critical resolution¹⁴⁸ that called the EU institutions to implement sanctions on the perpetrators of the \$1 billion bank theft and spelled out the conditions under which it could disburse the macro-financial assistance and direct budget support. The Democratic Party criticized the position of the EU, calling for a more balanced viewpoint and claiming that the opposition

was misleading the EU institutions when complaining about the violation of democratic standards.

The main condition posed by the European Parliament is the need for free and fair parliamentary elections, which would eventually clear the impediments in Moldova’s relations with the EU. Most importantly, in that resolution Brussels also opened the way for a potential non-recognition of elections, should they be conducted in violation of democratic principles. The EU’s wording is very dangerous, and a potential non-recognition would imply a major negative impact on Moldova. Aside from this, the list of problems drawn by Brussels made the EU remind Moldova that it could lose a lot – basically, everything that the country had managed to achieve since 2010: the Visa Liberalization and the Association Agreement with the EU.

The time allotted for Moldova to get back on track of reforms is running out very quickly, with the 2019 parliamentary elections being the litmus test for future relations. If Moldova manages to conduct free and fair elections and reanimate the above-mentioned reforms, then the EU may unblock the funding for Chisinau and resume the political dialogue. If not, Brussels could set in motion the unprecedented measures to hold Moldova to its commitments to the EU and make the country’s political leadership pay a hefty price for their actions. Notably, the European Union is emphasizing that “geopolitical arguments” won’t work – i.e. narrative warning that by doing all this, Brussels will push Moldova into the hands of Russia is not going to be considered.

The EU’s warning comes at a time when certain politicians in Moldova often try to blackmail Brussels with the argument that, by criticizing the current Moldovan government, the EU is empowering the pro-Russia camp, which will benefit from the situation by gaining better results during elections and putting pro-Russia politicians in power. Considering the above, the impression is that Moldova has gone too far by

overstepping the lines drawn by the EU and the US. With the current position of the EU, Brussels offers one exit strategy to the Moldovan authorities, and that exit strategy is: conduct free and fair elections.

For Moldova, it would be very difficult not to have the support of the EU for an extended period of time. The EU has been funding a number of programs in Moldova and is a source of funds in many areas that Moldova is unable to provide necessary support. The assistance provided by the EU could not be replaced by Russia, so one way or another Chisinau will have to reach a compromise with Brussels. Moreover, Moldova sends over 65% of its exports to the EU, which makes the European Union Moldova's biggest trading partner by far, a partner upon which Moldova heavily depends.

In the meantime, the governing party has tried to amend the constitution to introduce European integration as a strategic goal of Moldova. This was considered a step towards improving the image of the Democratic Party. The parliament did not manage to pass the amendments, and the Party promised to fix this issue at a referendum. The governing party is determined to improve its relations with the EU and to further associate itself with Brussels as a means of legitimization. The European Union has long been seen

by many politicians in Moldova as a source of external legitimization which helps at elections, as well as a source of funds. Now, however, both of these vitally needed sources have become unavailable, and only free and fair elections, along with certain reforms, can mitigate the conflict.

The annulment of the mayoral election is a serious precedent that can potentially backfire on properly conducted elections in the future. Moreover, the annulment of the election and the fierce criticism that followed will certainly impact Moldova's scores in international rankings and slow down the country's Westernization pace, especially when it comes to the political dimension. In the StrategEast Westernization Index 2018, Moldova scored 15.5 out of 25 points in the area of Political Westernization and had a relatively good showing when compared to many countries in the PSNR region. This may change, however, given the annulment of the election when also combined with the rollback in media freedom and violations of human rights. Considering the latest developments, it is likely that Moldova's Westernization process will slow down, and its Westernization score, at least in the political area, will decrease as Moldova becomes more vulnerable democracy-wise.

TAJIKISTAN

Westernization and the Problem of Religious Radicalism

by Parviz Mullojanov

In 2018, a terrorist attack in Tajikistan suddenly brought the problem of religious radicalism and extremism in the Republic into the spotlight. On July 29, 2018, a group of foreign bicyclists was attacked in the Danghara region located in the southern part of the country. First, several perpetrators rammed the bicyclists with their car and then tried to finish them off using knives and axes. Four tourists, citizens of the

United States, Netherlands, and Switzerland, were killed, and the rest were wounded and hospitalized. A few days later, Tajik law enforcement detained three suspects, while five more resisted arrest and were killed by the police.¹⁴⁹

Almost immediately, the ISIS claimed responsibility for the attack and distributed online a video of the perpetrators pledging allegiance to the Islamic State. Originally, right after the attack, the arrested leader of



Memorial site on the edge of the Pamir Highway for cyclists killed in a terrorist attack. Danghara, Tajikistan. August 25, 2018. Image source: Fredy Thuerig / Shutterstock.com.

the terrorist group also stated the group was with the ISIS. However, just a few days later he suddenly changed his statement, instead blaming the banned and exiled Islamic Renaissance Party of Tajikistan (IRPT)¹⁵⁰ and Iran for the organization of the attack. According to the group's leader, he was trained for this attack in Iran, where he also received direct briefings and instructions from a well-known IRPT leader. At the same time, the chairman of the IRPT, Muhiddin Kabiri, who had received political asylum in one of the EU countries, fervently denied accusations of his party's involvement in this terrorist attack. The Iranian leadership issued a similar statement and expressed their readiness to offer any assistance in conducting an objective investigation.¹⁵¹

The Tajik government continues to insist that the IRPT and Iran were involved in the attack, and are persistently trying to convince the U.S. and even more so the European Union, where several thousand former IRPT activists and supporters now live. Tajik government officials raised the question of the IRPT's involvement in the attack on Western tourists during official meetings with representatives of the EU and the OSCE in September 2018, and the Attorney General of Tajikistan voiced the same statement during his November 2018 visit to the U.S..¹⁵² The Pro-government youth alliances organized a series of protests and demonstrations in front of the OSCE's Dushanbe office, demanding to "stop the harboring of IRPT" and give up the opposition leaders to Tajik authorities.¹⁵³

However, the official version promoted by the Tajik authorities still does not gain much trust beyond the country's borders – even among its CIS allies and partners.¹⁵⁴ The scientific and expert community also considers this version generally inconsistent, politically motivated, and directed at discrediting the IRPT which is basically the last political opponent of the current Tajik government. Moreover, a number of Western researchers also believe that Central Asian governments specifically use the threat of jihadism in order to gain political points with the West and justify using violence

against political opposition.¹⁵⁵ Other experts view the official version through the lens of Iran-Saudi Arabia disagreements; in their opinion, Tajikistan is gradually turning into a Saudi ally in that part of the Muslim world.¹⁵⁶

From that point of view, and especially against the backdrop of a number of other events and trends addressed below, the terrorist attack in Danghara can have a significant negative affect on the Tajikistan's Westernization Index ranking.¹⁵⁷ First, it affects the area of Political Westernization, which consists of three sub-areas: degree of political freedom, existence of pro-Western parties in the parliament, and Western civilization in the public opinion. A similar situation is also observed in the area of Legal Westernization, since Tajikistan today is subject to severe criticism for torturing and abusing prisoners and detainees. The November 2018 Khujand (Sughd Province) prison riot, as a result of which several dozen prisoners were killed, caused a new wave of criticism towards the Tajik law enforcement and penitentiary systems.¹⁵⁸

The attack on foreign tourists in Danghara shocked the Tajik society because an attack of such sort was a completely new phenomenon for the country. Even during the Tajik Civil War (1992–97), despite the general fierceness, the Islamic opposition stood by the methods of partisan warfare, renounced terror as a method of political struggle, and practically never used the tactic of attacking foreigners, international organization representatives, and so on. Islamists of the 1990's for the most part did not have anti-West attitudes and willingly appealed to the international community in the course of the inter-Tajik peace process. It is not a coincidence that, following the shutdown of the IRPT in 2015, the party leadership and activists turned for support and political asylum not to the East, but to the West.

This raises a question: could the recent terrorist attack bear evidence that a new force is entering the forefront

of Tajik politics, one represented by the so-called “neo-fundamentalism” or international jihadism, the boldest embodiment of which today is the ISIS? In a broader sense, could this event possibly signal the gradual departure from Westernization not just in politics but also the public opinion and culture? Could it speak of the growing anti-West sentiments among common citizens? Until very recently, such questions were purely rhetorical; after all, the tragedy in Danghara was basically the first incident, when foreign tourists were attacked in the country.

However, in reality, the last decade saw the emergence of several trends and attributes signaling the process of de-Westernization and radicalization of the public conscience in Tajikistan.

First, starting in 2014, there was a sharp increase in the number of Tajik recruits in the ISIS structures in Iraq, as well as Syria. According to official data, the number of Tajik recruits in Syria in 2014 was between 190 and 300 persons,¹⁵⁹ in 2016 that number grew to 700, and by the beginning of 2017 there were more than 1000 militants (plus members of their families).¹⁶⁰ In 2017, the number of Tajik citizens in Syria sharply declined; however, in the opinion of independent experts, this reflects the general trend impacted by the military defeat of the ISIS in the Middle East. At the same time, more and more information has appeared about the re-orientation of the flow of recruits into Afghanistan where the ISIS structures include a significant number of natives of Central Asian republics.¹⁶¹

Second, the increase in the number of suicide attackers among Tajik supporters of the ISIS is also a significant factor. According to a report by the International Centre for Counter-Terrorism – The Hague (ICCT), in just the period between 2015 and 2016 there were 27 terrorist attacks in Syria involving Tajik suicide bombers. The authors of this research believe that Tajik citizens have “a disproportionately high” representation on the list of the ISIS suicide bombers.¹⁶² One should

keep in mind that the tactics of using suicide bombers and attacking civilians had never been used in Tajikistan itself prior to the terrorist attack in Danghara.

Third, researchers have noted the steady process of de-secularization of the civil society in Tajikistan. In other words, the Tajik society is becoming less secular and more religious and traditional. According to the IFES data, in 2010 more than 63% of those surveyed performed the daily Namaz prayers; in 1999 that number was 27%, and 50% went to Friday services, compared to only 13% in 1995.¹⁶³

According to surveys, this trend is correlated to the growth of anti-West attitudes among the population, prejudices against and antagonism towards Western values, the critical views of the U.S. and its allies, and so on. According to a ranking compiled by 24/7 Wall St. using the Gallup’s US-Global Leadership Project data analysis, Tajikistan is among the ten countries in the world with the highest disapproval ratings of the US foreign policies.¹⁶⁴ Consequently, a number of experts believe that the “flare up of anti-American attitudes is explained by the rapid penetration of Sunni Islamism into Tajikistan” – meaning the Sunni fundamentalism and jihadism.¹⁶⁵

At the same time, it would be inappropriate to blame the growth of anti-West sentiments solely on the influence of religious extremism ideologies. A key role in the propagation and establishment of negative attitudes towards the West and Western values is played by the modern Russian state propaganda. Notably, Tajikistan, as well as the majority of its fellow CIS countries, is situated predominantly inside the Russian informational space. The vast majority of Tajik audience still receives its information about international events from Russian media. Therefore, citizens of Tajikistan view the world through the lens of Russian state propaganda which positions Western democracy and Westernization as threats to traditional values. Consequently, the Russian media actively promotes de-Westernization of the civil

conscience in Tajikistan, thus inadvertently acting as an ally of the Islamic jihadists.

NEO-FUNDAMENTALISM – A NEW CHALLENGE AND THREAT FOR TAJIKISTAN?

By “neo-fundamentalism,” today’s experts mean the new wave of political Islam where the utmost importance is placed on carrying out a comprehensive and fierce jihad against the West. Unlike previous generations of Islamists, “new fundamentalists” refuse any compromise with their ideological and political adversaries, and denounce any beliefs, values, and institutes associated with the West and the phenomenon of Westernization. Neo-fundamentalism also differs in the methods of achieving its goals, that is, the emphasis is on intimidation tactics and large-scale attacks against the civil population – above all, residents and citizens of Western countries.

Considering that, the terrorist attack in Danghara should be viewed not as a standalone event but rather a part of the ISIS and other radical neo-fundamentalist groups’ global strategy to expand the sphere of its influence and activities to post-Soviet countries, including Tajikistan. It should be noted that the rapid activation of jihadist activity in Tajikistan has

been observed over the course of several years. For example, there has been an increase in the number of provocations at the Tajik-Afghani border, like the August 2018 incident when militants crossed the border and executed several locals.¹⁶⁶

All things considered, the government of Tajikistan is now taking this new threat quite seriously. In 2016, the National Strategy to Combat Extremism and Terrorism for 2016–2020 was approved. This strategy provides for the expansion of Tajik forces’ collaboration with their foreign colleagues, and the development of programs to counteract radical propaganda, working with the youth and the religious part of the population.

At the same time, international experience shows that the modern Islamic fundamentalism sets as its primary goal the broad-scale de-Westernization of society in countries with Muslim populations. This allows jihadists to create and significantly expand their own social platform in order to further use it as a reliable foundation in the struggle for political power. In that regard, the success of state programs to combat global terrorism in Tajikistan depends increasingly more on the ability of official entities to prevent the process of further de-Westernization and radicalization of the social conscience and the general population of Tajikistan.

TURKMENISTAN

Restricting Young People's Ability to Travel Abroad Widens Distance from Westernization

by Ravshan Abdullaev

Restrictions on the free travel of young citizens beyond the borders of the country, unofficially adopted in 2018 and enforced, without proper procedural implementation, can seriously exacerbate the (already very deep) isolation of Turkmenistan. This situation can be further aggravated by the initiative to bring the migrant workers back from abroad – an initiative implemented by means of intimidating the migrants' close relatives who remain in the country.

Turkmenistan placed last in the majority of indicators in the StrategEast Westernization Index 2018. In the Westernization of Lifestyle area, the country shared the bottom ranking with Tajikistan. This low ranking is explained in part by the fact that citizens of the country have practically no ability to travel abroad. This indicator is important because it reflects on a large part of the

population who can demand more active changes using the Western model. The process of leaving the borders of the country was never a simple one in Turkmenistan, but in 2018 the government took steps which made a harsh situation even harsher. As a result, the very slow process of Westernization in Turkmenistan could cease altogether.

Since the beginning of 2018, the international press started getting ahold of leaked reports of young people being banned from traveling abroad from Turkmenistan. According to the country's laws, the "young people" are persons under 35 years of age. The state media, like the country's government, have not commented on the alleged bans; however, facts documented by the journalists demonstrate the seriousness of the problem. In various parts of the country, State Migration Service agents have pulled dozens of citizens off flights.¹⁶⁷ Some incidents ended tragically: suicides as a result of persons' inability to leave the country have been documented.

For example, the country has been discussing an incident when a father of three small children was removed three times from flights to Turkey where he had been planning to travel for temporary work – after these failures to leave the country, he committed suicide¹⁶⁸ since, according to his suicide note, he was unable to pay back the debts he had incurred to purchase tickets. In another case, a Turkmen student living in Ukraine committed suicide; her family believes that the reason was her being forced to return to



Two flags of Turkmenistan and flag of Commonwealth of Independent States (CIS) between. Image source: alexfan32/Shutterstock.com.

Turkmenistan because the National Medical University in Kyiv had refused to assist her in gaining permanent residency in Ukraine.¹⁶⁹

Along with these travel restrictions, the attempts have been made to return migrants back to the country. For example, authorities in Turkmenistan force the fathers of young women working in other countries to travel to those countries and convince their daughters to return.¹⁷⁰ Those who refuse to cooperate are commonly threatened. Children whose parents are abroad earning money as migrant workers are denied the issuance of travel passports. Finally, migrants who do return from abroad are frequently subject to arrest.¹⁷¹

The government is creating special difficulties for students studying outside of Turkmenistan. From time to time, authorities block payment cards issued by Turkmen banks, which prevents parents from transferring money to their children, who are then consequently unable to pay for their education on time and are thus forced to return to Turkmenistan.¹⁷² It is important to note that Turkmenistan has only about twenty State Universities (and zero private ones) for the country's six million population, and for the absolute majority of young people from underprivileged families a foreign college is the only means of getting higher education.

THE DESCRIBED PROCESSES MAY BE HAPPENING FOR THE FOLLOWING REASONS:

Economic. The country, which ranks 51st in the world in the size of its territory and just 117th in the size of its population, needs a cheap labor force.

Political. The country's leadership fears that a long stay outside the borders of the country will inspire its citizens to launch internal changes.

Image. The country's leadership does not want

the "blossoming Turkmenistan" to be represented abroad by migrant workers and poor students (this version is supported by Radio Freedom Turkmenistan).¹⁷³

The unofficial ban on travel abroad for young people, including students, and the attempt to force the return of persons working abroad is a critical negative factor in preventing Turkmenistan from greater Westernization?

Personal contacts of common people, their foreign experience, and knowledge received from the travel forms one of the last bridges connecting the contemporary Turkmenistan with Western democracies. For the last 25 years, the country has continuously followed the path towards isolating itself and its citizens from the outside world.

Today, the country has not a single non-government media outlet, the Internet in Turkmenistan is the slowest and most expensive in all the post-Soviet countries, authorities block news websites and social media (the so-called "sensitive content"), and the population is forbidden from installing satellite antennas capable of receiving foreign television channels.¹⁷⁴

After gaining its independence in 1997, Turkmenistan announced its "neutrality" in international relations, the expression of which is reflected in the fact that in order to visit Turkmenistan today citizens of any country of the world need a visa which is rather hard to obtain. Tourism in the country is practically dead; to illustrate this we can cite the number of tourist visas issued by all of Turkmenistan's consular offices in 2015: just 913.¹⁷⁵ The small number of tourists who do arrive in the country are placed under round-the-clock surveillance, and their contacts with the local population are kept to a minimum.

Economically, Turkmenistan can afford self-isolation. According to a statement made by the country's leadership, Turkmenistan has the second biggest natural gas deposit in the world; the country is also

number four in the world in terms of total explored gas reserves. This allows the government to not heed the world community's opinion – above all, countries of the West – and to impose any restrictions on the local population.

Today, Turkmenistan actively sells gas only to China. The consecutive construction of multiple gas pipelines from Turkmenistan to China is going on in several directions, through different countries. These circumstances allow the country to count on China's support in international relations – the support which China has been providing. Before 2009, Turkmenistan was selling practically all its gas to Russia and, via intermediaries (Gazprom) to Europe which then had formal levers of pressure on the country's authorities. Now no such leverage remains.

Interaction of Turkmenistan with the U.S. and the EU has been reduced to small-scale collaboration in the area of security and prevention of terrorism and religious extremism. Such collaboration actually further limits the rights of local citizens distancing Turkmenistan from Westernization, since any activists can be arrested under the pretense of being suspected of extremism.

Despite the facts described above, the government of Turkmenistan is worried that the discontent building up inside the country could turn into a struggle against the authorities. In May 2018, at the time when world media were most actively criticizing the country for the imposed restrictions, Turkmenistan's state media announced that President Gurbanguly Berdimuhamedow had issued reprimands to heads of the Ministry of National Security and the Migration Service for "improper performance of official duties and shortcomings committed in the course of work."¹⁷⁶ This speaks loudly to the President's unhappiness with the appearance of information about the restrictions, decisions on which could not have been made without his involvement. Later, the head of the Migration Service demanded of his subordinates "proper treatment of

citizens," which is testament to the authorities' being concerned by the growing discontent.

At the same time, the country's government is unable to keep the young population from illegally crossing the borders to Uzbekistan and Kazakhstan from where they can continue their travels abroad in order to enter colleges outside Turkmenistan. The young people are trying to find a way to leave the country using various ways.

In 2019, Turkmenistan will take over chairing the Commonwealth of Independent states (CIS). Even though this organization is not an effective structure, Turkmenistan will have to implement some loosening of the travel restrictions in order to allow diplomats and journalists – including those from the West – to enter the country.

Overall, it is possible to acknowledge that the government of Turkmenistan is very unlikely to ditch the model of restrictions it has chosen, but will still provide conditions for the most disgruntled and active citizens to be able to leave the country. This approach, aimed at defusing the domestic situation and preventing flare-ups of severe discontent, is practiced to various degrees by many authoritarian states, and so Turkmenistan is simply replicating a model albeit in a somewhat harsher iteration. Nevertheless, even in the short term, such practice will have a negative effect on the life of the population, which will mean further separation of the country from developed countries of the West and from the process of Westernization.

UKRAINE

“Yes” to the Existence of the High Anti-Corruption Court!

by **Sergiy Solodky**

In 2018, Ukraine took a major step towards getting the fight against corruption closer to the point of no return. Following several years of lengthy negotiations and political pull-push, the Verkhovna Rada (the Parliament of Ukraine) adopted the law regarding the creation of the High Anti-Corruption Court (HAC) in the country. This Court will be the final critical

element in the country's independent anti-corruption infrastructure created after the 2014 Revolution of Dignity. Its creation, and even more so its successful launch and operation, can become a key element in the process of Ukraine's Westernization as it applies to the political, economic, and social areas. All pro-West political parties have been building their election campaigns on the promise to overcome corruption,



Building of the Supreme Court of Ukraine. Kyiv, Ukraine. December 9, 2016. Image source: home for heroes / Shutterstock.com.

while Western investors frequently explain their unwillingness to come to the country due to the pervasiveness of corruption. Therefore, the successful creation of the HAC is very likely to also have a positive effect on Ukraine's showings in the legal area of the Westernization Index.¹⁷⁷

The High Anti-Corruption Court will be made up of 35 judges. The selection of candidates is currently underway. Nine persons are competing for each seat. The candidates must be no younger than 35 years of age and will be appointed for life. Qualification requirements are sufficiently strict. The experience-wise, the candidates must meet at least one of three requirements, namely:

- **No less than five years as a judge;**
- **No less than seven years of scientific work in the legal field and a corresponding Academic degree; or**
- **No less than seven years as a practicing attorney.**

Candidates will be automatically disqualified if, during the past ten years, they have held any political positions, worked in prosecution, the Ministry of Internal Affairs, national police, security service, or many other entities. The remuneration for their work will be quite high by Ukrainian standards: an equivalent of \$6,000 to \$12,000 (same as judges of the Supreme Court of Ukraine).

According to the most realistic forecast, the Court will be able to commence its work in the first half of 2019, but we can already speak of an important turning point in the battle against corruption when summing up results of the past year. There are several reasons as to why the creation of this Court is such an important facet in the process of Ukraine's Westernization.

Primarily, it's the high level of corruption that has been considered the main obstacle in the path of

Will the creation of the High Anti-Corruption Court guarantee the beginning of an effective fight against corruption at the highest level, or will that require the passing of additional legislation?

We must acknowledge that, at present, the judicial system is unable to hear cases alleging top corruption. Case materials on at least one third of the corruption schemes which have already been investigated by the National Anti-Corruption Bureau of Ukraine (NABU) and the Specialized Anti-Corruption Prosecutor's Office (SAP) are gathering dust in the courts – they are simply not being heard. The hearings on NABU and SAP cases, the indictments for which have already been filed with the courts (more than 170 of such filings), take place on average once in two months. At this rate, it can take not years but decades until we get to sentencing.

This state of affairs undermines the public's faith in just punishment. The consequence of such disillusionment is tolerance for corruption: people turn a blind eye because they realize that they won't be able to establish the truth and that corrupt officials won't be punished. This situation is dreadful, not solely because it is immoral from the human point of view, but also because it is a threat to the national security of the state, undermining it from within.

We hope that the launch of the High Anti-Corruption Court of Ukraine will be able to bring forth a new quality of legal proceedings in Ukraine, where a person's guilt is determined by law rather than by official capacity and influence. For this to become reality, High Anti-Corruption Court judges should be selected in a transparent manner, and closely supervised by the society and international partners.

Press Service of the National Anti-Corruption Bureau of Ukraine

Ukraine's transformation into a modern European state. According to the International Monetary Fund (IMF) estimates,¹⁷⁸ in 2017 alone Ukraine lost approximately \$1.1 billion due to high corruption – equal to about 2% of the country's GDP growth. Moreover, German publication *Süddeutsche Zeitung* said that the results of its investigation disclosed the grand scale of Ukraine's losses because of the comprehensive corruption at customs is at least \$4.8 billion.¹⁷⁹

International partners, in particular the U.S., believe that the high level of corruption in Ukraine has also aided Russia's aggression against Ukraine, including the annexation of the Crimea and the occupation of Ukraine's eastern regions (as of today 7% of Ukraine's territory is under occupation). Following this logic, corruption in Ukraine is also one of the main threats to the country's national security.

Corruption has traditionally been one of the primary deterrents keeping international companies from entering the Ukrainian market, also holding back the expansion of foreign investors' presence which would have greatly benefited the development of the Ukrainian economy. This has been verified by regular surveys which the American Chamber of Commerce in Ukraine conducts among its members – companies from Ukraine, the EU, and the U.S. Corruption is especially challenging to American investors because the American anti-corruption laws have force and effect beyond the borders of the U.S.

Furthermore, in surveys conducted by the Rating Group Ukraine, a sociological research organization,¹⁸⁰ for the past four years Ukrainian citizens have been naming corruption as the country's second most important problem (the most important being the war in Donbass). According to more recent data from another sociological service – the Democratic Initiatives Foundation – corruption occupies the top spot on that list.

However, at this point it is important to note that according to the same Rating Group Ukraine surveys,

corruption is not on the list of top priorities which Ukrainians consider important not for the state of Ukraine but personally for themselves and their families. In that list, the top priorities include the war in Donbass and social and economic issues such as the cost of living increase. In other words, there is still a lack of understanding among the population of the direct connection between the high level of corruption and the low level of quality of life. In addition, the stereotype that corruption is a part of Ukrainian culture and/or mentality, and is therefore virtually impossible to overcome, remains popular in the society. That which is commonly called "petty corruption" is not considered corruption at all by Ukrainians who instead view it more as an expression of gratitude. In the people's understanding, real corruption is what goes on primarily among politicians and in the highest echelons of power.

Another stereotype that remains popular is that all politicians are corrupt. Apparently, this reflects on Ukraine's ranking in the Transparency International Corruption Perceptions Index, where Ukraine is in the 130th spot.¹⁸¹ The actual level of corruption in Ukraine may have decreased after the Revolution of Dignity; however, because of the high volume of information about corrupt government officials and a greater number of investigative reporting uncovering corruption schemes among Ukrainian powerholders, common Ukrainians have come to firmly believe that there is now even more corruption, that it is practically everywhere.

Nonetheless, the primary driving force in the creation of independent anti-corruption entities was not the pressure from the general public, but rather the position of Ukraine's international partners (IMF, U.S., EU) and an active part of Ukraine's civil society. Reformers (and those claiming to be reformers) in the Ukrainian government and the Verkhovna Rada have been trying to play their part as well. At some point many Ukrainian politicians seem to have realized that

it is better to head the fight against corruption than publicly resist it – for example speaking out against the creation of the High Anti-Corruption Court, since attempts to resist this process over the course of 18 months have proven futile. Representatives of the Ukrainian government could convince neither the international partners (above all, the IMF), nor the active part of the society that Ukraine did not need the High Anti-Corruption Court. Arguments of the type that the creation of such a Court contradicted the Ukrainian constitution, or that all courts should be anti-corruption, or that at the very most an anti-corruption chamber should be sufficient, were not accepted. As a result, even Prime Minister Volodymyr Groysman stated on the eve of the vote on the law providing for the creation of the HAC that he would resign should the law not pass.

So why is the creation of the High Anti-Corruption Court so critically important for the process of reinforcing the fight against corruption in Ukraine? As recent years' experience has shown, without the HAC there will be little, if any, value in the work of other independent anti-corruption entities created in the years following the Revolution of Dignity: the National Anti-Corruption Bureau of Ukraine (NABU), the Office of the Specialized Anti-Corruption Prosecutor (SAP), and the National Agency for Prevention of Corruption (NAPC). All investigations initiated by the NABU against top government officials were sooner or later blocked in courts, which remain unreformed in Ukraine and are among the most corrupt institutions. According to Artem Sytnyk, the Head of the NABU, every ninth suspect in the NABU cases is a judge – this is the highest percentage across all categories of suspects.¹⁸² At that level of corruption in regular courts, the public appeal of former American Vice President Joe Biden to start putting corrupt politicians behind bars, which he made in presence of the former Prime Minister Arseniy Yatsenyuk, could not have been brought to fruition – corrupt officials found loopholes to get off the hook.

Vivid proof of that are the most scandalous investigations conducted by the NABU – against the Head of the State Fiscal Service, Roman Nasirov and the Head of the Parliamentary Committee on the Fuel and Energy Complex, Mykola Martynenko. In Ukraine they have come to jokingly call this phenomenon “sports fishing” – the corrupt officials get caught and released. The case of Nasirov – possibly the “biggest fish” caught under the banner of the fight against corruption – confirms that it is indeed “catch-and-release” fishing: on December 11, 2018, a district court in the city of Kyiv reinstated Nasirov to his post of the Head of the State Fiscal Service. Nasirov had been accused of causing UAH2 billion (approximately \$72 million) losses to the state budget. The Ukrainian Cabinet of Ministers has stated its intentions to appeal that decision.

If one assumes that the fight with corruption is built on three “P’s” – prevent, publicize, and punish – then the greatest shortcoming would be in the latter: the absence of punishment. This, however, does not mean that the other two “P’s” are functioning perfectly. There are still problems with the first element – prevention of corruption. Despite the painful launch of another important anti-corruption entity – the National Agency for Prevention of Corruption (NAPC) – and the creation of an electronic declaration system for officials which allows anyone to examine data about the incomes and expenses of state employees (from parliamentarians to ministry officials and the president), as of yet there is no automated system of auditing those statements. There have been quite a few admonitions made regarding the NAPC’s efficiency and selectiveness of the e-declaration checking process. In 2015 and 2016, the NAPC checked only 331 declarations of the 1.1 million submitted.

Even without the creation of the HAC, there is the problem of coordinating other anti-corruption agencies – the NABU and the SAP. In the summer of 2018, the conflict between these two agencies – or, more precisely, their heads – became ever more heated after the Specialized Anti-Corruption Prosecutor discovered

a listening device that had been placed in an aquarium in his office and accused the NABU of planting it. In other words, instead of fighting corruption the new anti-corruption entities are fighting with each other. Apparently, it will take time for the new anti-corruption infrastructure to start working effectively. This is exacerbated by the fact that the higher NABU's 200 detectives aim in their investigations, the more pressure is exerted on them by the high-ranking subjects of those investigations.

Where are the guarantees that the High Anti-Corruption Court will be independent and effective? Of course, there are no such guarantees, but all the conditions for that have been created, starting with the process of selecting the judges. A decisive role in this process will be played by the Council of International Experts, which will consist of experts nominated not by the Ukrainian High Qualification Commission of Judges, as Kyiv had long insisted, but rather by influential international organizations.

The international experts' authority in the candidate selection process was the primary stumbling block in the course of adopting the law regarding the Anti-Corruption Court. The IMF insisted on vesting the council of experts with the power to veto those candidates who did not conform to the criteria of integrity. The Ukrainian side contended that endowing the international experts with the deciding voice in the selection process would violate the Constitution of Ukraine as it amounted to interference with internal affairs of the state. Therefore, its suggestion was that such veto could only be blocked by two-thirds of the High Qualification Commission of Judges votes. As a result of prolonged negotiations, a compromise was reached:

to overcome the warnings of international experts, a joint commission composed of representatives of both of the Council of International Experts and the High Qualification Commission will be created, and that joint commission's decisions must be sustained by at least half of the international experts (three of six). The names of the six international experts who will participate in the selection of anti-corruption judges are already known. They are: Aurelijus Gutauskas (Supreme Court judge, Lithuania), Ted Zarzeczny (judge of the Court of Queen's Bench for Saskatchewan, Canada), Mirjana Lazarova Trajkovska (former President of the First Section of the European Court of Human Rights), Lorna Harris (retired prosecutor, UK), Sir Anthony Cooper (former judge of the Court of Appeals in England and Wales), and Fleming Denker (retired Deputy State Prosecutor in the Office for Serious Economic Crime, Denmark).

Overall, it is appropriate to acknowledge that in the four-and-a-half years following the Revolution of Dignity, Ukraine has adopted one of the most sublime anti-corruption legislations in the world and possesses one of the most progressive systems of electronic declaration of state employees' revenues. However, practical results of the fight against corruption can be discussed only after the full-fledged launch of the High Anti-Corruption Court. It should also be noted that all important reforms in this area were brought to fruition under pressure from Ukraine's international partners, thanks to strict conditionality policies. It is extremely important that, following the launch of the Court, the judicial reform in general is not relegated to the shadows. For it is that reform that will help achieve a situation where not just the High Court but all courts in Ukraine are anti-corruption.

UZBEKISTAN

Tax Reform – An Important Step Towards Civilized Rules of Business & Greater Economic Development

by Yuliy Yusupov

Since 2017, Uzbekistan has been introducing cardinal system reforms to liberalize and increase the openness of the economy and increase the effectiveness and transparency of the system of government. The barriers on the way to foreign economic activity are being removed: open exchange of the national currency has

been introduced, tariff and non-tariff barriers to export and import are being removed, and other obstacles preventing the free movement of people, goods, and capital are being eliminated. The reforms are being conducted in the area of currency circulation and the banking sector, while administrative expenses of running a business are being reduced.



Public discussion with participation of tax experts, business, media, international financial institutions, diplomatic corps and other stakeholders within the framework on execution the directive of the President of the Republic of Uzbekistan "On Organizational Measures for Cardinal Improvement of Tax Legislation". Tashkent, Uzbekistan. March 29, 2018. Image source: Maksad Dzhangirov/ "Novosti Uzbekistana".

What are the possible steps towards continuing the tax reform? Under which conditions will the government lower the VAT rate?

The State Taxation Committee reports the following:

At the present time, a "Road Map" establishing the primary directions for the structural reforms in the Republic of Uzbekistan over the period spanning 2019-2021 has been developed with the participation of the World Bank and other international financial institutions and approved by the Decree of the President of Uzbekistan dated January 8, 2019.

According to Section 1.3 of the Road Map, within the framework of the ongoing tax reform, the following has been planned:

The development and adoption of a new version of the Taxation Code of the Republic of Uzbekistan which conforms to international best practices; and

The development and implementation of auxiliary measures of tax administration, economic policy, and other efforts directed at improving the operation of taxation entities and the tax system.

As to the question regarding the lowering of the value added tax rate, it must be noted that the current tax rate of 20% has been preserved. The further reduction of the current rate of the value added tax has not been planned. Besides, in order to provide a smooth transition to the payment of value added tax in accordance with the Law

of the Republic of Uzbekistan dated December 24, 2018, a simplified method of calculating and paying the value added tax has been introduced and took effect on January 1 of this year.

The value added tax rates for taxpayers who have transitioned to the simplified value added tax calculation and payment system have been set as follows:

Legal entities in every area of industry: 7%

Construction companies: 8%

Companies involved in retail, wholesale, and wholesale & retail sales: 6%

Foodservice and hospitality companies: 10%

Legal entities providing professional services (e.g. auditing, tax consulting, brokering, and so on): 15%

Legal entities engaged in the sales of agricultural goods, except self-produced goods: 4%

In addition, for the purpose of averting price increases on food products being produced in the country, by the decision of the Government of Uzbekistan, dated December 31, 2018, a list of food products exempt from value added tax has been approved. The list includes primary food products of public importance such as meat (beef, lamb, and chicken), as well as livestock (cattle and poultry) and slaughter products, fish, potatoes, onions, eggs, rice (all varieties), sugar, bread products /baked goods, and milk.

M. Mirzayev
First Deputy Chairman

The most important reform – possibly a historical milestone in the creation of civilized rules of the game for business and favorable conditions for the development of economy – will be tax reform. The framework of the reform was approved by presidential decree¹⁸³ and became effective on January 1, 2019.

The importance of the reform was dictated by the fact that the existing system of taxation, which came to existence in the post-Soviet Uzbekistan, was leaving the country's economy no chance for stable development,

thus dooming the country to suffer the fate of a mere raw-material mine for the world's economy.

So, what are the problems of the current system of taxation in Uzbekistan, and how is tax reform expected to solve them?

1. The rules by which the system of taxation in Uzbekistan operates are very complex, contradictory, and do not conform to international practices. First, there are a number of different taxation regimes: for small and large businesses, for trade, for farmers, for

financial organizations, for sole proprietors, and so on. Second, there is a multitude of rules for calculating the same taxes for different categories of taxpayers, and a multitude of different taxes including some exotic ones (e.g., payment for the use of a subscriber number). Third, there are many differences from international practice in determining the tax base (often taxing that which is not taxed in other countries), especially when it comes to income tax and the VAT. Fourth, there is a huge number of exceptions, additional rules, and exemptions (including individual ones for certain businesses). All this makes the system of taxation unnecessarily complex and opaque, and increases tax administration expenses.

In accordance with the tax reform concept, the system of taxation will be simplified and brought in compliance with international standards. The number of tax regimes and the number of taxes will be reduced, the rules of tax payments for different categories of taxpayers will be unified, and a review of tax incentives is planned.

2. Relatively high payroll taxes which do not stimulate the growth of employment and encourage the shadow economy.

The tax reform concept provides for a radical decrease in labor taxes:

- Elimination of the 8% insurance contributions to the non-budgetary pension fund, withheld from wages
- Introduction of a “flat” scale of income tax at the rate of 12% instead of the currently existing progressive scale with the maximum rate of taxation of 22.5% (in 2018 income exceeding a little over \$200 USD per month was being taxed at the maximum rate)
- Reduction of the unified social tax rate from 15% for simplified regime entities and 25% for standard regime entities down to 12% (except for state-funded organizations and state companies – their rate is set at 25%)

3. Unequal distribution of the tax burden. Above all, this has to do with the enormous void in the tax burden between the simplified and standard tax regimes (i.e. small and large businesses). When transitioning from one regime to the other, the tax burden can increase many fold which translates into the impossibility of growing the business and using the benefits of economies of scale, which significantly reduces the possibilities of raising the competitiveness of Uzbek companies.

In this regard, a radical production of the tax burden and a simplification of the taxation rules within the framework of the standard text regime is provided. For example:

- Reduction of payroll taxes (see above)
- Elimination of the mandatory contributions to the State Special Purpose Funds (SPF's) for standard regime entities
- Reduction of the income tax rate for companies from 14% to 12% (for commercial banks – a reduction from 22% to 20%, and for cellular companies – an increase from 14% to 20%, but eliminating the excess profit tax which they used to pay when exceeding a certain level of profitability)
- Reduction of the dividend tax rate from 10% to 5%
- Reduction of the property tax rate for companies from 5% to 2% but enforcing the mandatory payment thereof, as well as the payment of taxes for water resource use for all companies, with no exceptions
- Providing the right to make an allowance to offset the amount of value added tax (VAT) from acquired capital assets, real assets under construction, and intangible assets which are currently included in their cost (which reduces the VAT tax burden)

4. Despite international practice, Uzbekistan broadly uses taxation of total revenues (e.g. proceeds of sales). That is, the amount taxed is not the added value, profit,

or income, etc., but the total gross receipts including expenses. This includes contributions from total revenues to SPF's for entities using the standard taxation system, unified tax payment for small businesses and companies in the sales and food service industries. Taxation of gross revenues, as well as breaking the chain of the VAT payment (when the VAT practically turns into its direct opposite – a tax on gross receipts) created as a result of companies “fleeing” from the standard regime of taxation have an extremely negative impact on the social division of labor, and creation of long chains of added value generation, because the longer the chain the more taxes need to be paid – double, triple, etc., taxation is not uncommon. In this situation, creating a complete production cycle from raw material to ready product with a high added value is simply impossible.

There is just one solution to this situation: replace taxation of gross revenues with the VAT. The tax reform concept provides the following for this aspect:

- Elimination of mandatory contributions to SPF's for entities using the standard tax regime (see above)
- Reduction of the tax burden for entities using the standard tax regime (see above) for the purpose of encouraging small businesses to transition to this regime
- Conversion of businesses whose previous year's annual turnover (gross revenues) was greater than 1 billion som (approximately \$125,000 USD) or which have reached a set threshold during the course of one year to the payment of standard taxes.

5. High general tax burden on the economy (30-35% of the GDP in recent years, not including various forms of hidden taxation) which makes domestic manufacturers' products non-competitive and the economy unattractive for investment.

6. Complex (both for the taxpayers and tax specialists) and ineffective system of tax administration.

Implementation of measures to solve problems one through four above will automatically reduce the general tax burden on the economy and simplify the tax administration, i.e. will allow to solve problems five and six. However, additional measures are provided to solve the sixth problem. Those measures will simplify the tax accounting and provide for its integration with software, implement automated bookkeeping, and improve the skills of both the state taxation service employees and of the taxpayers.

The tax reform's most vulnerable area is maintaining the VAT at the 20% rate¹⁸⁴ (albeit with the possibility of subsequent reduction of the rate based on the 2019 results). The thing is, in the initial version of the tax reform concept the rate was planned to be reduced to 12%. First, the concept's authors were aiming towards matching the rates in the neighboring Kazakhstan and Kyrgyzstan (both 12%). Second, setting the rate specifically at 12% would have allowed the majority of small businesses to smoothly transition to the standard regime of taxation. Now, according to several experts:

The legalization of business and transition to standard regime of taxation or voluntary payment of the VAT won't be as large-scale as anticipated

Certain types of domestic goods and services can become less competitive in comparison with neighboring countries'

The budget may end up under-receiving funds due to the taxable base reduction.

It is still not clear how the tax reform concept's objectives to simplify the rules of paying income taxes and the VAT, optimize tax incentives, and improve the tax administration will be realized. In some cases, there is direct sabotage of officials in charge of performing the above stated tasks.¹⁸⁵

Tax reform is a historic breakthrough which has demanded of the country's president and government great courage. The reform will provide the economy

with a much improved model of taxation, bring the system closer to the standards set by successfully developing countries, and provide for the elimination of accumulated disproportions and distortions. In the end it will allow for the creation in Uzbekistan of civilized and effective social institutions which will aid stable inclusive economic development.

A successfully conducted tax reform can improve the performance of Uzbekistan in the Economic area of the StrategEast Westernization Index 2018,¹⁸⁶ in particular in the following sub-areas:

3.2. EASE AND TRANSPARENCY OF DOING BUSINESS.

The reform will make it possible to create incentives for the legalization of shadow economy, eliminate obstacles to the formation of long chains of generating added value and upscaling businesses.

3.3. WESTERN SHARE IN THE SALES OF GOODS.

The reform will allow companies to participate more actively in international chains of added value creation, and increase the competitiveness of domestic manufacturers producing goods with high added value.

3.4. WESTERN INVESTMENTS INTO THE COUNTRY'S ECONOMY.

Introduction of modern standards of taxation and reduction of businesses' tax burden will make the economy of Uzbekistan more attractive to foreign investors.

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WESTERNIZATION

Westernization is a process whereby societies adopt Western standards for cultural norms and codes of conduct, such as individual freedom, liberal democratic governance, respect for human rights and fundamental freedoms, rule of law, secularism, and protection of private property in areas such as industry, technology, law, politics, economics, and lifestyle.

In the last few centuries, Westernization has served as a catalytic influence in the acceleration of global growth in equatable ways as with modernization.

Rather than reflective of a single society's values, however, Westernization is more than a unidirectional influence of one country over another. Over time, the process of Westernization can produce a two-sided exchange. As a country becomes more Western, it, in turn, can also produce reciprocal influence on countries in which Western ideas originated.