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**Research Report**

## European neighbourhood policy and economic reforms in the eastern neighbourhood

CASE Network Studies & Analyses, No. 382

**Provided in Cooperation with:**

Center for Social and Economic Research (CASE), Warsaw

*Suggested Citation:* Paczyński, Wojciech (2009) : European neighbourhood policy and economic reforms in the eastern neighbourhood, CASE Network Studies & Analyses, No. 382, Center for Social and Economic Research (CASE), Warsaw

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# CASE Network Studies & Analyses

## European Neighbourhood Policy and Economic Reforms in the Eastern Neighbourhood

**Wojciech Paczynski**

**No. 382/2009**

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The paper was prepared under the ENEPO project (EU Eastern Neighbourhood: Economic Potential and Future Development) coordinated by CASE, financed within the Sixth Framework Programme of the European Commission. The study includes some of the results of the Workpackage 13 coordinated by CASE – Center for Social and Economic Research. The content of this publication is the sole responsibility of the authors and can in no way be taken to reflect the views of the European Union, CASE, or other institutions the authors may be affiliated to.



**Key words:** ENP, CIS, EU, political economy, economic reforms, reform anchoring

**JEL:** P16, P48, Y80, Z13

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Graphic Design: Agnieszka Natalia Bury

EAN 9788371784859

Publisher:

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## **Abstract**

The paper discusses the current and potential role of the European Neighbourhood Policy (ENP) in anchoring economic reforms in the countries of the EU's Eastern Neighbourhood. It claims that it is too early to assess the success of the ENP in this sphere especially given that the actual progress of the ENP agenda has been limited. A review of the empirical evidence on external reform anchors confirms that the ENP shares some features with the EU accession process that has proven to be an effective mechanism supporting major economic, political and social changes in the countries concerned. The eventual ENP economic offer is meaningful and integration with the EU is getting stronger public support in several CIS countries and among their political elites. On the other hand several factors limit the reform anchoring potential of the ENP. This paper offers recommendations on policies that could strengthen this potential.

## 1. Introduction

The main objective of this paper is to discuss the extent to which the European Neighbourhood Policy (ENP) can be an effective instrument furthering democratic changes, market reforms and modernization processes in the CIS countries<sup>1</sup>.

The main motivation for raising such a question is the experience of EU enlargement waves and in particular the accession process of the Central and East European (CEE) countries that joined the block in 2004 and 2007. For these countries, the EU accession process (that started in the 1990s) coincided with a major modernization and reform effort. The clearly defined final objective of EU membership and the fact that realization of this objective depended on fulfilling a number of membership criteria (requiring implementation of certain reforms and policy measures) is commonly believed to have been instrumental in speeding up the reform process and improving its effectiveness (Dąbrowski and Radziwiłł, 2007; Schweickert et al., 2008, ECFIN, 2009). With the ENP borrowing certain elements from the enlargement process (“a stake in the EU’s Internal Market”), but EU membership not on offer (“everything but institutions”), the question of what this policy can actually achieve is a valid one.

The paper starts by reviewing the evidence on external anchors for reforms. The second section briefly introduces the ENP, presenting it as a part of EU policy towards the CIS region. Then follows a more detailed discussion of the factors shaping the evolution of the ENP and the environment in which its reform-promoting channels can work. The next section asks whether there is already enough evidence to base a solid opinion on the effectiveness of the ENP in supporting policy change. Conclusions are accompanied by recommendations that are mainly directed at the EU side.

## 2. External anchors supporting reforms

Reforms processes in developing and transition countries have in various ways been supported externally. These measures have taken the form of budgetary support, policy

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<sup>1</sup> This work benefited from my discussions with Joanna Konieczna. Marek Dąbrowski provided very insightful comments on an earlier draft and Joe Harper helped in editing the paper. The responsibility for the accuracy of factual material and all opinions expressed in the paper is mine only.



advice, funding for specific projects, possibly accompanied by certain conditions, etc. Clearly, any progress in reforms strongly depends on the internal political situation, interests and relative strength of various stakeholder groups. An important question is how internal policy dynamics interact with external reform support. The influences can go both ways. External actors may see their assistance projects missing targets due to opposition from interest groups and on the other hand external influences can change the preferences of domestic players, enabling an improvement in some aspects of governance.

It is useful here to make a distinction between the simple conditionality that has been present in several international aid and stabilisation programmes (e.g. with the IMF) and the “external anchoring” of reforms that Dąbrowski and Radziwiłł (2007) define as actions promoting both the supply of and genuine demand for reforms. The key point here is that the latter implies reform ownership and commitment on the side of the country concerned, i.e. crucial elements increasing the likelihood of reform success and sustainability (World Bank, 2008).

There exists a large body of empirical work studying the role of external inducement on domestic reforms. One important strand of the literature has focused on the effectiveness of foreign aid. Easterly (2006) provides an overview of this literature and himself offers a rather pessimistic view on aid effectiveness. Doucouliagos and Paldam (2008) provide a meta-analysis of close to 100 studies looking at aid as a treatment given to poor countries to generate development. They find that the average of estimates of aid effects on growth is positive among studies that provide numerical values, which, albeit is insignificant and falling. Furthermore, the authors reveal that publication outlet and institutional affiliation appear to be related to the magnitude of the reported effects.

The effectiveness of development assistance is the key concern of major international donors. Their focus is on practical lessons that can be applied to improving aid effectiveness. Recent analyses in this sphere (see e.g. World Bank, 2008, and references therein) have underlined the importance of political economy aspects of interventions. One key lesson emerging from this work is that development assistance projects should carefully account for local political realities. Reform interventions should be fitted to the relevant political economy just as they (obviously) need to take into account real economy characteristics. The focus is thus on adjusting interventions to local realities rather than trying simply to use external motivation or pressure to foster changes.

Another interesting perspective on the same question is provided by analysis of the perceptions of stakeholders directly involved in the technical assistance projects. One of the

findings from stakeholder surveys is that several respondents do see a direct and positive link between the lack of any political agenda in technical assistance projects and their success (Mogilevsky and Atamanov, 2008). The relatively good assessment of projects funded by the government of Switzerland, for example, was linked to the perceived lack of any explicit or hidden political agenda. While technical assistance projects have some specific features, as discussed by Mogilevsky and Atamanov (2008), which limits the possibilities for generalization of these results, it still signals another aspect of external actions theoretically aimed at reform promotion, i.e. political motivations and constraints from the side offering assistance.

Overall, it is fair to conclude that the evidence that foreign aid has provided good incentives to adopt good policy is mixed at best.

Given their specific features, IMF programmes can be analysed separately from development assistance. Also in this case there is no clear consensus as to the effectiveness of conditionality present e.g. in the IMF programmes on improved policy outcomes. The relatively optimistic view of Ghosh et al. (2005) contrasts with negative assessments from Barro and Lee (2005) and Easterly (2006). Alesina et al. (2006) find at best weak effects of IMF programmes on macroeconomic stabilizations (fiscal adjustments or anti-inflationary measures). Similarly, conclusions on the effectiveness of conditionality related to the WTO accession process vary. Rose (2004) considers WTO commitments to be irrelevant in fostering trade. Tang and Wei (2008) conclude that WTO/GATT accessions between 1990 and 2001 had a significant, albeit transitory, effect on growth in acceding countries that were subject to rigorous accession procedures.

Views on the effects of the EU accession process in supporting wide-ranging reforms are more upbeat (see Schweickert et al., (2008) and references therein). Dąbrowski and Radziwiłł (2007) conclude that the EU, through the Eastern enlargement process, acted as the very effective mechanism supporting reforms. In particular, the consolidation phase of democratization, institution building and structural transformation was successful in countries reforming under EU accession conditionality. The authors share the negative assessment of the effectiveness of IMF-type conditionality in this context. They also argue that EU-related trade liberalization had stronger effects than WTO-related trade measures and that policies aimed at macroeconomic stability also tended to be more effective in the environment of EU integration than under IMF programs. Dąbrowski and Radziwiłł (2007) propose an explanation of the much stronger effects of EU accession conditionality relative to IMF-type

programs, indicating the strength of the incentives, broader scope of and stronger public support for conditions and a better monitoring framework (Table 1).

**Table 1. Comparing EU and IMF conditionality**

EU accession criteria	IMF program conditionality
Incentives	
<ul style="list-style-type: none"> <li>• strong carrot / stick mechanism (EU membership / exclusion)</li> <li>• important to public at large</li> </ul>	<ul style="list-style-type: none"> <li>• weak carrot / stick mechanism (loan disbursement/ non-disbursement)</li> <li>• irrelevant to broader public</li> </ul>
Conditions	
<ul style="list-style-type: none"> <li>• broadly defined (democracy, free market, European law)</li> <li>• strong public understanding and support</li> </ul>	<ul style="list-style-type: none"> <li>• narrowly defined (abstract macroeconomic, technical or specific structural benchmarks)</li> <li>• scant public understanding and support, opposing interest groups</li> </ul>
Monitoring	
<ul style="list-style-type: none"> <li>• high credibility of enforcement (strong interest in keeping non-performers outside the EU)</li> <li>• requirement of full compliance preventing virtual reforms and policy reversals</li> <li>• long-term horizon ('it will take as much time as needed')</li> </ul>	<ul style="list-style-type: none"> <li>• low credibility of enforcement (IMF staff interested in loan disbursements)</li> <li>• frequent non-implementation: waivers, new programs following program failures (allowing virtual reforms and policy reversals)</li> <li>• short-term horizon</li> </ul>

Source: based on Dąbrowski and Radziwiłł (2007), p. 22.

The widely perceived attractiveness of and thus strong public support for the ultimate objective, i.e. EU membership, is particularly important. The IMF (2003) suggest yet another mechanism reinforcing this mechanism. Competition among EU candidate countries and ease of comparisons with direct neighbours acted as an additional stimulus for reforms. An example is provided by experiences of Latvia and Lithuania after these countries were not included in the group of the first six countries that commenced EU accession negotiations in 1997, while their Baltic neighbour Estonia was included. A similar argument could be used with respect to Slovakia, which following a period of populist policies until 1998 and subsequently managed to catch up with and surpass most of its Central and Eastern European neighbours as far as economic reforms were concerned<sup>2</sup>.

The IMF (2003) also points to the fact that EU accession negotiations provided detailed blueprints for reforms, effectively limiting the scope for bargaining by interest groups. Candidate countries simply had to deal with specific obligations related to trade policy (the common external tariff and other requirements for the customs union), full opening of the capital account and minimum standards associated with the European Social Charter.

<sup>2</sup> In 1998, the average of EBRD transition indicators for Slovakia stood at 2.74, compared to an average of 3.08 for the 8 Central and East European countries that are members of the EU as of 2008. By 2005, Slovakia had converged with the new EU member states' average and moved slightly above it in the subsequent years.

An important point is that in order for such a mechanism to work, the institutional / policy blueprints have to reasonably correspond to development level, political, social and cultural models and the experiences of any particular country. The new EU member countries (that joined in 2004 and 2007), despite some obvious differences with western European countries (notably the communist experiences of the post-WWII period) have indeed been in many respects similar to other EU member states, e.g. with regard to economic and social developments before WWII, prevailing social norms, etc. Such proximity (in a broad sense) was arguably an important element in the reform process and indeed was a precondition for EU membership to be a widely popular objective shared by a large majority of the populations and political elites. Besides, this increased the chances that the EU policy blueprint was actually the right choice to follow in these countries and in the period when it was applied. This may not always be the case and indeed there are examples where external policy advice underpinned by conditionality mechanisms might have locked in sub-optimal policy choices (Antczak et al, 2003).

Political economy models of reform vary depending on the characteristics of the concerned markets, policy changes and interest groups. This also applies to external influences. Boeri (2005) evaluates European structural reforms in labour and product markets over the past two decades. He concludes that reforms in labour markets are occurring at higher frequencies than in product markets, while product market reforms are found to be more coherent. Boeri proposes an explanation for these patterns in differences in the character of political obstacles to reforms in the two domains. In the labour market it is easier to exploit institutional trade-offs and follow a strategy concentrating regulatory changes on new entrants who are less likely to oppose them. This marginal reform strategy is infeasible in product markets. However, in product markets it is easier to shift responsibilities to supranational authorities, resisting the pressures of national lobbies (by being able to blame someone else).

From the perspective of this paper, it is crucial to understand the limits of an external anchor as catalysts for economic transition. A mechanism similar to the one that materialized during the EU accession process required a certain minimum level of governance built on cultural belief systems, ethical norms and conventions, etc. (Ahrens, 2006; Wagener, 2004). Secondly, the EU membership objective had genuine public support in the candidate countries, which allowed the governments to implement a difficult reform agenda. Whether such wide support can be mobilized by the ENP offer is an open question and hence the next

section seeks to describe the ENP. The issue of norms, values and social conventions is tackled in section 4.

### **3. The ENP as part of the EU's strategy towards the CIS**

The European Neighbourhood Policy (ENP) is a relatively new framework for bilateral cooperation between the EU and its Southern and Eastern neighbours. The idea was first formulated in 2002. The Commission's Communication on Wider Europe in March 2003 outlined some more details and in May 2004 concrete proposals were formulated in the Strategy Paper on the European Neighbourhood Policy<sup>3</sup>. The ENP covers countries in the EU Eastern and Southern neighbourhood that currently have no EU accession prospects: Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, the Palestinian Authority, Syria, Tunisia and Ukraine. While Russia fulfils the geographic criterion for being covered by the ENP, its strong opposition to becoming part of the ENP resulted in an alternative cooperation framework – the Strategic Partnership, which covers four “common spaces” (Light, 2007 and Menkiszak et al., 2008 provide more details).

The ENP has been developed and changed reflecting the early experiences of both the EU and partner countries. The Commission made proposals as to how the policy could be further strengthened in December 2006 and December 2007.

In practical terms the ENP is mainly implemented bilaterally between the EU and respective partner countries on the basis of jointly agreed Action Plans. Among the CIS countries, Moldova and Ukraine agreed their Action Plans in 2005, Armenia, Azerbaijan and Georgia followed in 2006, while so far there has been no Action Plan with Belarus.

While the ENP is a well defined policy in itself, for analytical purposes it may actually be justified to treat the ENP as a part of the overall EU's strategy towards the CIS region (or rather certain sub-regions). There are several reasons why such an approach is more reasonable (and is adopted in this paper).

Firstly, the ENP has not been created in a vacuum and has in fact been built upon already existing sets of relations with CIS countries (see Light, 2007, for a historical account). This

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<sup>3</sup> The list of reference documents of the ENP is available at [http://ec.europa.eu/world/enp/documents\\_en.htm](http://ec.europa.eu/world/enp/documents_en.htm).

can be best illustrated by the cases of Belarus, Libya and Syria, where the ENP has not yet been activated due to the lack of a basis provided by Partnership and Cooperation Agreements or Association Agreements (i.e. instruments used in relations with CIS and Southern Mediterranean countries since the 1990s). Secondly, while the ENP covers only part of the CIS region, the differences and similarities in actual EU policies towards individual countries are better explained by factors such as the distance from EU borders and internal political situations rather than by their ENP membership. Delcour (2007) convincingly illustrates this point in relations to Russia and Ukraine.

The ENP is a broad concept and at the operational level it includes a range of instruments, such as formal or informal bilateral agreements (e.g. Action Plans) and ENPI financing. In addition, several instruments that are not specific to the ENP itself can be, and indeed are, used to facilitate the ENP: visa and migration policy, sectoral agreements and the Stability Instrument.

Relations between the EU and CIS countries are, to a large extent, shaped by policy continuity and routine with incorporated elements previously applied in the EU enlargement process (Delcour, 2007).

The EU objective of ensuring that the ENP sets proper incentives for economic reforms is evident. The European Commission's 2006 non-paper "ENP – A Path Towards Further Economic Integration" contains the following passage: *"The economic integration of ENP partner countries with the European Union is not only an incentive and reward for economic and regulatory reform in our neighbouring countries; in a globalised economy, it is also of **interest to the EU** to build a common EU-ENP area of economic integration where the same or similar regulatory standards apply. Yet the challenge with regard to most ENP partners is how to engage them to pursue their ongoing reform processes and to lock in the results."*<sup>4</sup>

The key question is whether the ENP offer to the countries involved has a chance of being sufficiently attractive. In economic terms, participating countries are promised a chance of obtaining "a stake in the Internal Market". This is a potentially meaningful concept as it implies that ENP countries can gradually strengthen their economic integration with the EU and benefit from selected elements of the Internal Market. The full participation in the Internal Market (as in the case of the European Economic Area, involving Norway, Iceland and Lichtenstein) or EU membership, while not explicitly excluded, appear to be a very distant

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<sup>4</sup> The document is available at [http://ec.europa.eu/world/enp/pdf/non-paper\\_economic-integration\\_en.pdf](http://ec.europa.eu/world/enp/pdf/non-paper_economic-integration_en.pdf).

prospect, at best. The emerging vision of the gradual and partial integration with the EU foresees the following steps<sup>5</sup>:

1. implementation of the ENP Action Plans (and possibly new documents replacing them, once they expire, i.e. during 2009-2010 in most cases)
2. agreement and implementation of deep and comprehensive Free Trade Agreements (FTAs)
3. increasing intra-regional trade between ENP partners, depending on their willingness to integrate further
4. agreement among EU Member States and ENP partners to work towards building an integration bloc that is referred to as the Neighbourhood Economic Community (NEC) and that would in practical terms be a somewhat limited version of the European Economic Area

Experience with implementation of Action Plans to date suggests that each of the above steps is likely to take several years, assuming strong reform commitment on the side of the ENP countries. The process is gradual, with few spectacular milestones that can be easily observed by the general public that can serve as an indication of policy success. In the case of the EU accession process during the 1990s and early 2000s, the signing of the Europe Agreements or Association Agreements, the start of the accession negotiations and finally EU enlargement provided such benchmarks. This feature of the ENP weakens its reform anchoring potential. On the other hand, the economic content of the EU offer is very significant. Hence, it may turn out that ENP attractiveness and its reform anchoring potential will depend on the ability of stakeholders to understand the potential benefits and on the information / presentation strategy to reach the general public.

Going beyond the ENP, the following points are important for understanding EU relations with other CIS partners. Belarus's inclusion in the ENP hinges on the country taking some more convincing steps towards democratization, respect for human rights and the rule of law, as defined by the European Commission's document "What the EU could bring to Belarus", released in 2006<sup>6</sup>. This case, therefore, can be to some extent treated as a test for the attractiveness as the ENP per se as the EU conditional offer to Belarus consists of re-engaging in the ENP framework.

EU relations with Russia are driven mainly by the economic and political interests of both sides and the EU does not have much leverage (or indeed willingness) in persuading Russia

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<sup>5</sup> A vision of four such steps is presented e.g. in the 2006 non-paper "ENP – A Path Towards Further Economic Integration", available at [http://ec.europa.eu/world/enp/pdf/non-paper\\_economic-integration\\_en.pdf](http://ec.europa.eu/world/enp/pdf/non-paper_economic-integration_en.pdf).

<sup>6</sup> The documents is available at [http://ec.europa.eu/external\\_relations/belarus/intro/non\\_paper\\_1106.pdf](http://ec.europa.eu/external_relations/belarus/intro/non_paper_1106.pdf).

to implement particular reforms. On the other hand, the practical realities of economic cooperation create incentives on the Russian side for some regulatory convergence with EU standards.

Relations with Central Asian countries have since 2008 been carried out under the new heading of the “Strategy for a New Partnership”. Given their distance from the EU and historical developments, the EU is not among the key external players in Central Asian countries. Still, its role in supporting certain reforms in Central Asia is probably greater than is visible at first sight (Gortat, 2007).

## **4. Forces shaping EU-CIS relations and the EU’s Eastern policy**

The relative effectiveness of external pressures on reform processes depends crucially on the underlying social, economic and political realities and the configuration of interests and powers of the key stakeholders. This section discusses the situation in this respect, first in the CIS countries and then on the EU side.

### ***4.1 The situation in the CIS countries***

Different stakeholders in CIS countries (ruling elites, other political forces, business community and population at large) differ in respect to knowledge about, interest in and attitudes towards the EU and its policies towards the CIS region or specific countries. This affects the process of shaping bilateral relations between the EU and respective CIS countries and also the potential role of the ENP as a reform-promoting mechanism.

Assessing practical knowledge of the EU and its modes of operations among the ruling elites and administrations of CIS countries is not easy. An indirect indication of problems in this sphere can be drawn from the generally low quality of governance in the CIS countries (see e.g. Kaufmann, Kraay and Mastruzzi, 2008), signalling, inter alia, limited capacity among governing circles. The size of the countries also matters here and e.g. Russia clearly has a much stronger capacity and expertise in European issues than most other countries<sup>7</sup>. The often prevailing passive approach of some CIS governments to dialogue with the EU, where

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<sup>7</sup> Light (2007) shows examples of Russian initiatives vis-à-vis the EU and suggests that one factor strengthening the Russian position relative to other CIS countries is that it “inherited” the Soviet Union’s relations with the EU, including a large part of its diplomatic personnel and infrastructure.



the CIS side confines itself to responding to EU initiatives but not coming up with its own proposals, may also suggest limited know-how as to effective mechanisms for approaching the EU (Menkiszak et al, 2008).

On the business side, it appears that only the largest companies involved in trade and investment in the EU have the capacity to monitor relevant developments and lobby for favourable solutions. Another complication is that the mechanisms of transparent and effective stakeholder consultation are not developed in CIS countries. As a result, CIS businesses may have limited opportunities to learn about likely outcomes of any planned decisions or agreements (e.g. negotiations on free trade agreements with the EU) and articulate their interests (Shumylo, 2006). At the same time, some business lobbies in CIS countries are very powerful and able to affect domestic policies, including areas that are critical from the perspective of relations with the EU. Kolesnichenko (2007) and Schweickert et al. (2008) provide examples of the pressure exerted by the metallurgical lobby and other major business groups in Ukraine's WTO negotiation process and EU-related matters. The net effect of such non-transparent lobbying schemes on a country's relations with the EU may be difficult to assess and may vary between countries and from one period to another. Given the interest in obtaining access to EU markets, sectoral lobbies may support part of the integration agenda, while at the same time may seriously hamper other elements of their government's reforms to preserve their domestic market position.

As far as general populations are concerned, assessing their knowledge of EU matters and understanding of the actual consequences of alternative policy choices made by their countries is a difficult undertaking. Limited availability of relevant data hampers the analysis. The dataset provided by White et al. (2007) includes results from surveys in Russia, Belarus and Ukraine, asking questions on the nature of the EU. In 2004, only some 40% of respondents (in Russia and Ukraine) and slightly below 50% (in Belarus) believed the EU was a political and economic association of European countries. Substantial groups were of the view that the EU was an association of Western European countries and Russia, others thought of it as a military block or a European section of the United Nations. Around 30% of respondents in all countries was unable to choose between the answers provided. Interpretation of these data is, however, complicated by lack of appropriate benchmarks. In particular it is not obvious which aspects of knowledge about the EU are most important. Such difficulties in studying knowledge about the EU among its citizens are discussed by Sinnott (1997)<sup>8</sup>. His conclusions, based on scant Eurobarometer data, suggest that, by any

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<sup>8</sup> The underlying data largely pertained to the EU of 12 countries, i.e. pre-1995 enlargement.

standards, the level of European knowledge is low among EU citizens. It is clear that people outside the EU have many reasons to be less interested and less aware of specific features of the Union's functioning and the degree of understanding of what the EU is appears to be low in CIS countries. One important lesson related to this follows from the work of Konieczna (2006). Her survey (carried out in Ukraine) confirmed that the higher the chances of travel to EU countries (proxied by possession of a passport) were associated with a better understanding of the EU.

The European attitudes of CIS citizens and other stakeholders may appear to be easier to analyse than the level of general European knowledge<sup>9</sup>. However, existing surveys typically ask respondents about support for EU membership in their own countries. One problem with this question is that it refers to a scenario that is at best very distant, although given the limited knowledge about the EU it is not clear if respondents are aware of this. Thus, the results may signal feelings about the idea of integration with the EU or the EU itself but are rather detached from the realities that would accompany an actual EU accession process (including the necessary reforms). The comparison of results between countries is made more difficult by different formulations of questions.

Table 2 traces the evolution of general feelings about potential membership of the EU by Belarus, Ukraine and Russia. In the first two countries, 50-60% of respondents declare at least some support for the idea of EU membership and this share is broadly stable over time. In Russia, the 2005 results were similar to the ones in the other two countries, but by 2008 the support has decreased. In all cases negative attitudes are expressed by a rather small share of respondents, while many find it difficult to answer or decline to answer.

**Table 2. Degree of support for eventual EU membership in selected CIS countries, 2000-2007 (% of respondents in a representative survey)**

	Belarus				Ukraine				Russia	
	2000	2004	2006	2008	2000	2004	2006	2007	2005	2008
Strongly support	23	26	17	23	23	20	17	18	19	13
Somewhat support	32	34	30	34	34	35	30	36	37	20
Somewhat oppose	11	8	18	7	7	11	18	15	12	8
Strongly oppose	5	3	8	4	4	6	17	8	7	4
Difficult to say / no answer	29	29	27	32	32	28	19	24	25	56

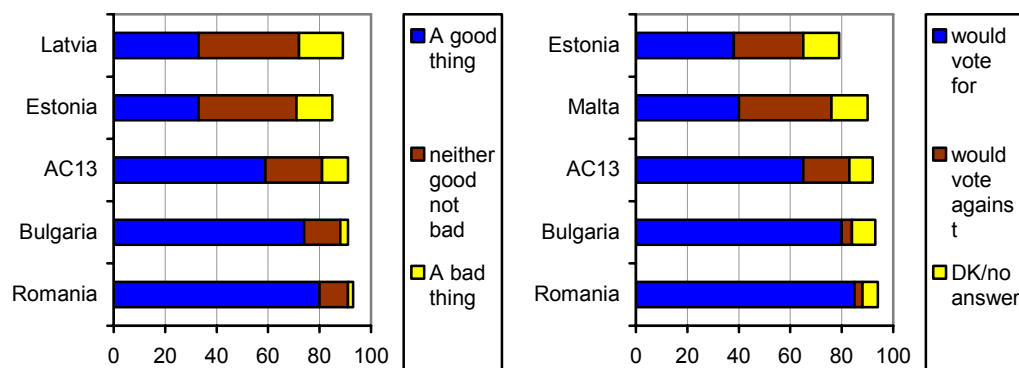
Note: Respondents were asked the question: "How would you feel if our country joined the EU?".  
Source: White and McAllister (2008).

<sup>9</sup> The following paragraphs partly draw from Konieczna (2008).

In some CIS countries surveys asking a direct question on voting in a hypothetical referendum have been held. In Moldova, biannual surveys by the Institute for Public Policy show sustained support for EU membership fluctuating in the 60-70% range most of the time since 2003 (IPP, 2008). In Ukraine, surveys by the Democratic Initiatives Foundation indicate that among respondents declaring participation in a referendum on EU accession support for membership fluctuated between 47% in 2005, 64% in 2007 and 56% in 2008 (Democratic Initiatives Foundation, 2008).

Attitudes to EU accession and especially responses to answers on voting in a hypothetical accession referendum require careful interpretation. A comparison with survey results in EU candidate countries carried a few years before their accession may provide an interesting point for comparison, although at the time of asking the membership of then-candidate countries could have already been perceived as a realistic option for respondents. The Eurobarometer (2002) survey from October 2001 covered 12 countries that joined the EU in 2004 and 2007 and Turkey (Figure 1).

**Figure 1. Support for EU membership in EU accession countries, 2001 (% of respondents in a representative survey)**



Note: The left panel shows responses to the question: "Generally speaking, do you think that (COUNTRY)'s membership of the European Union would be ...?". The right panel shows responses to the question: "And, if there were to be a referendum tomorrow on the question of (country)'s membership of the European Union, would you personally vote for or against it?". In both cases the average for 13 countries is shown (AC13) as well as two countries with the strongest and two with the weakest support for EU membership.

Source: Calculations based on Eurobarometer (2002) data.

Yet another way of analysing the European attitudes would be to see to what extent people acknowledge feeling "European" as individuals. White and McAllister (2008) report the results of comparable surveys in Belarus, Ukraine and Russia over the 2000-2008 period containing the question "Do you think of yourself as a European?" Overall, Belarus emerges as the most European country by this measure, with around 40% of respondents declaring at least partial European identity. In Russia and Ukraine below 30% of respondents declare

this. Over time, one can observe some decline in the popularity of European self-identity, especially in Russia and Belarus, where back in 2000 the majority of respondents reported at least partial European self-identity. A comparison with self-declared identities in the EU and EU candidate countries confirms a large gap in this respect (see discussion in White and McAllister, 2008 and data reported e.g. in Eurobarometer, 2002). This conclusion is underpinned by results from the World Values Survey, where in response to the question “Which of the following best describes you” the answer “European” was selected far more often in EU member states and in candidate countries than in CIS countries covered by the survey (Armenia, Belarus, Georgia, Moldova, Russia and Ukraine) (E&WVS, 2006).

This brief review of not fully comparable pieces of information leads to the following observation. The level of support for the idea of EU membership is broadly stable in the European CIS countries for which data are available. This level is only slightly lower from the percentage of positive declarations of citizens of EU candidate countries back in the early 2000s. However, the degree of European self-identification (the “feeling European” of individuals) in the European CIS countries is very low, well behind levels observed in the EU and candidate countries. This implies that the societies of several CIS countries are potentially not less interested in hypothetical EU membership than the current new members were at the early stage of their integration processes. On the other hand, this potential interest may have somewhat weak backing in deeper feelings related to self-identity.

Pro-European feelings and opinions are certainly at least partly endogenous, being influenced by the actual and perceived EU actions. EU policies can thus either boost or dent pro-European sympathies. Turkey is often cited as a country where the EU’s rather tight and incoherent stance in the integration process (including publicly declared opposition to Turkey’s membership by some EU leaders) has led to a decline in support for European integration within Turkey. Indeed, Eurobarometer (2009) data indicate a gradual decline of the share of Turkish respondents stating that membership would be a “good thing”, from just over 70% in early 2004 to below 50% in early 2008 and only 42% in late-2008. In the context of relations with CIS a relevant issue is ease of travel to the EU for the citizens of CIS countries. As discussed by Trauner and Kruse (2008), the EU side admitted that lengthy and costly visa procedures “[are] a highly ‘visible’ disincentive to partner countries, and an obstacle to many of the ENP’s underlying objectives”<sup>10</sup>. While this has led to a policy change and implementation of visa facilitation agreements with Russia, Ukraine and Moldova, Trauner and Kruse (2008) argue that these agreements fall short of sufficiently compensating

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<sup>10</sup> See Communication from the Commission to the Council and the European Parliament on Strengthening the European Neighbourhood Policy, Brussels, 4 December 2006, COM(2006)726 final.

the citizens of these countries for an increase in barriers to travel brought about by the 2007/2008 Schengen Area enlargement.

Political forces in CIS countries vary considerably in their attitudes to the EU, although usually relations with the EU are not among the key issues of internal political debate. Menkiszak et al. (2008) provide a detailed review of the heterogeneity of CIS countries' interest and attitudes towards the EU, i.e. the positions presented by the ruling parties. One observation is that several CIS governments have been trying to play the 'EU relations' card for internal political reasons or as an argument in relations with more important foreign partners (notably Russia). Such an approach implies the lack of a coherent long-term European strategy that could be effectively implemented.

While the ENP is a bilateral policy instrument where CIS countries are able to shape their relations with the EU, the degree of co-operation or conflict between CIS countries matters in terms of the quality of their dialogue with the EU. This is because of the similarity of problems faced by CIS partners, the large role of economic and political co-operation between CIS countries and the importance of fields of relations where more than one CIS partner is essential. The Russian-Ukrainian row over gas supplies in January 2009 (and earlier similar cases) illustrates the point and this can be expected to make EU relations more difficult with both Ukraine and Russia. A detailed analysis of intra-CIS relations is beyond the scope of this analysis. Clearly, however, there are serious tensions between several countries and intra-regional integration initiatives (including the CIS itself) have remained mainly at the declaratory stage without providing any effective platform for solving problems that arise (Konończuk, 2007).

Russia plays very important roles and is thus a key partner for the countries covered by the ENP and CIS countries in general. Surveys of public opinion confirm that Russia is perceived as the potentially most important strategic partner. This is not surprising in the case of Central Asian countries. For example, in Kyrgyzstan, around 90% of respondents indicate Russia as the country that should be given priority in international relations (IRI, 2007). However, even in countries that foster an EU integration agenda and where this orientation is popular among the general public, Russia is indicated as a strategic partner. For example, when responding to the question "Which country should be the major strategic partner of the Republic of Moldova, in your opinion?" 50% of Moldovans point to Russia, while the EU was indicated by only around 20% of respondents (IPP, 2008)<sup>11</sup>. In Belarus, responding to the

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<sup>11</sup> Survey carried in September-October 2008 representative for Moldova (excluding Transnistria). Results from earlier surveys are similar.

question on which countries Belarus should have particularly close relations with, 65% of respondents indicated Russia, while the EU and CIS countries as a group were indicated by respectively 45% and 40%<sup>12</sup>.

This special position of Russia makes it an alternative to the EU (and most often a stronger) pole of attraction in the strategic foreign policy choices of CIS countries. The importance and attractiveness of Russia does not necessarily imply that “Western” (EU) and “Eastern” (Russia) policy orientations are perceived as mutually exclusive. Almost one quarter of the Moldovan population believe that Russia is the country that can help the most in Moldova’s integration with the EU<sup>13</sup>. In Ukraine, a significant share of the population (in the range of one quarter to one third during 2001-2007) can be described as proponents of a “multivector” orientation in foreign policy, which can be defined e.g. by simultaneously supporting EU membership and joining the Union of Belarus and Russia (White and Mc Allister, 2008; Konieczna, 2006).

The low quality of democratic processes in most CIS countries has a negative impact on their ability to actively shape the ENP and, more generally, their relations with the EU. Lack of at least a minimal level of cooperation between ruling parties and the opposition hinders European integration strategies even in countries where there is broad support for this objective (such as Georgia and Moldova for example – see Menkiszak et al, 2008).

## **4.2 The situation in EU countries**

Among the factors shaping the EU’s offer towards the ENP and other CIS countries, the heterogeneity of EU member states’ interests towards the region and towards particular CIS countries plays a very important role. Dura (2008) outlines and analyses this complicated picture. He claims that the overarching interest is of an economic nature, related to energy imports from the region and market access. Security and immigration issues also rank high on the list, whereas EU countries are less concerned with democratization trends in the CIS. Cultural closeness and a common history still play a large part in the development of bilateral relations<sup>14</sup>. There are also complex interrelations where, for example, the type of bilateral relations of a given EU member country with one CIS sub-region also affects its relations

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<sup>12</sup> IISEPS, Geopolitical coordinates of Belarus. The figures cited in the text refer to the survey carried out in December 2008. In comparison to a survey from May 2007 a number of respondents choosing Russia increased slightly. More than one answer was possible in this question.

<sup>13</sup> IPP (2008). Respondents were asked the question: “Which of the following states could help the Republic of Moldova most in the process of accession to the EU, in your opinion?” Romania was indicated by 41% of respondents, Russia by 24% and no other country got more than 4%.

<sup>14</sup> For a case study on the effects of common language and history on political relations see Korkut (2008).

with Russia. There is little convergence of positions and actually pursued policies taken by individual EU member states.

The internal institutional problems of the EU, including deadlock on the new Treaty adoption, are also a factor affecting the ENP's development. This is combined with 'enlargement fatigue' present in several EU member states. Following the largest enlargement wave in the Union's history (2004-2007), the EU is still learning how to cooperate efficiently and how to jointly work out solutions to the new challenges. The economic crisis, that started to seriously affect the EU economies since 2008, may also result in shifts in policy priorities to the detriment of the ENP, especially if adverse economic conditions continue for a longer period and if protectionist policy responses become more popular among EU countries.

EU public opinion varies with regard to knowledge about and interest in the region covered by the ENP and opinions on relations with these countries<sup>15</sup>. Firstly, most CIS countries covered by the ENP are perceived as "neighbours" by a large share of EU citizens (Eurobarometer, 2006). Ukraine (57%), Russia (55%) and Belarus (49%) were indicated most often, but also other CIS countries were mentioned more frequently than several Southern Mediterranean countries: Moldova (37%), Georgia (29%), Armenia (23%), Kazakhstan (16%) compared to Morocco (28%), Tunisia (24%) and Algeria (20%)<sup>16</sup>. These perceptions are mainly driven by geographical proximity, with citizens of EU member states bordering particular non-EU countries perceiving these as "EU neighbours" far more often than citizens of more distant EU member states.

As regards EU citizens' interest in developments in the EU neighbourhood, as the same 2007 survey (Eurobarometer, 2007) shows, a slight majority indicated little or no interest (54%), while 44% said they were interested. Interpretation of whether this indicates much or little interest is difficult. One interesting observation is that, on average, citizens of more affluent EU member states tend to declare a stronger interest in the EU neighbourhood than citizens of less developed member states.

EU relations with neighbouring countries are perceived as "good" by a large majority (67%) of EU citizens. A large majority of respondents is also convinced that it is important for the EU to develop specific relations with neighbouring countries in areas such as fighting

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<sup>15</sup> The following paragraphs partly draw from Konieczna (2008).

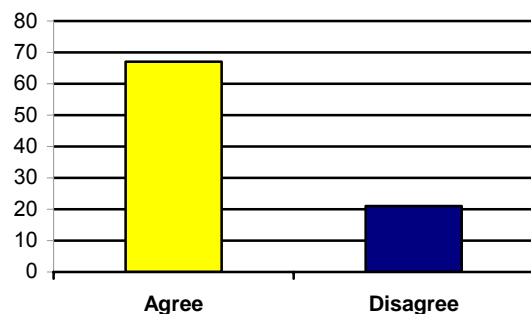
<sup>16</sup> The question did not seek an opinion on Azerbaijan.

organized crime and terrorism, the environment and energy, economic development, democracy, education and training and immigration<sup>17</sup>.

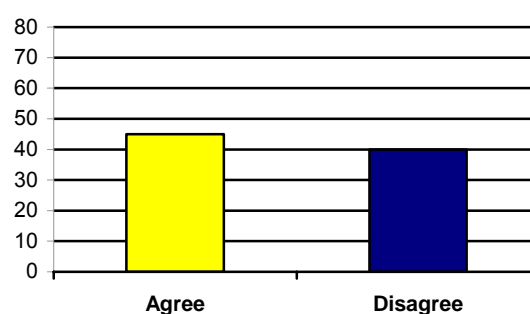
The Eurobarometer survey (2007) contains several direct questions exploring the opinions on the reform-promoting objectives of the ENP. One in two EU citizens believes that neighbouring countries are willing to cooperate with the EU in order to introduce reforms (49%), while 30% disagreed with this statement. There is a large heterogeneity of answers between EU member states, with citizens of the new EU member states revealing a much stronger belief as to the will to go ahead with reform cooperation on the side of EU neighbours than the EU average. There also seems to be quite a strong support for conditionality in the EU relations with neighbours. 63% of respondents agreed with a statement that “the EU should reduce its relations with the neighbouring countries that show no willingness to progress”, and only 25% disagreed.

**Figure 2. Perceived gains and risks related to EU engagement with its neighbours. Responses to questions: “Please tell me if you agree or disagree with the following statements concerning European Union neighbouring countries shown on this map.”**

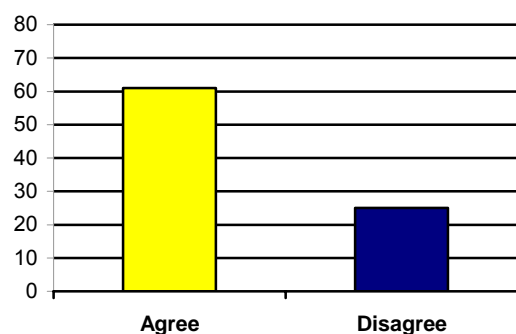
A. Helping those countries will reduce the risk of war and conflicts in Europe



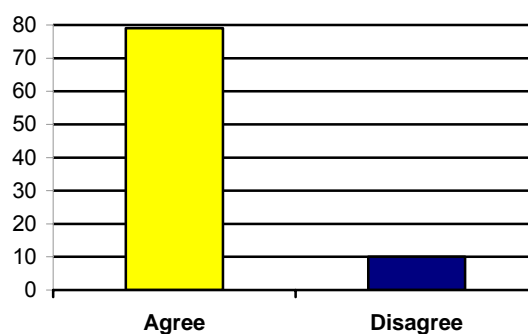
B. Promoting reforms in those countries could endanger our own peace and stability



C. Helping those countries to prosper will ensure EU's prosperity



D. Helping those countries will be very expensive to the EU



Note: The map presented to respondents showed all countries covered by the ENP.

Source: Eurobarometer (2007a).

<sup>17</sup> With regard to each of these areas of cooperation, respondents were asked the question “Please tell me if you think it is very important, fairly important, not very important or not at all important that the European Union develop specific relationships with these countries with respect to...”. The combined share of answers “very important” and “fairly important” ranged from 89% in the case of fighting organised crime and terrorism to 77% in the case of immigration.



Figure 2 shows interesting results concerning the perceived gains and risks related to EU engagement with its neighbours. Substantial majority of EU citizens tends to believe that “helping” EU neighbouring countries would be ensuring also the EU’s prosperity and reduce the risk of conflicts in Europe. They also believe that this “help” is bound to be very costly in financial terms. At the same time when confronted with a question whether “promoting reforms could endanger our own peace and stability” the slight majority is actually willing to agree with this statement. This somewhat paradoxical results, most likely, from different popular connotation of the word “help” comparing to “promoting reforms” (the former being considered nicer than the latter). An alternative interpretation saying that EU citizens are indeed worried about the reform-promoting role of the ENP would appear at least partly inconsistent with quite a strong belief that neighbouring countries are willing to cooperate with the EU in order to introduce reforms (see above).

#### **4.3 Similarity of norms and values<sup>18</sup>**

As indicated above, some degree of similarity in major underlying values, belief systems, ethical norms and cultural conventions may be a precondition for effective co-operation between EU and CIS countries. In this section we provide some evidence with regard to convergence or divergence in this sphere.

Eurobarometer (2006, 2007) surveys confirm the existence of a fairly well defined set of values that are associated with the European Union. These are human rights, democracy and peace, possibly also the market economy. There is quite strong homogeneity among EU member states with regard to this opinion. When asked whether neighbouring countries (defined as countries covered by the ENP) share most of these so defined EU values a significant majority of EU citizens disagrees (57%) and only 30% believe that ENP countries share European values. On the other hand, interpretation of this result should take into account that EU citizens are also not particularly strongly convinced that EU members states are close to each other in terms of shared values. 48% of respondents agree with this statement, but 41% believe that EU countries are distant from each other on this score.

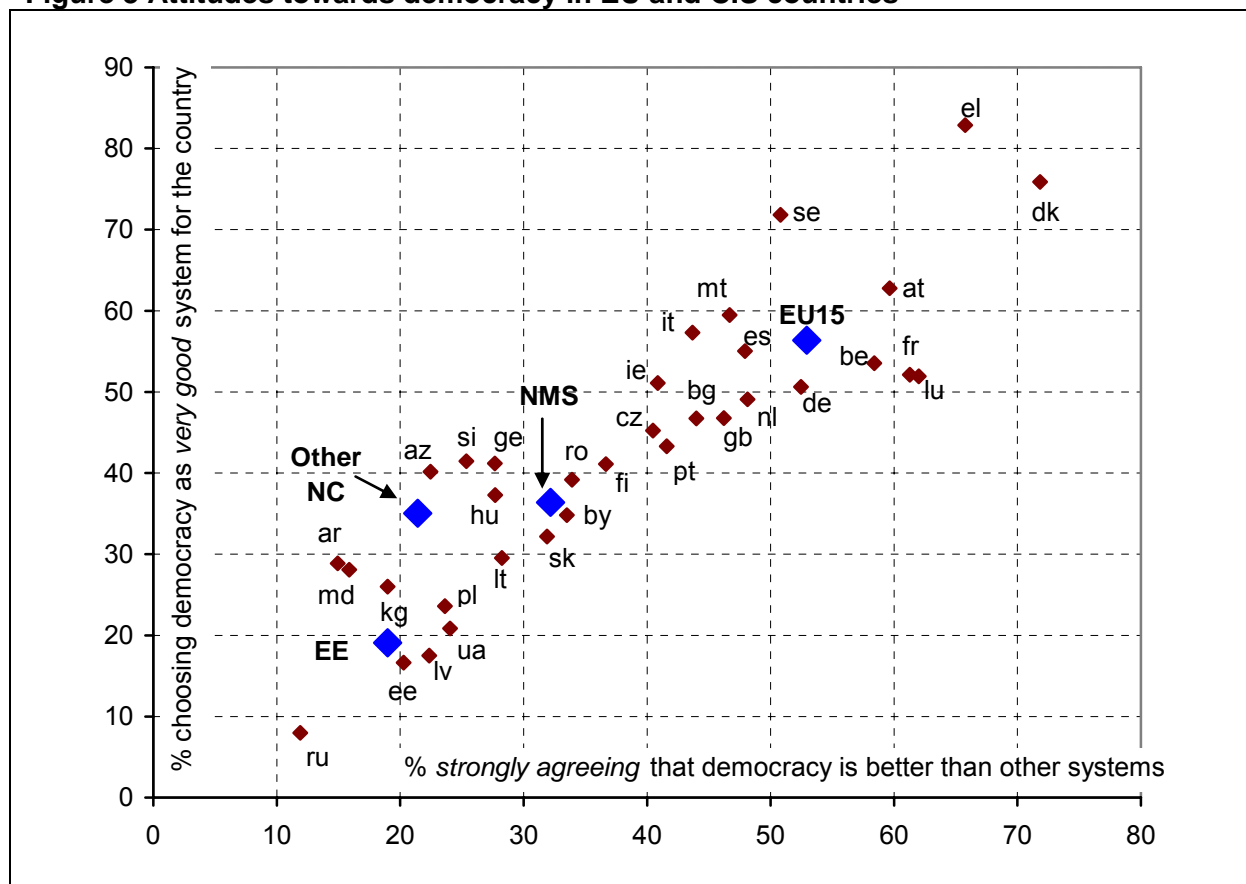
Several indications on attitudes towards democracy in the EU and CIS countries can be found in the results of World Values Survey (E&WVS, 2006). Figure 3 shows the heterogeneity of responses to questions on the relative merits of the democratic system and

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<sup>18</sup> This section is based on Konieczna (2008).

on the preferences as to which system would be best for respondents' own countries. This suggests that EU15 countries appear to be characterized by significantly stronger support for democracy (on both counts) than new EU member states and CIS countries. The difference between NMS and CIS countries is less pronounced. This observation can be supported also by other results from the same survey. Respondents in CIS countries are significantly more likely than EU citizens to believe that among the possible ways of governing the country, "army rule" or "a strong leader who does not have to bother with parliament and elections" could be good options. At the same time, "a democratic political system" is considered a good option by a large majority of respondents in all countries, albeit also here the level of support among respondents in CIS countries is somewhat lower than in the EU.

**Figure 3 Attitudes towards democracy in EU and CIS countries**



Notes: EU15 is the average for the 15 countries that formed the EU until 2003. NMS is the average for EU members that joined in 2004-2007. EE is the average for the four direct EU eastern neighbours: Belarus, Moldova, Russia and Ukraine. Other NC is the average for other CIS countries for which data was available: Armenia, Azerbaijan, Georgia and Kyrgyzstan.

The horizontal axis shows the percentage of respondents who strongly agree with the following statement: *democracy may have problems, but it is better than any other political system*.

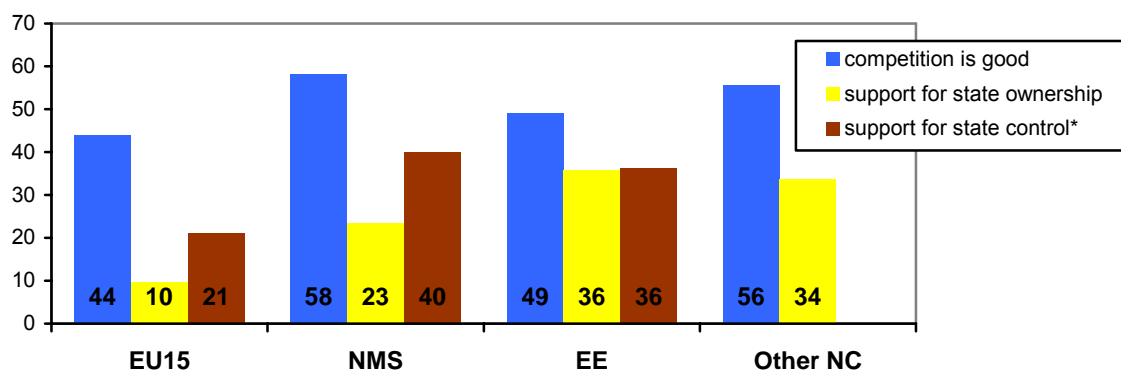
The vertical axis shows the percentages of respondents who believe that the *democratic political system is very good for their country* (other possible answers were: fairly good, fairly bad or very bad).

Source: World Values Survey 1999-2004.

Attitudes towards the market economy are typically analyzed based on surveys asking questions regarding some aspects of the free market, such as competition, the state and private ownership in business, etc. The advantage of such an indirect approach is that the term “market economy” itself can be differently understood by respondents with different historical and cultural backgrounds.

Figure 4 summarizes the findings on approaches to the market economy. Support for economic competition turns out to be quite similar across the studied regions at around 50%. The differences between regions (with EU15 respondents being least supportive) are not statistically significant. The studied regions, however, differ in attitudes towards the role of government in the economy. In the CIS countries there is far more support for a state ownership and control role than in the EU. As far as the state’s controlling role is concerned, the actual boundary appears to be between the EU15 on the one side and NMS and direct EU eastern neighbours on the other.

**Figure 4. Support for competition, state ownership in business and state control over firms**



Note: \*) the question regarding support for state control over business was not asked in Armenia, Azerbaijan, Georgia and Kyrgyzstan. In each case respondents were asked to make a choice on a scale from 1 to 10 with the extreme values identified with opposite opinions: e.g. 1 “competition is good” and 10 “competition is harmful”; 1 “Private ownership of business should be increased” and 10 “Government ownership of business should be increased”; 1 “State should give more freedom to firms” and 10 “State should control firms more effectively”.

Source: World Values Survey 1999-2004.

## 5. Evidence on the ENP's impact

Identification of the ENP's impact on the policies and economic, social and institutional changes in the ENP countries is difficult. The major reason for this is that the ENP is a relatively new instrument, given that Action Plans with Ukraine and Moldova were agreed in 2004 (and officially adopted in February 2005), while Action Plans with Armenia, Azerbaijan, Georgia were agreed only in 2006. In terms of actual implementation of the ENP-related agenda, progress appears to be quite limited so far. A more intense political dialogue between the EU and ENP partners does not immediately translate into new economic and social realities. As regards initiatives with a concrete economic content one can mention mainly the autonomous trade preferences (ATP) granted to Moldova (since 2008), the EU-Ukraine negotiations on a free trade agreement (negotiations started in 2008), still rather distant prospects of FTA offers to Georgia, Armenia and Moldova (feasibility studies and ex-ante impact assessments for the first two countries were finalized in 2008 – CASE, 2008a, 2008b; the study for Moldova should be completed in 2009), and limited visa facilitation agreements with Russia (since mid-2007), Ukraine and Moldova (since 2008).

Secondly, the ENP works through a multiplicity of channels that are not always easy to identify. Thirdly, in the analyzed period, several other factors may have acted as external anchors motivating policy changes: relations with IFIs (IMF, World Bank, etc.), other bilateral donors (e.g. the US), the WTO accession process (in the case of Ukraine, which joined in 2008, and Azerbaijan, which by end-2008 was still in the process of bilateral negotiations), etc. Separating the reform anchoring impacts of ENP and these other processes is in practice extremely difficult.

The above limitations imply that a more robust ex-post impact analysis will only be possible after several years. The remainder of this section firstly briefly reviews the findings from selected country case studies and then illustrates the outcomes of some very simple comparative approaches to the question of ENP's effects to date. The results should be treated as only broadly indicative of possible trends.

One approach for identifying the ENP's effects or, more broadly, EU influence on domestic policy developments in CIS countries is through in-depth studies tracing particular incentives or advice offered by the EU and its effects in a given country.

Schweickert et al. (2008) focus on the experience of three countries covered by the ENP: Azerbaijan, Georgia and Ukraine. They conclude that reform progress (in both the economic and political spheres) in Ukraine and Georgia are mainly due to the domestic-driven motivation of the elites. The ENP's role is of a catalyst, but not a basic mechanism of the Europeanization process. The authors also point to the strikingly different effectiveness of the incentives provided by potential access to the EU market. The observation here is that only some CIS countries (primarily Ukraine and Moldova) have realistic chances in this sphere and thus that this channel of influence is only really working there.

Kolesnichenko (2007) identifies the role of business in promoting the reform agenda due to its (selective) interests in economic integration and access to the EU market (this point is also discussed by Schweickert et al., 2008). Rakova (2008) does not find evidence for EU influences on Belarusian economic policy. This is because of the official position of the authorities, which is at odds with the primary values and goals that the ENP is meant to promote. Still, the author believes that the ENP could provide a framework supporting reforms in the future, provided Belarus is first attracted or motivated to more seriously engage with the EU.

Gortat (2007) explores EU relations with Central Asia. She concludes that the impact of EU policy instruments on domestic policy and the scope of political and economic reforms in Central Asia vary across countries and areas. In the case of Turkmenistan and Uzbekistan, the EU's role is evaluated as insignificant. In other countries a set of influences can be traced, ranging from smooth political dialogue, through the establishment of new economic and social institutions, up to some impact on political reform and human rights observance. While the general public tends to know very little about the EU, considerations related to the EU and its policy in the region seem to constitute a significant part of political thinking of political, business and academic elites, especially in Kazakhstan and Kyrgyzstan. Overall, the EU's influence on developments in Central Asian countries is larger than the EU's visibility in the region.

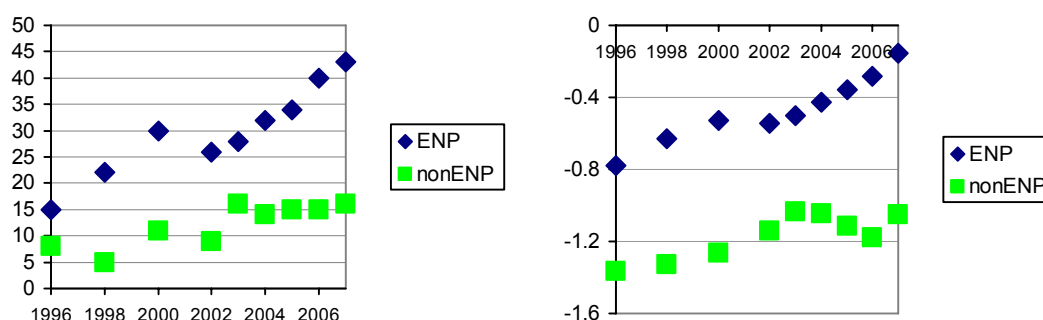
Identification of the possible effects of the ENP requires at the very least that the relevant control group is found. (While necessary this is clearly not a sufficient condition.) Two natural candidates are CIS economies that are not participating in the ENP and the past experience of those CIS countries currently participating in the ENP (from the period before the initiative was launched). Figure 5 compares the scores and percentile rankings of the two relevant subgroups of CIS counties with respect to the "regulatory quality" measure of Kaufmann, Kraay and Mastruzzi (2008). Two features of the graph are striking. Firstly, until 2003 or so

the dynamics of change in regulatory quality indicators were similar for the ENP and non-ENP groups of CIS countries. Since 2003 there has been a clear divergence with ENP countries continuing improving their positions relative to the global average, whereas non-ENP CIS countries have seen a stagnation of their rankings.

**Figure 5. Regulatory quality in CIS countries that are part of the ENP and CIS countries that remained outside the ENP, 1996-2007**

Panel A. Median percentile rank

Panel B. Average of point estimates



Notes: The ENP group contains the CIS countries for which Action Plans were agreed before September 2008: Armenia, Azerbaijan, Georgia, Moldova and Ukraine. The nonENP group is formed of the remaining CIS countries: Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Turkmenistan, and Uzbekistan. Panel A shows the evolution of median percentile ranks of countries belonging to the respective groups. Panel B plots the arithmetic average of point estimates for countries in respective groups. The scale for scores presented in Panel B ranges from approximately -2.5 to 2.5 with higher values corresponding to better governance.

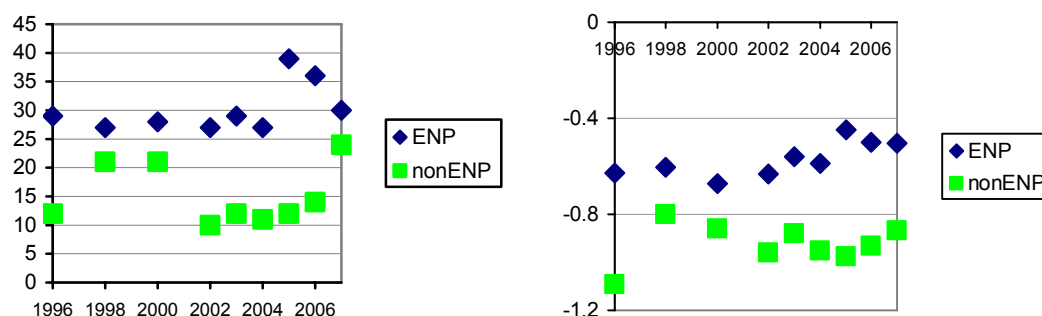
Source: Calculations based on Governance Matters dataset 2008, [www.govindicators.org](http://www.govindicators.org), Kaufmann, Kraay and Mastruzzi (2008).

Repeating the analogous exercise for the other potentially relevant sub-component of governance indicators (Kaufmann, Kraay and Mastruzzi, 2008), i.e. government effectiveness, gives a different picture (Figure 6). Here, apart from the data being more volatile, there seems to be no clear trend distinguishing ENP/non-ENP countries and the periods pre-2004 and 2004-2007. Between 2004 and 2007 the two groups witnessed an identical (and minor) improvement in government effectiveness scores.

**Figure 6. Government effectiveness in CIS countries that are part of the ENP and CIS countries that remained outside the ENP, 1996-2007**

Panel A. Median percentile rank

Panel B. Average of point estimates



Notes: For country groupings see note under Figure 5. Panel A gives the evolution of median percentile rank of countries belonging to respective groups. Panel B plots the arithmetic average of point estimates for countries in respective groups.

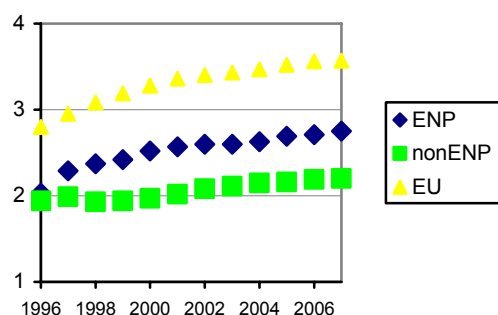
Source: Calculations based on Governance Matters dataset 2008, [www.govindicators.org](http://www.govindicators.org), Kaufmann, Kraay and Mastruzzi (2008).

An analogous exercise can be applied to the EBRD transition indicators dataset (EBRD, 2008). In comparison to the indicators of Kaufmann, Kraay and Mastruzzi (2008) discussed above, EBRD data are more focused on aspects of economic policy and the business environment<sup>19</sup>. Figure 7 summarizes the results that do not support the existence of any meaningful ENP effect as measured by the difference in differences approach. Comparing the transition indicators readings in 2008 (the most recent available) with 2003 or the average for 2002-2003 in the analyzed groups of countries reveals that ENP countries fared only minimally better (0.03-0.04) than non-ENP CIS countries (Table 3). This estimate corresponds to a one notch improvement on one of the EBRD indicators, i.e. on average, during 2002-2008 the gap between ENP and non-ENP CIS countries increased by one note in one dimension. Given the low magnitude of estimates and potential problems with the validity of assumptions underling the difference in differences approach, the results should be treated as inconclusive.

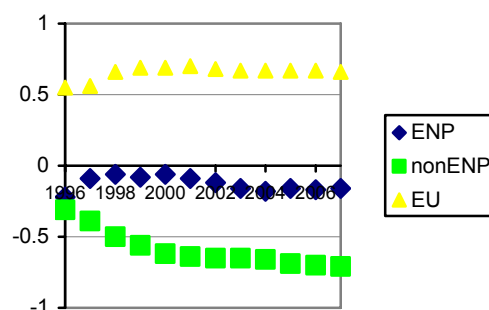
<sup>19</sup> Assessments are made in nine areas: large scale privatization, small scale privatization, governance and enterprise restructuring, price liberalization, trade and foreign exchange system, competition policy, banking reform and interest rate liberalization, securities markets and non-bank financial institutions, and infrastructure.

**Figure 7. Averages of EBRD transition indicators in CIS and new EU member states, 1996-2008**

Panel A. Average transition score



Panel B. Differences with the average for 29 transition economies



Notes: The ENP group contains the CIS countries for which Action Plans were agreed before September 2008: Armenia, Azerbaijan, Georgia, Moldova and Ukraine. The nonENP group is made up of the remaining CIS countries: Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, Turkmenistan, and Uzbekistan. The EU group consists of East European countries that joined the EU in 2004 and 2007. Panel A gives the evolution of the simple averages of EBRD transition indicators. The measurement scale for the indicators ranges from 1 to 4.33, where 1 represents little or no change from a rigid centrally planned economy and 4.33 represents the standards of an industrialized market economy. Panel B plots the difference between averages for respective groups and the average for all 29 countries for which the EBRD calculates indicators.

Source: Calculations based on EBRD (2008).

**Table 3. Application of EBRD transition indicators to difference in difference estimates for the effects of the ENP**

	2003	2008
ENP TI average relative to TI29	-0.16	-0.15
nonENP TI average relative to TI29	-0.65	-0.69
EU TI average relative to TI29	0.67	0.61
Difference in differences estimate: ENP vs. nonENP group	2008 compared with 2003	<b>0.04</b>
Difference in differences estimate: ENP vs. nonENP group	2007-2008 compared with 2002-2003	<b>0.03</b>

Note: TI29 stands for the average transition indicator value in the group of all 29 countries for which the EBRD provides the data. For country groupings see note under Figure 7.

Source: Calculations based on EBRD (2008).



## 6. Conclusions and recommendations

The question of the ENP's effectiveness in fostering economic reforms in CIS partner countries can be approached from various perspectives. Attempts to devise ideal models for the ENP that would abstract from political realities both in the EU and in CIS countries is probably of little practical interest. Taking into account existing limitations leads to less exciting but potentially more reasonable conclusions.

This paper claims that it is yet too early to assess the actual success of the ENP in the sphere of promoting economic policy changes in the eastern neighbourhood countries. The actual progress of the ENP agenda has been limited to date, due to a variety of factors, both on the EU and CIS sides. While country case studies do find examples of positive influences of EU policies towards particular CIS countries and simple comparative analyses suggest that the ENP may have neutral or slightly positive effects, the evidence is too weak to prove the ENP's strength in helping to promote and support sustainability of broader and deeper reforms.

The empirical evidence on the effectiveness of the policy frameworks similar to the ENP in fostering economic reforms is mixed. The ENP operates in a different environment than the EU accession process in the Central and East European countries during the 1990s and early 2000s and, since EU membership is currently not a realistic option for the countries covered by the ENP, the sticks and carrots are clearly weaker. Still this does not preclude that the reform anchoring mechanism could work, given that the ENP's potential offer of "a stake in the EU Internal Market" could provide meaningful economic benefits, even if only in the longer term. Also, integration with the EU benefits from relatively strong public support in several countries covered by the ENP. This support is not significantly weaker than in the current new EU member states several years before their accession to the EU. A longer horizon of strategic planning among the leaders of CIS countries, stronger commitment to advancing real progress by the EU and wider presentation of potential ENP benefits could strengthen the reform anchoring potential of the ENP.

Several underlying factors both in the EU and in CIS countries affect the evolution of the ENP and ultimately the chances that it can effectively support positive policy changes. Some features of the ENP environment are of a permanent nature, some other may slowly evolve, others may change quite rapidly. The evolution of the factors shaping the environment for the ENP in ways that could strengthen its role should be supported whenever this is feasible.

The distance between Brussels and the capitals of CIS countries will not change in the future: Central Asian capital cities will remain roughly three times as far from Brussels as Minsk, Kiev or Chisinau, while the capitals of Caucasus countries will remain twice as far. Some other relevant measures of distance do change, however, and with technological progress, significant convergence is likely. The price of a plane ticket between Brussels and capitals of CIS countries is already now not really dependent on the distance: travel to Almaty may cost roughly the same as a ticket to Chisinau, for example<sup>20</sup>. The cost and quality of communication services may soon improve significantly making a video-call between Ashgabat and Brussels as easy as between two rooms in the Commission offices. This lends support for cooperation in the areas of broadly understood transport and communication networks.

Existing information on the values and norms that are important for societies in the EU and CIS countries confirms the existence of significant differences in some dimensions, although in many instances rather than speaking of a sharp division between EU and CIS countries another picture emerges. The level for support for democratic or free market principles tends to correlate with the geographic location along the east-west diagonal and historical experience (the duration of communist rule) with some new EU member states appearing not to be that different from some CIS countries. It may be difficult to predict the future evolution in this sphere.

The role of individual contacts among citizens of EU and CIS countries appears quite important for widening knowledge about the EU in the CIS and improving relations. This supports the view that a more friendly visa regime would be desirable. Also, the immigration policies of EU countries could be analyzed more carefully and a broader opening to labour migration could be contemplated, especially in view of long-term labour demand challenges due to ageing societies. Furthermore, support for investment in human capital in the CIS countries, e.g. by means of larger scholarship programs supporting studies and research stays abroad for promising young students and scientists should be promoted.

The perception of the ENP in CIS countries matters a lot. Therefore, allowing a real dialogue in shaping Action Plans and building implementation mechanisms, responsiveness to

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<sup>20</sup> The search for the cheapest options for a (planned well in advance) return flight from Brussels (using one of the internet services) carried in January 2009 produced the following result: tickets for Moscow, Minsk and Kiev were by far the cheapest. Reaching Tbilisi, Chisinau, Yerevan, Baku and Almaty was roughly twice as expensive. The cheapest options for other Central Asian capitals turned out to be 3-4 times as expensive. Clearly, choosing another departure point in the EU and /or other periods could produce different result.

initiatives made by CIS partners and encouragement for such initiatives where local capacity is limited should be important elements of the EU's approach.

People tend to believe – at least to some extent – what they hear and see in the media (Gentzkov and Shapiro, 2004) <sup>21</sup>. Well designed information campaigns about the EU, its objectives and actions, could play a positive role. Ensuring that the EU message is free from propaganda and biased views would appear important given that the ultimate objective is to encourage strengthening of long-term links with the EU, not winning an information war. Acting towards easier access to Western news sources in the CIS region (e.g. via availability of translations or subtitles) could be effective.

The political scenes in several CIS countries may undergo substantial evolution in the coming years. However, probably only in the case of Belarus could a change of the current ruling regime lead to a more significant shift in relations with the EU. In other countries, while heterogeneity in terms of the degree of democratization and the positions of the major political forces is substantial, firstly, EU relations are not among the key dimensions of the political game and, secondly, the major factors hampering relations have more to do with limited administrative capacity and overall governance quality than to officially declared positions. One potential risk factor is related to the outcomes of the economic crisis that since 2008 has affected several ENP countries quite strongly. Further deterioration in the economic situation during 2009-2010, if accompanied by political instability, could in the negative scenario lead to changing public attitudes to more fundamental issues such as the notion of democracy, free markets, etc. This would then imply a widening of the values gap vis-à-vis the EU and could result in a reformulation of strategic policy directions by major political forces.

On the EU side, dealing with enlargement fatigue, solutions to the problem of rejection of the Lisbon Treaty, the impact of the current economic crises and progress in the EU integration process of the South-East European countries will be key factors determining the EU's commitment to the ENP and its evolution.

The ENP can be expected to work partly via the built-in conditionality mechanisms and partly via the mechanism of socialization. In practical terms, the distinction between the two may be of secondary importance. Given the very large heterogeneity between partners and wide

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<sup>21</sup> Gentzkov and Shapiro (2004) analyze opinions on the events of September 11, 2001 in several Muslim countries, explaining them by exposure to media coverage and levels of education and finding very strong influences of media exposure. In particular, exposure to CNN increases the tendency to think that Arabs destroyed the World Trade Center whereas exposure to Al-Jazeera acts in the opposite direction.

variety of issues covered in bilateral relations, in some instances one of the mechanisms will play a more significant role, whereas in other circumstances the opposite will be true.

Emerson (2004) asks the important question whether the ENP will evolve into a strong policy or rather a fake one, potentially leading only to an increased scepticism as to the EU's real intentions towards its neighbours. However, defining the alternative as 'strategy vs. placebo' (Emerson, 2004) is not necessarily the best analogy. As long as the final outcomes are most important, placebo can actually lead to a real change, via the so-called 'placebo effect'<sup>22</sup>.

Moreover, it is tempting to extend the analogy between the 'placebo effect' in medicine and in promoting economic reforms a bit further. The 2008 Ig Nobel Prize in medicine was awarded to Dan Ariely for demonstrating that expensive placebos are more effective than inexpensive placebos (Waber et al, 2008)<sup>23</sup>. The lesson for the ENP – even if there is a placebo element in it – would therefore be to present, promote and implement it as a difficult and demanding program for deepening bilateral relations. It could then be expected to bring a real improvement in the prosperity of the countries involved. In other words, wise use of conditionality in defining bilateral relations with the CIS countries appears justified.

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<sup>22</sup> While there is no widely approved theory explaining the 'placebo effect', the evidence for its existence, at least in certain conditions is quite strong (see e.g. Meissner et al., 2007).

<sup>23</sup> A parody of the Nobel Prizes, the Ig Nobel Prizes are given annually for achievements that "first make people laugh, and then make them think". The Ig Nobel Prizes are organised by the magazine *Annals of Improbable Research*.

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