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THE CURRENT STATE AND PROSPECTS OF ECONOMIC DEVELOPMENT IN THE EU'S EaP COUNTRIES

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Abstract: *Economic development is one of the main aims of economic policy in many countries around the world. By strengthening the process of economic development, we can bring the state on the path of sustainable growth and ensure stability and security in it. The paper analyzes the main indicators of socio-economic development in the EU's Eastern Partnership countries in the period 2000-2015. It also examines the current state of relations between the Eastern Partnership countries and the European Union. The main purpose of this paper is to determine the current state of affairs and prospects of economic development in the EU's Eastern Partnership Countries.*

Keywords: economic development; economic growth; Eastern Partnership

JEL Classification: O1; O4; O52; O57

Introduction

Countries of Eastern Europe and the region as a whole have always been an area of interest to world powers which did still not lost its relevance nowadays. Thus, following the historic fifth round of enlargement, the EU started to rethink its external relations with bordering countries and launched the European Neighborhood Policy (ENP) as result, which spans 16 neighboring countries to the south and east of the EU. At the initiative of Poland and Sweden, the Eastern Partnership (EaP) was launched in May 2009 during the EU Prague summit as an offshoot of the ENP. The Eastern Partnership is a joint initiative of the EU and its Eastern European partners: Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine. It supposed to bring Eastern European partners closer to the EU, supporting and encouraging reforms in the EaP countries for the benefit of their citizens. The main goal of the Eastern Partnership is to create the necessary conditions to accelerate political association and further economic integration between the European Union and interested partner countries (European Council, 2009). This program is a continuation of the European Neighborhood Policy (ENP) proclaimed in 2003. One of its main objectives is the formation of a "ring of friends" to the eastern and southern borders of the EU, i.e. the Post-Soviet republics sharing

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European values and models of economic and political system (Vlah, 2015). Taking into account that the EaP also implies economic integration of member countries with the EU, this paper examines the current state and prospects of economic development in the EU's Eastern Partnership countries.

1. The EaP and the Current Status of Members

The development of the Eastern Partnership is based on four thematic platforms (European Council, 2009):

- Democracy, good governance and stability;
- Economic integration and convergence with EU sectoral policies;
- Energy security;
- Contacts between people.

The Partnership foresees stronger political engagement with the EU, namely:

- The prospect of a new generation of Association Agreements;
- Integration into the EU economy with deep free trade agreements;
- Easier travel to the EU through gradual visa liberalization, accompanied by measures to tackle illegal immigration;
- Enhanced energy security arrangements;
- Increased financial assistance;
- Deeper cooperation on environment and climate issues;
- Increased people-to-people contacts and greater involvement of civil society.

The Joint Declaration of the Eastern Partnership Summit in Warsaw, held in September 2011, emphasized the strategic importance of the Partnership as a way to deepen and strengthen relations between the EU and the partner countries, to speed up their political association, economic integration and approximation towards the EU and to support their modernization efforts (European Council, 2011). Later on, during the Third Eastern Partnership Summit held in Vilnius (European Council, 2013), the Association Agreements / Deep and Comprehensive Free Trade Areas with interested parties was scheduled to be conclude before autumn of 2014. In fact, Association Agreements / Deep and Comprehensive Free Trade Areas with Georgia, Republic of Moldova and Ukraine were concluded on June, the 27th of 2014.

For both Georgia and the Republic of Moldova, the provisional application of the DCFTA has already led to the successful development of trade with the EU in 2014. The provisional application

of the DCFTA for Ukraine was postponed until 1/1/2016. In the meantime, the EU unilaterally granted trade preferences to Ukraine (EEAS, 2015).

The Declaration of the Eastern Partnership Summit held in Riga in 2015 states that citizens of Ukraine and Georgia may be exempted from visa requirement only after the progress report (to be carried out by the end of 2015) on implementation of the 2nd phase of the Visa Liberalization Action Plans by Ukraine and Georgia respectively (European Council, 2015). A visa-free regime has already been in place since April 2014 for citizens of the Republic of Moldova holding biometric passports.

Regarding the other three countries, namely Armenia, Azerbaijan and Belarus, the Association Agreements / DCFTA were not concluded with the EU. Moreover, Belarus and Armenia have chosen a different integration project—the Eurasian Economic Union. Five post-Soviet countries are currently members of the Eurasian Economic Union: Russia, Kazakhstan, Belarus, Armenia and Kyrgyzstan. One of the consequences of the EU–Russia rivalry is that the “common neighborhood” now seems deeply divided between those countries that have joined the Eurasian Economic Union and those that have signed the Association Agreements and the Deep and Comprehensive Free Trade Agreements offered by the EU under the Eastern Partnership (Delcour, 2015).

2. Economic Development in the EU’s EaP Countries

The countries of the EU’s Eastern Partnership cover a large territory of Eastern Europe and the Caucasus, with a total area of more than 1 million square kilometers and a total population of over 72 million people (as of January 1, 2015). The largest and most densely populated area belongs to Ukraine with 603.7 square kilometers area and a population of 42.8 million people. The second largest territory belongs to Belarus with an area of 207.6 square kilometers and population of 9.5 million people. Approximately the same number of population in Azerbaijan - 9.4 million people, and an area - 86.6 square kilometers. Armenia: area – 29.8 square kilometers and population - 3 million people. Moldova has almost the same area – 33.8 square kilometers and population 3.6 million people. Area of Georgia is 69.7 square kilometers and population 4.5 million people.

One of the main indicators of economic development of the country is the nominal GDP and GDP per capita. The following figure (figure 1) shows the dynamics of the nominal GDP of the EU’s EaP countries during the period from 2000 to 2015. The graph shows that according to the size of economy the largest one is Ukraine with a GDP of about 131 Bn. US\$. Comparable in economy size are Azerbaijan and Belarus with a GDP of about 76 Bn. US\$ each. The other three countries: Armenia, Georgia and Moldova are relatively smaller in size of the economies with a GDP between 8 and 16

bn. US\$. A moderate growth of GDP is observed in the three countries. More rapid GDP growth is observed in Azerbaijan and Belarus.

In Ukraine, there are periods of sharp economic downturn during the world economic crisis and the current conflict in Ukraine.

Figure 1 – GDP Growth Dynamics (Bn. US\$)



Source: World Bank database

Figure 2 – GDP Per Capita Growth Dynamics (US\$)



Source: World Bank database

When considering the GDP per capita dynamics (Figure 2), the picture becomes slightly different. In this case Azerbaijan and Belarus are better positioned, with a GDP per capita with more than 8 thousand US\$. The second group of countries with a GDP per capita of 3 to 4 thousand US\$ includes Ukraine, Georgia and Armenia. Moldova's GDP per capita as of January 1, 2015 was of 2.24 thousand US\$.

Table 1 – General Government Expenditure (as of Jan 1, 2014)

	Expenditure (mill. US\$)	Education Expenditure (% Bud.)	Health Expenditure (% Bud.)	Defense Expenditure (% Bud.)	Expenditure (% GDP)	Expenditure per Capita (US\$)
Armenia	2 643,3	8,87%	7,85%	17,91%	23,8%	889
Azerbaijan	27 946,7	7,3%	3,5%	12,31%	38%	2 949
Belarus	30 749,9	12,3%	13,45%	3,14%	42,07%	3 248
Georgia	4 632,2	6,71%	6,71%	8,81%	28,7%	1 032
Moldova	3 072,2	20,82%	13,41%	0,87%	38,48%	864
Ukraine	86 387,6	13,67%	12,17%	4,97%	48,11%	1 909

Source: World Bank database and data from countryeconomy.com

Further on, Table 1 shows the general government expenditures according to the main expenditure items, including social spending on education and healthcare. In this table, we can distinguish the relatively high level of total expenditure per capita in Azerbaijan and Belarus, which constitute 3-3.2 thousand US\$ per capita. In Ukraine the expenditure per capita reaches 1.9 thousand US\$. It is also necessary to note the high level of spending on education and health in Moldova, which make up to 20.8% and 13.4% of the national budget. Investment in people – is an investment in the growth of the country in the future. In defense expenditures we can highlight Azerbaijan (12.3% of budget) and Armenia (17.9% of budget).

Table 2 – Foreign Trade (as of Jan 1, 2015)

	Exports (mill. US\$)	Exports (% GDP)	Imports (mill. US\$)	Imports (% GDP)	Trade Balance (% GDP)
Armenia	1 519	13,05%	4 402	37,82%	-24,77%
Azerbaijan	29 400	39,67%	9 000	12,14%	27,53%
Belarus	36 288	47,68%	40 788	53,6%	-5,91%
Georgia	2 861	17,31	8 596	52,01%	-34,7%
Moldova	2 339,5	29,4%	5 317	66,81%	-37,41%
Ukraine	54 199	41,5%	54 330	41,6%	-0,1%

Source: World Bank database and data from countryeconomy.com

Table 2 presents data on foreign trade of the EU's Eastern Partnership countries. The table shows that Ukraine and Belarus have the largest foreign trade turnover (108 bn. US\$ and 77 bn. US\$ respectively). Armenia, Georgia and Moldova have significant negative balances of trade (-24.8%, -34.7% and -37.4% of GDP respectively). On the contrary, Azerbaijan has a significant positive balance of trade (+27.5% of GDP). Ukraine (-0.1% of GDP) and Belarus (-5.9% of GDP) have the most balanced trade balance.

Table 3 – Ratings and Indices

	Human Capital (2015)	Doing Business (2015)	Global Peace (2015)	Life expectancy (1 Jan 2014)	Fitch Rating (Nov 20, 2015)
Armenia	43 place	45 place	91 place	74,54 years	B+
Azerbaijan	63 place	80 place	132 place	70,69 years	BBB-
Belarus	57 place	n/a	110 place	72,47 years	
Georgia	n/a	15 place	79 place	74,08 years	BB-
Moldova	71 place	63 place	70 place	68,81 years	B-
Ukraine	31 place	96 place	150 place	71,16 years	CCC

Source: World Bank database and data from countryeconomy.com

Table 3 shows various indices and ratings that reflect the situation in these countries in terms of doing business, living, human capital and the overall security in the country. Thus, according to the Human Capital Index, of the 124 countries represented in the index, the highest index belongs to Ukraine (31 place) and Armenia (43 place). Despite the high share of expenditures of Moldova on education and health in the index Human capital and Life expectancy Moldova stands lower than other states. Regarding the Doing Business ratings, Georgia holds the 15th place. As for the sovereign credit ratings, the higher rating stands for Azerbaijan (BBB-) and Georgia (BB-). A lower rating is indicated for Ukraine (CCC), which implying a possible default risk. Also, according to the Global Peace index, Ukraine is among the least safe countries (150 place), which can be explained by the conflict taking place in this country. Although the share of expenditures of Armenia and Georgia on health is not so high, according to the Life expectancy index, citizens of these states are among the most long-lived people with a life expectancy of up to 74 years.

Conclusions

Given the fact that the Association Agreement / DCFTA with three countries of the partnership were signed only last year, it is still early to draw concrete conclusions on the actual economic effects of these agreements on the economic development of the EU's Eastern Partnership countries. However, in the long term, this partnership maintains its relevance and significance for the EU and the EaP countries.

For Armenia, Azerbaijan and Belarus, the economic indicators show a relatively stable economic growth in these countries. With regard to Azerbaijan, taking into account the decline in energy (oil and gas) prices on international markets, a slowdown of the economy is expected.

Also, despite the fact that Armenia and Belarus became members of the Eurasian Economic Union in January 2015 and that Azerbaijan's refused to sign an Association Agreement with the EU, the continuation of constructive cooperation with these countries can be mutually beneficial and will contribute to the development of the economies of these countries. In Armenia, the development of an export component in Armenia may contribute to a more stable development of its economy. In Georgia and Moldova there is also a moderate steady growth. However, according to the results of 2014, there was a slight decline in GDP per capita in these countries. Export development in these countries may also contribute to a more stable economic development.

In Ukraine there has been some economic slowdown mainly related to the unstable situation in the country. Resolution of the conflict in Ukraine could contribute to the stabilization and growth of

its economy. EU preferences for Ukraine, unilaterally imposed under the agreement on free trade areas, have undoubtedly had a positive impact on the stabilization of the Ukrainian economy.

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