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POLITICAL OPTIONS AND ECONOMIC PROSPECTS WITHIN THE EASTERN PARTNERSHIP

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Abstract: *Recent changes in the security environment of Eastern Europe and the South Caucasus have been reshaping the strategies of the six small countries in the proximity of both the EU and Russia. Their attempts to take upon themselves their Soviet heritage and their sensitive geographical position were reflected by a mix of East-West orientations. Some of them chose to create stronger economic bonds with the EU members while others decided to anticipate Russian discontent in separatist areas they shelter and became members of the EEU. Regardless of their option, the Eastern Partnership members embarked on a long road of political, social and economic changes, so that their stability and growth would become pillars of a stronger role on the regional and international arena in the future. The EU, in turn, has been supporting its partners to the East according to their level of commitment to reform and approximation, although the economic benefits of this relation are imperceptible.*

Keywords: Eastern Partnership; Association Agreements; frozen conflicts; conditionality; trade; approximation

JEL Classification: D72; D74; F13; F15; F51; N44

Introduction

The Eastern Partnership (EaP) was created in 2009 as a means to differentiate between the Southern neighbours (the Barcelona process), having had a longer and more integrated relation with the EU (Association Agreements - AAs, free trade areas) and the Eastern neighbours, countries for which relations with the EU were more vaguely delimited, under the framework of Partnership and Cooperation Agreements.

Benefiting from a dedicated approach, personalized according to the needs and priorities of each Eastern partner, the EaP members have recorded different economic developments in recent years and have received tailor-made support and funding from the EU.

The stakes are high: approximation to EU legislation and adherence to EU norms and values. The ‘more for more’ principle has pushed the limits of reform in the EaP to the highest standards. Their struggle, in some cases, was fruitful: Moldova, Georgia and Ukraine signed AAs with the EU in June 2014, comprising Deep and Comprehensive Free Trade Areas (DCFTAs). Other neighbours

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to the East though still hold strong ties with Russia, their previous protector, their current most fearful potential enemy.

However, the competition does not have a single purpose, that of economic integration. Some states shelter stateless and secessionist areas that make their road to profound democracy and modernization even more difficult to address. Thus electoral discourse and successive governments, either pro-European or pro-Russian, have tried to find the proper mix leading to regional balance and internal conflict resolution. The living testimony of the Ukraine war is deepening open wounds in Georgia (Abkhazia, South Ossetia), Moldova (Transnistria) or Azerbaijan/Armenia (Nagorno-Karabakh).

Given the puzzling political and economic context in the area, this paper aims to define each of the Eastern partners approach towards integration with the EU (not in the EU, for the moment), under the historical, strategic and territorial circumstances within their borders.

The research is divided into two sections: the first one is dedicated to the political features and options of the Eastern partners, while the last part is trying to address economic benefits for both the EU and the EaP members in their specific framework of cooperation.

The methodology involves the analysis of official EU documents and secondary reports, but also statistical data related to human indicators in the EaP members, trade volumes with the EU-28, but also GDP growth rates in the selected countries.

Therefore, we expect to tackle economic asymmetry, but also strategic views of the EU towards the EaP and vice versa.

1. The territorial legacy of the Eastern partners. Political and strategic challenges

The EU has received in 2004 ten new member states, out of which eight were part of the ex-Soviet Union or Russian satellites: Estonia, Latvia, Lithuania, Poland, The Czech Republic, Slovakia, Hungary, Slovenia and two were Mediterranean islands: Cyprus and Malta. The fifth enlargement towards the EU-25 added 75 million inhabitants to the Union, but at the same time it burdened the EU expenditure by 54 billion euro for the time frame 2000 – 2006 in terms of pre-accession costs and later on in regional support within new member states (Summaries of EU legislation, 2007).

This enlargement, followed by the accession of Romania and Bulgaria in 2007 has had not only economic implications towards the EU, but it has also revealed new geopolitical features, as it brought the EU Eastern border closer to Russia (see Figure 1).

The region is currently divided between two global powers (EU and Russia) and two competing regional integration areas, the Deep and Comprehensive Free Trade Area and the Eurasian Single Economic Space (Dragan, 2015).

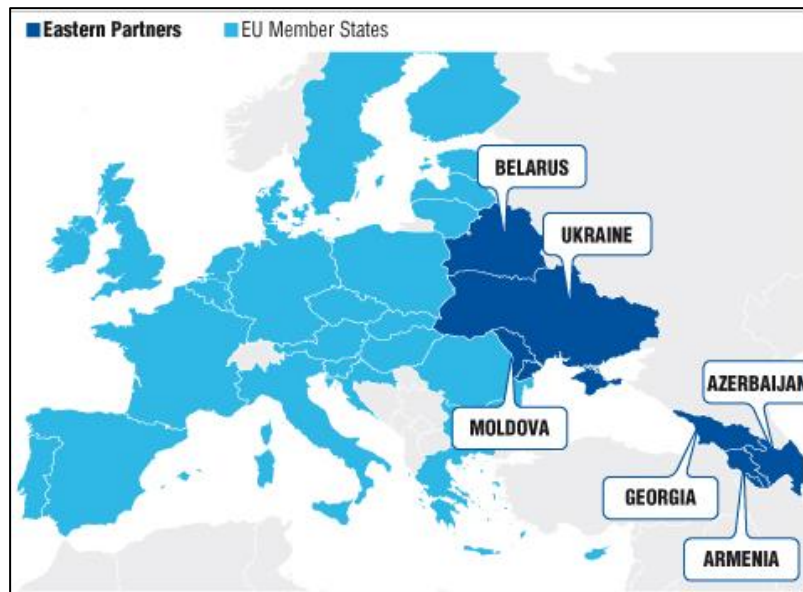
The new European configuration generated debates over a so-called “enlargement fatigue”, namely a demonstrated preference for deepening integration to the detriment of a new enlargement. Thus EU officials had to find alternatives to accession that could have been of interest for candidate or potentially candidate states in its neighbourhood, namely a policy of EU approximation without the immediate prospect of integration: the European Neighbourhood Policy – the ENP (Szolucha, 2010).

Whereas the Mediterranean countries benefited from a more solid cooperation framework and a higher integration with the EU even before the launch of the ENP, economic characteristics and political realities of the Eastern Neighbourhood in 2008 (Russia – Ukraine gas debate in January and Russian war in Georgia in August) have proved that the EU must enforce its engagement towards countries in Eastern Europe and South Caucasus.

Reluctantly accepted in the beginning, The Eastern Partnership (EaP) emerged following a mixed Polish-Swedish initiative in the summer of 2008, designed to consolidate the ENP Eastern dimension. It was created during the Prague Summit in May 2009, as an analogy to the French initiative towards the Southern neighbours: Union for the Mediterranean (UfM, formerly the Barcelona Process).

EaP comprises six partner countries: the Republic of Moldova (hereafter called Moldova), Armenia, Azerbaijan, Belarus, Georgia and Ukraine (see Figure 1); its main objective is to accelerate political association and provide a deep economic integration between the EU and these states.

Figure 1 - The map of the Eastern Partnership countries



Source: ENPI Info Centre, available at : http://www.enpi-info.eu/maineast.php?id_type=2&id=743

Political commitment of a partner country is translated into the perspective of signing an Association Agreement (AA), whereas economic integration aims to define Deep and Comprehensive Free Trade Areas (DCFTAs) with the EU. Increased approximation towards EU norms would further increase mobility by gradual liberalization of visa regimes and improving energy security and higher financial support (EU Neighbourhood Info Centre, 2015).

As a founding principle of the ENP and, consequently, of the EaP, political conditionality has allowed the EU to reward the most obedient neighbours by supplementing funds and encouraging democratic reforms. However, through differentiation, some Eastern partners have chosen to take the EU path (Georgia, Ukraine, Moldova), by signing AAs with the EU in 2014, while others still preserve an ambiguous external orientation, balancing between the EU and Russia (Armenia, Azerbaijan, Belarus).

Diverse yet similar, European yet so close to Russia, ambitious yet unvaryingly slow in reforms; the Eastern Neighbourhood is wavering between its Soviet legacy and proximity, its development obstacles over time and current struggles towards modernization and growth, integration and stabilization.

Table 1 - The Eastern Partnership: physical and human indicators

State	Surface (thousand SQM)	Population (million inhabitants)	Population density (inhabitants/SQM)
Armenia	29.70	3.05	102.69
Azerbaijan	86.60	9.78	112.93
Belarus	207.60	9.58	46.15
Georgia	69.70	4.93	70.73
Moldova	33.85	3.54	104.58
Ukraine	603.55	44.42	73.60

Source: CIA World Factbook 2015

Weighing about 60% of the EaP, both within total surface and population (see Table 1, Figure 2), *Ukraine* has permanently been at stake for the EU in its Eastern neighbourhood, while its geographical and historical proximity to Russia finally led to a full scale conflict on the territory of this country.

The month of November 2013, the time of the EaP Vilnius Summit, was supposed to bring the country closer to the EU by the signing the AA; yet political elites of the Yanukovych regime gave in when confronting the Russian economic and political pressures and suspended the AA. This situation triggered a wave of protests, followed by Yanukovych exiting the country in February 2014 and, soon afterwards, the breakout of the war with Russia.

Not only did the conflict not slow down Ukraine's relations with the EU, but it rather accelerated the resuming of the negotiations; the interim government signed the political provisions of the AA in March 2014¹. Three months later, Petro Poroshenko won the presidential elections, reconfirming the pro-European orientation of the country.

The EU, in return, supported Ukraine by providing humanitarian aid towards affected areas: 11.05 million euros in November 2014, but also by promoting democracy and the rule of law: the EUAM Ukraine – an EU advisory mission deployed in December 2014 to reform the security sector in Ukraine (EU Neighbourhood Info Centre, 2016).

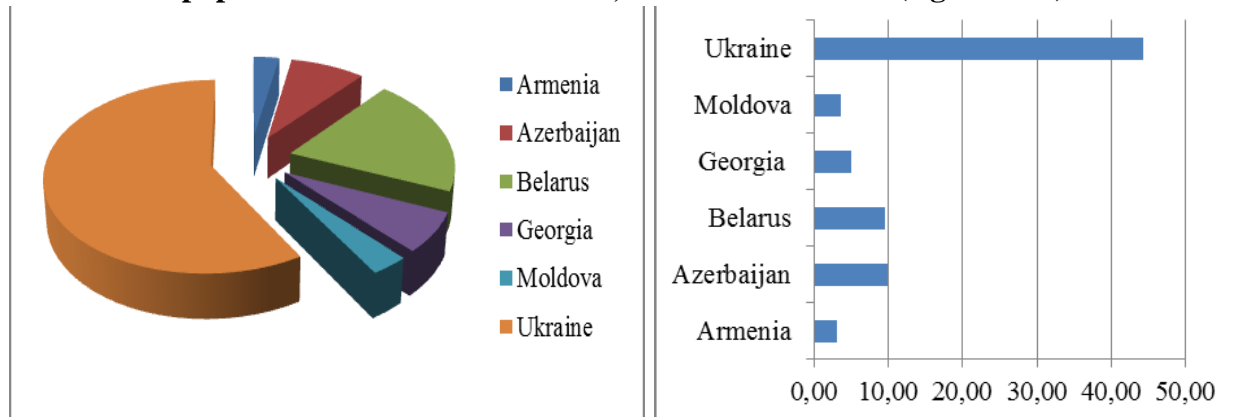
Therefore, according to the EaP Index 2014², Ukraine is placed third among the Eastern neighbours, scoring between 0.59 and 0.74 for the three dimensions of the evaluation: linkage,

¹ The economic provisions of the AA EU-Ukraine, namely the DCFTA, entered into force on the 1st of January 2016.

² Compound indicator measuring progress made by the EaP partners towards integration with the EU. The 2014 EaP Index covers the time between January 2013 and June 2014. It ranges from 0 (lowest integration level) to 1 (highest integration level).

approximation and management. This is proof of Ukraine perseveringly undergoing reform, despite the continuous flares of conflict in the East of the country.

Figure 2 - The share of each EaP member in the total surface of EaP (left chart) and the population of the EaP members, million inhabitants (right chart)



Source: Created by the author based on CIA World Factbook 2015

Second according to surface (207,600 SQM) and third according to population size (after Ukraine and Azerbaijan), with about 10 million inhabitants, *Belarus* is characterized by an authoritarian regime and a centralized economy, under the perpetual influence of Aleksandr Lukashenko, the first and only elected president after the independence from the Soviet Union (1994).

It has been labeled as the weaker performer in European integration, scoring between 0.25 and 0.32 in all fields covered by the 2014 EaP index (2015, p.17-18). As the political situation in the country does not allow, the EU – Belarus relations are not yet based on an Action Plan, but on a strategy paper 2014 – 2020 concerning social inclusion, environmental issues and regional development. Moreover, elections in October 2015 have been closely monitored (EEAS, 2015), as previous voting was suspected of fraud. Consequently, the country was sanctioned for violation of human rights, infringement of voting procedures, and pressure on media.

However, the EU is not trying to isolate Belarus. On the contrary, as proved by the launch of negotiations for visa facilitation and readmission agreements, in January 2014 (Emmott, 2015), but also by the EU's decision to suspend all sanctions to Belarus for four months (November 2015 to February 2016), the Union is struggling to rethink its strategy towards this country.

With the highest population density within the EaP (around 113 inhabitants/SQM), *Azerbaijan* still carries the stigma of corruption and authoritarianism, as the government has eliminated the limits of the presidential mandate in 2009, through a disputed referendum.

At the same time, ethnical conflict with Armenia over the Nagorno-Karabakh area is still present, despite the continuous efforts of peace mediation made by the OSCE Minsk group (USA,

France and Russia). Blasts of fire have erupted on the 2nd of April, following increased hostilities during the last year and attempts of Azerbaijani military to seize territory occupied by Armenian forces. The situation remains complicated. The cease-fire agreed four days later is fragile: even if Azerbaijan lately expanded its defense budget, Armenia still benefits from Russian support in the area (Stratfor, 2016a and 2016b).

The EaP 2014 index (2015, p.17) reveals low performance for Azerbaijan, with scores between 0.31 and 0.42, the only registered improvements being related to cooperation in the energy field (as the country is a key partner in the Southern Gas Corridor) and sustainable development for the environment. It holds the last place in the EaP ranking regarding voting procedures and individual and association rights and liberties.

Although Azerbaijan is still far from signing an AA with the EU, a new framework of cooperation between the two partners was announced in March 2016, focusing on trade, investment, education and regional development (EEAS, 2016a).

Armenia is a country of 29,743 SQM and 3 million inhabitants and has been, over time, under the influence of great empires and, more recently, part of the Soviet Union. The Nagorno-Karabakh dispute with Azerbaijan has affected Armenia's economy and stability and also its relations with the neighbouring countries: Turkey, for instance, closed its borders with Armenia in 1993, to support its ally, Azerbaijan. An attempt to normalize Armenia's relations with this country has occurred in 2009, but Turkey did not yet ratify the protocols (as of December 2015).

In September 2013 Armenia decides, after previous negotiations of a AA with the EU (including a DCFTA), to cancel the signing of the agreement, and to join the Eurasian Economic Union (EEU) starting January 2015. The country's dependency on Russia for energy resources and energy security played an important role in this decision.

Armenia is ranked fourth in the EaP index 2014 (2015, p. 17), scoring 0.48 to 0.61. It slightly improved its judiciary system, profound democracy and public administration. However, the president's Serzh Sargsyan decision not to sign the AA with the EU has rendered many of the institutions created to cooperate with the EU nonfunctional, which was further reflected by a low score of European integration management. Furthermore, in energy and transport, Armenia has the weakest relations with the EU among the Eastern partners.

Despite numerous inconveniences, EU and Armenia agreed in December 2015 to start negotiations on a new bilateral agreement focusing on four main domains: education, infrastructure, public services and the environment (EEAS, 2016b).

Independent from the Soviet Union since 1991, *Moldova* is the first ex-communist state to elect a communist president – Vladimir Voronin, who ruled the country between 2001 and 2009, when he resigned. Shortly after his resignation, the Alliance for European Integration - a coalition comprising four parties in the opposition - started to rule the country in different combinations until 2013, when two of these parties regrouped into the Pro-European Coalition.

As a result of the new international orientation of the country in recent years, Moldova signed in 2014 the AA with the EU and eliminated travel visas for the Moldovan citizens in the EU. This is also reflected by the highest scores Moldova registered in the EaP index 2014: 0.7 to 0.71.

Although reforms have confirmed the country's efforts towards approximation with the EU, Moldova is still struggling to eradicate endemic corruption. Its recent political crisis (that is lasting since the end of 2015) reveals a weak administration and misuse of European funding and a general tendency of a decline for pro-European parties over 2014-2015 (Lupusor *et al.*, 2015). In addition, the financial fraud involving the disappearance of 1 billion US \$ from three Moldovan banks in 2014 has generated massive popular protests and, consequently, multiple interim governments.

Moreover, the crisis in Ukraine and a lack of cohesion within the Pro-European Coalition has reactivated debates over the frozen conflict in Transnistria, as the secessionist region is home to Ukrainian and Russian communities and occupied by Russian forces. Their demands for independence remain a threat of a possible revival of tensions in the area.

After Moldova, *Georgia* has been named the second best Eastern performer in 2014 (EaP Index 2014, p.16), with better scores than in 2013 for all the three dimensions of the index, that is between 0.59 and 0.74. Regarding profound democracy, the voting system and respect of human rights, the country surpassed the results of all the other Eastern partners. At the same time, Georgia registered the best results in implementing the provisions of the DCFTA and it has proved to have the best business environment in the region. Thus it came first, before Moldova, in terms of European integration management.

Its political history goes from corruption and inefficient governing (after the independence from the Soviet Union) to the "Rose Revolution" in 2003 and election of president Mihail Saakashvili in 2004, who helped the country progress with market economy and democratization.

However, conflicts have troubled the evolution of the country, as in 2008 a violent conflict burst out in the separatist areas of Abkhazia and South Ossetia, which concluded with the unilateral recognition of their independence by Russia.

In November 2013, Giorgi Margvelashvili, from The Georgian Dream Coalition, became the first president in the history of the country elected peacefully and democratically. He is supporting Georgia's Western orientation and is in favour of Georgia being part of the EU and NATO.

2. The Eastern Partnership: comparative economic developments

After their inclusion in the Eastern dimension of the ENP in 2009, EaP members have undergone differentiated economic developments, both depending on the political internal situation for each of them and on regional and international economic and security configurations.

The global economic and financial crisis in 2008 has affected many of the EU members; the lowest activity was recorded in 2009, when the real GDP growth rate was -4.5%. After a slight recovery in 2010 and 2011, there is a new decrease³ of 0.4% in 2012, followed by a minor change in 2013 and a 1.3% increase in 2014 (according to Table 2).

Table 2 - Real GDP growth rate for EaP members vs. EU-28 between 2008 and 2014 (%)

	2008	2009	2010	2011	2012	2013	2014
EU-28	0.4	-4.5	2.0	1.6	-0.4	0.1	1.3
Belarus	10.2	0.2	7.7	5.5	1.7	1.0	1.6
Moldova	7.8	-6.0	7.1	6.8	-0.7	9.4	4.6
Ukraine	2.2	-15.1	4.1	5.4	0.2	0.0	-6.8
Armenia	6.9	-14.1	2.2	4.7	7.2	3.3	3.5
Azerbaijan	10.8	9.3	5.0	0.1	2.2	5.8	2.8
Georgia	2.6	-3.7	6.2	7.2	6.4	3.3	4.8

Source: Eurostat 2015³

For the EaP countries, 2009 has also brought a significant decrease in economic activity, especially for Ukraine and Armenia, where the GDP dropped by 14-15% as compared to the previous year. Moldova and Georgia recorded evolutions similar to those in the EU countries, namely -6% and -3.7% respectively. For Belarus, the change is almost imperceptible as compared to the previous year, whereas Azerbaijan remains the only Eastern partner with a steady growth of 9.3%.

All the Eastern partners have recorded economic revival in 2010, with peaks in Belarus and Moldova of 7.7% and 7.1% respectively. Armenia recorded the smallest increase – 2.2% – although slightly bigger than that of EU-28: 2%. In 2011 similar developments occurred: the biggest growth was recorded in Georgia (7.2%) and Moldova (6.8%), an imperceptible growth in Azerbaijan (0.1%), lower than the 1.6% in EU-28. In 2012 economic downturns are recorded in EU-28 (-0.4%), but also in Moldova (-0.7%). The other Eastern partners were affected as well, Armenia and Azerbaijan being the only ones to have a bigger GDP growth rate than in the previous year.

In 2013, Moldova and Azerbaijan had higher levels of the GDP growth rates (9.4% and 5.8% respectively), while the EU-28 members and the other Eastern partners (except for Ukraine)

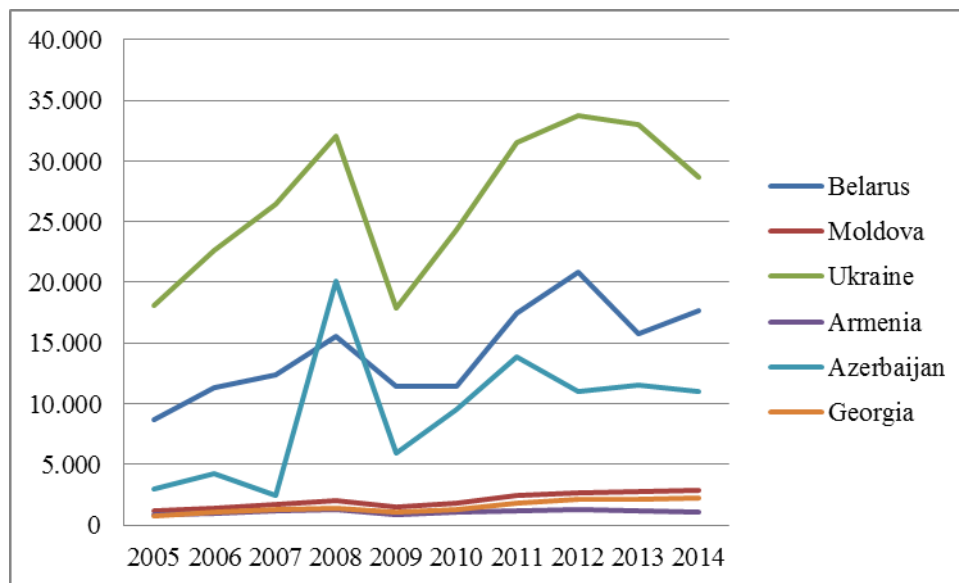
³ The table does not include data from the occupied territories in Georgia, Moldova and Ukraine.

registered positive, but rather small growth rates. 2014 reveals a downturn of -6.8% in Ukraine (caused by the ongoing conflict in the Eastern part of the country). As opposed to the situation of Ukraine, all the other EaP members recorded increases of the GDP growth rates from 1.6% in Belarus to 4.8% in Georgia.

To conclude, we note that, for the analysed time frame, the real GDP growth rate was higher in the EaP countries as compared to the EU members, the effects of the global economic and financial crisis being more profound to the latter, as their involvement in economic activities was also higher.

Trade between the EaP members and the EU-28 members also provided valuable information regarding the role of the EU members as trading partners of the EaP countries and vice versa. In 2013, for instance, exports of goods coming from the EaP countries towards the EU-28 was estimated to 30.8 billion euro, while imports from the EU-28 to the Eastern partners were of 35.4 billion euro (Eurostat, 2015).

Figure 3 - Total trade in goods of the EaP countries with the EU-28 (total value of exports to EU-28 and total value in imports from EU-28, million euro) between 2005 and 2014



Source: created by the author based on Eurostat data 2016, enpr_etflow database

As represented in Figure 3 above, trade relations between the EaP members and the EU-28 members have intensified progressively until 2008, followed by an important downturn in 2009, with the global economic and financial crisis. After their inclusion in the Eastern dimension of the ENP, trade flows have intensified again, reaching in 2011-2012 similar or higher values than in 2008.

Trading volumes were significantly higher for Ukraine, Belarus and Azerbaijan, the Eastern partners with the biggest surfaces and populations. Over the analysed time frame, among the Eastern neighbours, the biggest increases of trade in goods with the EU-28 were recorded in Azerbaijan (2014 value surpassed 3.7 times the one in 2005) and Georgia (2014 value surpassed 3 times that of 2005).

However, in total trade of the EU-28 in 2014, the EaP members each have a share between 0.03% (Armenia) and 0.85% (Ukraine). Thus we can observe a low dependency of the EU-28 economy on the EaP economies (according to Table 3). In 2013, the main goods imported by the EU-28 from Azerbaijan, Belarus and Georgia were mineral fuels, lubricants and other connected materials. As for Armenia and Ukraine, they hold the highest imports by the EU-28 in the manufactured goods sector. Imports of EU-28 countries from Moldova were mainly represented by other manufactured goods⁴.

Exports from EU-28 towards the six Eastern neighbours (except for Georgia – mineral fuels, lubricants and other connected materials) were generally formed by transport equipment and machinery (Eurostat, 2016).

Table 3 - EU-28 trade with EaP countries between 2005 and 2014 (the share of EaP countries in EU-28 total trade %)

Country/Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Belarus	0.39	0.45	0.46	0.54	0.49	0.40	0.53	0.60	0.46	0.52
Moldova	0.05	0.06	0.06	0.07	0.06	0.06	0.07	0.07	0.08	0.08
Ukraine	0.81	0.90	0.99	1.11	0.77	0.84	0.96	0.97	0.96	0.85
Armenia	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.03	0.03
Azerbaijan	0.13	0.17	0.09	0.69	0.25	0.33	0.42	0.32	0.34	0.33
Georgia	0.03	0.04	0.05	0.05	0.05	0.05	0.05	0.06	0.06	0.07

Source: created by the author based on Eurostat data 2016 (enpr_etflow) and DG Trade data 2016 (tradoc_113347, tradoc_113351, tradoc_113383, tradoc_113419, tradoc_113459)

On the other hand, the share of EU-28 in total trade of the Eastern partners varied from 25.17% (Armenia) to 51.72% (Moldova), according to Table 4. This data reflects the commercial dependency of the EaP countries over EU-28, but also the asymmetry of trade flows between the two groups of countries.

⁴ According to SITC Rev3 (Standard International Trade Classification, Third Revision).

Table 4 - EU-28 trade with EaP countries between 2005 and 2014 (The share of EU-28 in total trade of EaP countries %)

Country/Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Belarus	32.94	33.66	31.90	31.72	31.85	25.29	27.94	28.97	26.04	31.32
Moldova	43.90	47.03	47.08	44.98	45.73	45.04	45.03	45.20	45.75	51.72
Ukraine	32.10	34.18	33.20	30.95	29.24	28.75	29.02	28.25	31.23	36.26
Armenia	36.93	36.52	35.62	32.73	28.70	30.72	30.60	27.70	25.99	25.17
Azerbaijan	43.05	45.30	28.79	53.86	39.57	44.93	53.06	42.31	44.08	48.79
Georgia	28.13	27.66	26.32	25.63	27.02	24.98	26.89	26.71	26.36	26.93

Source: created by the author based on Eurostat data 2016 (enpr_etflow) and DG Trade data 2016 (tradoc_113347, tradoc_113351, tradoc_113383, tradoc_113419, tradoc_113459)

The accession of Armenia and Belarus to the EEU, founded started? on the 1st of January 2015, might further influence the Eastern orientation of these two countries, to the detriment of intensified trade flows with the EU-28 that are at the benefit of Ukraine, Moldova and Georgia, signers of the AAs. Although highly influenced by Russia, Azerbaijan recorded high volumes of trade flows with the EU-28 (48.79% in 2014), mainly because of exports of oil products.

Conclusions

The Eastern Neighbours hold a legacy of dependency, that of dependency on the Soviet Union. Their proximity to the EU, however, following the last enlargement of the latter to the East (in 2007), is considered both an opportunity and a threat.

The EaP is indeed for its six tiny members, an opportunity of upgrading trade relations and growth, opportunities for job creation, but also for improving social structures, helping the civil society and democratic institutions.

However, being part of the ENP has been recently interpreted by Russia as a menace towards its expansionist policy in the neighbourhood. Conflict areas within these countries remind them of the past, whereas current turmoil in Ukraine brings even more concerns over the future expressions of Russian influence in Eastern Europe and the South Caucasus.

Despite the fact that they are divided into EU fans (Moldova, Georgia, Ukraine) and EU skeptics (Belarus, Armenia, Azerbaijan), the EaP members hold a common interest in approximation to EU legislation: a huge market and common practices, standardization and a model of industrial progress.

EaP members are commercially dependent on the Single Market, as it is shown by the share of EU-28 in total trade of the Eastern partners: in 2014 it varied from 25.17% (Armenia) to 51.72% (Moldova).

On the other hand, relations between the two groups of countries are asymmetrical, as the EaP members each share between 0.03% (Armenia) and 0.85% (Ukraine) in total trade of EU-28 in 2014. Moreover, these developments reflect that EU support of the EaP is more of a security strategic policy of stabilization than an economic pursuit per se.

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