



PARTNERSHIP IN TIMES OF CRISIS

CHALLENGES FOR THE EASTERN EUROPEAN
COUNTRIES' INTEGRATION WITH EUROPE

Rafał Sadowski

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KEY POINTS

- Four years after its launch, the Eastern Partnership initiative has created frameworks and mechanisms for the integration of Eastern Partnership countries with the European Union. Nevertheless, the partner countries have so far made little meaningful progress in modernisation, reforms or European integration. Since the European Neighbourhood Policy was launched in 2004, the situation in areas of key importance for the EU, such as democratisation, free-market transformations, European integration, political stability and regional security, has not improved to a degree that would meet the Union's expectations.
- The Eastern Partnership initiative, which was intended to promote the integration of the Eastern European and Southern Caucasus countries with the EU, has turned out to be predominantly a bureaucratic instrument with limited political significance, which hardly matches the European union's ambitions and the challenges it faces in the eastern neighbourhood. The parties concerned are more interested in maintaining dialogue than in achieving tangible progress in European integration. This shows the limits of the EU's ability to influence its eastern neighbourhood.
- Due to the gap between the expectations of the partner countries and their elites on the one hand, and what the EU has to offer on the other, the EaP countries have shown only limited commitment to integration with the EU and transformation along EU models. These are long-term processes which might generate tangible benefits only if their ultimate aim was clearly defined, which is not the case (for example, it is unclear if those processes are supposed to lead to membership in the Union, or to a different form of integration). Implementing them would entail considerable financial and political costs, which could not be offset by the current level of support from the EU.

Democratic and free-market transformations require changes in the eastern neighbours' models of governance, which could undermine the position of the current dominant business and political groups by introducing political pluralism and free competition. The local elites, however, are mostly interested in defending their positions.

- As on many other issues, the European Union has failed to develop a coherent position on its policy towards the eastern neighbours. This applies both to the long-term objectives (cf. attitudes towards membership prospects for EaP countries or the abolition of visa regimes) and current issues (such as the signature of the association agreement with Ukraine, the policy of sanctions against Belarus). The eastern neighbourhood plays only a secondary role in the EU's political agenda, especially in the context of the Union's internal problems (including the debate on the future of the Union, the need to reform the EU's decision making processes, and the financial crisis). As long as these problems remain unsolved, we should not expect any change in the eastern dimension of EU policy. However, despite those weaknesses, the Eastern Partnership will remain the main framework for the development of mutual relations.
- The policy of Russia poses a growing challenge to the EU's policy in the eastern neighbourhood. On the one hand, this is due to the limited dynamics of EU actions, and on the other to a change in Moscow's strategy. Russia's Eurasian integration project (of which the customs union with Belarus and Kazakhstan is the first phase) is modelled on the European Union's *modus operandi*, and aims at integration based on common supranational institutions and legislation. Participation will preclude any deeper integration with the EU, and so the Russian project rivals and poses a challenge to European policy. Meanwhile, Russia continues to exploit the existing political and economic dependencies of its associates (including the

dependency on its energy resources), and is prepared to offer its partners financial support without preconditions related to democratisation or economic transformation.

- As the opportunities for stepping up political co-operation are limited, we should not expect any breakthrough in the relationship between the European Union and the Eastern Partnership countries. In order to increase the efficacy of European actions and avert the ultimate failure of the Eastern Partnership initiative, it will be necessary to achieve some tangible progress, especially in the three crucial areas of economic integration (the signature and implementation of the Deep And Comprehensive Free Trade Agreements, increasing investments and trade exchange levels), visa liberalisation (abolition of the Schengen visa regime for those countries that have made the most progress) and the development of the partners' institutional potential.
- Despite the diplomatic efforts the Union has made so far (negotiating the Association Agreements, stimulating reforms) the EU's economic and business relations with the eastern neighbourhood have not intensified considerably, nor has the EU noticeably strengthened its position as the region's economic partner. The present paper proposes the creation of an EU investment fund for the Eastern Partnership as a way to tackle this problem. With this fund in place, it would be possible to step up European investments in the under-invested countries of the region and enhance the attractiveness of the European project to the Eastern Partnership countries, while at the same time generating concrete financial and business gains for both sides.

INTRODUCTION

The Eastern Partnership (EaP) initiative was intended to lend a new impulse to the European Union's relations with its eastern neighbours, namely Ukraine, Moldova, Belarus, Georgia, Armenia and Azerbaijan. It was launched in 2009 as the Eastern dimension of the European Neighbourhood policy. It has brought about a series of changes in the Union's approach to the region and in the set of instruments employed by the EU. However, four years on, the dynamics of the EU's political relations with its eastern neighbours has been slowing down, especially since the end of Poland's presidency of the EU Council in 2011. In bilateral relations, the parties have mainly been focused on bureaucratic activities, in particular on negotiating association agreements and agreements on visa liberalisation and facilitation. However, these efforts have so far failed to produce tangible outcomes in the form of agreements signed and implemented, nor have they produced any qualitative change in mutual political relations. In the multilateral dimension, the activities of Eastern Partnership institutions, such as Euronest, the Conference of the Regional and Local Authorities (CORELAP) and the Civil Society Forum, have also failed to achieve the outcomes expected, and the activities of the institutions themselves have been almost invisible to the general public. Finally, the effectiveness of the support programmes financed by the EU has been called into question, as their impact on the situation in the partner countries has been limited.

In addition, internal developments in the partner countries have been a cause for concern for the EU. On the one hand, positive examples of change have been emphasised. Moldova, for instance, has made considerable progress towards rapprochement with the EU over the last four years; in October 2012 the EU Commissioner for Enlargement Štefan Füle said that the country should be granted membership prospects¹. Georgia is another positive

¹ Statement by Štefan Füle, European Commissioner for Enlargement and Eu-

example; the country underwent a democratic change of government as a result of the parliamentary elections in October 2012. On the other hand, however, criticism has been mounting in the EU over the erosion of democratic standards in Belarus, Azerbaijan, and in particular Ukraine. The Eastern Partnership countries have also failed to make substantial progress in economic modernisation and European integration. This has led to criticism of the inefficacy of the Union's actions, and has been raised as an argument against stepping up European involvement in the region.

The partner countries are also disappointed with the EU's policy. From their point of view, what the European Union offers does not match their needs. Facing deteriorating economic conditions, the EaP countries are unable to bear the considerable costs of transformations and integration with the EU, especially since the ultimate objective of such integration has not been clearly defined. Should it consist in some form of closer co-operation among neighbours, or economic integration based on a free trade area? Or perhaps the partner countries could be granted membership prospects at the end of the road?

Unlike the Central European countries, which in the 1990s staked everything on Euro-Atlantic integration, European integration is not the only option for the Eastern European states. Other actors, including Russia in particular, occupy important positions in their foreign policies. Russia has initiated its own Eurasian integration project, which is intended to be a rival undertaking to European integration and poses a geopolitical challenge to the European Union.

Another problem concerns the major changes that have been occurring within the European Union, which indirectly create a new context for its relations with the Eastern Partnership countries.

European Neighbourhood Policy, at the EU-Moldova Forum in Berlin, Germany, 22 October 2012, http://europa.eu/rapid/press-release_SPEECH-12-753_en.htm

Those changes are related mainly to the Euro crisis and, more importantly, the debate on the future of the Union and its possible division into several circles or speeds of integration. The result is that the EU member states have been losing interest in foreign policy, and certainly in the eastern neighbourhood.

In this context, it is legitimate to ask questions about the extent to which the European Neighbourhood Policy and the Eastern Partnership have brought the Union closer to achieving its declared objectives in the relations with eastern neighbours. What is the underlying cause of the dwindling involvement and declining interest in achieving real progress in integration? How may the events that have been dominating the political agenda - i.e. the EU's financial crisis, the debate on the future of the Union, but also the political processes taking place within the partner countries - affect the future of mutual relations?

The present paper begins with a presentation of the basic objectives and assumptions of the European Union's eastern policy. It then goes on to discuss developments in the individual Eastern Partnership countries since the launch of the European Neighbourhood Policy, and attempts to answer the question of to what extent the social, political and economic changes taking place in the region are in line with the Union's expectations. The next part presents the approaches towards European integration of the partner countries and their political elites. Then the paper goes on to discuss the most important political processes that will affect the future development of the eastern dimension of the European Neighbourhood Policy - the financial crisis in the Union and the economic crisis in the partner countries, the debate on the future of the EU and the policy of Russia. The conclusion outlines actions that can be taken within the framework of the EU's Eastern policy at this stage.

I. EVOLUTION OF THE EU'S APPROACH TO ITS EASTERN NEIGHBOURHOOD

1. Partnership and Co-operation Agreements

The shape of EU policy towards the countries of Eastern Europe and the Southern Caucasus² has evolved gradually since the 1990s. In the beginning, those countries were not regarded as the European Union's neighbourhood. Rather, they were seen as belonging to the post-Soviet area in which Russia played a dominant role³. The first stage in the evolution of the EU policy instruments addressing the countries which are now participating in the Eastern Partnership consisted in the conclusion of Partnership and Co-operation Agreements (PCA), which were signed with all the former Soviet countries except for the Baltic states and Belarus. The PCAs took effect in the late 1990s, and laid down the principles of economic co-operation and created the frameworks for political dialogue. They also envisaged a situation where the partner countries would gradually align themselves to European standards, although the provisions on this were not very specific and have not been regarded as mandatory. The PCAs continue to constitute the treaty basis for the EU's relations with the eastern neighbourhood.

2. European Neighbourhood Policy

The Eastern European countries became direct neighbours of the Union after the Central European states joined the EU in the 2004 wave of enlargement. That geopolitical change led to the launch of a new instrument in EU policy – the European Neighbourhood Policy (ENP), which covered the sixteen countries in Eastern

² In the present paper, the term “Eastern Europe” refers to the countries participating in the Eastern Partnership initiative, i.e. Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

³ Katarzyna Pełczyńska-Nałęcz, *Integration or imitation? EU policy towards its Eastern Neighbours*, OSW Studies, No 36, Centre for Eastern Studies, Warsaw 2011, p. 29, http://www.osw.waw.pl/sites/default/files/PRACE_36_en.pdf.

Europe and the Southern Mediterranean⁴. The ENP introduced a significant change in the Union's attitude towards Eastern Europe. The EU started to recognise the region as its direct neighbourhood, and consequently it became necessary for the Union to step up its political and financial involvement there. At the same time, a separation was introduced in EU policy between the Eastern European countries and Russia, which did not participate in the ENP⁵. This meant a significant change in the EU's perception of the countries of the region, which were no longer seen as the Russian-dominated post-Soviet area, but as the Union's neighbours with prospects of rapprochement with the EU⁶. The primary objective of the ENP was defined as "strengthening the stability, security and prosperity" of the Union and its eastern neighbours, building closer mutual relations, and achieving economic and political integration. The EU also committed itself to stepping up efforts to resolve regional conflicts⁷. The scale of EU involvement became conditional on its neighbours respecting democratic values, human rights, the principles of market economy and sustainable development. It was emphasised that the ENP had not been conceived of as an instrument of EU enlargement, although membership prospects were not ruled out. The scope of the ENP was expanded in 2007 to include the strengthening

⁴ Communication from the European Commission, European Neighbourhood Policy strategy paper, 12.05.2004, http://ec.europa.eu/world/enp/pdf/strategy/strategy_paper_en.pdf

⁵ Russia was not interested in participating in the ENP. The EU and Russia cooperate within the framework of the so-called Common Spaces. In 2010 the parties reached agreement on the Partnership for Modernisation, which was supposed to lend a new impulse to the EU-Russia relations. See the Joint Statement on the Partnership for Modernisation EU-Russia Summit 31 May-1 June 2010, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/er/114747.pdf

⁶ One of the objectives of the ENP was to "prevent the emergence of new dividing lines between the enlarged EU and its neighbours". European Neighbourhood Policy strategy paper, p. 3, *op. cit.*

⁷ The frozen conflicts in the eastern neighbourhood include: Moldova's conflict with the breakaway region of Transnistria; Georgia's conflict with the breakaway regions of Abkhazia and South Ossetia; and the conflict between Armenia and Azerbaijan over the Nagorno-Karabakh region.

of trade and economic co-operation (through the launch of negotiations on free trade areas), starting co-operation on mobility (negotiations on visa facilitations and readmission), stepping up sectoral co-operation, and introducing an option for neighbours to participate in the EU programmes and agencies⁸.

3. The Eastern Partnership

Maintaining a single framework for the disparate neighbourhoods in the east and in the south turned out to be difficult. As a result, two regional dimensions of the ENP were defined: the Union for the Mediterranean, covering ten North African and Middle Eastern countries in 2008, and the Eastern Partnership for Eastern Europe and the Southern Caucasus in 2009. This move was influenced also by internal rivalry between those EU member states that were interested in stepping up EU involvement in the south, and those seeking a greater EU presence in the east. Launched in a period of economic prosperity in the EU, the two regional dimensions were also intended to strengthen the Union's position as a global actor. The objectives of ensuring stability in the neighbourhood, in which the involvement of the United States was decreasing, and of strengthening EU influence, reflected the Union's faith in its own power and an ambition to play a key role in international politics.

The principal objective of the EaP was defined as “the political association and economic integration” of the EU and the interested partner countries⁹. In practice, that was supposed to mean creating a common free trade area, as well as the integration of the partner

⁸ Communication from the European Commission, Strengthening the European Neighbourhood Policy, 4 December 2006, http://ec.europa.eu/world/enp/pdf/como6_726_en.pdf

Communication from the Commission, A Strong European Neighbourhood Policy, 5 December 2007, http://ec.europa.eu/world/enp/pdf/como7_774_en.pdf

⁹ Joint Declaration of the Prague Eastern Partnership Summit, Prague, 7.05.2009, p. 6, http://ec.europa.eu/europeaid/where/neighbourhood/eastern_partnership/documents/prague_summit_declaration_en.pdf

countries' economies with the European market. However, still no decisions were taken on granting (or refusing) membership prospects to the EaP countries. On that occasion, the original objectives of the ENP were also restated as stimulating the modernisation and development of the partner countries in line with European models, and promoting co-operation based on democratic and free-market values. The set of EU policy instruments was expanded, and the policy itself, which until then had been implemented on a bilateral basis, was extended to include a multilateral dimension aimed not only at building closer relations between the EU and the region, but also among the individual Eastern European countries. The main focus was placed on negotiating new kinds of treaty agreements (Association Agreements and Deep And Comprehensive Free Trade Area Agreements that would replace the PCAs dating back to the 1990s) and developing positive co-operation (economic integration, EU support for reforms and modernisations, measures to strengthen civil society, etc.). In doing so, the EU tried to avoid problems that could obstruct the implementation of the initiative, such as possible confrontation with Russia, as well as issues such as regional security and the regulation of frozen conflicts (which *de facto* were not included into the EaP scope but were covered by the Common Security and Defence Policy).

4. The ENP after the 'Arab Spring'

In the period after 2004, the ENP was implemented in a relatively stable political environment unaffected by unpredictable crises¹⁰ that could undermine this policy. In the east, the Russian intervention in Georgia was the only exception, which to some extent influenced the Union's decision to launch the Eastern Partnership. The 'Arab spring' in early 2011 and the toppling of regimes in Tunisia, Egypt and Libya, as well as the protests in the other countries of Northern Africa, fundamentally changed the political

¹⁰ The protracted Israeli-Palestinian conflict and the instability in Lebanon are lasting features of the political conditions in the Middle East.

context of the ENP and forced the EU to make more changes to its policies towards the neighbours. Those events called into question the EU's original approach to the southern neighbourhood, where the priority had been to ensure stability and security by co-operating with the local authoritarian regimes at the expense of support for democratisation or civil society. Meanwhile, authoritarian tendencies were also on the rise in the eastern neighbourhood. As a result, the EU started to make modifications to its neighbourhood policy; these did not considerably alter the basic assumptions of that policy, but were primarily aimed at improving the effectiveness of its instruments. The changes concerned in particular: (1) adopting a more varied approach to better take into account each neighbour's local conditions and aspirations with regard to the EU; (2) strengthening conditionality by introducing the 'more for more' rule which made the scale of EU support dependent of progress in European integration and reforms; (3) attaching greater significance to, and becoming more involved in, co-operation with civil society¹¹.

* * *

Still, the Union has been largely reactive in implementing its neighbourhood policy: changes were always introduced in response to developments, and never anticipated events. The ENP was launched because of the EU's eastward enlargement and the pressure from the new Central European members. In the case of the Eastern Partnership, one of the impulses came from the Russian intervention in Georgia which threatened to destabilise the entire Southern Caucasus, and indirectly, also from the Russian-Ukrainian gas crisis in the early 2009. Finally, the ENP reform after 2011 was a consequence of the 'Arab Spring', over the outbreak of which the EU had had no influence.

¹¹ Rafał Sadowski, *European Neighbourhood Policy Package – Conclusions for the Eastern Partners*, *OSW Commentary*, Centre for Eastern Studies, 25 May 2012, <http://www.osw.waw.pl/en/publikacje/osw-commentary/2012-05-25/european-neighbourhood-policy-package-conclusions-eastern-partn>

II. LITTLE CHANGE IN THE EASTERN NEIGHBOURHOOD

The arrest and conviction in 2011 of Ukraine's former prime minister Yulia Tymoshenko triggered an intensive debate on the condition of democracy in the countries of Eastern Europe. The EaP countries were criticised for the rise of undemocratic tendencies: this refers not only to Ukraine, but also to Georgia, as well as Belarus and Azerbaijan, the two EaP countries regarded as authoritarian¹². In the EU's perception, the erosion of democracy in the eastern neighbourhood became even more pre-eminent when viewed against the background of the changes triggered by the 'Arab Spring' in North Africa.

Developments in the eastern neighbourhood since the launch of the ENP in 2004 have hardly met the EU's expectations. Measured by the criteria of the main objectives of EU policy, i.e. stability and regional security, democratic and free-market transformations, and integration with the EU, the situation in the countries of the region has not changed considerably, and has worsened in some respects. Analysis of the various criteria and indexes describing the change in those areas since 2004 shows that the growing

¹² Tadeusz Iwański, Rafał Sadowski, Anna Kwiatkowska-Drożdż, Artur Ciechanowicz, The crisis in EU/Ukraine relations surrounding Tymoshenko, *Eastweek*, Centre for Eastern Studies, 9 May 2012, <http://www.osw.waw.pl/en/publikacje/eastweek/2012-05-09/crisis-eu/ukraine-relations-surrounding-tymoshenko>

Kamil Kłysiński, Rafał Sadowski, Belarus's diplomatic war with the European Union, *Eastweek*, Centre for Eastern Studies, 29 February 2012, <http://www.osw.waw.pl/en/publikacje/eastweek/2012-02-29/belaruss-diplomatic-war-european-union>

Aleksandra Jarosiewicz, Eurovision: Azerbaijan's failure to promote itself, *Eastweek*, Centre for Eastern Studies, 30 May 2012, <http://www.osw.waw.pl/en/publikacje/eastweek/2012-05-30/eurovision-azerbaijan-s-failure-to-promote-itself>

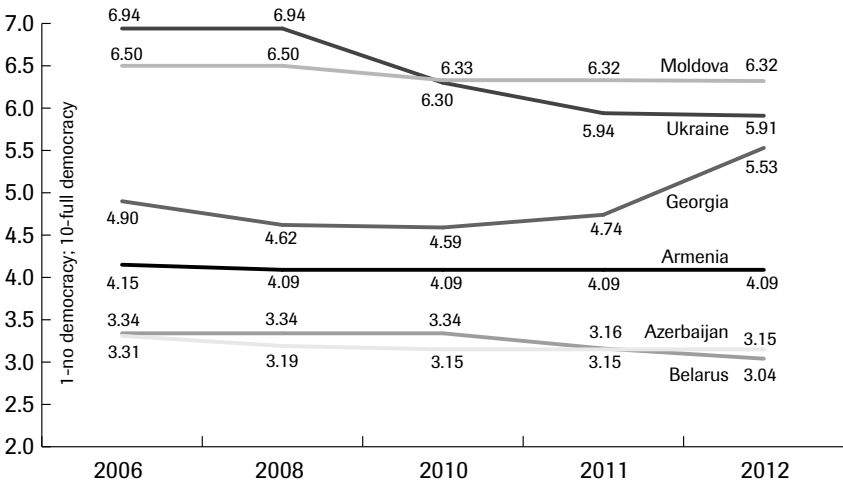
Georgia: Police break up protest aimed at preventing Independence Day parade, *Eastweek*, Centre for Eastern Studies, 1 June 2011, <http://www.osw.waw.pl/en/publikacje/eastweek/2011-06-01/georgia-police-break-protest-aimed-preventing-independence-day-parade>

involvement of the EU and the development of its bureaucratic instruments has failed to bring about any real improvements in the neighbourhood, revealing the limits of the EU's ability to influence the situation in the EaP countries.

1. Democracy and regional security

None of the six EaP countries are democratic states by European standards. According to various rankings, they are either partly democratic (Moldova, Ukraine, Georgia, Armenia) or authoritarian regimes (Belarus and Azerbaijan). None of the countries have reported considerable improvement in this respect since 2004, and in most of them the situation has hardly changed at all. Ukraine, where the situation deteriorated markedly after 2010 following a period of growing political freedoms after the 2004 Orange Revolution, is one of the negative examples.

Figure 1. Democracy Index (Economist Intelligence Unit)



Source: Economist Intelligence Unit, https://www.eiu.com/public/topical_report.aspx?campaignid=DemocracyIndex12

| Country | Freedom in the world (1 = free - 7 = not free) | | | | | | | | | | | | | | | | |
|-------------------|---|----|--------|----|----|--------|----|----|--------|----|------|--------|----|------|--------|----|----|
| | 2004 | | 2007 | | | 2009 | | | 2011 | | 2012 | | | 2013 | | | |
| year | PR | CL | status | PR | CL | status | PR | CL | status | PR | CL | status | PR | CL | status | PR | CL |
| Armenia | 4 | 4 | PF | 5↓ | 4 | PF | 6↓ | 4 | PF | 6 | 4 | PF | 6 | 4 | PF | 5↑ | 4 |
| Azerbaijan | 6 | 5 | NF | 6 | 5 | NF | 6 | 5 | NF | 6 | 5 | NF | 6 | 5 | NF | 6 | 5 |
| Belarus | 6 | 6 | NF | 7↓ | 6 | NF | 7 | 6 | NF | 7 | 6 | NF | 7 | 6 | NF | 7 | 6 |
| Georgia | 4 | 4 | PF | 3↑ | 3↑ | PF | 4↓ | 4↓ | PF | 4 | 3↑ | PF | 4 | 3 | PF | 3↑ | 3 |
| Moldova | 4 | 3 | PF | 4 | 3 | PF | 4 | 4↓ | PF | 3↑ | 3↑ | PF | 3 | 3 | PF | 3 | 3 |
| Ukraine | 4 | 4 | F | 3↑ | 2↑ | F | 3 | 2 | PF | 3 | 3↓ | PF | 4↓ | 3 | PF | 4 | 3 |

PR - political rights

CL - civil liberties

↑ - improvement

↓ - decline

F - free

PF - partly free

NF - not free

Source: Freedom House Foundation, <http://www.freedomhouse.org/report/freedom-world/freedom-world-2013>

The absence of progress in democratisation is visible in how elections have been held in the region's countries over recent years. The character of ballots is one of the most important criteria in assessing the condition of democratic institutions, and the EU has made its activities in the neighbourhood conditional on such assessments. Elections held in all the EaP countries after 2008 were marred by more or less serious infringements of voting procedures. This refers to technical issues and the organisation of elections, but also, more importantly, to respect (or lack thereof) for the fundamental principle of freedom of choice. A positive example comes from Georgia, and especially its most recent parliamentary elections held on 1 October 2012, when a democratic change of government took place, and the OSCE recognised the election

as free, despite some shortcomings¹³. The situation has also improved noticeably in Moldova, where the OSCE positively assessed the last parliamentary elections in 2010¹⁴ and commended it as an improvement over the rigged elections of April 2009. OSCE reports have been quite positive about the elections in Armenia in recent years, even though they have pointed to a number of shortcomings, as a result of which the elections could not be recognised as fully democratic. Ukraine, on the other hand, has experienced a relapse, best exemplified by the parliamentary elections in October 2012,¹⁵ which received much more criticism from the OSCE observers than the previous ballot in 2010. In the remaining two countries, i.e. Azerbaijan and Belarus, none of the general elections of recent years met the criteria of a free and democratic vote.

Nor has there been hardly any progress in terms of regional security. In none of the four regional conflicts has the situation improved; on the contrary, all have remained highly volatile. In the cases of Abkhazia and South Ossetia in Georgia, the feasibility of a peaceful resolution has diminished considerably as a result of the Georgian-Russian war in August 2008, after which the two countries broke off diplomatic relations. The status of the Armenian-Azeri conflict over Nagorno-Karabakh also remains very volatile, and a new outbreak of armed operations cannot be ruled out¹⁶.

¹³ Office for Democratic Institutions and Human Rights, Georgia Parliamentary Elections 1 October 2012, OSCE/ODIHR Election Observation Mission, Final Report, Warsaw, 2012, <http://www.osce.org/odihr/elections/98399>

¹⁴ Office for Democratic Institutions and Human Rights, Republic of Moldova Early Parliamentary Elections 28 November 2010, OSCE/ODIHR Election Observation Mission, Final Report, Warsaw, 2011, <http://www.osce.org/odihr/75118>

¹⁵ Office for Democratic Institutions and Human Rights, Ukraine Parliamentary Elections 28 October 2012, OSCE/ODIHR Election Observation Mission, Final Report, Warsaw, 2013, <http://www.osce.org/odihr/elections/98578>

¹⁶ Lawrence Sheets, A 'Frozen Conflict' That Could Boil Over, *The International Herald Tribune*, 8 March 2012. Aleksandra Jarosiewicz, Krzysztof Strachota, 'Nagorno-Karabakh - conflict unfreezing', *OSW Commentary*, Centre for Eastern Studies, 26 October 2011, <http://www.osw.waw.pl/en/publikacje/osw-commentary/2011-10-26/nagornokarabakh-conflict-unfreezing>

The countries involved, especially Azerbaijan, have been arming themselves more intensively in recent years, and the number of incidents in the border areas has also increased, with 63 people killed between the beginning of 2011 and mid-2012¹⁷. The relative stabilisation of the Transnistrian conflict in mid-2012, when Chisinau and the breakaway region resumed contacts, hardly constituted a breakthrough. Transnistria has subsequently adopted a more rigid stance in the peace talks with Moldova in mid-2012, as a result of which the negotiations are stuck in stalemate, and an increased number of incidents between the two sides has been reported since the spring of 2013¹⁸. The risk of the conflict escalating would increase, particularly if real rapprochement occurred between Chisinau and the EU; this would threaten the geopolitical interests of Tiraspol's main protector, Russia, which could use the conflict instrumentally to block the progress of Moldova's European integration. Russia has been continually active in Transnistria in the field of security (for example, in 2012 it stepped up control of Transnistria's institutions of force, and incidents have been reported in the border area in 2013)¹⁹, which shows that such a scenario is indeed possible.

Despite the European Union's declared ambitions, its impact on the resolution of any of these conflicts has been limited. The

¹⁷ Joshua Kucera, Serious Escalation in Armenia-Azerbaijan Violence Greets Clinton, Eurasianet.org, <http://www.eurasianet.org/node/65501>
More than 30 people died in 2012 alone (source: Agence France Press).

¹⁸ For example, in April 2013 three Moldovan police officers were beaten in Bender by people associated with the Transnistrian security services; the Transnistrian authorities staged a blockade of the Chisinau-controlled prison in Bender; and the Transnistrian authorities unsuccessfully attempted to establish a customs control post in the village of Varnița located in the security zone and controlled by Moldova (for more information on the latter incident, see Evgeniy Sholar, Nikolai Pakholnitsky, Tatiana Gyska, Voen-naya gra «Varnitsa», *Kommersant Moldova*, 27 April 2013, <http://www.kommersant.md/node/16593>).

¹⁹ Wojciech Konończuk, Witold Rodkiewicz, Could Transnistria block Moldova's integration with the EU?, *OSW Commentary*, Centre for Eastern Studies, 23.10.2012, <http://www.osw.waw.pl/en/publikacje/osw-commentary/2012-10-23/could-transnistria-block-moldovas-integration-eu>

reasons include the EU's weak political position in the region, and the fact that the Union lacks effective instruments to influence the parties involved (for example, in contrast to the Western Balkans, where membership prospects and the ambition of all countries in the region to integrate with the EU were among the most important instruments).

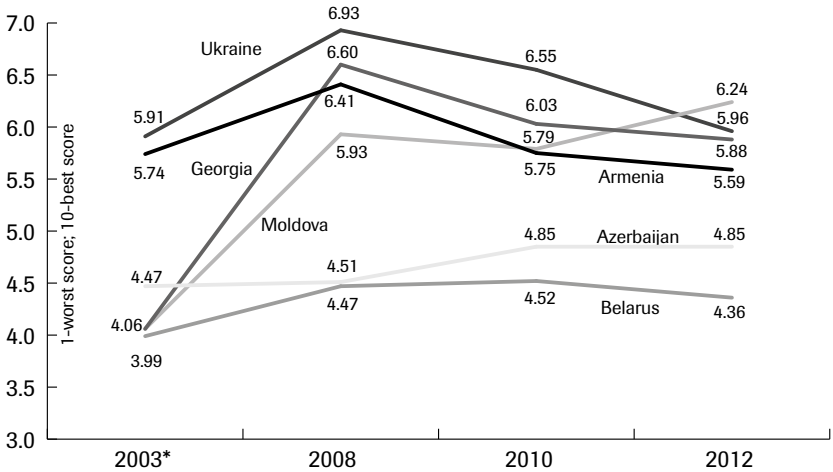
2. Free-market transformations and economic development

Economic and social transformations in the EaP countries present a mixed picture. None of the countries have made the substantial progress which would meet the EU's expectations. Transformations of the system of government in the Eastern European countries are slow and have stumbled on many more problems than was the case in the Central European countries which became EU members in 2004 and 2007.

The Bertelsmann Foundation Transformation Index, which measures the condition of democracy and the progress of market economy reforms, points to two positive examples of Moldova and Georgia, the two countries that did make considerable progress between 2003 and 2012. In the case of Georgia this *inter alia* reflects the democratic changes that occurred after the 2003 'Rose Revolution'; and in the case of Moldova, the rise to power of a pro-European coalition in 2009. In the other countries the situation worsened during the same period, most notably in Armenia after 2008 (as a result of the deep political crisis after the 2008 general election, among other factors²⁰) and in Ukraine (which experienced a relapse after the success of the 2004 Orange Revolution).

²⁰ For more information see International Crisis Group, Armenia: Picking up the Pieces, 2008, http://www.crisisgroup.org/-/media/Files/europe/b48_armenia_picking_up_the_pieces.pdf

Figure 2. Democracy and market economy (Bertelsmann Transformation Index)



* based on 2010 methodology

Source: Bertelsmann Foundation, <http://www.bti-project.org/index/>

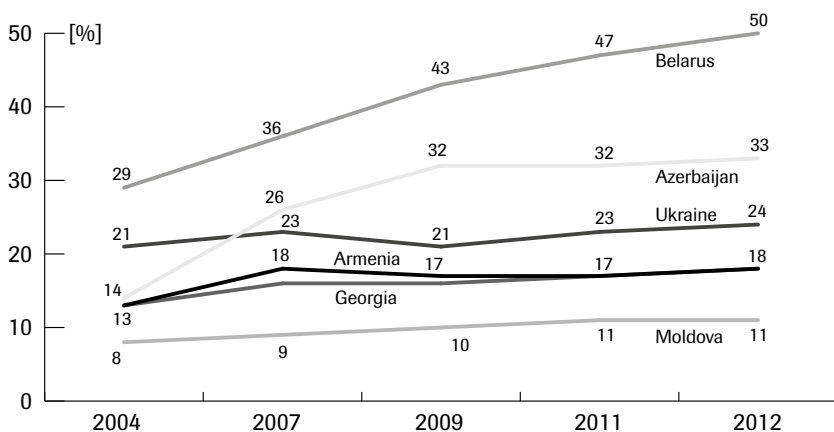
Belarus, which does not have well-developed relations with the EU and is the EaP country with which the EU is least involved, has performed best in terms of the human development index of the United Nations Development Programme (UNDP), and in rankings of economic development measured by GDP *per capita* based on purchasing power parity.

| Country | Human Development Index (0.000 worst score – 1.000 best score) / position in ranking | | | | |
|-------------------|--|-------------|------------|-------------|-------------|
| | year | 2005 | 2010 | 2011 | 2012 |
| Armenia | | 0.775 / 83 | 0.695 / 76 | 0.716 / 86 | 0.729 / 87 |
| Azerbaijan | | 0.746 / 98 | 0.713 / 67 | 0.700 / 91 | 0.734 / 82 |
| Belarus | | 0.804 / 64 | 0.732 / 61 | 0.756 / 65 | 0.793 / 50 |
| Georgia | | 0.754 / 96 | 0.698 / 74 | 0.733 / 75 | 0.745 / 72 |
| Moldova | | 0.708 / 111 | 0.623 / 99 | 0.649 / 111 | 0.660 / 113 |
| Ukraine | | 0.788 / 76 | 0.710 / 69 | 0.729 / 76 | 0.740 / 78 |

Source: UNDP, <http://hdr.undp.org/en/statistics/>

Azerbaijan has markedly reduced the gap separating its economy from the EU, but this has happened irrespective of EU support, primarily thanks to the country's natural resource wealth and its revenues from exports to the European Union.

Figure 3. GDP PPP of EaP countries as % of EU GDP PPP



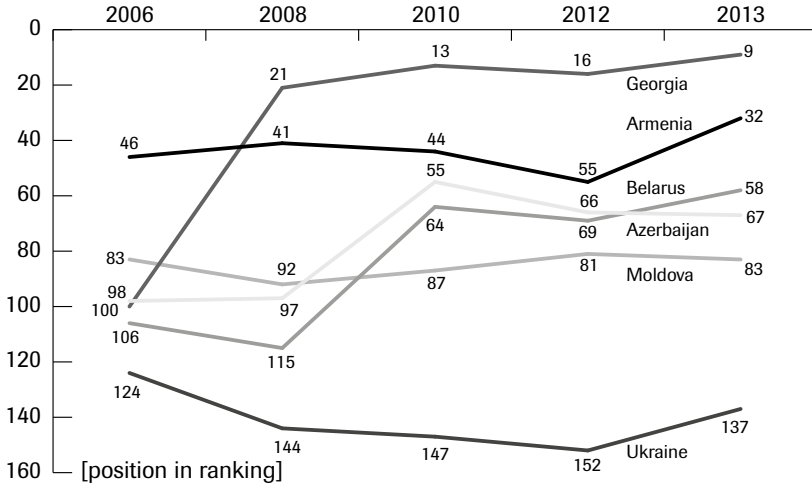
Source: Author's own calculations based on IMF data, www.imf.org

On the other hand, the countries most committed to rapprochement with the Union, principally Moldova but also Ukraine, have reported little improvement of their development indexes. The same applies to performance with regard to economic freedom and the ease of doing business, with Moldova and Ukraine being the worst performers.

| Country | Index of economic freedom (Heritage Foundation & Wall Street Journal) (0 worst score - 100 best score)/position in ranking | | | | | | |
|-------------------|--|------------|------------|------------|------------|------------|------------|
| | year | 2004 | 2007 | 2009 | 2011 | 2012 | 2013 |
| Armenia | | 70.3 / 23 | 68.6 / 34 | 69.8 / 31 | 69.7 / 36 | 68.8 / 39 | 69.4 / 38 |
| Azerbaijan | | 53.4 / 116 | 54.6 / 111 | 57.9 / 97 | 59.7 / 91 | 58.9 / 91 | 59.7 / 87 |
| Belarus | | 43.1 / 146 | 47.0 / 144 | 44.9 / 167 | 47.9 / 155 | 49.0 / 153 | 48.0 / 153 |
| Georgia | | 58.9 / 78 | 69.3 / 30 | 69.7 / 32 | 70.4 / 28 | 69.4 / 34 | 72.2 / 21 |
| Moldova | | 57.1 / 93 | 58.7 / 83 | 54.8 / 120 | 55.7 / 120 | 54.4 / 124 | 55.5 / 115 |
| Ukraine | | 53.7 / 114 | 51.5 / 134 | 48.8 / 152 | 45.8 / 163 | 46.1 / 163 | 46.3 / 161 |

Source: Heritage Foundation and *Wall Street Journal*, <http://www.heritage.org/index/>

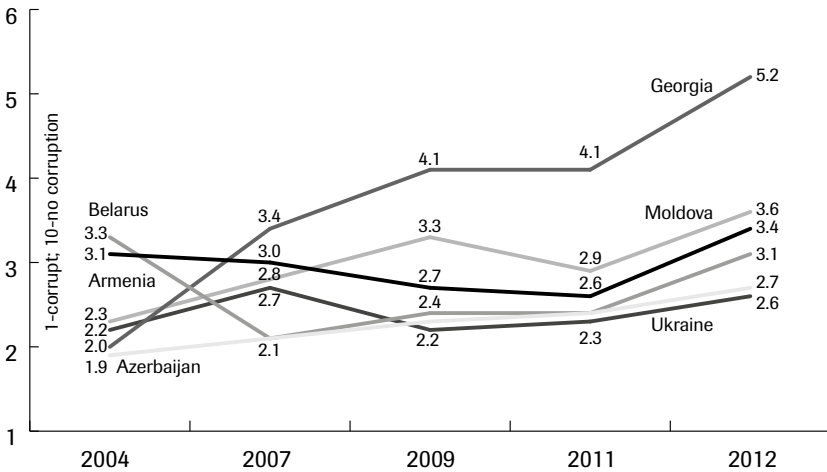
Figure 4. Doing Business



Source: World Bank / Doing Business Project, <http://www.doingbusiness.org/rankings>

One of the priorities of co-operation under the ENP is to combat corruption. However, with the exception of Georgia, and to a lesser extent Moldova, none of the EaP countries have reported any marked improvement in this respect compared to the situation in 2004.

Figure 5. Corruption Perceptions Index (Transparency International)

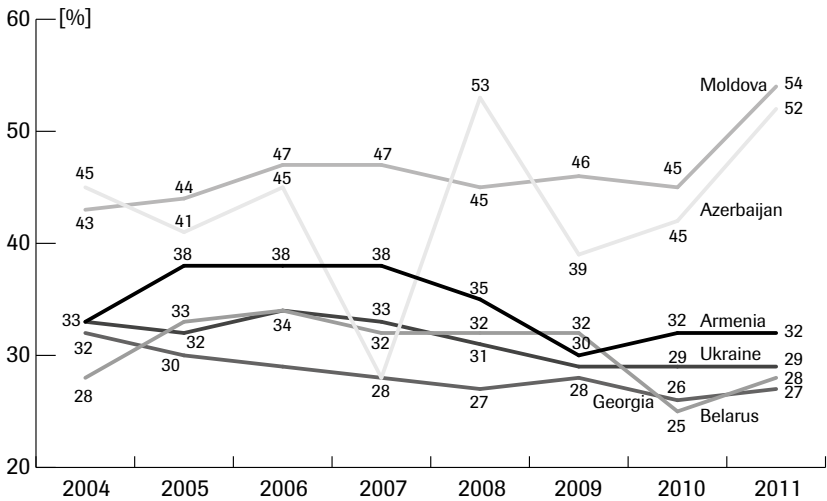


Source: Transparency International, www.transparency.org/research/cpi/

3. Economic integration with the EU

The EU's efforts to develop relations with the eastern neighbourhood have not resulted in closer economic integration either. Despite the measures taken to remove barriers to trade exchange, and the overall increase in the volume of trade, the Union's share in the EaP countries' trade did not change significantly in the years 2004–2011. Moldova is an exception here: the Union's share in its trade increased by 11 percent in the period in question (from 43% to 54% for Moldova's total trade turnover). Interestingly, the EU's shares in the trade of Ukraine and Georgia, the two countries which along with Moldova have made the greatest progress in political rapprochement and free-trade area negotiations with the Union, are smaller than its shares in the trade of the other EaP countries.

Figure 6. EU share in trade of EaP countries

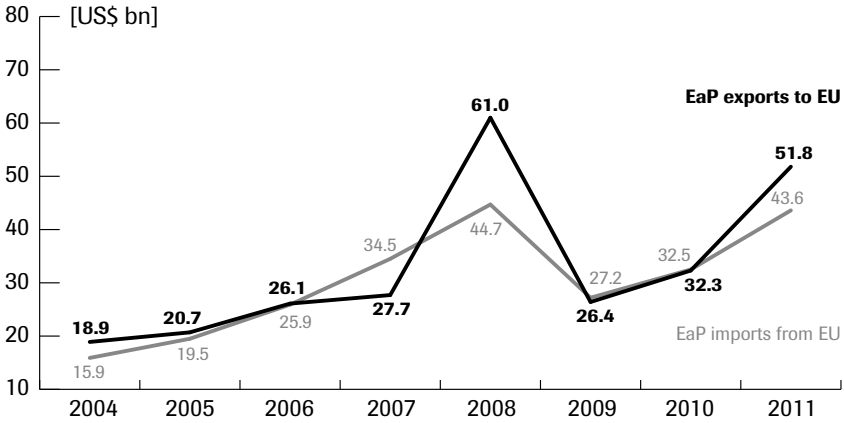


Source: Author's own calculations based on IMF data

The dynamics of trade exchange have mainly been influenced by the economic developments in the European Union and the situation on global markets. The Union's first financial crisis in 2009 led to a noticeable decrease in trade with the Eastern Partnership

countries, and it was only in 2011 that the volume of trade started to return to the 2008 levels. This shows that the economic situation in the EU and in the neighbour countries has a much greater impact on the intensity of economic co-operation than the measures taken as part of the ENP.

Figure 7. Total EaP exports to and imports from EU



Source: Author's own calculations based on IMF data, www.imf.org

III. THE PARTNERS' PERCEPTIONS OF WHAT THE EU HAS TO OFFER

The European Union is not the only party to experience a sense of unfulfilled expectations with regard to relations between itself and the EaP countries. The partner countries also are increasingly disillusioned with EU policy, because what the Union has to offer does not match their expectations. Despite declarations about “co-ownership” of the EaP initiative and the fact that actions under the ENP should be jointly agreed by the Union and the partner countries, the ENP and the EaP are primarily instruments of EU policy designed to serve the pursuit of the EU’s interests. Within this framework, the Union has proposed a certain model of relations to which the partner countries are expected to adapt, without in fact having any influence on its shape. The partners do not perceive European integration as their own project. Neither do the elites of EaP countries consider integration to be the only path of development available to them. The partner countries’ attitudes towards the EU and the level of their commitment to relations with the Union depend on the current political and economic situation and the short-term interests of the ruling elites.

1. European integration and the partners’ interests

The European Neighbourhood Policy and the Eastern Partnership employ the mechanisms of the EU enlargement policy, including the adoption of the EU’s extensive *acquis* by the partners, in return for financial and technical support or other benefits such as trade preferences or access to EU programmes and agencies. However, not all EaP countries are interested in rapprochement with the Union on such terms. For Belarus or Azerbaijan, the priority objectives include economic and trade co-operation, technology transfer and easier access to the European market (with continued protection for their own markets). The leadership in both countries opposes political and economic liberalisation, which is perceived as a threat to the ruling elites’ position on the internal political scene. Belarus

is furthermore involved in economic and political integration with Russia within the framework of the Customs Union. For Azerbaijan, on the other hand, the priority objective is to sell oil to the EU markets (oil accounts for 99.5% of Azerbaijan's exports to the EU²¹). Thanks to its oil export revenues, Baku does not depend on EU financial assistance, while the Union is to some extent dependent on co-operation with Azerbaijan, as it is one of the most important suppliers of oil to the EU markets, accounting for 4.7% of EU's oil imports in 2011²².

In those countries for which integration with the EU is a declared priority (Georgia, Moldova, Ukraine, Armenia), the problem is that integration does not offer sufficient benefits which could offset its high financial and social costs. The absence of membership prospects undermines the sensibility of adopting EU legislation and standards, as the partner countries have no say in the formulation of EU laws and solutions, and have no way to realise the benefits that these offer.

Because of the financial crisis in the eurozone, the eastern partners have ceased to regard the EU economic model as the optimal way to achieve prosperity for their countries. This is all the more important as integration with the European Union is not the only option available to the eastern neighbours. An alternative is provided by the integration projects initiated by Russia, namely the Customs Union which is expected to transform into the Eurasian Union in 2015. The two projects, integration with the EU and integration under the aegis of Russia, are mutually exclusive. This is leading to growing rivalry between them, and is forcing the EaP countries to choose their integration models and directions. Still, for those countries in the shared neighbourhood of the EU

²¹ 2011 figures from the European Commission's Directorate General for Trade: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113347.pdf

²² European Commission, Directorate General for Energy, Registration of Crude Oil Imports and Deliveries in the European Union (EU27), Market Observatory for Energy, http://ec.europa.eu/energy/observatory/oil/import_export_en.htm

and Russia which have strong economic, political and cultural ties with both sides, it is important to maintain as good relations as possible with both big neighbours. This is why all the partner countries (with the sole exception of Georgia) have been trying to pursue a policy of balancing between the EU and Russia and gaining benefits from both sides (including financial assistance, trade preferences, economic subsidies, political support, etc.). At the same time, because of their heavy economic and political dependence on Russia, the EU's eastern neighbours have been wary of any significant deterioration in their relations with Russia, which rapprochement with Europe could cause. Meanwhile, Russia sees the region as its own sphere of influence, and has been trying to counteract its closer integration with the EU structures. For instance, the Russian government has already threatened to restrict Ukraine's access to the Russian market if the country signs the free trade agreement with the Union²³. In another telling example, Moldova had to postpone the deadline for complying with its obligations under the Energy Community²⁴ under pressure from Russia²⁵. Without measurable economic compensation and political support from the Union, the partner countries will not risk any deterioration in their relations with Russia. On the other hand, the

²³ For example, during the Eurasian Economic Community summit in Moscow on 19 March 2012, the Russian president Dmitri Medvedev said: "We have talked about the benefits, and also about the difficulties, that may arise and are already arising in the countries which are not members of the Customs Union. This is life; if you are a member of an international structure, you get specific privileges. If you opt out, you can run into trouble." Quoted in Vladimir Solovyov, Sergei Sidorenko, Bezotkaznaya strategija, *Kommersant Ukraina*, Issue 45 (1535), 20 March 2012, <http://kommersant.ua/doc/1896790>

²⁴ The commitments concern the liberalisation of a country's energy market and its integration with the European Union under EU legislation (including the implementation of the Third Energy Package).

²⁵ Witold Rodkiewicz, Moldova signals that it may withdraw from implementing the Third Energy Package, *Eastweek*, Centre for Eastern Studies, 11 July 2012, <http://www.osw.waw.pl/en/publikacje/eastweek/2012-07-11/moldova-signals-it-may-withdraw-implementing-third-energy-package>
Energy Community, 10th Energy Community Ministerial Council, Meeting Conclusions, Budva, 18 October 2012, <http://www.energy-community.org/pls/portal/docs/1766216.PDF>

eastern neighbours do see dialogue and rapprochement with the Union as a way to counterbalance the asymmetry in their relations with Russia. The EaP countries are afraid of a breakdown of the process of European integration, because that would considerably undermine their positions vis-à-vis Moscow. Belarus is a case in point, as the country's dependence on Russia increased after its relationship with Brussels broke down in December 2010, after the Belarusian regime stepped up repression against the public.

The political weakness shown by the Union in its efforts to manage the regional conflicts in Eastern Europe has diminished the importance of European integration on the partner countries' political agendas. This applies for instance to Azerbaijan and Armenia, for whom their conflict over the Nagorno-Karabakh region is a key issue. Because the EU presence in and impact on the Nagorno-Karabakh conflict is limited, it is not perceived as an influential political player. Nor do the EaP countries view the Union as an actor that could support them in the pursuit of their most important foreign policy objectives; as a result, they are less interested in real rapprochement with the Union. This is what sets the situation in the Eastern Partnership apart from earlier developments in the Western Balkans, where the Union played a decisive role in the resolution of regional conflicts, which also boosted the Western Balkan countries' commitment to the process of European integration²⁶.

2. Bureaucrats' offers vs. politicians' interests

The attitudes of the local political elites are crucial if any progress is to be made in developing closer relations with the EU. Political leaders in the partner countries often use rapprochement with the Union instrumentally as a means to achieve short-term

²⁶ Jan Muś, Rafał Sadowski (ed.), *Bałkany Zachodnie i integracja europejska: perspektywy i implikacje*, Office of the Committee for European Integration, Centre for Eastern Studies, Warsaw 2008.

political and economic gains. Their aims in relations with the EU include in particular: (1) using EU support to achieve their foreign policy objectives, (2) obtaining financial support for their countries, in which they are guided by mercantilist attitudes, (3) using contacts with the EU to boost their own political positions, (4) improving their own image internationally, (5) legitimising their regimes, in the cases of the undemocratic states.

Because of the discrepancy between the stated objectives of integration and the timeframes in which they are supposed to be achieved (a dozen years or more) on the one hand, and the current interests of politicians in the partner countries (with time horizons of one or two years) on the other, the ultimate success of integration is of no importance for the latter. The political and financial costs of implementing reforms have also been denting the political will to achieve real progress. Any stimulus to reform comes not from the idea of rapprochement with the Union, but from those current economic and social challenges which are likely to undermine the position of the political elite. It is the threat of economic crises, which could lead to social protests, and not a general vision of building prosperity hand in hand with the Union, that forces the leaders to undertake reforms. In such cases, the partner states often consider co-operation with international financial institutions such as the International Monetary Fund, which is capable of quickly providing concrete advice and financial assistance, to be more effective than co-operation with the Union. Ukraine's co-operation with the IMF after the 2009 crisis is a case in point: some reforms were implemented in return for financial assistance, including the adoption of a law on pensions, partial reform of the gas market, changes in the fiscal and budget policies, and banking sector restructuring²⁷. Belarus is another example: after the 2009 economic crisis, the country

²⁷ See: Sławomir Matuszak, Arkadiusz Sarna, From stabilisation to stagnation. Viktor Yanukovych's reforms, Point of View, Centre for Eastern Studies, Warsaw, 2013, p. 21-22, http://www.osw.waw.pl/sites/default/files/PW_32_ANG_net.pdf

implemented some limited changes in co-operation with the IMF (which granted it a loan of US\$3.5 billion), as a result of which the country considerably improved its score in the World Bank's Doing Business ranking.

The public in the EaP countries exerts very little pressure on the leaders to pursue closer integration with the European Union. With the exception of Moldova and Georgia, this issue has had no impact on the governments' approval ratings, nor is it decisive for success at the ballot box. From the public's point of view, the ENP process is incomprehensible, and its effects barely visible. For ordinary people, the key issue is visa liberalisation, which, however, is a long-term process.

The oligarchic nature of the eastern neighbours' political systems and the close ties between the political and business elites (to different degrees and in different forms, depending on the country) are also important factors in this context. These have two kinds of serious consequences for the prospects of integration with Europe.

Firstly, the political elites are interested mainly in defending their own positions within the existing system of power, which ensures business influence for them. As a result, they seek to keep the existing systems intact and are reluctant to implement any deeper reforms. This approach runs counter to the assumptions of EU policy, at the core of which there are political and economic liberalisation and transparency of the systems of power. The most extreme examples come from the authoritarian regimes in Belarus and Azerbaijan, but similar phenomena can also be observed in the other countries, where power and business assets have been divided up among a closed political class.

The second consequence of this character of the political systems concerns the considerable influence that oligarchic business groups have on government decisions. The actions of those groups are guided by calculations of self-interest, which may be focused

on maintaining dominant positions in certain sectors of the economy, business benefits, etc. For this reason, introducing free competition or opening internal markets – steps envisaged by the free-trade agreement with Ukraine, for instance – may be damaging to the oligarchs. On the other hand, the agreement also creates new opportunities for them, including access to the EU market (which is crucial to entrepreneurs operating in export sectors). Consequently, the business elites do not take consistent attitudes towards the process of European integration or the reforms. Any progress in this respect will depend on internal conditions: some actions will be blocked, while others may be implemented.

IV. DIFFERENCES WITHIN THE EU

Apart from the obvious differences between the individual partner countries' relations with the European Union, there are also differences within the Union, as its members have not taken a uniform position on the eastern policy. Those differences between the various players in the EU, the institutions and the member states, have come to the foreground as a result of mounting internal problems, including the dispute over the future shape of the EU, the financial crisis and instability in the southern neighbourhood. While there is consensus on the general objectives of the neighbourhood policy, positions on the detailed issues differ according to the individual actors' interests and political aims. Currently, three issues are key: (1) the signature of the Association Agreements and the Deep And Comprehensive Free Trade Agreements (DCFTAs), especially with Ukraine; (2) visa liberalisation and the shape of migration policy; (3) the scale of EU involvement in the eastern neighbourhood. At the core of the differences of positions on these issues are different perceptions of the ultimate objective of European integration, and the related question about attitudes towards granting the partner states prospects of membership.

In view of the existing differences, the EU's policy is a compromise based on the lowest common denominator. As the long-term strategic objective of the neighbourhood policy (membership in the Union, or a different form of integration) is not clearly defined, and as the eastern neighbourhood is of little importance for the majority of the EU members, the EU institutions have mainly been taking *ad hoc* actions. Consequently, their efforts are not focused on reaching specific long-term political objectives, but on fulfilling successive bureaucratic procedures (such as negotiating successive articles of the Association Agreements or visa liberalisation agreements, etc.), which erodes the political significance of the Eastern Partnership.

1. Attitude towards the Association Agreement with Ukraine

With regard to the Association Agreements and the DCFTAs, the differences in the individual EU members' attitudes are due to the fact that some of them treat signature as an instrument of conditionality, while others see it as an instrument to stimulate reforms and durably bind the partners with the EU. In the former case, the Agreements are viewed as a kind of 'stick and carrot'; the benefits they offer are seen as a reward for progress in transformation, and refusal to sign as a punishment for failure to deliver on commitments. In the latter case, the Agreements are treated as a mechanism serving the purposes of modernisation and integration with the EU more effectively than the mechanisms originally provided for in the ENP (for instance, they lay down specific obligations and detailed schedules for the implementation of a substantial portion of the EU's *acquis*).

Those differences have become most prominent in the case of Ukraine, and the EU's decision to suspend the signature of the Association Agreement and the DCFTA initialled in 2012²⁸ in response to the 2011 imprisonment of opposition leaders, including the former PM Yulia Tymoshenko and the Interior Minister Yuri Lutsenko. In response, in 2012 the EU formulated three conditions that Ukraine would have to fulfil in order for the suspension to be revoked; these concerned stopping repression, conducting democratic elections, and achieving progress in reforms²⁹. However, the political pressure from the EU failed to persuade Kyiv to meet the conditions. In this situation some member states and civil society

²⁸ Initialled in two steps on 30 March and 18 July.

²⁹ Štefan Füle, Speech at the meeting of the EU-Ukraine Parliamentary Co-operation Committee, 14 July 2012, http://europa.eu/rapid/press-release_SPEECH-12-448_en.htm?locale=en

The conditions were restated in the EU council conclusions of 10 December 2012, see: Council of the EU, Council conclusions on Ukraine, 3209th Foreign Affairs Council meeting, Brussels, 10.12.2012, http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/EN/foraff/134136.pdf

organisations argued that the agreements should not be signed, pointing in the first place to the need to stand up for human rights, which is regarded as a cornerstone of EU policies. From this point of view, it is important for the EU to save face and respond appropriately to the fact that Kyiv had ignored its calls to respect democratic standards. On the other hand, the advocates of signature, including some member states and business circles in the EU, pragmatically highlighted the need to defend economic interests (by safeguarding the interests of companies doing business on the Ukrainian market) and political objectives (it was argued that the agreement was an instrument for building closer relations with the EU, and could prevent rapprochement with Russia). Speedy implementation of the obligations under the Association Agreement / DCFTA was also expected to stimulate reforms. Failure to sign the Agreement, on the other hand, was said to be likely to bring negative consequences for the future of relations with the other countries in the eastern neighbourhood, and to erode the political significance of the agreements and the political will to sign them.

It was only in the spring of 2013 that the Ukrainian government gradually started to take action to meet the EU's conditions. On 12 March the Ukrainian president issued a decree on European integration (obliging state institutions to take faster action to implement the necessary legislative changes, carry out reforms and co-operate with EU institutions), and on 7 April, Yuri Lutsenko was pardoned. However, those steps can reasonably be regarded as incomplete, and largely intended as image-improving measures. The decree on European integration contains only very general provisions, whereas what the EU expects is tangible progress. As regards Lutsenko, he was released from jail after serving half his sentence, but his conviction was not legally overturned, which means that he will not be able to run in any elections before the conviction record is expunged in 2021³⁰.

³⁰ Tadeusz A. Olszański, 'Ukraine: Yuri Lutsenko pardoned', *Eastweek*, Centre for Eastern Studies, 10 April 2013, <http://www.osw.waw.pl/en/publikacje/eastweek/2013-04-10/ukraine-yuri-lutsenko-pardoned>

2. Attitudes towards visa liberalisation

Another contentious issue concerns the prospect of abolishing the visa regime for the eastern neighbours. This is an important question because visa liberalisation is what mainly interests the leaderships and people of the partner countries. In the context of a mounting crisis in the EU's migration policy, as well as the financial crisis, many EU countries are unwilling to proceed with visa liberalisation. Internal political conditions and the aversion of some European societies to easing the visa regimes and offering immigrants more access to labour markets are important factors here³¹. The advocates of quick liberalisation, on the other hand, believe that visa-free travel would create opportunities for the development of human contacts, and see it as an instrument to stimulate bottom-up transformations through co-operation at the level of civic society. Migration from the culturally close countries of Eastern Europe is also regarded as a potential instrument in solving the demographic problems experienced by the EU countries. Finally, the economic aspects – namely economic gains for the EU countries, promotion of border-area trade, development of tourism in the EU countries and the development of business co-operation – are also important³². The division between the advocates and opponents of visa liberalisation runs partly along country lines. The member states in favour include the Visegrad Group, the Baltic States and Romania, while Germany, France, Austria and the Netherlands are against it. However, there are

³¹ For example, according to a Transatlantic Trends survey from 2011, 52% of Europeans regarded immigration as a problem, rather than an opportunity. Transatlantic Trends: Immigration, The German Marshall Fund of the United States, 2012, http://trends.gmfus.org/files/2011/12/TTImmigration_final_web1.pdf

³² For more information on the prospects of visa-free travel between the EU and its eastern neighbours see Marta Jaroszewicz, 'Making the impossible possible. The prospects for visa-free movement between the EU and its eastern partners', Point of View, Centre for Eastern Studies, Warsaw, 2012, <http://www.osw.waw.pl/en/publikacje/policy-briefs/2012-06-06/making-impossible-possible-prospects-visafree-movement-between-e>

also divisions within countries; while business communities, civil society organisations and diplomats generally advocate liberalisation, institutions in charge of security (such as interior ministries and migration services) tend to oppose it. In some countries, significant sections of the public are also against easing the visa regime, which affects political parties' stances on the issue.

3. The Eastern neighbourhood on the EU's political agenda

Different actors in the Union also have different views of the role of the eastern neighbourhood in EU policy. Given the EU's multiple priorities and limited potential, the position occupied by a given region in the EU's political agenda is inevitably reflected in the scale of the Union's real political and financial involvement there. On the scale of the EU's global interests, the EaP countries are of secondary importance because of their limited economic and political potential. In the Union's trade policy, relations with the United States and other strategic partners such as India, China, Japan, Canada and Russia are crucial. It is those directions that attract the attention and involvement of EU officials in the first place.

However, even as far as the Union's immediate neighbourhood is concerned, many EU countries have been attaching greater significance to the development of relations with the Union's southern neighbours. The rivalry between the EU members focused on the eastern neighbourhood, and those for whom the southern neighbourhood is more important, is as old as the ENP itself³³. The debate between the two camps resumed in early 2011 with the outbreak of revolutions in North Africa and the negotiations of the new multi-annual financial framework for the years 2014-2020. The exchange triggered by a letter and a non-paper released by six southern EU members in February 2011, in which they called

³³ Iván Martín, *New context of the Union for the Mediterranean and the Eastern Partnership*, EaPCommunity, 2011, <http://www.easternpartnership.org/community/interview/new-context-union-mediterranean-and-eastern-partnership>.

for funds to be transferred from the eastern neighbourhood to the southern dimension, is a case in point³⁴. Even though in successive documents the European Commission tried to present a picture of balanced involvement in both areas, the changes implemented as a result of the ENP review and the actions actually being taken show that the dynamics of the Union's political involvement is stronger towards the south than in the east³⁵. This tendency will continue because of the civil war in Syria, instability in Egypt and Libya, and the marked rise in terror threats and al-Qaeda-related activities in North Africa, which has already led to the French military intervention and the deployment of an EU training mission in Mali in early 2013.

- ³⁴ Szymon Ananicz, Tug-of-war over EU's policy towards its neighbours, *OSW Commentary*, Centre for Eastern Studies, 9 March 2011, <http://www.osw.waw.pl/en/publikacje/osw-commentary/2011-03-09/tug-war-over-eu-s-policy-towards-its-neighbours>
- ³⁵ Rafał Sadowski, European Neighbourhood Policy Package – Conclusions for the Eastern Partners, *OSW Commentary*, Centre for Eastern Studies, 25 May 2012, <http://www.osw.waw.pl/en/publikacje/osw-commentary/2012-05-25/european-neighbourhood-policy-package-conclusions-eastern-partn>.

V. CHALLENGES FOR EU POLICY

In the current political and economic situation in Europe, three processes will have the greatest impact on the future of the Union's relations with its eastern partners: (1) economic developments in the EU member countries and in Eastern Europe in the context of the EU's financial crisis and economic slowdown in the EaP countries; (2) possible changes to the Union's decision-making processes and institutional make-up; (3) Russia's policy towards the region.

1. Economic slowdown

The current economic conditions are hardly conducive to developing closer co-operation with the eastern neighbours in the immediate future. Figures for 2012 and forecasts for 2013 show that the partner countries' economies have become increasingly unstable. Over the last two years, the EaP countries have been gradually making up for the losses incurred as a result of the 2009 crisis, but the new wave of the financial crisis in Europe has subdued growth. Slower economic growth has been reported everywhere except Armenia and Georgia³⁶. Moreover, all the partner countries apart from Azerbaijan and Belarus have seen their foreign trade deficits rise³⁷, and all have been experiencing mounting budgetary problems.

³⁶ Even in Georgia, whose GDP grew 7.5% in 2012, growth in the last quarter of 2012 was markedly slower, at 2.3% according to preliminary data.

³⁷ Azerbaijan owes its trade surplus to revenues from oil exports, and in Belarus the surplus is largely generated by the export of oil and petrochemical products manufactured in Belarusian plants, which receive energy resources from Russia at preferential prices.

Macroeconomic data of the EaP countries for 2012

| | GDP change in % | Inflation in % | Foreign trade balance in US\$bln / as percentage of GDP | Standard & Poor's credit rating* |
|-------------------|-----------------|----------------|---|----------------------------------|
| Armenia | 7.2% | 2.6% | - 2.55 / 26.3% | no data |
| Azerbaijan | 2.2% | 1.1% | +22.58 / 32.8% | BBB- |
| Belarus | 1.5% | 59.2% | +0.2 / 0.3% | B- |
| Georgia | 7.5% | -0.3% | -5.47 / 36.2% | BB- |
| Moldova | -0.8% | 4.6% | -3.05 / 43.5% | no data |
| Ukraine | 0.2% | -0.2% | -13.78 / 8% | B |

* As of 23 April 2013. Apart from Azerbaijan, which has the lowest investment-grade rating, the remaining countries have speculative-grade ratings.

Source: Official figures from national statistical offices, Standard & Poor's, credit ratings, <http://www.standardandpoors.com> (access on 23.04.2013)

The deteriorating economic situation in the EU will lead to lower dynamics of trade exchange and investment (as was the case during the 2009 crisis), and will make EU businesses less interested in the eastern markets. The financial sector of Ukraine, the only EaP country where European banks had made major investments, is a case in point; in 2012 several large European banks including Erste Bank, Commerzbank, Swedbank, Société Générale, SEB Group and Volksbank sold the banks they owned in Ukraine to local or Russian investors³⁸.

³⁸ Roman Olearchyk, Erste: latest EU bank to dump Ukraine, *beyondbrics Financial Times*, 20 December 2012, <http://blogs.ft.com/beyond-brics/2012/12/20/erste-latest-eu-bank-to-dump-ukraine>
Yelena Gubar, Ruslan Chorniy, Ukraina meniyet investorov, *Kommersant Ukraina*, 25 December 2012, <http://www.kommersant.ua/doc/2097907>

This decline in the European entrepreneurs' interest in the EaP markets may have political consequences and diminish the two sides' political will to sign and implement the Association Agreements and free-trade agreements. On the one hand, this applies to EU businesses, and consequently EU member states and institutions also. However, the financial crisis and economic slowdown in the EU will also make the partner countries less interested in economic integration, and thus less willing to bear the related financial and political costs. The above example of Ukraine's banking sector shows that other players, including Russian investors in particular, may take advantage of the disinvestment of European capital.

It appears that the economic decline in European markets and in the partner countries may have short- and medium-term consequences for mutual economic relations. If the situation in the EU improves, interest in developing economic co-operation may rise again, as was the case after the 2009 crisis, for instance, when investments and trade exchange dynamics grew in the period from 2010 to 2011.

2. The future shape of the European Union

The current crisis of the Union's decision-making processes and the debate on the EU's future development, the prospective scale of political and economic integration (including questions about a political union), the potential formation of a multiple-speed Europe (as a result of the Euro zone separating itself from the rest, among other factors), and finally the possible institutional reform, will all affect the EU's relations with the eastern partners even more than the economic crisis. The crucial question about the long-term objectives of relations with the eastern neighbours will probably remain unanswered until the Union resolves these fundamental issues. This means that a new debate on a thorough reform of the EU's policy towards its neighbours will not be possible in the current conditions, and the ENP and the EaP will remain the principal instruments of EU policy.

The separation of the Euro zone and the potential formation of a multiple-speed European Union will have very serious consequences for the Union's relations with its eastern neighbours, and may push the region down the EU's political agenda. Most of the EU member states interested in the EaP region, which hitherto have been actively stimulating EU activities in the eastern neighbourhood, will remain outside the Euro zone for a longer time (with the exceptions of Slovakia, Estonia and eventually Latvia), and this may undermine their influence on the direction of discussions and EU policy. If the divisions within the Union deepen, questions about possible eastward enlargement and the eastern neighbourhood's integration with Europe will lose relevance. On the other hand, if the EU splits into several circles of integration, it might be theoretically easier for the EaP countries to enter the lowest circle. However, that would bear less political significance than full membership does today, and the benefits that the EaP countries could reap from membership would be limited. That in turn would make European integration less attractive to the political elites and publics in the eastern neighbours, and would thus erode the political will to pursue transformations based on European models.

3. The Eurasian Union

The fact that the European Union is currently unprepared and lacks the political will to deepen real integration with its eastern partners is creating opportunities for Russia. In 2009 Russia launched its own project for Eurasian integration, conceived of as competition for integration with the EU. Before that, Russia's strategy towards the Eastern European states was based on bilateral action and exploited those states' political and economic dependences on it, which nevertheless failed to produce genuine integration. Eurasian integration has introduced a new element to Russia's policy. Importantly, Russia's project is now based on common legislation and supranational institutions, in which it resembles European integration. Russia offers member countries

various benefits, mainly of an economic nature, including easier access to the Russian market, financial support (including cheap loans) and preferential prices for energy resources. On the other hand, it threatens to take the preferences back if its offer of integration is declined.

Unlike Russia's previous initiatives, the Customs Union created with Belarus and Kazakhstan, intended as the first stage of Eurasian integration, is gradually becoming reality. The concrete result of this for EU policy is that no broader economic integration between Belarus and the Union will be possible, even if the attitudes of the leadership in Minsk change. At stake is not only the possibility of creating a deep and comprehensive free trade area, but also the feasibility of negotiating an association agreement (especially concerning the chapters on economic co-operation)³⁹. Armenia is another country where Russia's strong dominance may block real integration with the EU. Russia is Armenia's main political and security partner: it is the country's chief ally in its conflicts with Azerbaijan and Turkey, and maintains a military base in Gjumri. It is also the main economic partner as it provides most of the country's investments, is the biggest trading partner, and also the most important destination for migrant workers from Armenia, whose remittances account for a major proportion of income. Even though Armenia has started negotiations on the association agreement and the DCFTA, their implementation, or even ratification, is very uncertain given the scale of the country's political and economic dependence on Russia.

Russia has been focused on lobbying and pressuring Ukraine and Moldova, the two countries most committed to rapprochement with the European Union, to join the Eurasian Union. The choice to be made by Ukraine, the largest country and the biggest economy in the region (accounting for around 60% of the total

³⁹ Azerbaijan, which is not a WTO member, has been negotiating an association agreement with the EU without the DCFTA part.

population of the EaP and around 55% of GDP PPP of all the eastern partners) will be decisive for the success of the two integration projects. For now, continuing the policy of balance in relations with the European Union and Russia has become an increasingly difficult task for the Ukrainian leadership. Despite the fact that integration with the EU remains the declared priority, and that Ukraine has concluded the negotiations of its Association Agreement, Kyiv has repeatedly signalled since late 2012 that it is considering the possibility of joining the Customs Union⁴⁰. In view of the current crisis in Ukraine's relations with the Union, the deteriorating economic situation and the intensified internal political struggles ahead of the presidential elections to be held in 2015, the scenario of Ukraine choosing integration with the Customs Union cannot be completely ruled out. And while its eventual accession to the Customs Union would be very difficult to carry out for a variety of reasons, including legal obstacles (the need to amend the country's constitution) and economic considerations (the economic benefits would be smaller than those offered by a free trade area with the EU⁴¹), Russia has very strong instruments at its disposal to influence Ukraine, including the ability to offer lower gas prices or grant economic benefits without requiring any changes to the political system, which the EU cannot do.

⁴⁰ Tadeusz Iwański, Rafał Sadowski, Ukraine: between the European Union and the Customs Union, *Eastweek*, Centre for Eastern Studies, 12 December 2012, <http://www.osw.waw.pl/en/publikacje/eastweek/2012-12-12/ukraine-between-european-union-and-customs-union>

⁴¹ Veronika Movchan, Volodymyr Shportyuk, Between two unions: optimal regional integration strategy for Ukraine, 13th Annual Conference of the European Trade Study Group, Copenhagen, August 2011, <http://204.3.197.155/ETSG2011/Papers/Movchan.pdf>

In the case of Moldova, too, economic benefits from joining the DCFTA would be greater than the benefits of the Customs Union. See Valeriu Prohnițchi, Strategic comparison of Moldova's Integration options: Deep and Comprehensive Economic Integration with the EU versus the Accession to the Russia-Belarus-Kazakhstan Customs Union, *Economic Analysis and Forecast Paper* Nr. 3/2012, Expert-Grup, Chișinău 2012, http://pasos.org/wp-content/uploads/2012/06/Moldova-DCFTA_versus_RBK_CU_English.pdf

VI. CONCLUSIONS

1. Limitations of the European Union's eastern policy

Four years after its launch, the European Partnership initiative has created the frameworks and mechanism for the integration of the EaP countries with the European Union. Despite that, it has not gained any major political significance that would have matched the European Union's ambitions and the challenges ahead of it. The impact of the initiative has turned out to be limited because of the differences of interests among the parties involved (EU institutions, EU member states and the partner countries). The progress of transformations in the neighbour countries has fallen short of expectations, which revealed major limitations of the EU and the instruments it has been using to stimulate change. **The European Union has failed to become an agent of change in the region to the extent that would match its ambitions.** The structures and bureaucratic instruments developed within the framework of the ENP and the EaP cannot quickly respond to the dynamic political processes taking place in the Eastern Europe and in the EU itself. In this situation, the real political significance of the eastern neighbours' integration with the Union has been diminishing, and the process itself has become dominated by bureaucratic procedures. **The parties involved are interested in maintaining dialogue rather than achieving measurable progress in integration with the EU.** In the European Union's foreign policy, including the Eastern Partnership, building internal consensus takes more time and effort than can be devoted to achieving tangible outcomes outside the Union. Where there is no political will to pursue deeper integration with the neighbours, nor unanimity about the long-term objectives of integration, strategic decisions and delivery on specific commitments (such as abolishing the visa regime) can be postponed. The partner countries, on the other hand, can use this situation domestically to avoid paying the high political and economic costs of real reforms and transformations, and externally to pursue a policy of balancing between the EU and Russia.

Currently, a breakthrough in mutual relations seems unlikely to happen in the short term. The EU will not reform its policy towards the neighbours until it has solved its internal problems related to the financial crisis and, even more importantly, has managed to streamline its decision-making processes and made a choice about the future direction of its development. Moreover, the situation in the eastern neighbourhood seems to be relatively stable at the moment and poses no threats to the Union, as a result of which the EU is not forced to pursue a more active policy. Nor are the partner countries likely to make major progress in implementing internal transformations, which could potentially be an impulse for the EU to become more involved in the region. Even in the case of Moldova, regarded as the leader among the EaP countries, the reforms that have been implemented are subject to a number of reservations (for example, the key structural and economic reforms have not yet been carried out)⁴². As deeper political integration does not seem feasible, actions within the framework of the Eastern Partnership will focus on bureaucratic measures and the negotiations of individual agreements (Association Agreements/DCFTA, visa liberalisation deals), and sectoral co-operation in those areas in which the EU and the partners have shared interests.

2. Real influence before pressing for changes

Since the European Union currently has too little influence and lacks effective instruments to impose the change it wants in the eastern neighbourhood, it would be reasonable to partly reformulate its approach. Firstly, it is necessary to build the capacity to genuinely influence the EaP countries. Only then will it be possible to effectively induce change, once favourable conditions for

⁴² For more information on the reform process in Moldova, see Kamil Caşus, *Reforms in Moldova: Moderate progress and an uncertain outlook for the future*, *Commentary*, Centre for Eastern Studies, 23 January 2013, <http://www.osw.waw.pl/en/publikacje/osw-commentary/2013-01-23/reforms-moldova-moderate-progress-and-uncertain-outlook-future>

that are in place (that is, when the EU has overcome its internal financial and decision-making crises, the economic situation improves, etc.). Thanks to such an approach, it would also be possible to avoid the dilemma about whether the EU should stick to its principles and impose strict conditions, or be pragmatic and pursue its self-interest. The EU's policy should combine these two approaches, although the emphasis may shift depending on current conditions. For example, granting the EaP countries economic preferences that would boost trade and investment, in return for regulatory reforms and reforms of the judiciary, would in the longer term also contribute to improvement in terms of the rule of law, and that in turn would positively affect other areas, including democratisation.

In order to prevent the dynamics of action under the ENP and EaP from collapsing, it seems necessary to focus on three elements:

1) Intensification of concrete actions that can produce tangible outcomes in a short time

It is discouraging that the Eastern Partnership has achieved no visible outcomes for the partner states and their people since its launch in 2009. The successive rounds of negotiations on the Association Agreements or visa liberalisation hardly count as such. Contrary to the partners' expectations, the Association Agreements and the DCFTAs have not been implemented, and the visa regime has not been abolished. Even the most advanced of the EaP countries will only have the chance to see those objectives materialise first in 2015–2016, i.e. 5 to 8 years after the negotiations first started.

Considering this, it would be reasonable to split the process of the EaP countries' European integration and the actions taken as part of it into smaller stages, so that the partners have a chance of quickly obtaining some measurable benefits after meeting certain groups of conditions. As a result, the EU would be able to step

up its activities; the system of incentives would become stronger; the image of European integration would improve; and most importantly, the threat of the rapprochement process getting stuck in protracted bureaucratic procedures would be averted. For example, with regard to visa liberalisation, the partner countries should be granted considerable facilitations (such as abolishing visa charges, or considerably simplifying visa issuance procedures) upon completing the first phase of their plan of action⁴³. The same should apply to other elements of the Union's activities, including the implementation of the Association Agreements, association agendas, etc. At the same time, the EU should to the greatest extent possible cut the time it takes to make decisions (for instance, it took the EU Council five months to adopt the decision allowing Moldova into the second phase of the visa liberalisation action plan⁴⁴).

2) *Focus on key issues and adjusting objectives and actions to the current capacity of the EU and its partners*

Because the potential of the EU administration and, even more importantly, of the partner states is limited, it is important to focus on selected priorities and implement actions on a step-by-step basis. States and societies cannot undergo fast and deep transformations in all areas at the same time. The question of visa liberalisation is a case in point: in addition to the technical and security requirements, it is also conditional on the partner countries' performance in other areas, such as the adoption of anti-discrimination laws, a matter which has considerably prolonged the entire visa liberalisation procedure.

⁴³ The visa liberalisation process is divided into two phases: preparations, during which the reforms and legislative changes are elaborated, and implementation, when the reforms are carried out. For details, see Marta Jarszewicz, *Making the impossible possible*, *op.cit.*, p. 22–23.

⁴⁴ Rafał Sadowski, EU visa liberalisation: success for Moldova, slow progress for Ukraine, *Eastweek*, Centre for Eastern Studies, 28 November 2012, <http://www.osw.waw.pl/en/publikacje/eastweek/2012-11-28/eu-visa-liberalisation-success-moldova-slow-progress-ukraine>

Three objectives appear to be of crucial importance at this stage: a) economic integration; (b) bringing the societies of the EaP countries closer to Europe by abolishing the visa regime and promoting mobility; (c) strengthening state institutions and building administrative capacity in the partner countries. By focusing on these areas, the European Union could better use the limited resources available, making the entire policy more effective. Blocking or slowing down progress in these key issues, either for political or for bureaucratic reasons, will undermine the chances of the entire European integration process succeeding. Achieving concrete progress in those areas, on the other hand, will enable the EU to effectively influence other spheres, in particular respect for democratic values and the rule of law.

3) Creation of an EU investment fund

There are at least two arguments for making the creation of such a fund a priority. Firstly, economic co-operation benefits both sides, and the gains may even be greater for the EU countries and business than for the EaP side. Secondly, economic integration and the creation of a Deep And Comprehensive Free Trade Area would truly bind the partner countries with the EU and strengthen the Union's instruments of influence. The fund could also become an effective instrument stimulating change in the other areas, such as in social life and politics.

The European Union is attractive to its partners not because of its model of governance, its democratic system of power or its political clout, but because of its financial capacity, new technologies and the potential it offers for business co-operation. The actions taken so far in this area, including the negotiations concerning the Association Agreements and the DCFTAs, and the creation of instruments to support business and investments (such as the programmes of the European Investment Bank and the European Bank for Reconstruction and Development, the Eastern Partners Facility, the Neighbourhood Investment Facility, and the EaP

flagship initiative for small- and medium-sized enterprises⁴⁵) were steps in the right direction, but have failed to substantially change the character of mutual economic relations⁴⁶. An important problem in this regard concerns the fact that the partner countries' markets are relatively unattractive to companies from the EU, a fact which has a number of underlying causes including the business climate in the partner countries, but also lack of knowledge about the region. Establishing an EU investment fund for the eastern neighbourhood would offer a solution to this problem.

This fund could be financed by the EU financial institutions, the budgets of the member states, private capital, or perhaps also the EU budget. Its aim would be to carry out various investment projects in the partner countries, ranging from micro-projects to large investments spread over several years. Furthermore, the fund could finance projects from different areas and sectors of the economy. Its activities could extend to infrastructural projects, undertakings in the private equity and venture capital markets, and business-incubator activities. The fund would not only invest money, but – thanks to the involvement of its managers in the projects being financed – could also contribute to the transfer of state-of-the-art management methods and, in this way, to the training of local managers.

The fund would offer three main categories of benefits. Firstly, it would increase investments in the countries experiencing investment shortages, which constitute a serious obstacle to stimulating transformations and economic development. Secondly, it would be more effective than the instruments used hitherto in promoting the development of innovative sectors and industries, and transfers of technologies and state-of-the-art business administration methods. In this way, it would facilitate a more effective

⁴⁵ For more information see: EaPCommunity, Work with EU, For private sector, <http://www.easternpartnership.org/work-with-eu/private-sector>

⁴⁶ Described in chapters II.2. and II.3 of this paper.

transformation of the post-Soviet economies into modern market economies. Finally, the activities of the fund would financially benefit all sides (investors from the EU countries and entrepreneurs from the partner countries), while the partner countries would gain additionally from the transfer of business know-how and new technologies. The fund could also stimulate market-oriented institutional and legal changes in the EaP countries. Its profits could be used to finance new business projects in the eastern neighbourhood, which in the longer term would reduce the cost of the Union's financial assistance.

The creation of this kind of instrument would strengthen the EU's image as an important business partner and could attract local business elites. This also applies to those states and areas which are currently less interested in co-operation with the EU, such as Belarus, or possibly even breakaway regions such as Transnistria⁴⁷.

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