

DILEMMAS OF EUROPEANISATION:

POLITICAL CHOICES AND
ECONOMIC TRANSFORMATIONS IN THE
EASTERN PARTNERSHIP COUNTRIES

EDITORS: ALDIS AUSTERS, ILVIJA BRUGE, ANDRIS SPRUDS

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Dilemmas of Europeanisation: Political Choices and Economic Transformations in the Eastern Partnership Countries

This book provides theoretical and practical insights of the Europeanisation transformations taking place in the Eastern Partnership countries and discusses how the economic ties between the EU and the partners affect these transformations. This collection of articles is authored by a group of international scholars and offers a first-hand account into the experiences of the six Eastern Partners. The subjects include adaptability and challenges of the EU's external governance in a tense geopolitical environment, effectiveness of the Association Agreements and newly proposed Deep and Comprehensive Free Trade Areas, analysis of specific country situations and a comparison of the partners' potential for consistent Europeanisation.

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ABBREVIATIONS AND ACRONYMS

AA	Association Agreement
ACAA	Agreement on Conformity Assessment and Acceptance
Acquis	<i>Acquis communautaire</i> (from French)
ASEAN	Association of Southeast Asian Nations
CEEC	Central Eastern European Countries
CETA	EU-Canada Comprehensive Economic and Trade Agreement
CFSP	Common Foreign and Security Policy
CIS	Commonwealth of Independent States
CSF	Eastern Partnership Civil Society Forum
DCFTA	Deep and Comprehensive Free Trade Area/Agreement
DSM	Dispute Settlement Mechanism
EaP	Eastern Partnership
EBRD	European Bank for Reconstruction and Development
ECU	Eurasian Customs Union
EEA	European Economic Area
EEl	Economic Europeanisation Index [of the Eastern Partnership countries]
EEU	Eurasian Economic Union
EIB	European Investment Bank
EIDHR	European Instrument for Democracy and Human Rights
EMAA	Euro-Mediterranean Association Agreement
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood Policy Instrument
EuroNest	Eastern Partnership Parliamentary Assembly
Eurostat	European Commission Directorate-General for Statistics
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GCI	Global Competitiveness Index
GSP	Generalised Scheme of Preferences
HDI	Human Development Index

ILO	International Labour Organisation
IMF	International Monetary Fund
IPR	Intellectual Property Rights
NGO	Non-governmental Organisation
PCA	Partnership and Cooperation Agreement
SAA	Stabilisation and Association Agreement
SDR	Special Drawing Rights
SES	Single Economic Space
SGC	Southern Gas Corridor
SME	Small and Medium-Sized Enterprise[s]
SPA	Strategic Partnership Agreement
SPS	Sanitary and Phytosanitary
TAIEX	Technical Assistance and Information Exchange
TBT	Technical Barriers to Trade
TEU	Treaty on the European Union
TRQ	Tariff-Rate Quotas
TTIP	Transatlantic Trade and Investment Partnership
UN SC	United Nations Security Council
VFA	Visa Facilitation Agreement
WB	World Bank
WTO	World Trade Organisation

INTRODUCTORY REMARKS

Andris Spruds

This is a book about the fundamental choices and formative developments in the Eastern neighbourhood of the European Union. The region has experienced significant political and economic transformation and challenges in the last decade. The nation-building and economy-building achievements, notwithstanding the societally acceptable strategic preferences in the Eastern Partnership countries over the respective models of modernity, remain open. The politics of societal and state modernisation face continuous re-evaluation and re-conceptualisation, while formulation of the political and economic agenda of priorities remains in-progress.

Europeanisation has become one of the legitimate and conceivable paths for modernisation in the Eastern neighbourhood. The European Union has aspired to invest and contribute considerably to domestic and regional stability and development in the neighbourhood. The Eastern Partnership initiative has provided the main political framework and practical toolbox for fostering the transformation, mutual synergy, closer association and mutual reciprocity. The EU remains attractive and appealing for a number of countries and societies in the region. The image of the EU as a transformative power was visibly demonstrated by what was perceived by many as a revolution of dignity in Ukraine, under the EU flags. This may provide a solid

platform for the path to Europeanisation within the countries, and among societies that have acknowledged the importance of engagement and closer association with the European Union.

The EU's Eastern neighbourhood, however, is not a homogeneous region. The countries of the Eastern Partnership have adopted a variety of domestic models of development, political systems and economic agendas. The role of stakeholders in the modernisation agenda varies. A reluctant or reserved leadership, sceptical society, weak civil society, as well as corruption and economic underdevelopment have complicated the formulation and implementation of preferences for Europeanisation in the Eastern Partnership countries. The domestic challenges and variety of foreign policy aspirations and expectations have led to differences among the countries and mixed results for modernisation efforts.

The region of the Eastern Partnership remains fragile. From six of the Eastern Partnership countries five countries face territorial conflicts. These lingering tensions and confrontations in the neighbourhood cast a shadow over stability, societal security and modernisation of economies. Russia's antagonism in Ukraine, annexation of Crimea and continuous competition of integration projects in the neighbourhood has been a formative game changer. Now, with the protracted conflict in Ukraine, the "win-win" approach over a wider region is increasingly difficult to achieve, and perceptions of insecurity are omnipresent. Perceptions of engagement and expectations of wider regional cooperative frameworks have evidently been replaced by growing mistrust, mutual deterrence strategies and great power rivalry.

The domestic challenges and demanding international context only strengthens the rationale and need to assess thoroughly the dynamics behind the modernisation efforts of the region which

is in such close proximity to the European Union. This volume aims to contribute to the understanding of the economic, social and political modernisation preferences, stakeholders and trajectories in each of the Eastern Partnership countries. As the EU plays an important role, the economic presence and effectiveness (or ineffectiveness) of the EU's transformative powers in the Eastern Partnership countries must also be appraised. The Association and Deep and Comprehensive Free Trade Agreements, as legal instruments for Europeanisation, are also analysed in the process. This publication also accounts for Russia's integrationist thrust in this overlapping and increasingly competitive integrative space. The role of the Russian-driven Eurasian Economic Union has become an important background for the process of assessing the compatibility and depth of Europeanisation and alternative modernisation projects in the Eastern Partnership countries.

Cooperation with other partners is always instrumental in achieving successful research outcomes, and this publication has benefited enormously from the willingness of our experts to share their insights and opinions. The contributions from the Eastern Partnership countries have been helpful in providing the perspectives of the specific countries. This research has been made possible by support from the Trans-European Policy Studies Association (TEPSA). TEPSA helped bring together the leading European think-tanks, and facilitated high quality research on the variety of issues fundamental to the European Union. Moreover, the long-lasting and generous support from the Friedrich Ebert Foundation has been essential for the positive outcome of this publication. The Friedrich Ebert Foundation has repeatedly demonstrated its leadership in promoting intellectual engagement and a thorough exchange of thoughts at national level and beyond, which has made an indispensable contribution to the stimulating and informed debate among the decision-making and expert

communities, and general public in Latvia. Last, but not least, this publication benefits from the readers who are interested in understanding the role of the European Union and prospects for the Eastern Partnership to implement reforms successfully and choose a societally acceptable model of modernity in the demanding regional environment of today.

FROM THE EU'S ECONOMIC PRESENCE TO SUCCESSFUL EUROPEANISATION: THEORETICAL INSIGHTS

Aldis Austers

The Eastern Partnership (EaP) is a joint policy initiative between the European Union, its Member States and three countries from Eastern Europe – Belarus, Ukraine, and Moldova – and three from Southern Caucasus – Georgia, Armenia and Azerbaijan. The EaP was launched in 2009 as part of a widened European Neighbourhood Policy (ENP), and was meant to step up the EU's involvement in the bordering Commonwealth of Independent States (CIS). The EaP, in fact, can be perceived as an offer to develop closer political and economic association with the EU in circumstances of growing regional political and military tensions, whose cause is increasingly self-assertive Russia.

However, the EU has made this closer association contingent upon the partners' convergence with EU's political, human rights, legal and governance standards. The EU's technical and financial assistance, as well as access to the EU's vast internal market, under particularly favourable conditions, are used as the "carrot", fostering the partners' domestic reforms or close political cooperation. The traditional instruments for forging close relations with non-EU countries have been the so-called Association Agreements (AA), which represent an upgrade in contractual relations with

the EU after the Partnership and Co-operation Agreements (PCA). The recently introduced bilateral agreements on Deep and Comprehensive Free Trade Areas (DCFTA) with the ENP countries, in the framework of AAs, represent the EU's qualitatively new approach to forging relations with its neighbourhood countries.

The DCFTAs foresee a comprehensive programme of legal and institutional modernisation in selected areas, and, if implemented correctly, should lead to more intense trade relations with the EU, and a harmonised business environment in the EaP countries¹ and eventually even to compliance with the economic criterion for EU membership, that demands the existence of a functioning market economy able to cope with competitive pressure and market forces within the EU. Certainly, legal adaptations in combination with competition dynamics resulting from the removal of trade barriers, would trigger deep structural changes affecting not only the economic, but also the political and societal fabric of the countries in question.

However, as will be shown in this chapter, it is not a given that all transformations lead to improvements, in particular in a situation of geopolitical rivalry. Thus far, only three of the six EaP countries have agreed to comprehensive engagement and have signed the AAs and DCFTAs with the EU: Ukraine, Moldova and Georgia. Armenia and Azerbaijan were invited to sign the agreements, but during the process of negotiations turned their backs on the EU: Armenia joined the Eurasian Economic Union (EEU), a counterpart to the EU, but under Russia's design, while Azerbaijan preferred to stay detached. In the case of Belarus, the EU has blocked any initiatives on deepening contractual relations since 1997, because of enduring political repressions and breaches of fundamental rights in Belarus. Nevertheless, even in those countries, which

¹ The terms "EaP countries," "Eastern Partners," "Partnership countries" or simply "partners" will be used alternatively and denote the same thing: the countries belonging to the Eastern Partnership.

have established close economic and political associations with the EU, the path towards Europeanisation has been very uneven.

In this chapter, first, based on theoretical insights into the EU's external governance from Sandra Lavenex and Frank Schimmelfenning, the variation in modes of the EU's external relations, as well as the underlying factors explaining this variation, will be dissected and applied in respect of the EaP countries. Furthermore, drawing on the comprehensive outline by Andrea Lenschow, the meaning of the concept of Europeanisation will be raised. In addition, by drawing on different theoretical schools of international studies, the possible paths of Europeanisation transformation will be outlined, including options for measuring Europeanisation. Finally, before the conclusions, based on insights into external governance modes and Europeanisation progression, an attempt will be made to explain the existing disparity in the pathways of Europeanisation of the EaP countries. Particular attention will be paid to modelling of linkages between the EU's economic presence in the EaP countries and their Europeanisation paths.

The main argument is that the variation in relations with the EU is determined by the domestic structures of the EaP countries', while the EU, because of specific interdependencies, has been accommodating of the partners' whims. Where it has been possible, the EU has followed its own integration logic: when immediate political cooperation is not possible, economic integration is advanced first, which, because of the spill-over phenomenon, at some point in time will create a momentum for closer political association. It will be also demonstrated that from the perspective of the EaP countries, the concepts of European integration and Europeanisation have to be separated. Europeanisation is a lasting process of political, economic and social transformations, whose trigger is either deliberate (European integration) or unintentional (market and social pressures). Besides, as already noted, the

Europeanisation process can produce both positive and negative results in terms of development and cooperation potential with the EU. Finally, and somewhat paradoxically, the EaP countries, which have not established formal cooperation with the EU, have also been able to Europeanise to a considerable extent. This suggests that, alongside the formalised process of European integration, there are other channels of transformation at work.

The web of EU's external governance

Over the years, European integration has significantly expanded both vertically and horizontally. It has captured many new policy areas and extended to new geographical locations. Looking from the perspective of global governance, the EU Member States have put themselves at the vanguard of cross-border legal approximation and joint policy development. In this respect, the EU Member States symbolise a post-modern form of nation states.² The process of internal integration has created "externalities" and "interdependence" with the outer regions, requiring the EU's external engagement.³ For example, the development of a common external commercial policy of the EU is a direct consequence of the fusion of Member States' national markets into a single market. Likewise, the introduction of high social, environmental and consumer protection standards in the EU has necessitated their "transfer" abroad. Or, the fear of uncontrolled

² According to Cooper, today states can be classified into pre-modern states (failed states), modern states (states willing to fight and conquer) and post-modern states (states relying on extensive mutual interference and rejection of force). See Robert Cooper, "The New Liberal Imperialism," *the Guardian*, April 7, 2002, www.theguardian.com/world/2002/apr/07/1.

³ Sandra Lavenex and Frank Schimmelfenning, "EU Rules beyond EU Borders: Theorizing External Governance in European Politics," *Journal of European Public Policy* Vol. 16, Iss. 6 (2015), 792.

immigration and political instability next to its border has created "interdependence" between the EU and its neighbours.

No doubt, this external engagement has a strong hegemonic predisposition, as it largely exists "in the attempt to transfer the EU's rules and policies to third countries and international organisations." However, the reach of external governance depends on the extent of existing interdependence and the willingness of partner countries to adopt the "EU templates". In fact, the EU has been rather accommodating in the development of external relations – the EU has developed a wide assortment of external regimes to choose from, ranging from the traditional trade relations to promotion of democracy and cooperation in various policy areas. A specific regime is applied to potential Member States of the EU – in this process the candidate is turned into a perfect member, as defined by the so-called Copenhagen criteria of EU membership, and, therefore, the enlargement of the EU is considered the most potent instrument of guided transformations of a third country. However, due to existing constraints, for the time being, the enlargement option is not available to EaP countries. For this reason, further on in this text, the notion of external governance will be examined as forms of integration into the European system of rules that "remain below the threshold of membership."⁴

Lavenex and Schimmelfenning distinguish between three basic institutional forms of EU's external governance: hierarchy, networks, and markets. The *hierarchical mode* corresponds to a formalised, vertical or asymmetric style of relationship, based on non-negotiable and legally binding rules. The "Community method" and other forms of supranational decision-making are associated with this mode of governance. The *network mode* of governance involves equality of partners – at least in a formal sense – where "conflicts of interests are not solved via law or jurisdiction, but through negotiations and

⁴ Lavenex, 791.

voluntary agreement.” Intergovernmental and consensual modes of decision-making correspond to this network mode. The institutions established under the AAs also comply with this network mode of governance. However, it does not preclude power asymmetries.⁵ And finally, the third type of external governance, the *market mode*, is seen as an outcome of competition between formally autonomous actors. Under this mode of governance, the regulatory adaptation may happen, either through mutual recognition or through competition pressure. As noted by scholars, in some cases, market demand may lead to a voluntary *de facto* approximation of legislation, this demand stemming from local consumers looking for higher quality products originating in the EU or local producers willing to have access to the EU market.⁶

Furthermore, Lavenex and Schimmelfenning propose three sets of factors, based on which the governance variation and effectiveness between third countries, regions, or even policy areas can be explained. Thus, the first set of factors is related to *institutions* and the assumption is that the EU’s internal structures of policy-making within a given domain determine the mode of its external governance. What is more, the effectiveness of external governance increases with the external legitimacy of EU’s institutions. The *power-based explanation* represents another set of factors explaining variations in the EU’s external governance and points to external structures of power as determinants. In this framework, the degree of third countries’ dependence on the EU and vice versa, as well as the EU’s power *vis-à-vis* other “governance providers” like Russia and the US, are important. High and asymmetrical interdependence in favour of a governance

⁵ Formally, the Association Agreements foresee full equality between the contracting parties – the EU and its Member States on the one hand, and the partner country, on the other hand. This equality is also reflected in institutions established under these Agreements like the Association Councils, Association Committees and thematic sub-committees who adopt their decisions based on consensus of both contractual parties.

⁶ Lavenex, 796–799.

provider would produce a hierarchical mode of governance, high and symmetrical interdependence would be conducive to market governance, while medium interdependence – to network governance. The third set of explanatory factors is related to the *domestic structure* of third countries. The argument is that the mode of external governance follows the mode of a third-country's domestic governance and that the effectiveness of external governance is a function to a degree of domestic resonance of EU rules, the EU compatibility of domestic institutions and the number of "adversely affected veto players."⁷

The EaP countries who have signed the Association Agreements (AAs) and the DCFTAs with the EU – Ukraine, Moldova and Georgia – have clearly accepted the hierarchical style of relations with the EU. These countries have undertaken to take over a part of the EU *acquis* in the area of internal market, in exchange for additional trade benefits, and have also agreed that the EU may suspend specific trade benefits in case they fail to respect human rights or fundamental freedoms. The spoiled relations of Belarus represent another case. Political repressions and the autocratic governance style of Lukashenka are extremely unpopular in the EU; however, the geopolitical tensions in Ukraine and Minsk's mediatory position lately have forced the EU to shift its mode of relations with Belarus from hierarchical to networking co-operation.⁸ In the case of Azerbaijan, high mutual interdependence between the EU and the country can be observed: it is a receiver of sizable EU investments, it exports to the EU strategic resources, such as oil and gas, and it is the only EaP country which runs a current account surplus with the EU. Azerbaijan, nevertheless, declined the EU's offer to sign a DCFTA under the pretext of not wishing to alienate Russia. At the same time, Azerbaijan has also refused Russia's invitation to join the EEU. As a result, in EU's relations

⁷ Lavenex, 802–805.

⁸ For more details, see Andrei Yeliseyeu, „Belarus: Europeanisation Through the “Back-Door”?”, this volume.

with Azerbaijan, a combination of both network and market style modes of governance may be observed. In Armenia, the power-based factors have stirred the country's attitude towards the EU: it succumbed to Russia's pressure, distanced itself from the EU and is working towards greater engagement with Russia and the EEU. The EU's recent offer to work towards a modified DCFTA, without contradicting Armenia's obligations towards the EEU, clearly spells an accommodating mood in the EU's relations with Armenia.

The EU has applied more or less uniform treatment towards all EaP countries (at least nominally) and the other major "governance provider," Russia, has also exerted equally strong pressure on all of them.⁹ This leads to the conclusion that the variation in direction and nature of relations with the EU in the case of the Eastern Partners is caused essentially by the domestic structures. However, further analysis is required in order to determine how specific domestic institutional constellations determine the direction of relations with the EU. It is essential to turn to other theories which enlighten about the social mechanisms through which external pressures transform into behavioural adaptations and, with that, into specific policy choices. Such issues are better captured by the theories of Europeanisation.

Variations in conceptual approaches to Europeanisation

There are several competing approaches to Europeanisation. In summing up the insights from the literature on Europeanisation, Andrea Lenschow makes a distinction between four possible

⁹ More on the clash of EU's "bureaucratic logic" and Russia's "geopolitical visions" see David Cadier, "The Eastern Partnership and the Eurasian Economic Union: substance, effects and interaction", this volume.

definitions.¹⁰ The first approach sees Europeanisation as a *bottom-up* (state → EU) process, during which the construction of and transfer of loyalties to the European superstructures takes place. As academics have noted, this approach resembles the traditional concept of European integration. The second is a *top-down* (EU → state) approach, that studies the EU's impact on national policy goals, choices of policy instruments and adjustments in administrative structures. This approach has close relations with the concept of implementation of EU requirements; nevertheless, Europeanisation has a much broader variation in scope and connotation. It "widens the perspective beyond the immediate policy level", and is concerned with national transformation processes in general. Sometimes, in order to draw a clearer distinction between the two concepts, the concept of implementation is equated with the term "EU-isation". The third approach to Europeanisation is described as a *horizontal* one (state → state) and is attributed to the processes of inter-state interactions. This approach in some aspects has a close affinity with the previously described market-based mode of EU's external governance, and takes the negative European integration¹¹ measures as the originator of competition dynamics enforcing adaptations across the Member States. What is more, frequent meetings among the European national policy-makers facilitate the exchange of ideas which may translate into compatible actions at national level. The fourth approach treats Europeanisation as a more complex, *circular* process during which both the bottom-up and top-down processes interact (state → EU → state). It has a strong reflexive element, as these interactions create

¹⁰ Andrea Lenschow, "Europeanisation of Public Policy" in *European Union. Power and Policy Making*, ed. Jeremy Richardson, 3rd ed. (Routledge, 2006), 56-69.

¹¹ The theoretical literature on European integration distinguishes between negative and positive integration measures. The negative measures concern, e.g. the removal of barriers to trade and other economic transactions. The positive measures, on the contrary, embody the construction of something, like joint institutions to govern the created joint economic area.

feed-back loops through which national actors concurrently shape the European structures and allow European integration to shape the domestic arena. Besides, from this perspective Europeanisation is seen as a discursive framework through which the domestic actors “manipulate” the European level for domestic benefit.¹²

To summarise, several relevant conclusions can be drawn. First, Europeanisation is a two-directional process. Second, depending on the choice of approach, European integration can either be seen as a synonym to Europeanisation (e.g. Europeanisation of former national competences) or as a trigger of Europeanisation processes (e.g. Europeanisation concerns the consequences of European integration, a domestic *reaction* to European *impulse*).¹³ Third, Europeanisation is a process going beyond formal compliance with the EU’s rules. It is a process of embedding formal and informal EU rules (procedures, policy paradigms, behaviour, etc.) “... in the logic of domestic discourse, identities, political structures and public policies”.¹⁴

The geographical reach of Europeanisation is not limited to the EU institutions and Member States. In a sense, it concerns every country or international organisation which in one form or another adopts the EU’s templates, or “way-of-doing-things”. The only major difference between the Member States and third countries is that the Member States can “upload” the transformation at EU level, an option which is not accessible to third countries, unless they are endowed with political and economic leverage irresistible by the EU. The EaP countries certainly do not have such

¹² Lenschow, 57-59.

¹³ See Kerry Howell, “Developing Conceptualizations of Europeanization and European Integration: Mixing Methodologies” (paper for ESRC Seminar 1/ UACES Study Group 2, Sheffield, November 29, 2002), <http://aei.pitt.edu/1720/1/Howell.pdf>.

¹⁴ Claudio M. Radaelli, “Whither Europeanization? Concept Stretching and Substantive Change,” *European Integration Online Papers* Vol. 4, Iss. 8 (2000), <http://eiop.or.at/eiop/pdf/2000-008.pdf>.

leverage over the EU, albeit certain interdependences exist both in economic areas (e.g. with Azerbaijan and, to a lesser extent, with Georgia due to oil and gas deliveries to Europe) and political areas (e.g. with Ukraine, Moldova and Belarus, and, to a lesser extent, with Armenia and Georgia, because of joint endeavour for regional stability and security).

From the perspective of the EaP countries, Europeanisation is a process through which the domestic structures (government, non-state actors and society at large) adjust their behaviour to EU norms and decision-making modes. In these countries Europeanisation is less direct and formal than in the EU Member States, and horizontal and discursive processes are more significant. It is an open-ended process, because the aim of the adoption of the EU law is not to achieve congruence but compatibility, thus “providing for a range of options at domestic level”. Moreover, the transfer of EU norms carries strategic significance, because, as noted earlier, the impact of norm transposition is expected to go “beyond the immediate policy level and impacts upon polity and political structures into focus.”¹⁵

Measuring the effectiveness of Europeanisation

The effects of Europeanisation, as suggested by the scholars,¹⁶ can range from *retrenchment* (fortification of existing structures), *inertia* (resistance to adaptations), *absorption* (formal incorporation without modifying existing structures) and *accommodation*

¹⁵ Lenschow, 58–62.

¹⁶ E.g. Lenschow, 62; Canan Balkir et al., “Europeanisation and Dynamics of Continuity and Change: Domestic Political Economies on the ‘Southern Periphery,’” in *Europeanisation of Public Policy in Southern Europe: Comparative Political Economy from the 2000s to the Crisis (South European Society and Politics)*, ed. Canan Balkir et al., (Routledge, 2014), 7.

(superficial adaptation) to fundamental transformation (a profound shift in domestic structures). It is essential to note that countries start Europeanisation from different levels: to achieve compatibility, in one country absorption or accommodation would suffice, but fundamental transformation may be required in another country. Besides, according to the “goodness-to-fit” hypothesis, “in order to trigger any effects at domestic level, the EU policy or context must pose a challenge for the domestic structures/actors,” and, if this challenge demands radical transformation, domestic actors would resist the adaptation.¹⁷ From this it follows, that the achievement of profound change is very difficult, demanding either very high motivation or an incremental approach.

The process of internalisation of EU norms causes both intended and unintended consequences, although it is quite difficult to draw a definite line between both, and any division would be rather arbitrary. The intended consequences are to a great extent listed in the introductory articles of the AA and DCFTA agreements. The stated political aims include promotion of democracy, fundamental rights and respect for minorities, while the economic aims incorporate modernisation of business regulation, removal of barriers to trade and investment, and establishment of a predictable business environment for economic actors in the EU and the partner countries.¹⁸ At the same time, in contrast to transparent aims, there are also hidden intended consequences which are of a strategic nature, and are usually related to expected shifts in intergovernmental relations (e.g. neutralisation of pressure coming from third parties like Russia), changes in domestic politics through empowerment of certain actors (social, civil) groups, and achievement of compliance with the membership criteria of the EU and eventual accession to the EU. Careful reading “between

¹⁷ Lenschow, 64.

¹⁸ For more details, see the chapter by Guillaume Van der Loo “The Association Agreements and DCFTAs: Appropriate Legal Instruments for Exporting the EU’s Values and Internal Market *Acquis*?”, this volume.

the lines”, a dose of critical thinking, knowledge of “what causes what” and contextual awareness are essential to disclose the invisible aims.

The examples of unintended consequences – the effects of Europeanisation which had not been foreseen by the parties – include shifts in government-parliament relations (European integration usually leads to executives gaining the upper hand), public opinion, economic development and macroeconomic stability. Also, intergovernmental relations and party politics may be an illustration of unintended consequences. For example, Russia’s increased pressure on Armenia and Azerbaijan, which resulted in their refusal to sign the AA with the EU, is clearly an unintended consequence of renewed but unsuccessful Europeanisation of the two countries. Likewise, also the demise of pro-European reformist political forces in Georgia after the 2012 elections can be attributed to unintended consequences of profound Europeanisation.

Europeanisation can be either positive or negative in nature. If the adoption of EU rules and the resulting Europeanisation leads to a greater political and economic convergence with the EU, and if this process of change enjoys wide public support, then one can say that Europeanisation has been positive. However, in contrast to positivity, as experienced by many EU Member States, both old and new, Europeanisation can also lead to negative results. The famous “division of competences” between the EU and Member States, as set out by the Lisbon Treaty, and growing anti-European sentiments, are telling examples of these negative consequences. Also, the recent British referendum on departure from the EU is another illustration of both insufficiently deep Europeanisation and alienation from the EU, because of retrenchment against ongoing Europeanisation.

From the perspective of reforming countries like those of the EaP, a more exhaustive list of possible examples of both positive and

negative results of Europeanisation would consist of the following phenomena:

- *Positive effects*: structural change of the economy resembling that of developed nations; improving competitiveness on a global scale; balanced and fair economic development; political stabilisation leading to rigid application of rule of law in general, and protection of property rights in particular.
- *Negative effects*: popular dissent because of social hardships during reforms; radicalisation of conservative, anti-liberal and anti-European political attitudes; deepening polarisation and political conflict; shortages of public funding and macroeconomic imbalances; loss of certain foreign trade options; increases in socially deviant behaviour (crime, corruption, etc.), disruptions to existing communal rites.

Mechanisms of domestic change and major agents of Europeanisation

Notwithstanding historical legacies, which undoubtedly have had considerable impact on today's operation of domestic institutions in the EaP countries, one has to look at the mechanisms or channels through which Europeanisation works and domestic change is initiated. Drawing on political theories, it is possible to identify three general explanatory paths of domestic change in respect to Europeanisation: functionalist-institutional, political-economic and rational-constructivist. Although these explanatory paths represent conflicting ontological and epistemological positions, and attribute the role of major protagonists of Europeanisation to different groups of actors, all these paths are complementary to each other as each of them sheds light on a particular aspect of a complex Europeanisation process.

1. *Functional-institutional explanation.* This pathway is based on neo-functionalism – a key theory used to explain the expanding nature of European integration.¹⁹ The theory is based on two major assumptions: first, close co-operation in one sector necessarily leads to the functional necessity to co-operate in related sectors (functional spill-over); second, common institutions creatively use entrusted power to expand their competences (institutional spill-over). In Europe, after the failure of federalism in the 1950s, the process of integration was reinvigorated through prioritising economic cooperation over political unification. In the view of neo-functionalists, deepening economic integration would lead to political integration at some later stage, namely, the pooling of political power is seen as the end-result rather than the start of integration.

The neo-functional logic mainly applies to the “up-loading” direction of Europeanisation, as it concerns first and foremost the “EU-isation” of pre-existing domestic policies of the EU Member States. However, it also has some merit in explaining Europeanisation in EaP countries. Although institutional spill-over at European level is not feasible because of weak common institutions established between the EU and the EaP countries (e.g. Association Council, Association Committee, etc.), a domestic institutional spill-over is actually very likely. Thus, the public institutions and officials engaged in approximation of legislation become pro-European bastions putting pressure on peer establishments through inter-institutional linkages. Likewise, the functional spill-over is practicable as well. In fact, the whole concept of DCFTA is built around this functional logic – the gradual opening of the EU market in exchange for domestic reforms and

¹⁹ Howell contends, though, that the relationship is the opposite, namely, that Europeanisation is a meta-theory to neo-functionalism providing substantiation to spill-over possibility. Without questioning this approach, the teleological character of neo-functionalism still holds owing to expanding functional necessities, as much as to actors’ adaptations to European logic. See Howell.

political cooperation. However, an indispensable feature of this functional-institutional pathway is that it requires the initial push. The ignition may arise from a domestic political consensus on the necessity to embark on European style reforms, or, alternatively, from a contractual obligation like the DCFTA. After the initial push, integration would continue in a semi-automatic regime, with spill-over working as a pressure mechanism to speed-up and widen the scope of the transposition of EU law. The weak point of neo-functionalism is, however, that it cannot explain the genesis of this initial integration momentum.

Within the neo-functionalist framework public authorities/officials are the primary agents of Europeanisation. The market participants – businesses with European interest – are also part of the game, but their impact is mediated by public authorities. Nevertheless, the pressure of market competition is a strong motivator for Europeanisation, in particular during the initial phase of economic integration, when the focus is on dismantling national barriers to trade. This opens the field for competitive dynamics, ousting the weak and promoting the economies of scale. At later stages of economic integration, cost optimisation arguments prevail and lead to construction of common economic institutions, such as, common commercial policy, payments union, banking union etc. From the perspective of EaP countries, a widening contractual relationship with the EU as well as intensive, diversified and balanced exchange of goods and investment are instances of an evolving and successful Europeanisation.

2. Political-economic explanation. This explanatory framework is built upon insights from the critical political theory. There are three important aspects for understanding Europeanisation in developing countries from this theoretical perspective (sidelining the Eurocentric argumentation). First, Marxist studies point to leverage exercised by large domestic and multinational companies

over political outcomes. The governments are seen as captives of business interests and not being able to exert their independent will. This may sound exaggerated; however, the economies of most EaP countries are dominated by monopolistic structures owned either by the state or by politically influential business-people, making the distinction between public and private spheres close to impossible. Second, advocates of the critical school see the public scene as an arena of constant struggle for power and domination. There would always be contestants opposed to the ruling elite or intellectual ideas. Accordingly, not only domestic actors, but also international political-economic structures, seek to influence the domestic political outcomes (regime) and to shape the country's integration in global economy. Third, as emphasised by Karl Polanyi and his followers, the process of economic development or Westernisation requires harsh rationalisation or commodification, not only of business management and public governance, but also of all sorts of social relations, transforming even ideas and people into objects of trade. In such a system, everyone is ranked to its market value and, as a result, "social waste", i.e. those with the least capabilities, is transparently exposed. The commodification leads to destruction of traditional communal bonds, segmentation and inequality, feeding discontent with liberal economic policies. Global economic integration only exacerbates these effects. Dependency, inferiority, despair over regaining control over peoples' own fate are the well-known negative side-effects of globalisation. As a consequence, the adversely affected groups would mobilise in search of redress.²⁰

In contrast to the neo-functionalists, the political-economic explanatory path of Europeanisation redirects attention from the state to market structures and fills the void by providing

²⁰ Erik Jones, "Idiosyncrasy and Integration: Suggestions from Comparative Political Economy" in *The Political Economy of European Integration: Theory and Analyses*, ed. Erik Jones and Amy Verdun (Routledge, 2004), 59.

an explanation to the initial impetus of Europeanisation, this impetus allegedly arising from the struggle between domestic and international economic forces, with the latter gaining the upper hand and seizing the command heights of domestic economy. However, as indicated by critical scholars,²¹ this “opening” cannot be imposed completely from outside. That is, external factors do not influence the state and national social formation directly. It requires a local agency, which “is translating the structural power of [EU] into tactical forms of power” of domestic power blocs.²² This agency, *inter alia*, includes state officials dealing with EU relations and promoting export and foreign investment, managers of local daughter companies of European multinationals and domestic export-oriented companies, as well as local service providers to these companies.²³ Ukraine and Azerbaijan stand out as the best examples of the influence of political-economic structures on the country’s strategic orientation.

However, at this point it is relevant to introduce another very potent actor of Europeanisation from the political-economic perspective – the consumer. Consumers accustomed to high quality, cheap and safe products are a major force directing economics and politics. Of course, consumers may be tricked by using sophisticated marketing methods; however, their consumption power is what ultimately matters. In this respect, a significant presence of European retailers and commercial banks in the domestic market of EaP countries represent a more powerful channel of Europeanisation than the concentrated high value FDI projects in the industrial sector. Such businesses, at their will, may institute European-style business ethics and corporate

²¹ Jan Drahokoupil, *Globalization and the State in Central and Eastern Europe: The Politics of Foreign Direct Investment* (Reprint, Routledge, 2008), 13.

²² In the case of EaP countries, these power blocs are either centred on the pro-European or, conversely, on pro-Russian ideals.

²³ Drahokoupil, 183.

governance practice, along with improved labour standards. They may also exert noticeable pressure on domestic politicians to quicken formal integration, as well as to sponsor pro-European civil activities. Notwithstanding this, their limited social “exposure” limits their Europeanisation capacity.²⁴

No less important, the political-economic approach also directs attention to the causes of possible pitfalls of Europeanisation, leading to the denial of European integration. Thus, Europeanisation may currently enjoy absolute support in all EaP countries because it is seen as a model for the modernisation of the business environment and governance system in general. However, when the extent of the cost of adjustment in terms of shock to well-being, high unemployment and increasing inequality becomes apparent, the mood would certainly change, unless adequate coping mechanisms are developed in the form of social security, labour retraining programmes and sufficient financial aid from the EU to support the reform effort. This change in mood becomes even more challenging in the environment of geopolitical rivalry with Russia, which pretends to represent an alternative model of development (some call it Easternisation) centred on authoritarianism, kleptocracy and oligarchic economic structures. Russia, in fact, is not hesitating to reinforce the public’s anxiety about the perils of European integration.

Consequently, a very strong pro-European national consensus is required, in order to sustain the pro-European mood during the

²⁴ The point is that FDI-driven companies are inclined to insulate themselves from the surrounding economic environment and, therefore, are weak promulgators of Europeanisation. For example, FDI companies do not rely on local sources of financing or on local R&D schemes. These companies are also poor contributors to labour standard improvements or unionisation: they offer higher wages but prefer loose (flexible) labour rules. What is more, large businesses favour stability, security, light regulation and returns from economies of scale over market competition and economic freedom. See Cornel Ban, “From Cocktail to Dependence: Revisiting the Foundations of Dependent Market Economies,” *GEGI Working Paper 3* (Boston University, December 2, 2003).

reform (read Europeanisation) hardship. Such consensus cannot be reached solely on economic (i.e. welfare) grounds. More important issues have to be at stake, such as a search for refuge from external threats or tormenting domestic instability. In the early 1990s, all EaP countries engaged in economic reforms, yet most of them were discontinued soon after their initiation, because of social hardships and a lack of political motivation.²⁵ Now, only Ukraine, Moldova and Georgia have been in a position to manifestly return to the pro-European reform path, although, as will be shown in this volume, the momentum is waning again.

3. *Rationalist-constructivist explanation.* This explanation path focuses on strategies employed by actors striving for domestic institutional change and is borrowed from the work of Börzel and Risse.²⁶ In truth, rational choice and constructivism or sociological institutionalism are two different strands of neo-institutionalism defining different logics of institution building.²⁷ Recently, the two are more often seen as complementary to each other elucidating various angles of the same complex reality. The rationalist side is based on the assumption of rational cost-benefit calculations exercised by actors who have a fixed set of preferences and who engage in strategic interaction with

²⁵ Frustration with the current, as it is seen, uncontrollable pace of European integration is growing also inside the EU. Thus, recently many have turned anti-European not only in the new EU Member States (e.g. in Poland, the Czech Republic and Hungary), who are undergoing considerable modernisation themselves, but also in a number of the old Member States like the UK, Netherlands, Austria, Sweden, Finland, Spain and Greece. The democratic deficit is the most popular excuse for the growing Euroscepticism, although it could just as well as be caused by internal market operation, thus embodying a negative externality of deepened economic integration.

²⁶ Tanja A. Börzel and Thomas Risse, "When Europe Hits Home: Europeanization and Domestic Change," *European Integration Online Papers* Vol. 4, Iss. 15 (2000), quoted in Lenschow, 63.

²⁷ In fact, there is also a third strand of neo-institutionalism, the historical institutionalism, which considers temporal and historical aspects of institutions. See, e.g. Balkir, 6–7.

each other with the aim of maximising their utility. The actors – be they state or non-state – are seeking opportunities in pursuit of their own interests, therefore, institutional EU misfits would operate as a constraining factor, while conforming institutions would engage in “structuring opportunity space.” Consequently, paraphrasing Lenschow’s argument, domestic change can be traced to those actors, who see opportunities in new institutional (integration of local market into European market) and argumentative (external competition is improving welfare) structures developed under Europeanisation.²⁸ Indeed, from the view of the EaP countries, it is extremely relevant that local people perceive Europeanisation, not as a geopolitical choice, but, essentially, as a path to improving well-being, that they link Europeanisation with their personal advantage.

The constructivist side, by contrast, assumes actors to be guided by collectively shared norms, values and an understanding of what is “appropriate” behaviour. Actor preferences are constructed and evolving, while the actions of institutions are guided by normative resonance or dissonance, rather than cost-benefit considerations. Learning and emulation are seen as the main forms of action leading to convergence. Local norm entrepreneurs linked into communication networks, as well as popular resonance of European ideas, are key intervening variables mediating the impact of the EU at domestic level. In this setting, the EU becomes a frame of reference for local actors seeking to “endogenise” Europe in domestic politics. Recasting national identity to include a European dimension, development of a sense of belonging to the European family of nations, forging commonality of destiny with Europe, are some examples of Europeanism “under construction”. Ability of domestic actors to form epistemic communities or advocacy coalitions with their European peers is determining the degree of success of

²⁸ Lenschow, 66.

Europeanisation from the constructivist perspective.²⁹ Pro-European mass media, activism of non-governmental civil and cultural networks, educational programmes on European issues are all strong conveyors of European ideals and channels of Europeanisation. Thus, the presence of people with a European background is of paramount importance for the Partnership countries. More extensive social contacts between people, for example, through travel and participation in transnational networks, or through permanent immigration (or remigration) may considerably foster Europeanisation in EaP countries, even in the absence of formal obligation to transpose the EU rules.

Conclusions: methodological considerations for development of a comparative framework of Europeanisation

The analysis of EU's external governance modes towards the Eastern Partners has showed that the observed variation in relations with the EU is determined by domestic structures and, to some extent, also by market forces. The EU thus far has been adaptive to its partners' shifting policy strategies and, in contrast to Russia, has withheld from applying the stance "take-it-or-leave-it". This variation in external regimes has allowed the Eastern Partners to pursue different European integration strategies. From the EU perspective, irrespective of the existing mode of relations,

²⁹ The EU's own experience is a telling example. Most likely the current state of high integration would not have been achieved, if the European Court of Justice did not intervene and the steering of integration was left to politicians and governmental officials. The ECJ was able to form an "advocacy coalition" with the national courts of the Member States on the grounds of the judges' intransigent belief in the rule of law and through the adherence to the spirit of the EU founding treaties, to provide essential impetus to the integration process at critical moments during the 1960s and 70s.

what matters is that regulatory approximation in the economic area takes place, leading to greater economic convergence, and, ultimately, to political stabilisation and modernisation *à la Europe*. From the partners' perspective, Armenia and, to some extent, Azerbaijan can be said to have been influenced by power-based considerations, while the high legitimacy that the EU institutions enjoy in Ukraine, Moldova and Georgia makes the acceptance of hierarchical mode of relations with the EU feasible. For them, EU integration is first and foremost the counter-balance to Russian intrusion in domestic affairs and, secondly, as an alternative model for sustainable economic development.

These conclusions lead to several questions. First, will the approximation or adjustment take place without formal commitments like the AA and DCFTA from the part of the Eastern Partners? The second question – even if formal commitments have been introduced, would they be sufficient to achieve a consistent integration and convergence with the EU rules and thus help to resolve the challenges arising from the existing interdependencies between the EU and its neighbouring countries?

The answers to these questions depend upon the domestic transformations or the path of Europeanisation. For EaP countries, the “top-down” and “state-to-state” options of Europeanisation are only available, as they do not possess the power to “upload” Europeanisation, that is, to force the EU to move integration in a new direction. For them, Europeanisation should be delineated from European integration. European integration is seen as a formal relationship between the EaP country in question and the EU, representing only one channel (or push factor) of Europeanisation which is, by definition, a process of profound transformations by adopting the economic, social and political logic of corresponding EU structures. Thus, European integration represents only one, formal dimension of Europeanisation. It acts as a powerful trigger of Europeanisation; nevertheless, Europeanisation may happen even

in the absence of European integration, mostly through structural transformations induced by market and social mechanisms.

Methodologically, because of its deep effect on the very social fabric of society, direct observation of Europeanisation is not possible; therefore, it cannot be measured. However, the factors conducive to Europeanisation and transformation results can be observed and measured, allowing comparison between the countries. The functional-institutional path points to the relevance of public institutions and evolving nature of contractual relations and economic exchanges as indicators of successful Europeanisation. The political-economic corridor singles out the role of economic structures (local pro-European business, European multi-nationals in industrial and service sectors) in initiating and directing the economic integration with the EU. The last, the rationalist-constructivist channel, points to “manipulation” of the EU’s integration agenda by domestic actors (public officials, businesses, interest groups, etc.) for their own benefit and to the transformative force of intensive social contacts between local and European people, and in particular from cross-border “epistemic communities” and “advocacy coalitions,” be they lawyers, officials, journalists, intellectuals or migrants.

One may inquire what the content and what the end-state of Europeanisation is? Another pertinent question – what sort of connection exists between the economic and political realities or, to put it otherwise, are the economic aspects of Europeanisation separable from the political aspects?

With regard to the former question, the existing legal instruments (AAs and DCFTAs) with the EaP countries do not set out the ultimate institutional goal of these transformations. On the one hand, this may be so out of a precaution not to pre-empt the end result of the evolving relationship, as the option of full membership is not immediately available to the EaP countries. On

the other hand, full convergence can never be achieved and the end-state of Europeanisation is not definable. The EU has defined the membership criteria, demanding the existence of institutions guaranteeing democracy, rule of law and fundamental rights, a functioning market economy being able to cope with competition in the EU market, and institutional capacity to comply with and enforce the EU's rules. However, even among the EU Member States there are ongoing convergence and divergence processes.³⁰ Moreover, there are also states which are as "European" as the core EU Member States, but are not members of the Union, such as Norway and Switzerland.

For the Eastern Partners, the adaptations to EU requirements provoke deeper transformations in the societal fabric of society, and concerns changes in values, attitudes, relationships. In the economic sector, it concerns the readiness of domestic businesses to operate in the EU's market under the terms of a single rules book composed by the EU, and to adjust structurally to withstand the competition pressure, and to grasp the opportunities given by the vast EU market. In the public sector, Europeanisation denotes the ability to apply EU rules correctly, and in a manner comprehensible to the population. This demands expertise in EU law, high proficiency and efficient coordination between public institutions. In the civil sector, Europeanisation leads to shifting expectations on living standards (social, environmental, health, educational), characteristic to European developed countries, to consumer demand for good quality, competitively priced and safe goods and services, and, most importantly, to an acceptance of Europeanism as part of a personal identity.

³⁰ It seems that there are geographic patterns of internal convergence and divergence in the EU with the dividing line lately gradually shifting from East-West to North-South, where Northwestern clusters of Member States (high degree of convergence) stand against the Southeastern ones (low degree of convergence or even divergence.). See Marin Lessenski, *Don't Panic: Findings of the European Catch-Up Index 2015* (Open Society Institute, Sofia, 2015), http://osi.bg/downloads/File/2016/Report_DontPanic_CatchUpIndex2015.pdf.

As to the separation of economic and political aspects of Europeanisation, the EU's existing policies do not provide an unequivocal answer. Formally, the EU would say no – the two are not separable; however, as attested by many real life examples, the EU's trade and investment interests may prevail over political ideals and, despite incessantly reiterating its support for a democratic and liberal economic transition in its neighbourhood, the application of conditionality, i.e. more trade and money in exchange for more political and economic reforms, has been applied selectively, like in the case of Azerbaijan. On the other hand, intensive economic relations with the EU are not feasible without deep Europeanisation of domestic economic structures. However, once intensive economic exchanges become a reality, it would bring in, as foreseen by neo-functionalists, a momentum for political convergence or, at least, political leverage in the case of the partners' substantial deviations from common "political standards".

Although political spill-over is feasible, for the EaP countries, it has little relevance at the current stage of relations with the EU. Political commitments toward European integration do not necessarily translate into effective and embracing Europeanisation. At the same time, Europeanisation is possible in the absence of any commitments. The option of EU membership is not available to EaP countries, besides, not every EaP country wishes for this membership and so, even if political commitment is given, its true extent and workability need to be tested. Therefore, methodologically, it is possible and necessary to differentiate between the economic and political aspects of Europeanisation. In fact, in terms of human development standards and the ability to withstand the competition and market forces from the EU, Azerbaijan and Belarus are much better placed than politically committed EaP countries.

The intention of this book is to provide a review of the EU's economic presence in the EaP states and to assess the current state

and future prospects of Europeanisation of these EaP countries. In order to achieve this aim, based on earlier expounded theoretical insights, a qualitative and quantitative analysis of economic, political and social developments in the Partnership countries will be introduced.

The answers to the following questions will be sought in the next part of this volume:

- What is the EU's economic presence in each Partnership country and how does this presence translate into the European integration agenda?
- What are the triggers of Europeanisation in the case of the EaP countries?
- Which channel of Europeanisation is the most promising for each Eastern Partner?
- Who are the strongest agents of Europeanisation?
- What are the chances of Europeanisation in the EaP countries, taking into account the costs of adjustment and geopolitical rivalry with Russia?

The subsequent chapters of the book will consider the geopolitical context and normative background of Europeanisation. These chapters will be followed by country-specific chapters written by national researchers from the respective EaP countries. All country's chapters follow a similar structure: they assess the existing ties with the EU, review the formal links with the EU, provide a qualitative appraisal of the current results of Europeanisation, introduce the most evident domestic agents of Europeanisation, and look at Russia's influence on domestic institutions and economy.

At the end, before conclusions, using a single set of criteria, a comparison of the dynamic of Europeanisation among the Eastern Partners – the Economic Europeanisation Index – will be introduced. In spite of its simplicity, the results from this index reveal a rather controversial picture of Europeanisation experience of the EaP countries, inviting more careful attention to this subject.

THE EASTERN PARTNERSHIP AND THE EURASIAN ECONOMIC UNION: SUBSTANCE, EFFECTS AND INTERACTION

David Cadier

The Ukraine crisis casts a dramatic light on the collision of the geo-economic policies of the EU and Russia in the post-Soviet space. Who could have anticipated that a technical and bureaucratic free trade agreement, such as the one negotiated between Brussels and Kiev since 2010, but eventually, and unexpectedly, turned down by the former President of Ukraine, Viktor Yanukovych, in November 2013, would ignite a major geopolitical crisis, culminating in Russia's annexation of part of Ukraine's territory (Crimea) and trigger unrest in its Eastern regions (Donbas)? The EU's offering of an Association Agreement (AA) to Ukraine in the framework of its Eastern Partnership (EaP) policy did not cause the Ukraine crisis: the fundamental factors that led to this outcome have much more to do with political regime considerations both in Russia and Ukraine, the internal drivers of Russia's foreign policy, and the degeneration of state structures in Ukraine. It appears guarded, for instance, to postulate that, had Yanukovych signed the AA, the crisis would not have taken such proportions. Nevertheless, it did add a spark to the crisis and issues related to the EU's and Russia's economic policies have in fact been found at several of its junctures: the rejection

of the AA prompted the first demonstrations on the Maidan; the government that succeeded Yanukovych eventually signed the AA; Moscow linked its participation to mediation efforts regarding the Donbas to the temporary suspension of the application of the AA; and today discussions about a potential overhaul of the architecture of regional politics include debates about establishing platforms between the EU and the Eurasian Economic Union (EEU). In other words, if not a direct cause, the collision of the geo-economic policies of the EU and Russia certainly provided a context to the Ukraine crisis.

The fact is that Russia's EEU and the EU's EaP are largely targeted at the same group of countries – Russia's "near abroad" is also the EU's "Eastern neighbourhood". This difference in denominations does not arise from discrepant translations; it is more profoundly the mark of two competing endeavours for region building. Through their respective platforms, Russia and the EU have attempted not just to gain new markets but also to retain them, by trying to shape the economic, administrative and, to some extent, political structures of the states of their common neighbourhood, albeit by different means and with differing records of success. This configuration of competing structural power has implications for the policies and identities of Russia and the EU, but also most profoundly for the countries of the region.

What is the nature and modality of the interaction between the EaP and the EEU in the post-Soviet space? To what extent are these two trade-integrating platforms compatible or mutually exclusive? How and to what extent do they – respectively and by interaction – contribute towards structuring regional politics and influencing the policies of states of the shared neighbourhood? Addressing these questions requires the examination of the initial underlying principles, eventual contents and actual effects of the EaP and the EEU.

This chapter attempts to analyse this by reviewing the two platforms in turn and by reflecting in conclusion on their interaction and structural impact. It argues that the prevailing narrative depicting this interaction as a geopolitical clash between two cohesive blocs is highly misleading: it does not correspond to the respective nature, scope and possibilities of these trade regimes. In addition, it fails to account for the complexity of the situation on the ground and tends to overlook the importance of domestic elites. While not compatible, the EaP and the EEU are nonetheless co-existent, and the gate-keeping elites in the post-Soviet countries play a key role in mediating their influences.

The Eastern Partnership: incremental, composite and undirected transformative power¹

The EaP initiative directed at the six post-Soviet countries of Eastern Europe and the Caucasus is one of the two regional legs of the European Neighbourhood Policy (ENP). Launched in 2004, the ENP seeks to encourage the “economic integration and political association” of the neighbouring counties with the EU.² More specifically, the ENP aims towards fostering domestic reforms in the political, economic and administrative realms by offering in exchange privileged access to the internal market, financial aid and visa facilitations. At its origins, the creation of the ENP was mainly motivated by geopolitical considerations: stabilising the European peripheries and laying the foundations of an EU foreign

¹ This section directly borrows from: David Cadier, “Eastern Partnership vs Eurasian Union? The EU–Russia Competition in the Shared Neighborhood and the Ukraine Crisis,” *Global Policy* Iss. 5 (2014), 76-85.

² European Commission, “European Neighborhood Policy Strategy Paper, Communication from the European Commission”, COM (2004) 373, May 12, 2004.

policy beyond enlargement. The EU was looking to capitalise on the successful experience of spurring and shaping Central Europe's transformation through the enlargement process, even though, in the context of "enlargement fatigue" that prevailed after the mid-2000s, accession was increasingly less available for neighbouring countries.³ By relying on conditionality incentives in interacting with its new Eastern periphery, the EU has been attempting to reproduce the logic at the heart of enlargement – fostering peace and stability in its immediate environment by exporting its internal model – without its main reward, membership.⁴

The EaP was born out of the will to regionalise ENP programs and instruments. The EU Member States that pushed for this initiative – Poland first and foremost, with the support of other Central European countries such as the Czech Republic, but also of Sweden – were hoping to single out Eastern Europe as a region on the EU foreign policy's radar. There are several possible reasons for this Polish and Central European activism, some deriving from the geographical, historical and socio-economic ties these countries have with the Eastern neighbourhood and some linked to their own intra-European objectives to carve themselves a niche of specialisation within EU structures as a way to increase their agenda-setting capacities in Brussels. Indeed, Central European countries stand among the EU Member States that are the most critical of Russia (although to varying degrees) and some of their policy-makers might have perceived the EaP as an opportunity to develop a rollback policy against Russia's influence, or at least presented it as such in domestic debates and private conversations. The actual policy output does not correspond to such a scheme however, as in order to be adopted and uploaded at EU level, the

³ Jacques Rupnik, ed., *Les banlieues de l'Europe*, Nouveaux Débats (Presses de Sciences Po, 2007).

⁴ David Cadier, "Is the European Neighbourhood Policy a Substitute for Enlargement?," in *The Crisis of EU Enlargement*, ed. Luc Brunet, LSE IDEAS Special Report 18 (2013), 52-58.

EaP had to be re-designed in administrative rather than political terms and infused with a good deal of constructive ambiguity.⁵

While geopolitical considerations were not totally absent in the context and sources at the origins of the EaP, the actual policy outcome can hardly be described as a “geopolitical instrument” in the sense of a traditional tool of power politics. The spectrum of possibilities of the EaP is limited not only by its meagre budget endowment (EUR 600 million), but also by the nature of its instruments.⁶ To foster domestic reforms towards the approximation of EU norms and standards, the ENP relies on a combination of conditionality incentives and socialisation mechanisms. The incentives offered through bilateral contracts to the partners can be summed up by the so-called “three M’s”: Money (financial aid and loans), Markets (sectoral access to the EU’s internal market) and Mobility (visa facilitation). The third aspect constitutes the greatest “soft power” asset for the EU with regard to the populations of the countries concerned, while the second aspect, which is meant to culminate in the signing of a Deep and Comprehensive Free Trade Agreement (DCFTA), represents the greatest perspective in terms of economic development. Both, however, require enormous effort in terms of technical and legislative harmonisation with the EU’s *acquis communautaire*, which governments of the region are often reluctant to bear if they judge the potential benefits to be insufficient.

In summary, it is important to stress that the EaP is a slow and long-term process: it consists of a progressive and monitored approximation of EU benchmarks and rests a great deal on the will of local governments and elites to attain that goal. In other words, it hardly constitutes a robotic arm that the EU can use for immediate and targeted leverage,

⁵ Nathaniel Copsey and Karolina Pomorska, “Poland’s Power and Influence in the European Union: The Case of Its Eastern Policy,” *Comparative European Politics* 8, No. 3 (September 2010), 304-26.

⁶ Richard G. Whitman and Stefan Wolff, “Much Ado About Nothing? The European Neighbourhood Policy in Context” in *The European Neighbourhood Policy in Perspective: Context, Implementation and Impact*, ed. Richard G. Whitman and Stefan Wolff (Palgrave Macmillan, 2010), 3-26.

a fortiori in a crisis situation. What kind of impact then has the EU had in the Eastern neighbourhood? How successful has it been in fostering change in the region? These questions, central to the study of EU external relations, have served as respective guides for research into two strands of academic literature on the ENP.

The first body of literature approaches the ENP as a case-study to contribute to the ongoing inquiries on the nature of EU power (civilian, normative, soft, ethical...). In light of the type of instruments described above and of the kind of influence they generate, the concept of normative power seems particularly fit to capture the ENP.⁷ If indeed norms are defined as implicit or explicit principles, rules and behaviour expectations, then the EU is acting as a normative power in the neighbourhood, in the sense that there it promotes a system of norms to discipline and induce predictability in the behaviours of regional actors. However, this notion has too often come to be associated with the issue of legitimacy and with the idea of "doing good"⁸, which not only subjectivises the analytical focus but also fails to account for the fact that the ENP is not always "soft" or "normative" in its impact or implementation.⁹ In fact, to capture this aspect, some authors have talked of regional normative hegemony¹⁰ or of empire by example.¹¹ Thus,

⁷ Zaki Laidi, ed., *EU Foreign Policy in a Globalized World: Normative Power and Social Preferences* (Routledge, 2008); Ian Manners, "As You Like It: European Union Normative Power in the European Neighbourhood Policy" in *The European Neighbourhood Policy in Perspective: Context, Implementation and Impact*, 29–50.

⁸ Helene Sjørnsen, "A Foreign Policy without a State? Accounting for the CFSP" in *Rethinking Foreign Policy*, ed. Fredrik Bynander and Stefano Guzzini (Routledge, 2013), 123–36.

⁹ Nathalie Tocci, ed., *Who Is a Normative Foreign Policy Actor? The European Union and Its Global Partners*, CEPS Paperbacks (Center for European Policy Studies, 2008), http://aei.pitt.edu/32609/1/48._Who_is_a_Normative_Foreign_Policy_Actor.pdf.

¹⁰ Hiski Haukkala, *The EU-Russia Strategic Partnership in the Limits of Post-Sovereignty in International Relations* (Routledge, 2010).

¹¹ Jan Zielonka, "Europe as a Global Actor: Empire by Example?" *International Affairs* Vol. 4, Iss. 3 (2008), 471–84.

in light of these limitations, the concept of “structural power” as developed by Susan Strange¹² is preferred here. Structural power refers to the “power to shape and determine the structures of the [regional] political economy within which other states, their political institutions and their economic enterprises have to operate”.¹² In addition, the notion of “unintended power”¹³, briefly sketched by Zaki Laïdi, appears useful to capture the idea (mentioned above) that the kind of power generated by the EaP can hardly be meticulously harnessed and specifically directed.

Another strand of literature approaches the ENP from an implementation perspective, notably analysing its reception by partner countries and assessing the ability of the EU to foster change in the Eastern neighbourhood. Indeed, the ENP cannot be said to have successfully fostered large-scale political change across the region or to have substantially installed the values at its core: on the contrary, according to Freedom House indicators, political rights and civil liberties have suffered a backslide in all the EaP countries, apart from Moldova, between 2006 and 2011.¹⁴ Nevertheless, empirical studies on the reception and impact of the ENP reveal that some degree of compliance with EU demands and convergence towards EU standards has taken place in partner countries.¹⁵

The special issue edited by Tanja Börzel and Julia Langbein is useful in particular for our focus here, as it identifies the specific

¹² Susan Strange, *States and Markets* (Continuum, 1994), 24–25.

¹³ Zaki Laïdi “The Unintended Consequences of European Power,” *Les Cahiers européens de Sciences Po*, No. 5 (2007), <http://ideas.repec.org/p/erp/scpoxx/p0025.html>.

¹⁴ Kerry Longhurst and Beata Wojna, “Asserting the EU’s Mission in the Neighbourhood: Ten Recommendations for an Effective Eastern Partnership” (Polish Institute for International Affairs, 2011), http://www.pism.pl/files/?id_plik=8420.

¹⁵ Sandra Lavenex and Frank Schimmelfennig, “EU Rules beyond EU Borders: Theorizing External Governance in European Politics,” *Journal of European Public Policy* Vol. 16, Iss. 6 (2009), 791-812; Katarzyna Wolczuk, “Implementation without Coordination: The Impact of EU Conditionality on Ukraine under the European Neighbourhood Policy,” *Europe-Asia Studies* Vol. 61, Iss. 2 (2009), 187–211.

circumstances under which the ENP has been successful in fostering change in the Eastern neighbourhood. They find that compliance with EU demands and convergence with EU standards is, above all, policy-specific and that it happens regardless of membership prospects or of the degree of asymmetric interdependence with the EU.¹⁶ In other words, in one country, the EU might be able to foster policy change in one sector but not in another and, across countries, convergence is not guaranteed in states with membership aspirations (e.g. Moldova or Georgia), nor is it precluded in states with low interdependence with the EU (e.g. Armenia). European transformative power is not only composite in terms of its impact but also in terms of its sources: the same study finds that other actors beyond the EU's influence change policies in the neighbourhood (e.g. multinational corporations, national governments, donor organisations...) and that Russian involvement itself is not unitary.¹⁷

Most interestingly, other studies from the same collection find that Russia's impact does not necessarily defuse the EU's transformative power in the Eastern neighbourhood, but that it might both weaken and strengthen convergence with EU standards.¹⁸ In some cases, Russian multi-national companies (MNCs) empowered domestic reform-minded actors in an effort to circumvent rent-seeking elites, while in other cases, strong trade ties with Russian markets have reduced the incentive to approximate EU internal market norms and standards.¹⁹ In summary, the EaP constitutes neither a robotic arm of EU structural power nor a cohesive sphere of

¹⁶ Julia Langbein and Tanja A. Börzel, "Introduction: Explaining Policy Change in the European Union's Eastern Neighbourhood," *Europe-Asia Studies* Vol. 65, Iss. 4 (2013), 571-80.

¹⁷ Langbein and Börzel, 571-80.

¹⁸ Esther Ademmer and Tanja A. Börzel, "Migration, Energy and Good Governance in the EU's Eastern Neighbourhood," *Europe-Asia Studies* Vol. 65, Iss. 4 (2013), 581-608.

¹⁹ Julia Langbein, "Unpacking the Russian and EU Impact on Policy Change in the Eastern Neighbourhood: The Case of Ukraine's Telecommunications and Food Safety," *Europe-Asia Studies* Vol. 65, Iss. 4 (2013), 631-57.

influence. The EU's transformative power is potent but incremental, composite, largely unspecific and, thereby, difficult to direct and use instrumentally.

The Eurasian Economic Union: geo-politicisation at the expense of economisation?²⁰

On May 26, 2014, Russia, Kazakhstan and Belarus signed a Treaty establishing the Eurasian Economic Union. This trade integration regime, which entered into force on January 1, 2015, builds on and extends the provisions of the Eurasian Customs Union set up between the three countries in 2010 and which have since been joined by Armenia and Kyrgyzstan. The geopolitical context has often led to the actual technical and institutional content of the project to be overlooked or misrepresented: Putin has lauded the EEU as a new, better version of the EU, while US Secretary of State, Hillary Clinton, castigated it as an attempt to re-form the USSR. In reality, the EEU is neither. It is a rather ambitious attempt to build a "modern, rule-based institutional framework towards bringing economic benefits", although it is one in which the results and prospects are undermined by systemic fault-lines and internal contradictions.²¹ In conceiving and promoting the project, Moscow has placed the emphasis not on ideological or historical considerations, but on economic pragmatism and

²⁰ This section directly borrows from: David Cadier, "Policies towards the Post-Soviet Space: The Eurasian Economic Union as an Attempt to Develop Russia's Structural Power?," in *Russia's Foreign Policy: Ideas, Domestic Politics and External Relations*, ed. David Cadier and Margot Light, 2015 edition (Palgrave Macmillan, 2015), 156-74.

²¹ Rilka Dragneva and Kataryna Wolczuk, "The Eurasian Customs Union: Framing the Analysis" in *Eurasian Economic Integration Law, Policy and Politics*, ed. Rilka Dragneva and Kataryna Wolczuk (Edward Elgar Pub. Ltd., 2013), 2.

sectoral integration.²² In that sense, the EEU clearly distinguishes itself from previous CIS structures, and its advent marks a new evolution in Russia's policies towards the post-Soviet space.²³ These frameworks were conceived and deployed by Russia in parallel to other instruments (including building a "strategic foothold" by acquiring an energy infrastructure; investing in the key sectors of these countries' economies; and reinforcing its military presence) in a broader context of deeper and more targeted engagement in the region from the second half of the 2000s.²⁴

This renewed engagement has been prompted by both opportunity and perceived necessity. On the one hand, the economic influence of Russia had grown much stronger in the 2000s, largely as a result of the rise in the price of hydrocarbons. On the other hand, Moscow had grown increasingly wary of what it saw as the West's creeping involvement in the region, and of the gradually developing ties between countries of the post-Soviet space and European regional organisations. Vladimir Putin's interpretation of the 2004 Orange Revolution in Ukraine, which he believed was covertly sponsored by the West, kick-started Russia's endeavour to consolidate its position in the region.²⁵ Shortly afterwards, while the question of NATO membership for Georgia and Ukraine was put to rest following the Russo-Georgian war of 2008, the EU enhanced its presence in Eastern Europe through the EaP.

The EEU is built on two main pillars, the Eurasian Customs Union (ECU) and the Single Economic Space (SES). The ECU is by far the most developed and most advanced component to date: launched

²² Stefan Meister, ed., *Economization Versus Power Ambitions Rethinking Russia's Policy Towards Post-Soviet States* (Nomos Verlagsgesellschaft, 2013), 8.

²³ Alexander Libman and Evgeny Vinokurov, *Holding-Together Regionalism Twenty Years of Post-Soviet Integration* (Palgrave Macmillan, 2012).

²⁴ James Sherr, *Hard Diplomacy and Soft Coercion: Russia's Influence Abroad* (Chatham House, 2013).

²⁵ Dmitri Trenin, "Russia's Spheres of Interest, Not Influence," *The Washington Quarterly* Vol. 32, Iss. 4 (2009), 3-22.

in 2010, it aims both at facilitating and stimulating trade among the Member States and at regulating external trade relations with non-Member States. More specifically, the ECU has led to the removal of non-tariff barriers between the member countries, to the setting up of a common external tariff and to the adoption of a body of customs' regulations. The latter is consolidated in a Customs Code, which takes precedence over national legislation and which integrates the most recent international standards and conventions in the field.²⁶

Less developed so far, but more ambitious, the SES aims at the creation of a single market and at guaranteeing the free movement of goods, services, capital and labour in the EEU. In the long run, it is also expected to foster the adoption of coordinated policy in the industry, agriculture and transport sectors. Thus far, the advent of a unified market for goods is well underway (although energy products remain excluded). By contrast, little or no progress has been achieved with regard to the free movement of capital, services and labour. Hence, the regionalisation dynamic of the EEU is, to this day, better described as advanced coordination and progressive harmonisation rather than fully-fledged economic integration.²⁷

Coordination and harmonisation are ensured through a complex institutional system built around two main institutions, the Supreme Eurasian Economic Council (an intergovernmental forum) and the Eurasian Economic Commission (a regulatory body). Departing from previous regional formats, the latter has been endowed with some supranational powers, while a body providing judicial control over its actions and decision has been established – the Court of the Eurasian Economic Community. In essence, there is no major transfer of sovereignty to the EEU, however, every decision of the

²⁶ Katarzyna Wolczuk and Rilka Dragneva, "Eurasian Economic Integration: Institutions, Promises and Faultlines," in *The Geopolitics of Eurasian Economic Integration*, ed. David Cadier, LSE IDEAS Special Report 19 (2014), 8-15.

²⁷ Wolczuk and Dragneva, 8-15.

Commission may be contested in the Supreme Eurasian Economic Council, where decisions are adopted by consensus and where Russia can simply rely on its bilateral bargaining power.²⁸

Russia's investment in the EEU can be explained by various factors. It is, in part, a response to regional dynamics, and it constitutes, in particular, a reaction to EU structural power. The project has largely, in fact, been connected over time to the development of EU programmes towards the post-Soviet space, and, more profoundly, the EEU's design and activities seem to have been partly modelled on the EU. Its institutional architecture – where an intergovernmental council is in charge of decision-making and of setting long-term goals, where a commission acts as regulatory body and gate-keeper of trade integration, and where a court is tasked with judicial control of the commission's activities – clearly resembles that of the EU system. Putin has, in fact, openly acknowledged this legacy by presenting the EEU as “drawing on the experience of the EU” and the SES as aiming to “adapt the experience of the Schengen Agreement”.²⁹ More generally, the EEU's emphasis on market integration through the harmonisation of standards, norms and regulations tends to testify to the influence of the EU model on Russia's attempts to develop its own structural power.

Russia's domestic situation has also crucially contributed to prompting and shaping Moscow's EEU strategy. The EEU is clearly conceived as a tool to gain new markets for Russian goods and to reinvigorate Russian economic activity more broadly. The economic crisis of 2008–2009 played a key role in bringing about the birth of the ECU: not only did it contribute to convincing crisis-hit Belarus and Kazakhstan of its necessity, but it also led Russia to accept these countries' demands that the organisation

²⁸ Nicu Popescu, “Eurasian Union: The Real, the Imaginary and the Likely,” *Cahier de Chaillot*, septembre 2014, No. 132, <http://www.iss.europa.eu/fr/publications/detail-page/article/eurasian-union-the-real-the-imaginary-and-the-likely/>.

²⁹ Vladimir Putin, “New Integration Project for Eurasia: A Future Which Is Being Born Today,” *Izvestiya*, October 3, 2011.

be confined to economic matters (while Moscow had originally been seeking to endow the project with a political dimension). Beyond actual economic results in themselves, economic growth serves a key function in legitimising the political regime, and Russia's investment also appears to be driven by these concerns. Legitimacy considerations do not relate just to economic aspects, in fact, but the regional integration project is also meant to resonate with – and feed – Russia's self-image as a great power.³⁰

Finally, the EEU proceeds from the conviction that great powers need to be able to rely on regional blocks built around their own norms and standards. In Putin's words,³¹ global politics in the 21st century call for enhanced economic integration, and in this context the EEU aims to establish itself as a "powerful supranational association capable of becoming one of the poles in the modern world". At the same time, the EEU is perceived as a way to create a glacis around Russia, which explains why Moscow has been pushing for the accession of post-Soviet countries, regardless of their actual economic value for the organisation, while at the same time attempting to prevent others from joining the EU's regime.

The advent of the EEU feeds Russia's self-image of being a great power and thereby serves domestic legitimacy purposes; however, this political symbolism is often pursued at the expense of economic rationalisation. The EEU's policy-making process is overly top-down and proceeds at too rapid a pace: insufficient attention is paid to the ability of domestic institutions to implement decisions, and grass-roots economic agents are not sufficiently consulted.³² The overly centralised nature of the EEU also means that it is dependent on the perpetuation and legitimacy of the national political regimes currently in power. Overall, the ECU has produced mixed economic results since its creation: it led to a

³⁰ Meister, 8.

³¹ Putin.

³² Wolczuk and Dragneva, 8-15.

substantial increase in trade volumes between the three countries in the first two years after its creation (an 80 percent rise between 2010 and 2012), but this trend has not continued and might in fact be explained as much by the context of global recovery after the crisis than by the removal of non-tariff trade barriers between the three countries.³³

In summary, Russia's investment in the EEU has aimed at reinvigorating Russia's economy, at constituting a trade block on which Moscow can rely to be internationally competitive, at boosting the legitimacy of the Putin regime at home, and at creating, around Russia, a buffer- zone against Western influence. However, these various drivers produce contradictory objectives, and the resulting tensions are likely to reveal themselves detrimental, if not to the EEU's viability, then at least to its ability to meet its objectives in terms of economic integration objectives.

These contradictions have been particularly salient in the context of the Ukraine crisis, where Russia has attempted to transform what had been designed as a geo-economic platform into a geopolitical instrument. This places strains on the EEU project as a whole. Firstly, this geopolitical instrumentalisation of the EEU is often performed at the expense of economic optimisation. Armenia, for instance, was persuaded to join, not by the perspective of economic benefits, but by the promise of security guarantees offered bilaterally and in secret to the Armenian President, Serzh Sargsyan, by Vladimir Putin.³⁴ Secondly, Moscow's shift from persuasion to coercion in its region-building competition with the

³³ David G. Tarr, "The Eurasian Customs Union among Russia, Belarus and Kazakhstan: Can It Succeed Where Its Predecessor Failed?," SSRN Scholarly Paper (Social Science Research Network, December 5, 2012), <http://papers.ssrn.com/abstract=2185517>; EBRD, "Transition Report 2012: Integration Across Borders" (European Bank for Reconstruction and Development, 2012), <http://www.ebrd.com/downloads/research/transition/tr12.pdf>.

³⁴ Laure Delcour, "Faithful but Constrained? Armenia's Half-Hearted Support for Russia's Regional Integration Policies" in *The Geopolitics of Eurasian Economic Integration*, 38-45.

EU has increased the sensitivities of the existing EEU members in guarding their sovereignty. Kazakhstan and Belarus vetoed, for instance, Moscow's attempt to use the ECU to impose sanctions on Ukraine.

Conclusion: interactions in the post-Soviet space and implications for the countries of the region

The parallel co-deployment of the EEU and EaP alternatives has often been framed as a zero-sum game between two cohesive blocs. The review of the actual instruments and impact achieved by these two platforms has exposed this narrative as captious, as does a closer look at the situation on the ground in the post-Soviet space.

Full membership in both EaP and EEU structures is not going to be possible: there is incompatibility on the issue of tariffs, as the signing of a DCFTA leads to privileged tariffs with the EU, while the ECU requires its members to have common tariffs towards external actors (including the EU). Nevertheless, as was emphasised, presenting these structures as two "spheres of influence", under which the countries of the region would irremediably and definitively fall, does not capture the complexity of either of these trade integration platforms. These schemes are not necessarily cohesive and comprehensive in their impact and some states, including Ukraine under Yanukovich, had in fact been adamant in avoiding being tied up too closely with either of them.

Most importantly, this narrative overlooks the factor that is decisive in mediating the impact of these two regionalisation schemes, namely, the preferences of domestic actors in the countries concerned. Domestic elites in the post-Soviet space have played a key role in mediating the influence of both the EU and Russia on

their states and societies, and this even before the advent of the EaP or the EEU. Tolstrup's study is both useful and revealing in this regard: spanning the period of 1991-2010 and focusing on the case studies of Ukraine, Belarus and Moldova, the book analyses how, where and when the EU and Russia have influenced the processes of democratisation and autocratisation in these countries.³⁵ Building on Levitsky and Way's seminal study on democracy promotion and in particular on their argument that linkages (i.e. density of political, societal and economic ties) determine the influence of external actors in this regard³⁶, he shows how gate-keeping elites have had a key impact on developing, reducing or even initiating these linkages, and thereby on mediating the influence of external actors.³⁷ In other words, in addition to unpacking the content and transformative power of the EaP and EEU, it is crucial to pay close and meticulous attention to the specificities of local situations – as the following chapters in this collective volume attempt to do – and, in particular, to gate-keeping elites and their strategies or motivations.³⁸

A recent empirical study on region-building processes in the post-Soviet space confirms this: Delcour shows, for instance, how domestic factors explain countries' choices in terms of engagement in regional projects.³⁹ This is relevant not just for

³⁵ Jakob Tolstrup, *Russia vs. the EU: The Competition for Influence in Post-Soviet States* (Lynne Rienner Publishers, 2014).

³⁶ Steven Levitsky and Lucan A. Way, *Competitive Authoritarianism: Hybrid Regimes After the Cold War*, reissue edition (Cambridge University Press, 2010).

³⁷ More specifically, he distinguishes between the various types of linkages (economic, intergovernmental, technocratic, social, information and civil society) and relates them to the actions undertaken by the different elite groups (ruling political elites, oppositional political elites, economic elites and civil society elites).

³⁸ Tolstrup identifies the following potential motivations or factors: will to outperform political rivals, to satisfy domestic bases, or to minimise external pressure. Jakob Tolstrup, *Russia vs. the EU: The Competition for Influence in Post-Soviet States*.

³⁹ Laure Delcour, "Between the Eastern Partnership and Eurasian Integration: Explaining Post-Soviet Countries' Engagement in (Competing) Region-Building Projects," *Problems of Post-Communism*, Vol. 62, Iss. 6 (November 2, 2015), 316-27.

choices to join trade integration platforms but also within them. All the countries of the common neighbourhood have now either signed a DCFTA with the EU or joined the EEU but this does not necessarily mean that this is the end of the story. Countries of the region will continue to seek to preserve their room for manoeuvre even within these projects and their choices will continue to be affected by (and potentially reversed due to?) divisive domestic politics, separatism, structural dependencies or the economic and political calculations of internal actors. This is true even of the Russia-dominated EEU. Belarus seems to regard its membership especially as a way to obtain economic subsidies from Russia and even, potentially, turn the country into an attractive hub, notably for Western investors.⁴⁰ At the same time, Armenia's "Eurasianisation" appears partially "declarative" and seems to be accompanied by an "undeclared pattern of Europeanisation".⁴¹

By promoting incompatible economic integration regimes in the same region, the EU and Russia are presenting the countries of their common neighbourhood with a dilemma. The problem is that neither of the two regional powers has the means to fully deliver what they promise. The EU has real transformative potential, and offers economic benefits in the long-term, but it cannot pretend to be able to protect the countries of the neighbourhood from external interference. In the Eurasian Union, Russia has invested in a regional framework of trade integration, but by attempting to turn it into a political instrument it risks undermining its own creation. Thus, the EU's bureaucratic logic runs aground on geopolitical realities, while Russia remains unable to translate its geopolitical vision into a credible economic offer.

⁴⁰ Balázs Jarábik and Anaïs Marin, "Belarus" in *The Geopolitics of Eurasian Economic Integration*, 31-37.

⁴¹ Laure Delcour and Katarzyna Wolczuk, "The EU's Unexpected "Ideal Neighbour"? The Perplexing Case of Armenia's Europeanisation," *Journal of European Integration* Vol. 37, Iss. 4 (June 7, 2015), 491-507.

THE ASSOCIATION AGREEMENTS AND DEEP AND COMPREHENSIVE FREE TRADE AREAS: APPROPRIATE LEGAL INSTRUMENTS FOR EXPORTING THE EU'S VALUES AND INTERNAL MARKET *ACQUIS*?

Guillaume Van der Loo

The Association Agreements signed in June 2014 with Ukraine, Moldova and Georgia, are considered to be one of the most ambitious agreements ever signed by the EU.¹ The key objective of these agreements is to establish a new and ambitious form of political association and economic integration between the EU and these three Eastern Partnership (EaP) countries. The Association Agreements (AAs) can clearly be regarded as instruments of “*Europeanisation*”, as defined in the introductory chapter of this book. Both the political part and the trade part (i.e. the “deep and comprehensive free trade areas” (DCFTAs)) of these agreements aim to export a set of EU rules or values to these EaP countries. Whereas the political aspect of the AAs aims to promote the EU’s ‘constitutional’ values, such as human rights and fundamental

¹ Herman Van Rompuy, “Remarks by President of the European Council Herman Van Rompuy at the Press Conference of the Eastern Partnership Summit in Vilnius”, November 29, 2013.

freedoms, the DCFTAs require that Ukraine, Moldova and Georgia adopt a selection of EU (internal market) *acquis*. These agreements are actually the first comprehensive bilateral 'hard-law' instruments developed in the context of the European Neighbourhood Policy (ENP) and the EaP, as previous ENP instruments were mainly non-binding 'soft-law' tools (e.g. the Action Plans and the Association Agendas). However, because the AAs do not provide for an EU Membership perspective, the question arises to what extent these three agreements will be successful in promoting EU rules and values to these countries, since an EU Membership perspective is considered to be the 'golden carrot' for promoting reforms and EU rules and values in third (neighbouring) countries.²

The exportation of the EU's norms and values to third (neighbouring) countries fits into the broader academic debate about the Union's role on the international stage and about the ability of the EU to transform and democratise its neighbourhood. In this discussion, the EU has been attributed several labels, varying from a "normative power"³ to a "normative hegemon".⁴ The export of the Union's *acquis* to partner countries is also defined as a form of "external governance"⁵ or "Europeanisation" of third countries.⁶ In this debate, the distinction is often made between, on the one hand, the promotion of the fundamental principles and values of

² Roland Dannreuther, "Developing the Alternative to Enlargement: The European Neighbourhood Policy", *European Foreign Affairs Review* 11 (2006).

³ Ian Manners, "Normative Power Europe: A Contradiction in Terms?", *Journal of Common Market Studies* 40 (2002), 235-258. For an extensive analysis of the exportation of the *acquis communautaire*, see Roman Petrov, *Exporting the Acquis Communautaire through European Union External Agreements* (Nomos Verlagsgesellschaft, 2011).

⁴ Hiski Haukkala, "A Normative Power or a Normative Hegemon? The EU and its European Neighbourhood Policy", *EUSA 10th Biennial Conference in Montreal, Canada, 17-19 May, 2007*.

⁵ Sandra Lavenex, "EU External Governance in Wider Europe", *Journal of European Public Policy* Vol. 11, Iss. 4 (2004), 680-700.

⁶ Andrea Gawrich, Inna Melnykovska and Rainer Schweickert, "Neighbourhood Europeanization through ENP: The Case of Ukraine", *Journal of Common Market Studies* Vol. 48, Iss. 5 (2010), 1209-1235.

the EU, such as those referred to in Article 2 of the Treaty on the European Union (TEU) and, on the other hand, the exportation of the Union's internal market *acquis* to third countries.⁷ This chapter will illustrate that the new AAs with the EaP countries aim to export and promote both sets of rules (i.e. the EU values and the EU internal market *acquis*).⁸ Therefore, this contribution first of all briefly considers the (lack of a) EU Membership perspective in the EaP AAs. Then, the AA's mechanisms to promote the EU values are discussed. Finally, the DCFTAs as instruments for exporting the EU's internal market legislation are analysed. The focus will be on the AA concluded with Ukraine, but the key differences between the AAs with Moldova and Georgia will also be explored.

⁷ See for example Christophe Hillion, "Anatomy of EU Norm Export towards the Neighbourhood", in *Legislative Approximation and Application of EU Law in the Eastern Neighbourhood of the European Union. Towards a Common Regulatory Space?* ed. Peter Van Elsuwege and Roman Petrov (Routledge, Oxon, 2014), 13–21; Roman Petrov, "Exporting the *Acquis Communautaire* into the Legal Systems of Third Countries", *European Foreign Affairs Review* No. 13 (2008), 33–52; Sandra Lavenex, "A Governance Perspective on the European Neighbourhood Policy: Integration beyond Conditionality?", *Journal of European Public Policy* Vol. 15, Iss. 6 (2008), 938–955; Sandra Lavenex and Frank Schimmelfennig, "EU Rules beyond EU Borders: Theorizing External Governance in European Politics", *Journal of European Public Policy* Vol. 16, Iss. 6 (2009), 791–812; Anneli Albi, "The EU's "External Governance" and Legislative Approximation by Neighbours: Challenges for the Classic Constitutional Templates", *European Foreign Affairs Review* No. 14 (2009), 209–230 and *Legislative Approximation and Application of EU Law in the Eastern Neighbourhood of the European Union. Towards a Common Regulatory Space?* ed. Peter Van Elsuwege and Roman Petrov.

⁸ Frank Schimmelfennig and Ulrich Sedelmeier make the difference between "democratic conditionality" and "*acquis* conditionality" (Frank Schimmelfennig and Ulrich Sedelmeier, "Governance by Conditionality: EU Rule Transfer to the Candidate Countries of Central and Eastern Europe", *Journal of European Public Policy* Vol. 11, Iss. 4, (2004), 677. This distinction is however artificial since the EU's common values, such as those enshrined in Article 2 TEU, are also part of the EU *acquis*.

The lack of an EU membership perspective in the AAs

Although the three EaP partner countries that have concluded a new AA, especially Ukraine, insisted on a membership perspective during the AA negotiations, the EU refused to include any explicit reference to EU accession. The absence of a clear membership perspective indicates that these agreements cannot be considered as “pre-accession agreements”, contrary to other AAs, such as those concluded with the Western Balkan countries.⁹ Nevertheless, while carefully avoiding explicit references to EU accession, the AAs include diplomatic language on the membership ambitions of the partner countries. For example, the preamble of the EU-Ukraine AA states that the EU “acknowledges the European aspirations of Ukraine and welcomes its European choice”. However, this cautious recognition of Ukraine’s EU ambitions is nothing new since this formulation had already become a catchphrase in the joint declarations of the annual EU-Ukraine Summits since 2002.¹⁰ The EU-Ukraine AA also confirms “the strong public support in Ukraine for the country’s European choice” and the recognition of the importance Ukraine attaches to its European identity. However, nowhere in the agreement has the EU made an explicit membership commitment.

Nevertheless, in the spirit of the ENP and the EaP, the agreement does not preclude the right of the partner countries to apply for EU Membership, pursuant to Article 49 of the TEU. Instead, it states that “this Agreement shall not prejudice and leaves open future developments in EU-Ukraine relations”. This confirms the potential dynamic character of the Union’s neighbourhood relations. The

⁹ The Stabilisation and Association Agreements recognise the partner countries’ status as a “potential candidate for EU Membership”. Also, the 1963 Association Agreement with Turkey can be considered as a pre-accession agreement as the preamble of the agreement refers to “the accession of Turkey to the Community at a later date”.

¹⁰ EU-Ukraine Summit, July 4, 2002, “Joint Statement”, Copenhagen, 10607/02.

Europe Agreements concluded in the early nineties, with the Central and Eastern European countries (CEECs) demonstrated that an agreement originally conceived as an alternative for EU Membership, could develop into a pre-accession instrument.¹¹ In this regard, it is remarkable that as a reaction to the turbulent “Maidan” demonstrations, the Council has emphasised on several occasions that, “the Association Agreement does not constitute the final goal in EU-Ukraine cooperation”.¹² While avoiding explicit references to EU accession or membership, the Council was evidently hinting in this direction. Such a statement may be interpreted as a cautious effort from the Council during the Maidan demonstrations to support the pro-EU forces in Ukraine with a – vague – membership perspective. It is difficult to imagine what a serious update of the current relations would be without the offer of an EU accession perspective. Poland and the Baltic States in particular insisted on the suggestion of enlargement.¹³ However, not all Member States shared this enthusiasm and, in particular France and the Netherlands, objected to a clear membership perspective. In this view, it is very unlikely that the EU will commit itself in the coming years to a (long-term) EU Membership perspective towards Ukraine. The current “enlargement fatigue” in the EU, the unstable political and economic climate in Ukraine, the conflict in eastern Ukraine and the potential impact of such a

¹¹ The Europe Agreements were initially conceived as an alternative for EU membership. In this view, these agreements did not include a strong membership perspective but stated instead that it was the associated country’s “ultimate objective [...] to become a *member of the Community* and that association through this Agreement [would], in the view of the Parties help [the associated country] to achieve this”. It was only at the 1993 Copenhagen European Council that it was decided that the “associated” CEECs could join the Community if they fulfilled the listed political and economic criteria.

¹² For example, see Foreign Affairs Council Meeting, “Conclusions on Ukraine”, February 10, 2014, para. 5; Foreign Affairs Council Meeting, “Conclusions on Ukraine”, February 20, 2014, para. 3; Foreign Affairs Council Meeting, “Conclusions on Ukraine”, March 3, 2014, para. 7.

¹³ Andrew Rettman, “EU Gives Ukraine Enlargement Hint”, *EUobserver*, February 10, 2014.

move on EU-Russia relations further diminish this prospect. The latest EU-Ukraine Summit in April 2015 no longer included this “enlargement hint”, but referred instead to the preamble of the AA.¹⁴ Significantly, the AA with Georgia recognises Georgia as an “Eastern European country” and not as a European country, as in the case of Ukraine and Moldova. Most probably this differentiation is included to distinguish the Southern Caucasus geographically from the “European” post-Soviet countries. The relationship between this formulation and Article 49 TEU, according to which only “European States” are eligible for EU Membership, is unclear. It is argued that this “eastern” tag was included to preclude an accession perspective for Georgia.¹⁵ However, the preamble in the AA with Georgia also states that this agreement “shall not prejudice and leaves open the way for future progressive developments in EU-Georgia relations”.

Paradoxically, the partner countries have a different view on the *finalité* of their relationship with the EU – and the ultimate objective of the Association Agreement. For example, at the signing ceremony of the AA between EU-Ukraine, the President of Ukraine, Petro Poroshenko declared that:

“[b]y signing the agreement with the EU, Ukraine, as a European State, sharing common values of democracy and the rule of law, is underlining its sovereign choice in favour of future membership in the EU in accordance with Article 49 of the EU Treaty. The Association Agreement is considered by Ukraine as an instrument of comprehensive preparation to the achievement of this goal.”¹⁶

This illustrates a rather contradictory situation: whereas the EU considers the AAs to be more of an alternative to EU accession,

¹⁴ 17th EU-Ukraine Summit: Joint Statement, April 27, 2015.

¹⁵ Andrew Rettman, “EU-Georgia Treaty Highlights Enlargement Fatigue”, *EUobserver*, July 8, 2013.

¹⁶ “Speech of the President at the Ceremony of Signing the Association Agreement between Ukraine and the European Union”, Official Website of the President of Ukraine, June 27, 2014, <http://www.president.gov.ua/en/news/30620.html>.

the partner countries see their agreements as stepping stones towards EU membership. In any case, the lack of an explicit EU membership perspective in the AAs implies that the EU will not have the same leverage to Europeanise the EaP countries as it has (had) vis-à-vis (potential) EU candidate countries.

The Association Agreements: promoting the “common” values to the partner countries

The ‘political’ part of the AAs aims to promote the key ‘constitutional’ principles and values on which the EU is based to the three partner countries. This is in line with the EU’s obligations stemming from Article 8 TEU, introduced by the Lisbon Treaty, which states that the EU “shall develop a special relationship with neighbouring countries, aiming to establish an area of prosperity and good neighbourliness, founded on the values of the Union and characterised by close and peaceful relations based on cooperation”. The second paragraph of this Article even mentions that “the Union may conclude specific agreements with the countries concerned”. Thus, this article not only provides a Treaty legal basis for the EU’s policies towards its neighbouring countries, it also creates an obligation (i.e. “shall develop”) to promote the values of the Union. The EU already has a general obligation to “advance in the wider world [...] the principles which have inspired its own creation, development and enlargement” pursuant to Article 21 TEU,¹⁷ but Article 8 TEU stresses this obligation with regard to the EU’s neighbourhood.

¹⁷ Article 21 of the TEU refers to democracy, the rule of law, the universality and indivisibility of human rights and fundamental freedoms, respect for human dignity, the principles of equality and solidarity, and respect for the principles of the United Nations Charter and international law.

Significantly, Article 1 of the Association Agreements, which spells out the objectives of the Association Agreements, states that the aim of the agreement is “to promote gradual rapprochement between the Parties based on *common* values and close and privileged links”.¹⁸ The fact that the agreement refers to the “common” values of the Parties and not to the values of the Union illustrates an equal partnership and joint ownership. The preamble of the AAs lists the “common values” on which the association is based: respect for democratic principles, the rule of law, good governance, human rights and fundamental freedoms, including the rights of persons belonging to national minorities, non-discrimination of persons belonging to minorities and respect for diversity, human dignity and commitment to the principles of a free market economy. Not surprisingly, these values are very similar to those on which the EU is founded, enshrined in Article 2 TEU.¹⁹

Similar to other EU Association Agreements, the EaP AAs also include an essential element clause defining the core values on which the relationship is based, combined with a suspension clause which can trigger the suspension of the agreement where a party violates these essential elements.²⁰ However, these clauses in the EaP AAs differ from those included in other Association Agreements concluded with neighbouring countries, such as the Stabilisation and Association

¹⁸ Emphasis added.

¹⁹ Article 2 TEU states that the Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail.

²⁰ The practice to refer to respect of human rights and fundamental freedoms as an “essential element” and to cases of “special urgency” was not new but originated from the 11 May 1992 Council Declaration which foresaw such a clause in the cooperation agreements between the Community and its partners in the Conference on Security and Cooperation in Europe (CSCE) and was rapidly extended to other agreements. For analysis, see Lorand Bartels, *Human Rights Conditionality in the EU’s International Agreements* (Oxford University Press, 2005).

Agreements (SAAs) with the Western Balkan countries and the Euro-Mediterranean Association Agreements (EMAAs) with the southern ENP partners. For example, in addition to the standard reference to democratic principles, human rights and fundamental freedoms as defined by international legal instruments (the Helsinki Final Act, the Charter of Paris for a new Europe, the UN Universal Declaration on Human Rights and the European Convention on Human Rights and Fundamental Freedoms), the EU-Ukraine AA also defines “respect for the principles of sovereignty and territorial integrity, inviolability of borders and independence, as well as countering the proliferation of weapons of mass destruction, related materials and their means of delivery” as essential elements of this agreement.

In addition, Article 3 states that the principle of a free market economy “underpins” their relationship. Moreover, the rule of law, good governance, the fight against corruption, the fight against different forms of trans-national organised crime and terrorism, the promotion of sustainable development and effective multilateralism “are central to” enhancing the relationship between the parties. These issues are therefore not essential elements of this agreement and violation of these principles cannot subsequently trigger the suspension clause.²¹ Nevertheless, they are considered as “general principles” which are crucial for developing closer relations.²²

The suspension clause in the EaP AAs grants the contracting parties the exceptional right to *immediately* take “appropriate measures” in case an essential element of the AA is violated.²³

²¹ Art. 478(3), “Association Agreement between the European Union and Its Member States, of the One Part, and Ukraine, of the Other Part” [EU-Ukraine AA].

²² Noteworthy, the preamble of the EU-Ukraine AA states that the common values on which the EU is built are “also essential elements” of this agreement.

²³ Under normal circumstances, a party may only take appropriate measures three months after the date of notification of a formal request for dispute settlement. Another exception to this rule is the denunciation of the agreement not sanctioned by the general rule of international law (Art. 478, “Association Agreement between the European Union and Its Member States, of the One Part, and Ukraine, of the Other Part”).

Remarkably, the violation of essential elements could also lead, by derogation, to the suspension of rights or obligations provided for under the DCFTA.²⁴ Although the DCFTA has its own dispute settlement mechanism, the violation by Ukraine, Moldova or Georgia of human rights or fundamental freedoms could lead to the Union's suspension of specific trade benefits, granted to those countries under the DCFTA.

However, although this suspension clause looks impressive on paper, the number of agreements which have formally been suspended by the EU is extremely limited.²⁵ If a reaction of the Union is required to address a specific human rights situation in the territory of a contracting party, the EU prefers to act through its CFSP arsenal of restrictive measures based on Article 215 of the TEU (e.g. arms embargo, freezing of assets, visa bans). Another preferred option is to withhold the signing or ratification of an envisaged agreement instead of suspending or denouncing existing agreements which constitute the legal framework of the relations with that country.²⁶ The "nuclear" option of suspending or terminating an agreement is only used as a last option as it could potentially reduce the Union's influence on that country to zero. Therefore, the Union has the problem of finding the equilibrium between a strict application of the essential element clause, which could lead to the isolation of a particular country, or a more flexible approach, which could undermine the role of the EU as a promoter of democratic norms and values. This pragmatic approach was very well illustrated during the recent turbulent period in EU-Ukraine relations. The predecessor of the EU-Ukraine's AA, i.e. the Partnership and Cooperation Agreement

²⁴ Art. 478(2), EU-Ukraine AA.

²⁵ For analysis, see Marc Maresceau, "Unilateral Termination and Suspension of Bilateral Agreements Concluded by the EC", in *Views of European Law from the Mountain. Liber Amicorum Piet Jan Slot*, ed. Mielle Bulterman et al. (Kluwer Law International, 2009), 462-464.

²⁶ Maresceau, 464.

(PCA), also included an essential element and suspension clause. However, both in the Tymoshenko case, during which the EU heavily criticised the “selective justice” in Ukraine, and the brutal reaction of the previous Yanukovich administration to the Maidan demonstrations in February 2014, the EU never considered the suspension of the PCA although these events were clear violations of the PCA’s essential element clause. Instead, in the first instance, the Union threatened to suspend the signing of the EU-Ukraine AA until the Tymoshenko case and other cases of “selective justice” were properly addressed. Then, in a second phase, as a reaction to the Ukrainian Government’s violent use of force against the Maidan demonstrators and Russia’s violation of Ukraine’s sovereignty and territorial integrity, the EU adopted sanctions against Ukrainian and Russian persons and entities involved. Also, the negotiations with Russia on the “New Agreement” were suspended.²⁷

In addition to the “common values” and the essential element clause, the AAs also include a provision which emphasises the importance of the rule of law. In the agreements’ chapter on cooperation in the Area of Justice, Freedom and Security, the parties stress that they shall attach particular importance to the consolidation of the rule of law and “the reinforcement of institutions at all levels in the areas of administration in general, and law enforcement and the administration of justice in particular”²⁸. It is even stressed that the parties shall hold a regular dialogue on this in order to ensure that “their internal policies are based on this principle”.²⁹

In practice, the (non-) application of the “common values” will be discussed in different fora inside and outside the framework of the AAs. The Association Councils, which meet at least once a year at ministerial level, have a very broad mandate and will be used by the EU to monitor and discuss human rights and fundamental

²⁷ 3305th Council Meeting (Foreign Affairs), March 3, 2014, 7196/14.

²⁸ Art. 14, EU-Ukraine AA.

²⁹ Art. 6, EU-Ukraine AA.

freedom issues. For example, in the light of Moldova's instable political climate, in March 2015, the first EU-Moldova Association Council discussed the need for new political reforms in the country.³⁰ In the case of Ukraine, these issues are also a recurring subject of discussions during the annual EU-Ukraine Summits.

The DCFTAs: promoting the EU internal market *acquis*

Whereas the political part of the AAs promotes the "common values", the trade part of the agreements, i.e. the DCFTAs, export a part of the EU's internal market *acquis*. The "comprehensive" dimension of the DCFTAs refers to the fact that these trade deals not only liberalise trade in goods (i.e. the "traditional" part of a free trade area (FTA)) but cover all the relevant trade-related areas which have become important on the EU and global trade agenda, such as services, technical barriers to trade (TBT), public procurement, competition, intellectual property rights (IPR), etc. The "deep" dimension of the DCFTAs refers to the fact that these trade agreements aim to gradually integrate the partner countries into the EU internal market on the basis of legislative approximation. The entire scope and contents of these complex and ambitious trade agreements cannot be discussed in the context of this chapter.³¹ Instead, the focus will be on the "deep" dimension of the DCFTAs, in particular on the different mechanisms in the agreement that aim to export the EU's internal market legislation.

³⁰ "Joint Press Release Following the First Association Council Meeting between the European Union and the Republic of Moldova", March 16, 2015.

³¹ For a detailed analysis of the Association Agreements and DCFTAs, see Guillaume Van der Loo, "The EU-Ukraine Association Agreement and Deep and Comprehensive Free Trade Area. A New Legal Instrument for EU Integration without Membership" (Brill/Nijhoff, 2016).

Legislative approximation as a tool for economic integration

The link between the DCFTAs and approximation to the EU *acquis* is already made clear in the first article of the AAs which states that this agreement aims:

“to establish conditions for enhanced economic and trade relations leading towards Ukraine’s *gradual integration* in the EU internal market, including by setting up a DCFTA [...] by means of, inter alia, the progressive *approximation of its legislation* to that of the Union.”

This article illustrates that the DCFTAs have a unique objective which goes beyond those enshrined in traditional EU FTAs: i.e. to gradually and partially “integrate” the partner countries into the EU internal market on the basis of legislative approximation. Such an objective cannot be found in any other FTA concluded by the EU. Thus, legislative approximation in the DCFTAs is not an objective on its own but is an instrument to achieve economic integration. For example, the preamble states that the DCFTA linked to the broader process of legislative approximation, “shall contribute to further economic integration with the European Union internal market” and that the parties are “desirous of moving forward the reform and approximation process in Ukraine, thus contributing to gradual economic integration”. Several reasons explain why legislative approximation is at the heart of the DCFTAs.

First, legislative approximation is an important instrument for liberalisation and market opening. As customs tariffs worldwide decrease in the framework of the WTO or regional trade agreements, non-tariff barriers such as trade-restricting regulations and procedures have become the main obstacle. Therefore, the so-called “behind the border issues” have taken a prominent place on the EU’s trade agenda. The new generation of EU trade agreements will go beyond the traditional removal of tariff barriers by, for

example, incorporating provisions on regulatory cooperation.³² This is especially the case for EU-Ukraine trade relations since Ukraine already considerably lowered its average import duties in the light of its accession to the WTO and benefited from the EU's Generalised Scheme of Preferences (GSP). Therefore, Ukraine can only significantly enlarge its access to the EU internal market by tackling "behind the border issues" through, for example, legislative approximation. On this issue, the EU Trade Commissioner Karel De Gucht stated that "by bringing the legislation of our neighbours closer to that of the EU, in the areas concerned by trade and investment; local manufacturers will meet the EU standards and norms simply by respecting their own rules and regulations."³³ However, the Annexes to the DCFTAs not only contain technical barriers to trade, but also EU legislation on all relevant trade-related areas such as services, energy, competition, IPR, public procurement, etc.

Secondly, legislative approximation is also an instrument for integrating into the EU's internal market. By obliging the partner countries to implement and apply a selection of the EU's internal market legislation, a common legal space is envisaged. The aim is to create a level playing field with uniform rules for economic operators, based on the EU's internal market *acquis*. However, it has to be noted that the partner countries' implementation of EU legislation in their domestic legal order does not result in the actual application of EU law in that third (non-EU) country. Even when domestic legislation of a third country is identical to EU *acquis*, "it remains within the boundaries of the national legal order" and EU law does not apply internally.³⁴ Only an EU Accession Treaty can formally apply EU law in a third (acceding) country. Even the

³² European Commission, "Global Europe: Competing in the World", COM (2006) 567 final, October 4, 2006, 5.

³³ Karel De Gucht, "Trade as a Cornerstone for the EU Eastern Partnership", Speech at the European Parliament (Euronest Parliamentary Assembly), January 23, 2012.

³⁴ Adam Lazowski, "With but Without You... The Europeanisation of Legal Orders of the Neighbouring Countries" in *Fifty Years of European Integration: Foundations and Perspectives*, ed. Andrea Ott and Ellen Vos (T.M.C. Asser Press, 2009), 249.

European Economic Area (EEA) Agreement, which is considered as “the most far-reaching and comprehensive instrument to extend the EU’s internal market to third countries”,³⁵ does not formally apply EU law in the participating EFTA countries, but “incorporates in the law governing the EEA provisions that are textually identical to the corresponding provisions of Community [now Union] law.”³⁶ It is only through the homogeneity principle and related EEA Agreement procedures that the parties have spelled out the objective to apply the same EU rules and give them the same interpretation throughout the whole EEA.

Although the DCFTAs do not include such a homogeneity objective, it is crucial that these countries apply as uniformly as possible the annexed EU law that they need to implement. This is not an easy task, as the three DCFTA countries have a very different political, economic and legal system than that of the EU. Therefore, the DCFTAs contain different procedures which aim to ensure a uniform interpretation and application of the annexed EU legislation.³⁷ One important instrument in this regard are the DCFTA mechanisms that allow the parties to update the annexed EU *acquis* in order to catch-up with relevant legislative developments at EU level. Because EU legislation is continuously developing, approximation to the EU *acquis* could be compared to shooting at a moving target. Consequently, the DCFTAs include several mechanisms that allow the Association Council or another joint body established by the agreement to amend the annexes

³⁵ European Commission, “A Review of the Functioning of the European Economic Area”, SWD(2012) 425 final, December 7, 2012, 3.

³⁶ European Court of Justice, Opinion 1/92, “Draft Agreement between the Community, on the One Hand, and the Countries of the European Free Trade Association, on the Other, Relating to the Creation of the European Economic Area” (1992), ECR I-2821, para. 2.

³⁷ Guillaume Van der Loo, “The EU-Ukraine Deep and Comprehensive Free Trade Area: a Coherent Mechanism for Legislative Approximation?” in, *Legislative Approximation and Application of EU Law in the Eastern Neighbourhood of the European Union. Towards a Common Regulatory Space?* ed. Peter Van Elsuwege and Roman Petrov (Routledge, 2014), 63-88.

of the DCFTAs, to take into account the relevant evolutions of the corresponding EU legislation.³⁸ Significantly, to ensure a uniform interpretation, several – but not all – DCFTA chapters oblige the partner countries to interpret the annexed EU *acquis* in conformity with the relevant rulings of the Court of Justice of the European Union.³⁹ Moreover, when the dispute settlement procedure (DSM) is initiated over a conflict with regard to the interpretation of the annexed EU *acquis*, the arbitration panel established by the respective DSM is obliged to ask the Court of Justice of the EU for a binding interpretation.⁴⁰

The *third* function of legislative approximation in the DCFTA is that it offers a model for economic reform and modernisation. The Commission argues that – although it is not the Union’s objective to export its *acquis* wholesale to the ENP partners –, “with only a few regulatory models in a globalised world, the EU model tends to be attractive to partners, reducing the “invention costs” of the political and economic costs of reform.”⁴¹ Therefore, the Commission presented the DCFTAs as a “blueprint for economic reforms” which will create a “modern, transparent and predictable environment for consumers, investors and business people in both markets” and will lead to increased levels of trade, investment and growth.⁴²

Thus, by obliging the partner countries to approximate to a selection of EU *acquis* chapters, the DCFTAs want to gradually “integrate” those countries into the EU internal market. It has to

³⁸ The AAs include a “general” provision stating that the Association Council may update the Annexed EU legislation to take into account the evolution of EU law (e.g. Article 463(3), Ukraine AA). In addition, several DCFTA chapters include more detailed and dynamic procedures to update the annexed EU *acquis* (see for example the Services Chapter of the Ukraine DCFTA (Annex XVII)).

³⁹ See for example the services chapter of the Ukraine DCFTA (Annex XVII).

⁴⁰ Art. 322, EU-Ukraine AA.

⁴¹ European Commission, “Taking stock of the European Neighbourhood Policy”, COM (2010) 207 final, May 12, 2010, 6.

⁴² Karel De Gucht, “Ukraine Trade Negotiations: a Pathway to Prosperity”, speech, INTA Committee Workshop, Brussels, October 20, 2011.

be noted that such an ambitious form of economic integration is only realistic and feasible with countries with a small economy in transition, who have less to gain from setting their own standards and who mainly export to the EU due to, for example, geographical proximity. Moreover, on top of this economic rationale, the partner countries must also politically be willing to liberalise trade relations in such a “deep” way and to partly give up the right to regulate their own economy by taking over EU legislation – without being involved in the decision-making process of this legislation. The three DCFTA countries definitely fall into this category as the EU is by far their biggest trade partner and because they have a strong ambition towards EU integration, and even membership. Such an approach is completely unrealistic for other (envisaged) EU FTAs with large and/or distant trade partners such as the USA (TTIP), Canada (CETA) or the ASEAN countries. In order to tackle TBT, these FTAs rely instead more on “traditional” trade instruments such as the relevant WTO rules (e.g. Article III GATT, the WTO TBT and SPS Agreement) and provisions on cooperation on standards and regulatory issues, transparency and mutual recognition.

Market access conditionality

The implementation of the DCFTAs, especially the legislative approximation commitments, will pose serious challenges for the partner countries, both for the public and private sector. It is recognised that the “cost of compliance” to the EU *acquis* will be the highest for the partner countries in areas such as environment, transport, energy, competition and sanitary and phytosanitary measures.⁴³ The Commission recognised the high political, institutional and administrative costs of this ambitious

⁴³ Alan Mayhew, *Ukraine and the European Union: Financing Accelerating Integration* (Warsaw, 2008), 38-49.

undertaking as it noted that the DCFTAs “require a high degree of commitment to complex and politically challenging reforms and a strong institutional capacity.”⁴⁴ However, the Commission argued that these costs will mainly be felt in the short term, whereas the benefits will bear fruit in the longer term. Nevertheless, it can be questioned to what extent the complex and sophisticated EU *acquis* is always the appropriate blueprint for economic reforms for the three DCFTA countries which have a much smaller and weaker transition economy and limited administrative capacity. The issue of “approximation costs” was for the first time raised during the CEEC’s accession process. However, in this case the final EU membership status offered the “golden incentive” to approximate to the entire EU *acquis*. Lacking such a specific membership perspective, this does not apply to the three DCFTAs.

Nevertheless, in some DCFTA chapters approximation to a section of the EU *acquis* is linked to an additional type of market access. This *market access conditionality* works as follows: the three DCFTA countries *first* have to apply a selection of EU *acquis*, annexed to the agreement. During this process, the EU will monitor the approximation efforts of the partner countries, including aspects of implementation and enforcement. These strict and elaborate monitoring procedures replicate several practices of the pre-accession methodology such as the drafting of progress reports. Then, in a *second* phase, the results of the monitoring activities are to be discussed within the joint bodies established under the AAs. It is only after a positive assessment by the EU that the Association Council shall decide on further market access. As these joint institutions decide by consensus, the EU is in a powerful position to decide on the pace and scope of opening the market. This asymmetrical market access conditionality is therefore difficult to reconcile with the spirit of joint ownership and the principles of an equal partnership.

⁴⁴ European Commission, “A New Response to Changing Neighbourhood”, COM (2011) 303, May 25, 2011.

Three DCFTA chapters that have such a specific form of market access conditionality are TBT, public procurement and services. In the TBT chapters, the partner countries are obliged to approximate to a selection of the EU's TBT-related legislation (i.e. the New Approach Directives) and gradually transpose the corpus of European standards as national standards. The implementation of these commitments will be monitored by the European Commission and only after a positive assessment will the EU offer the partner country further market opening in the form of the conclusion of an Agreement on Conformity Assessment and Acceptance (ACAA) of Industrial Products. ACAAs are a specific type of mutual recognition agreements (MRAs) which foresee mutual recognition of regulatory and verification procedures for industrial products. By concluding an ACAA, the parties agree that industrial products listed in the Annexes of an ACAA, fulfilling the requirements for being lawfully placed on the market of one party, may be placed on the market of the other party without additional testing and conformity assessment procedures. The conclusion of such an ACAA would thus significantly contribute to the elimination of TBT, thereby increasing the accessibility of products of the partner country to the EU market (and *vice versa*). In the area of services, the three DCFTA countries have committed themselves in four sub-sections (i.e. Postal and Courier Services, Electronic Communications, Financial Services and Transport Services) to approximate to a selection of EU service *acquis*. The agreement provides for detailed rules on how to implement this legislation and if the Commission considers that the partner countries have done so adequately, the partner countries can obtain "Internal Market Treatment" for these sections.⁴⁵ This additional and far-reaching type of market access would mean the EU and its Member States lifting all their reservations for the liberalisation of these service sectors. In the area of public procurement, the three DCFTA countries need

⁴⁵ The Internal Market Treatment is only explicitly foreseen in the Ukraine DCFTA (Annex XVII EU-Ukraine AA).

to gradually implement a large section of the EU's key public procurement directives. Again, implementation of these directives would be monitored by the European Commission and a positive conclusion would lead to the reciprocal granting of market access.

While these three DCFTA chapters provide for a clear incentive to implement the annexed EU *acquis*, other chapters are not based on market access conditionality. Some DCFTA chapters will liberalise trade, without linking this to approximation to EU *acquis*. For example, the chapters on trade in goods (i.e. the "traditional" part of the DCFTAs) gradually but unconditionally eliminate customs tariffs for goods. The DCFTAs will establish an FTA for trade in goods over a transitional period of maximum ten years. However, the liberalisation process is asymmetrical, meaning that the EU will liberalise its products faster than the partner countries in order to give them some time to adjust to competition from the EU Market.⁴⁶

Other DCFTA chapters oblige the partner countries to approximate to a selection of EU *acquis*, but do not link this with additional market access (e.g. customs and trade facilitation and intellectual property rights). This is especially the case in the title of the AAs on "Economic and Sector Cooperation". This title is separate from the DCFTA but provides for economic and sectoral cooperation in almost thirty areas, such as taxation statistics, science, technology, environment, transport, tourism and culture. These chapters are less ambitious than the DCFTAs as they essentially focus on mere "cooperation" by including broad – or even vague – provisions and do not create additional market access. However, most of these chapters oblige the partner countries to approximate to a selection of EU *acquis*, annexed to the agreement. Implementation of these approximation commitments would not lead to additional market access for Ukraine, Moldova or Georgia. Consequently, there is an incentive lacking for these countries to actually

⁴⁶ A notable exception is the Georgia DCFTA, which does not provide for transitional periods.

implement this large selection of EU legislation. Because the annexes to this title refer to a large chunk of EU *acquis*, including sophisticated legislation in the area of environment, transport and consumer protection, it is questionable whether these legislative approximation commitments will lead to the desired result.

Concluding remarks

This chapter illustrates that the Association Agreements aim to “Europeanise” the partner countries by obliging the partner countries to comply with EU values and legislation. On the one hand, the “political” part of the agreements promote the broad “democratic” principles and values of the EU – repackaged in the agreement as “common values”. On the other hand, the DCFTAs export a part of the EU’s internal market legislation. However, the instruments to promote and enforce these two sets of norms are very different. In the promotion of the common values, the AA relies on a suspension clause. However, in practice it has been seen that these clauses are essentially “paper tigers” and that the EU prefers to use other instruments to address violations of human rights and fundamental freedoms in the partner countries. For the export of the EU’s internal market *acquis*, the DCFTAs instead use numerous legislative approximation obligations that require Ukraine, Moldova and Georgia to implement a selection of EU legislation, annexed to the agreement. Several of these approximation provisions are flanked by mechanisms to ensure uniform interpretation and application of the annexed EU law and in some areas in the DCFTAs the implementation of these approximation commitments would even lead to additional market access.

These legislative approximation commitments aim to gradually and partially integrate the EaP countries into the EU internal market, to create a level playing field for economic operators, to tackle

TBT and to offer a blueprint for economic reforms. However, the implementation of these legislative approximation commitments will pose serious challenges for Ukraine, Moldova and Georgia. Therefore, the EU's financial assistance to these countries is increasingly focusing on supporting the implementation of these agreements to cushion the implementation costs. For example, to support Ukraine in its current economic crisis, in March 2014, the EU Commission proposed an EUR 11 billion support package.⁴⁷ This package consists of EUR 3 billion from the EU budget in the coming years (i.e. EUR 1.6 billion in macro-financial loans and an assistance package of grants of EUR 1.4 billion) and up to EUR 8 billion from the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). Numerous EU assistance projects specifically focus on the implementation of the AA's commitments. In addition to traditional assistance tools, such as twinning projects, the EU is also directly supporting SMEs in the three AA countries. In May 2015, the European Commission established, together with the EIB and the EBRD, a DCFTA Facility Mechanism for SMEs.⁴⁸ This mechanism, which will receive EUR 200 million from the EU budget, aims to help SMEs from these countries to realise the benefits of the DCFTA.

The implementation of the AAs will also require a stable and long-term political commitment from the three countries, serious implementation plans which will frequently challenge the vested interests of certain political and economic elites, and which are incorporated into the domestic reform agenda. In order to create and maintain such a political environment, the partner countries will need to comply with the "common" values that the AAs promote (e.g. respect for fundamental freedoms and rule of law). This illustrates that the DCFTAs' promotion of the EU internal market *acquis* needs to go hand in hand with the AA's promotion of the 'common' values.

⁴⁷ European Commission, "European Commission's support for Ukraine", March 5, 2014.

⁴⁸ European Commission, "The DCFTA Facility for SMEs", May 21, 2015, http://europa.eu/rapid/press-release_MEMO-15-5013_en.htm.

ARMENIA: ZIG-ZAGS OF EUROPEANISATION

Stepan Grigoryan and Hasmik Grigoryan

Since its independence in 1991, Armenia has undertaken a path of transition towards democracy and market economy. However, the transition has been relatively slow and fragile – not only geopolitical upheavals, but also a highly monopolised and state-controlled economy seem to be among the factors hindering further progress. Armenia has been cooperating with the European Union (EU) in the political, economic, social, human rights and good governance spheres. In fact, the EU has been the main partner for assisting the fragile path of transition from socialism towards democracy. The EU is not only the major economic partner for Armenia, but also the chief provider of financial assistance aimed at sectoral reforms.

This paper reviews the development of Armenia's economic and political relations with the EU, provides an insight into the future of these relations and the state of Europeanisation efforts taking into account Armenia's integration into the Eurasian Economic Union (EEU). A specific focus in this chapter is on small and medium enterprises (SMEs), whose development is seen as the main factor for accomplishing the transition towards democracy and market economy in Armenia.

Existing economic ties with the EU

Notwithstanding financial support and assistance in democratic reforms, the EU has developed into the biggest export and import market for Armenia, since 1991. The EU today accounts for almost 30 percent of Armenia's total trade (39.4 percent of exports and 26.5 percent of imports of Armenia are related to the EU). Armenia exports to the EU manufactured goods, crude materials, miscellaneous manufactured articles, also beverages and tobacco. And it imports from the EU machinery and transport equipment, manufactured goods, miscellaneous manufactured articles and chemicals.

The basic vehicle behind Armenia's expanding trade relations with the EU is the EU Generalised Scheme of Preferences (GSP). Thanks to the GSP, in 2006-2008, Armenia received preferential access to the EU market, in the form of zero duties on 3300 products, and reduced tariffs for another 3900 goods. In December 2008, Armenia qualified for the special incentive arrangement for sustainable development and good governance (GSP+) under the EU GSP Regulation for 2009-2011.¹ Thus, the benefits under the GSP increased from EUR 61 million in 2009, to EUR 90 million in 2012, and Armenia's GSP utilisation rate is high – around 90 percent. The main EU imports from Armenia under the GSP preferences are: base metals (78 percent), textiles (18 percent) and foodstuffs (2 percent).

Apart from trade benefits, this GSP+ partnership demands that Armenia undertakes reforms in such areas as human rights and good governance. The European Commission systematically monitors Armenia's compliance with its binding commitments,

¹ According to the European Commission, the GSP Plus was launched in 2006 as an incentive scheme for especially vulnerable countries that have ratified and effectively implemented key international conventions on sustainable development, labour rights and good governance. The GSP+ covers around 7,200 products. (Ed. note.)

in particular concerning the effective implementation of the core international conventions on human rights, labour rights, environmental protection and good governance principles.²

As reported by Santander Trade Portal,³ according to the World Bank, Armenia has the highest ranking amongst the CIS (Commonwealth of Independent States) countries, in terms of foreign direct investment appeal. This statement appears rather dubious taking into account the fact that Armenia has the most monopolised economy among the CIS countries. Lately, the flows of foreign investment are declining, and many European companies are leaving the market.

According to the World Bank's Doing Business Report 2016, Armenia stands at 5th place in the ranking of 189 economies, on the ease of starting a business. Business start-ups take three days, and the overall "doing business" assessment shows that Armenia ranks at 35th place,⁴ so the ranking describes quite positive trends. Since the legislation of Armenia is based on European standards and requirements, the international ranking and assessments also show quite positive numbers. And, indeed, the legislation of Armenia is mostly well-designed, however, the country lacks implementation of the adopted legislation. Weak rule of law and corruption lead to a monopolised or controlled economy. Meanwhile, in comparison with Belarus or some of the Central Asian countries, where the economic sectors are mostly owned by the state, in Armenia the economics is monopolised not only by the state, but also by private individuals who are either in politics or have connections with the authorities.

² European Commission, "Countries and Regions, Armenia", <http://ec.europa.eu/trade/policy/countries-and-regions/countries/armenia/>.

³ "Santander Trade Portal", <https://en.portal.santandertrade.com/establish-overseas/armenia/investing>.

⁴ World Bank (2016), "Doing Business 2016, Armenia", http://www.doingbusiness.org/data/exploreeconomies/armenia/~/_media/giawb/doing%20business/documents/profiles/country/ARM.pdf.

Despite Armenia's transition towards democracy and market economy, the existing and omnipresent monopolies remain one of the weakest spots in this transition. According to the Global Competitiveness Index (GCI), Armenia ranks lowest among the European and Central Asian countries in the effectiveness of antimonopoly policy and the intensity of local competition. The 2013 Business Environment and Enterprise Performance Survey (BEEPS) indicates that 19 percent of the market is dominated by monopolies, while 60 percent of Armenia's markets covered in the Survey have an oligopolistic or monopolistic market structure.⁵

Most of the economic sectors are controlled either by the state itself or by oligarchs, and the ownership of assets is concentrated. For example, the electricity generation and transmission operators, postal services and railways are either state-owned companies or have been given to companies owned by the Russian state. Additionally, in some cases, high ranking state officials are the owners of businesses. The concentration of economic powers creates inequality and a lack of competition that does not allow private and independent companies to operate and develop. This inhibits dynamic development and the situation has also resulted in low employment and wages.

An obviously controlled and monopolised economy does not allow for the development of own businesses and also makes it difficult for foreign investors to operate in Armenia. Recently, the number of foreign investments in Armenia has diminished, and important foreign companies have opted to leave the Armenian market. This is disturbing, as according to the Armenian National Statistic Service, the flows of direct investments from abroad are decreasing. In 2013, the total incoming investment was equal to

⁵ World Bank, "Republic of Armenia – Accumulation, Competition, and Connectivity", Report No. 76827-AM (2013), <https://openknowledge.worldbank.org/bitstream/handle/10986/16032/768270ESWOP1270ox379788B00PUBLIC000.pdf?sequence=1>.

EUR 528 million, compared to 2012, when it was EUR 665 million and in 2011 – EUR 722 million.⁶

In 2013, the accumulated stock of foreign direct investment reached EUR 5456 million, or EUR 1,820 per inhabitant. The major investment partners for Armenia are Russia (41.2 percent), France (16.4), Germany (6.5) and Greece (4.9). It is essential to note that significant investments are made by the members of the Armenian diaspora. According to the European Commission, foreign direct investment, in 2014, by the EU to Armenia, was EUR 100 million.⁷ The main sectors targeted by investment are, energy, telecommunications, metallurgy, hotel services and air transportation. Russia dominates, and in fact controls, such strategic sectors as Armenia's electricity market and railways. The European investments have mainly landed in retail, transportation and banking.

The overwhelming majority of short-term labour migrants from Armenia have found (or have been trying to find) jobs in Russia, while the majority of long-term expatriates from Armenia opt for the EU countries, with France being the most frequent destination, followed by Germany, Greece, Denmark, Spain, Poland, Belgium and Bulgaria. Migrants to the EU are divided into permanent migrants (8.1 percent), labour migrants (0.6), and student migrants (26.3).⁸ In total, the remittances are quite high, reaching 17.9 percent in 2014.⁹ The number shows that the country and the population itself are quite dependent on remittances coming from abroad.

⁶ National Statistical Service of the Republic of Armenia, "Balance of Payment and Foreign Trade, Foreign Investments", <http://www.armstat.am/en/?nid=246>.

⁷ European Commission, Directorate General for Trade, "Armenia", http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_111471.pdf.

⁸ International Labour Organisation, "Migration and Development; Armenia Country Study", http://www.un.am/up/library/Migr_Dev_Study_eng.pdf.

⁹ World Bank, "Data on Remittances, received (% of GDP)", <http://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS>.

Main cooperation formats with the EU

Armenia's relations with the EU are based on the EU-Armenia Partnership and Cooperation Agreement from 1999, which sets out priorities for cooperation in the areas of political dialogue, trade, investment, economy, law-making and culture. Armenia has also been included in the European Neighbourhood Policy of the EU (ENP) since 2004, and is a member of the EU's Eastern Partnership (EaP) programme since its inception in 2009. What is more, as already indicated above, Armenia was admitted to the EU's GSP+ scheme in 2014.

For the past several years, Armenia has been negotiating the EU-Armenia Association Agreement, which is supposed to be the basic framework document for close economic and political cooperation. Moreover, it was planned that the Armenia-EU trade relations would be strengthened and deepened through the Deep and Comprehensive Free Trade Agreement (DCFTA) – one of the main elements of the Association Agreement. However, Armenia has slowed down the process of cooperation with the EU in the framework of the Eastern Partnership. On September 3rd, 2013, the Armenian President announced that Armenia was freezing its cooperation with the EU in the framework of the Eastern Partnership and starting its integration with the Eurasian Economic Union.

Since the aforementioned President's announcement, Armenia's participation in the processes ongoing in the framework of the Eastern Partnership has been mainly frozen, with visa liberalisation remaining the only exception – in this area cooperation between Armenia and the EU is continuing. According to the Ministry of Foreign Affairs (MFA) of Armenia, visa liberalisation, in fact, represents the area where most progress has been achieved between Armenia and the EU within the Eastern Partnership framework: the Visa Facilitation Agreement was signed in 2012 and

the Agreement on Readmission in 2013. Both agreements came into force on January 1, 2014. In addition, the EU-Armenia Mobility Partnership was signed in 2011, and an initiative for strengthening the management capacities of Armenia has been in force since March 2013.

Currently, there are some positive tendencies regarding the Armenia-EU relations. On October 12, 2015, the Foreign Affairs Council of the EU authorised the European Commission and the High Representative to open negotiations on a new comprehensive agreement with Armenia. The official launch of negotiations took place on December 7, 2015. The new agreement is supposed to replace the current EU-Armenia Partnership and Cooperation agreement. It is planned that the negotiations over the agreement will be concluded by the end of 2016. On June 23, the fourth round of negotiations took place. Provisions on political dialogue, reforms, justice and freedoms were discussed.¹⁰

According to information from various diplomatic representatives of the EU countries accredited in Armenia, the negotiations are proceeding slowly as the Armenian side puts into effect the condition to include a provision that the agreements and requirements by the EU will be compatible with Armenia's membership of the EEU. The main format of the agreement is not available for the public yet, but most likely it will comprise of the political part of the previously negotiated Association Agreement. This means that the new agreement will cover sectoral fields, such as judicial system, education, agriculture, self-governance and combating corruption. Last but not least, Armenia joined the Horizon 2020 programme on 19th May 2016 which is opening doors to the researchers and innovators from

¹⁰ Armenpress, "Fourth Round of Armenia-EU Talks Completed", 2016, <https://armenpress.am/eng/news/851978/fourth-round-of-armenia-eu-talks-completed-in-brussels.html#.V21bzqp9ZMl.twitter>.

Armenia to funding from this programme, under the same conditions as their counterparts from EU Member States and associated countries.

The EU has granted Armenia bilateral financial assistance in the amount of EUR 285.1 million in 2007-2013 and up to EUR 170 million in 2014-2017. Under the most recent Single Support Framework for Armenia, the main programming document for the EU's support to Armenia 2014-2017, the agreed priorities include support to private sector development (35 percent) with the aim of addressing the low competitiveness of enterprises and to ensure the diversification of the economy, support to public administration reform (25 percent) to sustain the reform effort in audit and procurement, statistics and anti-corruption, and to boost reform of the judicial sector (the remaining 20 percent) to ensure its independence and the proper implementation of laws.

The dynamics of Europeanisation

The prevailing mood among the political parties was mostly prone towards cooperation with Russia. Ideologically, if one looks at the agenda and ideologies of the parties, one will notice a balanced view regarding the foreign policy of Armenia. Most of the parties note in their agenda, that Armenia needs to develop its foreign policy based on the principle of complementarity. The idea of complementarity means that Armenia will balance its policy with various external powers and cooperate equally with the EU and Russia. However, in reality, the authorities froze the cooperation with the EU and leaned more towards the direction of Russian-led structures. This can be observed in the fact that most of the parties voted in favour (not even abstaining) of joining the EEU.

The National Assembly of Armenia overwhelmingly passed the agreement of joining the Union on December 4, 2014 with 103 votes in favour, and only seven against.¹¹

However, during the last several years the situation has been changing, especially among society. According to a survey conducted in 2007, by the International Republican Institute, 37 percent of surveyed answered that they would definitely like to join the EU and 45 percent supported eventual membership.¹² This favourable public mood is at odds with Russia's prevalence in the domestic and foreign policy of the country and the absence of any incentive to start European integration towards EU membership.

There were also protests at the Russian Embassy, showing dissatisfaction by the Armenian society toward the Russian policy. On April 14th, after heavy fighting on the front line of Nagorno Karabakh, demonstrations took place in front of the Embassy of the Russian Federation to Armenia. The protests were against Russian arms sales to Azerbaijan, which they say helped contribute to the outbreak of hostilities on April 2 in Nagorno-Karabakh.

It is also to be noted that many young people prefer studying in the EU's universities. As far as civil society is concerned, there are organisations which organise events on European values, EU structures and on EU-Armenia relations. Each year, on May 9th, Armenia celebrates the day of Europe through open festivals and concerts.

The attitude of ruling elites is quite ambiguous. As mentioned above, for example, when there was a discussion on the decision to join

¹¹ Azatutyun.am, "Armenian Parliament Backs Eurasian Union Entry", <http://www.azatutyun.am/content/article/26725577.html>.

¹² International Republican Institute (IRI), "Armenian National Voter Study" survey, 2007, <http://www.iri.org/sites/default/files/2007%20September%2017%20Survey%20of%20Armenian%20Public%20Opinion,%20July%205-12,%202007.pdf>.

the Eurasian Economic Union, only one party (Heritage Party) and several parliament members voted against the decision. At the same time, there are currently new parties formed that connect the future of Armenia with strong ties with the EU. The opposition parties – Free Democrats, Heritage and Bright Armenia – are political parties that are in favour of deep cooperation between the EU and Armenia.

Going from the political sector to the business sector, quite a lot of companies strive to operate based on the European model. For example, the owners of hotels and restaurants, and taxi services strive to equip their companies based on European models and examples. And the least monopolised sector in Armenia is the hospitality industry (taxi services, hotels and cafes/restaurants). However, the rest of the economic sectors are highly monopolised which makes it difficult to do business and attract investors to come to Armenia.

Thus, even though Armenia has some kind of diversity, the foreign investors face difficulties once entering the Armenian market. The European Carrefour chain was one of the examples that would lead to Europeanisation and higher standards of trade in Armenia. However, after years of controversy, the French-run hypermarket chain Carrefour, one of the world's largest retail giants, finally opened a store in Armenia, in March 2015. However, several observations led to the conclusion that Carrefour's entry into the Armenian market was made conditional, and that it is not independent in its actions. First, Carrefour Armenia sells products at prices that are the same as in every other supermarket in Armenia, even though Carrefour's scale should allow trading at lower prices. Second, as noted by Eurasianet Armenian, Carrefour's office in Yerevan has announced that 95 percent of its food items are sourced locally or from local importers – a rate 22 percentage points higher than the worldwide rate for local sourcing posted on the Carrefour website.¹³

¹³ "Armenia: Can French Hypermarket Generate Genuine Retail Competition?" Eurasianet.org news portal, March 25, 2015, <http://www.eurasianet.org/node/72711>.

There are various other examples that led to a decrease in foreign investments and less European actors in Armenia. In the telecommunications sector, there were three mobile phone operators in Armenia: Beeline, Viva Cell MTS and Orange Armenia. Orange was the only European based provider that came to Armenia in November 2009, and became the actor that broke the monopoly of mobile phone operators. However, in July 2015, Orange Armenia announced that it was leaving the Armenian market.

Airlines operating in Armenia are another source of anxiety. Czech Airlines stopped their services in 2014. Alitalia, AirBaltic and Etihad Airways have also left the Armenian aviation market. LOT Polish Airlines suspended flights from capital Yerevan starting from July 1st, 2015. Eventually, as indicated by Shahen Petrosyan, the former head of the government-affiliated Department of Civil Aviation, Armenia has ceded its entire aviation market to Russia.¹⁴

Private sector development as a source of deeper Europeanisation

The monopolistic economy, state control and lack of competition contribute to a fragile situation and difficult conditions for starting a business or doing business independently. As the Armenian economy is mostly controlled by the state and oligarchs, it is important to support and create favourable conditions for start-ups, small and medium enterprises (SMEs). In the direction of developing the private sector, the Republic of Armenia gets support and cooperates with the European Union, World Trade Organisation, World Bank, European Bank for Reconstruction and Development and etc.

¹⁴ "Political and Economic Issues have Forced International Airlines to Leave the Armenian Market" Media-Centre News Portal, July 9, 2015, <http://media-center.am/en/1436448505>.

According to the EU paper,¹⁵ 95 percent of private enterprises in the Eastern Partnership (EaP) countries are SMEs. However, they employ a mere 50 percent of the working population and their contribution to GDP is on average just over 30 percent, while in the OECD, SMEs employ about 65 percent of the working population for a contribution to the GDP of about 55 percent. Essentially, the EU paper notes that SMEs in the EaP region have the potential to make a significant contribution to job creation and are essential economic actors in the expansion and creation of added value in a number of sectors which drive economic growth and development. Consequently, support for SMEs' growth could contribute not only to the national and local socio-economic welfare in a sustainable way, but also reinforce demand for democratic change.

The actual unemployment rate is estimated at around 17 percent in Armenia. Moreover, the geography of poverty in Armenia shows substantial gaps between the capital city Yerevan (25.6 percent), rural areas (31.7 percent), and other urban areas (39.4 percent). Between 2008 and 2009, poverty in Yerevan increased dramatically from 20.1 to 26.7 percent of the population and then slowly declined to 25.6 percent in 2013. Different levels of unemployment are linked to structural differences related to employment and economic activity across regions.¹⁶

Undoubtedly, the creation of a favourable environment for the SMEs would not only break the monopolised economy and encourage competition, but would also create job opportunities and boost prosperity in the different economic areas. As already noted, the Single Support Framework 2014-2017 document for Armenia sets the EU's support for private sector development as

¹⁵ European Commission, "EU support to SMEs in the Eastern Partnership Countries 2014-2020: The Way Forward for the SME Flagship Initiative", 2014.

¹⁶ Country Program Snapshot, "World Bank Group – Armenia Partnership", April 2015, <http://www.worldbank.org/content/dam/Worldbank/document/Armenia-Snapshot.pdf>.

a priority – 35 percent or EUR 59.5 million will be diverted to the private sector development.

There has been already some progress. The EaP Small Business Act Assessment report¹⁷ notes that the country has made significant progress in improving its business environment. Its latest improvements are the implementation of a one-stop-shop system to facilitate business registration, and simplification of taxation procedures. The progress has been rewarded by an improved ranking in the World Bank's Doing Business Report – in 2016, Armenia scored 35th from 189 economies observed being inferior only to Georgia among the EaP countries (Georgia ranked 24th). However, Armenia has the lowest proportion of successful business start-ups (only 3.5 percent), and economic activity is largely concentrated in the capital city, Yerevan, as the quality of the public infrastructure and services in the rural and border areas is very low.

Economic presence of Russia

The Armenian government has given the ownership over most of the main strategic sectors to Russia, which makes the Armenian economy vulnerable and dependent on Russia. Russian ownership in Armenia includes major energy supply companies.

During the last ten years, Russia has led politics of "assets for debt" towards Armenia. In addition, Russia has a military base in Gyumri, the second largest city of Armenia. As of January 1, 2015, Armenia has been a member of the Russia-centred EEU. The Russian banking system also operates in Armenia. For example,

¹⁷ OECD, "Eastern Partner Countries 2012: Progress in the Implementation of the Small Business Act for Europe", 2012, <http://www.oecd.org/globalrelations/SMEEasternPartnership.pdf>.

VTB Bank Armenia, the third largest commercial bank by assets, is owned by the VTB Russia Bank.

The electricity supplier of Armenia, the CJSC Electric Networks of Armenia was founded in May of 2002, and is a merger of four state regional companies (Yerevan Electric Networks, North Electric Networks, South Electric Networks and Central Electric Networks) distributing and selling electric energy. CJSC Electric Networks of Armenia is a subsidiary of the Russian RAO UES International JSC. Another main and strategic sector, the state joint-stock company, "Armenian railways" was transferred to the joint-stock company, South Caucasus Railways (a part of Russian Railways) as a result of a concession contract of February 13, 2008.

As far as energy supply is concerned, Russia at present has strategic importance for Armenia. However, it comes at a price, as, along the Sevan-Hrazdan hydroelectric station which is owned by the United Energy System of Russia, in December 2013, the remaining 20 percent of the shares of ArmRosGazprom owned by the Armenian Government were ceded to Russia's Gazprom, rendering the latter full control over this local gas supplier¹⁸

The ownership by Russia and the membership of the EEU does not give Armenia wider room for Europeanisation. For example, according to the European Neighbourhood Policy requirements, by 2014, Armenia was to close down and build a new power plant, since the currently operating Metsamor power plant has ageing reactors. It was planned that French companies would assess the safety and French energy companies would be a part of a new contract¹⁹. However the process slowed down and after the membership in the Eurasian Economic Union went into deadlock, Russia undertook the responsibility to reconstruct the power plant.

¹⁸ Azatutyun.am, "Gazprom Completes Armenian Gas Network Takeover", 2014, <http://www.azatutyun.am/content/article/25233311.html>.

¹⁹ Reuters, "France, Armenia Study Nuclear Power Cooperation", 2011, <http://www.reuters.com/article/france-armenia-nuclear-idUSL5E7L714S20111007>.

Since Armenia's membership of the Eurasian Economic Union, the economic situation of Armenia is conditioned by the Russian economy. With the devaluation of the Russian rouble in 2014, the US dollar exchange rate in Armenia went from Dram 414 on November 6 to Dram 433.70 on November 28; and a peak was observed on December 17, when the Central Bank's official rate was 527.20.²⁰

The Armenian economy will suffer from the tariff rates that are adjusted by the EEU. This will make ties with the EU even more difficult, since it will contradict with the GSP+ scheme and Armenia will be less attractive for foreign investments. Thus, the economic sector and break up of monopolies should serve as one of the priorities in the internal policy of Armenia which should allow diversification of the Armenian market.

Conclusions

Russia has quite a strong presence in Armenia, and this presence is set to deepen, taking into account the country's membership of the Eurasian Economic Union. However, the public support for European integration remains very high and the civilian society, along with opposition political parties, remain the strongest agents of Europeanisation in Armenia. Russia's ambivalent behaviour in Armenia's neighbourhood (e.g. selling arms to Armenia's arch-enemy Azerbaijan) and over-excessive dependence on Russia is motivating the Armenian government to diversify the country's economy and intensify its partnership with the EU. Further investment in the development of the private sector and in

²⁰ Armenian Banks, "Devaluation of Armenian Dram to Increase Credit Burden and Dollarization in Population's Deposits", 2014, <http://www.armbanks.am/en/2014/12/09/82332/>.

breaking apart the existing monopolies should serve the purpose of advancing democracy and decreasing dependence on Russia. There are various small and medium enterprises in Armenia (e.g. hotels, taxi services and restaurants) that allow for some kind of diversification in the economy. In addition to this, SMEs should be developed outside of the capital, covering the regions. Freedom in the economic sector and stronger ties with the EU should be prioritised in the domestic and foreign policy of Armenia. Currently, the controlled economy leads to a decrease of foreign investments. Thus, Armenia needs to focus on returning towards the Armenian-EU deep cooperation and continue undertaking reforms. The development of SMEs should break the monopolised economy, ensure higher employment opportunities and improvement of the social situation in the country.

AZERBAIJAN: EUROPEANISATION VERSUS REAL-POLITICS

Ilgar Gurbanov

After gaining independence in 1991, the Euro-Atlantic integration and development of relations with the European countries became one of the main foreign policy directions of the Republic of Azerbaijan. Independent Azerbaijan started to develop its relations with the EU countries based on the idea of mutual pragmatism, fruitful cooperation and a friendly neighbourhood, while preserving however its national interests and statehood. For a newly independent country, it was of the utmost importance to develop new relationships with the leading international organisations, in order to boost the development of the national economy.¹

In 1993, Azerbaijan officially declared its interest in establishing formal relations with the EU.² EU-Azerbaijan relations hitherto have been framed by both domestic (reforms for internal market and justice system, liberalisation and democratisation) and external factors (Nagorno-Karabakh conflict, integration into the European security system)³ and have developed within different

¹ Novruz Mammadov, *The Azerbaijani Model of Foreign Policy, 1997-2011* (Chashioğlu, 2012), 282-285.

² Ali Gasanov, *Sovremennie Mejdunarodnie Otnosheniia i Vneshnaya Politika Azerbaydjana* (Baku: Zerdabi Ltd., 2013), 649.

³ Mammadov, 285.

frameworks, such as support to economic and political reforms, the development of domestic and regional infrastructure etc. Azerbaijan is an important strategic partner for the EU in terms of realisation of large-scale energy and transportation projects within the East-West transportation corridor.⁴ The transit importance of Azerbaijan, its geographical location in the crossroads of Europe-Asia air, land and maritime transport corridors and its distribution-hub position in Eurasia make Azerbaijan a noteworthy partner.⁵

Economic ties of Azerbaijan with the EU

The EU remains key trading partner of Azerbaijan constituting around 47.3 percent of Azerbaijan's total trade turnover. In 2015, the EU became the main trade partner for Azerbaijan, with respectively a 65.3 and 33.4 percent share in the total of Azerbaijan's exports and imports (see Table 1). The EU's imports from Azerbaijan consist of mineral fuels, machinery and transport equipment, chemicals, food and live animals, while Azerbaijan's imports from the EU mainly machinery and transport equipment, miscellaneous manufactured articles and goods (classified chiefly by material), food and live animals, beverages, tobacco, textile, chemical and non-agriculture products.⁶ The hydrocarbon resources (oil and gas) account for 95 percent of Azerbaijan's total export. During recent years, the external trade of Azerbaijan has shifted from Russia towards the EU, including the main Member States – Italy, the United Kingdom, France and Germany.⁷

⁴ Gasanov, 655.

⁵ Taleh Ziyadov, *Azerbaijan as a Regional Hub in Central Eurasia*, (Azerbaijan Diplomatic Academy, East-West Publishing House, 2012), 5.

⁶ DG Trade, European Commission, "EU Merchandise Trade with Azerbaijan by Product", 2, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_111475.pdf.

⁷ Trading Economics, "Azerbaijan Balance of Trade", <http://www.tradingeconomics.com/azerbaijan/balance-of-trade>.

In 2014, Azerbaijan was one of the few Eastern Partnership (EaP) countries with a positive trade balance with the EU. According to Eurostat data, Azerbaijan's trade surplus for goods with the EU accounted for EUR 9.5 billion, in 2014. The rapid increase in Azerbaijan's export is mostly linked to the full operation of the Baku-Tbilisi-Ceyhan oil pipeline. In general, Azerbaijan is the second largest exporter of goods to the EU among the ENP's eastern countries.⁸ Table 2 indicates that Azerbaijan ranks at 55th and 31st place for the EU's external trade in 2015, with total export and import at 0.2 and 0.6 percent shares respectively.⁹

Since Azerbaijan is currently classified as a country with "upper-middle income" economy by the World Bank, it was deferred from the EU's Generalised Scheme of Preferences (GSP) as of February 22, 2014, and reverted to the "Most Favoured Nation" treatment standard.¹⁰

The EU's presence in Azerbaijan has not caused many social consequences; according to information provided from official sources, most foreign trips (over 80 percent) undertaken by Azerbaijani nationals are within non-EU countries – mostly Russia, Turkey, Iran and Georgia (because of the temporary visa-free regime). However, it should be noted that Azerbaijan's EU-related export sectors employ – according to the most optimistic estimates – 300,000 people, or about 6–7 percent of Azerbaijan's total labour force. This is a large difference, if this figure is compared to the size of Azerbaijan labour force engaged in agriculture, which exports mainly to Russia (35 percent). Europe has become important for Azerbaijan as a market where it can sell its hydrocarbons – mostly natural gas resources.

⁸ Eurostat, "European Neighborhood Policy – East – International Trade in Goods Statistics", http://ec.europa.eu/eurostat/statistics-explained/index.php/European_Neighbourhood_Policy_-_East_-_international_trade_in_goods_statistics.

⁹ DG Trade, European Commission, "European Union, Trade in Goods with Azerbaijan", 8-9, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113347.pdf.

¹⁰ DG Trade, European Commission, "Azerbaijan – Trade Profile with the EU", <http://ec.europa.eu/trade/policy/countries-and-regions/countries/azerbaijan/>.

Table 1. Azerbaijan's top trade partners

	Partner	Value (mio €)	% world
Imports			
	World	11,415	100.0
1	EU 28	3,807	33.4
2	Russia	2,268	19.9
3	Turkey	1,882	16.5
4	USA	466	4.1
5	China	436	3.8
6	Ukraine	316	2.8
7	Belarus	283	2.5
8	Georgia	238	2.1
9	Kazakhstan	215	1.9
10	Singapore	194	1.7
1	EU 28	3,807	33.4
Exports			
	World	14,969	100.0
1	EU 28	9,772	65.3
2	Indonesia	1,052	7.0
3	Georgia	445	3.0
4	Russia	424	2.8
5	USA	416	2.8
6	Tunisia	406	2.7
7	Thailand	308	2.1
8	Canada	308	2.1
9	Iraq	230	1.5
10	Turkey	190	1.3
1	EU 28	9,772	65.3
Total trade			
	World	26,384	100.0
1	EU 28	13,579	51.5
2	Russia	2,691	10.2
3	Turkey	2,073	7.9
4	Indonesia	1,055	4.0
5	USA	881	3.3
6	Georgia	683	2.6
7	China	622	2.4
8	Tunisia	407	1.5
9	Switzerland	354	1.3
10	Ukraine	341	1.3
1	EU 28	13,579	51.5

Table 2. EU's top trade partners

	Partner	Value (mio €)	% world
Imports			
	World	1,725,518	100.0
1	China	350,436	20.3
2	USA	248,975	14.4
3	Russia	135,569	7.9
4	Switzerland	102,317	5.9
5	Norway	74,249	4.3
6	Turkey	61,603	3.6
7	Japan	59,770	3.5
8	South Korea	42,343	2.5
9	India	39,446	2.3
31	Azerbaijan	10,679	0.6
Exports			
	World	1,791,312	100.0
1	USA	371,331	20.7
2	China	170,376	9.5
3	Switzerland	150,873	8.4
4	Turkey	79,129	4.4
5	Russia	73,911	4.1
6	Japan	56,585	3.2
7	Norway	48,856	2.7
8	UAE	48,509	2.7
9	South Korea	47,897	2.7
55	Azerbaijan	3,460	0.2
Total trade			
	World	3,516,830	100.0
1	USA	620,306	17.6
2	China	520,812	14.8
3	Switzerland	253,190	7.2
4	Russia	209,481	6.0
5	Turkey	140,732	4.0
6	Norway	123,105	3.5
7	Japan	116,355	3.3
8	South Korea	90,240	2.6
9	India	77,626	2.2
39	Azerbaijan	14,140	0.4

Source: DG Trade, European Commission, October 2015

Among the ENP's eastern countries, Azerbaijan has received the largest flow of foreign direct investment (FDI). In 2014, the amount of inward FDI in Azerbaijan was around 40 times higher than in Moldova, a country which, has signed the Association Agreement with the EU.¹¹ According to the European Commission (DG Trade) figures, the total stock of FDI in Azerbaijan from EU-28 was EUR 8.1 billion in 2014, representing a EUR 3.1 billion increase since 2013. The FDI is mostly focused on development of the energy sector of Azerbaijan (exploration and development of the oil and gas fields).¹²

Energy and transportation remains an important domain of cooperation. In this context, the "Joint Declaration on Southern Gas Corridor", signed in 2011 between the EU and Azerbaijan, was an important initiative in terms of the smooth implementation of the Southern Gas Corridor (SGC).¹³ The SGC will include three major pipelines: the expansion of the South Caucasus Pipeline through Azerbaijan and Georgia; the construction of the Trans-Anatolian Natural Gas Pipeline (TANAP) across Turkey from the Turkish-Georgian border to the Turkish-Greek border; and the construction of the Trans-Adriatic Pipeline (TAP) through Greece, Albania and into Italy. The total investment for the SGC is calculated to be around EUR 40 billion with a total length of 3,500 km. The main source of gas is Azerbaijan's giant Shah Deniz II field with an estimated 40 trillion cubic feet of gas.¹⁴ Azerbaijan State Oil Company is expected to receive a huge financial package from the European Investment Bank for the financing of the TANAP

¹¹ Eurostat, "European Neighbourhood Policy – East – Economic Statistics", http://ec.europa.eu/eurostat/statistics-explained/index.php/European_Neighbourhood_Policy_-_East_-_economic_statistics.

¹² "Foreign Direct Investment – Azerbaijan", DG Trade, European Commission, 2, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_111475.pdf.

¹³ European Commission, Press Release, "Commission and Azerbaijan Sign Strategic Gas Deal", January 13, 2011, http://europa.eu/rapid/press-release_IP-11-30_en.htm?locale=en.

¹⁴ Fatma Babayeva, "Southern Gas Corridor to Attract \$2 Billion", *Azernews*, April 4, 2016, <http://www.azernews.az/business/94640.html>.

and TAP, respectively EUR 1 billion and EUR 2 billion.¹⁵ The SGC is absolutely vital for the EU, since it will contribute to diversifying energy sources and give the energy companies leverage to negotiate gas prices with third suppliers.

Formal links with the EU

In 1996, the relations between Azerbaijan and the EU were officially launched with the signing of the Partnership and Cooperation Agreement (PCA). The PCA, which entered into force in 1999, constitutes the legal basis of the EU-Azerbaijan relations.¹⁶ The PCA also included material-technical support of the EU to conduct reforms for the development of the market economy and realisation of infrastructure projects.¹⁷ The PCA's goals are: the development of the political relations between parties in the framework of political dialogue; the consolidation of the democracy in Azerbaijan, the economic development and initiatives in the transition to market economy; the promotion of the trade and investment and cooperation in the economic, social, financial, scientific and cultural areas.¹⁸ In general, the PCA reflects the EU's desire to establish constructive relations of a non-binding character with the countries in its neighbourhood. The trade-related section of the PCA does not aim to completely lift the trade barriers, but it aims to achieve a "gradual alignment

¹⁵ Ilgar Gurbanov, "Southern Gas Corridor Gains New Momentum", EDM, The Jamestown Foundation, June 16, 2016, http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=45518&tx_ttnews%5BbackPid%5D=7&cHash=74eea786174922333fc0874a2809e641#v2kZI7uLSUm.

¹⁶ European External Action Service, "European Union – Azerbaijan Partnership and Cooperation Agreement", http://eeas.europa.eu/delegations/azerbaijan/eu_azerbaijan/political_relations/legal_framework/index_az.htm.

¹⁷ Gasanov, 649.

¹⁸ Mammadov, 285.

of Azerbaijan laws and practices with the EU's main trade-related standards."¹⁹ The PCA is a non-ambitious document as it does not provide Azerbaijan with a route towards EU membership, customs union or free trade with the EU.

In 1996, the EU launched the INOGATE (Interstate Oil and Gas Transportation to Europe) programme in the framework of financial support for the newly independent states following the collapse of the USSR. INOGATE is a long-term energy technical assistance program financed by the EU.²⁰ The legal basis of the INOGATE is the Framework Agreement for interstate oil and gas export signed by fifteen states (including Azerbaijan), in 1999. INOGATE promised new perspectives for the realisation of the cross-border projects for transportation of hydrocarbon resources and bringing foreign direct investment.²¹

The EU-supported "Europe-Caucasus-Asia Transportation Corridor" (TRACECA) – "Great Silk Road" programme is also of high importance for the Caucasus region countries. On September 7-8, 1998 during the international conference on "TRACECA – Restoration of the Historical Silk Road" held in Baku, the parties signed the "Multilateral Agreement on development of the Europe-Caucasus-Asia Transportation Corridor" and adopted the "Baku Declaration" for comprehensive cooperation and regional integration among the Eurasian countries.²² The aim of the TRACECA programme was to enhance the capacity of the relevant countries for access to European and world markets through the alternative transport routes and the creation of the fastest and cheapest transport corridors from Europe through the

¹⁹ Elcin Ahmadov, *Foreign Policy of Azerbaijan: Relations with the International Security and Cooperation Institutes* (Letterpress, 2013), 226.

²⁰ See all about INOGATE in the official website of INOGATE, <http://www.inogate.org/pages/1?lang=en>.

²¹ Ahmadov, 223.

²² Gasanov, 649.

Black Sea and Caspian Sea to Central Asia (and vice versa).²³ In 2001, the TRACECA's headquarters in Baku was opened for better coordination of the cooperation.²⁴

In 2000, Azerbaijan opened its Permanent Mission to the EU in Brussels. In 2005, the President of Azerbaijan, Ilham Aliyev, signed "The decree on the establishment of the State Commission on the European integration of the Republic of Azerbaijan". The decree was a noteworthy step in terms of strengthening the EU-Azerbaijan economic relations and the implementation of the "ENP Action Plan – Azerbaijan".²⁵ The decree also envisaged the establishment of a working group for cooperation in the areas of economy, politics, transport, energy, rule of law, humanitarian issues, security, human rights and democratisation.²⁶ As of February 4, 2008, the Delegation of the European Union has been operating in the Republic of Azerbaijan. In 2003, the EU appointed its Special Representative for South Caucasus.²⁷ These steps enabled the institutionalisation of the EU-Azerbaijan relations.

In 2004, Azerbaijan joined the EU's European Neighbourhood Policy (ENP), and since then it has become a key tool for the EU for upgrading its mutual relations with Azerbaijan. The ENP was a very important step in terms of determination of the EU's borders and the programme envisioned a new phase for political and economic integration with the EU.²⁸ The central element of the ENP is the "Action Plan", which demonstrates the short and long-term cooperation priorities mutually agreed between the EU and the partner country.²⁹ "The European Union – Azerbaijan Action

²³ See all about TRACECA in the official website of TRACECA, <http://www.traceca-org.org/en/traceca/>.

²⁴ Ahmadov, 222.

²⁵ Mammadov, 288.

²⁶ Gasanov, 655.

²⁷ Ahmadov, 227.

²⁸ Ahmadov, 233.

²⁹ European External Action Service, "EU-Azerbaijan ENP Action Plan", http://eeas.europa.eu/enp/pdf/pdf/action_plans/azerbaijan_enp_ap_final_en.pdf.

Plan” was adopted on November 14, 2006 during the meeting of the EU-Azerbaijan Cooperation Council in Brussels.³⁰ The Action Plan determined 10 priority areas for cooperation: the peaceful resolution of the Nagorno-Karabakh conflict; the consolidation of democracy and the rule of law; strengthening the support for human rights and fundamental freedoms; improvement of the business/investment climate and customs services; support for sustainable economic development; improvement of the economic legislation and administrative practices; deepening of energy and transport cooperation between the EU and Azerbaijan; strengthening of cooperation in the justice, freedom, security areas and cross-border cooperation.³¹

On November 7, 2006, President Ilham Aliyev and the European Commission’s former President, Jose Manuel Barroso, signed the “EU-Azerbaijan Memorandum of Understanding on a Strategic Partnership on Energy Sector.” The memorandum was a legal foundation of energy relations between the EU and Azerbaijan and was of high significance in terms of regional security, deepening the energy dialogue with Azerbaijan.³² Since energy is a major dimension of the EU-Azerbaijan relations, the MoU represented a crucial step in strengthening the EU’s energy relations with Azerbaijan and for the security of energy supply to the EU, while also helping the country to reform and modernise its domestic energy sector. There are four basic priorities of the Memorandum: the approximation of Azerbaijan’s legislation with the EU’s legislation on the power and gas markets; increasing the security of energy supply and transit systems to EU from the Caspian basin and more specifically from Azerbaijan; the development of the comprehensive energy system; technical cooperation and exchange of experience.³³

³⁰ Ahmadov, 240.

³¹ Mammadov, 212.

³² Ahmadov, 245.

³³ European Commission, “President Barroso and the President of Azerbaijan Sign a Memorandum of Understanding On Energy Partnership”, http://europa.eu/rapid/press-release_IP-06-1516_en.htm.

On May 7, 2009, the Eastern Partnership (EaP) was officially launched in the Prague Summit. The EaP programme included Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. The EaP envisaged the enlargement of cooperation at bilateral and multilateral levels between the EU and EaP countries.³⁴ The EaP was qualitatively different from the PCA, because the EaP envisaged free trade deals and political association. The EaP did not provide a perspective for EU membership, but the free trade deal is considered to be a cornerstone on the path towards deeper economic integration with the EU, while political association implies partnership and alliance on foreign policy matters. Thus, the EU planned the signing of the Association Agreements, the creation of the Deep and Comprehensive Free Trade Areas and gradual liberalisation of the visa regime, deepening the energy cooperation, in order to create closer relations at bilateral level, instead of continuing the relations within the PCA.³⁵

Thus far, Azerbaijan has participated in the culture, education, environment etc. oriented programmes of the EU (Twinning, Technical Assistance and Exchange of Information (TAIEX), Budget support, Tempus, Erasmus Mundus).³⁶ As of January 1, 2007, the European Neighbourhood and Partnership Instrument (ENPI) replaced the TACIS programme. The ENPI is a key financial instrument with a broader mandate and scope to implement the ENP Action Plans. The ENPI has three strategic aims: the promotion of democracy and human rights, the facilitation of access into market economy; the promotion of sustainable growth and the development of cooperation in the mutual interest areas.³⁷

³⁴ Ahmadov, 249.

³⁵ European External Action Service, "European Union – Azerbaijan Eastern Partnership Programme", http://eeas.europa.eu/delegations/azerbaijan/eu_azerbaijan/political_relations/eastern_partnership/index_az.htm.

³⁶ European External Action Service, "The Agreements between the European Union and Azerbaijan", http://eeas.europa.eu/delegations/azerbaijan/eu_azerbaijan/political_relations/agreements/index_az.htm.

³⁷ European Commission, DG International Cooperation and Development, "European Neighbourhood and Partnership Instrument (ENPI)", http://ec.europa.eu/europeaid/funding/european-neighbourhood-and-partnership-instrument-enpi_en.

In 2011, Azerbaijan and the EU signed the Memorandum of Understanding on “Comprehensive Institutional Building”, which envisaged the training and capacity building for civil servants on the economic integration of Azerbaijan, support for foreign trade, justice, security, rule of law and reforms for state building.³⁸ In October 2015, the Ministry of Internal Affairs of the Republic of Azerbaijan officially joined the European Union’s “Eastern Partnership Police Programme”. The Police Programme aimed to contribute towards consolidation of cooperation on police-related issues, concerning the cross-border crimes between the EU and EaP countries, as well as between the EaP countries themselves and strengthening the rule of law in these countries.³⁹ Azerbaijan also participates in the “Eastern Partnership Territorial Cooperation” programme, which is designed for capacity building and communication in the EaP countries. Within the framework of this programme, Azerbaijan cooperates with Georgia on strengthening the relations between the local municipalities, the local population and NGOs in order to implement the development and territorial cooperation programmes in the cross-border areas.⁴⁰

The other projects implemented in Azerbaijan are as follows: “Strengthening the Institutional and Administrative Capacity of the Chamber of Accounts of the Republic of Azerbaijan” (2015); “Support to the Civil Service Commission in further reforms of the civil service system in Azerbaijan” (2015); “Support to the State Social Protection Fund in reforming the pension system in Azerbaijan” (2015); “Strengthening capacities in the cultural sector” (2010); “EIDHR – Enhancing respect for human rights and fundamental freedoms in countries and regions where they are

³⁸ Ministry of Economy of Azerbaijan, “The Legal Framework of Relations of the Azerbaijan with the European Union”, http://economy.gov.az/index.php?option=com_content&view=article&id=1038&Itemid=183&lang=en.

³⁹ ENP Info Centre, “Eastern Partnership Police Cooperation Programme”, http://www.enpi-info.eu/maineast.php?id=554&id_type=10.

⁴⁰ Official Website of Eastern Partnership Territorial Cooperation, “Eastern Partnership Territorial Cooperation”, <http://www.eaptc.eu/en/eaptc-program.html>.

most at risk” (2010); “Capacity Building for Citizens’ Participation and Increasing Accountability of Elected Bodies”; and, “Capacity Development for Enhancing Enforcement of Copyright and Related Rights in the Republic of Azerbaijan”.⁴¹ In the framework of the ENP, Azerbaijan received the technical-financial assistance of the EU to conduct numerous economic, political and judicial reforms. The economic and political cooperation between the EU and Azerbaijan in the framework of ENP enabled Azerbaijan to access the EU’s domestic market, the free movement of human resources, goods and services, to combat illegal immigration, drug trafficking, organised crime, the stimulation of investments etc.⁴²

In 2011, on January 13, the signing of the “Joint Declaration on the Southern Gas Corridor” between the former President of the European Commission, Jose Manuel Barroso, and the President of the Republic of Azerbaijan, Ilham Aliyev, demonstrated the sustainability of the SGC concept and the determination of bilateral energy cooperation, according to which Azerbaijan committed to supplying substantial volumes of natural gas to the European Union market.⁴³ The transportation of Caspian’s oil and gas resources to Europe and the construction of the relevant infrastructure in this regard, leading to the smooth implementation of the SGC, are of high importance in terms of provision of EU’s energy security. From another angle, exploration of the new gas fields and increasing gas production in Azerbaijan makes the SGC more attractive for the EU.⁴⁴

On November 29, 2013, the EU and Azerbaijan signed the “Visa Facilitation Agreement”. The Agreement enables easy access to visas for Azerbaijani citizens, as well as a visa-fee waiver for certain

⁴¹ European External Action Service, “Projects and Grants”, http://eeas.europa.eu/delegations/azerbaijan/projects/list_of_projects/projects_az

⁴² Mammadov, 287.

⁴³ European Geopolitical Forum, “Joint Declaration on the Southern Gas Corridor”, <http://gpf-europe.com/upload/iblock/bb6/20500c15d01.pdf>.

⁴⁴ Ahmadov, 256.

categories of visa applicants.⁴⁵ On December 6, 2013, Azerbaijan and the European Commission, as well as eight Member States (Bulgaria, Czech Republic, France, Lithuania, The Netherlands, Poland, Slovenia and Slovakia), signed the joint “Mobility Partnership” agreement. The Mobility Partnership Agreement envisaged strengthening cooperation in the area of combating illegal immigration, smuggling and human trafficking.⁴⁶ On February 28, 2014, the EU and Azerbaijan signed the “Readmission Agreement”, which envisages the readmission of illegal immigrants living in the territories of both sides.⁴⁷

Since establishment of the ENP in 2004, a number of geopolitical, radical and dynamic changes have occurred in the near neighbourhood of the EU. This made it necessary to present “the ENP-review 2015”. The ENP-review is a flexible document in terms of taking into consideration the different interests, capabilities, demands and ambitions of the partner countries and the geopolitical changes in the region. The ENP-review puts the “one size fits all” approach to one side and takes into consideration the foreign policy priorities of the partner countries, by applying the “differentiation” approach,⁴⁸ as the aforementioned “one size fits all” approach of the EU did not work in the case of Azerbaijan in the framework of the EaP. Therefore, before the Riga Summit in May 2015, Azerbaijan submitted its proposal to the European

⁴⁵ Delegation of the EU to Azerbaijan, “The Visa Facilitation Agreement between the European Union and Azerbaijan Entered into Force”, http://eeas.europa.eu/delegations/azerbaijan/press_corner/all_news/news/2014/20140901visa_facilitation_az.htm.

⁴⁶ Apa.az, “Mobility Partnership Agreement Have Been Signed between Azerbaijan and the European Union”, December 6, 2013, <http://az.apa.az/news/323626>.

⁴⁷ “Readmission Agreement with the European Union Came into Force”, Delegation of the EU to Azerbaijan, http://eeas.europa.eu/delegations/azerbaijan/press_corner/all_news/news/2014/20140901visa_facilitation_az.htm.

⁴⁸ European Commission, “Review of the European Neighbourhood Policy – Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions”, Brussels, November 18, 2015, http://eeas.europa.eu/enp/documents/2015/151118_joint-communication_review-of-the-enp_en.pdf.

Commission for a new agreement – the Strategic Partnership Agreement (SPA). The SPA is supposed to be a comprehensive agreement covering the range of cooperation areas and is a practical example of the EU's "differentiation" approach in terms of including Azerbaijan's own interests vis-à-vis the EU. The negotiations on the SPA are ongoing. During the visit to Baku on 29th February 2016, the EU High Representative, Federica Mogherini, highlighted the strategic importance of the SPA.

On September 9, 2015, the European Parliament adopted a critical resolution regarding the human rights in Azerbaijan, which consequently led to a deterioration in EU-Azerbaijan relations.⁴⁹ On September 14, 2015, Azerbaijan's Parliament (Milli Majlis) suspended Azerbaijan's participation in "Euronest" Parliamentary Assembly.⁵⁰ Meanwhile, the name of the State Commission on the European Integration of the Republic of Azerbaijan was changed to "the State Commission on Cooperation between the European Union and the Republic of Azerbaijan" on November 19, 2015.⁵¹ Although the provision of the democracy, human rights and fundamental freedoms constitutes one of the main vectors of Azerbaijan's foreign policy, the Baku opposes the idea of using those values as an instrument of political pressure under the "protection of democracy" banner and considers the interference into the sovereign rights of the state unacceptable.⁵² While the EU was concerned over "the human rights problems" in Azerbaijan, the former failed to step up to the rights of thousands of internally

⁴⁹ European Parliament, "European Parliament Resolution on Azerbaijan – 2015/2840(RSP)", September 9, 2015, <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2F%2FEP%2F%2FNONGML+MOTION+P8-RC-2015-0856+0+DOC+PDF+V0%2F%2FEN>.

⁵⁰ Azərbaycan Respublikası Milli Məclisi, "Avropa Parlamentinin 2015-ci il 10 sentyabr tarixli qətnaməsi ilə əlaqədar Azərbaycan Respublikası Milli Məclisinin Qərarı", September 14, 2015, <http://www.meclis.gov.az/?/az/news/view/3002/>.

⁵¹ Apa.az, "The Name of State Commission on European Integration of Azerbaijan Has Been Changed", November 19, 2015, <http://az.apa.az/news/405298>.

⁵² Novruz Məmmədov, "Heydər Əliyevin xarici siyasət konsepsiyası uğurlu bəhrələrini verir", *"Azərbaycan" qəzeti*, 14 aprel 2011, № 78, səh.4.

displaced persons, who had been forced to leave their homeland during the Nagorno-Karabakh war (around 700,000 people from the occupied territories, including the Nagorno-Karabakh region).

The level of Europeanisation

The term “*Europeanisation*” in Azerbaijan is usually understood as the normative transformation of the country in accordance with the EU’s legislative and technical standards. In the case of Azerbaijan, Europeanisation is mostly used in reference to structural modernisation within the government, as well as cultural and educational integration into a well-functioning education system based on EU standards. Despite its classical nature, which implies transition to a more liberal political regime, and the limited government participation in the economy etc., the Europeanisation in Azerbaijan at political level implies eradication of the Soviet legacy (ill-functioning management, structural problems) and embarking on a comprehensive reform policy, covering a wide range of areas from structural changes to free movement of goods, services and people. “Europeanisation” represents one of the dimensions of Azerbaijan’s transition from “Sovietisation” to an independent state-building process since its independence.

Ultimately, Europeanisation is seen as a promise of positive structural change in the economy leading to the well-being of the population; improvement of the competitiveness of the economy, bringing social stability and justice by strict application of rule of law etc. However, the well-functioning of those legislative and structural changes within the country requires an effective implementation of reforms by well-governed and transparent institutions and law enforcement bodies. Moreover, it is necessary

to provide the public access and active civil society attendance in the implementation process for the societal dimension of those reforms.

The larger part of civil society in Azerbaijan is quite active in discussing issues concerning “modernisation, structural changes, and fundamental values, welfare of the country, justice, freedom and democracy” both in social media networks and media outlets. They favour the country’s comprehensive modernisation with a particular focus on public governance in accordance with EU standards. In addition, think-tanks, research institutions and civil society organisations are active both in examining the country’s foreign policy discourse and engaging in a range of academic and social activities in this direction. In this regard, Europeanisation enjoys absolute support if it is about modernisation of the business environment, society, education and the governance system in general.

The long-term presence of the European energy companies and European investors in Azerbaijan constitutes an external dimension of Azerbaijan’s internal Europeanisation. By virtue of cooperation with the European energy companies and the tremendous investment in energy fields since the early years of independence, the “Europeanisation” factor became more obvious in both Azerbaijan’s economic and foreign policies. The “Contract of the Century” for construction of the Baku-Tbilisi-Ceyhan oil pipeline and the Baku-Tbilisi-Erzurum gas pipeline, were the initial patterns of Azerbaijan’s European integration policy. This trend was followed by the negotiations and implementation of the Southern Gas Corridor (including TANAP, TAP, SCP), which envisages the transportation of Caspian gas to Europe.

Another example of an external dimension of Azerbaijan’s Europeanisation is the trilateral cooperation between Azerbaijan, Georgia and Turkey. Turkey is a candidate country for EU

membership, as well as a prominent and active NATO Member State in the southern side. Georgia is an associative partner of the EU and the highest country in the front-running for NATO membership. The trilateral cooperation among the three countries through military cooperation (military drills, exchange programmes), the energy project (Southern Gas Corridor, BTC pipeline), transport (Baku-Tbilisi-Kars railway) and economic areas (investment, trade, transit) consolidate Azerbaijan's path throughout the Euro-Atlantic direction.

Furthermore, Azerbaijani diaspora and Azerbaijani-friendly organisations in Europe are also making a remarkable contribution to Azerbaijan's "Europeanisation" profile, even though the Azerbaijani diaspora are strictly attached to the government and are pursuing a parallel course in accordance with Azerbaijan's foreign policy agenda.

In order to avoid the possible negative consequences of Europeanisation, it is necessary to formulate a "comprehensive strategy" for Europeanisation, where a combination of external and domestic factors should be harmonised with the organisation of a wide network of both government entities and local agents. However, the dialogue between the government and local agents falls short of expectation, as political parties have focused their attention on changes in the political system, rather than on democratisation and transformational processes, that renders the dialogue between the parties less attractive and redundant. Moreover, as the actions of the local non-state actors (NGOs and foreign projects) vis-à-vis government are in controversy, the influence of the local, non-state agents remains limited.

Despite this, there are still a number of non-governmental organisations sympathising with European integration. The EU is the main donor supporting the civil society in Azerbaijan. Between 2007-2013, more than 60 projects have been realised

through the EU's financial support (worth around EUR 7.6 million), coming from the Non-State Actors and European Instrument for Democracy and Human Rights instruments.⁵³ Moreover, in the early 1990s following the Nagorno-Karabakh war, the EU provided financial assistance in the form of food and shelter for Azerbaijan's internally displaced persons.

On the other hand, due to the EU's normative criticism, Azerbaijan was placed in an uneasy position, as it was deemed as interference into the domestic affairs of Baku. Nonetheless, instead of isolating Azerbaijan by strict regulations, the EU should continue to work closely with the Azerbaijani government for the modernisation and transformation of Azerbaijan in accordance with the EU standards, in the areas of good governance, elections, rule of law and the diversification of the country's economy.⁵⁴

The traditional wisdom was that the rich energy resources and oil/gas revenues of Azerbaijan endowed the government with political immunity vis-à-vis the radical "Europeanisation". However, the falling oil prices and decreasing budget revenues created a positive environment for more reforms in the country. Thus, Azerbaijan's President, Ilham Aliyev, signed numerous decrees on comprehensive reforms for the agriculture sector, food security, employment, diversification of the national economy, insurance, banking sector, customs' systems and customs' tariffs, maritime trade, air transportation, state procurement, creation of a stable environment for business, development of the non-oil sector⁵⁵ and on the creation of Special Economic Zones in the Alyat settlement

⁵³ Delegation of the EU to the Republic of Azerbaijan, "Support to Civil Society", http://eeas.europa.eu/delegations/azerbaijan/projects/overview/index_en.htm.

⁵⁴ Ilgar Gurbanov, "Azerbaijan's Strategic Importance for Europe and the Parliamentary Elections", *New Europe*, November 9, 2015, <https://neurope.eu/article/azerbaijans-strategic-importance-for-europe-and-the-parliamentary-elections/>.

⁵⁵ See the "Orders" pages of the official website of the President of the Republic of Azerbaijan, Orders, <http://president.az/documents/orders>.

of the Garadagh district, including Baku international sea trade port.⁵⁶ The structural changes within power and law enforcement structures included, among other issues: the dismissal of those who allegedly were involved in corruption and other racketeering matters; the facilitation of granting entrepreneurship licenses by transferring this from the Ministry of Economic Development to the “ASAN Service” State Agency, the most transparent public entity; and the simplification of the customs’ inspections.⁵⁷

Last, but by no means less important, the pardoning of 148 prisoners, (as part of annual amnesty) by the Decree signed by President Ilham Aliyev⁵⁸ in late March 2016, was a noteworthy and positive step for further development and normalisation of relations with the EU, following the critical resolution of the European Parliament against Azerbaijan in September 2015. The discussion between the EU and Azerbaijan on the political dimension of the relations regarding the human rights issues is still ongoing.

Alternative to Europeanisation

All EU programmes in which Azerbaijan participates, contradict the perspective of the Russian-led Eurasian Union in the South Caucasus region, which Russia considers its traditional area of influence. Russia’s demonstrative “jealous stance” towards the EU’s ENP and EaP programmes, including TRACECA, INOGATE and Southern Gas Corridor, is understandable. Therefore, Azerbaijan’s compliance with the EaP is problematic – not only because of

⁵⁶ “Special Economic Zone Crated in Azerbaijan”, *Caspian Energy News*, March 17, 2016, <http://caspienergy.net/en/ekonomika-2/32508-special-economic-zone-crated-in-azerbaijan>.

⁵⁷ Gurbanov.

⁵⁸ BBC News, “Azerbaijan Leader Pardons 148 Prisoners, Including Activists”, March 17, 2016, <http://www.bbc.com/news/world-europe-35835086>.

domestic challenges, but also because it has the potential to put the country into conflict with Russia.

Instead of pursuing a radical pro-Western foreign policy or ranging its foreign policy between the two poles – the West and Russia, Azerbaijan chose a “multi-vector” and “trilateral” foreign policy approach. This has helped Azerbaijan to share the burden of security and mitigate the threats. Pursuing a more pro-Russia foreign policy would cost Baku to lose its strong ties with the EU and lead to the repetition of the “Armenian case” – this is something that Baku is well aware of. Although Russia is not considered an alternative to “Europeanisation”, it is perceived by Baku as a more pragmatic partner. For example, Moscow did not impose any conditionality on its relations with Baku, nor require any compliance with fundamental values. Recently, as attested by the Azerbaijan’s Ministry of Foreign Affairs,⁵⁹ the frequency of mutual visits by both Azerbaijani and Russian officials to Russia and Azerbaijan respectively has substantially increased, thus proving the intensity of Azerbaijan-Russia relations.

The history of Russia-Azerbaijan relations dates back to over two centuries encompassing the period when Azerbaijan was under the Russian Empire, the Soviet Union and following its independence. The diplomatic relations were launched in April 1992, and were followed by signing a free-trade agreement in September of the same year. In 2006, Russia opened its trade representation in Baku and signed numerous cooperation agreements in different (economic, political, security etc.) areas. The main export commodities of Russia to Azerbaijan include chemicals, food, metals, paper products, wood and engineering products, as well as defence-related items worth up to USD 1 billion. In addition, there are a large number of Azerbaijanis living

⁵⁹ Ministry of Foreign Affairs of Azerbaijan, “The Relations between the Republic of Azerbaijan and Russian Federation”, <http://mfa.gov.az/files/file/Azerbaijan-%20Russia.pdf>.

and working in Russia, and sending allowances to their families back in Azerbaijan.⁶⁰ According to DG Trade's figures (see Table 1), Azerbaijan's import and export to Russia stands at 19.9 percent and 2.8 percent respectively and trade turnover between two the countries in 2015 was accounted at USD 2.99 billion. Although the EU is Azerbaijan's main trade partner (mostly due to energy export), Russia is the number one partner for Azerbaijan in the non-oil sector.⁶¹

Since independence, Russian-Azerbaijani relations have mostly focused on oil and gas transportation. The inauguration of both BTC and BTE pipelines presented a serious setback for Russia, since both pipelines bypassed its territories in terms of oil/gas export and connected Azerbaijan to Europe through Georgia and Turkey. Azerbaijan gained massive revenues from oil and gas exports, that made the country politically independent from all actors interested in the South Caucasus region (Russia, the EU, NATO, the U.S). Moscow, however, is still seeking leverage and an influence over Baku (through being a key mediator for the Nagorno-Karabakh conflict; opposing the delivery of Turkmen gas through SGC; strengthening the military cooperation; inviting Baku to join Russian-led integration blocks).⁶² However, Baku opted to join the Non-Alignment movement and hitherto has shown no interest to join either the Collective Security Treaty Organisation of 1992, or the Eurasian Economic Union of 2015. According to data of the Eurasian Development Bank's Integration Barometer of 2013, among the post-Soviet countries, Azerbaijan's population

⁶⁰ Rovshan Ibrahimov, "Russia's Borders: Azerbaijan Benefits from not Offending its More Powerful Neighbour", *The Conversation*, December 2014, <https://theconversation.com/russias-borders-azerbaijan-benefits-from-not-offending-its-more-powerful-neighbour-35221>.

⁶¹ "Ambassador: Economic Ties of Azerbaijan and Russia Were Able to Resist Changes in World Economy", *Report News Agency*, November 25, 2015, <http://report.az/en/foreign-politics/ambassador-economic-relations-between-azerbaijan-and-russia-were-able-to-resist-changes-in-world-ec/>.

⁶² Federico Salvati, "Russia and Azerbaijan: A Complicated Relationship", *Geopolitica.info*, March 15, 2015, <http://www.geopolitica.info/russia-and-azerbaijan/>.

demonstrated a record level of a negative stance towards joining the Customs Unions and the Single Economic Space, with 53 percent disagreeing with accession and only 37 percent welcoming the accession (while 6 percent were indifferent). The population of Azerbaijan is economically more inclined towards the developed countries of Europe and the United States, according to the EDB barometer,⁶³ whereas, Baku did not rule out improving the economic ties with Russia. Despite the close relationship between Russia and Azerbaijan, Baku preferred to stick to bilateral agreements only, without joining the Russia-led Eurasian Union and without prejudicing its full sovereignty.

Meanwhile, Azerbaijan has not signed the Association Agreement with the EU in the framework of the EaP, instead, Azerbaijan has agreed on the Visa Facilitation Agreement. Baku is currently holding talks on a new "Strategic Partnership Agreement" and successfully implementing the Southern Gas Corridor initiative. This approach is seen by Azerbaijan as more realistic, as neither the ENP nor the EaP and the Association Agreement promise a perspective of EU membership or a security guarantee.⁶⁴ Furthermore, the signature of the Association Agreement was not economically appealing for Baku, since Azerbaijan is not a member of the World Trade Organisation and would not have a decisive voice within the EU's Customs Union (whereas, it could have if it joined the Russia-led Customs Union). Being an associative partner would not diminish the overrunning share of oil and gas resources in Azerbaijan's export to Europe in the short or mid-term. Thus, without joining any economic bloc, Azerbaijan can conduct its trade (either in oil or non-oil sector) easily. According to Farhad Mammadov, a director of the Centre for Strategic Studies under the President

⁶³ Centre for Integration Studies, "EDB Integration Barometer 2013" (Saint Petersburg, 2013), http://eabr.org/general/upload/CII%20-%20izdania/Integracionnii%20%20barometr%20-%2009-2012/Интеграционный%20барометр%202013/EDB%20Centre_Report%2016_Analytical%20resume_Eng.pdf.

⁶⁴ Ibrahimov.

of Azerbaijan, "Accession to any customs space is examined in Azerbaijan through three prisms: political independence, economic viability and the Nagorno-Karabakh conflict".⁶⁵

Moreover, due to its Soviet past, Azerbaijan is currently home to a large Russian community and Russian-speaking people. The Russian language has long been a *lingua franca* in Azerbaijan, widely used in a number of areas of the daily lives of intelligentsia and even among ordinary civilians. According to data from 2012, there were 330 schools and over 20 higher education institutions in Azerbaijan using Russian as the language of instruction. However, the number of people studying in Russian has decreased from 250,000 to 94,000 students since 1990, as the new generation born after 1991 opts to use English, or other languages. The English language became a leading language bypassing the Russian language in terms of popularity, but not its speaking-intensity. The Russian language is still considered a key factor for academic and cultural development of Azerbaijan during the Soviet era and the majority of scientific literature in Azerbaijan, (in the Universities, libraries, bookshops) remain in Russian.⁶⁶

Russia remains the top arms supplier to Azerbaijan, with billions of dollars spent on military hardware, including offensive and defensive weapons.⁶⁷ Moreover, in October 2014 and December 2015, the defence ministers of both Azerbaijan and Russia signed a new agreement – on joint military exercises, training of military personnel, military-technical issues and purchase of more modern

⁶⁵ 1news.az, "Фархад Мамедов: «Сотрудничество между Азербайджаном, Грузией и Турцией – путь в будущее»», March 30, 2015, <http://www.1news.az/authors/oped/20150330121744843.html>.

⁶⁶ Rusif Huseynov, "The Russian Language in Azerbaijan: An Outdated Relic?", *New Eastern Europe*, March 31, 2016, <http://neweasterneurope.eu/articles-and-commentary/1937-the-russian-language-in-azerbaijan-an-outdated-relic>.

⁶⁷ Aleksandr Kharmchikhin, "Armiya odnoy voyni", *Voenniy Promishlenniy Kuryer*, March 16, 2016, <http://vpk-news.ru/articles/29699>.

military weapons and equipment from Russia.⁶⁸ Whereas despite Armenia, which hosts Russian military based in its territories, Azerbaijan stands committed to its Military Doctrine, as Article 29 excludes the deployment of foreign military bases on its territory.⁶⁹ The closure of the Gabala Radar Station of Azerbaijan in 2012, which was leased by Russia, saw the termination of Russia's last military leverage over Azerbaijan. Moreover, Azerbaijan is seeking to balance Russia's arms supply by diversifying its arms imports through other countries, to prevent dependence on a single supplier, as voiced by Azerbaijan's President, Ilham Aliyev.⁷⁰

The trilateral economic dialogue of Russia-Azerbaijan-Iran is noteworthy⁷¹ in terms of the trilateral foreign policy of Azerbaijan. The trilateral meeting of Azerbaijani, Iranian and Russian foreign ministers in Baku on April 7, 2016, where parties discussed the development of the North-South Railroad project (to connect Russia, Azerbaijan and Iran), marked an alternative way of Russia's political and economic engagement in Azerbaijan.⁷² The trilateral engagement of Azerbaijan is also conducted under the format of "Azerbaijan-Georgia-Turkey", "Azerbaijan-Turkey-Turkmenistan" and "Azerbaijan-Iran-Turkey".

⁶⁸ Trend, "Azerbaijan, Russia Sign Military Cooperation Plan for 2016", December 23, 2015, <http://en.trend.az/azerbaijan/politics/2473239.html>; Trend, "Azerbaijan plans to purchase modern military weapons from Russia", October 13, 2014, <http://en.trend.az/azerbaijan/politics/2321389.html>.

⁶⁹ The decision of the Parliament of the Republic of Azerbaijan "On the approval of Military Doctrine of the Republic of Azerbaijan", Baku, June 8, 2010, N° 1029-IIIQR, http://www.mod.gov.az/qanun/qanunvericilik/Herbi_doktrina.pdf.

⁷⁰ Sputnik, "Azerbaijan to Get New Weapons, Military Equipment Supplies", June 26, 2016, <http://sputniknews.com/military/20160626/1041962060/azerbaijan-new-weapons.html>.

⁷¹ Aynur Karimova, "Trilateral cooperation of Iran, Russia, Baku to open up region's economic capacity", *Azernews*, April 8, 2016, <http://www.azernews.az/business/94906.html>.

⁷² Ministry of Foreign Affairs of Azerbaijan, "Press Release of the Trilateral Meeting of the Ministers of Foreign Affairs of the Republic of Azerbaijan, the Islamic Republic of Iran and the Russian Federation", April 7, 2016, <http://www.mfa.gov.az/en/news/909/4007>.

Last, but no less important, Baku is frustrated by the EU's passive role on the Nagorno-Karabakh conflict, which gives the EU minimum political weight. Although previously the EU demonstrated a clearer stance on the territorial integrity of Azerbaijan and four resolutions of the UN Security Council concerning the removal of Armenian military control of Azerbaijan's sovereign territories, the position of the EU has been weakened. The EU articulated in both resolutions dated April 18, 2012, on "the negotiations of the EU-Azerbaijan Association Agreement"⁷³ and on – "the negotiations of the EU-Armenia Association Agreement"⁷⁴ – the need for "*withdrawal of Armenian forces from occupied territories surrounding Nagorno-Karabakh, and their return to Azerbaijani control [and] the right of all internally-displaced persons and refugees to return to their home settlements and properties*". Moreover, the European Parliament resolution of October 23, 2013, on "the European Neighbourhood Policy: towards a strengthening of the partnership" has openly noted that "*the occupation by one country of the Eastern Partnership of the territory of another violates the fundamental principles of the Eastern Partnership and that the resolution of the Nagorno-Karabakh conflict should comply with UN Security Council resolutions (822, 853, 874, 884)...*".⁷⁵

⁷³ "European Parliament Resolution of 18 April 2012 Containing the European Parliament's Recommendations to the Council, the Commission and the European External Action Service on the Negotiations of the EU-Azerbaijan Association Agreement (2011/2316(INI))", April 18, 2012, Strasbourg, <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2f%2fEP%2f%2fTEXT%2bTA%2bP7-TA-2012-0127%2b0%2bDOC%2bXML%2bV0%2f%2fEN&language=EN>.

⁷⁴ "European Parliament Resolution of 18 April 2012 Containing the European Parliament's Recommendations to the Council, the Commission and the European External Action Service on the Negotiations of the EU-Armenia Association Agreement (2011/2315(INI))", April 18, 2012, Strasbourg, <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2f%2fEP%2f%2fTEXT%2bTA%2bP7-TA-2012-0128%2b0%2bDOC%2bXML%2bV0%2f%2fEN&language=EN>.

⁷⁵ "European Parliament Resolution of 23 October 2013 on the European Neighbourhood Policy: Towards a Strengthening of the Partnership. Position of the European Parliament on the 2012 Reports (2013/2621(RSP))", October 23, 2013, Strasbourg, <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2013-0446+0+DOC+XML+V0//EN>.

Although the territorial integrity of Azerbaijan is supported along with the UN SC resolutions, in the “ENP – Action Plan Azerbaijan”⁷⁶, the “Action Plan” for Armenia emphasises the “right for self-determination of people”⁷⁷. Moreover, the territorial conflicts of Ukraine and Georgia were separately delivered in the final declaration of the last Eastern Partnership Summit in Riga, in 2015, while in the case of Azerbaijan, “the Nagorno-Karabakh conflict” has been highlighted through traditional diplomatic statements.⁷⁸ Azerbaijan’s additional disappointment is that the EU issued numerous political statements and imposed sanctions over Russia because of its actions in Ukraine, whereas Armenia was not subjected to any sanctions, nor faced EU’s hard line or political pressures for its occupation of Azerbaijan’s internationally recognised territories (Nagorno-Karabakh region and its surrounding seven regions) although, Azerbaijan, unlike Armenia, supported the UN Security Resolution 68/262 on Ukraine’s territorial integrity.⁷⁹ Meanwhile, Azerbaijan opposed sanctions against the Russian delegation in PACE and preferred not to join anti-Russia sanctions imposed by the West, because this could affect Azerbaijan’s import and export to/from Russia.

While the so-called officials of Crimea, Donestk, Lugansk, Abkhazia and South Ossetia regions were banned from entering the EU, the so-called “President of the Nagorno-Karabakh Republic”, Bako Sahakyan, had no judicial limitations on visiting France (National

⁷⁶ European External Action Service, “EU-Azerbaijan Action Plan”, http://eeas.europa.eu/enp/pdf/pdf/action_plans/azerbaijan_enp_ap_final_en.pdf.

⁷⁷ European External Action Service, “EU-Armenia Action Plan”, http://eeas.europa.eu/enp/pdf/pdf/action_plans/armenia_enp_ap_final_en.pdf.

⁷⁸ European External Action Service, “Joint Declaration of the Eastern Partnership Summit (Riga, 21-22 May 2015)”, 2015, http://eeas.europa.eu/eastern/docs/riga-declaration-220515-final_en.pdf.

⁷⁹ Farhad Mammadov, “Azerbaijan’s Foreign Policy – A New Paradigm of Careful Pragmatism”, in *The South Caucasus – Between Integration and Fragmentation* (Centre for Strategic Studies and European Policy), 35, http://aei.pitt.edu/64200/1/pub_5598_the_south_caucasus_-_between_integration_and_fragmentation.pdf.

Assembly) and the UK (Chatham House).⁸⁰ The practical and political activity of the EU on Abkhazia, South Ossetia, Donestsk and Lugansk regions was not observed in the case of Nagorno-Karabakh.

Conclusions

Since gaining its independence, Azerbaijan's foreign policy is oscillating between security priorities and normative transformation. Following the dissolution of the USSR, newly-independent Azerbaijan opened a new dimension of its foreign policy in the direction of the West. The successful realisation of the Baku-Tbilisi-Ceyhan oil pipeline and Baku-Tbilisi-Erzurum gas pipeline, as well as the whole East-West energy corridor paved the way for the economic integration of Azerbaijan into Europe.

Along with energy cooperation, the Western integration is also expected to help Azerbaijan in its normative transformation from Soviet-style structures and economy to a well-governed and democratic country, with a competitive and transparent economy. In this regard, Azerbaijan joined the EU's European Neighbourhood Policy and Eastern Partnership programmes, which envisaged the creation of well-governed and transparent institutions, a dynamic civil society, diversified economy, close energy cooperation, political and economic reforms etc.

⁸⁰ Panorama, "Bako Sahakyan Visits French National Assembly", May 19, 2016, <http://www.panorama.am/en/news/2015/05/19/france-national-assembly/49571>, Report News Agency, "Elmar Mammadyarov: Bako Sahakyan Paid a Visit to the UK as a Special Guest with a Passport of Armenia", July 10, 2015, <http://report.az/en/foreign-politics/elmar-mammadyarov-bako-sahakyan-paid-a-visit-to-the-uk-as-a-special-guest-with-a-passport-of-armenia/>.

One of the priorities of Azerbaijan in its Euro-Atlantic orientation of foreign policy was to receive stronger support from the West (EU, NATO, US) for its Nagorno-Karabakh conflict with Armenia – a result of the 1988-1994 war over the separatist region of Azerbaijan (Nagorno-Karabakh), and subsequently the occupation of Nagorno-Karabakh, and seven adjacent regions by Armenia. However, Azerbaijan did not receive the expected support, except the vocal statement supporting its territorial integrity.

The August 2008 war between Georgia and Russia, and the Ukraine crisis, made Azerbaijan more pragmatic in terms of its Euro-Atlantic policy, as these two cases demonstrated the unwillingness of NATO or the EU to protect their partners and to provide a hard security guarantee. Azerbaijan tactically managed to balance the Russian influence both by developing Azerbaijan's energy ties with the EU, and building fruitful economic cooperation with Russia.

The standoff between Azerbaijan and West strengthened following the strict resolutions of the European Parliament in September 2015, concerning the political development in Azerbaijan. Since the EU prioritised the fundamental rights as a matter of conditionality, the Azerbaijani government decided to seek more pragmatic partners, which would not be as eager to impose their normative powers over Azerbaijan and demand any compliance with fundamental values, given that Azerbaijan was unwilling to fall under the political will of any global power.

Azerbaijan's further frustrations based on the lack of both political and military support from the West were compensated by the purchase of advanced weapons from Russia without any pre-conditions. However, Azerbaijan was also unable to receive the expected support from Russia on the Nagorno-Karabakh conflict, even though Moscow is a key mediator in the conflict. In addition to which, Russia is a key supplier of weapons and military hardware for Armenia.

Furthermore, by easing the visa regulations and trade regime for Azerbaijan's non-oil sector, the EU would encourage Azerbaijan's shift towards the former. Unfortunately, the easing of the trade regime with the EU from Azerbaijan side will be a challenging task, as it could lead to the abandonment of a free trade deal with Russia, which is Azerbaijan's major trade partner in the non-oil sector. For the time being, Azerbaijan's potential role as a transit route for trade between Europe and Asia, essentially through the implementation of the SGC, should provide a sufficient contribution to establishing strategic ties between the EU and Azerbaijan. However, it still remains to be seen whether these ties will lead to Azerbaijan's deeper cooperation with the EU on domestic and foreign policy themes.

To summarise, Azerbaijan acknowledges that, neither the pro-Western stance, nor the pro-Russian position is a rational foreign policy choice in terms of prejudicing its sovereignty and national security, given the current balance of powers in the region. Azerbaijan can benefit from its pragmatic relations with Russia by receiving both economic dividends and military armaments. However, Baku understands that "Europeanisation" is one of the driving forces for the economic and political modernisation of the country, as well as for the long-term prosperity of its people.

Azerbaijan has structured its foreign policy around "the careful pragmatism" principles. The historical (Russian Empire, Soviet Union), religious (Muslim), ethnic/language (Turkish) and geographical (between Europe and Asia) factors grant Azerbaijan a diverse type of political identities. This makes it necessary to formulate pragmatic relations with all actors in/around the region, (Russia, China, Middle East, Europe and Asia) rather than sticking to ideological patterns (pan-Turkism) or isolating itself through absolute polarisation by joining certain economic or military blocs. Thus, "Europeanisation" has turned out to be merely one of the pragmatic dimensions of Azerbaijan's foreign policy.

BELARUS: EUROPEANISATION THROUGH THE “BACK-DOOR”?”

Andrei Yelisseyeu

It is widely acknowledged that Belarus lags behind the other Eastern Partnership (EaP) countries, both in its links with the EU and in its approximation to EU standards. Belarus has never voiced European aspirations, opting instead for deeper integration with Russia. Minsk never expected to move towards the Association Agreement with the EU, as it does not even have a functioning Partnership and Cooperation Agreement (PCA). Now, being a member of the Eurasian Economic Union (EEU), Belarus can neither proceed towards conclusion of the Association Agreement and the DCFTA with the EU, nor advance trade relations with the EU through adoption of the EU’s legislation.

However, despite a lack of formal contractual relations with the EU and illiberal domestic policies, Belarus still exposes some potential for Europeanisation. Its geographical proximity, mediatory role in regional conflicts as well as a greater opening to external trade and harmonisation “through back-doors”, due to the EEU membership obligations, are the main factors pushing Belarus in the European direction, at least to some extent.

In this chapter, in assessing the EU’s changing nature of cooperation with Belarus, the author adopts the theoretical approach to the EU’s external governance, as proposed by Sandra Lavenex and

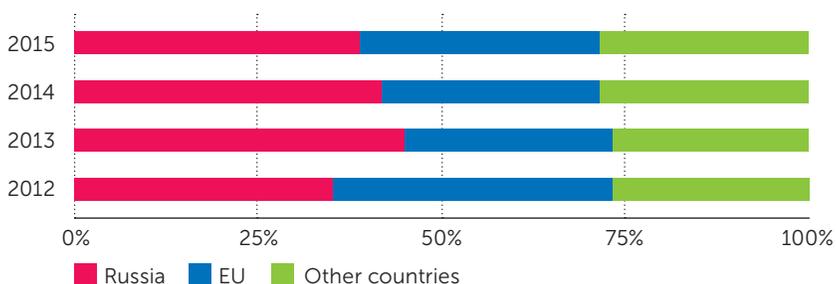
Frank Schimmelfennig.¹ According to this approach, the EU's external governance can take three different forms, depending on the partner country's standing *vis-à-vis* the EU and specific foreign policy aims of the EU. The three modes of external governance are: a hierarchical mode based on a formalised relationship of domination and subordination; a networking mode in which actors have equal rights and no party can bind the other party without the latter's consent; and a market-based mode based on competition between formally autonomous actors. The author argues that all three modes can be detected in EU's relations with Belarus, however, with very little impact on the actual level of Europeanisation in Belarus, which, to date, remains very low despite the country's close geographical proximity to the EU.

Economic ties with the EU: a brief assessment

The EU is the second main trade partner of Belarus. Between 2012-15, the share of Belarusian exports to the EU stood at 28–38 percent, while the share of imports ranged from 20 to 23 percent of total imports. Russia is Belarus most important trading partner and absorbs almost half of Belarus international trade. The bilateral trade in goods between EU-Belarus has been growing steadily over the past years, up until 2015, which was a year of economic recession in Belarus. (See Figure 1 and 2.)

¹ Sandra Lavenex and Frank Schimmelfennig, "EU Rules Beyond EU Borders: Theorizing External Governance in European Politics," *Journal of European Public Policy* Vol. 16, Iss. 6 (2009).

Figure 1. Distribution of volumes of Belarusian exports, 2012–15



Based on data from the National Statistical Committee of the Republic of Belarus.

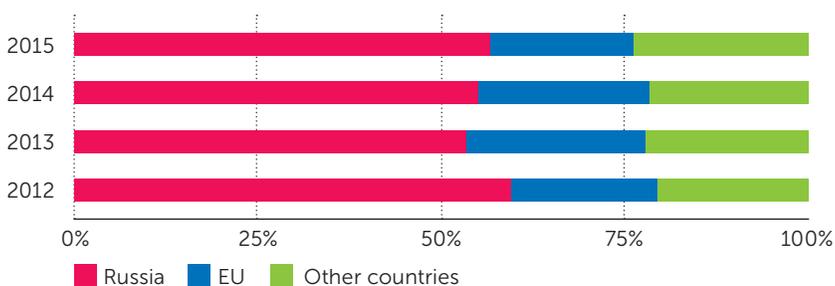
Mineral fuels, including crude oil, oil products, etc., account for the lion's share of Belarusian exports to the EU. Other product categories – such as chemicals, agricultural products, machinery and textiles – all form a much lower share. The share of mineral fuels in the total export from Belarus to the EU normally stands between 75 and 87 percent. Only about 5 percent of the Belarusian export in industrial products is sold to the EU. Five largest importers of Belarusian products, among the EU states, are the Netherlands, Great Britain, Italy, Latvia and Lithuania. Two Belarusian refineries, with an annual volume of oil-processing around 22 million tons, are the main source of income for the Belarusian state budget and is the most lucrative economic sector in Belarus.

Since 2012, Belarusian exports to Ukraine – previously its second largest export partner – decreased by almost double. Increasing difficulties with exports to the main trade partners have forced Belarus to look for new markets. In recent years, Belarus has stepped up its efforts to promote relationships with developing countries in Latin America, Africa, South and South-East Asia. However, achievements in the diversification of exports have been modest – despite an increased geographical export reach, product-wise Belarus remains a mono-exporting country. Thus,

Belarusian exports to Latin America, South and South-East Asia, and some African countries, are dominated by either potash or nitrogen fertilisers, whereas steel products are the dominating export category for a number of countries in the Middle East and North Africa. At the same time, the imports from the EU, unlike the exports, are strongly diversified. The EU exports to Belarus are mainly machinery, transport equipment and chemicals.

Belarus has been hit by recession in Russia and a fall in global energy prices. The macroeconomic crises of the past years have revealed deep structural constraints in Belarus state-centred economic policy model. Due to the weak domestic and foreign demand, the real production fell in 2015 for the first time in the preceding twenty years. The unfavourable external environment led to a sharp reduction in the total export of goods and services (by 24.1 percent year-on-year) and imports (by 25.4 percent). In 2015, Belarus GDP dropped by 3.9 percent. The country's GDP is expected to contract in 2016, with weak recovery only in 2017.²

Figure 2. Distribution of volumes of Belarusian imports, 2012–15



Based on the data from the National Statistical Committee of the Republic of Belarus.

² The World Bank, "World Bank Group – Belarus Partnership. Country Program Snapshot", 2, <http://pubdocs.worldbank.org/pubdocs/publicdoc/2016/4/61671460152921917/Belarus-Snapshot-eng.pdf>.

Officially, Russia accounts for about half of foreign direct investment, while the EU countries account for about the other half. The net inflow of foreign direct investment in 2013 was USD 2.136 billion (GDP in 2013 equalled USD 71.7 billion), of which USD 1.795 billion were reinvested. The main investment partners of Belarus are Russia, followed by Great Britain, the Netherlands, Cyprus, and Austria. The Russian share in the overall amount of the accumulated foreign investment is 33.1 percent. In turn, Belarusian companies – without taking into account public bodies and banks – invested in Russia 62.6 percent of their direct investment abroad.³ It should be noted that, as reported by the Eurasian Development Bank, much of the investment nominally coming from Cyprus and Great Britain, are in fact investments of Russian and other CIS countries.⁴ This effectively means that the actual share of Russian FDI is even higher. (See Table 1.)

Table 1. Foreign direct investment stocks in Belarus in 2012–15, USD million

	2012	2013	2014	2015
Overall FDI	14,329.8	14,974.3	15,084.4	11,344.2
Russia	6,691.0	7,281.2	6,274.7	4,896.0
Great Britain	3,617.8	3,202.1	2,809.0	2,339.3
Netherlands	407.9	741.1	1,962.1	1,220.2
Cyprus	923.4	1,059.5	930.9	806.7
Austria	576.0	501.9	526.1	353.4
Poland	128.2	179.8	157.7	194.8
Lithuania	173.0	178.5	233.5	168.9
Latvia	129.3	177.3	193.0	101.0
Switzerland	43.3	148.3	152.5	70.0
Estonia	68.8	84.7	94.0	65.2
Czech Republic	66.2	62.3	52.3	46.3
Italy	48.7	60.9	38.6	28.8

Based on data of the National Statistical Committee of the Republic of Belarus.

³ Alexander Mukha, "Foreign Investment Flows", *Nashe Mnenie*, June 27, 2014, <http://nmnby.eu/news/analytics/5524.html>.

⁴ Alexei Kuznetsov et al., *Monitoring of Mutual Investment in the CIS Countries*, Eurasian Development Bank Report (2012), 6-8.

Russia is the most popular destination country for Belarusian migrants, followed by Poland, the USA, Germany, Ukraine and the Baltic States. Lately Poland has become a more popular destination country for both temporary labour migrants and permanent immigrants from Belarus. About 75,000 "Cards of the Pole"⁵ have been issued for Belarusians to date.⁵

The Polish minority in Belarus forms the second largest ethnic minority in the country, after the Russian minority (295,000 people according to the 2009 census, or 3.1 percent of the total population). There is no significantly larger propensity to emigrate among the ethnic minorities, since they are comparatively well-integrated into society. However, liberalisation of access to the Polish labour market creates incentives for the Polish minority to undertake temporary or permanent emigration to Poland.

Experts calculate the overall number of Belarusian migrants in the EU to be around 150,000. At the same time, the number of Belarusian migrants in the Visegrad Four (V4) countries (with an absolute majority in Poland) was estimated at 70,000. However, the migration data of the receiving countries show that this calculation of the Belarusian migrant stock in the EU seems to be slightly exaggerated.⁶ In any case, there is consensus among the experts that most migrants of Belarusian origin (in excess of 80 percent) reside abroad and perform their economic activities legally.⁷

There is no clear link between emigration from Belarus and political and visa relationships between the EU and Belarus. Negotiations

⁵ The Card of the Pole, inter alia, authorises its holder to seek employment in Poland without a work permit, to carry out economic activity in Poland on the same basis as Polish citizens and, since May 2014, to obtain a permanent residence permit easily.

⁶ Andrei Yeliseyeu, "Migration between the EU, Visegrad Countries and Belarus: The Present Situation and the Possible Future" in *Forecasting Migration between the EU, V4 and Eastern Europe. Impact of Visa Abolition* (2014), 199-200.

⁷ Yeliseyeu, 200.

over the visa facilitation agreement only started in early 2014, and have not yet been concluded. The Belarusian authorities have also been delaying the launch of local border traffic agreements with Lithuania and Poland, which could significantly enhance the mobility of border residents. This is mostly explained by economic considerations. An increase in the purchases of consumer goods in the EU (primarily in Vilnius, Lithuania, and the Polish borderland), would further aggravate the negative balance of payments' problem for Belarus. Finally, a greater awareness among Belarusians of their western neighbours' living standards could enhance pro-European sentiments within society, which is a source of concern to the Belarusian authorities.⁸

At the same time, despite sluggish progress towards visa facilitation with the EU, Belarus has been doing comparatively well in practical terms of visa statistics. In 2015, Belarus occupied fifth place in the world for the total number of uniform Schengen visas received, after Russia, China, Ukraine and Turkey. Moreover, there are good reasons to believe that the existing visa regime between the EU and Belarus does not serve as an effective barrier to irregular migration. It is instead more of an obstacle for *bona fide* travellers – variations in the numbers of issued visas in Belarus during the last decade have not resulted in any significant changes in permanent or labour migration patterns of Belarusians in the EU *per se*. An increase in temporary labour migrants and permanent settlers in Poland over recent years was largely a result of the introduction of changes in Polish national legislation.⁹

⁸ Yeliseyeu, 207.

⁹ Yeliseyeu, 207-208.

Formal links with the EU

Contractual relations between Belarus and the EU are underdeveloped. Although trade between the EU and Belarus had been increasing for a number of years until 2015, the EU continuously suspends any moves towards a closer economic partnership with Belarus until political and civil conditions improve in the country. As a result, Belarus remains the only post-Soviet country with neither a functioning Partnership and Cooperation Agreement (PCA) nor a trade agreement with the EU. The ratification of the signed PCA was suspended by the EU Member States in 1997 because of undemocratic developments in Belarus. Furthermore, as long as there is no PCA in place, the EU will not conclude the European Neighbourhood Policy (ENP) Action Plan with Belarus either. Therefore, although Belarus is covered by the ENP initiative, it does not fully participate in it.

Bilateral trade and economic relations remain covered by the Trade and Cooperation Agreement (TCA) concluded by the European Communities with the former Soviet Union in 1989, and subsequently endorsed by Belarus. The outdated TCA does not contain any commitments to legislative approximation, outlining general objectives of promoting investment and economic cooperation. However, the European Neighbourhood and Partnership Instrument (ENPI), which has been covering Belarus since 2007, provides for legislative approximation for the purposes of economic modernisation and sustainable development of a functioning market economy.

Since 2010, following expiry of the Agreement on Trade in Textile Products between the EU and Belarus of 1993, the EU has imposed unilateral import quotas for Belarus covering trade in textile and clothing products. Furthermore, in June 2007, the EU excluded Belarus from its Generalised Scheme of Preferences (GSP) for the country's failure to comply with its International Labour

Organisation (ILO) obligations relating to freedom of association for workers. The GSP suspension resulted in an EU tariff increase of up to 4 percent on goods made in Belarus and affected around 10 percent of Belarusian exports, including the country's textile, timber and metal works industries.¹⁰

As long as Belarus does not have a basic legal agreement with the EU and no Action Plan within the ENP, it is not included in the bilateral track of the Eastern Partnership. Furthermore, Belarus does not participate in EuroNest, the EaP's parliamentary organ. However, despite difficulties in bilateral relations, the EU and Belarus have continuously maintained a sectoral dialogue in the spheres of economy, energy, environment and transport. The biggest recipient of technical aid in Belarus is border management and customs. It is estimated that since 2001, the EU has allocated more than EUR 80 million to this area.¹¹

Programming of international assistance in Belarus is shaped by the National Programme of International Technical Co-operation. The current national priorities for 2014-17 include *social inclusion*: prevention of non-communicable diseases, social inclusion of people with disabilities and older persons; development of vocational education; fostering gender equality and empowerment of women, demographic security; *environment*: projects in the fields of air and water quality assurance and preservation of biodiversity, in waste management, energy efficiency, renewable energy and green economy; *local and regional economic*

¹⁰ Estimations indicate that the GSP suspension inflicted the direct overall annual loss at EUR 30-40 million. Therefore, total loss for the Belarusian economy as a result of the GSP suspension since mid-2007 may have reached EUR 300-400 million. The indirect damage as missed foreign investment opportunities for the GSP suspension-related country's gloomy image adds to this calculation. For more details, see Andrei Yelisseyeu, "Belarus Risks Becoming the Only State Stripped of EU Trade Preferences", *BelarusDigest*, 2013, <http://belarusdigest.com/story/belarus-risks-become-only-state-stripped-eu-trade-preferences-12979>.

¹¹ EU Delegation to Belarus, "EuropeAid Activities in Belarus", http://eeas.europa.eu/delegations/belarus/documents/eu_activities_in_belarus.pdf.

development with an emphasis on supporting the development of the private business sector. Programs of cross-border cooperation (Poland-Belarus-Ukraine, Latvia-Lithuania-Belarus) are important for regional cooperation at local level. In regional projects, the EU allocated almost EUR 53 million to Belarus between 2007 and 2013, with most projects still ongoing.¹²

In order to bring changes in the state policies, including in the area of democracy and human rights, the EU resorted to a hierarchical mode of external governance for many years, with limited success. The Belarusian authorities continually resisted this approach, calling upon the EU to terminate the sanctions policy and to cooperate in mutually beneficial areas. The effectiveness of EU external governance is significantly limited by a strong Russian presence in Belarus which is crucial in political, economic and military areas.

Despite the hard line taken by the EU, no progress in the country's democratisation has taken place. In 2008 and 2015, the Belarusian authorities released political prisoners as required by the EU. However, neither the electoral process nor the overall human rights' situation in the country improved. Generally, it would be unlikely for Lukashenko – as well as any other rational authoritarian ruler – to comply with the EU conditions which threaten his political power, bearing in mind that both proposed benefits and retaliatory measures on the EU's behalf as a result of non-compliance are relatively limited. Therefore, the EU's coercive diplomacy and sanctions policy was only partially successful, due to limited EU leverage over Belarus and consistent Russian political and economic support.

The EU's network building should be reviewed in two dimensions, towards the low-level Belarusian officials and civil society. This

¹² Delegation of the European Union to Belarus, "Overview", http://eeas.europa.eu/delegations/belarus/projects/overview/index_en.htm.

mode of governance has turned out to be of limited success with both. Meanwhile, for years the EU had only limited engagement with the high-ranking Belarusian officials, and the strongly centralised structure of the Belarusian political system has prevented the EU from developing active contacts with regional public bodies on a wide range of issues. Communication with the state agencies has developed in the largely technical spheres, such as border control or energy cooperation.¹³ Although such instrument as TAIEX (the Technical Assistance and Information Exchange) was available for Belarusian public administration agencies interested in studying the best European practices, a twinning cooperation with Belarus has not been launched. The European Commission intends to start it later in 2016. Therefore, the EU's network mode of governance was unable to spread the EU's values and standards among the officials.

Support to the civil society can be considered as another dimension of this mode of governance. Some researchers call the EU policy of limited engagement with the authorities and empowering Belarusian civil society a "dual-track"¹⁴, or "twin-track" approach.¹⁵ Firstly, the EU provided funding under the Instrument for Democracy and Human Rights and the Non-State Actors programme, with an objective to strengthen civil society's capacity to promote democratic reform and small-scale local development activities. Secondly, for years the EU has continued funding to the European Humanities University (EHU) in exile in Vilnius, for the young generation in Belarus. Thirdly, the EU has provided scholarships and promoted student mobility and

¹³ Giselle Bosse, "From "Villains" to the New Guardians of Security in Europe? Paradigm Shifts in EU Foreign Policy towards Libya and Belarus", *Perspectives on European Politics and Society*, Vol. 12, Iss. 4 (2011), 450.

¹⁴ George Dura, "The EU's Limited Response to Belarus Pseudo "New Foreign Policy", *CEPS Policy Brief No. 151*, 2008.

¹⁵ Elena Korosteleva, "The Limits of EU Governance: Belarus' Response to the European Neighbourhood Policy", *Contemporary Politics*, Vol. 15, Iss. 2 (2009), 229-245.

exchanges between education institutions from Belarus and the EU. Although these projects had some low-scale impact on the respective spheres, they failed to promote reforms in the country, which invalidated the EU's dual-track approach.

In addition to the hierarchical and network modes of governance which the EU combined for most of time, the EU resorted to the market-based mode of cooperation with Belarus between 2008 and 2010 and, more recently, since late 2015. Tensions in Belarusian-Russian energy relations in 2007 pushed Belarus to seek additional financial resources and to utilise the EU as a counterbalance to Russian influence.¹⁶ Belarus did not recognise break-away Georgian regions, authorised the opening of the EU Delegation and released political prisoners in 2008. In turn, the EU suspended the travel bans, renewed contacts with the Belarusian authorities and later included Belarus in the Eastern Partnership initiative. This period of defrosting ended with the crack-down on the demonstration by the opposition on the Presidential election day on December 19, 2010, but was resumed recently, when the EU welcomed the release of all the remaining political prisoners in August 2015, and suspended the sanctions in October 2015. Four months later, in February 2016, the EU lifted almost all the restrictive measures, except the arms embargo and sanctions, related to the four individuals listed in connection with the unresolved disappearance of two opposition politicians, a businessman and a journalist.

Geopolitical reasoning is believed to play a big role in the EU's decision to reengage with Belarus. Taking into account groundbreaking events occurring in Ukraine, and Belarus intermediary role in the Russia-Ukraine conflict, establishing closer cooperation with Belarus was seen by many as a timely

¹⁶ Aliona Kadlubovich, "Visa Policy as an Instrument of EU External Governance? The Case of Belarus", Europa-Kolleg Hamburg, Institute for European Integration, *Study Paper No 1/14* (2013), 13-14.

decision serving both sides' interests. Despite recent changes in approaching the Belarusian authorities, the EU has also stated that it will remain engaged with the opposition and the public at large. The promotion of people-to-people contacts will further be encouraged through programmes such as Erasmus+ and the ongoing MOST project for professional and cultural exchanges. Signature of the Visa Facilitation Agreement and the Mobility Partnership, as well as the launch of the Local border traffic agreements between Poland and Belarus, Lithuania and Belarus would also contribute to the people-to-people contacts.

Current results of Europeanisation and its future dynamic

Despite a lack of formal and informal ties, in recent years Belarus has moved closer to EU norms and standards in a number of spheres, via two distinct paths. First is the intentional approximation of standards in some areas (e.g. tax system, standards in the construction industry) with an aim to expand the export of goods and services to the EU market. Second is the indirect approximation through participation of Belarus in the Eurasian integration.

Therefore, in 2010, a Presidential Directive set the task of completing the harmonisation of the Belarusian tax system with the systems applied in European countries.¹⁷ Another example is the construction industry, where Belarus has largely introduced EU standards, because Belarus seeks to enhance the competitiveness of its construction materials and to increase the exports to the EU

¹⁷ Presidential Directive N° 4 "On the Development of Entrepreneurship Initiative and Stimulation of Business Activity in the Republic of Belarus" [in Russian], published December 31, 2010, http://president.gov.by/en/official_documents_en/view/directive-no-4-of-31-december-2010-1642/.

market, as well as to eliminate technical barriers which arise during the investment projects.¹⁸ Belarus has also adopted veterinary and phytosanitary rules in line with the EU Decision 2002/657/EC, Directive 96/23/EC, Regulation 37/2010 and Directive 75/324/EEC. In these, and other cases, the Belarusian legal acts contained references to relevant EU regulations and directives and even provisions identical to the relevant acts of the EU *acquis*.¹⁹

Paradoxical as it may seem, Belarus also adopts European standards in a number of fields through its participation in the Eurasian projects. This process is labelled "indirect"²⁰, or "backdoor"²¹ approximation. The legal system of the Eurasian integration is, to some extent, compatible with EU standards. The Free Trade Agreement between the CIS countries is largely based on the WTO principles and partly on the EU's competition legislation. The Treaty on the Functioning of the Customs Union in the framework of the Multilateral Trading System of November 2011 ensured that the WTO rules-based regime would prevail over the provisions of the Eurasian Customs Union.

Belarus has preserved its EaP membership, but during recent years, progress within the EaP and in bilateral relations generally has been slow, including in the areas of "pragmatic cooperation". Modest recent achievements include the start of negotiations on Visa Facilitation and Readmission Agreements and on a Mobility Partnership, cooperation in the harmonisation of digital markets and the signature of a Cooperation Arrangement on an Early

¹⁸ The Belarusian Telegraph Agency, "Belorusskaja stroitel'naja otraslj perevedena na evropejskie standarty", published January 6, 2010, <http://news.21.by/society/2010/01/06/48865.html>.

¹⁹ Maksim Karliuk, "Legislative Approximation and Application of EU Law in Belarus: 'Backdoor' Approximation", in *Legislative Approximation and Application of EU Law in the Eastern Neighbourhood of the European Union: Towards a Common Regulatory Space?*, ed. Peter Van Elsuwege and Roman Petrov (Routledge, 2014), 9.

²⁰ Andrei Yeliseyev, "Faktor evrazijskoj integracii", Belarusian Institute for Strategic Studies, September 30, 2012, <http://belinstitute.eu/ru/node/593>.

²¹ Karliuk, 8.

Warning Mechanism in the energy sector. Furthermore, the sides have resumed the EU-Belarus Human Rights Dialogue.

Belarusian authorities ignored the EU's Dialogue on Modernisation (DoM), which was announced in 2012, referring to its unilateral elaboration by the EU without the fully-fledged participation of the Belarusian side. At the same time, during the course of 2013-14, despite suspension of the high-level contacts, diplomatic contacts between the EU and Belarus continuously grew. In 2014, the Belarusian government and the EU had four rounds of consultation about cooperation on different modernisation issues, including development of SMEs, financial system restructuring, trade and investments, energy and transport systems. The main channel of communication is to be the EU-Belarus Coordination Group, which was initiated in April 2016.

While signing of the basic legal agreement with Belarus similar to the PCA is deemed by the EU as premature, lately the EU has started to put emphasis on the more pragmatic interests of the Belarusian authorities, which are simultaneously beneficial for the population at large. Thus, the EU intends to enhance cooperation in a number of economic, trade and assistance related fields, with the goal of modernising Belarus and its economy, in view of Belarus WTO accession and cooperation with international financial institutions, in particular the EIB and the EBRD.²²

²² Artiom Shraibman, "'Parliamentary Election as a Litmus Test'. The EU Ambassador Shared How the Relations with Minsk Will Develop", *TUT.BY News Portal*, April 4, 2016, <http://news.tut.by/politics/490897.html>.

Formal and informal domestic agents of Europeanisation

Belarus is a highly centralised state where the ultimate decision-making competences are down to the President, Alexander Lukashenko, who hit the 20-year mark of staying in power in July 2014. Although the country's Constitution endows legislative power to the bicameral parliament, *de facto* the parliament's role in the Belarusian political life is purely nominal. Analysis of the parliament's activities shows that between 2004 and 2009, the members of parliament proposed from 0 to 3.5 percent of all annually reviewed bills.²³ All the bills submitted to the parliament by the executive are approved by a sweeping majority of parliamentarians, if not unilaterally.

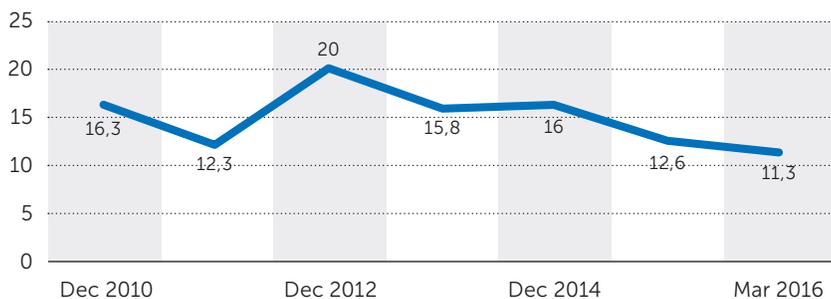
Although pro-EU moods are relatively widespread in the Belarusian society, not a single parliamentarian openly advocates integration with the EU, not to mention the existence of a pro-EU coalition in the Belarusian parliament. Belarusian political opposition has not been represented either in the legislative or executive bodies for more than a decade. Although elections take place in Belarus regularly, they are an administrative formality in order to legitimise the existing authoritarian political system, to validate the selection of pro-government candidates, and to deceive the international community into thinking that Belarusian authorities comply with democratic procedures. Elections at all levels of state administration – local, parliamentary, or Presidential – are rigged through a rather sophisticated system of falsifications.

Most of the opposition movements and political parties, including the social-democrats and right-wing forces, such as the Belarusian Popular Front Party, support the idea of European integration

²³ Andrei Kazakevich, "Parliament: Decorative Element of the 'Law-Making' Process" [in Belarusian] in *Belarusian Yearbook-2010*, ed. Anatoliy Pan'kovskiy and Valeriya Kostiugova (Minsk, 2011), 48.

of Belarus. Driven out from the legislative and executive power, opposition parties enjoy rather low public support in Belarus. As the government systematically suppresses independent media, the opposition's voice is barely heard by the Belarusian general public.

Figure 3. Dynamics of credibility ratings of opposition parties, in percent



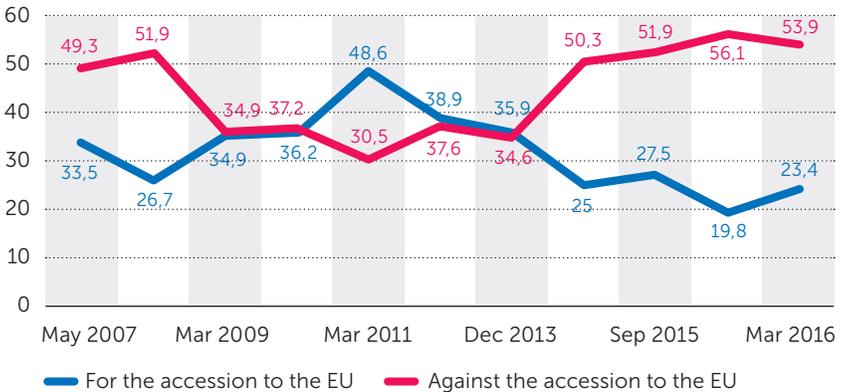
Based on the data of the Independent Institute of Socio-Economic and Political Studies, www.iiseps.org

Low popularity of the opposition political parties results is not only caused by insufficient financial resources and authoritarian practices used by the state authorities towards their political opponents. Regular controversies among opposition political forces and their enduring inability to unite efforts in political struggles is also an important explanatory factor. They have failed to unite, and remained dissociated, even during times of high pro-European moods in the Belarusian society. (See Figure 3.)

Although accession to the EU was never a foreign policy priority of Belarus, and pro-European opposition parties have comparatively low public support, pro-EU sentiments in Belarus were at times quite high during the last decade. They started increasing in 2008, with the thaw in relations between Belarus and the EU, and peaked in spring

2011, despite Belarus-EU relations dipping in December 2010, as a result of the fraudulent Presidential election in Belarus and the brutal dispersal of peaceful protesters in its aftermath. (See Figure 4.)

Figure 4. Answers to the question: “If there was a referendum on Belarus joining the EU, how would you vote?” between 2007-2016, in percent



Based on the data of the Independent Institute of Socio-Economic and Political Studies, www.iiseps.org

Conversely, pro-Russian moods in Belarus, by early 2011, were at their lowest during the last decade. Evidently, the decrease in pro-Russian sentiments came as a result of tensions in Belarus-Russia relations throughout 2010. During that year Russia used economic pressure against Belarus, pushing the country into the Customs Union and led an information campaign against Lukashenko in summer/autumn 2010. However, once the two sides re-stabilised their relations by early 2011, pro-Russian moods started growing soon afterwards and pro-EU moods among the Belarusian population have significantly decreased ever since.

December 2015 saw the lowest figure of pro-EU moods in Belarus, standing at 19.8 percent. Some increase in pro-EU sentiments has

recently taken place, probably as a consequence of the stabilisation of relations between Belarus and the EU, cancellation of most of the EU sanctions and softening of rhetoric in Belarusian media towards the EU. Further increase in pro-EU moods may take place in the coming months, provided Belarus-EU relations continue improving. However, as explained by sociologists, a significant swing in the mood in favour of closer links with Russia is linked to the majority of Belarusians expressing a positive attitude to Russian policy in Ukraine (e.g. around 60 percent of Belarusians support the Russian position both on the annexation of Crimea and on the armed protests in Donbass).²⁴

Russia's influence on domestic institutions and economy

Belarus, under Lukashenko, is widely known to be Russia's closest ally. Over the last twenty years the two countries have signed numerous bilateral agreements on closer political, economic, and social integration, including the Treaty on the Union between Belarus and Russia on April 2, 1997. Border and customs controls at the Belarusian-Russian borders were abolished since 1995. On January 1, 2015, the Eurasian Economic Union (EEU) was launched with Belarus being among the founders of this union.

The Kremlin has provided economic and political support to Lukashenko in exchange for Belarus geopolitical loyalty and military cooperation with Russia. The financial subsidies came in the form of cheap gas prices, re-exports of refined oil products from Russian crude oil and the preferential treatment of Belarusian

²⁴ The Independent Institute of Socio-Economic and Political Studies, "Ukrainian Compass for Geopolitical Poles of Belarus", <http://www.iiseps.org/?p=1405&lang=en>.

goods on the Russian market. According to available calculations, in 2012, Russian gas and oil subsidies amounted to 15.9 percent of Belarus GDP.²⁵ Unfortunately, Russian energy subsidies and open market for Belarusian agricultural and industrial goods has only allowed Belarus to develop limited economic and political cooperation with the EU. A strong Russian presence in Belarus has turned EU policy towards the country into a “by-product” of its relations with Russia.²⁶

It would be a mistake, however, to interpret this dependence as only one-sided. There are factors which make Belarus similarly important for Russia. Firstly, Belarus is important for the transit of Russian energy and other goods through its territory. Secondly, security aspects and military cooperation with Belarus is of great importance for Russia. Thirdly, Belarus is an important long-time ally of Russia, and now an integral part of the EEU. Well aware of this specific leverage over Russia, Lukashenko skilfully plays with Russian fears of possible changes in Belarus foreign policy priorities.

Nevertheless, the strategy of “bandwagoning” with Russia has left the Belarusian economy largely unreformed and energy-dependent on Russia, while it has allowed Lukashenko to preserve control over the mostly state-run economy, which is crucial for maintaining his political power. Although decision-making processes in the EEU do not discriminate Belarus, it is nevertheless obvious that Eurasian integration pegs Belarus to Russia, both institutionally and economically, even tighter than before.

²⁵ Balázs Jarábik, Alexei Pikulik and Andrei Yeliseyev, “Belarus and the Eurasian Union: Incremental Integration”, FRIDE Brief N° 159 (2013), http://fride.org/descarga/PB_159_Belarus_and_the_Eurasian_Union.pdf.

²⁶ Anais Marin, “Divided We Fail: Time for the EU to Speak with One Voice to Belarus”, The Finnish Institute of International Affairs (2011), http://www.fiia.fi/en/publication/196/divided_we_fail/.

For example, when Russia became a member of the WTO in 2012, Belarus, not being a WTO member itself, had to accept Russia's obligations on market access for goods as a consequence of the Eurasian integration – a "compulsory trade liberalisation" took place. Consequently, this had an adverse effect on Belarusian exports to Russia, including pharmaceutical products, refrigerators, tractors and motor vehicles for the transport of goods.²⁷

However, Belarusian progression towards closer Eurasian integration has not been as smooth as one might imagine. Thus, the year 2010 was littered with disagreements between Belarus and Russia. Extensive bargaining over the financial benefits associated with Belarus accession to the EEU was taking place even after the actual signing of the Treaty on the EEU. Initially, in exchange for the signing of the Treaty, Russia conceded to collect only half of the total volume of the export duties on oil products, which meant additional Russian energy subsidies to Belarus up to USD 1.5 billion annually. In late September 2014, on the eve of the ratification procedure, Belarus raised the issue of additional Russian compensation for the losses associated with Russian tax reforms, which would decrease the profits of oil-processing factories. Ultimately Russia agreed that Belarus could keep the full amount of duties on oil products in its budget²⁸, which meant to increase the volume of Russian subsidies by yet another USD 1 billion.

To the discontent of the Russian ruling elite, Lukashenko has always desperately resisted privatisation of lucrative enterprises, and has often attempted to shut the domestic market to Russian imports as much as possible. However, Russian continuous lending increases Belarusian debts which, over the course of time have forced the

²⁷ Irina Tochitskaya, "Russia's Accession to the WTO: Implications for Belarus' Trade and Industries", German Economic Team Belarus, IPM Research Center, *Policy Paper Series [PP/01/2012]*.

²⁸ TUT.BY News Portal, "Moscow Allowed Minsk to Keep the Duties on Oil Products in 2015", April 2, 2016, <http://news.tut.by/politics/418760.html>.

Belarusian authorities to sell some of its profitable state companies to Russian businesses. In 2011, Minsk sold the remaining shares of its gas transmission operator to Gazprom, securing a significant discount in gas prices. Belarus vulnerability is further aggravated by Russia's reduced dependence on Belarus oil transit capacity (via the "Druzhba" pipeline) to the EU, after the launch in 2012 of the BPT-2 oil terminal in St Petersburg.²⁹ And finally, the decision of 2009 to rely economically and technologically on Moscow over the building of a nuclear station has made Belarus fully energy-dependent on Russia.

Conclusions

To summarise, the EU has changed its policy towards Belarus several times over the last two decades. Neither of the modes of cooperation – be it hierarchical, networking-building or market-based – has motivated Belarusian authorities to implement real democratic changes. The EU's hierarchical mode of governance has proven to be largely ineffective because of limited EU leverage and the modest benefits proposed. The networking with pro-European and non-governmental and oppositional political forces has also delivered little results thus far because of fragmentation and disagreements among these groups. The market-based mode has, however, resulted in minor political concessions, such as the release of political prisoners, yet it still remains to be seen whether the recently initiated phase of market-oriented measures, coupled with the EU's promises to extend financial assistance through cooperation with the EIB and the EBRD, will bring electoral reforms and tangible human rights' improvements in Belarus.

²⁹ Balázs Jarábik, Alexei Pikulik and Andrei Yeliseyeu, "Belarus and the Eurasian Union: Incremental Integration".

In any case, recently Belarus has become an important arena for communication concerning resolution of a number of conflicts in the post-Soviet area, and it is an important driver for strengthening the dialogue between the EU and the Belarusian government.

There are contradictory views on the potential benefits from Belarusian participation in the Customs Union; however, it will take time before the true effects become apparent. Notwithstanding this, the Eurasian integration project remains high on the political agenda in the member countries. The good news is that the legislative changes imposed by membership in the Customs Union have made the Belarusian market more open for external trade, and thus more European.

From the point of view of long-term Belarusian national interests, integration with the EU, however, can be seen as more preferable for a number of reasons:

- 1) In the long term, because of a larger market and better technological advancement, integration with the EU would probably bring stronger economic growth and greater improvement in the living standards of the Belarusians;
- 2) As the EEU is in reality an association of authoritarian countries without rule of law and free and fair elections, membership of the EEU would inhibit the liberalisation of political institutions, which are indispensable for the long-term sustainable economic growth;
- 3) European integration would promote cultural diversity, which is of great importance for Belarus, given the fact that the national (Belarusian) language has been driven out of public life.

However, the authoritarian type of the current Belarusian political regime with its strong grip on power, the peculiarities of the decision-making processes of the EU and "enlargement fatigue" make the comparison of Eurasian / European integration advantages for Belarus purely hypothetical. Given the heavy dependence of the Belarusian economy on Russia, withdrawal

from the Eurasian integration process, in favour of integration with the EU, would bring a rigorous response from Russia, with devastating consequences for the national economy and well-being of the population, possibly even for Belarus sovereignty and independence. Without a clear membership perspective and in the absence of EU's willingness to provide the necessary economic assistance, Belarus is destined to be pegged to Russia for the foreseeable future.

GEORGIA: THE STRUGGLING EASTERN CHAMPION OF EUROPEANISATION

Gia Jandieri

Georgia has been a leader of reforms among the former Soviet Union nations, with the exclusion of the Baltic countries – members of the European Union since 2004. The country has overcome several political and economic barriers and has recently returned its economic capacities to its previous condition before the collapse of the Soviet Union. The difficult transition period played a crucial role for the forming of the nation. It examined the old ways of organising the economic life, scrutinised the new ways of governance and created a responsible civil society that all together supported the formation of the new nation.

The economic modification of the 2000's turned the failing state of Georgia into the Number One reformer nation (World Bank, Doing Business) and one of the leading economically free places in the world (Fraser Institute). This, together with the support of the new partners such as the USA, Europe and Turkey, encouraged new trade partnerships and investment for the country. It simultaneously created an atmosphere of internal responsibility of the nation's leadership which showed the real capacities of the country's independence. This signal was heard by many friends, but also enemies. Russia's leadership recognised this as a threat to its falling influence in the region.

The European Union (EU) became one of the most important partners of Georgia. It is the biggest trade partner of Georgia and the biggest investor, as well as one of the biggest donors. In 2014, the EU signed the Association Agreement (AA) and with that also the Deep and Comprehensive Free Trade Agreement (DCFTA) with Georgia. This required great effort from the Georgian side to satisfy the requirements of the EU before it agreed to engage contractually with Georgia, and the action plan currently needs more effort for approximation of the national economic system to the EU rules.

Simultaneously, Georgia marched towards political reforms from a fully totalitarian and corrupted system, towards one of the least corrupted and freer society. These changes in Georgia annoyed the Russian leadership, which in 2008 invaded the country, occupied two important regions and stationed its military troops there to strengthen its presence and capacities in the region. The new government, from 2012, made several steps to calm down the attitudes of the Russian Federation, which helped decrease the tension. It also created a new atmosphere and opportunities for the Russian government to increase its propaganda against the western institutions, against human rights and the most important partners of the independent nation.

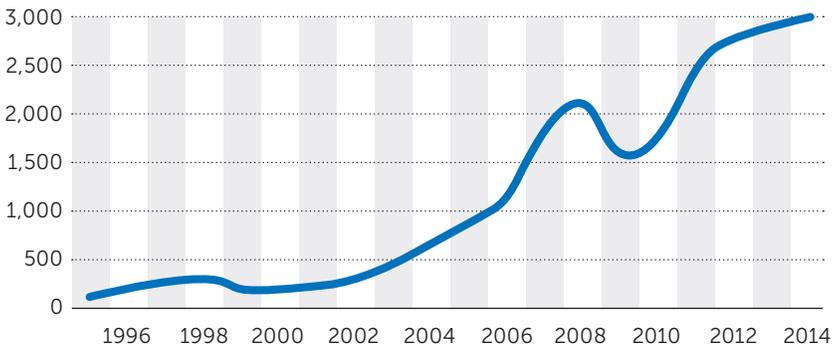
Georgia's economic growth has remained low and unsatisfactory for the last three years, which itself could become another factor for political instability – Russia has higher chances for destabilising the situation when growth brings no tangible results to most of the inhabitants of the country. This, in combination with the high costs of security, decreases the attractiveness for foreign direct investments.

These circumstances call the decision-makers in Georgia and the EU to find extraordinary political solutions for keeping the country's strong pro-European stance and simultaneously not inviting new aggressive actions from the Russian side.

Economic implications of the EU-Georgia cooperation

The collapse of Georgia's economy during the first years of independence showed a strong need for finding new partners: the country had neither the financial capacity nor experience in foreign trade, therefore suffered from the scarcity of fuel, consumer goods and food. Other former Communist nations also experienced the same kind of problems and were unable to offer much to the consumers in Georgia. Only after 1995 Georgia found new partners and started substituting the old Soviet artificial ties, and included the EU, Turkey, China and the USA. This trend continued and has been encouraged by more economic integration and political cooperation between Georgia and the members of the EU, especially after 2005. Figure 1 indicates the rapidly growing interest in trade with each other.

Figure 1. Dynamics of EU-Georgian trade, 1995-2014, USD thousand

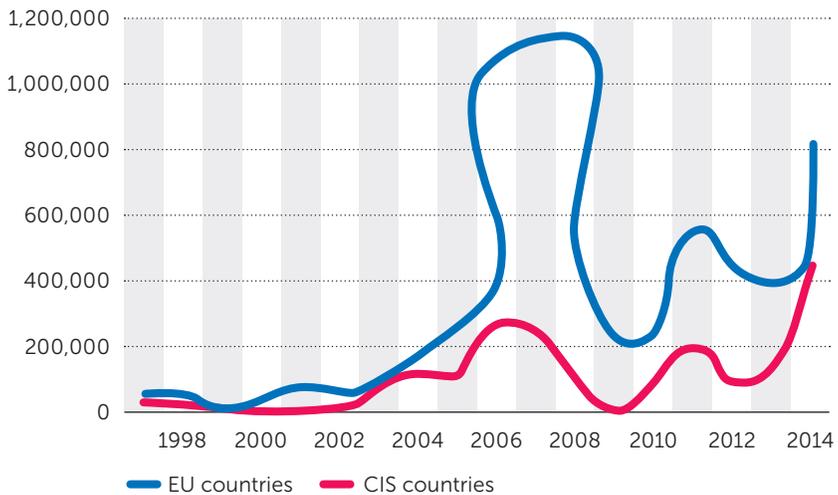


Source: National Statistics Office of Georgia

The EU has become one of the major contributors to the Georgian economy in terms of foreign direct investments (FDI). Since 1997,

the total volume of FDI from the EU has reached USD 3,287 billion or around 42 percent of all FDI. The flows of FDI from both the EU and the Russian-dominated Commonwealth of Independent States (CIS) are shown in Figure 2.

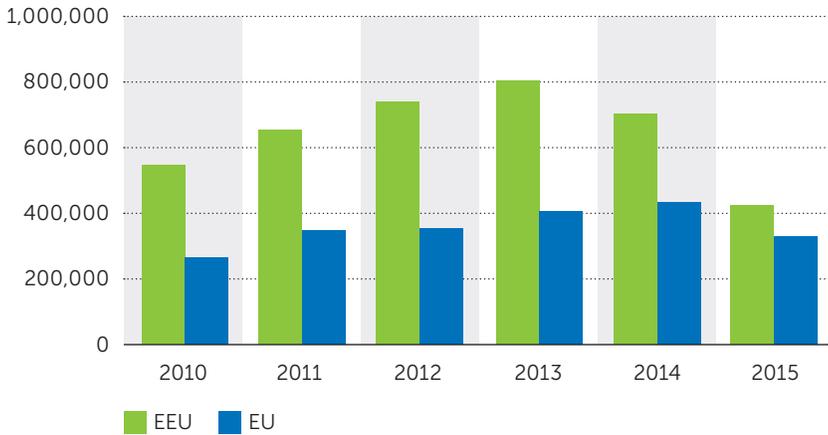
Figure 2. Foreign direct investment from the EU and CIS in Georgia, USD thousand



Source: National Statistics Office of Georgia

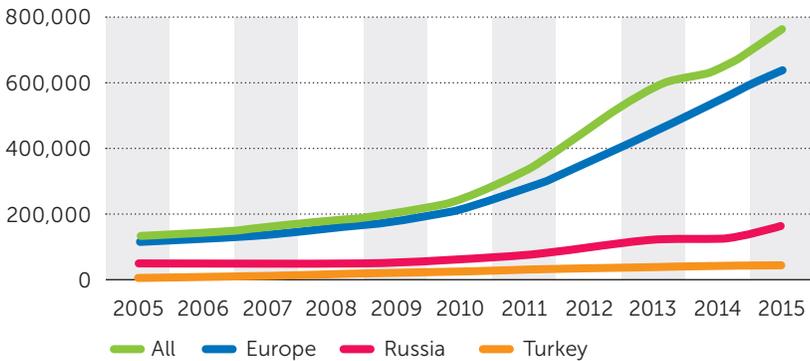
Alongside incoming FDI, labour remittances and income from travellers have also been relevant sources of income to Georgia. And, importantly, it is interesting to note the rising role of the EU also in this respect, as depicted in Figures 4 and 5. Although the prevalence of Russia in remittance transfers still persists, which can be explained with the greater number of Georgians living in Russia, the gap with the EU is decreasing. Likewise, while the most frequent visitors to Georgia are from Russia and Georgia's neighbours: Armenia, Azerbaijan and Turkey, the visitors from the EU dominate among air travellers and their number is steadily increasing.

Figure 3. Volume of remittances from the EEU and the EU, USD thousand



Source: National Statistics Office of Georgia

Figure 4. Number of visitors by air transportation



Source: National Tourism Agency of Georgia

Despite increasing trade volumes with the EU, one can still notice certain export inertia towards Russia. Some exporters may still prefer the Russian market for its ease – mainly for language reasons. Although the Russian language is no longer important in

Georgia, and young people in the country prefer speaking English and other European languages, for the older generation, who graduated from Soviet high-schools, it is still easier to communicate in Russian. What is more, there seem to be other “advantages” for preferring Russia or the EEU for exports, namely:

- Georgian goods, in particular agricultural products, including wines and spirits, are more easily recognisable in that market;
- EEU countries can be easier accessible than the EU or other developed countries because some of the bureaucratic obstacles can be overcome with (petty) bribery;
- EEU countries are neighbouring Georgia and Georgians do not require a visa to travel to those countries (except Russia, which, incidentally, has offered to lift the visa requirement in 2016, provided that certain conditions are fulfilled).

However, all these “advantages” can be refuted. First, wine imports to Russia have completely changed during the last twenty years and the wine from the ex-Socialist nations has been substituted for imports from Western Europe and the Southern Hemisphere. Georgia is not a champion of exporting agriculture goods and holds a very tiny share of global production.¹ Second, the corrupted system in the EEU countries is not reliable even if they offer immediate advantages. Besides, the Russian market is greatly politicised and can be opened and closed at any time for political reasons. And finally, as far as travelling is concerned, if the EU makes a final decision with regard to visa-liberalisation, the attractiveness of travel to Russia will dissipate.

Most importantly, Georgia has been able to reorient and diversify its exports. The trade sanctions imposed by Russia in 2006, forced Georgia’s wine producers to uptake new markets in the West. This became possible through improved quality of wines and finding a

¹ Eleonora Scholes, “Wine Market in Russia: Aspirations and Challenges”, http://www.clubmarketingrioja.com/index.php/agenda/documentacion-estudios-y-descargas/documentos/doc_download/56-mercados-emergentes-eleonora-scholes.

niche for special varieties of wine. Georgian wines are now being recognised even in the leading countries of the wine industry (for instance, the Georgian Qvevri/Amphora wines have become popular in Italy²). What is more, recently the production of hazelnuts has surpassed wines in Georgian exports³, and some companies have succeeded with selling kiwi fruits in Germany.⁴ Neither hazelnuts nor kiwi have been core agriculture products in Georgia – this clearly demonstrates the importance of new approaches for being successfully integrated in the world markets.

Georgia and the EU – a necessary cooperation

Soviet Georgia was one of the most corrupted Soviet republics and heavily dependent on subsidies. In some years, its public budget was up to 40 percent filled by Moscow's support. For political reasons, the Soviet leadership was unable to stop this kind of parasitic behaviour, but was also interested in keeping the corrupted system for managing the vulnerable union.

The Georgian economy was completely focused on producing goods for the internal Soviet whether or not there was a demand for them. Consequently, the quality of goods and of human resources did not satisfy global competitive standards. Georgia's economic capacities were far from having the ability to trade successfully globally, and after the collapse of the Soviet Union in 1991 most of the factories and agrarian sector quickly failed.

² Europe for Georgia, "Georgian Qvevri Wine is Successfully Sold in Europe", May 30, 2014, <http://eugeorgia.info/en/article/40/georgian-qvevri-wine-is-successfully-sold-in-europe/>.

³ Agenda.ge, "Georgian nuts saturate European markets", August 18, 2015, <http://agenda.ge/news/40941/eng>.

⁴ Georgia Today, "Georgian Kiwi Sells in Germany", January 21, 2016, <http://georgiatoday.ge/news/2718/Georgian-Kiwi-Sells-in-Germany>.

During the first decade of independence, the economy of the country dropped to 20-25 percent of its level in the 1980s. In 1995, Georgia adopted a new Constitution which laid the foundations for further reformation of the country. Development accelerated after 2004. This success attracted attention from the Western leaders and societies which offered very promising cooperation and integration into the European and Atlantic framework.

Several centuries of a relationship with Russia and the geopolitical situation in the region taught Georgians very good lessons in securing its cooperation with the West. Several generations of Georgian political leaders had always directed towards such strong integration, not only for security reasons, but also because of affirmed pro-civilization attitudes. The country took several steps towards modernising the political and economic systems, stopped widespread corruption and introduced a high level of free entrepreneurial environment.

Georgia became an example of good governance, fighting against corruption and implementing new technologies and innovative ideas. It implemented electronic taxation systems (including invoicing), state procurement, public registers; simplified the registering of companies, paying taxes and custom duties property, issuing passports, ID cards and other documents, deregulated economic activities, and finally completely reorganised the police force – the former Soviet militia. Georgia's progress did not go unnoticed and soon she was placed among the reform leaders with different international indicators, such as the Transparency International Corruption Index (48th in 2016), World Bank Ease of Doing Business Survey (24th), Heritage Foundation Index of Economic Freedom (23rd), Fraser Institute Index of Economic Freedom of the World (12th).

The reformation and modernisation in the country resulted in the highest growth of the economy since 2003. After several years

of falling and stagnation, Georgia returned to its best economic development level since the 1980s. This required a complete redesign of the economic system which is now based on private ownership, free trade and freedom of investment policy. Only a few of the strategically important companies are still under government control. Many others, including the financial, energy and communication sectors were privatised and attracted foreign direct investments.

The reform of the police force was most impressive and it became one of the most trusted institutions in Georgia, after being the most corrupted and aggressive for previous decades. The zero-tolerance rule destroyed organised crime and put a stop to former prevailing cooperation between criminals and politicians.

Georgia is one of the most open countries, allowing citizens of a hundred nationalities to enter the country without a visa and another hundred nationalities to get their visas electronically. Georgia also has one of the world's lowest barriers for trade (7th in the world, with 88.6 percent of trade freedom according to the Heritage Foundation.⁵ Moreover, freedom of speech accounts as one of the major achievements of the post-totalitarian nation. Printed press, TV and radio channels, internet-based media and social networks enjoy a free regime in Georgia.

The non-governmental sector had already emerged before the collapse of the Soviet Union, and played an important role in forming public opinion to support the national movement for independence. The still existing public opinion leaders include the Rustaveli Society, Association of Young Economists, Club of Young Lawyers (nowadays Association of Young Lawyers) and other newly established civil society organisations. The number of NGOs is steadily increasing – from 513 in 1995 to more than

⁵ "2016 Index of Economic Freedom, Country Rankings", <http://www.heritage.org/index/ranking#>.

22 000 in 2015. Their leaders have had a crucial role in destroying the totalitarian type of political ideologies and governance system, supporting free speech and freedom of choice during the national elections. The civil sector is also the most active supporter of the Western integration of Georgia, in particular of the membership of NATO and the EU. The representatives of civil society are the most regular guests on TV debates; they create and lead public discussions, campaigns and media outreach.

Formal links between the EU and Georgia

Georgia signed the Partnership and Cooperation Agreement (PCA) in 1996 and since 2008 has been part of the Eastern Partnership (EaP) initiative. In 2004, the Georgian government decided to establish stronger ties with Europe and NATO, and to that end established a special office led by a State Minister, for coordinating the tasks related to European integration.

The EU responded with several important steps targeted at supporting independence, territorial integrity and reforms in Georgia. It adopted the European Neighbourhood Action Plan for Georgia in 2006 that created a clear roadmap for both sides for future cooperation and integration. The EU liberalised trade with Georgia in three steps: GSP (Generalised Scheme of Preferences) in 1995, GSP+ in 2005, which was extended in 2008, and DCFTA in 2014. It is also worth adding that Georgia became a member of the World Trade Organisation in 2000. In June 2014, the EU and Georgia, along with Moldova and Ukraine, signed the Association Agreement and DCFTA.

During the period of Georgia's preparations for participation in the EU's deep and comprehensive free trade area, as well as for visa liberalisation, the EU's intellectual and financial support was

crucial, amounting to hundreds of millions of euro, including EUR 30 million for supporting competitiveness and small businesses; EUR 350 million intended for reforms related to preparations for the DCFTA and the Association Agreement according to the Annual Action Plans during 2007-2013; EUR 500 million for urgent aid after the Russo-Georgian war in 2008, etc.

The non-governmental organisations established a Georgian National Platform within the Eastern Partnership Civil Society Forum (CSF), created in 2010. The CSF offered support in four thematic directions to encourage discussions about the needed reforms in the country and closer cooperation with the European institutions. This relationship became an important bridge for Georgian society with Europe.

Georgia's global role should not be underestimated. It is already an important partner for many multilateral projects and actions. It accepted and promoted the routes and participated in the construction of oil and natural gas pipelines of Baku-Ceyhan and Shah-Deniz, the railway from Baku, Azerbaijan, to Kars, Turkey, in the 2000s. Georgia has the potential to become a regional hub for trade, good governance, investment opportunities and innovation. The proposed new port, the ongoing construction of the highway crossing the whole country's territory, the railway and pipe-line cooperation, the over-sea cables of communication, the cooperation in the electricity sector and other economic initiatives, these all are potential ideas to promote in the future. The Georgian tourism industry also meets increasing demands – according to the statistics of the National Tourism Agency of Georgia, visitors to the country in 2013 – 5,392,000, outnumbered its entire population of 3,729,500⁶ by 44 percent.

⁶ The official number of population was higher but the Census of 2014 found the number to be a million smaller; there has been ongoing working process to correct older information. The given number is shown as it is on the National Statistics Office of Georgia information currently.

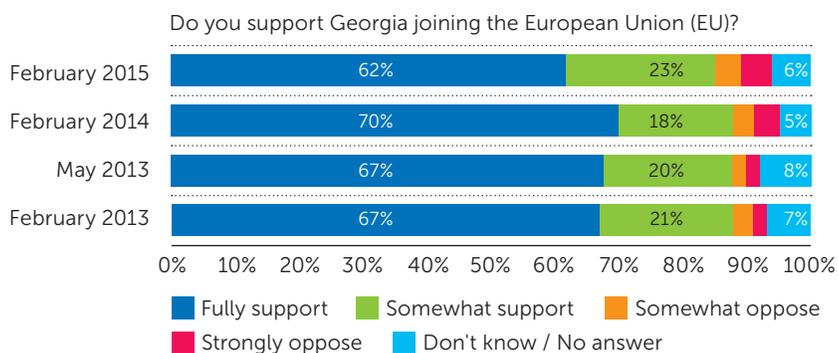
Challenges of Europeanisation ahead

The first challenge is the slow pace of development in Georgia. In 2015, the economic growth in Georgia reached only 2.8 percent. Such low level of development for any economy with per capita GDP of USD 3,700 is frustrating, and could easily be converted into political instability, especially if the country is “cursed” with an aggressive neighbour. Georgia needs to achieve faster growth during the next two decades; otherwise its achievements and European aspirations will be at risk. Georgia also needs more trade integration with the EU, as the EU consumer goods still have very limited representation on the Georgian market. In addition, the prices of the EU foodstuffs in the Tbilisi supermarkets are twice as high as in Berlin.

Another challenge is related to growing Russian propaganda and other forms of pressure. Russian army troops still occupy Georgian territories, in some spots as close as less than a kilometre from the main roads, thus posing incessant and imminent risk to the economic performance of Georgia. The Russian propaganda machine uses different forms for achieving its *soft power* goals, for instance, broadcasting its state-sponsored TV channels for free to Georgian consumers, while most of the Western TV channels are not affordable for ordinary Georgians.⁷ This and other measures, such as the financing of Russia support groups, like *Eurasian Institute* or the *Society of Erekle II*, directly propagating Russian ways and the happy times of Georgia in the Russian empire, make Georgian people hesitate somewhat about Georgia’s Western aspirations. The massive support for Euro-Atlantic integration among the population of Georgia cannot be challenged easily, because of the long historic experience of imperial/colonial relationships with Russia. However, the public opinion polls confirm some shifts in public attitude. (See Figure 5.)

⁷ One example: Hotel Inturist in Batumi has several TV channels for free service in rooms, of which: three are Georgian, four Turkish and more than 10 – Russian.

Figure 5. Dynamics of the support for joining the EU in Georgia



Source: International Republican Institute, http://www.iri.org/sites/default/files/wysiwyg/iri_georgia_public_2015_final_0.pdf.

Furthermore, the attitude of the EU officials towards Georgian people represents another challenge. Despite high flying promises, the mundane experience has been rather frustrating. For example, the agreement on simplification of visa procedures for the Schengen countries, which entered into force in March 2011, has delivered opposite results – instead of multi-entry long-term visas, many Georgians now receive short-term single-entry visas with no explanation, even notwithstanding the long and lawful history of travelling in the EU. The recent survey carried out by the Liberal Academy in Tbilisi showed that Georgia’s citizens had more than 12 percent of visa refusals by the European consulates in Tbilisi – compared to Armenia – 8.0, Azerbaijan – 4.0, Belarus – 0.5, Russia – 0.9 and Ukraine – 2 percent.⁸

Promises of easier procedures for university student visas have also not materialised. Instead, the Georgian youngsters have been subject to delays and higher financial costs. Paradoxically, British

⁸ Evropuli Iniciativa, “Tavisufali Gadaadgilebit Evropuli Integraciisken” (Tbilisi: EILAT, 2016), <http://www.ei-lat.ge/images/doc/tavisufali%20gadaadgilebit%20evropuli%20integraciisken.pdf>.

visas can be obtained with fewer problems but they are more expensive.

It is important to note that genuine visa liberalisation for Georgian citizens in the Schengen Zone would represent one of the most important long-awaited historical moments for Georgia. It can be predicted that the number of travellers to Europe will increase, and with that also a demand for air travel will expand. Today, the situation has worsened for many years, as many European airlines – like Austrian Airlines, the Czech Airlines, German Wings, British Airways, British Midlands and recently also Alitalia – have stopped flights to Georgia, while a number of air transport companies have reduced the frequency of flights like Aegean, LOT Polish Airlines and Lufthansa. At the same time, the Russian air companies have returned to the Georgian market and *Georgian Airways* cancelled some of its European routes replacing them with Russian ones.

Last, but not least,, some criticism has to be directed towards the Georgian side too. The Georgian government has been slow to improve awareness of the Georgian society about the role of the EU in Georgia's trade, investments, grants and political support. Only a handful of Georgian citizens, mostly from NGOs, businesses and the public sector, have travelled to the EU. Yet it was exactly those who had the Western experience and education who took the principal positions in the reformist government of 2000s, leading towards NATO and the European integration. Unfortunately, their enthusiasm and reform momentum has been lost since the 2012 elections and would require sustained effort to reinvigorate it.

In 2012, the Georgian government attempted to redesign its relationship with Russia, but received brash and impolite answers. The government opened the space for Russian TV channels and received only open agitation against the West, and in particular against the EU. The experience of the past has shown that any offer of friendly relations and playing the "good neighbour" is

understood by Russia as a sign of weakness, inviting the next offensive. Therefore, Georgia has little choice, but to cooperate with the West. At the same time, the West also needs to think ahead about what could happen to its neighbours, and offer solutions.

Conclusions

Georgia went through a decisive attempt to join the civilised world, reorganise governance, reform the economic system and became a trusted, open partner nation for the West. After many decades of being the most corrupted and parasitic society it became a leading example of change, good governance and economic freedom.

Georgia signed the Association Agreement with the European Union and is keen to integrate more within the Euro-Atlantic cooperation, becoming a member of the EU and NATO. This cooperation is essential not only from a philosophical angle, but is also the only pragmatic economic direction to move towards.

Simultaneously, some of the processes of integration have not been implemented as fast as Georgian citizens expected, and created some frustration and reticence. This slower pace allows Russian propaganda to inflict its soft-power capacities in the poor country. The EU partners need to pay more attention to the vulnerable points of Georgia and act without hesitation.

Georgia and its partners should use all possible ways and means to ensure quick economic growth, further and effective integration and make Georgia's chosen way irreversible. Georgia needs to retain and develop the initiated reorganisation, taking full responsibility for its political and economic development.

One of the best ways to support Georgia is to include it in more European economic projects and programs, to support improvement of roads and infrastructures, and to invite the country for participation in the EU policy discussions. No less important is to ensure Georgia's security from its aggressive neighbour, to stop abuse and intimidation from Russia, and to maintain the plan of de-occupation of the Georgian territories.

MOLDOVA: A CASE OF DERAILED EUROPEANISATION

Denis Cenusă

The EU-Moldova bilateral framework has advanced gradually, reaching its peak in 2014, with the Association Agreement, which set out the conditions for trade liberalisation and overall economic sectoral integration. The Agreement is based on conditionality principles, such as, rule of law, good governance, human rights and democracy. The inter-connections between the EU and Moldova are varied and touch upon trade, migration, remittances and FDIs. The outcomes are not yet apparent, partly as a result of political crises, defective judicial systems or sectoral institutional corruption.

The process of European integration, in which Moldova is engaged, is a complicated one that requires political stability, consistency, integrity and accountability, but also considerable financial and human resources. The challenges faced by Moldova are both internal and external. Political corruption and inefficient and politicised state institutions revealed the enhanced phenomenon of "state capture". On the external side, Moldova has suffered due to trade restrictions applied by Russia, in particular since the Association Agreement (AA) was signed. This helps the pro-Russian political parties in Moldova to provide arguments against the European agenda, and build public support in favour of Russia-led Eurasian projects. Polls

confirm better positions for the pro-Russian stakeholders, while the agents of Europeanisation prove to be discredited or weaker.

Bilateral trade between Moldova and the EU

Significant steps towards the liberalisation of bilateral trade between the European Union (EU) and Moldova have been made since 2005, with the Generalised Scheme of Preferences (GSP+) and subsequently in 2008, with the Autonomous Trade Preferences (ATP) through which the EU opened unilaterally its market, quotas being retained for specific goods.

Since the Deep and Comprehensive Free Trade Agreement (DCFTA) entered into force in September 2014, as part of the Association Agreement, bilateral trade obtained new incentives. It foresees the gradual process of lifting the import customs duty, with up to a five year transitional period for both industrial and agri-food products. According to the WTO, the EU preserves duties for 29 out of 9,379 tariff lines, related to agri-food goods that are sensitive for EU producers (such as: tomatoes, cucumbers, garlic, courgettes, fresh fruits and grape juice). In the case of industrial goods, the EU has lifted the import duties on an asymmetric basis by favouring Moldovan goods, which have immediate access to the EU market.

According to the DCFTA, trade with agri-food goods is more complex, but at the same time relies on a more reciprocal approach. On the one hand, EU applies the tariff rate quotas (TRQs) for specific goods (tomatoes, garlic, grapes, apples, plums, grape juice) as shown in the Annexes of the Agreement. But the volumes that exceed the established quotas are subject to customs duties at the level of MFN (Most-Favoured Nation). If enhanced

production capacity can be proved, the Moldovan authorities may propose the reviewing of the existing quotas, while the EU has the prerogative whether or not to accept this.

The TRQs are reflected in the Annexes, which are the only aspect of the Agreement that are opened to amendments, if all sides reach a consensus. On the other hand, the EU is also entitled to use the mechanism of "anti-circumvention" through which the preferential trade treatment can be cancelled in case of an unjustified increase in imports from Moldova. Concomitantly, the Moldovan side obtained a larger period for transitions for EU goods to enter the Moldovan market. These periods are up to ten years (meat, dairy, wines etc.), with larger access for goods such poultry, pork, or sugar, but on the basis of the TRQs.

The outcomes of trade in recent years, in particular since the DCFTA entered into force provisionally (September 2014), show an increasing EU's share in the total Moldovan exports. In 2015, the exports to the EU reached 61.9 percent from 51.5 percent registered in 2008, when the Autonomous Trade Preferences were offered to Moldova. The imports from the EU as a share of the total amount increased less than the exports, accounting for 49 percent from 43 percent in 2008. Nevertheless, the combined volume of trade (export plus import) with the EU does not show an increase because of reduced imports in real terms (see Table 1).¹

A bigger share of the EU in Moldovan exports followed a considerable drop in trade with Russia, Ukraine and other CIS countries, between 2014-2015. For instance, the exports to Russia reduced by almost three times in 2015, compared to 2013. This resulted from, largely politically motivated, trade barriers applied by the Russian authorities as a result of Moldova signing the

¹ Ana Popa, "DCFTA between Moldova and EU After One Year", Expert-Group, December 4, 2015, <http://expert-grup.org/en/biblioteca/item/1189-zslac-moldova-ue-1an/1189-zslac-moldova-ue-1an>.

Table 1. Moldova's trade structure by countries and regions, USD million

	2013				2015			
	Exports, USD	Exports %	Imports, USD	Imports %	Exports, USD	Exports %	Imports, USD	Imports %
EU	1,137	46.8	2,472	45.0	1,218	61.9	1,954	49.0
Russia	632	26.0	788	14.4	241	12.2	536	13.4
Other CIS	291	12.0	884	16.1	252	12.8	482	12.1
Other Europe	53	2.2	80	1.5	41	2.1	62	1.6
US	25	1.0	74	1.3	22	1.1	51	1.3
China	7	0.3	479	8.7	9	0.4	366	9.2
Rest of world	0	11.7	1	13.0	0	9.4	1	13.4
Total	2,428	100.0	5,492	100.0	1,967	100.0	3,987	100.0

Source: Expert-Group based on National Bureau of Statistics

Association Agreement with the EU.² The diminished trade with Russia was also determined by the economic turmoil in Russia (caused by the devaluation of the Russian currency, the Western sanctions applied in response to Moscow's involvement in Eastern Ukraine and annexation of Crimea). The economic shocks that occurred in Ukraine during 2014-2015, also affected the bilateral trade with Moldova.

The Moldovan exports to EU include the following most significant categories of goods: animal and food products (nuts, fruits, vegetables, cereals, processed foodstuffs, beverages etc.) – EUR 413 million (33 percent), textiles (clothing) – EUR 224 million (17.9 percent), base metals and articles (iron and steel production) – EUR 129 million (10.3 percent), machinery (electrical and electronic

² Denis Cenusa, Michael Emerson, Tamara Kovziridze and Veronika Movchan, "Russia's Punitive Trade Policy Measures towards Ukraine, Moldova and Georgia", CEPS, September 24, 2014, <https://www.ceps.eu/publications/russia%E2%80%99s-punitive-trade-policy-measures-towards-ukraine-moldova-and-georgia>.

equipment) – EUR 225 million (18 percent), and miscellaneous manufactured items – EUR 97 million (7.7 percent).

In 2015, the five biggest trade partners from the EU were the following countries: Romania (22.7 percent), Italy (10), the UK (7), Germany (6) and Poland (3.5 percent). Among CIS countries, the major trade partners are: Russia (12.2), Belarus (6.7), Kazakhstan (3) and Ukraine (2.3).³

Structural challenges that hamper the Moldovan exports towards the EU are related to the underdeveloped quality assurance system (laboratories, safety standards etc.). This shortcoming limits the export of agri-food goods, in particular of animal origin, originating from Moldova. At the same time, some Moldovan exports (e.g. apple juice) encounter temporary difficulties due to the market saturation caused by Russia's decision to close its market for European agri-food products.

The flow of foreign investments fluctuated during 2009-2014, with a diminishing trend in recent years. The weak attractiveness of Moldova for foreign investments is determined mainly by problems with law enforcement, insecurity related to property rights, frequent political instability etc. The official data show that some EU Member States though have expressed an interest to invest in Moldova; however, they channel fewer investments than Russia. Among the most significant EU Member States generating foreign investments are the Netherlands, Cyprus, France and Spain.

Interestingly, while the foreign investments from Russia grew between 2009-2014, the FDI from the EU Member States decreased slightly. Russia's investors are at an advantage being familiar with the legal and economic specifics of CIS countries, including Moldova. Only

³ National Bureau of Statistics of Moldova, "Trade Data for 2015", <http://www.statistica.md/newsview.php?l=ro&idc=168&id=5079>.

added together, the investments coming from eight EU Member States exceed by double the FDI coming from Russia. What is more, there is an unofficial theory that part of the FDIs coming into Moldova actually originate from offshore zones, such as Russia, but also from some European countries such as Cyprus or the Netherlands. The political instability that increased since 2014 severely affected the foreign direct investments. The signing of the Association Agreement did not have the expected impact on Moldova's image as a safe and attractive place for FDI. (See Table 2.)

Table 2. The biggest contributors of FDI to Moldova, USD million

	2009	2010	2011	2012	2013	2014
Netherlands	311.10	420.35	536.53	552.82	533.14	352.96
Cyprus	187.01	260.43	270.09	252.27	204.51	266.71
France	211.76	238.85	255.37	269.41	258.83	238.17
Spain	164.92	200.66	250.15	249.69	244.58	223.27
Germany	115.76	140.42	182.01	204.02	210.91	180.40
Italy	143.23	115.62	152.85	160.99	174.01	152.04
Romania	172.44	189.85	229.41	180.50	175.00	173.72
UK	113.37	144.54	130.61	117.74	121.94	114.02
Russia	594.63	656.24	738.03	787.44	795.99	792.37
Total	2,530.36	2,948.99	3,417.59	3,440.34	3,313.68	3,067.09

Source: National Bank of Moldova

When it comes to migration, there is a gloomy perspective related to political and economic governance. A lack of perspective about the country's future makes many young Moldovans to take the decision to leave the country, as well as low salaries and poor standards of living in the regions.

There is a lack of official data about the current state of affairs concerning the migration flows. This results from the insufficient statistical coverage of this phenomenon, but also from the lack of

confidence among Moldovan migrants concerning the reporting of periodical migration or permanent residency abroad. The number of documented emigrations (99,352 in 2012) is much lower than the figures provided by the border police (330,167 in 2012).⁴

The existing data show that the Moldovans who emigrated opted mostly for Russia and Italy. It is important to mention, however, that the migrants who opted for Russia are more involved in circular migration than those aiming for Italy and other EU Member States. Significant changes have been observed in the migration flows towards the EU, where the UK and Germany emerge as favourite destination countries, apart from the traditional targets of Moldovan migrants – Italy, Spain, Portugal and Greece. Additionally, the contract-based migration is linked to Israel, while Canada is chosen for permanent residence, in particular for young families. (See Table 3.) An increasing number of Moldovans opt for the USA (35,325 in 2011)⁵.

The countries of destination influence greatly the amounts and the currency of the remittances transferred by Moldovan migrants. Currently, the remittances constitute close to 30 percent of the GDP. Due to the economic situation in the major countries of destination (Italy, Spain, Russia etc.) the remittances diminished in 2015, in particular from Russia where the national currency devaluated and the economic slowdown was reported during 2015. The slow recovery of the European economy also affects the migration behaviour in terms of remittance transfers. The money transfers seem to be balanced positively by the migrants from other regions, in particular the USA and Israel. However, the reintegration of families and permanent migration remain the biggest risks for future sustainability of the

⁴ Olga Poalelungi, Jana Mazur and Maria Vremis, *Extended Migration Profile of the Republic of Moldova 2007-2012*, ed. De Lim Miguel Lorenzo (International Organization for Migration, Mission to Moldova, 2014), http://publications.iom.int/system/files/pdf/285_migration_2007-2012_en.pdf.

⁵ Migration Policy Center, "Migration Profile Moldova", 2013, http://www.migrationpolicycentre.eu/docs/migration_profiles/Moldova.pdf.

remittance flows into Moldova (see Table 4). Remittances have already decreased as a percentage of GDP, which would constitute a positive sign for Moldova finding new sources of incomes. Therefore, fewer remittances would trigger difficulties for consumers, by reducing the purchasing power of households and affecting imports.

Table 3. Moldovan emigration by countries (with >10,000 persons registered)⁶

	Total
European Union	
Italy	147.519
United Kingdom	20.000
Spain	17.515
Romania	13.254
Germany	11.872
Greece	11.717
Portugal	11.503
Commonwealth of Independent States	
Russia	459.700
Other countries	
Israel	15.000
Canada	13.861
Total	755.983

Source: Extended Migration Profile of the Republic of Moldova 2007-2012

Table 4. The structure of remittances, USD million

	2009	2010	2011	2012	2013	2014	2015
Total amount	1.182	1.244	1.443	1.494	1.608	1.612	1.129
Share in % :							
• USD	54.1	51.6	42.2	38.9	31.3	27.2	42.3
• EUR	40.6	38.7	41.6	37.1	35.1	36.1	32.9
• RUB	5.3	9.7	16.2	24.0	33.6	36.7	24.8

Source: National Bank of Moldova

⁶ Data is based on estimations provided by diplomatic and consular missions.

Formal links with the EU

Moldova's bonds with the EU have developed gradually during the history of their bilateral relations. The first framework of cooperation was established through the Partnership and Cooperation Agreement (PCA) in 1994, which entered into force in 1998. The agreement embodied light political and economic engagements from the European side, almost identical to those set between the European Community and Russia, and other post-Soviet republics. A more consistent dialogue started with the EU-Moldova Action Plan (2005-2008), launched in February 2005 as part of the European Neighbourhood Policy (ENP), initiated in 2003, on the eve of EU's "big bang" enlargement in 2004. Although the Plan contained clear goals and actions, being monitored annually by the European Commission, it was based on purely political commitments from the part of the Moldovan authorities.

A powerful breakthrough for EU-Moldova relations was the Association Agreement (AA), which encapsulates the Deep and Comprehensive Free Trade Agreement (DCFTA). The AA was signed in June 2014, and ratified by Moldova in July the same year. The EU Member States completed the procedures of ratification in late 2015, with further announcement from the EU that the Agreement will enter into force on July 1, 2016.⁷ The Agreement consists of political and economic commitments, with clear juridical effects, undertaken by both sides. It contains 7 Titles, 465 Articles, 35 Annexes and 4 Protocols. Overall, the Moldovan side undertakes to conduct reforms and transpose the EU *acquis* in political, economic, and sectoral areas, within ten years.

In addition, Moldova became the first country of the Eastern Partnership that succeeded in obtaining a visa-free regime with

⁷ Denis Cenusă, "Eastern Partnership Discussed in Brussels: Moldova's European Agenda Gets Several New 'Contours'", *Info-Prim News Agency*, May 27, 2016, <http://ipn.md/en/special/76782>.

the EU in April 2014, on the basis of the Visa Liberalisation Action Plan initiated in January 2011. Between April 2014 and May 2016, more than 500,000 Moldovan citizens benefited from the free travel regime to Schengen countries (90 to 180 days) using the biometric passports. Apart from the implemented reforms related to legal and institutional changes (e.g. personal data protection, migration and border management, protection of human rights etc.), the pressure exercised by Russia created additional political incentives for conferring a visa-free regime status to Moldova.

Current results of Europeanisation and its dynamics

Since September 2014, Moldova's authorities have been officially engaged in the process of provisional implementation of the Association Agreement. However, the year 2015 is considered to be a lost year due to multiple and long-lasting political crises, accompanied by frequent changes of the government (three times in this period).

In October 2014, the Action Plan for implementation of the Agreement for 2014-2016 was adopted, being further updated in October 2015. The Action Plan consists of actions to be carried out in all sectors. It also contains the timescale for the transposition of the EU Directives into the national legislation. The authorities plan to initiate the work on a new Action Plan for the period 2017-2019, in autumn 2016. They also expressed an interest in involving civil society in the drafting of the Action Plan.

In parallel, the authorities worked on implementing a "road map" with priority reforms, which were delayed and/or became urgent because of the crisis in the banking and financial sectors. The "road map" was set up by the Moldovan government in March 2016, after the Council of the European Union drew severe conclusions

concerning the situation in Moldova, on February 15th.⁸ The European side asked for a “road map” outlining urgent measures to be taken by the government. The failure to fulfil the “road map” would seriously affect the dialogue with the EU and other external partners, and could have a negative impact on the EU’s direct budget support, which was frozen in 2015 as a response to the “banking fraud” revealed in December 2014, and accounting for up to 15 percent of the country’s GDP.

According to the authorities, more than 60 percent of the action plan on the implementation of the Association Agreement has been implemented, while the civil society representatives assess it to be less than 50 percent.⁹ The data regarding the transposition of the EU’s *acquis*, presented by the authorities, show that, e.g. for Title IV on Economic cooperation, only 35 EU Directives were transposed by the end of 2015 out of a planned 269. At the same time, the figures for Title V on DCFTA show that only 53 EU Directives have been transposed out of a planned 176.¹⁰

It should be conceded that not enough time has passed to feel the impact determined by the transposition of EU’s legislation. Trained human resources, strong administration and efficient bureaucracy are needed, as well as sufficient financial coverage, in order to make the new legal and institutional transformations work properly to bring tangible outcomes.

Even more so, de-politicisation of all public institutions through open and merits-based contests should be provided. New

⁸ Denis Cenusa, “Deciphering EU’s Position on Moldova: Real Significance Versus Mistakes and Omissions”, *Info-Prim News Agency*, February 22, 2016, <http://ipn.md/en/integrare-europeana/74910>.

⁹ “The Statement of the Civil Society Representatives Dedicated to the 2nd Reunion of the EU-Moldova Parliamentary Association Committee”, May 16, 2016, <http://ipn.md/ro/comunicate/5789>.

¹⁰ Ministry of Foreign Affairs and European Integration, “The Status-Quo of the Approximation Process”, <http://www.mfa.gov.md/img/docs/Anexa4-Asociere- RM-UE-Ianuarie-2016.pdf>.

mechanisms to incentivise the attraction of well-educated and competent persons into the public administration should be urgently introduced. Serious and immediate steps should be taken in order to retain existing specialists and to invest in their further qualification. Otherwise, the Europeanisation process will lose its “drivers”, ensuring the basic capacities, without which the government would struggle to implement effectively the Association Agreement with the EU.

Formal and informal domestic agents of Europeanisation

The agents of Europeanisation – both formal and informal – are rather scarce and weak in Moldova. Partially, this is determined by the collapse of the trust in the so-called pro-European political parties that have governed the country since July 2009. Consequently, this contributed to a consolidation of the pro-Russian views and their supporters, represented mainly by the pro-Russian political parties. In addition, there is no strategy of communication on the European integration, which appears strange, as the European integration became a “national objective” more than six years ago, and the Association Agreement has been applied provisionally for the past two years.

The Ministry of Foreign Affairs and European Integration represents the strongest formal agent of Europeanisation. It coordinates the monitoring activities related to the overall Association Agreement, as well as collecting data from the Ministry of Economy that supervises the progress in sectors related to the DCFTA. Moreover, this Ministry is the only responsible body for the entire dialogue with the European institutions, including the Member States. Other state institutions largely lack the knowledge, skills and motivation for Europeanisation,

due to little contact with the European counterparts. However, mostly all of the institutions contain units that coordinate (sub-) sectoral issues related to the European agenda. The European tools (TAIEX, Twinning), which involve the public servants and institutions from Moldova, have the potential to infuse the European-oriented norms and practices into the public sector. An additional effort by the local public administration is needed to expand Europeanisation to the regions outside the capital.

Other formal agents of Europeanisation are the representatives of civil society. They implement research and communication projects regarding the European integration process and the implementation of the Association Agreement. Their number is relatively small, however they represent the strongest NGOs of Moldova, in particular the think-tanks. The majority of NGOs that conduct projects financed by the EU or the EU's Member States, however, are not properly engaged in advocacy activities aiming to popularise the correct understanding about the EU and the European integration process. Platforms like "Europe for Moldova"¹¹ are very few and they are not popular enough to make a big impact on public opinion.

Some representatives of mass media are engaged in supporting Europeanisation, but these efforts are neither coherent, consistent nor professional. A lack of understanding of the EU and the European issues is widespread among the journalists and media institutions, although there is evidence of some talk-shows, articles, investigations etc. on these topics on TV and online media. More efforts are needed to develop the skills and knowledge within national and local media for proper coverage of the European issues.

The political parties lack credibility from the point of view of citizens and civil society, therefore, their role in Europeanisation is relatively weak. At the same time, the newly created political

¹¹ "Europe for Moldova", <http://europa-moldova.md/pentru-o-viata-mai-buna>.

parties, (not pro-Russia), are not consistent in supporting the actions dedicated to Europeanisation in terms of proposed policies and values. The populism-oriented politics, low political culture and weak democratic conscience in society, trigger a reluctant position from the new “non-pro-Russia” political parties, which are afraid to adopt any amount of European rhetoric if this means losing their electorate. Improved contacts with pan-European parties are needed to train the new parties, based on voluntary acceptance of the European practices.

Russia's influence on domestic institutions and economy

Moldovan public opinion is divided when it comes to the country's external orientation. The Moldovan migrants in Russia (approx. 500,000) and the producers, whose exports are linked to Russia, are among the most susceptible to Russia's influence. In fact, Russian authorities used various restrictive policies against Moldovan producers¹², and to a less extent – the workers, aiming to diminish the legitimacy of the so-called pro-European governance and orient the public against the European integration. The labour and economic interconnections constitute the main topics used by the pro-Russian parties (Party of Socialists, “Our Party”) that collect about 40 percent of active voters. Moreover, there are regions within Moldova that are prone to embracing the Russian model because of ethnic and linguistic affinities and nostalgia for the Soviet times.

There is also a problem of “disconnected realities” between the capital city Chisinau, which is more Euro-optimistic, and the

¹² Denis Cenuşa, “Post-Vilnius Moldova: Between Reform Shortcomings and Geopolitical Dilemmas”, *Latvian Interests in the European Union*, Special Edition, “Eastern Partnership on the way to the Riga Summit”, Iss. 1 (2015), 47, http://www.mfa.gov.lv/images/ES_2015_1_netam.pdf.

regions, such as the Gagauzian autonomous region, that are more oriented towards Russia. The illegal referendum of February 2 of 2014 serves as a clear example. The referendum was organised by the Gagauzian authorities, in which the absolute majority of citizens opted in favour of joining the Eurasian Customs Union (98.5 percent out of 70,777 persons who participated).¹³

A sort of “democracy fatigue” can be noticed as a result of political crises and scandals that multiplied after 2009. According to IRI’s poll, the majority of citizens put economic prosperous conditions as a higher priority (57 percent) than democracy (35 percent).¹⁴ The latest polls over the geopolitical orientation of the population confirm that the Russian-led Eurasian initiatives benefit from large public support. A poll of March 2016 pointed out that 43 percent is for joining the EU, while 44 percent favours the Eurasian Union. Other polls show an even lower interest among Moldovans in the EU’s membership.¹⁵

This is determined by the continuously decreasing trust in political parties that were associated with the European agenda, as observed since 2013 (the Democrat Party, the Liberal Democratic Party, the Liberal Party). Apart from this, the EU’s image suffered because of its tolerance towards the so-called pro-European parties during 2009-2014, accused of numerous misconducts, offences, and high-level corruption leading to the magnified phenomenon of “state capture”.¹⁶ The weak conditionality applied by the EU is also

¹³ Denic Cenusa, “The Challenges Facing Moldova on Its Path to Europe” in *Trouble in the Neighbourhood? The Future of the EU’s Eastern Partnership*, (Foreign Policy Center, 2015), 41, <http://fpc.org.uk/fsblob/1681.pdf>.

¹⁴ Center for Insights in Survey Research, “Public Opinion Survey: Residents of Moldova”, March 2016, http://www.iri.org/sites/default/files/wysiwyg/iri_poll_presentation-moldova-march_2016.pdf.

¹⁵ Denis Cenusa, “Moldova between European Union and Eurasian Union: Polls and Tendencies”, *Info-Prim News Agency*, May 6, 2016, <http://ipn.md/en/integrare-europeana/76403>.

¹⁶ Denis Cenusa, “Moldova, between Protests and “State Capture””, CIDOB, March 2016, http://www.cidob.org/publicaciones/serie_de_publicacion/opinion/europa/moldova_between_protests_and_state_capture.

heavily criticised. Last, but by no means less important, the Russian propaganda directed against the EU and the fake pro-European governments also play an important role in shaping the anti-EU position within Moldovan society.

Conclusions

The Europeanisation of Moldova has a certain pace, but this is not enough to ensure that the process is irreversible. Different stakeholders from within and outside Moldova are involved in destructive actions aimed at abandoning, or at least freezing, the European agenda. Both the economic and political aspects of Europeanisation face big challenges stemming from incompetent governance, systemic corruption and a lack in human and financial resources, including sufficient public legitimacy. These aspects impede the engine of reforms from working properly, many reforms being mimicked, sabotaged or delayed.

All these deficiencies create big problems for the promoters of Europeanisation. They struggle to mobilise the political parties, accused of the rampant phenomenon of “state capture”, to implement the reforms. But without sufficient and efficient conditionality from the EU, including other external partners, many things cannot be achieved. However, less attention is given to the communication on the European agenda of Moldova, due to chronic communication deficiencies of the state institutions and a lack of communication strategy, and the modest capacities of civil society and media institutions. These weaknesses pose serious risks for the sustainability of the European agenda in Moldova and create a fertile ground for Russia’s influence to thrive.

UKRAINE: A LITMUS TEST FOR THE NEW EU EASTERN ENGAGEMENT POLICY

Veronika Movchan

Although Ukraine declared its desire for EU accession as one of its strategic objectives more than two decades ago, until recently the progress was very moderate. The country tried to keep bipolarity of its foreign policy, being “sandwiched” between two large powers – the EU and Russia. The Revolution of Dignity (2013-2014) followed by Russian military aggression changed the situation dramatically, forcing Ukraine to revise its policy priorities and decide on the way forward. Europeanisation has become not only *de jure* but the *de facto* objective of its reform agenda.

The aim of the study is to assess the strength of Ukraine’s economic ties with the EU and its progress towards Europeanisation.

Existing economic ties with the EU

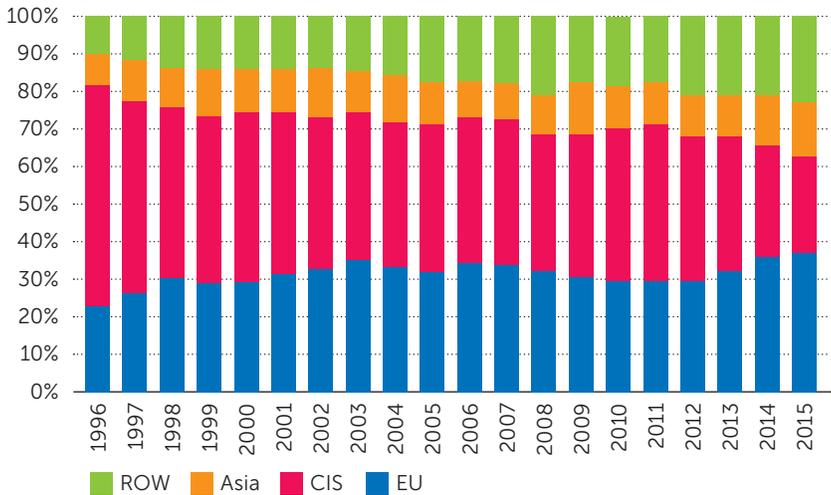
Since independence, Ukraine’s economic ties with the EU have been steadily strengthening. Currently, the EU is the largest partner of Ukraine in trade of goods and services. It is also the largest investor in Ukraine’s economy and one of two of the most important

destinations for labour migrants. With the implementation of the Association Agreement, economic links between the countries are expected to become even stronger.

Trade in goods and services

Over the past two decades, Ukraine’s trade in goods and services has gradually shifted from the CIS towards other markets, in particular, the EU and Asia (Figure 1). In 2015, the EU as a single customs territory was the largest partner of Ukraine, accounting for 37 percent of total trade.

Figure 1. Geographical structure of Ukraine’s trade in goods and services, 1996-2015

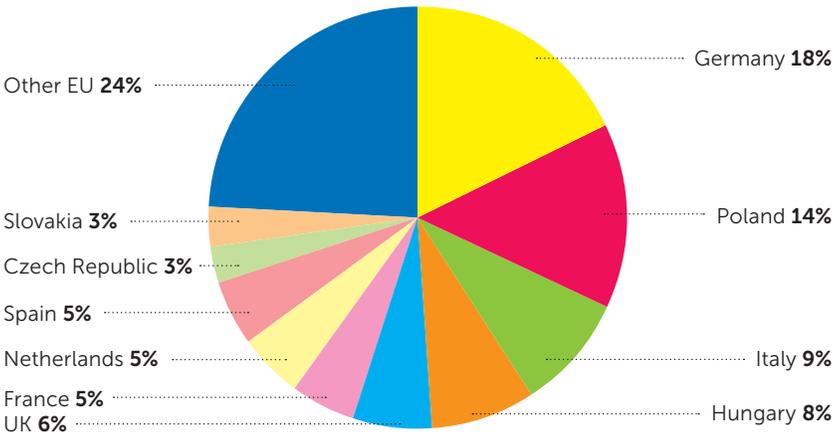


Source: State Statistics Service of Ukraine

Germany, Poland, Italy and Hungary are the largest trade partners of Ukraine among the EU Member States. Together, these four

countries accounted for about half of total trade turnover in 2015 (Figure 2). The role of Germany is especially important as a source of imports, supplying a quarter of all imports from the EU, while Poland and Italy are two primary export destinations.

Figure 2. Ukraine’s trade with the EU by countries, 2015



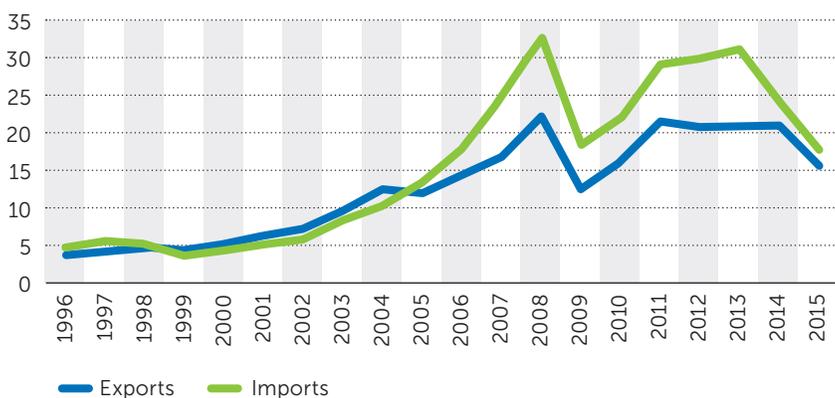
Source: State Statistics Service of Ukraine

The nominal value of Ukraine-EU trade increased fourfold between 1996-2015 (Figure 3), and its trend replicates the “ups and downs” of the Ukrainian economy, with downward trends coinciding with three major financial crises experienced by the country (1998–1999, 2008–2009, and 2014–2015). The highest trade value (USD 55.1 billion) was reached in 2008, just before the collapse of world commodity prices.

In 2015, Ukraine’s export of goods and services to the EU amounted to USD 15.9 billion, while imports were equal to USD 17.9 billion. The trade deficit reduced to USD 2.0 billion against the

faster reduction in imports compared to exports. Nominal exports dropped by 24.4 percent in 2015 and imports – by 25.9 percent. In real terms, merchandise exports to the EU increased by 2 percent,¹ partly stimulated by better market access thanks to the EU's autonomous trade measures.

Figure 3. Ukraine-EU Trade trends, USD billion, 1996-2015



Source: State Statistics Service of Ukraine

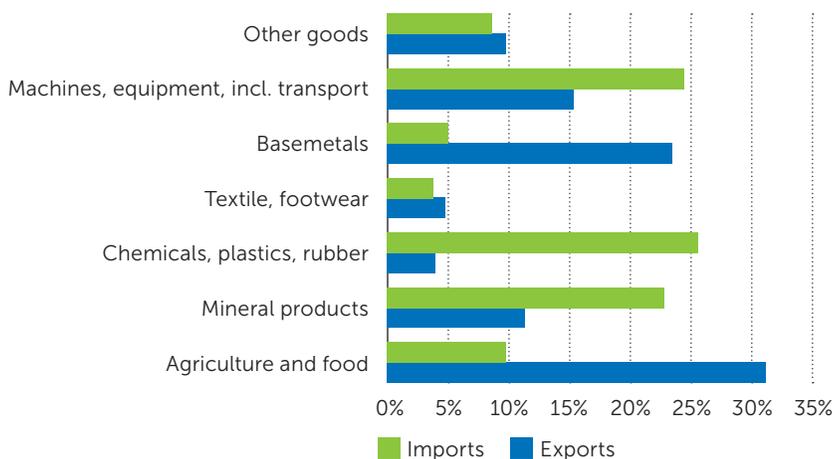
The trade in goods accounts for over four-fifths of total trade. The structure of trade in goods is quite concentrated (Figure 4). Exports are dominated by agriculture and food products (31 percent of total goods exports in 2015), the importance of which has recently risen. The second rank is taken by base metals (24 percent), the role of which has been steadily declining, together with global metal prices. Machine building products are the third most important export category (15 percent), partly

¹ Mykola Ryzhenkov, Veronika Movchan and Ricardo Giucci, "Trade Liberalisation with the EU and Its Impact on Ukrainian Exports in 2015", *GAG Policy Briefing Series* PB/10/2016, 2016, http://www.beratergruppe-ukraine.de/wordpress/wp-content/uploads/2016/05/PB_10_2016_en.pdf.

thanks to a cluster of automotive industry suppliers established in Western Ukraine.

Machines and equipment, chemicals and mineral products constitute the main import categories, together accounting for 73 percent of total goods imports in 2015. Since 2013, exports of mineral products from the EU have considerably increased, as Ukraine started buying natural gas from Europe instead of Russia. This reorientation plays an important role in increasing the energy security of the country by reducing, or even eliminating, its dependence on Russia that tends to use the gas supply as an instrument of control over Ukraine's policy.² Moreover, provisions of the currently litigated Naftogaz–Gazprom contract make it cheaper to buy Russian gas from the EU, rather than directly from Russia.

Figure 4. Structure of Ukraine-EU merchandise trade, 1996-2015



Source: State Statistics Service of Ukraine

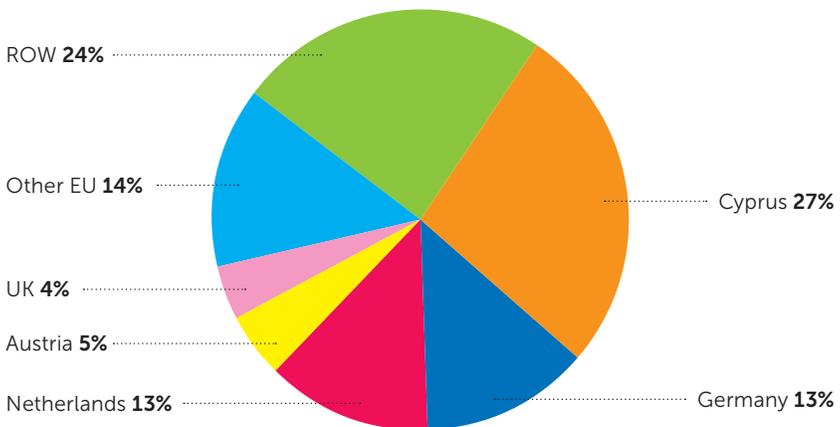
² Veronika Movchan, "Aus dem Zwischenraum. Ukraine: Handelsverflechtung und Aussenpolitik", *Osteuropa* 65, Jahrgang/Heft 1-2/Januar-Februar, 2015.

Trade in services with the EU is naturally dominated by transportation services, which account for about 40 percent of exports and 28 percent of imports. Financial services constitute a large category of service imports from the EU (24 percent).

Inward FDI

The EU is the largest investor in Ukraine's economy. According to Ukraine's State statistics service, the total inward stock of the EU FDI was equal to USD 33.0 billion or 76 percent of total stock, in late 2015. Cyprus is the most important source of investments, followed by Germany and the Netherlands.

Figure 5. EU inward FDI in Ukraine, stock as of end of 2015



Source: State Statistics Service of Ukraine

Most of the EU investments are concentrated in the industry (34 percent) and financial sector (25 percent). In particular, several

large European financial groups including SEB (Sweden), Deutsche Banks (Germany), Credit Agricole and BNP Paribas (France), ING Groep (Netherlands), Unicredit (Italy) and Raiffeisen (Austria) invested in the Ukrainian banking system.

Migrants, refugees, and remittances

Before the Russian military aggression against Ukraine in 2014, external labour migration in Ukraine had been on a downward trend. According to nationwide Labour Migration Surveys conducted in 2008 and 2012, about 1.5 million of Ukraine's citizens worked abroad in 2005-2008, while in 2010-2012 this number diminished to about 1.2 million.³ These migration flows were almost equally split between the EU and Russia, with the share of the latter gradually reducing. In the EU, Poland and the Czech Republic were the most popular destinations.

The occupation of over 8 percent of Ukraine's territory and an ongoing war resulted in an upsurge of internal and external migration. As of February 2016, the Ministry of Social Policy registered over 1.7 million internally displaced persons⁴ constituting about 4 percent of Ukraine's population. About 1 million people have allegedly moved to Russia.

The conflict made Russia a much less attractive destination for labour migration, that seems to have resulted in a reorientation of temporary migration flows towards the EU. According to Poland's data, in the first half of 2015, the number of temporary job permits

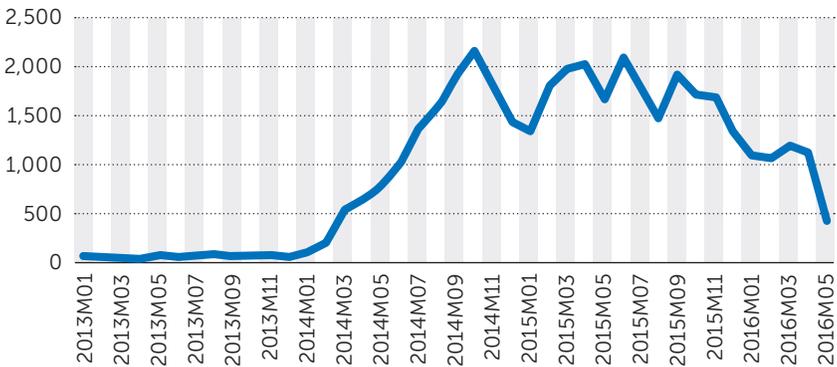
³ Oleksandra Betliy, "Migration between the EU, V4 and Eastern Europe: The Present Situation and the Possible Future. The Perspective of Ukraine", in *Forecasting Migration between the EU, V4 and Eastern Europe: Impact of Visa Abolition*, ed. Marta Jaroszewicz and Magdalena Lesińska (Ośrodek Studiów Wschodnich im. Marka Karpia, 2014), 158-180.

⁴ Cabinet of Ministers of Ukraine, "Ministry of Social Policy Recorded 1,704,937 Internally Displaced Persons", http://www.kmu.gov.ua/control/publish/article?art_id=248800053×tamp=1454332560000.

issued to Ukrainian citizens reached 400 000, almost double of that in 2014 (372 000 for the whole year).⁵

Moreover, the EU also registered a temporary upsurge in first-time asylum applicants by Ukraine's citizens that peaked to about 2000 applications per month, in October 2014 (Figure 6). The largest numbers of applications were in Germany, Italy, Spain, Poland, France and Sweden. From 2016, the number of asylum applications significantly reduced against the background of macroeconomic stabilisation in Ukraine and a very low recognition ratio. According to Eurostat, only 55 applicants from Ukraine were granted EU citizenship in 2014 and 145 applicants – in 2015, while the total number of asylum applications since the Russian aggression reached 38 000.

Figure 6. First-time asylum applications by Ukraine's citizens



Source: Eurostat

Remittances have always played a relatively important role in the Ukrainian economy. According to the World Bank, Ukraine is

⁵ Marta Jaroszewicz, "The Migration of Ukrainians in Times of Crisis", *OSW Commentary*, October 19, 2015, <http://www.osw.waw.pl/en/publikacje/osw-commentary/2015-10-19/migration-ukrainians-times-crisis>.

the leader of the Europe and Central Asia region in the nominal volume of remittances, constituting about USD 6 billion annually.⁶ According to the the National Bank of Ukraine, in 2015, the EU accounted for over one-third of total remittances transferred to Ukraine via bank transfers and international payment systems. Germany, the UK, Cyprus, Greece, and Italy are the main source countries for official remittances to Ukraine.

Formal links with the EU

Ukraine is one of the partner countries of the Eastern Partnership (EaP) initiative of the EU and the Eastern European countries. Formal relations between Ukraine and the EU are governed by the parts of the Partnership and Association Agreement (PCA) remaining in force, and by the provisionally applied parts of the newly signed Association Agreement.

The Association Agreement between the EU and Ukraine is the most comprehensive international treaty ever signed by Ukraine, aimed to define political and economic cooperation between the countries for the next decades. It was signed in June 2014, seven years after the launch of the negotiations. The document was initialled already in mid-2012, but former President, Viktor Yanukovych, at the last minute refused to sign the Agreement at the Vilnius EaP Summit, in November 2013, thereby triggering mass protests in the country. The success of the 2013-2014 revolution led to a change in political leadership and opened the way for the signature.

⁶ "Migration and Remittances Recent Developments and Outlook", *Migration and Development Brief 26*, April 2016.

The Agreement covers a wide range of issues including political dialogue, cooperation in the areas of justice, security and foreign policy, the establishment of a free trade area, economic and sectoral cooperation. The particular feature of the Agreement is that it stipulates a wide-reaching harmonisation of Ukraine's laws with the EU's *acquis communautaire*. According to some estimates, Ukraine will have to transpose up to 60 percent of the EU *acquis* in the sphere of trade.⁷

The process of the implementation of the Association Agreement is further guided and facilitated by the EU-Ukraine Association Agenda, a bilateral practical tool aimed to set priorities and specify policy actions. The most recent Agenda was passed in March 2015,⁸ while the first Agenda was adopted in November 2009, with the aim of preparing the country for the Agreement enactment.⁹ In the Association Agenda 2015, the parties defined ten short-term action priorities, including constitutional reform; election reform; preventing and combating corruption; judicial reform; public administration reform; deregulation; public procurement reform; taxation reform, including value added tax refunds; external audit; and energy sector reform. These priorities also constitute the most critical areas of Ukraine's domestic reform agenda, clearly highlighting the modernisation power of the Association Agreement.

Another important part of the EaP initiative is the promotion of mobility of citizens and people-to-people contacts, by offering more favourable visa regimes. After the EU-Ukraine Visa Facilitation

⁷ Daniel Szeligowski, "The DCFTA's Impact on the Modernisation of Ukraine's Economy", *PISM Bulletin*, No. 33 (883), May 31, 2016.

⁸ "EU-Ukraine Association Agenda to Prepare and Facilitate the Implementation of the Association Agreement, as Endorsed by the EU-Ukraine Association Council on 16 March 2015", http://eeas.europa.eu/ukraine/docs/st06978_15_en.pdf.

⁹ "EU-Ukraine Association Agenda to Prepare and Facilitate the Implementation of the Association Agreement", http://www.eeas.europa.eu/ukraine/docs/2010_eu_ukraine_association_agenda_en.pdf.

Agreement and Readmission Agreement entered into force in June 2007,¹⁰ the partners opened visa liberalisation dialogue, that resulted in the Visa Liberalisation Action Plan completed in 2015, five years after its launch.¹¹ In December 2015, the EC officially recommended providing a visa-free regime for short-term trips of Ukraine's citizens, but the formal decision is still pending.

The Energy Community Treaty, a full member of which Ukraine became in 2011,¹² constitutes another important dimension of the EU-Ukraine formal links. The Energy Community is an international organisation aimed to extend the EU internal energy policy and environmental regulations on non-Member neighbouring countries thereby creating an integrated energy market, fostering investments, and enhancing the security of supply and competition in the region.¹³ Ukraine's commitments as an Energy Community member are fully consistent with the Association Agreement, and also facilitated by the Association Agenda, that defines energy policy reforms among the key short-term priorities for Ukraine.

The EU carries out several policy missions in Ukraine. A Border Assistance Mission to Moldova and Ukraine (EUBAM) has operated in Ukraine since 2005, and recently its mandate was prolonged until 2017. The EUBAM is aimed at harmonisation of border controls and customs procedures with the EU norms, enhancement of border cooperation, and conflict resolution in Transnistria.¹⁴

¹⁰ EC Migration and Home Affairs, "Mobility Partnerships, Visa Facilitation and Readmission Agreements", http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/international-affairs/eastern-partnership/mobility-partnerships-visa-facilitation-and-readmission-agreements/index_en.htm.

¹¹ EC Migration and Home Affairs, "Visa liberalisation with Moldova, Ukraine and Georgia".

¹² "Protocol Concerning the Accession of Ukraine to the Treaty Establishing the Energy Community", <https://www.energy-community.org/pls/portal/docs/728177.PDF>.

¹³ Energy Community, "Who We Are", https://www.energy-community.org/portal/page/portal/ENC_HOME/ENERGY_COMMUNITY/Who_are_we.

¹⁴ EUBAM, "Who We Are", <http://eubam.org/who-we-are/>.

An Advisory Mission for Civilian Security Sector Reform in Ukraine (EUAM) was launched in December 2014, with the aim to provide strategic advice and specific support for the reform of the civilian security sector.¹⁵

In 2015, the national office of ERASMUS+, the largest EU program for educational exchanges, training, youth and sport, was officially registered in Ukraine.¹⁶ In the same year, Ukraine became an “associated country” in Horizon 2020, the EU Framework Program for Research and Innovation 2014-2020.¹⁷

The EU provides technical and financial resources to support the reform process in Ukraine. In 2007-2013, the EU committed EUR 1 billion for bilateral assistance to Ukraine under the European Neighbourhood Instrument (ENPI), the main financial instrument dedicated to the Neighbourhood Policy.¹⁸ The same amount is planned under the ENPI for 2014-2020. Moreover, in March 2014, the EU announced a much larger support package for Ukraine amounting to EUR 11 billion from the EU budget and EU-based international financial institutions over the next seven years.¹⁹ Thus, financial support is available, but its usage will largely depend on the absorption capacity of Ukraine, in particular, the speed and depth of Europeanisation reforms.

¹⁵ EUAM, “Our Mission”, <http://www.euam-ukraine.eu/en/what-we-do/our-mission>.

¹⁶ National ERASMUS+ Office in Ukraine, “About Us”, <http://erasmusplus.org.ua/en/about-us.html>.

¹⁷ European Commission, “Ukraine Joins Horizon 2020 to Work with EU in Science and Research”, Press Release, Kiev, March 20, 2015, http://europa.eu/rapid/press-release_IP-15-4640_en.htm.

¹⁸ EC European Neighbourhood Policy and Enlargement Negotiations, “Ukraine”, http://ec.europa.eu/enlargement/neighbourhood/countries/ukraine/index_en.htm.

¹⁹ Georgi Gotev, “EU Matches Putin’s EUR 11 Billion Financial Offer to Ukraine”, *EurActiv.Com*, March 5, 2015, <http://www.euractiv.com/section/europe-s-east/news/eu-matches-putin-s-11-billion-financial-offer-to-ukraine/>.

Current results of Europeanisation and its dynamics

Macroeconomic situation

The years 2014-2015 were very difficult for the Ukrainian economy that appeared in light of the “perfect storm”, combining both external and domestic shocks. Externally, the Russian aggression and occupation of the territory resulted in the loss of productive assets and access to natural resources, and in the disruption of production links negatively affecting economic activity in the country. The ongoing military conflict in eastern Donbass continues to take its toll on the economic recovery. A downward trend of world commodity prices added to negative shocks as the structure of the Ukrainian exports makes it highly vulnerable to global price movements.

In domestic policy, the country went through mass protests, three rounds of nationwide elections (Presidential, national parliamentary and local) and has currently entered into a process of comprehensive reforms, aimed at overhauling the corrupt-ridden economic and political structures in the country. The political crisis amplified vulnerabilities in the domestic economy, featuring a surge of fiscal imbalances, a loss of international reserves, and a swift devaluation. The national currency lost about two-thirds of its value over these two years.

The positive economic stimulus generated by provision of the EU autonomous trade preferences from April 2014 was insufficient to compensate for the negative shocks.

The first signs of macroeconomic stabilisation were registered in mid-2015 after the country achieved progress in reforms, largely guided by international organisations and the donor community.

Ukraine resumed its cooperation with the IMF, in Spring 2014, after the victory of the Revolution of Dignity. In April 2014, the new stand-by arrangements were signed for SDR 11 billion, from which SDR 3 million were disbursed. The IMF program envisaged, among other things, extensive fiscal consolidation, energy sector reform, exchange rate liberalisation, and a stabilisation of the banking system.²⁰ However, the economic shock appeared to be much deeper than initially assessed, and in March 2015, the IMF approved the four-year Extended Fund Facility (EFF) program, amounting to SDR 12 billion. The program was expected to build up and extend launched reforms, focusing in particular on securing financial stability, strengthening public finances and advancing structural reforms.²¹ By mid-2015, Ukraine had received only two tranches of the EFF program, once again lagging behind schedule.

The real GDP lost 15.8 percent in 2014-2015 and resumed its growth only in the first quarter of 2016. However, recovery is very slow, with the real GDP increasing by a mere 0.1 percent in year-on-year terms. The final households' consumption, the largest GDP category, remained in a downward trend, although it has already lost 26.8 percent in real terms since 2013. The labour market absorbed the economic shock by a significant reduction in wages, that dropped by 25.4 percent over two years, while the level of unemployment increased only moderately from 7.3 percent to 9.1 percent of the economically active population, aged 15-70. In 2015, the average wage in the country was about UAH 4 195 (about EUR 150), while the average pension was UAH 1 581 (EUR 56), putting the pensioners among the most socially vulnerable groups in the country.

²⁰ IMF, "IMF Executive Board Approves 2-Year US\$17.01 Billion Stand-By Arrangement for Ukraine, US\$3.19 Billion for immediate Disbursement", Press Release No. 14/189, April 30, 2014, <http://www.imf.org/external/np/sec/pr/2014/pr14189.htm>.

²¹ IMF, "IMF Executive Board Approves 4-Year US\$17.5 Billion Extended Fund Facility for Ukraine, US\$5 Billion for Immediate Disbursement", Press Release No. 15/107, March 11, 2015, <http://www.imf.org/external/np/sec/pr/2015/pr15107.htm>.

While the households' consumption remained strained, business seemsto havestartedrecovering. Therealfixedcapitalaccumulation increased by 4.2 percent in the first quarter of 2016 as compared to the same period in the preceding year. Industrial investments grew by 4.9 percent, with the highest growth registered in the production of electrical equipment, electronic products, and the food industry. In early 2016, industrial production resumed growth for the first time since 2012. Cargo transportation and wholesale trade volumes also increased.

The macroeconomic stabilisation and the revival of economic activity are the first "fruits" of the comprehensive reforms that Ukraine launched about two years ago.

Reform progress

Most of the reform agenda developed in Ukraine after *Euromaidan* perfectly fits the country's commitments under the Association Agreement. The progress in some of the key reform areas, the implementation of which moves Ukraine along its path of Europeanisation and modernisation, is described below.

Judicial reform: The rule of law and effective protection of property rights are essential for the development of a democratic state with a market-oriented economy. In June 2016, Ukraine took a significant step forward in this area. The Parliament voted for the amendments in the Constitution and the Law on Judicature and for adopting a new law on the enforcement of judgments. Key new measures include the competitive selection of judges, an increase in judges' independence, and much stronger safeguards against corruption, in particular by allowing the dismissal where judges cannot prove the legality of their assets and those of their family. In addition, the state monopoly of the enforcement of judgments was undermined by the introduction of private

bailiffs.²² The changes were praised by the EU and the USA, but the reform's success will only be able to be assessed following its full implementation, that requires several years and additional legal and institutional changes in the country.

Fight with corruption: Ukraine achieved significant progress in the development of institutional and legislative foundations for the fight with corruption, deemed to be the cornerstone of Ukraine's Europeanisation. In October 2014, the National Council for Anti-Corruption Policy as an advisory body to the President of Ukraine was established. The National Anti-Corruption Bureau (NABU) as a state law enforcement body responsible for the prevention, detection, investigation and disclosure of senior officials' corruption was established in April 2015, alongside the appointment of its head, selected through an open competition.²³ A Specialised Anti-Corruption Prosecution Office, as an independent branch of the prosecution, was established in November 2015,²⁴ and the National Agency for Prevention of Corruption (NAPC), responsible for the development and realisation of the state anti-corruption policy, was launched in March 2016.²⁵ The judiciary reform adopted in June 2016 envisages the establishment of a specialised High Anti-Corruption Court. Several other important laws were passed granting public access to registers, budgetary transactions, declarations of public servants, etc. and thus making it much easier to detect and trace corruptive actions. However, in 2015, Ukraine was still ranked 130 out of 167 countries in the Corruption Perception Index.

²² Oleg Chernysh, "Judiciary Reform of Poroshenko. 12 Novelties that Change Courts", *Ukrainian News*, June 2, 2016, <http://ukranews.com/publication/1686-sudebnaya-reforma-poroshenko-12-novacyy-kotorye-yzmenyat-sudy>.

²³ NABU, "History of Development", <https://nabu.gov.ua/istoriya-stanovlennya>.

²⁴ Verkhovna Rada, "Law on Prosecution", No. 1697-VII, October 14, 2014, <http://zakon5.rada.gov.ua/laws/show/1697-18>.

²⁵ Cabinet of Ministers of Ukraine, "The National Agency for Prevention of Corruption", http://www.kmu.gov.ua/control/publish/article?art_id=248207808.

Public procurement reform: This reform has been on Ukraine's economic policy agenda for a long time, as public procurement was deemed to be one of the important sources of fiscal inefficiency that can, and should, be tackled. Moreover, in the DCFTA, the partners committed to mutually opening their public procurement markets with the principle of national treatment,²⁶ linking market access to Ukraine's progress, in harmonisation with the relevant EU legislation. In 2015, a new law on public procurement aligned with EU legislation was passed,²⁷ and an electronic system of public procurements "ProZorro" was introduced.²⁸ With effect from August 2016, electronic purchases will be compulsory for all public entities in above-threshold purchases. The ProZorro system has positively contributed to the efficiency of fiscal expenditures and facilitation of competition.

Tax reform: At the end of 2015, tax legislation was significantly amended. The most important change was a sharp reduction in the social contribution rate – from 37-50 percent to 22 percent.²⁹ The decision is expected to stimulate economic activity due to lower tax pressures, and may also contribute to a decrease in "envelope" wages. Other significant changes concern a revision of the fixed agricultural tax, the improvement of the VAT (value added tax) refund system, the modification of a simplified taxation system, etc. However, the tax reform remains incomplete as a further reduction in the tax administration burden is needed.

Energy sector reforms: Over 2014-2015, Ukraine implemented a series of long-awaited reforms both set as an IMF conditionality

²⁶ "Association Agreement Between the European Union and Its Member States, of the One Part, and Ukraine, of the Other Part", *Official Journal of the EU*, Vol. 57, May 29, 2014.

²⁷ Verkhovna Rada, "Law on Public Procurement", No. 922-VIII, 25 December 2015, <http://zakon5.rada.gov.ua/laws/show/922-19>.

²⁸ ProZorro, <https://prozorro.gov.ua/ua/>.

²⁹ Verkhovna Rada, "Law on Amendments to Some Legislative Acts of Ukraine on the Reform of Compulsory Social Insurance and Legalization of Wages", No. 77-VIII, 28 December 2014, <http://zakon5.rada.gov.ua/laws/show/77-19>.

and as the country's obligations within the Association Agreement. The most prominent change included an increase in household gas prices to parity with gas import prices, to set proper market incentives and remove cross-subsidisation and associated corruption risks.³⁰ Household prices for electricity and utilities were also increased. A new Law on the Natural Gas Market was passed in 2015, envisaging an "unbundling" of the state-owned vertically integrated oil and gas company JSK "Naftogaz", thus changing the entire structure of the gas market.³¹ A new law on the electricity market, largely complying with the Energy Community Treaty commitments, and several other legislative acts, e.g. on energy efficiency, are currently being considered by the Parliament.

Trade-related reforms: The DCFTA, a provisional implementation of which started in January 2016, launched the gradual mutual liberalisation of market access of the parties (as of 2014, Ukraine has unilaterally enjoyed duty-free access to most of the EU market thanks to autonomous trade preferences). Alongside the liberalisation of the tariff regime, the DCFTA envisages harmonisation with EU trade legislation and the development of necessary institutions and infrastructures. Ukraine has already largely harmonised its horizontal and vertical (sectoral) legislation in the sphere of TBT and significantly progressed in the transposition of standards.³² In food safety, Ukraine intensified efforts in getting export authorisation for different animal-origin food products and specific business establishments producing them. From the beginning of 2016, Ukrainian producers had

³⁰ Iryna Kosse, "Consequences of New Gas Price Setting", *IER Monthly Economic Monitor Ukraine*, No. 5 (187), May 2016.

³¹ Verkhovna Rada, "Law on Natural Gas Market", No. 329-VIII, April 9, 2015, <http://zakon3.rada.gov.ua/laws/show/329-19>.

³² Secretariat of the Cabinet of Ministers of Ukraine / Government Office for European Integration, "Report on Implementation of the Association Agenda and the Association Agreement between the European Union and Ukraine – 2015", [http://www.kmu.gov.ua/document/247974779/AA_impl_report_02_2015_GOEI_ENG_Final%20\(2\).pdf](http://www.kmu.gov.ua/document/247974779/AA_impl_report_02_2015_GOEI_ENG_Final%20(2).pdf)

authorised 7 out of 15 categories of animal products intended for human consumption, and 8 out of 10 categories of animal origin by-products to supply to the EU market.³³ Ukraine has also been gradually progressing in customs reforms aimed at simplifying and reducing the costs of cross-border shipments.

In summary, Ukraine's gradual progress in reforms, including those stipulated by the Association Agreement and the Association Agenda, is helping the country to improve its economic efficiency and create a solid foundation for long-term sustainable growth. Still, the progress is slow, thereby prolonging social hardships and diluting the support for reform in society.

Formal and informal domestic agents of Europeanisation

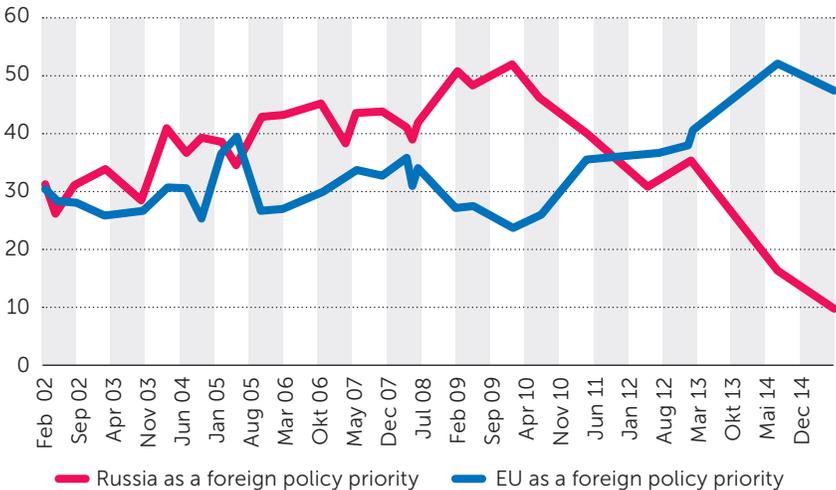
Although EU integration as a strategic goal of Ukraine was defined a long time ago, a wider public appreciation of this goal appeared only recently. According to opinion polls regularly conducted by the Razumkov Centre, the importance of Russia as a foreign policy priority partner had been gradually growing over the 2000s, until it reached a peak of 53 percent in 2009 (Figure 7). The share of respondents supporting the EU as a foreign policy priority for Ukraine fluctuated around 30 percent, with an increase after the Orange revolution and a drop afterwards. However, since 2009, the structure of public opinion has started to change, most likely due to a combination of several factors. On the one hand, a pro-European campaign intensified against the background of initiated Association Agreement negotiations and forthcoming free trade, as well as gradual visa liberalisation. On the other hand, Russia

³³ Assessments based on "Third Country Establishments, List per Country", https://webgate.ec.europa.eu/sanco/traces/output/non_eu_listsPerCountry_en.htm#.

has activated the usage of economic “sticks”, like gas supply shutdowns, an increase in gas prices, as well as an intensification of trade restrictions. By the beginning of 2013, the share of the EU supporters surpassed the share of Russia’s supporters.

By 2015, support for the EU as a primary foreign policy partner reached about 50 percent, while the share of those who consider Russia as a foreign policy priority for Ukraine dropped to its lowest at 10 percent against a background of the occupation of Crimea and a hybrid war in eastern Donbas.

Figure 7. Foreign policy priority of Ukraine: public opinion polls



Source: Razumkov Centre surveys, http://www.razumkov.org.ua/ukr/poll.php?poll_id=305

The IER survey showed that business has positive expectations regarding the implementation of the Association Agreement with the EU, in particular the DCFTA. About 50 percent of respondents representing companies, whether or not involved in foreign

trade, expect to gain from the DCFTA within one year, and over 70 percent within five years.³⁴ Only about 11 percent of firms are expecting to lose due to the DCFTA.

Moreover, regular business trend surveys show that since 2011, business has unambiguously chosen integration with the EU, if asked about the desired direction of the economic integration – the EU vs. Russia and the CIS. In 2014, about 55 percent of business respondents supported closer economic ties with the EU.³⁵ The share of supporters for the integration with Ukraine’s eastern neighbours constituted 11 percent, plunging by almost 20 percentage points over two years after the occupation of the territory and flourishing trade restrictions (see below).

In the Verkhovna Rada, elected in October 2014 as part of the changes in political leadership in the country after a victory of the Euromaidan, there are eight factions, the majority of which declare their pro-European orientation (Table 1). Each of the two coalitions that were formed within the current convocation of the Verkhovna Rada, as well as President Petro Poroshenko, support European integration.

The notable exception is the Opposition Bloc that is formed by the former members of the Party of Regions, led by the former President Viktor Yanukovich, who escaped from the country in February 2014 due to Euromaidan.

³⁴ Oksana Kuziakiv, “The Association Agreement with the EU: Views of Business”. The presentation is based on the results of the survey conducted within the project “Trade Policy and Practice in Ukraine” under the financial support of the Government of Sweden, Kyiv, 2015.

³⁵ Oksana Kuziakiv, “Trade Policy in Ukraine as Seen by Business”. The presentation is based on the results of regular IER Business Tendency Surveys and the survey conducted within the project “Trade Policy and Practice in Ukraine” under the financial support of the Government of Sweden, Kharkiv, 2015.

Table 1. Factions and groups in the Verkhovna Rada, VIII Convocation

Factions/group of parties	Number of MPs	Attitude to the EU
Bloc Petra Poroshenka	142	Pan-Europeanism; highlight importance of the Association Agreement with the EU; declare an official goal of the EU membership for Ukraine
People's Front	81	Pan-Europeanism; highlight importance of the Association Agreement with the EU
Opposition Bloc	44	Euroscepticism
Union "Samopomich"	26	When it was a member of the coalition, the party supported the Association Agreement with the EU
Renaissance Party	23	Euroscepticism
Radical Party of Olega Lyashka	21	Pan-Europeanism; highlight importance of the Association Agreement with the EU
All-Ukrainian Union "Fatherland"	19	Pan-Europeanism; highlight importance of the Association Agreement with the EU; declare an official goal of the EU membership for Ukraine
Will of the People	19	Official position unknown
Unaffiliated MPs	41	–

Source: web-pages of parties parties' charters, programs, etc.

In addition, after *Euromaidan* had won and Ukraine signed the Association Agreement, a formal system of public positions and executive institutions responsible for the implementation of the treaty was established.

The Government Office for the European Integration (GOEI) was created in the second half of 2014, to coordinate the EU-related activities of central executive authorities, including the implementation of the Association Agreement, and to monitor and evaluate these activities.³⁶ The office has been subordinated to a Prime Minister and a Vice-Prime Minister responsible for the European integration. In addition, the position of deputy ministers

³⁶ Cabinet of Ministers of Ukraine, "Government Office for the European Integration", http://www.kmu.gov.ua/kmu/control/uk/publish/article?art_id=248499993&cat_id=223236713.

for the European integration were created at each ministry, to ensure the implementation of parts of the Association Agreement and other EU-Ukraine treaties related to the specific sphere of the ministries' responsibilities. These deputy ministers have been working closely with the GOEI. In 2016, a specific position of the Vice- Prime Minister for the European Integration was established, highlighting the importance of the European integration as a policy priority for the country.

The Association Agreement also envisages the creation of several bilateral institutions aimed at ensuring the efficient implementation of the Agreement, including the Association Council, the Association Committee and a number of subcommittees, the Parliamentary Committee of the Association, and the EU-Ukraine Civil Society Platform. The latter, together with the Ukrainian National Platform for the EaP Civil Society Forum established in 2011,³⁷ constitute the largest institutionalised civil society forums promoting Ukraine-EU relations. These forums further facilitate the impact of the NGOs on the country's Europeanisation, which is already quite significant.

To summarise, currently Europeanisation is being promoted by a wide spectrum of formal and informal domestic agents in Ukraine.

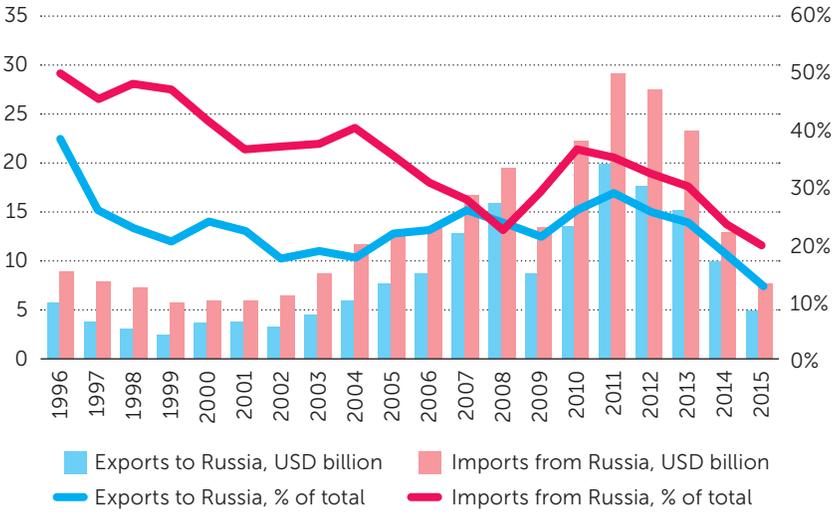
Alternative to Europeanisation – Russia's influence on Ukraine's economy

The importance of Russia as a trade partner has been decreasing over decades, and the process has recently accelerated against the background of the open military conflict. In 1996, Russia

³⁷ EaP Civil Society Forum, "Ukraine", <http://eap-csf.eu/en/national-platforms/ukraine/>.

accounted for 45 percent of Ukraine’s trade in goods, and in 2015, its share dropped to 16 percent. Since 2012, the nominal volumes of exports and imports have decreased vastly (Figure 8).

Figure 8. Ukraine-Russia trade in goods, 1996-2015



Source: State Statistics Service of Ukraine; UN ComTrade

In imports, the recent reduction is largely attributed to changes in Ukraine’s energy policy, primarily the reorientation of gas purchases. While several years ago Russia was a unique supplier of gas to Ukraine, in 2015, about 60 percent of gas imports came from Europe. The gas contract between Naftogaz and the Gazprom, envisaging unreasonably high gas prices for Ukraine and with a “take or pay” clause, is currently being litigated by Stockholm Arbitration Institution.

In exports, the reduction is due to a combination of several economic and political factors, in particular, an intensification of

Russia's trade restrictions *vis-à-vis* Ukraine.³⁸ Formally, trade relations between the two countries were based on a bilateral FTA signed in 1993, and a multilateral CIS FTA signed in 2011. However, *de-facto* trade has been always overshadowed by various non-tariff barriers. Since 2013, the number of bans applied by Russia against Ukraine's products increased (Table 2). Ukraine has repeatedly expressed concerns over these measures. In October 2015, it formally launched consultations with Russia regarding measures restricting imports of railway equipment.³⁹ Specific trade concerns about other measures were expressed at WTO Committee meetings.

Table 2. Russia's bans on imports of products from Ukraine, 2013–2015

Product	Date
Confectionery (Roshen)	July 2013
Rail-cars (4 companies)	Sep-Oct 2013
Cheeses	Apr 2014
Potatoes	Jun 2014
Vegetable and fish cans	July 2014
Soya beans, sunflower seeds, maize goats, soya residuals	July 2014
Raw milk and dairy products	July 2014
Alcohol products (three companies)	Aug 2014
Confectionery	Sep 2014
Wood chipboard	Oct 2014
Cheese-like products	Nov 2014
Poultry (biggest company)	Feb 2014
Sanitary pads	May 2015
Detergents	Apr-Jun 2015

Source: PB/11/201540

³⁸ Denis Cenusă, Michael Emerson, Tamara Kovziridze and Veronika Movchan, "Russia's Punitive Trade Policy Measures towards Ukraine, Moldova and Georgia", *CEPS Working Document* No. 400, September 2014.

³⁹ World Trade Organisation, Dispute Settlement, Dispute DS499, "Russia – Measures Affecting the Importation of Railway Equipment and Parts Thereof", https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds499_e.htm.

⁴⁰ Ricardo Giucci, Mykola Ryzhenkov and Veronika Movchan, "Cancellation of FTA between Ukraine and Russia? Estimation of Impact on Ukrainian Exports", *GAG/ IER Policy Briefing Series* PB/11/2015.

In 2015, after a failure of trilateral consultations between the EU, Ukraine and Russia aimed at tackling Russia's concerns regarding the DCFTA's impact on its economy, the Russian Federation formally stopped the free trade regime with Ukraine and banned selected agro-food imports from Ukraine.⁴¹ Ukraine implemented mirror measures.

In addition, on January 1, 2016, Russia prohibited the direct transit route of Ukraine's products to Kazakhstan, instead introducing a by-pass through several designated customs points in Belarus. These transit restrictions are estimated to increase transport costs of a shipment from 15 to 20 percent of the cost of the product being exported.⁴²

In summary, Ukraine's economic ties with Russia have been gradually reducing over decades, and the process has spurred since 2013. Trade restrictions introduced by Russia have made a significant contribution towards disintegration.

Conclusions

Ukraine's economic and political ties with the EU have been growing gradually over time. The intensity and strategic importance of relations changed in 2014 after *Euromaidan*, and especially Russia's military aggression that left Ukraine with no opportunity to continue its previous bipolar foreign policy.

⁴¹ Mykola Ryzhenkov, Veronika Movchan and Ricardo Giucci, "The Impact of New Trade Restrictions on Ukraine's Trade with Russia", *GAG/IER Policy Briefing Series* PB/05/2016.

⁴² Mykola Ryzhenkov, David Saha, Veronika Movchan and Ricardo Giucci, "Ukraine's Exports to Kazakhstan. Impact of Transit Restrictions through Russia", *GAG/IER Policy Briefing Series* PB/04/2016.

The Association Agreement, the provisional application of which started in November 2014 for all chapters except trade, and in January 2016 for trade-related issues, is the most important Europeanisation tool. It highlights the importance of democracy, the rule of law, human rights and freedoms, encompasses a wide range of legal and institutional harmonisation commitments and provides a preferential market access to the EU market, stimulating the economic development within the country. The Energy Community Treaty and the Visa Liberalisation Action Plan are two other formal instruments shaping Ukraine's institutions and policies. The majority of reforms implemented by Ukraine over 2014-2015 correspond to Ukraine's formal commitments to the EU.

There are many domestic agents of Europeanisation including both formal establishments, such as the Government Office for the European Integration, the EU-Ukraine Civil Society Platform or the Ukrainian National Platform of the EaP Civil Society Forum, and informal, such as NGOs, businesses, etc. Recently, the public opinion polls showed that the EU as a foreign policy priority of Ukraine won the majority of people's minds in Ukraine.

EMPIRICAL ANALYSIS: THE ECONOMIC EUROPEANISATION INDEX OF THE EASTERN PARTNERSHIP COUNTRIES

Aldis Austers

Methodological remarks

The proposed Economic Europeanisation Index (EEI) of the Eastern Partnership countries measures the state of convergence and the strength of factors conducive to Europeanisation of the Eastern Partners, and is based on the theoretical outline developed in the opening chapter of this volume.¹ The aim of the EEI is to reveal the relative dynamics of Europeanisation in the EaP countries in a comparative manner. The EEI is designed for illustrative purposes and, because of its simplistic structure, will not be of use for benchmarking.

The EEI primarily focuses on the economic aspects, as the Europeanisation of economic structures is seen as critical to consistent and lasting European integration. Depending on the shape of the partners' political engagement with the EU, these economic structures may serve either as necessary support for accomplishment of political commitments (for partners politically associated with the EU), or as a trigger for future political

¹ See Aldis Austers, "From the EU's Economic Presence to Successful Europeanisation: Theoretical Insights," this volume.

cooperation (in the case of absence of instant political association). Public officials, together with business leaders, normally form the strongest force behind comprehensive and deep Europeanisation, provided that there is a consensus on the need of the reforms. Media, civil organisations and other actors in this constellation may act as facilitators or, on the contrary, as a hindrance to the process of Europeanisation. On the other hand, if there is no consensus and the political elite is not determined to proceed with European integration, the businesses and civil agents may become the major force behind "informal" Europeanisation.

The EEI consists of four principal groups of indicators and these are: (A) the assessment of the current *economic presence* of the EU in the EaP countries. The purpose is to diagnose possible mutual (inter)dependencies and, through that, the force of market pressure on Europeanisation; (B) the review of *existing formal links* with the EU. These indicators measure the state of contractual relations with the EU and, with that, the progression of the formal European integration; (C) the exposition of the *efficiency of Europeanisation* which evaluates the structural convergence with the EU standards on management of European affairs, diversification of the business environment, judicial affairs and market economy; and, last, (D) the estimate of the prevailing attitudes and degree of involvement of the *agents of Europeanisation*: different political, economic and social actors.

Each group of indicators consists of five specific indicators – thus, in total, there are twenty indicators. Each indicator is bestowed with five options, thus forming a scale of measurement. Each option is given a specific value from one to five depending on the option's positive contribution towards a country's Europeanisation. The most valuable (best) option is allotted with five points, while the least important (worst) – with one point. The country experts choose the option most closely corresponding to his or her country's actual situation. In total, each country can receive a maximum of

five points and a minimum of one point for each indicator, 25 and five points for each group of indicators and, in total, between 100 and 20 points for the whole outline. As a result, by summing up all the scores, a rank of the six EaP countries in terms of their success towards Europeanisation is obtained. The authors of the country chapters in this volume performed the role of experts.²

Exposition of the results

A. The EU's economic presence in the EaP countries

The economic presence characterises the state of partners' integration in the EU market and for that reason considers the volume and composition of trade, the stock of accumulated FDI from the EU, and the activity of EU banks and retail chains in the local market. From the perspective of EaP countries, intensive, diversified and balanced exchange of goods and services with the EU signifies an evolving and successful Europeanisation.³ As a rule, all EaP countries are very short on capital, therefore, investments from the EU matter a great deal. However, from the perspective of Europeanisation, of particular importance are sizable investment

² The expert assessments, where possible, were checked against the available statistical data. Also the variation in relative values among the peer countries was taken into account. As a result, corrections were introduced in respect to the group of indicators on the Economic Presence (A) in the case of Moldova, Ukraine and Armenia. The scores of Moldova regarding the liberalisation of capital flows (B.3), of Armenia on the attitude of trade-unions and NGO's in the EU (C.3), and of Armenia, Moldova and Ukraine on Agents of Europeanisation (D) were also recalibrated. Besides, after the submissions were received from the experts, in order to improve the informative value, the indicator on EU/EEA Financial assistance (B.5) was assigned a new set of options, while the indicator on the well-being of people has been substituted for a new one on the contribution of SMEs to value-added (C.2).

³ For comparison, according to Eurostat, on average, the share of intra-EU trade (between the Member States) was around 65 percent, while the extra-EU trade made the other 35 percent in 2015.

projects involving wide masses of populace – either as employees or consumers.

In terms of the EU's economic presence, the best performer is Georgia (17 points), which is followed by Armenia and Ukraine (15 points each). Moldova has obtained 13 points, while Azerbaijan and Belarus – 12 each. (See Table 1.) It is interesting to note, that Azerbaijan scores very high in terms of concentrated trade volumes. Besides, Azerbaijan is the only EaP country having a considerable trade balance surplus with the EU (others are in deficit). Nevertheless, the composition of trade is asymmetric, as Azerbaijan exports mostly primary products to the EU – hydrocarbons. At the same time, despite a high stock of investment, Azerbaijan has no EU banks and retailers on its soil which could be seen as a major hindrance to Europeanisation. Also Moldova's economic relations with the EU merit some attention. Moldova has a high trade turnover with the EU, however this trade is unbalanced and asymmetric – Moldova sells primary products in exchange for sophisticated goods from the EU and runs a huge trade deficit which is weakening the country financially.

At this point, a general comment on trade relations between the EU and the Eastern Partners merits some attention. The aggregated statistical data on trade relations reveal a very clear power asymmetry between the two. Economically, the EaP countries do not matter much for the EU. In 2014, the combined GDP of the six EaP countries summed up to EUR 0.24 trillion, a miniscule amount (1.7 percent) compared to the EU-28's 13.9 trillion. Also, in terms of trade, the EaP countries have little to offer – the pooled weight of exports to and imports from the Eastern Partners is limited to 1.5-1.6 percent of the total respective EU trade figures. (See Table 2.) At the same time, the EU is the major trade partner and source of investments for all the Partnership countries, apart from Belarus. The most dependent on the EU trade is Moldova, with roughly 57 percent of its trade taking place with the Union, followed by

Table 1. EEI – The EU’s economic presence

	SCORE	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine
A.1. Volume of trade (both in goods and services) with the EU/EEA							
Very high – >40% of GDP, dispersed	5					5	
High – >40% of GDP, concentrated	4		4				
Medium – 40-10% of GDP	3			3	3		3
Low – <10% of GDP, dispersed	2						
Very low – <10% of GDP, concentrated	1	1					
A.2. Composition of trade with the EU/EEA							
Symmetric – sophisticated goods from both sides, diversified, no trade deficit	5						
Balanced – sophisticated goods from both sides, concentrated in specific goods, no trade deficit	4						
Unbalanced – sophisticated goods from both sides, concentrated in specific goods, high trade deficit	3	3			3		
Asymmetric – import sophisticated goods, export raw materials and low value added goods, no trade deficit	2		2	2			2
Dependent– import sophisticated goods, export raw materials and low value added goods, high trade deficit	1					1	
A.3. Presence of FDI from the EU/EEA							
Very high – both in industries and services, widely dispersed, affecting very large part of population (>50%)	5						
High – both in industries and services, widely dispersed, affecting only a fraction of population (<50%)	4				4		
Medium – concentrated in specific industries, but dominating in these sectors	3	3	3				3
Low – significance in certain sectors, not dominant	2			2		2	
Very low – only a few companies	1						
A.4. Presence of EU/EEA banks on the local market							
Yes- dominate	5						
Yes – don’t dominate	4	4			4		4
A few branches	3			3		3	

	SCORE	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine
Local banks' borrowing abroad	2		2				
No presence	1						
A.5. Presence of EU/EEA retail chains on the local market							
Yes – dominate throughout the country	5						
Yes – dominate only in the capital	4	4					
Yes – don't dominate	3				3		3
A few shops	2			2		2	
No presence	1		1				
TOTAL (Out of 25)		15	12	12	17	13	15

Azerbaijan with around 44 percent. The difference between the two is that Moldova is experiencing a massive trade deficit with the EU, while Azerbaijan – a huge surplus. Close to 70 percent of EU imports from the Eastern Partners consists of primary goods (mostly energy resources, raw materials and food), while in exports, manufactured goods (machinery, chemicals and other goods) dominate (77 percent) . Nevertheless, bilateral trade exchanges with single EU Member States are still significant. Thus, for Latvia and Lithuania trade with Belarus is important. Likewise, Ukraine is one of the major trading partners of Poland and Hungary.

Taking into account their current economic underdevelopment compared to the EU (EUR 3,700 against 27,000 of annual income per capita respectively), the six have a huge potential for economic development, comparable to that of the Baltic countries shortly before their accession to the EU.⁴ However, today, the EaP countries

⁴ In the Baltic States, in the early 2000s, low taxes, cheap labour, easily accessible production assets, unsaturated consumption in combination with political stability and stable prospects for income convergence with the richest members of the EU resulted in a rarely seen investment boom. Even though some of the listed factors may be out of reach for the six EaP countries, such as reform irreversibility, political stability and sizable structural assistance from the EU, still the six have ample investment opportunities to offer.

matter to the EU mostly for other, non-economic reasons. Thus, as already noted in the theoretical part of this volume, the EU's strategic interests towards its neighbours include efforts to constrain immigration, to ensure secure transportation routes, and to combat crime and terrorism.

As far as investments are concerned, Ukraine and Azerbaijan have attracted the bulk (78 percent) of all EU investments in the region – EUR 16.4 billion in Ukraine and 8.1 billion in Azerbaijan (see Table 2). Ironically, the two countries are indicated as the most corrupt and having a business environment least hospitable to business development. In Azerbaijan, investments concentrate mostly on the extraction of hydrocarbons, while in the case of Ukraine, the geographical proximity to Europe, the sheer size of the market, cheap industrial assets and abundance of natural resources are behind the better investment performance. Georgia, the region's most hospitable country to businesses according to the Ease of Doing Business, has also attracted a considerable amount of FDI from the EU (EUR 3.7 billion), nevertheless, it is outpaced by its neighbour Azerbaijan. In fact, a comparison between Azerbaijan and Georgia attests the correctness of the assumption that large foreign (European) investment projects affecting a small fraction of the local population are rather weak catalysts of Europeanisation. From this perspective much more promising are investments in commercial banking and retail with the development of a wide network of sales points. Armenia, Georgia and Ukraine are better placed in this respect than the other EaP countries.

However, worse news is that over recent years a gradual decrease in trade volumes and investment with the Eastern Partners has been observed. This decrease has occurred on account of diminishing imports from the EU. However, although it improves the overall trade balance for the Eastern Partners, the weak European imports point to feeble domestic demand and limited access to foreign credits. Some of the EaP countries, like Armenia,

Table 2. Economic relations between the EU and Eastern Partners

	EU-28	EaP	UKR	MOL	GEO	BEL	ARM	AZR
Population, million	508.3	75.2	45.2	3.6	4.5	9.4	3.0	9.5
GDP per capita (EUR)	27,000	3,700	3,100	1,700	2,700	5,800	2,600	6,000
Trade of EU-28, 2015 (bill. EUR):								
- Export	1,791	27.6	13.9	2.1	1.8	5.7	0.6	3.5
- Import	1,725	29.4	12.8	1.2	0.7	3.7	0.3	10.7
FDI stock from EU-28, 2014 (bill. EUR)	5,748	31.3	16.4	1.0	3.7	1.8	0.3	8.1

Source: Eurostat data sets [DS-016893] and [bop_fdi6_geo]

are even experiencing a withdrawal of European investors. What is more, Cyprus is listed as a major investor in almost every EaP country. It is suspected, however, that these investment originate in the respective countries and use Cyprus to bypass local taxes, launder illegally obtained money or to benefit from favourable regime attributed to foreign investors.⁵

B. Formal links with the EU

The indicator of formal links with the EU looks at the state of liberalisation of trade and service flows, movement of people, capital flows and political association with the EU. This measure represents formal European integration – contractual relations based on which Eastern Partners transpose the EU legal and administrative requirements. Formal links of each Eastern Partner with the EU are discussed at length in specific country chapters of this volume – it is sufficient to mention here that the variation of formal links is considerable. Formal European integration is a

⁵ See Stepan Grigoryan and Hasmik Grigoryan. "Armenia: Zig-Zags of Europeanisation," this volume.

forceful driver of Europeanisation – it sets the pace of process, establishes transparent commitments and reward mechanisms.

In this criterion, Moldova is the leader with 21 points, closely followed by Georgia with 20 points. Both are champions of European integration, and recipients of sizable financial assistance (in terms of per capita). Ukraine and Armenia received 17 and 16 points respectively, while Azerbaijan got only 12 points and Belarus – a mere 7 points. (See Table 3.)

Naturally, the process of transmission of the EU legal norms is more intense and formal in those EaP countries which have the AA and DCFTA – Ukraine, Georgia and Moldova. The reforms, though, have been more consistent in Georgia, albeit certain fatigue has been observed lately. Moldova is the only EaP country which has been able to establish a visa-free travel regime with the EU thus far. The other three are in the process of doing so – Georgia, Ukraine and Armenia. For Georgia and Ukraine, visa-free travel represents the next important step of European integration.

However, as the EU has linked the establishment of visa-free travel with a number of interior reforms related, *inter alia*, to the quality of personal identification documents, personal data protection, readmission and fight against crime, the progress is very slow and, as shown by Gia Jandieri,⁶ rather frustrating to EU's partners.

The other EaP countries are covered by the Partnership and Co-operation Agreements (PCA), except Belarus, with whom the PCA was frozen in 1997, due to political circumstances. In addition, in contrast to Belarus and Azerbaijan, Armenia continues to enjoy access to the GSP Plus scheme and has been admitted to the WTO. Belarus, in fact, has been the least keen on European integration;

⁶ See chapter by Gia Jandieri, "Georgia: Struggling Eastern Champion of Europeanisation," this volume.

Table 3. EEI – Formal links with the EU

	SCORE	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine
B.1. Liberalisation of trade and services toward EU/EEA							
Customs union with the EU	5						
Deep and Comprehensive Free Trade Agreement	4				4	4	4
Membership in the World Trade Organisation	3	3					
General System of Preferences (under PCA)	2		2				
No trade agreement	1			1			
B.2. Liberalisation of movement of people							
Progressive abolishment of restrictions to access labour market	5						
Established visa free regime	4					4	
Visa free regime negotiated	3	3			3		3
Unilateral abolishment of visa requirement	2						
Visa required from both sides	1		1	1			
B.3. Liberalisation of capital flows							
Completely free	5				5		
In principle free, with limited restrictions (e.g. agricultural land, strategic assets etc.)	4	4	4			4	
Liberalisation foreseen after transitional period	3						3
Only foreign direct investments allowed	2			2			
Restricted	1						
B.4. Political association with the EU							
Candidate state status	5						
Association Agreement	4				4	4	4
Partnership and cooperation agreement	3	3	3				
Regular bilateral contacts	2						
No association	1			1			
B.5. EU/EEA Financial assistance (indicative annual allocations for 2014-2017)							
Very significant transfers (> 1% of GDP)	5					5	
Considerable transfers (> 0.5 < 1% of GDP)	4				4		4
Medium transfers (> 0.05 < 0.5% of GDP)	3	3					
Limited transfers (< 0.05% of GDP)	2		2	2			
None	1						
TOTAL (Out of 25)		16	12	7	20	21	18

nevertheless, despite a distaste of democratic Europe, some Europeanisation has taken place there too. This has happened indirectly under pressure of exporting companies (market) and, more formally, through Belarus' membership in the EEU, whose rules have to be compatible with WTO regulations.

Considerable EU technical expertise and financial assistance is available to the three AA countries to help steer the harmonisation process. Also, the other countries, including Belarus, are eligible for financial assistance under the ENPI scheme, but at a substantially lower level. It is relevant to note that compared to the period 2007-2013, in the 2014-2020 period the amounts earmarked for the EaP countries has increased, but to a varying degree. A slight increase will apply to Armenia and Azerbaijan, reaching the amount of EUR 308 and 169 million respectively. Georgia and Moldova will see more substantial additions and each will get EUR 746 million. Also, Belarus will have substantially more money from the EU (EUR 158 million) compared to its earlier low financing. Ukraine will continue to be the major beneficiary in absolute terms – it will get EUR 3 billion from the EU budget and an additional 8 billion from both the European financial institutions (EIB, EBRD) and the Member States.

C. The efficiency of Europeanisation

The level of efficiency of Europeanisation is measured using as a benchmark a set of features characteristic to the EU Member States. These features comprise efficiency of the management of EU affairs (coordinating mechanisms, harmonisation of legislation, absorption of EU funding etc.), social diversification of entrepreneurial activity (share of SMEs on national income), strict application of rule of law, separation of business from politics, and high activism of the state in business infrastructure development. In this section, the highest scoring is Georgia (19 points), followed

by Azerbaijan and Ukraine (16 points each). The other Eastern Partners have received considerably lower scores with Belarus having 13 points, Moldova – 12 points, and Armenia – 10 points. (See Table 4.)

In fact, all EaP countries are still very far from having their Europeanisation level comparable to that of the existing EU Member States. What is more, although discounted in this volume, the compliance with the political criterion of membership is as important as compliance with the economic and institutional criteria.⁷ As explained earlier, the EEI considers mostly the economic aspects. From this perspective, in addition to expanding economic integration, an environment conducive to deeper economic integration is equally important. Not only prowess in management of EU affairs, a sound justice system, and responsible and caring government investing in infrastructure development, but essentially the existence of a vibrant private sector combined with tangible improvements in well-being of people is extremely relevant. Without an expanding middle class of citizens, and a growing number of small and medium sized businesses, consistent Europeanisation will be close to unfeasible.

Azerbaijan, and to a lesser extent Belarus, on the one hand, and Moldova, on the other hand, represent two contrasting examples. In terms of democratisation and liberal market reforms, the former two are major underperformers (see Table 5). Azerbaijan, according to the Bertelsmann Transformation Index, is the least zealous enforcer of democracy; while Belarus is the slowest liberator of a largely state-controlled economy and

⁷ The EU has established that countries wishing to join need to have (1) stable institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; (2) a functioning market economy and the capacity to cope with competition and market forces in the EU; (3) the ability to take on and implement effectively the obligations of membership, including adherence to the aims of political, economic and monetary union. Other aspects include aspirants' regional cooperation and good neighbourly relations.

Table 4. EEI – The efficiency of Europeanisation

	SCORE	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine
C.1. The efficiency of the management of EU affairs (harmonisation, financial aid, coordination etc.)							
Very high	5						
High	4						
Medium	3		3	3	3		3
Low	2	2				2	
Very low	1						
C.2. Contribution of SMEs to value-added							
Very high (>55% of GDP)	5						5
High (40-55% of GDP)	4				4	4	
Moderate (25-40% of GDP)	3			3			
Weak (15-25% of GDP)	2	2					
Very weak (<15% of GDP)	1		1				
C.3. Rule of law							
Efficiently applied	5						
Stable environment for business	4		4		4		
Protection only for key enterprises	3						3
Limited	2			2			
Extremely weak	1	1				1	
C.4. State capacity – separation of business and politics							
Separation of business from political power with independent regulators (anti-trust, monopoly prices, etc.)	5						
Separation of business from political power, but weak regulators	4				4		
Dominance of large state owned companies	3		3				
Close linkage of key business and political power	2	2		2		2	2
No independence	1						
C.5. State's activism in business development							
Regularly creates infrastructure for economy	5		5				
Occasionally creates infrastructure for economy	4				4		
Helps particular activities	3	3		3		3	3
Basic economic infrastructure	2						
No support	1						
TOTAL (Out of 25)		10	16	13	19	12	16

Table 5. Eastern Partners from the perspective of different indexes

Ukraine	Moldova	Georgia	Belarus	Armenia	Azerbaijan
Global Competitiveness Index 2016 (out of 140; the lowest best)					
79	84	66	-	82	40
Bertelsmann Transformation Index 2016 (out of 129; the lowest best)					
• Democracy Status					
38	40	40	91	74	105
• Market Economy Status					
73	60	53	90	56	72
• The Management Index					
65	54	39	116	84	103
<i>Human Development Index 2015 (out of 187; the lowest best)</i>					
81	107	76	50	85	78
<i>The Ease of Doing Business Index 2015 (out of 189; the lowest best)</i>					
83	52	24	44	35	63
<i>Corruption Perceptions Index 2014 (out of 175, the lowest best)</i>					
142	103	50	119	94	126

vertically built management structures. However, in spite of anti-liberal attitudes, the two are strongly outperforming their peer countries in terms of quality of life, which is measured by the Human Development Index (HDI). Moldova, along with Georgia, is the leader of democratic reforms and market liberalisation, but the living conditions there are not encouraging at all. The HDI from 2015 puts Moldova in the low 107th place, while Belarus is accorded 50th place.

Ironically, Azerbaijan is considered the region's most competitive economy (40th according to GCI). Its strengths include a stable macroeconomic environment, the state's capacity to invest in its infrastructure, and decent work of public institutions. However, there also exist serious hindrances to business development. These include persistently high corruption and underdevelopment of the financial sector. Georgia, from its side, despite having assigned a lower rank (66th) than Azerbaijan, is the regional reform leader with the most balanced approach to development. Georgia performs

well in terms of institutional quality and goods and labour market efficiency, however, the market size (lack of skilled labour) is a major drag on Georgia' s growth. Armenia outperforms other EaP countries in respect of ease of doing business and low taxes. Ukraine, on its part, is the regional leader in higher education. It also benefits from its market size, however, the protracted conflict in Eastern Ukraine puts a heavy burden on public finances, which have become very unstable. Moldova, on its part, is doing comparatively well in respect to technology readiness (Moldova is among the world leaders in terms of internet quality) and stability of public finances, but its weaknesses are related to corruption, weak public institutions, access to finance and a very limited market size.⁸

In Ukraine, like in other EaP countries, the major problem is separation of business from politics. Economies are dominated by large monopolistic enterprises, owned either by politically influential people or by the state itself. Persistently high corruption is also a sign of political intrusion in market issues. The good news is that the regulatory burden has been eased, as shown by the Ease of Doing Business Index. However, this represents a rather formal improvement, as the ease of doing business is achieved on account of cost efficiency measures, namely, lowered taxes and labour protection standards, while grass-root businesses like SMEs still find it extremely difficult to survive.

D. Agents of Europeanisation

This group of indicators focuses on the pro- or anti- European activity of different factions of domestic actors. Not only public officials and entrepreneurs, but also media, trade unions, civil

⁸ World Economic Forum, "The Global Competitiveness Report 2015-2016," ed. Klaus Schwab (2015), <http://reports.weforum.org/global-competitiveness-report-2015-2016/>.

organisations, local intellectuals, cultural representatives and even diaspora (nationals living abroad) are scrutinised. The argument is that, for European integration to succeed, it needs to engage broad masses of people and that people associate this integration with positive transformations. In other words – people should feel familiar with Europeanisation. Public officials and market actors are relevant, but insufficient, determinants of the direction of a specific country's Europeanisation process. The pressure from media and civil groups is usually more diffused than in the case of official institutions and such well-organised lobbyists as businesses. However, notwithstanding this apparent weakness, civil society can be a powerful actor at moments of political crisis, as was seen in Ukraine.

As far as the agents of Europeanisation are concerned, the scores return a rather controversial picture. Ukraine has received the highest score in this category (23 points). Understandably, the ongoing military conflict with Russia over the Eastern territories of Ukraine has united the Ukrainian society around pro-European ideals. Here European integration enjoys undivided and manifest support among media, businesses and cultural institutions. Georgia has the second best result in terms of the level of society's consensus on European matters – 16 points, while the other integration leader, Moldova, has scored 15 points, being close to Belarus, which received 14 points. Armenia has 13 points, and Azerbaijan 12 points, which, in contrast to Belarus, comes as no surprise. (See Table 6.)

The results show that a formal dedication to Europeanisation may not necessarily be shared by the wider public, and Moldova presents a striking example to this. Apparently, very few businesses favour Europeanisation, and political and civil circles are deeply divided on this issue. If this does not change, under such conditions it will be extremely difficult to sustain the started path of European integration. At the same time, Belarus shows

Table 6. EEI – Agents of Europeanisation

	SCORE	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine
D.1. Media attitude							
Pro-European, coverage >30% of population	5						5
Pro-European, coverage <30% of population	4	4					
Presence of both pro- and anti- European media, identical coverage	3		3	3	3	3	
Anti-European, coverage <30% of population	2						
Anti-European, coverage >30% of population	1						
D.2. Political parties, senior officials, FDI-related bodies							
Full support from all spectres	5						
Support from governing party	4					4	4
Support from opposition	3			3			
Deeply fragmented	2	2	2		2		
No support	1						
D.3. Multinationals, local companies, foreign investors							
Full support from businesses	5						
Significant support from businesses	4						4
Only large businesses support	3				3		
Support limited to a few companies	2	2	2			2	
No support	1			1			
D.4. Trade-unions, local and transnational non-governmental organisations							
Full support from unions and NGOs	5						
Significant support from NGOs	4			4	4		4
Position strongly polarised	3					3	
Support limited to a few NGOs	2	2	2				
No support	1						
D.5. Domestic intellectuals, artists, diaspora, European cultural representations (e.g. Goethe Institute)							
Full support	5						5
Significant support	4				4		
Strongly polarised position	3	3	3	3		3	
Support limited to a few groups	2						
No support	1						
TOTAL (Out of 25)		13	12	14	16	15	22

that the opposite situation is also possible. Namely, the negation of the political establishment towards European integration may not be representative of people's common view. In Belarus, the main forces behind Europeanisation are the market and peer (state-to-state) pressure.⁹ As for Azerbaijan, as explained by Ilgar Gurbanov,¹⁰ Europeanisation enjoys absolute support in public if it is about modernisation of the business environment and governance systems in general; however, the public opinion gets fragmented when Europeanisation is equated with the membership of the EU. The situation in Armenia is very similar to that of Azerbaijan.

Total scores and the rank of the Eastern Partners

This chapter has presented a comparison of the EaP countries about the relative dynamics of their path towards Europeanisation. Based on expert assessments, four groups of indicators were considered: the stage of economic integration in the EU's market, the level of contractual relations with the EU, the efficiency of the Europeanisation reforms, and the strength of the voice of different actors of Europeanisation. This index is designed for illustrative purposes and, because of its simplistic structure, will be a poor benchmarking aid. A more nuanced picture would certainly require an extended indicator structure, including relative weight assignment to each indicator, and involvement of a larger number of experts. However, the picture drawn through this simplified approach is illustrative enough of the problems discussed in this volume.

⁹ See Andrei Yelisseyeu, „Belarus: Europeanisation Through the “Back-Door”?”, this volume.

¹⁰ See Ilgar Gurbanov, „Azerbaijan: Europeanisation Versus Real-Politics,” this volume.

Table 7. EEI – Total scores

	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine
Rank	4	5	6	1	3	2
Total score	54	52	46	72	61	71
A. Economic presence	15	12	12	17	13	15
B. Formal links with EU	16	12	7	20	21	18
C. The efficiency of Europeanisation	10	16	13	19	12	16
D. Agents of Europeanisation	13	12	14	16	15	22

The final scores point to Georgia as being the best performing country (72 points out of 100). Georgia is followed by Ukraine (71 points), Moldova (61 points), Armenia (54 points), Azerbaijan (52 points) and Belarus (46 points). Total scores and the corresponding ranks are presented in Table 7.

The results show that, altogether, all EaP countries still have a long way before they reach the Europeanisation level allowing successful integration into the EU's single market. However, today Georgia demonstrates the most advanced state of Europeanisation. It comes as no great surprise though - Georgia has been a leader of European integration and domestic transformations – the reform process started much earlier than in the other EaP countries, it was broader in scope and more consistent. Ukraine comes out as the second best performer. In spite of earlier internal divisions on the European issues, Ukraine is now much better mobilised, largely thanks to societal unification around the pro-European ideals in response to Russian aggression against the country. Ukraine also benefits from more extensive trade relations with the EU. Moldova, notwithstanding the most advanced base of contractual relations, is considerably lagging behind the two leaders. The weakness of economic structures, corruption and fragmentation of social activists on

European issues has undermined the country's pro-European credentials. The enthusiasm for reforms is quickly disappearing in Moldova, and with liberal parties in disarray and without extensive economic interests linking the EU, the country is struggling to find a strong pro-European force helping to overcome the crisis in European reforms.

Armenia is still "hanging" between the two poles – Europe and Russia, however, the European integration and economic relations are slowly deteriorating with the EU. However, popular support for Europeanisation is still high, and, therefore, the civil society's voice will be increasingly important in this country. Besides, the success of Armenia's neighbour Georgia will be of particular importance for Europeanisation of the former.

Finally, the laggards of formal European integration – Azerbaijan and Belarus – fascinate with political stability, economic development and people's prosperity. Politics aside, extensive trade and investment relations with the EU, relatively high living standards, decent public and private institutional performance, and the state's involvement in business infrastructure development gives Azerbaijan the upper hand over the economically and institutionally weaker leaders of European integration like Moldova and Ukraine. Belarus, despite chilly formal relations with the EU, is not excluded from Europeanisation. It has considerable trade relations with the EU, and a number of its civil organisations favour the country's European integration. The Europeanisation achievements, whatever they are at the moment, are clearly more sustainable in these countries than in Moldova and Ukraine. Alas, the fortunes have already started to change because of less favours coming from Russia, in the case of Belarus, and the collapse of energy prices in the case of Azerbaijan.

For the sake of comparison, it is worth mentioning another index related to the Eastern Partners. Thus, the Eastern Partnership

Civil Society Forum, in cooperation with other European civil organisations, has produced a European Integration Index for Eastern Partnership Countries. This integration index has been consecutively published once a year, from 2011 to 2014, and it is based on three categories of parameters: *linkages* (assesses political, economic and social ties between each of the six EaP countries and the EU), *approximation* (looks at legislation, practices and institutions in the EaP countries converging towards EU standards and in line with EU requirements), and *management* (evolving management structures and policies in the EaP countries that aim at further European integration). The integration index is designed on the “premise that increased linkages and greater approximation are mutually reinforcing” and that “the dynamic of this virtuous circle depends on enabling political decisions and structures.” In contrast to the EEI developed in this volume, the integration index focuses on formal adaptations, that is, on the process of European integration. Another significant distinction – the integration index sees public management structures as guides to future dynamics of European integration, while the EEI considers the wider spectrum of actors, including actors from the economic and social spheres. Nevertheless, it is interesting to note that, comparing the scores from the integration indexes from 2011 and 2014, one can see that during this time span, linkages with the EU have improved in the case of all EaP countries. Approximation has advanced too, with the exception of Azerbaijan and Belarus. However, as to management, the performance of the integration leaders – Moldova, Georgia and Ukraine – has deteriorated, while of those countries lagging behind – it has somewhat improved.¹¹

All in all, the EEI shows that economics have to be taken seriously when considering Europeanisation in the neighbourhood of the EU. Trade and private investments certainly have to be promoted

¹¹ “The European Integration Index 2014 for Eastern Partnership Countries,” <http://www.eap-index.eu/about>.

in this region (provided that local homework is done properly in terms of protection of property rights and implementation of rule of law). However, not every European FDI project carries the potential for Europeanisation. For example, Azerbaijan is awash with European large scale investments, but these mostly concentrate on extraction and transportation of hydrocarbons, but have little to offer for the direction of Azerbaijan's society towards Europeanisation. It would greatly benefit Europeanisation, if the EU was more demanding on appropriate social and training programmes in these countries. The EU is making good efforts in supporting the SMEs in the Eastern Partner countries, however, these efforts need to be stepped-up and be accompanied with larger European investment in the infrastructure development of these countries.

CONCLUSIONS

Ilvija Bruge

The Eastern Partnership (EaP) policy reflects the EU's take on promoting regional development and stability beyond its borders. However, although the initiative has provided the political and normative framework, its practical implications have been rather limited and have provided varying degrees of success over the six Partnership countries. More influential than often acknowledged are the local factors – such as an undemocratic and/or corrupt elite, society's disappointment in the reform process and internal and external security issues. Hence, the success of Europeanisation is only partially related to the success of the EU neighbourhood policy in the East. The success of Europeanisation is directly linked to the choices made by local elites. Furthermore, the Europeanisation process is not irreversible, as it was in the Baltic States and other Eastern European countries, as has been demonstrated by Ukraine, Georgia and Moldova to a varying degree.

Each of the EaP countries has chosen a different path of development, and there are large differences among them, not only when it comes to the political freedoms and democracy, but also in terms of the economy. For example, Moldova, which was often seen as the success story of the EaP, is the poorest among the six, while Belarus, often labelled as “the last dictatorship in Europe”, is the one demonstrating the best economic performance after Azerbaijan. This proves the main difficulty that the EU's policy

poses. Of course, the EU is seen as the bastion for democracy and political development, however, the main appeal is its prosperity. On the one hand, the poor economic performance in the EaP countries that have signed DCFTAs, accompanied with relatively unstable political elites, is the main threat to the process of Europeanisation. Simultaneously, the better economic performance in the other three countries that have not signed the DCFTAs is accompanied with stable but undemocratic political elites that are unwilling to commit to an Europeanisation process beyond economic cooperation. Hence, the EU is caught between a rock and a hard place, raising the question whether the tools it has chosen for the EaP initiative are fit to simultaneously promote economic development and stability, while promoting the European values. Furthermore, although the EU stresses its commitment to democratic and liberal economic transitions, its focus has been highly selective. For example, cooperation with Azerbaijan in the economic sector has not been limited due to undemocratic developments in the country.

Overall, all the EaP countries are committed to the Europeanisation process, however, the extent of this commitment varies from country to country. All six of them look at the EU as a role model for economic development and modernisation of Europe; however, the prospect of EU membership is not on the cards in all six countries. Although this is more of a policy outcome than reason behind it, it is important to keep in mind that the EU is not an aim in itself in all its neighbouring countries, and varying strategies should be applied to each individual case.

The EU's current take has been to adopt two major tools for fostering European integration in the neighbourhood – AAs, a political tool aimed at promoting EU values and compliance with EU legislation in these countries. Meanwhile DCFTAs are aimed at market harmonisation. However, it is evident that in reality these mechanisms function differently than on paper. Although

the AAs envisage addressing the human rights and other issues through its suspension clause, the EU generally tends to use other mechanisms for this purpose. Meanwhile DCFTAs are oriented to the implementation of the EU's market values in the EaP states, which comes with painful reform processes and economic costs. The implementation of the AAs demand full long-term commitment from both sides, and the implementation of DCFTAs, along with the EU's financial assistance, are crucial in order to promote reform spill-over into the political domain. In other words, promotion of DCFTAs and the EU's market values needs to be accompanied with the promotion of common values set out in the AAs.

However, that is only a part of the story. The reform process in the Eastern neighbourhood is also impeded due to geopolitical reasons. The six countries are constantly tied up into the manoeuvring (each due to its own reasons) between the EU and the EEU, as there are certain benefits to each of them. Importantly, although the two are often perceived as mutually exclusive, in reality some of the EaP states successfully engage with both unions, and often consciously choose to limit integrating too closely with one or the other. It is erroneous to perceive that the six countries definitely want to side with one or the other union, as that would mean excluding the role of domestic elites and their own aims. It is precisely due to those elites that the Eastern Partners have been slow and reluctant to fully commit to the reform process.

All six countries, excluding Azerbaijan, have either signed a DCFTA with the EU or joined the EEU; however, this does not guarantee that their chosen path is irreversible and it is only a matter of time until full integration is reached. There are many internal factors that come into play – such as, local political infighting, separatism, structural dependencies and calculations of internal actors. Simultaneously, neither the EU nor the EEU are able to fully deliver their promises. The EU offers long term benefits in the political and economic domain, but does not provide geopolitical guarantees,

while Russia fails to deliver in the economic domain. However, it is most important to keep in mind that in each of the countries these factors play out differently.

For example, *Armenia*, following its decision not to sign the AA and DCFTA and become a member of the EEU, is currently on a path of closer engagement with Russia. Nevertheless, this is centrally the country's leadership's position, while the society, the political opposition and SMEs are in support of closer ties with the EU. Furthermore, Russia's ambivalent policy in the region (especially towards the conflict in Nagorno Karabakh), as well as Armenia's growing economic dependence on Russia, compels the leadership to bargain between the two, as none of the two offer a comprehensive model on its own. The unlikely prospect of EU membership, in contrast to the EEU's limited weight and impact on development, are the main factors why none of the models have been truly successful in Armenia.

With regard to *Azerbaijan*, once again, the geopolitical issues have their impact on the country's strategy. Since its independence Azerbaijan prioritised the Western direction of integration and it has been successful in the economic domain, with oil and gas pipelines linking the country with Europe. Initially, Azerbaijan was also committed to transformation of the Soviet political and economic structures into the Western model. However, the EU's inability to provide Azerbaijan with support in the Nagorno Karabakh conflict (understandably so), and guarantee its security (as it failed to do for Georgia and Ukraine) coerced the country into seeking a compromise between the two sides. Azerbaijan's main concern is maintenance of its sovereignty and territorial integrity. In order to safeguard its security, it has managed to develop and maintain energy ties with the EU while engaging in economic cooperation with Russia. That said, the prospect of further Europeanisation in Azerbaijan is impeded by the political system in the country. The EU's critique over democracy and human rights

issues has pushed the political elite into closer cooperation with Russia. Simultaneously, it is expected that it will remain cautious in its policies towards Russia, as too much Russian influence would threaten the power of the local elite. The EU's focus on economy rather than policy could sway Azerbaijan to change its direction once again; however, that would mean that the EU has to put its core values into question.

In *Belarus*, the EU has tried various policy approaches; however, none of them have truly succeeded in the political domain. To a large extent, this is a result of the EU's patronising top-down approach in the EaP, which is met with disapproval from the local elites. That, in addition to modest economic benefits offered by the EU, has not been sufficient to motivate the Belarusian government into real democratic change. The EU's economic measures have not been fully in vain, however – they have, for example, resulted in the release of political prisoners; however, it is not likely to bring about real changes in the political system and human rights situation. On the other hand, the benefits of the Belarusian membership in the EEU are also unclear, although, for Belarus it is a highly important political choice. A paradox here, however, is the fact that the reforms imposed by the membership of the EEU, have also made the Belarusian market more open and, therefore, more European. Overall, although in the long-term the country as such would benefit more from integration with the EU structures, the current political regime, economic dependency on Russia, fear of Russia's reprisals (especially keeping in mind Georgia and Ukraine), along with the EU's limited economic assistance, impede Belarus Europeanisation, and leave it within Russia's sphere of influence.

Georgia is one of the EaP countries that has undergone a considerable reform process and made a real attempt at changing the corrupt, Soviet-style political and economic systems. This resulted in signing the AA and DCFTA, and the European orientation

is still reflected in the country's policy. However, in order to ensure the irreversibility of this path, the EU must offer some real prospects of membership – not just a hypothetical one, as some frustration with the slow reform process has already been noted in Georgian society. The failure of the EU to promote economic development, and maintain political freedoms, gives space for Russia to promote its interests in the country. Also, like in other countries, the EU should take more steps in order to ensure that Georgia's territorial integrity will not be at stake if it chooses closer integration with the Union.

Moldova, which for a long time was the EU's success story, is a clear indicator of how important the role of political elites is in the EaP Europeanisation process. It also demonstrates that the path towards Europeanisation is not an irreversible one. The incompetent government, corruption and grave economic situation is working against Moldova's EU prospects, and the country's future development. The resulting disappointment of society in the political elite, and the EU's inability to push for the implementation of real reforms, is the main asset in the hands of Russia.

Currently *Ukraine*, despite its political, economic and military turmoil, seems to be the most successful case of Europeanisation. Starting at grass-root level, the support for the EU reflected the disappointment in the ruling elite. After the change of the regime in 2014, Ukraine has taken a clear path towards EU integration, in contrast to its previous manoeuvring policy (currently characteristic to some other Eastern Partners). There is currently general optimism towards the EU, as the society has not had cause to be disappointed in the reform process to date, and closer cooperation with Russia is no longer an alternative if Ukraine wants to maintain its statehood. Although the reform process is ongoing, and formally the Ukrainian government is committed to it, the intrinsic corruption and cyclic political history do not ensure the irreversibility of Ukraine's path to Europeanisation. However,

if the EU manages to convince the Ukrainian society that the Europeanisation process will bring economic development and true democratic reforms, Ukraine might have a shot at being a success story of the EU.

In general, this book has provided a deeper and more comprehensive view on the process of European integration by the Eastern Partnership countries than the formal reports produced by public authorities. It has examined the mechanisms and actors of Europeanisation, as they are seen from the perspective of social/political theories and native experts, thus, as much as possible, avoiding a Eurocentric bias. Taking into account the variation and difficulties encountered, one may question the prospect of the genuine Europeanisation of these countries. Indeed, the picture "on the ground" looks rather dull at the moment. The reform leaders are losing pace, showing the futility of an exclusively formalistic approach. Besides, reportedly European businesses have started to scale back their exposition to the Partnership region. However, the bets are not lost, and, contrary to popular and somewhat neurotic allegations, Europe is not losing to Russia. Instead, this book points to the confusion prevalent in the Eastern Partners. The following suggestions merit the attention of relevant decision-makers, if this indeterminacy is to be overcome:

- European integration has been a controversial issue since its inception, therefore, the process of integration and Europeanisation has not to be taken as a simple and linear process, especially if this concerns countries that are not members of the EU.
- The experience of Moldova and Georgia is that it is one thing to make a political commitment towards European integration, but another to follow the chosen path consistently. A consistent approach requires strong resolution, patience and the ability to sustain short-term inconveniences.

- Political pro-European commitments would be close to undeliverable, unless a wide spectrum of economic and social forces is engaged. It is extremely relevant that broad masses of people share the optimism of European integration and are allowed to enjoy the fruits of Europeanisation as soon and as equally as possible.
- Meanwhile taking into account Russia's assertiveness and the lack of clear membership perspective of the EU, the political part of the Europeanisation programme needs to be relaxed, giving more room for development of economic linkages at this moment.
- At the same time, one has to recognise that too close European engagement with autocratic, repressive and corrupt authorities can undermine the legitimacy of European institutions, as the experience with the North African states, and now with Moldova, has shown. From this perspective, strict conditionality is warranted, however, the reform leaders should not be burdened with unwarranted demands.
- A system of transparent reward mechanisms needs to be installed. This concerns not only technical and financial aid, but also liberalisation of travel between the EU and the EaP countries. At the moment, this is what the local people expect most of the EU. Besides, intensive exchange of (young) people is a potent channel of successful Europeanisation, as can be seen in Georgia.
- In the economic area, instead of low taxes and lax registration procedures, the EU should put more pressure on strict application of rule of law and protection of private property rights. The SMEs deserve more support, and investment in local infrastructures from the European public resources should be promoted.

Not every Eastern Partnership country is destined to – and should not - become a genuine European country. Good economic

relations and shared prosperity with the EU should suffice. The EU has opened the door for cooperation – more pronounced resolutions from the partners and a more flexible and less bureaucratic approach on the part of the EU is now required. At the same time, the EaP countries are more European than it may seem to a Western outsider, and all these countries have strong potential to Europeanise.

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The Latvian Institute of International Affairs was established in May 1992, in Riga, as a non-profit foundation, charged with the task of providing Latvia's decision-makers, experts, and the wider public with analysis, recommendations, and information about international developments, regional security issues, and foreign policy strategies and choices. It is an independent research institute that conducts research, publishes publications, as well as organises lectures, seminars, and conferences related to international affairs.

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