

Bertelsmann Stiftung

Highlights of the Roundtable Debates “The EU’s Eastern Partnership 10 Years On – Lessons Learned and Perspectives for the Next Decade”¹ Berlin – 29 May 2019

What are the EaP’s concrete achievements?

A closer look suggests that there have been a number of successes:

- Association Agreements (AAs) with their integral element – Deep and Comprehensive Free Trade Areas (DCFTAs) with Ukraine, Georgia and Moldova – came into force and are being implemented. It is unprecedented for the EU to offer agreements that go beyond the free trade area to include elements of the Common Market to countries that have not been granted the prospect of EU membership.
- A new agreement with Armenia, a Comprehensive and Enhanced Partnership Agreement (CEPA), was negotiated and adopted after Armenia decided to drop the AA, which had been negotiated earlier, and join the Eurasian Customs Union with Russia, Belarus and Kazakhstan. This agreement may now serve as a model for states wishing to preserve close relations with Russia and at the same time aiming at more cooperation with the EU in sectors such as trade or energy and the environment.
- Comparison with the EU’s southern neighbours clearly shows that the eastern neighbours have achieved more – both in terms of relations with the EU and in terms of domestic transformation. This suggests that political will coming from the partner countries is the necessary prerequisite (this will be elaborated below).
- If one compares developments in the EaP countries with those in the Western Balkans, where the membership prospect is real, one does not see that the reform process has advanced dramatically further in the Balkans. Some of the EaP countries have made better progress.

What have been the successes and failures of the EaP?

The experience of the past ten years shows that ownership of reforms is in the hands of the partner countries, not the EU. Political will from the partner countries themselves is key. If the partner countries wish for stronger integration with the EU, for Europeanisation at home, the European Union willingly supports those countries. If partner countries are not willing to reform, the only way for the EU to proceed is to respect this situation. This is the baseline for any assessment of the EaP’s implications for the reform processes of the six eastern partner countries.

Overall, one may argue that cooperation between the EU and the partner countries has succeeded in economic and technical terms. This is evident from increased trade relations as

¹ Summarised by Iryna Solonenko, founder and former manager of the European Integration Index for Eastern Partnership Countries (now Eastern Partnership Index, <https://eap-csf.eu/eastern-partnership-index/>, managed by the Civil Society Forum’s secretariat) and expert on Ukraine for the Bertelsmann Stiftung’s Transformation Index BTI.

shown below and successful regulatory approximation with the EU acquis as required by DCFTAs. Yet these successes have been undermined when politics and power came into question. Fighting corruption and establishing the rule of law have therefore lagged behind. The challenge here is that achieving an environment free of corruption and governed by the rule of law is a long-term task, whereas society demands results immediately. Also, DCFTAs mostly mean costs in the short run, while benefits will arrive later. Thus, young people emigrate, whereas the country needs them to drive reforms and development. This has been, perhaps, the biggest dilemma with the EaP policy.

Can the EU help EaP countries to tackle security challenges, such as frozen conflicts and the current Russian leadership undermining their sovereignty?

The EU shies away from being a geopolitical actor and offers security only to a very limited extent. First, the EU's strength lies in its normative power and its value-based approach. Second, the EU as a collective actor has limited security resources and power. Here, individual member states are better equipped to step in, as the engagement of Germany and France in the Normandy Format for the implementation of the Minsk Agreements has shown. The latter is not necessarily a weakness, but may also be seen as an effective division of labour. A more coordinated systematic approach in security questions among EU member states with specific foreign policy interests and the EU is still needed.

Although the EU has not been able to help withstand Russia's military pressure and prevent or help to resolve the existing frozen conflicts, it has been able to help partner countries to withstand Russia's pressure in other ways. In the case of Ukraine, in 2014, as Russia blocked imports from the country, the EU opened up its market for products from Ukraine, although the DCFTA was not yet enacted, and in this way offered compensation to Ukraine for the loss of the Russian market. Also, in the same year Russia demanded that the Association Agreement with Ukraine be re-negotiated, arguing that it would damage Russian economic interests. The EU considered but rejected Russia's claims. Additionally, as of 2016 Ukraine has been purchasing gas exclusively on EU borders, thus having become independent of Russian pressure related to gas imports. Last, but not the least, the EU has been able to introduce and maintain sanctions against Russia linked to the illegal annexation of Crimea and Russia's destabilising presence in the Donbas region.

Moreover, the EU can help the partner countries tackle security challenges in the longer run. Worldwide, countries that are democratic and well-governed with well-functioning state institutions have proved to be more resilient to external interference and to staying secure. This is exactly what the EU's approach is about. It is not first and foremost frozen conflicts that are to be blamed for a lack of reforms. By the same token, the future of Ukraine is not being decided in Donbas, but in Kyiv. Thus, the EU's strategy is about promoting democracy, stability and the effectiveness of state institutions and their accountability, all of which will strengthen resilience to external threats in the end.

Where can the EU do better?

In order to enhance its influence in the partner countries, the EU should avoid being seen as a purely technocratic actor. Accordingly, the EU should raise its political profile on the ground and become involved in transforming institutions in the EaP countries more actively and consistently. It should continue to cooperate closely with civil societies and other reform-minded actors in the partner countries. The EU (the EU Delegations) should be more courageous in pushing for reforms, being a regular player within the reform process with presence in the partner countries on a daily basis. Furthermore, the EU should more consistently follow up on the implementation of commitments by the partner countries.

To achieve this, it would be advisable to give more capacities to European institutions. On some politically sensitive issues, one of the recent examples being freezing financial assistance to Moldova, there is more unity in the Commission than in the Council of Ministers, where the role of individual member states is more important. Giving more power to the Commission to follow up on commitments of the partner countries and shape policies accordingly would strengthen the role of the EU as a unitary actor. Similarly, the EU Delegations on the ground should be given more freedom and flexibility in order to be able to react swiftly to developments in the partner countries.

Given the differences among the EaP countries, what should the EU's policy choices be towards each of them?

The countries in the Eastern Neighbourhood are under the influence of two integration arrangements: DCFTAs driven by the EU, and the Eurasian Economic Union driven by Russia. While Ukraine, Moldova and Georgia have Association Agreements with DCFTAs, Azerbaijan, currently negotiating a partnership agreement with the EU, tries to keep good relations with both blocs, and Armenia presents a special case: CEPA. Belarus has no legal framework with the EU.

The countries are also very different in terms of their domestic political and economic developments. An international research project, EU-STRAT, which brought together 11 universities and think-tanks Europe-wide², developed a typology of these countries. According to the typology, Azerbaijan and Belarus are highly closed regimes both economically and politically (in terms of degree of access to public resources for various societal actors), Armenia used to be politically closed, but open economically, and Ukraine, Moldova and Georgia are relatively open both politically and economically. The project's researchers derive the following implications for the EU's engagement: for Azerbaijan and Belarus, financial support from the EU may be needed to maintain the channels of cooperation, but the EU should be aware that authorities on the ground could use the EU's financial support to strengthen their domestic legitimacy and power. For Armenia now, after the political opening took place, it would be important for the EU to work on strengthening the accountability of the new authorities by encouraging the emergence of a constructive

² <http://eu-strat.eu>

political opposition. The three DCFTA countries – Ukraine, Georgia and Moldova – require a very selective process of engagement on the part of the EU. In detail, the researchers suggest: a) providing more targeted support to induce more political and economic competition and putting more emphasis on sectors closed-off by high-level corruption; b) supporting the emergence of a professional and independent public administration as implementation of new laws and by-laws is crucial for reaping the benefits of the DCFTAs, therefore requiring a strong state capacity; c) finally, reconsidering the schedule of DCFTA implementation, so that costlier reforms that do not entail short-term benefits for the population might be postponed, whereas reforms that bring tangible results for citizens might be prioritised (such as improvements in public services).

Trade and reforms: Is there interdependence?

The relationship between a) economic growth, b) more intensive trade with the EU, including financial assistance from the EU, and c) the degree of democracy is far from linear³. So far, DCFTAs and the EU's financial assistance have not brought prosperity for the six countries. No country from the group has reached even half of the EU average in terms of GDP/capita PPP. Moreover, countries with the worst democratic performance and less engagement from the EU have shown the best economic performance, and vice versa. Thus, Belarus and Azerbaijan have reached 47% and 39%, respectively, of the EU average. At the same time, Moldova (at 17%) and Ukraine (at 21%) lag behind all other countries.

The relationship between proximity to the EU (geographically and economically) and the level of reforms (at least where fighting corruption is concerned) is also not clear cut. Ukraine receives 71% of EU funds for the region and a high share of FDI investment from the EU. However, although the EU continued to hold the highest share of Ukraine's total FDI stock in 2018, at 77% (2013: 76%), the volume of Ukraine's FDI stock from the EU fell dramatically from USD 41 billion to USD 25 billion(!), i.e. by 39%, between 2013 and 2018. In this respect, the economic and financial crisis in Ukraine (2014-2016) and the sluggish implementation of reforms have led to framework conditions that have reduced the inflow of FDI from the EU in spite of the DCFTA. Moldova is in second place in terms of EU funds and the EU's support is topped up by bilateral support from Romania. Both countries are also closest to the EU geographically and in terms of trade. For Moldova, the EU is responsible for about two-thirds of the country's trade, while Ukraine's trade with the EU accounts for almost half of its foreign trade. Nevertheless, both countries have reformed the least since DCFTAs were signed. Georgia reformed the most, but it has received nearly no additional trade with the EU (which now accounts for about one-quarter of Georgia's foreign trade). Yet, due to its improved business environment, the area in which it performs the best of the six countries, Georgia has the highest FDI scores⁴. Armenia and Belarus – where the EU accounts for one-quarter and one-third, respectively, of their foreign trade – would like to leverage their

³ The figures in this section come mainly from the presentation by Dr Petrișor Gabriel Peiu, Black Sea University Foundation of the Romanian Academy, and partially from the presentation by Ute Kochlowski-Kadjaia, German Eastern Business Association (Ost-Ausschuss – Osteuropaverein OAOEV).

⁴ This is, however, mainly in real estate. The agricultural sector, employing 50% of the working population, is not yet reformed and skilled workers are scarce.

dependency on the Russian economy, but for them it is an economic more than a political question. Azerbaijan has a special position due to being an exporter of natural resources. The EU accounts for one-third of its trade.

Thus, one can conclude that trade does not require reform. Despite different situations in the six countries, the EU is now the biggest trading partner for all six EaP countries, except for Belarus. What is most crucial is the rule of law, since it is a crucial factor in attracting investments. So, we again come back to the decisive role of the partner countries in conducting reforms. When the reforms are implemented properly, talented young people will return or stay in the country and EU investment will flow in by itself.

Can DCFTAs promote reforms and prosperity?

The challenge is that for DCFTAs to bring about benefits in the end, political reforms need to be conducted and DCFTA provisions need to be implemented in full. Thus, reforms which would improve competitiveness and political reforms should come first if DCFTAs are to spur economic growth. Furthermore, the situation varies greatly among the DCFTA countries: some of them face sanctions and/or high tariffs at their border with the Eurasian Economic Union, which has an immense influence on trade. On the other hand, DCFTAs provide for more democratic forms of governance (transparency, stakeholder participation, accountability), but whether these are applied in practice is an open question. Potentially, DCFTAs can empower the right stakeholders on the ground in the relevant countries. Again, those are only estimates with no proved cause-effect relationship.

Can business actors, like civil society, promote reforms?

Whether business can be a driver of reforms depends on which business we are talking about. Business associations from the EU would rather wait until a more attractive and secure environment emerges in the partner countries. Business associations also educate their partner associations about how to organise themselves and how to advocate for reforms. From this perspective, EU businesses are part of an external, yet very limited pressure.

When it comes to business in the EaP countries, there is another side to the coin. As in any economic process, there will also be businesses which lose out because of integration, facing costly consequences due to more competition. And for those businesses that are ready to benefit, some may lack the skills and the knowledge to make use of their position. Businesses that may profit from the EU market do not automatically have the opportunity to integrate into it.

Also, one cannot expect that business actors from the EU would help to overcome oligarchic monopolies in the EaP countries. SMEs from EU member states support and cooperate with similar economic actors in the EaP countries. The big companies from the EU, however, do their business with big companies, and hence with the monopolist companies in the EaP countries. Therefore, fighting monopolies is more part of a domestic reform process.

Simultaneously, new industries such as the IT sector, which are free of a monopolistically organised business elite and which grow rapidly, will gradually expand their influence and might reduce the niche for oligarchic business.