

Deepening the economic integration in the Eastern Partnership: from a Free Trade Area to a Neighbourhood Economic Community?

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Abstract

Different forms of cooperation and regional integration, implying specific institutional agreements and instruments, have been developed in the last decades in the EU neighbourhood. The offer provided by the Eastern Partnership (EaP), which includes both economic and political objectives, has not proven attractive enough for the Eastern Neighbourhood. The region is currently divided between two global powers (EU and Russia) and two competing regional integration areas, the Deep and Comprehensive Free Trade Area and the Eurasian Single Economic Space. The paper focuses on the main limits of the economic tools included in the EU's current offer and proposes several directions for EaP's reform.

Keywords: EU Eastern neighbourhood, Eastern Partnership, European Neighbourhood Policy, regional integration, trade, association agreements

Introduction

Different forms of cooperation and regional integration, implying specific institutional agreements and instruments, have been developed in the last decades in the EU neighbourhood. According to the Lisbon Treaty (art. 8 TEU), in its vicinity, the European Union should “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” (European Commission, 2003). Every form of cooperation involves specific instruments, procedures, objectives and generates particular dynamics and institutional structures. Currently, most countries from the Eastern and Southern vicinity are covered by the European

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Neighbourhood Policy (ENP), under the Union for Mediterranean policy (UfM) in the South and under the Eastern Partnership (EaP) in the East. However, there are other EU neighbouring countries lying outside the scope of ENP: Norway, Liechtenstein and Switzerland, which are part of the European Economic Area (EEA), the Balkan countries, covered by the Stabilisation and Association Process (SAP)¹, Turkey, involved in an accession negotiation process and, last but not least, Russia, which is still covered by a Strategic Partnership.

The offer provided by the EaP includes both economic and political objectives, the six EaP countries receiving EU market access plus political and economic support in return for economic and democratic reforms. The ENP and EaP, although criticised for not providing an offer attractive enough in terms of prospective membership, tried to provide the necessary basis for subsequent developments (mainly, in the field of political integration) through their economic goals. Since the economic objective of the ENP/EaP has been the creation of several FTAs which, finally, have to converge into a genuine Economic Community, the current paper mainly focuses on a concise assessment of economic EAP objectives (the liberalisation of trade and opening of goods markets). The question to be raised is whether the ENP model has proven sufficiently attractive to persuade the EaP governments to adopt (or accelerate the adoption of) economic and governance reforms, like trade liberalisation, privatisation or convergence with the EU legislation. The ENP/EaP instruments were conceived on the basis of the previous EU enlargements towards the Central and Eastern Europe and have resorted to many of the enlargement principles (conditionality, financial support, reporting and monitoring, etc.), but the absence of a prospect for membership has been making the big difference.

What may be noticed nowadays is that the Eastern Neighbourhood is divided between two conflicting economic integration projects, one promoted by the EU through the Deep and Comprehensive Free Trade Agreements (DCFTAs) and the other promoted by Russia, through the Eurasian integration project (in July 2010, Russia launched the Eurasian Custom Union between Russia, Belarus and Kazakhstan and very quickly, in January 2012, the Single Economic Space). Moreover, although the ENP / EaP were created in order to support the establishment of “a ring” of well governed and prosperous countries at the EU borders, presently, both the Eastern and Southern neighbourhood are characterised by conflicts, increased economic and political divergences and unexpected evolutions.

The paper is structured in three parts plus introduction: the first section is concentrated on the theoretical background of the ENP/EaP in terms of dominant

¹ FYROM (2001), Albania (2006), Montenegro (2007), Bosnia and Herzegovina (2008), Serbia (currently under accession negotiation).

integration theory (functionalism/neo-functionalism versus intergovernmentalism). A quick overview of the Ballasa model intends to clarify the level of ambition assumed by the EU with the EaP's countries in the framework of Association Agreements and Deep and Comprehensive Free Trade Agreements. In the second section, the main characteristics of EaP's economic objectives are presented, with a special focus on the specificities of the free trade agreements between Ukraine and the EU and Ukraine and Russia. The last part includes several directions for the EaP's reform.

2. The Eastern Partnership's tools. Free Trade area arrangements – a magic panacea?

The main economic purpose of the ENP / EaP has been the facilitation of trade and mobility between the EU and neighbour partners and, finally, approximation and convergence with the EU's *acquis*. Through economic channels (mainly focusing on trade liberalisation), significant political and socio-economic reforms in Eastern neighbourhood countries have been encouraged and supported. Certainly, the conviction that trade and particularly, regional integration represent an important driver in fostering regional economic cooperation, that could create and maintain peaceful relations among countries, is not a new one (from Adam Smith, to David Ricardo or, more recently, to Jacob Viner, the positive effects of free trade areas were permanently emphasised). Additionally, numerous post-war economists mainly focused on the economic integration process and its impact on welfare goals. Thus, Viner's book, *The Custom Union Issue*, published in 1950, which was considered "the starting point for every subsequent work on the economics of common markets and free trade areas" (Viner, 1950, in Blaug, 1991, p. 298), stressed that "projects for customs unions and other special tariff arrangements between states independent of each other politically are today widespread, and many persons look to them as at least a partial solution for the major economic and political problems in the international field" (Viner, 1950, p. 3). Moreover, Viner was the first theoretician to make a clear distinction between trade-creating and trade-diverting effects of a custom union.

Article XXIV of the GATT defines a free-trade area as "a group of two or more customs territories in which the duties and other restrictive regulations of commerce [. . .] are eliminated on substantially all the trade between the constituent territories in products originating in such territories".

Source: GATT Agreement

Bela Ballasa (The theory of economic integration, 1961), one of the best known authors on economic integration process, conducted his work on Jacob Viner's theories and identified a number of specific stages in the process of

regional economic integration². Each stage, from the free-trade area (which abolishes tariffs and quotas), to the customs union (which involves, in addition, common external tariffs vis-à-vis non-members), common market (which also removes restrictions on factor movements), and then the economic union and complete economic integration (which harmonises certain economic policies, particularly macroeconomic and regulatory policies) represents a new step in deepening the economic integration process.

Box 1. Degrees of economic integration according to Bela Ballasa

“In everyday usage the word "integration" denotes the bringing together of parts into a whole. [...] We propose to define economic integration as a process and as a state of affairs. Regarded as a process, it encompasses measures designed to abolish discrimination between economic units belonging to different national states; viewed as a state of affairs, it can be represented by the absence of various forms of discrimination between national economies. [...]

Economic integration, as defined here, can take several forms that represent varying degrees of integration. These are a free-trade area, a customs union, a common market, an economic union and complete economic integration. In a free-trade area, tariffs (and quantitative restrictions) between the participating countries are abolished, but each country retains its own tariffs against non-members. Establishing a customs union involves, besides the suppression of discrimination in the field of commodity movements within the union, the equalisation of tariffs in trade with non member countries. A higher form of economic integration is attained in a common market, where not only trade restrictions but also restrictions on factor movements are abolished. An economic union, as distinct from a common market, combines the suppression of restrictions on commodity and factor policies, in order to remove discrimination that was due to disparities in these policies. Finally, total economic integration presupposes the unification of monetary, fiscal, social, and countercyclical policies and requires the setting-up of a supra-national authority whose decisions are binding for the member states.”

Source: Balassa, 1961

More recently, some authors (Venables, 1999; Henderson, 2001; Venables, 2001) have differentiated between diverse situations concerning the link between a free trade agreement and the country’s level of development. While agreements between low-income countries have a tendency to generate income divergence among member countries, the free trade agreements among high-income countries lead to convergence. Accordingly, developing countries may be better served by North-South, rather than by South-South free trade

² Article XXIV: 5 GATT, which defines the types of regional integration exempted from the most-favored nation principle, refers only to free trade areas and customs unions.

agreements, because the North-South agreements increase their prospects for convergence with high-income members of the free trade area. Other authors draw attention that positive effects of free trade agreements exist only when a regional integration agreement is between “relatively evenly balanced partners” and “when the distribution of benefits from the regional integration agreements is relatively equal” (Schiff and Winters, 2003).

In the framework of the 2004/2007/2013 EU enlargements, trade policy represented the central tool towards democratisation and stabilisation of the Central and Eastern part of Europe (CEE). In essence, as Zielonka said, the previous enlargement “was about securing peace and prosperity in the future Europe through the skilful use of EU membership conditionality” (Zielonka, 2006, p. 45). On the other hand, at that time, EU institutions and most EU member states were “collectively [...] much more receptive to the demands of the CEECs” than they are to today’s neighbourhood. It appears that “a combination of joint German, British and Commission leadership and activism has been able to move trade discussions and thus the wider enlargement process, forward” (Wallace et al., 2010, p. 409).

Currently, there are scholars (Moravcsik, 1992; 2008; Bickerton, Hodson, and Puetter, 2014) considering that a new intergovernmentalism that apparently displaces the supranational actors and institutions of the traditional community, is triumphing everywhere, including in the ENP/EaP area. For instance, Moravcsik notices that the latest evolutions have proved the reinforcing of intergovernmentalism at the expense of the community method (Moravcsik, 2008). However, the question is not whether the EU has become more intergovernmental, more liberal-intergovernmental or more supranational; the question is about the way the EU external policies and particularly the ENP/EaP are to be designed. Certainly, there is a continuous interplay between intergovernmentalism and supranationalism, each being a precondition for the other. Thus, in order to obtain the concluding political results (like political and social reforms, democracy, etc.), tangible economic steps, as a precondition, should be taken. In fact, this tactic would reflect a functionalist approach in relation to the “spill-over” effects of deepening the economic integration process. On the other hand, the need to ensure the effective implication of the EaP’s governments in the reform process reflects the intergovernmental perspective on the Eastern neighbourhood policy. Finally, the ENP/EaP might be considered as a perfect example of a EU policy targeting an intergovernmental topic in a very functionalist manner, the main issue being, so far, its lack of efficiency.

Definitely, the free trade agreements concluded in the first part of the ‘90s between the EU and Central and Eastern Europe countries had proved that these specific instruments could produce both benefits and costs, by influencing bilateral trade and foreign direct investments in different manners. Moreover, if we notice the difficult advancements in the negotiations of the free trade

agreement between the EU and US (the Transatlantic Trade and Investment Partnership, known as TTIP) we can see how difficult it is to harmonise different interests concerning the opening of markets even between economically equal partners. Undoubtedly, when the two parts are significantly economically different, as it is the case of the EU and ENP/EaP countries, even more questions appear.

3. Towards an Eastern Neighbourhood Economic Community?

3.1. From a Free Trade Area to the EU Eastern Neighbourhood Economic Community

The Eastern Europe's countries, former members of the Soviet Union, respectively Belarus (bordering with Latvia, Lithuania and Poland), Ukraine (bordering with Poland, Slovakia, Hungary and Romania), the Republic of Moldova (border with Romania) and Southern Caucasus' countries: Azerbaijan, Armenia and Georgia (all these latter countries bordering different former Soviet Union's states, Russia included) have been covered since 2009 by the EaP. The offer provided by the EaP through current Association Agreements (and, in a similar way, under previous Action Plans concluded under Partnership and Cooperation Agreements) includes both economic and political objectives. Briefly, in the framework of EaP, the six EaP countries receive EU market access plus political and economic support in return for economic and democratic reforms. The Commission (2004) has set out from the beginning that "the ambition and the pace of development of the EU's relationship with each partner country will depend on its degree of commitment to common values, as well as its will and capacity to implement agreed priorities" (European Commission, 2004) and it is not surprising that the two core principles of the ENP, conditionality and differentiation, were preserved in the EaP. Thus, in order to "support progress in partners' bilateral relations with the EU", the assessment of progress "will continue to be governed by the principle of differentiation, developed according to the ambitions and capacities of each" (European Commission, 2008) but, as well, according to "own aspirations, needs and capacities" of each partner (European Commission and High Representative, 2011). The latest tactic is known as the "differentiation plus approach" or the new ENP 'more for more' principle (or "less for less" approach).

The principles of conditionality and differentiation are presented at different levels: for instance, the negotiation of a FTA requires that neighbours first accede to the WTO³, while the establishment of a 'deep FTA' is subject to the

³ The rules for trade in goods can be found in Article XXIV of the General Agreement on Tariffs and Trade (GATT) and the rules for services in Article V of the General Agreement on Trade in Services (GATS).

neighbour's acceptance of different EU regulatory standards and finally, the EaP/ENP financial assistance is subject to fulfilment of other objectives set out in the EaP agreements. Moreover, in the process of negotiation and implementation of the FTA, the "countries will gradually move [...] at different speeds", although what should be noticed is the need/urge "to give them all the same perspective". The negotiation process "largely remains a bilateral approach between the EU and each partner, in order to take account of the great differences between partner countries' situations" (European Commission, 2006).

Since "open markets and economic integration are essential to the development of partners and to their confidence in a growing partnership with the EU", the main concrete goal of the EaP has been to provide "deeper integration" between EU and EaP countries by encouraging and supporting the latter in "their political, institutional and economic reforms based on EU standards, as well as facilitating trade and increasing mobility between EU and partner states" (European Commission, 2008). Therefore, the primary economic objective of the ENP/EaP on the medium run is the creation of a free trade area (FTA) and, in the long run, of an Economic Community (EC). In the EC's vision, the Economic Community, respectively the Neighbourhood Economic Community (NEC) should guarantee "the application of shared regulatory frameworks and improved market access for goods and services among ENP partners, and some appropriate institutional arrangement such as dispute settlement mechanisms" (European Commission, 2006). Consequently, the NEC should represent the logical consequence of the creation of an FTA and "the establishment of a network of FTAs [...] should grow into a Neighbourhood Economic Community (European Commission, 2008)".

The 2003 EC communication explicitly declared that neighbouring countries "should be offered the prospect of a stake in the EU's Internal Market and further integration and liberalisation, to promote the free movement of persons, goods, services and capital (four freedoms)" the long-term objective being "to move towards an arrangement whereby the Union's relations with the neighbouring countries ultimately resemble the close political and economic links currently enjoyed with the European Economic Area⁴ (European Commission, 2003). Reflecting the same approach, the 2008 EC Communication stated that the "EU and its partners may reflect on a broader regional trade approach establishing a Neighbourhood Economic Community, taking inspiration from the European Economic Area where appropriate" (European

⁴ Currently, the European Economic Area (EEA) is a form of regional integration which has extended since 1994 the EU internal market to some members of the European Free Trade Association (EFTA), respectively towards Iceland, Liechtenstein and Norway, and which covers free movement of factors (goods, services, persons and capital) as well as cooperation in different areas, such as research and development, education or environment.

Commission, 2008). This kind of economic community would “on the longer term, offer full access to the single market. It would require partners to develop the capacity of their economies to be able to fully withstand the competitive pressures of the single market and to demonstrate not only a willingness to adopt all relevant elements of the EU acquis, but also a capacity to implement them, with comparable standards and practices. Substantially increased technical assistance and funding will be needed to achieve this objective” (European Commission, 2008).

The following concrete aspects should deepen the integration process between EU and ENP/EaP countries and support the creation of a Neighbourhood Economic Community (European Commission, 2008):

1. upgrade contractual relations towards association agreements;
2. negotiate deep and comprehensive free trade areas (DCTA) with each country and greater support to meet the related requirements, leading to the establishment of a network of FTAs;
3. the FTAs network can grow into a Neighbourhood Economic Community on the longer term;
4. ensure progressive visa liberalisation in a secure environment;
5. deeper cooperation to enhance the energy security of partners and the EU;
6. support economic and social policies designed to reduce disparities within each partner country and across borders.

Regarding the initial design of the ENP/EaP, most authors (Lehne, 2014; Liik, 2014) consider the absence of the EU membership perspective as being its main deficiency. Moreover, the ENP/EaP’s scope has been formulated rather ambiguously (the participation in the EaP holding on the concept of geographic proximity), the EaP’s objectives are rather vaguely defined and its methodology has proved so far to be ineffective. Currently, the Eastern Neighbourhood is divided between two conflicting economic integration projects, one promoted by the EU through the DCFTAs and the other promoted by Russia, through the Eurasian integration project (in July 2010, Russia launched the Eurasian Custom Union between Russia, Belarus and Kazakhstan and very quickly, in January 2012, the Single Economic Space).

Might the participation of Eastern vicinity’s countries in different free trade areas create potential conflicts? In fact, according to WTO rules, nothing prevents a country from being part of different free trade arrangements⁵, the customs unions derogating to the general principle of non-discrimination. In order to better understand the functioning of a DCFTA, the next section will

⁵ For instance, the United States has free trade agreements in force with 20 countries (Office of the US Trade Representative), while the EU has already in place trade agreements with some 50 partners (EC, Memo Brussels, The EU’s bilateral trade and investment agreements – where are we?, 3 December 2013).

focus on the main characteristics and current developments in the implementation of the EaP's economic objectives.

3.2. Tangible steps in the creation of a DCFTA. What has been done so far?

The deep and comprehensive free trade agreement (DCFTA) was conceived as a tangible tool to deepen economic integration between the EU and the ENP/EaP's countries. A DCFTA, which is part of bilateral association agreements, covers substantially all trade in goods and services and 'behind-the-border' issues, as well (European Commission, 2006). Consequently, DCFTAs could be negotiated only with those ENP countries members of the WTO. It also requires the "partners' capacity to approximate the EU *acquis*" and grant them three of the four freedoms – free movement of 'substantially all' goods, many services and of capital (EC and HR, 2012). The fourth freedom, free movement of persons, has largely been restricted to visa facilitation, migration management and people-to-people exchanges (e.g. educational and youth exchanges, mobility of researchers, civil society contacts). Both visa facilitation and readmission agreements have to be negotiated separately from the association agreements.

Azerbaijan and Belarus, which are not members of WTO, did not meet the preconditions to start AAs/DCFTAs negotiations. Moreover, in the case of Belarus, due to its domestic political situation, the EU did not ratify the Partnership and Cooperation Agreement concluded in 1995 and, therefore, no bilateral agreement (or Action Plan) has been put in place. However, according to the European Commission, for both Belarus and Azerbaijan, the doors should remain open and both countries may participate in different multilateral tracks of the Eastern Partnership.

Negotiations on the AAs/DCFTAs with the other four EaP countries, Moldova, Georgia, Ukraine and Armenia were intensively observed and debated. Thus, after 2010, Georgia and Moldova, both led by pro-EU governments, have enthusiastically rushed to meet EU criteria, initiating negotiations on Association Agreements. In the second part of 2013, Armenia and Ukraine withdrew from negotiations with the EU and turned towards Moscow. In September 2013, although the EU made clear that DCFTA with the EU is not compatible with the participation in custom arrangements with third parties, Armenia announced that it had chosen to integrate in the Russia-led customs union. Two months later, Ukraine blocked progress towards signing the AAs with the EU in the very last moment of negotiations, decision which led to the massive citizen demonstrations. The second EaP Summit, held at Vilnius at the end of November 2013, marked the beginning of major changes in the geopolitical context of the region and a paradigm shift in the Eastern Neighbourhood.

Table 1. Main steps in the implementation of the economic objectives of the EaP

Country	Negotiations on Associations Agreements	Negotiations on DCFTA	Visa facilitation and readmission agreements	Visa dialogue
Armenia	started in July 2010	Negotiation on the AA, including the DCFTA, were finalised on July 2013. However, on 3 September 2013, during a visit to Moscow, the Armenian president announced the decision to join the Custom Union of Russia, Belarus, Kazakhstan.	technical dialogue is under way, but negotiations have not started yet	--
Azerbaijan	started in July 2010	does not meet the precondition for starting the negotiations, which is WTO membership, The EU proposed in May 2013 the negotiation of a Strategic Modernisation Partnership.	--	--
Belarus	--	does not meet the precondition for starting the negotiations, which is WTO membership	--	--
Georgia	started in July 2010	AA was ratified on 18 July 2014, entered into force since 1 September 2014	came into force in March 2011	--
Moldova	started in January 2010	AA was ratified on 2 July 2014, entered into force since 1 September 2014	came into force in 2008	started in June 2010
Ukraine	started in March 2007	On 21 March 2014, political chapters of the AA were signed and the remaining chapters on 27 June 2014. The AA provisionally took effect from 7 November 2014, except the DCFTA, postponed until the end of 2015.	came into force in 2008	started in October 2008

Source: author, based on information provided by the European Commission

Victor Yanukovich, then the Ukrainian President, decided not to sign the Association Agreement with the EU and, consequently the DCFTA, a move that generated a series of unpredicted and very rapid changes and, in less than three

months, Yanukovich had to resign and leave the country. After 8 months of violent protests and the change of government in March 2014, the new Ukrainian President Petro Poroshenko finally signed the economic part of the Association Agreement on 27 June 2014 (the political part was signed on 21 March 2014)⁶. On the other hand, Georgia and the Republic of Moldova finally signed the Association Agreements/Deep and Comprehensive Free Trade Areas with the EU on 27 June 2014.

The signing of the AAs with three of the six EaP's countries has once formalised the separation already created among the six EaP countries: on the one side, there are the three pro-European members, the Republic of Moldova, Georgia and Ukraine, which have signed the AAs/DCFTAs and which are still showing, at least in declaration, their willingness to conduct EU oriented reforms⁷; on the other side, there are the other three countries, Belarus, Armenia and Azerbaijan, more reluctant to reform. For these countries, which are not members of the World Trade Organisation, the eligibility for a DCFTA is out of question, the more likely near-term objective being the successful completion of the negotiations for entry in the WTO (European Commission, 2013).

In the case of Georgia, the Republic of Moldova and Ukraine, the AAs, although very ambitious, "should not be seen as the end of the road, but as the beginning of a journey on which the European Union and these three partner countries are embarking together today" (remarks by President Barroso at the signing of the Association Agreements, 2014). The ratification should be seen as only the first step in the process of integration, the most difficult part being their effective implementation which will primarily require political will, determination and an unambiguous national consensus in favour of indispensable measures.

3.3. Some aspects of the trade policy between the EU and the EaP countries

In order to better understand the impact of these FTAs on the EaP countries, some considerations on the specificities of the trade policy between the EU and the EaP countries appear more than necessary. In terms of

⁶ Some parts of the Agreement are provisionally applied since 1 November 2014 and the rest of Agreement was postponed until 31 December 2015, under the condition of ratification by all 28 EU member states. Implementation of the Association Agreement between Ukraine and the European Union is being held on the basis of respective Action Plan for 2014-2017, approved by the Cabinet of Ministers of Ukraine on the 17th of September 2014 (Mission of the EU).

⁷ Once AAs come into force, it is expected to positively affect these countries through trade creation and to contribute to the acceleration of economic growth and creation of new jobs. They can also have beneficial side effects, such as reduced inflation due to higher competition and improvement of the investment climate (agreements should contribute to a more predictable and business-friendly regulatory environment).

commercial relations, most EaP countries enjoy preferential access to the EU market, either under the Generalised System of Preferences (GSP)⁸, the GSP+ or under the Autonomous Trade Preferences (ATP). These commercial preferences are not reciprocal and are provided by the EU to developing countries (European Integration Index 2013 for Eastern Partnership Countries, 2014). All EaP countries are eligible for GSP, except Belarus (preferences were withdrawn in 2006 in response to systematic and serious violations of the core principles of the International Labour Organisation). Three of the EaP countries, Georgia, Azerbaijan and Armenia, are eligible for GSP +. The Republic of Moldova was formally removed from the GSP list as it became eligible for ATP preference (above the GSP +) since March 2008. ATPs give Moldova unrestricted and duty-free access to the EU market for all products originated from Moldova, except certain agricultural products.

Currently, “over 80% of EaP country products effectively enter the EU market without paying import duty” (European Integration Index 2013 for Eastern Partnership Countries, 2014). There are particular situations under this average: Azerbaijan, for instance, virtually benefits of a zero duty-free because energy products almost dominate its exports towards the EU. On the other hand, Ukraine pays duties on more products than any other EaP country because of the structure of its exports, where “sensitive” products dominate. Moreover, Ukraine’s exports exceed 1% of the total GSP-covered import and its GSP covered imports are not concentrated enough, preventing the country from being classified as “vulnerable”⁹. As a result, Ukraine could not benefit also from the more generous scheme provided by the GSP+ system.

Presently, the level of tariff protection of the EU market is determined by the EU Import Tariff Schedule, the eligibility for existing commercial preferences (GSP, GSP +, ATP, etc.), by bilateral agreements between the EU and EaP countries and by the structure of the country’s commodities. Consequently, due to the high degree of tariff liberalisation already applied in the commodity trade between the EU and EaP countries, the natural focus in the DCFTAs talks is on non-tariff barriers for trade with commodities and services and on other trade-related topics like intellectual property rights, competition policy, state procurements, environment or dispute settlement mechanism.

⁸ The GSP is an autonomous trade arrangement through which the EU provides non-reciprocal preferential access to the EU market. The system allows exporters from developing countries to pay lower duties on some or all of what they sell to the EU. It envisages duty-free access for non-sensitive products, and a reduction in import duties for sensitive products. See details at <http://ec.europa.eu/trade/wider-agenda/development/generalised-system-of-preferences/>.

⁹ Definition and list of eligible countries available at http://trade.ec.europa.eu/doclib/docs/2008/july/tradoc_139963.pdf.

During the DCFTAs negotiations, particular attention was paid to agricultural products, an item highly sensitive on both sides of the table.

Box 2. The economic significance of an FTA between Ukraine and Russia

1. In commercial terms, Russia and the EU are almost of the same importance for Ukraine: for instance, in 2012, Ukraine exported to each of the two destinations around 17 billion USD.
2. If we include the trade with Belarus – Russia – Kazakhstan Custom Union (BRK-CU), the percentage is 33% of Ukraine exports and more than 40% of imports, whereas EU28 accounts for 25% of Ukraine’s exports and 31% of Ukraine’s imports.
3. In terms of structure, “the structure of exports to Russia is more than “advanced” since Ukraine’s exports of transport equipment and machinery play a much bigger role”, while Ukraine’s exports to the EU “are specialised on vegetable products, mineral products (partly refined from Russia oil imports) and base metals”.
4. On the other hand, “Ukraine’s imports from Russia are traditionally dominated by mineral products, whereas imports from the EU mostly consist in chemicals, machinery and transport equipment” (Havlik, 2014, p.28).
5. Consequently, both partners being almost equal as importance, from a purely trade importance, any decision might be taken.
6. However, “restricted access to the Russian market (meaning that trade barriers are introduced as punishment) would hit immediately and disproportionately the more advanced part of Ukraine’s economy, located mainly in the Eastern part.
7. The BRK-CU intends to maintain and develop existing technology, without much modernisation and restructuring pressures, whereas the implementation of the DCFTA with the EU would bring benefits mainly “on the medium and long run, especially regarding the expected pressures on modernisation and reforms which would eventually lead to a significant restructuring of the Ukrainian economy and higher FDI inflows” (Havlik, 2014).
8. Moreover, “the EU, as a more developed economy, would introduce more competition, modernisation and reform pressures on Ukraine” and last, but not least, the EU market, in terms of population, is much bigger than the Russian one.
9. Speaking about custom tariffs, one should notice that Ukraine and Russia have already had an FTA, where some important exceptions for agricultural products are included. In relation with the EU, “70.6% of the value of Ukrainian agricultural products and 90.8% of the value of non-agricultural products were already exported duty free in 2011” (Havlik, 2014).

Source: adapted by the author from P. Havlik (2014, p.28)

Although this agreement does not amount to an invitation for joining the EU, there are some positive effects, mainly from an economic perspective. Firstly, the agreement gives Ukraine potential access to the huge European market of more than 500 million consumers (only 146 million consumers in Russia). Secondly, as a result of diminished tariffs and duty free regime since 2015, Ukraine could save around 500 million dollars. On the other hand, Russia will certainly impose higher tariffs on both goods and energy (oil and gas) which will generate a possible loss in Ukraine's revenue. However, the signing of Association Agreements, on 27 June 2014, with Georgia, the Republic of Moldova and Ukraine, represents a favourable sign in favour of strengthening the economic and political links with the EU, especially in the field of trade, energy and foreign policy. A symbolic declaration delivered by the President of Ukraine, Mr. Poroshenko, stated: "Today I make a unilateral declaration that by signing this agreement with the EU, Ukraine is a European state, sharing common values of democracy and rule of law, and has underlined its sovereign choice in favour of EU membership" (Poroshenko, 2014). The implementation of the Agreement should enable the three EaP countries to consolidate their internal reforms, accelerate economic growth and consolidate the rule of law and good governance.

4. The EaP - in search of a new identity?

Although the ENP / EaP were created in order to support the establishment of "a ring" of well governed and prosperous countries at the EU borders, presently, both the Eastern and the Southern neighbourhood are characterised by conflicts, increased economic and political divergences and unexpected evolutions. Since the ENP "has not always been able to offer adequate responses to these recent developments, nor to the changing aspirations of [...] partners" (EC, 2015, p.2) and taking into account the increasing EU internal and external challenges, the ENP reform process – launched in March 2015 by the European Commission – appears more than opportune. Internally, the Euro zone crisis has aggravated the so-called enlargement fatigue feelings and projects like the EaP thus become of minor significance. Moreover, the economic and financial crisis also narrowed the force of the European economic model for partner countries. On the other hand, externally, the Crimea crisis and the Russia-Ukraine conflict have made advancements in the framework of the EaP more difficult than ever. Certainly, both the Eastern and Southern neighbourhoods are no longer what they were supposed to be when the ENP was launched in 2004 and the new European approach should take that into account. The refugee crisis, Syria's war, the latest ISIS attacks in Europe and so on have totally changed the context the ENP/EaP are to be discussed and reformed.

First of all, it is essential that EU leaders agree that the ENP/EaP deficiencies are not just a matter of inadequate implementation but are related to

the policy itself and its reform should reflect its relevance in today's dramatically changed conditions. Regarding the new ENP/EaP policy design, the relationship between the EU and Russia, the close neighbour of neighbours, should be carefully redefined. Since the onset, Russia observed with suspicion the EaP and considered EU actions as a brutal attempt to invade its traditional "sphere of influence". The Russian president, Vladimir Putin, used to refer to the EaP as "a zero-sum game in which any step towards the EU represented a setback for Russia" (Lehne, 2014) and "an alternative to NATO's expansion to the East" (Park, 2015), while the Russian foreign minister Serghei Lavrov accused the EU of attempting to create a "new sphere of influence" in Russia's backyard. Moreover, other authors (Karaganov, 2014; Liik, 2014) consider that the EU has treated Russia "as a defeated nation" and "ignored Russia's economic interests in Ukraine", trying "to force Ukraine to choose between the East and the West, thereby splitting the country and putting its leadership in an impossible situation". The EU/NATO reactions, first to the Crimea annexation and then to the war in Eastern Ukraine, have indicated the West's attempt to avoid any military conflict with its giant Eastern neighbour (and that has been very clear since 2008, when, at the Bucharest summit, NATO refused to offer Ukraine and Georgia the long-awaited Membership Action Plan). Sanctions, which have taken the form of restrictions imposed against more than one hundred members of the Russian political and business elite, as well as dozens of Russian enterprises and banks, have so far been "the most effective instrument of Western influence on Russia's policy towards Ukraine, stopping the Kremlin from making a greater military incursion in the country" (Ćwiek-Karpowicz and Secieru, 2017, p. 7). Obviously, taking into account the new EU threats and security challenges, the relation between EU and Russia, on both the Eastern and the Southern flanks, will be reconsidered. The "business as usual" with Russia of the latest years will no longer represent a realistic approach and a new paradigm will replace it, its design being determined in the coming months.

Among others, the EU needs to diversify its traditional "soft power" tools of influence to better fit to the reality of pro-European countries. For those, the key question is: how will the EU continue to efficiently use the principle of conditionality (important tool used within the previous enlargement process) without any membership prospect? Certainly, the absence of the "European perspective" must be substituted with an additional focus on "Money, Mobility and Markets" instruments and the EaP financial support together with the conditionality principle be transformed in the main EaP's instruments. The additional EU funds might be used to support economic growth and directly improve the standard of living of the EaP's population. Secondly, financial support should be more particularly tailored to the countries implementing the DCFTAs. These countries should be better targeted by relevant assistance, not only in terms of volume, but also in terms of public sector needs (using the

technical assistance tools). Technical support provided for public administration by the EU member states (in Moldova's case, for instance, Romania might do that) must be used in a more transparent and predictable manner to accelerate the reform process in different areas. Last but not least, the direct exchange of people, especially among the young people and youth workers, should be encouraged and visa facilitation regime be extended. Moreover, more courageous steps towards a customs union, which represents a better formula to both achieve the goals of regional economic integration and reduce the distortions coming from rules of origin in FTAs, might be envisaged. On the other hand, the EaP countries which are rather unenthusiastic or uninterested in the EU economic offer provided through the AAs/DCFTAs and prefer selective sector integration should not be left out, but rather offered specific options, including an appropriate level of conditionality.

To conclude, whatever the final design of the ENP/EaP may be, the deepening of the economic integration between the EU and EaP countries, either under the current Association Agreements/DCFTAs for pro-European countries, or outside this legal framework, for the others, should continue. However, since any regional integration agreement is primarily economically motivated, both parts should pay attention to the possible asymmetric distribution of costs and benefits among members, which might jeopardise the smooth evolution of bilateral relations between them.

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