

András Inotai, Prof. Dr., Budapest, May 8, 2014

## **" Would any reedition of the EU's Eastern Partnership project work?"**

The current and deepening crisis in Ukraine revealed the complete inadequacy of the Eastern Partnership project, at least as it had been constructed since 2009. First, it did not support economic restructuring of the countries involved. Just the opposite, as seen in Ukraine, the member countries have been facing with growing economic problems that obviously contributed to the current critical situation. Second, any implementation of a Deep and Comprehensive Free Trade Agreement would create an uneven distribution of costs and benefits in favour of the EU, at least in the short and medium term. Due to structural rigidities and lack of competitive commodities (and services) in the EaP region, reciprocal opening of the markets would favour EU exports and most probably exacerbate trade deficit problems. Third, the EaP has never offered a viable economic alternative to the dependence of the member countries on Russia. Reorientation of exports from the Russian to the EU markets is blocked by the (uncompetitive) production pattern focusing on the Russian market, strong business interests or networks, historical ties, geographic location and sometimes temporary or lasting advantages provided by Russia. Even more importantly, the EU is unable to replace (or even lessen) the energy dependence of the EaP countries on Russian energy. In addition, for some EaP countries remittances of workers employed in Russia play a relevant role in foreign exchange revenues. Fourth, the new Russian (economic) policy based on the creation of the Eurasian Customs Union (ECU) proved to be much more attractive to some EaP countries. Belarus became full member of the ECU, while Armenia is likely to join the Russia-led economic union soon. Also, countries more in favour of the EU, such as Georgia or Moldova cannot ignore the potential economic benefits of the Russian project as compared to the economic advantages offered by the EU.

Fifth, the only evident advantage of the EaP can be identified in building democratic institutions and societies. However, even in countries where the political leadership is committed to democratic values, most people are hard to be convinced that longer term political benefits are more important than immediate economic gains (or the avoidance of immediate economic losses). Moreover, it is unlikely that democracy-building can remain a sustainable project under conditions of economic hardship.

While it is evident that after the failure of the EaP project a new approach has to be developed and implemented. Still, it is by far not clear whether any such "reedited package" would be able to compensate the Russian offer, make the respective economies more competitive and reduce the critical dependence (both energy and selected influential industrial sectors) on Russia.

Any EU-led approach that could count on some success, should contain the following elements: dramatically increased financial support for economic transformation and modernization, immediate and asymmetric market opening for EaP products, including agricultural goods, as well as the urgent starting of comprehensive programs of building a strong civil society.

Beyond the general framework, several special, country-focused treatments can be considered. On the one hand, EU-friendly countries, such as Moldova and Georgia need a special approach. Moldova should be offered the promise of membership in the EU. In fact, the country belonged to the Stability Pact group formed by the Western Balkan countries following the Balkan wars, but, unlike these countries, had been excluded from the Thessaloniki membership offer in 2003.

Support to Georgia requires a coordinated strategy between the EU and the USA. On the other hand, a reopening of relations with Belarus is recommended, taking into account the serious impact of the Ukrainian crisis both on the Belarusian economy (being the Ukraine the second largest export market and a substantial trade surplus-generating country) and on the Belarusian society and politics in order to prevent a further increasing unilateral Russian influence.

Yet, the future of Ukraine remains the key factor, both in the geopolitical, political and economic context.