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Editors

# THE EASTERN PARTNERSHIP UNDER STRAIN - TIME FOR A RETHINK?

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THE EASTERN PARTNERSHIP UNDER STRAIN - TIME FOR A RETHINK?



EDITURA UNIVERSITĂȚII „ALEXANDRU IOAN CUZA” IAȘI

Gabriela Carmen PASCARIU | Teodor Lucian MOGA | Loredana Maria SIMIONOV  
(editors)

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**Time for a rethink?**

**EURINT 2016**

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# *EaPpeal*

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**The Eastern Partnership under strain -  
time for a rethink?**

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## FOREWORD

The European Union (EU) has always sought to have strong political and economic ties with the post-Soviet region following the principle that a safer EU able to grow inside but also to assume in a responsible manner the role of a regional and international player is firstly obliged to put its near abroad in order. However, the ongoing turmoil from Ukraine is seriously testing the EU's capacity to effectively stand up to the current regional challenges. It is perhaps not surprising that in many political and academic circles the EU's approach towards the Eastern Partnership (EaP) region is perceived today as being not entirely comprehensive. The EU seems not fully capable of delivering meaningful results which could negatively impact, on the long-run, the EU's credentials in the region. Concurrently, in post-Soviet Eastern Europe the EU has still not been able to fully accommodate the large spectrum of expectations stemming from the EaP states, instead vacillating in its discourse between exclusion and inclusion, between limited vs. potential full integration, move which has puzzled many of its observers. Last but not least, the pressing security concerns from the EaP region having the Ukrainian crisis as centrepiece are still unsettled which could damage the EU's presence in the neighbourhood as an important player for the near future. Hence, we believe time is ripe for a detailed reconsideration of the EU's neighbourhood instruments. In our view, a lack of in-depth inquiry into the factors at play might irreversibly undermine the EU's role in the region.

The 2016 edition of EURINT Proceedings premised on a selection of contributions for the EURINT 2016 International Conference "The Eastern Partnership under strain – time for a rethink?" seeks to fill in a visible gap in the literature on the conceptualization of the EaP and, thus, provide novel answers and raise awareness of the intrinsic and extrinsic challenges the EU faces in post-Soviet Eastern Europe. The present volume is a timely and important contribution to the field of European Studies, since it combines, from an interdisciplinary perspective, insights from the fields of International Relations, Political Science, Economics, etc. As such, it aims at assessing the implications of the latest political events from the EU's Eastern neighbourhood (i.e. the annexation of Crimea and the conflict in Donbas) by trying to answer some critical questions from a threefold perspective – theoretical, empirical and policy-oriented. Particularly, what impact the unfolding Ukrainian crisis could have on the EU's actions and instruments in the neighbourhood in the long run? Is the EU's 'soft power' approach towards its Eastern neighbourhood still effective today when confronted with a revival of Realist consideration and Cold War type-rivalries? Is the Eastern Partnership still a suitable political framework for reaching out to the post-Soviet Eastern European states? By arguing that the latest political developments have brought a new 'era' in the cooperation between the EU and the Eastern neighbourhood, this volume



explores novel ways of conceptualizing and explaining the institutional effects and actor behaviour when analysing the challenges to the EU's transformative power.

This text will be of key interest to scholars, students and practitioners in EU external relations, EU foreign policy, the European Neighbourhood Policy and Eastern Partnership. The publication of this volume was co-funded by the Erasmus + Programme within the frame of Jean Monnet Project "The Eastern Partnership under strain - time for a rethink?" (EaPpeal), 2015-2016. This support does not constitute an endorsement of the contents, which reflects the views only of the authors. The Commission cannot be held responsible for any use which may be made of the information contained therein.

**Editorial team**



# EUROPEAN UNION STRATEGIC NARRATIVE TOWARDS THE EASTERN PARTNERSHIP COUNTRIES AND THE RUSSIAN FEDERATION'S ESCALATION: STOP, SLOW OR GO?

Nikita LOBANOV\*

**Abstract:** *The narrative dimension of the EaP programme was considered by the European policy makers of secondary relevance as it was focused on the bureaucratic aspects of the economic and judicial convergence of the target countries with the European Union through “regulation setting”. The importance of these aspects has clearly increased after the Russian Federation used hybrid war tactics in Ukraine since 2013 based on a fabricated Strategic Narrative that relied on the “Reflexive Control” and “Informational Warfare” principles to a great effect. The growingly opposing information spheres, the Russian and the European, have an enormous importance for the political discourse in the Eastern Partnership (EaP) countries. By drawing on a closer examination of a number of primary and secondary sources – including important events, official texts, and excerpts from interviews – this paper aims at comprehending the formation, projection and reception in the EaP states of the Strategic Narratives of the Russian Federation and the European Union since 2013.*

**Keywords:** *European Union; Russian Federation, Eastern Partnership, Strategic Narratives, Information Sphere*

## Introduction

Communication is more and more at the centre of the international scene. The constant evolution of the new media channels (i.e. the development of social networks) affects policies and their outcome. In fact, “definitions of policy problems usually have narrative structure; namely, they are stories with a beginning, middle, and an end, involving some change or transformation. They have heroes and villains and innocent victims, and they pit forces of evil against forces of good” (Stone, 2002, p. 138). The Eastern Partnership (EaP) region, its people, elite and civil society, are caught in-between.

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The European and Russian Strategic Narratives are increasingly in contrast. The struggle of identities is transforming into an irreconcilable confrontation that European policy-makers, scholars and civil society have to address. After the Russian ‘middle class’ protests of 2011 and the Arab Spring events in the same year, the Russian Federation’s policy-making elite perceives any change in the ‘near abroad’ as a direct threat to Russian sovereignty. In fact, “Kremlin’s policies towards the post-Soviet space range somewhere between domestic and foreign policy; they can be regarded as an extension of domestic politics” (Adomeit, 2011, p. 25). The Russian intervention in Georgia in 2008, the ‘hybrid war’ enacted to seize Crimea in 2014 and the creation of the separatist entities in Luhansk and Donetsk are increasingly included in the Russian Strategic Narrative as rightful acts to oppose the larger Western offensive. The “Maidan-phobia” is currently one of the pillars of the wider Russian identity (Makarychev, 2013).

Process tracing is the main research method employed in the present paper in order to capture the essence of the current aggressive merging of the Russian and European informational spheres in the EaP countries one. As the hybrid confrontation’s analysis underlines, the “Holmes’s method of elimination [...], when the investigator has eliminated all plausible alternatives, the remaining scenario must be the correct one” (Collier, 2011, p. 827), process tracing becomes fundamental, being a particularly useful analytical tool.

Based on Strategic Studies and Strategic Narrative Studies theory, the data provided offer a fresh and profound outlook on the recent events in the region. The main goal of this paper is the analysis of the implementation of a remodeled Strategic Narrative into the EaP programme, capable to re-engage the EaP states and the Russian Federation into dialogue, taking into account the current international stalemate. The confrontation level in the region, in fact, is assuming an existential dimension which has to be re-shaped to a more pragmatic nature. The European narrative projection needs to create a new synoptic judgment which will enable proper contexts and circumstances, in order to dialectically reverse the current regional zero-sum confrontation between local actors, the European Union and the Russian Federation.

## **1. Russian Strategic Narrative: Stop?**

The annexation of the Crimean peninsula in 2014 was the culminating point of the shift within the Russian Federation towards a more traditionalist and conservative paradigm, cyclically returning throughout Russian history. The pre-modern ‘holiness of un-freedom’ is supported by the technological 2.0 revolution of the 21<sup>st</sup> century, creating a unique Strategic narrative to defend the Russian interests at home and in the near neighbourhood. Andrei Kolesnikov (2015, p. 9) argues that “the 2010s offer one a simple choice: you are either for the regime and its satellites and its ideology, or you are against it”. Ever since the Communist era, there has been an established tradition of related studies in Russia, of



furtherly refine capabilities, in order to achieve specific objectives through principles as ‘Camouflage’ and ‘Reflexive control’. In fact, “how Russia positions itself in the Western media space and the deliberate closing of its own space is no accident [...] the aim being to maintain cohesion at home while encouraging discord elsewhere” (Laity, 2015, p. 25). The point of view of the opposing “information spheres” play a huge role in Russia’s self-understanding, as well as in shaping the Russian approach towards the international scene.

Reflexive control is based on a careful individuation of its methods and objectives. The development of the capacities to control and shape the ‘cognitive area’ of allies and adversaries was central to the Soviet Foreign policy: “One gains an advantage in conflict [...] above all if one is able to influence the opponent’s perception of the situation [...] and at the same time conceal from him the fact that one is influencing him” (Lefebvre *et al.*, 1971, p. 45). The Communist party’s objective was to control society through manipulation and careful management of the information received by the Soviet citizens.

Using historical legacy as the starting point, the Russian Federation made further advances to refine the scientific use of propaganda and ideology using the currently available technological means, involving even the highest levels of policy-making. The Ukrainian conflict was a perfect representation of this narrative approach. The *modus operandi* was based on hiding or manipulating information in order to achieve a strategic objective. When the situation on the international scene is changed and the evidence is overwhelming the truth can be revealed. Vladimir Putin, quite ironically, affirmed during his conference to the nation at the end of 2015: “we never said there were not people there who carried out certain tasks including in the military sphere” (Walker, 2015). There is no clear separation between the ‘Peace’ and ‘War’ narratives in the Russian approach, but a constant grey area. The process of militarization of information and narratives in the Russian Federation has a long history. Currently, these separations (war/peace, military/non-military) are taken to an entirely new qualitative level. Bogdanov *et al.* (2013) studies on the new generation warfare, for example, are going in that new qualitative direction. Media, religious organizations, cultural institutions, NGOs, financed public movements and scholars are described as non-military elements used to defend the Russian interests. The main battlefield of the future becomes the information and ideological sphere (Bogdanov *et al.*, p. 18). Therefore, the Russian Strategic Narrative in the EaP region is evolving as a part of the overall evolution of the Russian Grand Strategy which is adopting an effects-based operational road-map from the unique heritage of the Soviet Union’s theoretic studies.

This represents a complex challenge for scholars and analysts as “effects-based operations are conceived and planned in a systems’ framework that considers the full range of direct, indirect, and cascading effects [...] achieved by the application of military, diplomatic, psychological and economic instruments” (Davis, 2001, p. 7). In fact, while Kremlin perceives several European member-



states (i.e. Germany, Italy, France, Greece, and Hungary) still as potential strategic partners, in the current international context, the European Union as a whole is considered as a rival bloc. The EaP region is considered as the area of direct rivalries. In sum, “Russia wants to recreate the erstwhile world order in which Moscow plays a major role again, and it’s strategy is to cultivate fear of Russia (as it has been Russia’s historical culture) to force submission from their rivals” (Kakachia, 2010, p. 89). The refinement of the aforementioned narrative is at the centre of the Russian strategy.

The end of the summer of 2013 was the turning point for the zero-sum game between Russia and the European Union in the EaP region. As Wohlforth (1995) underlines, it is difficult to uncover the decision-makers’ assessments of power which is crucial for the outbreak of hegemonic rivalry. Armenia was the initial target, as it was the country on which Russia held the biggest leverage. “In a single day Moscow sent a message to the inhabitants of an entire region that they do not have a choice - that their independence is arbitrary” (Cathcart, 2013) thus commencing a flexible narrative, that goes beyond the geopolitical game at play. The traditional multipolar perspective was brought to an entirely new level. The Russian Federation’s sponsored Eurasian Union (EEU) was increasingly perceived as incompatible with the European Union. Consequently, “a lack of shared understanding of what constitutes and should constitute acceptable rules and behaviour could lead to competing and conflicting interpretations and strategies” (Hurrell, 2007). For instance, the EU-EEU rivalry was also one of the factors that added up to the escalation of the Ukrainian conflict. Interestingly, the Russian strategic narrative targeted areas way beyond the political or economic spheres, as for example “gender and gay rights have become geopolitical [...] Armenia’s LGBT people are seen as an existential threat to the nation, agents of enemies past and present” (Nikoghosyan, 2016). Thus, a completely new game with different rules emerged. Russian Strategic Narrative directly uses proxies on the ground in the targeted countries for local support, through different levels of sub-narratives that together back up the Russian goals. Moreover, any interference of Russia is negated and is maintained at the unofficial level. Igor Dodon, for example, the leader of the Socialist party in Moldova, in an interview in 2013 affirmed: “I have quite good relationships there [in Russia], but they have nothing to do with the funding of political ideas, but rather with the bilateral and personal relationship with different entities in the Russian Federation” (Tribuna, 2013). Nevertheless, his political discourse is based on the “Western masters” narrative<sup>1</sup> and he vowed several times to “end the European experiment in our country” (Socor, 2014). This is another present feature of the Russian Strategic narrative, as the Kremlin’s sponsored international news multi-media channels attempt to divide and rule through support and diffusion of claims based on ‘Western world’

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<sup>1</sup> The narrative based on emphasizing and arguing the imperialism of the Western world (USA, EU / NATO, the so called EUSA)

criticism. The fervent focus on the flaws of the pro-European political forces is never held towards the Russian institutions. Moreover, the audience is broad as the broadcasts go not only towards the Russian-speaking minorities but equally to the European public itself, with broadcasts in English language.

History and time itself is being stretched in the Russian Strategic narrative efforts to *re-create* the understanding of the audience and ultimately to re-channel it. It should be noted that “time becomes human to the extent that it is articulated through a narrative mode, and narrative attains its full meaning when it becomes a condition of temporal experience” (Ricoeur, 1984, p. 52). Russian Strategic narrative is directed to *hijack* the interpretation of the historic trajectory itself of the EaP region, for domestic, local and European audiences. The Ukrainian conflict’s understanding was re-created in this way, especially within the Novorossiia narrative:

According to the Kremlin version of Ukrainian history, Novorossiia consists of lands which were colonized by Russians in the eighteenth and nineteenth centuries. The cities of Novorossiia are said to have all been founded by Russians and populated by Russians. [...] In reality, the regions claimed as Novorossiia have been imperial borderlands and melting pots for centuries, attracting a wide range of settlers including Greeks, Germans, Bulgarians, Jews, Armenians and countless other communities including ethnic Russians (Dzherdzh, 2014).

The EaP region’s identity itself is being transformed, especially by changing the casual explanation of the current events. An explanation fitting the Russian geopolitical actions and strategy emerges with the exposition of the naturalness of how one thing led to another, how one thing followed another “as a matter of course” (Humphreys, 2010, p. 14). Thus, the events in the region are portrayed as part of a larger Eurasian ‘awakening of conscience’.

Another salient characteristic of the Russian Strategic Narrative is consequently a dialectic transformation of the coloured revolutions (the Revolution of Roses in Georgia in 2003, the Orange Revolution in Ukraine in 2004 and 2005, and the Maidan itself in 2013 and 2014). Integrating with the concept that

Defence is used in Aesopian terms to address issues of offence. [...] Russian media and diplomatic sources have kept up an incessant campaign to characterize the ‘Banderite’ government in Kyiv as illegitimate and brutal. Cyberspace was not immune, as ‘patriotic hackers’ attacked Ukrainian banks and government websites. The essence of this non-linear war is, as Gerasimov says, that the war is everywhere (Galeotti, 2014).

In the tradition of the Reflexive control-based operations, the events are portrayed in a suitable key. “Today Ukraine stands before a choice – to go on the way of peace and constructive dialogue in the society – or to go down to



authoritarianism and a national-radical tyranny (Embassy of the Russian Federation in the Republic of Moldova, 2015). The same reasoning can be applied to other countries of the EaP region in the current Russian perspective. The conflictual perceptions of the Ukraine crisis in Russia and the West are in fact motivating the Russian population and minorities for a better identification with Putin's Russia, as a struggle for Russian survival:

The result of the information *brainwash* is that the word 'Russian' in Ukraine causes rejection, they begin to hate us. This is thanks to the efforts of the United States, the efforts being made by the European Union, which are trying to bring us, Russians, to our knees" (The Siberian Times, 2015).

The Russian Strategic narrative leaves quite little space for maneuver and dialogue. Even Azerbaijan, far from the Euro-aspirations of other countries of EaP, is under pressure from the Russian mass media. The reason is the pressure on the Russian minorities from the government (Pravda, 2013). This is a reoccurring dimension of the Russian Strategic narrative. The leader of the Russian minority and member of the Milli Mejlis, Mihail Zabelin, directly addressed the issue saying that: "We, the members of the Russian minority of Azerbaijan, completely don't agree and we are deeply outraged by the fictional informational, lies and slander, which were diffused in the Russian and Azerbaijani means of mass information on behalf of our name"<sup>2</sup> (The Federal Lezgin National-Cultural Autonomy<sup>3</sup>, 2013). Similarly, in Ukraine the Russian Strategic narrative's included misinformation does not affect the local Russian minorities as much as the domestic public, which is its main target.

We have created our myth. The myth is a faith, it is passion. It is not necessary that it shall be a reality. It is a reality by the fact that it is a good, a hope, a faith, that it is courage. [...] And to this myth, to this grandeur, that we wish to translate into a complete reality, we subordinate all the rest" (Baumer, 1978, p. 21).

To sum it up, the Russian Strategic narrative in the EaP region intertwines the absence of reality and the projection of National grandeur. It directly targets the vulnerable strings of the domestic public and Russian minorities abroad, using the Russo-phobia as a tool to accomplish geopolitical goals with mixed results. Moreover, it allows the Russian policy-making elites to estrange themselves from the reality and persists on the path that started to materialize in the early 2000s.

## **2. Strategic narrative of the European Union: Slow.**

The European Neighbourhood Policy and the Eastern Partnership initiatives were conceived on the grounds of sharing the same interests, ideas and values in

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<sup>2</sup> Translation of the author

<sup>3</sup> Translation of the author



EU's near abroad. The main goal to achieve in the region were building democratic and open market economies which would provide the ground for future EU's eventual enlargement. In fact, EU's narrative consisted of a revolutionary "new vision of an enlarged area of peace, stability and prosperity encompassing the wider neighbourhood of the EU, a circle of friends, a shared neighbourhood founded on common values" (Wissels, 2006, p. 1). Nevertheless, despite EU's ambitious goals, its narrative's essence was condemned to erode in the following years, as it was shaped by its fostering of the "institutional emulation" (Börzel *et. al.*, 2007) and lacking a political dimension. The Russian growing assertiveness and opposing Strategic narrative was the main reason for its narrative's erosion in 2013, with the Ukrainian events and the Crimean annexation.

"Peace, stability and prosperity" were substituted with one keyword, "Stabilisation" (Tomčíková, 2016), which became in fact, the lacking dimension of the neighbouring regions in the eyes of the European Union's policy makers.

"Against its will, the EU was slipping into a geopolitical competition with Russia, a scenario for which it was badly prepared" (Lehne, 2014), lacking a coherent and solid narrative to address the emerged challenges. The European Union was facing a 'zero-sum' game, instead of the 'win-win' scenario of the 'Big Bang' enlargement of 2004, in a profoundly different region. Biscop (2014) considered that EU has learnt the hard way "the geopolitical implications of technical cooperation, export of norms and trade relations the hard way". Thus, following the Ukrainian crisis, EU's response was 'defensive' based on sanctions policy, support of the pro-Western government and condemnation of the Crimean annexation. Although it seemed adequate, it did not offer a clear and immediate resolution towards the de-evolution of the security situation in Eastern neighbourhood. The current "frozen" state of the EU's Strategic narrative is a direct product of this realization and a mirror of the many "frozen" conflicts that plagues the region.

The European Strategic narrative was considerably shaped by its ambiguity and lack of coherence towards the EaP members, especially in its narrative arc. Moreover, for the EaP countries, there is simply no stimulus to actually apply the internal reforms which the EU requires, whereas EU's main challenge was the lack of knowledge to coherently frame its own interests, as "we can know what our interest are [...] only if we can first settle the question of who or what we are ourselves" (Ringmar, 1996, p. 52). For instance, the democratic criteria were rigorously applied to Belarus as no 'vital interest' was at stake, while Azerbaijan, a major energy partner and important for the "Southern Corridor" project, with equally authoritarian practices was treated with considerable tolerance, in comparison. Moreover, despite being supposedly closely aligned to Putin, Lukashenka provided means to reach out to the post-Maidan Ukraine and address the security instability. Vladimir Makey, the Belarusian foreign minister, directly asks to "openly acknowledge that the situation in Belarus compared to several





countries [including those in the EaP] is no worse and in many regards is even better than in these countries” (Goble, 2014).

The lack of coherence and clear objectives in the region are not the only hick-ups of the EU’s actions and narrative in the EaP countries. For instance, Armenia’s position in the European Strategic narrative equally raises certain perplexities. The main issue is the fact that “there is also a gap between the EU’s desired and actual role in the South Caucasus. [...] it is clear that its interest in the region is primarily energy driven” (Babayan et al., 2011, p. 5). Therefore, the EU’s strategic narrative has mainly failed to address the Armenian population and its civil society. Currently, “the EU needs to explore alternative measures to engage and empower embattled Armenia, but based on a more realistic recognition of the limits and liabilities” (Giragosian, 2015). The European Union has to offer a solid narrative that is able to shape the perception not only of domestic public but also to re-wire the Russian take on the actions of the civil society in the region. For example, in 2015 “Armenians took to streets whenever they felt that their government neglected their interests and rights and continued to ignore its pledge to transparency in decision-making” (Babayan, 2015). The US narrative take on the protests can even more radicalize the Russian media response. The main element of the protests is that “contemporary Armenian civil society is not only about elite NGOs, but also about self-organized, grassroots movements” (Mikhelidze, 2015, p. 8). The European Union has to address such events *not only* in Armenia but also throughout the EaP region, in order to be able to guarantee a truly independent coverage. The EaP initiative has to be based on enabling “vulnerable communities themselves to create the conditions for peace and stability” (Kaldor *et al.*, 2008, p. 3) and therefore answer the “who” question (Stryker, 1996, p. 335). Especially in the case of Ukraine, “Brussels should gradually engage in comprehensive outreach to the grassroots – a process that is not well-known to the EU” (Shumylo-Tapiola, 2013), although this engagement is vital for the European Strategic narrative.

Moreover, the communication aspects are in fact critical to the success of the EU’s overall Strategic narrative, but also for the entire EaP initiative. Without a doubt, “effective communication is an essential part of successful policies, productive initiatives, mutually beneficial partnerships or cooperation projects” (Kimber *et al.*, 2015, p. 5). The efforts to increase communication capacity in order to enhance EU’s capacities have also to be subtle, considering that the last decade the EU-Russia dialogue regarding the EaP has been characterised by a “combination of worst-case assumptions about one another’s intent with best-case assumptions about one another’s will”, which “encourages escalation on both sides” (Saunders, 2014). Moreover, there is an urgent need to foster in the EaP members the feelings that “Europe is a state of mind” (European Commission, 2013) for them too, thus creating “spill-over” effects through effective strategic communication. The local population’s perceptions regarding the European EaP initiative are not particularly encouraging, as, only 51.1 per cent of respondents



believe that the EaP has created any progress. Moreover, in bolstering the pro-reform cause in partner countries, “the EaP received the fairly low approval rating of 58.8 per cent” (Dostál, 2015). Therefore, the local population has to understand what the European Union stands for convincingly, in a better way.

The nature of European economic projects, security and foreign policy has to be intelligible and open for the public, especially for the citizens of the EaP region. “Connection, contest and (un)complexity” (Fricke, 2015) are three dimensions that have to be answered continuously. While the following initiatives adaptively integrate with the European wider narrative, these ideas have to be absorbed in the EaP larger frame, in linguistic and accessibility terms, not only to the elites but also to the uneducated population. “In other words, to get to an alternative future, you have to create a story about the past that connects to it” (Kaplan *et al.*, 2016) and create the historic connection to Europe is paramount for the EaP initiative. “Constant fluidity” has to be the quality to pursue for EU to adapt to the characteristics of the region.

The European Strategic narrative therefore is shaped by the overall European Strategic culture. Longhurst (2004, p. 17) points out that:

A strategic culture is persistent over time, tending to outlast the era of its inception, although it is not a permanent or static feature. It is shaped and influenced by formative periods and can alter, either fundamentally or piecemeal, at critical junctures in that collective’s experiences.

The European Strategic narrative is affected by a certain degree of self-absorption on the part of the European Union. Nevertheless, this uncanny dimension is hard to capture. Venus identity does not identify the essence of the issue (Coss, 2002), especially in the EaP region; Mercury is a more precise identification of this “light-footed” approach. There is a clear lack of understanding that the interdependences, especially in information space, in the post-modern world, are not exclusively positive. Such expanding environment can be better exploited by an aggressive international actor. “Illusion of validity” (Zaiman, 2011) can jeopardize the capacity to realistically individuate the priorities that the European Strategic narrative has to follow. The EU’s instruments in this regard are only being shaped and they have to be consolidated.

Another important element of the strategic narrative is the end-state. The weakness of the European Strategic narrative in this sense is plain to see. The worst option is “the continuation of the indefinite, vague and drifting policies towards the region, underpinned by the large diversity of the countries in question” (Novák, 2015). The European Union’s unique identity has to be preserved through persistently trying to re-frame the chessboard itself and adapting to the changing conditions. It is fundamental to respect -in the framework of the EaP initiative- the fact that “the more a story takes cultural, personal, role-specific, religious and media structural expectations into account, the more tangible and relevant and, thus, the more understood and accepted it



becomes” (White Paper, 2014, p. 11). In this context, the EaP has to become a credible story for the people of Armenia, Azerbaijan, Belarus, Ukraine, Georgia and Moldova.

### **3. Russian and European Strategic narratives re-configuration: Go!**

The Russian Strategic narrative assertiveness should highlight the European Strategic narrative’s need for consistent transformations, and ultimately motivate the EU to take action in order to shape a new “re-configuration” in the EaP region. The initial priority becomes to re-tune the European approach to address the fact that in the post-modern world “due to the non-systemic nature of the global mind-space one cannot trace, however, all the casual relationships and intolerant elements from this non-system, but only seduce these elements to change their behaviour” (Sirén, 2013, p. 210). The new European Strategic narrative priority towards the Russian narrative should be an increased pragmatism, the realization of the finite nature of the means and possibilities in such a complex environment. Simpson (2012, p. 116) identified the nature of strategy itself in these chaotic connections: “Essentially, strategy is a dialectical relationship, or the dialogue, between desire and possibility. At the core of strategy is inevitably the problem of whether desire or possibility comes first.” Laity (2015, p. 27) clearly identifies the dimensions of the EaP initiative Strategic narrative re-branding, related to desire and possibility:

1. Our problem/situation is Russia challenging the existing European security and seeking to re-establish spheres of interest;
2. Our desire/objective is to protect that order;
3. Our actions/execution are what we are doing now and decide to do in the future;
4. In order to reach our happy ending/end state, where all Europe’s nations (including Russia), large and small, can have secure borders and make their own choices, based on mutual respect and accepted rules.

The European approach to EaP region has to deeply understand the complex system this region represents and that events in a similar initial situation can evolve in profoundly diverse end-states and “exhibit erratic behaviour through disproportionally large or disproportionately small outputs” (Beyerechen, Winter 1992-1993, p. 62). It is exactly the reason why fluidity has to become the preeminent feature of the European Strategic narrative. A sober assessment is needed, as “it is foolish to think now that a more confident Russia, bent on asserting its interests in Eastern Europe and the Middle East, is beyond the reaches of productive engagement” (Starobin, 2015). While retaining the realistic evaluation of the Russian actions, the European Strategic narrative has to create a possible constructive position for Russia in the region, delicately ‘surfing around’ vital issues that immediately evoke ‘the spiral of hostility’. The greatest mistake would be to turn to Russia as the ‘Other’ on the World scene. The content that the European Strategic narrative provides can push the regional situation further away



from a dialogue-based structure. “For a number of European nations, national pride may be a long forgotten concept, and sovereignty is something they can’t afford. But for Russia genuine state sovereignty is an absolutely necessary prerequisite for existence” (Putin, 2014) and the capacity to understand such elements of the Russian identity is the key for successful points of contact between European and Russian communication spheres.

Major events assume the significance for both narratives as strategic episodes, each of which is relevant for the final fate of both. It is relevant to underline that strategy and strategic episodes “both are mechanisms to give meaning to actions in attempts to win the mind, only strategic episodes truly answer the question for strategy” (Garard, 2016). The events and the hostile actions from state and non-state actors in the post-modern world are inextricably becoming more and more “dynamic, unpredictable, diverse, fluid, networked, and constantly evolving” (Pfaltzgraff Jr *et al.*, 2016). The capability to build a chain, in which the individual rings connect themselves is the practice which should be adopted. The European Strategic narrative is its people, the staff that represents the EU in the region and the pro-European locals.

Narrative has to be translated into reality. In fact, “practices are forms of behaviour with regard to strategy that have become institutionalised and can thus be seen as having a degree of stability and routineness in an organisational setting, although they may vary in their specific performance” (Fenton *et al.*, 2008). The EaP initiative has therefore undergone ulterior restructuration through innovative practices. The European Strategic narrative inclusion of “everyday” local stories, based on the principles of inclusion and transparency, is a fundamental step. Achieve “coexistence in time and space of both ordering and disordering narratives [...] to create the desired order” (Pedersen *et al.*, 2012, p. 15) should also enrich the adaptation potential of the overall European Strategic narrative.

The goal is to achieve a situation which could enable even a partial “re-inclusion” of the Russian informational sphere into the European Strategic narrative. The concept of “comprehending a complex event by ‘seeing things together’ in a total and synoptic judgment” (Mink, 1966, p. 42) is interesting to explore in this sense. Importantly, “a synoptic judgment is a single and self-contained act of understanding which does not contain temporal sequence” (Mink, 1966, p. 43) and allows a more coherent re-structuring of the interpretation of events. “Moving ahead [...] perhaps calls for a differentiated ‘3-1-2’ approach, in response to the different circumstances the EU faces” (Hug, 2015, p. 19) and could perhaps include Russian Federation as the +1 partner, remaining firmly committed to the values that the European Strategic Narrative stands for. While adopting this approach, cohesion to impede “political actions in some EU countries expressing admiration for Putin as a strong man who is unafraid to resort to military might, and whose ‘macho-nationalism’ seeks to dictate the fate of others” (Bildt, 2015) is the priority, as a fractured Strategic narrative is no narrative at all. Moreover, since the “lack of trust is a direct consequence of



Russian aggression, not Western miscommunication” (Dehez, 2016), a firm commitment to have a common voice emerges as the “centre of gravity” of the European Strategic narrative, towards the EaP partners and Russia itself.

Clausewitz addresses the issue stating that “a certain centre of gravity develops, the hub of all power and movement, on which everything depends” on (Clausewitz, 1989). Describing centres of gravity, which are not physically existing, is quite difficult: “moral centres of gravity are less obvious. Yet, it is essential to understand them since they are likely to be more important on the strategic level” (Strange *et al.*, 2004, p. 27). EaP initiative’s success is based on the capacity of the European Union member states to speak with one voice towards the target countries. Still, it is important to underline that, for the European Strategic narrative to be successful, “elements of this kind of job, such as security sector reform and intelligence, might be better suited for member states acting bilaterally or in groups rather than for the European Commission” (Leonard *et al.*, 2014, p. 6). Therefore, while the member states have to be encouraged to participate in the European Strategic narrative, as they can integrate it in a quicker fashion, elements that can foster and justify aggressive actions from the Russian side have to be avoided.

## Conclusions

*“The great risk, though, is that Europe and Russia find themselves in a film noir, where the villain’s plot fails but takes everyone down with it.” (Leonard et al., 2014, p. 6)*

“A strategic narrative is necessary to create a logical framework, a pattern of meaning” (Tobias, 1989, p. 5). Considering the European approach towards its Eastern neighbours, a change is required. The European Strategic narrative has to include all six partners, on a tailored-made basis. In this context, the words of the foreign minister of Poland, Witold Waszczykowski sounds particularly true: “We should think about the future of six states of very different status. We should decide whether to divide the program or to preserve, but to offer an individual cooperation agreement to every member” (Hartyja ’97, 2016). The EaP initiative has to transform even more in a shared journey. “It’s more than a value proposition of what you deliver to them. Or, a mission of what you do for the world. It’s the journey that you are on with them” (Bonchek, 2016) and a clear destination has to be provided.

As Dmitri Trenin quite correctly points out, there is a dire and impelling need to renew the European Strategic Narrative in the EaP in the light of a historic-political trajectory: “The new normal of alienation and estrangement is here to stay. It is impossible to say how long, but likely a number of years. The Ukraine crisis of 2014 was not a product of miscalculation or misunderstanding. It grew out of the failure of Russia’s integration into the West following the end of the Cold War, the collapse of the Communist system and the dissolution of the



Soviet Union” (2016).

The EU and the EaP states’ leadership have to pursue a coherent and pragmatic path for Europeanisation, thus avoiding to perceive the EU commitment to EaP against the EaP countries’ engagement with Russia, as if these were two counterbalancing options; with the probable exception of Ukraine. A long-term perspective has to be adopted, in order to answer to the question: what kind of states does the EaP initiative wish to create? Overcoming the deeper source of tension, the antagonistic fracturing of the population between the EU and Russia in the EaP countries, should be *the* goal of the European Strategic Narrative. Challenges, such as the general culture of intolerance or the disproportionate power of law-enforcement agencies, have also to be eventually addressed in its framework.

A new systematic re-alignment in the region is emerging. Strategic Narrative is a political roadmap which is constructed in three phases: status quo, conflict and the creation of a new situation. The European re-engagement in the region has to pass this Rubicon in order to continue to achieve meaningful results and turn the current trend. In fact, the European Union’s priorities are realistically “managing the running conflicts rather than resolving them, while preventing dangerous accidents; learning the fine art of cooperation within confrontation, in those few cases where the convergence of both sides’ interests is compelling” (Trenin, 2016). Likewise, it has to continue to invite all actors concerned. It is quite clear that “the Union can no longer allow itself to operate in ad hoc manner,[...], if it hopes to achieve any strategic objective” (Coelmont, 2012, p. 3), although re-framing the European Strategic narrative faces the Russian challenge, which could prove to be either an obstacle or an opportunity for the EaP initiative and its future.

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# RUSSIA'S POST-CRIMEA LEGITIMIZATION DISCOURSE AND ITS CHALLENGES FOR THE EAP COUNTRIES

Vasile ROTARU\*

**Abstract:** *After the annexation of Crimea, Russia has not acknowledged either the violation of the international law or the infringement of sovereignty of Ukraine. Instead, Moscow has (mis-)used a series of arguments meant to justify its actions in Crimea both domestically and externally and to present an illegal act of breaching the basic international principles into a necessary, legitimate measure. Within this context, the article will attempt to decode the arguments of the Kremlin's post-Crimea political discourse of legitimization, analysing their impact on Russia's relations with the Eastern Partnership countries, and drawing attention to the theoretical problem regarding the legitimacy in international relations. The paper will use the qualitative content analysis as research method. We will examine mainly the content of speeches, statements, governmental documents and other relevant studies as primary and secondary data, and will focus on the main topics of Russia's international legitimisation discourse after the annexation of Crimea.*

**Keywords:** *legitimacy; annexation of Crimea; Russia's foreign policy; EaP countries*

## Introduction

2014 was the most tragic year in the history of post-Soviet Ukraine. In February around 100 people were killed during the protests in the Maidan Nezalezhnosti in the centre of Kiev; one month later, Ukraine lost the Crimea peninsula; and at the beginning of April the Donbas was engulfed in a war that has made so far over 10.000 victims. As the empirical data show, both in the events in Crimea and in the war in Donbas Russian factor has played a decisive role. However, while in the latter case Moscow resorted to a strategy very much tested in the 1990s, that of covered involvement in creating frozen conflicts, in Crimea the Kremlin went further – annexing officially the Ukrainian peninsula. It was for the first time since the WWII when the European borders were changed by

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unilateral military intervention. Furthermore, the main actor was a member of the UN Security Council, G8, OSCE and the Council of Europe.

By annexing Crimean peninsula, Moscow violated a number of international treaties, starting with the Helsinki Final Act, the 1994 Budapest Memorandum, the terms of its membership of the Organization for Security and Cooperation in Europe (OSCE), and the agreements with Ukraine on the lease of Russian navy base in Sevastopol, which very clearly established that Russia could not increase its military personnel in Crimea, deploy its troops outside the base without Ukraine's consent, or intervene in Ukraine's domestic politics. And yet, while the international community reacted with harsh declarations and political and economic sanctions towards Russia, Moscow has denied any infringement in international law and came with a series of arguments meant to justify the annexation of Crimea. The legitimizing discourse was aimed both for Russian citizens and for the international community. It was meant to gain public support domestically for the Kremlin's actions in the 'near abroad' and to get acceptance from the other states for its actions.

### **1. Methodological approach**

The article aims to identify the main patterns of Russia's Crimea legitimisation discourse targeting foreign audiences and to analyse whether those arguments have any impact on Moscow's relations with the Eastern Partnership (EaP) countries. In order to achieve our research goals, we have relied on qualitative content analysis method. We have analysed and interpreted the content of speeches and declarations of the main Russian foreign policymakers – the President, the Prime-Minister, and the Minister of Foreign Affairs; and Russian official documents referring to the annexation of Crimea. The data collected covers the period March 2014 - April 2016. The processes of data collection and initial data analysis have been done simultaneously. In this first stage of our research we have identified the main patterns of Russia's Crimea annexation legitimisation discourse. Then, we have conducted an "intensive analysis" (Meriam, 1989, p. 126) – the phase when we have looked at the way the arguments have been developed after March 2014, the way they have been prioritised and the impact these argumentative elements of Russia's legitimisation discourse have had on Moscow's relations with the EaP countries.

We have been aware that the qualitative content analysis method is subjected to a particular margin of subjectivity as the "the importance of the content is determined by the researcher's judgment. The researcher decides on the intrinsic value, interest and originality of the material [...] It relies heavily on the judgment and expertise of the researcher" (Burnham *et al.*, 2008, p. 259). Within this context we find it important to mention that the author speaks Russian fluently, which allowed him to analyse most documents, discourses, speeches in their original language. Moreover, we have tried to reduce the margin of subjectivity in the



process of collecting and analysing data by studying all Russian official documents and presidential speeches and discourses posted on the official websites of Russian presidency and Ministry of Foreign Affairs that contain references to the annexation of Crimea.

The paper is divided into three parts. It starts with a theoretical scrutiny of the concepts of legality and legitimacy in international relations, meant to offer a better understanding of Russia's endeavours to justify its actions in Ukraine; and then contextualize Russia's post-Crimea annexation discourse. In the second part we identify and analyse Moscow's legitimisation arguments and the way they have been developed and prioritised in Russia's public discourse after March 2014. And finally, the article examines the implications of Russia's legitimisation arguments on its relations with the EaP countries.

## **2. Legality and legitimacy in international relations**

Legality of actions in international relations implies their conformation to a series of rules regulating behaviour of states to recognized values and standards by the international society (Shaw, 2014, p. 1). In international society there are no written constitutional laws and not a single overarching authority (Klabbers, 2013, p. 8), the international law is primarily formulated by international agreements that create binding and customary rules upon the signatories, laying down patterns of conduct that have to be complied with. While in domestic systems individuals do not create the law and only have the choice to obey the law or not, the international law is created by the states themselves, which obey or disobey it (Shaw, 2014, p. 5).

In general states observe international law, violations being comparatively rare. There are several aspects that determine the actors of international society to respect the international law. The considerations of reciprocity play an important role in this regard. States often do not act in a particular way that would bring them short-term gains because those actions could affect the reciprocal tolerance and might bring long-term disadvantages (Shaw, 2014, p. 6). The costs to be a pariah can be also a strong argument for states to observe the international law. Besides economic and political sanctions or collective security actions there are also social sanctions – no one wants to do business with a state that routinely violates its commitments, which stimulates law-abiding behaviour of states (Klabbers, 2013, p. 11). Other factors that determine a legal behaviour of states on the international arena are the advantages of 'rewards' (e.g. siding with one country involving in a conflict rather than its opponent), the formulation of international business in characteristically legal terms (e.g. disputes are framed legally with references to the precedent, international agreements or opinions of juristic authors) (Shaw, 2014, p. 6).

A more recent explanation for the law-abiding behaviour of states is based on the role of legitimacy in international relations. This principle is linked to the idea of order and the rituals establishing this order, rituals with a symbolic force and normative protection ensured by the rules that make possible and maintain the



order. Legitimacy has also the meaning of justification of an action (political, juridical) acceptable (socially), perceived as such by the society in the context of its morality (Goudenhoft, 2014, pp. 15-16). Legitimacy can, thus, refer to rules and institutions, but also to behaviour more generally. Legitimacy constitutes a standard for the testing in the wider political environment of the relevance and acceptability of legal norms and practices. If a rule is seen as legitimate it will benefit from a strong approval from the actors of international community, while a rule, institution or action perceived as illegitimate will be disapproved. It is suggested that a rule or entity which is legal but not legitimate will not be able to sustain its position over the long term, while a practice seen illegal but legitimate is likely to form the nucleus of a new rule (Shaw, 2014, pp. 44-45).

The legitimacy is a social concept. It inextricably depends on the social perception and recognition. The actions are legitimate only if they are approved, socially recognized, and the actor has the established right, socially accepted, to make them. One cannot act legitimately without social consecration, without its action to be recognized as legitimate, entitled by others (Goudenhoft, 2014, pp. 19-20, 84). An international legitimacy crisis appears when the level of social support of an actor, institution or policy decreases to the level when its power can be supported only by recalibration of its legitimacy (through communicative reconciliation of identities, interests and practices with normative expectations) or through compensatory use of incentives. The practice of international legitimacy means negotiation and compromise: a peace treaty, for instance is nothing but a compromise, which could have not been achieved through inflexible, rigorous and strict application of principles of justice (Goudenhoft, 2014, pp. 121-122).

Sometimes, between legitimacy and legality there can appear large cleavages, as well as between legitimacy and some moral principles. NATO intervention in Kosovo (1998-1999) was described as technically illegal, because it did not have the authorization of the Security Council, but it was accepted by Western community as politically legitimate and moral because it acted to fulfil the resolutions of the Security Council and to stop some crimes against humanity. On the other side, the absence of reactions to the Ukraine crisis and the issue of Crimea was legal (one could not have invoked NATO's art. 5), but immoral, because it created the impression of fear associated with impotence in the face of an act at least debatable from the point of view of borders stability (Goudenhoft, 2014, p. 127).

Legitimacy is sought to strengthen rules or institutions, to make them acceptable or accepted or to justify certain actions. Sometimes this can take unexpected forms, like the circumstance that Russian troops, while active in Moldova in the early 1990s, were prone to wear blue helmets for raising the impression that they were associated with UN peacekeeping (Klabbers *et al.*, 2009, p. 41) or during the events on 2014 in Crimea, Russian soldiers – the infamous little green men, were not wearing insignia and were portrayed by Russian politicians and media as “polite men” coming to the Ukrainian peninsula to help elder people and to protect the lives of local inhabitants.





On systemic level where no written constitutional law exists, the issue of legitimacy of one actor's actions represents an object of political struggles (Shinoda, 2000, p. 516). If the actions of one state are perceived by the other states as illegitimate, they can affect the credibility of the first and can consequently bring important long-term costs: loss of allies, exposure to pressure of domestic and foreign public opinion, exposure to various forms of protest and contestation (e.g. international sanctions, military retaliation, etc.). Hence, by neglecting the legitimacy factor of its actions, the state exposes itself to a consistent decrease in the level of national security, and diminishes its capacity of power projection (Stanescu, 2010, pp. 136, 145).

The international law is often ignored when vital or strategic interests are involved, and is invoked argumentatively or exculpatory *post factum* (Goudenhoft, 2014, p. 129). When one state acts in an illegitimate way, its political discourse made after that efforts is meant to legitimate its deeds or to create appearances of legitimacy through rhetorical manipulation: "if power cannot be backed up by legality, it needs to be propped up by something else" (Klabbers *et al.*, 2009, p. 37). As Russia's actions in Crimea are questioned exactly from the point of view of legality, we should analyse what are the arguments Moscow's legitimate discourse is based on.

### 3. A short review of 2014 events in Crimea

Before analysing Russia's Crimea legitimisation discourse, one should first scrutinize the sequences of the events produced in February-March 2014 in the Ukrainian peninsula. Thus, after the fled of Viktor Yanukovych to Russia, in February 2014, the pro-Russian parties started organizing anti-Maidan rallies in Crimea peninsula. On 23 February the biggest rally gathered in Sevastopol an estimated 50,000 protesters. During the protest the local businessman and Russian citizen Alexey Chaliy was elected as "mayor" and forced the governor of Sevastopol appointed by Kiev to leave (Shapovalova, 2004, p. 254). On 26 February, 2014 pro-Russian forces, military men without insignia, the so-called "self-defence force," started taking control of the peninsula. The next day they sized the Crimean parliament and the Council of Ministers buildings in Simferopol, raising the Russian flags. The occupation of the buildings did not meet resistance from the local police and the security guards. In the building occupied by the armed men, the local parliament held an emergency session during which it voted the dissolution of the government and the replacement of Crimean prime-minister Anatolii Mohyliov with Sergey Aksyonov, a member of Russian Unity Party that had won only 4% of the vote at the 2010 parliamentary elections. A referendum on the status of Crimea was scheduled for 25 May. During this session neither Mohyliov nor journalists were granted access into the parliament building, the local MPs had their phones confiscated and there was no possibility to verify whether the quorum was reached (Reuters, 2014).





After the taking control of the local administration, the pro-Russian forces sized the Simferopol airport, the TV stations, other governmental buildings, established checkpoints on the border between the peninsula and the mainland Ukraine and isolated the local Ukrainian military bases from their headquarters. It has to be mention that the military men without insignia, the “little green men,” sized the whole peninsula without firing a single shot, Ukrainian forces receiving orders not to open fire. Russia denied any involvement in the events in Crimea, suggesting that the Black Sea Fleet was neutral and its soldiers deployed at the military base were protecting the Fleet’s possessions. Moscow implied that the “little green men” were local “self-defence” forces over whom Russia had no authority. However, in that period around 5,500-6,000 Russian soldiers together with their weapons had been transferred to Crimea from the Russian Federation and the evidence showed that the units of the Russian army and the Crimean Self-Defence occupied the strategic infrastructure on the peninsula (Wilk, 2014).

On 1 March, the new Crimean “prime-minister,” Sergey Aksyonov called Russian President Putin to “to provide assistance in securing peace on the territory of the Autonomous Republic of Crimea” (BBC, 2014). The Kremlin did not answer to this request, however, on the same day, Russian parliament’s Upper House voted for the use of the armed forces of the Russian Federation on the territory of Ukraine. Three days later, on 3 March, asked by Russian journalists whether Moscow was considering the accession of Crimea to Russia, Vladimir Putin rejected this option (Interfax, 2014).

On 6 March 2014, Crimean parliament voted to join the Russian Federation and added an explicit question about this on the voting form for referendum, rescheduled for 16 March. The next week Crimean deputies went further and adopted a declaration of independence.

On 16 March, Crimean population was asked within the referendum whether they wanted to reunite with Russia as a subject of the Federation and whether they wanted the restoration of the Crimean Constitution of 1992 and the preservation of the Crimea as part of Ukraine. According to Crimean and Russian official data 96.77% of the 83.1% of population that took part were in favour of joining Russia (RT, 2014). However, according to the Mejlis of the Crimean Tatar People, that boycotted the referendum, the percentage of those who voted on 16 March was between 30 and 40 (Ukrinform.ua, 2014), which correlated with the official results would mean that only 29% - 38.7% of the Crimean population voted in favour of joining Russia.

The following day after the referendum, the Crimean parliament officially declared the independence of the Ukrainian peninsula, asked Moscow to admit it as a new subject of the Russian Federation with the status of a republic, made Russian ruble as the Crimea’s official currency and announced that on 30 March the peninsula will switch to Moscow’s time. On 18 March the Russian President Putin and the Crimean leaders signed the “Agreement on the incorporation of the Republic of Crimea into the Russian Federation” (Kremlin.ru, 2014a), that



provided the establishment of two new federal subjects, the Republic of Crimea and Sevastopol as a city of federal importance. On 20 and 21 March the agreement was ratified by the State Duma and the Federation Council. On 21 March it was signed by president Putin, who formalized, thus the annexation of Crimea.

#### 4. In search of legitimacy

The international community has denounced Russia's annexation of Crimea. A series of economic and political sanctions were directed towards the Russian Federation. Only few nations – Afghanistan, Cuba, Nicaragua, North Korea, Syria and Venezuela – have publicly expressed their support for Russian annexation of Ukrainian peninsula. Under foreign pressure and contestation and in front of the option of becoming a pariah status on international arena, Moscow has tried *post factum* to legitimate its actions by re-interpreting the international law, questioning history and manipulating the facts. In the 18 March 2014 address in the Kremlin in front of State Duma deputies, Federation Council members, heads of Russian regions and civil society representatives, President Putin already structured Russia's legitimization discourse. The arguments invoked then will further be developed and only their prioritization will change during Moscow's subsequent efforts to legitimize its actions in Crimea. Thus, according to president Putin (2014a): the events in Crimea were *legal*, in accordance with the international law – the referendum held in Crimea on 16 March was in full compliance with the democratic procedures and international norms. It was fair and transparent, and the people of Crimea, with overwhelming majority, "clearly and convincingly expressed their will and stated that they want to be with Russia". V. Putin quoted from comments of the UN International Court on declarations of independence and insisted on the right of nations to self-determination. He reminded that Ukraine had seceded from the Soviet Union in a similar way. In reference to the presence of Russian military forces – the "little green men", Russian president asserted that "Russia's Armed Forces never entered Crimea; they were there already in line with an international agreement" and they only helped create conditions so that the residents of Crimea were able to "peacefully express their free will regarding their own future". In this regard he highlighted that not a single shot was fired and there were no human casualties. In support of the argument of legality, President Putin highlighted also that there are *international precedents* – Kosovo being invoked in this regard, as a case "created" by "our western colleagues" in a "very similar situation". As Kosovo Albanians were allowed to unilaterally separate from Serbia, so should be permitted to Russians, Ukrainians and Crimean Tatars in Crimea.

President Putin did not ignore the humanitarian emergencies that had a determinant role in the independence of Kosovo, however, he dismantled this argument on the ground of "blunt cynicism": "one should not have make sure every conflict leads to human losses". At the same time, however, V. Putin draw attention



that “if the Crimean local self-defence units had not taken the situation under control, there could have been casualties as well” (Putin 2014a). Thus, even if there were no human losses in Crimea, President Putin insisted that the *lives of ethnic Russians were in danger*: after the coup of Nationalists, neo-Nazis, Russophobes and anti-Semites in Kiev, there was no legitimate executive authority in Ukraine. Those who opposed the coup, “the first in line” being the Russian-speaking Crimea, “were immediately threatened with repression”. Within this context, the residents of Crimea and Sevastopol would have turned to Russia for “help in defending their rights and lives”. And Russia “could not abandon Crimea and its residents in distress” (Putin 2014a). Thus, in the absence of facts the Kremlin has constructed the argument of humanitarian factor on assumptions. This legitimisation argument has been maintained and insisted on every time Russian political leaders had to justify Moscow’s actions in Crimea.

In the support of the humanitarian argument, Vladimir Putin reminded also that Russians have been subjected to *forced assimilation* since 1991, when the residents of Crimea felt as they were “handed over [to Ukraine] like a sack of potatoes,” that there were attempts to deprive Russians in Crimea of their historical memory, even of their language; and that after the “coup” the “new so-called authorities” introduced already a draft law to revise the language policy, “which was a direct infringement on the rights of ethnic minorities.” What ‘had forgotten’ Russian president was the fact that in Crimea there have been only few Ukrainian schools, the education being conducted there extensively in Russian even after the independence of the former Soviet republic, and that the law on language policy has not been cancelled eventually.

In order to exculpate Moscow’s deeds in Crimea in 2014, President Putin contested even the Soviet history. From his perspective, the “re-joining” of Crimea was a reparation of a *historic illegality* because the 1954 decision of transferring Crimea to the Soviet Ukraine was made “in clear violation of the constitutional norms that were in place even then,” that no one was preoccupied about the legal aspects about this transfer that time because no one imagined that Ukraine and Russia may split up and become separate states. However, after the fall of the Soviet Union, Russia realized that “it was not simply robbed, it was plundered.”

President Putin put also the sovereignty of Kiev in a new light. He insisted that Russia and Ukraine were not simply close neighbours, that the two nations “are one people”, that “Kiev is the mother of Russian cities [and] ancient Rus is our common source and we cannot live without each other.” This perspective can have great implications on the interpretation of the concept of sovereignty as it is understood on the international arena.

Crimea was also referred to as special case, both from the perspective of a particular importance for Russian civilization: “everything in Crimea speaks of our shared history and pride,” it was in Crimea where prince Vladimir was baptized, the Orthodoxy, adopted there, predetermining the “overall basis of the culture, civilisation and human values that unite the peoples of Russia, Ukraine and



Belarus;” and from the perspective of Russia’s strategic interests – after the declarations “heard in Kiev” that Ukraine would soon join NATO, this would have meant that “NATO’s navy would be right there in this city of Russia’s military glory” creating “a perfectly real threat to the whole of southern Russia.” NATO is a military alliance, and “we are against having a military alliance making itself at home right in our backyard or in our historic territory” (Putin 2014a).

The 18 March 2014 Putin’s speech set the tone of Russia’s legitimization discourse concerning the events in Crimea. The arguments of legality and Kosovo precedent; the humanitarian factor; the exceptionality of Crimea situation and the special sovereign rights of Ukraine in relation with Russia; Moscow’s strategic interests; and finally the contestation of historic events have been used since by Moscow to counter the accusations of violation of international law and international agreements, the infringement in sovereignty and territorial integrity of the neighbouring country. Yet, not all the above elements of the legitimization discourse have enjoyed the same attention from the Russian political leaders.

For instance, the contestation of the historical events of 1954 have been mentioned only couple of times after the 18 March 2014 speech. The speaker of the Federation Council, Valentina Matvienko, drew attention during the ceremony of the signing the laws on admitting Crimea and Sevastopol to the Russian Federation that “Crimea’s tragic history” began with “Khrushchev’s arbitrary decision, taken in violation of the Soviet Union’s constitution” (Kremlin.ru, 2014b). This topic was resumed half a year later by President Putin during the meeting of the Valdai International Discussion Club, when he explained that as only the Presidiums of the Russian and Ukrainian Supreme Soviets approved the transfer of Crimea peninsula to Ukraine without the approval of the Supreme Soviets themselves as the Soviet law required that time, this was a flagrant illegality (Putin, 2014b). This argument has not been insisted on after 2014, though.

After the 18 March 2014 speech, the Kremlin has not insisted publicly too much on the arguments of security concerns and strategic interests neither. President Putin highlighted that Moscow was worried about Ukraine’s rapprochement with military blocks because if Kiev joined NATO, the infrastructure of the North Atlantic Alliance would have moved directly towards Russia’s border, “which cannot leave us indifferent” (Putin, 2014c). Moscow “could not allow [its] access to the Black Sea to be significantly limited”, to have NATO forces coming on the land of Russian military glory (Crimea and Sevastopol) and “cardinally change the balance of forces in the Black Sea area.” That would have meant also “giving up practically everything that Russia had fought for since the times of Peter the Great, or maybe even earlier” (Putin, 2014d). During the 2015 annual conference, President Putin acknowledged that only from the naval point of view, Russia’s military base in Sevastopol is more important than the bases in Vladivostok or Kamchatka peninsula, which hosts Russian second largest submarine nuclear fleet (Putin, 2015a).

The issue of Crimea has also been presented as an “absolutely special case” – a Russian land, “where a lot of Russian blood was split” (Lavrov, 2014a), where



the issues at stake were “the sources of [Russia’s] history, [Russia’s] spirituality and [Russia’s] statehood” (Putin, 2015b). “Crimea has been associated in the consciousness of Russian people with heroic pages of our history,” while Sevastopol has always been “Russia’s marine glorious city” (Putin, 2015c). Within this context, Russia has “implemented a historical mission and responded to the request of the overwhelming majority of Crimeans” (Lavrov, 2014b). President Putin went even further by implying a divine justice: “Napoleon once said that justice is the embodiment of God on earth. In this sense, the reunification of Crimea with Russia was a just decision” (Putin, 2016).

The relationship between Russia and Ukraine has been portrayed also as being a special one, the two countries being for centuries linked by history, economy, geography, culture, civilizational values and, after all, “by bonds of family and kinship” (Lavrov, 2014c). It is “essentially a single nation in many ways” (Putin, 2014e), “I see no difference between Ukrainians and Russians, I believe we are one people” (Putin, 2015d). Ukraine is a “brotherly country” and “I don’t make any distinction between Russians and Ukrainians” (Putin, 2015e). These arguments suggest in fact that Russia and Ukraine are not quite separate countries, but have been intertwined for centuries (Lo, 2015, pp. 96, 107), which has great implications for the reinterpretation of the rules of sovereignty. Since it implies that Ukraine is not a “real” country, on the one side Russia’s meddling in the affairs of Kiev is not portrayed as external interference but fraternal support and on the other side, Russia operates on the premise that international law applies only to properly independent entities, or Ukraine is an “ahistorical” creation, like other former Soviet republics, and thus, they should have a different treatment (Lo, 2015, p. 96).

The most present and most developed arguments of Russia’s legitimization discourse have been by far those of the legality of actions in Crimea and the humanitarian factor.

Moscow’s main elements of “legal” character of the annexation of Crimea are the referendum of 16 March 2014, the right of nations to self-determination and the precedent of Kosovo. According to Russia’s President, it was the Parliament of Crimea, a legitimate body of authority, that declared a referendum, and on the basis of its results, the parliamentarians adopted a declaration of independence and turned to the Russian Federation with a request to be accepted into the Russian state. The right of nations to self-determination is written in the United Nation’s Charter not simply as a right but “as the goal of the united nations.” Vladimir Putin insisted that the international relations “must be based on international law,” which should be based on “moral principles such as justice, equality and truth” without double standards (Putin, 2014b). “It’s a delusion that Russian troops annexed Crimea.” They only “helped Crimeans hold a referendum” (Putin, 2014f). “It is absolutely obvious that this historical event fully meets the will of the Crimean residents,” the proclamation of independence and the entry of Crimea into the Russian Federation being “legal forms of implementing the right of the people of Crimea to self-determination in a situation where a coup d’etat involving the use of force took place



in Ukraine with outside support” (Lukashevich, 2016). President Putin has insisted also that he added the concluding line of his 18 March 2014 speech about the annexation of Crimea in the last moment because he “was waiting for the referendum results.” “It was the people themselves who made this decision. Russia answered their call and welcomed the decision of Crimea and Sevastopol” (Putin, 2014e). Furthermore, Moscow has insisted on the precedent of Kosovo – “if the Kosovans in Kosovo have the right to self-determination, why don’t the Crimeans have the same right?” (Putin, 2016), highlighting that in fact the events in Crimea were more in line with the international law than those in Kosovo: while Pristina declared its independence by parliamentary decision alone, in Crimea, people held a referendum and “its results were simply stunning” (Putin, 2014g). Foreign minister Lavrov reminded even that there was no referendum organized for Germany’s reunification either (Lavrov, 2015a). Moscow has also called the reference of many experts to the humanitarian crisis in Kosovo as a great difference to the independence process in Crimea as “an anti-humanitarian statement of the problem,” asking cynically whether it was “really necessary that a lot of blood [was] split in Crimea in order to obtain the consent of the Crimean people to have the right to self-defence” (Lavrov, 2014d).

In its efforts to “legalize” the annexation of Crimea, Russia has tried to manipulate even the content of international treaties. Foreign minister Lavrov, who at the moment of concluding the Budapest Memorandum was the permanent representative of Russia to the United Nations, and thus in charge with the registering of the treaty with the Secretariat of the UN, declared that Moscow has not violated this agreement because “it contains only one obligation – not to use nuclear weapons against Ukraine” (Lavrov, 2015b; Lavrov, 2016). What has, however, minister Lavrov omitted is that the first two articles of Budapest Memorandum state that the signatories “reaffirm their commitment to Ukraine [...] to respect the independence and sovereignty and the existing borders of Ukraine [...]; reaffirm their obligation to refrain from the threat or use of force against the territorial integrity or political independence of Ukraine” (Budapest Memorandums, 1994).

The second most developed and most used argument in Russia’s post-Crimea legitimization discourse is the *humanitarian factor*. In this case, however, the rationale is constructed around the assumptions rather than facts. Moscow has insisted that after the “anti-constitutional coup in Kiev” Crimean population was in danger because the people there did not support the “illegal takeover of power” by the “nationalist and fascist” forces. In fact, “Russian speaking population was threatened and these threats were absolutely specific and tangible” (Putin, 2014e) in Crimea in particular, because it was more densely populated by Russians and Russian-speaking than other parts of Ukraine (Putin, 2016). “We were very concerned about any possible ethnic cleansing” (Putin, 2014g) and “we had no right to abandon the residents of Crimea and Sevastopol to the mercy of nationalist and radical militants” (Putin, 2014h) given that Crimean residents, “[thinking] about their future [asked] Russia for help” (Putin, 2014e). In an interview in





January 2016, President Putin emphasized that “it is not the territory and borders that I [was] concerned about but the fates of people” (Putin, 2016).

Starting from the February 2014 decision of the Ukrainian parliament to abolish the 2012 law “On State Language Policy” that gave Russian and other minority languages the status of “regional language,” and which was not cancelled eventually, Moscow has built an entire argument about the discrimination of Russians leaving in Ukraine: “the first thing the new authorities tried to do was deprive the ethnic minorities of the right to use their native language” (Putin, 2014c), “mass violation of human rights in Ukraine, including discrimination and persecution due to nationality, language and political convictions – [making] the existence of the Republic of Crimea within the Ukrainian state impossible” (Lavrov, 2014e). Furthermore, President Putin has been “convinced” that if Russia would have “abandoned” the residents of Crimea under “nationalists boot”, the situation would have been there much worse than in Donbas (Putin, 2015c). Due to Russia’s support, however, “there was no shooting, no one got killed during the events in Crimea” the Armed Forces only stopped the Ukrainian service members stationed there “from interfering with the free expression of will by the residents of Crimea” (Putin, 2016).

## 5. The impact on the Eastern Partnership countries

Russia’s efforts to legitimize its deeds in Crimea in 2014 have broader impact than on its own credibility on international arena. In addition to the *post factum* exculpatory aims, Moscow’s legitimization arguments have caused anxiety in the former Soviet space, in particular in the EaP countries. Sharing many similarities with Ukraine when it comes to foreign policy orientations, the presence of Russian minorities or “special” relations with Moscow, these countries have followed with particular concern both the Kremlin’s actions in Crimea and its discourse of legitimization, being aware of the ease with which the same arguments could be used by Moscow for justification of similar acts of violation of their own sovereignty or territorial integrity. In fact, Budapest Memorandums were not concerning only Ukraine but gave national security assurances to Belarus and Kazakhstan as well.

The reinterpretation of the international law or the discretionary approach towards the content of the international agreements represents a challenge not only for the former Soviet space but for the international system on the whole. As a member of the UN Security Council, OSCE and the Council of Europe, Russia’s approach towards the rules of the international community is followed with special interest by other international actors. In another train of thoughts, as long as Russia disregarded or has interpreted by omission an international agreement which was signed also by the United States and the United Kingdom (Budapest Memorandum), how much confidence can the former Soviet republics have in the CIS Charter that states that all its members are sovereign and independent nations; or in the Tashkent



Treaty of the Collective Security Treaty Organization that established as key objectives the provisions of national and collective security; giving that these documents are signed only by Moscow and the former Soviet republics.

In addition, Russia can invoke a special relationship with any of the EaP countries not only with Ukraine, and thus, implying a restricted degree of sovereignty for these states. The entire former space shares a common history, particular cultural linkages or business relations with Russia. Belarus is seen as part of the core of the Russian World along with Russia and Ukraine. Both Belarus and Moldova belong spiritually to the same Russian Orthodox Church and as Russian Patriarch argues the heart of the Russian World is Russian Orthodox faith” and that “spiritually we [Russia, Belarus, Ukraine and Moldova] remain one nation” (patriarchia.ru, 2009), Moldova enters, thus, the same category of “special” status. The three Caucasus republics belong also to the community of countries with special relations with Russia. They share a long history of “brotherhood” with Moscow – all of them have been both part of the Russian Empire and of the Soviet Union.

Moscow can rely also on the humanitarian argument in every EaP country. All of them have consistent Russian minorities, many of those ethnics having Russian citizenship as well. In fact, the Kremlin invoked the responsibility to protect of its citizens several years before the events in Crimea. During the war in Georgia in August 2008 Russia claimed that had intervened in order to protect the lives of its citizens and peacekeepers and accused Georgia of genocide against the population of South Ossetia (Medvedev, 2008). The humanitarian factor was invoked later in Crimea and no one can exclude that the same argument will be used again by Russia in any other former Soviet republic. In fact, Russia can easily abuse of the ‘privilege’ of responsibility to protect in any protracted conflicts it has contributed to create in the former Soviet space. And among the EaP countries only Belarus does not have such a territorial conflict yet.

The argument of legality of transferring territories during the Soviet times can also be used in the EaP countries. Belarus could be a privileged target in this regard. Within the context of expansionist fervour some Russian commentators have already suggested that once the Crimea “came back,” Russia should re-examine the legality of “ceding of Western provinces of RSFSR to Belarus” (Averyano-Minskii, 2015). In a similar logic, Moscow could claim that Transnistria was ceded to Moldovan SSR as this region did not join the Great Romania after the fall of the Russian Empire, but was transformed into an autonomous republic within the Soviet Union.

Russia can also invoke the need for protecting its strategic or vital interests in any of the EaP countries. After the collapse of the Soviet Union Moscow sought to keep the former Soviet republics closely linked in order to maintain protection of its own territory. Despite the geopolitical changes that occurred after the end of the Cold War, the security stereotypes seem to be still present in Moscow’s foreign policy (Rotaru, 2014, p. 142). The Kremlin appears to be still obsessed by the fear of being encircled by enemies and sees the former Soviet republics as paramount





for the protection of its own borders. As historically, Belarus proved to be the land through which the Western invaders made their way towards central Russia and Moscow, the Kremlin tries to keep this country as close as possible as a precaution. Ukraine is seen as the south-western anchor, Moldova – as a necessary land for protecting Ukraine and implicitly, Russia (Friedman, 2010), while the South Caucasian republics are a buffer zone and an area of rivalry between Russia, Turkey, Iran and the USA (Rotaru, 2014, p. 97). In addition, both in Armenia and Belarus, Russia has military facilities. Armenia hosts a base in Gyumri and a small air base in Yerevan, while Belarus – a base in Vileyka (Minsk region) that ensures the communications of the Navy's main headquarters with Russia's strategic nuclear submarines in Atlantic, Indian and partly Pacific Oceans; and a military base near Baranavichy (Brest region) – a missile attack warning system which follows also the movements of NATO submarines in North Atlantic.

## Conclusions

Russia has constructed its Crimea legitimisation discourse on a series of arguments of international law reinterpreting them and mimicking the West's rhetoric. The legality of the process of independence of the Ukrainian peninsula, the right to self-determination of the local population and the humanitarian factor based on the potential threat to the lives of Crimea's inhabitants have been the central justification patterns of the Kremlin's rhetoric targeted at foreign audiences. These discursive elements have been modelled on Western political elites' arguments used especially in the cases of humanitarian intervention and then recognition of independence of Kosovo (right to self-determination and the humanitarian factor). However, Moscow has reminded also the cases of reunification of Germany (invoking the right to self-determination), the dissolution of the Soviet Union (the legal process of independence of the former Soviet republics), and even the independence of the United States of America, whose people "have been proud to hold freedom above all else," a desire the Crimea's residents have, "to freely choose their fate" (see Putin, 2014a).

Russia has insisted on the values of rule of law, right to self-determination and on the humanitarian factor both because Western societies have showed appreciation for these principles and because of their margin of blur and contestation. In addition, these arguments can be folded on emotions distracting attention from evidence or allowing a certain degree of interpretation of facts. Vladimir Putin's assessment as 'blunt cynicism' of Kosovo's humanitarian emergencies and insistence on the presumption that if not Russian intervention, in Crimea there would have been human casualties; or the accusation of the Western politicians of double standards by comparing 'unrecognised' Crimea's right to self-determination with the precedent of Kosovo's recognised use of the same right; being illustrative in this respect. How effective is a such strategy, time will show;



what is obvious now is that Russia's Crimea legitimisation discourse has the potential to create a dangerous precedent for the international affairs.

While challenging the international legal order Moscow's Crimea legitimisation endeavours have a more concrete and profound impact on the former Soviet republics, in particular on the EaP countries. The five co-partners (Belarus, Moldova, Georgia, Armenia and Azerbaijan) share many similarities with Ukraine in terms of 'special relationship' with Russia, presence of compatriots, existent/potential secessionist movements, or foreign policy orientations. In addition, the fact that most of the arguments of Russia's Crimea legitimisation discourse were used in the case of the 2008 war in Georgia and the subsequent recognition of independence of Abkhazia and South Ossetia as well (the humanitarian argument, the right to self-determination, the Kosovo precedent) show a continuity in Moscow's strategy in the 'near abroad' and raise even more awareness among the EaP countries about the potential recurrence of Crimea-like scenario on their own territory. In fact, the developments in Ukraine that reached a peak with the annexation of Crimea and the war in Donbas, started with an EaP summit and the prospects of signing by Kiev of the Association Agreement with the EU, a treaty all of them striving for.

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# THE RUSSIAN REVISIONISM AND THE FATE OF THE EUROPEAN NEIGHBOURHOOD POLICY

David MATSABERIDZE \*

**Abstract:** *The paper looks into the debates on the re-assessment of the existing international security system emerging after the Ukrainian crisis. It argues that the West is in the process of re-comprehending the various challenges posed to the international [security] system by the soft and hard security mechanisms of the Russian Near Abroad Policy. By investigating the foreign policy, national security and defence policy documents of the Russian Federation, this paper seeks to unveil the existing gaps between the Russian and the Western security visions. The present study deconstructs the existing security approaches considered in the West by assessing the possible implications of the two security visions on the Eastern Partnership (EaP) countries.*

**Keywords:** *Russian Revisionism; European Security; Eastern Partnership; Georgia; Ukraine*

## Introduction

The paper explores the negative effects of the Ukrainian crisis on the international security. The study tries to deconstruct various policy visions upheld in the West with the aim of better understanding the emerging lines of the mainstream discussion on the re-assessment of existing European security system. To this end, the article analyses various policy papers and recommendations, published before and after the annexation of Crimea and the armed conflict in Eastern Ukraine. The study looks at those policy assessments and recommendations which try to uncover existing weaknesses of the European security. Based on these recommendation, the study seeks to provide some guidelines for the enhancement of the European security architecture with the aim of balancing, if not containment, the Russian Federation. Furthermore, the paper seeks to assess Russia's actions in the Eastern neighbourhood. Thus, it looks at the main principles of Russia's foreign and national security policy in order to understand the fundamental differences between the Russian vision of the world order and the Western led international security system. The contradictions

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observed at the level of discourse in various documents and statements of the Western and Russian politicians and policy makers are employed to explain the confrontation between the Russian Federation and the West over Ukraine and Georgia.

The paper seeks to deconstruct the process of gradual transformation of the Russian security thinking, primarily during the Presidency of Vladimir Putin. To this end, it analyses the Foreign Policy Concept of the Russian Federation (2000), the Military Doctrine of the Russian Federation (2000) and the National Security Conception of the Russian Federation (2000), which lay the basis of Russia's vision of the international political system. In this regard, the paper traces Russia's gradual, but increased alienation from the Western, post-Cold War security and policy paradigms. The study also employs secondary sources to assess the discourse on the re-arrangement of the European security thinking by investigating official speeches and policy concept documents at the level of Russian and Western institutions and political elites. The chronological timeframe of the analysis pays special focus to those actions of the West (for instance, the Eastern enlargement of the EU and NATO) which vexed Putin's Russia and caused responsive changes in its foreign policy (latently started since early 2000s and openly embarked after the speech President Putin gave on 10<sup>th</sup> February 2007 at the 43<sup>rd</sup> Munich Conference on Security Policy).

The chosen methodological approach juxtaposes various decisions and actions of the West and the Russian Federation, which caused radical changes to their foreign policy. To this end, the study analyzes and points to the possible effective strategies of containment of Putin's policy in the post-Soviet space. It also tries to demonstrate that Russia's latest moves are not only an attempt to revise the post-Cold War order, but also represent Kremlin's "drive towards the restoration of Russia's 'rightful place' in the world order as a 'Great Power' or major pole in a geopolitically multipolar international system" (Isajiw, 2016).

Theoretically, the paper builds on the securitization paradigm. This paradigm claims that any country's [foreign or domestic] policy line is shaped and driven by a securitizing discourse (Buzan, 1998, p. 24). Stressing particular threats, posed to a state and a nation, is an act of securitization (Eriksson and Noreen, 2002, p. 10), whereas securitizing actors are mainly political elites – leaders, lobbyists, governmental agencies – who mobilize masses to legitimize their desired policy line (Eriksson and Noreen, 2002, p. 10). In Russia's perception, the Western enlargement in post-Soviet space, the rise of Muslim extremism in the Middle East and its spill-over effects in the North Caucasus, the rise of pro-Western governments in some of the post-Soviet countries are considered existential threats to the Russian state and, consequently, legitimize the new foreign and domestic policy lines in Russia. Accordingly, securitization could explain Kremlin's actions in Georgia (2008), Ukraine (2014) and Syria (2015), which arguably serve achieving domestic (i.e. maintaining the popularity of Putin's regime) or foreign (geopolitical aspirations) objectives.





## 1. The Weak Aspects of the European Security System

The 2008 Russian-Georgian war was perceived as a spill-over conflict from the local warfare activities in the Tskhinvali region/South Ossetia, which resulted in a clash between Tbilisi and Moscow. International society did not label this conflict as Kremlin's attempt to re-draw boundaries in the Caucasus or as Moscow's concern to alter the democratically elected government in Tbilisi through the use of force. The advancement of the Russian militaries beyond the administrative territory of the former South Ossetia straight to Tbilisi and the open conflict during August 2008 is a testimony to this claim. The timid reaction of the West encouraged Russia to act unilaterally in the post-Soviet space, even through the use of military power. Similar to the case of Georgia, Moscow decided to act decisively and block the prospects of Ukraine's integration in the Euro-Atlantic structures. Launching proxy wars in the Eastern Ukraine coupled with the annexation of Crimea have arguably had the aim of destabilizing Ukraine and of dragging her in a sort of quagmire, Georgia is found since 1990s. In both cases – Georgia and Ukraine – the integration perspective in the Euro-Atlantic structures look strained by the unclear territorial integrity issues. The separatist/occupied territories represent a hard challenge to be overcome in a negotiation on the potential membership of Georgia and Ukraine into the EU and/or NATO structures.

A range of previously unforeseen challenges (e.g. hybrid warfare, the re-emergence of Russia as a hard power actor) are currently posed to the EU and the European security architecture by the unilateral actions of the Russian Federation in its Western and Southern borderlands. As a result, one of the main principles of the current international system – territorial integrity – was effectively reconsidered by the Russian Federation in the name of self-determination and minority rights protection, first in Abkhazia and South Ossetia (in the early 1990s and in 2008), and most recently in Crimea and in the Eastern Ukraine (2014-2015). The similarities in terms of Moscow's policy actions in Georgia and Ukraine based on ethnic minorities and territorialized ethnicity arguments are consistent with Russia's strategic interests in the 'Near Abroad'.

The Russian-Georgian August War of 2008, followed by the annexation of Crimea and the simultaneous emergence of the self-proclaimed Lughansk and Donetsk People's Republics in the East Ukraine, laid the bedrock of a deep and long-lasting confrontation between the West and Russia and signalled the erosion of the security frameworks in Europe, primarily due to the Russian revisionism in the post-Soviet space. The present discourse of the official Russian elites is focused on key concepts such as "A Strong State" (2000), "Sovereign Democracy" (2005) and "Modernization" (2009), which have been differently applied by various actors at different stages of policy-making. The tensions between "patriotic" majority and "pro-Western" minority (labelled as anti-establishment) have effectively mobilized masses to support the chosen policy-line of the current Russian leadership



(Malinova, 2014, pp. 158-159). In Russia's new foreign and security policy vision the West is depicted as the main adversary, who has continuously undermined Russia's super-power status since the dissolution of the Soviet Union. Against this backdrop, this paper argues that the US brokered 'Reset Policy' with Russia, initiated after the Russian-Georgian August War of 2008, America's preoccupation with emerging processes in the Middle East and US's deep involvement in the Asian affairs persuaded Putin to act unilaterally in the wider neighbourhood. Consequently, the post-August 2008 Georgian-Russian War developments and the Ukrainian crisis have signalled the need to formulate a new security architecture in Europe, since the Western-Russian collaboration is significantly constrained.

The Russian-Ukrainian crisis has two main implications for the European Security environment: first, it violated the territorial integrity of one European country, and, second, it questioned the existing European security framework. Thus, the current debates at the European level have pointed out the need for revamping the existing European security architecture since the previous European order based on economic attraction, soft power and multilateral institutions did not appear sufficiently effective. A stronger focus on geopolitics and on the need to incorporate hard power could have deterred Russia's actions in its near abroad – Georgia and Ukraine, and more recently in the Middle East (Syria). Moreover, the existing European security framework is also undermined by the weakness of organisations such as the OSCE or the UN which can be easily blocked by the Russian veto (see for instance the frozen conflicts from Abkhazia, South Ossetia, Nagorno-Karabakh, Transnistria and the Donbass) where negotiations cannot move forward without Russia's consent.

Russian's actions in Georgia and Ukraine, in particular, show also how the EU has miscalculated the political, security and social threats posed by Russia in the Eastern Partnership region. In spite of the Western claims that NATO's Eastern enlargement and the EU Neighbourhood Policy are not directed against Russia, a 'zero-sum' security confrontation emerged between Russia and the EU/West. Therefore, it is vital for the EU to reconsider its strategic priorities through the elaboration of new principles, which would effectively address various challenges in its immediate neighbourhood (in countries forming the Eastern security belt of the EU). For Brussels, this new approach might be consolidated through the concept of *shared neighbourhood* which will also include Russia. However, the Russian-Georgian August war of 2008 uncovered existing differences between the EU Western and Eastern members on a common response to Russia. The EU's energy dependency on Russia, coupled with the US brokered *Reset Policy* have brought negative drawbacks in terms of political security of Europe and have had counter-effects on the international security milieu. The 'Reset Policy' has enabled Russia to re-consider its military doctrine and conduct necessary reforms in the military sector. Furthermore, ideology, orthodoxy, geopolitics, as well as quick and



effective military tactics<sup>1</sup> have been useful instruments for building an assertive stance towards the West. Russia's alternative offer to the Euro-atlantic structures has already been crafted in the form of Eurasian Economic Union (EEU)<sup>2</sup> and through the concept of the 'Russian World / Ruskii Mir' (a political and religious concept for the Russian near abroad), increasingly appealing in the EaP region (e.g. in Georgia, Ukraine and Moldova). Domestically, Russia gains more power from state nationalism, then the Soviet Union received from the Communist idea (Karaganov, 2014, p. 15). The symbolic resources of the new nationalist ideology – traditional values, religion, anti-Westernism – have become the main axis of Putin's new ideology. The 'Russian world' builds on three lines:

1. Soviet nostalgia, where 'the Russian World' re-embodies the Soviet Union. Nostalgia for the Soviet past is quite strong in many post-Soviet and Eastern Partnership member countries;

2. Political nationalism, which proved to be an effective tool for mobilization of population against the West in the name of saving the Orthodox Russia (Francois, 2014, p. 11). Political nationalism justifies Russia's action in its near abroad, since Putin's popularity has increased after annexation of Crimea (Kolesnikov, 2016).

3. Authoritarian state-centralized capitalism, which contrasts the Western democratic/liberal capitalism (West) and sets a different social contract, apparently more inclusive between the state and its citizens. Arguably, such economic model would be more resilient during economic and political crises (Karaganov, 2014).

Thus, the re-emergence of Russia's new ideology based on a distinct ideology should prompt the EU to elaborate meaningful and effective security mechanism(s) for the protection of the partner countries from its Eastern proximity.

## 2. The New (Western) Security Model

The unilateral decisions and actions of Russia in the EaP region push the EU to embrace a new security approach. Currently, the EU appears to face two choices: either to confront Russia directly, a rather unrealistic move for the time being, or to further enhance stability and reassurance across the EU and NATO member states and promote democratic changes and development in its

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<sup>1</sup> Various reforms conducted in the military sector of the Russian Federation after the August 2008 war in Georgia have altered the old, Soviet style military system into an effective and mobile one, which proved to be instrumental in the Ukrainian affair. In the case of Ukraine, hybrid warfare, a concept which unites political, economic and informational/propagandist mechanisms – as described by Valery Gerasimov, Chief of the General Staff of the Russian Armed Forces (Minasyan, 2014, p. 51) – has been particularly successful.

<sup>2</sup> In 2014 Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia launched the Eurasian Economic Union, which became effective on January 1, 2015.



neighbourhood. As such, the European organizations should launch a clear common strategy towards Russia and consider additional aspects:

1. European leaders should re-consider their (domestic and foreign) policy interests in the context of the existing [European] security environment, to which Russia is the primary threat;

2. The US and Canada should come in support of the energy diversification of Europe through exporting liquid gas to Europe and via construction of liquid gas terminals, which will thus downgrade the dependency on Russian gas. It is not a secret that energy security is the soft underbelly of the European security vis-à-vis Russia.

3. European states should take a collective responsibility on financial consequences of denying the three Mistral style ships to the Russian Federation (Francois, 2014, p. 3).

Hence, the new security regime of Europe should be further based on the following aspects:

1. The principle of territorial integrity of national borders should be extended to include the political component – inviolability/inaccessibility of internal political order (as the case of Ukraine points out);

2. The Western countries should refrain from demanding democratic changes and stop supporting governments which do not entirely commit to reform (Knaus, 2015, p. 16). Similarly, the EU's policy towards the neighbourhood should be concentrated on consolidating effective statehoods and on assisting them in their future development;

3. Russia and the West should recognize existing regimes of the countries of their joint interests as inviolable and should accept current regimes of the post-Soviet countries according to the principle of 'mutuality'. Moreover, under the apparent collision of the EU and EEU spheres of influence, the new security doctrine of Europe should secure a long-lasting trust and new security architecture between the European and Eurasian institutions.;

4. Relations between Russia and the EU should be based on pragmatism in the sphere of economy, and on balanced relations in the sphere of politics (Francois, 2014, p. 4).

Through this new security model, the EU and US/NATO should respond to Russia's New Foreign Policy Concept (2013) document (MFARF, 2013). The Eastern enlargement strategy and tactics of the EU and NATO did not foresee containment and deterrence of Russia in its near abroad, where Moscow proved to be aggressive. The need of new tactics and effective mechanisms for containment of the Russian challenges has only been addressed in early 2014, as a responsive measure to the crisis in Ukraine. NATO, for instance, launched exercises, airborne early warning and control system (AWACS) deployments in Poland and Romania, as well as air policing in the Baltic region, and increased naval presence in the Baltic and the Black Seas. Building on these immediate measures, over the summer of 2014, NATO developed a Readiness Action Plan by updating its defence plans

and by developing new ones on the basis of the new European security environment, enhancing its military exercises program and considering appropriate reinforcements of its military posture in Europe (Francois, 2014, p. 7). The mobilization of the NATO forces and its military drills in Baltic States, Romania and Poland coming as a response of aftermath developments of the 'Revolution of Dignity' of Ukraine, are the signs of revitalization of the deterrence policy, aimed at restricting Russia's political, economic and military influence over/across its peripheries.

Moreover, NATO and the EU are preparing effective tactics for the containment of the Russian [hybrid] warfare. The re-activation of the Common Security and Defence Policy and the increased coordination and cooperation between the EU and NATO were announced at the NATO Warsaw Summit (2016). Nevertheless, this should not lead to the abandonment of the ENP and the EaP projects. Rather, West should become more actively engaged in the EaP region. If the security of the Eastern European flank will exclude the EaP countries, this will make them even more vulnerable to the Russian encroachments. A negative security scenario will be further detrimental to the security of the EaP. For the case of Georgia this could mean:

1. A weakening of its pro-European foreign policy of Georgia which could further undermine the pro-Western discourse in the country;
2. Negative consequences for the internal political stabilization, since it would sap the position of the pro-Western political groups, while considerably strengthen positions of neutral or openly/potentially pro-Russian political forces operating in the country;
3. The argument held by the pro-Russian forces regarding the non-reliability of the European security frameworks will be justified;
4. Under the lack of interests of the EU towards Georgia, a pro-Russian preference at the level of the political establishment in Georgia will score considerable gains.

The solution to the the current stand-off from the Eastern neighbourhood might come through revitalisation of the 'Intermarium' concept, which envisages an 'entente cordiale' between the Baltic and Black Sea states. Such initiative could be effective for two reasons: first, it will be in line with the EU's regional cluster approach and regional security outlook, since such bloc of states would unite countries which perceive Russia as a threat to their national sovereignty, territorial integrity and security. The potential members of the 'Intermarium' project could include Georgia, Moldova (and Ukraine), together with the Baltic countries, alongside with Romania and Bulgaria. Such an alliance would improve its member countries' national security, international embeddedness, institutional coherence and political self-confidence, deter Russia from interfering into these countries' affairs and also consolidate the 'voice' of its member countries on the international arena (Umland, 2016a). Such instrument could be a viable one for the containment of the Russian soft-power in the strategic regions of the South Caucasus and the



wider Black Sea area. A blueprint for this new Intermarium already exists in the form of GU(U)AM or Community of Democratic Choice (uniting Estonia, Georgia, Latvia, Lithuania, Macedonia, Moldova, Romania, Slovenia and Ukraine) (Umland, 2016b).

## Conclusions

The paper analysed the ongoing debates and highlighted the main factors supporting the argument on the need to re-assess the European security in the light of various challenges stemming from the Russian revisionism in the post-Soviet space. The study argued that Russia's unilateral actions pose some serious threats not only to the Eastern Partnership member states (primarily Georgia, Ukraine, Moldova), but to the European security architecture in general. The Ukrainian crisis revitalized interests towards a new 'deterrence policy' in the context of apparent clash of Russia and the West. The new military activation of NATO and the US in Eastern Europe shows that the phenomenon of deterrence will move from a global to a regional component in the coming years. These changes might be also considered as the acknowledgment of the fact that the conflicts in Georgia and Ukraine are no longer considered among the Western politicians and policy makers only as a confrontation between Moscow and Tbilisi/Kiev, but also within the wider ideological clash between the Euro-atlantic community and Russia. As argued in this paper, overhauling the European security architecture is of paramount importance for the future stability of the EU and the EaP region. Against the current background, there is a strong need to integrate the EaP states in a new European security framework. Against the current security tensions from the EU's Eastern neighbourhood, a new security initiative could benefit from the revitalization of the idea of 'Intermarium', which is recently pushed ahead in the European security thinking. Whatever shape it will take, a strong cooperation in between the states situated in Russia's immediate proximity could become an effective mechanism for the containment of Russia assertiveness.

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# THE EUROPEAN UNION AND THE 'NEW WAR' FROM ITS EASTERN BORDERS

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**Abstract:** *There is enough evidence to claim that since 2014 a new type of war is waged in Ukraine, which is novel in terms of methods, strategies, tactics, and level of human sacrifice. It is an ongoing discussion between experts, scholars and policy makers whether the Ukrainian crisis showed the limits of the European Union's (EU) approach to conflict resolution, or, on the contrary, it served as a chance to redesign its approach towards its neighbourhoods and refine its instruments in order to more efficiently contain conflicts under the leadership of Federica Mogherini. The aim of the article is to identify the characteristics of the 'New War' paradigm in the context of recent political developments after the annexation of Crimea and the ongoing open conflict in Eastern Ukraine. The purpose of this paper is to reveal both the conceptual clarity of this theoretical paradigm, against its critics, but also to emphasise its policy importance for strengthening EU conflict resolution strategies. The article also points to the fact that after the wide process of reviewing the European Security Strategy conducted between 2015 and 2016, the EEAS finally launched a new approach in dealing with EU troubled neighbourhoods, which contains numerous elements borrowed from the 'new war' paradigm and the concept of human security.*

**Keywords:** *conflict resolution; European Union; New War; Russia; Ukraine*

## Introduction

Recent developments in Eastern Europe brought a new set of risks to the European security, with a combination of state and non-state actors that challenged the post Cold war order and the international law. The annexation of Crimea and the ongoing war in Ukraine reheated the existing debates in the literature on the general principles of international law, such as the right to self-determination, the legitimacy of external intervention and the international responsibility of the states, the illegal character of acquiring territories by force, 'the new cold war' paradigm and others. Numerous scholars and analysts (Umland, 2016; Hug, 2015), but also recent official documents (EEAS, 2015; 2016) confirm that EU's strategic

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environment has radically changed starting with 2014. Part of this change depends on identifying the correct definitions of the events taking place in Eastern Ukraine – either as war understood as external aggression, or as civil war. Reviewing EU conflict resolution policy in Ukraine depends on this distinction because EU needs to be very nuanced, accurate and coherent in order to fulfil its goals of containing this conflict.

As such, the analysis aims to revisit the concept of the ‘New War’ developed after the war in Bosnia and Herzegovina (BiH), and subsequently applied on the interventions in Afghanistan and Iraq by Mary Kaldor. The article tries to identify the main features of a ‘New War’ in Ukraine, particularly after the annexation of Crimea and the first violent events of the rebels in Eastern Ukraine (2014-2016). Accordingly, the two main research questions this paper seeks to address are the following – (1) Are we witnessing the features of a ‘new war’ in Ukraine? and (2) What is the policy relevance of this ‘new war’ for the EU? The purpose is to reveal both the conceptual clarity of the ‘new war’ paradigm, against its critics, but also to point to its policy importance for strengthening EU conflict resolution strategies as reflected in the new EU Global Strategy presented by Federica Mogherini in June 2016. In the end, the article points to the fact that after the wide process of strategic review conducted between 2015 and 2016, the EEAS launched a new approach, which shows a series of characteristics which fit the ‘new war’ paradigm and its cosmopolitan solutions.

The article is organised as follows: in the first section, the scope is to bring a conceptual clarification of the ‘the new war paradigm’ in the view of the latest edition of Mary Kaldor’s book (1999/2012) and articles (2013) on the topic. In the second section the article discusses the particular events which occurred in Ukraine starting with 2014 until spring of 2016. The third section analyses the actuality of Mary Kaldor’s concept of ‘New Wars’ to assess the conflict in Ukraine. In the final section the article sums up the main findings and tries to determine the policy implications of a ‘New War’ taking place in Ukraine, in the context of EU’s Global Strategy review and more recent contributions of Kaldor (2015a, 2015b) on the situation in Ukraine. The final part reflects on the usefulness of the concept in determining EU policy changes towards the conflict.

## 1. The New War Paradigm – a Synthesis of Mary Kaldor’s View

*“War, as we have known it for the last two centuries, may, like slavery, have become an anachronism. National armies, navies and air forces may be no more than ritual vestiges of the passing nation-state”.*  
(Kaldor, 2012, p. 201)

In the quarter of a century that has passed since the fall of the Soviet Union, the world has experienced a rising number of civil conflicts. In this context, the IR literature of the last two decades has been dominated by the idea that the mass



armed violence in the Post Cold War period represents an entirely new type of war. Various competing explanations were proposed to explain this changing nature of warfare. By the late 1990s several scholars were arguing for a distinction between 'old wars' and 'new wars'. The literature focusing on 'New Wars' has generated a broad-ranging debate about the character of contemporary conflict and it is worth looking at its main points in the context of recent events threatening EU Eastern borders. Thus, the theoretical framework of the article will rest upon Kaldor's most recent perspective in advancing the fact that 'New Wars' should be understood not as an empirical category, but rather as a way of elucidating "the logic of contemporary war that can offer both a research strategy and a guide to policy" (Kaldor, 2013, p. 1).

The period of time with the highest number of civil conflicts was between 1989 and 1992, which reflects the number of new conflicts associated with the break-up of the Soviet Union and Yugoslavia at the end of the Cold War. Focusing particularly on these events and further on the interventions in Iraq and Afghanistan, political scientists as Mary Kaldor (1999; 2012; 2013) and social theorists such as Zygmunt Bauman (2001, 2002) have been at the forefront of 'the New War paradigm'. A number of other terms were used in the literature - wars among the people, wars of the third kind, hybrid wars, privatized wars, post-modern wars (Holsti, 1996; Rice, 1988; Snow, 1996; Van Creveld, 1991) – nevertheless, the term 'new' proposed by Kaldor which was the most used and subsequently gained pre-eminence. Those scholars who argue for a distinction between 'Old' and 'New Wars' provide detailed and compelling descriptions of the changing nature of warfare (Duffield, 2001; Kaldor, 1999/2002; Kaldor and Vashee, 1998; Snow, 1996). In short, proponents of the 'New War' thesis argue that today's conflicts are fuelled by violence in the absence of strong states, and they motivated by financial greed, exclusive identities, resulting in increased battle cruelty, with high civilian death and displacement. Sociologists see this transformation of warfare as a symptom of larger societal changes under the transformative power of economic globalization. The so-called 'liquid modernity' generates new forms of insecurity, fears and constant threats that are extraterritorial and which cannot be contained or resolved within the framework of nation-states (Bauman, 2000; 2006). Rather, the space within which conflict is staged is open and fluid, with adversaries in a state of permanent mobility and with provisional military coalitions.

Because of space constrictions, out of these complex theoretical debates about the essence of war in the Post Cold War period, this paper focuses mainly on the works of Kaldor, one of the leading scholars in this field<sup>1</sup>. The main analytic strategy of this paradigm aims to dwell on the scope, methods, tactics, strategies,

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<sup>1</sup> The other reason for following the evolution of her theory is that in the past two decades she conducted field research and policy analysis, while adapting its concepts for scrutinizing recent global conflicts (see Kaldor, 2015b).

forms of war, and / or the level of atrocity which is calculated in terms of casualties. Kaldor's contribution mainly points to the problems of representing and addressing mass armed violence in this 'new' post Cold War order. She coined this term in the 1990s, based on her observations of the war in Bosnia. This 'new' model of wars' is described by Kaldor, on the one hand, as a result of the state's increasing loss of monopoly over armed violence and, on the other hand, of decolonization. In this context the focus on the end of federal entities such as former Soviet Union and former Yugoslavia is particularly suitable in the context of the impact of the Ukrainian crisis. The article shall briefly discuss in the following part the changes that Kaldor claims to have occurred in the nature of warfare since the 1990s. Arguably, those changes are relevant for the situation in Ukraine after the annexation of Crimea.

In a nutshell, the 'New War'/postmodern thesis aimed at destabilizing some of the basic oppositions to 'Old Wars'/modern thinking (between for example inter- and intra-national, civilian and combatant, battle and massacre). A series of determining factors were identified as the triggers of new forms of waging war such as - the increasing salience of identity, the transformation of war economies and the end of the bipolar world order of the Cold War. This is the way to legitimize criminal activity to be accepted during a war. She considers that 'new wars' are not connected to 'traditional' political goals and that is why most violence is directed against civilians for political ends. Those elements are thought to produce a fundamental shift in the nature and human impact of warfare. It is important to mention that there is a conceptual part of the argument (referring to the main features which differentiate 'new' from 'old' wars and ways to identify them in several case studies) and a quantitative dimension of the discussion, referring to the rising number of civilian casualties and forced displacement as a specific marker of these 'new wars'. This aspect of the rising number of civilian casualties would also be an indicator discussed in the analytical section of the article.

One of the core theoretical arguments refers to the effects of globalization on state strength. Kaldor argued that this shift in the nature of warfare has occurred in the post-Cold War period, affecting the types of actors involved in wars, their goals, means of finance and military conduct. All these characteristics of 'new wars' are associated with weak states. Overall, there are five key features emphasised across Kaldor's work that serve to distinguish the key features of 'new wars' from 'old wars' which can be summarised as changes in actors, methods, financing, goals and logic (Kaldor, 2013, p. 2).

First, actors in new wars are described as 'decentralised networks' of state and non- state actors (Kaldor, 2013). As Mary Kaldor has described them, those conflicts have not only been notable for their brutality, but also for the fact that they have largely diminished the distinctions between civilians and combatants, soldiers and non-soldiers. Unlike 'old wars', 'new wars' are thought to blur modern distinctions between internal and external, public and private, political and



economic, civilian and military and even war and peace itself (Holsti, 1996, pp. 36–40; Kaldor, 2002, p. 29). This variety of actors makes it difficult to distinguish between combatants and civilians and may include government forces, paramilitaries or militias, mercenaries and private contractors, jihadists, warlords and others (Kaldor, 2013, p. 161). Furthermore, these actors may alternatively combat or cooperate with one another. This is contrasted with the conceptualisation of 'old wars' where actors are principally the regular armed forces of states (Kaldor, 2013, p. 2). From her perspective these manifestations represent a victory of exclusive forms of social organization (like religion, language and ethnicity) over 'inclusive' and modern ones (like nationalism, democracy and socialism).

Second, the methods of new wars focus on the political control of civilian populations through the spreading of 'fear and hatred', using methods of population expulsion, such as forced removals, ethnic cleansing or genocide (Kaldor, 2013). This means that violence is mainly targeted towards civilians, who can be either recruited for the cause or just killed. This is contrasted with 'conventional warfare' where the main method of operation is capturing territory through military force (rather than political means), with battles between opposing militaries being the decisive encounter (Kaldor, 2012, p. 2).

Finally, the goals of new wars are defined by the so-called 'identity politics', which have the ultimate aim of attaining political power for specific, exclusive groups rather than for 'the public interest' (Kaldor, 2012, p. 2). This is presented as part of a broader emerging divide between inclusive, universalist, cosmopolitan and exclusive 'particularism' brought about by globalisation and greater global connectivity. This is contrasted with 'old wars' where the ultimate goals are geopolitical and ideological, seeking to expand control over territory or spread specific ideological ideals. Moreover, Kaldor also underlined the increasing salience of identity in politics brought by postmodernism, in the context of the demise of hierarchical systems of order. These systems include both nation-states and the wars waged among them and their interaction with non-state actors who became more vocal and claim political legitimacy for their actions against the state (Kaldor, 2012). Another important feature of those types of conflicts is their lack of legitimacy: "New Wars not only are human rights violations but they also violate international humanitarian law, so they are totally illegitimate" (Kaldor, 2015a).

Most critiques of the 'New War' thesis have prompted a theoretical debate about whether the concept of war has changed in such a fundamental way as the theory states, but they also criticized the evidence used by Kaldor. In her most recent response entitled 'In Defence of New Wars' she argues that criticisms of the 'newness' of new wars 'miss the point' insofar as she uses the term as a way of highlighting the need for new policy perspectives and analysis of wars in a way which avoids 'old' assumptions about the nature of war and conflict, rather than a simple description of an empirical difference in the nature of war (Kaldor, 2013, p. 4). In the most recent edition of the book, inside an added chapter she draws attention on the claims she did not make in the initial version of the book such as



the identification of new wars with civil wars, the claim that they are only fought by non-state actors and only motivated by economic gain, or that they are deadlier than earlier wars (Kaldor, 2012, pp. 202-221). Those explanations prove to be very insightful in the present discussion.

Critics to the 'New War' concept have argued that, contrary to Kaldor's thesis, the human impact of civil conflict is considerably lower in the post-Cold War period (Melander *et al.*, 2009). They showed that there is an increasing rarity of superpower campaigns of destabilization and counter-insurgency through proxy warfare at the level of the year 2009 when they wrote their article. Melander *et al.* (2009, p. 6) have criticized Kaldor's quantitative evidence to support her argument, by stating that "the 'new wars' thesis exaggerates the human impact of civil war motivated by identity politics, that it misreads the effects of an increasingly globalized economy on the government side in civil conflict, and that it misjudges dispel some of the remaining myths about 'new wars'".

Moreover, Kaldor's definition was also heavily criticized for being 'over-stretched' in a way that could make all contemporary conflicts fit her definition (Mueller, 2004) and that would make it inoperable to empirical research. This counterargument is based on the fact that the border between 'old' and 'new' war is rather blurred and empirical differences between the two can be hard to find. However, such critiques seem not valid anymore, since Russia's actions in Ukraine brought back in the forefront of discussions the concept of 'new war'. The scope of this article is to test Kaldor's argument and offer evidence referring to the rise of civilian victims in the Ukrainian conflict, with a reported number of 3 million civilians in the conflict zone (ONCHR, 2016) which empirically validates at least one important characteristic of the 'New War'. Against those criticisms, one could argue that what remains particularly valid from Kaldor's definition of the term 'New War' when applied to current conflicts is that those differences and nuances between 'old' and 'new' prove particularly relevant for policy making, as the last section of the article will show.

## **2. The Logic of 'New War' in Eastern Ukraine - Money, Manipulated Identities and Criminal Activities**

*"These 'new wars' are increasingly 'nasty, brutish and long'".*  
(Holsti, 1996, p. 40)

*"The conditions on the ground all indicate that the war is likely to grind on and on and on".*  
(Carden, 2016)

There were a series of events following the military crisis in Crimea in the spring of 2014 which had a big impact on EU's Eastern neighbourhood. The decision of then President Viktor Yanukovich not to sign the Association





Agreement (AA) with the EU during the Vilnius Eastern Partnership Summit triggered large-scale street protests called 'the Revolution of Dignity' or Euromaidan which lasted from 21 November 2013 to 22 February 2014. The operation to seize Crimea began on 27 February 2014 when an unidentified task force captured several government buildings including the Parliament in Simferopol. The separatist Republic of Crimea has since become officially incorporated as part of Russia on March 16 after a Russian-supported referendum condemned as illegal by Ukraine and the United Nations General Assembly (UNGA, 2014).

In Eastern Ukraine fighting started in April 2014 and raged for months until Ukraine and the separatists came to a deal on 5 September 2014 to halt the violence (the so-called Minsk 1). On 25 May 2014, presidential elections were held in Ukraine, but in most of the districts in the Donetsk and Luhansk regions, citizens were prevented from exercising their right to vote by armed groups of the self-proclaimed Donetsk and Luhansk 'people's republics'. With an escalation in hostilities in urban areas between heavily armed men – including foreign fighters – and law enforcement and security operations undertaken by the Government, violence escalated, leading to grave violations of human rights and international humanitarian law. In February 2015 after heavy fighting and despite the previous ceasefire agreement, pro-Russian rebels have entered the strategic town of Debaltseve. The rebels tried to seize Donetsk airport, a strategic and symbolic asset, from government forces. Next, in April 2015, the Minsk 2 Agreement was signed, which was not respected, as the violence continued in the region.

As mentioned, starting with April 2014 parts of Eastern Ukraine were turned into a fully-fledged war zone which continues to the present day. This situation requires the correct definition of this conflict, opting for the term 'new war' as defined by Kaldor, rather than a civil war. The distinctions are particularly important in terms of EU policy for conflict resolution in the area. It is relevant to explain the events triggered by the annexation of Crimea in March 2014 by using the concept of 'New War' because this theory in particular discusses the purpose and causes of the recent wars and highlights a significant transformation in the social and historical context in which these wars are waged<sup>2</sup>. The first element of this analytic framework deals with the actors involved in the conflict in Ukraine.

### ***2.1. Actors***

Determining the exact category of actors involved in the conflict in Eastern Ukraine is essential in order to make distinction between an external aggression coordinated by local Russian speaking rebels and Russian troops and a civil war

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<sup>2</sup> It is worth also taking into consideration that other studies explain why the more commonly used term of "hybrid war" is not suitable as an analytical tool for the situation in Ukraine (See Renz and Smith, 2016).



without any external interference. A thorough analysis of this situation (of who actually fights against who) helps us make a distinction between what Russia claims to be ‘a civil war’ in Ukraine, or what Ukraine claims to be a war of aggression led by Russia waged through proxies from Eastern Ukraine.

On one side, the most controversial category of actors, the ones which started the conflict, are the ‘rebels’, a mix network of various types of non-state actors which form the separatist movements in Eastern Ukraine. The events which resemble a ‘New War’ typology began already in February 2014, when the Ukrainian peninsula of Crimea was ‘reunified’ with Russia with the help of well-equipped, organized, and trained ‘self-defence units’ who were actually Russian special forces (Wilk, 2014). In March 2014, the crisis broadened, with paramilitary and so-called self-defence groups as well as a special category, namely the ‘soldiers without insignia’ – widely believed to be from the Russian Federation – taking control of the Autonomous Republic of Crimea and organizing a referendum to join the Russian Federation. Also in March, in the aftermath of the Maidan events, regular rallies, mainly in the eastern regions of Donetsk, Kharkiv and Luhansk, but also in the south, notably in Odessa, began to be organized with participation of the local population, but also allegedly individuals and groups from neighbouring regions of the Russian Federation. The Russian-backed rebels, who opposed the new Ukrainian government, occupied government buildings in several towns in Eastern Ukraine. The separatists control two entities - the self-proclaimed Donetsk People’s Republic and the Lugansk People’s Republic - which together comprise a population of around 5 million people (Friedendorf, 2014). When Pro-Russian separatists in Donbas seized administrative buildings with the support of volunteers from Russia, similar groups tried to do the same in the South (Kharkiv), but those attempts were not successful (Portnov, 2016). The ‘New War’ paradigm could be backed up by the fact that those actions were directly targeted at fuelling the conflict, and spreading panic and fear rather than territorial gains or conventional fight for resources as in classic warfare.

On the other side, the other important actor in this ‘New War’ is the Ukrainian Government, which continued to have limited control over considerable parts of the border with the Russian Federation. Reportedly, this facilitated an inflow of ammunition, weaponry and fighters from the Russian Federation to the territories controlled by the armed groups. The ceasefire in certain districts of Donetsk and Luhansk regions in Eastern Ukraine agreed upon during the previous reporting period was further strengthened by the “regime of complete silence” introduced on 23 December 2015. On 14 April 2014 the Ukrainian Government launched a security operation referred to as an ‘anti-terrorist operation’ to re-establish control over those territories, but in May 2014 a “people’s republic” had been self-proclaimed in both regions, following the holding of so-called referendums that neither the Government of Ukraine nor the international community recognized. Armed groups supporting the self-proclaimed ‘people’s republics’ of Donetsk and Luhansk extended the portions of the territories of those



regions that had been seized to include most of the main urban areas. A complete breakdown of law and order ensued, with parallel structures. "At the time, most of the Ukrainian army officers were corrupt appointees of Viktor Yanukovych. Due to the limited number of troops (aprox. 5.000) individuals, often from right-wing groups, volunteered to fight in the east" (Kaldor, 2015).

Those battles between pro-Ukrainian activists (non-state actors and Government actors) and pro-Russian activists (non-state actors) resulted in many killings and displacement for the civilian population in those regions. Recent evidence show that 2,504 Ukrainian servicemen have been killed in Donbas since the start of this conflict (Ukraine Today, 2016a). The fact that the Ukrainian armed forces are conducting military operations against the armed groups of the self-proclaimed 'Donetsk people's republic' and 'Luhansk people's republic' can be identified as the erosion of the state's monopoly on the use of force. In reality, the Ukrainian government has no control over Ukraine's border with Russia from Donetsk. The rebels, with the involvement of Russia and its regular armed forces are supporting the Eastern Ukrainian separatist movements. They do not form a regular army as it would be described in a traditional/conventional war, even though they use heavy artillery. It should be underlined also that there are also a substantial number of foreign volunteers (French, Spanish, Swedish, Serb or American) swelling the ranks of the Donetsk and Luhansk separatist forces (BBC, 2014). Those para- and military forces fit the description of the 'postmodern' type of warfare as defined by Mueller (2004) – "criminal" and perpetuated by small bands of greedy and predatory thugs. The main warring parties, Russian-backed separatists and Ukraine forces, are mixtures of state and non-state actors—the kind of networks that involve regular forces, militias, mercenaries, warlords, etc. and that are globally recruited. In this particular case, the 'New War' is not fought in the name of ethnic or religious identity, which is different from ideology only in the sense that it's their feeling they have a right to access the state (as the Russian-speaking rebels claim). Another feature of this 'New War' in Eastern Ukraine is its fragmentation— some areas experience high levels of violence, while others are relatively secure. Looking at the map of conflict areas in Ukraine at the moment, this fragmentation is evident (see also Ukraine Today, 2016b). This fragmentation creates more confusion, especially to external actors (like EU) and is a confirmation of the 'hybridity' of the events. This aspect is confirmed also by the Berlin Report of the Human Security Study Group: "Some areas provide exclusive security for specific groups and/or are dominated by 'strong (heavily armed) men' or particular factions. Other areas negotiate localised ceasefires and try to establish inclusive local administrations (Kaldor *et al.*, 2016, p. 13).

This description of the situation in Eastern Ukraine fits the conditions described by Mary Kaldor for favouring a 'New War' lead by private militias, self-organised battalions aimed at spreading fear and violence against the civilians and directed against the central authority of the weak state. The rebels undoubtedly



were able to build on domestic discontent, although they could not have succeeded without Russian help.

## 2.2 Methods

Looking at the methods used by the actors discussed above, the situation again fits the description of Mary Kaldor. In the cases of the Eastern ‘occupied’ territories, armed groups have established parallel ‘administrative structures’ and have imposed a growing framework of ‘legislation’ which violates international law, as well as the Minsk Agreements. The fights between the paramilitary groups in Donbas and Donetsk and the Ukrainian government and pro-Ukrainian volunteers are ways to wage an unconventional type of war. The breach of human rights for the inhabitants of this area is one of the most important challenges. There are numerous reports of torture, murder, and disappearances committed especially by the separatists (OHCHR, 2016, p. 12). This feature is representative for ‘New War’: “widespread human rights abuse is not part of the collateral damage of the “new wars”, it is organic to how they are fought and their aims realized’ (Duffield, 2002, p. 151). Many of those victims supported or were involved in the Euromaidan demonstrations, which toppled the government of Russian-backed Viktor Yanukovych in February 2014 and they were especially targeted by those heavy armed groups (Friesendorf, 2014). The situation in Eastern Ukraine continues to be extremely worrying: “There is a terrible sensation of physical, political, social and economic isolation and abandonment among the huge number of people – more than three million in all – who are struggling to eke out a living in the conflict line,” said UN High Commissioner for Human Rights Zeid Ra’ad Al Hussein. “They are in urgent need of greater protection and support” (Friesendorf, 2014). The tools Russia deploys to protect its interests in Eastern Ukraine fit the description of a hybrid war in which it is not directly claiming any involvement, but it is in fact contributing through the special troops of ‘soldiers without insignia’. According to the OSCE, men and women in military-style clothing have continued to daily cross the border between Donetsk and the Russian Federation. Moreover, it is reported that “clashes continued and in February 2016 intensified around the vicinity of Donetsk and Horlivka, both controlled by the armed groups. Exchanges of fire from artillery systems were rare while small arms and light weapons were employed frequently. Due to the limited range of such weapons, soldiers of the Ukrainian armed forces and members of the armed groups comprised the majority of casualties recorded by OHCHR during the reporting period. The OSCE Special Monitoring Mission continued to note the presence of heavy weapons, tanks and artillery systems under 100mm calibre, in violation of the Minsk Agreement” (OHCHR, 2016, p. 12).

Most recently in March 2016 the Office OHCHR reports that “there is still evidence to support violations and abuses of human rights under international law committed by some government services, by all parties involved in the hostilities in



Donetsk and Luhansk regions. The Office also reported serious human right violations in Crimea, including human rights concerns linked with Russian citizenship and the application of Russia legislation, including its criminal procedure code, with resulting discrimination towards ethnic Ukrainians and minority groups such as Crimean Tatars. This is the case especially with respect to the right to work, property rights as well as in access to health services and social protection well as by the de facto authorities of Crimea and by the Russian Federation” (OHCHR, 2016, p. 14). Those elements constitute a strong proof that the main goals of these actions are based on identity politics, which Kaldor considers as the main driver of the ‘New Wars’. This opposition between pro-Russian population and pro-Ukrainian and pro-Western parts of Ukraine is based on an essentialist and ethnic based distinction. The frontlines are drawn at the moment by the opposition between the identity of Eastern vs. Western Ukraine, which is not primarily an ethnic-based distinction, but rather an ideological one which was encouraged by Russia and which has started years before the conflict. The Orange Revolution was a weak of these tendencies, and the division continued in the next decade: “The image of ‘two Ukraines’ became extremely popular in Ukrainian and international media. It divided the country between east and west, into ‘ethnic zones’ according to the language of everyday communication” (Portnov, 2016).

The methods used are deeply connected also with the aims of this conflict. Eastern Ukraine is inhabited by a large concentration of Russians or Russian-speaking Ukrainians. Pro-Russian militias fight together with foreign fighters recruited from many other regions in the world<sup>3</sup>. The insurgency is being driven by rebels who claim to fight for the rights and interests of ethnic Russians and Russian speakers in the southeast Ukraine against the government in Kiev. The insurgents claim to wage this war in the name of the project of a greater ‘Novorossiya’ stretching from Kharkov to Odessa, the borders of which were announced by Vladimir Putin during his ‘Direct Line’ show on 17 April, 2014 (Portnov, 2016). From this perspective, it is worth to take into consideration that the attempts to divide Ukraine along ethnic or linguistic lines the conflict has not spread beyond Donetsk and Luhansk. Based on those elements, there are analysts who identify ethnicity and economics as the causes for this ongoing conflict. The ones who point to the economic drivers of the conflict underline the fact that Russian speaking population in Donbas was more direct beneficiary of exports to Russia and not the beneficiary of increased trade with the EU (Mylovanov *et al.*, 2016, p. 8). The social and economic aspects of poverty and fear of unemployment should also be

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<sup>3</sup> Abc News (2015), “Foreign fighters join pro-Russian rebels”, 22 September, available at: <http://www.abc.net.au/news/2015-09-22/foreign-fighters-join-pro-russian-rebels-in-eastern-ukraine/6792696> (accessed 5 April 2016).

taken into consideration as the main triggers of the conflict, together with other inter-related aspects.<sup>4</sup>

When viewed through the ‘New War’ lens, identity politics appears to have played a large part in the conflict, with the main split within Ukraine being along ethnic lines (i.e. between ethnic Ukrainians and ethnic Russians). Russian justification for interference in Ukraine has been framed as “protecting Russian speakers” (Putin, 2014). The use of identities in legitimizing the conflict is less connected to ethnicity, but more with ideology<sup>5</sup>. Also, other geopolitical goals appear to emerge. As mentioned above, Russian interference in supporting separatist movements has led many to conclude that identity politics are being instrumentalized as a front for Russia’s expansion of territorial control over Eastern Ukraine. Confirming this thesis, recent findings of Mylovanov, Zhukov and Gorodnichenko (2016) demonstrate, on the basis of quantitative analysis, that the root of the conflict in Eastern Ukraine was deprivation and predation rather than ethnic orientation. Their study uses big data on violence in the East of Ukraine to argue that the local variation in the violence is best explained by economic rather than ethnic or political factors.

The evidence suggests that local economic factors are stronger predictors of violence and territorial control than Russian ethnicity or language. Ethnicity only had an effect where economic incentives for insurgency were already weak. Separatists in Eastern Ukraine were “pro-Russian” not because they spoke Russian, but because their economic livelihood had long depended on trade with Russia and they now saw this livelihood as being under threat” (Mylovanov *et al.*, 2016, p. 8).

This does not contradict the ‘New War’ paradigm, which outlines both identity and economic reasons as the main drivers of conflict of groups who violently rise against the state’s monopoly on violence. Those elements directly impact on the indeterminate duration of the conflict, as well as on the instruments

<sup>4</sup> Portnov explains the complex combination of factors of the war in eastern Ukraine: “The war on the territory of Donetsk and Luhansk regions arose through a combination of circumstances. Most importantly: the behaviour of local elites and paralysis of the police, Russian intervention (including military) and the indecisiveness, mistakes and miscalculations of Kyiv. In the cases of Dnipropetrovsk and Kharkiv, both the decisive and unmistakably pro-Ukrainian actions of local business and political elites and the tangibly reduced activity of pro-Russian forces were key factors for keeping these regions in Ukraine” (Portnov, 2016).

<sup>5</sup> Kaldor adds this nuance in her most recent description of ‘New War’ in order to stress the importance of identity politics for the legitimization of violence: “War becomes in itself a way of constructing identity. People are sort of forced into the arms of these groups. This is the first way in which it becomes a mutual enterprise. People acquire a political identity or ideology through fighting. The more they fight, the more people care about identity and the more they are likely to support these guys” (Kaldor, 2015a).



that international actors can use for conflict resolution. Because of this fundamentally 'new' logic that it is based on, Kaldor shows that "such a war is like a mutual enterprise that's very difficult to end—like a social condition, rather than like a contest of wills" (Kaldor, 2015a).

### *2.3. Casualties*

As the war entered third year, and after a series of two cease-fire agreements, peace is yet to come to Ukraine, and casualties are measured in thousands. An important element which needs to be highlighted at this point is that civilians are the main victims of the war in Eastern Ukraine and this is one of the strongest characteristic of 'New War' in Kaldor's view. On the ground, "the contact line has physically, politically, socially and economically isolated civilians, impacting all of their human rights and complicating the prospect for peace and reconciliation", as the Human Rights Council (2016, p. 1) describes. Kaldor highlights the overall 'logic of new wars' as being unique due to the focus they have on persistence rather than "winning"<sup>6</sup>. The following analytic section of the article aims at assessing the changing conduct of 'New Wars' by investigating battle severity and civilians killed in Ukraine as a relevant indicator of the category of conflict taking place on the ground. A total estimate of 5.4 million people is at the moment directly affected in the war zone (Uatoday.tv, 2016). International organizations and human rights groups accuse both sides of being responsible for civilian casualties. International humanitarian law obliges conflict parties to adhere to the principles of distinction, proportionality, and military necessity, but in Eastern Ukraine, these principles have often been violated. In many cases, troops have indiscriminately fired shells and rockets into populated areas (OHCHR, 2016). Additionally, military targets have been placed in residential areas, further endangering civilians. Those reported aspects of the OSCE and UN missions are a proof that the civil population is one of the main targets of this conflict. The actions are not meant to completely destroy them, but rather to spread terror and to maintain instability on medium term, beyond the requirement of the Minsk II Agreement.

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<sup>6</sup> Kaldor argued that in 'New Wars' you extend your territory, but not through direct fighting against the other side. But there is a form of 'political' extension of territory: "We see that in Ukraine and Syria. You take over the administrative buildings, and you either kill or expel anyone who doesn't agree with your political control. So violence is being directed through established political functions. (...) The main aim is displacement—getting rid of people so they can control the territory. They destroy historical and cultural buildings. If you have visible atrocities, your opponents are more likely to run away. I've been arguing for years that everyone tries to count casualties, whereas—quite apart from the fact that the figures are very bad—the real risk in the New Wars is displacement. They are deliberate: a mutual enterprise among bandits or rebels who do these things" (Kaldor, 2015a).



Already on 14 March 2014 OHCHR deployed a Human Rights Monitoring Mission to Ukraine to monitor and report on the human rights situation throughout Ukraine and to propose recommendations to the Government and other actors to address emerging human rights issues as well as the root causes of the situation that was unravelling. In order to base the analysis on several quantitative elements, the paper employs the latest reports conducted by the Office of the United Nations High Commissioner for Human Rights (OHCHR) on Ukraine. By spring of 2016 the office has delivered thirteen reports on the situation of human rights in Ukraine, based on the work of the United Nations Human Rights Monitoring Mission in Ukraine (HRMMU). The latest report states that in total, from the beginning of the conflict in mid-April 2014 to 15 February 2016, OHCHR recorded 30,211 casualties in Eastern Ukraine, among civilians, Ukrainian armed forces, and members of armed groups –including 9,167 people killed and 21,044 injured (OHCHR, 2016, p. 6). To this it is important to add that the 2016 UN Humanitarian Response Plan for Ukraine identifies the 0.8 million people living in areas along the contact line (200,000 in areas under Government control and 600,000 in areas under the control of the armed groups) as being in particular need of humanitarian assistance and protection (OHCHR, 2016, p. 6). It also adds that the killings that occurred during the 2014 Maidan events, the 2 May 2014 Odessa violence, the 9 May 2014 Mariupol incidents and the 31 August 2015 Kyiv violence are still under investigation.

One of the most immediate impacts of the armed conflict in Eastern Ukraine has been the increase in the number of Internally Displaced Persons (IDP). About half of the population of Luhansk and one third of the population of Donetsk have fled. There are more than 230,000 registered IDPs from Eastern Ukraine, the majority of who are women and children. However, the actual number of unregistered internally displaced persons may be two to three times higher. According to the Office of the United Nations High Commissioner for Refugees (OHHCR), around 378,000 people crossed the border into the Russian Federation in recent months (OHHCR, 2016, p. 6). The Ukrainian Government has registered 1.6 million IDPs, who have fled their homes as a result of the conflict. Between 800,000 and 1 million IDPs are living in territories controlled by the Government, where some continue to face discrimination in accessing public services. OHCHR has observed that some IDPs are returning to their homes, while others are unable to do so due to the destruction or military use of their property. According to government sources in neighbouring and European Union countries, over 1 million Ukrainians are seeking asylum or protection abroad, with the majority going to the Russian Federation and Belarus (OHCHR, 2016). OHCHR was able to access several locations that had been shelled in Donetsk region. In January 2016, it visited the area around Donetsk Airport and Kyivskyi district, observing extensive destruction and weapons contamination. In Debaltseve, Horlivka, and Shakhtarsk, OHCHR assessed the damage caused by attacks on residential neighbourhoods (2016, p. 10). All those figures are a proof which invalidates the argument that “the





human impact of civil conflict is considerably lower in the post-Cold War period" (Melander *et al.*, 2009).

In conclusion, the Ukrainian conflict has a combination of 'old war' features (highly centralised into two camps: Ukraine and Russia) and 'New War' actors, the decentralised network of pro-Russian rebels and methods (attacking civilians and relying on human rights abuses in order to spread fear rather than focusing on the spread of territory). The conflict in Ukraine has been waged mixing 'old war' methods, namely battles and engagements between armed forces, shelling and airstrikes in order to gain territorial control over key areas with 'new' hybrid methods (for which there is still little evidence, as the access in the area is restricted for internationals). Violence has been directed at both armed forces and civilians. Military operations in residential areas mean many civilians have been killed, which cannot be considered as 'collateral damage' but rather a policy of violence specially directed against civilians as a form of population control, as 'New War' theory describes. Kaldor has explained that vulnerable states, with a failed democratization process are more prone to be involved in 'New Wars' in which the 'enemy' is not an outside power, but a rather a more diffuse mix of actors combining rebels from inside and outside. And so is the cause of Ukraine starting with 2014, when the intensification of hostilities led to a dramatic increase in casualties.

The parallels lie not in the number of lives lost, but mainly in 'the logic' of how war was and continues to be conducted. Many civilians who in summer 2014 tried to leave the combat zones through 'humanitarian corridors' were killed through shelling and rockets. Those who stayed behind and now live in combat zones are at high risk" (Friesendorf, 2014). Tackling the first question, the article tried to show that there are elements which confirm a 'new type of war' taking place in Ukraine at the moment. The most evident parallels with Kaldor's 'New War' features are the ones with regard to effects on civilians as the most evident measureable criteria. There are features of a 'New War' paradigm, combined with features of 'old wars'. The conflict in Ukraine has been waged using mainly 'Old War' methods, namely battles and engagements between armed forces, shelling and airstrikes in order to gain territorial control over key areas. Kaldor draws attention that if we see only the 'traditional' part of the conflict, the solutions that would be proposed by international actors will be misleading, as it happened with other conflicts which triggered military external intervention: "Most of our methods for dealing with these conflicts are traditional. We tend to think that the choice is between military intervention and talks. In either case, we are assuming that it's an Old War, so military intervention would be on one side—one country—and with talks you get the two sides to compromise. But if it's not really a contest of wills, then military intervention is just going to make things worse, which is what happened in Afghanistan and Iraq" (Kaldor, 2015a). Violence has been directed at both armed forces, military operations in residential areas mean many civilians have been killed, which cannot be considered as 'collateral damage' but



rather a policy of violence specially directed against civilians as ‘a form of population control’ as defined by Kaldor. The actors involved in this violent enterprise are both global and local, public and private. The wars are fought for particularistic political goals using tactics of terror and destabilization that are theoretically outlawed by the rules of modern warfare. What the ‘New War’ paradigm puts forward in this context is that EU has to deal in the 21<sup>st</sup> century with a new type of organized violence, which could be described as a mixture of war, organized crime and massive violations of human rights. The last section will assess the second research question, discussing the relevance of those ‘new war’ features in Ukraine for the changes in EU policy narratives as reflected in the revision of it Global Strategy for the European Union’s Foreign and Security Policy (2016).

### 3. Features of the ‘New War’ paradigm in recent EU policy narratives

As mentioned, the analytical framework which focused on ‘New Wars’ should be understood not as an empirical category *per se*, but rather as a way of elucidating “the logic of contemporary war that can offer both a research strategy and a guide to policy” (Kaldor, 2013, p. 1). This section aims to detect features of the ‘New War’ paradigm in recent policy narratives referring to EU’s role in containing the conflict<sup>7</sup>. The main argument presented here is that describing the events in Eastern Ukraine as ‘New War’ has also a normative dimension as it was the basis for the new shift in EU policy making. This will be illustrated with a series of examples from the EU consultation process conducted in 2015 with the aim to replace the old Security Strategy proposed by Javier Solana in 2003 with a new document adapted to the new strategic realities.

The EU has played an active role in mitigating the conflict in Ukraine, offering technical, financial, and diplomatic support to the new Ukrainian government. With respect to the resolution of the crisis in Ukraine, it has served as a mediator between the parties of the conflict throughout the entire period since the beginning of the Euromaidan. The EU policy has focused on mediating the crisis in a multi-dimensional manner: Minsk I and Minsk II agreements, the trade agreement between the EU and Ukraine, financial assistance to Ukraine, and technical assistance with reforms, with an approach combining dialogue, diplomacy and sanctions. While the conflict settled into a precarious stalemate after the Minsk II Protocol, scattered skirmishes in Eastern Ukraine pose a risk for a

<sup>7</sup> The main sources used to depict those features were Mary Kaldor’s interview from September 2015 (Kaldor, 2015a), and the story about her trip to Ukraine (Kaldor, 2015b), the Berlin Report of the Human Security Study Group convened by Mary Kaldor and Javier Solana and presented to Federica Mogherini in February 2016, the Draft (2015) as well as the final version of the EU Global Strategy on Foreign and Security Policy (2016).



resurgence of violent conflict, analysts have criticized EU's instruments and their limited results in containing the conflict (Mylovanov *et al.*, 2016).

Meanwhile, EU started a process of redesigning its foreign and security policy in order to adapt to its troubled neighbourhoods. Between autumn 2015 and summer 2016 the EEAS coordinated an extensive EU-wide consultative process with experts and diplomats with the main aim to rethink its overall strategy towards conflict resolution (EEAS, 2015). Researchers and policy makers alike have been continuously searching for a practical strategy for ending violent conflict that would best represent the specific political nature of the EU and based on its normative approach. One of the most comprehensive (and, in the end, influential) policy-based document was "The Berlin Report of the Human Security Study Group" (The Berlin Report hereafter) convened by Mary Kaldor and Javier Solana. The report proposed that the EU adopts a so-called "second generation human security approach" to conflicts, as an alternative to the one focused on geopolitics or 'the War on Terror'. The document analysed existing policies towards conflict and discussed why, despite a very large allocation of resources, they are insufficient and it outlines what is involved in a second generation human security approach and illustrates what this means for some of the instruments available to the EU. The vocabulary used in those recommendations is directly connected with the literature on 'New War'. Rooted in the ideas of Kaldor's writings (as she is also one of the main convenors of the Report), but focusing more on the conceptual background of 'second generation human security' studies, the main contributors to the report make a series of policy recommendations for strengthening EU conflict resolutions instruments. One section in the report refers specifically to the situation in Eastern Ukraine. This report is extremely relevant for the paper's argument, as most of the main recommendations it makes are to be found in the Global strategy published in June 2016. This shows in a way the transfer of the main concepts from 'New War' literature to EU policy narrative. One of the essential recommendations of the Report is that EU should tackle the 'new' logic of contemporary conflicts, defines as a combination of identity politics and war economy, with both bottom-up and top-down instruments like supporting civil society groups on the ground from above.

The document criticizes EU's approach to conflicts in the last decade and proposes an important shift: "Up to now, the EU has focussed on top-down peace-making, humanitarian assistance and post-conflict reconstruction. These policies can easily be subverted because they can end up entrenching criminalised extremist networks" (Kaldor *et al.*, 2016, p. 3; also, see more in Selchow, 2016). In today's complex, contested and connected world, as the Global Strategy defines it, the so-called 'outside instruments' proved to have limited results. Some studies show that they actually "backfire and make things worse" (Kaldor *et al.*, 2016, p. 3). Moreover, a compelling definition of contemporary conflicts which seems directly inspired by "new war" literature is given in the introduction of the document: "a sort of predatory social condition in which networks of armed groups



instrumentalise extremists identities and enrich themselves through violence” (Kaldor *et al.*, 2016, p. 3). Going back to theory, Bauman and others stressed the fact that in globalization there is no clear distinction anymore between ‘outside’ and ‘inside’, as the 21<sup>st</sup> century warfare brought a ‘hybridisation’ of methods. Moreover, this affects very much also the instruments available for conflict resolution, which should adapt to this ‘hybridisation’ as well (Kaldor, 2015b). This new approach proposed by the Report argues that “Human security is about extending the inside beyond the EU” (Kaldor *et al.*, 2016, p. 3).

Mary Kaldor has conducted a trip to Ukraine in the autumn of 2015 and she wrote an extensive article describing the situation in eastern Ukraine and the blatant breach of human rights taking place there (Kaldor, 2015b). She concludes her article on the topic with the following observations relevant to the analysis: “On the Ukrainian side, weak state capacity (especially in the east) after years of corruption, the arrival of armed volunteers, and, later, the destructive offensive all contributed to what I call a “new war”—something that is a mixture of war, organized crime, and human-rights violations. In ‘New Wars’, traditional approaches, such as military intervention or top-down peace agreements, do not work. The former makes the situation worse; the latter legitimizes the extremist criminal networks that fight the wars and have a vested interest in disorder; the only solution is the construction of legitimate governance” (Kaldor, 2015). Referring to the specific role of the EU in containing this conflict, in her analysis on the situation in Eastern Ukraine, Kaldor states that “There is a lot of criticism of the European Union for its slowness, bureaucracy, and lack of support for Ukraine during the Minsk negotiations, which were between Ukraine, the separatists, and Russia. It was argued by some of the human-rights activists I met that Ukraine needed the presence of the EU to strengthen its bargaining position” (Kaldor, 2015). These observations from the ground show the fallacies of the Eastern Partnership and prove in a way the inefficiency of EU’s strategy of soft power to contain the conflict in Ukraine for which symbolically the EU is responsible. This was also pointed by Adam Hug, who showed that “The Ukrainian crisis made from the ENP revision an urgent need” (Hug, 2015).

Based on the mandate received from the European Council, Federica Mogherini, in her capacity as High Representative and Vice-President of the European Commission (HRVP), has announced the preparation a Global Strategy on Foreign and Security Policy to take place between June 2015 and June 2016. The official text of the strategy was launched during the June 2016 European Council in Brussels. But reading the 2015 first draft of the future strategy, one finds the main three ‘catchy’ concepts proposed by the document – Connectivity, Contestation and Complexity (EEAS, 2015, p. 1). All the three concepts fit very well the description of ‘new wars paradigm’. The main observation to be made here is that EU policy narratives have integrated in their official discourse the main understandings of the new way of waging war, and the new type of threats as debated in the ‘new war’ paradigm. The new June 2016 EU Global Strategy is



expected to discuss proposed policy solutions to address those new threats, in the context of the EAP failure. As mentioned, I would argue that the main conceptual pillars of this document reflect the features of Kaldor's description. All the three concepts fit also the features of postmodernity, as a space where order is challenged and a 'new order' emerges from a clash of narratives – connectivity, contestation and complexity. For the first feature – Connectivity – the strategy identified the 'liquid' shapes of our world as a source of threats: "A more connected world, whereby a surge in global connectivity and human mobility challenges traditional approaches to migration, citizenship, development and health, while at the same time facilitating crime, terrorism and trafficking" (EEAS, 2015, p. 1). The other feature is contestation, directly link with violence and the possibility of mass protests, occupy movements and all recent un-stabilizing actions which are both the result of connectivity in the virtual world but also based on marginalized groups who contest the centre. The document states that "A more contested world in which fragile states and ungoverned spaces are expanding, as a result of instability and violence triggered by poverty, lawlessness, corruption and conflict-ridden electoral politics" (EEAS, 2015, p. 1). This feature points to the similar aspects raised by Kaldor's theorization of the interactions with non-state actors who became more vocal and claim political legitimacy for their actions against the state. The last concept is more general and it refers to complexity and mentions precisely the lost distinctions between state and non-state actors, internal and external threats that Kaldor mentioned as a feature of 'new wars': "A more complex world where power is shifting towards other regional players in the developing world and is increasingly shared between state and non-state actors" (EEAS, 2015, p. 2). Beyond those three concepts, the strategic document also identifies as a high priority "rethinking the EU's approach to conflict and crises" and "EU's continuation to support reforms in the neighbourhood (i.e. Western Balkans, Turkey and the Eastern Partners) through integration and association policies" (EEAS, 2015, p. 2). It also points to the strategic importance of the Eastern neighbourhood and the Russian threat to EU borders within "the need to address destabilizing actions on the EU's borders, while also engaging with Russia to restore sustainable European security architecture and address global challenges" (EEAS, 2015, p. 2).

Finally, in June 2016 Federica Mogherini presented the Global Strategy for the European Union's Foreign and Security Policy in the EU Council. One could find a series of elements which were directly taken from the Berlin report and which make use of 'New War' concepts, particularly in the subsection 3.3 - An Integrated Approach to Conflicts and Crises (pp. 28-32) where the document states that "The EU will foster human security through an integrated approach" (EU Global Strategy, 2016, p. 28). The Strategy explicitly mentions EU's engagement "in the resolution of protracted conflicts in the Eastern Partnership countries" (EU Global Strategy, 2016, p. 29). Cooperation with grass roots initiatives and civil society is also an important element introduced in the Strategy: "We will partner



more systematically on the ground with regional and international organisations, bilateral donors and civil society” (EU Global Strategy, 2016, p. 29). The ‘hybridization’ of methods aimed at addressing the complex realities of contemporary conflicts is reflected in the proposed blend of grass roots initiatives and incentives from above also present in the strategy. This is another evident feature connected with ‘New War’ literature: “Through CSDP, development, and dedicated financial instruments, we will blend top-down and bottom-up efforts fostering the building blocks of sustainable statehood rooted in local agency. Working at the local level – for instance with local authorities and municipalities – can help basic services be delivered to citizens, and allows for deeper engagement with rooted civil society” (EU Global Strategy, 2016, p. 31). As suggested in the Berlin Report, the social and economic aspects of the conflict are also explicitly introduced on EU agenda. Thus, EU engages to break the political economy of war and to create possibilities for legitimate sustenance to exist. This calls for greater synergies between humanitarian and development assistance, channeling our support to provide health, education, protection, basic goods and legitimate employment” (EU Global Strategy, 2016, p. 31).

All those elements fit very well the changes described by Kaldor to be brought by ‘New Wars’ in terms of actors, methods, financing, goals and logic. This shows that the ‘New War’ paradigm has directly influenced the official EU policy narrative. And as Kaldor indicated, these concepts are very relevant for EU policy makers, especially in the context of the latest international events in the summer of 2016 – the European Council and the NATO Summit in Warsaw – where several important strategic decisions were announced with the aim of strengthening the Euro-Atlantic ties and containing the conflict in Ukraine.

## Conclusions

The ‘New War’ paradigm argued that the end of the Cold War marks a fundamental shift in the nature of warfare. In this sense, this theoretical framework has been important in opening up new scholarly analysis and new policy perspectives in terms of efficient and tailor-made conflict resolution. Kaldor argued that ‘New Wars’ should be understood not as an empirical category, but rather as a way of elucidating the logic of contemporary war that can offer both a research strategy and a guide to policy. These wars feature the collapse of state institutions and armed forces, and they are fought over identity, being focused on profit rather than territory. In this type of post modern wars, fighters pick soft targets, and the most vulnerable of all those ‘new’ targets are civilians, which cannot be protected anymore by the weak state. Despite its intentions to promote regional stability through trade agreements and democratic institution-building, the EU is now confronted with a ‘new’ type of war at its borders. Thus, the article analysed the actuality of Mary Kaldor’s concept of ‘New War’ in the context of the conflict in Ukraine.





In an overview of the main events which took place in Ukraine after the annexation of Crimea, the article has identified several of Mary Kaldor's main characteristics of 'New Wars' in terms of actors, methods and an entire new logic/new condition of war. The rising number of civilian casualties illustrates the monopoly of violence that has eroded from below in the Donetsk and Lugansk regions. As the events unfold and the information from the area is limited, it is hard to assess the main objectives of those criminal activities taking place in the region, as well as to make predictions about a possible end of hostilities. Arguably, until this point, the main purpose of those insurgents is disintegration of the state and violent contestation of the authority from Kiev, while Russian-speaking groups from Eastern Ukraine require their rights for autonomy. The analysis showed that the events in Ukraine provide a combination of both 'Old'/conventional and 'New Wars' as there are confirmed Russian military activities on the territory of Ukraine, but also the presence of soldiers without insignia, rebels and foreign fighters. Confronted with most recent reports of the OSCE and OHCHR, the 'New War' that seems to take place in Ukraine is a mixture of war (organized violence for political ends), crime (organized violence for private ends) and human rights violations (violence against civilians), as an embodiment of Kaldor's prescriptions. In the last section the article sought to reflect on those features of 'New War' both from a policy-driven perspective, looking at how EU incorporated in its new Global Strategy the recommendations based on a human security and 'New War' perspective.

There is enough evidence to claim that since 2014 a new type of war is waged in Ukraine, which is novel in terms of methods, strategies, tactics, and level of human sacrifice. The main idea worth to be highlighted as a conclusion is that the 'New War' taking place in Ukraine requires 'new'/reshuffled policies by the EU and NATO which will have direct implications on relations with Russia. The modern logic of conflict resolution focusing on *inside* the borders of the nation-state, where the state has monopoly of violence, and *outside the borders* where international law and international organizations have legitimacy is twisted into the postmodern logic of hybridization of wars, which merges the outside with the inside (soldiers without insignia, but backed by other countries fight on the territory of another country with local rebels against a state' government, as the situation in Eastern Ukraine). Within the 'New War' taking place in Eastern Ukraine, the various warring parties are more interested in what Kaldor called "the condition of war" than in winning or losing. There are different types of profit one can make from perpetuating that war, either in its hot or frozen form. This material and symbolic profit is the main goal of maintaining the 'condition of war', not the fight for territory or ideology. This conclusion should be further on developed for more in-depth research. In the end the article showed that Mary Kaldor's both theoretical and policy oriented contributions, which pleaded for a cosmopolitan approach to the stabilization of 'New Wars', have proved as very useful instruments for understand the situation in Ukraine at the moment. Thus, the article





argues that, in defining EU's role in the Eastern neighbourhood, policy makers already replaced former mechanisms with a more targeted and less ambitious strategy, but this time addressing the specificities of the Ukrainian crisis. In this context marked by uncertainty, the EU needs to counterbalance Russia's intention to control the Eastern neighbourhood with a comprehensive stance that addresses not only economic issues, but also security needs. The new Global Strategy from June 2016, at least at the rhetoric level, shows EU's ability to address this 'new war' in Ukraine with the proper tools and applying the lessons learnt from all the shortcomings of the Eastern Partnership.

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# THE EU DEMOCRACY PROMOTION UNDER SCRUTINY: THE DOUBLE STANDARDS IN THE CASE OF BELARUS AND AZERBAIJAN

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**Abstract:** *Since the change of context in which the EU operates, democracy promotion has become a tool to ensure stability in the region. This article examines how the EU engages in democracy promotion with special case countries such as Belarus and Azerbaijan. It argues that the EU applies double standards when it comes to the application of conditionality although both countries share an alarming human rights record. The discrepancy stems, among others, from the geographical location of the two countries and also the fact that Azerbaijan is as an alternative energy or transit provider.*

**Keywords:** *democracy promotion; double standards; ENP, normative power*

## Introduction

Much has been said and written about the fundamental developments experienced by the EU during past two decades. Crucial changes to the institutional architecture and the decision-making algorithm were implemented. The number of member states has grown remarkably, increasing nearly two-fold. And most importantly, the EU had to alter its classical understanding of accession policy and crystalize its long-exercised democracy promotion scenario. In fact, welcoming new member states in 2004 was highly entwined with reaching out to a significant number of new neighbours, with all their possessions, internal particularities and aspirations.

In 2002 Javier Solana and Christopher Patten articulated in their letter that the 2004 enlargement would “bring the dual challenge of avoiding new dividing lines in Europe while responding to needs arising from the newly created borders of the Union” (Patten *et al.*, 2002). What they also stressed in the letter, and what will be the leitmotiv of the following EU documents dealing with the neighbourhood, was that “stability, prosperity, shared values and rule of law along our borders are fundamental for our own security” and “failure in any of these

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areas will lead to increased risks of negative spillover on the Union” (Patten *et al.*, 2002).

The new geography of the EU also brought new perceptions and challenges when it comes to regional insecurity. New conflicts, illegal migration or radicalisation were now part of the EU’s new reality. What is more, in fact, it was the EU’s neighbourhood that was often viewed as a major source of these threats. In addition to this, at the beginning of 2000s, the growing hostility and unpredictability of Russia’s behaviour, has pushed the EU to seek alternative energy resource providers in its Eastern neighbourhood. These troubling questions shed light on the need for a redefinition of the EU’s stance towards the neighbourhood and the role it wants to play in it.

The Wider Europe Initiative, which for the first time addresses the Eastern neighbours with a comprehensive policy was a pivotal step in safeguarding its surroundings. Inspired to create “a ring of friends” (European Commission, 2003), the EU embarked on the democratization crusade in its closest neighbourhood equipped with a rich toolkit of various instruments and policies which were intended to bring the countries on the democratic path. It is in the ENP, the later translation of Wider Europe Initiative launched concomitantly with the 2004 enlargement and extended also to South Caucasus countries, that the EU further imprinted its commitment to fundamental values, with particular emphasis placed on democracy and obliged itself to monitor the dedication of the neighbours in adapting these values. Its role as a global actor and a protagonist of democracy promotion is incontestable. However, one of its main setbacks is inconsistency in its policies. Throughout the years of democracy promotion endeavours, the EU has subjected some countries to severe shock therapy while others have been approached with a more pragmatic attitude. That was the case also with the two countries – Azerbaijan and Belarus – under investigation in this paper.

Looking at the EU’s neighbourhood today, its outlook raises troubling questions. Political attention is spread across various problems spanning from the lingering repercussions of the financial crisis, through the influx of refugees and migrants which delivers a blow to further divisions among the EU member states up to un-freezing conflicts in the neighbourhood. Additionally, the further backsliding towards authoritarianism and thuggish aggression of Russia not only plants a seed of fear over security, but also raises the EU’s concern over stable energy supplies. In the context where EU has been a beacon of democratic liberal norms and a *sui generis* entity which proved capable to impose, for two decades, respect for such norms, a number of cases of authoritarian regimes brought in the limelight the limits of EU’s external governance philosophy to produce systemic democratic changes.

In consequence, new threats have also impacted the EU’s approach towards the two countries in question. Belarus further benefits from critical engagement, however the grip of sanctions has been loosened recently and Azerbaijan is generally faced with a ‘business as usual’ approach. Although the policies towards



the two authoritarian regimes have come slightly closer, the EU is still criticized for pursuing a policy of double standards, selectively upholding its principles as a democracy promoter.

Scholars admit that there are double standards in democracy promotion (Bosse, 2013, p. 89), however, as much as they often deal with cases from the Southern neighbourhood, little attention is given to the special cases of the Eastern neighbourhood, such as Belarus and Azerbaijan. Therefore, the choice of this topic was guided by a willingness to meet this challenge and provide contribution to bridging this gap.

The Normative Power Europe concept, which pays tribute to the normative principles and explains the EU's role as a shaper of what is normal will serve as conceptual frame for the deliberations on the EU's involvement in the neighbourhood. Belarus and Azerbaijan constitute a very compelling example. Both are authoritarian regimes, which flagrantly violate EU's fundamental values; however, they are confronted with different responses. Against this background, it is important to assess how the EU reaches out to the two countries and tries to secure its values diffusion. In this context, I pose the following question: How does the EU engage in democracy promotion in Belarus and Azerbaijan?

## 1. EU as a harbinger of a better world

Scholars have utilized a massive string of adjectives and concepts to describe best the EU's distinct presence in the world. In fact, as much as the EU evolved into a *sui generis* entity, so did the complexity of its classification. The EU was referred to as a civilian power, post-modern power, ethical power, structuring power, transformative power, soft power, economic power, humanitarian power, herbivorous power and finally as a normative power (Gerrits, 2009, p. 2). Although these concepts pick up various perceptions, they all source from the concept of 'civilian power' first coined by the François Duchêne in 1970 and relate synonymously to Nye's concept of "soft power". The normative power Europe concept was inspired by idealism and gained probably most of the attention among scholars in the post-Cold War period.

Normative power, which describes the EU's underlying power and which is highly related to the democratization process especially in the context of the 2004 enlargement, was pioneered by Ian Manners. Manners argues that the essence of the EU lies in the fact that the EU's normative power resides in what the EU is, instead of what the EU does or says. He refers to normative power as to a "difference engine" which is able to "shape conceptions of the normal" (Manners, 2002, p. 239) and incite a wave of change in the international arena (Manners, 2003, p. 381). To elaborate, this definition does indeed identify the EU as a particular entity, but it also denotes a specific objective which is to set standards (Diez *et al.*, p. 175). The most noteworthy aspect of the concept is that the normative power is based not on the physical force or economic resources but on a normative explanation and power of





ideas. Manners believes that the primary difference between the EU and other pre-existing entities rests in its normative foundations and the norms. In his influential paper he emphasized the role of the EU in abolition of the death penalty and remarked the “historical context, hybrid polity and political-legal constitution” (Manners, 2002, p. 240) of the EU. The very constitutional basis of the EU not only builds its identity, but also stimulates it to act in a normative manner in the international arena. Within the context of identity, one remark shall be made, as according to Manners, a normative power shall be also analysed as its international identity and type of actor. In other words, the EU is a “changer of norms in the international system” and an ideal type of normative power which uses normative explanations to “normalize a more just and cosmopolitan world” (Manners, 2011, p. 232).

Further addressing the norms which are central in the discussion about normative power, Manners distinguishes two groups of norms: core norms and minor norms. The first one derives from a broad set of EU’s policies and legally binding commitments (Dunne, 2008, p. 22), and comprises: peace, liberty, and the trinity of democracy, respect for human rights and the rule of law (Manners, 2008, pp. 50-52). The second group of norms is rooted in the EU’s practice and constitution and consists of: social solidarity, anti-discrimination and sustainable development, good governance (Manners, 2002, pp. 242-244). Building on the deliberation of the norms, Manners points out that normative principles shall be introduced following the rule of “living by virtuous example” (Manners, 2008, p. 56). That is to say, the EU needs to be coherent and committed both in terms of its principles and policies. At the end of the day, the *raison d’être* of the EU is the promotion of its normative principles in a normative and sustainable way.

The question which arises immediately is how to translate the norms into action. Manners identifies six ways which include: contagion, informational and procedural diffusion, transference, overt diffusion and cultural filter (Manners, 2002, p. 244). He states that contagion refers to unintentional spread of norms to other actors. Informational diffusion occurs through strategic and declaratory communication of the EU. Procedural spread is a result of the institutionalization of the relations, such as Partnership and Cooperation Agreements or the Association Agreements with third countries. In case of transference, norms diffusion takes place with the exchange of benefits with the third countries, for example through the technical assistance programme for the CIS countries (TACIS). Presence on the ground of the EU’s institutions or agencies in third countries also contributes via overt diffusion. The last cultural filter is simply related to the political learning and cultural diffusion in the third countries. The four selected strategies of procedural, informational, transference and over diffusion will serve as measures in the analytical part of this current paper.

To conclude the deliberations on the NPE concept, light will be shed on how the EU promotes the norms. Manners states that the EU disposes of the whole range of policies and practices however he remarks that the EU was more



successful in its actions in the past. Manners discusses three different methods which are on the opposite side of the coercive imposition. He foresees “persuasion, argumentation and the conferral of prestige and shame” (Manners, 2009, p. 12). In other words, persuasion covers the dialogue both multi- and pluri-laterally, by means of institutionalization and constructive engagement. Argumentation in the promotion of norm involves reference to common principles or invitation to an agreement and understanding. The final point covers a wide spectrum of practices including sanctions, public condemnation or on the other hand public support or membership perspectives. When discussing how the norms are being diffused, another question arises. Namely why the states decide to emulate the norms spread by the EU? In fact, it is assumed that given the exemplary nature of the EU which occurs as the harbinger of the better world, states are attracted and agree to follow the example set by the EU (Aggestam, 2009, p. 29).

Obviously the NPE has faced virulent criticism. Some have argued that the EU does not really display its normative nature. In fact, following the Hyde-Price critique the EU is simply an instrument used by its member states to provide them with particular benefits (Hyde-Price, 2006, pp. 217-234). Interestingly, Hyde-Price dedicated an entire paper to voice its realist critique towards the normative power. Among his main findings, he stressed that states are primarily preoccupied with their survival and security and therefore engage in competition and attempt to maximise its power. Bicchi, in turn, accuses the EU of a certain eurocentrism and lack of foundation on universal values. According to Bicchi, the EU adapts its values or as she puts it “reproduces in relations with third countries” (Bicchi, 2006, pp. 286-303). Haukkala oscillates in his discussion between calling the EU a normative power or a normative hegemon. As he puts it, the EU’s internal messiness hampers the “blossoming of the flowers in the neighbourhood” and therefore it shall ease its normative hegemony and focus on the basics of the good governance (Haukkala, 2007, p. 18).

Undeniably, this idealist concept, when exposed to empirical grounds, can be easily challenged and applied only partially. Especially, regarding the selected country studies, the EU does not always comply with the norms it promotes. Interestingly, Manners himself admits in his recent work that the ENP embraces both normative and interest-driven characteristics (Manners, 2010, p. 30). As much as in case of Belarus the EU has indeed been for years consistent and determined to promote its normative principles, the recent Council decisions heralding lifting of the sanctions have proved that security matters more than values. Equally for Azerbaijan, growing economic interests seem to overshadow the EU’s concerns for human rights. All in all, given strong foundations of the EU on the norms articulated and present in the majority of legal documents Manners’ concept will be applied to understand whether the EU acts as a normative power and secures its values.



## **2. EU Relations with Belarus and Azerbaijan after the Cold War– the “it’s complicated status”**

### ***2.1. EU relations with Belarus – hard conditionality***

The relations with Belarus could be described as a thorny road with a number of sharp and unexpected U-turns. Although at the beginning, the independence boded well and the EU-Belarus relations were viewed through an optimistic lens, preceding years stifled the rapprochement euphoria. Illustrating the development chronologically, the wave of the declarations of independence in the 1990s was welcomed very cautiously by the EU. This stemmed, on the one hand, from the fear for the national minorities which were exposed to growing power nationalist aspirations and, on the other, from the presence of strategic nuclear weapons in Belarus (Dumasy, 2002, p. 179). In the end, the EU understood that it can contribute to the democratic transition of Belarus. At the initial stage, the prospects for the proper relations were very good. Belarus immediately established good relations with the Western European bodies and joined the flagship institutions such as EBRD, IMF or the World Bank. Moreover, the EU also managed to negotiate the Partnership and Cooperation Agreement and the Interim Trade Agreement (EEAS, 2016).

However, Belarus soon demonstrated that the EU might have misinterpreted its genuine dedication to Western values. Several cycles of elections and referenda were held and their conduct always fell short of any democratic standards. With regard to the electoral democracy, the EU persistently addressed every election in Belarus in its Council conclusions or European Parliament resolutions. The EU did engage in this area both at the level of judgment and application and on both levels it kept a very consistent attitude. These developments had a durable impact on the EU’s policies towards Belarus. The EU, which places human rights at heart of its cooperation with Belarus, immediately demonstrated its non-agreement with the actual state of play. One of the first glimmers of Lukashenko’s autocratic aspirations was the controversial constitutional referendum in 1996, which enormously enlarged his powers and extended his term. As a consequence, the EU halted all the projects which aimed at democracy promotion, it froze the PCA and the Interim Trade Agreement and limited the ministerial contacts (European Commission, 1997). However, the situation aggravated, preceding elections followed the same pattern. The elections in Belarus were notoriously marred by manipulation, rigging, violence, lack of transparency and harsh crackdown on civil society and inexistence of the opposition. In order to oppose these developments, the EU employed the strategy of overt condemnation while applying the spiral of sanctions by gradually imposing more and more sophisticated measures (Portela, 2011, pp. 499-501). Interestingly, the EU started slowly to articulate its security concerns by recognising Belarus as a source of threats of various nature, that is illegal migration, crime or unstable energy transit (Allison *et al.*, 2005, p. 491).



The contacts remained frozen until 2006 when the Commission after rethinking its hard conditionality approach to Belarus decided to issue a non-paper. The document, which sets a number of democratization steps Belarus was supposed to undertake with no flexibility, marked also the beginning of a reverse trend and a critical engagement with Belarus (Bosse, 2013, p. 89). In order to please the EU, Lukashenko implemented certain reforms including privatisation programme and released some opposition leaders (Portela, 2011, pp. 499-501). The energy supplies cut by Russia, which occurred in 2007, planted a seed of fear in the EU and made the security concerns reach the EU's rhetoric. As a result, the EU welcomed Belarus under the umbrella of the Eastern Partnership. Also, the 2008 parliamentary elections were generally positively assessed, although Council voiced certain complaints when it comes to the democratic criteria. The drive for rapprochement with Belarus prevailed and in response the EU restored the diplomatic relations with the regime and suspended other measures it put in place before such as visa and travel bans (Portela, 2011, pp. 502-503).

The reform plan ended fast as the violation of democratic standards and freedom of assembly climaxed during the 2010 presidential elections and was followed by the shutting down of the OSCE mission in Minsk. The elections again fell short of any democratic standards. Minsk witnessed unprecedented outburst of massive protests, crackdown on activists and numerous imprisonments (Vizgunova, 2015, p. 1). The EU renewed sanctions and introduced an isolation approach. It is interesting to note the fact that the EU followed a two-track policy as it applied hard conditionality towards the authorities and still tried to appeal to the society by delivering support to the civil society. The story of fraudulent elections continued in 2012. The Council reacted to the developments with a similarly strong stance on the measures and additionally, to punish Belarus for its poor human rights record, the arms embargo, assets freeze, travel ban were imposed (Council of the European Union, 2012). The parliamentary elections were regretfully commented by EU High Representative Catherine Ashton and Commissioner Štefan Füle as "yet another missed opportunity to conduct elections in line with international standards in Belarus" (European Union, 2012).

Another U-turn in the EU-Belarus relations might be remarked following the Ukrainian crisis. Given a certain change of tactics embodied in Lukashenko's reluctance to back Putin's acts in Ukraine coupled with his clear willingness to restart relations with the West, the EU became more inclined to suspend the sanctions, what ultimately occurred. The EU foreign ministers especially appreciated the release of the political prisoners and Belarusian "proactive role in the region" as shown in the Council Conclusions from February 2016.

The EU-Belarus relations are highly complex and unpredictable. Although after the collapse of the Soviet Union the situation boded well for the future, the optimism period was fast gone. The track record of violating democratic and human rights principles made Belarus immediately subject to EU sanctions. For years, the EU has been persistent in its critical judgments and implementing



sanctions against the acts of violation, however such approach has not been fully maintained. A moderate change in the human rights and democracy standards coupled with a similarly moderate involvement of the Lukashenko in the Ukrainian crisis were prerequisites for a complete change of the EU strategy and lifting the sanctions what, if we want it or not, raises questions on the incoherence in the EU policy.

## ***2.2. EU relations with Azerbaijan – reserved in its concern***

The EU-Azerbaijan relations were launched right after the collapse of the Soviet Union and crystalized in the Partnership and Cooperation Agreement (PCA) signed in 1996 and enforced in 1999. From the very beginning Azerbaijan showed a strong willingness to ensure the implementation of the PCAs. In return, the EU showed great interest in providing it with the development assistance (Frappi, 2012, p. 109). Nonetheless, an aspect worth highlighting is the fact that since the very beginning of cooperation, Azerbaijan has experienced a negative human rights record. Presidential elections in 2003 revealed a grim domestic situation. Hundreds of journalists and activists were put in jail, others were exposed to other forms of intimidation and prosecution (Amani, 2013). The reaction from the EU was far from what one might have expected. From the ambiguous joint statement of the Council and the EP we learn that “we did not come to Azerbaijan to give lessons or to measure the rate of democratic development in the country but rather to witness and encourage the transition process towards democracy that the country is experiencing” (Amani, 2013). The EU was reluctant to take a strong stance on these developments, since the role of Azerbaijan in the EU-envisaged energy architecture was salient.

Next development in the EU-Azerbaijan relations was the inclusion of Azerbaijan in the ENP. Azerbaijan had a clear roadmap addressing implementation of human rights, democratisation and energy reforms. On top of that, the country benefited from various projects aiming at boosting private sector and economic developments. Programmes such as Tempus aimed at modernising education system or TACIS dedicated to the administration sector were realised as well. The main focus was, however, placed on the energy cooperation, since Azerbaijan appeared as a potential energy producer and transit country (Frappi, 2012, p. 110). Energy cooperation was first outlined in the PCAs. It was also echoed in the ENP Action Plan (European Commission, 2014). Later on, this vector of cooperation was cemented in 2006 Memorandum of understanding. Interestingly human rights issues remained off the agenda. Another important milestone is the Southern Gas Corridor project signed in 2011, which encompasses subprojects such as the Trans-Anatolian, Trans-Adriatic, Trans-Caspian Pipeline and failed Nabucco/Nabucco West (Trans Adriatic Pipeline, 2016).

Noteworthy here is that the relations with the EU were evolving in parallel to the consolidation of power by the newly assigned Azerbaijani president – Ilham



Aliyev. Given the domestic developments in Azerbaijan, right after the launch of the ENP, Azerbaijan emerged as highly reluctant to follow the EU's transformative agenda. In fact, its domestic situation was gradually exacerbating. Every election took place according to the same pattern: no opposition, massive imprisonments of journalists and activists, scare presence of the international observers. The 2005 elections were accompanied by the massive demonstrations and again "failed to meet international standards" (Crisis Group, 2005). This time the EU issued a more critical statement where it shared its concern about the events and also urged Azerbaijani authorities to ensure respect for human rights and free media (European Parliament, 2005). Surprisingly, no restrictive measures were put in place. The same situation occurred during the next presidential elections in 2008 when Aliyev won unchallenged and Baku was again engulfed with boycotts. This more passive attitude stemmed from a significant fatigue of the opposition and lack of tangible change in the government's conduct. Similarly, the EU was divided in this regard; the parliamentary report assessed the elections as a positive development, however one with some room for improvement. The following resolutions in 2011 and 2012 again addressed the electoral irregularities by stating insufficient progress in the conduct of the elections, and calling on authorities to put electoral legislation as well as political freedoms in place (European Parliament, 2011; 2012). Despite several attempts by the EU to seek areas where Azerbaijan would like to adopt the EU's norms, it remained the most reluctant country from the South Caucasus (Hale, 2012, p. 2). In the meantime, Azerbaijan was also invited to join the Eastern Partnership and the Black Sea Synergy.

Despite warnings from international organizations on the alarming human rights situation, the EU was always careful about its statements towards the Azerbaijani regime. The very first awakening of the EU as a human rights defender in Azerbaijan took place in 2014 with the EP resolution in which it condemned the crackdown on civil society and called for the release of human rights defenders and respect for democratic principles (Eastern Partnership Civil Society Forum, 2014). The resolution in 2015 issued in the aftermath of the imprisonment of an investigative journalist Khadija Ismayilova brought a different tone. It employed a very determined narrative in which it not only urged the European institutions to investigate the allegations revealed by the journalist and immediately stop the negotiations on the Strategic Partnership Agreement with Azerbaijan. The EP strongly called upon avoiding double standards and taking high-impact measures. Additionally, it emphasized major breaches with regards to the electoral process during every election since 2003 (European Parliament, 2015). The interesting part of the resolution reveals a controversial move of the EP which left space for economic cooperation, since it states that "sectorial cooperation is mutually beneficial, especially in the energy sector; whereas Azerbaijan has the potential to become one of the EU's major commercial partners" (Muradova, 2015).

Azerbaijan, in return, reacted promptly and very negatively. It left the EURONEST and postponed an official EEAS visit to Baku. The March 2016 visit





by the High Representative was supposed to pacify the situation and restart the relations, manoeuvre which was visible with the cautious discourse of Federica Mogherini. Despite of the open letter from the Human Rights Watch which called for concrete steps against Azerbaijan given its worsening human rights track, she put emphasis on the energy and sectorial cooperation and called Azerbaijan “a strategic partner with regard to European energy security” (EEAS, 2016).

The EU-Azerbaijan relations depict a real story of missed aspirations and ambitions. For the past two decades, Azerbaijan has seemed to follow its own way and secure its domestic situation from external interference. It showed certain inclination in reforming its energy sector, however it strongly opposed any normative convergence in the human rights dimension. A number of recurring acts of violations of human rights have been left with insufficient response from the European side. This clearly shows Azerbaijani’s leverage and EU’s energy security concerns which prevail over the normative principles.

### **3. European Neighbourhood Policy – the twilight of democracy promotion**

Having a brief look at the EU’s involvement in the respective countries, it is worth taking a broader perspective and looking at how, on the level of policy, the EU positioned itself vis-à-vis its neighbours and what role it committed itself to play. The Wider Europe Initiative launched in 2003 was a real “stepping stone towards conceptualizing the EU as a real global player” (Korosteleva, 2012, p. 1). It was also the primary document with which the EU addressed the Eastern neighbours and Belarus explicitly. In the Wider Europe Initiative, the EU referred to it as a country which is destined to have enhanced relations with the EU however the EU’s strategy towards the regime was not yet set. The document states ambiguously that the “EU faces a choice in Belarus: either to leave things to drift – a policy for which the people of Belarus may pay dear and one which prevents the EU from pursuing increased cooperation on issues of mutual interest - or to engage, and risk sending a signal of support for policies which do not conform to EU values” (European Commission, 2003). Azerbaijan appears for the first time in the documents in the developed ENP. Despite the fact that Azerbaijan’s dedication to democratic principles might be questioned especially in the light of the turmoil during the 2003 elections, the EU when addressing Azerbaijan stated vaguely that the relations are based on the normative principles. In 2004, Belarus is excluded from benefiting from the full offer of the ENP (European Commission, 2004).

Given the Belarusian denials of the human rights and democratic principles the EU decided to apply conditionality against the regime. As stated in the document, more active engagement might happen only under when a certain democratisation process is started. The European Commission in turn decided to issue the already mentioned non-paper which included a number of democratization conditions. The issuance of a separate document addressed to a





single country significantly elevates the gravity of the issue and serves as the proof of hard conditionality imposed on Belarus and cements the normative grounds of the EU.

Concurrently, the 2004 ENP contains a significant discrepancy in the way it addresses the two regimes. As it was outlined in the previous subsection, democratic standards were not met in both countries during the elections, however the EU applied non-congruent approaches towards Belarus and Azerbaijan. The launch of the EaP broke to a certain extent with the double standards as this initiative was also dedicated to Belarus.

Yet, the reviewed ENP in 2011 marked the next swing of the European pendulum in the development of the EU as a democracy promoter. It put a stronger emphasis on democracy promotion by commanding “deep democracy” and it therefore marked a certain change with the initial ENP where the stability was the prevailing goal. Belarus is again pointed as the country struggling with the continued repression (European Commission *et al.*, 2011). Concurrently, Azerbaijan remains unmentioned.

Last on the list of the recent developments on the rise of the EU as a democracy promoter is the review of the ENP published in 2015. While there is a general consensus that the EU is a global player, this review constitutes a testimony that it has lost its credentials as a democracy promoter. It broke with the democratisation goal, abandoned conditionality and put all the stress on stability in the name of the back to the basics principle (European Commission *et al.*, 2015).

The ENP was launched as a mean to ensure stability by promoting a value-based agenda. Democracy promotion was omnipresent in the documents with different intensity. It appeared, however, both in the discourse and action. Hence, it appears that with the last revision, democracy promotion lost its prominence and left room for the goal of stability.

#### **4. Democracy promotion and double standards?**

When trying to answer the question of how the EU is involved in the neighbourhood we might follow the ways outlined by Ian Manners and his aforementioned Normative Power Europe concept. In his prominent work, he detects persuasion, argumentation and the conferral of prestige and shame (Manners, 2009, p. 12). With respect to the conferral of shame, a discrepancy in the way the EU uses sanctions against Belarus and Azerbaijan can be observed. Noteworthy is that the EU not only applies the double standards in its discourse, but also in its action.

First, the EU differentiates the two regimes in its documents. Belarus is either explicitly mentioned as the country violating human rights or is simply excluded from the initiatives as it was in the case with the initial ENP. This is also translated into action, as the EU for the past two decades has applied hard conditionality on Belarus. Interestingly, Azerbaijan has never been explicitly



criticized in the EU's documents for its conduct – nor were sanctions ever imposed on the country. We might argue that the 2015 EP's recent resolutions might change this picture, however when comparing the discourse used towards Belarus and Azerbaijan, the author dares to state that the interaction with Azerbaijan far from qualifies as a form of public punishment. The EU depends on the country as a cooperation partner within the energy sector and is either deeply concerned with the domestic developments or strongly condemns the particular events.

Further intensifying the analysis of how the EU is involved in democracy promotion in Belarus and Azerbaijan, one might look at the different features of their dialogue. This area of analysis again brings into light the double standards previously mentioned. For years, the EU has maintained its cooperation with Belarus which was based on European values. Principles of democracy or respect for human rights appeared as a leitmotif in the EU's documents addressed to Belarus. When investigating the dialogue with Azerbaijan, the stress on economic cooperation and a certain negligence of the human rights question is striking. The iteration of democratic principles does occur, however, sporadically. Given the strong signals coming from Azerbaijan about the lack of agreement with the EU's interference in its domestic affairs, the cooperation remains only on a selected number of areas.

Another point which sheds light on the EU's antagonist discourse is the general attitude and strategy the EU pursues when establishing a dialogue with the regimes, either in the form of isolation or critical engagement. Once the EU maps areas which are not compatible with European standards, it moves to either halt any interaction with the country or on the opposite tries to find grounds where these contacts might be maintained. The case of Belarus, especially in the early 2000s, represents clearly the first one of the two approaches. Interestingly, the EU swiftly learnt its lesson and switched towards critical engagement with Belarus, reflected in the publication of the prominent 2006 non-paper. The EU's attitude towards Azerbaijan was always very cautious, as the EU never froze any initiatives addressed at the regime. On the contrary, it has always tried to include Azerbaijan in its projects.

Belarus and Azerbaijan differ when it comes to their domestic situation and one cannot treat them as similar cases. However, what links them is the fact that they both remain authoritarian regimes with disturbing human rights records. Nevertheless, the reality shows how often double standards are being applied.

## Conclusions

The EU has grown as a democracy promoter during recent decades. Whereas this growth in involvement with countries in the neighbourhood has occurred, there are still troubling questions as to what the real motivations of these activities are or how effective they are. The aim of this paper was to map how the EU engages with two similarly consolidated countries in their authoritarianism and track why these



policies were so divergent. The paper started with a review of the Normative Power Europe which on top of explaining the rationale behind the EU's democracy promotion, provided a powerful instrument of analysis.

According to the analysis, perhaps the most challenging question is that of the coherence of the EU's policy. In this respect, the findings demonstrate that the EU applies double standards in its policy towards Belarus and Azerbaijan. What is more, this incoherence in the EU action is present on the judgmental, action and also on the country strategy level.

Taking under scrutiny the first one, the discourse towards Belarus differs drastically from the one applied towards Azerbaijan. Belarus, both in the EU's documents such as the ENP and its respective revisions or the Council's conclusions, faces staunch condemnation which often elevates to a real ostracism. In the 2004 ENP document the EU clearly and unequivocally criticized Lukashenko's way of governing and blocked Belarus from benefitting from the policy. In addition, every major violation has sparked EU's officials' protests, while in the case of Azerbaijan the EU often turned a blind eye to the government's poor democratic records. Resolutions adapted on Azerbaijan, acted as boilerplate and away from public opprobrium. On top of that, Azerbaijan is often portrayed as the EU's strategic partner and its role in bringing the energy resources to Europe is assessed as pivotal.

As far as the action level is concerned, the disparity is eye-catching. The EU for years pursued a hard conditionality approach which spanned from suspending agreements, through freezing aid up to the strict sanctions towards Belarus. The spiral of measures applied by the EU was fuelling up in parallel to the backsliding towards authoritarianism. Despite having a very similar track record regarding violations of democratic standards and human rights, Azerbaijan was never confronted with high-impact measures. In fact, sanctions emerged in the EP narrative as late as in its 2012 resolution and were never translated into actions.

Interestingly, the policies towards Belarus and Azerbaijan, when analysed separately, are also marked by incoherence. Although the EU has disapproved Belarussian actions, its policy experienced some changes which collided with its initial way of argumentation. Such was the case in 2009, when despite little evidence that the Belarussian government eased its repressive policies, the EU after revising its policy, announced a shift towards critical engagement. Similarly, the recent lifting of the sanctions explained by the promising role of Belarus in the Ukrainian-Russian conflict and growing involvement in the EaP occurs as a very prompted and premature switch, abandoning the long-exercised EU tactic.

Similarly, the approach towards Azerbaijan, although it is characterised by long continuity, noted first omens of change in 2012 along with the first mention of sanctions to be considered which culminated in the 2015 EP resolution where the double standard card was used against the Council. From a steady policy of predictable resolutions and statements it slowly evolved into a kind of hardball policy, as sanctions came to stage. The 2015 resolution itself is very particular and



to a certain extent contradictory given that it both ostracized Azerbaijan and voiced the urgency to consider restrictive measures and on the other hand emphasized the strategic character of the partnership with Azerbaijan.

The EU's policy towards Belarus and Azerbaijan is best characterised as incoherent. As much as this paper sought to assess how the EU is involved with the two countries, its aim was to concomitantly try to map the groundings of such divergent approaches. To this end, Normative Power Europe served as a conceptual framework. As far as Belarus is concerned, from the very outset of the relations with the country in the 1990s, the idealist view has prevailed. The EU immediately embarked on a weighty negative conditionality path with the aim of regaining the vestige of democratic principles in Belarus. In fact, the approach continued and the goal of promoting democracy and human rights stood out from the EU documents. Interestingly, the EU's motives started slowly to be backed up by other concerns. The unstable Russian energy supplies coupled with the Ukrainian crisis and the conviction that Belarus plays a role as gatekeeper for illegal migration made the EU favour more its security goals more.

As far as the case of Azerbaijan is concerned, it is not surprising that Normative Power Europe is completely overshadowed. The primary interest the EU has in Azerbaijan is simply to secure an alternative energy supply. And on a number of occasions, democratic principles were traded for safeguarding a stable supply of energy resources. Such was the case with the exemplary 2015 resolution which unequivocally called for breaking with double standards. In reality, however, the EU's actions towards Azerbaijan never moved from a declaratory level.

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# DE FACTO STATES IN THE EUROPEAN NEIGHBOURHOOD: BETWEEN RUSSIAN DOMINATION AND EUROPEAN (DIS)ENGAGEMENT. THE CASE OF ABKHAZIA

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**Abstract:** *With the ratification of the Association Agreements with Georgia and Moldova in 2014, the European Union (EU) has been confronted in its integration policies with several post-Soviet de facto states (Abkhazia, South Ossetia and Transnistria). The paper clarifies the concept of the de facto state and discusses how non-recognition affects the sustainability and international position of these entities. It will be argued, that de facto states can be considered as a permanent part of the international system rather than just temporal anomalies and that they confront the EU with a serious action dilemma. Based on the Abkhazian case study, I will analyse the strategies and instruments the EU is implementing to achieve its policy objectives, identify key obstacles such as the growing Russian presence in the region and highlight the practical consequences of the action dilemma.*

**Keywords:** *de facto states; secession; conflict; Abkhazia; Georgia; Russia; European engagement*

## Introduction

The ongoing secessionist conflicts in eastern Ukraine and the recent escalation in Karabakh (2016) have drawn the attention of world politics towards the unresolved territorial conflicts in the post-Soviet space. Similar to the Western Balkans, which saw the demise of a multinational state (Yugoslavia), the conflicts from Eastern Europe are secessionist by nature. The concentration of secessionist conflicts in a confined space and the high number of state breakdowns make both of these regions unique. In the post-Soviet space, various and mostly ethnic groups were able to break away from their parent state, for example in Abkhazia (Georgia), South Ossetia (Georgia), Nagorno-Karabakh (Azerbaijan) and Transnistria (Moldova), similar to Kosovo (Serbia) and former Republika Srpska

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Krajina (Croatia) in the Balkans. The ‘People’s Republics’ of Donetsk and Lugansk in Ukraine could now also follow this path. Parallels are often drawn between the Ukrainian conflict and the other secessionist conflicts in the European neighbourhood. It was seen particularly important that the West learned from the so called ‘frozen conflicts’ when it came to dealing with Russia (Cornell, 2014; Ortung and Walker, 2015; Mallin, 2015). Thus, the term ‘frozen conflict’ has experienced a revival in political and academic debates.

‘Frozen conflicts’ are the ethno-political conflicts of the former Soviet Union territory which resulted in a secessionist region permanently separated from its internationally recognised ‘parent state’ (Nodia, 2004). These conflicts are not temporary phenomena, rather they exist for over twenty years. The conflicts in the European neighbourhood have a far-reaching impact on local, regional and international structures of security and are one of main obstacles in the development of these regions. Subsequently, they also determine the realities of the daily lives of millions of people and confront the international community with serious challenges. However, our understanding of the phenomenon is limited, which is reflected in the dominant terminology we use to discuss the issue. Contrary to its literal meaning, the ‘frozen conflicts’ are in no way static – they are dynamic. Although large-scale hostilities of the past were ‘frozen’, they can always break out again as in Georgia 2008 and Nagorno-Karabakh 2016 since mutual solutions for ending the conflicts have not been brokered yet. This is due to internal and external dynamics. Therefore, ‘frozen’ does not refer to the developments in the respective conflict zones or to conflict dynamics, but rather to the process of conflict resolution and the positions of the parties involved in the conflict. The conflict remains unresolved and is usually continued on a level of low escalation and with political means without realistic perspective for settlement. The concept of ‘frozen conflicts’ is therefore misleading and reflects a limited understanding of conflict dynamics and a narrow focus in academic analysis and political debate regarding those regions. It makes more sense to refer to general secessionist conflicts than frozen conflicts.

Secessionist conflicts, caused by the pursuit of self-determination and independence by ethnic, linguistic and religious groups, remain the primary method of attaining statehood and the dominant form of contemporary domestic violent conflicts (Holsti, 1980, pp. 48-49; Marshall, 2005). In an almost completely nationalised world, new countries can evolve mainly due to secession or state dissolution. Approximately half of the currently existing states and the majority of the fifty-one founding members of the United Nations have emerged from imperial or national fragmentation (Doyle, 2010, p. 4). Secessions and secessionist movements are a highly topical phenomenon and one of the main challenges confronting the international community. Gurr (2005, p. 27) identifies over one hundred secessionist movements, of which almost half strive for independence by violent means. Secession is a global phenomenon, which occurs in both the global North and the global South. In more than a dozen African countries, we can identify significant secession movements and likewise in over twenty European states



(Chijioke Njoku, 2010). Over ninety per cent of the states are multi-ethnic in constitution, and in approximately one third of these cases, the largest ethnic group does not constitute the majority of the population (Ker-Lindsay, 2012, p. 5).

Despite this trend, only very few secessionist movements managed to attain a degree of territorial control and political autonomy that allows them to permanently escape the legal claims of the state they are seceding from (parent state). Although these secessionist entities may have the key features and structures of statehood, they are not recognised by the vast majority of the international community as independent states. Those established secessionist entities are known as ‘*de facto* states’, a particular expression of the progressive fragmentation and destabilisation of the international system. They are valid in popular political and academic discourse as temporary anomalies of the international system and the antithesis to the stability of sovereign statehood (Kolstø, 2006, p. 735). They are often regarded as illegitimate anarchic regions, strongholds of smuggling and shadow economy, and as potential safe havens for international agents of violence (Steinsdorf, 2012, p. 201). However, both current political developments in these regions, as well as recent research, have shown that despite extensive non-recognition, ‘*de facto* states’ are not temporary anomalies, but a permanent part of the international system (Caspersen, 2012). This suggests that a multitude of established ‘*de facto* states’ (Abkhazia, Kosovo, Nagorno-Karabakh, South Ossetia, Transnistria and Northern Cyprus) can be identified in the European periphery. With the ratification of the Association Agreements with Georgia (Abkhazia and South Ossetia) and Moldova (Transnistria) in 2014, the European Union (EU) has been confronted in its policy of differentiated integration with several post-Soviet ‘*de facto* states’. In view of the current secessionist conflicts in eastern Ukraine, this issue has gained particular urgency. Despite this urgency, international community and the EU in particular struggle to find appropriate answers to the challenges posed by ‘*de facto* states’. This becomes even clearer in regard to the Russian policies towards ‘*de facto* states’ and the unresolved secessionist conflicts.

In the paper it will be argued that because of the complex relations between secession, non-recognition and international (non)engagement the international community and the European Union in particular is confronted with an action dilemma when dealing with ‘*de facto* states’. To explore that dilemma, I ask: in what way challenge ‘*de facto* states’ the international community and the European Union in particular?

To address this question, I clarify the concept of the ‘*de facto* states’ and argue that these entities can be considered as a permanent part of the international system rather than just temporal anomalies. I will discuss how non-recognition affects the sustainability and international position of ‘*de facto* states’, explain the main action dilemma and investigate the relationship between non-recognition and international isolation. Based on the Abkhazian case study, I will show the strategies and instruments the EU is implementing to achieve its policy objectives,



identify key obstacles such as the growing Russian presence in the region and highlight the practical consequences of the action dilemma.

## 1. De Facto States: More than Temporal Anomalies

'*De facto* states' are the focus of a relatively young (but growing) research field in political science. Charles King (2001) once described them as informational black holes - an assessment that even a decade later is shared by Nina Caspersen (2012, p. 23). However, studies of *de facto* states have gradually increased in recent years. The core of the literature on '*de facto* states' are the monographs from Pegg (1998), Lynch (2004), Geldenhuys (2009) and Caspersen (2012) and the edited volumes from Kingston and Spears (2004), Bahcheli, Bartmann and Srebrnik (2004) and Caspersen and Stansfield (2011).

Within '*de facto* states' literature there is a common understanding of the basic characteristics of the phenomenon. They typically have a political leadership which exercises permanent control over its claimed territory, but have been largely unsuccessful in gaining international recognition (Kolstø, 2006, pp. 725-726). A '*de facto* state' is thus characterised by a political leadership which is considered as the legitimate political power by the local population, as well as the ability to build sufficient state capacities to permanently provide fundamental government services in a defined territory and for the people living there. A '*de facto* state' is able to enter international relations and actively seek recognition, but this is denied by the majority of the international community (Pegg, 2008, p. 1).

'*De facto* states' are often equalised with the popular concepts of fragile statehood (Schneckener, 2004) and failed states (Rotberg, 2001). Although, they share certain common features and often result from similar conflicts, it is important to distinguish them from each other (Caspersen, 2012, p. 7). Fragile states, on the one hand, exhibit international recognition as sovereign states, although they exercise very limited control and authority over their territory and the population living within. Therefore, fragile states feature *de jure* sovereignty despite extensive deficits and in extreme cases (failed states) a complete lack of internal sovereignty. On the other hand, '*de facto* states' fulfil basic, and at times, advanced characteristics of statehood, but they do not or only partially achieve international recognition and *de jure* statehood (Stanislavski, 2008, pp. 367-438). Although Stanislavski's argument is somewhat schematised as '*de facto* states' can indeed have symptoms of fragile statehood, he clearly illustrates the main division between the concepts – a '*de facto* state' lacks international recognition, no matter how strong the internal sovereignty; fragile and failed states enjoy international recognition, no matter how weak their internal sovereignty. This can be exemplified by comparing Somalia and Somaliland. While Somalia as the prototype of a failed state has full legal statehood, Somaliland is not recognised by any other country, although it has a high degree of empirical statehood – especially in regional comparison. The constitutive element of a '*de facto* state' is therefore



their widespread non-recognition. They differ from regular states in principle only by the lack of international recognition or external sovereignty (Lynch, 2004, p. 16).

In summary, a ‘*de facto* state’ is an independent political entity, which does not achieve recognition of its independence from the international community. It permanently exercises effective territorial control over a well-defined territory and is capable of providing central government services and publicly legitimised rule for the population living within. Following the definition laid out here, a number of ‘*de facto* states’ can be identified for the period from 1945 onwards (Table 1). Three basic scenarios can be distinguished for their path of development. Firstly, they are reintegrated into the Metropolitan State (Scenario 1), gain international recognition (Scenario 2) or continue to exist long-term as a consolidated ‘*de facto* state’ (Scenario 3).

**Table 1. ‘*De facto* states’ since 1945**

De facto state	Parent state	Time	Scenario
Abkhazia	Georgia	Since 1993	3
Anjou	Comoros	1997-2004	1
Biafra	Nigeria	1967-1970	1
Bangladesh	Pakistan	1971-1974	2
Bougainville	Papua New Guinea	1975-1997	1
Eritrea	Ethiopia	1991-1993	2
Gagauzia	Moldova	1991-1994	1
Herceg-Bosna	Bosnia and Herzegovina	1993-1996	1
Katanga	Congo	1960-1963	1
Kosovo	Serbia	Since 1999	3
Kurdistan	Iraq	Since 1991	3
Nagorno- Karabakh	Azerbaijan	Since 1994	3
Eastern and Western Slavonia	Croatia	1995-1996	1
Palestine	Israel	1988-2012	2
Republika Srpska	Bosnia and Herzegovina	1992-1995	1
Republika Srpska Krajina	Croatia	1991-1995	1
Rhodesia	Great Britain	1965-1980	1
Somaliland	Somalia	Since 1991	3
South Ossetia	Georgia	Since 1992	3
Tamil Eelam	Sri Lanka	1986-2009	1
Taiwan	China	Since 1971	3
Transnistria	Moldova	Since 1991	3
Chechnya	Russia	1991-1994, 1996-1999	1
Northern Cyprus	Cyprus	Since 1974	3
Western Sahara	Morocco	Since 1976	3

Source: Relitz, 2016

This quick overview shows that some of the claims for general recognition, for instance, in Eritrea, Bangladesh and most recently, Palestine, have been successful. In the majority of cases, one of the two main scenarios happened. A ‘*de facto* state’, such as Tamil Eelam, Chechnya or Rhodesia is reintegrated in the Metropolitan State, mostly under the use of force. Alternatively, entities such as Abkhazia, Transnistria or Taiwan have maintained their independence for several decades despite it being heavily contested. This clearly shows that ‘*de facto* states’ are a permanent part of the international system and we cannot assume that they will disappear any time soon. Rather, it can be assumed that due to the numerous self-determination movements worldwide and the fragmentation of the international system, their number will grow. Therefore, *de facto* states are more than temporary anomalies. Despite their limited recognition, ‘*de facto* states’ are a permanent feature of the international system. Six of them are located in the close European neighbourhood, which highlights once again the great relevance of this topic for the EU.

### 1.1. ‘*De facto states*’ and Sustainability

The lack of international recognition has a range of adverse consequences. As we have seen in the historic overview, the most serious consequence of non-recognition is the increased likelihood of the ‘*de facto* state’ extinction. They lack the protection of international law from external takeovers linked to recognition. In the modern international system, sanctions against external takeovers and ‘encroachment on the territorial integrity of all recognised states are so powerful that even the weakest are guaranteed a continued life’ (Kolstø, 2006, p. 727). ‘*De facto* states’ find themselves in a position where they are legally exposed to forcible displacement from their territory and reintegration into the state recognised as the sovereign by the international community of states. In contrast, successful external takeovers and the long-term illegal extinction of recognised states have been a rarity in the modern state system (Fabry 2010, p. 7). Recognition and non-recognition matter, therefore, when it comes to the legal protection against external intervention and the likelihood of long term survival of an entity. Recognition has security implications as well, and the absence of recognition is often associated with external threat and security dilemmas for the ‘*de facto* state’. The main source of this security dilemma is the metropolitan state which is often actively combating their existence and trying to restore its territorial integrity through military means (Lynch, 2004). The most recent example of this is the distinction of Tamil Eelam in 2009. After more the twenty years of intensive fighting, the army of Sri Lanka defeated the Tamil Tigers and restored Sri Lanka's territorial integrity. This was synonymous with the end for the ‘*de facto* state’ of Tamil Eelam.

Due to the inherent security dilemma, mainstream IR tend to portray ‘*de facto* states’ as transient phenomena or anomalies which will disappear sooner or later. The brief historic overview and current political developments challenge this





assumption fundamentally. Cases such as Taiwan and Northern Cyprus have existed for more than forty years without widespread international recognition, and many of the post-Soviet '*de facto* states' have also existed for more than twenty years. This shows that they are more than temporary anomalies. Rather, they form a group of entities that are permanently part of the international system. However, their existence is not guaranteed by the norms of territorial integrity. The sustainability and survival of '*de facto* states' is primarily based on internal support and successful nation-building, as well as the weakness of the metropolitan state and external support from a strong patron (Kolstø, 2006).

### ***1.2. International Response and European Perspectives on Contemporary De Facto States***

'*De facto* states' challenge the international state system. Their mere existence introduces serious challenges and dilemmas of action for recognised states. Regionally, they are seen as security threats due to conflict between the '*de facto* state' – and in many cases its patron – and the metropolitan state. '*De facto* states' are portrayed as areas of insecurity or unlawfulness due to the perceived and often overstated limited statehood in these entities. To limit and prevent negative consequences and spill over effects, stabilisation and conflict management should be in the interest of the international community. On the other hand, '*de facto* states' are mostly considered to be illegal under international law and a violation of the metropolitan state's territorial integrity. Accordingly, the stabilisation of the status quo stands in contrast to the preservation of the territorial integrity. As a result of this dilemma, we can identify a diffuse mix of policies by the various actors of the international system. At first glance, three basic strategies for dealing with '*de facto* states' can be identified: 'Actively opposing them through the use of embargoes and sanctions; generally ignoring them; and coming to some sort of limited acceptance and acknowledgment of their presence' (Pegg, 1998, p. 4). Lynch (2004) supplements these three strategies (sanctioning, ignoring and accepting) in respect to the states affected by secession with active antagonising by military means. Non-recognition can therefore not be equated with isolation per se, but presents both international and local actors with demanding challenges, constrains their room for manoeuvre and requires specific strategies, policies and instruments for engagement.

Although '*de facto* states' lack international recognition or de jure statehood, they do not exist outside the international system and are linked in multiple ways to the international community (Frowein, 1968). Firstly, we have to understand that recognition is not a dichotomous dimension which is either present or not. International recognition can instead be described as a continuum with the extremes of full international recognition and complete repudiation. Within this continuum the position of the various '*de facto* states' varies considerably. Entities like Kurdistan, Nagorny Karabach, Somaliland and Transnistria are fully unrecognised and have no





diplomatic relations with any UN member state. On the other extreme of the recognition continuum, we can find Kosovo which is recognised by 109 UN member states, Western Sahara by forty-five and Taiwan recognised by twenty-one. Between these two extremes, we find cases which are recognised only by their keen state like Northern Cyprus and its patron state (Turkey) plus few others, such as Abkhazia and South Ossetia. Thus, the degree of international recognition and therefore the opportunity to build diplomatic relations differs considerably between the various cases. Some of them, for instance Taiwan, have found a restrictive place in the international state system even when full membership is not realistic in the near future. Others, such as Abkhazia, just manage to find a position on the edge of the international system due to the support of their patron.

The EU is challenged in a particular way by the specific forms of statehood described in this paper. Cyprus, a '*de facto* state' – the Turkish Republic of Northern Cyprus – is constituted within the EU member state Cyprus. With Moldova (Transnistria), Serbia (Kosovo), Georgia (Abkhazia and South Ossetia) and Ukraine (Donetsk and Lugansk), four countries in the EU association process have to deal with established or evolving '*de facto* states'. While the EU response was united and coherent in the cases of Abkhazia, South Ossetia, Transnistria and Northern Cyprus, where all member states choose collective non-recognition, the picture in the case of Kosovo is diverse. Although Kosovo is recognised by the majority of EU member states as an independent state, this view is not shared by Spain, Greece, Cyprus, Romania and Slovakia. Moreover, with Ukraine, Moldova, Georgia and Serbia, four countries in the EU association process do not recognise Kosovo as an independent state. The diversity in the response to unilateral secessions can partially be explained due to the extent of own domestic separatist movements and different strategic cultures in dealing with secessionist entities (Coppeters, 2010, p. 239).

## **2. Abkhazia between International Isolation, Russian Domination and European Engagement**

Through the case study of Abkhazia, I will examine which problems arise for the EU in dealing with post-Soviet '*de facto* states'. To clarify the specific context conditions, the chapter starts with a brief synopsis of the foreign relations of Abkhazia and its special relationship with Russia. Based on this we will analyse the strategies and instruments used by the EU to achieve its policy objectives in Abkhazia.

### ***2.1. International Isolation and Russia as a Patron State***

The small republic of Abkhazia (Apsny) extends from the southern foothills of the Greater Caucasus and the Eastern coast of the Black Sea in an area of 8.600 km<sup>2</sup>. It is also situated in the northwest of the internationally recognised territory of Georgia. According to the official Abkhaz census of 2011, the region inhabits



about 240 thousand people. The roots of Abkhaz-Georgian conflict and the historic narratives are highly disputed between both sides.<sup>1</sup> But by the breakup of the Soviet Union, the two conflicting nation-building projects started to radicalise and tensions arose. Following the invasion of the Georgian National Guard in August 1992, the Abkhaz-Georgian conflict escalated. Both sides engaged in full-scale civil war, fought with great intensity and brutality. During the course of the war, Georgian troops and with them the majority of the Georgian population, were forced to flee. Officially, the war ended with the ceasefire agreement in Moscow in April 1994. After smaller escalations in 2001 and 2006, the conflict escalated again in the aftermath of the Georgian offensive in South Ossetia and the subsequent Russo-Georgian war in 2008. Abkhaz forces started a military campaign into the upper Kondori Gorge, driving the last Georgian troops in Abkhazia to withdraw and two thousand Georgians living there to flee (Human Rights Watch, 2011, p. 12).

Even after more than twenty years of independence from Georgia, the ‘*de facto* state’ Abkhazia is still largely internationally isolated (Trier, Lohm, Szakonyi, 2010, p. 7). Throughout this period, however, the degree of international isolation varied considerably. After the end of war in 1994, Russia restricted freedom of movement for the Abkhaz population; all male residents between sixteen and sixty years were prevented from entering Russia, international phone connections were severed and in 1996, the sanctions on trade and financial transactions from the Commonwealth of Independent States (CIS) were initiated. During that period, the war-torn Abkhazia was highly isolated and relied nearly exclusively on informal connections with the northern Caucasus. To the same extent that Russian-Georgian relations worsened, Russia became closer to Abkhazia. Moscow gradually lifted the sanctions and strengthened its political, economic and military support for Suchum(i) and unilaterally removed the CIS sanctions in March 2008 (Kizilbuga, 2006, pp. 83-89). Following the events in August 2008, the situation of a ‘*de facto* state’ fundamentally changed. Two opposing trends can be observed in this situation: increasing Russian influence and patronage, and the reduced international presence in the region.

Although the recognition of only Russia and three other members of the international community (Nicaragua, Venezuela and Nauru) looks minor, it changed the Abkhaz situation considerably. Russian recognition demonstrated a strong commitment towards the entity of Abkhazia. Its dominant role in Abkhazia is particularly evident in the security sector. Russian recognition, along with mutual defence and cooperation agreements are the main security guarantees for the ‘*de facto* state’. According to official figures, Russia has stationed five thousand soldiers in Abkhazia, and invested around 350 million Euros between 2009 and 2012 in the construction and restoration of military infrastructure. This

<sup>1</sup> For a more detailed description of the historic roots of the conflict and the Abkhaz nation see Relitz (2015) and for the historic conflict dynamics Relitz (2011).

includes a military airfield in Gudauta and a small naval base in Ochamchira (International Crisis Group, 2013, pp. 3-4). The strong military presence – seen by Georgia as military occupation – works for Abkhazia as a guarantee of security and protection against any outside aggression.

Similarly, the Russian influence on welfare, economy and reconstruction is huge and Abkhazia is largely supported from Russia. Russia provided around six hundred million Euros between 2008 and 2013 alone. This amount is fed from three different sources: Russia pays pensions on a continuous basis for thirty-two thousand Abkhaz citizens in a total volume of 1.8 billion roubles. This corresponded to almost forty-five million Euros during the investigation period. Moreover, Russia bankrolled the Abkhazian budget with 1.9 billion roubles (forty-seven million Euros) annually. In addition, Russia invested 4.9 billion roubles (120 million Euros) between 2010 and 2012 as investments in the reconstruction of ailing Abkhaz infrastructure – a result of massive war demolition between 1992 and 1994 and decades of isolation (International Crisis Group, 2013, p. 6). For the full implementation of the association agreement between the two countries – signed at the end of 2014, after the Abkhaz rejection of the first draft – Russia will have spent another twelve billion roubles by 2017. Ultimately, Russia is also responsible for the majority of the Abkhazian foreign trade and almost all foreign direct investment. While there is a low level of trade with Turkey and Georgia, this usually does not go through official channels and is therefore difficult to quantify. Ergo, Russia remains by far the dominant economic contributor in Abkhazia and around eighty per cent of the consumed goods in Abkhazia are imported from its northern neighbour (International Crisis Group, 2010, pp. 6-7).

The huge economic dependence on Russia is especially problematic in times of crises like the current Russian recession. Furthermore, Abkhazia's economic prospects seem to worsen because of growing tensions between Russia and Turkey. Unofficial trade ties with the Abkhazian diaspora in Turkey have been one of the only possibilities for economic diversification for a long time. This will become more difficult if regional competition between Russia and Turkey grows. Moreover, increasing Russian influence is being critically received in Abkhazia (Eremenko, 2014). Tensions over the issue of property rights for foreigners – particularly Russians – and fears of an economic and cultural sell-out have arisen in recent years. However, the security provided by the Russian presence has so far prevailed over those negative aspects (Kereselidze, 2015, p. 311).

## ***2.2. The European Union struggle in Abkhazia***

The current developments in Eastern Ukraine and the war over South Ossetia in 2008 demonstrate the destabilising effects posed by secessionist conflicts in the European neighbourhood. These asymmetric conflicts are characterised by an intense history of violence and an extensive international isolation of one conflict party. Four core elements can be identified for this type of



conflict, as identified by Berovitch (2005), Zartmann (2005) and Broers (2015). Many of these conflicts take, first of all, a very long time and gain chronic, intergenerational character, developing inter alia socialisation effects and also multiple interests in a continuation of the conflict. Secondly, it alternates between phases of relative calm and long-lasting peace with outbreaks of violence of varying intensity. These conflict episodes are interconnected in many ways and trigger path dependencies. Thirdly, the emotional polarisation between the parties of the conflict is extensive, which is reflected in stereotyping, segregation and in pursuit of retaliation. Finally, in most cases, multiple external mediation efforts were made without major success. When analysing the EU policies towards Abkhazia and the Abkhaz-Georgian conflict, we have to keep these specifics in mind. As has already been shown, dealing with ‘*de facto* states’ is not only an economic and political issue, but also one of the main European security challenges (Hoch, 2011, p. 75).

The EU did not engage until 1997 in the now independent but war-torn Caucasus republic of Abkhazia. Limited EU engagement started very hesitantly with the set-up of a Rapid Response Mechanism (RRM) between Suchum(i) and Tbilisi in a region that was largely perceived to be conflictual, unimportant and peripheral. Eventually in 2004, European focus shifted towards the South Caucasus and engagement increased with the integration of Georgia, Armenia and Azerbaijan in the European Neighbourhood Policy (ENP). In the previous year, the EU installed a Special Representative for the South Caucasus (EUSR), which was a new mechanism in the region. The EUSR has a regional mandate which explicitly includes the processing of the South Caucasus secessionist conflicts. Unfortunately, the EUSR received little political attention in Tbilisi and Brussels (Kereselidze, 2015, p. 312). However, he played a crucial role in building and maintaining the relationship between the EU and Abkhazia. He is neither affiliated with the European Union delegation in Tbilisi, nor with any European embassy in Georgia and can therefore act more independently and with greater room for manoeuvre (Smolnik, 2012, p. 3). At the same time, the EU also increased its financial commitment in the conflicted region. Under the auspices of the EU Humanitarian Office (ECHO), it started to support humanitarian programs in the sector of economic rehabilitation and community development with two million Euros a year. ECHO focuses mainly on the Gal(i) region in eastern Abkhazia. This region was predominantly inhabited by ethnic Georgians who were expelled from the border region at the end of war in 1994. Consequently, the main objective is to promote the gradual return of Georgian Internally Displaced Persons (IDPs) to Gal(i) region, mostly Mingrelians, in a technical way and as apolitical as possible (Popescu, 2007, p. 13).

In 2005, the EU expanded its engagement within the framework of the Instrument for Stability and began to promote through projects outside Gal(i) and in the Abkhazian capital Sukhum(i). As stated in the Action Plan for Georgia in 2006, the European Commission demand a solution of the Abkhaz-Georgian



conflict within the internationally recognised borders of the Georgian state. Consequently, the EU made clear that any engagement and support would be completely apolitical and should focus only on projects in the field of human rights protection, humanitarian aid and trust-building (Hoch, 2011, p. 78). However, there are clear policy objectives behind those initiatives, for example, (1) reducing the financial dependence on Russia by diversifying developmental opportunities, (2) the strengthening of the EU's reputation and spreading European values and (3) promoting the development of civil society relationships between conflict parties and conflict management. Therefore, the EU invests in decentralised cooperation projects and civil society development, income generation and confidence-building (Popescu, 2007, p. 13). In this way, the EU becomes the biggest donor of the active Abkhaz civil society.

The Russian recognition in 2008 changed local realities and the framework for international cooperation in Abkhazia. With ceasefire negotiations led by the former French President Nicolas Sarkozy, the EU took the driving seat in the mediation of the Abkhaz-Georgian conflict. This was further reflected in the deployment of the European Union Monitoring Mission (EUMM). The EUMM makes an important contribution to stability in the region, especially through the Incident Prevention and Response Mechanism (IPRM) meetings. These meetings open a communication line between Abkhaz, Georgian, Russian and European security representatives. They are held regularly to build confidence between the parties, promote the exchange of information, and to establish informal relations between the EUMM and Abkhazian and Russian security actors.<sup>2</sup> Initially held in Gal(i), the IPRM had to move to Ergneti near Tskhinvali, and is now co-chaired by EUMM and OSCE. During the 35<sup>th</sup> round of the Geneva International Discussions (Geneva Talks) in March 2016, Georgian and Abkhaz participants have reached an agreement, on the resumption of IPRM meetings in Gal(i). Furthermore, as co-chair of the Geneva Talks, the EU participates in the only political format that brings Abkhazian, Georgian and Russian representatives together under UN, OSCE and EU facilitation. Even though little progress has been made towards a mutual settlement of the conflict within the Geneva framework, this ongoing communication mechanism is a value in itself.

Despite EU commitment in the region, its influence in Abkhazia is rather low. After 2008 in particular, the EU has experienced a strong decline in standing for several reasons. Firstly, the clear commitment to Georgia's territorial integrity is perceived as one-sided support for the Georgian position by the Abkhaz (Council of Europe, 2008). This is reinforced by the official political discourse in Brussels, where even highly controversial Georgian policies, such as the 'law on occupied territories', are endorsed by the highest authority. Due to these one-sided statements from headquarter-level authorities aggravating the work on the field-level, the majority of Abkhazians do not distinguish between the various EU

<sup>2</sup> Interview with Steffen Hedemann (EUMM).



institutions and levels. Each statement from Brussels is interpreted as an official position of the EU which complicates the work of the delegation in Tbilisi.<sup>3</sup> Since 2008, the EU has been increasingly seen as a supporter of Georgia and ultimately, as a partner of the other side of the conflict (Dzhopua and Agbra, 2008, Shakryl and Kerselyan 2012). Therefore, a growing majority of Abkhazians meet the EU with a combination of mistrust, misunderstanding and disappointment.<sup>4</sup> Nevertheless, the EU has been responsible for about eighty per cent of the external funding for civil society activities and is thereby the second largest foreign donor (EU AAP, 2011). In comparison to Russian assistance, the EU financial commitment, however, has declined and remained rather low.

A large portion of EU funds is allocated for projects in the context of relationship development with Georgia. Because of the conflict, this relationship is very difficult and burdensome for both Abkhazians and Georgians. For the majority of Abkhaz society, the conflict with Georgia has been solved by Russian recognition. For these citizens the primary focus should lie within domestic development and building neighbourly relations with Georgia, instead of conflict reconciliation within the borders of Georgia.<sup>5</sup> However, there is hardly any EU programme in the field of development cooperation. Thus, the EU is mainly funding projects which objectives lack public and sometimes political support in Abkhazia. As a result, engagement with civil society becomes more complicated and room for manoeuvre in the given framework is limited. For instance, most of the funds for projects in Abkhazia originate from the EU delegation in Georgia. Abkhaz NGOs applying for these funds are increasingly facing problems from within Abkhazia. Some political and social actors denounce this as a betrayal of national ideals, accusing project participants and NGOs of undermining the independence of Abkhazia, thus creating pressure<sup>6</sup>.

With regards to the EU objectives, the results of its policies in Abkhazia are sobering. The EU clearly missed the goal of diversification of development opportunities. Abkhaz economic and financial dependence on Russia has been consolidated and depended on greatly in recent years, and there are no trade and direct investments between the EU and Abkhazia. Restrictive visa regimes imposed by Georgia and the EU also limits the freedom of movement for people living in Abkhazia and therefore possibilities to physically overcome international isolation (Kereselidze, 2015, p. 314). Most of the non-Georgian population relies on Russian passports for travelling abroad and all initiatives to issue neutral travel documents have been blocked by the conflicting parties. It becomes clear at this point that the EU does not provide the Abkhazians with significant opportunities to reduce their dependence on Russia. Rather, it is losing influence due to the decline

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<sup>3</sup> Interviews with Mira Sovokar (Conciliation Ressources).

<sup>4</sup> Interview with Mira Sovokar (Conciliation Ressources).

<sup>5</sup> Interview with Oliver Wolleh (Berghof Foundation).

<sup>6</sup> Interview with Frederik Coene (EU Delegation Tbilisi).



in financial commitment and growing Russian engagement. Likewise, it has not been possible for the EU to strengthen its position as a conflict mediator. Instead, scepticism towards the EU is growing in Abkhazia. Due to its commitment to Georgia's territorial integrity and the support for the Georgian position in the conflict, the EU is increasingly seen as party to the conflict and less as an impartial mediator. Nonetheless, the support of local civil society is an achievement on the part of the EU. The level of civil society activity and democratic development in Abkhazia is noteworthy, especially in a regional perspective, and it would be difficult to envisage without European support (Hoch, 2011, pp. 78-79). In 2010, the EUSR promoted under the slogan 'engagement without recognition', an alternative policy approach towards Abkhazia to open up new paths of engagement without exceeding the red line of recognition. One goal was to reduce Abkhaz isolation and its dependence on Russia through projects in the field of political, economic, social and cultural integration, and in the development of frameworks for academic and civil society exchange and access to the European visa regime (Caspersen and Herrberg, 2010). So far, the discussion is mostly of a theoretical nature and the approach has not manifested in any differentiated policies so far. It seems as if the initiative has come to a standstill.

## Conclusions

Within this paper I have shown that the EU is confronted with several '*de facto* states' in its neighbourhood which are no temporary anomalies of the international system, but a rather permanent phenomenon. Their statehood differs in one key element from 'normal states'; the lack of international recognition. Non-recognition affects the sustainability, domestic development and international integration of '*de facto* states' on multiple levels. In most cases, the military, economic and political support from a powerful external patron is the main guarantee for their long-term survival. However, the common image of a 'puppet state' is largely overstated in most cases. Non-recognition does not necessarily lead to fragile and ineffective political systems, especially on the domestic level. It has a minor effect on the nature of political systems and is not a pre-condition for stability and democratic development, as various cases show. Nevertheless, both non-recognition and unresolved conflict with the 'parent state' have major impact on people's lives and on the international integration of '*de facto* states'. Moreover, they challenge the international system and their mere existence poses a serious action dilemma for recognised states and international organisations like the EU. The recent events in Karabakh and Eastern Ukraine highlight that the conflicts around '*de facto* states' pose significant security risks, and are therefore one of the main obstacles in the European integration process for countries like Georgia, Moldova and Ukraine. To limit and prevent negative consequences and spill over effects, stabilisation and conflict management should be in the interest of the EU. On the other hand, '*de facto* states' are mostly considered to be illegal under





international law and a violation of the metropolitan state's territorial integrity. Accordingly, the stabilisation of the status quo stands in contrast to the preservation of the territorial integrity. As a result of this dilemma, we can identify a diffuse mix of policies by the various actors of the international system. As a consequence of this dilemma, we can identify a diverse mix of policies from international actors from sanctions, to both ignorance and acknowledgement when dealing with '*de facto* states'. As there is no adequate legal and political framework to cope with unilateral secession, conflicts around '*de facto* states' are a challenge for international organizations and the EU in particular.

The case study of Abkhazia clearly shows the problems the EU is facing in dealing with the '*de facto* states' in its periphery. For over twenty years, this '*de facto* state' has existed independently from Georgia; largely isolated and under increasing Russian patronage. Russia supports Abkhazia due to its strategic interests in the South Caucasus, through military, economic and diplomatic assistance. Particularly after the Russian recognition of Abkhazia's independence in 2008, the EU is facing new realities. The EU reduced its activities in Abkhazia and changed its focus to conflict resolution. Although the EU remains the largest sponsor of the active Abkhaz civil society and new projects to promote rural development are initiated its influence and reputation is shrinking. Therefore, the EU is not able to meet its policy objectives in diversifying the Abkhaz development opportunities, strengthening the reputation of the EU and promoting conflict transformation. While the EU struggles to find an effective policy of engagement, Russia is pursuing a policy of increasing economic, financial and political integration. The EU has been strongly perceived as a one-sided supporter of Georgia since 2008 and consequently, large parts of the population perceive the EU with a mixture of mistrust, misunderstanding and disappointment, and therefore turn towards Russia as the only source of external support. Abkhazia's international isolation leads to an even greater dependence on Russia.

Yet, the development of open and democratic societies on both sides of the conflict are a pre-condition for a long-term peaceful and mutual conflict settlement. To achieve this, the EU should intensify its efforts in the region to counter the growing Russian influence and find a more balanced position in the conflict in order to regain trust in Abkhazia. The economic crisis in Russia and growing fears of 'Russification' in Abkhazia, however, do open a window of opportunity for the EU to regain influence in the region. This does not involve competition with Russia in terms of economic or even military means. Instead, the EU can offer knowledge transfer, cultural and academic exchange, and an increase of the freedom of movement for Abkhazian citizens due to more flexible and creative engagement policies. To open such new corridors for engagement and cooperation the willingness to compromise has to be strengthened on all sides of conflict.



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# NATURAL RESOURCES AS POWER INCREASNG CAPABILITIES AFFECTING THE POLARITY OF THE BLACK SEA REGIONAL SYSTEM

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**Abstract:** *Building on the neorealist assumption, the current study argues that during the analysed time frame (2006-2016), the energy related issues have contributed to a shift in the Black Sea regional structure which drastically affected the regional balance of power. The current strategic reset determined by the shift in the regional system from a “balanced multipolar” system, to an “unbalanced” one warns about the new regional context that has reached an unprecedented level of uncertainty. In order to test this assumption, the study utilizes interpretative case studies for each Black Sea riparian state focusing on analysing the trends in the energy cooperation. The results reveal that energy cooperation represents a crucial aspect for interpreting and elucidating the complexity of the Black Sea regionalisation process, for defining and characterising the space of interactions between the riparian states and for understanding the power distribution within the region.*

**Keywords:** *Energy security; Black Sea region; Regional cooperation; neorealism*

## Introduction

Talking about energy security, Winston Churchill was arguing a century ago that “safety and certainty lie in variety and variety alone” (Churchill in Muller-Kraenner, 2008, p. 9). Apparently this rather logical inference seems to have been forgotten by the EU politicians who for the last decades failed to understand that diversification of energy supplies represents the key to energy security. After the latest geopolitical events that took place within the Black Sea region, the need for uniting efforts on energy front could not be stronger. Unfortunately, it took several energy crisis and two major military aggressions provoked by Russia to unify the interests and efforts within a very heterogeneous European energy policy landscape. In the midst of this geopolitical turmoil, the Black Sea region represents a crucial area for alternative energy routs (linking the European market with

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Central Asian energy producers), a maritime land rich in fossil fuels and the focal point of power projection derived from different regional power poles.

The current study builds on a premise that perceives energy insecurity as an existential threat that increases reciprocal mistrust between the Black Sea riparian states. Moreover, it infers that while seeking to secure their energy related interests, these states are either in a position of ensuring survival (see the cases of highly energy dependent Black Sea states) or in a position of maximising their state power in order to maintain or increase their regional hegemonic statuses (see the cases of Russia and Turkey). Both assumptions point to a very individualistic behaviour that leaves little space for regional cooperation since it relays on a self-help logic. Given these statements it is only natural to choose as a theoretical framework of analysis a theory that has an individualist ontology.

Therefore, this study uses neorealism as an analytical point of departure in the attempt of explaining the underlying causes of the current poor regional cooperation system. Before stating the neorealist theoretical grounds, it is necessary to mention the fact that we do not claim it can exhaustively explain alone the Black Sea regional dynamics. On the contrary, we acknowledge that in its classical form it is a theory that focuses on system-wide dynamics rather than regional ones and tends to simplify the analysis of system's behaviour offering little attention to the implications brought by other variable, such as geopolitics, geo-strategy and institutionalization.

However, the current study will focus more on its capacity to explain the distribution of power between the Black Sea power poles, the cooperative problems between the Black Sea riparian states, their interest in relative gains in the energy sector and how all these are reflected in the institutional malfunctions. It argues that we can identify a correlation between the energy security issues experienced by the Black Sea riparian states and their level of involvement in the regional cooperation. Moreover, the main assumption of the study states that the energy related issues have contributed to a shift in the Black Sea regional structure which drastically affected the regional balance of power. The current strategic reset determined by the shift in the regional system from a "balanced multipolar" system, to an "unbalanced" one warns about the new regional context that has reached an unprecedented level of uncertainty.

In order to test this assumption, the study utilizes interpretative case studies for each Black Sea riparian state. Being a fundamental tool for qualitative research, this method relies first on official documents (Policy and strategy texts, Black Sea Synergy reports, Committee for the Black Sea Region reports, Third Energy Package, Energy Roadmap 2050) and discourse analysis (speech acts of key political actors within each state, media coverage of related events), supplemented by scientific articles, interviews with experts and policy analysis. Given the fact that the main subject of the study is one of topical interest, the timeliest and accurate information has been gathered and interpreted from press releases and press articles that covered relevant empirical data for our case studies.





## 1. An overview of the Neorealist theory and its relevance for understanding the Black Sea regional dynamics

The central principles of neorealism have been presented by Kenneth Waltz in his book *Theory of International Politics* and can be summarized as follows. First of all, the author underlines the concept of systemic structuralism stating that “a structure is defined by the arrangement of its parts” (Waltz, 1979, p. 80), adding that “a system is composed of a structure and of interacting parts” (Waltz, 1979, p. 80). While there is no need in further defining the units as they are clearly seen as states that are competing for survival, Waltz continues by identifying three features that define a political structure:

1. *The principle by which a system is ordered;*
2. *The specification of functions of differentiated units;*
3. *The distribution of capabilities across unit* (Waltz, 1979, pp. 100-101).

Regarding the first feature, Waltz differentiates between the ordering principles of the domestic system which is centralized and hierarchic and the one of the international system which is decentralized and anarchic (Waltz, 1979, p. 88). The current study argues that within the regional structure of Black Sea the ordering principle is neither anarchic, nor hierarchic. Although the overall regional structure is anarchical, there are several riparian states that are hierarchically subordinated to a central authority (see the case of Romania and Bulgaria as EU member states). Therefore, the best description of the ordering principle of the Black Sea regional structure belongs to Anlar who defines it as being a “hierarchy within anarchy” (Anlar, 2013, p. 160).

Regarding the next features, Chernoff argues that if all the units share the same functions and all the global systems have the same anarchic ordering principle, the only differentiating characteristic of the systems resides in the third feature, namely the distribution of capabilities (Chernoff, 2007, p. 51). According to Waltz, the units differentiate themselves in relation to one another on account of their score on a combination of the following items: size of population and territory, resource endowment, economic capability, military strength, political stability and competence (Waltz, 1993, p. 5). Although Waltz does not clearly indicate in his study the exact term of *energy resources* as an essential component that adds to the national power of a state, the empirical data confirms that natural resources are included in the category of capabilities representing a source of power, while their lack may be interpreted as an existential threat which affects the national interests of a state and its way of interacting with other states inside the system. For the purpose of our study, we consider that the score on the combination of the above mentioned items offers indeed the clearest picture of a state’s power but we add that if a state has near monopoly over one capability that all the other states lack, this gives it a competitive advantage easing its rapid advancement in other capabilities. That does not necessarily mean that Russia for example, who





tried to monopolies the energy sector, would not score high on all the other items, that is to say that its energy reliant economy flourished due to its favourable energy exports to the European market and increased its regional power.

Of course, it is not enough for a state to own proven reserves in order to increase its regional power. Therefore, our study will particularly examine from an instrumentalist perspective a state's ability to extract, sell and use the resources as national assets that projects its power outside its borders. At a global level we already observe that state-owned energy companies are controlling 85% of oil and 70-80% of gas reserves (Marquina, 2014). These figures prove that states effectively managed to use energy resources as elements of power maximization. According to Mearsheimer, the ultimate aim of every state is to maximize its relative power in order to obtain hegemony which is understood as the domination of a worldwide system but can be narrowly used "to describe particular regions, such as North-East Asia and the Western Hemisphere" (Mearsheimer, 1995, pp.80-86).

Although both defensive and offensive neorealist theories share the same fundamental assumption which argues that the main motivation of states is their desire to survive, for the purpose of this study we will use Mearsheimer's theory of offensive neorealism which differentiates itself from the defensive neorealist theory, not only by emphasizing the importance of a state's geographic location, but also by shifting the object of a state's motivation from security to power. Toft (2015, p. 390) summarizes the opinion of different authors on this distinction as it follows: "Defensive realism allegedly assumes that states are only interested in maximizing their security, while offensive realists hold that states are rather inclined to maximize their relative power". Thus, we observe that power represents a central concept of the offensive neorealist theory and an end in itself. In this regard, Mearsheimer claims that power is the currency of international relations (Mearsheimer 2001, p. 12). Similarly, Weber argues that the struggle for power is the main characteristic of politics (Weber, 1986, pp. 28-37).

The current study will extrapolate this offensive neorealist claim to the study of different Black Sea riparian states and will explain why all the states are power seeking units regardless of their regional status or their levels of energy dependency. Additionally, the offensive neorealist theory offers an explanation for Russia's behaviour internally and externally by motivating its willingness to fight for maintaining the current regional *status quo* even when there is no direct threat to its national security. In this respect Mearsheimer's theory represents a better explanatory model for its claims that a state like Russia, who is already perceived as a regional power, would continuously compete for more power without excluding the possibility of going to war against other nations. As argued by the author, the offensive neorealist theory has five basic assumptions, namely:

- *That the international system is anarchic while the domestic system is hierarchic;*



- *That all states possess some offensive military capability (which vary among states), and accordingly can harm each other;*
- *That states can never be certain about other states' intentions, constantly fearing a potential attack;*
- *That survival is the primary goal of states since this represent the prerequisite of pursuing other goals;*
- *That states are rational actors, admitting that sometimes they miscalculate their action because they operate with imperfect information in a very complex system* (Mearsheimer, 2013, p. 79).

In the light of all these assumptions, we can state that the great powers that got involved in the Black Sea politics represent rational states (US, Turkey, Russia) or block of states (EU) that use their influence to maximize their power gains. The third assumption justifies EU's and NATO's eastward enlargements to the same extent as it justifies Russia's struggle to prevent further integration in the Western structures and its offensive moves that had as an outcome the Georgian and Ukrainian wars. Besides justifying Russian military open aggressions in the Black Sea, these assumptions also give explanation for its instrumentalisation and polarisation of energy resources. As some authors have argued, this kind of argumentation makes the neorealist theory unable to be falsified. Taking into consideration that every action of a state "may be argued after the fact to have been believed by the leader to be in the state's interest" (Cernoff, 2007, p. 52), we might lose the ability to accurately compare and interpret states' behaviour. Waltz himself states that "beyond the survival motive, the aims of states may be endlessly varied; they may range from the ambition to conquer the world to the desire merely to be left alone (Waltz, 1986, p. 85). However, Mearsheimer does not advocate for conquest or domination, but admits that obtaining overwhelming power represents the best means to guarantee one's own survival (Mearsheimer, 2013, p. 78).

It has been observed that holding significant energy reserves in the current global context represents a mean towards achieving more military and political power. In this sense, energy reserves coupled with the political ability to utilize them, have come to be perceived as military assets on their own. Consequently, the current study argues that Russia has immensely benefited from its energy surplus status increasing its energy profits by selling its resources to states on its periphery. This in turn allowed it to massively invest in modernizing its military forces which nurtured its hegemonic tendencies. In this respect, the study draws on the claims put forward by Michael Klare who argues that currently the world has shifted to a new international energy order. If under the old order, a nation's ranking in the global hierarchy was measured by such criteria as its nuclear weapons, naval forces and the number of persons it had under arms, in the new order its ranking is determined by the abundance of its energy resources or its ability to purchase them from other surplus states (Klare, 2008, p.14).

In the present circumstances, another aim of the current study is to inquire just how much space is left for cooperation within the Black Sea region. As shown, the neorealist theory provides a useful starting point for our analysis by stating that cooperation in an “unbalanced multipolar” system is highly improbable since this type of system favours competition rather than cooperation. The decision to cooperate is thus triggered by the same desire to remain relatively competitive, to obtain stability and power with the final aim of survival. In other words, all the alliances and memberships of the Black Sea riparian states represent above all “a tool of national governments, an instrument for the pursuit of national interest by other means” (Strange, 1996, p. 14). In order to understand the dynamics of interactions between the Black Sea riparian states and the why they form alliances, it is important to analyse their energy dependency levels.

## 2. Energy capability distribution and the overall political orientations of the Black Sea riparian states

As it can be observed in Table 1, the power map of the Black Sea region shows a great asymmetry between states, both in terms of their energy capability distribution and their political orientations. We have included the “significance of the geographical location for energy projects” in the “energy related capabilities category” since this is a very important variable in the regional calculus of power for several riparian states and provides explanations for their foreign policy choices and their fluctuations in the regional cooperation decisions. Additionally, the table below suggests that the current power configuration in the region falls into the bipolar category with Russia as a representative of the Eastern Bloc against NATO and EU as representatives of the Western Bloc. After analysing the capabilities of each riparian country, we will observe that the power configuration might be a different one.

**Table 1. Energy capability distribution and the overall political orientations of the Black Sea riparian states**

Countries	Degrees of polarization		Energy related capabilities	
	Western Bloc	Eastern Bloc	Degrees of energy vulnerability	Significance of the geographical location for energy projects
Russia	Low	High	Low	High
Turkey	Moderate	Moderate	High	High
Romania	High	Low	Moderate	Moderate
Bulgaria	High	Low	High	Moderate
Ukraine	Moderate	Moderate	High	High
Georgia	High	Low	High	High

Source: Author's representation. Time-dependent and subject to change.



Firstly, there is Russia, a revisionist riparian state which poses deep security concerns to other regional and extra regional actors. Russia conducts an aggressive foreign policy which encourages regional fragmentation and appears to be driven by its will to become a hegemon. Due to its abundant energy resources, Russia had the opportunity to influence overtime the course of regional interactions and to threaten the balance of the Black Sea regional system. According to Mearsheimer, a state that desires to acquire hegemony has two strategic choices. It either directly attempts to gain power or it indirectly impedes other states from making gains. He continues by stating that the main method of gaining power is to directly abolish the rival states by going to war against it. A second option would be to threaten rival states in order to obtain assent by blackmailing them and the last option refers to the o called “bait-and-bleed or bloodletting” strategies that imply triggering and maintaining two rival states into long-drawn-out conflicts, a situation that allows the dominant state to get stronger while its rivals become weaker (Toft, 2008, pp. 147-153). If we analyse the Russian Black Sea policy over the last decade, we observe that its main actions are strikingly consistent with the power gain methods proposed by the above mentioned author.

Concerning the “bait-and-bleed” strategy, Russia benefited greatly from preserving the status quo of the Black Sea frozen conflicts even if we refer to it as an active third party in the Nagorno-Karabakh conflict (which has recently erupted after being frozen for more than two decades) where it delivered arms to both sides or as an actor who directly provoked and conserved the conflicts in Transnistria, Crimea, Abkhazia and South Ossetia by keeping a leading military presence and offering official protection to the local *de facto* authorities. Concerning the “blackmail” method, Russia used a series of threats ranging from embargos on imported products, gas cut-offs, lower gas volume deliveries, gas overpricing. As we observe, energy was Russia’s favourite blackmail weapon and the foundation of its “divide et impera” strategy. Finally, in the recent period, Russia’s aspiration for hegemony seems to have grown to a point where an actual war with the West does not appear such a surrealist scenario anymore, especially if we take into consideration the current escalating tensions over Ukraine.

The Black Sea is a key component of the Russian strategy that seeks to restore itself as a power pole not only in the region but worldwide. With the annexation of Crimea, Russia becomes the direct maritime neighbour of Romania, automatically sharing a maritime border with NATO and the EU. This offers Russia more maritime control over the Black Sea and its gas and oil reserves and brings it one step closer to achieving its hegemonic goals.

Secondly, we have Turkey, a riparian power and a geopolitical pivot which recently has become a very influential player in the EU-Russia energy relations. Its foreign policy of “strategic depth” seems to reflect a desire to secure the regional balance of power and maintain the status quo created by the Montreux Convention. Given the current geopolitical context, Turkey’s main challenges for the coming decade will be to preserve regional stability and enhance its role as an energy hub



(Anlar, 2013, p. 12). This latter statement reminds us to take into consideration the valorisation of the geographical location as a power enhancement capability in the complicated energy security game. Even if this type of capability could probably fit in the hardly quantifiable neorealist category of “competence”, we will use geopolitics in order to explain how the ability to exploit the significance of a state’s location for energy projects or NATO’s ballistic missile defense can be converted into political influence. This would be of particular relevance for analysing Turkey’s ability to make use of its geostrategic location in contrast with the Ukrainian case.

During the last decade, Turkey did not seem to challenge Russia’s Black Sea plans and overall the two countries had a good economic and political cooperation which was based also on the close ties between Vladimir Putin and Recep Tayyip Erdogan. However, in November 2015, Ankara entered into a dispute with Moscow after shooting down a Russian warplane that allegedly violated the Turkish airspace. Adding to this, the dispute between the two over Syria might deepen the dividing line and might determine Turkey to act as a counter power pole within the region. Moreover, according to Bugajski and Doran “Ankara increasingly views Russia as the regional aggressor, and this can bring Turkey closer to the United States and favour a stronger NATO presence in the region” (Bugajski and Doran, 2016, p. 6). Similarly, in the wake of the refugee crisis, several developments have been made concerning the EU-Turkey relationship. Turkey received three billion euros from the European Union for managing its internal refugee crisis and opened a new chapter in accession talks after two years of waiting. All these point out that Turkey can represent a major power pole within the region and a decisive stabilizing factor.

Thirdly, we have a category of relatively minor powers like Romania and Bulgaria which are part of the Western structures (NATO and EU) and as such they are perceived as promoters of the external power poles within the region. They do not have the ability to directly challenge the regional balance of power, but they act as strategic fronts hosting US military assets on their territories. Far from being game changers in the region, these states are merely means towards facilitating and achieving the Euro-Atlantic policy goals in the Black Sea area. Romania and Bulgaria have very different degrees of vulnerability in terms of energy dependency. Unlike Romania, Bulgaria is lacking critical energy infrastructure and natural resources of its own, a fact that at times makes its policies prone to Russian influence, Russia being its main energy import source. If Russia is being perceived as a “hegemonic guardian” who tries to encapsulate the region in its own sphere of influence, Bulgaria and Romania act as “the open gates of European and Euroatlantic integration”.

Fourthly, we have weaker states with limited capabilities like Georgia and Ukraine, which gravitate around the regional power poles in order to ensure survival. Although they are Western-oriented states, they have ambivalent foreign policies especially when the Russian dominant power threatens their territorial



integrity, establishes embargos on their export products or cuts their gas supplies (as it was the case in Ukraine). They have both been trapped in the Russian coercive diplomacy while experiencing secessionist movements and Russian military attacks. These riparian states are not content with the current *status quo* but since they have very little space of manoeuvre, they cannot challenge it. Their western orientation aims to help them to exit the Russian sphere of influence but their close vicinity to Russia increases their overall vulnerability. Despite the fact that both countries can play an important role as transit routes for energy projects, their poor economic and political environments have weakened their bargaining potential.

Finally, there are the two representatives of the so called “Western bloc” who includes NATO and EU. Both of them are recognized as global power poles and share the same formal objective in the Black Sea region, namely the wish to expand security and stability eastward. Beyond this formal objective, there is a plethora of specific interests meant to counterbalance the Russian power in the region, the most important of them being the ones in the energy sector. Their recent enlargements in the Black Sea region have been perceived by Russia as a direct threat to its regional hegemony. Out of the two power poles, EU appears to be the least attractive option for the weaker riparian states due to its numerous accession criteria and its decision to temporarily stop the enlargement process which leaves the aspirant states with no clear prospect of membership in the near future.

Additionally, EU alone cannot counterbalance the Russian regional dominance since it has no credible military capabilities. However, if we take into consideration the energy and economic dependencies between the two powers, EU’s recent sanctions imposed to Russia can be considered as “hard power” tools. Although considered by many an external regional actor, once Romania and Bulgaria became member states, the region became its Eastern border and as such its engagement in the region became more visible. As a result, EU was the first entity to design and implement a policy which directly targeted the region in 2007 and since then it unsuccessfully continued its struggle to find an appropriate policy tool to stabilize the region and promote its regional interests by involving other regional non-member states as well.

The second external power pole in the region is US who represents the first power in the world. Its main policy instrument in the region is NATO, an organization that gathers three riparian states that are used as regional power projection platforms. Given its numerous military capabilities, NATO exerts a strong influence in the region and is perceived as the only actor capable to counterbalance the Russian regional power. As opposed to EU, NATO’s selection criteria for membership correspond to its strategic interests and the accession process can be artificially accelerated if the geographic location of one state is considered to be of great strategic importance for its regional projects.

The upcoming NATO Summit in Warsaw is expected to bring significant transformations in the region. Besides strengthening deterrence measures that have





been already taken, the agenda of this summit contains discussions regarding the creation of a NATO Black Sea fleet and granting the status of NATO associate partners to Ukraine and Georgia. This recalibration of military capabilities is accompanied by a recalibration of energy capabilities. In this sense, in April 2016 the first American LNG shipment reached Europe. On a long term, the cheap prices offered by the American companies might start a price war with Gazprom which delivers more than a quarter of the total consumption in Europe. This can contribute to further deterioration of the Russian economy which was already affected by the sanctions imposed in the aftermath of Crimea annexation as well as by the significant decrease in gas and oil prices (MarEx, 2016).

Thus, for many riparian states, NATO represents the only security guarantee they have against the mounting Russian military threats. As argued by Hyde-Price, “America’s global role is therefore to act as an ‘off-shore balancer’, intervening in distant regions in order to prevent the rise of a potential hegemon, particularly if the regional great powers are unable to contain it themselves” (Hyde-Price, 2007, p. 45). This argument goes in line with Waltz’s theory which asserts that when a state attempts to acquire hegemony, the other powers in the system will build balancing coalitions in order to prevent its rising. For analysing the behaviour of states when faced with a hegemon, he coined the two well-known neorealist options of ‘balancing’ and ‘bandwagon’ (Waltz, 1979, p. 126). Furthermore, Hyde-Price considers that the great powers and smaller states have more than two options. The great powers can ‘balance’, ‘buck-pass’, ‘bandwagon’ or adopt ‘aggression’, while the smaller states have two more options, they can ‘hide’ and ‘transcend’. Another categorization differentiates between ‘clients’ and ‘allies’ and allows us to separate between the ‘candidate’ and ‘member state’ statuses (Hyde-Price, 2007, pp. 42-49).

### 3. Black Sea regional balance of power

Throughout our research it can be observed that the main options chosen by the Black Sea actors are: ‘balancing’, ‘bandwagoning’ and ‘aggression’. However, if we are to reduce the entire region to only two typologies of actors, Weaver concludes that in 2010 the Black Sea region included four “balancers” (EU, NATO, Russia and Turkey) and all the remaining “balancing” actors (Weaver, 2011, p. 9).

For the purpose of our study we argue that in 2016 the situation remains unchanged at least as long as Turkey does not show a clearer sign of “bandwagoning” towards East or West. As we can observe in Table 2, the Black Sea riparian states have been driven by the desire of obtaining relative gains and have chosen to join those structures that have the power to balance against the Russian power.





**Table 2. Black Sea riparian states' alignment to the western structures and their position in the regional balance of power in 2016**

Countries	EU		NATO		Regional balance of power
Russia	-	-	-	-	BALANCER
Turkey	Client	Balancing	Ally	Balancing	BALANCER
Romania	Ally	Bandwagoning	Ally	Bandwagoning	BALANCING
Bulgaria	Ally	Bandwagoning	Ally	Bandwagoning	BALANCING
Ukraine	Client	Balancing	Client	Bandwagoning	BALANCING

Source: Author's representation. Time-dependent and subject to change.

After analysing the regional power configuration in the Black Sea, we are confronted with several questions that need to be answered in order to have a clear picture of the regional dynamics and the regional potential for cooperation. The first important question concerns the structure of the system and particularly refers to its polarity. At the global level, Mearsheimer differentiates between four types of system structures:

- **Unipolarity** as it was the case after 1989 when the US became the only superpower in the European Security world;
- **Bipolarity** which was the situation during the Cold War prior to 1989;
- **Balanced multipolarity** which is less stable and predictable than bipolarity and occurs when no single power can make a bid for hegemony;
- **Unbalanced multipolarity** where one state has greater power than the others and can make a bid for hegemony (Weaver, 2011, p.16).

According to Makarychev the situation within the Black Sea region perfectly illustrates how all the above global concepts can be transferred to the regional level and how unprepared are all the regional actors to face this transfer (Makarychev, 2011, p. 10). If we apply these concepts at a regional scale, we observe that similarly to the global system, the Black Sea polarity has changed over time from the *unipolarism* of the imperial times, to the *bipolarism* of the West-East divide and the current *balanced multipolarity* if we are to consider Turkey, US and EU as the main 'balancers' of Russia (Weaver, 2011, pp. 7-8). Given all the current regional tension and Russia's renewed drive for regional hegemony, the study inquires whether the Black Sea region can still be considered as having a 'balanced multipolar system'.

As we have argued throughout this study, between 2006 and 2016 the region slowly drifted from a 'balanced multipolar system' to an 'unbalanced' one. The main arguments for this statement are the gradually strengthened regional position of Russia, at the detriment of all the regional cooperative efforts made so far by other regional actors. Its renewed drive for regional hegemony has drastically changed the geopolitical architecture of the region.

These historic geopolitical transformations are best illustrated by the ongoing Ukrainian crisis which reveals a much more determined Russia and a concerted effort of EU and US to counter Russian actions. Unlike the 2008 Georgian war which lasted only five days and ended with a six-point peace plan, the Ukrainian military aggression is lasting for almost two years now and the cease of fire included in the Minsk agreements has not been respected. The Russian increased self-assertiveness in the Ukrainian crisis could be observed also if we are to analyse the change in its military tactics. If the Georgian war ended with Russia recognizing Abkhazia and South Ossetia as independent states, in Ukraine's case Russia unexpectedly begun the aggression by annexing Crimea. In addition to this, Russia started to build up military capabilities in the Black Sea, hugely increased its spending on defense and elaborated a new military doctrine which treats NATO as a key external risk to its security (Reuters, 2014).

According to NATO's Supreme Allied Commander Europe General Philip Breedlove, Russia is using Crimea as a power projection platform in the region by deploying air defense systems that reach nearly half of the Black Sea and surface attack systems that reach almost all of the Black Sea area (Breedlove, 2015). From a military standpoint, the current pattern of Russian behaviour encourages more negative scenarios that include a potential war and the current situation resembles more and more Mearsheimer's definition of unbalanced multipolar systems which as he argues "feature the most dangerous distribution of power, mainly because potential hegemonies are likely to get into wars with all of the other great powers in the system" (Mearsheimer, 2001, p. 338). For a clear delineation between the two types of regional structures, refer to the Table 3 below.

**Table 3. Differences between balanced and unbalanced multipolarity**

	<b>Concern over relative gains</b>	<b>Security competition</b>	<b>Prospects for cooperation</b>	<b>The influence of norms and values over states behaviour</b>
<b>Balanced multipolarity</b>	Lower	Lower	Higher	higher
<b>Unbalanced multipolarity</b>	Higher	Higher	Lower	lower

Source: According to Adrian Hyde-Price, *European security in the twenty-first century: the challenge of multipolarity*, London: Routledge, 2007, p.43

Beside the growing military aggression, there are other important indicators of the Russian growing hegemonic tendencies. The Russian domination over the European gas market can be listed as its main power source that boosted its economy and helped the development and modernisation of the military sector.



As Luft and Korin (2009, p. 340) stated, “through history, certain commodities, and in particular energy commodities, minerals, water and food have had a strategic value beyond their market price and as such they have been repeatedly used as tools of foreign policy by exporters and have been among the prime catalyst of armed conflict”. Over the last decade we have witnessed three Russian gas interruptions (in 2006, 2009, 2014), a consistent effort to downplay every European energy diversification pipeline project, major Russian open aggressions towards two Black Sea riparian states (Georgia and Ukraine) and the creation of the Eurasian Union as an alternative integration project meant to counter Western interests in the region.

All these moves have definitely impacted the equilibrium of the region and they represent empirical data that supports our assumption, namely that the increased Russian regional influence has gradually transformed it into a regional hegemon determining in the same time a shift from a “balanced multipolar” regional system to an “unbalanced” one. This Russian hegemonic evolution is evident if we observe its capabilities and compare them with those of the other Black Sea states. Although the Black Sea region has a multipolar structure, Russia is the single regional energy hegemon which uses energy to shape up its geopolitical ambitions within the region and beyond. Given this context, we cannot talk about regional energy cooperation but rather about heavy-handed Russian political pressure to comply with its norms in its own terms.

In the present circumstances, it is important to inquire just how much space is left for cooperation within the Black Sea region. As shown, the neorealist theory provides a useful starting point for our analysis by stating that cooperation in an ‘unbalanced multipolar’ system is highly improbable since this type of system favours competition rather than cooperation. However, in their attempt to threaten the regional hegemon, weaker riparian states might choose to engage in different cooperative forms of collective balance. As Grieco argued, “relatively weaker states may choose to cooperate through an institution in order to attain ‘voice opportunities’ with regard to their stronger partners” (Grieco, 2002, p. 42). The decision to cooperate is thus triggered by the same desire to remain relatively competitive, to obtain stability and power with the final aim of survival. In other words, all the alliances and memberships of the Black Sea riparian states represent above all “a tool of national governments, an instrument for the pursuit of national interest by other means” (Strange, 1996, p. 14).

The normative and institutional order inflicted by the Western structures has created a hierarchy within the Black Sea region, but overall the structure of the region remains anarchic. Again, the neorealist theory helps us to explain why under anarchy the willingness for cooperation is inhibited and why the international institutions are unable to alleviate the constraining effect of anarchy on inter-state cooperation (Grieco, 1988, p. 485). Collard-Wexler asserts that “cooperation under anarchy is similar to a prisoner’s dilemma in which the dominant strategy will be to defect, making states worry about cheating” (Collard-Wexler, 2006, p. 400).



Similarly, Waltz argues that the main impediment for cooperation is the insecurity over the future actions and intentions of other actors involved in the cooperative agreement. He states that when states have the opportunity to cooperate for achieving mutual gain, the most insecure states will always question the division of gains being primarily concerned whether the other state will gain more and whether it will use its increased capabilities to destroy the weaker one (Waltz, 1979, p. 105). We argue that the most emblematic example for such interactions can be found in the energy sector, particularly in the case of EU-Russia energy relationship. Their competing pipeline projects have shown at a smaller scale how EU and Russia counterbalance each other cancelling any attempt of achieving relative gains and how cooperation in the energy sector is always transformed in a competition with zero-sum game.

## Conclusions

During the analysed time framework, the energy sector became so highly politicised that currently it is very difficult to differentiate between the political and economic will to cooperate. Taking a decision in the energy sector is no longer a simple economic decision. Such a decision is first and foremost a political one that can cause repercussions in different areas of national and international politics. Moreover, even if the decision refers to a bilateral agreement it does not have a unilateral character, but it also affects the decisions of other actors. In many ways, the decision making process in the energy field it is similar to military strategic planning in which tactical moves become crucial for a state's survival. In the current regional chaos, planned pipelines maps might give us hints regarding the potential configuration of national preferences and regional alliances.

In this sense, Neorealism provided a good framework for understanding the regional deadlock, considering energy a crucial capability, a source of power and threat that shapes the national interests of the Black Sea riparian states. This theoretical approach also allowed us to understand why the current zero-sum mentality will most probably prevail within the region for the years to come, unless the West finds out a solution to contain Russian aggression and attract the state into the Black Sea network of cooperation.

A comprehensive perspective upon the region cannot be achieved overlooking the new energy politics of the Black Sea region as energy represents a sector of utmost importance for all the riparian states and has critical geostrategic implications for the EU. At the moment there seems to be a common understanding that if there was something that could be used to drastically challenge the Russian energy hegemony in the Black Sea region that is the destabilization of its energy market. Thus, the realization of the European energy diversification plans seems more urgent than ever.

Nonetheless, the first signs of this strategic imperative seem to have finally appeared. Firstly, although their actions determined widespread protests, several



states including Romania, Bulgaria and Ukraine attempted to replicate the shale gas revolution. Secondly, there were also attempts to exploit the offshore hydrocarbon potential in the Black Sea and the Eastern Mediterranean. Thirdly, the Third Energy Package has challenged Gazprom's business pattern by promoting higher degrees of transparency, competitiveness and liberalisation in the energy cooperation process. Fourthly, EU has showed an increased interest in accelerating its grid interconnectivity (Pachiu and Dudău, 2014, p. 4). Fifthly, starting with 2020, the TANAP-TAP pipeline tandem which for many appeared to be a "never-ending odyssey" will complete EU's Southern Gas Corridor diversification strategy strengthening thus the European supply security (Hafner, 2015). Finally, probably the boldest EU decision in this sense is the recently launched Energy Union that has been intensely discussed for the last decade. Although it will take a great deal of effort, time and money to harmonise the national energy policies of the member states, EU should not lose the momentum created by the current low oil and gas prices and build a European integrated market. As the Black Sea region represents an area of vital interest for crucial energy infrastructure projects, the Black Sea riparian states have a very important role to play in the implementation of Energy Union's goals. Unfortunately, the track record of regional energy cooperation over the last decade was poor and there are enough evidences that confirm the continuity of this negative trend.

If we are to apply Nash's game theory to our case, we observe that a more cooperative environment focused on finding a regional solution for the energy issue would optimize the returns for all the states involved, as it will prove crucial for endorsing major trans-national gas infrastructure projects and will diminish the question of competitive advantages. Furthermore, the spill over effect of this cooperation will constitute the core of re-structuring the patterns of regional amity and enmity and of the region itself (Gkanoutas-Leventis, 2015). It is perhaps naive to think that the Energy Union would produce immediate results. For now, it represents nothing more than an initiative born out of a common desire to put an end to the current Russian political pressure, disproportionate pricing and energy cut off concerns.

In conclusion, the unbalanced multipolarity of the Black Sea regional system will persist as long as the riparian states will remain energy dependent on Russian resources and as long as the main regional power poles (Turkey, NATO and EU) will not find an appropriate formula to cooperate effectively within the region.

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# THE ATTITUDES TOWARDS EUROPEAN INTEGRATION IN EASTERN PARTNERSHIP STATES: THE SIGNIFICANCE OF ELITES' COMMITMENT FOR FURTHER ENGAGEMENT

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**Abstract:** *The paper examines how the cooperation with the EU has been influencing public sector, legal and economic reforms in EU's Eastern neighbourhood by means of engaging the local political elites. The developments in Georgia, Moldova and Ukraine, as well as the situation in Armenia, regarding the perspective for its further participation in the Eastern Partnership (EaP), are reviewed. In order to determine under which conditions the EU can have more influence over the political elites, the paper examines how the degree of commitment to the European norms and, consequently, the pace of reforms, depend on internal political situation and foreign policy priorities, on historical and cultural legacies, or the level of dependence on Russia.*

**Keywords:** *Eastern Partnership; Eastern Neighbourhood Policy; integration theories; normative power*

## Introduction

The debates about EU impact on domestic political changes in non-EU member states follow two main theoretical approaches. The instrumentalist approach implies that domestic political elites would tend to maximise their benefits from EU-driven internal changes (Börzel *et al.*, 2003, 2012; Schimmelfennig *et al.*, 2005; Vachudova, 2005). Concurrently, internal institutional decision-making templates constitute another important factor determining the elites' strategic behaviour. In turn, the constructivist approach focuses on sociological factors influencing the level of flexibility of the elites as they move towards transformation according to EU's norms and practices (Delanty *et al.*, 2005; Vachudova, 2005).

An important variable determining the degree of commitment to the European norms is formed by historical and cultural legacies from the previous regimes. In the case of the EaP states, this factor provides a significant explanation

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for preference or indifference concerning the European norms, which may be at odds with the Soviet/Russian legacy: “if path-dependency prevails and national strategies are built on persisting Soviet-era mentalities, a strong external leverage may be necessary to create the momentum for change. Thus, the EU’s external influence might face considerable resistance when there is path-dependency” (Franke *et al.*, 2010, p. 155). Accordingly, Soviet legacy of an incumbent regime may increase adaptation costs related to EU demands, resulting in resistance to EU norms and appropriate reforms. On the other hand, political leaders and other actors identifying themselves as “belonging to Europe” because of historical and cultural legacy may have the EU as a “reference point” for national level political activity.

There is also an assumption that liberal governments devoted to democratic decision-making principles are more committed to implementation of EU level policies:

The costs of adaptation to EU demands for domestic change are lower for incumbent governments of democratic states with market economies than for authoritarian regimes, which have a firm grip on economy and society as a result of which compliance with EU requirements threatens their hold on power. [...] Thus, we expect that the more authoritarian a regime is, the less likely the EU is to influence domestic institutional change. This scope condition applies particularly to EU demands for domestic reforms with regard to human rights, the rule of law, democracy, or market economy (Börzel *et al.*, 2012, p. 12).

A group of experts from the EaP states, directly involved in monitoring of public policies and reform performance, notes:

The instruments of cooperation and integration the EU offers are technical in nature and cannot compete with stronger geopolitical factors. The EaP also lacks policy tools that can be deployed when domestic power considerations and vested interests prevail to work against European integration. The case of Ukraine under Yanukovych and Armenia’s U-turn are the two most obvious examples (Lovitt, 2015, p. 8).

Besides, they also underscore the importance of the rule of law and political pluralism:

In all six [EaP participant] countries, the veto-players are stronger and are to be found among the political elites. The reform-minded actors are mostly in civil society and small and medium-sized businesses,



although Moldova, Georgia and now Ukraine have seen some of these players join the government in senior roles after elections have brought about a change of government.

The veto-players enjoy the broadest space for manoeuvre in situations when the rule of law is weak or absent, and when pluralism and political competition are suppressed (Lovitt, 2015, p. 9).

The majority of theoretical work on EU impact on domestic political changes in non-member states is based on an analysis of transition processes in Central and Eastern Europe, especially on post-communist states that since 2004 joined the EU. That allows doing a number of comparisons and may provide a basis for “transition know-how”. That perhaps also explains the particular mutual interest between the Visegrad Four and the Baltic States on the one side, and EaP states, on the other side.

Considering the EU leverage on domestic political change, and taking into account the transition experience of Central and Eastern European states, Vachudova (2005, pp. 257-258) suggested that getting closer to the EU makes convergence between aspirant states more likely, and three mechanisms encourage it – conditionality, credible commitment and influence on domestic groups. However, before convergence occurs, the habit to elect illiberal, rent-seeking rulers has to be broken.

Most of the literature on Europeanisation lacks a theoretical approach towards non-EU member states examining both the character and the degree of EU involvement in domestic transformations vis-à-vis internal factors explaining readiness to accept EU requirements or resistance to them. A large part of literature on non-EU members focuses on direct EU influence. The indirect EU influence on domestic transformations, such as the change of internal opportunity structure and shaping of domestic actors’ preferences, remain largely unexplored. As noted by scholars working particularly towards filling that research gap,

we encounter the limitations of the existing approaches to Europeanisation beyond enlargement, which focus heavily on EU-level factors. As a result, the literature on non-accession Europeanisation has reduced the role of domestic factors to mere intervening variables, which tend to be very broad (e.g. (non) democratic regimes and dependency). This is because scholars have primarily (even though not exclusively) focused on the conditions under which the EU successfully exports its regulatory and institutional templates, leaving aside the conditions under which third countries decide to adopt them (Delcour *et al.*, 2015, p. 492).

Georgia, Moldova and Ukraine have been in the focus of more studies, with a substantial work done. In Armenia’s case, paradoxically, most of the research in



that direction has been done in the three, after relinquishing the association agreement with the EU, subsequently followed by the decision to join the EEU.

Timuş (2009, pp. 172-173), whose work focuses on Georgia, Moldova and Ukraine, noted that the presence of both instrumentalist and constructivist logic may be observed in the empirical analysis of EU influence on Eastern neighbours. Timuş notes that from a constructivist point of view, the EU is most successful in supporting liberal democratic forces, which can use the rhetorical promises of European officials in order to obtain internal political legitimacy and international credibility. She also notes that research confirms the instrumentalist approach regarding the weakness of EU bargaining power in promoting domestic political changes outside its borders, as the lack of strong incentives, primarily membership perspective, as well as the vaguely defined EU requirements in general, represent the major variables that determine the nature (direct versus indirect) and the extent of EU involvement. At the same time, the absence of EU membership perspective does not imply the failure of EU leverage on the non-members: the EU still can influence domestic political transformations by providing intermediary rewards, such as visa facilitation, preferential trade agreements, etc. Indeed, visa facilitation and, at a later stage, liberalisation has been one of the attractive rewards for the EaP states.<sup>1</sup>

However, Scrinic notes that EaP states' national elites often take the European norms formally and imitate reforms, and, at the same time, share tendencies to autocracy and to bringing oligarchs to governance, so that may eventually lead to criminal control of their countries. Scrinic considers the European institutions partially responsible because, due to the geopolitical stakes, the pseudo-European elites are forgiven in exchange for displaying a pro-European attitude. In Scrinic's view, this situation corrupts the image of the EU and of its normative values (Scrinic, 2014, p. 228).

## 1. Georgia: political context

In Georgia's case, the argument about the veto players being stronger than reformists could be questioned as there has been general consensus on the need for European and Euro-Atlantic integration, as both the ruling Georgian Dream coalition and the strong opposition represented by the United National Movement (UNM) share that commitment. Moreover, as relations between them have been quite tense, it would be a little (if any) exaggeration to say that the Resolution on Basic Directions of Georgia's Foreign Policy adopted in March 2013 by a unanimous vote was the only issue on which the Georgian Dream and the UNM agreed unequivocally. That resolution said, in particular:

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<sup>1</sup> Visa-free travel to the Schengen zone states for citizens of Moldova has been possible since April 2014. Lifting the visa requirement for citizens of Georgia and Ukraine is awaiting approval by the EU Council and the European Parliament.

Integration into the European and Euro-Atlantic structures represents the main priority of the country's foreign policy course. ... Georgian authorities will provide implementation of all those conditions, which will allow Georgia to successfully complete negotiations with the European Union on Association Agreement; Deep and Comprehensive Free Trade Agreement and Visa Liberalisation Agreement; ... Georgia should not either have diplomatic relations or be in a military, political, customs alliance with a state, which recognizes independence of Abkhazia and South Ossetia/former autonomous district of South Ossetia or has Georgia's territories occupied (Civil Georgia, 2013).

The authors of the European Integration Index perhaps suggested strengthening of veto players because of the dismissal of the Defence Minister, Irakli Alasania, in November 2014, when he accused prosecutors of using investigations into the defence ministry to disrupt Georgia's plans for NATO integration. Consequently, Alasania's Free Democrats Party – liberal and pro-Western – left the Georgian Dream coalition that consisted of “members whose ideologies range from pro-Western liberalism to outright nationalism” (Kobzova, 2013, p. 2). It could be suggested that the main issue cementing the coalition together from the beginning had been the desire to bring down Mikheil Saakashvili's administration. However, the coalition has remained committed to the European integration, even though some members have been expressing certain scepticism about it and have suggested seeking an improvement of relations with Russia instead.

Although no change in Georgia's strategic direction has happened ostensibly, the UNM vocally accuses the government of moving towards a pro-Russian position. The relations between the Georgian Dream and the UNM have been tense all the time since the elections won by the former in October 2012. Already in November 2012, near 30 former officials – UNM appointees, including the former interior and defence ministers and the army chief of staff, were arrested on charges of abuse of power. In May 2013, the former prime minister, UNM secretary general Vano Merabishvili was also arrested, and is now serving a prison term. His imprisonment caused some concerns about the possibility of selective justice. During a visit to Georgia, High Representative of the Union for Foreign Affairs and Security Policy Catherine Ashton stated: “There should be no selective justice; no retribution against political rivals. Investigations into past wrongdoings must be, and must be seen to be, impartial, transparent and in compliance with due process” (European Commission, 2012).

While the European Integration Index considered “striking a balance between prosecutions of abuse of power and “selective justice” among the top challenges for Georgia (Lovitt, 2015, p. 38), as well as mentioned the delay of civil service reform as a particular issue of concern (Lovitt, 2015, p. 40), it also



acknowledged serious improvements in the area of free and fair elections, as well as in public accountability, independence of the judiciary, and in human rights and media freedom.

Despite some remaining concerns, Georgia has been the leader among EaP countries as it managed to have judicial self-governing bodies and to implement the most rules and procedures aimed at creating an independent judiciary already by 2011 (Solonenko, 2012, p. 53). In general, Georgia has been the best performer among EaP countries regarding approximation, i.e. legislation, practices and institutions in the EaP countries converging towards EU standards and in line with EU requirements (Lovitt, 2015, p. 40). Particularly, in 2014 the parliament adopted a Law on the Elimination of All Forms of Discrimination despite criticism by the Patriarchy of Georgia – an influential veto player.<sup>2</sup> As far as the political, economic and social ties between EaP countries and the EU are concerned, Georgia has been the best performer among the EaP countries, having the least number of mutual trade barriers with the EU already before concluding the negotiations on the Deep and Comprehensive Free Trade Agreement (Solonenko, 2012, p. 29).

Some of the recent assessments also show considerable progress. Georgia has improved its score in the Freedom of the Press (Freedom House, 2016a) and Nations in Transit (Freedom House, 2016b) rankings, being the leader in the post-Soviet area; got a higher ranking in the World Press Freedom Index (Reporters without Borders, 2016) than some EU members and candidate countries; stayed above several EU members and candidates in the Corruption Perceptions Index (Transparency International, 2015); got a higher ranking in the Index of Economic Freedom (Heritage Foundation, 2016) than most of EU members; and so forth.

In conclusion, it is worth mentioning that Georgia has some unique experience in the post-Soviet area – the peaceful and secure transfer of power from the government to the opposition after the 2012 elections. As noted before, that, together with the clear ambition for European and Euro-Atlantic integration, provides a solid platform for the further development of electoral democracy (Grigoryan, 2014a, p. 68). A recent poll also reaffirms the strong popular support for European and Euro-Atlantic integration: NATO support is at 68 percent and EU support – at 77 percent (National Democratic Institute, 2016). The coming parliamentary elections in October 2016 may be expected to become another important turning point, highly important for the continuing systematic advancement of democratic reforms.

## 2. Moldova: political context

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<sup>2</sup> The particular significance of the anti-discrimination law is due to the misinterpretation of its meaning by the opponents of European integration. A similar pattern may be observed in the other EaP states as well: gender equality and non-discrimination of the sexual minorities are used by hostile propaganda as “proofs” of the West’s immorality imposed on partner states with an intention to destroy the traditional moral, culture, way of life, etc.

For years, Moldova was considered reform leader among the EaP countries. Several editions of the European Integration Index for Eastern Partnership Countries, and also other assessments, such as the Freedom in the World reports by the Freedom House and the Bertelsmann Transformation Index also used to give Moldova the highest score in the region. Moldova's performance was evaluated as the best especially as democratisation indicators were considered, with significant progress in the areas of civil liberties, human rights and electoral reform (Solonenko, 2012, p. 6). Later on, Moldova continued to have the highest level of democratic control over security and law enforcement institutions among the EaP countries, but it was also noted that there were difficulties in advancing the practice of democratic control (Lovitt, 2015, p. 38). The need to reform the Prosecutor's office was mentioned among the main challenges (Lovitt, 2015, p. 32). The reforms in general were slowed down by a lack of reform of law enforcement agencies, as it often happens in the post-communist countries (Litra, 2013a).

The slowing down of some essential reforms could perhaps be explained by the weakness of pro-EU government coalitions and the number of veto players. However, the history of coalition arrangements as such, with tense relations between coalition partners, also held back the reform progress. It has been noted that "Moldova's elite has consistently lacked the will to reform a political system that primarily serves its own interests, yet the EU has turned a blind eye to the abuses of successive governments for years" (Kostanyan, 2016, p. 1) and "cosmetic reforms have been carried out to create the illusion that the country is making progress, primarily to secure aid from donors" (Kostanyan, 2016, p. 2).

All coalitions formed in Moldova since 2009 have had a narrow majority; in some periods, minority governments were formed. The parliament elected in April 2009, with the Party of Communists of the Republic of Moldova (PCRM) having 60 of 101 seats, failed to elect a president twice and was dissolved (the Constitution requires a qualified majority of 61 votes to elect a president). After the early elections in July 2009, the first Alliance for European Integration (AIE) was formed by four parties having 53 of 101 seats. Again, it was not possible to elect a president and the parliament was dissolved in September 2010. After the early elections in November 2010, three members of the previous AIE – the Liberal Democratic Party of Moldova (PLDM), the Democratic Party of Moldova (PDM) and the Liberal Party (PL) formed a coalition with 59 seats, and it took three attempts to elect Nicolae Timofti for president in March 2012; Timofti's election eventually became possible as three MPs defected from the PCRM.

However, the AIE experienced internal problems that eventually led to its dissolution in February 2013, following a crisis resulted from mutual mistrust and conflicting interests among the coalition members. Then Prime Minister Vlad Filat (PLDM) had been claiming since 2011 that the Prosecutor's office and other institutions controlled by the PDM were making politicised decisions in corruption cases. In turn, Filat's opponents (and coalition partners at the same time) accused him of corruption. In February 2013, Filat again publicly accused the parliament's





first speaker Vlad Plahotniuc (PDM representative) of corruption and other crimes, and announced about termination of the coalition agreement. Filat also appealed to coalition members to reorganise the alliance without Plahotniuc's participation. Two days later, the National Anti-Corruption Centre (controlled by the PDM) searched the government offices, including the office of the prime minister. In response, the PLDM made an opportunistic alliance with the PCRM, voting for termination of the post of first deputy speaker in order to remove Plahotniuc from his position. Three weeks later, already the PDM joined with the PCRM in order to pass a no-confidence vote on Filat's cabinet. Afterwards, PDM leader, parliament speaker Marian Lupu proposed former coalition partners to begin talks on a new coalition agreement.

Ultimately, the PLDM and the PDM, whose dispute had resulted in dismissal of the cabinet, agreed to form a new coalition, introducing some additional conditions. The two parties promptly amended several laws; particularly, keeping in mind the coming elections in 2014, they moved from a proportional to a mixed representation system, as well as prohibited using old Soviet passports for personal identification at the polls. It was noted that a mixed representation system would favour the PDM due to its large financial resources, while the prohibition to use Soviet passports as voter IDs would mainly affect the Communists' supporters (Litra, 2013b).

However, on 22 April, a day before the planned voting on a new coalition government, the Constitutional Court ruled that Filat could not be appointed as prime minister as he had been the subject of a no-confidence vote due to corruption accusations. The Court's ruling induced the PLDM to get into another temporary alliance with the Communists and to dismiss speaker Marian Lupu. Then, on 3 May the laws were amended again, allowing using Soviet passports as voter IDs, while the law establishing the mixed voting system was revoked and, in addition, the electoral threshold for political parties and blocs was raised: these measures were supposed to be aimed against the PDM (Calus, 2013). The PLDM and the PCRM also voted to dismiss the Prosecutor General, who had just been appointed on 18 April, as well as introduced the possibility to dismiss judges from the Constitutional Court and gave additional powers to the interim government of acting Prime Minister Iurie Leancă.

The laws adopted by the PLDM and the PCRM caused strict international reaction. Catherine Ashton and EU Commissioner Štefan Füle issued a statement saying in particular: "important laws, touching upon fundamental issues for the functioning of Moldova's democracy, have been adopted with extreme haste, and without proper consultation with Moldovan society, or appropriate regard to European standards on constitutional reform, in particular those of the Venice Commission of the Council of Europe" (European Commission, 2013). Representatives of other international organisations also criticised the laws adopted on 3 May. However, President Nicolae Timofti signed the laws (except the amendments to the Law on the Constitutional Court) despite the advices not to do so.



Commissioner Füle also warned that Chisinau had “days not weeks” to form a new government (Sindelar, 2013), while the expectations about the possibility to form a new coalition were mainly pessimistic. Some Moldovan analysts warned that unless a coalition could be formed, early elections would direct the country not towards the EU but towards the ex-“big brother” [Russia] (Litra, 2013b), and that Moldova was “very close to becoming a politically and institutionally failed state” (Vasilică, 2013).

Finally, on 30 May 2013, a coalition was formed by the PLDM, the PDM and a few MPs who left the PL. Coalition formation was stimulated by an understanding that an early election would benefit the PCRM: An opinion poll conducted in April 2013 had showed that 32.5% of respondents were ready to vote for the Communists (Institute for Public Policy, 2013), and such a proportion of votes would let them to form a government unilaterally. This also explains why the Communists took sides in turn with the PLDM or the PDM: there was a possibility to deepen the rift between coalition partners.

After the elections in November 2014 and near two months of negotiations, a minority coalition, the Political Alliance for a European Moldova (APME), was formed on 23 January 2015 by the PLDM, with 23 seats, and the PDM, with 19 seats. The PL stayed out as PLDM and PDM rejected its key demands, such as the reform of the Prosecutor’s office still controlled by the PDM (Cașus, 2015). The minority coalition was supported by the PCRM, which had lost a part of its voters to the pro-Russian Party of Socialists of the Republic of Moldova (PSRM). Then, following mass protests and a scandal resulting in resignation of the Prime Minister, Chiril Gaburici, in July a new majority coalition, the Alliance for European Integration III, was formed by the PLDM, the PDM and the PL.

The sequence of coalitions being formed by the PLDM and the PDM, led by two bitter rivals and two largest business owners in Moldova, Filat and Plahotniuc, finally resulted in a breaking of the duopoly of power on 15 October 2015. Following the motion of the Prosecutor General, Filat was deprived of parliamentary immunity and arrested on charges of involvement in siphoning off \$1 billion from the Moldovan banking system in 2014 and accepting a bribe. Plahotniuc rapidly used the opportunity to expand his political influence. Soon, the PLDM fell apart and became a marginal party, and some of its MPs supported the PDM candidate for prime minister. The majority of PCRM MPs also decided to cooperate with the PDM. The PL is also supposed to be under Plahotniuc’s strong influence. Having subordinated the greater part of the parliament in addition to his control of the judiciary, the anti-corruption institutions, the Constitutional Court and the economic structures, Plahotniuc “concentrated political and business influence in his own hands on a scale unseen so far in Moldova’s history since 1991”, yet the government system is unstable because despite Plahotniuc’s strengthening, 95 percent of the public dislike him (Cașus, 2016, p. 1). By some estimation, the forthcoming presidential elections may result in another political crisis (Kostanyan, 2016, p. 1).



Despite the European heritage, as well as current economic and other relations with the EU, the level of support for European integration diminished, with 40 percent in favour, while 44 percent prefer Eurasian integration (Kostanyan, 2016, p. 1). Such an attitude could be partly explained by Russian meddling in the autonomous region of Gagauzia, or by the preference of a part of the population based on the source of income, i.e. relatives working in Russia. However, low credibility of the political elite, marred by corruption, clashes over oligarchic interests and other factors, apparently, also plays a decisive role.

### 3. Ukraine: political context

The former Ukrainian authorities' insufficient reform performance may be especially disappointing taking into account that Ukraine's urge for moving closer to the EU had resulted in a decision to start working on preparation of an Association Agreement in 2008, even before the idea of EaP was conceived. Of course, while similar agreements with Central and Eastern European countries in the early 1990s had become precursors to membership, in Ukraine's case replacing the Partnership and Cooperation Agreement with the Association Agreement was not considered a pathway towards eventual membership, and that was reflected by the expression "it neither precludes nor promotes Ukraine's membership aspirations" (Wolczuk, 2008). The lack of desire to grant Ukraine a clear membership perspective could be explained, particularly, by "enlargement fatigue" and the wish not to irritate Russia. However, it has also been noted that Ukraine is

arguably the perfect arena for oligarchic influence; even more so than many autocracies in the region. The oligarchy quashed the Orange Revolution's hopes of far-reaching economic and social reform after years in which post-Soviet corruption has strangled economic development, and it would be a tragedy if it did so again (Wilson, 2016, p. 4).

The situation in Ukraine reminds about the concept of "rebuilding the ship at sea", as it was formulated in 1998 by Jon Elster, Claus Offe and Ulrich K. Preuss, and the sea has been wild and stormy nowadays due to the "wind" from the East. Russian leadership's reaction to Ukraine's strategic choice in favour of association with the EU instead of joining Russia's integrationist bloc has been a source of instability in Europe for over two years, threatening the post-cold war international order as such, from the moment when Russia invaded and summarily annexed Crimea in March 2014. It would be rather illogical to review the policies and reform agenda of the Ukrainian government without taking into consideration the threat that Ukraine faces. Particularly, the Russian aggression showed how the failure to reform the most important state institutions, including the army and law enforcement agencies, during the era of independence resulted in a reduced



capability to protect itself. The lack of willingness to implement reforms led to a situation envisaged a few years ago:

Priorities, such as removing the breaks on economic development, tackling the poor investment climate, and dealing with the emerging security threats emanating from the Crimean Peninsula, are neglected. The creeping escalation of tensions in Crimea means that Russia increasingly is seen as preparing to ‘play the Crimean card’. Ukraine is hardly ready to deal with such a challenge (Wolczuk, 2008).

The pace of reforms still remains slow. The head of the European Union Advisory Mission on Civilian Security Sector Reform in Ukraine, Kálmán Mizsei, noted that “the current government is the most capable Ukraine has ever had, and the readiest to reform”, but also stated that corruption was widespread, rent-seeking persisted, some agencies, such as the system of prosecution, needed to be reformed, and the overregulation could continue to encourage corruption, impede foreign investment and alienate citizens (Central European University, 2015). In addition to not yet sufficiently reformed public administration, the business environment remains rather unattractive for investors: although Ukraine improved its standing in the World Bank Ease of Doing Business Index (World Bank, 2016) and the Index of Economic Freedom (Heritage Foundation, 2016), it still has the lowest rank among the EaP countries.

In an article published in April 2016, few days after Volodymyr Hroisman’s appointment for the post of Prime Minister of Ukraine, Andrew Wilson mentions the close ties between the oligarchy and the corrupt politicians as the biggest obstacle to reforms (2016, p. 1). Wilson considers the lack of reform a major threat:

A stark warning of the dangers of over-assessing reformist intent and avoiding frank talk about corruption is provided by neighbouring Moldova, which has been lurching from one political crisis to another throughout 2015 and early 2016. Ukraine needs tough love and aggressive conditionality, or it will end up like Moldova, but much sooner and with less to show for it (Wilson, 2016, p. 10).

Wilson clearly implies that the EU should be the one who offers “tough love and aggressive conditionality”. Some of the proposed measures include taking a tougher line with the Ukrainian leadership and pushing for a justice system and other reforms, and, at the same time, make clear that the government will be supported if the oligarchs attempt to destabilise it (2016, p. 1), moreover, “the EU must not disempower the reform lobby in Kyiv by shutting down the long-term hopes for closer engagement with the EU” (2016, p. 11). Wilson also argues that some policies backed by the West, in fact, strengthen the forces opposed to



reforms. This particularly applies to the Minsk agreements with their demand for constitutional amendments and decentralisation (2016, p. 4).

While veto players, including, *inter alia*, the oligarchs, corrupt officials, populist politicians and pro-Russian groups, have considerable influence on Ukrainian politics, the current government still has an opportunity to take the country out of the vicious circle described a few years ago: “Ukrainian politicians’ time horizons extend only to the next presidential elections (and yet another snap parliamentary elections in the meantime), regardless of the costs for the country and its ties with Europe” (Wolczuk, 2008). In summary, it would hardly be an exaggeration to say that success or failure of the EaP has been depending on Ukraine to a large extent: if Ukraine had joined the Russia-led Eurasian Economic Union, the continuation of the EaP would have been unreasonable. Ukraine’s success remains an important condition for the other Eastern partners’ European integration, not only because of possible future regional leadership, but also because it underlines that Russia’s Eurasian ambitions are groundless.

#### 4. Armenia: political context

Unlike Georgia, Moldova and Ukraine, Armenia did not express an ambition to apply for EU membership in the future during the negotiations on the Association Agreement. That lack of ambition, together with other factors, might be the reason for one of the main proponents of the EaP, then Poland’s Minister of Foreign Affairs Radosław Sikorski, to be rather sceptical shortly before the end of the negotiations: Sikorski noted that the EaP Vilnius summit might result in a great success should the “maximum plan” be implemented – i.e. if the agreement with Ukraine would be signed and negotiations with Moldova, Georgia and *possibly even Armenia* [italics author] would be finalised (Wielński and Wroński, 2013).

The sceptical approach was also more understandable considering Russian pressure on the Armenian government, which was acknowledged by several Armenian and foreign experts. In April 2013, Russia threatened an almost 70 percent gas price rise, and other threats were voiced repeatedly by Russian officials and diplomats, including the threats to ban Armenian exports to Russia; to block private money transfers and to deport Armenian migrant workers; to revoke the security guarantees; to destabilise the situation in Armenia and to support regime change; and so forth (Grigoryan, 2014b, pp. 105-106; Grigoryan, 2015b, pp. 13-15).

However, the Russian demands notwithstanding, the domestic political elites’ own attitude towards association with the EU was also not quite sympathetic. The domestic political situation makes the fulfilment of these and some other requirement especially difficult. As recently noted, “the political regime (a non-competitive political system dominated by oligarchic groups) would probably not survive the reforms which Armenia would be required to introduce (Delcour *et al.*, 2015, p. 493). Furthermore,



the political costs of adapting to EU demands would be expected to be higher in Armenia than in some other neighbouring countries. More particularly, EU requirements related to human rights, the rule of law and good governance are unattractive to the incumbent authorities (Delcour *et al.*, 2015, p. 494).

Additionally, while the incumbent government at least formally expressed willingness to implement EU-related reforms before making the decision not to sign the Association Agreement in September 2013, and afterwards has also been trying to show some commitment to further cooperation with the EU, most of the opposition is even less interested in it and shows a rather pro-Russian attitude (Grigoryan, 2015b, pp. 8-10). Therefore, one of the suggested important conditions leading to institutional reforms – strong pressure from below by domestic actors having political autonomy to mobilise in favour of compliance with EU demands for reform (Börzel *et al.*, 2012, p. 12) – is not sufficiently fulfilled. At the same time, even though the capabilities of non-governmental organisations and other civil society institutions advocating for a deeper cooperation with the EU are rather limited, their activities provoked repeated suggestions, particularly by the Russian ambassador to Armenia Ivan Volynkin, to “neutralise” such NGOs, possibly by means of adopting a “foreign agents” law like in Russia (Grigoryan, 2015b, pp. 15-16).

Concerning the elite’s devotion to the Russian legacy and indifference to the European norms, it is also worth mentioning the attitude widespread among the business elite (which, surely, for the most part overlaps with the political elite) at the time when the decision to join the EEU instead of signing the Association Agreement was discussed. A number of businessmen stated their preference for the EEU because of the reluctance to adopt higher production standards, as well as such ridiculous reasons as “speaking a common language” (i.e., Russian), or “similar business culture” (Gabrielyan, 2014) – the latter is remarkably nonsensical, considering such features of post-Soviet “business culture”, thriving in both Armenia and Russia, as cronyism, widespread corruption, arbitrary treatment by the tax office, property takeovers by means of engaging law enforcement agencies, and so forth.

Another example of “cultural affinity” promoted by the opponents of Europeanisation is the claim that Eurasian integration should be preferred because Russia, contrary to the West, would not ask to promote “non-traditional values” and “immorality”. This type of propaganda was widespread in the period when the Association Agreement was negotiated, and reached its peak in 2013, when a draft anti-discrimination law was about to be adopted. Later, as EEU membership was preferred to the Association Agreement this kind of propaganda calmed down, yet it resurfaced again after the session of the Euronest Parliamentary Assembly in Yerevan in March 2015, when EU representatives stated that a new framework for





cooperation could be agreed upon (Grigoryan, 2015b, p. 14). Characteristically, the leader of the “parents’ committee” – one of the vocal groups claiming their aim is to protect “family values” from “artificially imported western perversions”, also leads the Yerevan Geopolitical Club – a Russian-language platform vilifying western democracy:

there is a clash between two geopolitical poles, one is the west and the other is the Russian Federation with its allies in the Eurasian Economic Union. Today, only this eastern bloc has in this or that way presented a challenge to the values of dehumanisation (Nikoghosyan, 2016).

In this context, it may be worth mentioning that similar approach – equating democratic values with “immorality” – may be observed in other EaP states as well. A “parents’ committee” was formed in Ukraine back in 2012; in Moldova, the leader of PSRM Igor Dodon submitted a petition to repeal the law on equality adopted in 2012, claiming that law was “an assault on national and Christian values” (Agora, 2016). Other examples could also be found, and it is generally possible to track down the pro-Russian orientation of those performing such activities, so this may be viewed as a rather peculiar kind of common “cultural legacy” – or an instrument reinforcing Russian influence.

#### ***4.1 The possibility of future cooperation between Armenia and the EU***

The negotiations on a new EU-Armenia framework agreement officially began on 7 December 2015, and may be finalised, by the most optimistic scenario, by the end of 2016. The future agreement may cover cooperation on energy, transport and environment; measures to improve trade and investment opportunities; citizens’ mobility; and aid related to anti-corruption measures, governance and justice reforms, human rights, educational programmes, small business development and investment promotion. However, the agreement would not include preferential trade provisions as those would contradict Armenia’s obligations towards the EEU.

Official Yerevan’s desire to develop cooperation with the EU, the obligations towards the EEU (or, less euphemistically speaking, restrictions dictated by Russia) notwithstanding, is understandable. The economic reality has been harsh: since officially becoming an EEU member in January 2015, the Armenian economy has been in a continuous decline following the recession in Russia (Grigoryan, 2015a; 2015b, pp. 19-20; 2016), and the oil market condition makes a recovery in short or even mid-term perspective unlikely.

While the EU may not ignore the previous experience and the possibility of continuing pressure on Armenia by Russia, “aggressive conditionality” should also be applied. It is essential to ensure that an imitation of reforms will not let the





government to secure donor aid if genuine anti-corruption measures are not implemented and if authoritarian tendencies intensify. Besides, it is worth considering that the legal framework in Armenia is rather well-developed, yet poor performance is a challenge, particularly when oligarchic interests are involved. This may be observed in the case of business activities performed by state officials against the requirements set by the Constitution, in the case of the monopolies controlling the most profitable segments of business and restrictions on market competition, demarcation of voting districts, and so forth. So, strict compliance with the formalised but not observed rules may be an essential part of EU's conditionality.

## Conclusions

There are two distinctive characteristics of the comprehensive review of the ENP based on consultations with partners: differentiation and ownership. First, the EU is going to offer programmes of cooperation tailored to the needs and choices of each individual partner in the neighbourhood. Second, the partners are to be more involved in designing the projects of cooperation, as owners of the process.

The EU may strengthen the Comprehensive Institution Building programme and increase support for countries achieving demonstrable reforms. At the same time, EaP states' political elites should not be rewarded for their costly and sometimes destabilising pursuit of self-interest. The "more for more" principle may work fine if autocrats and oligarchs are not allowed to interpret it as "more for nothing", thereby corrupting the EU's image in addition to the general disappointment of the citizens. Evidently, several of the problems are characteristic for different EaP states: authoritarian tendencies, oligarchs' grasp of the political institutions and the economy, poor investment climate, formal approach to the European norms, and so forth. So, the possible applicability of experience gained by those demonstrating genuine readiness to implement reforms may be considered in future research and policy design.

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# ASSESSING NATIONAL ENVIRONMENTAL PERFORMANCE IN THE EASTERN PARTNERSHIP COUNTRIES

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**Abstract:** *Since the launch of the Eastern Partnership and up to the latest Summit, in May 2015, notable progress has been registered within the framework in various areas, especially in issues related to climate change, environment and energy. Nevertheless, significant environmental problems still linger and require urgent tailor-made solutions. The paper seeks to highlight the environmental status quo as well as the main environmental challenges that the six Eastern European partner countries are faced with, in the context of their intention of alignment to the EU environmental requirements. An understanding of how environmental protection is tackled within these countries may help identify specific models of action for approaching environmental degradation and climate change issues in Eastern Europe. Furthermore, the pressing nature of some environmental problems emphasized here may encourage policy makers to take specific actions towards reversing the troubling trends in environmental degradation and building a healthier society.*

**Keywords:** *environmental challenges; environmental performance; Eastern Partnership; cross-country comparison; environmental policy*

## Introduction

The Eastern Partnership (EaP) was built as a common endeavour of the EU Member States and six Eastern European partners to provide a functional framework for cooperation and discussions on trade, economic strategy, travel agreements as well as other important issues. An official definition is provided by the European Commission through the DG Neighbourhood and Enlargement Negotiations (2016): “The Eastern Partnership is a joint policy initiative launched at the Prague Summit in May 2009. It aims to deepen and strengthen relations between the European Union and its six Eastern neighbours: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine”. EaP’s objectives were subsequently

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reconfirmed by the summits in Warsaw (27-28 September 2011), Vilnius (28-29 November, 2013) and, the latest one, in Riga (21-22 May, 2015).

Seen as a specific (Eastern) dimension of the European Neighbourhood Policy (ENP), the EaP is strongly committed to strengthen democracy, rule of law, human rights and fundamental freedoms, as well as the principles and norms of international law. Moreover, the Partnership fosters the initiatives and necessary support oriented towards the market economy, good governance and *sustainable development* (European Union External Action, 2016).

Within the latest EaP Summit, in May 2015, the EU and EaP partner countries reviewed the cooperation framework and provided the direction for further joint actions. Since its launch and up to the Summit, the Partnership recorded notable progress in various areas, especially in issues related to energy, environment protection and climate change as well as natural and man-made disasters – as noted in article 14 in the Joint Declaration (European External Action Service, 2015). Nevertheless, environmental degradation is a process that knows no boundaries. It is a global phenomenon with significant and sometimes irreversible consequences on current and future generations. In this context, various questions arise. What is the exact state of the environment within the six Eastern European Neighbours? How do they tackle the most ardent environmental issues?

In light of the above, the paper seeks to highlight the environmental *status quo* (existing situations and national approaches) as well as the main environmental challenges that the six EaP partner countries are facing in the context of their intention of alignment to the EU environmental requirements. Assessing the level of national environmental performance and understanding of how environmental protection is tackled within these countries may help identify specific models of action for approaching environmental degradation and climate change issues in Eastern Europe and determine to what extent these models answer the specific requirements established in New York by the recent United Nations Sustainable Development Goals (SDGs) and in Paris within the Climate Change Agreement.

Beyond the introduction, the paper includes three sections. In Section 1, the paper presents the overall status on the importance that is given to environmental protection within the EU, ENP and EaP and some governance mechanisms. The paper then proceeds in Section 2 with brief analyses on some of the most significant environmental challenges and priorities among the six Eastern European Neighbours (as shown in relevant reports drawn up by important international organizations as well as by governments and national institutions). In Section 3, the paper uses the Environmental Performance Index (EPI) to gauge the level of environmental protection within the EaP partner countries and to determine state rankings. The final Section is dedicated to conclusions.





## 1. Environmental protection in the EU, ENP and EaP

Environmental protection (hereinafter abbreviated as ‘EP’) is currently one of the European Union’s main concerns not only in relation with the member states, but also with regard to other important actors at a global level. If prior to 1987 environmental policy concerns were not explicitly expressed by the existing institutions (within the former EEC Treaty), in the context of rising environmental problems with significant impact on a European level, a specific legislative infrastructure was needed more than never. Thus, in 1987, with the entry into force of the Single European Act, EP received its own chapter in the Treaty of the European Union. Nevertheless, many argued that although the European primary law finally included increased powers aimed at EP, in terms of approach and practice, there seemed to be much more continuity than change – given that the Treaty codified many principles and approaches which can already be encountered in previous official policy papers (Hey, 2005). The following amendments brought by the Treaties on the European Union did not change substantially the principles and objectives referring to the environmental policy – the Treaty of Maastricht (1992), the Treaty of Amsterdam (1997) and the Treaty of Nice (2001) – but, at least the last two Treaties, brought significant changes with regard to the decision-making process, by introducing the co-decision procedure (Proelss, 2016).

Today, the EU’s environmental policy objectives are clearly specified in Article 191(1) of TFEU, as follows: “preserving, protecting and improving the quality of the environment; protecting human health; prudent and rational utilisation of natural resources; promoting measures at international level to deal with regional or worldwide environmental problems, and in particular combating climate change” (European Union, 2012, p. 132). Additionally, in Article 3(3) of TEU, it is specified that the EU shall work “for the sustainable development of Europe based on ... a high level of protection and improvement of the quality of the environment” (European Union, 2008, p. 17). In conclusion, EP is clearly one of the EU’s main concerns embedded in the primary laws of the European Union (in TEU and TFEU). Moreover, its mandate to guard and improve the quality of the environment does not restrict it to the EU’s inside territory, but encourages it to act at a global level. Although TFEU’s articles do not explicitly refer to any geographical coverage by the Union’s actions of EP, there are some references in Article 3(5) in TEU which EU’s position in relation with the rest of the world (in promoting its values and interests with regard to EP, among others) and its contribution to “the sustainable development of the Earth” (European Union, 2008, p. 17). In fact, “for present and future generations, the EU leads the efforts for a sustainable world” (Vella, 2016).

Environmental degradation is a phenomenon that is not limited by geographic boundaries, yet it is more pronounced in some countries than in others. Environmental protection is in need of a significant international agreement which has to be backed up by all the important global players. Moreover, it must go beyond the limited results of the recently completed Kyoto Protocol which ended



without a successor agreement in place. The scarcity of achievements on protecting the environment at a global level is due either to the increasing reluctance of some countries to be part of important international agreements (especially USA) or to the belief of other countries that economic development prevails environmental protection ('by all means'). In this context, although the EU is a key global player which contributes to the international efforts of promoting EP, it has nonetheless limited options of achieving this desideratum outside its borders. One way to do it is to establish regional agreements with third countries and to seek that environmental protection is achieved via these frameworks. Moreover, it does that by promoting more effective environmental governance in the countries that wish to embrace sustainable development and incorporate it into their legislation – an aspect included in the Environmental Action Programme (7<sup>th</sup>), the basis of the current EU policy up to 2020 (European Union, 2014) as well as in the UN Sustainable Development Goals (SDGs).

The member states of the European Neighbourhood Policy (ENP) make no exception from the statement made above – although the ENP neighboring countries are divided between two conflicting economic integration projects, one promoted by the EU and the other by Russia (Drăgan, 2015, p. 10). Launched in 2004 in order to promote and ensure security, stability and prosperity in the European Union's close neighbourhood (Łapczyński, 2009), ENP went under review seven years later. However, the results of the review have shown that "EU support to political reforms in neighbouring countries has met with limited results" (European Union, 2011, p. 1), some of the remaining gaps being identified in the area of *environmental protection*. Therefore, among other aspects, EP is of great importance for the ENP framework and represents one of the cooperation areas between the EU and its southern and eastern neighbours. A study funded by the German Marshall Fund (Centre for Sustainable Human Development *et al.*, 2009) outlined some of the common environmental challenges that the Eastern ENP members have to face – the ENP-East region refers to the 6 non-EU countries that are also members in the EaP framework: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine (Eurostat, 2016). These challenges, also highlighted in a policy paper developed by Andrusevych *et al.* (2009, p. 3), refer to:

a) the Action Plans (APs), including those in the field of EP, are the main instruments in the ENP's mechanism but within the neighbouring countries these are not adequately implemented. As underlined in the next section, in some countries from the ENP-East region, the national strategies do not include the AP's recommendations, there is a lack of institutional structures or political willingness to implement the APs ('bottlenecks' in effective implementation) and even if the APs are implemented there are no clear timetables for implementation and/or monitoring.

b) environmental protection is not receiving a high priority in the Eastern ENP countries' national policies nor in the implementation procedure of the ENP Action Plans of these countries. Where such national policies exist, there is clearly a pressing need for an improved legislation or at least a harmonized one with the



EU's legislation on the environment. With regard to the existing national policies on EP in the Eastern ENP countries, there seems to be a low level of practical implementation at a national level, or at least an unsatisfactory one.

c) the existing information related to the state of the environment at a national level is scarce or outdated and the publics' involvement in the decision making process with regard to EP is quite limited or inappropriate.

The above mentioned Eastern ENP members (i.e., the six non-EU countries) together with the EU started a common endeavour in 2009 known as the EaP (complementing the ENP framework). It was created to provide a functional framework for cooperation and discussions on trade, economic strategy, travel agreements as well as other important issues, among which EP and sustainable development. EaP fosters the initiatives and necessary support oriented towards the market economy, good governance and sustainable development (European Union External Action, 2016). Within the newly established Partnership there is considered to be more dedication towards the development and implementation of economic and political reforms so that the EaP partners will get closer to the EU (Chochia and Hamulák, 2014). Although EaP has basically the same principles of ENP, it has nevertheless a more regional focus (Hamed, 2016, p. 144).

Additional to the bilateral agreements that are established between the EU and each partner country (seen as "strategic instruments towards a closer integration" by Borta (2015, p. 849)), multilateral agreements are also set up so as to "provide for cooperation activities and open and free dialogue serving the objectives of the Partnership. It would operate on the basis of joint decisions of the EU and the partner countries" (European External Action Service, 2009, p. 8). The multilateral framework is organized by the European Commission under four thematic platforms: democracy, good governance and stability; economic integration and convergence with EU policies; *energy security*; contacts between people. In the framework of the mentioned platforms, a new set of political instruments were designed: the 'Flagship Initiatives'. These refer to (Gromadzki, 2015, p. 8): integrated border management; small and medium-sized enterprises facility; *regional electricity markets, energy efficiency, and renewable energy sources*; prevention, preparedness and response to natural and man-made disasters; *environmental governance*.

Moreover, within the EaP, civil society plays a more important role and is more actively involved in the decision making process (at least when compared to the ENP framework). NGOs that originate in the EaP countries and in the EU have come together under the umbrella of the Civil Society Forum and operate through five working groups, one of which deals with "environment, climate change and energy security". In this respect, an important support towards the environmental governance within the EaP is provided by environmental NGOs, other civil society organizations, environmental activists as well as other informed stockholders.

In conclusion, topics such as environmental protection, climate change and sustainable energy have a significant importance for the EaP framework and are considered in the action plans, bilateral and multilateral agreements as well as



within the ‘Flagship Initiatives’. It is up to the EaP partner countries to effectively implement what was agreed upon with the EU, to eliminate the ‘bottlenecks’ from the process of implementation and to design tailor-made solutions based on their national profiles and ardent environmental problems (with the aid of various civil society representatives). Only then, these countries will display levels of national environmental performance that could be compared to the EU standards.

## 2. Environmental challenges and priorities within the EaP partners

With the overall status on the importance of EP within the EU, ENP and EaP being outlined above, the paper proceeds with brief analyses on some of the most significant environmental challenges and priorities among the six Eastern European Neighbours. Before the collapse of the Soviet Union, the six former soviet countries (as well as all the others countries that shared the same trait) placed the topic of environmental degradation on the bottom of their list of priorities. The heavy industrialization of the economies, in the context of a lack of new technologies and of investment of capital in production, led to an accelerated deterioration of the environmental quality characterized by a degraded natural landscape, smog, infested waters, high levels of deforestation, toxic accidents and a general decline in the public health. One could even say that the deterioration of the natural environment seemed to exemplify everything that was wrong with state socialism (Carmin & Fagan, 2010; Fagin, 1994). Nor did in the transition period the six EaP partner countries focus to a larger extent on their environmental performance; the governments preferred to channel all the efforts towards managing their financial problems, the existing social inequalities as well as the high level of poverty in their societies (Hamed, 2016). Although within these countries some structural changes took place geared more towards deindustrialization, the process of diminishing the negative environmental impacts reveals limited results.

More than two decades after the fall of the Soviet Union, significant environmental degradation still occurs in most of the countries in the Caucasus Region, Eastern Europe and Central Asia (EECCA). According to OECD, many EECCA countries are dealing with “continuing environmental degradation, high carbon emissions and pervasive energy inefficiency, obsolete and wasteful production technologies, increasing water scarcity and important water losses [...]” (OECD, 2012, p. 11). Unsolved issues related to energy inefficiency have even lead to cases of ‘energy poverty’ (Maxim *et al.*, 2016), a problem not looked into enough in these countries. As regard to all other environmental issues, significant ones still occur within most of the EaP countries (more specifically in Georgia, Moldova, Ukraine, and Belarus). Some of the most important environmental problems (‘hotspots’ or ardent environmental problems and ‘coldspots’ or secondary environmental problems) as well as the national approaches with regard to some of these issues are presented for each of the EaP partner countries in Table 1.



**Table 1. Environmental challenges within the six EaP partner countries**

	<p><b>Hotspots:</b> high level of untreated wastewater (containing persistent organic pollutants) and limited access to clean water; significant deforestation.</p>
	<p><b>Coldspots:</b> loss of high-value species and biodiversity, soil erosion, water withdrawal, air pollution.</p>
Armenia	<p><b>National approach:</b> no comprehensive EP programme has emerged, and environmental initiatives are typically addressed to an ad hoc basis (Norwegian Society for the Conservation of Nature, 2016a); the current system of environmental pollution and product charges is inefficient and insufficient to raise revenues in order to finance environmental improvements (OECD, 2004, p. 41); Armenia's first environmental priority refers to the preservation of Lake Sevan while other developments will consider the safeguarding and preservation of protected areas as well as implementing any other nature preservation measure (OECD, 2012, p. 141).</p>
	<p><b>Hotspots:</b> heavy discharges from untreated sewages; water pollution; air pollution (especially in major cities); inefficient waste management.</p>
	<p><b>Coldspots:</b> climate change; degradation of natural resources; extinction of biospecies; land degradation; desert's expansion; extreme grazing and continued degradation of pasturelands</p>
Azerbaijan	<p><b>National approach:</b> a clear national environmental policy for the next decade does not exist in Azerbaijan (Asian Development Bank, 2014, p. 20); although the people of Azerbaijan are generally aware of the need to protect the environment, the republic's environmental issues have not received significant attention from the government (Norwegian Society for the Conservation of Nature, 2016b); Azerbaijan's first and foremost priority is the preservation of biodiversity and restoration of natural resources, followed by the limiting of the desertification process (by restoration of pastures) and the ratification and harmonization of environmental regularity and enforcement framework with the EU legislation (OECD, 2012, p. 141).</p>
	<p><b>Hotspots:</b> air pollution (mainly from automobile exhaust, approximately 72% as well as from the chemical industry, petrochemical industry including oil refineries and machinery industry); waste management problems (especially industrial waste); water pollution</p>
	<p><b>Coldspots:</b> biodiversity; soil pollution; residuals of radioactive contamination from the Chernobyl blast; deforestation; climate change</p>
Belarus	<p><b>National approach:</b> in 2004, Belarus developed a National Strategy for Sustainable Development up to 2020, in accordance with the principles of "Agenda 21" and other UN documents, taking into account the country-specific natural resources, production, and economic and social potential (Ministry of Economy of Belarus, 2012); according to the Strategy "the primary objective of state policy in the field of ecological security is keeping it at a high level in the context of economic growth" (Wingqvist &amp; Wolf, 2013); nevertheless, as the UNECE environmental performance review shows, "primary legislation is very declarative and lacks provisions especially for detailed procedural aspects to implement the requirements of the laws [...]. The environmental legislation mostly follows a command-and-control approach. There is a need to develop tools for environmental management that are proactive and</p>



	encourage better environmental performance” (UNECE, 2005, pp. 26-27).
	<b>Hotspots:</b> air pollution (especially in the major cities); water pollution (which is mainly polluted by with industrial waste); waste management problems.
	<b>Coldspots:</b> chemical, marine and coastal pollution; soil erosion and contamination; forest loss; uncontrolled use of fertilizer; biodiversity degradation; climate change; ozone layer deterioration.
Georgia	<b>National approach:</b> according to the UNECE environmental performance review on Georgia in 2010, the Government assigns a low priority to environmental protection approving very few strategic documents on the environment and ignoring the economic value of environmental policy; also, it states that environment-related legislation is comprehensive, but, in many instances, it is somehow vague and it lacks the necessary implementation mechanisms (UNECE, 2010); Georgia’s priorities in terms of environmental protection are: enhancing environmental protection systems, sustainable use of mineral resources and enhancing monitoring and forecasting systems (OECD, 2012, p. 141).
Moldova	<p><b>Hotspots:</b> air pollution; water pollution; low protection form nature; waste management problems.</p> <p><b>Coldspots:</b> climate change; land sliding; soil erosion; loss of biodiversity; waste water management problems; soil and ground and underground water contamination</p> <p><b>National approach:</b> according to the National Development Strategy “Moldova 2020”, the Government’s strategic vision over medium and long term is the “reconciliation between the need for accelerated economic development and environmental protection in conformity with European standards” (Government of the Republic of Moldova, 2012, p. 10); the Moldovan government is still burdened with the Soviet legacy of ecological mismanagement (Norwegian Society for the Conservation of Nature, 2016c); Moldova’s priorities in terms of EP are: development of policy and management in the field of EP, improved control of persistent organic pollutants and other chemical substances as well as environmental safety and environmental quality control (OECD, 2012, p. 141); although environmental legislation is set up in many areas to some extent, there is a lack in the inter-ministerial coordination and cooperation and the implementation mechanisms are not fully developed given the limited administrative capacities or the shortages in financial resources.</p> <p><b>Hotspots:</b> water pollution; air pollution; deforestation and illegal logging; waste management problems; radioactive contaminations.</p> <p><b>Coldspots:</b> unsustainable usage of natural resources and energy; climate change; soil degradation (especially from industrial and agricultural pollutants); protection from nature; illegal fishing of protected species; greenhouse gas emission.</p> <p><b>National approach:</b> Ukraine’s priorities in terms of environmental protection are: implementation of quality standards for EP in accordance with the EU legislation, expansion of the environmental network of parks and reserves, and development of regulatory framework for an effective implementation of the Kyoto Protocol (OECD, 2012, p. 141).</p>

According to Table 1, the list of environmental problems that the six Eastern European Neighbours of the EaP are dealing with, are to some extent rather similar: air pollution, water pollution, soil degradation, waste management



problems, loss of ecosystems and biodiversity. The national approaches nevertheless are different in terms of legislation, the degree of implementation and the progress registered so far; if in some cases the measures regarding environmental protection are more of a declarative nature, in other cases important progresses are visible (in line with the EU requirements and good practices).

### **3. Measuring the environmental performance of the EaP partner countries**

In the previous section, the paper depicts the importance that EP receives within the EU, ENP and EaP (as well as some governance mechanisms) and some of the most significant environmental challenges that the six Eastern European Neighbours have to face along with the priorities set up to deal with these issues. In light of the above, the society has shown an increasing interest in the performance of their countries with regard to EP (via national environmental performance).

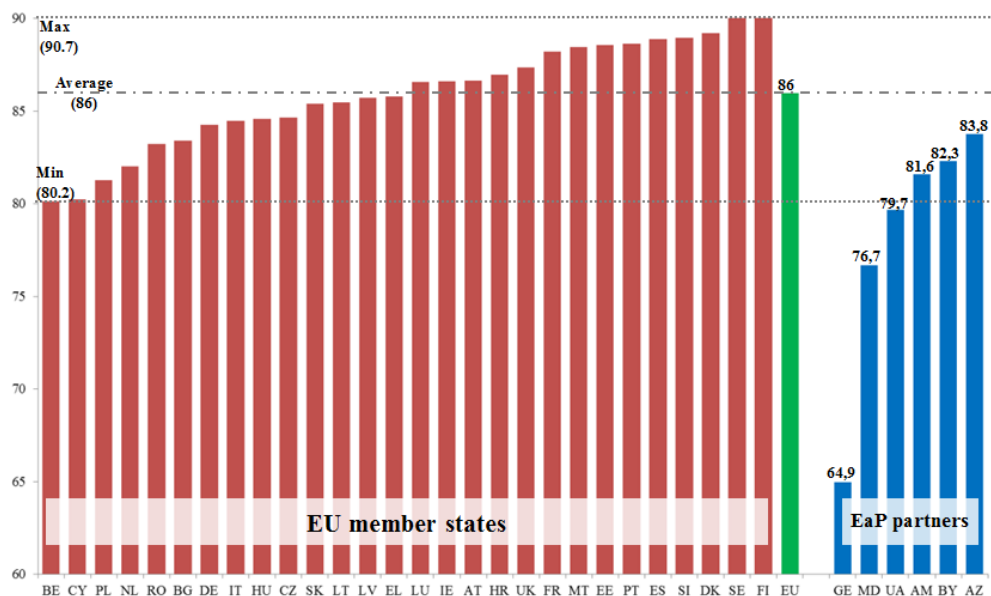
The environmental performance of a country is given by its ability to produce environmental public goods (Duit, 2005). To measure it we turn to the Environmental Performance Index (EPI), a composite indicator developed by Esty *et al.* (2008), who form part of a group of environmental experts at Yale University and Columbia University. Other indicators that measure environmental performance are the ones proposed by the OECD and the UN, the Ecological Footprint, the Environmental Sustainability Index and the Renewability and Energy Sustainability Index (Gallego-Álvarez *et al.*, 2014). We use the 2016 EPI because it is aligned with the United Nations Sustainable Development Goals, adopted in September 2015. Some other data sources were also used to support the claims.

In 2016, the latest EPI report was launched at the World Economic Forum in Switzerland, highlighting new data and indicators for 180 countries. EPI ranks the performances of countries with regard to high-priority environmental issues in two areas: protection of human health and protection of ecosystems. Within these two policy objectives the EPI scores national performance in 9 issue areas comprised of 24 indicators. EPI uses the following indicators: a) to measure environmental health: environmental burden of disease, air and water pollution (effects on human health); b) to capture the ecosystem's vitality: air pollution effects on ecosystems, water effects on ecosystems, biodiversity and habitat, productive natural resources (forestry, fisheries and agriculture) and climate change (Hsu *et al.*, 2016, p. 11). The 2016 report provides a distinct 'Methods' section (Hsu *et al.*, 2016, pp. 26-33).

The data provided by applying the 2016 EPI offers us a clear view of the environmental situation in the six Eastern European Neighbours, which is also one of the political priorities of environmental authorities around the world, and reveals how far these six countries are from reaching the global targets of the SDGs.





**Figure 1. 2016 EPI scores for the EU and the six EaP partner countries**

Source: Author's calculation based on data from Hsu *et al.* (2016)

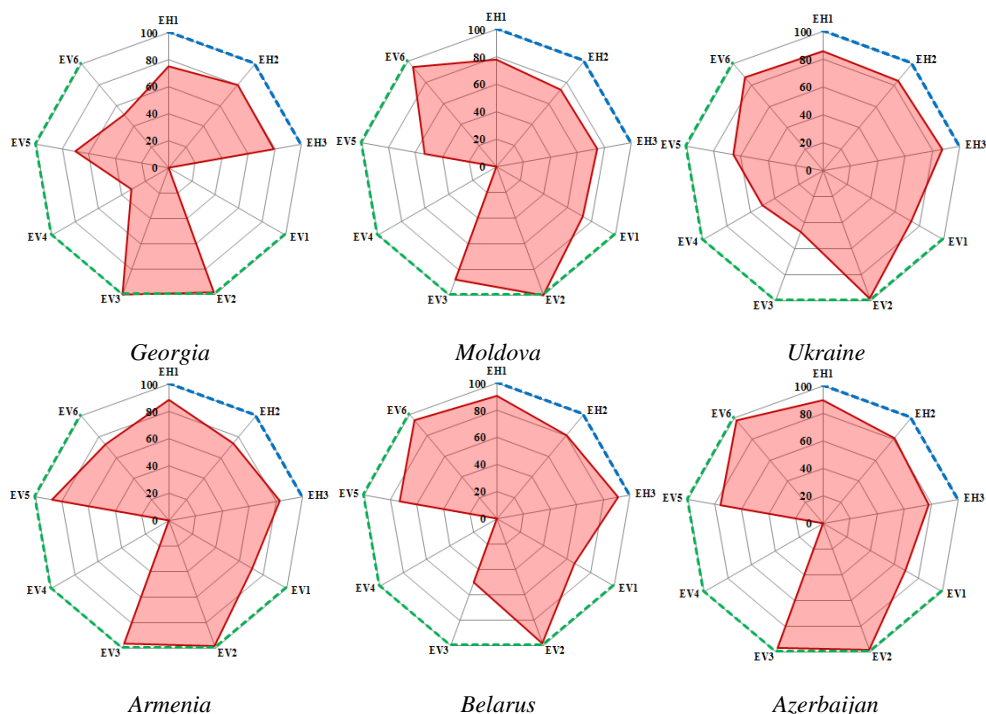
According to Figure 1, the 2016 EPI scores for the six countries are quite low when compared to the EU member states (ranging from 80.15 and 90.68) and even to the EU average (85.98). Only half of these six countries (namely Armenia, Belarus and Azerbaijan) barely exceed the EU's minimum threshold (the worst EU performer with regard to the EP). The other three have scores below 80 with the worst performer being Georgia, with an EPI value of almost 65. The best performer among the EaP partner countries with regard to environmental protection surpasses only six of the EU's worst performers. When compared to the other countries in the 2016 EPI report, the rankings for the six Eastern European Neighbours are: Azerbaijan – 31<sup>st</sup> place, Belarus – 35<sup>th</sup>, Armenia – 37<sup>th</sup>, Ukraine – 44<sup>th</sup>, Moldova – 55<sup>th</sup> and Georgia – 111<sup>st</sup>.

The reasons for which the EPI's values are so low for the Eastern European Neighbours can be found within the nine issue categories that comprise the 24 indicators (see Figure 2). These nine issue profiles frame each environmental problem included in the 2016 EPI, by looking into “the complexities involved in measuring national performance and distilling relevant policy signals from science and available data” (Hsu *et al.*, 2016, p. 25).

The Environmental Health Measure summarizes the health risk that polluted air and water pose to a country's citizens, weighted by how much the particular risk factor contributes to a country's overall burden of disease. According to Figure 2, the values of three indicators that compose this measure range between 75 and

90. The worst performers in this area are Georgia and Moldova which register the smallest values within the six countries for all three indicators (EH1, EH2 and EH3). These findings are in line with the observations depicted in Table 1 and confirm that Georgia and Moldova are confronted with serious environmental health risks given their exposure to weak air and water quality.

**Figure 2. The EPI's nine issue areas for the EaP partner countries**



Note: EH: Environmental Health Risk measures (blue line); EV: Ecosystem Vitality measures (green line); EH1: Health Impacts/ Environmental Risk Exposure; EH2: Air Quality; EH3: Water and Sanitation; EV1: Water Resources; EV2: Agriculture; EV3: Forests; EV4: Fisheries; EV5: Biodiversity and Habitat; EV6: Climate and Energy

Source: Author's calculation based on data from Hsu *et al.* (2016)

Regarding the values of the indicators that measure the ecosystem's vitality, these reflect specific problems in each of the six countries. Some of the most ardent environmental problems and that require immediate actions are presented below.

Georgia has serious problems with low fish stocks, important losses in terms of biodiversity (with many endangered species) and degradation of the habitat (maritime as well as terrestrial) as well as high carbon intensity with significant effect on the climate (see Figure 6). Nevertheless, the most important environmental problem refers to the water resources. As Figure 2 shows, Georgia registers the lowest performance

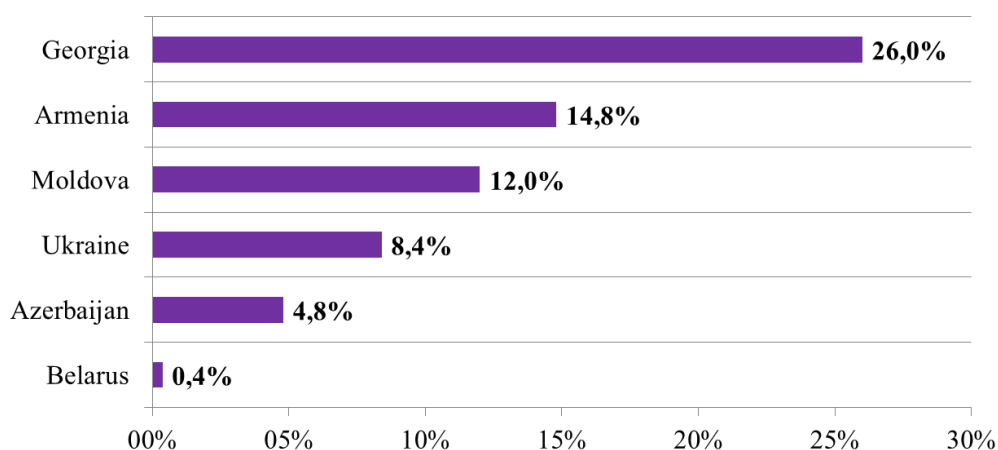


benchmark for this indicator. The indicator (i.e., EV1) tracks the proportion of wastewater from households and industrial sources and treated before its release into the environment.

This bad performance of Georgia is also backed up by the data included in the European Integration Index 2014 for EaP Countries. The index charts the progress made by the six Eastern European Neighbours towards integration with the EU and includes three main components (Eastern Partnership Civil Society Forum *et al.*, 2015, p. 13): linkages (growing political, economic and social ties between each of the six EaP countries and the EU), approximation (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). Among all the other components of the Approximation dimension, one is of particular interest: environment and sustainable development. This particular indicator accounts for: 1) environment, climate change and sustainable development policy; 2) resource efficiency, pressure on/ state of the environment (p. 90). The indicator referring to the “pressure on the state of the environment” considers 8 variables, one of which refers to ‘waste waters’. This is calculated as the ‘share of non-treated waste waters in annual waste waters discharge’. The values for this indicator for the six EaP partner countries are presented in Figure 3.

As pointed out in Figure 3, Georgia’s situation with regard to this indicator is the worst one from all the six countries. In fact, the value is almost double when compared to the second worst performer (Armenia). According to the UNECE performance review, only 60% of the waste water is treated from solid waste while only 40% undergoes biological treatment (UNECE, 2010).

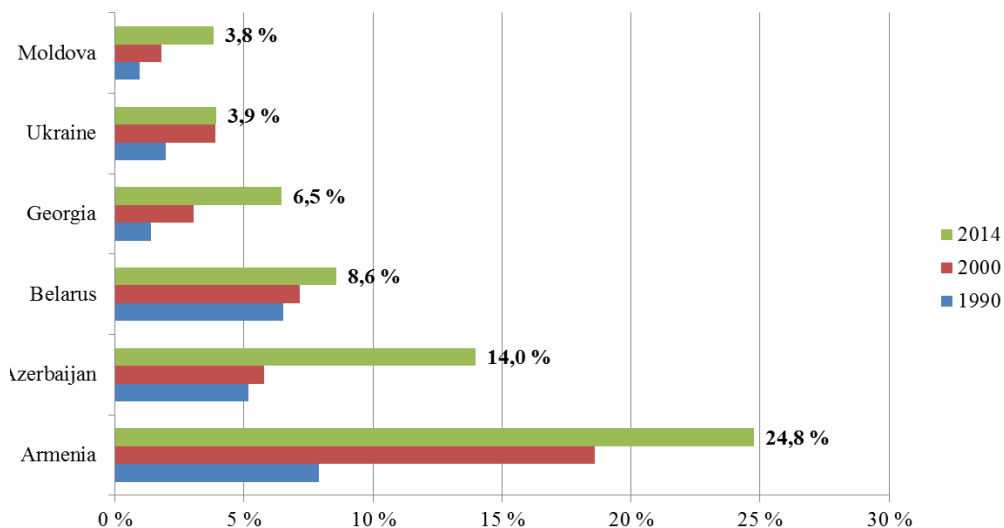
**Figure 3. The 2014 ‘waste waters’ indicator in the EaP partner countries**



Source: Author’s calculation based on data from the EPCSF *et al.* (2015)

Although Moldova performs rather well with regard to the Ecosystem Vitality indicators when compared to the other five countries, it has nonetheless serious problems with its biodiversity and habitat (with a values of 53.23), even when compared to all EU's member countries and other countries from Eastern Europe. The 'Biodiversity and Habitat' indicator of the 2016 EPI tracks the protection of terrestrial and marine areas as well as the species that conservation policies aim to protect. Moldova's bad performance with regard to its biodiversity and habitat is also supported by the World Bank. When looking at the indicator 'Terrestrial and marine protected areas', computed as the share of the total territorial area (The World Bank, 2016), one can see that Moldova is, for two decades a half, the worst performer from the EaP partner countries (see Figure 4).

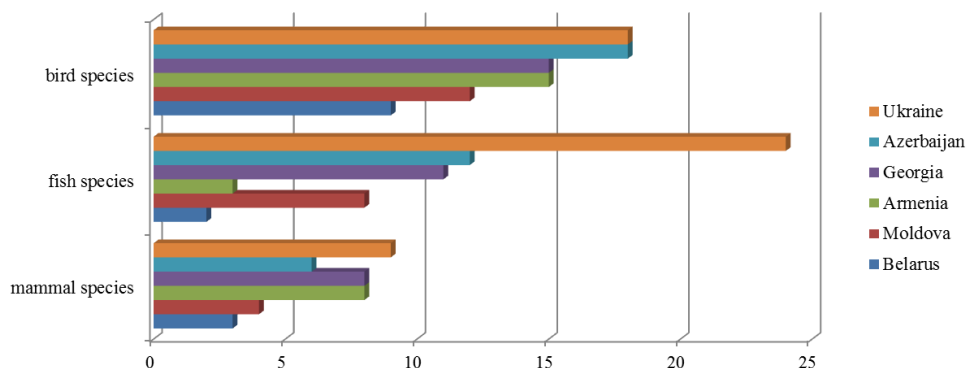
**Figure 4. The 'terrestrial and marine protected areas' development within the EaP partner countries**



Source: Author's calculation based on data from The World Bank (2016)

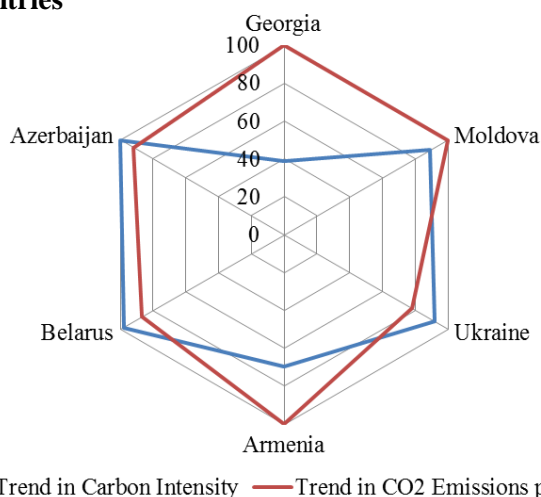
Ukraine performs badly when speaking about forests (excessive deforestation and illegal logging), fish stocks and most of all, biodiversity (given mainly to the illegal fishing of protected species). According to Figure 5, Ukraine ranks first position in terms of threatened species (whether these are mammal species, bird species or fish species). The second worst performer in this regard is Azerbaijan (at least for threatened bird and fish species) and Georgia and Armenia (for threatened mammal species).



**Figure 5. The number of threatened species within the EaP partner countries**

Source: Author's calculation based on data from The World Bank (2016)

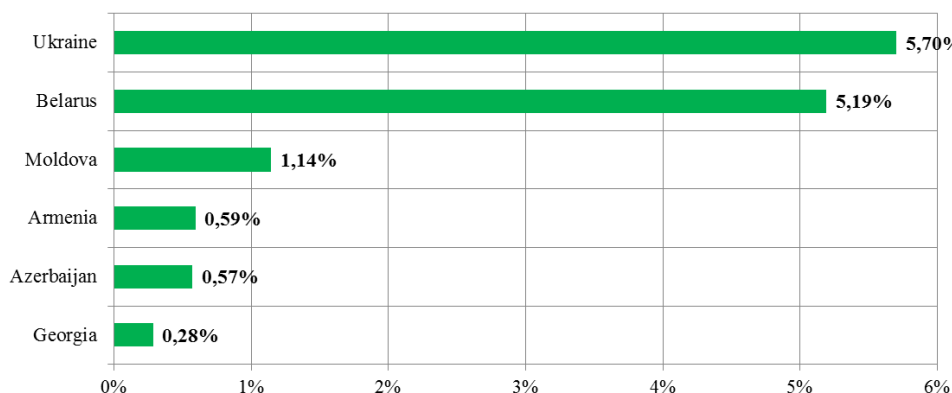
Armenia is a bad performer mainly in terms of water resources (having high level of untreated wastewater). According to Figure 3, Armenia is the second worst performer in terms of untreated waste water. Also, the country registers a poor performance with regard to the EV6 indicator, 'Climate and Energy'. This indicator measures the countries' abilities to reduce the intensity of carbon emissions per unit GDP, relative to a country's economic peers, and takes into account two main components: 'trend in CO2 Emissions per Kwh' and 'trend in Carbon Intensity'. According to Figure 6, it is the development in carbon intensity that pulls the overall indicator down for Armenia and Georgia (even lower than the minimum EPI scores registered by the EU members).

**Figure 6. The trend in CO2 emissions per Kwh and carbon intensity in the EaP partner countries**

Source: Author's calculation based on data from Hsu *et al.* (2016)

Belarus registers low levels in the ecosystem vitality mainly because the waters are affected by the waste management problems (the quality is improving nonetheless, as shown in Figure 3) and their treatment is superficial and there is a loss in biodiversity (mainly with regard to bird species – see Figure 5) and habitat (with 8.6% the share of terrestrial and marine protected areas in the total territorial area, in 2014 – see Figure 4). Also, deforestation is an important issue for Belarus, its situation been ‘surpassed’ only by Ukraine (who is the worst performer in terms of forest loss). Belarus registered important tree cover losses, not only in terms of share from the total tree coverage (see Figure 7), but also in absolute values (472.96 KHa, as well as 634 KHa in Ukraine).

**Figure 7. Share of forest loss (2001-2014) relative to tree coverage (2000) for the EaP partner countries**



Source: Author's calculation based on data from Global Forest Watch (2016)

Azerbaijan performs badly mainly because of its heavy discharges in waters from untreated sewages (4.8% of non-treated waste waters end up in waste waters discharge – as shown in Figure 3) and important losses in terms of biodiversity (mainly with regard to threatened bird and fish species – as shown in Figure 5). It is the good performance with regard to the other three indicators (EV2, EV3 and EV6) that pushes the overall indicator of Ecosystem Vitality upwards.

## Conclusions

Environmental degradation is a phenomenon that knows no boundaries, yet it is more visible in some countries than in others. No matter the country where an environmental destruction originates, it tends to spread and affect a wider area which then calls upon national policies that take effect beyond state borders. In this context environmental protection is a nations' duty that must be fulfilled not only





for the protection of its citizens but also for the safety of and moral obligation towards its neighbours. The European Union is an example of a key global player which contributes to the international efforts of promoting environmental protection. It does that not only within its borders but also beyond them (although it has limited options of achieve this desideratum). The European Neighbourhood Policy (ENP) and the Eastern Partnership (EaP) are just examples of frameworks where EU promotes environmental protection. The extent to which the member countries of such partnerships go beyond declarative statements varies nonetheless. After analyzing the level of environmental protection in the six EaP partner countries (and how EP is approached at national level), we may say that there is more overall improvement than decline in time. However, these countries tend to stand out from the group with specific problems. Either it is high deforestation (especially in Ukraine in Belarus), significant threatened species (Ukraine in Azerbaijan), intensity of carbon emissions (Armenia and Georgia), loss of habitat (Moldova and Ukraine) or waste water problems (Armenia and Georgia), it is clear that the six EaP partner countries need to mobilize all available means and resources to develop urgent tailor-made solutions so that their governments would reverse the troubling trends and build a healthier society for present and future generations.

One solution to tackle some the aforementioned problems was the creation of the so-called Eastern Europe Energy Efficiency and Environment Partnership (E5P) Fund in 2009 to encourage municipal investments in energy efficiency and environmental projects. Although the initial function of E5P was to help Ukraine in reducing its energy consumption, in time it extended its coverage and currently it proves to be a valuable instrument in designing, developing and financing projects aimed at encouraging energy efficiency and decreasing CO<sup>2</sup> emissions. The regional coverage of E5P includes Ukraine (where it was initially active), Armenia, Georgia and Moldova (included in 2014), as well as Azerbaijan and Belarus (where it will also seek to operate).

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# ECONOMIC GROWTH IN THE EU'S EaP COUNTRIES: DETERMINANTS AND PROSPECTS

Ilkhom SHARIPOV\*

**Abstract:** *Economic growth is one of the main targets of economic policy of any country around the world. By strengthening the process of economic development, we can bring the state on the path of sustainable growth and ensure stability and security in it. Economic growth is influenced by various determinants. Of particular interest is the endogenous and exogenous nature of these factors. The main purpose of this paper is to determine the endogenous and exogenous factors that affected economic growth in the EU's Eastern Partnership countries in the 2000-2015 period. We examined and determined the significance and robustness of various endogenous and exogenous factors influencing the economic growth in these countries, like investment, human capital, research and development, economic policies and macroeconomic conditions, openness to trade, geography, political factors and others. Based on the results of research, we outlined the prospects of economic growth in the countries investigated. To address the research questions and objectives this study was based on quantitative and qualitative research methods, using SPSS software.*

**Keywords:** *economic development; economic growth; Eastern Partnership*

## Introduction

Countries of Eastern Europe and the region as a whole have always been an area of interest to world powers which did still not lost its relevance nowadays. Thus, following the historic fifth round of enlargement, the EU started to rethink its external relations with bordering countries and launched the European Neighbourhood Policy (ENP) which spans 16 neighbouring countries to the south and east of the EU. At the initiative of Poland and Sweden, the Eastern Partnership (EaP) was launched in May 2009 during the EU Prague summit as an offshoot of the ENP. The Eastern Partnership is a joint initiative of the EU and its Eastern European partners: Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine. It supposed to bring Eastern European partners closer to the EU, supporting and encouraging reforms in the EaP countries for the benefit of

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their citizens. The main goal of the Eastern Partnership is to create the necessary conditions to accelerate political association and further economic integration between the European Union and interested partner countries (European Council, 2009). One of its main objectives is formation of a "ring of friends" to the eastern and southern borders of the EU, i.e. Post-Soviet republics sharing European values and models of economic and political system (Vlah, 2015).

On June, the 27<sup>th</sup> of 2014 Association Agreements / Deep and Comprehensive Free Trade Areas were concluded with Georgia, Republic of Moldova and Ukraine and the provisional application of the DCFTA has already led to the successful development of trade with the EU. A visa-free regime has already been in place since April 2014 for citizens of the Republic of Moldova holding biometric passports and expected soon for Georgia and Ukraine. Regarding the other three countries, namely Armenia, Azerbaijan and Belarus, the Association Agreements / DCFTA were not concluded with the EU. Moreover, Belarus and Armenia have chosen a different integration project – the Eurasian Economic Union.

All these countries shared the same history for about 70 years. With independence and the transition of these countries towards a market economy, all these countries took their own path of development. All of these countries have had to create their own economic and political system, legislation framework, financial and other institutions. In fact, create the entire system from scratch. Having initially the same conditions, in period of almost 25 years, they have succeeded differently, what was influenced not only by physical and human capital, but also by other determinants like economic policies and macroeconomic conditions, openness to trade, geography, political factors, research and development activities and others. Our task is to determine their exogenous and endogenous nature and check these factors for correlation with economic growth in EaP countries and assess their significance. Determination of exogenous and endogenous growth factors will enable to outline prospects for further development of countries studied. Of course the basis of this study are the works of representatives of the neoclassical (exogenous) growth theory (Solow, 1956 and others), as well as representatives of the endogenous growth theory (Romer, 1986, 1990; Lucas 1988; Grossman and Helpman, 1991 and others).

## 1. Endogenous and Exogenous Nature of Economic Growth

The economy's ability to grow depends on many factors which can be classified differently according to various criteria, but of particular interest is the endogenous and exogenous nature of these factors. An exogenous variable is a factor that is outside of a given economic model. It often has an impact on the outcome of the model or how certain situations turn out, but it isn't usually determinative in its own right and the changes in the model do not usually impact it. These variables are sometimes referred to as independent variables as opposed





to dependent or endogenous variables, which are usually explained by the mathematical relationships in the model. While endogenous variables can be manipulated, exogenous ones are generally uncontrollable.

Neoclassical or exogenous theory of growth starts from the neoclassical model of Solow (1956). The basic assumptions of the model are: constant returns to scale, diminishing marginal productivity of capital, exogenously determined technical progress and substitutability between capital and labour. As a result, the model highlights the savings or investment ratio as important determinant of short-run economic growth. Technological progress, though important in the long-run, is regarded as exogenous to the economic system and therefore it is not adequately explored by this model. Turning to the issue of convergence divergence, the model predicts convergence in growth rates on the basis that poor economies will grow faster compared to rich ones.

Rather than a direct investment in the education of the workforce, the exogenous model relies on producing a workforce trained to do the jobs that are required. The idea is that those people capable of researching and developing new ideas for the economy will do so anyway and without encouragement.

Romer (1994), whose articles (1986, 1990) initiated the introduction of Endogenous Growth Theory (or New Growth Theory) states:

The phrase “endogenous growth” embraces a diverse body of theoretical and empirical work that emerged in the 1980s. This work distinguishes itself from neoclassical growth by emphasizing that economic growth is an endogenous outcome of an economic system, not the result of forces that impinge from outside.

The theories, known as endogenous growth theories, propose that the introduction of new accumulation factors, such as knowledge, innovation, will induce self-maintained economic growth. Triggered by Romer’s (1986) and Lucas’s (1988) seminal studies, work within this framework highlighted significant sources of growth: new knowledge (Romer, 1990, Grossman and Helpman, 1991), innovation (Aghion and Howitt, 1992). As a result, and in contrast to the neoclassic counterpart, policies are deemed to play a substantial role in advancing growth on a long run basis.

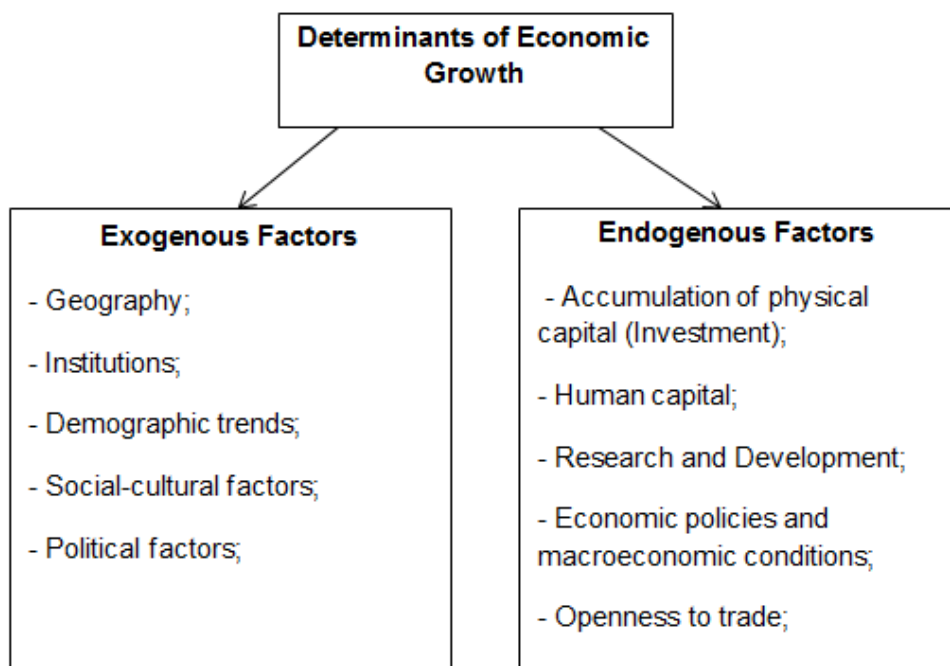
Barro and Sala-i-Martin (1995) state: “The determination of long-run growth within the model, rather than by some exogenously growing variables like unexplained technological progress, is the reason for the name ‘endogenous growth’.”

A cornerstone of endogenous growth is education, new knowledge, innovation, R&D. Great investment in education will result in a highly skilled workforce. This workforce will then move on into employment in research positions, developing a new and more efficient economy and creating sustained domestic growth.



The idea of promoting the next generation goes hand-in-hand with investment in technology and the "ideas" economy. Throughout history, economic growth has been driven by the development of new technologies. The industrial revolution in the now-developed world saw groundbreaking discoveries that led such countries to become economic powers.

**Figure 1. Determinants of Economic Growth**



Source: Authors' representation

The Endogenous Growth Theory is helping to understand the ongoing change from resource-based economy to a knowledge based economy. Thus, Romer and Griliches (1993) state:

No amount of saving and investment, no policy of macroeconomic fine-tuning, no set of tax and spending incentives can generate sustainable economic growth unless it is accompanied by the countless large and small discoveries that are required to create more value from a fixed set of natural resources.

A crucial feature of Solow's model is that a variation in the endogenous variable, savings rate, affects the tilt of the growth trend in the short run but not in the long run. In the long run, it can only bring about a lift in the level of the trend

because of the diminishing marginal productivity of capital. The new growth theory has attempted to prevent diminishing marginal productivity or to slow its decline through introduction of accumulation of human capital, knowledge, experience, acceleration of R&D, inventions and innovations, increasing the number of intermediate capital goods of new designs and the number of final goods and their varieties with quality improvements and consideration of expansion of the size of markets.

In the observed economic literature, the terms exogenous and endogenous are used mainly in relation to technological progress (or ‘residual’ in exogenous theory) i.e. knowledge, innovations, human capital, R&D. Determinants of economic growth usually classified as direct and indirect factors; economic and non-economic factors; intensive and extensive factors and etc. Nevertheless, in Figure 1 we have classified the main determinants of economic growth by dividing them into exogenous and endogenous ones. Basically, many of these determinants here in some extent can belong to both groups of determinants. At division, we adhered to the principle that exogenous factors are generally predetermined, and while endogenous variables can be manipulated, exogenous ones are generally uncontrollable.

## 2. Determinants Affecting Economic Growth

As we all know from the economic growth theories, one of the basic determinants of growth is physical capital. The rate of accumulation of physical capital is one of the main factors determining the level of real output per capita. Capital is the oldest known determinant of economic growth. In any economy, the production of goods and services happens every day. Physical capital is part of the production process; what economists call a factor of production. It includes things like buildings, machinery, equipment, computers and etc. Investment in capital plays a crucial role in accumulation of physical capital. Thus, investment is the fundamental determinant of economic growth identified by both neoclassical and endogenous growth models. Many scientific works and empirical studies devoted to examining the relationship between investment and economic growth (Kormendi and Meguire, 1985; Levine and Renelt, 1992; Mankiw *et al.*, 1992; Auerbach *et al.*, 1994; Barro and Sala-i-Martin, 1995; Sala-i-Martin, 1997; Podrecca and Carmeci, 2001).

Foreign Direct Investment has played a crucial role of internationalizing economic activity and it is a primary source of technology transfer and economic growth. This major role is stressed in several models of endogenous growth theories. The empirical literature examining the impact of FDI on growth has provided more-or-less consistent findings affirming a significant positive link between the two (e.g. Borensztein *et al.*, 1998; Hermes and Lensink, 2003; Lensink and Morrissey, 2006 as cited in Petracos and Arvanitidis, 2008).



Human capital is the key source of growth in endogenous growth models and one of the extensions of the neoclassical model. In the classical theory of economic growth, labour productivity is regarded as an exogenous factor which depends on the ratio between workforce and physical capital, plus other factors (technical progress), but the role of education on potential growth of productivity was not taken into account. The new endogenous theory of economic growth developed in the early 80s took into account this shortcoming of the classical theory emphasizing the importance of education and innovation in long-term economic growth.

Given the term 'human capital' refers principally to workers' acquisition of skills, knowledge and know-how through education and training, the majority of studies have measured the quality of human capital using proxies related to education (e.g. school-enrolment rates, scientific skills and etc.). On these bases, a large number of studies have found evidence that an educated labour force is a key determinant of economic growth. Thus, Barro (1992) notes "Countries that start with a higher level of educational attainment grow faster for a given level of initial per capita GDP and for given values of policy-related variables." He also adds "Another dimension is health status. Measures of life expectancy-a proxy for health status-turn out to have substantial explanatory value for economic growth and fertility...". He also notes that the faster a country grows, the greater its current level of human capital growth, since physical capital expands rapidly to match a high contribution of human capital.

Nelson and Phelps (1966) highlight "...the rate of return to education is greater the more technologically progressive is the economy". Here they stress that a country with more human capital would be more adept at the adaptation of technologies that were discovered elsewhere, hence the higher the country's growth rate. There have been other scholars stating that increase in human capital would result in rapid transitional growth (Sachs and Warner, 1997). Paul Romer in his work *Endogenous Technological Change* (1990) highlights "...the stock of human capital determines the rate of growth..." and "...having a large population is not sufficient to generate growth". It is worth noting the works of Barro and Lee (1993) investigating the effects of educational attainment on economic growth.

Bassanini and Scarpetta (2001) studying a series of data for the period of 1971 to 1998 concluded that increased duration of schooling by one year leads to an increase in GDP per capita by 6%. Blundell *et al.* (1999) by reviewing and summarizing the existing literature and empirical works on the returns to education and training for the individual, the firm and the economy at large, confirmed strong positive correlation between education level and economic growth.

Other works have also studying the human capital as one of the main determinant of economic growth (e.g. Barro and Sala-i-Martin, 1995; Benhabib and Spiegel, 1994; Hanushek and Kimko, 2000).

Expenditure on research and development (R&D) can be considered as an investment in knowledge that translates into new technologies, innovations as well



as more efficient ways of using existing resources of physical and human capital. Innovation and R&D activities can play a major role in economic development increasing productivity and growth, due to increasing use of technology that enables introduction of new processes and products. First works devoted to R&D, considered as a factor of economic growth belong to the main Endogenous Growth theorists: Romer (1986; 1990), Grossman and Helpman (1991), Aghion and Howitt (1992). In general, these scientists state that introduction of new factors, such as knowledge, innovation, and the like, will induce self-maintained economic growth. A key factor in the endogenous growth theory of Paul Romer (1986; 1990) is the variable called "knowledge". It assumes that the information contained in the inventions and discoveries are available to everyone and can be used at the same time. Thus, the rate of economic growth is in theory of Romer directly dependent on the value of human capital, focused in obtaining new knowledge. Grossman and Helpman (1991), on the example of two countries trading with each other, have shown that subsidies for R&D in a country that has a relatively scientific and technical excellence, there will be recorded an increase in the overall rate of economic growth. According to Aghion and Howitt (1992), economic growth is driven by technological progress, which in turn is ensured by competition between research firms, generating and implementing long-term products and technological innovation.

It is necessary to emphasize the role of the government in attracting investments to R&D and its regulation. Thus, Nadiri (1993) relates underinvestment in R&D with spillover effects, which expands with increasing globalization of the world economy. The investment to R&D can be influenced by government intervention, both through direct provision and funding, and also through indirect measures such as tax incentives and protection of intellectual property rights to encourage R&D (Cameron, 1998).

Economic policies and macroeconomic conditions are also considered as one of determinants of economic growth. Economic policy refers to the actions that governments take in the economic field. It covers the systems for setting levels of taxation, government budgets, the money supply and interest rates as well as the labour market and etc. Thus, in general economic policies can be divided into fiscal and monetary policies. On how wisely a state uses economic policy determines the macroeconomic condition in the country. According to Fischer (1993) macroeconomic conditions are regarded as necessary but not sufficient conditions for high economic growth. In general, a stable macroeconomic environment may favour growth, especially, through reduction of uncertainty, whereas macroeconomic instability may have a negative impact on growth through its effects on productivity and investment.

The following issues have generally been considered as being related to economic policies and macroeconomic conditions: the benefits of establishing and maintaining low inflation, the impact of government deficits on private investment, and the possibility of negative impacts on growth from a too large government



sector (with associated high tax pressure to finance high government expenditure). Several macroeconomic factors with impact on growth have been identified in literature, but considerable attention has been placed on inflation, fiscal policy, monetary policy (budget deficits). Arguments for lower and more stable inflation rates include reduced uncertainty in the economy and enhanced efficiency of the price mechanism. A reduction in the level of inflation could have an overall effect on the level of capital accumulation. Moreover, uncertainty related to volatilities in inflation can discourage firms from investing in projects due to a higher degree of risk. Evidence on the relationship between inflation and growth is somewhat mixed: while there is evidence that investment suffers in cases of high inflation, the relation is less clear in cases of moderate or low inflation (Edey, 1994; Bruno and Easterly, 1998).

With regard to fiscal policy, government expenditure and the required taxes may reach levels where the negative effects on efficiency, and hence growth, starts dominating. These negative effects may be more evident where the financing relies heavily on more “distortionary” taxes (excess burden of taxation) and where public expenditure focuses on “unproductive” activities (Bassanini and Scarpetta, 2003).

Many empirical works scholars are devoted to the study of these determinants of economic growth. Thus, Fisher (1993) finds that growth is negatively associated with inflation, large budget deficits, and distorted foreign exchange markets. Kormendi and Meguire (1985) found no evidence that the growth in the ratio of government consumption to output has any adverse effect on economic growth. Grier and Tullock (1989) find a strong negative correlation between growth of government consumption as a fraction of GDP and real GDP growth rate. Barro (1991) found that per capita GDP growth rate and investment-GDP ratio, are negatively correlated to government expenditure as a share of the GDP. Barro suggested that government consumption induces distortions in the economy and provides no offsetting stimulus to GDP and investment. Easterly and Rebelo (1993) did not find a significant correlation between growth and government consumption share of the GDP. They also concluded that the effects of fiscal variables on economic growth are statistically fragile.

Openness to trade is also considered in the literature as one of the determinants of economic growth. Openness can affect economic growth through several channels such as exploitation of comparative advantage, technology transfer and diffusion of knowledge, increasing scale economies and exposure to competition (Petracos and Arvanitidis, 2008). Openness is usually measured by the ratio of exports to GDP. Sachs and Warner (1995) attempted to construct another openness variable that combined five different indicators: nontariff barriers to trade, average tariff rates, a black market premium, whether the economy is socialist, and government monopolies on export. They also found that openness had a significant positive influence on growth between 1970 and 1989. Dollar and Kraay (2004) concluded that globalization leads to faster growth in poor countries. Dollar (1992) attempted to demonstrate a significant relationship between outward





orientation and growth. Likewise, there are many empirical researches investigating the relationship between openness and growth. Many of them have found that economies that are more open to trade have higher GDP per capita and grow faster. But, there are several scholars who have criticized the robustness of these findings especially on methodological and measurement grounds. Thus, Rodriguez and Rodrik (2000) re-estimated Sachs and Warner's regressions and suggested that only two out of the five indicators account for the bulk of the variation in the data. They also criticized the robustness of Dollar's findings on the relationship between outward orientation and growth.

Although the important role institutions play in shaping economic performance has been acknowledged long time ago, it is not until recently that such factors have been examined empirically in a more formal way (see Knack and Keefer, 1995; Mauro 1995; Hall and Jones, 1999; Acemoglu *et al.*, 2002; Rodrik *et al.*, 2004). Rodrik (2000) highlights five key institutions (property rights, regulatory institutions, institutions for macroeconomic stabilization, institutions for social insurance and institutions of conflict management), which not only exert direct influence on economic growth, but also affect other determinants of growth such as the physical and human capital, investment, technical changes and the economic growth processes. On these grounds Easterly (2001) argues that none of the traditional factors would have any impact on economic performance if there had not been developed a stable and trustworthy institutional environment (Petracos and Arvanitidis, 2008).

Political factors and economic growth. Many scientific works are devoted to the study of effects of political factors on economic growth (Lipset, 1959; Kormendi and Meguire, 1985; Grier and Tullock, 1989; Lensink *et al.*, 1999). It is not a secret that a highly unstable political regime brings on uncertainty, discouraging investment and, consequently, hindering economic potential. But it is not only the stability of the regime that influences growth dynamics; it is also its type. For instance, the level of democracy is found to be associated with economic growth; though this relation is much more complex. Democracy may both slow and enhance economic growth depending on the various channels that it passes through (Alesina *et al.*, 1994, as cited in Petracos and Arvanitidis, 2008). In the recent years a number of researchers have made an effort to measure the quality of the political environment using variables such as political instability, political and civil freedom, and political regimes. Brunetti (2002) distinguishes five categories of relevant political variables: democracy, government stability, political violence, political volatility and subjective perception of politics.

Recently there has been a growing interest in how various social-cultural factors may affect growth (see Granato *et al.*, 1996; Temple and Johnson, 1998; Inglehart and Baker, 2000; Zak and Knack, 2001). Trust is an important variable that belongs in this category. Trusting economies are expected to have stronger incentives to innovate, to accumulate physical capital and to exhibit richer human resources, all of which are conducive to economic growth (Knack and Keefer,





1997). Ethnic diversity, in turn, may have a negative impact on growth by reducing trust, increasing polarization and promoting the adoption of policies that have neutral or even negative effects in terms of growth (Easterly and Levine, 1997). Several other social-cultural factors have been examined in the literature, such as ethnic composition and fragmentation, diversity in language or in religion, beliefs, attitudes and the like, but their relation to economic growth seems to be indirect and unclear. For instance, cultural diversity may have either a negative impact on growth due to emergence of social uncertainty or even to social conflicts, or a positive effect since it may give rise to a pluralistic environment where cooperation can flourish (Petracos and Arvanitidis, 2008).

The important role of geography on economic growth has been long recognized. Though, over the last years there has been an increased interest on these factors since they have been properly formalized and entered into models (Gallup *et al.* 1999). Researchers have used different variables as proxies for geography like soil quality and disease ecology, distances from the equator, average temperatures and average rainfall, proportion of land within certain distance from the coast. There have been a number of empirical studies (Sachs and Warner, 1997; Bloom *et al.* 1998; Masters and McMillan, 2001, as cited in Petracos and Arvanitidis, 2008) affirming that natural resources, climate, topography and 'landlockedness' have a direct impact on economic growth affecting (agricultural) productivity, economic structure, transport costs and competitiveness.

Demographic trends, like population growth, population density, migration and age distribution, is believed to play the major role in economic growth (Kelley and Schmidt, 1995; Bloom and Williamson, 1998; Bloom and Finlay, 2009 as cited in Petracos and Arvanitidis, 2008). High population growth could have a negative impact on economic growth influencing the dependency ratio, investment and saving behaviour and quality of human capital. The composition of the population is believed to have vital effect on growth. Large working-age populations are believed to positively affect economic growth, in contrast to populations with many young and elderly dependents.

### **3. Economic Growth in the EU's EaP Countries and Its Correlation with Determinants (methodology and data description)**

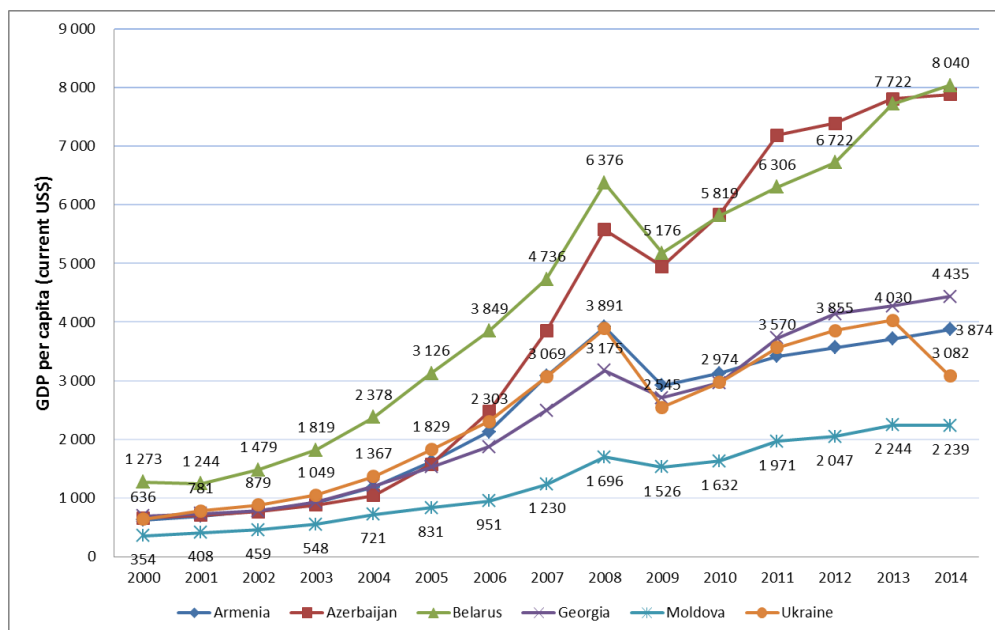
One of the main indicators of economic growth of the country is the nominal GDP and GDP per capita. In terms of the size of economy the largest one is Ukraine with a GDP of about 131 Bn. US\$. Comparable in economy size are Azerbaijan and Belarus with a GDP of about 76 Bn. US\$ each. The other three countries: Armenia, Georgia and Moldova are relatively smaller in size of the economies with a GDP between 8 and 16 bn. US\$. A moderate growth of GDP is observed in the three countries. More rapid GDP growth is observed in Azerbaijan and Belarus. In Ukraine, there are periods of sharp economic downturn during the



world economic crisis and the current conflict in Ukraine.

When considering the GDP per capita dynamics (Figure 2), the picture becomes slightly different. In this case Azerbaijan and Belarus are better positioned, with a GDP per capita with more than 8 thousand US\$. The second group of countries with a GDP per capita of 3 to 4 thousand US\$ includes Ukraine, Georgia and Armenia. Moldova's GDP per capita as of January 1, 2015 was of 2.24 thousand US\$. Thus, we can highlight Azerbaijan and Belarus as relative leaders among EU's EaP countries.

**Figure 2. GDP Per Capita Dynamics in the EaP Countries in 2000-2014 (current US\$)**



Source: World Bank database

In regards of determinants affecting economic growth, many of them are not backed up by precise definition and statistical data, and concepts like human capital, institutions, political factors, economic policies mentioned above are of amorphous nature and are not easily amenable to statistical handling. These are compound and complex variables and have to be approximated by proxies.

Thus, in order to determine the correlation of the determinants with economic growth we selected the following independent variables (sets of data) for the period 2000 - 2014 from World Bank database (Table 1):



**Table 1. Selected Independent Variables Related to Determinants of Economic Growth**

<b>Determinants of Economic growth</b>		<b>Indicators</b>	<b>Description</b>
Accumulation of Physical Capital	- FDI inflows;		- Foreign direct investment, net inflows (% of GDP);
	- GFCF;		- Gross fixed capital formation (% of GDP);
Human Capital	- Tertiary education;		- Enrolment in tertiary education per 100 thousand inhabitants;
	- Labour force;		- Labour force (total, number of persons);
R&D	- R&D expenditure;		- R&D expenditure (% of GDP);
	- Hightech exports;		- High-technology exports (current US\$);
Economic Policies and Macroeconomic Conditions	- Inflation;		- Inflation, GDP deflator (annual %);
Openness to Trade	- Exports;		- Exports (% of GDP);
Institutions	- Government effectiveness;		- Government effectiveness (estimate);
	- Rule of law;		- Rule of law (estimate);
	- Control of corruption;		- Control of corruption (estimate);
Political Factors	- Political stability and absence of violence/terrorism;		- Political stability and absence of violence/terrorism (estimate);
Geography	- Natural resources rents;		- Total natural resources rents (% of GDP);
Demographic trends	- Population growth;		- Population growth (%);
	- Active population share;		- Population of age 15-64 (% of total)

Source: Selected by author from World Bank database

The most common measure of correlation in Statistics is the Pearson Correlation. Sets of data were analysed by using SPSS software. The results can be observed in Annex 1 to the paper.

#### 4. Analysis of results

According to the results obtained (Annex 1) we found significant and strong correlation of almost all variables except variables related to Economic policies and macroeconomic conditions (Inflation), except Moldova which showed strong negative correlation. Openness to trade (Exports) showed strong positive correlation for Georgia and strong negative correlation for Moldova and Ukraine. Unexpectedly variables related to Accumulation of physical capital (FDI inflows; GFCF) showed moderate negative correlation for Azerbaijan, strong positive correlation for Belarus and no correlation for the rest countries. However, some of the variables related to Human capital (Tertiary education) showed both strong positive correlation for Armenia, Belarus, Moldova and Ukraine, and negative for Azerbaijan and Georgia, which partially can be explained by small number of observations. Strong positive correlation can be observed with variables related to Demographic trends (Population growth; Active population share). Also, strong positive correlation of economic growth can be observed with variables related to Political Factors (Political stability and absence of violence/terrorism) and variables related to Institutions (Rule of law; Government effectiveness) which is in line with initial hypothesis and empirical results obtained in other studies. Variable “Control of corruption” showed strong positive correlation for Georgia and moderate correlation for Belarus.

Determinants related to Geography (Natural resources rents) have positive correlation for Armenia, Georgia and Ukraine and negative correlation for Belarus. Unexpectedly for Azerbaijan this variable does not correlate with economic growth which is strange taking into account that the country is a relatively resource-based economy. Variables related to R&D (Hightech exports) showed strong positive correlation with economic growth. However, another variable (R&D expenditure) did not show or even showed negative correlation with economic growth, which somehow contradicts with our hypothesis and theories. However, taking into account the insignificant amount of R&D expenditure in these countries that was predictable.

#### Conclusions

Literature on economic growth showed that there are many factors affecting economic growth and having reviewed it we have determined the most important determinants affecting economic growth and have classified them by dividing into exogenous and endogenous ones. Thus, as exogenous ones we have chosen Geography, Institutions, Demographic trends, Social-cultural factors and Political factors. And as endogenous: Accumulation of physical capital, Human capital, Research and development, Economic policies and macroeconomic conditions, and Openness to trade. Basically, many of these determinants here in some extent can



belong to both groups of determinants. At division, we adhered to the principle that exogenous factors are generally predetermined, and while endogenous variables can be manipulated, exogenous ones are generally uncontrollable. This classification in certain extent contributes to determination of internal and external economic growth reserves (factors) of country. At the same time, according to the author, economic growth based on endogenous factors is more sustainable and long-term.

Having considered GDP per capita dynamics in EU's EaP countries in the period 2000-2014, a rapid economic growth can be observed in Azerbaijan and Belarus with GDP per capita around 8 thousand US\$ and moderate growth in Georgia and Armenia with GDP per capita from 3.8 to 4.4 thousand US\$. In Ukraine there is a decrease in this indicator since the beginning of the recent conflict. In Moldova the growth of the indicator is also moderate. Thus, we can highlight Azerbaijan and Belarus as relative leaders among EU's EaP countries.

Having selected independent variables (proxies) related to determinants of economic growth we checked them on correlation with economic growth (GDP per capita) and have come to the following results (Annex 1) and conclusions. We found significant and strong correlation of almost all variables except variables related to Economic policies and macroeconomic conditions (except Moldova). Openness to trade (Exports) showed strong positive correlation for Georgia and strong negative correlation for Moldova and Ukraine. Unexpected insignificant correlation of Accumulation of physical capital determinants in most EU's EaP countries as well as other determinants deserve further research.

Strong positive correlation can be observed with variables related to Demographic trends. Also, strong positive correlation of economic growth can be observed with variables related to Political Factors and variables related to Institutions which is in line with initial hypothesis and empirical results obtained in other studies. Variable "Control of corruption" showed strong positive correlation for Georgia and moderate correlation for Belarus.

Given the experience of developed countries and resource-based orientation of economies of many Post-Soviet countries, including EaP countries, it seems necessary to move from a resource-based economy to knowledge based economy with the strengthening of the role of the endogenous determinants of economic growth like Human capital, R & D and others.

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## Annex 1. Result of Analysis of Sets of Data (independent variables) Related to Endogenous and Exogenous Determinants of Economic Growth

			Correlations					
			Armenia	Azerbaijan	Belarus	Georgia	Moldova	Ukraine
Determinants of growth	Variables / Indicators	Coefficients	GDP_per capita currentUS\$	GDP_per capita currentUS\$	GDP_per capita currentUS\$	GDP_per capita currentUS\$	GDP_per capita currentUS\$	GDP_per capita currentUS\$
Accumulation of Physical Capital	FDI inflows	Pearson Corr	,184	-,582	,640	,030	-,133	,319
		Sig. (2-tailed)	,513	,023	,010	,917	,636	,246
		N	15	15	15	15	15	15
	GFCF	Pearson Corr	,439	-,580	,873	-,433	,497	-,023
		Sig. (2-tailed)	,102	,023	,000	,107	,059	,936
		N	15	15	15	15	15	15
Human Capital	Tertiary education	Pearson Corr	,748	-,911	,815	-,550	,577	,622
		Sig. (2-tailed)	,001	,001	,000	,034	,031	,013
		N	15	9	15	15	14	15
	Labor force	Pearson Corr	,153	,976	-,903	-,962	-,913	-,676
		Sig. (2-tailed)	,587	,000	,000	,000	,000	,006
		N	15	15	15	15	15	15
R&D	R&D expenditure	Pearson Corr	,135	-,670	,192	-,799	,253	-,819
		Sig. (2-tailed)	,646	,009	,510	,017	,453	,000
		N	14	14	14	8	11	14
	Hightech exports	Pearson Corr	,580	,594	,920	-,490	,852	,857
		Sig. (2-tailed)	,023	,020	,000	,064	,000	,000
		N	15	15	15	15	15	15
Economic Policies and Macroeconomic Conditions	Inflation	Pearson Corr	,348	-,040	-,386	-,236	-,614	,063
		Sig. (2-tailed)	,203	,889	,155	,397	,015	,824
		N	15	15	15	15	15	15
Openness to Trade	Exports	Pearson Corr	-,423	,246	-,083	,802	-,777	-,835
		Sig. (2-tailed)	,116	,376	,769	,000	,001	,000
		N	15	15	15	15	15	15
Demographic trends	Population growth	Pearson Corr	,688	,620	,855	-,612	,869	,920
		Sig. (2-tailed)	,005	,014	,000	,015	,000	,000
		N	15	15	15	15	15	15
	Active population share	Pearson Corr	,942	,955	,868	,941	,931	,905
		Sig. (2-tailed)	,000	,000	,000	,000	,000	,000
		N	15	15	15	15	15	15
Geography	Natural resources rents	Pearson Corr	,810	-,351	-,798	,715	-,215	,524
		Sig. (2-tailed)	,000	,200	,000	,003	,442	,045
		N	15	15	15	15	15	15
Institutions	Government effectiveness	Pearson Corr	,529	,618	,086	,966	,580	-,087
		Sig. (2-tailed)	,052	,018	,771	,000	,030	,766
		N	14	14	14	14	14	14
	Rule of law	Pearson Corr	,262	,533	,774	,959	,742	,551
		Sig. (2-tailed)	,365	,050	,001	,000	,002	,041
		N	14	14	14	14	14	14
Control of corruption	Pearson Corr	,447	,076	,547	,913	,197	-,076	
	Sig. (2-tailed)	,109	,797	,043	,000	,500	,796	
	N	14	14	14	14	14	14	
Political Factors	Political Stability and absence of violence/terrorism	Pearson Corr	,486	,815	-,365	,791	,538	,063
		Sig. (2-tailed)	,078	,000	,199	,001	,047	,831
		N	14	14	14	14	14	14

Notes:

	Strong correlation (r= 0,6-1)
	Moderate correlation (r= 0,4-0,6)
	Weak, no correlation and/or insignificant (r= 0-0,4)

Source: Author's calculation



# EUROPEAN NEIGHBOURHOOD POLICY AND FDI: EASTERN DIMENSION

Krzysztof FALKOWSKI\*, Joanna STRYJEK\*\*

**Abstract:** *The paper (1) analyses the volume, dynamics and structure of inward FDI flows to six transition economies in Eastern Europe, covered by the Eastern Partnership initiative under the EU's European Neighbourhood Policy (i.e., Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine), and (2) explores the potential role played in these flows by factors related to the advancement of the countries' transition process. The results of the study indicate that inward FDI flows varied greatly across the countries in question over the period 2004-2014, and depended mostly on (1) the countries' progress in introducing market reforms, (2) their stability and the democratization of the political systems (having regard also to the geopolitical situation, both internal and external), and (3) general conditions for doing business in them.*

**Keywords:** *FDI; FDI determinants; EU; European Neighbourhood Policy; ENP; transition; transition economies*

## Introduction

The aim of the paper is to analyse the volume, dynamics and structure of FDI capital flows (flows as well as stocks) to six transition economies (i.e., Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) in years 2004-2014, as well as to explore the potential role played in these flows by the factors, which are related to the advancement of the countries' transition process, i.e.: (1) progress achieved in implementing market reforms, (2) advancement in transition of political systems, and (3) general conditions for doing business. All the transition economies in question represent the so-called Eastern Dimension of the European Neighbourhood Policy (ENP); for the purpose of this paper they are called Eastern Dimension countries (EDCs).

Many theoretical models sought to explain FDI flows in the world economy. They include approaches referring to: neoclassical trade theory (i.e., Heckscher-Ohlin model); behaviour theory; product life cycle; market imperfections; product differentiation; oligopoly markets; institutions; OLI (Ownership–Location–

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Internationalization) paradigm; new theory of trade; and others (for a detailed overview of theories on FDI determinants see, e.g., S. Assunção *et al.*, 2013).

The abovementioned theoretical approaches, as well as other theoretical models, compete to identify factors conducive to attracting FDI inflows. The factors indicated by the models have been verified by numerous empirical studies. However, the empirical research has not resulted in the selection of one model, better reflecting the reality than others. On the contrary, as I. Faeth (2009) indicates, the empirical evidence strengthens the idea that different models, which aim to explain FDI determinants, do not necessarily replace each other – rather each of them finds some support through regression analysis. That is why FDI should not be explained by a single theoretical model, but more broadly by a combination of factors derived from a variety of models (Faeth, 2009).

As far as empirical studies on FDI determinants in (selected) transition economies are concerned, they examine the importance of a wide range of factors, such as: host country GDP and GDP per capita, labour costs, productivity, tax burden, market potential, market institutions (e.g., market stabilizing institutions, market creating institutions), foreign exchange, the distance between source and host country, the level of openness of an economy, private sector share, service sector share, advancement of reforms in infrastructure sector, risk credit rating, corruption, natural resources, cultural proximity, and others – for a detailed review of the empirical studies on FDI determinants in transition economies see, e.g., B. Dauti (2015). Although the literature on FDI flows to transition economies is extensive, the empirical studies are hardly ever based on data for individual EDCs (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine). This paper focuses on the abovementioned group of countries and explores the significance of the potential FDI determinants, related to the advancement of the countries' transition process.

The thesis of the paper is that FDI capital flows to the ENP's Eastern Dimension countries varied greatly across the countries in question over the period 2004-2014, and depended mostly on (1) the countries' progress in introducing market reforms, (2) their stability and the democratization of the political systems (and also the geopolitical situation, both internal and external) as well as (3) the general business environment.

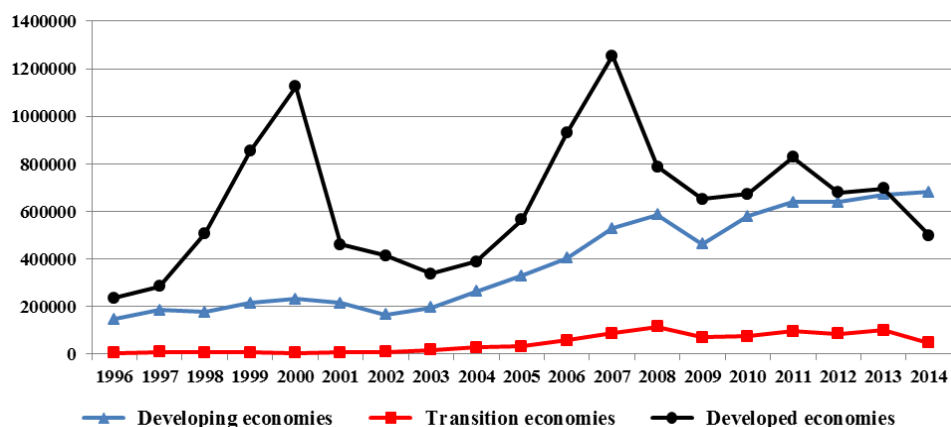
The argument is structured as follows. The first section serves as an introduction and presents FDI determinants identified in the literature on transition economies. The second section provides an analysis of inward FDI flows to the EDCs during the 2004-2014 period. In the third section, a study of the role played in the abovementioned flows by the factors indicated in the thesis of this paper is presented. Conclusions follow.



## 1. The inflow of FDI to the ENP's Eastern Dimension countries (2004-2014)

The European Neighbourhood Policy was launched at the time when the conditions for the inflow of FDI to its EDCs seemed to be exceptionally favourable, especially as far as the investment originated from the EU member states was concerned. The EU's eastward enlargement of 2004 made some of the EDCs (i.e., Ukraine and Belarus) immediate EU neighbours, and thus created important transportation and logistical advantages for the EU's investors. Additionally, that was just the beginning of a rapid global expansion of FDI, which reflected the investors' optimism towards capital investments.

**Figure 1. Inward FDI flows to the developing, transition and developed economies in 1996-2014 (USD at current prices and current exchange rates; in millions)**



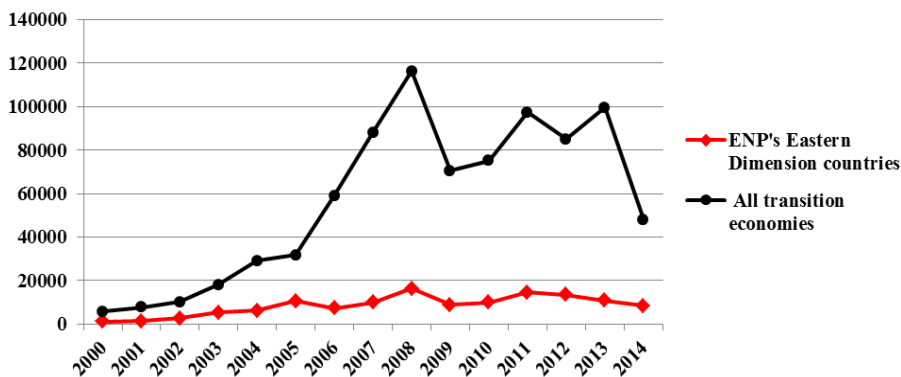
Source: Author's representation based on data from UNCTAD, UNCTADstat database, <http://unctadstat.unctad.org> (accessed 2 April 2016).

Figure 1 presents FDI flows to the developing, transition and developed economies over the period 1996-2014. Admittedly, for each of the abovementioned groups of countries, the year 2004 constituted the beginning (or a continuation) of an upward trend as far as the inflows of FDI are concerned. The trend lasted until 2007 or 2008 (depending on the region) and was closely related to the onset of the global economic crisis. It was particularly strong in the transition economies, more gentle in the case of the developed economies, and much less prominent in the developing economies (the strength of the trend in the transition economies is hard to notice in Figure 1 because of the scale of the figure, but it is clearly visible in Figure 2). In consequence, in 2007 the inflows of FDI to the transition economies were almost 5 times higher in comparison to the year 2003. However, interestingly,

the upward trend observed in the transition economies overall was not reflected in the total FDI inflows to the EDCs (Figure 2) as there was a drop in the inflows of FDI to the EDCs in 2006. It was caused by a decline in FDI inflows to two most popular (at that time) FDI destinations among the EDCs – Ukraine and Azerbaijan. The decline was so large that it determined the results achieved by the EDCs overall, despite the increases in FDI inflows to Georgia, Armenia, Belarus and Moldova (Figures 2 and 3).

The above data indicate two important features of the EDCs when it comes to FDI, that is, the countries neither accurately reflected the world's FDI trends nor were similar to each other as far as the inflows of FDI were concerned. In other words, the EDCs represent such a heterogeneous group of countries in terms of their inward FDI that they have to be analysed individually.

**Figure 2. Inward FDI flows to the transition economies and to the ENP's Eastern Dimension countries in 2000-2014 (USD at current prices and current exchange rates; in millions)**



Source: Author's representation based on data from UNCTAD, UNCTADstat database, <http://unctadstat.unctad.org> (accessed 2 April, 2016).

Figure 3 presents FDI inflows to individual EDCs over the period 2004-2014. In 2004, Azerbaijan was the most popular FDI destination within the group of countries in question, and it attracted FDI amounting to USD 3556.1 million (Figure 3). This was a record result for that small economy in its history, and the result was achieved due to large oil-related FDI inflows. The second leading FDI destination in 2004 was Ukraine, attracting FDI worth USD 1715 million (Figure 3). The list of companies with major FDI projects in Ukraine included not only oil companies (i.e., Russian Lukoil and British Regal Petroleum) but also manufacturers of consumer goods, construction materials, retailing and telecommunications firms (UNCTAD, 2005, p. 76). Although the value of FDI inflows to Ukraine was pretty high in comparison to most of the other EDCs, it was relatively small in relation to the size of its economy, measured in terms of the

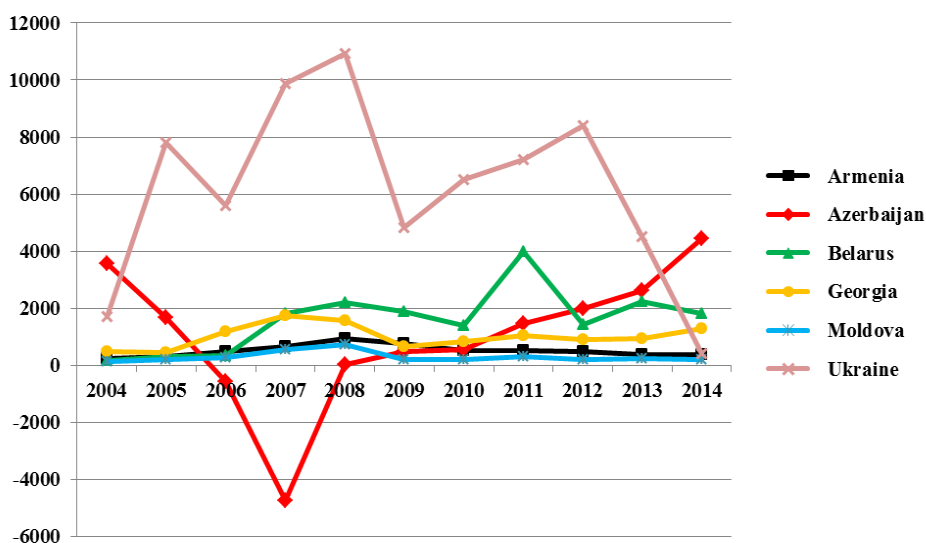




Gross Domestic Product (GDP) – see Figure 4. From this perspective, Azerbaijan was the undeniable leader in that year, and it was followed, respectively, by Georgia, Armenia and Moldova (Figure 4).

In 2005, two major changes took place in the inflows of FDI to the EDCs: (1) a significant decrease in the value of Azerbaijan's inward FDI flows (by over 50% on a year-on-year basis), and (2) a sharp (i.e., by over 350%) increase in the value of Ukraine's inward FDI flows (Figure 3). Due to the changes, Ukraine became a leader among the EDCs in terms of the value of FDI inflows. The biggest deals at that time in Ukraine were made (1) in the iron and steel industry – the purchase of Kryvorizhstal by Mittal Steel (Netherlands/United Kingdom), and (2) in the financial sector – the purchase of Aval Bank by Raiffeisen International from Austria. Nevertheless, concerning the inward FDI-to-GDP ratio, Azerbaijan managed to keep its leading position. It was followed by Ukraine, Georgia and Moldova (Figure 4).

**Figure 3. Inward FDI flows to individual Eastern Dimension countries of the European Neighbourhood Policy in 2004-2014 (USD in current prices and current exchange rates; in millions)**

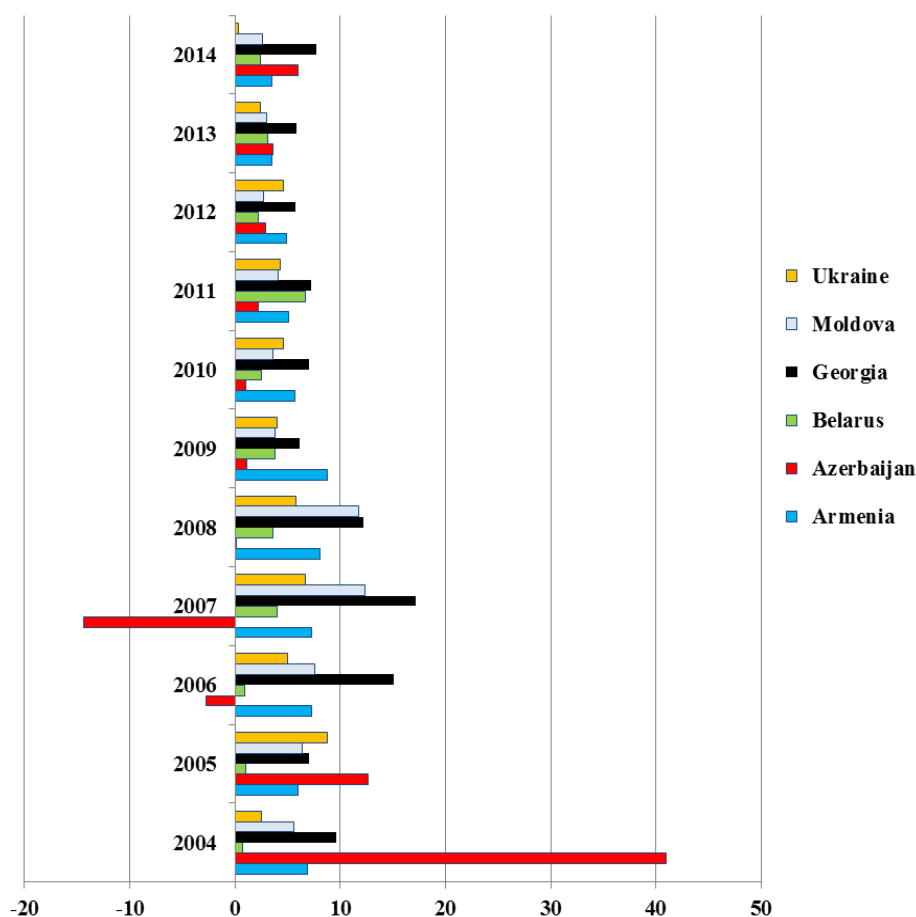


Source: Author's representation based on data from UNCTAD, UNCTADstat database, <http://unctadstat.unctad.org> (accessed 2 April, 2016).

In 2006, the map of inward FDI flows to the EDCs changed again. As it was already mentioned, the overall inward FDI flows to the EDCs decreased, despite the fact that the overall global FDI inflows kept increasing. The drop was caused by two countries: Azerbaijan and Ukraine. In Azerbaijan, the value of

disinvestment by foreign investors exceeded the value of the capital newly invested in the country (Figure 3), and in Ukraine the inflow of FDI decreased by over 28% (on a year-on-year basis). Over the same period, inward FDI flows to the other EDCs increased. The increase was small in almost all the cases, with the exception of Georgia. In Georgia, inward FDI flows reached the level of USD 1170 million, increasing by over 150% (on a year-on-year basis). In consequence, as Georgia's economy is small, the country took the leading position as far as the FDI-to-GDP ratio was concerned; it was followed by Moldova, Armenia and Ukraine (Figure 4).

**Figure 4. Inward FDI flows to individual Eastern Dimension countries of the European Neighbourhood Policy in 2004-2014 (percentage of GDP)**



Source: Author's representation based on data from UNCTADstat database, <http://unctadstat.unctad.org> (accessed 2 April 2016).



Over the period 2007-2008, most of the EDCs attracted relatively high interest of foreign investors in comparison to the previous years. In terms of value, FDI inflows reached the highest level in Ukraine (almost USD 11 billion in 2008); the country attracted large FDI projects, e.g., in the banking, real estate and construction industries (UNCTAD, 2008, p. 67). In terms of the inward FDI-to-GDP ratio, Georgia maintained its leading position (hosting, e.g., Kazakhstan's investment in the oil industry), and all the other countries improved their results, with the exception of Azerbaijan (in 2007, the value of disinvestment by foreign investors significantly exceeded the value of the capital newly invested in Azerbaijan, and in 2008 the inflow of FDI to the country was very small – see Figure 3).

In 2009, inward FDI flows to the EDCs plummeted, which, to a large extent, reflected growing uncertainty among foreign investors over the spread of the economic crisis in the world economy. In 2010, the overall FDI inflows to the EDCs remained on an almost unchanged level. The only country to show the first signs of recovery was Ukraine, in which the inflows of FDI increased by 35%, due to, *inter alia*, the revival of cross-border acquisitions by Russian companies (UNCTAD, 2011, p. 64). Over the following two years, there was a recovery of the overall inward FDI flows to the EDCs. However, while there was a strong increase in FDI inflows to Belarus, Ukraine, Azerbaijan and Georgia, the inflows for the remaining EDCs (i.e., Armenia and Moldova) declined and remained at a low level until 2014 (Figure 3).

In Ukraine, political uncertainties halved FDI inflows in 2013 (in relation to the previous year), partly due to a number of divestments taking place particularly in the banking sector (UNCTAD, 2014, p. 71). The withdrawal of capital from Ukraine by investors (based mainly in Russia and in Cyprus) continued in 2014, and – in consequence – inward FDI flows to Ukraine fell by over 90%, reaching the lowest level in 15 years (UNCTAD, 2015, p. 67).

Although the regional conflict between Russia and Ukraine increased political risk in all the transition economies of South-East Europe, the Commonwealth of Independent States (CIS) and Georgia, some of the EDCs managed to attract higher FDI inflows in 2014 than in the previous years (Figure 3). The most successful in this regard was Azerbaijan, attracting investments primarily in the oil and gas industry.

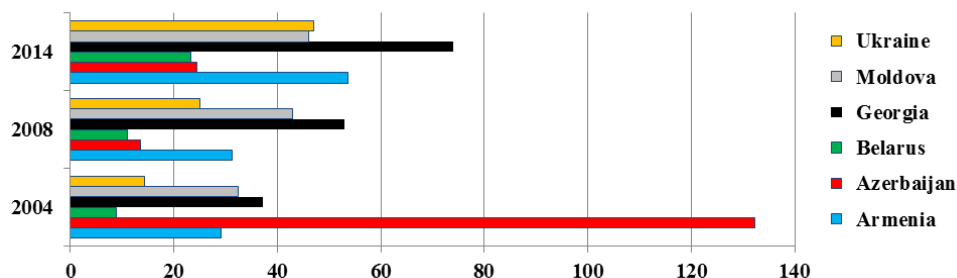
The inflow of FDI to a given host economy is regarded as potentially beneficial. This is mainly because it constitutes a source of additional investment capital resources and can help host countries stimulate economic development (by enabling the transfer of technology, knowledge, managerial know-how, etc.). For these reasons, the launch of the ENP, as the fruit of cooperation between the EU and its less developed neighbours, was expected to increase the inflow of FDI (originated from the EU member states) to the EU's neighbouring countries. As regards the EDCs,<sup>1</sup> these expectations, in most cases, met the reality. However, the share of the EU's investment in the total FDI inflows to the individual EDCs varied

<sup>1</sup> Excluding Belarus due to the lack of data.

widely across the countries in question. In 2004, the share was the highest in Armenia (53.2%) and Ukraine (51%) – see Annex 1.

Since the launch of the ENP, there has been the largest increase in the share of FDI flows from the EU member states in Moldova, where it increased by almost 33 percentage points (p.p.). As far as the other countries are concerned, the share rose by 19 p.p. in Ukraine, 9 p.p. in Georgia and 7.5 p.p. in Azerbaijan. The only country to slightly decrease this share was Armenia (by 1.5 p.p.), but, as it was indicated before, the share was already high in Armenia in 2004 (see details in Annex 1).

**Figure 5. The ENP's Eastern Dimension countries inward FDI stocks (% GDP)**



Source: Author's representation based on data from UNCTAD, UNCTADstat database, <http://unctadstat.unctad.org> (accessed 2 April 2016).

**Table 1. Transition economies: inward FDI stocks (% GDP)**

Country	2004	2008	2014
Albania	11.54	22.27	33.77
Armenia	29.06	31.24	53.61
Azerbaijan	132.27	13.53	24.54
Belarus	8.89	11.00	23.29
Bosnia and Herzegovina	22.52	32.61	40.87
Georgia	37.23	53.04	73.93
Kazakhstan	51.86	44.24	62.92
Kyrgyzstan	26.32	26.84	48.43
Montenegro	-	0	110.59
Republic of Moldova	32.48	42.86	46.00
Russian Federation	20.70	12.99	20.29
Serbia	-	38.40	65.16
Tajikistan	12.11	16.71	20.23
FYR Macedonia	38.60	41.69	45.39
Turkmenistan	16.24	24.31	53.58
Ukraine	14.29	24.98	47.11
Uzbekistan	9.15	9.74	14.48



Source: UNCTAD data, UNCTADstat database, <http://unctadstat.unctad.org> (accessed 2 April 2016).

**Table 2. European Union member states: inward FDI stocks (% GDP)**

Country	2004	2008	2014
Austria	23.58	34.09	41.46
Belgium	0	164.10	98.53
Bulgaria	39.00	82.64	83.50
Croatia	26.78	40.33	52.01
Cyprus	49.56	60.64	250.45
Czech Republic	48.13	48.12	59.14
Denmark	46.41	29.48	24.21
Estonia	83.30	63.95	74.48
Finland	29.16	29.44	49.35
France	18.96	19.21	25.60
Germany	18.19	17.82	19.30
Greece	11.88	10.75	8.49
Hungary	59.68	56.24	71.74
Ireland	107.57	68.79	150.05
Italy	12.88	13.71	17.33
Latvia	29.66	31.70	45.56
Lithuania	28.21	27.04	30.50
Luxembourg	222.60	227.65	258.52
Malta	67.20	1317.30	1645.85
Netherlands	84.38	73.22	76.81
Poland	33.32	29.65	44.80
Portugal	37.70	40.27	46.76
Romania	26.88	31.11	37.34
Slovakia	65.36	52.45	53.35
Slovenia	20.92	21.52	25.80
Spain	38.10	36.02	51.40
Sweden	51.78	54.25	56.38
United Kingdom	32.22	33.43	56.37

Source: Author's representation based on data from UNCTAD, UNCTADstat database, <http://unctadstat.unctad.org> (accessed 2 April 2016).

According to the statistics, until the end of 2014, the most active EU's investor-countries in the EDCs were Cyprus and the United Kingdom (UK). However, it should be highlighted that a considerable (but difficult to determine accurately) part of Cypriot investments in the EDCs originated *de facto* from Russian investors based in Cyprus. The investors move their businesses to Cyprus to take advantage of the country's financial facilities and favourable tax conditions. In consequence, such a small economy as Cyprus became the EU's leader in terms

of FDI outflows to the EDCs. At the end of 2014, the shares of Cypriot investments in the EDCs' inward FDI stocks (originated from the EU) achieved the levels of: 43% in Belarus, 40% in Ukraine, 20% in Armenia, 14% in Moldova and 9% in Georgia (Annex 2). As regards the investors from the UK, at the end of 2014 the above indicated shares reached the levels of: 39% in Azerbaijan, 26% in Georgia, 7% in Armenia, 6% in Belarus and Ukraine, and 4% in Moldova (Annex 2). The shares of the other EU's investor-countries are presented in Annex 2.

Over the period 2004-2014, the ratio of inward FDI stocks to GDP increased in almost all the EDCs (with the exception of Azerbaijan). In 2014, the ratio ranged from highs of about 74% in Georgia and 54% in Armenia, to 23% in Belarus (Figure 5). The results of the best performing EDCs should be considered as very good in comparison to all the other transition economies, as both Georgia and Armenia belonged to the top 5 countries in this regard (the FDI-to-GDP ratios in the other top 5 transition economies were as follows: Montenegro – 111%, Serbia – 65%, Kazakhstan – 63%; for the data relating to the other transition economies see Table 1). Furthermore, the results achieved by most of the EDCs should be also regarded as good in comparison to the neighbouring EU members; for example, in 2014, the ratio of inward FDI stocks to GDP achieved the level of 83.5% in Bulgaria, 45% in Poland and 37% in Romania (for the data relating to the other EU member states see Table 2).

## 2. Determinants of FDI flows to the Eastern Dimension countries

At first, a general observation should be made for transition countries. Namely, in countries which, by definition, take active steps to bring about a successful and effective change of their political and economic system towards becoming a pluralist democracy (the desired effect of political transition) and establishing a market economy (the desired effect of economic transition), their investment attractiveness, in particular for foreign capital, depends mostly on three main factors (Lankes and Venables, 1996; Lankes and Stern, 1998; Barrell *et al.*, 1999; Holland and Pain *n.a.*; Resmini, 2000), which are as follows:

- i. progress achieved in implementing market reforms;
- ii. advancement in transition of their political systems (including their democratization progress); and
- iii. general conditions for doing business prevailing in them.

Hereinbelow, a synthetic analysis of correlation between these most important determinants of investment attractiveness of transition countries, as listed above, and the value of FDI capital (including also from EU countries) invested in EDCs is presented. To this end, accumulated foreign investments (as on 31 December 2014) – total FDI stocks – in these countries have been taken into account as an assumption was made that the only appropriate approach to such an analysis would be to relate progress in systemic transition, which necessarily is the



consequence of a number of decisions taken and reforms implemented during the transition period on the political and economic level, to total FDI stocks in these countries. In order to ensure comparability of results, total FDI stocks in EDCs in 2014 were related to their respective GDPs, which also shows their relative importance for each economy while, importantly, disregarding their size and economic potential. Then, to show progress achieved in implementing market reforms, the presence and stability of the democratic system and general conditions of doing business in EDCs, the results of research done into these areas by, respectively, the European Bank for Reconstruction and Development (“Transition Report”), Freedom House (“Nations in Transit”) and World Bank (“Doing Business”) were used.

### ***2.1 Progress in implementing market reforms in Eastern Dimension countries as a determinant of their investment attractiveness for foreign capital***

One of the key factors determining investment attractiveness of EDCs, and thus also the value of capital from EU countries which has been invested in them, is progress they made in implementing market reforms. In principle, the broader the market economy is, combined with transparent and effective institutions safeguarding market rules and ownership rights along with stable economic growth, the more attractive a given economy is in the eyes of potential foreign investors.

It should be stressed that the systemic transition of EDCs started at the moment of – and was prompted by – the collapse of the Union of Soviet Socialist Republics (USSR), which formally took place in December 1991. Right from the beginning, however, it varied greatly not only in the group of these countries but also among all other post-Soviet countries, in terms of transition strategies adopted and the time when they were formulated and implemented, but also the effectiveness of their execution.

Firstly, as for progress in market reforms in EDCs to date, and with reference to data published by the European Bank for Reconstruction and Development (EBRD), which annually evaluates advancement in transition achieved by EDCs, putting particular stress on the scope and effectiveness of implemented reforms in the areas of changes in the ownership structure (small- and large-scale privatization), governance and enterprise restructuring, price liberalization, trade & Forex system and competition policy, it should be highlighted that among EDCs the leaders in that regard were Georgia and Armenia. In 2014, their total score for progress achieved in economic transition, according to the EBRD, was 3.46 points and 3.44 points, respectively (out of the maximum of 4.33 points). As especially high (maximum score possible for these areas) the EBRD evaluated changes in the areas of price liberalization and trade and foreign exchange system in these two countries, which clearly means that in these areas market rules applied there were fully unhindered. Sadly, the weak points of





Georgia and Armenia, as attested by the EBRD, were visible in too slow changes in the areas of governance and enterprise restructuring, as well as – what is noteworthy – in the area of competition policy. However, the objection that too few pro-market actions were taken in the area of competition policy is in fact raised against all six EDCs (EBRD, 2014).

Secondly, progress made in implementing market reforms in years 2004-2014 in Ukraine and Moldova is deemed by the EBRD to be roughly the same. In 2014, total average scores of these countries were 3.25 points each. Thirdly, Azerbaijan scored 2.92 points, which puts it on the 5th place. EBRD experts saw virtual lack of large-scale privatization, lack of changes in the areas of governance and enterprise restructuring as well as competition policy as this country's biggest weaknesses.

And finally, a definite outsider of all EDCs in terms of introducing market reforms is Belarus (although, up to the mid-1990s, i.e., when A. Lukashenko came to power, there was no indication for that). In 2014, the average score for progress in implementing market reforms in this country, according to the EBRD, was only 2.17 points (out of the maximum of 4.33 points). Suffice to say that out of all post-Soviet countries, only one – Turkmenistan – scored worse (1.77 points), as Turkmenistan's economy is even more centrally planned than that of Belarus. In Belarus, no changes whatsoever towards implementing free market regulations have been observed in the areas of governance and enterprise restructuring, large-scale privatization and competition policy.

Next, when looking at progress in market reforms in individual EDCs, it can be observed that it tends to be generally the bigger, the more these countries are involved in cooperation with the EU under the ENP.

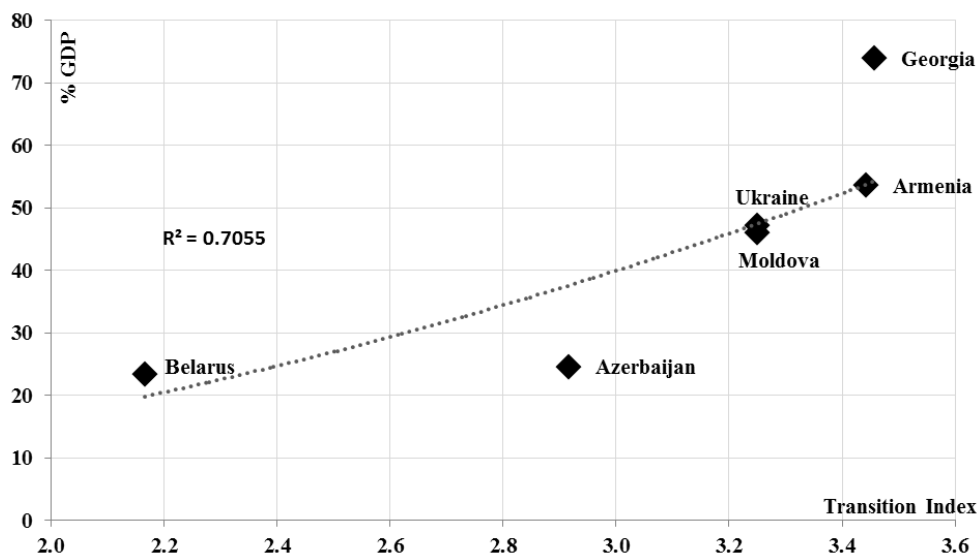
So, if progress in introducing market reforms in individual EDCs is related to total FDI stocks (as a percentage of their GDP), a very strong correlation between these two indicators comes to light (Figure 6). As a result, one can assume that differences in progress made in EDCs are identical with their investment attractiveness for foreign investors, as measured by total FDI stocks.

As data presented in Figure 6 show, by far the most important role (as measured by their relation to GDP) was played by FDIs in these countries where progress in introducing market reforms was the biggest, that is in Georgia (73.93%) and Armenia (53.61%). On the other end of the spectrum was Belarus, where due to the economic policy pursued by A. Lukashenko being far from free market rules, as well as due to a number of other factors of geopolitical nature, total FDI stocks in 2014 did not exceed 23.29% of that country's GDP. However, a much greater progress in economic transition in Azerbaijan than in Belarus (albeit far from the one achieved by Ukraine or Moldova, to say nothing of Armenia or Georgia) was not reflected in a relatively higher share of total FDI stocks in Azerbaijan's GDP as at the end of 2014, which – at just 24.54% – was only fractionally higher than in Belarus. All the same, it also should be noted here that over the recent years a gradual increase in foreign investors' interest in Azerbaijani economy has been



observed, in particular in its part connected with extraction and transmission of energy resources, which is testified by the steady increase in FDI flows (as a percentage of GDP) into that country recorded since 2009 (Figure 4).

**Figure 6. Progress in introducing market reforms\* vs. total FDI stocks in Eastern Dimension countries (as a percentage of their GDP) in 2014**



\* The higher the Transition Index, the higher the level of democratic progress in a given country.

Source: Author's analysis based on data from EBRD (2014) and UNCTAD data, <http://unctadstat.unctad.org> (accessed 2 April, 2016).

## ***2.2. Progress in transition of political systems achieved in Eastern Dimension countries (including the scope of democratization of their political and social life) as a determinant of their investment attractiveness for foreign capital***

Undisputedly, an important determinant of investment attractiveness of any given country, whether for domestic or for foreign capital, is stability and democratization of its political system. In particular, this includes, amongst others, the scope of general political freedom, the strength of democracy and rule of law, the range of civil liberties, economic strategies developed by the ruling parties and the degree to which they have been and are being implemented. It is especially important for economies undergoing systemic transition and characterized by low endogenous capital accumulation, essential to, on the one hand, finance the reforms, and, on the other, to launch the necessary pro-growth investments, giving

the chance to successfully reform the country and to generate economic growth in the long term. Obviously, any political instability, low observance of rule of law, lack of transparency about how the political machinery of the state operates, as well as unsuccessful fight against corruption destabilize the number and scope of investments, especially by foreign capital.

As far as political systems in EDCs are concerned, it should be noted from the outset that not only had these systems developed in the atmosphere of post-Soviet legacy and huge internal challenges to economic transition, but also that Russia's (most often destabilizing) interference with the current affairs in these countries was and still remains extremely important. There are countless examples of such a destabilizing influence, such as Russia's support for the separatist movements in Transnistria in Moldova as well as for the self-proclaimed republics in Donetsk and Luhansk in Ukraine, gaining a political and economic *de facto* control over Belarus, the military conflict with Georgia, or active incitement of the conflict over Nagorno Karabakh between Armenia and Azerbaijan, to mention just a few. Also, it should be added here that in fact all EDCs from the very moment of regaining their independence after the dissolution of the USSR did not really know whether to integrate with Western European structures (which would have required quick changes in their political systems in order to gradually adapt them to EU standards, that is towards a democracy based on political pluralism) or with Russia under the Commonwealth of Independent States and now the Eurasian Economic Union (EaEU).

One of the basic measures of progress achieved in transforming a country's political system, which is – as mentioned above – an important determinant of investment attractiveness of any country, is the actual scope of its democratization. Research into that scope in transition countries, so also in EDCs, is done by Freedom House, which publishes its annual special report on that topic titled "Nations in Transit". While assessing democratization of a given country, Freedom House takes into account the situation prevalent in that country regarding electoral process, civil society, independent media, national democratic governance, local democratic governance, judicial framework and independence, as well as corruption (Freedom House, 2014, p. 3).

According to Freedom House data, there are significant differences between EDCs in democratization of their political systems. Relatively the best in this respect is the situation in Georgia, followed by Ukraine and Moldova. However, this does not mean that no reservations were raised against them; on the contrary, such reservations are made for Ukraine as to the high persistence of corruption and lack of freedom for independent media, and for Moldova – to the areas of judicial framework and independence.

As for transition of the political system and democratization, by far the worst assessment has been given to Belarus and Azerbaijan. These two countries are even considered by Freedom House to be authoritarian (ruled by dictators), where not

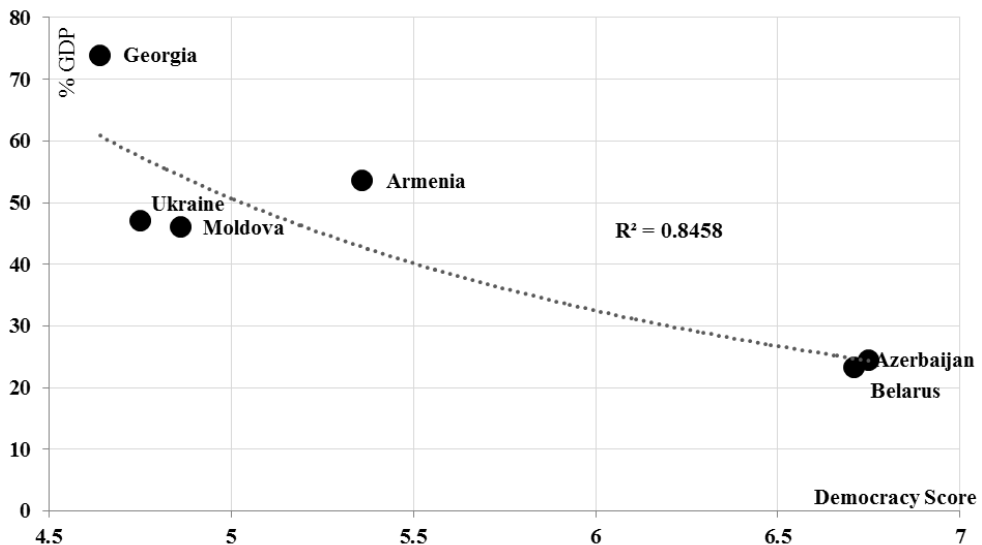


even basic civil liberties are respected by the authorities (even if formally appearances are maintained to the contrary).

With reference to the above, it can be once again reiterated that the scope of political changes towards democratization of the political and social life in EDCs is the bigger, the more a given country is involved in cooperation with the EU under the ENP. Furthermore, if we relate advancement in democratization of individual EDCs, as a measure of their progress towards transforming their political systems, to total FDI stocks (as on 31 December 2014), an interesting correlation can be observed (Figure 7).

Data presented in Figure 7 clearly show that a very strong interdependence (correlation) exists between the democratic progress in a given EDC, being an expression of progress towards transforming its political system, and total FDI stocks (as a percentage of the country's GDP). As at the end of 2014, the highest total FDI stocks in relation to the respective country's GDP were recorded in Georgia, which also in that year was ranked by Freedom House as the EDC with the highest democratization progress and advancement towards transforming the country's political system in the group. At the other extreme were placed, for obvious reasons, Azerbaijan and Belarus. Thus, a general conclusion can be drawn that political changes towards establishing a democracy, rule of law and transparency of political life are indeed an important determinant of flow of FDIs to the EDCs.

**Figure 7. Democratic progress\* vs. total FDI stocks in Eastern Dimension countries (as a percentage of their GDP) in 2014**



\* The lower the Democracy score, the higher the level of democratic progress in a given country.

Source: Author's representation based on data from Freedom House (2014) and UNCTAD data, <http://unctadstat.unctad.org> (accessed 2 April 2016).

However, when analyzing the correlation between the progress achieved by the EDCs in the transition of their political systems towards the democratization of their political and social life, and their attractiveness for foreign capital (which is positive, as indicated above), another interesting aspect should be emphasized, namely Russian direct investments in these countries. While Russian direct investments do constitute part of total FDI stocks in the EDCs, what applies to FDIs from EU countries or from the USA, i.e. the fact that stability and democratization of their political systems plays an important part in taking investment decisions by investors from these countries, does not seem to apply to (and, more often than not, indeed does not apply to) investments from Russia. Many Russian investments are made for purely political or geostrategic gains, and their overriding goal is, on the one hand, to support and reward these post-Soviet countries which are submissive to and cooperate with Russia, and, on the other, to help accomplish the Kremlin's strategy aimed at making them economically more dependent on Russia. For obvious reasons, the progress in political transition achieved by the EDCs is, in fact, of no relevance for them. The best examples to illustrate that are Russian direct investments in Belarus (Annex 1), the volume of which significantly exceeded Russian direct investments in the remaining EDCs over the analyzed period; what is more, these were virtually the only FDIs in this country, as Belarus is widely considered to be far from being democratic. Similarly, it is also mostly for political and geostrategic reasons that Russian, mostly state-owned, companies have been investing for many years in other EDCs.

### ***2.3. General conditions for doing business in Eastern Dimension countries as a determinant of their investment attractiveness for foreign capital***

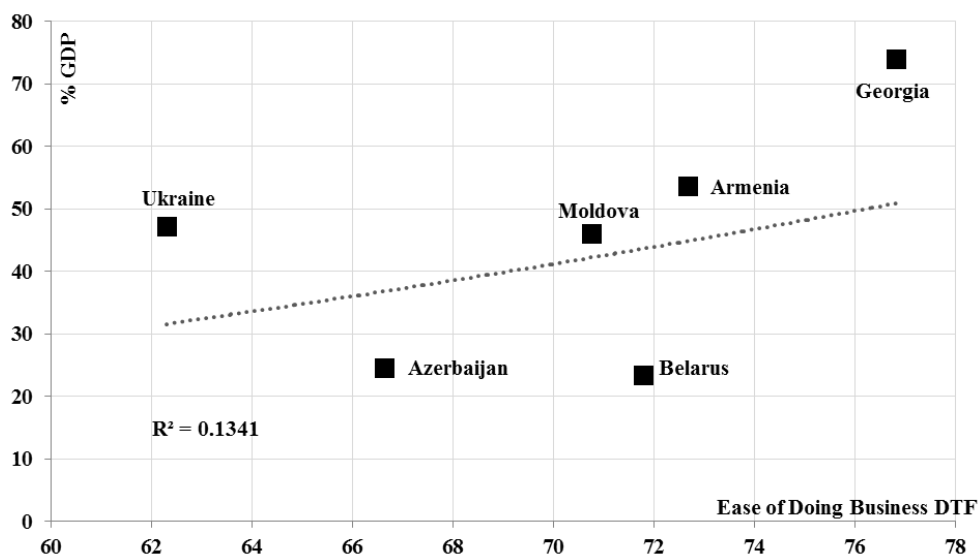
Another crucial factor determining investment attractiveness of individual EDCs for foreign capital is conditions for doing business prevailing in them. Naturally, these conditions are a product of political, economic and social changes which have taken place in EDCs over the last 25 years. Generally speaking, the cultural system present in these countries has traditionally been characterized by a lack of public trust, both towards other people and the state itself (not to mention foreign capital), as well as a lack of community feeling. Thus, creating lasting and well-performing ties in these countries, in form of social networks, based on mutual trust is considerably hampered, which, combined with quite wide-spread disrespect for rule of law and pervasive corruption, significantly raises transactional costs for both individual enterprises and for the economy as a whole, which not only further hinders transition processes but also lowers their international competitiveness with regard to FDI capital flows (Falkowski, 2013).



General conditions for doing business in individual countries around the world are evaluated, using consistent methodology, by the World Bank in its “Doing Business” reports. While compiling its Ease of Doing Business index for every country, the situation with regard to the following areas of a given economy is taken into account: Starting a business; Dealing with construction permits; Getting electricity; Registering property; Getting credit; Protecting investors; Paying taxes; Trading across borders; Enforcing contracts; and Resolving insolvency (World Bank, 2015).

When briefly describing conditions for doing business in EDCs in 2014 (which was the consequence of all previous changes and regulations as implemented to date, so also those from years 2004-2014, and the general socio-cultural conditions developing over the years) based on the “Doing Business 2015<sup>2</sup>” report, substantial differences among EDCs must be stressed.

**Figure 8. Ease of doing business in Eastern Dimension countries (as measured by DTF – Distance to Frontier) \* vs. total FDI stocks (as a percentage of their GDP) in 2014**



\* The lower the value of the Ease of Doing Business DTF, the worse the conditions for doing business in a given country.

Source: Author's analysis based on data from World Bank (2015) and UNCTAD data, <http://unctadstat.unctad.org> (accessed 2 April 2016).

<sup>2</sup> The “Doing Business 2015” report based on the respective data for 2014.

Firstly, a definite and uncontested leader in this respect is Georgia, which in 2014 was ranked 15<sup>th</sup> out of the total of 189 economies captured by the Ease of Doing Business index, well ahead of not only all other EDCs but also all CEE countries (including Estonia). Among the strongest competitive advantages of Georgia with regard to ease of doing business, as identified by the World Bank, were, first and foremost, the following assets: one of the easiest and cheapest worldwide procedures to be followed when starting a business, registering property, dealing with construction permits and getting credit. In the same ranking, the other EDCs were classified on the following positions: Armenia – 45<sup>th</sup> place, Belarus – 57<sup>th</sup>, Moldova – 63<sup>rd</sup>, and Azerbaijan – 80<sup>th</sup>, whereas, according to the World Bank, in 2014 the worst conditions for doing business out of all EDCs were in Ukraine (96<sup>th</sup>). Traditionally, complexity of procedures and their costs for getting electricity, paying taxes, trading across borders, and resolving insolvency were identified as the biggest frailties of Ukraine in this respect.

Now, if we relate the ease of doing business in EDCs to the share of total FDI stocks (as on 31 December 2014) in their GDPs, a strong interdependence between these two factors can be observed, suggesting that the easier it was to conduct business activities in a given country, the bigger was the importance of flow of foreign capital for the economy of that country (Figure 8). Two countries were exceptions to that rule, Belarus and Azerbaijan, for which total FDI stocks in relation to conditions for doing business present in these two countries (according to the World Bank) seemed to be underestimated. However, this does not challenge the thesis of high importance of formal regulations in the area of quality of the business climate, and in particular of ease of doing business, in EDCs for their investment attractiveness for FDI.

## Conclusions

The paper indicates that the EDCs neither accurately reflected the world's FDI trends nor were similar to each other as far as their FDI inflows over the period 2004-2014 were concerned. In terms of the value of inward FDI stocks (as on 31 December 2014), Ukraine was, of course, the undisputed leader. Nevertheless, concerning the ratio of inward FDI stocks to GDP, it was Georgia that achieved the best results (74%), followed by Armenia (54%), Ukraine (47%), Moldova (46%), Azerbaijan (24.5%) and Belarus (23%). The results of the best performing EDCs can be considered as very good in comparison to all the other transition economies, as both Georgia and Armenia belonged to the top 5 countries in this regard. Furthermore, the results achieved by most of the EDCs were also good in comparison to the neighbouring EU members (e.g., in 2014, the ratio of inward FDI stocks to GDP achieved the level of 83.5% in Bulgaria, 45% in Poland and 37% in Romania).

As regards FDI determinants, an important role is played by the factors related to the advancement of the EDCs' transition process. Firstly, FDI capital





flows to EDCs are highly determined by progress made by them in introducing market reforms, the stability and democratization of their political systems and general conditions for doing business. This has been confirmed by the existence of correlation between these factors and the share of the total FDI stocks (as on 31 December 2014) in their GDP, which was shown in the paper.

Secondly, advancement in market reforms in EDCs, the scope of political changes towards democratization of their political and social life, and also regulation of their business environment is the higher, the more these countries are involved in cooperation with the European Union under the European Neighbourhood Policy. Therefore, it seems justified to assume that as the endogenous capital resources present in the EDCs alone, that is without continued access to external sources of capital, i.e. FDIs, are clearly insufficient to achieve the desired multiplier effect of pro-development investment for their economies, their further economic and social development seems to very much depend on ever closer cooperation between these countries and the European Union. Undoubtedly, this will not be a quick and easy process, due to the problems existing both on the side of the European Union (migration crisis, Brexit, a rise in nationalist tendencies in some EU member states), which may push the development of relations with EU neighbours covered under the ENP into the background, and on the side of the EDCs. Among the latter, as potential threats can be named possibly lower determination for strengthening the EDCs' cooperation with the EU as it may necessitate certain reforms to be implemented and adjustments to the EU standards of democracy and free market to be made, but also the policy consistently pursued by Russia towards the EDCs which is aimed at destabilizing their internal situation, thus undermining their role as stable EU partners. Just how effective Russian actions in this regard have been so far is best proven by the (negative) result of the Dutch referendum on ratification of the EU-Ukraine Association Agreement.

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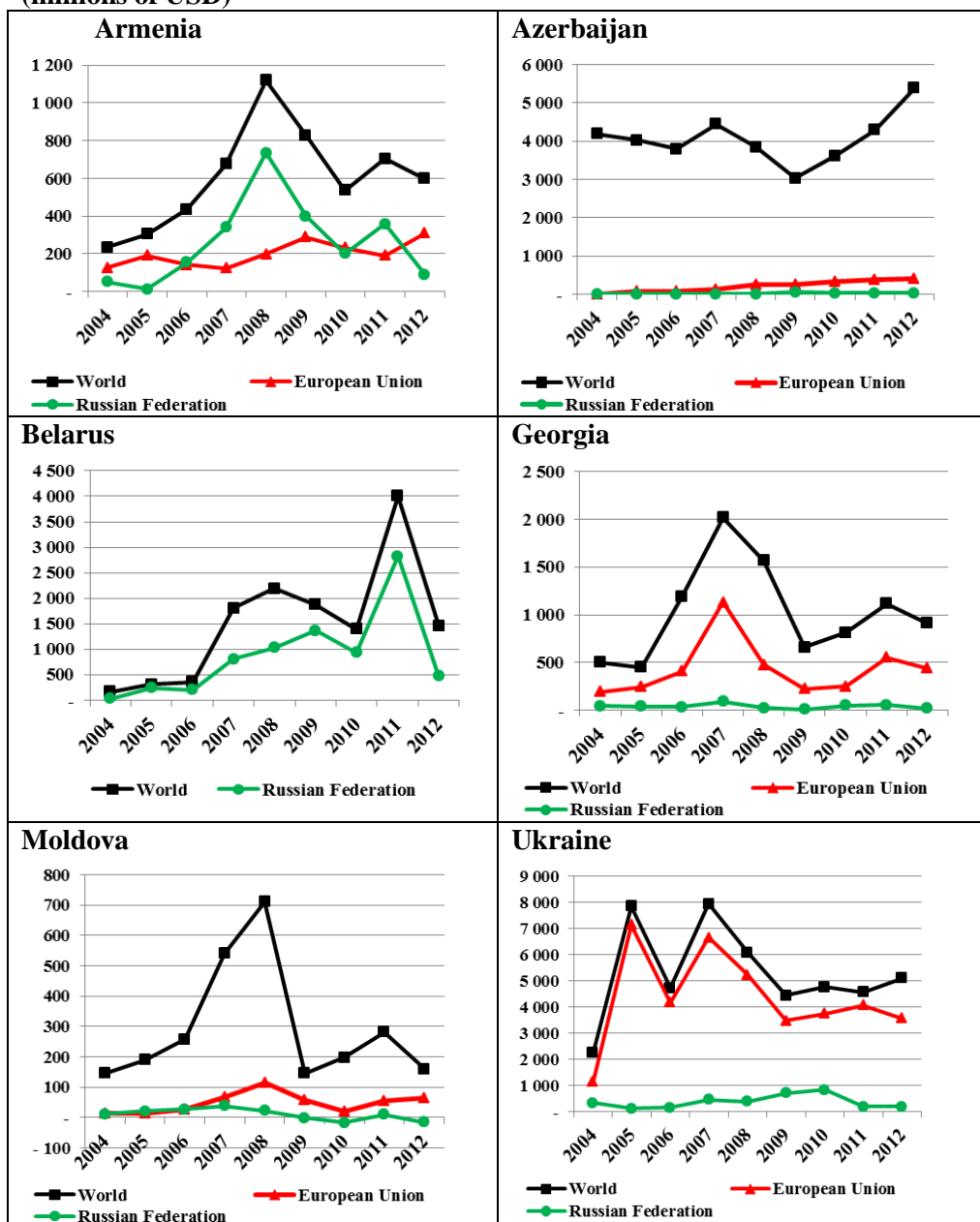
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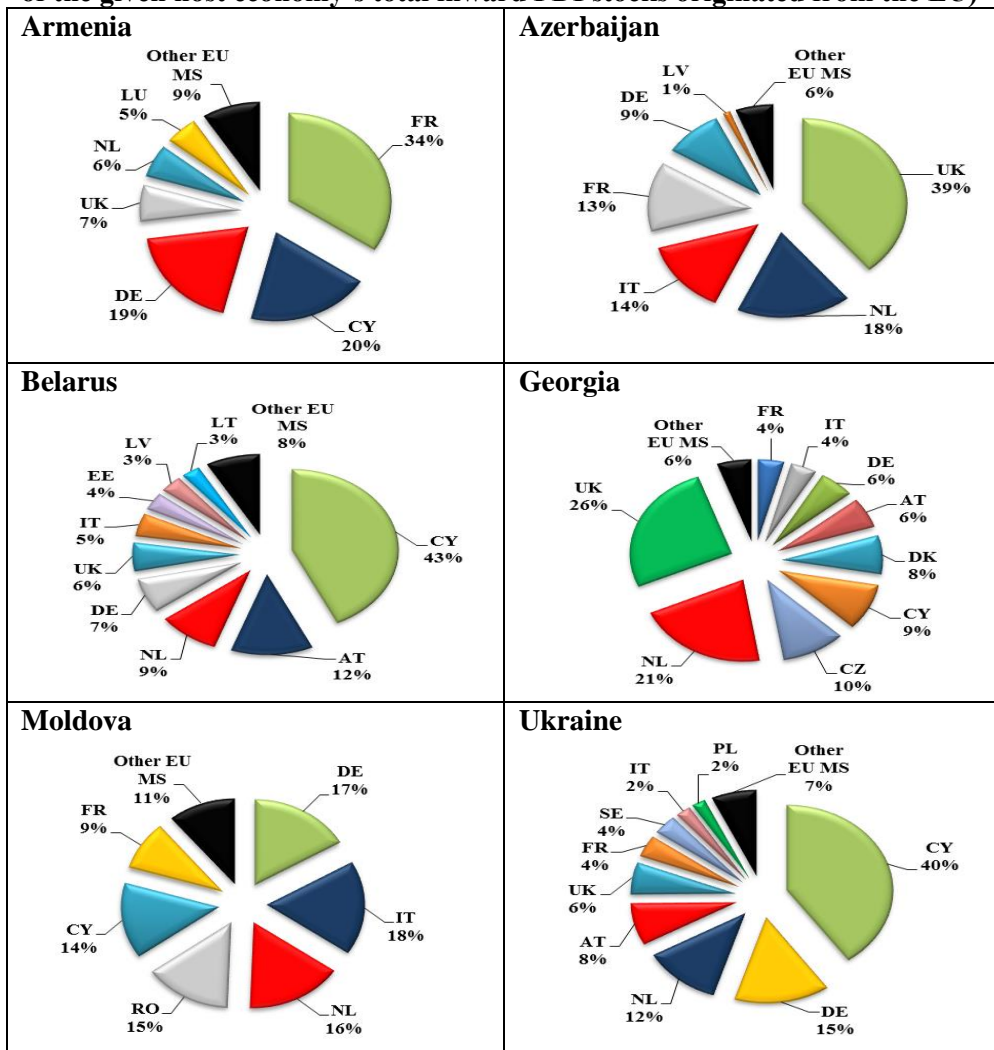


### Annex 1. FDI flows in the ENP's EDCs host economies, by geographical origin (millions of USD)



Source: Author's representation based on data from UNCTAD, <http://unctadstat.unctad.org> (accessed 2 April 2016).

## Annex 2. EDCs' inward FDI stocks originated from the EU member states (% of the given host economy's total inward FDI stocks originated from the EU)\*



\* The most recent year for which regional data are available: 2012 (Armenia, Azerbaijan, Belarus, Moldova, Ukraine), 2011 (Georgia).

Abbreviations: UK – United Kingdom, NL – Netherlands, IT – Italy, FR – France, DE – Germany, LV – Latvia, CY – Cyprus, LU – Luxembourg, AT – Austria, EE – Estonia, LT – Lithuania, DK – Denmark, CZ – Czech Republic, SE – Sweden, PL – Poland, RO – Romania, MS – member states.

Source: The Authors' calculations based on UNCTAD data, <http://unctadstat.unctad.org> (accessed 2 April 2016).



# GROWING REGIONAL SCIENTIFIC MIGRATION AND MOBILITY: THE EUROPEAN UNION AND THE EASTERN PARTNERSHIP

Ganna KHARLAMOVA\*, Maksim SITNITSKIY\*

**Abstract:** *The article contributes to the growing strand of the literature on the scientific mobility and migration in the European Union (EU) and the Eastern Partnership. The paper provides the quantitative assessment of the costs and benefits of 'smart' labour migration in the Eastern Partnership (EaP) countries (particularly, Ukraine), explores the potential of future new rules for the mobility within the EU-EaP, and proposes some policy recommendations to enhance the benefits stemming from such flows. One of the rigorous idea – to provide an explanation whether the scientific migration and mobility, and remittances impact on economic development in the donor and recipient states, and, in particular, how important it is as a resource for the EaP enhancing. The convergence effect of scientific migration in the EU and the Eastern Partnership region is considered by means of calculative assessment.*

**Keywords:** *Eastern Partnership; scientific migration; European Union; mobility; assessment; convergence; Ukraine*

## Introduction

There are a number of shortcomings in the current migration policy framework between the European Union and the countries of the Eastern Partnership (EaP). The process is far from satisfactory and leads to reduced benefits for both sending and receiving countries (and the migrants themselves). Migration's significance is increasing, especially in the European countries, being fostered and reinforced by the economic integration between the European countries through the emergence of supranational institutions such as the European Union (EU).

Note, that the migration is a complex phenomenon, involving clear economic dimensions (e.g., through the effects of remittances on consumption and

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investment patterns, the changes in the labour markets that are the result of the outflow of workers, the changes in relative prices of tradable goods and non-tradable) as well as non-economic ones (such as the resulting consequences on the social fabric of sending countries, the deadweight losses possibly caused by the underemployment of skills). The remark, that the migration has an important role in the EaP countries in facilitating the economic restructuring, whereby “old” jobs are eliminated, and the labour surplus is reduced, allowing for greater productivity of those workers remaining in the country, and, consequently, resulted in higher wages over time. Approach to the migration is changing over the world. These trends are clearly claimed in the UNESCO Science Report, “Towards 2030”, launched 10 November 2015. The report says that the science will play a key role in realizing Agenda 2030, and the main body of the report is particularly about the scientific migration and mobility. The world in search of effective growth strategy will consider the science as a new framework for sustainable growth. The realization of this note is seen in considering universities as increasingly global players, a developing science - policy interface. In the nutshell, tracking trends in the scientific migration and mobility could support the assessment of the EU-EaP policy success and future sustainable development.

The EU could consider, in the context of the Scientific Mobility Partnerships, encouraging member countries to start pilot programs specifically targeted for the EaP nationals to access to the EU labour market. The EU while managing the migration situation should concentrate on the alternative group of potential migrants (in the aspect of their terms of staying (long term mobility) and the level of their human capital).

Quite obvious, that the migration has various impacts on the society as it creates flows of people, money, and knowledge between countries. The Bilateral Remittance Matrix 2012 (World Bank, 2012), for instance, displays such financial impact and exhibits that the total amount of the worldwide inwards and outwards remittance in 2012 was approximately 529 billion USD. Such a monetary flow is an important financial source for the country with the weak economic power. The mobile scientist/student is successful one even from a formal point of view as for the donor-country, as for the recipient-country: because of knowledge and innovation diffusion, remittances, skilful human capital inwards in the labour market etc.

Nevertheless, the mobility of scientists is a social and anthropological phenomenon. This phenomenon is as old as the science itself. There is the observed evidence of local scientists' movements in ancient periods. For example, in ancient Greece, many scientists have left their homes in the search of wisdom. Some returned home later, while others - such as Pythagoras (570 BC) (Boyer, 1968) - continued to move, and they based their schools in new territories. In the Middle Ages, the scientists' move was considered as the “brain benefit”, since scientists returned to their hometowns. The mobility is the condition of scientific growth and spread of knowledge. At any rate, it supports further technical and innovative



development of the state. The challenge is only in creating an optimal balance between emigration and immigration of scientists in the EU-EaP economies: for the EaP not having the 'brain drain', for the EU - to launch an effective policy to absorb the potential of the scientific migrants' capacity ('brain gain').

This paper touches the relationship between highly skilled (educated) scientific migration and the transfer of knowledge within the European Union (EU). To understand these processes, we need to conceptualize the phenomenon and then develop appropriate operational tools. Scientific migration engages two key concepts: (1) the concept of skill or knowledge; and (2) the concept of migration itself. Analysing the impact of scientific migration/mobility requires an understanding of who is moving (and the quality of their skills) and the nature of their migration. This might include consideration of the direction of flows; their frequency, duration, and permanency; and the propensity to return. In order to evaluate the impact of these processes on the regions concerned and develop appropriate policy responses, we need to examine the relationship between the scientific mobility (the transfer of knowledge) and the regional development indicators. The question remains open: what are variables to use for the scientific migration/mobility assessment and its impact.

## **1. Literature review**

There is quite a large body of literature that tackles the complex encompassing such issues as international (scientific) migration, capital transfer (remittances), and economic development. However, just a few papers on the topic of "scientific migration and mobility" (exactly) could be found in the research space of the EaP, but nothing that focuses on the link to the EU trends (Zhylynska, 2012). The notorious "brain drain/gain" (or the external scientific migration) is only part of the processes that relate to the scientific mobility. The titles given to the international scientific movement with the expertise and aptitudes are highly regarded and in demand around the world (Fahey and Kenway, 2010). Research into the policy and statistics concerned with the movement of educated people has quite a long and differentiated history. The base is mostly in the work on the international mobility of university academics and students. However, since the rise of notion of the knowledge economy (the force of the innovations in the skilled hands of educated human capital) many states as well as the EU have developed policies that suit their specific geopolitical situation (EPAM - European NGO Platform for Asylum and Migration; The Eastern Partnership Panel on Migration and Asylum; the European Commission's flagship scientific mobility scheme (the Marie Curie Fellowship Scheme etc.). Much the EU-EaP government policy on the international mobility of the highly skilled arises from the research on migration, labour mobility, remittances. The entry point is a national economic growth, competitiveness, growing regional interdependence and convergence.

Thus, we consider four-dimensional literature material:





1) scientific labour migration/mobility: Dobson (2009) deeply analysed the scale, direction and structure of labour mobility within the EU and the EaP, however, having a general approach to the educated segment of migrants. Kale *et al.* (2008) presented important insights regarding the issues affecting the diffusion of knowledge through the migration of scientific labour in India (particularly, pharmaceutical sector). They proved that the reverse "brain drain" of engineers and scientists educated and trained in the US or Europe can accelerate technological upgrading in the Indian economy by providing the skill and know-how needed to help local firms shift to higher value-added activities. Bauder (2012) provided very sound theoretical analyses of a labour market perspective when examining the transnational academic mobility. In his article, he assumed political-economy and segmentation-theory perspectives of such labour mobility. Ackers (2005) considered the relationship between highly skilled scientific migration and the transfer of knowledge within the EU. She came up with the conclusion of the urgent necessity to analyse the migration flows. In her previous works, she contributed to the concept of "tied migration" throughout the deep qualitative analysis of the experiences of highly skilled scientists that were moving within the EU (Ackers, 2004). In her papers, Ackers proves the importance of considering the impact of mobility on the progression of trailing partners as opposed to simply engagement or salary. Her findings are firmly grounded in the experiences of scientists, recent trends in European labour markets and suggest that the pressure to attain international experience is beginning to shape career trajectories in many other employment sectors. Extremely appealing research was done by Moed *et al.* (2013) on the exploration of Scopus as a data source for the study of international scientific migration or mobility of five analysed countries: Germany, Italy, the Netherlands, the UK and the USA. Authors argued that Scopus author-affiliation linking and author profiling are valuable, crucial tools in the study of this phenomenon. Moed and his co-authors found that the UK has the largest degree of outward international migration, followed by the Netherlands, and the USA the lowest. Language similarity between countries is a more important factor in international migration than it is in international co-authorship. During 1999–2010 the Netherlands showed a positive "migration balance" with the UK and a negative one with Germany, suggesting that in the Netherlands there were more Ph.D. students from Germany than there were from the UK, or that for Dutch post docs stage periods in the UK were more attractive than those in Germany. Comparison of bibliometric indicators with OECD statistics provided the researchers be the evidence that differences exist in the way the various study countries measured their number of researchers. The authors concluded that a bibliometric study of scientific migration using Scopus is feasible and provides significant outcomes.

The challenges on the way of widely spread scientific mobility are straightforwardly highlighted by Jacob and Meek (2013). They argue that the mobility of scientific labour is an indispensable prerequisite for building capacity and world-class excellence. A lot of the newly emerging economies have been able



to leverage themselves to advantageous positions in the global scientific economy through the skilful deployment of international research networks. The mobility is still a mixed blessing since scientific labour, like other scarce resources, has a tendency to cluster towards the centre. Also, the authors grounded the statement that the given advances in communication technology and the presence of high-quality research infrastructure, a core group of networked researchers can go a long way towards helping a country with modest scientific resources achieve world-class excellence.

The majority of papers on the topic use not open-statistic data, but survey data (mostly in the form of semi-structured interviews). For example, the questioning of former visiting researchers in Germany examined to what extent the participation of researchers in transnational academic mobility, their experiences and perceived outcomes vary by gender (Jöns, 2011). The paper stated that the academic world of female researchers tends to be less international than that of their male colleagues, particularly in the natural sciences.

2) remittances and labour migration: Hundreds of papers examined the facets of migration and remittances and explore the role of migrants as actors in development and partnership over the world (i.e., Doorn and Date, 2002; Adams and Page, 2005; Kharlamova and Taran, 2010; Kharlamova and Naumova, 2010). There are quite few researches that indicated negative connotation of remittances in the sense of migration spillover (Chami *et al.*, 2003; Jawaid and Raza, 2016). Thus, Ustubici *et al.*, 2012) contributed to the discussions on the nexus between migration and development by assessing the effects of remittances on human development. They concluded that remittances have the most positive effect in terms of boosting human development in the countries where the state perceives migration as an effective labour export strategy.

3) the impact of migration on the economic development of the EU as the recipient part: there is the sound evidence in the literature that (i) the balance of costs and benefits is positive for both sending and receiving countries; (ii) costs can be reduced, and benefits maximized, by the use of appropriate policies that facilitate mobility and integration of migrants and their families, and that help manage the economic consequences of large remittance flows; (iii) labour migrants from the EaP countries could help the member states of the European Union to fill skills gaps at all levels in the next few years, as the demographic transition intensifies in Europe (Barbone *et al.*, 2013; Delcour, 2013; Kharlamova, 2015). Coupé, Vakhitova (2013) and Mincu, Cantarji (2013) conducted a research in the field of costs and benefits of labour mobility between the EU and the Eastern Partnership Partner Countries. For Moldova, authors argue that migration to the EU of workers with low and mid-level skills would have a greater impact on poverty reduction because unskilled workers come from lower income families and villages and tend to send home a larger proportion of their income. A major concern regarding the social costs of migration is the lack of structures and expertise at the community level to tackle the problems of migrant families. Given that migrants



are part of family systems, it is recommended that a family perspective is used when developing policies regulating international migration and the migration concerns need to be mainstreamed into national development policies. At the same time, Mincu and Cantarji (2013) also recommended that the EU and Moldova develop programs targeting migrants with low and mid-level skills to fill labour shortages in specific sectors of the economy, in which natives are more reluctant to work.

A bit different situation is observed for Ukraine. Coupe and Vakhitova (2013) assessed how liberalisation of the EU visa regime, something that the EU is currently negotiating with Ukraine, will affect the stream of Ukrainian labour migrants to EU countries. Their study suggests that the number of tourists will increase substantially, whereas the increase in the number of labour migrants is unlikely to be very large. They also suggested that the number of legal migrants is likely to increase, but at the same time the number of illegal migrants will decline because currently only a third of migrants from Ukraine have both residence and work permits in the EU, while about a quarter of them stay there illegally.

Ruiz-Arranz and Giuliano (2005) and Aggarwal *et al.* (2011) carry out an exploration of the remittances impact on financial development. They explored the various aspects of mobility requirements and the relationship between competitiveness, excellence, and mobility in the scientific research in the EU. The “expectation of mobility” in science plays an important role in shaping the European Research Area (Morano-Foadi, 2005). Researchers argue that better economic opportunities and advanced migration policy in destination countries promote highly skilled migration. Despite the actions and measures taken in the context of the EC Mobility Strategy, unbalanced flows are still a weakness of the European Research Area, especially from the EaP. There is a need in Europe to coordinate science and migration policies at the European and Member States level to enhance the attractiveness of European receiving countries and facilitate the return of scientists to their sending nations. Moving people and knowledge across the EU is not broadly explored for the EaP, and even as to all EU states (Ackers and Gill, 2008), and especially addressing the effects of highly skilled, scientific migration and the transfer of knowledge on the individual concerns, and in terms of sustainable scientific development and capacity.

4) the impact of migration on the economic development of the EaP as the donor: Despite the growing interest of scholars and policymakers to better understand the determinants for researchers in public science to transfer knowledge and technology to firms, little is known how temporary international mobility of scientists affects both their propensity to engage in knowledge and technology transfer (KTT) as well as the locus of such transfer (Edler *et al.*, 2011). Prominent results of Edler *et al.* (2011) affirm how the duration and the frequency of scientists’ visits at research institutions outside their home country can affect KTT activities. Proving the benefit for host and home country, authors found out that the longer research visits abroad are, the higher the likelihood that scientists engage in



KTТ to firms, again both in the host and the home country. Same could be said about the frequency of scientists' visits institutions abroad. In the long run, the results, therefore, provide evidence for the possibility of the benefits of “brain circulation”.

Ground research of Cajka *et al.* (2014) on the base of econometric model forecasted the stocks of migrants from the Eastern European states (EES) in the Visegrad group (V4) countries and the European Union Member States (EU MS) in the case of visa abolition. Visa abolition is not going to dramatically increase migration from the EES in the EU MS. Even though, the immediate effect of visa abolition would probably result in the slight increase of migration stocks in the V4 and EU countries, the annual migration stocks comprised of residents of Belarus, Moldova and Ukraine in the EU MS in a long term might be around for one and a half to just above three – three and a half million people.

Iankova and Turner (2004) focused on the struggle for a social Europe by examining social partnership developments in two western countries, Germany and Britain, and two eastern countries, Bulgaria and Poland: the coming or deepening of labour markets has therefore surprisingly promoted or reinforced relations of social partnership throughout Europe. Marin (2012) offered a collective assessment of the development and impact of the European Neighbourhood Policy and the Eastern Partnership Initiative on its eastern neighbours - Belarus, Ukraine and Moldova in particular, with Russia's added perspective. Most authors considered the scientific migration as a new alternative and new bring for the European partnership states.

Nevertheless, the current migration policy framework between the European Union and the countries of the Eastern Partnership is far from satisfactory and leads to reduced benefits for both sending and receiving countries (and the migrants themselves).

Both the relevant literature and also various political trends – as well as this very topic – suggest that there is a distinct need for the EU to determine the conditions necessary for the successful implementation of agreements and other measures that would regulate the relevant ever-spreading phenomenon of inter-European migration currently blocked. In this regard, it should be noted that several Eastern Partnership countries have been successful in concluding bilateral agreements with individual EU countries, while others seem to be still lagging behind. Fine examples for such agreement can be seen in the case of Belarus which has concluded agreements on the social security of migrants with Latvia and Lithuania or the significant bilateral treaties signed by Ukraine and Moldova with individual EU countries on matters such as labour conditions, social security payments and benefits, migrants' welfare and other matters. However, there is no single permit directive that could simplify negotiations between the EaP countries and the EU, which can provide a common platform for discussions and resolutions pertaining to social security and other working conditions for migrants. It might result from the under-appreciation of the significance of the potential that might be



offered by the migration from the Eastern Partnership Countries to the EU and the impact therein. One such impact is the potentially high benefits (also in terms of minimising costs) that the scientific migration and exchange can bring with it.

Indeed, scientific activities of migrants have a colossal potential for the development of economic, political and social processes of the modern EU and, of course, in the states of their origin. The research plans to examine the capacity of the scientific cooperation / mobility of researchers to contribute to an increased understanding between the EU and the countries of the Eastern Partnership (EaP) (particularly, the case of Ukraine) in addressing social and macroeconomic challenges.

## 2. Methodology

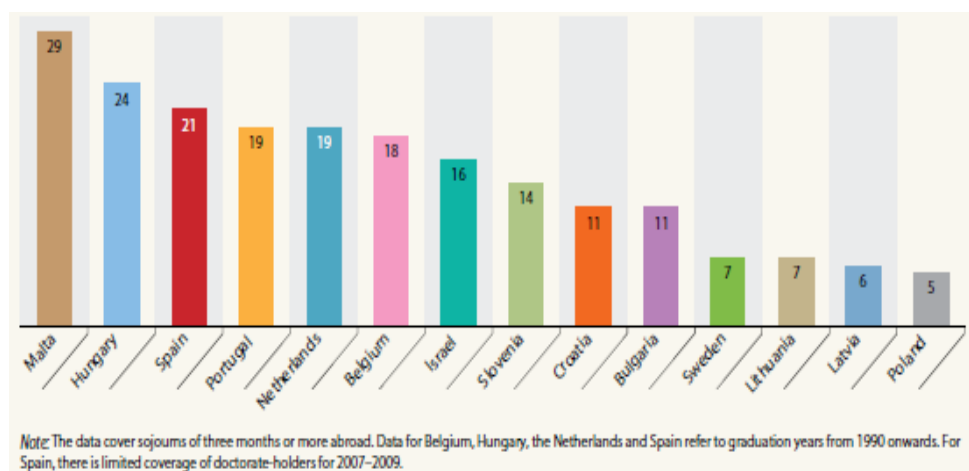
Before coming to the methodology the obvious issue is to settle definitions and determinants. The scientific migration is something conceptually different from the scientific knowledge transfer and diffusion of science. It is mostly a movement of scientists from the peripheries towards scientific centres for conducting research and any other scientific activity. Mainly it is initiated not by the migrants itself, but by available abilities, programmes in the recipient state. The following factors and determinants of scientific migration could be considered: scientific knowledge of particular migrant (remains as internal, implicit factor); collaboration network; co-authorship; remittances received. Thus, scientific migration and mobility should be distinguished as not-spontaneous, mostly forced, regulated. However, there is still no universal term for the scientific mobility and its exact determinants. In the EU states it is common for scientists being participants of scientific migration: the careers of doctorate-holders survey reveals that, on average, between 5% and 29% of citizens with a doctorate have gained research experience abroad for three months or longer in the past 10 years (Figures 1 and 2). However, most scientific migrants from the Eastern Partnership countries are temporary migrants in the sense that they continue to belong to a household in their home country, even if they work abroad for a long time (CASE project entitled “Costs and Benefits of Labour Mobility between the EU and the Eastern Partner Partnership Countries” for the European Commission (Contract No. 2011/270-312, tender procedure EuropeAid/130215/C/SER/Multi).

When we talk about the scientific mobility, mostly we mean academic mobility referring to students and teachers in higher education moving to another institution inside or outside their own country to study or teach for a limited time. According to the UNESCO Institute for Statistics (June 2015), the outbound mobility ratio counted 1.7 (2000) and 2.0 (2013) for the CEE and 3.1 (2000) vs 3.3 (2013) for the Western Europe. Keep in mind, that the world average rate is 1.8 for the period, demonstrating the number of students from a given region enrolled in tertiary programmes abroad expressed as a percentage of total tertiary enrolment in the region. If to come to the means for scientific mobility, then for the period of 2007-



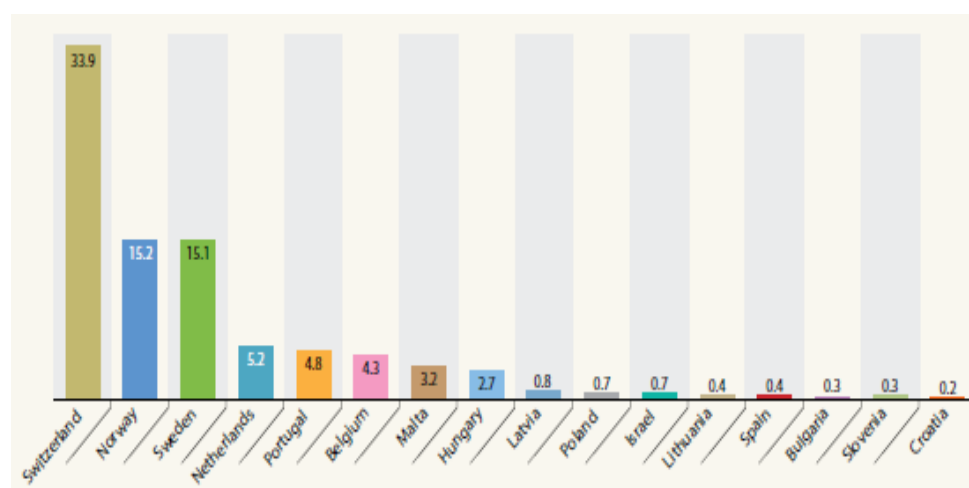
2013, cooperation in higher education between the EU and the EaP mostly took place in the framework of Erasmus Mundus and Tempus supporting the scientific mobility with further migration. While the Erasmus Mundus programme focused on mobility actions and on encouraging partnerships between institutions from the EU and from the partner countries, Tempus IV focused on the reform and modernisation of higher education systems in the Neighbourhood region.

**Figure 1. Percentage of national citizens with a doctorate who lived abroad in the past 10 years, 2009**



Source: UNESCO Institute for statistic / OECD /EUROSTAT

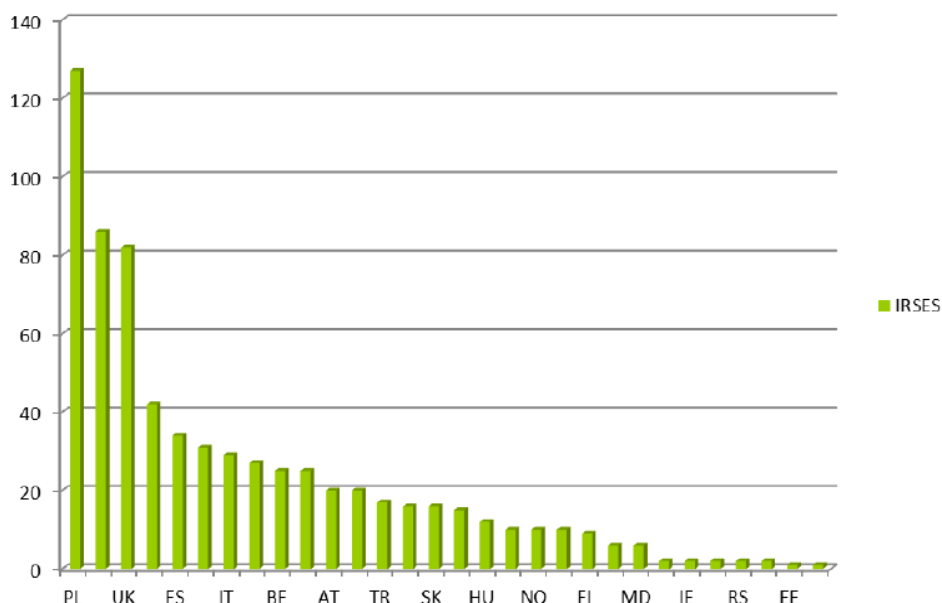
**Figure 2. Percentage of foreign doctorate holders in selected states, 2009**



Source: UNESCO Institute for statistic / OECD /EUROSTAT

Neighbourhood countries and Russia benefitted from a budget of around EUR 670 million during the 2007-13 programming period for the Erasmus Mundus and Tempus programmes. As part of the EU's strengthened ENP and mobility policy, the financial allocation for the period 2011-2013 was almost doubled compared to preceding years, through a sizeable top-up that came following the 2011 review of the European Neighbourhood Policy. In total, 5,187 students (at the undergraduate, master, doctorate and post-doctorate level) and staff members from Neighbourhood East countries, and 6,221 from Neighbourhood South countries were able to benefit from scholarships in the framework of Erasmus Mundus Partnerships between 2007 and 2013. Within Erasmus Mundus Joint Programmes, 695 Eastern Partnership nationals benefited from mobility to follow a joint Erasmus Mundus master or doctorate (European Neighbourhood and Partnership Instrument, 2014). For example, in the frame of FP7-PEOPLE Marie Curie Actions (2007-2014) between Ukraine and the EU the international research staff exchange scheme is following:

**Figure 3. Country fact sheet FP7 (2007-2014) – Staff sent by Ukrainian organisation, grouped by the country of destination (top countries)**



Source: UNESCO Institute for statistic / OECD /EUROSTAT

Country studies show that in the migration flows from Ukraine to the EU the education level of migrants (% with tertiary education) is about 13% overall (34% in the total employment) (GfK Ukraine Project). In comparison to other EaP





countries this is the average position, because for Armenia - 10-15%, 26% - Azerbaijan, 18% - Belarus, 33% - Georgia, 10% - Moldova. Main recipients of scientific mobility from Ukraine are the states-leaders in the scientific collaboration.

The paper will result in the production of the country study (for the Eastern Partnership country - Ukraine), and for the EU main destination. The country survey will be based on the logic, historical, statistical, and economic-mathematical analyses. The summative survey of the evidence on macroeconomic costs and benefits of the scientific migration specifically for the EaP state and the targeted EU countries will be produced.

We shall first collate and analyse the evidence on the costs and benefits of the scientific migration from Ukraine to the EU countries.

If to consider the choice of spillover effects of the scientific migration on the macroeconomic situation in the state-recipient and in the state-donor, we presume:

1) the effects of the extra income on household behaviour: overall, the extra income due to the migration and remittances reduces poverty in remittance-receiving households throughout the Eastern Partnership countries, leading to better nutrition, housing, and access to the education and health care (Cooray, 2012). During the 2000s, migrant remittances in the EaP countries rapidly grew along with the number of migrants, mirroring a world-wide trend stimulated by increased migratory flows and better technologies for transfers of small sums of money. For the whole EaP region, remittances rose from practically negligible amounts in 1995 to US\$12.9 billion in 2008. After a sharp decline in 2009 due to the economic slump in Russia and other destination countries, they have consistently recovered, reaching a projected US\$14.2 billion for 2012. Together with the rapid growth in nominal US\$ terms, the macroeconomic importance of remittances has increased, albeit less impressively due to GDP in many Eastern Partnership countries also increased during the 2000s. Unsurprisingly, the smaller countries with higher levels of labour migration – Moldova, Armenia, and Georgia – are the most “dependent” on remittances (with the ratio of remittances to GDP, respectively, at 23, 13 and 11 percent in 2011), whereas in Azerbaijan, Belarus and Ukraine remittances are below 5 percent of GDP, but higher than FDI net inwards;

2) the effects on professional skills: the concern is that migrants may not be able to fully utilise their skills abroad. Any possible loss of skills must be more than compensated for by income gains or other benefits of migration like the experiences and human capital effects of working abroad. Supposed deskilling phenomenon (Artuç *et al.*, 2014);

3) There is also evidence in some EaP countries (e.g. Moldova), but not all (e.g. Armenia), that the effect of remittances on the financial sector has been positive, contributing to financial deepening and the emergence of new financial products, which have helped to raise the general economic efficiency and the growth. The balance of the positive effects in this regard appears to be influenced by general policies with regard to the financial sector stability and the certainty of



property rights. Thus, remittances have a potential, particularly in the smaller countries, to contribute to stronger public finances through their effects on consumption and import, although in some cases there are indications that higher revenues may have weakened the fiscal discipline. Remittance inflows into the developing economies have increased tenfold from US\$31,058 million to US\$327,591 million over the 1990 to 2008 period, accounting for the second largest foreign exchange inflow next to foreign direct investment, and in some cases the largest (World Bank, 2012). Migrant remittances can promote financial development in the recipient countries by increasing the volume of deposits with financial institutions. In this respect, it is at the agenda to examine the impact of remittances on the financial sector's size and efficiency.

4) Offer the possibility to young people to frequent the upper levels of education both in their country and in other European universities. This last aspect can facilitate the cultural integration among the young European generations, and also a potential integration both in technological and economic systems.

Our research will be based on the empirical analysis. The study will use OLS methods to estimate the impact of scientific migration and accompanying migration spillovers on the economic development of the donor and the recipient (the case of EU-Ukraine). Here we acquire the following model as a base:

$$E_t = \alpha SM_t + \beta M_{it} + v,$$

where  $E_t$  is the economic sustainability variable for the country in the period  $t$ ;  $SM_t$  is the scientific mobility variable for the country in the period  $t$ . All our mobility-spillovering variables mentioned above are captured by the vector  $M_t$ .  $v$  is a random error term that captures all other variables.

Though recognising all the difficulties involved in scientific migration flows forecasting (Chornous and Kharlamova, 2002), this study attempts to obtain a baseline series of estimates of potential flows using a macro data approach. While the propensity to emigrate increased sharply in some EaP countries during the first half of the 2000s, it has been relatively constant throughout the region and in Ukraine since then.

As well, having in mind the convergence approach in economics (also at times known as the catching-up effect), – the hypothesis that poorer economies' per capita incomes will tend to grow at faster rates than richer economies, – we consider to adapt it for the so called "scientific migration convergence". Therefore, we assume the reduction in the dispersion of levels of migration (mostly with tertiary education) determinants across economies. Thus, we consider "Beta-convergence" approach, on the other hand, stating that it occurs when the EaP mobility rate grows faster than the EU ones. As for  $\sigma$ -convergence, we define it as a reduction of future rates of variation (inequality, differentiation) in the levels of migration of regions (countries). Not only rates of variation can be used, but as well the variance or standard deviation. However, the most informative indicator is the rate of variation, for the reason that it does not depend on the dimension and scale of variables. Variance and standard deviation are impractical to use in the



presence of inflation (Young *et al.*, 2008). We will check the existence of a scientific convergence phenomenon for the inherent dynamics of the EU and the EaP connected with scientific migration and its spillovers / determinants.

### 3. Results

The research takes the HDI as the main dependent variable. HDI measures the national achievements in human development based on three essential components of the human life: a long and healthy life, access to knowledge and a decent standard of living (UNDP).

In the same vein with change in HDI, we use GNI (formerly GNP) – the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad – as an alternative dependent variable to measure the impact of scientific mobility only on economic development. The data are compiled from a dataset based on WB World Factbook:

Factors			
Indicator	Variable	Description	Source
International migrant stock (% of population)	IMS	the number of people born in a country other than that in which they live, including refugees	World bank data
Emigration rate of tertiary educated (% of the total tertiary educated population)	ERTE	that shows the stock of emigrants ages 25 and older, residing in an OECD country other than that in which they were born, with at least one year of tertiary education as a percentage of the population age 25 and older with tertiary education. As stated above, there was a constantly increasing tendency to "smart" migration over the years	World bank data
Personal remittances, received (current US\$)	PRR	that comprises personal transfers and a compensation of the employees. Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from non-resident households. Personal transfers, thus, include all current transfers between resident and non-resident individuals. Compensation of employees refers to the income	World Bank staff calculation based on data from IMF Balance of Payments Statistics database and data releases from central banks, national statistical agencies, and World Bank country desks

		of border, seasonal, and other short-term workers who are employed in an economy where they are not resident and of residents employed by non-resident entities. Data are the sum of two items defined in the sixth edition of the IMF's Balance of Payments Manual: personal transfers and compensation of employees. Data are in current U.S. dollars. As well, we consider personal remittances paid (PRP). Remittances as a share of GDP in 2014 (%) calculated 5,6%	
Research and development expenditure (% of GDP)	R&DE	that are current and capital expenditures (both public and private) on creative work undertook systematically to increase knowledge, including knowledge of humanity, culture, and society, and the use of knowledge for new applications. R&D covers basic research, applied research, and experimental development	World bank data
Grants, excluding technical cooperation (BoP, current US\$)	GRANTS	that are defined as legally binding commitments that obligate a specific value of funds available for disbursement for which there is no repayment requirement. Data are in current U.S. dollars	World bank data
Technical cooperation grants (BoP, current US\$)	TCG	that include freestanding technical cooperation grants, which are intended to finance the transfer of technical and managerial skills or of technology for the purpose of building up general national capacity without reference to any specific investment projects; and investment-related technical cooperation grants, which are provided to strengthen the capacity to execute specific	World bank data



		investment projects. Data are in current U.S. dollars.	
International collaboration	IC	an official indicator of international collaboration resulted in publication activity	SJR

The Granger approach (1969) to the question of whether X (independent variable) causes Y (dependent variable) is to make out how much of the current Y can be explained by past values of Y and then notice whether adding lagged values of X can enhance the explanation. This approach helps us to understand what is the main indicator and what factor can cause. Before the application Granger test, we clarified each of the time-series to determine their order of integration - involved ADF test. We received stationary results for all data set (Annex 1). Generally, for financial and economic processes the intergration higher than 1 is not peculiar, since in this case the process is "explosive." The occurrence of such processes is unlikely, since the financial and economic environment is quite inert, it does not allow to make an infinitely large value for small periods of time. Implementation of Granger causality test in EViews provided us with such resulting claims (at the appropriate level of F-stat) about link directions for considering data: we cannot reject the hypothesis that all performance indicators does not Granger cause Human development indicator of donor-state Ukraine (HDIUKR) and we do not reject the hypothesis that HDIUKR does not Granger cause the indicators (for all analysed indicators). Therefore, it appears that Granger causality runs two-ways for Human development indicator of donor-state Ukraine and most significant performance indicators of Ukrainian migration ("smart mobility") in the EU. This means that HDI is flexible to the internal situation in the country, and the positive effect of smart mobility and remittance inflows can be easily absorbed inside of the country (Annex 2). The same we observed for GNI of Ukraine. Note, Granger causality does not provide the answer what is the effect or the result.

If to consider correlation analyses, we received that the interconnection of HDIUKR and all analysed variables for the EU have a sound negative correlation, thus increasing these indicators' level in the EU would decrease the level of HDI in Ukraine. We could assume that the reason is in rapid increasing of migration to the EU looking for the improved situation. As well, we received that remittances are in exceptionally low correlation with resulted variables in Ukraine. Having T-statistic prove of significance for the results we as well received a control variable (international collaboration) tightly connected with IMS (directly), but still in low correlation with other analysed variables.

After the assessment of the indicated model:  $HDIUKR = f(R\&DEEMU, R\&DEUKR, PRREMU, PRRUKR, PRPUKR, GrantUKR, TCGUKR, PRRUSUKR, ICUKR; IMSUKR; ERTEUKR)$  for the period 1990 - 2014 (adj.R-sq = 0.79; significant as to F and t statistics), we received the following elasticity data, correspondently (%): 5,815362; 2,87858; -2,70639; 0,1486; 0,720562; 0,57939;

0,54147; 0,68389; 1,78562; 3,00123. Thus, the largest impact on the donor-development has the level of expenditures on the research in the recipient, that proves the hypothesis of Diaspora impact, science-centers attraction capacity and involving best practices during "smart" mobility. As to remittances, the impact of inflows in the EU is high, as in donor state, however quite obviously it is opposite. However, the elasticity mostly is not crucial as lower than 1. As to migration variables, we witness positive and high elasticity.

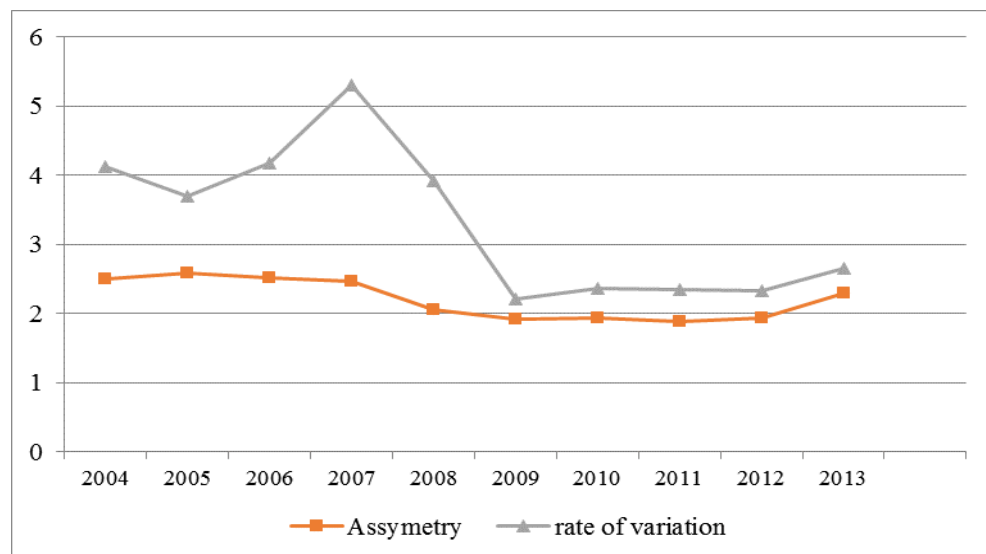
As to GNI, we received mostly same results.

As for convergence, considering the scientific migration, we can conclude that there is a quite convergence between the EU & EaP in this indicator in the years of the EaP initiation, but no results in the process of its fulfilment. Although, the asymmetry shows how much data is distributed asymmetrically with respect to the normal distribution: having  $A > 0$  in the period we conclude that much of the data has a value greater than the average over the EaP+EU (Fig. 4).

Having in mind all spillover indicators of scientific migration between Ukraine and the EU we received that much of the data has a value greater than the average over the EaP+EU (Fig. 5). However, convergence seen in the EU in the first years of the Union, dramatically failed in the years of the EU enlargement in the aspect of analysed the scientific migration spillovers determinants latter mentioned, and the first EaP years had real potential to converge the region to the EU but failed in following years.

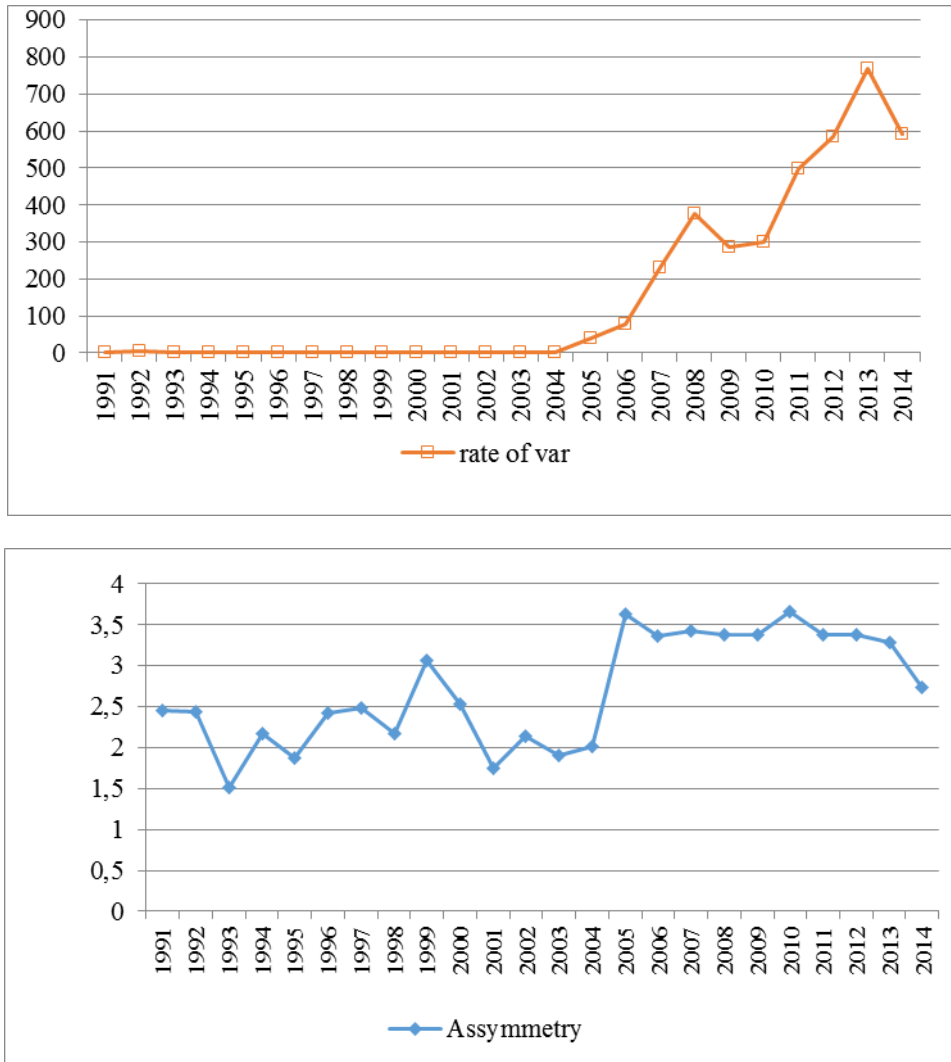
All results are significant at 0,1 level of significance.

**Figure 4. Scientific migration in the EU-EaP: convergence effect**



Source: Author's calculations



**Figure 5. Scientific migration in the EU-EaP: convergence effect**

Source: Author's calculations

## Conclusions

The proposed research is an innovative one, as much as it sets out to generate new insights pertaining to the international scientific mobility that marks the relationship between the Eastern Partnership Countries (particularly, Ukraine) and the EU as a whole. The proposed assignment shall also develop strategies and game policies so as to turn the brain-power (i.e., scientists) into main stakeholders of the



economic and democratic development process in the state of the origin of these scientists as they bring into their economies also EU standards (Fig.6). The research done is targeted to support well-grounded policies for increased and mutually Beneficial Mobility between the EaP (particularly, Ukraine) and the EU. The impact of the international mobility on the economic characteristics of the scientific and educational systems is still poorly understood. The benefit to the donor country may consist of the development of contacts with the scientific Diaspora, and, in the case of the introduction of effective measures to promote cooperation, attracting those who left and the application of their knowledge in the country.

**Figure 6. Scientific migrants as a bridge between the EU and the EaP**



Source: Author's representation



The common EU attempts to analyse the question should result in particular studies for each EaP country, along with general survey reports of the scientific migration and exchange to the EU. The EU should examine the main reasons for "smart" migration and assess the resulting preference of various types of such migration in as much as it might influence on the economies. Migrants can support development back home through partnership/collaboration with countries of origin. Migrants can help promote development back home with their ideas, skills, labour, remittances and investments, as temporary foreign workers, permanent settlers as well as remitters and investors in the diaspora. Diaspora communities abroad also help create boomtowns in their countries of origin through remittances, investments and physical returns.

The European Union faces growing skill shortages in its labour markets, mainly as a consequence of adverse demographic trends in Europe. Developing measures to allow the enhancement of scientific cooperation and mobility of researchers so as to contribute to enhanced understanding between the EU and the EaP countries in the area of scientific and technological sustainable development should become the core of EU policies. This will also better regulate the participation of scientific migration community in the political process of their countries of origin.

For the targeted EaP country (Ukraine):

- The adoption of a scientific migration lens in all aspects of public policies that affect migration and its outcomes, through explicit incorporation of scientific migration issues in national macroeconomic and educational strategies as well as sectoral action plans (special banking projects, competition bursting, etc);
- Improved institutional coordination, the adoption of a strategic vision for labour migration (mostly educated migrants), and eventually the designation of a single national entity to coordinate and facilitate "brain" labour migration strategies and mobility of researchers. Support for macroeconomic development projects that aim at sustainable development and connection to EU policies and standards in Ukraine. To include scientific migration policy while developing national educational paradigm and legal issues.

For the EU and its Member States:

- The adoption of a visa-free travel regime for scientists/researchers/academia;
- A stepped-up engagement with the EaP countries through the EU-level, multilateral and bilateral mobility frameworks, work permit liberalisation and facilitation, programs for specific professions and sectors, as well as simplification and increased transparency of immigration procedures.
- Enhancement of complementary migrant integration policies, including skill transferability, scientific cooperation, recognition of social rights,



reduction of informational gaps, management of public opinion and involvement of relevant stakeholders;

- Despite the EU is the union, in reality, enlarged organisation, human capital issues, preferably to consider on the level of particular states;
- Development of special border policy in the aspect of involvement migrant remittances in cross-border regions.

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**Annex. 1**

Group unit root test: Summary				
Series: ERTEEMU, ERTEUKR, GNIPCUKR, GNIUKR, HDIUKR, GRANTUKR, ICUKR, IMSEMU, IMSUKR, PRPUKR, PRREMU, PRRUKR, PRRUSUKR, R_DEEMU, R_DEUKR, TCGUKR				
Sample: 1991 2014				
Exogenous variables: Individual effects				
Automatic selection of maximum lags				
Automatic lag length selection based on SIC: 0 to 4				
Newey-West automatic bandwidth selection and Bartlett kernel				
Method	Statistic	Prob.**	sections	Obs
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	3.52845	0.9998	12	236
ADF - Fisher Chi-square	12.3284	0.9759	12	236
PP - Fisher Chi-square	14.7924	0.9267	12	242
** Probabilities for Fisher tests are computed using an asymptotic Chi-square distribution. All other tests assume asymptotic normality.				

**Annex. 2**

## Pairwise Granger Causality Tests

Sample: 1991 2014

Lags: 2

Null Hypothesis:		Prob.
GNIPCUKR does not Granger Cause ERTEEMU		0.0157
ERTEEMU does not Granger Cause GNIPCUKR		0.0440
GNIUKR does not Granger Cause ERTEEMU		0.0032
ERTEEMU does not Granger Cause GNIUKR		0.0077
HDIUKR does not Granger Cause ERTEEMU		0.0159
ERTEEMU does not Granger Cause HDIUKR		0.0288
GNIPCUKR does not Granger Cause ERTEUKR		0.0084
ERTEUKR does not Granger Cause GNIPCUKR		0.0419
GNIUKR does not Granger Cause ERTEUKR		0.0156
ERTEUKR does not Granger Cause GNIUKR		0.0556
HDIUKR does not Granger Cause ERTEUKR		0.0433
ERTEUKR does not Granger Cause HDIUKR		0.0405
GNIUKR does not Granger Cause GNIPCUKR		0.0047
GNIPCUKR does not Granger Cause GNIUKR		0.0079
GRANTUKR does not Granger Cause GNIPCUKR		0.0437

GNIPCUKR does not Granger Cause GRANTUKR	0.0211
HDIUKR does not Granger Cause GNIPCUKR	4.E-05
GNIPCUKR does not Granger Cause HDIUKR	0.0240
ICUKR does not Granger Cause GNIPCUKR	0.0084
GNIPCUKR does not Granger Cause ICUKR	0.0154
IMSEMU does not Granger Cause GNIPCUKR	0.0413
GNIPCUKR does not Granger Cause IMSEMU	0.0007
IMSUKR does not Granger Cause GNIPCUKR	0.0004
GNIPCUKR does not Granger Cause IMSUKR	0.0196
PRPUKR does not Granger Cause GNIPCUKR	0.0213
GNIPCUKR does not Granger Cause PRPUKR	0.0232
PRREMU does not Granger Cause GNIPCUKR	0.0378
GNIPCUKR does not Granger Cause PRREMU	0.0009
PRRUKR does not Granger Cause GNIPCUKR	0.0065
GNIPCUKR does not Granger Cause PRRUKR	0.0229
PRRUSUKR does not Granger Cause GNIPCUKR	0.0011
GNIPCUKR does not Granger Cause PRRUSUKR	0.0415
R_DEEMU does not Granger Cause GNIPCUKR	0.0354
GNIPCUKR does not Granger Cause R_DEEMU	0.0310
R_DEUKR does not Granger Cause GNIPCUKR	0.0331
GNIPCUKR does not Granger Cause R_DEUKR	0.0404
TCGUKR does not Granger Cause GNIPCUKR	0.0331
GNIPCUKR does not Granger Cause TCGUKR	0.0250
GRANTUKR does not Granger Cause GNIUKR	0.0281
GNIUKR does not Granger Cause GRANTUKR	0.0126
HDIUKR does not Granger Cause GNIUKR	0.0454
GNIUKR does not Granger Cause HDIUKR	0.0427
ICUKR does not Granger Cause GNIUKR	0.0414
GNIUKR does not Granger Cause ICUKR	0.0254
IMSEMU does not Granger Cause GNIUKR	0.0307
GNIUKR does not Granger Cause IMSEMU	0.0080
IMSUKR does not Granger Cause GNIUKR	0.0401
GNIUKR does not Granger Cause IMSUKR	0.0314
PRPUKR does not Granger Cause GNIUKR	0.0399
GNIUKR does not Granger Cause PRPUKR	0.0022
PRREMU does not Granger Cause GNIUKR	0.0273
GNIUKR does not Granger Cause PRREMU	0.0068
PRRUKR does not Granger Cause GNIUKR	0.0099





GNIUKR does not Granger Cause PRRUKR	0.0373
PRRUSUKR does not Granger Cause GNIUKR	0.0013
GNIUKR does not Granger Cause PRRUSUKR	0.0100
R_DEEMU does not Granger Cause GNIUKR	0.0637
GNIUKR does not Granger Cause R_DEEMU	0.0201
R_DEUKR does not Granger Cause GNIUKR	0.0421
GNIUKR does not Granger Cause R_DEUKR	0.0184
TCGUKR does not Granger Cause GNIUKR	0.0031
GNIUKR does not Granger Cause TCGUKR	0.0385
HDIUKR does not Granger Cause GRANTUKR	0.0155
GRANTUKR does not Granger Cause HDIUKR	0.0388
ICUKR does not Granger Cause HDIUKR	0.0077
HDIUKR does not Granger Cause ICUKR	0.0083
IMSEMU does not Granger Cause HDIUKR	0.0053
HDIUKR does not Granger Cause IMSEMU	0.0003
IMSUKR does not Granger Cause HDIUKR	0.0253
HDIUKR does not Granger Cause IMSUKR	0.0001
PRPUKR does not Granger Cause HDIUKR	0.0033
HDIUKR does not Granger Cause PRPUKR	0.0253
PRREMU does not Granger Cause HDIUKR	0.0000
HDIUKR does not Granger Cause PRREMU	0.0022
PRRUKR does not Granger Cause HDIUKR	0.0003
HDIUKR does not Granger Cause PRRUKR	0.0125
PRRUSUKR does not Granger Cause HDIUKR	0.0350
HDIUKR does not Granger Cause PRRUSUKR	0.0178
R_DEEMU does not Granger Cause HDIUKR	0.0188
HDIUKR does not Granger Cause R_DEEMU	0.0235
R_DEUKR does not Granger Cause HDIUKR	0.0456
HDIUKR does not Granger Cause R_DEUKR	0.0402
TCGUKR does not Granger Cause HDIUKR	0.0417
HDIUKR does not Granger Cause TCGUKR	0.0324

# TOWARDS THE MORPHOLOGY OF CREATIVE BUSINESS-MODEL IN UKRAINE

Alexander KLIMCHUK\*, Veronika CHALA\*\*

**Abstract:** *The article touches upon theoretical issues of increasing business-model creativity in response to objective cognitive economy establishment in European countries and in world trade generally. Convergent development in CEE countries crucially depends on efficiency of its strategic business environment orientation. A critical analysis of Ukrainian business-models peculiarities is presented; their external and internal factors are described. Authors derive conclusions concerning current Ukrainian business-models effectiveness in terms of European creative competitive environment. The article embodies statistical and empirical materials derived during consultancy activities, including organizational engineering, financial function development and introduction of strategic planning, in numerous Ukrainian firms between 2003 and 2015. The presented cases reveal data from more than 20 organizations of private and public ownership in Ukraine.*

**Keywords:** *Ukraine; EU; creative economy; creative business-model; customer creativity*

## Introduction

Ukrainian companies are anxious of self-estimating and discovering whether their developed during independency business models will be competitive in the new common European economic environment and how it will transform capital flows in the region. From the other hand, CEE governments and generally mega-regional institutions are searching to enlarge their economic influence areas and investigate possible perspectives for more convergent and integral economic growth. Since gaining independence, a specific business-environment was formed, with distinctive features, usually very different from other European countries. For example, the banking system is characterized by strong IT-integration and great

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scaling, building industry – with quite low capitalization and high level of investment risks.

During the uneven post-crisis years in Ukraine a boost in the business-activity has been observed. Companies are improving their economic indicators, activate sales, develop old and create new distribution channels. This tendency is almost fair for all sectors of Ukrainian economy. Obviously, these positive shifts do not touch upon all firms in industry. Some of companies, which have not succeeded to overcome crisis, have either already left the market or they are on their way to exit. Only the strongest and the most adaptive have survived. These are the positive aspects of the latest world financial crisis when it comes to evolution of business environment and economy as a whole.

Those companies, who managed to survive the crisis, are anxious about choosing those management tools and even paradigms so as to support their effectiveness, economic scale and strong position on market. There are plenty of such instruments and choosing from this range is not simple. As a result, the market of business-consulting is particularly expanding now. Moreover, a quite active marketing activity of business-consultants is observed with various managerial tools promotion.

Same representative tendency is observed when talking about Ukrainian companies' motivation to integrate to European economic relations. It is intensified by given political processes in Ukrainian-EU integration (namely, within the frames of the new Association Agreement). In fact, majority of Ukrainian companies have suppliers in the EU. Moreover, particular companies build their business almost fully oriented on European market and just have a physical location in Ukraine. This way or another, Ukrainian companies face evolutionary new factors of competitiveness like marketing, technological, product, logistic, promotion, design creativity, which proved their principal value in the EU market much earlier in 80-90s. Now the EU economic environment is represented by service oriented, mostly middle-size entrepreneurship realising the obvious shift to homo-sociologicus paradigm in their societies and trying to satisfy those qualitatively new needs of their consumers inside and outside inner market. Their business models can be generally characterised as creative in contract to Ukrainian ones.

What usually *bothers* top-management of Ukrainian companies is how to apply advanced theory and practice of business-modelling and to make their goods and services creative to become competitive in the global market. And thus, two problems arise simultaneously. Firstly, it is the limited understanding of business-modelling theory among business-elite in Ukraine because of lack of reliable literature sources and, obviously, because of the novelty of this concept. For example, usually creativity is associated with product functions itself and no relations with other subsystems in company are seen. Secondly, there are number of inner contradictions inside the business-model theory itself when it comes to perspective planning and performance tracking.



We would argue that most of researches on business-model have not paid enough attention to the question of its target format definition. In other words, quite big attention is paid to the formalization of 'as-is' or current state business-model of organization, whereas relatively small respect is given to the ways of defining 'to-be' or future, targeted state of business-model. And what is even more crucial, they do not outline recommendation about how to account the imperatives of creative economy. Impact of totally new relations between economic agents in terms of production, distribution, exchange and consumption of new forms and methods, added symbolic and informational value to the product through using intellectual property and commercialization of individual creative potential have an outstanding effect on production, management and marketing strategies of business that can be hardly overestimated

This article focuses on perspective combining of creative economy concept with business-model theory in order to define the imperatives set to the last one in terms of contemporary competitive environment. Specifically, it reveals the attempt to distinguish different types of business-models in Ukraine due to their creativity. Further, we investigate the structure and cause-consequence relationship between factors of inner-clients and out-stakeholders creativity elements. Finally, it presents theoretical research and practical recommendations concerning the algorithm of these elements in the process of company's business-model/engineering. The convergent impact of such methodology is regarded as crucial for the further economic integration of Ukraine and other catching up Central and Eastern European countries to the common EU competitive environment.

## 1. Literature review

Most of publications of business-models are dedicated to their structuring and to their description procedures. The most significant research on business-model engineering, management and adaptation to external changes so far has been presented by Osterwalder (2004). Numerous scientific papers influenced by his approaches have followed (Al-Debei *et al.*, 2008; Johnson *et al.*, 2010; Rozeia *et al.*, 2011).

Still the question of quantitative business-model measurement is left practically undisclosed (Osterwalder, 2013). The same success is with key qualitative indicators and the problem of their regulation. In our opinion, this is particularly important aspect of using business-model instrument in practice, since according to famous quotation, "what we can't measure – we can't manage" (Ovans, 2015). The third significant flaw in business-model theory is its specifics arising while implementation in post-soviet business reality, including Ukrainian companies. Despite its constructive and convergent power, so far this aspect has been poorly developed.



Understanding the fact that creative factors impact greatly modern economies' performance has revealed itself in the numerous theories, including cultural industries theory of A. Scott and A. Pratt, the impression and experience economy theory of J. Pine, J. Gilmore, the creative economy theory of J. Hawkins, the creative city theory of C. Landry and the creative class theory of R. Florida. Forty years ago UNCTAD and the Council of Europe have begun to explore such economic phenomenon as cultural (creative) industries. N. Graham defines their essence based on the personal creative element, skill or talent that can create added value or new jobs through the use of intellectual property (Chala, 2015, p. 25). It is particularly remarkable that creative industries have been showing higher growth rates in developed countries over the 1990s. For example, in the EU, they were more than twice intensively growing comparing to classic services and industrial production.

Equally important notion of creative class is thoroughly studied by R. Florida as workers who bring added value through their creativity. He proves that the creative class becomes a major factor of the any economy productivity growth in long run as they produce new forms or designs that are ready to use and are useful in a broad meaning. Therefore, this class includes a wide range of workers in the field of knowledge intensive usage according to P. Drucker and F. Machlup, symbolic analysts of R. Reich; X-class of P. Fussel and "professional managers" of E. Wright. Representatives of this class are combined by at least four common life principles: individuality, meritocracy (respect to advantages at the perfection level), diversity and openness.

According to R. Florida, nowadays creativity covers all sectors and blurs the boundaries between classes, and ensures its implementation under such lateral concept. One cannot form creative economy in the delinked and unconnected society. J. Jacobs highlights that societies demonstrate stability due to the mixing of permanent residents with temporary residents. Specifically, speed and ease of integration of all types of people into the economic society under the high mobility conditions, weak holding circumstances and alternative societies are the key elements of stable creative society and economy. Organizational forms with a more favorable social organization for creativity are constantly expanding worldwide, for example, "jobs without colored collars", "creative factories" and so on. The challenge is to strengthen these processes and introduce them in all spheres of society, for which the continuous improvement of social cohesion forms is critical.

P. Torrens and J. Guilford were the first who used the term of creativity. They explained it as distinctive feature of human creative potential, which is manifested in the willingness to produce conceptually new ideas. American businessman and professor of Harvard Business School - a specialist in the field of creativity - J. Kao - defines this concept as a process of creating ideas, implementation of which occurs in the phenomena that can be described as entrepreneurial or innovative.



R. Florida sees creativity as the basis of the new economy and explains it as production of new forms and patterns that can be easily distributed and used, for example, the creation of a new mass-market product or invention of a new theorem or an all-purpose strategy. In his opinion, creativity in the new economy lies in a combination of three areas: technical innovation, business and culture. Meanwhile M. McLuhan defends his idea that creativity is, first of all, a technology of creative process organization. C. Landry, the author of the book entitled *Creative City: A Toolkit for Urban Innovators*, emphasizes the relationship between creativity and the development of urban areas. The concept of a creative city was presented as a call to stimulate the openness of thinking and imagination in economic society, for it largely affects the organizational culture. In the opinion of C. Landry, there is always more creative potential in any company and place.

C. Mercer adds the notion of planning in the field of culture, as strategic and integration process of the cultural resources use for the development of companies, cities and communities. In collaboration with C. Landry he explained the concept of: cultural resources as raw material of a company and its basic values; resources which replace coal, steel or gold; and creativity, respectively, as a method of these cultural resources finding and developing.

Numerous attempts to estimate conceptual interconnection of the factors, which influence the development of the modern business environment creative function, have been undertaken in many scientific studies. For example, KEA company in its most famous study ordered by European Commission associate the identification of the creative development factors with the areas, where the corresponding effects can be obtained: scientific, economic, cultural and technological, as a basis for the others. Similar logic was followed by the designers of the creativity index estimation in the Hong Kong Home Affairs Bureau in cooperation with the T. Mori Foundation. According to their beliefs, the creative development factors lie in the plane of four capitals, at the intersection of which the creativity results are created: cultural capital; social capital; human capital and structural- institutional capital.

R. Florida states that social element of creative development (tolerance in society) causes rapid adaptation of new information, and therefore, the technological component of creative development (innovative activities). Together they enhance a human component of the business creative development (accumulation of talents), which directly affects the value added numbers.

More recent approach to the creative development elements and factors systematization is represented in the scientific heritage of P. Cohender. According to his assumptions, the creative function factors are revealed through the analysis of the creative production chain. Initially, the scientist makes a theoretical assumption and justifies the existence of three phases, which help to promote the idea from its emergence up to its direct implementation in the creation of market creative products (in this case, authors use “higher, middle and lower” morphological levels in his model of the business creative development).



According to P. Cohender, an extra-market platform for the implementation of the cultural, creative and “artistic” interactions between people, which take place outside formal work places, forms the lower level. According to the scientist, they include knowledge sharing and socialization process in the so-called sectors, e.g., nightclubs, galleries, parks, museums, theatres, etc. Together they contribute to the generation of new ideas and new trends. In general, his approach is aligned with the research of A. Saksenian, who explains the advantages of high-tech information production in Silicon Valley and introduces such an important factor as informal communication and cultural events, which unite workers. Author emphasizes that relationship with the higher level (companies-implementers) is rather weak at the low level. The middle level - social or professional groups –plays an important role by strengthening this relationship. Screening, adding, formation and promotion of the best ideas, which can be used with high confidence to create useful and market product, occur in these groups. Due to his methodology of research, the higher level in the model of business creative development assumes the direct commercialization of the creative idea throughout introduction of new creative products to the market. Often, these companies do not have their research and development departments, and thus, can be considered as project-oriented.

The above mentioned theoretical researches contribute to the understanding of the company’s creative development elements and their structure, however do not establish cause-consequence relationship between these factors and, in this form, represent relatively small practical value for strategic planning.

Eventually it can be stated that the integration of business-model theory and creative economy concept will let acquiring new methodological outcomes of a great value for management theory and practice. Approaching business model from the position of cognitive intellectual economy will enable its advanced design, accounting and tracking in line with contemporary imperatives of global economy, as well as it will generally increase the effectiveness of this instrument applying.

The main question from users of business-model can be generalized as which model is the most suitable for the particular case of business. To answer this question benchmarks and criterions are in need, preferably, quantitative. Otherwise such substantiation can turn into a descriptive statement about positive and negative examples. In our opinion, these criterions are inseparably connected to the calls of creative economy. We propose to follow the hypothesis according to which outside creativity of clients and business partners define the demand for company’s inside creativity (embodied in key employees and product itself) and business-model is the effective mechanism, that can be used to align these two levels of inner- and out-creativity.

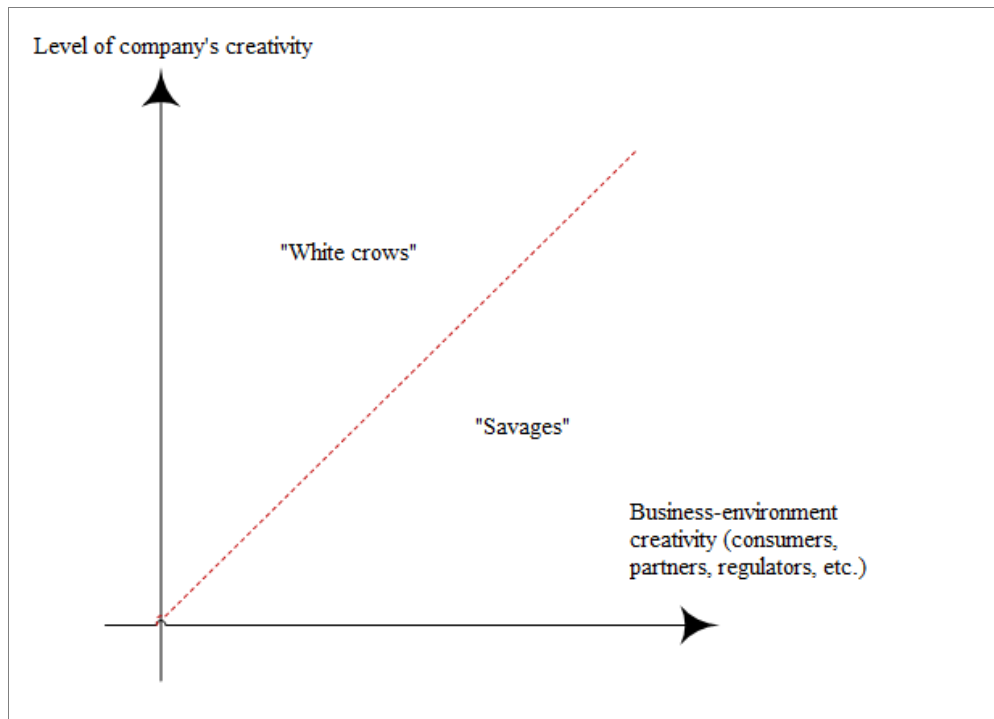




## 2. The business model of the organization as a management tool in terms of growing creativity of customer, employees and business partners

The laconic response to the question what is creativity in terms of organization refers to two basic aspects: what level of customer creativity we want to deal with and what level of creativity is within the organization itself? So creativity is about clients and about business-model. Although the company is free to answer these questions in its own way, we hypothesize that the level of creativity of the organization likely corresponds to the level of creativity of preferred customers and business partners. This way creativity both is a source of company's value and an external requirement, set by objective entrepreneurial environment. Provided that equilibrium is disrupted towards one or another way, companies risk to be perceived by external surrounding either as non-responsive and not on-the-edge 'savages' or as pioneering or non-comprehensive 'white crows' (Figure1). In the first case, the level of clients' creativity is higher than company's, in the second case, – it is lower than company's.

**Figure 1. Two types of principal business-models regarding their response to external business-environment creativity**



Source: Developed by authors



The idea of coincidence between clients needs in creativity and company's creative offer has been highlighted in the works of Florida (2005); Howkins (2002); Pine *et al.* (1999) important for company's perception of creative economy (Figure 2). Thus, the customer's creativity lies in intersection of four spheres: creativity of products they consume, their original approach to work process organization, specific perception of lifestyle and leisure, unique way for self-expression in social surrounding. Recent researches (McNeal, 2014) show that consumers expect the reflection of their own values and respectfully give companies their loyalty. Not necessary through good or service originality, but through company's sharing of same values of creative lifestyle, social surrounding and work organization. Example of "Tesla" car-producer, can be quite illustrative. It is not a secret that "Tesla" has been operating in terms of constant losses but its stock capitalization index has been rising during corresponding period. Explanation is that consumers appreciate its inspirations and values and provide it with their loyalty and vote for it with their purchases.

Classic approach of Osterwilder (2004) considers business-model to be comprised of such elements as targeted segments, valuable offer, supply channels, customers' relations management, profit sources management, key resources, key business processes, business partners, costs structure. Further dwelling on their specifics is necessary to identify the rate of influence on creativity.

Firstly, identification of targeted segment is called to determine which groups of people and organizations do company hope to attract and maintain. It is the background of any business-model. Business-model includes one or more customer groups - consumer segments. The organization must make a choice when deciding which segments to serve and which to abandon. When the decision is made, business-model can be built, based on a clear understanding of the specific needs of selected segments of customers. The most popular in Ukraine types of targeted segments and examples are the mass market and niche market.

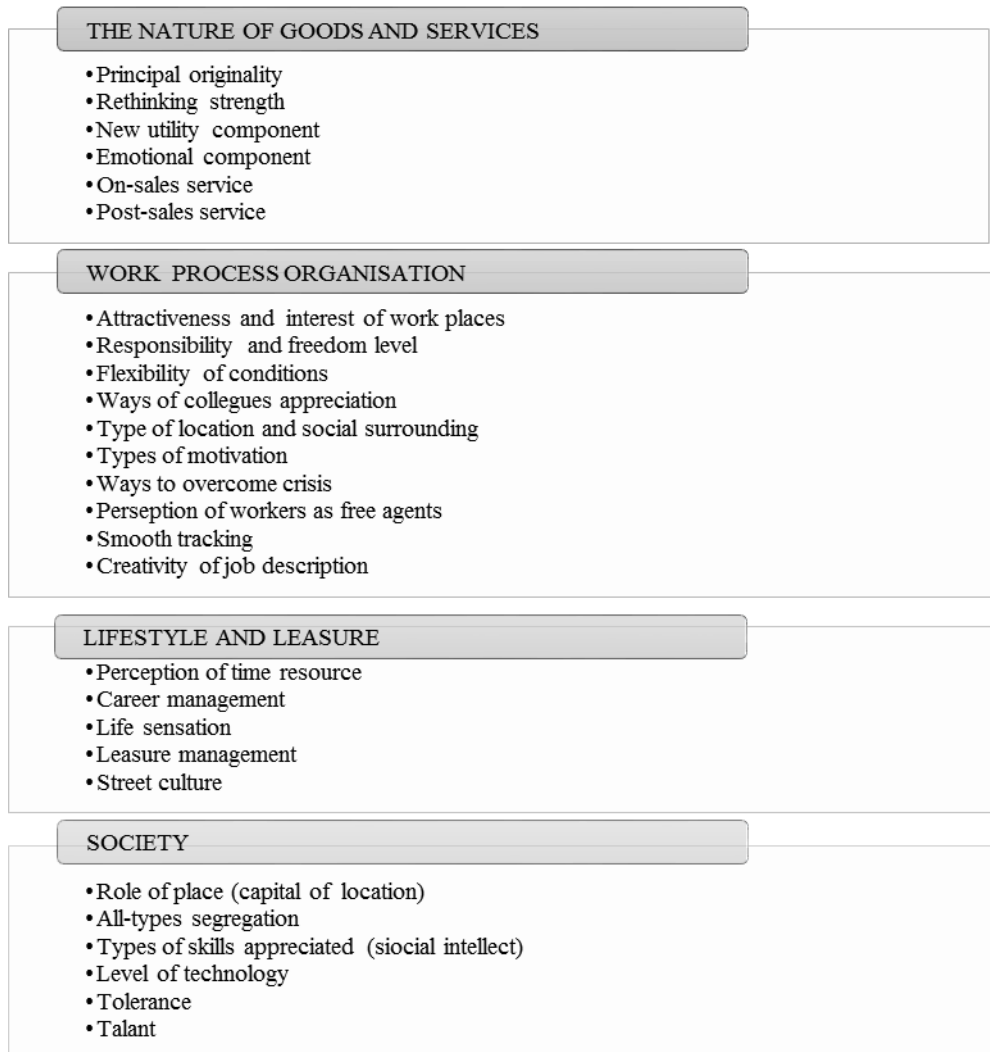
The 'mass market' segmentation relates to the supply of goods without distinguishing by consumer segments. Valuable proposition and both supply channels and the structure of customer relationships are focused on a large group of consumers, united by similar needs and requirements. This type of business model is used, for example, by electronics retails system 'Comfy' or 'ProStor' cosmetics stores. Instead 'niche market' focuses on specific customer segments, where valuable proposition, sales channels and customer relationships are built in accordance with the requirements of the market. These business models can often be found in the supply of production resources and components. This situation is typical for construction companies, for example for industry of glazing or exterior lighting.

Some business models with fractional segmentation distinguish market segments slightly different according to their needs and demands. For example, the departments of the retail service in banks, for example, in the bank Credit-Dnepr, is divided into Mass-market and Private-banking. An organization with multi-profile



segmentation as an element of business model serves two very different consumer segments with different needs and demands. An example can be presented by Privat-Bank, which has in its structure purely banking units and units engaged in insurance services. Instead, multi-platform companies serve two or more related consumer segment. For example, companies that issue credit cards. They need a huge database of card holders, as well as the base of trade enterprises accepting these cards.

**Figure 2. System of components of customer creativity from business point of view**



Source: Developed with Osterwalder (2004), Ovans (2015)



Similarly, the company offering a free press requires a large number of readers to attract advertisers. Meanwhile advertisers are interested to finance the production and distribution. In order for such a business-model to work both segments are needed. Another important element of business-model engineering is formalization of valuable proposition. It is a complex reason why customers prefer one company to another so as it solves better customer's problems or meet their needs more specifically. Each valuable proposition is a certain set of goods and / or services that meet the needs of a specific customer segment. In other words, it is a set of benefits that the company is ready to offer. Some valuable propositions can be brand new innovative or revolutionary. Other - already existing in the market, but with some differentiating new features. The valuable proposition must create advantages for a specific consumer segment due to a particular combination of elements, satisfying the requirements of this segment. The benefits may be quantitative (such as price, speed of service) or qualitative (e.g., design, positive customer emotions). A list of the most common elements that make up the value of the goods or services to the consumer includes novelty (electric cars in Ukraine), productivity (agricultural fertilizers), customization (individual car tuning), outsourcing of non-core activities (accounting and financial services), brand and status (Apple and Ray Ban), low-pricing (Ukrainian 'ATB' product-markets), cost-reduction (solutions in sphere of energy-efficiency or travel-planning), risks reduction (guaranteeing in IT sphere), availability (world brands supply new for Ukraine), easement (one-click turn-on or simple installation).

The choice of distribution channels describes how companies interact with consumer segments and transmit to them valuable proposition. Channels of communication, distribution and sales make up the system of interaction with the consumer. These channels increase consumer awareness about products and services company; help to assess the valuable proposition of the company; allow users to buy certain goods and services; provide after-sales service. Choosing direct and indirect sales channels, as well as own and partner, it is important to maintain the right balance between the various sales channels and find a combination, which provide the best customer feedback and maximum revenue.

Customer relationship management block in business-model describes the types of relationships that are established by company with particular customer segments. Relationships can range from personal to automated. The reasons that determine the relationship may be different: the acquisition of clients; customer retention; an increase in sales. For example, at the dawn of the mobile operators in Ukraine their relationships with clients were built on the basis of aggressive strategies 'to attract', including offers of free phones. Strategy has changed with the saturation of the market and operators have focused on retaining customers and gaining maximum profit from each of them. There are several types of customer relationships that exist within the company's relationship with each customer segment: personal support, special personal support, self-service, automated support, community support, co-creation.



The block of income flows management includes financial profits that company receives from each customer segment. If customers are the heart of any business model, revenue streams - its arteries. The company must ask itself what consumers are willing to pay for and the correct answer to this question will create one or more flows of revenue from each customer segment. Each stream can have its own pricing mechanism: fixed or negotiated prices, auction prices, prices dependant on sales volume. The business models of the two types of revenue streams may exist: income from individual transactions and income from regular periodic payments received from customers for valuable propositions or after-sales service. Revenues from the sale of property rights, use of certain service payments, payment of subscription, rental/leasing, licenses and patents payments, agents' interests, advertisement payments present the range of the most common income flows.

Core resources management describes the most important assets necessary for the operation of the business-model. Each business model requires certain key resources. These resources allow the company to create and bring valuable proposition to the customer, enter market, maintain relations with customer segments and make a profit. Various types of business models require different resources, but usually resources are distinguishable as material, financial, intellectual and human (personnel). The company may be the owner of these resources, to take them in hiring or receive them from key partners.

Key business-processes formalization describes the company's activities, which are necessary for the implementation of its business-model. Each business-model includes a certain number of key activities crucial for success. The most widespread classification includes production (creating and bringing to market the product in the desired volume and / or best quality), solving problems (finding the best solution of problems for specific client involves knowledge management and constant improvement of professional skills), platforms and networks (computer network, commercial platform, software and even trademarks require permanent development like Visa, eBay or Microsoft).

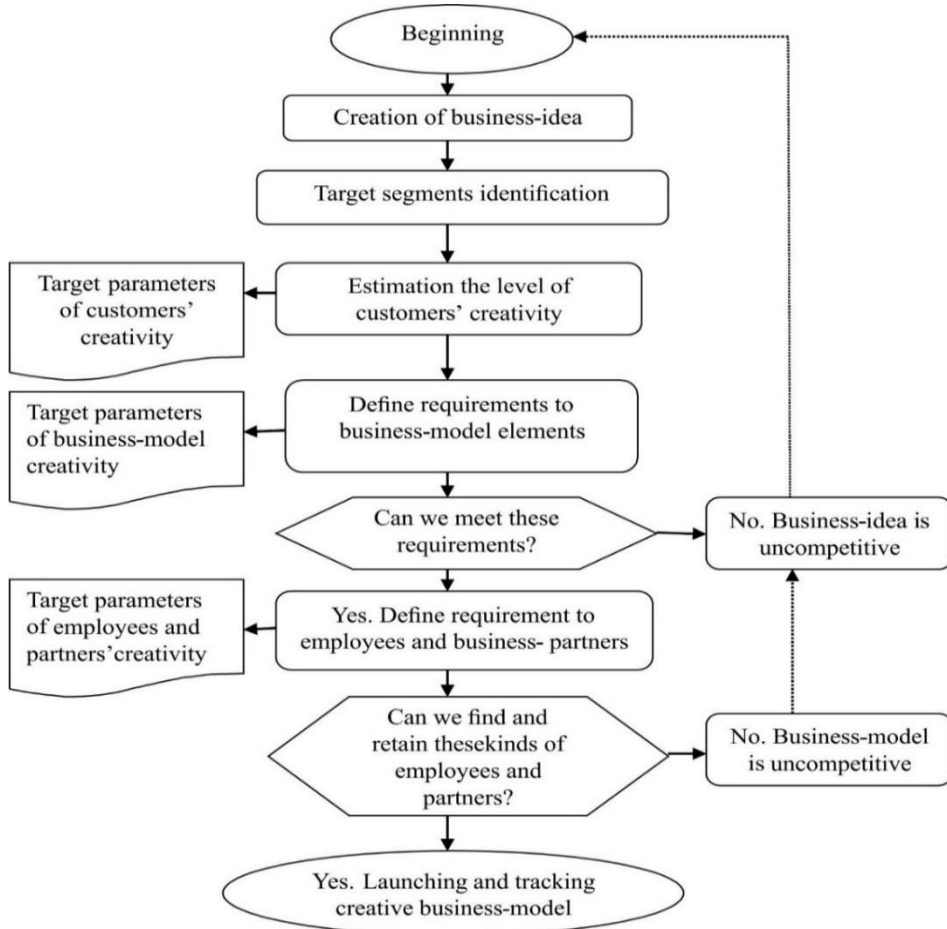
The element of principal stakeholders' definition describes the network of suppliers and partners thanks to whom the business-model operates. Firms create partnerships to optimize their business models with economy of scale, reduce risk or to get resources. Four types of partnerships are usually identified: the strategic partnership between non-competing companies, co-competition (a strategic partnership between the competitors), joint ventures to launch new business projects, relationships between manufacturer and suppliers to ensure receiving components of a high quality.

Costs structure management describes the most significant expenses necessary to operate within a specific business-model. Spendings are easy enough to calculate if key resources, key activities and key partners are specified well. Costs must be minimized in any business-model. However, for some models, cost reduction is more important than for others. Approaching structure of costs generally divide business-model into two classes: with a primary focus on costs



(low-costs airlines) and with a primary focus on values (first-class hotels). Most business models are somewhere between these two extremes, managing fixed and variable costs, using economy of scale and differentiation effects.

**Figure 3. Principal algorithm of business-model and external business-environment creativity consideration**



Source: Developed by authors

### 3. Interconnection between creativity and business-model of company

Striving to rethink the business model in a creative manner enterprises are faced with numerous practical and theoretical issues. Primarily, which elements of the model must be modified at first to achieve the greatest transformation effect? Secondly, the ways a company's business model is determined simultaneously by

the requirements of client's creativity settings, on the one hand, and creative possibilities of key partners and employees, on the other hand.

As can be seen from the presented algorithm (Figure 3), there is a bidirectional relationship between the creative economy and the business-model: the original level of customer creativity defines the requirements for the business-model of the company, further, on the basis of required parameters to business-model, we can define the requirements for the level of creativity of employees and business partners or so called stakeholders.

**Table 1. Key economic indicators of companies under examination, 2011-2015**

No.	Company	Average net income, 2011-2015 (mln. uah.)	Average net income change, 2011 / 2015 (%)	Operational income (mln.uah)		Net profit / loss (mln. uah)
				2015	2011	
1	MetInvest group	88 562	-5	100 520	105 704	3 480
2	DTEK	34 907	537	82 581	12 969	5 922
3	ATB-market	11 934	320	21 239	5 053	284
4	Fozzy-food	10 417	943	19 860	1 904	0
5	Epicenter K	9 908	136	14 693	6 225	581
6	Metro Cash and Carry Ukraine	9 560	16	10 123	8 750	418
7	Cargill	5 804	92	8 115	4 226	478
8	Interpipe Nizned	5 317	24	7 034	5 684	45
9	Comfi trade	4 591	-15	4 229	2 953	-19
10	Amstore	3 119	47	4 063	2 772	8
11	Aliance	3 005	190	4 475	1 542	74
12	Ashan Ukraine	2 935	754	4 709	551	-98
13	Ukrainian Automobile corporation	2 903	-30	3 008	4 271	195
14	Obolon	2 852	10	3 181	2 905	153
15	Konti	2 805	87	3 393	1 820	268
16	Interpipe Nikotube	2 799	70	4 168	2 453	23
17	Novaya liniya	2 536	13	2 527	2 238	-32
18	Adventis (TM Caravan)	1 682	80	2 039	1 101	-212
19	Interpipe Novomoskovsky	1 488	7	1 843	1 730	10
20	McDonald'sUkraine	1 486	98	2 054	1 038	131
21	Watsons Ukraine	1 284	93	1 625	842	82
22	Henkel Bautechnic	1 113	25	1 294	1 035	235
23	KominternDniproMetallurgicalFactory	1 035	40	1 267	978	-8
24	Ukrainian Retail (TM Brusnichka)	688	481	1 353	233	-133
25	DniproTubalFactory	626	-26	572	775	-135
27	Odessa-Cable	522	16	596	514	8





No.	Company	Average net income, 2011-2015 (mln. uah.)	Average net income change, 2011 / 2015 (%)	Operational income (mln.uah)		Net profit / loss (mln. uah)
				2015	2011	
28	StyleD	377	163	567	216	1
29	Mobilochka	362	372	8 125	172	-11

Source: Developed by authors

To determine those levers of influence on the business model that will take into account the customer's requirements for business creativity we examined the example of 29 Ukrainian companies. Their recent economic profiles are presented in Table 1. In the course of the advisory activity in the field of creative business modeling in each of these companies there were interviewed from 10 to 25 top managers (total number of experts equaled 568). They were asked to answer 54 questions with 4 semi-affirmative answer options. Each of the responses showed assess of the respondent either: the absence of determination (0), the existence of non-significant (5), highly sufficient (7) or direct interconnection (10) between one of the three customer creativity options and nine specific elements of the business model, as well as between the elements of the business model and three key employees and partners' creativity parameters. More than 30 thousand of the results were processed by the method of Delphi expert estimates and revealed a quite high level of opinions consistency after 2 rounds of the survey (the coefficient of concordance was 0.73).

The following Table 2 shows the derived differentiated relationship between the company's business model and key parameters that determine the level of creativity of the company's customers.

**Table 2. Matrix of interconnection between parameters of external client creativity and business-model elements**

The level of estimated influence (0-10)		<i>Target parameters of customers' creativity</i>		
		Work process organization	Lifestyle and leisure	Social surrounding
<i>Elements of company's business-model</i>	Target segments	10	10	10
	Valuable proposition	5	10	5
	Channels of distribution	5	10	5
	Customer relation management	5	10	5
	Income flows management	10	7	7
	Core resources	0	0	0

	Key business-processes	0	0	0
	Principal stakeholders	5	5	5
	Costs structure management	0	0	0

Source: Developed by authors

For example, a factor of the business model 'Value Proposition' has a maximum connection with a 'Lifestyle' parameter of customer creativity, while 'Cost structure management' and 'Key business processes' have no relation any of three parameters of client's creativity. This means that the lifestyle of customers, has a key influence on the level of their creativity, to a large extent determines the requirements for the company's value proposition. In general, are mostly exposed to such element of customer's creativity as lifestyle and leisure, relatively less – to their work process organization and at least – to social surrounding preferences. Whereas 'Target segments' and 'Income flow management' elements have even greater determination by customer creativity than even 'Valuable proposition', 'Channels of distribution' and 'Customer relation management'.

Customers expect from companies' specific admission and orientation at them as 'creative consumers' with unique characteristics of workplaces organization, values in social surrounding, as well expect valuable proposition and channels of distribution being respectively designed. B-2-B segments as well represent demand for creative income flows systems being established and engagement with respectively creative partners and other stakeholders.

Formalization of market demand for business-model creativity on the previous stage determines reaction from company to these new requirements through the influence at creativity parameters of its employees and partners. Table 3 is a logical continuation of the previous one and allows approaching the issue of achieving the required level of creativity of the company. The decisive role is given to the level of the employees and partners creativity inside the company. The following table shows derived estimations about the degree of employees and partner's creativity influence on business model. For example, a factor of creativity "Work process organization" has the maximum impact on the "Sales channels" element in business model. Obviously the creativity of employees who implement sales channels determines the level of creativity that customers experience while interacting with company. In fact, the Table 2 sets a target value for the company's creativity; the Table 3 answers the question: how to achieve it.

Usually Ukrainian companies start with a rethinking of segmentation, valuable proposition distribution channels by influencing work process organization key employees and partners. Then companies try to influence their business approach, leisure goals and preferences. And what is also very popular and influences customer relation management is an effort to bring creative



imperatives into social surrounding of their employees and while interacting partners.

As we can see from above mentioned data, even though it is important to take into consideration the client's creativity preferences to 'Principal stakeholders' and 'Income flow management', companies see no way to influence them through their employees' creativity parameters. Meanwhile 'Valuable proposition' can be seriously improved in creativity through hiring and retaining employees with a corresponding creative attitude to work process organization and lifestyle and leisure.

**Table 3. Matrix of interconnection between parameters of employees/partners creativity and business-model creativity**

The level of estimated influence (0-10)		<i>Target parameters of employees and partners creativity</i>		
		Work process organization	Lifestyle and leisure	Social surrounding
<i>Elements of company's business-model</i>	Target segments	10	5	5
	Valuable proposition	10	10	5
	Channels of distribution	10	5	5
	Customer relation management	5	5	5
	Income flows management	0	0	0
	Core resources	0	0	0
	Key business-processes	5	0	0
	Principal stakeholders	0	0	0
	Costs structure management	0	0	0

Source: Developed by authors

## Conclusions

Creative economy modifies the world market and divides companies' business models into 'savages' and 'white crows'. With the acceleration of the European integration processes Ukraine should change the level of creativity of its economy on microeconomic level. Until now, the strategic development of business models in Ukrainian companies has been undertaken without consideration of external environment creativity factor. In our research, on the one hand, we proposed the practical client-partners algorithm to take into account this important factor and, on the other hand, to consider the differentiated effective levers to implement it into business model, as well as accordingly decide on the necessary level of creativity by the company itself.



Another important conclusion of our study is the differentiated approach to the company's creativity management on the basis of its key employee's creativity. Valuable model of employee can act as a meaningful driver of business-model transformation. This effect increases the higher the level of the management hierarchy and the higher emotional capital the employee obtains, which manifests itself in informal communications within the company. Thus, we can conclude that the presence of a certain critical mass of employees with a certain level of creativity can change the level of creativity of the company, which it brings to the market.

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# GETTING CLOSER TO EU STANDARDS - GEORGIA FISCAL GOVERNANCE ADJUSTMENT AND ITS IMPLICATIONS

David OBOLADZE\*

**Abstract:** *This study focuses on fiscal governance from the perspective of developing the public finance management of Georgia. The paper investigates the fiscal governance framework in European Union countries and examines the impact of fiscal rules and budget procedures in EU countries. Well-designed fiscal frameworks are generally associated with better budgetary outcomes in terms of deficit and debt control. Following a thorough investigation of the current stance of fiscal governance in Georgia, the paper analyses the main medium and long-term perspectives for Georgia to approximate with EU fiscal governance. The main objective of this paper is to provide policy guidelines needed for the appropriate and necessary reforms to ensure comprehensive, coherent and consistent fiscal governance framework for Georgia, which will improve the performance of public finance management and national economy of Georgia.*

**Keywords:** *fiscal governance; fiscal policy; fiscal rules; fiscal discipline; national fiscal framework*

## Introduction

The national fiscal governance helps improve the budgetary discipline and supports the sound and sustainable conduct of public finances. Well-designed fiscal frameworks are generally associated with better budgetary outcomes in terms of deficit and debt developments.

The fiscal frameworks can be defined as the set of elements of the institutional policy setting that shape fiscal policy making at the national level. They comprise the arrangements, procedures and institutions governing planning and implementing budgetary policies. The main components of domestic fiscal frameworks are:

- Numerical fiscal rules (NFR);
- Independent fiscal institutions (i.e., specific public bodies acting in the

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- field of budgetary policy);
- Budgetary procedures governing the preparation, approval, and implementation of budget plans. As part of the latter category:
- Medium-term budgetary frameworks (MTBFs) for multi-annual budgetary planning are specifically considered apart because of their importance in fostering medium term horizons for fiscal policies.

The policy of the EU countries in the direction of Public Finance Management serves three main objectives:

- Effective budgetary policy, control of deficit and prevention of unsustainable fiscal policies;
- Reducing the fiscal policies cyclic path;
- Increasing the efficiency of public finances expenditure.

Based on the scientific literature and empirical evidence on the domestic fiscal framework, particularly, on existing fiscal rules, the present paper primarily studies the existing evidence and then the major implications of the present framework. The paper uses official data from EU fiscal rules database, IMF and national authorities, regarding both national and supranational fiscal rules, between 1990 and 2012.

The main research questions of this paper are: Is Georgia fiscal governance framework compatible with those of EU countries? What reforms are needed to get closer to the EU standards? What would be the impact of such reforms? What Georgia can learn from past experiences in EU countries and what mistakes should Georgia avoid?

The paper is structured as follows: Section 1 presents a brief literature review regarding the role of fiscal rules. Section 2 provides a critical investigation of fiscal frameworks in EU Member States, using IMF and EU statistical data. Section 3 analyses the fiscal governance framework in Georgia. Section 4 presents policy guidelines for Georgia fiscal governance framework and the last section presents the concluding remarks.

## **1. Literature review**

In many studies fiscal rules are found to be important tools for fiscal consolidation (Larch and Turrini, 2008)) and fulfilling medium-term fiscal objectives (von Hagen, 2010) The number of countries using fiscal rules as a fiscal policy device has rapidly increased since the mid-1990s, initially confined to advanced economies and rapidly outnumbered by developing economies (Schaechter *et al.*, 2012).

According to Symansky and Kopits (1998), a fiscal rule is “a permanent constraint on fiscal policy, expressed in terms of a summary indicator of fiscal performance such as the government budget deficit, borrowing, debt or a major component”. According to European Commission, the fiscal policy rules set numerical targets for budgetary aggregates which pose a permanent constraint on



fiscal policy, expressed in terms of a summary indicator of fiscal outcomes, such as the government budget balance, debt, expenditure, or revenue developments, in order to enhance budgetary discipline and foster policy coordination between different levels of government. Additionally, fiscal rules may further contribute to the reduction of uncertainty about future fiscal policy developments (European Commission, 2014).

Regarding the impact of fiscal rules on pro-cyclicality, the literature reveals some divergent views, facing empirical limitations. As suggested by Kopits and Symansky (1998), IMF (2012), Bova *et al.* (2014), etc., fiscal rules are generally established as part of a broad reform of the fiscal framework that seeks to support fiscal credibility and discipline, containing pressures to overspend, especially in good times. Bova *et al.* (2014) found that in contrast with the advanced economies, the adoption of fiscal rules in developing countries has not been associated with more counter-cyclical fiscal policies and concluded that having a fiscal rule does not shield developing economies from pro-cyclicality. Debrun *et al.* (2008) found that fiscal rules tend to encourage higher cyclically-adjusted primary balances in the EU and may reduce pro-cyclicality. On the other hand, Manase (2005) claims that fiscal rules tend to limit the ability of fiscal authorities to react to business cycle fluctuations, thus potentially exacerbating volatility.

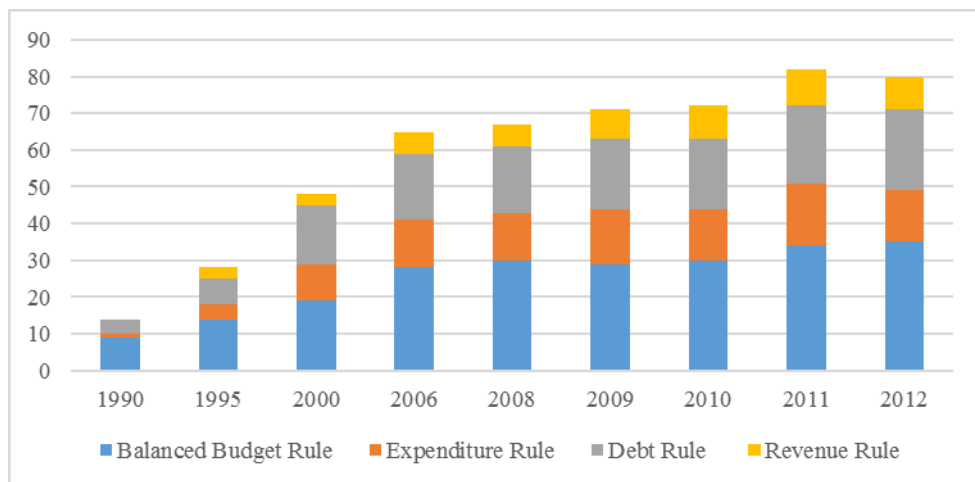
More recent economic literature (European Commission, 2014) and country-specific policy experiences provide evidence that well-designed numerical fiscal rules (NFR) significantly enhance fiscal discipline together with independent fiscal institutions (Debrun, 2007).

## 2. Fiscal Frameworks in EU – A Critical Investigation

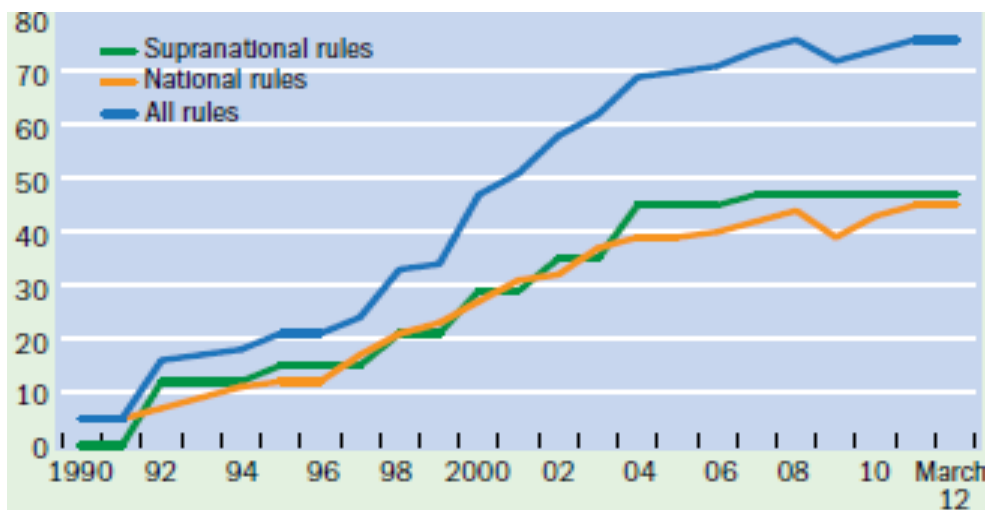
The official data reveals the increasing number of numerical fiscal rules (NFR) used by the EU Member States as fiscal device since 1990s, as shown in Figure 1 and 2. The main types of NFR in EU Member States are the Balanced Budget Rule (BBR), Debt Rule (DR), Expenditure Rule (ER) and Revenue Rule (RR). In 2008, there were 67 rules in place in EU Member States, of which more than one third were budget balance rules; debt and expenditure rules represented about one quarter each and revenue rules accounted for less than 10% (European Commission, 2014).

To capture the influence of the characteristics within the institutional framework of the fiscal policy, General Directorate for Economic and Financial Affairs (DG ECFIN) has constructed an index of strength of fiscal rules (SFRI), using information on (i) the statutory base of the rule, (ii) room for setting or revising its objectives, (iii) the body in charge of monitoring respect and enforcement of the rule, (iv) the enforcement mechanisms relating to the rule, and (v) the media visibility of the rule.



**Figure 1. Number of NFR in force in the EU Countries, by type, 1990–2012**

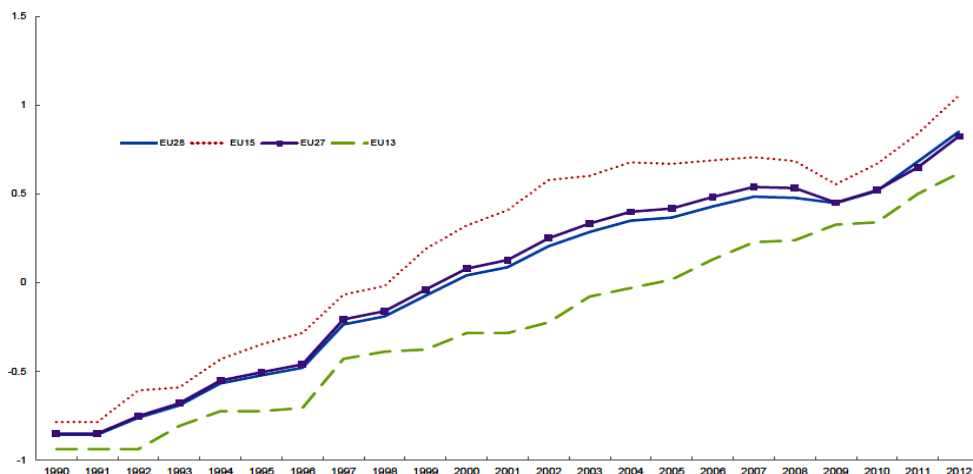
Source: European Commission

**Figure 2. Number of national and supranational NFR, in the EU, 1990-2012**

Source: IMF Fiscal Rules Database

The fiscal rules database contains the time series for the fiscal rule index 1990-2012 as shown in Figure 3 and 4. This corresponds to the quality of rules-based fiscal governance in EU Member States.

**Figure 3. The FR Index (FRI) in the EU and selected groups of Member States, 1990 to 2012**



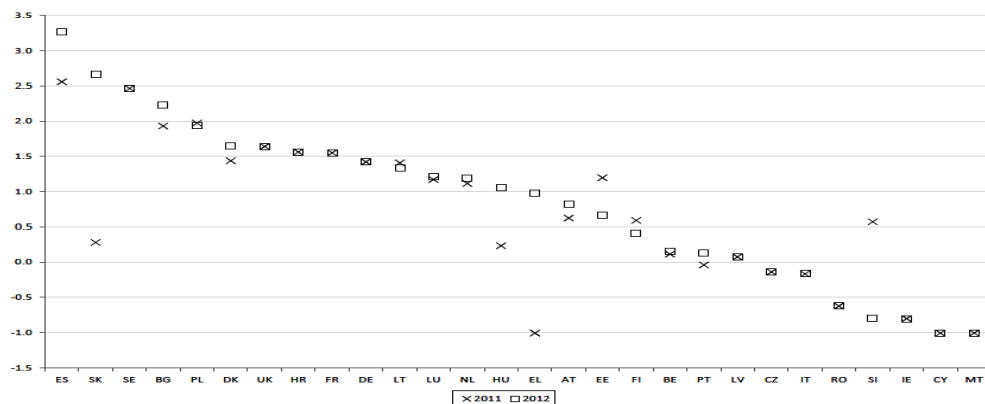
Source: European Commission

Based on the SFRI for each rule, a comprehensive time-varying fiscal rule index for each Member State was constructed by summing up all SFRI in force in that Member State weighted by the coverage of general government finances of the respective rule (i.e. public expenditure of the government sub sector(s) concerned by the rule over total general government expenditure). In the presence of more than one rule covering the same government sub-sector, the second, third and fourth rules obtain weights  $\frac{1}{2}$ ,  $\frac{1}{3}$ , and  $\frac{1}{4}$ , to reflect decreasing marginal benefit of multiple rules applying to the same sub-sector. The assigned weights are mainly determined by the fiscal strength of the rule and its coverage (European Commission, 2014).

The index is improved by means of making numerical fiscal rules stronger along either of the above dimensions and new numerical fiscal rules are introduced. Also, the coverage of general government is extended. The average quality of fiscal governance in the EU-27 has improved during 1990 and 2012, although 2009 marks a decline in the quality of fiscal governance in several EU countries.

As shown in Figure 4, countries with above-average standards of rules based fiscal governance include the Netherlands, Estonia, Denmark, Sweden, Luxembourg, Poland, Germany and Belgium; Bulgaria, Spain and France have joined this group by strengthening their rules-based framework in the time period under review. Slovenia, Hungary, Slovakia, Italy, Latvia, Romania, Austria, Ireland and Portugal have maintained rules-based fiscal governance frameworks with lower than average quality. The Czech Republic, Finland and the United Kingdom have a tradition of sound rules-based fiscal governance in contrast with Cyprus, Greece and Malta, continuously characterized by the absence of numerical fiscal rules.



**Figure 4. The fiscal rule index (FRI) in the EU-28 by country, 2011 and 2012**

Source: European Commission

**Table 1. Credit ratings of Moody's of EU Member States grouped by their strength of rules-based fiscal governance, mid-2009**

Rating	Fiscal rule index			
	below average		above average	
<b>Aaa</b>	AT	(2.2)	DE	(6.9)
	FI	(4.6)	DK	(9.4)
	IE	(2.2)	ES	(9.5)
	IT	(3.7)	FR	(6.9)
	UK	(0.0)	LU	(8.3)
			NL	(9.4)
			SE	(9.1)
			BE	(5.3)
<b>Aa2</b>	PT	(1.7)		
<b>Aa2</b>	SI	(5.1)		
<b>Aa3</b>	CY	(0.0)		
<b>A1</b>	CZ	(5.2)		
	EL	(0.0)		
	MT	(0.0)		
	SK	(3.8)		
<b>A2</b>				
<b>A3</b>			LT	(9.5)
<b>Baa1</b>	HU	(5.1)		
<b>Baa2</b>				
<b>Baa3</b>	LV	(3.6)	BG	(10.7)
	RO	(2.3)		

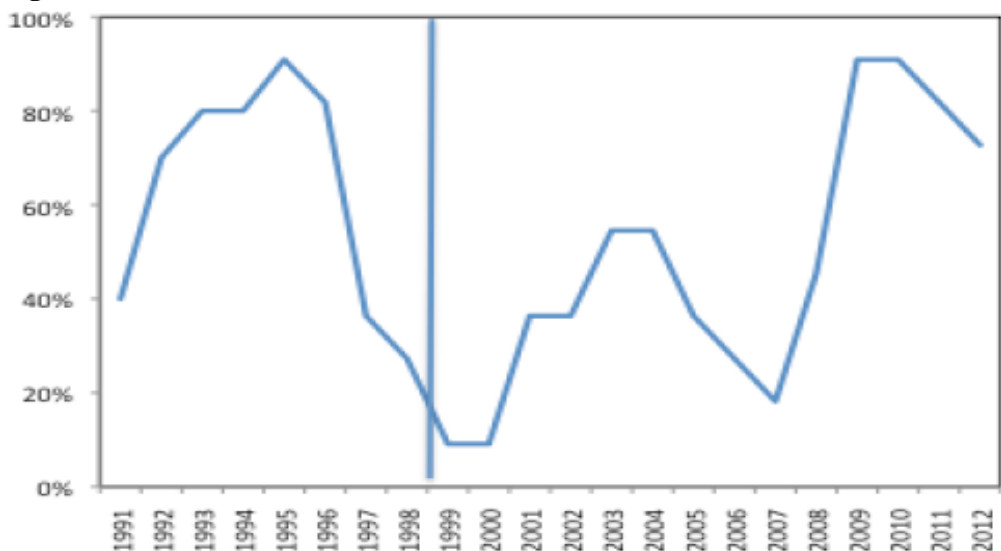
Source: Moody's (credit ratings), Commission services (fiscal rule index)

A more direct indication of a systematic relationship between the quality of fiscal governance and the price of debt – that is determined by the risk of default – can be obtained by looking at the risk of default in groups of countries distinguished by their fiscal governance directly (Table 1).

Table 1 provides some support for the direct relation between a sound fiscal governance and the cost of public debt. In the Maastricht Treaty, fiscal discipline rests mainly on the excessive deficit procedure which led to the Stability and Growth Pact (SGP). The EU fiscal framework, as laid down by the SGP, aims at ensuring fiscal discipline through two main requirements: (i) Member States are required to avoid excessive government deficit and debt positions, less than 3% and 60% of GDP, respectively; (ii) Member States are required by the preventive part of the SGP to achieve and maintain their medium term budgetary objectives (MTO), which are cyclically adjusted targets for the budget balance.

The 2005's version of the pact strengthens the 'preventive arm' by requiring budgets to be significantly improved during boom years in order to leave enough room for deterioration in slow-growth years and not to result in a breach of the 3% limit. The revised pact also specifies that the Commission would base its recommendations on cyclically adjusted budget measures. The very existence of a public deficit crisis, doubled by the sovereign debt crisis in the EU, is just the latest available proof that the European model has failed to establish and enforce fiscal discipline. The 3% and 60% ceilings proved their inefficiency as NFR (shown in Figure 5 and Figure 6).

**Figure 5. Percent of EU countries with deficits above 3% of GDP**

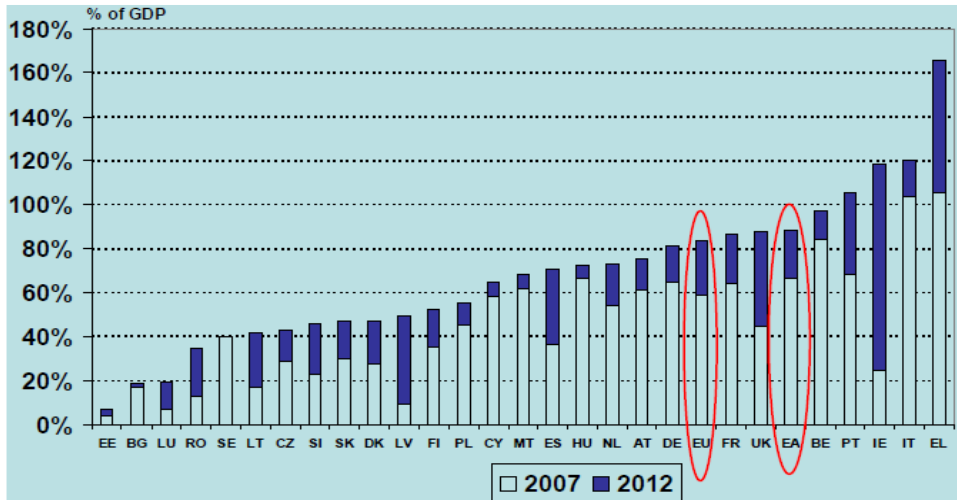


Source: European Commission



According to the Commission services' 2011 spring forecasts, the government deficit exceeded 3% of GDP in twenty-two Member States in 2010. According to the Commission services' 2014, the public debt exceeded 60% of GDP in 14 Member States and on average EU27 and EA17 in 2012 (as shown in Figure 6).

**Figure 6. Public debt (% of GDP) during 2007 and 2012 in EU countries**



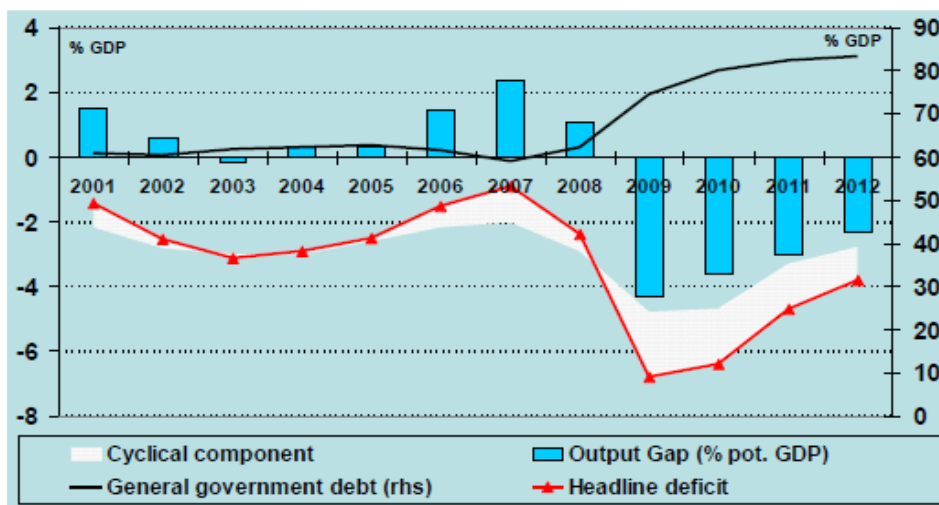
Source: European Commission

The empirical evidence shows that many governments did not adopt countercyclical policies before the onset of the crisis and, as a consequence, the 3% ceiling rule forced fiscal policy to turn pro-cyclical during the crisis. Moreover, the enforcement mechanism proved to be too weak to exert sufficient pressure on national governments.

Figure 7 shows the cyclicity in EU and indicates the weakness of public finances related to the crisis.

The deterioration of public finances will clearly have negative political and economic consequences while for some countries these are becoming particularly severe. Thus, an obvious lesson learnt from the crisis is that the SGP was not able to ensure sound public finances throughout the EU.

**Figure 7. Public Deficit, Public Debt and Output Gap (% of GDP) in EU countries**



Source: European Commission

### 3. Reforming Fiscal Frameworks in EU

The findings proved that the key features of NFR are as follows: (i) the statutory basis of the rule, (ii) the monitoring of budgetary developments against the fiscal targets and (iii) the existence of corrective mechanisms in case of non-compliance. Monitoring and enforcement could be carried out by an independent body and the actions to be taken in case of non-compliance should always be defined ex-ante, so as to make the rule credible and enforceable. Otherwise, the cost of non-compliance would be only reputational. The sanctions must include personal sanctions as dismissal procedures, obligations to resign, fines, or lower wages. There are important elements to take into account in the design of NFR in order to enhance their influence on fiscal policy. The influence of fiscal rules on fiscal outcomes can be seen under two perspectives i.e. budgetary discipline and macroeconomic stabilization, as a consequence, an appropriate balance between these two objectives needs to be sought.

As it regards the NFR by type, the findings of this research suggest as follows: (i) Budget balance rules (BBR) are by far the most widespread fiscal rules in force across the EU Member States (Figure 1). They are defined in nominal terms with annual time horizons. A major criticism of budget balance rules concerns the risk of pro-cyclicality. BBR should be based on a medium-term perspective. Rules embedded into a medium term budgetary framework, as a part of a comprehensive fiscal strategy, may better adapt to economic and country





specific circumstances; (ii) Debt rules (DR) suffer the same limit as BBR, i.e. the risk of pro-cyclicality. DR should be embedded in a medium-term framework in order to limit their potential pro-cyclical bias; (iii) Expenditure rules (ER) represent around one third of all fiscal rules and predominantly concern central governments and social security spending. Most of these rules are embedded into a medium-term budgetary framework (European Commission, 2010). As suggested by Kopits (2007), binding spending ceilings can play a crucial role in the functioning of the whole fiscal framework. The main limit of ER is the risk of negative effect on the quality of public expenditure; (iv) Revenue rules (RR) are not common rules in the EU. According to European Commission (2012), in 2008, only six EU Member States had such rules.

The main weakness of NFR in EU countries are, in our opinion, the absence of independent monitoring and regular reporting, together with the absence of corrective mechanisms. All these shortcomings should be addressed in order to increase the effectiveness of NFR.

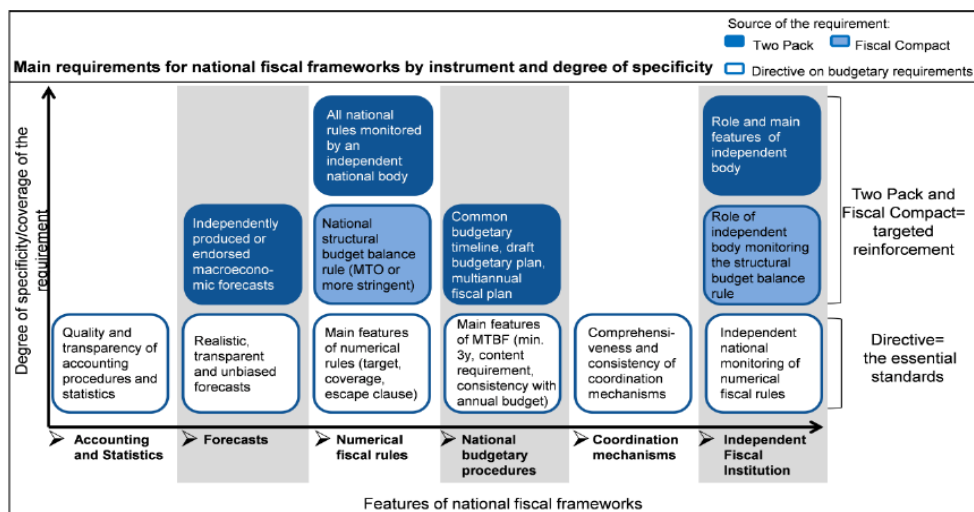
Given the variety of national situations and institutions, a one-size-fits all policy would not have warranted results. The large specificity of the institutional environment, fiscal policy and economic development across the EU Member states requires specific adapted design features; it means more flexible numerical fiscal rule adapted to the practical reasons of member states, but defined at EU level. Effective and timely monitoring of the rules by independent bodies must be ensured. Overall, Member States must transpose the fiscal rules into their national legislation to strengthen the enforcement mechanism. This requires that Member States adhere to certain minimum standards for domestic fiscal frameworks. Research has shown that the best performing countries meet certain minimum standards (European Commission, 2011). The use of a directive rather than a regulation is in recognition of the fact that the optimal procedural and institutional set-up for fiscal policy-making will depend on the different characteristics of Member States, meaning that there is no one model that can or should be applied in all cases.

The interaction and mutually reinforcing provisions of the EU fiscal rules on national budgetary frameworks (NFF) are presented in Figure 8.

By requiring that all Member States adhere to them in their specific way, the quality of national fiscal policy can be enhanced even for the worst performers. It is true that fiscal policy is supervised at European level, but it is set at national level. As the total fiscal harmonization remains an impossible goal at EU level, adhering to certain minimum standards for domestic fiscal frameworks can also foster policy coordination between different levels of government depending on their institutional coverage. Additionally, fiscal rules may further contribute to the reduction of uncertainty about future fiscal policy developments. However, fiscal rules can only yield these benefits if appropriate institutions for monitoring and enforcement mechanisms are in place, or if they are supported by strong political commitment.



**Figure 8. Main requirements for NFF by legal instrument and degree of specificity**



Source: European Commission

#### 4. The Fiscal Governance Framework in Georgia

The Eastern partnership (EaP), a key policy initiative in the Neighbourhood, aims to bring Georgia closer to the European Union. EU budget support is the main form of EU assistance in the Eastern Partnership region. It involves dialogue, financial transfers to the partner country, performance assessment and capacity development, based on partnership and mutual accountability. Budget support is used to support reforms in mutually agreed sectors, as well as in macroeconomic and public finance policy. The EU's annual budget support programme started in 2007 and since then it has been growing. The first tranche amounted to EUR 14 million in 2007, and was increased to EUR 65.5 million in 2014.

EU assistance to Georgia in 2007-2014 focused on four areas: democratic development, the rule of law and good governance; trade and investment; regional development and sustainable development, poverty reduction; support for peaceful settlement of conflicts.

EU supported public finance management (PFM) reform's build to enhance good governance and reduce poverty. By encouraging essential reforms in areas ranging from budget planning, execution and monitoring, to internal and external audit and public procurement, this programme promotes transparency and accountability. It also contributes to the increased efficiency and effectiveness of the budgetary process and the alignment of Georgia's regulations with EU standards and norms.



On 29 November 2013 the EU and Georgia initialized an Association Agreement - including provisions on establishing a Deep and Comprehensive Free Trade Area (DCFTA) - forging a closer political and economic relationship between the two. The Association Agreement was signed on 27 June 2014 and it aims at gradually integrating Georgia into the EU Internal Market, the largest single market in the world. The Agreement includes a comprehensive reform agenda aimed at approximation of Georgia's legislation to EU norms being built on enhanced cooperation in some 28 key sector policy areas, including: economic dialogue; management of public finances; public financial control; taxation; accounting and auditing; financial services etc. Reforms in these areas will aim at gradual approximation with the EU acquis and also, where relevant, with international norms and standards.

In Georgia public finance management institutions and fiscal rules are determined by the Constitution of Georgia, the Budget Code and the Organic Law of Economic Freedom. Fiscal rules were introduced with the organic law of "Economic Freedom" under the Georgian constitution. The rules were introduced in 2011 and came into force on 31 December 2013 and their adoption was a part of the reform in the public finance management. The rules are based on the Maastricht criteria and aims to establish fiscal discipline and legal guarantees, setting the national framework for the public finance management. Fiscal rules in Georgia are presented in Figure 9.

**Figure 9. Fiscal rules in Georgia. Key Characteristics (start date in brackets if different from implementation)**

Type of National Rules	Statutory Basis	Coverage	Formal Enforcement Procedure	Independent Body Sets Budget Assumptions	Independent Body Monitors Implementation	Well-Specified Escape Clauses
Expenditure rule (2013)	Constitutional	General government	Yes	No	No	Yes
Revenue rule (2013)	Constitutional	General government	Yes	No	No	Yes
Budget balance rule (2013)	Constitutional	Central government	Yes	No	No	Yes
Debt rule (2013)	Constitutional	General government	Yes	No	No	Yes

*National rules* (dates in brackets):

- **ER (since 2013):** The ratio of ‘expenditures and increase in non-financial assets’ to GDP of the consolidated budget to the GDP shall not exceed 30 percent.
- **RR (since 2013):** The organic law of “Economic Freedom” prohibits the growth of any tax rate, except excise tax.
- **BBR (since 2013):** The ratio of the consolidated budget deficit to GDP shall not exceed 3 percent.
- **DR (since 2013):** The ratio of the State Debt to GDP shall not exceed 60 percent.

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Source: Georgian Legislation

Although the main fiscal rules (expenditures, balance, public debt, revenue rule) and the macro- economic indicators defined in the Georgian legislation are consistent with the determined macroeconomic parameters, it is important to keep the main macroeconomic and fiscal indicators in the medium and long term period of time, to introduce proper analysis tools to insure correct projections.

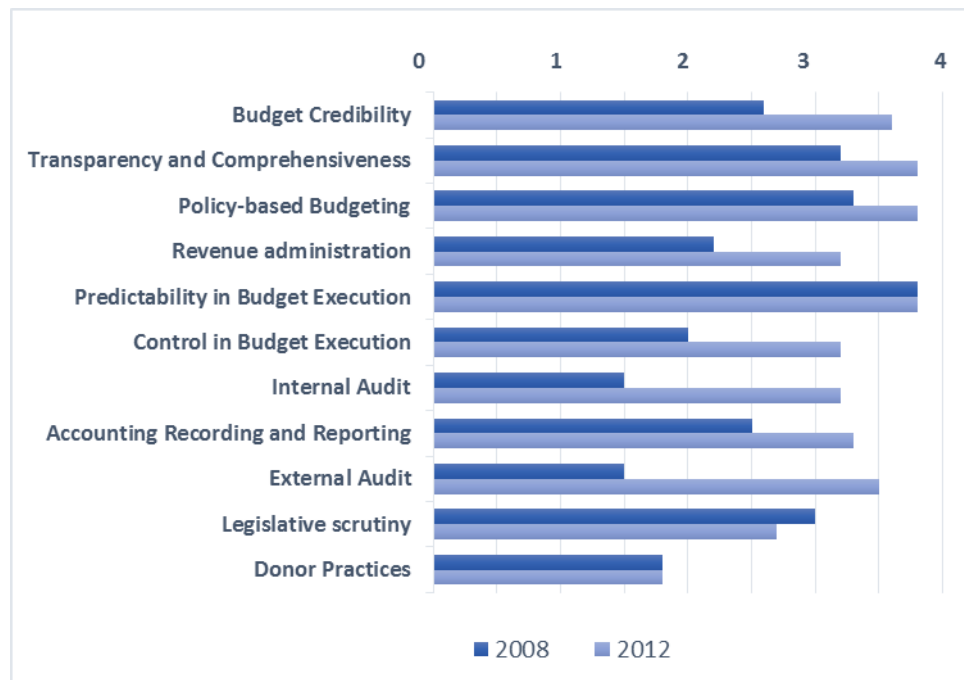
#### ***4.1 The Reform of PFM in Georgia***

In accordance with EU-supported reforms, Georgia has significantly improved its budgetary and financial management systems since the previous Public Expenditure and Financial Accountability (PEFA) assessment Report of 2008. In the World Bank’s PEFA assessment from September 2013, Georgia has been noted for significant advancement in its budgetary and financial managements systems. The budget classification system captures all administrative, economic and functional elements. There are no unreported government operations, and all programmes funded by major donors are part of budget appropriations and fiscal reports. Georgia scores among the highest PEFA marks on inter-governmental fiscal discipline. The basic set of systems is in place for strategic budget planning, budget formulation and execution. The introduction of international good practice in the budget cycle of the Government is well advanced, including robust systems for budget preparation, adequate chart of accounts, reliable execution (including accounting and reporting) and sufficient controls. Important progress has been achieved on programme-based budgeting, furthering the Government’s objective of greater results-focus in fiscal planning. The concept of programme-based budgeting was adopted in the 2009 Budget Code, and significant advances have been made since then - reaching all the way to the full presentation of the 2012 draft budget in programme forms to Parliament. The legal framework governing public procurement was further amended; Electronic Government Procurement was introduced in 2011, and linked to the Treasury’s information system thus providing for full information sharing. All the above reform initiatives were implemented to address the weaknesses identified by the 2008 PEFA assessment in such areas as



external control system, personnel and payroll, public procurement, and reporting of high quality consolidated financial statements (Figure 10).

**Figure 10. PFM performance changes based on PEFA assessments 2008-2012**



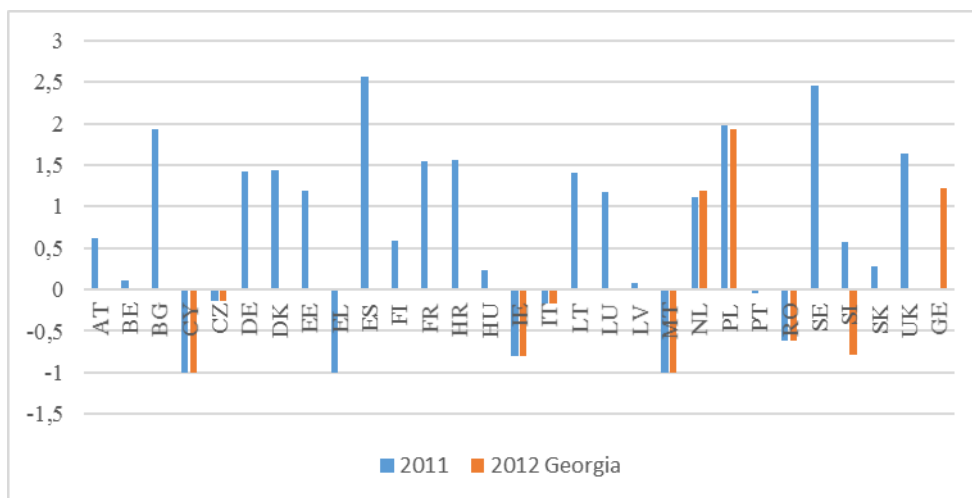
Source: European Commission; PEFA 2008 and PEFA 2012.

Note: The D, C, B and A scores were converted to numerical scale 1 to 4 respectively.

When analysing performance changes based on the PEFA assessments, performance improved for all PEFA dimensions except in the area of legislative scrutiny. As can be concluded based on the analysis above, performance is relatively better for the ‘upstream’ functions of PFM, and relatively lower for the ‘downstream’ PFM functions. The least-performing areas according to the latest PEFA were internal control and legislative oversight. Also, donor performance continues to have an adverse impact on the functioning of the government PFM systems in Georgia.

According to positive PEFA (2012) assessments, the Fiscal Rule Strength Index in Georgia also shows encouraging picture based on the SFRI for Georgia as shown in Annex (Fiscal Rule Strength Index in Georgia) and in Figure 11 (see the fiscal rule index (FRI) in Georgia and the EU-28 by country 2011 and 2012 below).

**Figure 11.** The fiscal rule index (FRI) in Georgia and the EU-28 by country 2011 and 2012



Source: Author's representations

In addition, Government of Georgia plans to take the following actions for strengthening fiscal policy. (See Table 2 Required and Planned Activities for Strengthening Fiscal Policy below).

**Table 2. Required and Planned Activities for Strengthening Fiscal Policy**

#	Activities	Responsible Body	Partner Body	Timeframe
1	At least 5 line ministries develop medium term strategies and action plans according to the revised format, action plans are costed	MoF Georgia	Spending Units	2015
2	All line ministries develop medium term action plans according to revised format, that are costed	MoF Georgia	Spending Units	2016-2020
3	Public Finance Reform (PFM) Action Plan is prepared; Action Plan is costed	MoF Georgia		since 2015
4	Costings of Sector Strategies (besides: Public Administration Reform (PAR), Government Action Plan (AGWP), Migration Action Plan, Livelihood Strategy and Action Plan) are prepared	Spending Units	MoF Georgia	since 2015
5	Based on experience Instruction for Costing is prepared and approved	MoF Georgia		2016
6	The Methodology for Capital/Investment project Management is established	MoF Georgia		2016



7	Piloting and Implementation of the Methodology for Capital/Investment project Management	MoF Georgia	Spending Units	2016-2020
8	Improving program budgeting	MoF Georgia	Spending Units	since 2016 (current)
9	Improving the reporting system of program budgeting – Reports of the Programs	MoF Georgia	Spending Units	since 2016 (current)
10	State Budget Citizen's Guide is updated	MoF Georgia		since 2015
11	Remedy of identified gaps of the Open Budget Survey process and improving Open Budget Index results	MoF Georgia		2016-2017
12	Improving the mechanism for responding to the State Audit Office findings	MoF Georgia		2015-2017
13	Improving fiscal expenditure document and reflect contingent liabilities	MoF Georgia		2015-2017
14	Analyse fiscal rules and define sub regulations if necessary	MoF Georgia		2016-2018
15	Regulate the participation of interested stockholders in the budget process	MoF Georgia		2016-2018

Source: Ministry of Finance of Georgia

Following the 2009 Budget Code reform in Georgia, the budgeting processes at central and municipal levels are based on programme and capital-based budgeting. This step should allow for better planning and co-ordination between line ministries activities in the regions. The entry into force of programme budgeting in all self-government units of the country, complemented by a progressively implemented decentralization process, including fiscal, should on its part contribute to increase the consistency of expenditures for local and regional development. However, the programme budgeting initiative needs further development to achieve its full potential for being a useful tool for making policy decisions and adding real value in the prioritization and allocation of constrained resources.

Programme budget methodology has been updated. The 2016 State Budget is prepared according to the new methodology. Work is in progress on detailed Action Plans of five pilot ministries, which contains the information of programmes/sub-programmes/activities of the ministries and costing that is relevant to Annual budget law and Basic Data and Direction document (BDD) document. Active work should continue to further improve programme budgeting process and implement new methodology.

In respect with strengthening fiscal institutions, the reform was introduced in 2014 considering the functions of Budget Office implementation in practice to form the institute as an independent and impartial structure. For the correct planning of the above-mentioned economic and fiscal parameters the alternative forecasts prepared by independent institutions is important which excludes the



influences of naturally typical ‘positive’ perceptions on fiscal policies of all governments.

Sustainable medium term planning is an important element for strengthening fiscal policy and management. Therefore, in order to achieve this objective, the government has to develop tools for implementing medium term and action plans as well as other sector action plans according to BDD. This also applies to preparing costing and estimates for the implementation of action plans and developing adequate mechanisms to implement performance indicators.

Basic budget scrutiny and oversight of financial statements are already in force but they need further strengthening. Taking into account all abovementioned issues, additional work is needed in the following directions:

- Strengthening medium-term planning;
- Strengthening fiscal forecasting;
- Improvement of programme budgeting;
- Strengthening independent fiscal institutions;
- Developing fiscal discipline.

#### ***4.2. Shortcomings and development of fiscal rules in Georgia***

Since 2014, the Georgian Law on “Economic Freedom Act” was enacted and budgeting during the planning process considers the limits imposed by the law. The law defines general principles of the framework, but planning fiscal policy correctly in different aspects is also required in order to ensure the fulfilment of the law. Not only the amount (limit) of deficit or the debt to GDP ratio but also the structure of all these elements is important. To develop sound budgeting principles in practice is very important, because not only general principles have to be ensured during the budget planning process but also the budget in its main content should have to reach the main objectives, as social and economic stimulus direction.

Generating growth and creating jobs within a sustainable fiscal framework is Georgia’s biggest macroeconomic challenge. Tackling the growth and jobs agenda in Georgia will require significant investment in human and physical capital and the government has a large role to play here. Additional spending, where it is needed, should be undertaken within the fiscal consolidation agenda of the government, designed to help restore the macroeconomic buffers needed to secure stability and sustain confidence in the future.

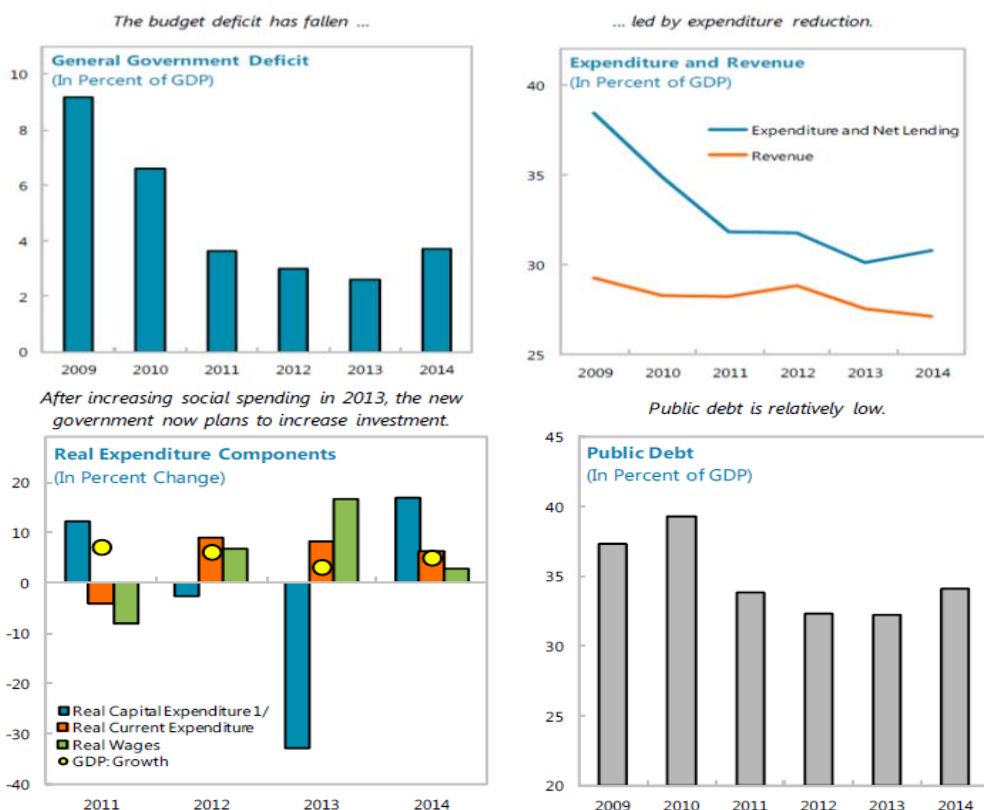
Public finances in Georgia are likely to come under pressure over the short to medium term in the context of large increase in recurrent expenditures and the limited scope to raise revenues. A constitutional ban on increasing tax rates limits upsides on fiscal revenues. In July 2011, the parliament had established fiscal rules for a number of fiscal indicators through amendments to the constitution. One of the provisions of this amendment was that the introduction of any new general state tax, except excises, or an increase in the upper rate of any existing general state tax



would be possible only through a referendum. This legal clause has been enacted from 1 January 2014. This limitation of tax revenues along with the increase in social benefits is likely to put pressure on the government's finances.

Fiscal policy in 2013 became pro-cyclical, which increased macroeconomic volatility. In recent years, fiscal policy has been relatively prudent, with the deficit steadily declining, expenditure as a share of GDP also falling, a changing of real expenditure components and a stable government debt to GDP ratio (See Figure 12).

**Figure 12. Expenditure components**



Source: National authorities

To keep government finances on a sustainable path along with sustainable growth and job creation is vital. Strengthening the efficiency of expenditures to improve outcomes, especially, in the areas of education, capital spending and inter-governmental finances are also very important.

Fiscal rules are still a new topic for the budget process in Georgia. In that direction it is rarely discussed in the budget processes and the topic is not covered in the media. At the moment, these rules are under discussion within the Ministry

of Finance and the participants in the budget process. It should be noted that, until the fiscal rules are the subject of discussion in the general public, it is necessary to raise awareness in this direction. The terms of fiscal policy, the deficit and the public debt to GDP ratio are not so explicit notions to the big majority of the population.

Establishment of sub-regulations of fiscal rules is planned by the Government or the Ministry of Finance in Georgia (with the consent of the Government), which will provide the legal framework in the medium-term, additional to the regulation of the parameters of the fiscal budget. This rule will be prepared and distributed in 2016 in the medium term period and will be periodically reviewed and be facing the challenges of the present reality. A number of issues will also be regulated by this rule especially in terms of budget planing. To be more specific, some of the regulations will be determined on the increase of current expenditures, opportunities of creation of new Legal Entity of Public Law (LEPL) and new staff positions should be regulated more and certain limits will be determined for expenditures on social programmes. The rule also will regulate the basic approach in the point of the investment projects and the share of these types of payments in total expenditures.

The main principles have been developed which provides proper activities to make administrative expenditures lower in 2016, defines the share of capital/infrastructural projects in total expenditure, during the year limits budget adjustments so that planned capital expenditures can be changed and add to administration expenditures only when government permits.

Approving sub-regulations of the fiscal rules will allow further regulation of the general framework of parameters considering the existing macroeconomic and fiscal parameters. Later on, the Government may to pro-cyclic or contra-cyclical fiscal policy if needed.

The rule should prepare for medium-term period and, if required, the rule should be the subject to change/review in parallel with the changes in the basic data and direction document. It is possible that sub regulation's rules set certain thresholds for different levels of budget, which is totally consistent with the parameters of the law, or impose a lower limit than is required by law for compound parameters.

The legislation specifies the general framework of the so called 'escape clauses'. It may determine more specific and limited conditions for using this regulation for a specific year and/or medium term period and determine more details about what might be planned for going back.

Quantitative fiscal rules defined by the law and the above-stated sub-regulations for monitoring purposes some changes will be made in reporting on the implementation of the budget process. A review of the annual report of the Budget will be added to the Appendix, which describes the annual and the medium-term periods quantitative fiscal risks. This information, along with the quarterly and annual reports submitted to the Parliament, in turn, the parliament of committees,



the Budget Office and the State Audit Office will be subject to discussion.

The report submitted to the Parliament provided appropriate indicators and the activities planned, if the monitoring result prejudice the established limits fulfilment and if sub-regulation deviation from the rule is inevitable - a reasonable explanation of what caused the results. In practice, using more fiscal rules will increase the role of fiscal policy planning; this also influences the type of regulations of the budgetary process to increase the interest of the parties involved. These parameters must become the subject of extensive review and discussion at legislative level and by independent fiscal institutions. Independent fiscal institutions provide independent analysis and review on economic and budgetary data projections by governments (to avoid optimistic growth forecasts), assess compliance with rules and procedures and sometimes enforce them, and provide long-term sustainability assessments, or recommendations on specific items of budgetary policy. From this point of view, two institutions play a very important role: The Parliamentary Budget Office of Georgia and The State Audit Office of Georgia. The Parliamentary Budget Office of Georgia, as a fiscal institution, establishes the role of the current fiscal architecture in Georgia. The Office will fully work out its mandated independent mechanisms in practice; according to this, the Parliamentary Budget Office aims to establish the office as an independent institution.

The budget office has prepared a medium-terms strategic plan. The Budget Office will implement measures around a strategic goal in the medium term period, which provides the main mission of the Parliamentary Budget Office in the process of strengthening the parliamentary oversight growth fiscal management transparency and accountability and accordingly, sustainability of fiscal measures to be implemented in two main directions:

- Increased efficiency of the core functions in accordance with the mandate of the Budget Office as an independent fiscal institution in the fiscal architecture;
- Strengthening institutional capacity activities to ensure effectiveness.

Parliamentary Budget Office will also implement a number of measures in order to be independent, objective and a highly professional institution to increase publicity by strengthening communication – privately, parliament, the media, international and local partner organizations. The Office, as a fiscal institution for directing the work, provides communication mechanisms to improve fiscal management system for major institutions – to achieve this aim Parliamentary Budget Office must have working mechanism to communicate with all those agencies which are essential to work together with the proper conduct of its activities.

The State Audit Office of Georgia is also an important tool in the public financial management and in the fiscal policy and its role is the most important in the management of the public finance reform. The State Audit Office will also act according to medium term development strategic plan, which includes the following goals:



- Promoting the parliament of the control government activities;
- Promoting the government to improve the level of accountability/quality to implement the reforms;
- Development of institutional opportunities to improve quality of activities;
- Maximize the results of the audit activities;
- Increase the role of the state audit office in permanent improving of the public finance management process;
- To establish the state audit office with the highly professional staff, with the modern management systems and processes which provides high quality of working, working within time and reliability.

## 5. Policy Guidelines

The public finance reform of the country has a two-fold objective. One is to make Georgia capable of implementing the EU requirements on identification, prevention and management of fiscal risks, excessive fiscal deficits and harmful macroeconomic imbalances. On the other hand, it must ensure that public spending is structured in the way that maximizes the development impact on the national economy and ensures better quality of life for the citizens. As discussed earlier, many reforms are needed to ensure fiscal sustainability and sound management of public finances in line with EU legislation, standards and fiscal rules. In our opinion, the policy should be based on the following guidelines:

**Table 3. Policy guidelines**

Reform priorities	Recent progress	Recommendations
<b>- Strengthening the fiscal framework</b> <b>- Developing fiscal discipline</b>	- Approximation of Georgia's legislation to EU legislation; - Main fiscal rules (expenditures, balance, public debt, revenue rule) and the macro- economic indicators defined in the Georgian legislation	- Enhance enforcement, fiscal policy monitoring; - Promote using concrete and measurable outcome-based indicators ("benchmarks"); - Analyze fiscal rules and define sub regulations; - Improving the mechanism for responding to the Parliamentary Budget Office and State Audit Office findings
<b>- Strengthening medium-term planning</b>	-line ministries develop medium term action plans; -The integrated public financial management system was launched	-Develop tools for implementing medium term plans and action plans and other sector action plans according to BDD; -Preparing costing and estimates for implementation of action plans; -Develop mechanism to implement performance indicators to achieve objectives of action plans.



<b>- Strengthening fiscal forecasting</b>	<ul style="list-style-type: none"> <li>-The basic set of systems has been put in place for strategic budget planning, budget formulation and execution;</li> <li>-The Methodology for Capital/Investment project Management is established</li> </ul>	<ul style="list-style-type: none"> <li>-Strengthening forecasting and analytical tools;</li> <li>-Develop ex ante and ex post analytical tools;</li> <li>-Relevant staff training of the Ministry of Finance of Georgia</li> </ul>
<b>-Improvement of Programme budgeting</b>	<ul style="list-style-type: none"> <li>-Programme budget methodology has been updated;</li> <li>-2016 State Budget is prepared according to the new methodology.</li> </ul>	<ul style="list-style-type: none"> <li>-Develop programmes and their expected results;</li> <li>-Develop performance indicators;</li> <li>-Improving the reporting system of programme budgeting;</li> </ul>
<b>-Strengthening Independent fiscal institutions</b>	<ul style="list-style-type: none"> <li>-The Parliamentary Budget Office and The State Audit Office has prepared a medium-terms strategic plan.</li> </ul>	<ul style="list-style-type: none"> <li>-Increased efficiency of the core functions in accordance with the mandate of the Budget Office and State Audit Office as an independent fiscal institutions in the fiscal architecture;</li> <li>-Developing Parliamentary Budget Office and State Audit Office institutional capacities to ensure the effectiveness of its activities;</li> <li>-Increase the role of the legislative activity of the Parliamentary Budget Office to support the management of the budgetary funds.</li> </ul>
<b>-Strengthening the efficiency of expenditures</b>	<ul style="list-style-type: none"> <li>-Positive PEFA (2012) assessments</li> </ul>	<ul style="list-style-type: none"> <li>-Improve the efficiency and effectiveness of expenditures;</li> <li>-Intensive monitoring of social expenditures;</li> <li>-Enhance the information content of budget documents pertaining to capital expenditures;</li> <li>-Strengthen the PIM process, especially at project identification and appraisal stage.</li> </ul>

Source: Author's representations

- A more effective and simpler governance framework that would contribute, in our opinion, to the advance of structural and fiscal reforms. Given the mixed record of adherence to EU targets and recommendations, a stronger framework to monitor, incentivize, and enforce reforms and sound fiscal policies could foster convergence within the approximation to euro area. Such a framework should promote increased ownership, transparency and accountability.

- 'Outcome-based' area-wide structural benchmarks, which could improve transparency and incentivize reform implementation. Current peer review practices under the European semester could be strengthened by using concrete and measurable outcome-based indicators ('benchmarks') to define the reform agenda. Their use could improve transparency, simplify implementation, and promote



innovation.

- Creation of an independent fiscal council, which could improve fiscal discipline, transparency and accountability. An EU-level 'structural council' of experts could be created to assess ex post the EC's prioritization and enforcement of structural reforms. A Georgian 'national fiscal council' with wide representation is needed, in our opinion, to assist ex ante in translating euro area-wide reforms into a national reform agenda, and thereby fostering ownership and innovation.

- Simplifying and strengthening the fiscal framework (NFR, MTBFs,) which could enhance its effectiveness. While successive reforms have improved some elements of the EU's fiscal framework (e.g., taking greater account of the economic cycle), they have increased its complexity, hampering effective monitoring, public communication, and compliance. The framework could be simplified by focusing on two main pillars: a single fiscal anchor (public debt-to-GDP) and a single operational target (an expenditure growth rule, possibly with a debt correction mechanism) linked to the anchor. To enhance enforcement, fiscal policy monitoring could be improved through better interaction between national fiscal council and the EC, possibly facilitated by the EU Network of Independent Fiscal Institutions (EUNIFI), or through an independent fiscal council at the EU level to assess application of fiscal rules.

- The establishment of an effective public investment management (PIM) system, which could maximize the effectiveness of the lower level of public investments, is also crucial. On this front, Georgia has made some progress, especially on capital budgeting, and the new government is committed to implementing deeper reforms in this area. Efforts have been made to enhance the information content of budget documents pertaining to capital expenditures and to initiate more systematic processes to raise the overall efficiency and effectiveness of public investment. Nevertheless, more needs to be done to strengthen the PIM process, especially at project identification and appraisal stage.

- Intensive monitoring of social expenditures, which is crucial to maintain fiscal sustainability and to achieve better social outcomes. The increase in social benefits and assistance was a core part of the new government's election manifesto. The government has followed through on its election promise and has raised social benefits considerably. However, implementation capacity in the social sectors is constrained and needs to be enhanced. Monitoring of social expenditures/programmes information, together with the quarterly and annual reports should be submitted to the Parliament and, in turn, the Parliament of committees, the Budget Office and the State Audit Office.

- Further cuts to capital expenditures need to be guarded against as this would impact growth. The increased current expenditures are likely to generate fiscal pressures over the short- to medium-term. In our opinion, expenditures should be cut regardless of the fiscal outlook. Certain expenditures, to be sure, are vital to a country's success and survival, but excessive current expenditures may actually lower the economy's productive capacity. Thus, expenditure cuts can





simultaneously improve fiscal balance while enhancing economic growth. With limitations upsides on revenues and difficulties in scaling back recurrent expenditures, the government could resort to lower spending on public investments. However, since Georgia has a large infrastructure deficit, such a measure could impact short- and long-term growth.

- A better cooperation between the Ministry of Finance and other public agencies responsible for implementation of the key social and infrastructure programmes, which could improve the efficiency and effectiveness of public finance management. Since Georgia follows programme based budgeting, it will be important to evaluate the performance of social benefit programmes during each budget cycle to improve the efficiency and effectiveness of these expenditures and also to ensure fiscal sustainability.

## Conclusion

The traditional domestic fiscal framework based on simple numerical fiscal rules is discussed in the recent literature in relation to its limitations when used as a measure to strengthen the fiscal discipline. Proposals in the literature go in the direction of using a more complex approach for fiscal rules, together with stronger enforcement mechanisms.

The present paper suggests that compliance with a well-designed fiscal framework contributes to the policy credibility, to boost economic growth and to dampening the output volatility. More complex and flexible rules, multiannual medium term national fiscal framework and more supportive institutional arrangements could help reduce the pro-cyclical bias associated with rules. Such flexible rules also call for higher-quality institutional arrangements that strengthen monitoring and enforcement mechanisms.

Since 2014, Georgian Law on ‘Economic Freedom Act’ enacted, and budgeting during the planning process considers the limits imposed by the law. The law defines general principles of the framework and to ensure the fulfilment of the law it is necessary to plan fiscal policy correctly in different aspects. Not only the amount (limit) of deficit or the debt to GDP ratio is important, but the structure of all these elements. Having sound budgeting principles in practice is very important because not only general principles should be ensured during budget planning process but budget in its main content should reach the main objectives, as social and economic stimulus direction.

Generating growth and creating jobs within a sustainable fiscal framework is Georgia’s biggest macroeconomic challenge. Tackling the growth and jobs agenda in Georgia will require significant investment in human and physical capital and the government has a large role to play here. Additional spending, where it is needed, should be undertaken within the fiscal consolidation agenda of the government, designed to help restore the macroeconomic buffers needed to secure stability and sustain confidence in the future. Public finances in Georgia are likely



to come under pressure over the short to medium term in the context of large increase in recurrent expenditures and the limited scope to raise revenues.

A more effective and simpler governance framework may contribute to the advance structural and fiscal reforms. Such a framework will promote increased ownership, transparency and accountability, through the significantly enhance of fiscal discipline. A Georgian ‘national fiscal council’ with wide representation is needed, in our opinion, to assist ex ante in translating euro area-wide reforms into a national reform agenda, and thereby fostering ownership and innovation.

Basic budget scrutiny and oversight of financial statements are already in force in Georgia, but they need further strengthening. Additional work on reforming is needed in the following directions: Strengthening medium-term planning; Strengthening fiscal forecasting; Improving programme budgeting; Strengthening independent fiscal institutions; Developing the fiscal discipline.

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## Annex 1. Fiscal Rule Strength Index in Georgia

Country	Type	Sector	Target/constraint	Description	Accounting system	Time frame (years)	Statutory base	Monitoring body	Enforcement body	Non-compliance actions	Exclusions	In force since	Additional information	Coverage of GG finances	C1 - Statutory base	C2 - Adjustment margin	C3a - Monitoring body	C3b - Alert mechanism	C3c - Enforcement body	C4a - Non-compliance actions	C4b - Escape clauses	C5 - Media visibility	In force	Fiscal Rule Strength Index
GEO	BBR	GG	Budget Balance % of GDP		GFSM1986	A	L	Parliament	MF	In case of Non-compliance, plan should be	Y	2014		100.0 %	3	2	1	0	2	2	0	1	Y	5.75
GEO	ER	GG	Expenditure ceiling as % of GDP	Ceiling on the size of the general government Current and	GFSM 2001	A	L	Parliament	MF	In case of Non-compliance, plan should be submitted to the Parliame	Y	2014		90.0 %	3	2	1	0	2	2	0	1	Y	5.18
GEO	DR	GG	Debt rule as % of GDP	Public sector net debt must be no more than 60%	GFSM 2001	A	L	Parliament	MF	In case of Non-compliance, plan should be	Y	2014		100.0 %	3	2	1	0	2	2	0	1	Y	5.75
GEO	RR	GG	Limits on direct or indirect tax rates	Increase of rates on taxes (except excise tax) is subject to referendum	GFSM 2001	A	C	Parliament	MF		Y	2014	Temporary increase in taxes is possible for no more	89.0 %	4	2	1	0	2	2	0	1	Y	6.75

Source: Ministry of Finance of Georgia





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The 2016 edition of EURINT Proceedings premised on a selection of contributions for the EURINT 2016 International Conference "The Eastern Partnership under strain – time for a rethink?" seeks to fill in a visible gap in the literature on the conceptualization of the EaP and, thus, provide novel answers and raise awareness of the intrinsic and extrinsic challenges the EU faces in post-Soviet Eastern Europe. The present volume is a timely and important contribution to the field of European Studies, since it combines, from an interdisciplinary perspective, insights from the fields of International Relations, Political Science, Economics, etc. As such, it aims at assessing the implications of the latest political events from the EU's Eastern neighbourhood (i.e. the annexation of Crimea and the conflict in Donbas) by trying to answer some of these urgent issues from a threefold perspective – theoretical, empirical and policy-oriented.



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