



Interdependencies in the Eastern Partnership Region: Implications for the EU

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Introduction

One of the key tests for the European Union (EU)'s external policy in the last decades has related to its ability to promote change in the Eastern Partnership (EaP) region. In the absence of its hitherto most effective mechanism, the promise of future membership, the EU offered the EaP countries the prospect of 'association' as the vehicle for political cooperation, economic integration and domestic modernization. Yet, the offer of the Association Agreements (AA), including a Deep and Comprehensive Free Trade Area (DCFTA), brought into sharp relief the role of pre-existing regional connections and commitments and, in particular, the implications of the EaP countries' dependence on Russia. As Russia interpreted the move as an invasion of its sphere of influence, which it sought to consolidate with the creation and expansion of the Eurasian Economic Union (EAEU), it used this dependence as a pressure point to dissuade the EaP countries from entering the AAs. The resulting costs were particularly high in the case of Ukraine, where entering the AA with the EU led not only to trade penalties but also to loss of territory and a prolonged military conflict. In this context, some criticized the EU for ignoring Russia's 'legitimate concerns' and engaging in divisive integration with implications for the stability of Europe.¹

Responding to criticism, the EU launched a review of the Eastern Neighbourhood Policy (ENP) in November 2015, committing to greater pragmatism and diversification of engagement tools, including seeking 'new ways of dealing with the neighbours of the neighbours'.² In this spirit, the EU developed a new engagement tool for Armenia, the Comprehensive Enhanced Partnership Agreement (CEPA), taking into account its commitment to integration within the EAEU. This agreement excluded certain policy areas from the cooperation framework on the basis of the formal division of competences between the EAEU and its member states.³ This approach was effective given that Russia was assured of Armenia's geopolitical loyalty at the time. To alleviate Ukraine's predicament and respond to Russia's grievances, the EU engaged in trilateral talks with Russia on the EU-Ukraine AA. In the process, however, it became clear that Russia is unwilling to accept technocratic solutions to what it perceived as a geopolitical problem.⁴ As the talks failed, the EU asserted its commitment to the autonomous choice of the EaP countries, continuing to deal with them on a bilateral basis. Similarly, the EU affirmed its reliance on the formal framework of the AAs, be it with increased attention to the flexibilities it affords, in addressing Russia's concerns, specifically, and regional interdependencies, more generally.⁵

As these developments demonstrate, however, dealing with interdependence presents a two-fold challenge. It can easily be exaggerated, equated with Russia's geopolitical ambition and claims of historical precedence, and elevated to a bar of the EU's engagement in the EaP region. It can similarly be underestimated and equated purely with the scope of formal commitments and addressed with technocratic means, something which the EU has shown propensity to do. EU-STRAT argues that interdependence in the EaP region inhabits a space between these two positions and demonstrates intricacies and dynamics which require the EU to adopt suitably **agile**

¹ E.g. Sakwa, R. (2014) *Frontline Ukraine: Crisis in the Borderlands*, London: IB Taurus.

² European Commission (2015) 'Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions, Review of European Neighbourhood Policy', Brussels, 18 November, available at http://eeas.europa.eu/archives/docs/enp/documents/2015/151118_joint-communication_review-of-the-enp_en.pdf (accessed 20 December 2018).

³ Dragneva, R., Delcour, L., Jonavicius, L. (2017) 'Assessing Legal and Political Compatibility between the European Union Engagement Strategies and Membership of the Eurasian Economic Union', *EU-STRAT Working Paper No. 7*, Berlin: Freie Universität Berlin.

⁴ Ibid.

⁵ For example, see European Commission (2015) 'European Commissioner for Trade Cecilia Malmström and Minister of Economic Development of the Russian Federation Alexey Ulyukayev discussion focus on EU-Russia trade relations', *Press Release*, 3 March, available at http://europa.eu/rapid/press-release_IP-15-4539_en.htm (accessed 20 December 2018).

policy responses. Importantly, interdependence has significance beyond the exercise of a formal choice to enter particular agreements with the EU, with important implications for the lasting implementation of such agreements.

Evidence and Analysis

To capture the nature and patterns of interdependencies, the EU-STRAT team examined the flows and influence across four sectors, namely trade, migration, energy and security, with a primary focus on Moldova, Ukraine and Belarus. All three countries border on both Russia and the EU and, thus, have a policy salience for the EU despite the pronounced differences in its pattern of engagement. In analysing interdependence, the focus was on the countries' sensitivity to Russia, accounting for the volume and nature of flows over time and the ease with which Russia has been able to affect them, as well as on their ability to respond and reduce vulnerabilities by introducing appropriate policy changes. Empirically we establish **notable variations** across sectors and countries.⁶ Despite some notable declines in the volume of border flows over time, however, we find that dependence on Russia remains significant. Importantly, we explain this finding with the prominence of a number of **inter-related features which aggravate and perpetuate this dependence.**

Weak formal regimes

The EaP countries' dependence is critically determined by the **lack of predictable, rule-based formal regimes** with Russia.⁷ In trade, for example, for most of the post-Soviet period relations with Moldova and Ukraine were embedded in minimalistic and basic bilateral free trade agreements. These agreements failed to define the scope of products subject to free trade in advance, leaving them to annual high-level negotiations, thereby creating a **fundamental uncertainty** of access. Similarly, the agreements did not provide clear rules for the application of trade protection measures and other regulatory requirements, thus **failing to constrain arbitrary unilateral action** or help resolve disputes. As a result, Russia was able to easily affect the flow of key sensitive products in response to changes in its domestic conditions (as during the 1998 and 2008 economic crises). This also allowed Moscow to use trade protectionist measures to achieve certain **collateral objectives** related to regional integration, security or the acquisition of business assets. This pattern also characterized the area of energy, where supplies were determined in non-transparent inter-state contracts with certain key terms subject to negotiation in annual protocols. Similarly, in migration, bilateral agreements with Moldova and Ukraine were limited in scope, resulting in high exposure to Russia's domestic policies.

This picture was aggravated further by the difficulty of improving the existing bilateral frameworks or of supplementing them with effective regional arrangements. Both Moldova and Ukraine showed clear interest in securing predictable free trade and improved access for labour migrants in the multilateral setting of the Commonwealth of Independent States (CIS). Yet, Moscow was not willing to accept this outside a far-reaching commitment to regional integration. For example, while Russia finally agreed to enter a CIS free trade agreement

⁶ Calus, K., Delcour, L., Gazizullin, I., Iwański, T., Jaroszewicz, M., and Klysiński, K. (2018) 'Interdependencies of Eastern Partnership Countries with the EU and Russia: Three Case Studies', *EU-STRAT Working Paper No. 10*, Berlin: Freie Universität Berlin.

⁷ Dragneva, R., Delcour, L., Jaroszewicz, M., Kardaś, S. and Ungureanu, C. (2018) 'How Bilateral, Regional and International Regimes Shape the Extent, Significance and Nature of Interdependencies', *EU-STRAT Working Paper No. 8*, Berlin: Freie Universität Berlin.

in 2011, it clearly viewed this as a stepping stone to closer cooperation. This conditionality was particularly evident in the case of Ukraine. Kyiv's decision to continue with the DCFTA with the EU as opposed to joining or at least remaining within Russia's integration sphere, resulted in Moscow's penalties and ultimate decision to altogether withdraw from free trade at the end of 2015. A similar dynamic has been exhibited in migration in the case of Moldova, where Russia employed restrictions on migrants or threats of expulsion in response to Moldova's decision to sign the AA with the EU.⁸

Unlike Moldova and Ukraine, Belarus did not steer away from comprehensive regional commitments and was thus able to supplement its bilateral relations with Russia by participating in a range of integration initiatives, culminating in the 2015 EAEU. While this has not necessarily resulted in more extensive access to goods and labour than what was provided under the bilateral arrangements already in place, it has helped shield Minsk from the punitive use of barriers. In energy, it secured better terms on supply, or an 'integration discount', but also the promise of a common market of electricity, oil and gas to be created by 2025. However, given the weak institutional nature of Eurasian integration, membership did not secure certainty of flows. In trade, for example, Belarus remained vulnerable to Russia's discriminatory adoption of sanitary and phytosanitary measures as well as to its unilateral departures from the common customs framework when it adopted sanctions on Ukraine and the West. Contrary to expectations, the EAEU common institutions, including a permanent regulator and a standing regional court, have not offered an effective rule-based route for implementing obligations or resolving disputes.

Personalization of dependence

Given the weakness of formal bilateral and regional institutions, dependence on Russia has become embedded in a **politicized, personalized mode of interaction**. For decades, annual negotiations on trade and energy took place at the highest political level as part of a complex and **non-transparent bargaining process**. This bargaining has followed an opportunistic logic centred on the electoral success or continued survival of the countries' leaders. In Moldova, for example, adjustments to Russia's labour migration policies, such as amnesties, served to increase the popularity of Igor Dodon in the 2017 presidential elections.⁹ This also secured the extension of the current gas supply contract by three years. In Ukraine, the electoral success and survival of successive pre-2014 presidents and governments was conditioned on cheap domestic energy.¹⁰

Similarly, the bargain often involves **rent-seeking opportunities of the elites**. This has been most visible in the acquisition of privileged rights by gas intermediaries connected to prominent political actors: in Moldova, for example, Gazprom's Moldovan subsidiary is tightly connected to the political establishment. Yet, the rent-seeking dynamics also spreads to the rest of the economy, including the financial sector, with key financial actors being instrumental in the offshore schemes accompanying the supply of electricity from the Transnistrian region.¹¹ This personalization of dependence is also evident in Belarus, where it can be argued that the regional

⁸ Delcour, L. and Całus, K. (2018) 'Moldova' in K. Calus, L. Delcour, I. Gazizullin, T. Iwański, M. Jaroszewicz, and K. Klysiński 'Interdependencies of Eastern Partnership Countries with the EU and Russia: Three Case Studies', *EU-STRAT Working Paper No. 10*, Berlin: Freie Universität Berlin.

⁹ Delcour and Całus (2018).

¹⁰ Iwański, T., Jaroszewicz, M., and Gazizullin, I. (2018) 'Ukraine' in K. Calus, L. Delcour, I. Gazizullin, T. Iwański, M. Jaroszewicz, and K. Klysiński 'Interdependencies of Eastern Partnership Countries with the EU and Russia: Three Case Studies', *EU-STRAT Working Paper No. 10*, Berlin: Freie Universität Berlin.

¹¹ Dragneva, Delcour, Jaroszewicz, Kardaś and Ungureanu (2018).

framework has only perpetuated the established inter-personal, transactional model of relations at the level of the countries' presidents.¹²

This characteristic means that the **incentives of political elites and Russia's ability to cater to those incentives matter more than what, for example, the volume of trade or migratory flows would suggest on their own**. In particular, those incentives matter extensively for the willingness of political elites to reduce the countries' vulnerabilities by breaking up current patterns and committing to alternative policy options. This is especially the case when such policy choices entail domestic reform that is disruptive of the existing networks of patronage and rent-seeking. For example, the part of the Moldovan elite that derives benefits from energy deals with Transnistria's leadership favour neither the necessary sectoral reforms nor, fundamentally, a decrease of Moldova's energy dependence on Russia.¹³

Proprietary aspects

A related aspect of interdependent relations is that, especially in energy, these do not represent anonymous market transactions. On the contrary, they exhibit **complex proprietary patterns**, where corporate control and ownership rights help perpetuate dependence. This is illustrated not only by the already mentioned Russian state-owned companies' control of domestic energy firms, but also by the ownership of key assets. For example, following the political choices made during the privatization process, Russia's Gazprom holds a controlling block of shares in Moldova's main gas operator and owner of the transmission network.¹⁴ Gazprom is also the sole owner of the gas pipeline network in Belarus, both internal and transit.

This creates an important **structural obstacle with multiple lasting implications**. They range from political dependence to the loss of the negotiating leverage that a transit status would otherwise grant, and to the increased cost of diversification of supplies. In Belarus, for example, the latter implies that addressing vulnerability is limited to reducing the gas dependence of the electricity sector.¹⁵

Problematic integration in international regimes

Given the weakness and uncertainty of formal bilateral and regional institutional frameworks, it may be expected that supplementing them with transparent, rule-based international regimes may be beneficial in aiding the EaP countries' ability to reduce their dependence on Russia. Firstly, such regimes **can offer additional remedies** for Moscow's discriminatory actions. It is notable, for example, that in 2006 Moldova sought to use its leverage of being an older member of the World Trade Organization (WTO) to resolve its wine dispute with Moscow during Russia's preparation for WTO accession.¹⁶ This, however, was a one-off opportunity. Nevertheless, using the WTO system to resolve disputes became a more sustainable option after Russia's long-awaited entry in August 2012. For Ukraine, whose trade agreements with Russia have now collapsed, this is of particular importance: indeed, Kyiv has already filed three disputes against Russia before the WTO. Another example of beneficial use

¹² Ibid.

¹³ Delcour and Całus (2018).

¹⁴ Ibid.

¹⁵ Klysiński, K., Jaroszewicz, M., and Gazizulin, I. (2018) 'Belarus' in K. Calus, L. Delcour, I. Gazizullin, T. Iwański, M. Jaroszewicz, and K. Klysiński 'Interdependencies of Eastern Partnership Countries with the EU and Russia: Three Case Studies', *EU-STRAT Working Paper No. 10.*, Berlin: Freie Universität Berlin.

¹⁶ Dragneva, Delcour, Jaroszewicz, Kardaś and Ungureanu (2018).

of international fora is Ukraine's decision to bring its gas dispute with Russia to the Stockholm Arbitration Tribunal in 2014. While the outcome did not settle the conflict unequivocally, it undoubtedly helped reduce Ukraine's vulnerability.¹⁷ Importantly, while Ukraine was able to use its leverage to secure a clause that referred disputes to an international forum, other countries did not. Furthermore, in any of these matters, outcomes also **depend on the capacity of the EaP countries to meet the requirements of complex, technocratic dispute resolution processes.**

Secondly, international regimes can **help stimulate domestic reform**, thus facilitating the reorientation to other markets. This was certainly the expectation when Moldova and Ukraine joined the Energy Community in 2010 and 2011, respectively. Reform, however, even in Ukraine which has made progress, has proved to be slow and problematic. This has related not just to the already noted resistance of vested interests, but also to Russia's **ability to undermine implementation** as, for example, in the case of Moldova's commitment to the EU's third energy package.¹⁸

Securitization of interdependence

Another characteristic feature of interdependence with Russia is the extent to which security is intertwined with relations in other sectors, as a result of Moscow's deliberate strategy of issue-linkage. This is especially the case with regard to energy, with all three countries exhibiting a particular **energy-security interdependence nexus** with important policy implications.¹⁹ At the root of this nexus is the strategic significance of individual EaP countries for Russia's security interests. This importance affords those countries a degree of leverage. Ukraine, for example, was able to link negotiating the status of Russia's Black Sea Fleet to the resolution of some of its trade and gas issues with Russia. Belarus has similarly tried to use its military importance to Russia to extract energy and trade discounts as well as enjoy some minor autonomy in its foreign policy actions.²⁰ Ultimately, however, in both cases this leverage has faced clear limits and/or delivered marginal gains. For example, the gas price discount obtained in signing the Kharkiv Agreements of April 2010 turned out not to be to Ukraine's advantage.²¹ In fact, in agreeing to extend the stationing of the Fleet until 2042 in exchange for gas, President Yanukovich forfeited this leverage altogether.²²

Ultimately, it can be argued that the energy-security nexus enhances and perpetuates the dependence on Russia. Furthermore, in maintaining frozen conflicts in Eastern Ukraine and Transnistria, Russia not only retains **control on the resources** located in those territories, but also **maintains a pressure point** to penalize those countries when their policies depart from Russia's strategic interests.²³

¹⁷ Dragneva, Delcour, Jaroszewicz, Kardaś and Ungureanu (2018); Iwański, Jaroszewicz and Gazizullin (2018).

¹⁸ Declour and Całus (2018).

¹⁹ Całus, Delcour, Gazizullin, Iwański, Jaroszewicz, and Klysiński (2018).

²⁰ Klysiński, Jaroszewicz and Gazizullin (2018).

²¹ Dragneva, R. and Wolczuk, K. (2015) *Ukraine between the EU and Russia: The Integration Challenge*, Basingstoke: Palgrave Macmillan.

²² Iwański, Jaroszewicz and Gazizullin (2018).

²³ Dragneva, Delcour, Jaroszewicz, Kardaś and Ungureanu (2018).

Policy Implications

These findings show that dependence on Russia is a **complex phenomenon, deeply embedded in the domestic political and economic orders of the EaP countries**. Despite the disintegrative changes that have taken place since the break-up of the Soviet Union, the sectoral **effects of dependence are maximized and its existence perpetuated by institutional features**, such as the uncertainty and weakness of formal regimes, the personalization of interdependent relations, the acquisition of critical property rights, the limited relevance of international regimes, and ultimately, the extent to which Russia can ‘harden’ transactional relations by reverting to or threatening to **revert to coercive means**. As a result, Russia is able to unilaterally affect trade, energy and migration flows, thus imposing high costs on the EaP countries, but also significantly limiting their ability to reduce those costs by improving existing regimes or diversifying policies.

This is not to say that dependence on Russia is an immutable aspect of post-Soviet development. It has to be recognized, however, that it has durability which **can affect the implementation of the EU’s agreements beyond the point of committing to their conclusion or delineating their formal scope**. Thus, EU-STRAT argues that the EU can still promote change if it tailors its strategies to the complexities and dynamics of interdependence in specific countries and sectors. In particular, this means taking into account the extent to which the policy incentives of key domestic actors of national and/or sectoral prominence are affected by the countries’ embeddedness in such interdependencies.

To do that, the EU needs to **strengthen its country capacity** as well as **long-term institutional memory** to identify key stakeholders and diagnose their preferences. Such preferences are unlikely to be altered by formal legal frameworks, but by **clear policy alternatives**. In the case of migration, for example, this means strengthening the Mobility Partnership, which offers opportunities for circular labour migration, but is not yet fully exploited because of the reluctance of EU member states.²⁴ At the same time, the presence of such alternatives on their own will be of limited effectiveness if domestic actors derive rent-seeking opportunities from the *status quo*, such as in the case of Moldova’s elites with stakes in the gas sector. Therefore, it is vital to strengthen the EU’s emphasis on **good governance, transparency and civil society participation** in the policy process.²⁵ In engaging with the domestic dynamics, it is also important to fully utilize the flexibility of existing frameworks, such as the AAs, to ensure **appropriate sequencing** in order to prioritize reform in areas of key sectors or sub-sectors, used by Russia as pressure points in individual countries. Accordingly, it is necessary to ensure that such areas benefit from improved and responsive **assistance with the costs of implementation**. One area of assistance that should be prioritized is the support for the **ability of EaP countries to access and benefit from rule-based, predictable international regimes**, such as the WTO Dispute Settlement process.

On balance, dealing with the costs and consequences of Russia’s actions in a fragmented, piecemeal and reactive manner will be of limited effectiveness. The nature and dynamics of interdependence requires the **strategic development of the EU’s long-term capacity for nuanced and agile yet coherent policy responses**. This is particularly important given **the security underpinnings of interdependence**. While the EU is not a security actor, the security linkages and their implications should be factored in as part of a wider strategy.

²⁴ Dragneva, Delcour, Jaroszewicz, Kardaś and Ungureanu (2018).

²⁵ Thanks to Laure Delcour for emphasizing this point.



The EU and Eastern Partnership Countries An Inside-Out Analysis and Strategic Assessment

Against the background of the war in Ukraine and the rising tensions with Russia, a reassessment of the European Neighborhood Policy has become both more urgent and more challenging. Adopting an inside-out perspective on the challenges of transformation the Eastern Partnership (EaP) countries and the European Union face, the research project EU-STRAT seeks to understand varieties of social orders in EaP countries and to explain the propensity of domestic actors to engage in change. EU-STRAT also investigates how bilateral, regional and global interdependencies shape domestic actors' preferences and scope of action. Featuring an eleven-partner consortium of academic, policy, and management excellence, EU-STRAT creates new and strengthens existing links within and between the academic and the policy world on matters relating to current and future relations with EaP countries.