

## Economic reasons for the expansion of ENP (European Neighborhood Policy)

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**Abstract:** As a tool to promote democratization EU has set up the Copenhagen criteria which clearly define political, judicial and economic prerequisites for EU membership. The justification of implementation of such criteria can be found in high levels of corruption, autocracy and inefficient political systems in potential members and ENP countries. Potential candidates and ENP countries are looking up to EU and expecting financial aid which only becomes available after Copenhagen criteria have been met. It becomes clear than that it is necessary to establish a fertile political ground in ENP partner countries prior to economic cooperation with the EU members. Therefore, this paper will seek to examine if the European Neighborhood Policy (ENP) promotes economic cooperation through establishment of synergy between political and economic policies? Is it equally beneficial for EU and partner countries?

**Key words:** Copenhagen criteria, European Neighborhood Policy (ENP), synergy, economic integration, regional cooperation, international markets, competitiveness,

### Introduction

It has become increasingly questionable whether the very existence of European Union (EU) is actually justified. One could argue that such a provocative statement is in fact valid due to numerous inconsistencies in both political and economic spheres of EU. On the one hand, the EU is based upon democracy and self-governance of all its

member countries and yet inclusion of new member states and expansion of the ENP (European neighborhood policy) is dependent

<sup>1</sup> The following countries are covered by the ENP: Algeria, Armenia, Azerbaijan, Belarus (observer at this stage), Egypt, Georgia, Israel, Jordan, Lebanon, Libya (observer at this stage), Moldova, Morocco, Palestinian Authority, (Russia) – has a special status as a strategic partner, but are likely to be eligible for ENP funds, Syria, Tunisia, Ukraine.

on the promotion subsidiarity and collective synergy between political and economic factors in all member states. Individuality and self governance is in fact one EU's strongest attributes, however, in practice, EU has double standards for potential candidate countries including the new neighboring countries after the last large EU expansion in May 2004. Term subsidiarity is used to describe the loss of power by a country for the benefit of the entire EU community. To be more precise democratic form of governance is required from potential EU candidates as well as ENP members especially Ukraine, Russia, Georgia, Tunisia, Morocco, Israel and The Palestinian Authority. Nilufer Goksel defines the ideas of the EU democratization in a much simpler way:

*The EU provides aid to expand Europeanization; European ideas, values and policies to those countries without membership perspective. In the short term, the ENP facilitates economic integration to the EU market; and achieving the four fundamental freedoms of movement, persons, goods, services and capital in the long term. It is easier to realize democratization during the EU membership process, yet, the neighborhood countries are also expected to realize democratization in partnership with the EU<sup>2</sup>.*

As a tool to promote democratization EU has set up the Copenhagen criteria which clearly define political, judicial and economic prerequisites for EU membership. The justification of implementation of such criteria can be found in high levels of corruption, autocracy and inefficient political systems in potential members and ENP countries. Potential candidates and ENP countries are looking

up to EU and expecting financial aid which only becomes available after Copenhagen criteria have been met. It becomes clear than that it is necessary to establish a fertile political ground in ENP partner countries prior to economic cooperation with the EU members. Therefore, this paper will seek to examine if the European Neighborhood Policy (ENP) promotes economic cooperation through establishment of synergy between political and economic policies? Is it equally beneficial for EU and partner countries?

### Economic side of the ENP

Creation of ENP was justified in many ways but primarily as many authors would define it as creation of a friendly ring of countries which surround the EU. Naturally one would prefer to be surrounded with neighbors of the same or similar political affiliation which would in turn promote stability and economic cooperation. However, these are only the reasons for the EU to promote this ring of friendlines. On the other hand, ENP participating countries find their reasons purely in the financial sphere and financial aid which is guaranteed if they agree to specific adaptations to EU laws and norms. Nevertheless, this cooperation and agreement between the two has a tendency to be mutually beneficial regardless of reasons on either side.

Susanne Milcher and Ben Slay define three main purposes of the ENP:

- 1) ENP seeks to surround the enlarged EU with a 'ring of friends' who share the EU's values and pursue security and other foreign policies that are broadly consistent with the EU's
- 2) ENP will offer countries significant

<sup>2</sup> <http://www.jhubc.it/ecpr-istanbul/virtualpaper-room/062.pdf> (17.6.2008)

improvements in access to the single market and expanded technical assistance. In this way, the ENP seeks to offer its neighbors the kind of 'market access for reform' grand bargain that was instrumental in the dramatic improvements in governance institutions that the new member states experienced during their accession processes of the 1990s

- 3) ENP represents an implicit recognition of the fact that the EU's further expansion, in terms of the accession of new members in the CIS, is not anticipated<sup>3</sup>

One could infer that the EU has purely political motives for promotion of ENP while at the same time it offers an alternative to countries which are unlikely to enter EU. Political stability is still defined as prerequisite for successful economic reforms needed for EU membership or its alternative ENP. In any case, the synergy effect between political and economic policies is necessary if the EU has any intention to promote cooperation among the ENP countries and secure itself from potential threats and negative spillover effects.

One of the key issues is the ability of ENP countries to enter the single market created by the EU for its members. Increased trade and elimination of tariffs are just some of the steps on the road to full inclusion ENP countries into the free trade area within EU. One could argue that some ENP countries are already in regional preferential trade agreements which could collide

with SEM (single economic market), however, new trade benefits are welcomed by all ENP countries. According to Aaslund and Warner this combination of liberalized market access and technical assistance could yield extensive benefits for the neighborhood economies<sup>4</sup>. This is of course based on the assumption that EU is willing to give political and financial support for the ENP program. Costs of 'running' the EU institutions are extremely high and cannot sufficiently support ENP programs. If this remains to be the case than the ENP countries will have to focus on a somewhat different approach to economic reform and reorganize and prepare their economies for enormous amounts of FDI (foreign direct investments).

A common illness for all ENP countries is still political instability, corruption and dysfunctional economies. GDP levels are low, unemployment is relatively high (figure 1), public expenditure is high and level of competitiveness on international markets is insubstantial. All these factors present a poor picture with very depressing future. Copenhagen and Maastricht criteria are far from being fulfilled if this political and economic situation persists. Even if these criteria were removed and ENP countries were to enter EU single economic market they would not be able to take on the social and political obligations put forth by the EU as well as to quickly diversify their trade and fulfill the requirements of free market economies. ENP is an exception in itself in both political and economic terms. In political terms EU member states had to fulfill political requirements

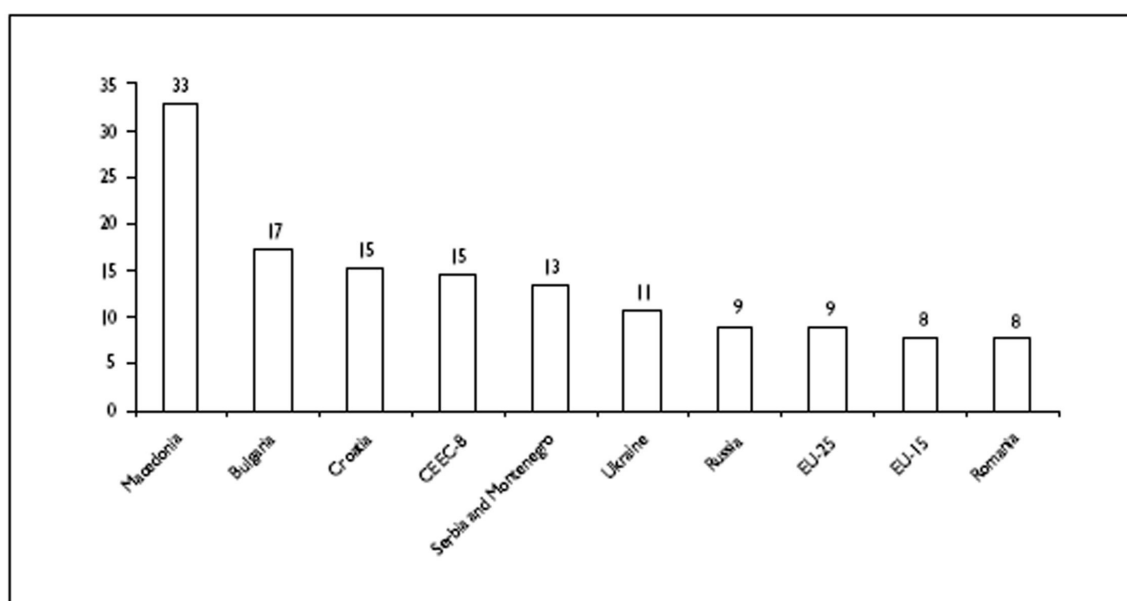
<sup>3</sup> Susanne Milcher, Ben Slay. *The economics of the European Neighborhood Policy: An initial assessment*, Centre for Social and Economic Research, Warsaw, March 2005.

<sup>4</sup> Aslund, A. and Warner, A. (2004), *The EU Enlargement: Consequences for the CIS Countries* in: Dabrowski, M., Slay, B. and Neneman, J. (2004). *Beyond Transition: Development Perspectives and Dilemmas*. Ashgate.

before signing the SAA (Stabilization and Association Agreement) and receiving IPA (instruments of pre-accession). On the other hand, EU has already created ENI (European neighborhood instrument) for ENP countries which show that EU in fact has double standards. However, financial aid is justified by

the promotion of regional cooperation and establishment of multilateral trade agreements among ENP countries. Preventive development of such a large geographical area cannot be accomplished without costs which would most likely bear the citizens of EU member states.

Figure 1: Average unemployment rate 2000-2003



Source: CISSTAT 2003. Leon Podkaminer et al., 2004, *Transition countries on the Eve of EU enlargement*, WIIW

Due to high levels of unemployment in EU candidate countries and ENP countries, economic cooperation and free trade agreements are used as a carrot and stick approach. Belarus is used as an example of reluctance of EU to work with a totalitarian regime and offer them financial aid and other benefits of economic cooperation. Incentive based politics on the side of ENP has actually proven to be extremely successful. Preparedness of many countries to enter such an agreement and except the rules of ENP is financial

beneficial in the short term. In the long term it establishes democracy, enables implementation of economic reforms and improves the overall situation in a country. Countries with little experience in the international arena are also looking forward to possible inclusion in other international organizations such as WTO if they continue to be in good graces with the ENP program. It must be noticed that political and economic reforms must be simultaneous in all ENP countries for regional development to be successful.

Regional development promotes expansion of EU as it can be seen from previous cases of EU enlargement primarily due to continuous economic and political convergence of all EU member countries.

### Political and economic synergy

Institutional, political and economic convergence still remains a challenge for many ENP countries. The emergence of the new plan of action for further development of the ENP had to be clearly defined with numerous issues that needed to be covered. Taking into account that some of the ENP participating countries cannot economically converge with others instruments of financial aid were increased for the period from 2007-2013. The overall financial aid of course depends on the countries needs and efforts to be a part of the ENP.

Michael Emerson defines these efforts to converge as 'europenisation' and puts them into three different synergetic areas:

► *legal obligations* in political and economic domains flowing from the requirements for accession to the EU, and/or from Council of Europe membership and accession to its Convention on Human Rights and Fundamental Freedom;

► *objective changes* in economic structures and the interests of individuals as a result of integration with Europe; and

► *subjective changes* in the beliefs, expectations and identity of the individual, feeding political will to adopt European norms of business, politics and civil society

Although the ENP participating countries have no legal obligations mainly

because they have not reached the level of accession to EU, they are still obligated to show effort in convergence towards *Acquis Communautaire*. Economic structures must be reformed towards working and operating within a single market while at the same time protecting the interests of entrepreneurs. The toughest challenge will most likely remain the ability to change the mindset of the population and direct them towards specific laws and norm of the EU. These changes are necessary for several reasons. Adoption of the laws and regulations of democratic societies are extremely demanding but in order to increase the regional communication and cooperation among the ENP participants all participants need a stable governing body. Communication with EU and other participants must be successful for any program to be implemented on national level. Although the EU has not established the controlling body to follow the implementation of its policies, regular annual reports present statistical data upon which the results could be drawn. Russia and Belarus continue to fail in the sphere of political stability and human rights while Moldova and Azerbaijan are still showing the least progress in economic reforms with the lowest levels of GDP and high unemployment rates.

Transfer to a democratic regime remains a challenge mostly because the countries participating in ENP have been oppressed for years by the communist and/or totalitarian regimes. More specifically, regime types of most of the ENP participants are listed below in Table 2. This is one of the reasons why a collision between the economic cooperation and political regimes may occur.

Table 2. Explanation of Scorecard

Democracy Score	Regime Type
1-2	Consolidated Democracy
3	Semi-consolidated Democracy
4	Transitional Government or Hybrid Regime
5	Semi-consolidated Authoritarian Regime
6-7	Consolidated Authoritarian Regime

Source: <http://www.freedomhouse.org>

ENP has based its entire program on the linking ENP to EU or other regional organizations both political and economic. However, immense differences among the ENP participants may thwart the future development of the good neighborhood. Sieglinde Gstohl states that 'the ENP countries are politically and economically very heterogeneous and (with the exception of Israel) noticeably below the EU average in terms of GDP per capita or the degree of democratization.'<sup>5</sup> Furthermore, she explains the need for the synergy between the political and economic systems, as well as the preconditions needed for ENP to succeed. 'ENP participants have lower-quality infrastructure and greater political risk and lack the necessary institutional and administrative capacities for an EEA-like internal market association, even in the more distant future.'<sup>6</sup> It is without a doubt very questionable then how the ENP is to survive in the years to come. However, one could argue against this statement with the very fact

<sup>5</sup> **Gstohl, Sieglinde**, *Blurring Economic Boundaries? Trade and Aid in the EU's Near Abroad*, in Mahncke, Dieter and Gstohl, Sieglinde (eds.), *Europe's Near Abroad: Promises and Prospects of the EU's Neighborhood Policy*, Brussels, P.I.E. Peter Lang, 2008, pp. 133-159.

<sup>6</sup> *Ibid.*

that EU is much more diverse especially after the last two enlargements in 2004 and 2007, and yet it is much more organized, functional, and integrated while at the same time it is ready for new enlargements. Of course one has to take into account that a significant time period has to elapse before ENP shows its true benefits for both EU and participants.

### ENP and the future

Indeed it is necessary to do and overview and reexamination of ENP to be able to prepare for the future and allocate resources successfully. Originally ideas behind the ENP gave way to creation of new cooperation among the states which were not EU members but either had tendency to join EU or were in the neighborhood. If we look at ENP through a sphere of mutual benefits one could infer that it actually benefits both the EU and the partner countries.

After the EU has decided to enlarge towards Eastern Europe and include the countries of the former communist block it became clear that enormous financial funds will have to be injected in all potential candidates. In a short period of time most of the countries from the last two enlargements had to overcome immense political and economic

reforms prior to entrance into EU family. Since most of them were unable to fulfill all the criteria simultaneously (Bulgaria and Romania) they were given a grace period where they would converge with political and economic systems of EU. However, this has put an enormous financial strain on EU funds and created the so called enlargement fatigue. For all these reasons the EU has created the policies of ENP and regional cooperation among the sixteen participating countries. Long term planning and establishment of stable economies in the region would eliminate the financial strain on EU once new potential candidates apply for membership.

However, similar minds think alike and that is why democracy is also promoted as one

of the main pillars of ENP. EEA (European economic area) has been created with a similar purpose and it functions because all members have democratic political systems. Needless to say that ENP is offering conditional aid to those countries which they see as having the most potential of adopting democracy. Table 3 shows the differences among the ENP participating countries and one could see that Algeria and Russia and the two partners who are still unwilling to fulfill the ENP requirements. Such unwillingness could point out that either those countries have no synergy between political and economic spheres on national level, or it shows that they will most likely be unwilling to cooperate once they become EU members.

Table 3: Categorization of partner states of the ENP

With Action Plans	Without Action Plans
<b>Willing partners</b> <b>East</b> Moldova – European identity, don't take no for answer, wants more* Georgia – <i>idem</i> Ukraine – <i>idem</i> Armenia – want more, but has other security priorities <b>South</b> Morocco – wants more Tunisia – economic anchorage to the EU Palestine – desperate for aid Israel – European identity Jordan – reformist partner	<b>Reluctant partners</b> <b>East</b> [Russia – from the beginning excluded itself formally from ENP, but is included in ENPI and four common spaces resemble Action Plans]  <b>South</b> Algeria – oil rich, averse to conditionality, in ENPI & Barcelona process
<b>Passive partners</b> <b>East</b> Azerbaijan – oil rich; govt. lags behind civil society over political values <b>South</b> Lebanon – superficial participant, desperate for support Egypt – regional leader, averse to conditionality	<b>Excluded partners</b> <b>East</b> Belarus – lack of democracy currently excludes activation of ENP <b>South</b> Syria – in ENPI and Barcelona process, but activation of ENP currently excluded Libya – in ENPI & Barcelona process, but activation of ENP currently excluded

	<b>Excluded entities</b> <b>East</b> Transnistria – non-recognised entity Abkhazia – <i>idem</i> South Ossetia – <i>idem</i> Nagorno Karabakh – <i>idem</i> <b>South</b> Western Sahara – occupied territory
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\* “Don’t take ‘no’ for an answer” means that the partner state considers the EU’s refusal of membership perspective to be unsustainable in the long run if it sticks to its European ambitions, and therefore considers the EU’s lack of incentive itself to lack credibility.

Source: Emerson, M., G. Noutcheva and N. Popescu (2007), *European Neighborhood Policy Two Years on: Time Indeed for an ENP Plus*, CEPS Policy paper No. 126, Centre for European Policy Studies.

In any case ENP has to stick with the program and look forward to its expansion. In a search for the best possible solution the ENP has actually come up with a fifteen point program:<sup>7</sup>

1. The optimal bilateral-regional-multilateral balance
2. Advanced association (or otherwise named) agreements
3. Institutional issues
4. The membership perspective question
5. Democracy promotion
6. Deep free trade – bilateral
7. Basic free trade – multilateral
8. Energy and transport networks
9. Movement of people
10. Association with foreign and security policy
11. Crisis management
12. ‘ENP light’ for difficult partner states and entities

<sup>7</sup> Emerson, M., G. Noutcheva and N. Popescu (2007), *European Neighborhood Policy Two Years on: Time Indeed for an ENP Plus*, CEPS Policy paper No. 126, Centre for European Policy Studies.

13. The Black Sea and beyond
14. Budget resources
15. Investment and coordination with the IFIs

For the purpose of this paper only points 5-7 will briefly be discussed. As much pride as ENP takes in promoting democracy in partner countries it can still not be complemented on its success. There are many failures especially in the countries such as Israel, Russia, and Moldova where there is constant political chaos and lack of protection for human rights. It shows that ENP is still not prepared to cope with larger issues.

Deep free bilateral trade is and remains to be the key element among partner countries. Increase in levels of GDP between trading partners are evident and all trade is based on the ENP rules and regulations. Removal of trade barriers among countries brings ENP participants one step close to adopting the laws and regulations of the EU’s free market. In the future some of the trade issues may have to be changed due to EU enlargement



but deep free trade still remains a backbone of economic stability for ENP participants.

European Commission has created an interesting term for the possible multilateral basic free trade Neighborhood Economic Community (NEC). This may be seen as a tool to exploit the participant countries but it actually creates a regional multilateral trading design. However, this is unlikely to happen mostly due to large demands on the side of WTO and membership of some the ENP participant countries which would have to brake the WTO rules. Trade liberalization may collide with the very idea of ENP to economically develop participating countries in such a manner that it could create an opinion that ENP participants have the status of the most favored countries. However, the future of ENP holds different political and economic plans which would transform ENP into ENP plus. ENP plus would according to Emerson hold the following improved points<sup>8</sup> :

- 1) an advanced association model for the able and willing partner states,
- 2) a strengthening of regional-multilateral schemes,
- 3) an upgrading of some of the standard measures being deployed,
- 4) an 'ENP light' package for states/entities with difficult political regimes

The able and willing partner states could be offered the following incentive package:

- 1) Advanced association agreement,
- 2) Possibilities to participate in agencies, programs and institutions,
- 3) 'Open door' language for European partner states,
- 4) Deep free trade, going as far as

associate EEA status,

- 5) Visa facilitation with perspectives of visa-free travel,
- 6) Association with CFSP declarations and actions,
- 7) Participation in ESDP missions and
- 8) Privileged access to performance-related budgetary funds.

### Concluding remarks

Synergy effects between political and economic sphere in all participating countries are absolutely necessary. Conditionality upon which the ENP decides where to direct the funds is the well established democracy or a transitional country which has made the most effort towards democracy and europeanisation. Only then does the EU open deep bilateral free trade which improves the economic stability within a country, therefore the synergy between the two is inevitable. To a novice it may seem that ENP is yet another scheme by the rich to exploit the poor but it actually benefits more the poor than the rich. Immense amounts of financial aid are pumped into ENP participating countries under the condition that they embrace democracy and accept EU political and economic reforms. It is not being forced but rather offered to all countries surrounding the EU. Promotion of such a ring of mutual understanding, cooperation and regional development the EU shows that it is prepared for new enlargements and offers aid to countries who will need 30-40 years of political and economic adaptation to become potential candidates. Overall, mutual benefits prevail over potential costs on both the EU and ENP participant's side.

<sup>8</sup> *Ibid*

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