



Center for Social and Economic Research

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**Southern Caucasus' perspectives of
integration with Europe**

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Southern Caucasus cooperation with Europe

- Membership in OSCE and Council of Europe
- Cooperation with NATO
- Partnership and Cooperation Agreements with the EU
- Georgia and Armenia's membership in WTO
- EU European Neighborhood Policy (ENP) offer (May 2004)
- ENP Action Plans under negotiations

What is the European Neighborhood Policy?

- The ENP was developed in the context of the EU's 2004 enlargement, with the objective of avoiding the emergence of new dividing lines between the enlarged EU and our neighbors and instead strengthening stability, security and well-being for all concerned
- The EU offers our neighbors a privileged relationship, building upon a mutual commitment to common values (democracy and human rights, rule of law, good governance, market economy principles and sustainable development). The ENP goes beyond existing relationships to offer a deeper political relationship and economic integration. The level of ambition of the relationship will depend on the extent to which these values are effectively shared. **The ENP is not about enlargement and does not offer an accession perspective.**

ENP conceptual dilemmas:

- The ENP offers a far going cooperation (including participation in elements of the Single European Markets) but not a EU membership. Does the ENP creates sufficiently strong incentives to speed up economic and political reforms in neighboring countries?
- The ENP offers “...neighbouring countries the prospect of *a stake in the EU Internal Market based on legislative and regulatory approximation, the participation in a number of EU programmes and improved interconnection and physical links with the EU*”. What “*a stake in the EU Internal Market*” really means?

The ENP in practice

- Southern Mediterranean countries + part of CIS (Central Asia excluded); 3 countries inactive: Belarus, Libya, Syria.
- Different role of ENP for Southern Mediterranean (continuation of the Barcelona process) and CIS
- Concretized in bilateral agreements (action plans) with individual countries (differentiated agenda)
- The ENP is unlikely to provide a fast-track full participation of neighbors in the EU internal market (particularly for CIS); more realistic option: selective participation in some segments of EU internal market
- Funding: ENP Instrument – from 2007 onwards

Limited market integration with neighbors

- Southern neighbors: association agreements with long implementation period (up to 12 years); asymmetric liberalization for manufactured goods; important sectors (like agriculture or services) only partly covered or excluded
- CIS: only PCAs so far; postponing start of trade liberalization negotiations after WTO accession process will be completed (difference with NMS and Balkans)
- Restriction on movement of people (visa regimes)
- Various degree of liberalization of capital movement in neighboring countries but limited real flows due to poor investment climate

EU-CIS political and economic relations

- PCA agreements signed in 1990s; slow ratification and implementation
- WTO membership of Kyrgyzstan (1998), Georgia (2000), Moldova (2001) and Armenia (2003)
- Ongoing WTO accession negotiations of Ukraine, Russia, Kazakhstan, Azerbaijan and Tajikistan; the remaining countries less advanced
- WTO Plus: unequal treatment of CIS countries comparing to Central European, Baltic and Balkan countries

Strategic Partnership with Russia

- the Common European Economic Space between the EU and Russia (declarations of 2001 and 2003)
- the road maps concerning four common spaces (declaration of May 10, 2005)
 - Common Economic Space
 - Common Space of Freedom, Security and Justice
 - Common Space of External Security
 - Common space on research, education and culture
- Russia's participation in ENPI
- Negotiations of new EU-Russia Agreement

The Euro - Mediterranean Partnership

Partnership Agreements (1970s) replaced with Euro-Mediterranean Association Agreements in 1990s and 2000s (slow ratification and implementation): Tunisia (from 1998), Morocco (2000), Israel (2000), Jordan (2002) and Egypt (2004) + signed AA with Algeria (2002), Lebanon (2002), Syria (concluded negotiations) and Interim Agreement with the Palestinian Authority (1997)

Common denominator of EUROMED AA

- Political dialogue
- Respect for human rights and democracy (authoritarian regimes in most of the countries, apart from Israel)
- Establishment of WTO-compatible free trade over a transitional period of up to 12 years (much slower and limited liberalization in an agriculture sector)
- Provisions relating to intellectual property, services, public procurement, competition rules, state aids and monopolies
- Economic cooperation in a wide range of sectors (the role of energy sector)
- Cooperation relating to social affairs and migration (including re-admission of illegal immigrants) but with a restricted movement of people (visa regime apart from Israel)
- Cultural cooperation

Integration obstacles (neighbors side)

- Failure to meet Copenhagen criteria
 - Deficit of democracy, human rights and rule of law
 - Poor business climate, excessive protectionism, government interventionism and etatism
 - Weak institutions
- Limited interest in advanced forms of European integration (due to historical and cultural differences) with some exceptions like Moldova and Ukraine

Copenhagen Criteria for EU Accession

June 1993

- ❖ stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities,
- ❖ the existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the Union,
- ❖ ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union.

Freedom House rating of Southern Caucasian countries

- Armenia – partly free (PR - 5, CL - 4) ↓
- Azerbaijan – non-free (PR - 6, CL - 5) ↓
- Georgia – partly free (PR - 3, CL - 3) ↑

Integration obstacles (EU side)

- Integration ‘fatigue’
- Cultural differences/ prejudices
- Income differences
- Migration/ security fears
- Unreformed CAP, welfare state and other structural rigidities
- Limited economic potential of neighbors
 - CIS – 3.7% of world’s GDP (PPP); Russia – 2.6% [China – 12.6%; India – 5.7%]
 - CIS – 2.3% of world’s export; Russia – 1.6% (WEO, IV.2004)
 - EU-25 – 2.2% of its export going to CIS, 3.8% to MENA (EE, 2005 No.5, table 57)

Arguments in favor of closer integration of neighbors (EU side)

- Geopolitics and regional security
- Window of opportunity for economic, social and political modernization of ‘neighbors’
- Energy supply and transit
- Transport routes
- Controlling migration flows
- Economic, cultural and ‘historical’ interests of ‘frontier’ EU member states

Arguments in favor of closer CIS-EU links (CIS side):

- modernization (anchoring domestic political, economic and institutional reforms), following experience of Mediterranean, Central European and Baltic countries, South Eastern Europe and Turkey
- overcoming danger of potential isolation and marginalization in the globalized world

Specific regional problems of Southern Caucasus

- Unresolved territorial conflicts
- Problems of territorial integrity and internal conflicts
- Disruption in trade relations and transportation routes
- Political and economic relations with Russia and Turkey