

The economic aspect of the EU's relations with Eastern Partnership countries and the Maghreb, a brief comparison

The Eastern Partnership, a new regional initiative addressed for the first time at Eastern European countries located between the EU and Russia, was inaugurated by the European Union at its Prague summit in May 2009. It covers six countries, Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. The key objectives of the Eastern Partnership include signing agreements on free trade and liberalisation of the visa regime between the EU and the countries covered by the initiative, the implementation of the energy sector reforms (to ensure transparency, efficiency and diversification) and adopting part of the EU *aquis* by those countries. The achievement of the latter goal would bring about democratisation and better governance in those countries. The countries, along with the Mediterranean Basin countries, have been covered by the European Neighbourhood since 2004, which means that they are recognised as neighbours of the EU.¹ The Eastern Partnership was initiated by Poland and Sweden. Its launch was an effect of the usually indirectly expressed belief that the countries covered by this initiative differ from the Mediterranean Basin neighbour states. One of the key differences is that the Eastern Partnership countries are European neighbours of the EU and as such may formally apply for accession, while the Mediterranean countries are merely neighbours of Europe. Some of the Eastern Partnership countries (Georgia, Moldova and Ukraine) are interested in EU membership, while none of the southern neighbours has declared a desire to integrate with the EU. Theoretically, no EU member state openly opposes a priori the accession by part of the Eastern Partnership countries in a very long term. Public opinion polls have also shown that potential accession of Ukraine to the EU enjoys greater support among European societies than membership of Turkey or some Balkan states. Meanwhile, a vast majority of politicians and societies in the EU are sceptical about potential accession by the Mediterranean neighbours. However, at present there is no consensus inside the EU over granting the potential candidate status to the Eastern Partnership countries, while such a status was granted by Brussels to the Western Balkan countries in 2000. Although no consensus has been achieved over this issue, the EU is aware of the differences between its southern and eastern neighbours as regards the planned scale of integration (which will be much deeper with the eastern neighbours), the most convincing proof of which is the significantly greater presence of political elements (good governance and democratisation) on the agenda of the Eastern Partnership than it is the case with the initiatives targeted at the southern neighbours (the Barcelona Process and then the Union for the Mediterranean). Regardless of the difference in the approaches to the southern and the eastern neighbourhood, some southern neighbours are integrated economically with the EU to a much greater extent than the Eastern Partnership countries. This especially concerns those Maghreb countries which have been covered by the ENP (Algeria, Libya, Morocco and Tunisia).² The purpose of this article is to compare the

¹ The EU's southern neighbours as part of the European Neighbourhood are Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestinian Authority, Syria and Tunisia.

² Mauritania is a part of the Maghreb and a member of the Union for the Mediterranean inaugurated in 2008. However, it is not covered by the European Neighbourhood.

economic integration of the Maghreb and the EU on one hand and of the Eastern Partnership countries and the EU on the other. This comparison is intended to indicate the causes of the weaker integration of the Partnership countries, which the EU should take into consideration if it wants to implement the agenda for modernisation of the Partnership.

General characteristics of the Eastern Partnership and the Maghreb countries

The Eastern Partnership countries are more diverse in cultural and political terms than the Maghreb region³; there are also significant economic differences between them. The Eastern Partnership covers one large country (Ukraine), whose GDP PPP (Purchase Power Parity) (approx. US\$295 billion) accounts for nearly 55% of the region's GDP PPP.⁴ The Ukrainian market is also clearly larger than those of the other Partnership countries. Ukraine has a population of nearly 46 million, which is over 60% of the residents of all countries covered by the Partnership. Apart from Ukraine, this initiative is addressed to three very small countries, Georgia, Moldova and Armenia, and two medium-sized countries, Azerbaijan and Belarus. For example, the GDP PPP of Moldova, which is inhabited by approximately 3.5 million people, is less than US\$10 billion, while the same index in the case of Armenia, which has a population of 3.2 million, reaches US\$16 billion. Eastern Partnership countries are also strongly diversified in terms of GDP PPP per capita. In the case of the poorest country, Moldova, the index reaches approx. US\$2,800, while in the case of the richest Belarus its value is US\$12,500. The GDP PPP per capita in the other countries ranges between US\$4,800 (Georgia) and nearly US\$9,500 (Azerbaijan).⁵ In the case of Ukraine, which is the key country in this group, GDP PPP per capita is approx. US\$6,700.

³ In cultural terms, four countries covered by the Eastern Partnership are predominantly inhabited by members of the Orthodox Church, while residents of the other two countries are mainly members of the Armenian Apostolic Church (Armenia) and Sunni and Shia Muslims (Azerbaijan). A significant minority of Muslims live in Georgia; and their number is expected to grow strongly in the next few decades. Roman Catholics form a significant minority in Belarus. Residents of Belarus and Ukraine are predominantly Slavs. While Moldovans, Azeris, Georgians and Armenians differ strongly in linguistic terms between themselves and between the Slavs. Russian is used as the *lingua franca* in the Partnership area. However, its role is weakening in some of the countries. In contrast, almost all residents of the Maghreb are Sunni Muslims and belong to the Maliki school of Koranic Law. Almost all residents of this region speak Arabic - including Berbers, significant minorities of whom live in Morocco and Algeria- which is the only official language in all countries of the Maghreb. From the historical perspective, the common heritage of the Partnership countries dates back to as late as the 19th century, when they fell under Russian rule followed by the Soviet regime, albeit the duration of Russian control was different in various regions. In antiquity and in the early Middle Ages, the Maghreb (especially the most densely populated sea-coast) was quite often under the rule of one state. However, following the Arab conquests, it was more often divided into more political entities. Between the 16th and the 19th centuries, the region was divided between the Ottoman Empire and Morocco. In the 19th and 20th centuries, the Maghreb (with the exception of Libya) was gradually falling under French control. The Eastern Partnership is strongly diversified in political terms. Freedom House classified countries in this region as free (Ukraine), partly free with a potential of being recognised as free (Moldova), partly free (Georgia), partly free sliding into the category "not free" (Armenia) and not free (Azerbaijan and Belarus). The Maghreb countries are either not free or partly free sliding into the category "not free" (Morocco).

⁴ Data according to the International Monetary Fund.

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The conditions for doing business are also very diversified in the Eastern Partnership countries. According to the World Bank's Doing Business 2010 ranking, the conditions for doing business in Georgia are one of the best in the world (ranked 11), while Ukraine occupied the last place in Europe (ranked 142). The other members of the Partnership are between those two extremes: Azerbaijan (ranked 38), Armenia (ranked 43), Belarus (ranked 58) and Moldova (ranked 94). The differences between the Partnership countries were also revealed in their performance during the global economic crisis. The economies of Ukraine and Armenia shrank radically in 2009 (around -15% of GDP), while Azerbaijan could boast an economic growth of 7.5%. The other countries plunged into recession. Belarus was affected by the crisis to the smallest extent as its GDP fell slightly over 1%. The economic structures of individual Eastern Partnership countries also differ to a great extent. Azerbaijan is an exceptional country in this group. Its economy is based mainly on production of raw materials (oil and gas) and huge exports (accounting for around 80% of GDP), which results in a very broad trade surplus. The feature which some of the countries (Azerbaijan, Armenia, Georgia and Moldova) have in common is a vast share of agriculture workers in the labour force (around 35-50%). In the case of Armenia and Moldova, agricultural production also accounts for a significant part of the countries' GDP (approx. 20%). In turn, the Belarusian economy has an especially large industry sector (over 40% of GDP). There are also big differences in the structures of industrial production between individual Eastern Partnership countries. For example, Ukraine specialises in metallurgical and mining industries (e.g. coal and iron ore)⁶, while key industrial sectors of Belarus are the transport means, household appliances and machine industries. Armenia specialises in jewellery production (e.g. it is the world's 9th largest diamond manufacturer). Similar differences exist between the agricultural sectors of the countries in this region. Grapevine cultivation is a key branch of the agricultures of Armenia, Georgia and Moldova. Tea production is another essential element of Georgian agriculture. Meanwhile the agricultural sectors of Ukraine and Belarus are based to a large extent on cultivation of grain, sugar beet and sunflowers.

The Maghreb countries are economically more uniform than those covered by the Eastern Partnership. Algeria has the largest economy (over US\$240 billion GDP PPP). The other economies are not radically smaller from it; Morocco (over US\$145 billion GDP PPP), Libya (over US\$90 billion GDP PPP) and Tunisia (over US\$85 billion GDP PPP). The demographic differences are clearly smaller among the Maghreb countries than within the group of the Eastern Partnership countries. The populations of two countries (Algeria and Morocco) are over 30 million each, while Tunisia is inhabited by 10 million people and Libya by 6.5 million. The distance between the region's poorest and the richest country in the Maghreb is also smaller than in the case of the Eastern Partnership group. The GDP PPP in the poorest Morocco (US\$4,600) is over three times lower than that of the richest Libya (US\$14,400); the values not being radically different from the domestic products of Algeria and Tunisia, which are worth US\$6,900 and US\$8,300 respectively. The conditions for doing business are also less diversified in this region than it is the case with the Eastern Partnership. The Maghreb region's economies, except for Tunisia⁷, are characterised by clearly unfavourable conditions

⁶ Ukraine has the world's 6th richest coal deposits (4% of all deposits).

⁷ Tunisia was listed 69 in this ranking.

for doing business. Morocco and Algeria were ranked very low in Doing Business 2010 ranking, occupying the 128 and 136 places, respectively. Libya was not listed in the ranking but, presumably, it would have been ranked even lower than those two countries. The region's economies have survived the global economic crisis in a similar way. Each of them could boast an economic growth; the highest was generated by Morocco (5%). The economies in the Maghreb can be divided into two groups, namely the economies which heavily rely on the production and export of fuel (oil and gas), such as Algeria and Libya⁸, and the economies of Morocco and Tunisia, where tourism, textile industry, phosphate production and processing (especially in Morocco) and money transfers from expatriate workers play a significant part. The economies of Morocco and Tunisia differ in terms of employment structure. The share of workforce employed in agriculture is twice as large as in Tunisia (40% vs. 20%). In the case of Algeria and Libya, agriculture has the smallest share in the employment structure in the Maghreb region (10-15% of the workforce). On the other hand, the agricultural sectors of all Maghreb countries are based on cultivation of the same plants (e.g. citruses, grapes and olives) and breeding of the same species of animals (e.g. sheep and camels).

Economic integration with the EU (foreign trade, FDI, tourism, remittances and energy sector)⁹

The EU's trade balance share is the largest in the case of Azerbaijan (raw materials, around 55%) from among the Eastern Partnership countries. The European Union's share in the trade balance of Moldova exceeds 45%. The EU is also the most significant trade partner with the exception of Belarus for the other Partnership countries, accounting for between 30% and 35% of their trade balances. Russia is an important partner for all countries covered by the Eastern Partnership. Its share in the trade balance is the largest in the case of Belarus (nearly 50%). This share reaches around 20% in Armenia, around 25% in Ukraine and over 15% in Moldova. Russia's share in the trade balance is 8% in the case of Georgia and 7% in the case of Azerbaijan. While considering the share of Russia in the trade balances of the Eastern Partnership countries, one has to note that it has significantly reduced over the past two decades. After Russia, Turkey is the most significant non-EU trade partner for Eastern Partnership countries. This country is the most important trade partner for Georgia (accounting for nearly 17% of its trade balance), important for Azerbaijan (8%) and quite important for Armenia, Moldova and Ukraine (4-5%).¹⁰ Turkey's share in the trade balances of the Partnership countries, especially the Caucasian ones, will be growing in the next few decades, considering its increasing economic potential and the prospect for normalising relations with Armenia. The United States is a very important trade partner for Azerbaijan (around 13% of its trade balance) and quite important for Georgia (around 8%) and Armenia

⁸ According to British Petroleum, Algerian and Libyan natural gas deposits constitute respectively 2.4% and 0.8% of global deposits, while in the case of crude oil the share is respectively 1.1% and 3.5%.

⁹ The statistical data presented in this section originate from the statistical offices, central banks and government institutions of the Maghreb and Eastern Partnership countries, international statistical agencies, financial institutions and the Eurostat. The data cover the time span between 2008 and 2009.

¹⁰ Trade exchange between Ukraine and Turkey significantly reduced in 2009 due to the economic crisis. In effect, Turkey's share in the trade balance of Ukraine fell below 4%. However, it is likely to increase as the economic situation improves in both countries.

(5%). China is a quite significant partner for Armenia and Ukraine (accounting for around 6% of their respective trade balances).

In the Maghreb, the EU has the largest share in the trade balances of Libya and Tunisia, reaching around 70%. In the case of Morocco this share is almost 60%, and in the case of Algeria it exceeds 50%. No other third country plays such a role as a trade partner in the Maghreb as Russia does in the case of Eastern European countries. The United States is a very important trade partner for Algeria (around 16%) and quite important for Morocco and Libya, accounting for 4% and 6% of their trade balances, respectively. China also plays a significant role (holding a share of around 5% in the trade balances of Algeria, Libya and Morocco).

Similarly, in the case of Foreign Direct Investments, the EU's engagement is much stronger in the Maghreb than in the Eastern Partnership countries. The accumulated FDI are proportionally the highest in Morocco and Tunisia in the Maghreb. They are equivalent to around 30-35% of their GDP (PPP). In the case of Libya, their value is equivalent to 13% of GDP (PPP), while in Algeria they are equal to approximately 6% of GDP (PPP). The EU is the most important investor in those countries. EU investments account for nearly 45% of accumulated Foreign Direct Investments in the Maghreb. Approximately 30% of investments originate from the Persian Gulf countries (first of all, the United Arab Emirates and Kuwait), and around 10% from the USA and Canada. The EU has the largest share in the investment balance of each Maghreb country. In the case of the Eastern Partnership, Foreign Direct Investments are significantly lower both in absolute values and proportionally than in the Maghreb region. Proportionally, the largest shares of accumulated Foreign Direct Investments are in Georgia (around 1/3 of GDP PPP) and Moldova (around 1/4 of GDP PPP). In the other countries, the share of FDI ranges from 5% of GDP PPP in Belarus to approximately 15% of GDP PPP in Armenia. In the case of the region's largest economy, Ukraine, the share of Foreign Direct Investments exceeds 10% of GDP PPP. In theory, the EU is the largest investor in the Eastern Partnership countries and formally holds an even larger share in the balance of accumulated Foreign Direct Investments in this region than in the Maghreb. However, it is worth noting that investments from Cyprus, which account for a significant part of EU investments in this region, in fact originate from either the Eastern Partnership countries themselves or Russia.¹¹ EU investments have a minor share in the investment balances of Belarus and Armenia. Russia is an important investor in the Eastern Partnership countries, except for Azerbaijan and Georgia. The share of Russian investments, both indirect (e.g. via Cyprus) and direct, is very high in Belarus and Armenia (around 70% of investments). Turkey is a major investor in Georgia and Azerbaijan (10%-15% in the investment balance). It is also worth mentioning large Azeri investments in Turkey, especially considering the size of Azerbaijan's economy. Turkey also plays an important role in the construction sectors of Azerbaijan and Georgia. The United States is a significant investor in Azerbaijan, Moldova, Georgia and Ukraine (its share ranges from several to more than ten percent in their investment balances).

¹¹ Investments from Cyprus exceed 20% of the accumulated Foreign Direct Investments in Ukraine.

A definite majority of both Maghreb and Eastern Partnership countries have a large potential of being attractive to tourists (sea, mountains and historic monuments). However, tourism is an important economic sector of increasing significance only in two cases, Morocco and Tunisia. This is an effect of the lack of a 'pro-tourism' economic policy resulting from such factors as deliberate decisions (unwillingness to open up to the external world) or ignorance of EU neighbours, internal instability and negative stereotypes abroad. In 2008, incomes from tourism constituted around 7-8 % of nominal GDP in the case of Morocco and Tunisia. A vast majority of tourists who visited those countries came from the EU.

Foreign remittance inflows account for a significant part of nominal GDP in some countries of the Maghreb and the Eastern Partnership alike. According to the World Bank's data, beyond any doubt they have the strongest impact in Moldova (around 30% of GDP). Their impact is also quite strong in other Eastern Partnership countries, Armenia (9% of GDP), Georgia (almost 6% of GDP), Azerbaijan and Ukraine (each over 3% of GDP). In the case of the Maghreb countries, money transfers received from expatriate workers have a significant share in the economies of Morocco (8% of GDP) and Tunisia (almost 5% of GDP). It is worth adding that some sources indicate significantly higher estimates regarding foreign remittance inflows to all the aforementioned countries. Those sources take into account, approximately, unregistered remittances. A vast majority of expatriate workers from Morocco and Tunisia live and work in the EU. In turn, in the case of the Eastern Partnership countries, although a great part of expatriate workers, especially from Moldova¹² and Ukraine, work in the EU, the main labour market for them is still Russia. Many workers from Georgia and partly from Azerbaijan also seek employment in Turkey.

Both Eastern Partnership and Maghreb countries have a significant impact on the EU's energy sector. Gas supplies from Algeria have a nearly 10% share in the European Union's gas balance. Libya is a major supplier of oil to the European market. In turn, Ukraine and Belarus are important transit countries through which Russian gas, which has a 25% share in the EU's gas balance, flows. When the Nord Stream pipeline running from Russia to Germany through the Baltic Sea is built, the significance of Belarus and Ukraine as transit countries for Russian gas will lessen, albeit not radically. The Caucasian members of the Eastern Partnership have also been assigned an important role as transit countries and partly as suppliers in the EU plans for diversification of gas supplies through transit of this raw material from Central Asia (the Nabucco project). Russia doubtlessly has a very strong economic impact in the Eastern Partnership area, especially on its energy sector. Gas supplies account for 60% of the energy balance of Belarus (the only supplier being Russia), 65% in the case of Moldova (also supplied exclusively from Russia) and almost 60% in the case of Armenia (of which 70% originate from Russia).¹³ In the case of Ukraine, natural gas has an approximately 40% share in its energy balance, and all supplies of this raw material are made either from Russia or via Russian territory.

Conclusions

¹² Nearly half of Moldovan expatriate workers are employed in the EU and around 40% in Russia.

¹³ Russia controls Armenian gas pipelines and supplies nuclear fuel to the country's nuclear power plant.

The Eastern Partnership countries are integrated with the EU to a much smaller extent than the Maghreb. The European Union's position in the Eastern Partnership area is similar to the situation in the Machrek countries (Egypt, Jordan, Syria, Israel and Lebanon). The implementation of the Eastern Partnership modernisation agenda, which provides for the Eastern European neighbours' convergence with the EU, will be impossible without increasing the EU's economic engagement in this region. The best proof for that is the fact that the Western Balkans are economically integrated with the EU to a much greater extent than the Eastern Partnership area. A strong majority of Foreign Direct Investments in the Western Balkan region originate from the EU (the share is the least in the case of Bosnia). The EU's share in the trade balance of each Western Balkan country (except for Kosovo) reaches at least 50%. A vast majority of expatriate workers from Western Balkan countries, where foreign remittance inflows have a significant economic impact (Albania, Kosovo and Bosnia), are employed in EU member states. What additionally makes the Western Balkan countries distinct from the Maghreb and the Eastern Partnership countries is the existence of quite strong economic bonds at the regional level (foreign trade and foreign investments). In effect, the process of EU enlargement in the case of the Western Balkans will cause a smooth transition from regional to European economic integration.

The EU's limited socio-political impact on the domestic situation in the Maghreb proves that economic integration alone is an insufficient condition for the establishment of closer political relations between the European Union and its Eastern neighbours and for the Europeisation of the latter. Economic integration must be accompanied by the EU's will and determination to implement a political agenda as it has done in the case of the Western Balkan countries.

The lower level of integration of the Eastern Partnership area with the EU in comparison to the Maghreb and the Western Balkans is mainly an effect of the strong economic and political position of third countries (Russia and, to a smaller extent, Turkey and the USA) in Eastern Europe and the Southern Caucasus. Among those powers, the influence of Turkey is likely to rise while the significance of Russia is expected to fall in the next few decades, considering the forecasts envisaging a more rapid growth of the Turkish economy. However, Russia will still be the most important third country in this region. Therefore, it is especially vital to include third countries in multilateral projects regarding economic issues as part of the Eastern Partnership agenda. Russia is the most sceptical about the Partnership per se in this group of third countries. It seems that the EU's co-operation with the other third countries engaged in this region (Turkey and the USA) will be the best way of convincing Russia to accept the Partnership. Last but not least, the Eastern Partnership area is very diverse as far as concerning economy (e.g., size, economic structure). In consequence, the diversification of the EU agenda directed to the states covered by the EaP is of crucial significance for its successful implementation.