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The EU neighbours 1995-2015: shades of grey

BY
Florence Gaub and Nicu Popescu

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THE EU NEIGHBOURS 1995-2015: SHADES OF GREY

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136

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Introduction: From the neighbourhood to the neighbours – and beyond

The Economist put it bluntly but accurately when, in September 2014, it argued that the EU was facing a ‘ring of fire’ at its eastern and southern borders – as opposed to the ‘ring of friends’ it had aimed to build around itself only a decade earlier. And indeed both the reality and the perception of the countries and regions closest to the Union have changed dramatically over the past few years, prompting a comprehensive reassessment of both the specific policy framework designed to deal with them and the general approach that the EU and its member states are set to adopt *vis-à-vis* a rapidly evolving regional and international environment.

The public consultation on the European Neighbourhood Policy (ENP), promoted by Commission President Jean-Claude Juncker and conducted throughout 2015 by Commissioner Johannes Hahn and DG NEAR, has highlighted a number of ways to reconsider the original assumptions and working methods as well as improve on the *acquis* of the previous decade. The policy review will now start translating all that into practice. For its part, the ongoing strategic reflection initiated by High Representative Federica Mogherini has already generated a first reassessment of the Union’s overall ‘strategic environment’, in June 2015, and is set to produce a Global Strategy on foreign and security policy in June 2016.

This *Chaillot Paper* situates itself in-between these two exercises in that it aims at identifying what has changed – and how – in the countries and regions adjacent to the EU over the past two decades, when new dedicated policy frameworks started being designed and implemented for them in Brussels. While focusing also on events that have occurred over the past few years, when change appears to have taken place at a faster pace, this paper seeks to highlight in particular the broader and longer trends affecting them by using a large set of comparative indicators and without entering too much into the role actively played by the EU as such in bringing about such changes (or failing to do so).

In other words, this is a study on the EU’s neighbours, not on the European Neighbourhood Policy (ENP), although all the countries taken into consideration in the two main sections happen to be part of the ENP framework as we know it. This said, it would be difficult to grasp the motivations underpinning this analysis

without understanding the policy experience that lies behind and prompted it, in view also of the wider policy review that will culminate in the forthcoming Global Strategy.

Where from?

When the ‘Big Bang’ enlargement to eight Central European and two Mediterranean countries materialised in late 2002, the British and the Scandinavians in particular started pushing for a common initiative aimed at the new Eastern periphery of the Union – as southeastern Europe was already involved in the Stabilisation and Association Process and would soon be given (at the Thessaloniki European Council of June 2003) a concrete EU membership perspective.

In December 2002, the same Copenhagen European Council that finalised the ‘Big Bang’ endorsed the initiative but – on the insistence of the Southern EU members – included in it also the Mediterranean countries that, until then, had been involved in the so-called Barcelona Process, i.e. the Euro-Mediterranean Conference formally launched in 1995.

This resulted in the ‘Wider Europe’ Communication released by the Commission in March 2003. In June 2004, a few months after the ‘Rose Revolution’ in Tbilisi, the initiative was further extended to the South Caucasus republics of Armenia, Azerbaijan and Georgia – even though they lie some 1,000 km apart from the nearest EU member (Romania) – and was also rebranded as the European Neighbourhood Policy. As such, it was clearly distinct from any foreseeable EU accession prospect.

The ENP was originally expected to deal with some 16 neighbours. The largest ‘neighbour’ of the EU, however, was not included: Russia declined to be incorporated into the scheme and opted for developing bilateral cooperation with the Union on an allegedly more ‘equal’ basis, although it was open to accepting similar policies and actions to those implemented with other countries involved in the scheme. The second largest neighbour, Turkey, also stayed out of the ENP framework by virtue of its own accession process to the EU which, at that time (2003-04), was on the brink of a major breakthrough – with the opening of formal negotiations in late 2005.

In the intervening decade, the ENP has gradually absorbed the pre-existing TACIS and MEDA programmes – for the East and South, respectively – and defined benchmarks and ‘priorities for action’ against which to evaluate the disbursement of funds. Yet the initial Council decision of putting apples and oranges – Eastern Europe and Southern non-Europe – in the same policy basket has remained.

Other internal nuances affected the overall EU approach. The then Commission President Romano Prodi, for instance, mentioned the goal of building ‘a ring of friends’ around the enlarged EU. Both Commissioner for External Relations Chris Patten and High Representative for CFSP Javier Solana, in contrast, spoke rather of ‘a ring of well-governed countries’. The difference (a country may be considered and act as a ‘friend’ while not being particularly ‘well-governed’) was not to be missed.

Moreover, the new scheme allowed for the redeployment of a number of Commission officials who had been closely and successfully involved in preparing the ‘Big Bang’: between 2003 and 2004, they were gradually transferred from DG Enlargement to a dedicated new ENP Unit in DG RELEX. In the autumn of 2004, with the new Barroso Commission taking office, Benita Ferrero-Waldner’s brief was renamed ‘External Relations *and* European Neighbourhood Policy’ – thus giving the ENP a specific slot (and status) in the overall spectrum of EU policies, and the Commissioner a new mandate that could be preserved even in the event of the creation of the ‘EU Minister for Foreign Affairs’ foreseen by the Constitutional Treaty (then due to enter into force on 1 November 2006).

Per se, such a transfer and reshuffle was seen at the time as a promising development. Applying to the ‘neighbours’ (old and new) a similar logic to the one that had driven the ‘Big Bang’ – a common ‘template’ based on strict conditionality, but potentially different speeds for all the countries involved based on compliance – could indeed give more teeth and consistency to the traditional Community policies based on financial assistance to foster stability. In this respect, and in retrospect, the transfer of officials from DG ENL to RELEX represented both a cause and an effect of this policy approach.

Enlargement, however, differs from the ENP - and from the Union’s foreign and security policy – in a number of different ways. To start with, candidates for accession can be vetted and selected, whereas geographic neighbours cannot. Also, relations with future members within the accession process are profoundly uneven (as the EU basically sets the terms for the membership negotiations), unlike those with simple neighbours, who are not (or not necessarily) *demandeurs*. Lastly, enlargement is based on a *finalité* that was entirely absent from the ENP.

The initial steps of the new policy were not exactly encouraging. For instance, the ‘priorities for action’ elaborated in December 2004 for the first seven ENP Action Plans (aimed at Ukraine, Moldova, Jordan, the Palestinian Authority, Israel, Tunisia and Morocco) amounted to a long shopping list of very diverse items without any visible hierarchy.

Furthermore, some of the commitments made by the EU in this framework – such as trade liberalisation and a ‘stake’ in the internal market – lacked sufficient credibility. The Union has long been conspicuously reluctant to open up its agricultural and labour markets, while the neighbours have been mostly unable

(and sometimes also unwilling) to implement single market legislation and meet the required standards.

More generally, the new eastern neighbours – starting with Ukraine, especially after the ‘Orange Revolution’ of autumn 2004 – complained that the ENP did not entail an accession prospect. The Mediterranean countries, in turn, complained that it overlapped with and rivalled the Barcelona Process – although the Euro-Mediterranean Partnership launched in 1995 was a multilateral forum, while the ENP is essentially a bilateral framework between the EU and each individual neighbour.

Finally, bilateral agreements with the EU were already in force at the onset of the ENP: Partnership and Cooperation Agreements with Eastern and South Caucasus countries, and Euro-Med Association Agreements with Israel, Egypt and Lebanon. The new Action Plans came to intersect with those, generating delays and ultimately affecting the overall perception of the new policy.

From the outset, therefore, the ENP has suffered from being *neither enlargement nor foreign and security policy* proper. It could not exercise conditionality as effectively as the former – hence the recurrent allusions to it as enlargement ‘lite’ – nor did it bring to bear the political tools and levers (and the in-built pragmatism) of the latter. At the same time, it encompassed elements of both. Moreover, the persistent ambiguity over the ultimate ‘borders’ of the Union (particularly resented by the eastern neighbours) and the competition for resources between East and South (and their respective mentors inside the Union) hardly energised the ENP and its transformative potential. Finally, the financial resources allocated to the ENP through the dedicated Instrument (a total of €12 billion for the 2007-13 period) struggled to live up to the ambitious goals set out in the various Action Plans – much as the new scheme did improve on the performance of the previous ones.

With the wisdom of hindsight, one could add that the approach as well as the ‘branding’ of the ENP very much reflected the *Zeitgeist*, as articulated also in the European Security Strategy (ESS) drafted around the same time: namely, that of an over-confident EU that was already integrating its previous Central European neighbours, was opening its doors to its newly pacified southeastern ones, and was laying the foundations for the inevitable *rapprochement* with Europe and its norms that its other adjacent countries – to the east and south – would, sooner or later, also envisage. The acronym itself was revealing, conferring to a set of instruments coordinated by the Commission the status of a fully-fledged common ‘policy’ and applying the subtly Eurocentric notion of ‘neighbourhood’ (and a single one at that) to a wide array of very different countries – some of which are indeed neighbours of the EU but not of Europe, of which they legitimately claim to be part.

Winds of change

On the very evening of his election to the French Presidency, in May 2007, Nicolas Sarkozy launched the idea of a ‘Mediterranean Union’ encompassing all the littoral states in a single political community. Initially still somewhat generic, the idea was subsequently refined – following also negotiations with the other EU members – and translated shortly afterwards into what would become (and still is) the ‘Union for the Mediterranean’ (UfM), a bi-regional international organisation encompassing 43 member countries based in Barcelona and endowed with its own staff and resources to carry out specific projects in various domains. Its official inauguration occurred on 13 July 2008, in Paris. The next day Sarkozy, on the occasion of the traditional Bastille Day military parade on the Champs Élysées, hosted the likes of Ben Ali, Hosni Mubarak, Muammar Qaddafi and Bashar Al-Assad on the VIP stand.

Partly as a response to the creation of the UfM, in 2008 the Foreign Ministers of Poland and Sweden – Radoslaw Sikorski and Carl Bildt – launched the idea of an ‘Eastern Partnership’ (EaP) bringing together all the EU countries and all the eastern neighbours involved in the ENP. The EaP format would be less formal and rely entirely on ENP resources – but the message was clear: the six eastern European ‘partners’ were entitled to a dedicated forum and dialogue distinct from the other, non-European neighbours included in the UfM. Inaugurated in May 2009 in Prague, the EaP would encompass regular high-level summits – and still not include Russia.

The subsequent entry into force of the Lisbon Treaty, in December 2009, significantly changed the institutional landscape in Brussels, *inter alia* with the creation of the multi-hatted High Representative and Vice President of the Commission (HR/VP) and the European External Action Service (EEAS) and with the introduction of a new article that stated, without mentioning the term ‘neighbourhood’, that ‘the Union shall develop a special relationship with neighbouring countries ... founded on the values of the Union’ (art.8 TEU). In the short term, however, little changed in the design and implementation of the ENP, which still had its own budgetary line and dedicated Commissioner (Stefan Fuele, who now combined the neighbourhood and the enlargement policy portfolio, brought together under a single DG) – albeit under the potential ‘supervision’ of HR/VP Catherine Ashton.

What did change the contours of the ENP, however, were first the unfolding of the so-called Arab Spring, in early 2011, and then the increased pressure from Moscow on the eastern European neighbours to adhere to the fledgling Eurasian Economic Union rather than sign up to the DCFTAs with the EU – which in turn led to EuroMaidan in Kiev, in late 2013, and the outbreak of the Ukrainian crisis in 2014, with the Russian annexation of Crimea and the conflict in the Donbass region.

The Arab Spring triggered a first rethinking of the ENP, encapsulated in a Joint Communication by the Commission and the EEAS released in May 2011. The Communication proposed both a more differentiated approach to the neighbours, based on the principle of ‘more for more’ conditionality, and a better tailored policy

based on the so-called '3 Ms': money, markets and mobility. In the following years, however, the marginal increase in funding adopted since 2011 – the new multi-annual financial envelope for 2014-2020 amounts to little more than €15 billion – would prove insufficient to compete with the massive resources invested by other regional players (be they the Gulf monarchies or Russia itself); the economic crisis in the EU would make it even more difficult to open up European markets to goods from neighbouring countries (especially from the South); and the same crisis, combined with growing fears of illegal immigration among EU citizens, also made the mobility pledge ever more complex to deliver on.

For its part, the crisis in and over Ukraine laid bare the fact that the predominantly technocratic approach represented by the DCFTAs could no longer compensate for the lack of a solid foreign and security policy framework that hampered the ENP – which, coupled with the lack of an EU membership perspective, rendered the eastern neighbours more vulnerable to internal weaknesses and external pressures. The very use of targeted economic sanctions as security policy tools has also shown how difficult (and artificial) it is to separate EU policy spheres and how important it is to coordinate EU actions across the board in order to generate synergies and maximise impact.

Finally, this year's crises – over the *jibadi* terrorist actions within the Union and the flows of refugees towards the Union – have made it crystal clear that the traditional separation between internal and external policies is disappearing, and that responses need to be less compartmentalised, more comprehensive and, above all, more consistent.

Where to?

In a world that, starting from the Union's neighbouring regions, has become ever more connected, more contested and more complex, the new EU leadership has thus launched what amounts to a complete 'reboot' of the ENP as well as a wider consultation and review process on the principles and priorities of the Union's foreign and security policy.

The ENP review process has already produced another Joint Communication, published on 18 November 2015, indicating stabilisation, differentiation and (mutual) ownership as the key priorities of the new policy *vis-à-vis* the EU's neighbours. Stabilisation does not coincide with stability – a term that earned itself a bad name due to its association with authoritarian rulers and their corrupt and repressive regimes. It rather entails building state and societal resilience among the Union's neighbours through conflict mitigation, economic and social development, and administrative assistance – all based on measures agreed with the neighbours themselves (rather than designed from the top down) and tailored to their specific needs and capacities while responding to European interests and principles.

Introduction: From the neighbourhood to the neighbours – and beyond

In terms of working methods, the customary annual package of ENP country reports – in itself another legacy of enlargement procedures – is to be abandoned in favour of more *ad hoc* assessments, while funding is to be delivered more flexibly. All this amounts already to a substantial change of policy in all but name, although rebranding the ENP and giving it more appropriate funding may still take some time.

One might well add to these ideas a readiness to engage with ‘more for less’ and without rigid conditionality when deemed appropriate to defend core EU interests; paying less exclusive attention to the immediate geographic neighbours as we know them (why include Syria and not Iraq, for instance?); and an ability to design and calibrate policies and instruments to tackle issues that originate elsewhere before becoming manifest at the Union’s frontiers – and tangible challenges inside the EU itself.

Yet these, too, are issues and options that remain to be discussed in more detail in the months to come and, perhaps, to be reviewed on a more permanent basis, not just every five or ten years.

* * *

For its part, this *Chaillot Paper* only intends to present and assess trends, facts and figures that sometimes corroborate and sometimes challenge current perceptions of our neighbours, with a view to offering a dynamic analysis of the state of play and, between the lines, a few hints at what may need to be done (or not done). As already mentioned, the role played by the EU and its policies remains somewhat in the background, although it is more present in the section on the eastern neighbours due to the importance of pro-integration attitudes in shaping domestic politics and policies in the individual countries. Yet the Union does have an important role to play, although a less exclusive and possibly less ‘magnetic’ one than assumed a decade ago (also because its role is now more contested) but no less capable of influencing events and developments, especially when building on shared long-term interests and working with local and regional stakeholders.

More specifically, Florence Gaub has authored the first section and Nicu Popescu the second. Elizabete Vizgunova has worked long and hard on the collection and processing of data, and the concluding chapter has been a truly collaborative effort. Our expectation and hope is that this *Chaillot Paper* can contribute to an informed debate and feed into the ongoing policy review processes.

CHAPTER 1

The southern neighbours – two decades on

The countries studied in this chapter are the Southern Mediterranean countries which are covered by the European Neighbourhood Policy (ENP), and which largely overlap with the signatories of the 1995 Barcelona Declaration: Egypt, Israel, Jordan, Lebanon, Morocco, the Palestinian Territories and Tunisia. Algeria, Libya and Syria are included in the analysis although they are currently outside the regular ENP structures for different reasons.

The chapter looks first at the security backdrop against which reform and development efforts have been undertaken in the countries of the south, and assesses the tangible impact of the conflicts affecting the region with particular reference to the economic and financial dimensions. It then looks at the prospects for political reform, especially in areas such as democratisation and human rights protection, and concludes by focusing on distinct sectors such as trade, economic development, mobility and connectivity.

A moving target: reform amidst conflict

Reform and progress, whether economic, social or political, never occur in a vacuum: there are two necessary preconditions for such change to take place. The first is the impetus or desire to achieve change, and the second the capacity to implement the desired changes. Whereas the first is a matter of political necessity and/or will, the second presupposes the institutional and material capability to act accordingly. Both these preconditions are likely to be adversely affected by insecurity; in fact, it is virtually impossible to pursue reform efforts in a climate of violence as resources and bureaucratic attention are diverted away from medium and longer-term projects in favour of short-term issues; where decision-makers feel threatened, the political will to reform is likely to be undermined as well. This evolution is broadly the same in all political systems, no matter whether these are democratic or autocratic: economic progress is possible and likely under conditions of stability, but very difficult under circumstances of instability. All shades of conflict, whether domestic or regional, have therefore a direct and measurable impact on reform and development.

Almost every country in the region has been affected either directly or indirectly by the fallout of war, terrorism and civil conflict in the last two decades. This ‘cost of violence’ can be quantified: there are direct impacts, such as human casualties

and infrastructural damage, as well as indirect impacts such as forced migration, reduction in investment flows and loss of economic opportunities, fragile economic growth, and diversion of resources away from sectors such as education or infrastructure development. In addition, non-violent political conflict, whether at the national or international level, has also impacted the region both directly and indirectly: for example, the imposition of sanctions or closing of borders as a result of such conflict both have detrimental economic as well as social consequences. Lastly, large-scale violence often leads to the curtailment of individual freedoms, rights and civil liberties in the interests of security. States of emergency, which are provided for in most constitutions, are designed as exceptional measures for dealing with critical developments affecting national security. Tunisia, which declared a state of emergency for four months following the terror attacks in the tourist resort of Sousse in July 2015, claims to have foiled several terror plots thanks to the introduction of this measure. However, imposing a state of emergency is controversial as it might lead governments to abuse their powers as well as deter investors and tourists. There is a measurable reduction in per capita income following the imposition of emergency laws.¹ In the countries studied here, the measure has been imposed over extended periods of time: in Egypt from 1981 to 2012, in Syria from 1963 to 2011 and in Algeria from 1992 to 2011.

In the two decades under review, the countries of the south have witnessed several major conflicts which have profoundly affected them: Algeria went through a decade of protracted violence from 1991 to 2000; Lebanon, Jordan and Syria were affected by the spillover from the 2003 invasion of Iraq and its economic as well as social aftermath; Lebanon experienced several low-intensity clashes with Israel (such as Operation Grapes of Wrath in 1996) and a full-blown war in 2006; Israel experienced its second *intifada* from 2000 to 2005 and several armed conflicts in the Gaza Strip, notably in 2006, 2008 and 2012. Syria as well as Libya have since 2011 experienced varying stages of severe violence, culminating in civil wars, the ramifications of which have had a destabilising impact on their neighbouring countries. Lastly, political unrest in Egypt and Tunisia in the wake of 2011 has come at a price, too. Both Libya (1991-2003) and Syria (since 2011) have been subjected to economic sanctions, whereas Israel's economy is boycotted by most of its neighbours. As a result, Israel loses 10% of its export potential annually. Per decade, Israel therefore loses \$30-50 billion in export opportunities; Arab states equally lose the opportunity to export \$10 billion worth of goods to Israel.² Cold conflict between Morocco and Algeria has led to a closed border since 1994 and consequently little trade between the two countries.

These conflicts have had a cost in several ways and have affected not only the country directly involved but also neighbouring countries. The extent to which a conflict will impact on those not directly involved depends on the conflict state's integration into the wider regional system. Israel and Algeria, for instance, are barely integrated into the regional economic structure surrounding them; conflicts in both states therefore generate mostly direct costs for their national economies, as

1. Nada Maamoun, Jerg Gutmann and Stefan Voigt, 'Assessing the Economic Effects of Emergency Declarations Using a New Approach', European Association of Law and Economics, September 2015.

2. Strategic Foresight Group, *Cost of Conflict in the Middle East* (Mumbai, 2009) p.19.

well as indirect costs in terms of lost opportunities for either country to engage with trade partners. In contrast, states like Syria, Lebanon and Jordan were integrated to some extent before the Syrian conflict broke out. Both Jordan and Syria are therefore indirectly affected at the economic level as well. Moreover, refugees will gravitate towards states that are easy to reach and provide legal as well as economic support. Israel, for instance, has not been a destination for Syrian refugees despite its geographic proximity to the conflict zone and has ruled out changing its strict immigration policy in the future (it has treated over 1,000 Syrians in its hospitals before sending them back to Syria, however).

The cost of conflict

There are several direct costs of a conflict, as the key elements of a functioning economy (labour as well as capital) are harmed in the process of violence. Violence has a high cost in terms of human capital: parts of the labour force die or get injured in conflict, and violence leads to a disruption in production as well as destruction of physical capital; in turn, this leads to less output, high inflation, a weakened financial sector as well as fiscal imbalances. Military expenditure involves both direct and indirect costs: although states maintain armed forces during peacetime as well, military budgets will usually rise in times of conflict. The indirect cost of military expenditure is the diversion of resources from economic and social programmes towards the armed forces. According to the 2011 World Development Report, civil conflicts cost the average developing country roughly 30 years of GDP growth, and countries in protracted crisis can fall behind by over 20 percentage points in overcoming poverty. It takes 20 years for trade levels in countries affected by major episodes of violence to recover: on average, war reduces investment by 10%.

The loss of life in violent conflicts is seen chiefly as a human tragedy, but casualties also have an economic impact; where a human community loses part of its labour force, this has a negative effect on its productivity. It will also have a negative social impact if those killed bore the brunt of generating income for other family members – which is particularly the case in the countries studied here. Replacing manpower is difficult and implies either tapping into labour from abroad, or opening the labour market to sections of society to which it was previously closed: one such example is the recruitment of women into the workforce during World War II.

As can be seen from the table overleaf, the region in question has lost a significant proportion of its population as a result of conflict and war, but has managed to offset these losses due to its exponential demographic growth.

FIGURE 1: CASUALTIES OF CONFLICT³

POLITICAL CONFLICT	CASUALTIES
Algeria 1991-2000	60,000 – 150,000
Palestinian Territories 2000-2005	4,789
Israel 2000-2005	1,227
Lebanon 2006	1,000 – 1,200
Israel 2006 (Lebanon)	160
Palestinian Territories 2006 (Gaza)	682
Israel 2006 (Gaza)	7
Israel 2008	13
Palestinian Territories 2008	1,400
Palestinian Territories 2012	167
Israel 2012	6
Israel 2014	2,100
Palestinian Territories 2014	72
Tunisia 2011	338
Libya 2011-2014	8,403
Egypt 2011-2014	3,383 – 5,231
Syria 2011-2014	191,369
Total 1995-2015	275,116 – 367,164

Military expenses are part of direct costs, although in relative terms they persist to a certain extent even in the absence of conflict. On average, states spend 5.2% of their GDP on defence during a civil war; states at peace spend 3.3%. However, a conflict will result in equipment replacement costs, ammunition and weapons costs, and increased social spending, which might or might not be absorbed by the existing budget. This explains why in the aftermath of a conflict military expenses are generally slow to fall back to pre-war levels, and hover around 4.7% of GDP. Often, continued investment in the military is regarded as acting as a deterrent against rebel groups which have not been entirely defeated, as seen in the cases of Algeria and Lebanon.

3. Sources for data: Amnesty International, *Amnesty International Report 2014/2015*; WikiThawra, Statistical Database of the Egyptian Revolution; Global Peace Index, 2015 report; Foreign and Commonwealth Office, 'Libya-Country of concern', Corporate report; Peace Research Institute Oslo, *The Battle Deaths Dataset* version 3.0; B'Tselem - The Israeli Information Centre for Human Rights in the Occupied Territories, 'B'Tselem investigation on fatalities in Operation Cast Lead'; Megan Price, Anita Gohdes and Patrick Ball, *Updated Statistical Analysis of Documentation of killings in the Syrian Arab Republic* (UN High Commissioner for Human Rights, August 2014); Kenneth Jost, 'Unrest in the Arab World' in *Issues for Debate in American Public Policy* (Sage: 2013).

Military spending has to be financed by tax revenues or by borrowing, which leads to inflation, which in turn leads to lower after-tax returns. It also reduces savings required to start new business ventures or maintain current commercial endeavours. In the Arab world, states are frequently forced to choose between defence expenditure and economic development – especially if they lack functioning defence industries. Accordingly, military expenditure burdens have long been major causes of slow growth. When North African states lowered their defence spending by 3.5% following the end of the Cold War, they experienced an increase in investment of nearly 0.7% of GDP. In the Middle East, defence cuts averaging 1.3% led only to an increase of 0.25%. Had the Arab states adjusted their military budgets to European levels in 1990 – and maintained them – their economies would have grown by between 2-3% a year, and generated output levels over 50% higher than at present. Although military spending in the region today is much lower than it was three decades ago, it is still above the peacetime average.

Algeria managed to offset the economic damage wrought by its decade of civil war due to its oil sector, which remained largely untouched by the violence. Nevertheless, GDP kept declining continuously throughout the period, and unemployment rose from 23% in 1990 to 30% in 2000.⁴ As a result of the violence, Algeria's resources were diverted towards the armed forces rather than social spending or infrastructure development. As can be seen from Figure 2 (overleaf), military expenditure in Algeria increased during the period studied here, as did manpower in its armed forces. In addition, Algeria's border with Morocco has remained closed since 1994; although Rabat and Algiers's principal bone of political contention is over the Western Sahara territory, the border was closed because both sides accused each other of supporting terrorist networks in the respective other country. Shootings across the border in the spring of 2015 underlined the tense political standoff between the two neighbours. The absence of economic integration entails a loss of 2 to 3 percentage points of GDP for both countries – a loss which equally applies to Tunisia. The cost of the 'non-Maghreb' is high, as it has been calculated by the Economic Commission for Africa that economic cooperation and integration would have increased real GDP per capita between 2005 and 2015 by an additional 34% in Algeria, 27% in Morocco and 24% in Tunisia.

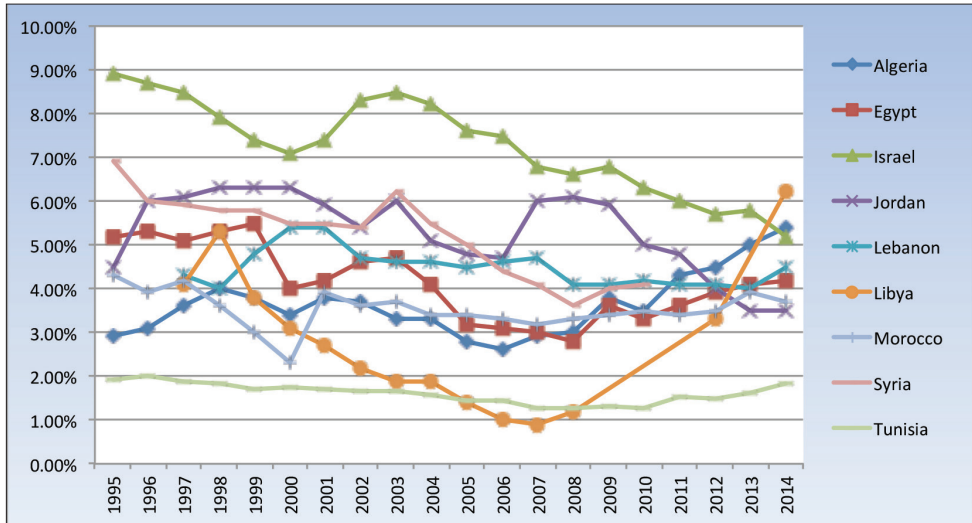
The uprising in the **Palestinian territories and Israel** known as the 'second *intifada*' lasted from 2000 to 2005; during this period Palestinian GDP decreased by 32% and real GDP per capita by 35%. Unemployment soared, rising from 10% to 25%. The main reason for these developments was, in addition to violence and its negative impact on the labour market, the border closures and curfews imposed by Israel. These raised production and transport costs and disrupted regular business activities. For instance, according to a World Bank study, the movement of commercial goods between the West Bank and Israel declined by 50% during 2003 compared with the level prior to the launch of Operation 'Defensive Shield' in March 2002. The Separation Barrier, which was built as a result of the second *intifada*, had a detrimental impact particularly on the West Bank's agricultural activities and

4. George Joffe, 'The role of violence within the Algerian economy', *Journal of North African Studies*, vol. 7, no.1, Spring 2002.

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output. While it has succeeded in reducing the number of terrorist attacks in Israel to virtually zero, it cost Israel reportedly \$3.4 billion in total to build, and costs an annual average of \$284 million to maintain.

FIGURE 2: DEFENCE SPENDING (share of GDP), 1995-2014



Source for data: Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database

Israel's economy also had to absorb the fallout of the 2006 war with Lebanon's Hizbullah; it incurred not only direct costs in infrastructure damage, but also in lost tourism revenue. It is therefore estimated that its economy lost \$1.6 billion or about 1% of its GDP. More than 6,000 houses in the north of the country were destroyed or damaged, the fruit harvest suffered and more than a million people were displaced. 30,000 reservists had to abandon their jobs, and there was a sharp decline in the number of tourists visiting the country. Although the Israeli economy has managed to perform well in spite of political instability and the constant diversion of resources towards security expenditure, it is clear that peace with its neighbours would have a significant positive impact on its economy. According to one simulation, its GDP would increase yearly by 8%, leading to an additional \$153 billion per year. Another study shows that the two-state solution would generate substantial economic growth for both Israelis and Palestinians over a ten-year period (\$123 billion and \$50 billion respectively); Palestinian increases in per capita income would stand at 36% over what the level is likely to be in 2024 in the current circumstances.⁵ In the absence of peace, these billions count as economic losses as well. It is worth noting that Israel has managed to substantially increase its Foreign Direct Investment (FDI) only since the Oslo Accords.

5. Rand Corporation, 'The costs of the Israeli-Palestinian conflict', Washington, 2015.

In **Lebanon**, reconstruction efforts as a result of the 2006 war were estimated to cost as much as \$7 billion. The Lebanese economy had been expected to grow by 5 to 6% that year, but revised estimates put growth at between zero and -3%. This of course did not occur in a vacuum, as Lebanon had still not recovered from its 15-year civil war at that stage: and its GDP per capita had still not returned to pre-war levels in 2014 according to an IMF report.

The wars on **Gaza** (2006, 2008, 2012, 2014) have taken a heavy toll on an already ailing economy. With a population of 1.8 million, the strip has one of the highest population densities in the world. Placed under embargo by Israel since 2007, its economy is struggling severely even when there is a lull in the ongoing violent conflict. Following the war of 2008, the reconstruction of Gaza was estimated to cost as much as \$3 billion. In 2012, it was estimated that the latest conflict with Israel had resulted in \$300 million in economic damage. In 2014, the agricultural sector suffered losses of \$120 million: another \$40 million were lost due to the disruption of economic activity during the conflict, and it was estimated that it would cost another \$140 million to rebuild houses and other infrastructure devastated during the Israeli military offensive. In the war of 2014, more than 360 factories and 42,000 acres of croplands were destroyed, pushing the toll of economic losses up to \$70 million.

While the wars have resulted in less physical infrastructure damage for **Israel**, they still incurred an economic penalty as the government decided to build reinforced security rooms in all 8,500 housing units within 4.5km of the Gaza Strip at a cost of over \$200 million. It also developed an anti-missile system ('Iron Dome') for around \$230 million, whose annual system deployment cost in areas around Gaza is estimated at \$25 million.

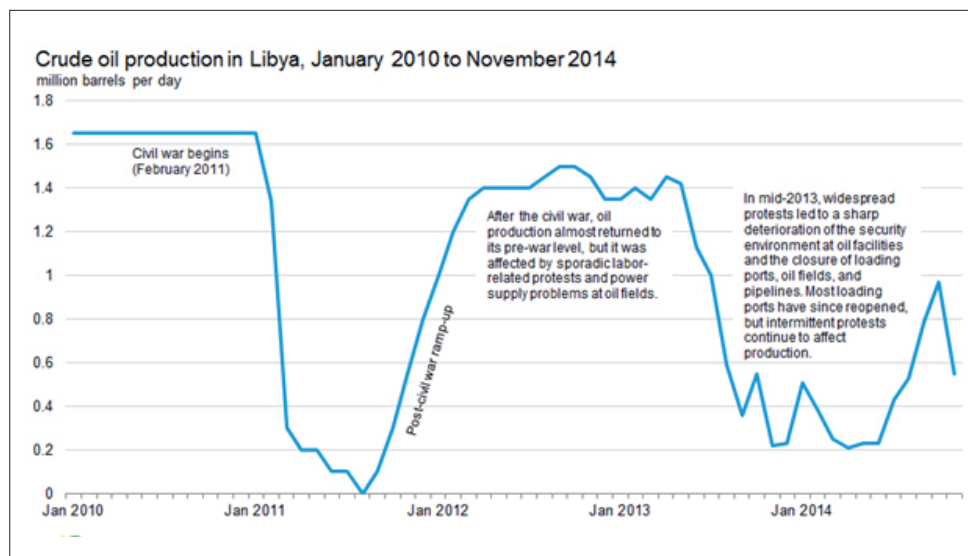
The severe political disruption which occurred during the **Arab Spring** has also had an impact on the economies of the region. According to an IMF study, average real GDP growth fell from 4.2% in 2010 to 2.2% in 2011, the lowest level in over a decade. On average, output remained below potential for 4 years after the initial drop, taking around 5 years to recover; unemployment rates rose during the protests in the various countries by 1 – 1.5 percentage points on average, and took 4 years to return to normal; political instability did not impact public consumption (even though private consumption decreased), but led to a massive drop in investment; fiscal deficits increased by 2.5% of GDP in 2011-2012 owing to a decline in revenues as well as an increase in public expenditure. Government debt has also risen.

The war in Libya in particular led to a loss of oil output as well as extensive infrastructural damage; economic activity was halted at a cost to GDP of \$7.67 billion, and reconstruction costs were estimated at between \$200 billion and \$480 billion over ten years. As violence resumed in 2013, Libya's economy is shrinking fast again. The strife in Libya has also affected Tunisia, whose exports to Libya represent on average 35% of its GDP, and reduced Tunisian tourism in Libya by 30%. The most significant consequence of the instability in Libya is the return of Egyptian migrants to Egypt. According to the International Organisation for Migration (IOM), around

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1.5 million Egyptians were employed in Libya before the current crisis, most of whom were low and semi-skilled workers. Following the murder of Egyptian Coptic Christian migrant workers by ISIL in early 2015, any remaining Egyptians in Libya fled the country. Furthermore, in 2012, around 40,000 Tunisian workers left Libya.

FIGURE 3: IMPACT OF VIOLENCE ON LIBYAN OIL PRODUCTION



Source: US Energy Information Administration (EIA), *Short-Term Energy Outlook*, November 2014.

Syria's civil war has been equally costly; the country has lost 16% of its per capita welfare so far, and has seen its human development clock set back by 30 years. Life expectancy has been cut by 20 years, and 80% of its population now live in poverty. International sanctions imposed on Syria are the main reason for the massive deterioration in the country's per capita welfare: 15% of the reduction is the result of the embargo, whereas physical destruction of capital and loss of workers (19% of the workforce altogether) are responsible for declines of more than 5% and 7%, respectively. In total, \$200 billion has been lost; unemployment has risen from 14.9% in 2011 to 57.7% at the end of 2014, and much of Syria's physical capital and infrastructure has been destroyed.

The cost for neighbouring countries

War has an impact not only on the participating states but also on the region at large. This is particularly the case when economies were integrated before the conflict and where the countries enjoyed geographic proximity.

The fallout from the 2003 war on Iraq, for instance, directly affected both Jordan and Syria, albeit to different degrees. Jordan had to absorb more than 450,000 refugees, suffered trade disruption with Iraq and negative repercussions on its tourism industry. The influx of refugees put a strain on water supplies and resources, led to increased demands for fuel, and put pressure on the health, transport, sanitation and security services. However, the Jordanian economy managed to recover quickly – mainly due to preferential trade arrangements with the United States.

Syria – in contrast had to absorb one million refugees and did not receive substantial international support. As in Jordan, the additional population put a strain on infrastructure and on services (including education, health and water) which resulted in higher fiscal costs. The influx of refugees also led to a hike in property prices and rentals and fuelled inflation. Real GDP shrank by 2% in 2003 (from a growth of 6% the previous year) as Syrian trade with Iraq was disrupted.

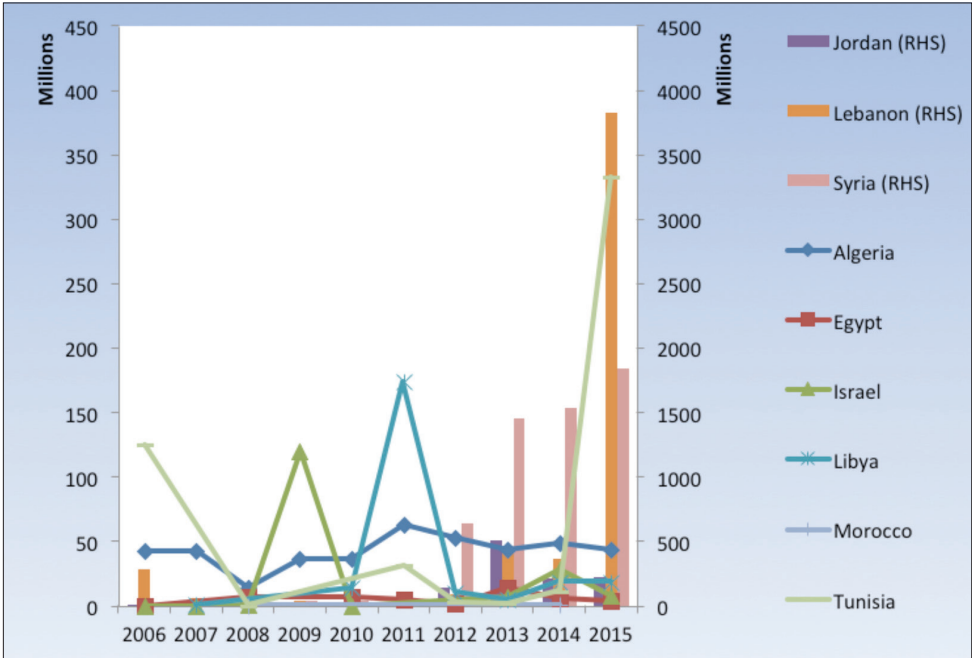
Since it erupted in 2011 **Syria's** civil war has had a calamitous impact not only on the country itself but on its neighbours. It stalled the creation of the planned Levant Economic Zone, which was projected to stimulate all participating economies in the region. **Egypt** for instance has been hit less by the conflict itself, but its economy has lost substantial trade opportunities and therefore the country has suffered a per capita loss of 10%.

Lebanon's market lost 11% of its capital welfare, according to a World Bank report, as it absorbed one million refugees, corresponding to 25% of its population. Similarly, **Jordan** also absorbed one million refugees, amounting to 16% of its population. The country not only had to manage the cost of catering for this huge influx of people, but it also lost out on the abandoned Levant Economic Zone project. When the lost economic opportunities are added to the already existing economic damage, then the total cost incurred by the war in Syria is 9% of its GDP.

Lastly, it is worth noting that according to a World Bank study countries that witness violent political upheaval experience even greater volatility than usual in their aid inflows – which in turn impacts growth negatively as well as fuelling inflation. Although 'aid shocks' are inevitable following large-scale destruction, from a macro-economic point of view it is clear that in these countries the regular disbursement of aid is essential to foster economic growth.

In sum, almost all ENP countries had to meet the agreed targets in a highly conflictual political context which led to the diversion of resources, widespread physical destruction of capital and a realignment of political priorities.

FIGURE 4: EUROPEAN AID TO COUNTRIES IN CRISIS, 2006-2015 (in millions of euro)



Sources for data: European Commission, EU Aid Explorer, Humanitarian Aid Atlas

Political stasis: two decades of non-development?

Good governance, democracy and rule of law were three main goals for reformists within and outside the European Union when the concept of the European Neighbourhood Policy was first formulated.

General defeatism now seems to permeate expectations of political reform in the south, as much as the uprisings of 2011 gave way to significant hopes for change. But two aspects need to be kept in mind when taking stock of developments in the region in this regard: firstly, the harsh conditions of instability and insecurity that hinder efforts towards reform, and secondly, the generally slow pace of such reforms. As mentioned previously, reforms of this magnitude take time: studies have shown that the top 20 countries to achieve significant improvements to the rule of law according to World Bank governance indicators needed 41 years on average; even the fastest reforming countries took 17 years. Similarly, it took 36 years to reach acceptable standards of government effectiveness. Expectations when it comes to such reforms should therefore be contextualised.

Governance, whether good or bad, is a broad term covering several aspects of how authority in a country is exercised. This includes the way the government is appointed, controlled and replaced, the government's effective capacity to formulate and implement policies, and the relationship between citizens and state institutions. Consequently, governance can be measured according to different criteria: rule of law, government effectiveness, control of corruption, voice (i.e. freedom of expression, media freedom) and accountability. Good governance is therefore not about 'good' decisions, but about the *process* whereby governments make and implement decisions. If this process is effective, it has a positive effect on various aspects of government – and can be regarded as demonstrating 'good governance'.

Rule of law

Rule of law is a broad concept which encapsulates subjective perceptions concerning the implementation of the rules regulating society, particularly the quality of contract enforcement, property rights, the probity of the police and the courts, as well as the likelihood of crime and violence. It is usually measured by a large set of data referring to these categories. Although seen primarily as a legal concept, rule of law creates stable conditions for economic development as well; in that sense it is the flipside of instability as it creates a predictable environment in which society can grow and prosper. Rule of law can be undermined in any political system by random decision-making that, either deliberately or unintentionally, flouts the fundamental norms and principles of governance. Leaders are not subject to the rule of law, they cannot be held accountable and therefore violate one of the main principles of democracy: all laws apply to every citizen.

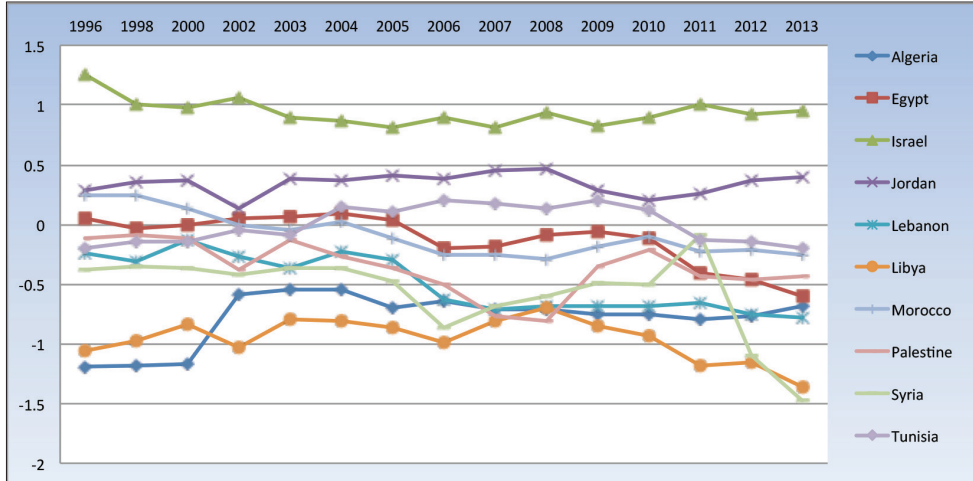
In the region studied here, progress on the rule of law has been uneven, and frequently undermined by the political disruptions discussed above. In total, the ENP countries have deteriorated from a collective rule of law ranking of -1.36 to one of -4.45 in the years between 1996 and 2013. A closer look reveals that violent conflict is the main reason for this.

Countries such as Algeria or Lebanon, which were in conflict at the beginning of this timeline and managed to either resolve or reduce it to manageable levels, also succeeded in improving their rule of law score. Countries like Tunisia or Palestine, which experienced severe political disruption of one type or another (such as the Arab Spring uprisings or other major destabilising events) fell back in the ranking. Countries which are either in open conflict or conduct repressive security operations – such as Egypt, Libya or Syria – experienced a significant deterioration of the rule of law. Lastly, countries which experienced no political instability, such as Israel, Morocco or Jordan, saw no substantial improvement in the rule of law, but remained at the same level. This shows that popular pressure as applied during the Arab Spring is an important factor in achieving positive change, even though at first negative change will occur. It also suggests that negative developments in the rule of law are the result of (rather than the reason for) conflict: countries

The EU neighbours 1995-2015: shades of grey

with high levels of rule of law, such as Egypt, still suffered large-scale disruption in 2011, whereas those which ranked lower, like Morocco, saw comparatively little disruption.

FIGURE 5: RULE OF LAW INDEX, 1996-2013

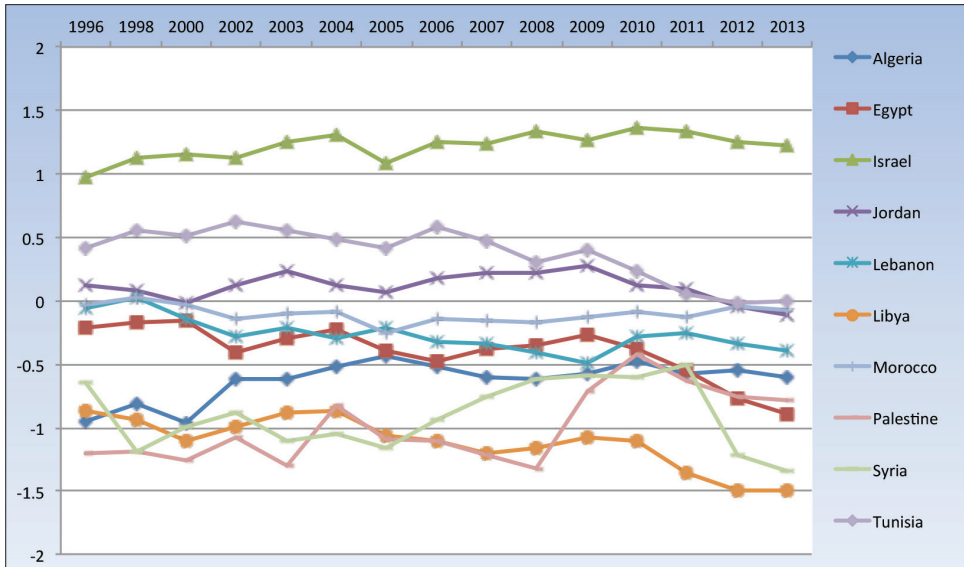


Source for data: World Bank, Worldwide Governance Indicators

Government effectiveness

Government effectiveness is an indicator of public perception of the performance and quality of the state bureaucracy; this concerns the civil service in particular, its effectiveness in formulating and implementing qualitative policies and its independence from political pressure. Government effectiveness also measures satisfaction with the primary education system, basic health services, the public transport system, the state of roads and railways, and electricity provision.

As with the rule of law, the evolution across the region has been negative over the two last decades, regressing from a regional total of -2.45 to -4.46. With the exception of Israel, Algeria and Palestine, all other countries have deteriorated on this index – a trend that was reinforced by the dislocation and disruption of 2011, but preceded those upheavals by several years.

FIGURE 6: GOVERNMENT EFFECTIVENESS INDEX, 1996-2013

Source for data: World Bank, Worldwide Governance Indicators

The problem with government effectiveness is that there is no blueprint for its improvement, as several factors are both causes and consequences of governmental performance in this regard. Poor educational systems for instance impair public perceptions of a government's efficiency, but they also fail to produce civil servants capable of improving this system. Where a population keeps growing exponentially (as has happened in most countries in the region over the last two decades), educational systems need to accommodate this or else they will deteriorate automatically. Similarly, poor tax collection capacity will adversely affect government efficiency: where taxes are collected, more funds are available to improve efficiency, and vice versa. In addition, centralised bureaucratic systems (which are prevalent in the region) tend to be less efficient than decentralised ones.

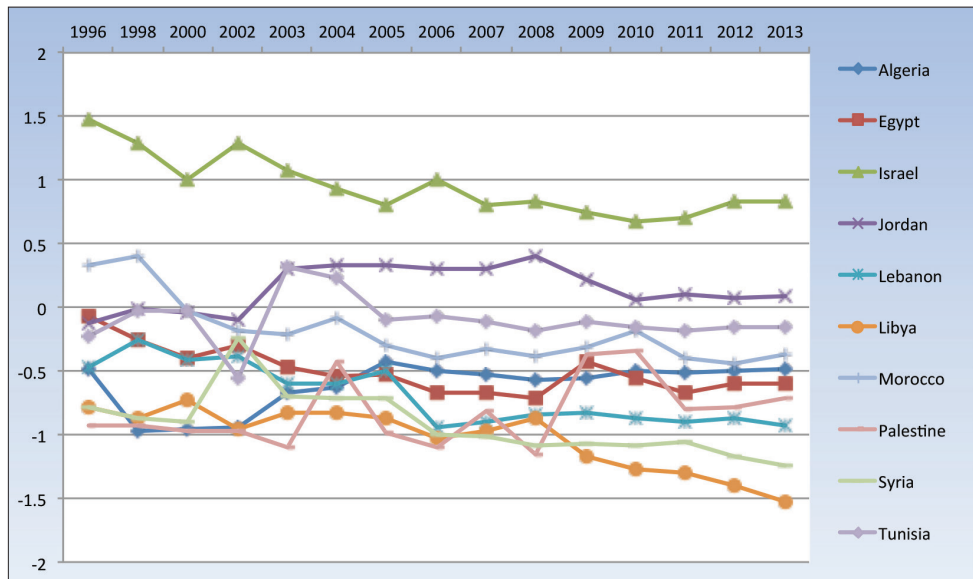
Control of corruption

As corruption is illegal and therefore conducted secretly, it is difficult to measure other than by perception indicators. Key issues affecting public perceptions of corruption include trust in politicians not to divert funds for personal gain, government transparency in awarding public contracts and trust in a fair judicial system. Corruption is not only an economic problem; it also undermines confidence in state institutions and their effectiveness.

The EU neighbours 1995-2015: shades of grey

The region studied here has struggled with corruption for decades – and, worryingly, the phenomenon has expanded rather than improved. Almost all states saw a peak in corruption in the years between 2007 and 2011; while some have improved a little (like Tunisia or Egypt) they have not yet reduced corruption to an acceptable threshold. Others, like Syria or Libya, have seen corruption skyrocket due to conflict and total state implosion.

FIGURE 7: CONTROL OF CORRUPTION INDEX, 1996-2013



Source for data: World Bank, Worldwide Governance Indicators

Public perception of government corruption was one of the main drivers of the 2011 uprisings. Under Ben Ali's regime, for example, 20% of Tunisia's corporate profits ended up in the hands of the President's extended family.

In Egypt, President Sisi made corruption one of his key priorities, but results are mixed. A new law allowing offenders to walk free if they pay back their illegally acquired funds ties in with the recent release of Mubarak-era officials tried for corruption. This sits somewhat uneasily with the new four-year national strategy for combating corruption launched by the anti-corruption watchdog, the Administrative Control Authority (ACA), in December 2014; the dismissal of the government by the President in September 2015 amidst corruption allegations is seen as a cynical exercise in selective justice rather than as a sign of profound change.

Similarly, Tunisia's original anti-corruption drive launched in 2012 seems to be at odds with a draft law similar to Egypt's, promising impunity to businessmen formerly engaged in corrupt financial dealings in exchange for the return of

misappropriated funds. In October 2015, Lazhar Akremi, a government minister and one of the founders of the anti-Islamist Nidaa Tounes party, resigned in protest against widespread corruption; a year earlier, a World Bank Report declared that the Tunisian economy was ‘asphyxiated by its own corruption’. Businesses monopolised by regime cronies are still protected by law from competition (in sectors such as power, telecoms, transport, tourism and retail), thus pushing up prices and stifling productivity. A World Bank report has estimated that these corrupt practices cost Tunisia 2% of its GDP annually. And while there have been improvements in certain areas, others, such as tariff evasion, have grown worse since 2011.

Voice and accountability

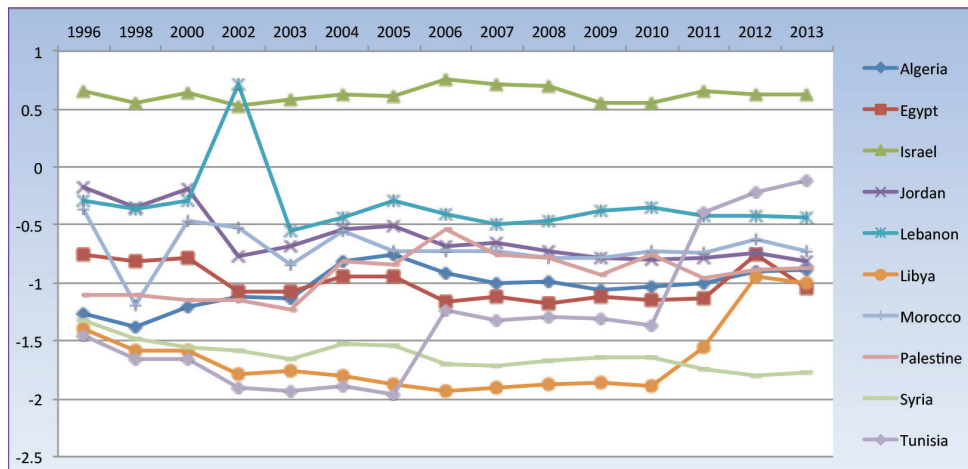
This criterion evaluates to what extent citizens feel involved in the process of selecting the government, can express themselves and gather freely, and how free they perceive the media to be.

As a whole, this is the area where the region ranks worst; it is also, however, the only category where it has improved, although only marginally. With a collective total ranking of -7.48 in 1996 and of -7.03 in 2013, the region has moved to some degree towards a climate of more political openness. A closer look at the countries shows that the Arab Spring has not led to a substantial improvement in the region overall. Although Tunisia has improved significantly, Egypt has regressed; but beyond this, it is not clear why openings in the political space have appeared in Algeria or closed in Jordan, or why things have stayed broadly the same in Morocco and Lebanon. These trends were all already well-entrenched before 2011 and appear to be long-term.

Elections in Tunisia, Egypt, Libya, Jordan, Algeria and Morocco have had varying impacts on citizens’ perceptions of their ability to influence politics in these countries. Where candidates were prevented from running or campaigning freely, voter frustration has increased; where the security situation is such that it prevents voters from participating (as for example in Libya), the electoral process is seen as irrelevant to improving conditions. Equally, constitutional referenda in Egypt or Syria in 2013 and 2012 attracted a turnout of only 38% and 57% of the electorate respectively, if official figures are to be trusted. Once more, this underlines that democracy is a process rather than an event.

A potential explanation is the recent clampdown on civil liberties and freedom of expression due to the regional fight against terrorism. In Egypt, for instance, a terrorist organisation is now very broadly defined as ‘any group which disrupts public order or threatens the safety, security or interests of society, or harms or frightens individuals or threatens their lives, freedoms, rights or security or harms national unity’. Releasing information contradicting official statements on security can now be considered as a terrorist act and lead to fines of up to \$50,000. Most worryingly, the designation of a terrorist organisation and seizing of its assets lies entirely in the hands of the executive, without any judicial involvement. This inevitably invites abuse. Similar trends can be observed in Algeria, Morocco and Jordan.

FIGURE 8: VOICE AND ACCOUNTABILITY INDEX, 1996-2013



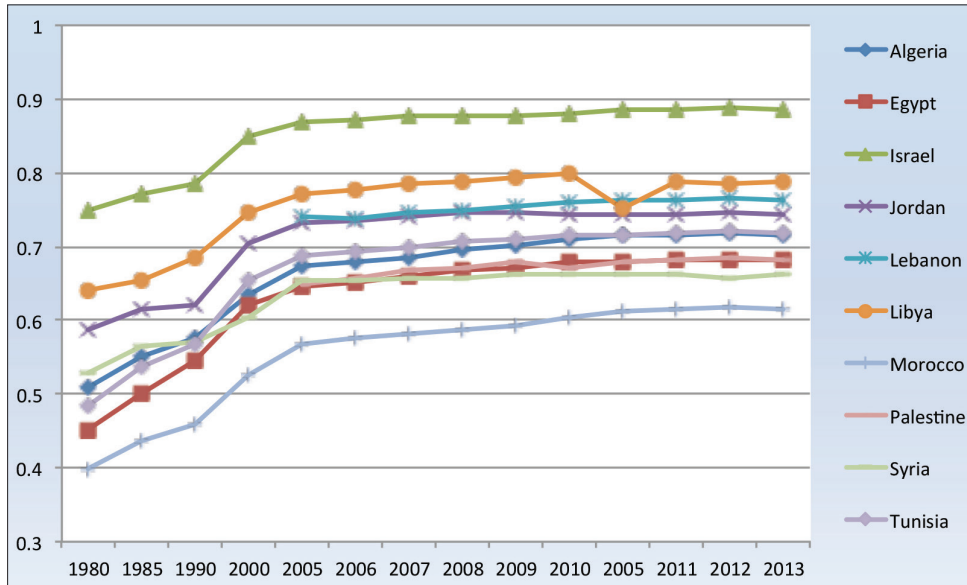
Source for data: World Bank, Worldwide Governance Indicators

In sum, progress at the political and governmental level has been poor across the different categories measured. This stands in stark contrast to the vocal promises of improvement which were made in 2011 and its aftermath. It also shows, however, that government effectiveness and rule of law are intimately tied to (a) instability and insecurity and (b) resource constraints. In a self-perpetuating cycle, the two dimensions are inextricably linked. Addressing this requires the transformation of institutions while improving citizens’ confidence in state bodies and structures; it also requires external stimuli (such as support or conditionality), and above all time.

Reform and progress is not only a matter of politics and institutional capacity; it also extends to human standards of living. This includes areas such as life expectancy, literacy, economic development, connectivity and more. In this area, the region has evolved as well – and despite all the negative factors outlined above, there are some positive trends.

Human development

The Human Development Index (HDI) is a composite measure based on three key indicators: life expectancy, educational levels and gross national income per capita. While these categories will be explored in more detail below, the Human Development Index bundles them together in order to delineate a generalised trend. What this index does not cover is levels of poverty and security.

FIGURE 9: HUMAN DEVELOPMENT INDEX (various years)

NB: The higher the number the higher the level of human development

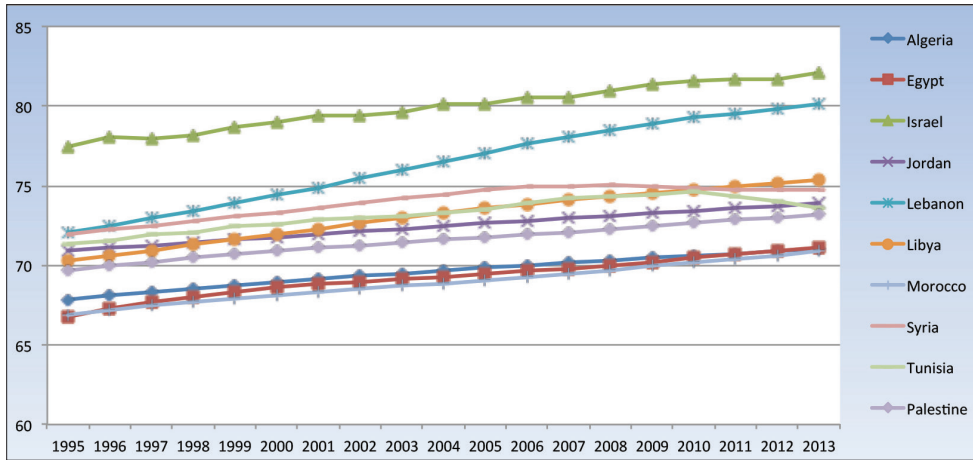
Source for data: United Nations Development Programme,

Over the last few decades, there have been positive developments across the region. Although progress has been uneven, it has taken place to some extent in every ENP country. Significant strides have been made in Algeria, Egypt, Morocco and Tunisia; Lebanon, Libya and Israel had already achieved rather high HDI scores as far back as in the 1980s. Even the Palestinian territories and Syria made progress, albeit under duress. These results show that reforms in the educational and the health sectors undertaken in the 1980s and 1990s did pay off. Unsurprisingly, this trend is also reflected in life expectancy figures.

All states in the region have succeeded in increasing life expectancy; whereas it stood at 70.44 years in 1995, today it stands at 74.5. Particular strides were made in Lebanon, where life expectancy increased by 8 years. Today, the region is almost on a par with European levels in terms of life expectancy, and ahead of Asia as well as Africa south of the Sahel zone.

States in the region, especially Arab ones, have also made significant progress on literacy. In Morocco for instance literacy rates have increased from 60% to 80% in the space of two decades. Of course, these statistics do not tell the full story as data is self-reported, and literacy often measured in terms of ‘participation’, ‘funds spent,’ or ‘contact hours’ rather than actual capacity to read, and indeed practise literacy skills on a daily basis. These numbers also gloss over the fact that women tend to have higher rates of illiteracy than men. Nevertheless, the overall trend is encouraging.

FIGURE 10: LIFE EXPECTANCY AT BIRTH (years), 1995-2013



Source for data: World Bank

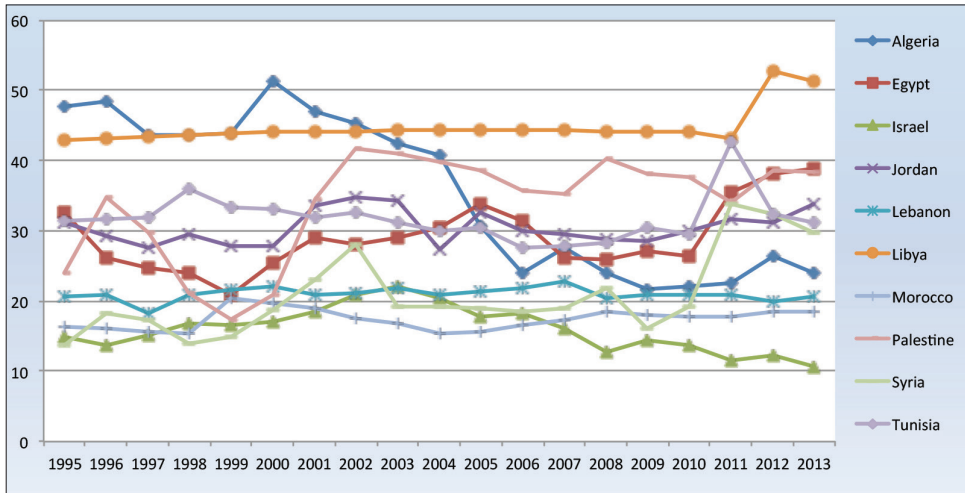
Education

Educational challenges remain, but not so much in terms of enrolment as in terms of quality of education as well as matching education to labour market needs. Tunisia, for instance, rapidly expanded the number of students enrolled in higher education following reforms in the 1990s, tripling their rates in just 10 years to 365,000 in 2005. With a gross enrolment of 31%, Tunisia was now on a par with German levels of educational enrolment. According to a World Bank study, with the government devoting 20% of its budget to education, it continued to create, and magnify, an expectation gap as the labour market was not capable of absorbing these large numbers of highly educated graduates. As the number of graduates arriving on the job market tripled, the number of unemployed graduates soared. As 50% of graduates were unemployed – in total the same number as the yearly university output – unemployment rates grew even higher, reaching 68% for graduates of Master programmes in legal studies.

Youth unemployment and demographics

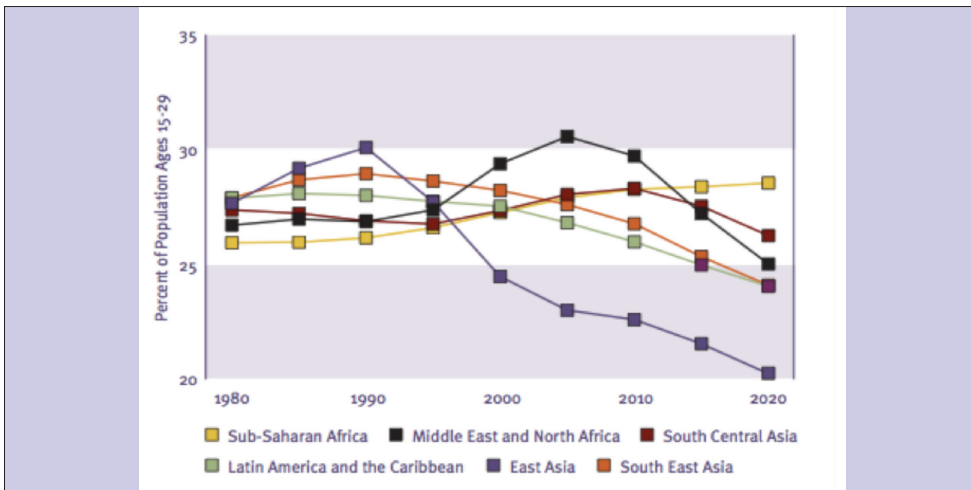
As Figure 11 shows, youth unemployment is the one area where states in the region began to fail from the mid-1990s onwards. While this was in large part the result of inadequate economic policies, it also had to do with the impact of demographics. Where the region had 160 million inhabitants in 1995, it is today home to 216.7 million, meaning that in two decades its population increased by a third. While this mirrors a more or less global trend, the region had particularly high birth rates but did not match these with the provision of the corresponding economic necessities. The ‘youth bulge’ of the region consequently contributed to unrest in 2011, and will continue to have destabilising effects.

FIGURE 11: UNEMPLOYMENT, YOUTH TOTAL (% of total labour force ages 15-24) , 1995-2013



Source for data: World Bank

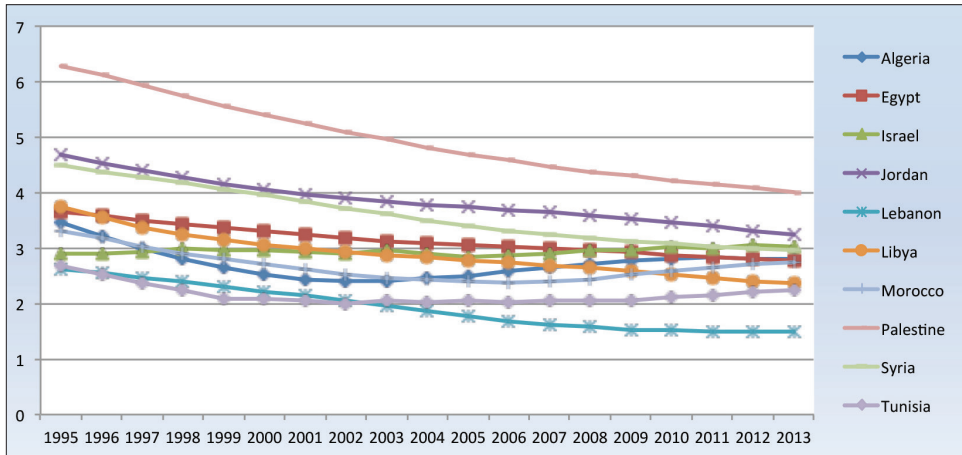
FIGURE 12: YOUTH SHARES OF POPULATION, BY REGION



Source: UN Population Prospects, medium variant projection (2006 revision)

But a large youth population does not have to have a negative effect on the economy or on political stability; in fact, where a labour market can tap into this force, it can generate high output and high levels of productivity. So far, however, young people in the region have difficulty finding either suitable work or starting their own business – difficult access to loans, bureaucratic hurdles and lack of foreign direct investment have created, in most countries (with the exception of perhaps Israel and Lebanon, and Tunisia where there are some tentative signs of progress) a stifling environment for innovation.

FIGURE 13: FERTILITY RATE, TOTAL (births per woman), 1995-2013

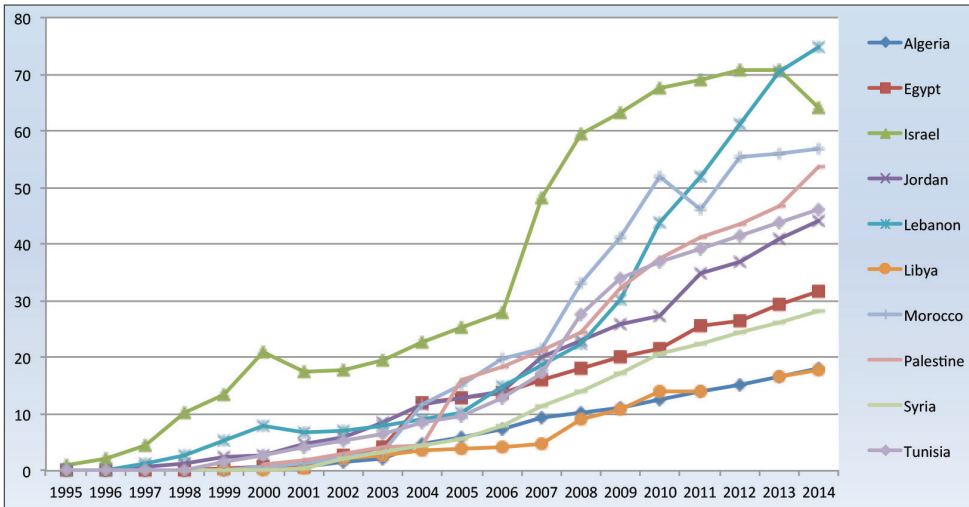


Source for data: World Bank

Fertility rates are falling across the region, however, but it will take a few decades for the effects of lower birth rates to be felt on the labour market. Crucially, they are declining for different reasons than they did in Europe in the twentieth century: whereas the main reason in the region is postponement of marriage and therefore a reduction in fertility rates due to higher ages of childbearing, in Europe the decline was triggered by the use of birth control within marriage. This means that in the region demographic growth will slow down faster than it did in Europe, just as previously population growth in the Arab world outpaced demographic growth in Europe.

Internet connectivity

Another area of progress is in the virtual realm: internet connectivity is fast gaining momentum in the countries of the south. Whereas the region initially had a very low level of internet penetration, it has now caught up with the global trend in an exponential manner. Within only three years, the number of internet users in Egypt has progressed from 25% to over 80% in 2015; in Jordan the number has doubled from 34% to 86% in the same timeframe, and in Libya it has increased from 14% to 49% today. Rather than virtual connectivity having sparked the Arab Spring, it is perhaps more accurate to state that the events of 2011 galvanised Arab internet connectivity. It is worth noting that this is also due to the introduction of mobile devices with internet access capabilities – in fact, most individuals using the internet in the region do so via mobile phones and tablets.

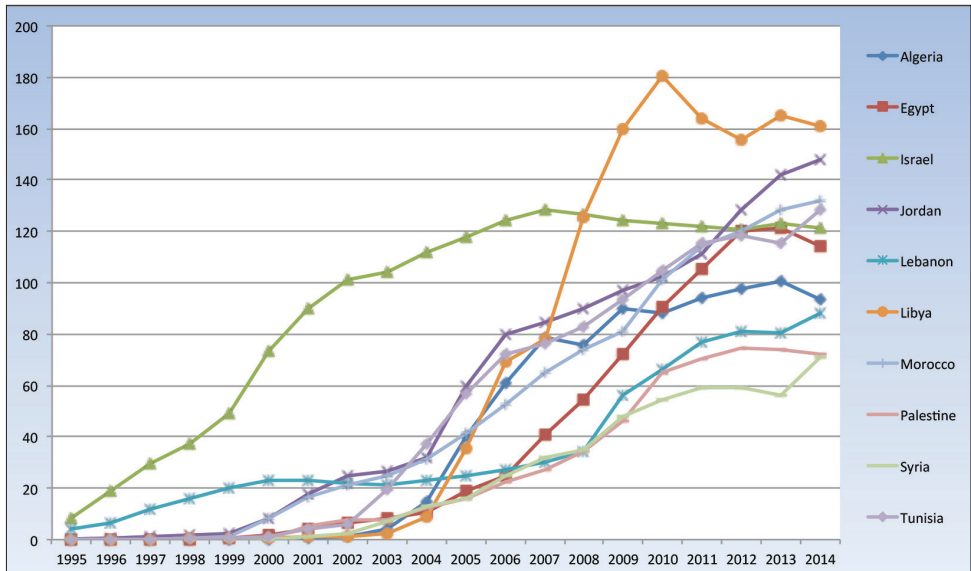
FIGURE 14: INTERNET USERS (per 100 people), 1995-2014

Source for data: World Bank

Facebook now has 191 million users in the Middle East and North Africa, 85% of whom visit the internet via their mobile devices; 1.4 million Twitter accounts are registered in the region. According to the company, users from the region are the most likely to join Facebook groups, which allows for multilateral communication closed off from a wider audience. Also, people in the Middle East now consume more video content per person on Facebook than users in any other region in the world. Arab citizens collectively generate around 10 million tweets every day, and Saudi Arabia has the highest penetration of Twitter in the whole world. Egypt now has mobile phone subscription rates at a comparable level to Germany.

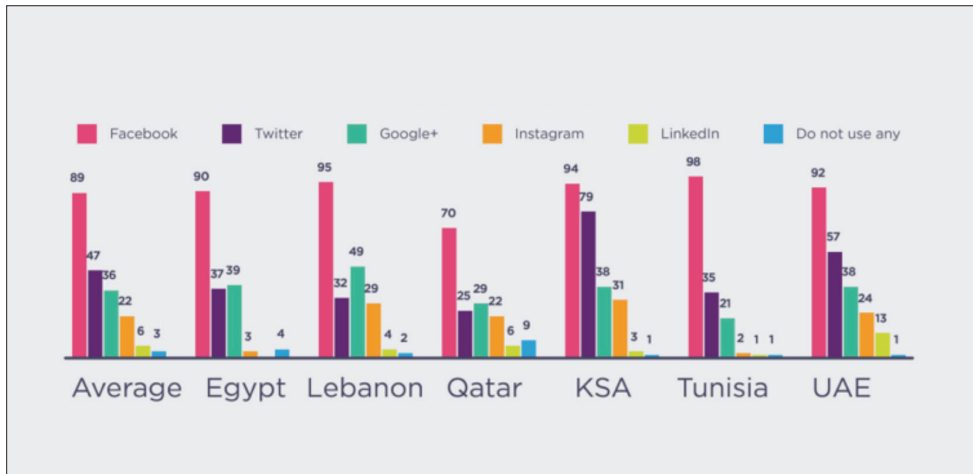
Surprisingly, studies show that users express themselves freely on the web although they know that they are being monitored. The internet therefore continues to serve not only as a platform for business and as a marketplace (Instagram and Facebook are now being used for the sale of clothes as well as sheep), but also as a forum for discussion and exchange of opinion. As elsewhere, the region also has a 'dark web': when Twitter and Facebook cracked down on Islamic State-linked accounts, the organisation set up a rival 5ehlafabook, or 'caliphate-book'.

FIGURE 15: MOBILE CELLULAR SUBSCRIPTIONS (per 1,000 people), 2005-2014



Source for data: World Bank

FIGURE 16: TOP 5 SOCIAL NETWORKING SITES USED



Source: Northwestern University in Qatar, *Entertainment Media Use in the Middle East*, 2014

GDP evolution

Growth of GDP is a somewhat misleading category as it is a relative rather than absolute term; where states have very poor levels of development, high GDP growth rates seem to indicate well-being when in fact such statistics simply denote economic activity regardless of any ‘trickledown’ effects. In the region, GDP growth has been consistently positive over the last two decades, sometimes showing excellent growth rates: for example, over 8% in Jordan in 2006, 9.2% in the Palestinian territories in 2004 and 11.8% in Libya in 2005. However, this growth did not benefit the population at large.

Nevertheless, GDP per capita has grown over the last two decades as well. In Algeria it increased from \$1,500 to \$5,500 between 1995 and 2015, in Egypt from \$1,000 to \$3,500, and in Lebanon, which was still in a post-conflict phase in 1995, from \$4,000 to \$10,000. With the exception of Libya, which experienced a major dip in income as a result of the 2011 war (there is no data on Syria available but it presumably mirrors this development), GDP in the region has steadily increased.

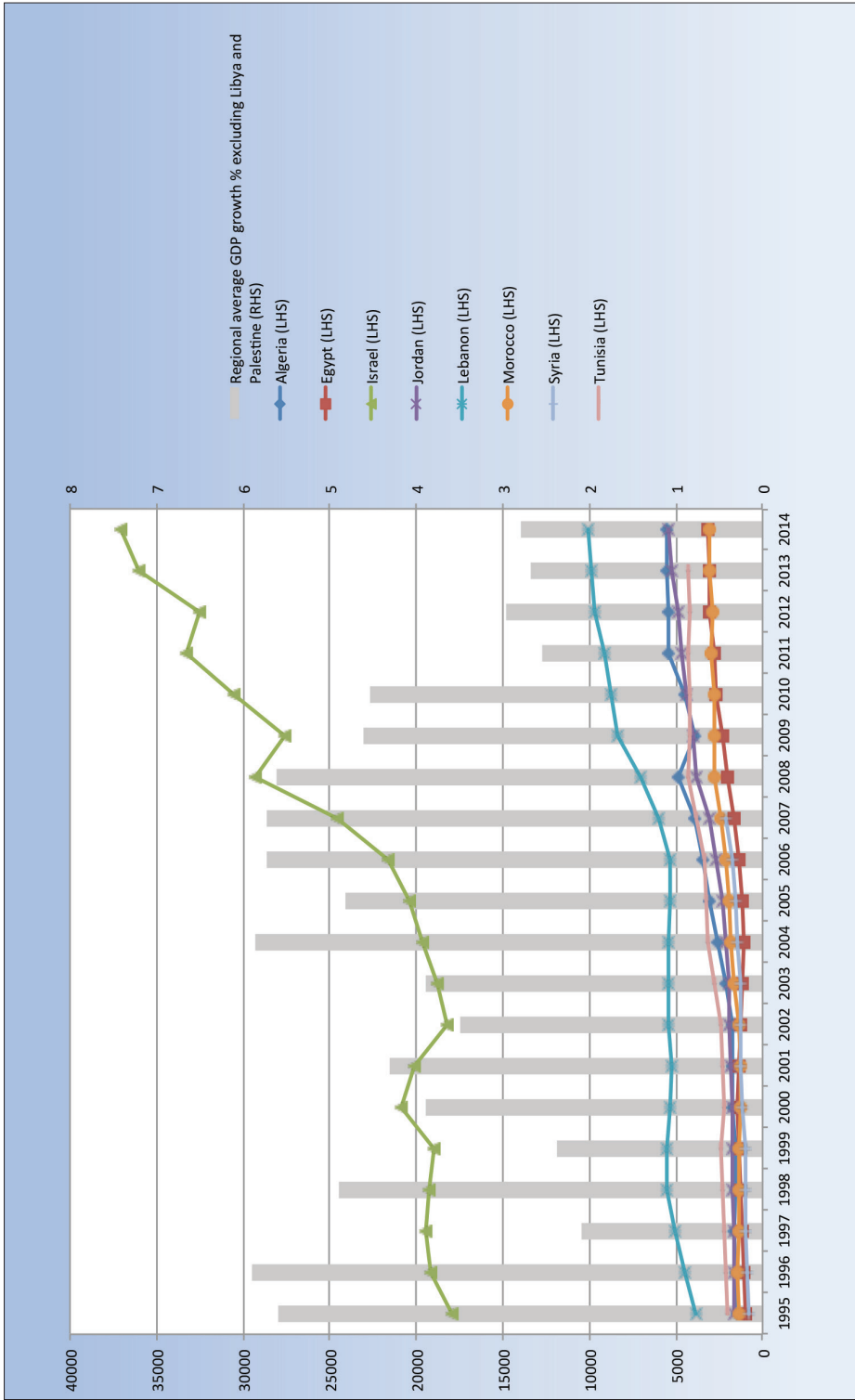
Poverty and unemployment

Levels of poverty and unemployment are difficult to measure for two reasons: official statistics are not always reliable, and they rarely tell the full story. Employment does not necessarily imply sufficient pay or job security, whereas the informal sector generates income below the radar of official statistics.

In the region, general unemployment statistics are comparable to European levels of unemployment. However these statistics need to be placed in the context of the other data presented here, otherwise they would suggest a rosier picture than is actually the case.

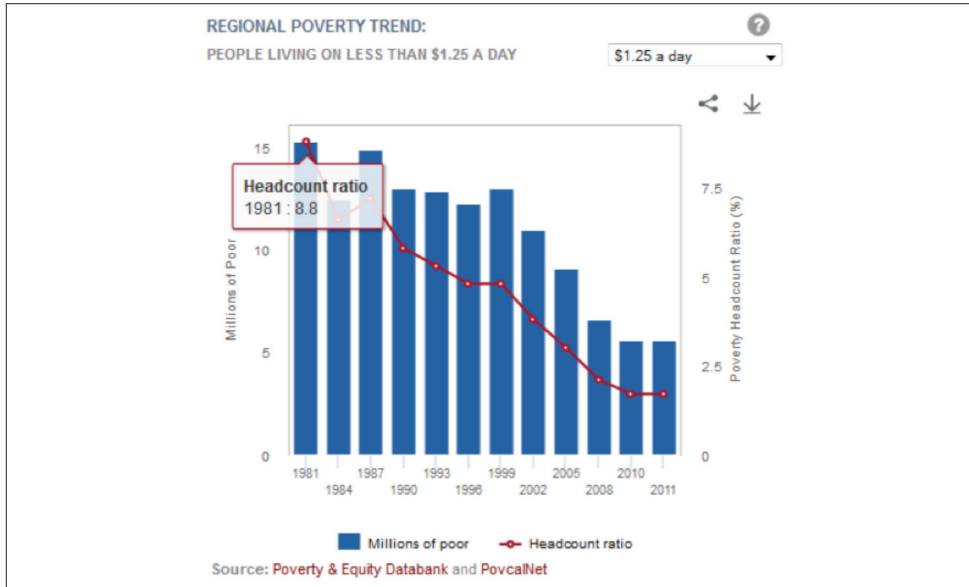
Similarly, data on poverty (usually defined as subsistence on less than \$1.5 a day) is difficult to obtain. Nevertheless, the overall trend is encouraging as the absolute number of individuals living in poverty has declined in spite of the region’s exponential population growth. While certain states, like Egypt, have seen a recent reverse trend due to the political and social upheavals following 2011, overall poverty levels appear to be falling – with the exception of Syria.

FIGURE 47: GDP GROWTH (ANNUAL %) AND GDP PER CAPITA (CURRENT USD), 1995-2014, (in thousands of USD, excluding Libya and Palestine)



Source for data: World Bank

FIGURE 18: REGIONAL POVERTY TRENDS



Source: World Bank

However, income distribution is still largely uneven and has grown worse over the last few decades.

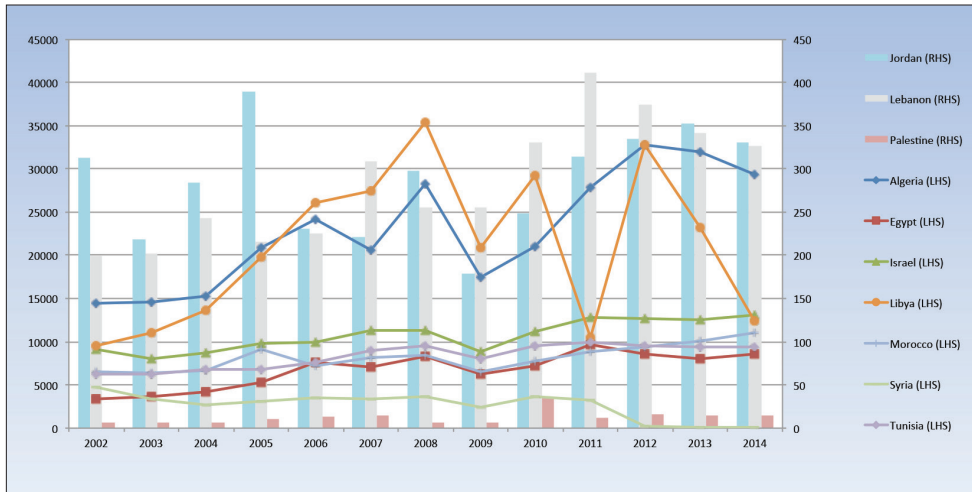
Trade with Europe

Although somewhat at odds with the general public perception that ENP states should have better access to the European market, trade has been one of the areas where improvements are substantial. Almost all states in the region have doubled, and sometimes tripled, the volume of their trade with the European Union over the last decade. In general, all states have evolved in a positive direction in this regard, with the exception of Syria, which has been subject to economic sanctions due to its civil war.

Even when leaving Europe’s exports to the region out of the equation and focusing only on European imports, the picture is positive; this is particularly the case with oil-exporting countries such as Algeria and Libya, but non-oil states fare well too. Israel, Egyptian, Moroccan and Tunisian exports to the EU almost all reach five-digit million euro amounts.

While this economic connectivity had its drawbacks during Europe’s economic crisis, it remains overall a welcome development.

FIGURE 19: COUNTRY EXPORTS TO THE EU, 2002-2014, (in millions of euro)



Source for data: European Commission, Market Access Database, 'Trade flows in goods between EU and non-EU countries'

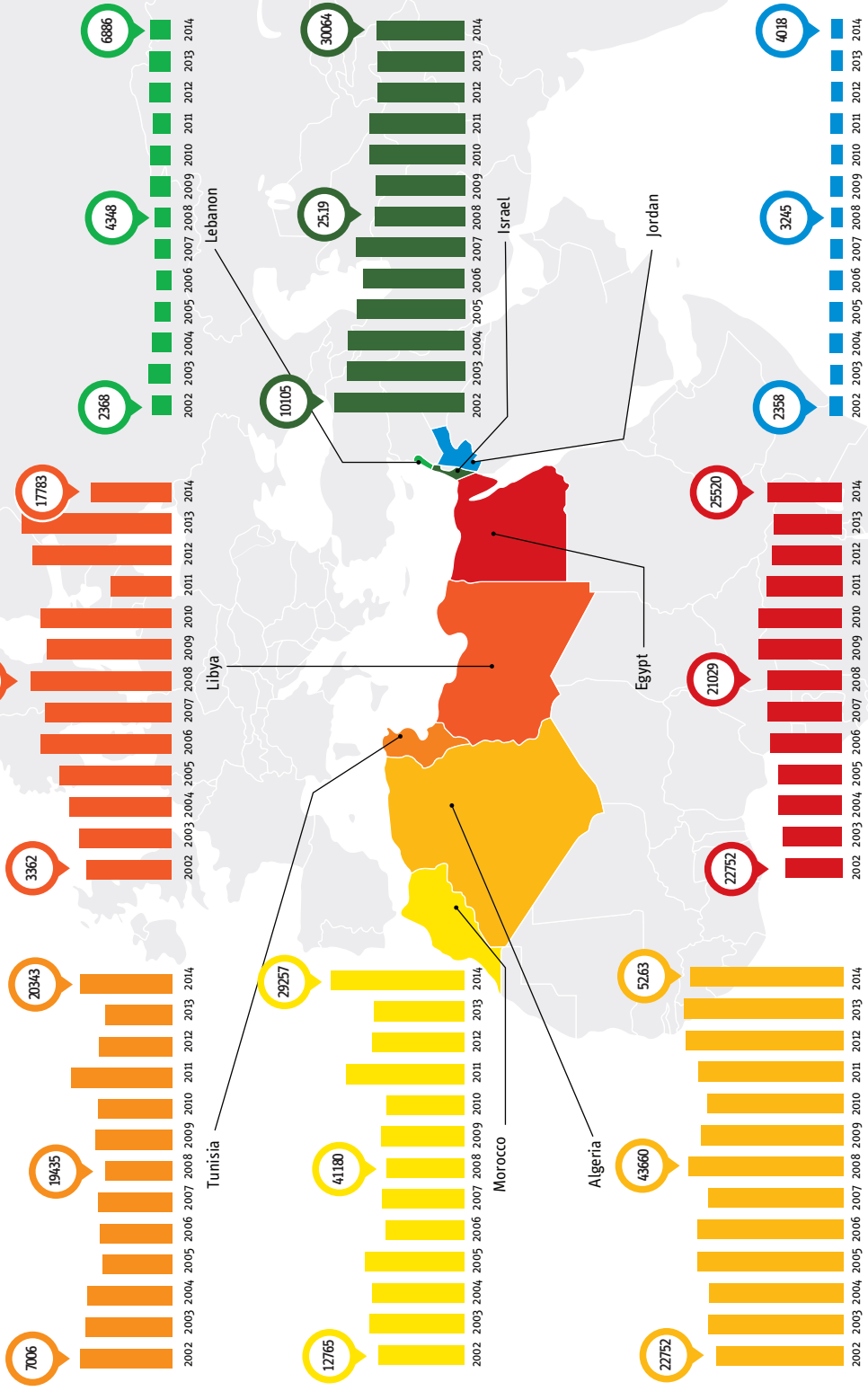
* * *

Europe’s southern neighbours have come a long way since the Barcelona Process was launched. Although conflict probability is still high and political as well as institutional performance has grown worse, overall human development as reflected in the HDI has improved. The mixed record shows that certain policy tools work better than others, and that priorities for the next decade can be set accordingly. It also shows that successful policies will create other issues further down the line – for instance, improvement in infant mortality rates as well as in the education system inevitably leads not only to demographic growth but also heightened expectations regarding employment and income opportunities. States in the region have therefore been successful on several socio-economic fronts but failed to anticipate problems which would subsequently arise.

There can be no doubt but that all states would have developed further without the continuous cycle of violence – breaking the conflict trap, or at least mitigating its effects, will therefore be a critical prerequisite to move beyond the political stasis and unlock the potential that exists in the region as a whole.

Most worrying is the regional trend towards more political repression and less accountability. Whether this is linked to the ever-growing cohort of young citizens with economic and political demands and expectations or not, it creates conditions for more contestation – and thereby more violence, and ultimately has destabilising and detrimental consequences for development.

FIGURE 20: EU TOTAL TRADE (TRADE WEIGHT, I.E. THE SUM OF IMPORTS AND EXPORTS) WITH SOUTHERN NEIGHBOURHOOD COUNTRIES, 2002-2014,
 (in millions of euro)



Source for data: European Commission, Market Access Database, 'Trade flows in goods between EU and non-EU countries'

CHAPTER 2

The eastern neighbours – two decades on

Since the mid-1990s the EU has adopted a two-track approach to the former socialist states of Central and Eastern Europe. Some were offered an EU accession perspective and ‘Europe Agreements’ designed to bring those countries into the fold of the EU, while others were offered a *rapprochement* and potential integration *with*, not *into*, the EU. This offer took the form of Partnership and Cooperation Agreements signed between 1994 and 1996 with Ukraine, Moldova, Belarus, Georgia, Azerbaijan and Armenia. The EU’s policy towards its neighbours was further developed in the early 2000s with the launch of the European Neighbourhood Policy (ENP).

In the course of these two decades the EU’s eastern neighbours have undergone significant changes as they experienced a series of economic, political and security crises, albeit to a much less severe degree than the EU’s southern neighbours. Yet, beyond the fog of crisis, some mid- to long-term trends – both negative and positive – have sometimes been overlooked. This chapter examines how the EU’s neighbours to the east, and their relationship with the EU, have evolved across a range of key dimensions such as democracy, reform and governance, corruption, security, trade and people-to-people contacts. Given that the EU stepped up its relations with its eastern neighbours after the EU’s enlargement to the east in 2004 and the launch of the ENP, the chapter will focus in particular on the last decade of change and upheaval that has occurred in the countries on the eastern flank of the EU.

The politics of the EU’s eastern neighbours

The last 15 years have witnessed a series of domestic political crises and upheavals in the countries to the east of the EU. Most states of the region have had to contend with large-scale popular protest movements, some of which escalated into full-blown revolutions. Yet at a fundamental level the nature of the countries’ political systems has not altered much.

Democracy trends

As the freedom scores published annually by Freedom House (see Figure 1) suggest, countries that were unstable and unconsolidated democracies a decade ago have more or less remained so. Ukraine, Moldova and Georgia started with a 3.5 score ten years ago and their score has slightly improved to 3 (where lower scores imply a better

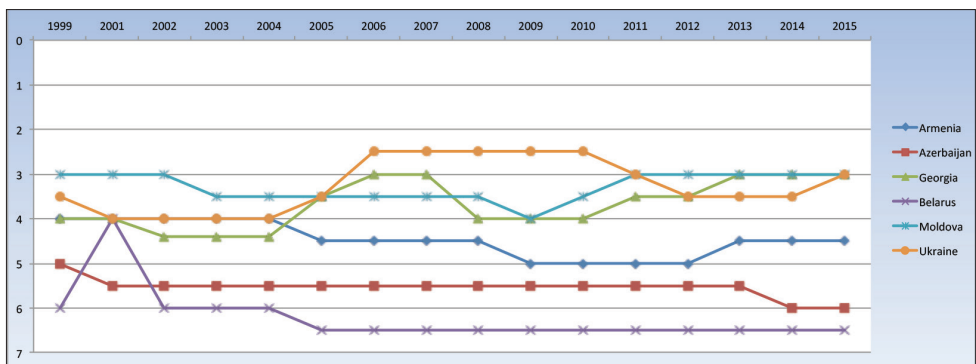
The EU neighbours 1995-2015: shades of grey

quality of democracy). Moldova and Ukraine continued their cycle of power changes through elections in ways that make their democracies, however weak, more akin to the political system prevailing in the rest of Eastern and Central Europe than the other countries in the post-Soviet space where authoritarianism is the rule. And Georgia has joined the club of countries where elections matter, with a transfer of power in 2013 and regime change achieved by electoral rather than by revolutionary means for the first time in its independent history.

Despite these changes of power achieved through the electoral process, all these countries have gone through severe domestic political crises. A crackdown on mass protests occurred in Georgia in November 2007, in Moldova at least 3 people were killed following violent clashes between police and protesters in April 2009, and Ukraine's EuroMaidan revolution left over a hundred people dead in central Kiev in 2014.

After all these crises, politics returned to its more or less semi-democratic 'normal'. Yet, the spilling of blood in domestic political confrontations sets an ominous precedent for the future trajectory of these countries. Future domestic crises are not only inevitable, but they might well turn out to be more violent than those these countries have witnessed in the last two decades.

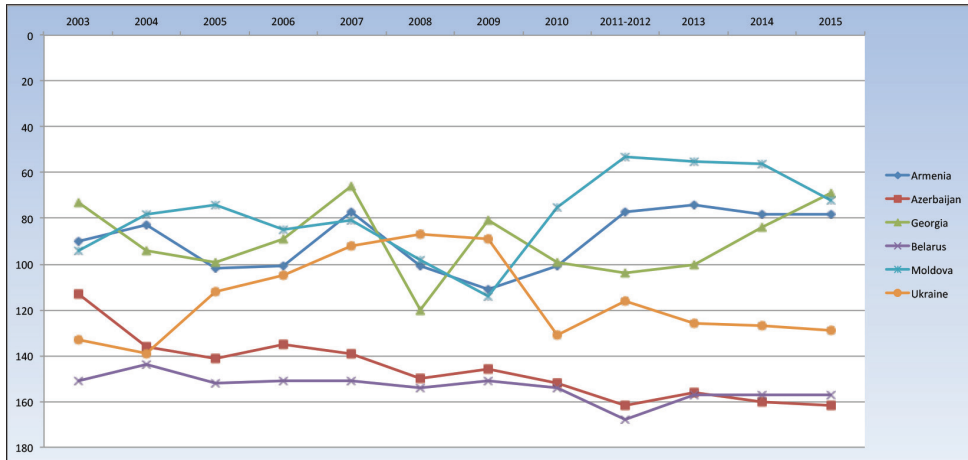
FIGURE 1: FREEDOM IN THE WORLD SCORE, 1999-2015



NB Lower scores indicate a better quality of democracy.

Source for data: Freedom House

In the case of the countries ruled by authoritarian regimes a bleaker picture emerges. Using the same Freedom House democracy score indicates that Belarus remained at the bad, but stable, level of 6.5 points – a consolidated authoritarian system. If anything Lukashenko's latest presidential elections in October 2015 were less contested than ever before. Since 2002, the ranking of the Belarusian media in the Reporters without Borders World Press Freedom Index (see Figure 2) has fallen from 124th to 157th place. Belarus' political system has remained extremely centralised but stable. At least the country's undemocratic system has not become radically worse over the last decade.

FIGURE 2: WORLD PRESS FREEDOM INDEX, 2003-2015 (place in the world)

Source for data: Reporters without Borders

Azerbaijan's political system had a consistently poor 5.5 democracy score since 1998, until it deteriorated to 6.0 in 2014. Azerbaijan's ranking in the World Press Freedom Index fell from 135th place in 2006 to 162th in 2015. The issue of political prisoners has also escalated in recent years as the authorities in Baku applied increasingly repressive measures. Azerbaijan also pursued an active lobbying and co-optation campaign throughout Europe which has been termed 'caviar diplomacy'.¹ As a result of its lobbying campaign, Azerbaijan was elected to chair the Council of Ministers of the Council of Europe in the latter half of 2014. The country also managed to divide international election observers and prevent a joint position emerging *vis-à-vis* a presidential election campaign marred by irregularities in 2013.²

Regarding Armenia, for most of the last two decades the country received a democracy score of 4-4.5 (on a scale of 1 to 7, with 7 as the worst possible score) i.e. indicating a mildly authoritarian political regime. In terms of media freedom, it was ranked 102th in the world in 2005, downgraded to 111th in 2009 and then made a leap to 78th place in 2015, a ranking comparable to those allotted to the more pluralist political systems in Moldova and Georgia. Nonetheless, while the country is less authoritarian than Azerbaijan or Belarus, Armenia has never experienced an orderly transfer of power to the opposition as a result of elections, and its political system is insufficiently pluralist to qualify for the status of an unconsolidated democracy like Ukraine or Moldova.

1. European Stability Initiative (ESI), 'Caviar diplomacy: how Azerbaijan silenced the Council of Europe', Berlin, May 2012. Available at: http://www.esiweb.org/pdf/esi_document_id_131.pdf
2. European Stability Initiative (ESI), 'Disgraced: Azerbaijan and the end of election monitoring as we know it', Berlin, November 2013. Available at: http://www.esiweb.org/index.php?lang=en&id=156&document_ID=145

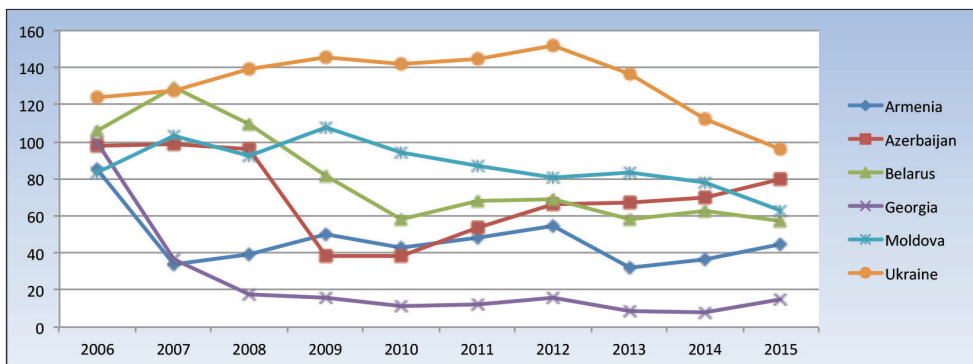
Economic governance trends

Democracy is important, but it is not the only prerequisite for state functionality in countries on the EU’s eastern flank. Reformism and governance levels are also of crucial importance for the development of the EU’s neighbouring countries, and it is interesting to observe that there seems to have been little correlation between democracy levels, pro-EU orientation in foreign policy and governance reforms.

It is often assumed that declaratively pro-European governments are likely to be more amenable to reforms, whereas supposedly pro-Russian governments are not. According to this perspective, countries which have shown stronger levels of political pluralism and pro-EU rhetoric like Ukraine and Moldova would be expected to score better on anti-corruption or economic governance than others. However an examination of the empirical data demonstrates that this is markedly not the case.

Using the World Bank’s (Cost of) Doing Business ranking as a proxy indicator of governance reforms (although not democracy), reveals that all of the Eastern Partnership (EaP) countries improved over the last decade – some of them quite significantly, as in the case of Georgia, but also Armenia and Belarus. The star performer is Georgia, which rose from 100th place in the world in 2006 to 15th a decade later. Armenia and Belarus dramatically improved their ranking by 40 and 49 places in this global rating in the space of a decade, whereas Ukraine and Moldova moved up the rankings by 28 and 20 places respectively. Thus it seems clear that neither a country’s aspirations to forge closer ties with the EU nor its democracy levels seem to be strongly correlated with governance reforms.

FIGURE 3: COST OF DOING BUSINESS, 2006-2015 (place in the world)



Source for data: World Bank

Countries and governments that have been more democratic, and more in favour of *rapprochement* with the EU in foreign policy terms, have not necessarily scored better when it comes to economic and governance reforms. In the case of Ukraine, apart from democratisation, few other reforms were carried out after the Orange Revolution in 2005-2010. Moldova has fared only slightly better. Its declaratively pro-EU government started off as quite reformist in 2009, but weak political will

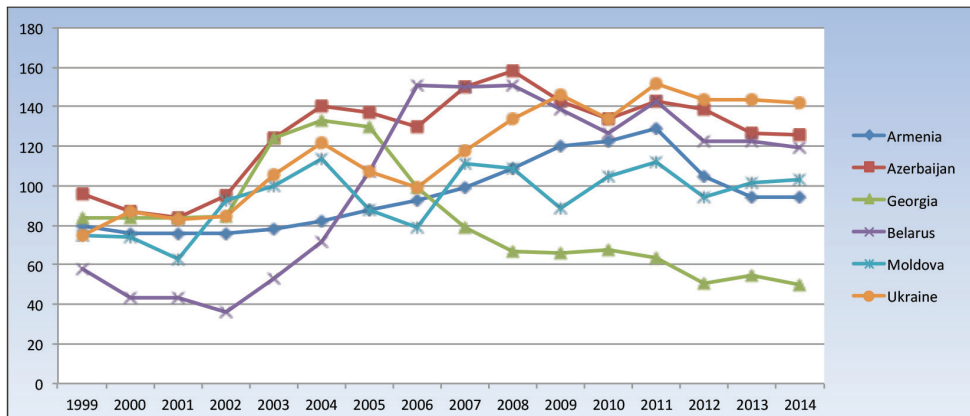
meant that by 2013 this reform drive had clearly lost momentum. The most reformist government of the region in the last two and a half decades – that of Mikheil Saakashvili in Georgia in the period 2003-2013 – conducted a staggering amount of reforms (and committed numerous mistakes in the process); but this reform effort seems to have been driven primarily by domestic political considerations rather than undertaken as a response to external incentives.

From corruption to state capture

There has also been no obvious link between anti-corruption and foreign policy orientation in the short term. Moldova, which received substantial EU support over the last decade, ranks in the same category on corruption as Armenia. Both had rather similar and deteriorating corruption perception levels for most of the last two decades. In both countries the population's perception was that corruption had increased, and in the more EU-connected Moldova corruption seems to have increased more than in Armenia, as in Transparency International's 2014 Corruption Perceptions Index Armenia was ranked 94th in the world, and Moldova 103rd.

The evolution of two other countries also attests to this phenomenon. Ukraine and Belarus were both ranked 107th in 2005. By 2014 Belarus had fallen to 119th place, and Ukraine had sunk to 142nd. Again corruption perception levels increased in both, but in the nominally pro-EU Ukraine corruption increased more than in Belarus. The only exception to this trend, and an outstanding one, is Georgia, which improved its corruption ranking from 130th place in 2005 to 50th in 2014.

FIGURE 4: CORRUPTION PERCEPTION INDEX, 1999-2015 (place in the world)



Source for data: Transparency International, Corruption Perception Index, Annual Reports 1999-2015

In the fight against (or, conversely, perpetuation of) corruption, domestic factors were clearly more important than foreign policy considerations. And judging by the way in which the region has evolved over the last decade, democracy levels or pro-EU rhetoric have not helped anti-corruption efforts. An often heard narrative is that democratic competition and free media help reduce corruption because abuses are

publicly exposed and voters turn to alternative political actors who are perceived as less corrupt, and there is thus a certain inbuilt corrective mechanism in democratic politics. While this has worked in much of Central Europe, in the last decade realities in most of the Eastern Partnership states seem to have defied this assumption.

But an alternative theory suggesting that authoritarian regimes are more effective at curbing corruption, due to a highly centralised system of government and more efficient clampdown on bureaucratic abuses, is not borne out by corruption levels in countries to the EU's east either. Pluralistic Ukraine is as corrupt as authoritarian Azerbaijan, and the nominally pro-European Moldova is as corrupt as the more centralised Armenia. Corruption seems to be so entrenched that neither democracy nor authoritarianism have had much impact in reducing it, so far at least.

Although corruption is generalised, the phenomenon takes different forms in these countries. In centralised political regimes corruption is integrated into a power vertical, but in more open political systems like that of Ukraine and Moldova parties actively build clientelistic linkages and patronage networks to extract rents and then distribute resources and jobs to party followers. This process often operates along the following lines. An actor with significant funds – usually an oligarch not necessarily possessing much charisma or credibility – tries to ‘buy’ a place in politics by acquiring or setting up media outlets, founding a party or bribing MPs in different existing political parties. Not all oligarchs have managed to do this, but a certain number have. And when they do, all the other actors in the political arena find themselves in a situation where they have to compete with big money. The response is often to rely on other existing oligarchs and/or try to extract even more resources (often from the state coffers) so that they can compete with the richer players. Moldova, Georgia and Ukraine have all fallen prey to this phenomenon.

Money is needed to run TV channels or pay local party activists, who might otherwise defect. In Moldova and Georgia mainstream politicians became mired in the murky world of party finance as a response to rich and powerful businessmen moving into politics. So players get drawn into a downward spiral of political corruption, partly driven by the fact that the system is extremely competitive and loaded in favour of the rich and well-connected, which generates a toxic political culture where rivals compete for resources obtained through bribery and corruption.

The scale of the phenomenon is such that corruption is no longer an adequate word to describe it. Calling it corruption significantly understates the problem, partly because corruption exists everywhere, including in rich Western democracies, where it is an anomaly that is frequently exposed and combated. In certain countries to the east of the EU corruption is a normal state of affairs. Non-corrupt public servants and politicians exist, but they are all too rare. In much of the region state capture by private interests is the norm, whereas integrity is the exception.

Seen against this background Ukraine is an almost textbook example of a country dominated by oligarchs. But whereas Ukraine might have too many oligarchs vying with each other, Moldova and Georgia might be said to have the opposite problem – having too few of them. Each of the two countries is now dominated by one

individual businessman-politician. Both are highly influential, do not hold elected office, and govern from the shadows, with few internal checks and balances to their power.

Views of the EU

This state capture phenomenon is not just a local peculiarity. It also casts a shadow on the EU and its policies in the region, for the degree of corruption among the political elites of the EU's neighbours to the east colours local perceptions of and attitudes to the EU.

The EU's existence as a democratic, prosperous and expanding Union has been an important factor in the domestic politics of many of its neighbouring countries. Europe has been a source of legitimacy for progressive political forces, reformers, business and civil society actors, and journalists throughout the region. But the image of the EU as a beacon of stability and prosperity has also often been hijacked by anti-reformist forces as well.

The positioning of domestic political forces *vis-à-vis* the EU (pro-EU or anti-EU), as well as perceived successes on the road to *rapprochement* with the EU, have been highly significant in the domestic political debates in countries like Moldova, Ukraine and Georgia, and to a lesser extent in Armenia and Azerbaijan as well. Two revolutions in Ukraine in 2004 and 2014 took place because large strata of Ukrainian society feared that the country's rulers at the time were steering Ukraine away from Europe. Few mainstream political actors are explicitly anti-European. Even authoritarian leaders overthrown in revolutions in Ukraine (2004 and 2014) and Georgia (2003) positioned themselves in their official discourse as pro-European. Ukrainian presidents Leonid Kuchma and Viktor Yanukovich and Georgian President Shevardnadze all paid lip service to European integration. So did the Communist government of Moldova (2001-2009). All of these leaderships sought to project themselves as pro-EU integration. And all of them were ousted because of the public perception in their respective countries that they had not done enough to foster integration with Europe, or even that they endangered that prospect.

Even in Armenia, which ultimately negotiated but then declined to sign an Association Agreement with the EU, the authorities claimed they want to integrate with the EU, until Russia put a stop to this flirtation with Brussels. And even after Armenia's decision in 2013 to join the Eurasian Economic Union (EEU), the Armenian leadership still paid lip service to European integration as a foreign policy priority.³

Azerbaijan, which clearly does not subscribe to Europe as a system of values or economic model, also tried to capitalise on the domestic and international prestige that came with its chairmanship of the Council of Europe in 2014, and successfully

3. 'PM Sargsyan says European integration still among Armenia's priorities', *Armenianow.com*, 13 November 2013. Available at: http://armenianow.com/news/50025/armenia_prime_minister_tigran_sargsyan_european_integration

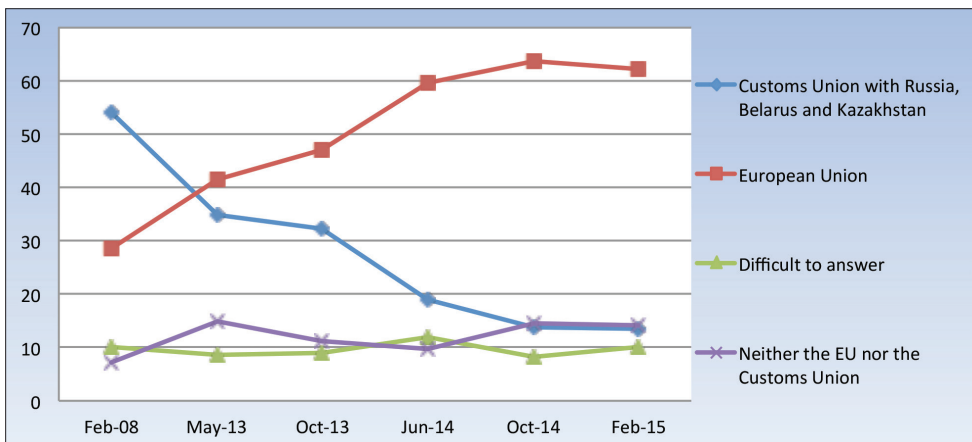
The EU neighbours 1995-2015: shades of grey

lobbied European election monitors to give a clean bill of health to the country's highly controversial presidential elections in 2013.

But centre-right pro-EU political forces of the countries to the east of the EU also often engaged in corrupt practices while officially professing their commitment to EU values. This seems to have been a key cause for significant fluctuations in the EU's power of attraction throughout the region.

Take the case of Ukraine. The Orange Revolution in 2004 took place on a wave of pro-European enthusiasm. But as the Orange coalition failed to deliver on reforms, anti-corruption measures and palpable *rapprochement* with Europe, disappointment with the ruling pro-EU parties quickly translated into disenchantment with the EU as well. By 2008, after several years of public dissatisfaction with the Orange coalition, support for integration with the EU had fallen to 28% and support for greater integration with Russia stood at 54%, according to polls conducted by the Gorshenin Institute.⁴

FIGURE 5: WHAT DIRECTION FOR INTEGRATION SHOULD UKRAINE CHOOSE?
(% of respondents surveyed)



Source for data: Gorshenin Institute, 30 March 2015

The trend reversed once Yanukovich came to power in 2010: towards the end of his presidency, right before the beginning of the protests in October 2013, support for integration with the EU had risen to 47% and support for closer relations with Russia had fallen to 32%. By 2015, 62% of Ukrainians were pro-EU and just 13% pro-Russia.

4. Gorshenin Institute, 'Ukraine Stress Test' opinion poll, 30 March 2015. Available at: http://gorshenin.eu/researches/43_ukraine_stress_test.html

Moldova currently seems to be in the middle of such a slump of support for the EU driven by disappointment in an underperforming, but formally pro-EU, government. In 2008-2009, public support for European integration stood at around 65%: by mid-2015, six years into the government of the ‘Alliance for European Integration’, support for the EU had fallen to 40%.

In Georgia, a similar trend is becoming discernible. An opinion poll conducted by the National Democratic Institute in early 2015 showed that the number of supporters of Eurasian integration had doubled within a year (to 31%). Georgia is still not comparable to Moldova and Ukraine in terms of oscillations in public opinion regarding the EU, but that is the result of the country having experienced a Russian military incursion in 2008, and even the effect of that war is becoming diluted in Georgian public opinion over time.

Trade with neighbours

Trade has been central to the EU’s relationship with its eastern neighbours. The EU’s economic power – the attractiveness of its markets, the transposition of the EU *acquis* and the prospect of EU financial and technical assistance – was supposed to be an important transformative tool in wooing its neighbours.

The intention was to leverage market access to the EU in exchange for ENP countries adopting the *acquis* and implementing reforms – modernising customs procedures, adopting EU standards which would facilitate access to the EU market or improving the business climate. The logic was that such reforms supported by rising exports to the EU would make the region richer, and that the resultant prosperity would not only contribute to democracy and stability as a whole, but would reduce the likelihood of wars and also stem the flow of illegal migration.

The EU ‘carrot’ of trade liberalisation took two forms. The first consisted of *ad hoc* measures that could be deployed in stages: these generally took the form of trade regimes such as the Generalised System of Preferences (GSP), GSP + or Autonomous Trade Preferences (ATPs). And the other was a new instrument designed to foster wholesale trade liberalisation, in the form of Deep and Comprehensive Free Trade Areas (DCFTAs).

From *ad hoc* to wholesale trade liberalisation

All post-Soviet states benefited from GSP by virtue of their Partnership and Cooperation Agreements (PCAs) with the EU. A selected set of post-Soviet states (Moldova, Georgia, Armenia and Ukraine) were offered the improved market access version of GSP +.

However, the most generous measure of *ad hoc* trade liberalisation has taken the form of the so-called Autonomous Trade Preferences (ATPs). These were granted to Moldova in 2007, and to Ukraine and Georgia in spring 2014, just as the Donbass

was descending into war. The measures, which implied unilateral trade liberalisation, were first conceived and offered to the countries of the Western Balkans as a form of EU support. This is why they were used very sparingly, and were directed towards politically important but economically marginal partners for the EU. Being able to avail of the ATP regime meant that the beneficiary countries swiftly gained EU market access; on the flip side, however, there was little incentive for them to pursue economic reforms at home once such a regime was obtained. That is why a 7-year time limit has been placed on ATPs. The idea was to make the regime temporary so that beneficiaries do not end up able to reap the benefits of market access to the EU without undertaking the necessary domestic reforms.

An ATP trade regime was offered to Moldova in 2007 as a way to help the country withstand the effects of a punitive Russian trade embargo introduced the previous year. Such measures to boost trade were designed to enable Moldova withstand external political pressure. In the context of other rounds of Russian trade embargoes on Moldova, in 2010 the EU also doubled Moldovan wine import quotas for example. Similar tactics were applied to Ukraine in 2014, this time in the context of Russia's annexation of Crimea, its military involvement in eastern Ukraine, and a deep economic crisis in the country.

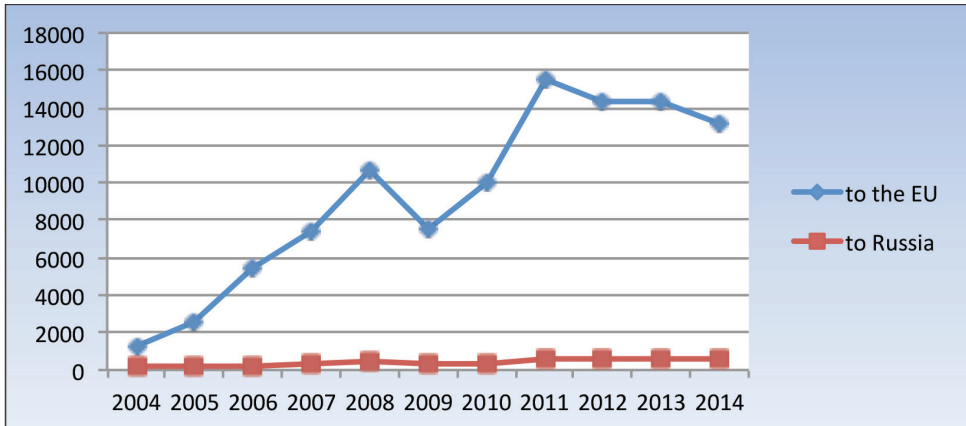
These *ad hoc* trade liberalisation measures were only the buildup to, and perhaps intended as 'sweeteners' for, a bigger project: the Deep and Comprehensive Free Trade Area (DCFTA) – the jewel in the crown of the ENP and Association Agreements. These were supposed to launch a whole new generation of Free Trade Areas (FTAs). Simple FTAs, the EU has decided, do not do enough to boost trade, since even if they eliminate tariffs, in today's low-tariff world the biggest problems for trade countries are not tariffs but non-tariff barriers. The DCFTA was designed to address this shortcoming. But the DCFTA only started to be applied in late 2014 in Georgia and Moldova, and on 1 January 2016 in Ukraine, and it is therefore too early to assess its effects.

However, assessing trade flows even in the absence of DCFTAs is also relevant for gaining an understanding of how the EU's trade relations with its eastern neighbours have evolved.

Trade growth patterns

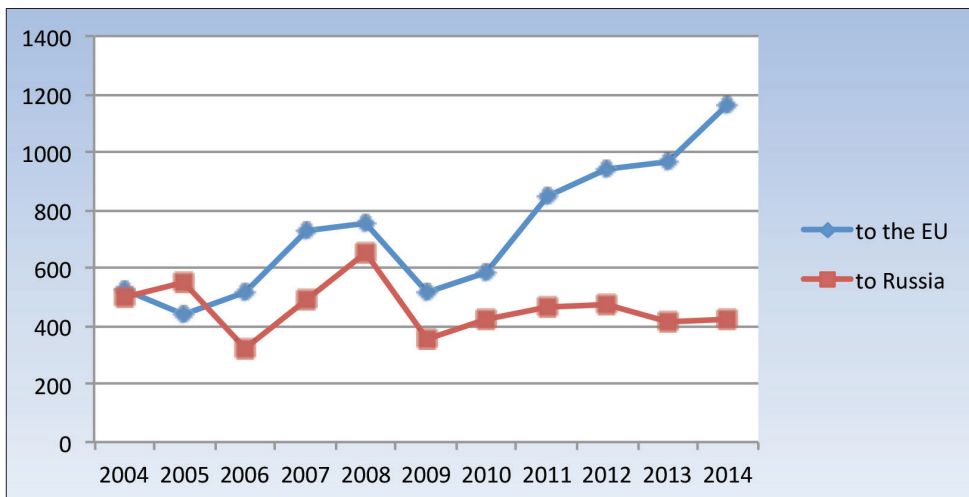
When it comes to trade patterns in relations with the EU, Azerbaijan, Moldova and Georgia had the most positive trade dynamic. Between 2004 and 2014, Azerbaijan's exports to the EU increased by a staggering 918%, driven by the double engine of increasing oil production and rising oil prices (although since 2011 exports have been falling). By comparison Azerbaijan exports to Russia increased by 362% (in 2004-2014). Moldovan exports to the EU grew by 121% (i.e. more than doubled) and Georgian exports by 109% in the same decade. Again, when comparing these figures to Georgia and Moldova's trade volumes with Russia, it is noticeable that Moldova is the only country in the EU's eastern hinterland which exported less to Russia in 2014 than in 2004 (by 15%), whereas Georgian exports to Russia over this decade grew by 156%.

FIGURE 6: AZERBAIJANI EXPORTS TO THE EU AND RUSSIA 2004-2014 (in millions of euro)



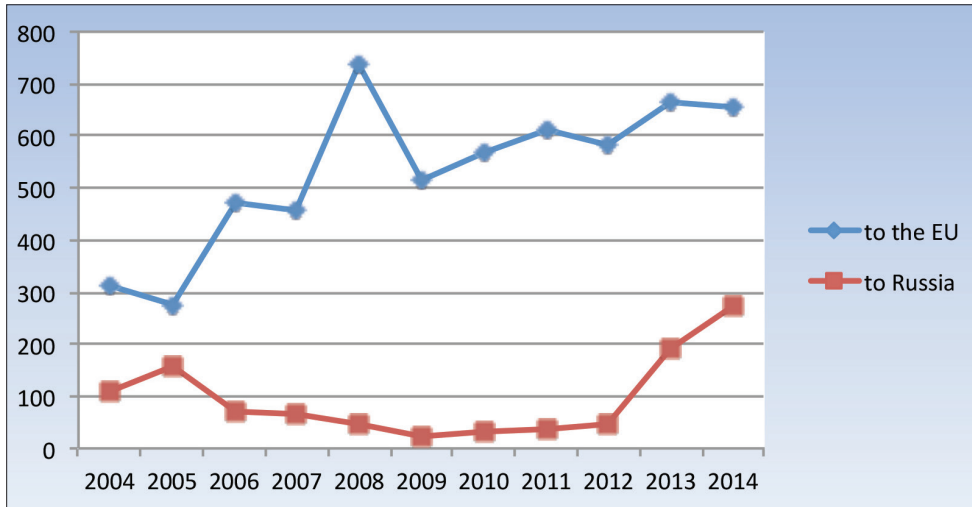
Sources for data: European Commission, Market Access database, 'Trade flows in goods between EU and non-EU countries'; The State Statistical Committee of the Republic of Azerbaijan, 'The foreign trade of Azerbaijan', Exports by countries database

FIGURE 7: MOLDOVAN EXPORTS TO THE EU AND RUSSIA 2004-2014 (in millions of euro)



Sources for data: European Commission, Market Access database, 'Trade flows in goods between EU and non-EU countries'; National Bureau of Statistics of the Republic of Moldova by main partner countries database

FIGURE 8: GEORGIAN EXPORTS TO THE EU AND RUSSIA 2004-2014 (in millions of euro)



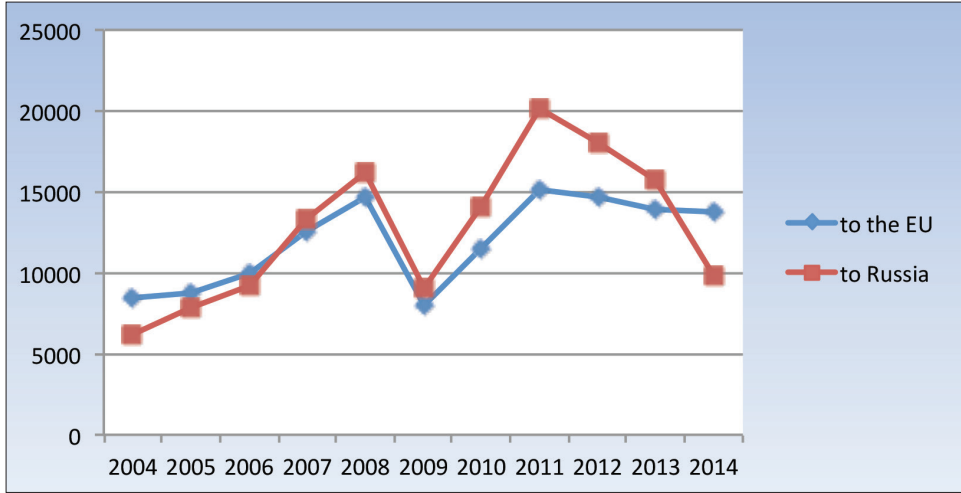
Sources for data: European Commission, Market Access database, 'Trade flows in goods between EU and non-EU countries'; National Statistics Office of Georgia, Georgian exports by countries

Ukraine's record is less impressive. Although its trade volumes with the EU increased, its trade with Russia grew even more, and the EU's relative importance as an external trading partner for Ukraine has declined overall in the last decade. Between 2004 and 2013, Ukrainian exports to Russia grew by 158%, i.e. more than doubled, which compares unfavourably to the 61% increase in Ukrainian exports to the EU. Moreover, whereas in 2004-2006 the EU was a bigger export destination for Ukraine than Russia, in 2007-2013 Russia overtook the EU as a bigger export market, a state of affairs which only changed following Moscow's military intervention in the country in 2014 and the ensuing mutual sanctions between Russia and Ukraine.

Armenia and Belarus scored worst in terms of their export capacity to the EU. Both countries exported less to the EU than a decade ago. They had a much better trade dynamic in their relations with Russia, as Armenia registered an almost five-fold increase in its exports to Russia (382% between 2004 and 2014), albeit from a low base. Belarus's exports to Russia increased by 134%, i.e. they more than doubled in the same period.

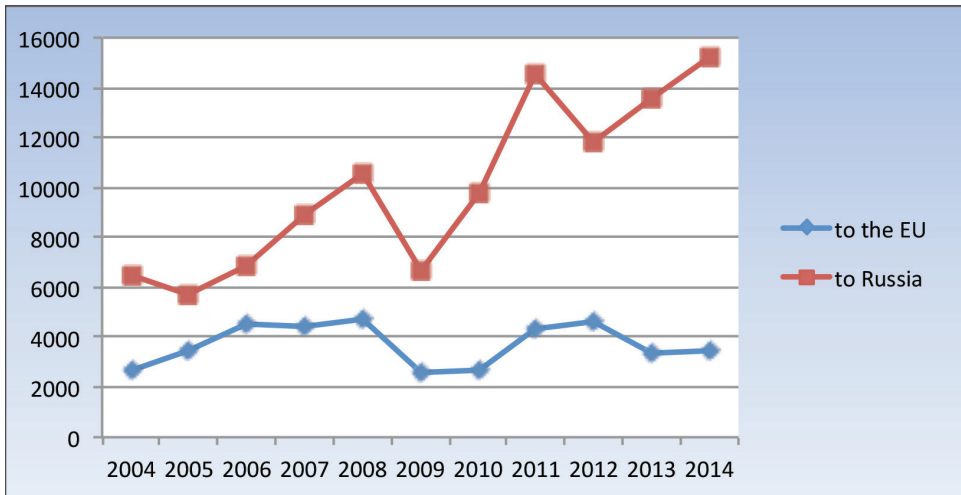
Among the eastern neighbouring countries, clearly Moldova and Georgia scored best in terms of increasing their volume of exports towards the EU. Moldova benefited from having the most liberal trade regime (ATP) with the EU, from implementing a number of moderate domestic reforms and from its geographic proximity to the Union, whereas Georgia, despite being more geographically distant from the EU, compensated for this by being much more reformist and boosting its attractiveness as an investment location.

FIGURE 9: UKRAINIAN EXPORTS TO THE EU AND RUSSIA 2004-2014 (in millions of euro)



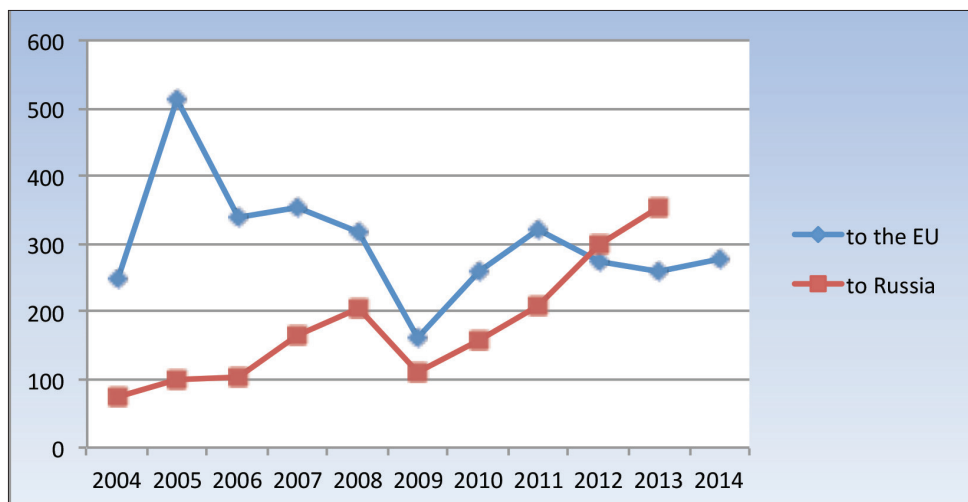
Sources for data: European Commission, Market Access database, 'Trade flows in goods between EU and non-EU countries'; the Federal State Statistics Service of the Russian Federation, External trade of the Russian Federation with CIS states database

FIGURE 10: BELARUS EXPORTS TO THE EU AND RUSSIA, 2004-2014 (in millions of euro)



Sources for data: European Commission, Market Access database, 'Trade flows in goods between EU and non-EU countries'; Commodity exports from the Republic of Belarus by CIS countries

FIGURE 11: ARMENIAN EXPORTS TO THE EU AND RUSSIA, 2004-2014 (in millions of euro)



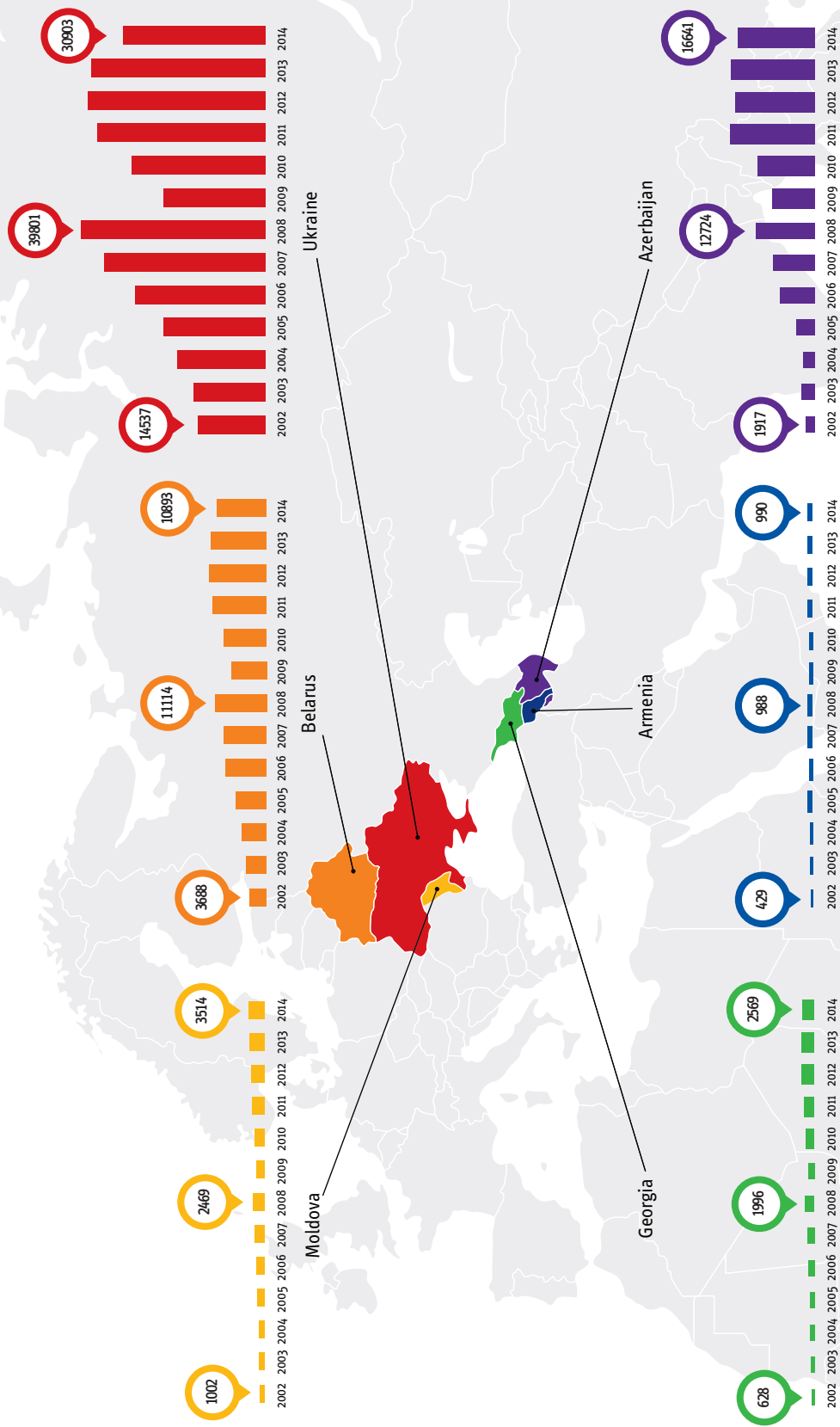
Sources for data: European Commission, Market Access database, 'Trade flows in goods between EU and non-EU countries'; National Statistical Service of the Republic of Armenia, External trade database

The performance of the other countries in terms of an increase in exports to the EU has been less impressive. This is to a certain extent due to the ramifications of the global economic crisis. Indeed prior to the onset of the economic crisis in 2008, all eastern neighbouring countries except Moldova and Azerbaijan exported more to the EU than in 2014. Moreover, the economies of the region were hit by another shockwave in 2014-2015 because of the war in Ukraine and the Russian economic crisis, which affected all the countries of the region and drastically reduced investors' confidence.

Association and DCFTA

2014 was *the* year of trade liberalisation between the EU and those of its neighbours who were eager to sign up and enjoy the benefits of free trade. Countries to the east of the EU had been gearing up for this moment for a decade. In June 2014 the EU signed Association Agreements with Moldova and Georgia, and in September provisionally applied the DCFTA provisions with Moldova and Georgia, and unilaterally applied the Association Agreement with Ukraine (however the application of DCFTA provisions was postponed until 1 January 2016, a measure agreed as part of EU-Ukraine-Russia consultations on the Association Agreement). But even a few months before that (April 2014) it also offered Ukraine and Georgia autonomous trade preferences to help them boost trade in difficult economic and security conditions.

FIGURE 12: EU TOTAL TRADE (TRADE WEIGHT, I.E. THE SUM OF IMPORTS AND EXPORTS), WITH EASTERN PARTNERSHIP COUNTRIES, 2002-2014
(in millions of euro)



Source for data: European Commission, Market Access database, 'Trade flows in goods between EU and non-EU countries'

The first few months were quite positive for trade, but not for long. Whereas in the first six months following the application of the ATP trade regime to Ukraine the country's exports to the EU grew by 15%, in the first half of 2015 Ukrainian exports to the EU fell by 34% (compared to a 54% drop to other post-Soviet markets, primarily Russia).⁵ The war in Ukraine and severe slump in the region's economies had extremely negative repercussions for trade dynamics with the EU. That happened for the simple reason that even with a liberalised trade regime, exports to the EU need to meet certain standards, and that can only be achieved when improved and modernised production lines and technologies are in place: the country needs to have access to funds, investment and credit in order to be able to afford such modernisation. A country in Ukraine's position – engaged in fighting a war, and with a near-bankrupt economy in freefall – is unlikely to attract lenders or investors, which drastically limits its export potential. These negative trends have also affected economic dynamics and investor confidence in the entire region, well beyond Ukraine.

Clearly, in the absence of ATP and free trade with the EU, the situation could have been worse for Ukraine. Yet, even taking into account the internal strains and external pressures which Ukraine, and the region at large, have experienced since 2013, the trade situation remains complicated, partly as a reflection of the fact that over the last decade eastern neighbouring countries have not made much progress in modernising their economies and improving their competitiveness.

Overall, the last decade's trade dynamic has been positive, but hardly stellar. The implementation of the DCFTA is in its early phases only and it will take time for its potentially positive impact to trickle through to the economies of the region. Yet, the background of a region-wide security and economic crisis is also likely to hinder the effectiveness of the DCFTA.

Visa regimes and people-to-people contacts

Until the EU enlargements of 2004 and 2007 citizens of most ENP countries could travel visa-free to most Central European countries. With their accession to the EU, these countries introduced visas, thus complicating travel between Eastern and Central Europe.

To partly counteract these effects the EU launched a process of 'visa facilitation' which established that, in exchange for signing readmission agreements, certain categories of neighbouring countries' citizens such as businessmen, pilots, academics or civil society actors could qualify more easily for long-term, multi-entrance Schengen visas. The first country to be offered such a deal was Russia, followed by Ukraine and Moldova in 2007, followed in turn by Georgia (2010), Armenia (2012) and Azerbaijan (2013). Once these agreements were progressively put in place, new categories of citizens were included, and new provisions for ever-longer periods for long-term visas were issued (first 1 year, then 3 and then 5 years).

5. See: <http://www.eurointegration.com.ua/rus/articles/2015/08/17/7037092/>

In addition, neighbouring countries have been systematically asking the EU to abolish visa requirements for short-term trips altogether. The process received a boost when the EU offered visa-free travel to the countries of the Western Balkans which went through the so-called ‘visa liberalisation process’. In facilitating visa-free travel in this way, the logic in Brussels was that visas, and travel restrictions within the EU, are not an end in themselves. Visas are just a means, albeit not the only means, to minimise illegal migration. Thus in the case of close political partners the Union could seek to replace visas with other means of filtering who enters the EU. These measures could include the issuance of biometric passports (making it more difficult to forge them), training of police and border guards, police reform, and stronger cooperation with the EU on border management. The EU has prescribed a set of 50-60 reform measures that the governments of potential candidate countries would need to implement in order to qualify for visa-free travel in the EU (which was offered only to holders of biometric passports and for visits of up to 3 months). Hence visa liberalisation was also seen not just as a tool to help the EU substitute visas with other mechanisms of immigration control, but also to encourage and foster reforms in the law-enforcement agencies in the partner states. The same methodology (with a more gradual timeframe and more caveats) was transposed to eastern neighbouring countries.

For now, only Moldova has finalised the process: Moldovan citizens holding biometric passports have been travelling visa-free to the EU since April 2014. This did not lead to an influx of Moldovans into the EU. Out of almost half a million Moldovans who travelled visa-free into the EU in the first year of the liberalised visa regime, only 2,400 have overstayed the legally allowed 90-day limit in the Schengen zone, which amounts to less than half a percent of the total number of travellers. Ukraine and Georgia have also been making progress in the fulfilment of EU criteria, although they are still some way away from obtaining visa-free status.

The effects of visa facilitation

Even if Moldova is the only country to have achieved visa-free status so far, visa facilitation has already led to some quite significant and positive shifts in travelling patterns for the entire region.

The available numbers are quite telling in this respect. They reveal a number of interesting aspects, such as the fact that Ukraine is the second-biggest recipient of Schengen visas in the world (although China is poised to overtake it in 2015), with Ukrainian citizens receiving almost 10% of Schengen visas, and Belarus – where approximately 5% of all Schengen visas are issued – overtook Turkey in 2012 as the fourth-biggest recipient of Schengen visas (Russia is the first recipient of Schengen visas, and 40% of Schengen visas worldwide are issued in Russia).

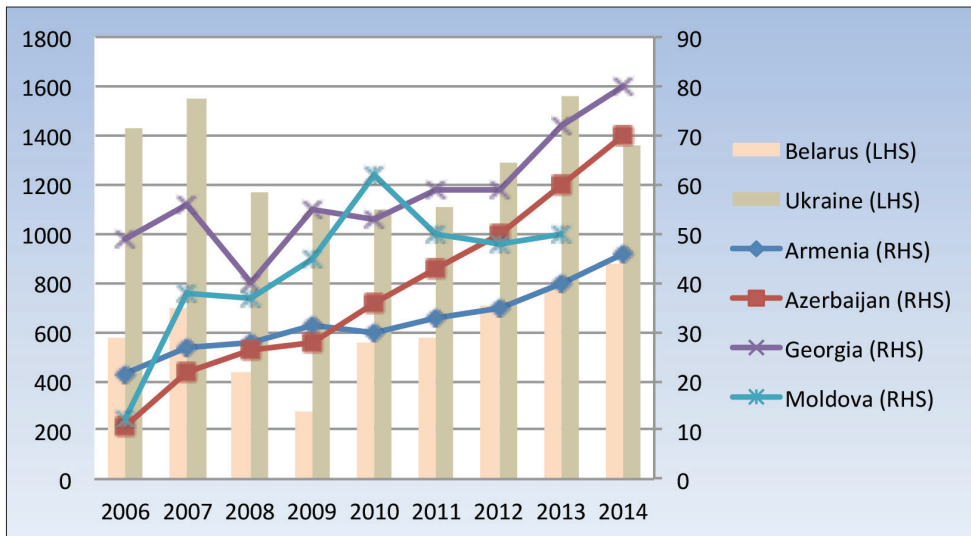
It is in the countries on the EU’s eastern flank that member states conduct some of their biggest consular operations. For example, the Polish consulate in Lviv, Western Ukraine or the Lithuanian consulate in Minsk, Belarus, each issue roughly 1% of the total number of Schengen visas worldwide. Only seven other EU consulates in the world issue more Schengen visas (and these are all located in Moscow and Saint Petersburg).⁶

6. European Commission, DG Home Affairs, Overview of Schengen Visa Statistics 2009-2012, Brussels, 2013. Available at: http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/borders-and-visas/visa-policy/docs/overview_of_schengen_visa_statistics_en.pdf

The EU neighbours 1995-2015: shades of grey

Belarus, despite not having a visa facilitation agreement, has shown particularly fast rates of growth of visa issuance. The number of Schengen visas issued in Belarus grew almost 2.4 times between 2009 and 2014 (i.e. more than doubled), putting Belarus fourth in the global rating of Schengen visa recipients after Russia, Ukraine and China, and right ahead of Turkey. Belarus is also the country with the lowest visa refusal rate in the world and is one of the highest visa recipients per capita. Ukraine and Azerbaijan also almost doubled the number of visas they received from 2009 to 2013.

FIGURE 13: NUMBER OF SCHENGEN VISAS ISSUED, 2006-2014 (in thousands)



Sources for data: EU Council for data from 2006-2009, and European Commission, DG Home for data from 2010-2014

A new security environment

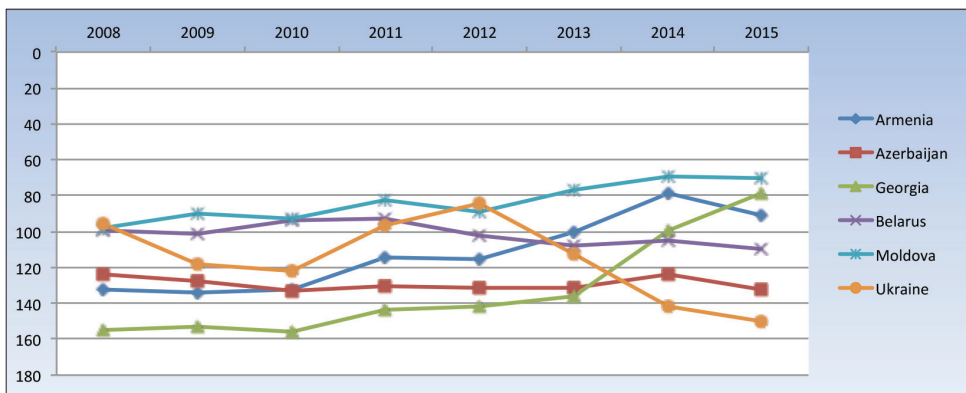
For all the volatility of domestic political realities in the EU's east, developments in the region in areas such as democracy, governance, corruption levels, trade and people-to-people contacts have been mostly gradual and incremental. Yet in one important respect the environment in the region has changed significantly – and ominously – and that is in the sphere of security.

Dogged by several protracted conflicts, the EU's eastern neighbours had to contend with their fair share of security problems from the early 1990s already. Throughout the last two decades the hope was that 'freezing' the conflict zones, and then eventually making progress towards greater democracy and prosperity, would gradually make the resolution of post-Soviet conflicts more likely. In fact the opposite has happened.

Conflicts have undermined the democratic and economic evolution of most of the EU's eastern neighbours. Instead of the 'freezing' of conflicts being a springboard for conflict resolution, it has exacerbated the destabilising factors underpinning the conflicts. Worse still, new conflicts have arisen in Ukraine. Due to these conflicts, and their broader implications for Western-Russian relations, the security environment to the EU's east has been revolutionised.

Whereas the situation is incomparably better than that prevailing in large parts of the Middle East and North Africa, where the war in Syria in particular has already taken a terrible toll, the situation in Eastern Europe has nevertheless worsened significantly. The outbreak of the 2008 Russian-Georgian war, followed by Russia's recognition of the breakaway republics of Abkhazia and South Ossetia, Russia's military annexation of Crimea, as well as large-scale destabilisation and high-intensity conventional combat in Donbass, are all significant changes for the worse. Future security tensions in other parts of Ukraine, Moldova, Georgia, Azerbaijan or Armenia cannot be ruled out.

FIGURE 14: GLOBAL PEACE INDEX 2008-2015 (place in the world)



Source for data: Global Peace Index

A key driver behind the pervasive securitisation of the region has been Russia's readiness to use military power as a key tool to project power and influence in its former backyard. Over the last decade, buoyed by energy revenues, the Kremlin has not simply engaged in a major military modernisation programme and increased defence spending, but it has also showed clear readiness to use military force.⁷ Russia has not simply upgraded its military hardware: it has started to use it extensively as a foreign policy instrument.

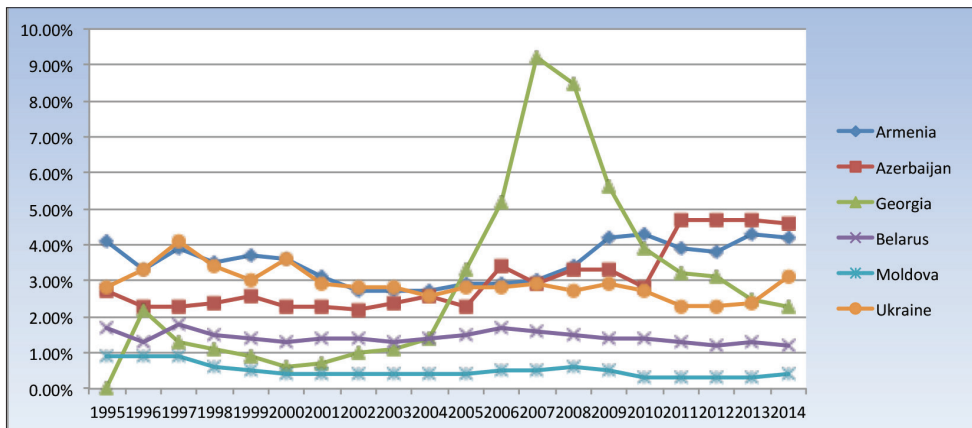
This happened against a background of apathy towards defence matters in parts of the region. Often when analysing conflicts, defence spending and renewed attention

7. Gustav Gressel, 'Russia's quiet military revolution and what it means for Europe', Policy Brief, European Council on Foreign Relations (ECFR), October 2015. Available at: http://www.ecfr.eu/publications/summary/russias_quiet_military_revolution_and_what_it_means_for_europe4045

The EU neighbours 1995-2015: shades of grey

to defence matters are considered an indicator of increased potential instability, including in the Middle East and North Africa. But in a number of the EU's key eastern neighbours much of the problem derived from the fact that insufficient, rather than too much, attention was paid to defence and security issues, particularly in Ukraine and Moldova.

FIGURE 15: DEFENCE SPENDING 1995-2014 (share of GDP)



Source for data: Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database

Ukraine's defence spending has remained at a level above 2% over the last two decades. But this level of spending was not accompanied by modernisation, reform and a concerted effort to fight corruption, which led to significant parts of the military budget being siphoned off. This has been aggravated by a combination of neglect and a focus on the wrong priorities. As Alexei Nikiforov, one of the commanders of a Ukrainian special forces unit stationed in Crimea during the annexation by Russia, once described Ukraine's military priorities: 'Russia was not supposed to be an enemy. All documents were based on that, starting with the military doctrine. We were always preparing to fight Romania. All exercises, all plans were directed at that.'⁸

But the war in Ukraine has been a wake-up call, and in its aftermath all these states are likely to spend more of their already meagre resources on defence. A near-bankrupt Ukraine has had to increase defence spending to 5% of GDP for 2016.

Ultimately, no amount of defence spending will make any country of the region able to withstand determined Russian military action. Even though Saakashvili revamped and modernised Georgia's forces in the years prior to 2008, his military's resistance collapsed within days in the face of a major Russian incursion. However, a better prepared military and security sector could make the use of 'hybrid tactics' much more difficult, thereby making the threshold for the use of military force potentially higher. Part of Ukraine's problem was the fact that it was so 'cheap' in terms of human and military resources to take over or destabilise large swathes of

8. See: http://society.lb.ua/life/2015/03/30/300043_mne_krima_zvonyat_sprashivayut.html

the country. By spring 2014, a group of several dozen armed military men could drive deep into Ukrainian territory and effectively take control of certain towns of the Donbass region without being opposed, precipitating the area's descent into chaos and violence. The chances are that Moldova would not have fared any better had it been faced with such a challenge.

The neighbouring states and the international community failed to notice this revolution in regional geopolitics, driven by a militarily resurgent Russia. Whereas for most of the last two decades the focus of main concern has been on efforts to resolve or contain secessionist conflicts through mediation, diplomacy and ESDP missions such as EUBAM or EUMM, in the new context it is the overall security governance and resilience of states that is of paramount concern. Instead of conflict resolution, a more thorough upgrading of the security infrastructure of the neighbouring states is the urgent priority. The alternative – a *status quo* of weak states and poor security governance with little resilience to external interference or aggression – has already proved destabilising for the region and for Western-Russian relations as well, as the war in Ukraine has shown.

* * *

The eastern neighbours have changed in many ways since the 1990s. Yet progress has been uneven. Some countries muddled through as unconsolidated democracies (in itself quite an achievement), while others faced a hardening of autocratic rule; there has been a region-wide trend towards improved economic governance and ease of doing business, but corruption seems not just to continue to thrive, but to be even more embedded than ever before. Trade with the EU has grown for some countries, but in the case of the biggest economy of the region – Ukraine – not by much compared to trade with Russia. The easing of travel conditions to the EU has been a clear success with Moldova obtaining a visa-free regime in 2014, and Belarus becoming the world's fourth-highest recipient of EU visas. Yet, against the background of some positive developments, one negative element risks outweighing all the other factors. And that is the militarisation of regional geopolitics, where force has been used to alter international borders in Georgia and Ukraine. Moreover, the implicit or explicit threat of the use of force will remain acute for years ahead in the best of cases, and the states of the region are ill-prepared to deal with this new reality.

CHAPTER 3

Conclusions: varying shades of grey

The EU's neighbours have been very much in the spotlight over the last few years. From hope for democratisation to despair over conflicts in Syria, Libya or Ukraine, the trajectories of these regions have shaken international politics. But the last five turbulent years are not all that these regions are about; it is important to look beyond the security dimension and analyse areas where progress has taken place – and where not.

In this study, both the southern and eastern neighbours of the EU have been examined within a larger timeframe that encompasses the last two decades, and not from an exclusively security perspective. Analysing developments and trends in areas such as democracy, economic governance, corruption, trade with the EU, defence spending, people-to-people contacts and visa-issuance rates results in a picture that is neither entirely black, nor artificially rosy. The equation is much more complex than a simplistic assessment of whether the EU's neighbours on the whole are doing rather badly or very badly. In fact, in certain policy domains, some neighbours are doing rather well, others are stagnating, while others are indeed faring very badly.

With such a diverse 'neighbourhood' and an intricate, multi-layered relationship between the EU and its fifteen neighbours to the east and south, the geopolitical landscape might indeed be characterised as presenting at least fifteen shades of grey. It is essential that the EU has a clear understanding of the complexities of these regions and the policies that have shaped them if it is to build a stable and mutually beneficial relationship with its neighbouring countries.

Looking south

Without doubt, and particularly given the maelstrom of the Syrian war, the current situation in North Africa and the Middle East is a bleak one. Nevertheless the analysis in this paper shows that over the past two decades the region as a whole made significant progress on a range of socio-economic issues ranging from literacy, poverty reduction, fertility rates and education, to overall GDP levels and trade with the EU. In that sense, national as well as international policies designed to improve the region's standard of living did have a tangible effect.

The key deficiencies are therefore not in these most pressing socio-economic areas, but rather in governments' failure to anticipate the changes to which these progressive policies would lead, and to plan accordingly. Quite simply, where states reduced infant mortality, alleviated poverty and provided education, they also created a growing cohort of citizens with expectations – from a population of 160 million in 1995, the region has grown to 216.7 million in 2015. States suddenly not only had over 56 million more citizens to provide for, a new generation had also grown up with strong expectations: expectations of employment, housing, access to wealth and – last but not least in this list – political representation.

States therefore failed firstly in addressing the socio-economic concerns of this overwhelmingly young cohort, and secondly in meeting its political desires. It is not clear whether the growth in population led to a pronounced threat perception at the leadership level, but the regional trend since 1995 – and beginning well before 2011 – has been increasing repression and stalled political reform. Whether gauged by the indicators of rule of law, good governance or accountability, regional *states* generally fare worse today than twenty years ago.

The picture is therefore a nuanced one: in many ways, the *region* is doing better today than it did twenty years ago – and this, it must be added, despite its many conflicts. However, the set of challenges facing the region has now moved to a more acute level and requires new policy responses, both nationally and internationally.

Looking east

The EU's eastern neighbours have experienced a tumultuous two decades in political terms. Yet fundamentally their political systems have not changed much. States with greater pluralism like Ukraine, Moldova and Georgia have remained largely unconsolidated democracies, while Belarus, Azerbaijan and (to a lesser extent) Armenia have increasingly entrenched authoritarian political systems where the prospect of opposition forces coming to power through electoral means seems more and more remote.

The picture is more mixed when it comes to economic governance and efforts towards reform. It transpires that there has been little correlation between democracy levels, foreign policy orientation and the way governance reforms and endeavours to combat corruption have evolved. On the one hand Georgia has been a showcase for improved economic governance and anti-corruption efforts. But beyond that, Armenia and Belarus seem to have shown better levels of economic governance than the more pluralist (and pro-EU) Ukraine and Moldova.

A key trend in the region has perhaps been a deepening and embedding of corruption and state capture. Except for Georgia, the public in all the states of the region share an increased perception that their governments are more corrupt than a decade ago. Pluralist and authoritarian systems alike seem to have a lacklustre record when it comes to controlling or curbing corruption. According to various ratings, pluralistic

Ukraine is as corrupt as authoritarian Azerbaijan, and the nominally pro-European Moldova is as corrupt as the more pro-Eurasian Armenia.

Trends in trade with the EU have been more encouraging. Thanks to various stages of trade liberalisation between the EU and its neighbours, even before the signature and application of the Deep and Comprehensive Free Trade Area agreements in 2014, trade between the EU and many of its eastern neighbours expanded over the last decade. Exports from Azerbaijan to the EU increased tenfold in the last ten years, driven by the double engine of growing oil exports and rising oil prices. Moldovan and Georgian exports to the EU more than doubled in the same period, while Ukrainian exports grew by a more modest 61% (compared to Ukrainian exports to Russia having more than doubled). Where there has been less progress is in trade relations with Armenia and Belarus, which currently export less to the EU than a decade ago.

When it comes to people-to-people contacts, cooperation between the EU and the eastern neighbours has also increased significantly. Moldova now has a visa-free regime with the EU. In the other countries of the region, the number of visas issued has grown constantly, as has the share of multi-entrance visas, with Ukraine and Belarus becoming the second and fourth Schengen visa recipients in the world (Russia being the first, China the third and Turkey the fifth). In this context, Belarus is particularly interesting as a country that has traditionally had a difficult relationship with the EU, but whose citizens have received some of the highest number of Schengen visas worldwide.

On the whole, the region as such has made significant progress in state consolidation, prosperity levels, governance, and a plethora of areas of cooperation with the EU, ranging from trade to people-to-people contacts. In two key areas, however, the eastern neighbours have not only made little progress but risk being pushed back even further – namely state capture in virtually all countries, and the use of military force and destabilisation as acceptable means of conducting inter-state relations and projecting influence.

Degrees of separation

As the EU's neighbours have changed over the past few decades, so has the EU approach to these countries. While it has often been charged that the EU adopted a 'one-size-fits-all' enlargement-style transposition of its *acquis* to countries that were not about to join the EU, and applied insufficient differentiation among its neighbours, such debates, whether justified or not, are no longer relevant.

On most key policy dimensions – democratisation, trade, visas, energy links or security – the EU has already been pursuing a rather differentiated policy towards its neighbours for at least several years. There has been increasing differentiation in approaches to the south and east, as well as between countries within these regions. In the east, Ukraine, Moldova and Georgia have signed Association Agreements

with the EU, while Belarus, Armenia and Azerbaijan chose not to. The legal basis and mutual obligations and benefits stemming from the Association Agreements – legally binding documents – create a completely different matrix of legal and economic relations between the EU and Moldova as compared to the EU and Armenia for example. The same is true in the south, where Association Agreements have been signed with Algeria, Egypt, Israel, Jordan, Lebanon, Morocco and Tunisia (the EU froze its draft Association Agreement with Syria in May 2011, following the outbreak of the conflict there, and negotiations with Libya are currently suspended). It must also be said that the scope and depth of these Association Agreements, however similar in name, have been and are fundamentally different as applied to eastern and southern neighbours.

The same goes for people-to-people contacts. In the east, some countries have been granted a visa-free travel regime (Moldova), others have a prospect of visa-free status in sight (Georgia and Ukraine) while for others the issue is not on the agenda. In the south, mobility partnerships have been signed only with Jordan, Morocco and Tunisia. And likewise with energy: some eastern countries have agreed to implement the EU energy *acquis*, while for others this is completely out of the question.

In other words, despite the all-encompassing initial aspirations of the ENP – directed at both south and east – if one actually looks at the specific policy sectors, differentiation has already occurred, and EU acceptance that relations can develop without necessarily being based on an export of its *acquis* is also taking root. The real challenge for the EU is elsewhere – in the sphere of security, where things have worsened significantly in the last decade and might worsen even further, undermining whatever progress has been achieved in other areas.

Terms of engagement

The main tasks ahead for the countries to the east and south of the EU are likely to be twofold.

First, there is the need to consolidate the fragile achievements of the last two decades, not least in terms of enhancing relations with ‘frontrunner’ countries like Tunisia, Morocco, Jordan, Israel and Lebanon in the south, and Moldova, Ukraine and Georgia in the east. Israel apart, virtually all these countries have structural weaknesses related to domestic politics, prosperity levels, and the speed and depth of reforms. They are therefore unlikely to become ‘success stories’ any time soon. Yet they all tend to be doing better than their respective region at large, and thus deserve sustained external engagement.

In the east this means focusing on the steady implementation of Association Agreements over the next decade. This will not be easy, especially against the background of deteriorating regional economies and security tensions. The same applies to the south, where policymakers are under pressure to divert more resources and attention to security rather than invest in longer-term (though equally

crucial) policy areas. In the face of growing instability, rising terrorist threats and humanitarian catastrophes that affect so much of the region surrounding the EU, it is important to focus not just on countries that have nearly failed, but perhaps more importantly on the ones where progress is palpable, albeit fragile. All states in the region face severe challenges but, as the analysis shows, certain policies do work – provided they are implemented consistently over a longer time frame.

The second important task is dealing with matters of war and peace. Whereas the south has experienced severe security crises many times since the end of World War II, the east has experienced such instability only recently. Where the EU previously had to contain ‘only’ side effects from war and conflict in the south, it now has to do the same in its east. More importantly, security implosion in the EU’s ‘Near Abroad’ gravely undermines economic development and progress in governance. And, interestingly, the countries that are doing less badly in both regions, especially in terms of democratisation and governance, are those that cannot count on oil and gas revenues – which may hint at another ‘resource curse’ in disguise.

In the east, new secessionist conflicts have appeared, and Russia’s newly modernised and combat-ready army has emerged as a major factor in the regional dynamics. This has happened against a background of decades-long neglect of basic security sector governance in countries like Ukraine and Moldova, which only lowers the threshold of potential future security crises. This has proved problematic not just for the countries themselves, but also for EU-Russia relations and cooperation on issues ranging from trade to counter-terrorism. In such an environment, a thorough upgrading of the security infrastructure of the neighbouring states is a key priority. Otherwise the *status quo* of weak states and poor security governance with little resilience to external interference or aggression may prove destabilising for the entire continent, as the conflict in Ukraine has shown. In other words, a well-functioning Ukraine is important not just for its own sake, but also for the wider context of Western-Russian relations.

In the south, all shades of conflict are raging almost simultaneously – from civil war in Libya and Syria to regional terrorist networks, hybrid warfare, the proliferation of militia groups and conventional war, most states in the region face various forms of insecurity. In large part, this is the result of state failure: most of these phenomena appear only where states are too weak to deter, contain or fight them. State-building in the security sector is therefore an important element in stabilising the region, but this will have to go beyond merely upgrading military hardware. As much as substantial security sector reform is difficult to achieve during crisis, it is imperative at this point.

The EU is likely to face an even more complex set of challenges both to its south and east in the decade ahead than those with which it has been confronted over the past 20 years. Managing that complexity will require a balance between short-term action such as crisis management and mediation, and increased commitment to the long-term development of the neighbouring countries whose security, resilience and consolidation of past achievements is a vital strategic interest for the EU.

Annex

Abbreviations

ATP	Autonomous Trade Preferences
CFSP	Common Foreign and Security Policy
CIS	Commonwealth of Independent States
DCFTA	Deep and Comprehensive Free Trade Area
DG	Directorate General
EaP	Eastern Partnership
EEAS	European External Action Service
EEU	Eurasian Economic Union
ENP	European Neighbourhood Policy
ESDP	European Security and Defence Policy
ESS	European Security Strategy
FDI	Foreign Direct Investment
FTA	Free Trade Area
GDP	Gross Domestic Product
GSP	Generalised System of Preferences
HDI	Human Development Index
HR/VP	High Representative of the Union for Foreign Affairs and Security Policy/Vice-President of the European Commission
IOM	International Organisation for Migration
ISIL	Islamic State of Iraq and the Levant
KSA	Kingdom of Saudi Arabia
PCA	Partnership and Cooperation Agreement

TACIS	Technical Aid to the Commonwealth of Independent States
TEU	Treaty on European Union
UAE	United Arab Emirates
UfM	Union for the Mediterranean
USD	United States Dollars

