

## **Economic crisis and the “eastern partnership”**

by Tomas Valasek, 10 March 2009

In two months, at a summit in Prague on May 7th, the European Union will launch a new policy for Eastern Europe – an 'eastern partnership'. It will increase EU assistance to the region, open the EU's markets to the neighbours' goods and gradually remove visa requirements, among other things. The idea is to give the neighbouring countries stronger incentives to adopt European norms and rules, to integrate their economies with the EU's, and thus to make the region more prosperous and stable. The concept is sound – but the initiative as well as the EU's overall policy for Eastern Europe will suffer unless the EU takes more visible steps to assist its neighbours through the economic crisis.

The crisis hit Eastern Europe hard. Ukraine's currency, the hryvnia, lost over 50 per cent of its value, and economists warn of a possible default. Belarus, too, is in trouble. Much of the economy is driven by exports of machinery to Russia, where demand has collapsed. Armenia, another member of the eastern partnership, is in equal difficulty, and will probably need an IMF emergency loan soon.

The economic crisis poses a three-fold challenge to the EU's eastern policy. The first risk is that of rising nationalism and protectionism on both sides of the EU's borders, which is hampering economic integration. The European Union and Ukraine are negotiating a new free trade agreement but senior EU officials say that Ukraine has become more protectionist since the crisis broke out. It insists on keeping a number of controversial tariffs, which has caused the talks to stall. The EU, too, is far less open to eastern workers and visitors these days. The member-states are unwilling to ease visa requirements for the partner states, fearing an influx of illegal workers. If the EU and its partners fail to deepen economic integration and make travel to the EU easier, the eastern partnership's main goal – a gradual alignment of the partner states with the EU – will be in trouble.

The second risk stems from the perception that the EU is not doing enough to help the eastern partners through the crisis. President Vladimir Voronin of Moldova recently dismissed the eastern partnership-related grants as “candy”, suggesting they were not serious enough to warrant attention. He is unfair to the EU: it is not the eastern partnership's purpose to bail out the partners' economies. It has only a modest financial component; its grants amount to a few hundred million euro, and are meant mainly to help improve governance and expand people-to-people contacts. There are other tools the EU can use to assist its eastern neighbours through the crisis, like the International Monetary Fund, which recently made a \$15 billion emergency loan to Ukraine. But Voronin's words signal a broader problem for the EU's eastern policy: the EU is not perceived to be helping its eastern neighbours; they see the IMF but not Europe. And perceptions are important: if the EU's eastern partners think that the EU is failing them at the time of their greatest need, most of the goals of the eastern partnership will come to nought.

The third risk relates to the economic weakness of many new EU member-states in Central Europe. It is they who, along with Sweden, have most strongly advocated greater EU engagement with its eastern neighbours. And in the EU, which has many diverse members and interests, an initiative only succeeds when a strong state or a group of states devote serious time and attention to winning EU-wide support for it.

But will the new member-states push for more financial assistance for Eastern Europe? It could mean keeping less of the much-needed money for themselves, and that is a tough political decision to make. Will they have the energy to fight the political battles in Brussels with EU governments less interested in Eastern Europe? Some new member-states like Latvia are reducing diplomatic staffs across Europe, and they will find it difficult to pursue multiple foreign policy goals simultaneously. Also at risk are the myriad of small grants which the new member-states' governments give to non-governmental groups in the neighbouring countries, and the training programmes they organise for East European administrators or journalists. These programmes are just as important as the eastern partnership itself: they expand the circle of people in the Eastern Europe who have a vested interest in closer relationship with the EU. So it matters that these activities are now at risk because of recession-related budget cuts.

The economic crisis represents a crisis of sorts for the EU's eastern policy. But there are ways of minimising the damage or even turning a problem into an opportunity.

Some EU government-financed initiatives for eastern neighbours will no doubt fall victim to the economic crisis. But instead of all Central European governments cutting all their training or advisory programmes, they should pool some of the initiatives. For example, rather than recalling advisors who are helping to reform key Ukrainian ministries, the new member-states could agree to withdraw some and co-finance the remaining ones. The same should apply to training programmes in the EU for East European administrators and to the very useful conferences organised in Latvia and Estonia to raise the profile of the EU's eastern initiatives: some will be cut but there ought to be ways to share resources to save the remaining ones.

The top priority for the EU's eastern policy, however, must be to take steps to more visibly help its eastern neighbours through the economic crisis. It is simply not true, as president Voronin suggested, that European aid to the east is peanuts – the IMF, in which EU member-states play a strong role, gave a \$15 billion loan to Ukraine, and a further \$2 billion loan to Belarus. The trouble is that the EU as such is not getting the credit. And in the eyes of the Eastern Europeans, the EU's perceived stinginess compares unfavourably with the far greater amounts which Russia is willing to spend on bailing out Eastern Europe (it set aside \$7.5 billion for the task).

The situation calls for creative solutions. The EU should not compete with the IMF in providing balance-of-payment loans directly to governments: the IMF has a better capacity to raise the necessary funds and to oversee the reforms, which the recipient states undertake in order to qualify for IMF loans. But the EU could expand its €25 billion emergency fund for the new member-states to include the eastern neighbours as well. And it should use the money to co-finance IMF assistance with targeted loans or grants to soften the social impact of the economic crisis. For example, it could finance job retraining programmes in Belarus or Ukraine.

The EU should also speed up the payment of its eastern partnership grants. They are small compared to the amounts disbursed through loans but if targeted well, could have real impact. The EU should direct them towards helping the most vulnerable parts of East European societies and towards regions hardest hit by the crisis. There is a real risk that some of the money could be misdirected or stolen – the ability of East European government to properly 'absorb' EU aid is in question. But EU officials have worked with the eastern neighbours for many years now; they have a good idea which

parts of their administrations are competent and which are corrupt, and can reduce the risk of theft by targeting the aid carefully.

Building EU-wide support for these proposals will not be easy. All EU governments, including the most prosperous ones, are going to run up massive debt in the coming years. Money will be in very short supply, so the member-states will be reluctant to expand assistance to Eastern Europe. Also, the EU is getting fed up with Ukraine in particular, because the leadership is so weak and divided – the IMF even halted the disbursement of its loan because the government in Kyiv failed to agree the necessary reforms. And because Ukraine has been at the heart of the eastern partnership, its woes undermine support among EU member-states for the whole region.

But the EU has no choice but work with Ukraine; it is the largest and most important country in the eastern partnership. And while the economic crisis will consume most European effort and attention; the EU must be able to pursue different objectives simultaneously. The economic crisis creates an opportunity for the EU's eastern policy. Ukraine and other neighbours will be looking for help to stave off the crisis and lessen the social tensions it will create. The EU should become 'the friend in need', and built lasting loyalties.

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