

Developing Trade and Trade Policy Relations with the European Union. Experience of Visegrád Countries and Implications/Lessons for Eastern Partners, East European Studies, No. 5, 2014, MTA Centre for Economic and Regional Studies, Institute of World Economics, Budapest

Book Review by Ágota Dávid¹

Abstract²: *The trade cooperation between the Eastern Partnership countries and the European Union has faced significant setbacks in recent years. Because the EU is basing its cooperation with the EaP countries on similar Agreements to those concluded with the Visegrád Four, the lessons learned from the integration of the Visegrád countries can help the eastern neighbours in their relations with the EU. The perspective of full membership, yearly evaluations and recommendations and the support of a dedicated financial instrument were the main sources that fuelled Poland's and Hungary's successful integration process. Thus, the lack of a full membership perspective weighs heavily on the cooperation between EU and the EaP countries, while the current situation in Ukraine also called the Eastern Partnership into question. Even though the Republic of Moldova and Georgia seem to favour European integration, Azerbaijan finds itself in an interesting position that allows it to be independent of the two powers EU and Russia. The lack of incentives offered by the EU in the trade negotiations may lead to the strengthening of the relations between the EaP countries and Russia.*

Keywords: *European Union, trade policy, Visegrád Four, Eastern Partnership*

The current political situation in Ukraine put the question of the Eastern neighbouring countries, the so called Eastern Partnership (EaP) countries on the agenda of the European Union again. The events in Ukraine show the dubious situation of these former Soviet countries rooted in their past strong relationship with Russia, heading for western markets and integration with Europe. The current forms of cooperation possibilities offered by the European Union might not be sufficient to convince these countries to make a final decision about breaking their formal ties with Russia, taking all the risks of economic and eventually military sanctions. This volume of the Institute of World Economics is mainly dealing with trade and economy related questions but also draws political conclusions for the countries of the region and for the European Union.

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² The volume consists of studies prepared in the framework of the project 'Developing Trade and Trade Policy with the European Union. Experience of V4 countries and Implications/Lessons for Eastern Partnership Countries'. The project was financed by the International Visegrád Fund and it was performed under the leadership of the Institute for World Economics of the Research Centre for Economic and Regional Studies of the Hungarian Academy of Sciences.

The bilateral cooperation with the countries of the EaP region is built upon similar Agreements to those formerly concluded with Eastern European countries in the 1990's. That is why experience and lessons learnt by the Visegrád countries can be useful for their Eastern neighbours during their preparation for the potential joining of the European single market. The volume not only focuses on similarities but also on differences of the distinct types of Agreements as well as on the very diverse economic and political situation of the countries in the EaP region.

Starting with a general overview on the development of EU's trade policy, Tamás Szigetvári - also editor of the publication – describes various forms of trade relations and related types of Agreements. The enlargement with the Eastern-European countries resulted in new frontiers and new neighbouring countries on the eastern borders, which explained the need for a stronger commitment of the EU. Support of free trade agreements, visa liberalisation, energy security are important fields of the cooperation, while a long-term objective would be the establishment of a network of Free Trade Agreements that could become a Neighbourhood Economic Community in the future.

The new programs and initiatives were also reflected in the new types of agreements. The Partnership and Cooperation Agreements (PCA) from the 1990's – which were concluded with former Soviet republics – were planned to be substituted by the so called Association Agreements (AA). These new Agreements consist of four different parts: Political Dialogue and Foreign and Security Policy; Justice, Freedom and Security; Economic and Sectoral cooperation; Deep and Comprehensive Free Trade Agreements (DCFTA). Some of the EaP countries (Georgia, Moldova and Ukraine) have already successfully finished the negotiations of their bilateral AAs which were planned to be signed during the EaP summit in Vilnius in November 2013 (this publication reflects still these plans)³.

This general introduction is followed by three articles about the experiences of the V4 countries⁴. First, in the joint study by Elzbieta Kawecka-Wyrzykowska and Sándor Meisel the Association Agreements concluded by Eastern European countries, the so called Europe Agreements are introduced. Then two country studies – one about Poland and one about Hungary by Elzbieta Kawecka-Wyrzykowska and Sándor Meisel respectively – follow. Both studies describe in detail the general and more specifically the economic expectations, negotiation strategies and techniques of these countries during their integration in the European Union. Both reports emphasize the importance of the perspective of full membership and its motivating power which is lacking for their Eastern neighbours⁵ – although initially this was only a unilateral declaration by Hungary and Poland. The studies also cover the questions of legal harmonisation in the field of trade related issues as well as institutional issues.

The main findings of these country reports can be summarized as follows: integration into the EU was an important pro-development and stabilizing factor in the economic transition period; national interest must be represented and supported by relevant arguments; domestic political and social support for the integration process, yearly assessment reports as well as administrative support for the process are essential; trade policy concessions must be accompanied by stable domestic macroeconomic conditions; trade defence instruments must

³ None of the Agreements could be signed because of the failure to sign of the Ukrainian party, which culminated in a revolution in Ukraine afterwards. The treaty was finally signed on 21 March 2014 still with a limited content.

⁴ Czech Republic, Hungary, Poland and Slovakia

⁵ The Association Agreements with EaP countries do not mention the possibility of full membership.

be used but not misused; the risk of opening of a weaker domestic economy must be reduced by slow and asymmetric liberalization. Although increased EU competition resulted in short term economic losses, it also led to growing Foreign Direct Investment (FDI), diminishing inefficient production, and more determined market economy reforms by the government.

Both articles emphasise some differences, mainly advantages of Eastern Europe, too: the importance of the perspective of full membership in the case of this country grouping ranks first on this list. The harmonization process followed a strict strategy with yearly evaluations and recommendations. The whole process was supported by a dedicated financial instrument (PHARE). The second and third points also exist in the case of EaP countries (Association Agenda, the European Neighbourhood Partnership Instrument) but these play a less significant role in the integration process.

After the V4 reports four EaP countries – Ukraine, Moldova, Georgia and Azerbaijan – share their experiences about the current state of trade cooperation between them and the European Union, with special focus on the new DCFTAs. Generally speaking in the short run most of the countries fear an economic loss due to lower competitiveness, labour market rigidity and the elimination of protecting tariffs and other trade barriers. Most of the analyses agree though that on the longer run advantages outnumber the previously mentioned risks. The recommendations towards the European Union would be the following: to support the entry into force of the AAs with the DCFTAs; exchange of technical expertise, know-how; intensive political and sectoral dialogues. The Eastern Partnership initiative could also support the implementation of the Association Agenda of the given countries by strengthening the EaP thematic platform on Economic integration; organization of trade related events; creation of a network of DCFTAs etc.

In addition to these general remarks every country has a special situation with special focal points. In the first article in this row, Lidia Shynkaruk, Irina Baranovska and Olena Herasimova point at the special situation of Ukraine among the Eastern Partnership countries. Ukraine is the key player in the region with the largest economy. Tensions between the European Union and Russia over Ukraine became evident in 2011 and resulted in the failure of signature of the AA in Vilnius, in a revolution in Ukraine, in the signature of the AA on 21 March 2014 and the current political and military actions. Adrian Lupusor emphasises that Moldova is currently undoubtedly in favour of European integration but the special status of Transnistria makes the picture more complicated. According to Merab Kakulia Georgia – partly as a result of its tensions with Russia – also favours European integration; the major problems derive from the weakness and vulnerability of the economy. From the study of Vugar Bayramov the different status of Azerbaijan becomes evident. Due to the abundance of natural resources this country is relatively independent from the EU but also from Russia. Azerbaijan is still negotiating its WTO membership which is a prerequisite for signing a DCFTA.

The final article by Zsuzsa Ludvig is about the other main player in the area. Russia obviously tries to maintain its former influence in the region both politically and economically. The Russia initiated Customs Union and Eurasian Economic Community might be attractive competing options for some of the former Soviet republics in the EaP region. The lack of the full membership perspective, the political conditionality, the risks of DCFTA, the slow progress in visa related issues and mobility and the lack of financial support from the EU side might result in turning some EaP countries towards their Big Brother, Russia.