

EASTERN PARTNERSHIP COUNTRIES BETWEEN TWO MODELS OF REGIONAL INTEGRATION (HARD VS. SOFT CHOICE)¹

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Abstract. The author suggests a hypothesis that the choice of the model of integration may be a more important implication for a country's future than estimated figures of the economic benefits and losses for the concrete branches of the national economy. The focus of the proposed paper is in outlining the basic differences between the two models of the regional integration, represented by the EAEU and the EU. Thus, the fundamental differences in the essence of the models of cooperation should determine above all the readiness of the Eastern Partnership countries (EPCs) to be aligned or eventually to enter one of the two different unions.

Keywords: integration, Eastern Partnership, EU, EAEU, FTA.

Introduction

Eastern Partnership countries (EPCs) are making or will make eventually a hard political choice which is not only about choosing external preferential partners, but which to a large extent will predetermine the pattern of interaction with neighbors and will touch upon the basics of the functioning of the state institutions, including such fundamental concepts as the boundaries to sovereignty, supranational security and the readiness to share some competences with other members of the regional blocs.

From what we see today we can assume that Belarus and Armenia are inclined to be rather closer with the Eurasian Economic Union (EAEU). The meaning of this is implementing a soft integration concept, but with frequent reliance on the hard power politics. Ukraine and Georgia are inclined to be closer to the European Union, which in practical terms means undertaking soft power politics, but implementing the hard integration concept. Azerbaijan and Moldova find themselves to a different degree somewhere in between these two radically different fundamental policy options. For them, it is all the more important to fully take into account the implications of their choice.

Many experts make a point on similarities between the EU and the EAEU models of integration. There are many similarities. Some elements of the EU model have been implemented in the modified version into the EAEU model. However, both blocs do have fundamental differences in the modus operandi from a theoretical and from a practical point of view. The meaning of this is that the implications of a choice between preferential partners will be very much different and will be of a fundamental character.

¹ This study was made with the support of the HSE Scientific Fund, project 17-01-0086.

Literature Review

There are two major blocs of literature proper to this study. The one is about the forms of regional integration and another one is about a set of consequences for different countries of joining the regional trade agreements (RTAs).

Bella Balassa introduced the currently prevailing and largely acknowledged regional integration forms classification back in 1961.² The forms corresponded to intergovernmental integration realities at that moment in time. There have been corrections since then both in the theory and in practice, as observed in Mattli and Sweet 2012.³ Different authors made attempts to further develop the classification.⁴ The initial perception of forms of integration has been widely used and slightly modified by every distinguished researcher in this field of studies as one can see from an overview by Hosny.⁵ With those adjustments in place, analytical logic in regional integration theory was lost to some extent. R. Baldwin proposed a free trade area to follow a preferential trade agreement, or to merge it with the preferential economic agreement.⁶ C. Closa acknowledged that 'initiatives such as UNASUR and ALBA ... did not correspond to the traditional Balassa stages model.'⁷ Some authors do not distinguish the conceptual difference in the meaning of a single or a common market. Some analysts position a political union as the final point of economic integration.⁸ Analysts either consider an economic union as a separate form of integration, or couple it with a social union, or with a monetary union. They present an economic and a monetary union either separately or jointly as a combined form of integration. Sometimes researchers perceive the monetary union as a specific form of an economic union: 'The extreme case of an Economic union could be a Monetary union.'⁹ In fact, the EU launched the Economic union jointly with the monetary union,¹⁰ though B. Balassa introduced an Economic union as a separate form of integration in his theory.

It seems the coherent understanding of the economic integration forms is missing. An absence of a clear distinction between the forms of economic integration misleads specialists around the world. 'Neither past experience nor traditional trade theory provides an adequate guide to

² Bela Balassa, *The Theory of Economic Integration* (London: G. Allen & Unwin Ltd, 1961), 2-12.

³ Walter Mattli and Alec Stone Sweet, "Regional Integration and the Evolution of the European Polity: On the Fiftieth Anniversary of the Journal of Common Market Studies," *Journal of Common Market Studies* 50, 1 (2012): 1-17.

⁴ Giandomenico Majone, "Positive and Negative Integration," in *Dilemmas of European Integration: The Ambiguities and Pitfalls of Integration*, ed. Giandomenico Majone (Oxford: Oxford Scholarship Online, 2006).

⁵ Amr Sadek Hosny, "Theories of Economic Integration: a Survey of the Economic and Political Literature," *International Journal of Economy, Management and Social Sciences* 2, 5 (2013): 133-155.

⁶ Richard E. Baldwin, "Sequencing regionalism: theory, European practice and lessons for Asia," *ADB Working Paper Series on Regional Economic Integration* 80 (June 2011).

⁷ Carlos Closa, "Mainstreaming regionalism," *European University Institute Robert Schuman Centre for Advanced Studies Working Paper RSCAS* (December 2015): 7.

⁸ Bela Balassa, "Economic integration," in *The New Palgrave Dictionary of Economics*, eds. John Eatwell, Murray Milgate and Peter Newman (New York: Stockton Press, 1987).

⁹ Hosny, "Theories of Economic Integration: a Survey of the Economic and Political Literature," 134.

¹⁰ *Treaty Establishing the European Union*, Maastricht, 1993.

current regional arrangements.¹¹ The meaning of regional and sub-regional unions, created across time in various parts of the globe is not the same. According to Fendel and Maurer, 'Latin Monetary Union (LMU) of 1865 had more similarities with the European communities' common monetary system (CMS), rather than with the European monetary union (EMU) although they both were called "unions".¹² Many researchers called forms of integration as stages of integration.

As a result, the theory of the forms of economic integration is presently quite vague and lacks an analytical logic, though the need to distinguish what is integration and what is not is great. However, since 1961, there has been no major revision of the theory of the forms of economic integration. As has been confirmed many times, the original Balassa theory is still the best so far and most relevant. This research lacuna is even more surprising, as the economic integration itself has changed in many ways within these fifty five years of rapid evolution. During this evolution, integration has embraced new areas, changed its scope and its geography, and definitely and not surprisingly its forms! Thus, the current point in time would be appropriate for advancing new ideas pertaining to the core concepts of forms of economic integration.

The second bloc of literature, relevant to this study touches upon the topic of the effects of economic integration on national economies in general and on European Partnership countries, in particular, studied by many authors (Bhagwati 1993; El-Agra 1988; Lipsey 1960; Viner 1950; Wallace 1990 and others).¹³

A special value to develop the understanding of the effects on the EPCs and Moldova in particular was brought by several studies made by Prof. Elena Korosteleva with a team of experts under the research commissioned by the University of Kent in 2014 and afterwards.¹⁴ Another interesting input into the topic was made by Jana Kobzova.¹⁵ Some authors provided estimates of benefits and losses for the EPCs dealing with either union – the EU or the EAEU.¹⁶

¹¹ Robert Lawrence, *Regionalism, Multilateralism, and Deeper Integration* (Washington, DC: Brookings Institution Press, 1996), 6.

¹² Ralf Fendel and David Maurer, "Does European History Repeat Itself? Lessons from the Latin Monetary Union for the European Monetary Union," *Journal of Economic Integration* 30, 1 (2015): 93-120.

¹³ Jagdish Bhagwati, "Regionalism and multilateralism: an overview," in *New Dimensions in Regional Integration*, eds. Jaimie De Melo and Arvind Panagariya (Cambridge: Cambridge University Press, 1993); Ali M. El-Agra, *International Economic Integration* (London: Macmillan, 1988); Michelle Egan, *Single Markets. Economic Integration in Europe and the United States* (Oxford: Oxford University Press, 2015); Richard G. Lipsey, "The Theory of Customs Unions: a General Survey," *The Economic Journal* 70, 279 (1960): 496-513; William Wallace, "Introduction: the Dynamics of European Integration," in *Dynamics of European Integration*, ed. William Wallace, 1-24 (London: Pinter / RIIA, 1990).

¹⁴ Elena Korosteleva, Michal Natorski and Licinia Simao, eds., *EU Policies in the Eastern Neighbourhood: the practices perspective* (London: Routledge, 2014).

¹⁵ Jana Kobzova, "Can the Eastern Partnership work?," *European View* 1, 2 (November 2012).

¹⁶ Thorvaldur Gylfason, Inmaculada Martínez-Zarzoso and Per Magnus Wijkman, "Free Trade Agreements, Institutions and the Exports of Eastern Partnership Countries," *JCMS* 53, 6 (November 2015): 1214-1229.

The Forms of Regional Integration

When the states consider choosing the preferential regional bloc to align with, they should take into account the forms in which the integration between them and the regional bloc should take place.

The original classification of the forms of economic integration was proposed by B. Balassa. He defined five economic integration forms: Free trade area, Customs union, Common market, Economic union and Full economic integration.¹⁷ To devise the forms of integration, B. Balassa used a criterion of the 'degree of discrimination' between states.¹⁸ This was a justified approach for that period in time.

It might be sufficient to apply the criterion of 'degree of discrimination' when we contemplate the elimination of barriers to trade (FTA) or of extra barriers to the movement of capital, people and services within a common market. However, when we consider the difference between these two forms of integration and the customs union, we find within the latter not only the elimination of barriers to trade but also a common external trade policy in relation to other countries.¹⁹ Thus, it is not possible to explain the difference only in terms of degree of discrimination. The economic union or other later established unions' (Energy union, Fiscal union) notion's difference in quality also remains unclear, if considered simply from the fact of the elimination of discrimination in trade. The Economic union appears when the co-ordination of macro-economic policies starts. The co-ordination of policies consists of more than merely opposing discrimination; it is more significant, especially in cases of macro-economic policy co-ordination.

The first conclusion to advance the reasoning of the classification of integration forms is that when trying to identify a form of integration and to assess the level of it we should consider not only the degree of elimination of different barriers, which is an equivalent to negative integration, but we should take into account something positive, created by the states as an outcome of the integration.²⁰

One more important note: not only FTA's and trade liberalization are at the heart of the evolution of the forms of integration. C. Closa puts it in the following way: 'Connecting with the paradigm of "regionalism as trade", there also exist large N of studies; this applies in particular to Free Trade Agreements. But, diluting regionalism within trade makes little conceptual sense.'²¹ Thus, there should be something else to consider as a criterion for the classification. It seems necessary to add up an extra criterion for classification of the forms of integration.

I have studied many common regional policies in areas like transport, energy, ecology, competition, education, migration and others. The analysis of the empirical data on the multiplicity of policies in regional co-operation around the world, especially within the EU as the

¹⁷ Balassa, "Economic integration."

¹⁸ Balassa, *The Theory of Economic Integration*, 2-12.

¹⁹ Jacob Viner, *The Customs Union Issue* (New York: Carnegie Endowment for International Peace, 1950).

²⁰ El-Agra, *International Economic Integration*.

²¹ Closa, "Mainstreaming regionalism."

most advanced regional bloc, makes me to rethink the classification of the codified forms of integration. After re-systemizing the forms in which co-operation takes place, I assume that a longer list of them is necessary. I suggest adding up the criteria of the level of co-ordination and unification of economic policies to the criterion of the elimination of barriers to the production factor movement. In order to have an idea to which extent integration went forward, there is a need to assess the scope and maturity of the co-ordination of national policies between the states. The regional integration experience demonstrates that eliminating barriers to production factor movement is not sufficient to compete globally. The co-ordination of policies proves to be an important element to increase the efficiency of regional co-operation. Above all, it will accurately testify to the achieved level of unity – the essence of integration. The density of co-operation is no less important than the elimination of discrimination.

Distinguishing between the level of co-ordination and the level of unification of policies helps to reveal the differences in the degrees of application of the common and single elements in different forms of co-operation within blocs of states. If we talk about the deep integration, then the higher the form of integration the greater the loss of national competences.²² In other words, I suggest considering the extent to which the supranational components (single elements) prevail within an area as another indicator of the maturity of this area's integration, meaning the passage to a new form of integration. This indicator is highly revealing. The process of deep integration resides in the making of a single entity from several separate parts, and therefore, the more unified elements are found within a policy, the more it is single, the more integrated it is. To add a criterion and to continue to classify the forms of integration there is a need to review the hierarchy of policy co-operation, commonly acknowledged in other manuscripts:

- *Information*: partners inform one another on policies they pursue, they act as they think fit;
- *Consultation*: partners seek the advice of others on policies they intend to execute;
- *Co-ordination*: commits partners on actions to accomplish a *common policy* (my italics);
- *Unification*: suggests either the replacement of national policies with a bloc's policy or the adoption of a new single policy for the partners in parallel to the existing policies.

My thinking reveals that a common policy is the moment when positive integration starts and this is the reason why I choose the criterion of the level of co-ordination of policies for the classification. Co-ordination may happen by the harmonization of national legislation. Sometimes harmonization enters the hierarchy of the policy co-operation as a separate stage, but one can consider it as a sub-category of co-ordination. Agreements reached by co-ordination may not be enforceable (no sanctions), but they, nevertheless, limit the national government's actions. Unification is a higher degree of integration and, hence, the reason why it is used as an additional criterion for the classification. Thus, it appears necessary to add to

²² Egan, *Single Markets. Economic Integration in Europe and the United States*.

the criteria of the level of co-ordination of policies yet another one – the level of unification of policies to reveal in an adequate way the forms of integration.

Two Models of Regional Integration – Two different worlds

After using an extra criterion consequently, a concise vision of the development of regional integration could be presented as follows.

Table 1: Two Models of Regional Economic Integration

<u>Soft/flexible integration model</u> <i>Co-ordination to set up common spaces, policies</i>	<u>Deep/institutional integration model</u> <i>Unification to set up single spaces, policies</i>
Free trade area – Common area	Customs union – Single trade policy
Common market	Single market
Common economic policy – Common Union	Single economic policy – Single Union
Common monetary system – Common currency	Monetary union – Single currency
Economic union – Common economic union	Full economic integration – Single economy

Source: Composed by the author by applying the criteria of the degree of the movement of production factors, the level of co-ordination and the level of unification of policies.

The presentation of the forms is largely different from the classical perceptions, and I subdivide the forms into two different models. Sweet and Sandholtz suggested in their study 'a continuum that stretches between the two modes of governance: the intergovernmental and the supranational.'²³ They established two poles within the continuum: intergovernmental politics and the supranational politics. In this study, I share the concept of the two poles, moving further to apply it not only to politics, but to the classification of the regional integration forms as well.

In the next step of the analysis, it is important to distinguish the difference in quality in the integration forms, trying to re-group them to be part of a certain model. With this aim in mind, I assess the level of co-ordination and unification of policies (high or low) in different areas of regional cooperation, to have an idea of to what extent different cooperation patterns contain common or single elements. As a result, I advance a concept of two models of regional

²³ Alec Stone Sweet and Wayne Sandholtz, "European Integration and Supranational Governance," *Journal of European Public Policy* 87 (1997): 302-303.

integration. If we compare two columns in Table 1, they differ exactly by the level of unification of policies. Indeed, whereas the FTA is a common space that is free from barriers to trade in goods, the unified external trade policy advances integration to another stage, namely, to a customs union (containing a single supranational element).²⁴

A common market involves the elimination of barriers to production factor movement. In contrast, the establishment of rules and regulations by the institutions of a bloc for companies in order to deal in this market advances integration to the single market stage.²⁵

A common monetary system involves the introduction of a common currency in conjunction with national currencies. A monetary union with a single currency has this supranational currency replace the national currencies and becomes the dominant element of the system.²⁶

Within an economic union, the member countries co-ordinate their macroeconomic policies, i.e. enhance the common features of their national policies. The full economic integration stage (if it ever happens) would embrace the individual macroeconomic policies of the member states to establish a set of single macroeconomic policies as particular elements of the system. Thus, all of the integration forms can belong to either of the two basic models of integration. It means that the development of integration can take place in two major ways.

It is possible to channel it in a soft option and in a deep option (the left and the right columns of Table 1). A soft option is the most popular one around the world. My initial intention was to call two models of integration as 'soft' and 'hard'. Some authors use the terms 'shallow' and 'deep' without going into details on the forms of integration. Some authors oppose inter-governmentalism or 'the new inter-governmentalism' to integration with supra-nationalism.²⁷ After some reasoning, I concluded that 'soft' and 'deep' is more accurate a definition. The moment sovereign institutions elevate their competences in a certain area to a supranational level, a completely new quality in integration appears in which sovereign structures and policies become unified and integrated. That is why it is also appropriate to call it – institutional integration. This 'deep' option is much more penetrating, as it requires from the member states the self-limitation of sovereign authority in different areas of regulation by raising them to a common or a supranational level (sharing sovereignty). At the same time, this option represents a deeper, more solid version of integration because of the new quality: unified supranational constructions emerge out of sovereign structures.

The chosen methodology to present the classification of the integration forms in this study helps to better distinguish the important quality within the deep integration process: a drive to build single mechanisms and institutions within unified policies. I call this version of integration

²⁴ Richard G. Lipsey, "The Theory of Customs Unions: a General Survey"; Arvind Panagariya, "Preferential trade liberalization: the traditional theory and new developments," *Journal of Economic Literature* 38, 2 (2000): 287-331.

²⁵ Jacques Pelkmans, "Economic theories of integration revisited," *Journal of Common Market Studies* 18, 4 (2008): 333-354.

²⁶ Michael Emerson and Christopher Huhne, *The ECU Report. The Single European Currency and What it Means to You* (London: Pan Books Ltd, 1991).

²⁷ Christopher J. Bickerton, Dermot Hodson and Uwe Puetter, "The New Intergovernmentalism: European Integration in the Post-Maastricht Era," *Journal of Common Market Studies* 53, 4, (2015): 703-722.

– institutional integration because sovereign state institutions are unified, thus becoming integrated. It results in the emergence of single entities. The supranational mechanism is the vital motor of the construction of these single entities between the sovereign states, and it is a distinctive feature of the integration of the second type (the right column in Table 1).

Within soft integration, one could also apply supranational instruments. Supranational institutions can be set up to co-ordinate national policies or to form a common policy. A decision-making process within the soft integration scheme could take place by relying on majority rule, where the interests of disagreeing states are not immediately accommodated for the sake of a common deal (the supranational option). The construction of deep integration in general becomes less fragile and more resistant to external shocks in comparison to soft integration because it is cemented to a much higher degree by the supranational mechanism and single institutions formed within it.²⁸

There is never an ideal form of integration (it exists only in theory). I perceive the integration as a process, revealed in the forms, which are never perfect or strictly defined. As previously mentioned, any form can have major exemptions. The creation of a true single market has remained the EU target ever since it was formed. Some states may 'opt out' from some policies, which may result in flexible forms of integration, the 'differentiated integration.'²⁹ The strategies of the sovereign states involved, predetermine the integration pattern, as all combinations and mixtures of forms are possible. Full integration is not necessarily a final goal. The process can stop at any stage according to the sovereign states' preferences.

Initially, governments try to undertake a delicate co-ordination, to accommodate their policies to each other in a soft way by creating common elements and structures that will form the basis for proceeding with deeper integration. If this pattern is broken but the involved governments guided by political reasons insist on establishing deeper integration forms at the start of their venture, the probability is high that this venture will not enjoy success. The political union in Europe, which failed, is an illustration of this possibility. The still unsuccessful attempt to create a single currency and other single structures within the Russia-Belarus Union is another example. Thus, the assumption is that the sequence of forms from soft to deep does matter.

Different groups of countries can choose optimal patterns of integration (soft or deep) according to their preferences and take into consideration whether they are ripe for a flexible or a supranational choice. In other words, they should decide to what extent they are ready to share their sovereignty.³⁰ The majority of them show weak signs of that readiness, as

²⁸ Fabienne Ilzkovitz, Adriaan Dierx, Viktoria Kovacs and Nuno Sousa, "Steps towards a deeper economic integration: the internal market in the 21st Century. A contribution to the Single market review," *European Economy* 271 (2007): 1-90.

²⁹ Katharina Holzinger and Frank Schimmelfennig, "Differentiated Integration in the European Union: Many Concepts, Sparse Theory, Few Data," *Journal of European Public Policy* 19, 2 (2012): 292-305; Asya Zhelyazkova, "From selective integration into selective implementation: The link between differentiated integration and conformity with EU laws," *European Journal of Political Research* 53, 4 (2014): 727-746.

³⁰ Mario Telo, *European Union and New Regionalism* (Aldershot / Burlington: Ashgate, 2007).

sovereignty remains a highly treasured public good. The EU path of fostering integration is an illustration of a choice where single institutions are extensively applied. In a group of many highly interdependent members, sharing national authority becomes sort of a necessity if one wants to preserve high-efficiency decision-making. Otherwise, reaching a unanimously approved compromise would take years to achieve among so many partners with too much different national interests, and a consensus may never occur. The EU is an example of this deep version of integration. In contrast, variations of integration in Asia tend to be more flexible. The soft option is the preferred pattern. An example, the ASEAN – the most dynamic economic integration bloc of the Asian region – is an evident case of soft integration. FTAs are spreading fast all around Asia, whereas the ASEAN countries are leading the implementation of FTA and FTA+ agreements.³¹ This trend represents another mainstream of integration, where states are cautious towards deep integration.

To sum up: states may be involved in both types of integration, depending on the prevailing perceptions and needs. Consequently, the two columns of the table 1 represent those two economic integration models.

Eastern Partnership countries' choice implications

Eastern Partnership countries differ to a large extent in their vision of the preferred integration path.

The membership perspective for the EPCs is ruled out so far by the EU that has been reconfirmed during the last Eastern Partnership Summit on November 24, 2017. "This is not an enlargement or accession summit," Juncker said as he arrived for the Summit.³² Instead of offering membership prospects, the EU is focusing on concrete and simple measures that could improve people's lives in the partner countries, such as small business support, reducing mobile-phone roaming charges and lowering down energy prices.

Although so far there are no promises from the EU side on the membership perspective, all EPCs will become closer to the EU in one way or another as a result of the Partnership. The six Eastern Partnership states have already promised to meet 20 new targets before 2020, including some that may bring serious implications for their future trade links, like, for example, undertaking the commitment for EPC farmers to meet EU food safety standards. However, some of them will have the EU as a clearly defined preferred partner, while others will align more with the EAEU, which will mean eventually choosing between the two existing models of integration.

³¹ Jeffrey J. Schott, *More Free Trade Areas* (Washington, DC: Institute for International Economics, 1989); Sultan Hafeez Rahman, Sridhar Khatri and Hans-Peter Brunne, *Regional Integration and Economic Development in South Asia* (Manila / Cheltenham: Asian Development Bank / Edward Elgar, 2012).

³² "EU, Armenia Ink Partnership Past as Eastern Partnership Summit Concludes," Radio Free Europe, 25 November 2017, <https://www.rferl.org/a/eu-eastern-partnership-armenia-azerbaijan-belarus-ukraine-georgia-moldova/28872395.html> (accessed 10 January 2018).

Georgia, Ukraine and Moldova have already reached Free trade agreements and visa-free travel deals with the EU, which will bring them still closer to the European model of integration. A visa free regime introduced with Moldova since April 2014 is an example of progress achieved on the agenda of visa liberalization and enhancing mobility with the EU Eastern Partners and facilitating travel, business and education. Over the year 2017, nearly half a million Moldovans have travelled visa free to the EU. Signing and the first steps in implementing of the most ambitious ever bilateral Association Agreements – Deep and Comprehensive Free Trade Area (AA/DCFTAs) with Georgia, the Republic of Moldova and Ukraine have brought the EU's relations with these countries to new highs.³³

And there will be definitely particularities in the pattern of cooperation, deriving from the specificity in the two models of integration. Let's take the case of the Small and Medium-sized Enterprises (SME), which is quite illustrative.

As we know, in Russia in particular, and in the EAEU in general, the support of the SMEs is not that high a priority as it is in the EU. In contrast to the EAEU, in the EU in order to support the implementation of DCFTAs, a special DCFTA Facility for Small and Medium-sized Enterprises was created to stimulate new investments in Georgia, Moldova and Ukraine. Small enterprises in Georgia, Moldova and Ukraine are to benefit from this newly created Facility for SMEs. The institutional arrangements are supported with financial contribution. According to the EU data, in case of the support for the small enterprises 200 million euro assistance package from the EU budget is planned to be allocated, combined with loans from the European financing institutions (EBRD and EIB) in order to attribute around 2 billion euro of investments in the three countries. The European Union, through the European Investment Bank (EIB) and the European Investment Fund (EIF), signed the guarantee agreements with ProCredit Holding in order to support small and medium-sized enterprises in Georgia, Moldova and Ukraine. Thanks to the agreements, worth 100 million euro, SMEs in the three countries will profit from easier access to finance. ProCredit banks are now able to provide local SMEs with a 70% guarantee on each loan, making financing less expensive and reducing the cost of the collateral they need to provide. The additional funds are provided in the framework of the 'EU4business' initiative under which the European Union makes available extensive support to SMEs in Georgia and other Eastern Partnership countries. The EU, through 'EU4business', assists companies with funding, training and export support to new markets. Since 2009, €711 million has been provided in total for 63 000 Georgian companies, in order to help them with the market access, boosting economic growth.³⁴ Moldova is participating since February 2015 in COSME (SMEs networking), while Ukraine and Armenia are exploring their participation. Moldova is associated since January 2014 in the program Horizon 2020 (allowing for joint research programs), while Ukraine is in the same program since January 2015. The list can go

³³ Evghenia Sleptsova, "Exports from Ukraine to the EU: Macro-, Micro- and Political Economy Determinants," (PhD thesis, University of Birmingham, 2011), 35-37.

³⁴ European Union External Action, "EU Allocates Additional GEL 300m (EUR100m) for SMEs in Georgia-Moldova-and-Ukraine," 1 November 2017, https://eeas.europa.eu/headquarters/headquarters-homepage/34946/eu-allocates-additional-gel300m-eur100m-smes-georgia-moldova-and-ukraine_en (accessed 10 January 2018).

on. There are many initiatives in existence and the new ones are coming. Together with the other arrangements, the measures to support small enterprises will contribute to create a competitive environment, which was always at a focus of the EU policies, be it the EU common market or single market priorities.

Trade facilitation actions continued with the signature of the Strategic Framework for EU-Georgia Customs Cooperation in March 2015 and the ratification in Moldova of the Pan-Euro-Mediterranean regional convention on rules of origin. This is supposed to make trade in goods easier.³⁵ In March 2014 the EU adopted a comprehensive financial package of 11 billion euro to help reform process in Ukraine. Since then, the EU and European Financial Institutions have delivered 6 billion euro, including the additional Macro-Financial Assistance package of 1.8 billion in 2015. As part of its comprehensive agreement with Ukraine, the EU launched a winter energy deal between Russia and Ukraine and actively supported a new one. Moldova is one of the highest recipients of EU aid per capita worldwide, with bilateral disbursements in 2014 of 131 million euro and assistance in 2014-2017 of around 410 million euro.

Thinking that a country may choose to align with the EU and to enjoy the full benefits of this type of integration without undertaking proper commitments and without directly sticking to them (hard integration option), the way it frequently happens within a soft integration option is an illusion. We can find many illustrations of the correctness of this statement in the history of development of the two regional integration blocs.

The one more recent illustration of this situation is the latest developments in EU-Moldova relations. On 23 January 2018, Federica Mogherini, the High Representative of the EU for Foreign Affairs and Security Policy and Vice-President of the European Commission met with Mr. Iurie Leanca, the newly-appointed Deputy Prime Minister for European Integration of the Republic of Moldova. During this meeting F. Mogherini highlighted the importance of following the recommendations of international partners (the EU in this case) in key areas related to reforms and democracy in the country. She said that the EU was closely following the developments with regard to the electoral framework, the media sector, and the major banking fraud unveiled in 2014, where criminal investigations and recovering misappropriated funds had not been completed.³⁶ Moldova's governing Democratic Party formally proclaims the country's pro-European orientation. But it has made little progress in investigating the use of Moldovan banks in multi-billion-dollar Russian money-laundering schemes. High Representative / Vice-President Mogherini emphasized that the EU remained committed to the implementation of the Association Agreement, but that progress in key reform areas such as

³⁵ European Union External Action, "Eastern Partnership – A policy that delivers," Brussels, 21 May 2015, 2, https://eeas.europa.eu/sites/eeas/files/factsheet_eastern_partnership_en.pdf (accessed 10 January 2018).

³⁶ European Union External Action, "High Representative/Vice-President Federica Mogherini met with the Deputy Prime Minister for European Integration of the Republic of Moldova Iurie Leanca," Press Release, Brussels, 23 January 2018, https://eeas.europa.eu/headquarters/headquarters-homepage/38624/press-release-high-representativevice-president-federica-mogherini-met-deputy-prime-minister_en (accessed 10 January 2018).

the judiciary and the fight against corruption needs to be made to unlock its benefits for all citizens of the Republic of Moldova.

The *Eastern Partnership Index* evaluates the progress made by the six Eastern Partnership countries towards sustainable democratic development and the European integration. The Index measures steps taken towards good governance, including protection of democracy and human rights, sustainable development, and integration with the European Union. If we look into the Index page and if we take Moldova³⁷ as an example, among the top challenges for the year 2018 we find:

- The EU should link the budgetary support provided to Moldova to tangible and objectively measurable outcomes in combating corruption, strengthening the independence and transparency of the judiciary and law enforcement agencies, and ensuring media freedom;
- The Moldovan authorities should ensure timely and consistent implementation of commitments under the EU-Moldova Association Agenda 2017-2019;
- The government and parliament should take tangible measures to depoliticize state institutions and strengthen their independence from political interference, and should launch a sustained, open and inclusive dialogue with civil society to improve public sector transparency and accountability.

And mind, we are only talking about the implementation of the Association Agreement.³⁸ Membership would require many times more and much stronger commitments and their strict implementation without exceptions is the rule (the concept of the 'acquis communautaire'). This kind of conditionality is typical for regional organizations with strong structure and discipline, such as the EU definitely is.

In contrast to that, we can see a lot of evidence coming from the EAEU, where partners do not comply with the commitments, ask for multiple exemptions from the existing rules and it works that way all the time. Supranational discipline is an exception in this case. And that is the way the soft integration concept is supposed to work. This is another way of looking at regional integration.

If a country tries to choose between the hard and the soft option of integration, and hesitates upon a choice, can it choose to do both? There are many combinations of patterns of cooperation, which could represent a certain mix between the two models of regional integration. Armenia's case is an illustration to it. Being a member to the EAEU, on November 24, 2017, Armenia signed with the EU a Comprehensive and Enhanced Partnership

³⁷ Eastern Partnership Civil Society Forum, "Country Assessments: Moldova – Top Challenges for 2018," in *Eastern Partnership Index 2015-2016. Charting Progress in European Integration, Democratic Reforms, and Sustainable Development* (2017), <http://www.eap-index.eu/moldova2015> (accessed 10 January 2018).

³⁸ Eastern Partnership Civil Society Forum, *Update on Public Administration and Local Governments Reforms in Eastern Partnership Countries*, 2016.

Agreement (CEPA) while the Eastern Partnership Summit took place.³⁹ The EU and Armenian officials have stressed that the Agreement does not interfere upon Armenia's close relations with Russia, neither upon the Armenia's links with the Eurasian Economic Union (EEAU). The agreement has a lot of concrete economic commitments and namely it provides for:

- Better investment climate. The Agreement introduced a regulatory environment that improves the business climate and investment opportunities for Armenian and EU companies, encouraging Armenian companies to sell goods and provide services to the EU and the EU companies to open subsidiaries in Armenia.
- The development of clean alternative sources of energy, contributing to green growth and new jobs in the green energy sector.
- A cleaner, healthier environment: Armenia commits to adopt the EU environmental standards leading to the development of clean sources of energy.
- Fairer and more transparent procurement procedures: clearer rules on publication of tenders and revision procedures will help to prevent corruption and discrimination.
- Improved product safety and consumer protection. Armenia undertakes to reduce differences with regard to EU standards to protect the health and safety of consumers.
- Cooperation in preventing and fighting crime, including terrorism.

As we can see, this agreement is the first one with so many commitments from both sides and especially from the Armenian side that is concluded with a country being at the same time a member of the Eurasian Economic Union. Looking at the arrangements between Armenia and the EU and Armenia with the EAEU, we can see that Armenia is playing a sophisticated game. It remains to be seen to which extent a country could benefit from the policy of navigation between Scylla and Charybdis. However, it seems that one day there comes a time for the decision to choose a preferential partner as long as differences remain between the EU and the EEAU. As chances for approximation of standards, norms, safety regulations, etc., between the EU and the EEAU are low so far, the country will have to decide one day which of the two models will be more in conformity with the national economic priorities.

In this case, the choice will be between the soft and the deep integration model. What consequences for the states, making this choice, are to be expected? There was an interesting article published in the JCMS and the authors estimated the effects of deep and shallow free trade agreements for the EPCs (Eastern Partnership countries) with Russia and the EU respectively using a gravity model of trade.⁴⁰ The main results showed that the EaP countries

³⁹ European Union External Action, "New Agreement Signed between the European Union and Armenia Set to Bring Tangible-Benefits to Citizens," 24 November 2017, https://eeas.europa.eu/headquarters/headquarters-home-page/36141/new-agreement-signed-between-european-union-and-armenia-set-bring-tangible-benefits-citizens_en (accessed 10 January 2018).

⁴⁰ Gylfason, Martínez-Zarzoso and Wijkman, "Free Trade Agreements, Institutions and the Exports of Eastern Partnership Countries."

gain significantly from free trade agreements with the EU but little if anything from free trade agreements with Russia, and that improving the quality of institutions in EaP countries have played an important role in fostering exports. I provide the results of the study not as an argument in favor of the deep integration model. It is only an objective data for consideration by the EPCs choice.

While making a crucial future policy orientation choice, Eastern Partnership countries should fully take into account an important difference in the meaning of the two models of regional integration. Choosing to align with the EAEU or with the EU does not only mean selecting privileged partners, it means much more. The pattern of cooperation is completely different if we compare the EU with the EAEU. Sometimes politicians and experts compare these regional projects and make a point on the similarities between them. And it is true that some of the experiences of the EU have been implemented into the institutional and legal structure of the EAEU. But the big difference in the *modus operandi* exists between the two models of integration. It can be either an intensified cooperation, searching for a common ground in different areas and branches of economy, or it can mean sharing the sovereignty, letting part of decisions be made outside of the strict national control, providing the room for the supranational authority to supersede in areas of high economic interdependence, where objective necessity pushes the countries up for advanced forms of interaction.

In this study, I did not consider the political goals and ambitions of the two regional integration blocs and of the countries in consideration. However, it is absolutely clear that political realities and security considerations will predetermine to a large extent the future geometry of relations between the EPCs and the two regional blocs. As described in the recent *Economist* article on Eastern Partnership, Armenia, Azerbaijan and Belarus are to varying degrees autocratic and are closely knit into Russia's security infrastructure that sets them at odds with Georgia, Moldova and Ukraine, which have territorial disputes partially because of the Russian involvement and would wish security guarantees from the EU.⁴¹ Neither did I consider the topic of political influence. 'The Eastern Partnership is not about spheres of influence. The difference is that these countries themselves opted to join,' Swedish foreign minister Carl Bildt said at the Brussels Forum in May 2009.⁴² German Chancellor Angela Merkel said that 'the EU makes a crystal clear difference with Russia. We accept that the different Eastern Partnership nations can go their own way and we accept these different ways,' while Finnish Prime Minister Alexander Stubb stated that 'it is the prerogative and right of every independent and sovereign state to choose which club it wants to belong to.'⁴³

However, apart from these serious political considerations, understanding the difference in the options of the two integration models is important. It helps make a relevant choice realizing the difference in consequences for the country in question and taking into account the readiness of authorities for a different way of interaction with either Union. The fundamental differences in

⁴¹ "The EU's Eastern Partnership," *Economist*, 5 October 2017.

⁴² Council of the European Union, *Joint Declaration of the Prague Eastern Partnership Summit*, 7 May 2009.

⁴³ Karl Ritter and Raf Casert, "EU seeks to keep partnership with ex-Soviet nations on track," Associated Press, 21 May 2015.

the essence of the models of cooperation and the readiness of the EPCs to be aligned or eventually to enter a union which are different in their nature is one more important factor to take into account thinking about the future of the Eastern Partnership countries.

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