

Beyond “Big Bang”: The Challenges of the EU’s Neighbourhood Policy in the East

Hiski Haukkala & Arkady Moshes



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Hiski Haukkala
Arkady Moshes

Hiski Haukkala
Department of Political Science, University of Turku
The Finnish Institute of International Affairs
hiski.haukkala@upi-fiia.fi
<http://www.hiskihaukkala.net>

Arkady Moshes
The Finnish Institute of International Affairs
arkady.moshes@upi-fiia.fi



Ulkopoliittinen instituutti
Utrikespolitiska institutet
The Finnish Institute of International Affairs
<http://www.upi-fiia.fi>

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Neighbourhood Policy in the East**
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Language editing: Lynn Nikkanen
and Toby Archer
Design: Vesa Tuukkanen
Map: Christian Huttegger
and Juha Tolvanen
Layout: Teresa Pohjola

**The Finnish Institute of
International Affairs**
Mannerheimintie 15 A
FI-00260 Helsinki
Tel. +358 9 4342 070
Fax +358 9 4342 0769
<http://www.upi-fii.fi>
e-mail: firstname.surname@upi-fii.fi

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Summary

The Eastern enlargement of the European Union that took place at the beginning of May 2004 is an event which will radically reshape the Union. Thus far, however, the focus has mainly been on examining the internal – institutional and political – repercussions that the “Big Bang” will have on the EU.

Yet the enlargement will also have external effects. This FIIA Report analyzes what is perhaps the most significant of these, namely the advent of new neighbours – Belarus, Ukraine and, if Romania joins in 2007, Moldova – along the Union’s Eastern perimeter.

The Eastern enlargement has heralded a need to rearrange the way the EU conducts its relations with its adjacent areas. The search for a “new neighbourhood policy” started as early as 2001, but it was only with the Commission’s communication in March 2003 that the process began in earnest. The result will be the “European Neighbourhood Policy” (ENP), with which the EU will seek to gradually engage its neighbours in a loose community without overextending its own institutions with full accession. The ENP includes all of the EU’s neighbourhoods ranging from the Southern Mediterranean to Russia.

The development of the ENP faces serious challenges, however, especially in the East. Firstly, all of the new neighbours pose their own challenges for the Union. This means that the EU’s traditional drive for one-size-fits-all policies will not suffice. A genuine differentiation has to be the name of the game.

Secondly, the EU has to fully comprehend that it is not the only and, thus far, perhaps not even the most important player in the region. It has to come to terms with the presence of other outside interests, namely those of the US and especially Russia. In the future, the enormous challenge for the EU will be to balance the, at times, overwhelming Russian presence in the region. For example,

the case of Transnistria shows how the present situation is untenable, in that Russia is acting simultaneously as an honest broker of the conflict as well as the guardian of its own national interests.

The conclusion of the report is that the Eastern enlargement opens up a promising new avenue for the EU to raise its profile vis-à-vis its Eastern neighbours. The new policy is of paramount importance as the growing physical exposure means that the Union cannot remain immune to the problems and challenges emanating from these countries. However, this does not imply that a new neighbourhood policy will be easy to realize: The EU is largely preoccupied with the internal repercussions of the enlargement, it already has an otherwise crowded external agenda, and as the experience of the Northern Dimension has shown, it is not easy for a new initiative to gather the necessary political and financial momentum to become a complete success.

The ENP has considerable potential. By linking the new Eastern neighbours in a wider network of already existing approaches and by offering a concrete objective with clear timetables and benchmarks along the way, the Union is at least trying to come up with an offer tangible enough to become the starting point in the process. Yet it has to be kept in mind that the proof of the pudding is in the implementing of it: The quality of the forthcoming Neighbourhood Action Plans will be an indicator of the final outcome of the ENP. At the end of the day, everything will boil down to two things: Is the EU really willing to deliver all that it promises, and are the countries in the EU's neighbourhood willing to do what has been agreed? In the past, neither side of the coin could be taken for granted.

The report recommends that, in order to be a success, the ENP should vigorously pursue differing approaches to different partners and endeavour to make progress incrementally. Conditionality should be strict, balanced and realistic: The EU is in a position to offer partners significant economic packages which will serve as a strong incentive for them to cooperate, but the carrot of a neighbourhood policy falls far short of an accession promise. The prospect of membership should not, therefore, be totally excluded for the Eastern neighbours. The task of preventing the widening of the "wealth gap" on the EU's Eastern borders can best be solved by the gradual opening up of EU markets rather than by

mere assistance, resources for which will, in any case, be limited. In other words, “trade not aid” should be the working slogan. Building up cooperation in the field of Justice and Home Affairs in the regional format (EU plus all its Eastern neighbours) should be seen not only as an instrument to control common soft security risks, but even more so as a vehicle for transferring European standards of behaviour in the legal sphere. Promoting new business as well as a political and legal culture, while fostering new elites, is a precondition for the successful transformation of the Eastern neighbours and should, therefore, be a matter of utmost priority.

Tiivistelmä

* Unionin uudet jäsenmaat ovat Kypros, Latvia, Liettua, Malta, Puola, Slovakia, Slovenia, Tšekki, Unkari ja Viro.

Vappuna 2004 voimaantullut EU:n itälaajentuminen muokkaa unionin toimintaa monin tavoin – varsinkin siksi, että ”suureksi pamaukseksi” (englanniksi ”Big Bang”) ristitty laajentuminen tuo unioniin ennennäkemättömän monta ja erilaista uutta jäsenmaata.*

Toistaiseksi suurin huomio on kuitenkin kohdennettu unionin sisäisiin haasteisiin ja erityisesti sen tarpeeseen uudistaa institutioitaan. Tämä tarve on näkynyt hallitustenvälisessä konferenssissa 2003–2004 ja sitä edeltäneen konventin työskentelyssä.

Laajentumisella on kuitenkin myös ulkoisia vaikutuksia. Tämä UPI-raportti käsittelee niistä eittämättä merkittävintä eli uusien itäisten naapurien ilmestymistä unionin ulkorajalle.

Laajentumisen myötä Ukraina ja Valko-Venäjä tulevat Venäjän rinnalle EU:n itäisiksi naapureiksi. Mikäli Romania kykenee päättämään jäsenyysneuvottelunsa menestyksekkäästi ajoissa, niin vuonna 2007 myös Moldova on EU:n rajanaapuri.

Uudet itäiset naapurit ovat tuoneet EU:lle mukanaan tarpeen laajempaan naapuruuspolitiikkaan. Tämän politiikan kehittäminen käynnistyi jo vuonna 2001, mutta vasta vuoden 2003 keväästä lähtien se on saanut todellista pontta. Tuolloin esiteltiin komission EU:n naapuruuspolitiikkaa linjannut raportti, joka osaltaan toimii pohjana kesällä 2004 neuvoteltaville naapurustoimintaohjelmille. Tuloksena on ”eurooppalainen naapuruuspolitiikka” (*European Neighbourhood Policy*, ENP), jonka avulla EU pyrkii kehittämään yhtenäisen otteen koko naapurustoonsa aina Välimeren eteläisiltä rannoilta Venäjälle saakka. Samalla EU pyrkii ottamaan aikalisän jatkuvalla laajentumiselle, joka on ollut käynnissä (silloisen) EY:n ensimmäisestä laajentumisesta vuodesta 1973 lähtien: Vaikka naapurien jäsenyyttä ei suljeta tyystin pois, toimintaohjelmien päämääränä on sen sijaan saada asteittaisesti aikaan liittännäisjäsenyys ja niin kutsutut ”neljä vapautta” (ihmiset, pääoma, palvelut, tavarat) EU:n ja sen naapurien välille.

EU:n uuden naapuruuspolitiikan kehittäminen ei kuitenkaan ole helppoa – varsinkaan idässä. Kukin uusista itäisistä naapureista asettaa EU:lle omat erilaiset haasteensa:

- Ukraina vaillinaisen eurooppalaisen suuntauksen ongelman, joka on heijastunut epäonnistuneina sisäisinä uudistuksina ja poukkoilevana politiikkana suhteessa EU:hun ja Venäjään;
- Valko-Venäjä autoritäärisen presidenttinsä Aljaksandr Lukashenkan hallinnon, jolle EU:n ja muiden läntisten toimijoiden boikottitoimet eivät tunnu voivan mitään;
- Moldova pitkittyneen Transdnestrian konfliktin, joka on alkusyy maan muihin ongelmiin, kuten köyhyyteen, järjestäytyneeseen rikollisuuteen ja ihmiskauppaan, jotka uhkaavat myös EU:n omaa turvallisuutta.

Maiden asettamien haasteiden erilaisuus tarkoittaa sitä, että yksi, kaikille yhtäläinen naapuruuspolitiikan muoto ei ole mahdollinen. Aiempien kumppanuus- ja yhteistyösopimusten lukuisat toimeenpanovaikeudet osoittavat, että EU:n pyrkimys omaksua kaikille kumppaneilleen identtisiä toimintatapoja ei ole hedelmällinen EU:n omien tavoitteiden saavuttamiseksi. Uuden naapuruuspolitiikan suurin haaste onkin löytää aidosti eriytyneet tavoitteet ja toimintatavat yhdessä itäisten naapurien kanssa.

Uusien naapurien lisäksi EU:lla on idässä myös muita haasteita. Ne kumpuavat pitkälti muiden alueen ulkopuolisten toimijoiden, Yhdysvaltain, mutta varsinkin Venäjän läsnäolosta. Jatkossa EU:n naapuruuspolitiikan toinen suuri haaste onkin tasapainottaa Venäjän liiallisen vahvaa vaikutusvaltaa alueella. Tähän pyrkiminen on tärkeää, sillä esimerkiksi Transdnestrian tilanteen lukkiutuminen johtuu osittain Venäjän mahdottomasta kaksoisroolista toisaalta konfliktin välittäjänä, toisaalta omien etujensa vaalijana. Samalla EU:n tulisi kyetä löytämään tähän sellaisia toimintatapoja, joita ei koettaisi suoranaiseksi uhkaksi Venäjän omille intresseille. Sopivan tasapainon löytäminen onkin hyvin haastava tehtävä Euroopan unionille jatkossa, sillä Venäjä lähestyy aluetta pitkälti nolla-summa-pelinä, jossa yhden toimijan kohonnut profiili tulkitaan toisen toimijan tappioksi.

Reportin päätelmänä on, että itälaajentuminen tarjoaa EU:lle tilaisuuden profiilin nostoon suhteessa itäisiin naapureihinsa. Se on myös tarpeen, sillä maantieteellisen yhteyden syntymisen myötä EU on entistä altistuneempi naapuriensa asettamille ongelmille ja

haasteille: EU:n ja sen itäisten naapurien väliin jäävä taloudellinen, oikeudellinen ja poliittinen kuilu on todellinen uhka EU:n omalle turvallisuudelle. Siltä ei voida suojautua viisumien tai muutoin tehostettujen rajamuodollisuuksien avulla.

Tämä ei kuitenkaan tarkoita, että uusi naapuruuspolitiikka olisi helppo toteuttaa. Syitä tähän on lukuisia: Laajentumisen jälkeen EU:lla on kädet täynnä omien asioidensa hoitamisessa. EU:n ulkosuhdeasialista on jo valmiiksi ruuhkainen ja, kuten pohjoisen ulottuvuuden tiimoilta Suomessa saatu kokemus osoittaa, uuden aloitteen ei ole helppoa saada taakseen riittäviä taloudellisia ja poliittisia voimavaroja. Lisäksi EU:n uudet Keski- ja Itä-Euroopan jäsenmaat ovat taloudellisesti liian heikkoja ja pieniä ajamaan itäisen politiikan asiaa laajentuneessa unionissa.

EU:n uusi naapuruuspolitiikka on kuitenkin lupaava uusi alku, sillä se liittää itäiset naapurit osaksi laajempaa ja jo vakiintunutta naapuruuspolitiikan verkostoa. Samalla se asettaa selkeän ja konkreettisen tavoitteen – laajan pan-eurooppalaisen vapaakauppa-alueen saavuttamisen – ja pyrkii identifioimaan niitä toimia ja välietappeja, jotka on toteutettava tavoitteen saavuttamiseksi. Itse politiikan mahdollisen toimivuuden arvioiminen on kuitenkin vielä liian aikaista. Vasta toimintaohjelmien sisältö ja varsinkin niiden toimeenpano näyttävät, kykeneekö EU loppujen lopuksi vastaamaan uusien itäisten naapuriensa asettamiin haasteisiin.

Introduction

On May 1st 2004 the European Union underwent an enlargement that was by far the biggest it has seen and, indeed, is ever likely to experience.¹ To date, a great deal of time and energy has been devoted to analyzing – and speculating about – the internal repercussions that the “Big Bang” enlargement will have on the Union. But every enlargement has also affected the way the EU conducts its external relations and foreign policy, and the current enlargement will be no exception.²

This report, will analyze one central external tenet of the EU’s current enlargement: the advent of new eastern neighbours – Belarus, Ukraine and, after Romania’s possible accession in 2007, Moldova – that will be bordering the enlarged Union.

The report will proceed with a two-pronged analysis of the issue, giving an in-depth account of the central future challenges that face the EU in the region. This will be done by analyzing the development of the EU’s new European Neighbourhood Policy (EPN) and by putting it into a larger context of other significant actors in the region (especially Russia and the United States). This framework will then be followed by a country-by-country analysis of the central challenges presented by the EU’s future new neighbours in the east (Belarus, Moldova and Ukraine). The report ends with conclusions about the EU’s role in the region.

The central argument (as well as the structure) of the report stems from three broad observations concerning the EU’s Euro-

This report is part of FIIA’s EU Enlargement Project that is co-funded by the European Commission. The report is based on an earlier study that was commissioned by the Foreign Affairs Committee of the Finnish Parliament. We would like to thank them both for supporting our work and especially the Committee for arranging a seminar in April 2004 where the study was debated.

pean Neighbourhood Policy. In essence, the EU has to operate in an exceptionally challenging environment of:

1. Devising a new neighbourhood policy which, while relinquishing enlargement, would still retain the stabilizing and beneficial logic of accession;
2. Doing this within the "bigger picture" of the three important players: the EU can no longer avoid taking a stance on a broad range of issues that pertain to Russia's priority sphere of interests, and it has to remain attentive to what the US and NATO are doing in the region;
3. Finally, as will be shown in the country reports, all of the new eastern neighbours present the Union with their own challenges. This means that the Union's traditional drive towards uniform policies will not suffice; the emphasis will have to be on genuine differentiation in the future.

Finally, a word of caution. A report like this presents the writers with some acute challenges. The first stems from the current stage of the EU's policy process. As some of the important decisions concerning the ENP are yet to be taken, the report can thus only reflect on the situation at the time of writing (May 2004). Secondly, the countries analyzed in the report present their own difficulties, the biggest of which being the lack of reliable data. Therefore all numerical data in this report should be regarded as rough estimates only, as reliable information is simply not available.

The report has greatly benefited from the discussions and interviews the authors conducted in Brussels on 12 February 2004. We would like to thank the officials at the European Commission (Anne Koistinen and Hanna Lehtinen), the Council Secretariat (Carl Hallergård and Jukka Leskelä), the European Parliament (Dag Sourander), the EU Policy Unit (Carl Hartzell and Antti Turunen), the Committee of Regions (Liina Munari) and the Permanent Representation of Finland to the EU (Petteri Vuorimäki) for taking time out from their busy schedules to talk with us. We would also like to thank all our colleagues at FIIA as well as Igor Leshukov, Laura Reinilä, Roman Solchanyk and Pirkka Tapiola for helpful comments and Lynn Nikkanen and Toby Archer for checking our English. Findings of the report were presented and discussed at the Academic Conference of the Programme on New Approaches to Russian Security (PONARS) in Seattle in May 2004.

The challenges of the EU's neighbourhood policy in the East

In the post-Cold War era, the European Union's policies towards its immediate neighbourhood can be divided into two distinctly different approaches. Firstly, the EU has pursued an approach aimed at **integrating** its neighbours. This has meant that the EU has subjected the willing applicants to the strict conditionality that is built into the accession process.³ This approach has required that the countries in question have themselves been eager and willing to participate in the difficult process of transition to and convergence with the EU standards. Central and Eastern European countries (CEECs) are a prime example of how this approach has worked. In fact, the eastern enlargement, which reached its peak in May 2004, shows that the integration approach is the most efficient tool the EU has at its disposal to spread stability and prosperity beyond its borders. By extending its norms to the applicants through the accession process, the EU has been the driver in the systemic transformation of its neighbours. As a consequence, the EU has made conflict less probable in its immediate neighbourhood.⁴

But not all of the countries in Europe belong to a category that the EU either wishes to, or can, integrate. Therefore the Union has also employed a second approach, which has sought to ensure **stability** on the European continent without making commitments on the eventual accession of the countries concerned. Instead of granting the countries a full European perspective, the EU has sought to forge a chain of bilateral partnerships as well as engage them in regional cooperation, for example through the Finnish Northern Dimension initiative (ND).⁵ This thinking has been manifested in the area covered by this report in the system of wide-ranging Partnership and Cooperation Agreements (PCAs) that the EU has

concluded for a ten-year period with Belarus (signed in 1995), Moldova (which entered into force in July 1998) and Ukraine (in force since March 1998).⁶ Unlike the so-called Europe Agreements, which were concluded with the CEECs at the beginning of the 1990s, the PCAs do not contain any references to the prospect of full EU accession as the final aim of the relationship. They envisage a multifaceted cooperation, ranging from economy and cultural issues to a political dialogue concerning human rights and security in Europe, which would culminate in the creation of a free trade area (FTA) instead.⁷

The EU's partnership-driven stability approach has to date proved to be less than wholly satisfying. The PCA with Belarus is yet to be even ratified. In the case of Ukraine and Moldova the problems in the implementation of the PCAs have been chronic, yet, the EU has been under a constant barrage from the countries for a speedy deepening of the relationship towards association and even full accession. Until recently, the EU's usual line when commenting on these demands has been that the PCAs still contain a lot of unused potential, which should be fully exploited before new and deeper contractual arrangements can be considered.

The eastern neighbours' demands for a deeper contractual basis for the relationship reveal one of the biggest underlying problems in the EU's stability approach vis-à-vis its neighbours: the lack of sufficient incentives, both carrots and sticks for the conditionality to work properly. Apparently, the enlargement has been in practice the only truly effective instrument that the EU has had at its disposal to ensure both stability and transformation on its doorstep. The transformation of the CEECs from the early 1990s to the accession in 2004 showed how the EU could, through a policy of conditionality, help to mould a region riddled with conflict potential into a more stable entity.

However, after the "Big Bang" enlargement the situation will change. This is so for two reasons. Firstly, the EU is running out of candidates that could easily be integrated. Currently only Bulgaria and Romania are undergoing accession negotiations with a prospective entry perhaps in 2007. Turkey has been granted candidate status and is waiting, by the end of 2004, for the EU's decision on when the actual accession negotiations will begin. But after Turkey the drawing board is empty.⁸ It is true that the Balkan countries have been promised eventual accession in the Stabilization

and Association Process (SAP) but no definitive decisions have been, and indeed are likely to be, taken in the future either.⁹ It is debatable whether even these countries will fulfil the EU's terms of accession – the so-called Copenhagen criteria – in the immediate future.¹⁰ But it is certain, as the country reports below will reveal, that the EU's new eastern neighbours do not and will not fulfil these criteria, either now or in the foreseeable future.

Secondly, the EU also has internal reasons for wanting to curb further enlargement. After the latest round, the EU has 25 member states – already a number that has stirred up a lot of debate on whether the Union can remain operational. It seems evident that any number bigger than that, especially when one bears the quality of aspirant members in mind, would put the EU's internal governance and decision-making under enormous strain. The stakes are indeed high, as by overextending itself, the EU could not only jeopardize its future development but also the previous achievements of European integration. This fear has been voiced by Commission President Romano Prodi, who has remarked that by “enlarging forever” the European political project could be “watered down” to a mere continental free trade area.¹¹

The fact that the EU no longer feels comfortable about further enlargements cannot therefore be denied. But the EU's imperative for ensuring stability on its borders remains unchanged. This of course means that the EU is forced to think of alternatives that would allow it to retain the best features of its integration approach while protecting its own institutions from an overload. This quest has been going on since the spring of 2002 when British Foreign Secretary Jack Straw sent Commission President Romano Prodi a letter, which provided impetus for starting debating the so-called “Wider Europe” policy. The British initiative has been followed by similar interventions from Poland and Sweden, to name but the two most vocal ones.¹²

At the moment it seems clear that most of the EU's neighbours, both old and new, will be subsumed under the rubric of the European Neighbourhood Policy (ENP) that is being developed in the Commission.¹³ In March 2003 the Commission produced a communication, which clearly states that the new policy is meant for countries that do not currently enjoy the perspective of EU membership.¹⁴ Instead, the EU offers enhanced relations based on shared values between the EU and its neighbours. According to the

communication, the aim is closer integration between the EU and its neighbours. The mechanism is simple: in return for effective implementation of reforms (including aligning national legislation with the EU *acquis*), the EU will grant closer economic integration to its partners. The approach is twofold: first, the EU wants to tap the full potential of the already existing PCAs, namely the gradual harmonization of legal norms with the EU *acquis* and the creation of a free trade area, and only then go beyond that with the prospect of realizing the so-called four freedoms (persons, goods, services, and capital) within the "Wider Europe" that would include the southern shores of the Mediterranean, Russia, and everything in between.¹⁵

The concept was further developed with the Commission's strategy paper in May 2004.¹⁶ The paper largely reiterates the points of departure of the earlier Communication but it goes further by identifying better the priorities and how to inscribe them into the Neighbourhood Action Plans that are to be jointly adopted with the neighbours. The paper also envisages a process that is based on clear differentiation between countries and regular monitoring of the progress.

However, the role of Russia is far from clear in the paper. On the one hand it is mentioned in the list of the addressees of the EU's neighbourhood policy. On the other hand it is given a different treatment as the other eastern neighbours. Russia will be excluded from the process of drafting Neighbourhood Action Plans and the exact content and breadth of the relationship will be developed within the so-called Common Spaces that are yet to be filled with substance.

The ENP's overall aim of increased coherence has already had an impact on another process, the renewal of the ways and means through which the EU allocates external economic assistance to its immediate neighbourhood. In July 2003 the Commission produced another communication, "Paving the way for a New Neighbourhood Instrument," in which the idea for an adoption of a new, single neighbourhood financial instrument was introduced.¹⁷ The Commission's aim is to rid the EU of the chronic difficulties caused by the "fundamentally diverging systems applied to the financial management of Community funds," which have implied "different roles and responsibilities for the Commission and the national, regional or local authorities."¹⁸ These are all problems that have

been highlighted in the implementation of the ND.¹⁹

The Commission has proposed a two-step approach where in the first phase (2004–06) coordination between the various financial neighbourhood instruments (INTERREG, PHARE-CBC, TACIS-CBC, CARDS and Meda) would be developed within the existing legislative and financial framework. This initial phase would be followed by the second one (from the 2007 budget period onwards), where all the currently separate funds would be drawn together into a single fund. This is to be done by creating a single financial instrument, the New Neighbourhood Instrument (NNI), for the EU's neighbourhood policy with its own legal basis and a unified budgetary framework.²⁰

To sum up, the EU's attempt to devise a joint and thus more coherent approach towards its immediate neighbourhood can be seen as a welcome step. However, the concept is not entirely without problems. As it stands now, the ENP raises at least four broad questions concerning its viability:

1. How genuine is the "European choice" as far as the eastern neighbours are concerned? As will be shown in the country reports below, the choice is still far from certain. As long as this basic choice is faltering, the EU's attempts to apply conditionality along the lines envisaged by the ENP – or indeed even along the current PCA-based approach – are, and will remain, highly problematic.
2. Will the new eastern neighbours really be a high priority for the EU? In order to furnish the current rhetoric with real substance, this should be the case. However, one can easily find logic that will dictate otherwise. Ukraine, Belarus and Moldova are economically unimportant for the Union, which undermines the potential for positive prioritization. Negative prioritization, that focuses on social security challenges emanating both here and in the third countries, is also arguable at least, if seen in comparative terms (*vis-à-vis* the Balkans and Northern Africa).²¹ Besides, negative prioritization often brings into practice policies of containment, like strict visa regimes, and not instruments of in-depth interaction. It is quite probable that the lobby of eastern-neighbour advocates within the Union will remain weak. What is more, the EU side will be irritated by the need to manage the practical consequences of the present round

- of enlargement, such as the introduction of visas and the accommodation of new neighbours' demands for compensation for the negative effects of enlargement, which could increase the already discernable feeling of "East-fatigue" in the EU.
3. Does the new concept present a big enough carrot for the neighbours? Romano Prodi's offer that the EU would be sharing "everything but institutions" with its neighbours sounds generous at first, but a closer reading reveals that it is not that radical when compared with the original FTAs that were envisaged by the PCAs. The "four freedoms" – even if easily realized, which they are not – are a rather abstract goal compared to full accession. Is the new policy just the old cake with some new icing?
 4. And finally, can the EU itself make the blurring of internal and external divisions work? The previous experience gathered during the Northern Dimension has shown that the blurring of clear inside/outside divisions in the EU is a source of problems for the Union itself. The member states are jealous of their sovereign prerogatives and the Brussels bureaucracy does not want outsiders meddling with the internal EU policies. Nor has the sectorally organized Commission – at least so far – been willing to experiment with horizontal cooperation to the extent that would be required if the policy was made to work. It is also debatable whether blurring the lines will satisfy the new neighbours either. Moreover, one could argue that after a rather disastrous decade in the 1990s for the EU's new neighbours, they might not opt for increased "messiness" in their international environment. In fact, the opposite could be true as after all the turbulence of the 1990s they might prefer clear institutional ties and mechanisms (including, of course, the financial support) that full membership would provide them.

But the story does not end here. Even if the EU managed to craft a neighbourhood policy that would preserve the most valuable assets of enlargement, the EU has – especially on its eastern perimeter – an additional challenge. The EU is not the only, and, thus far perhaps, not even the most important player in the region. Earlier, apart from Russia, the EU's performance in the east

during the 1990s betrayed a certain reluctance to be engaged in the region. With the accession of the Baltic states and Poland – not forgetting the other Central and Eastern European newcomers either – this is no longer an option: the EU is being physically drawn closer to the region. As a consequence, the EU is facing both a push (by new members) and a pull (by its new neighbours) into a more active stance in the east. Thus the EU, in all probability, may become the most important Western player in the region, which will create new constellations, or even fault-lines, in relations with Russia on the one hand and the US and NATO on the other.

Russia may remain the root cause of the EU's reluctance to be engaged in the east. Just as before, when the turbulence in the country and its uncertain course were subsuming most of the EU's time and resources, a stronger Putin's Russia requires daily attention, energy, diplomatic skills and conceptual visualizing to steer the bilateral relationship. More important, however, is the likelihood that Russian policy towards its Commonwealth of Independent States (CIS) neighbours will become more assertive. There is a growing realization in Moscow, that in order to remain a key international player in today's world, it needs areas where its influence would be crucial. Russia's post-Soviet neighbours are seen as primary objects in this regard. And although attempts to implement new projects of benevolent domination may well fail due to the unwillingness of local elites to give up the gains of independence, policies will be conducted along these lines and they will be a factor in EU decision-making. It remains to be seen how Brussels will combine its policy towards Ukraine, Belarus and Moldova with its partnership with Russia, if Moscow starts viewing the two as being on a collision course.

The US presence in the region differs from that of the EU not so much because the former does not enjoy direct geographical contact with it – after all, the US does border the region politically through NATO – but because the interests of Western players do not coincide in full. The main US interests proceed from two quarters. The first is geopolitical. It is the prevention of Russia's regaining hegemonic influence that mostly determines the US agenda. Thus, supporting the independence of Ukraine, resolving the Transdniestrian conflict and pulling Belarus towards a more western orientation are all in the interests of the US. This is naturally an agenda that coincides rather well with the EU's interests.

The second interest is determined by the overall role of the US in arms control. Compared to the EU, the US cares much more about arms control and arms sales-related issues and, more recently, about the effects of particular developments in the region on the US war on terrorism. The US activism in the region, therefore, is more sporadic while its attitudes are more permissive, compared to the EU, which traditionally places more emphasis on internal democratic transformation.²² In a broader sense, the US demonstrates a more interest-based approach to the region, while the EU favours a more value-based one.

When bringing NATO into the picture, one should not look at its declared goals or interests, but at the functions it can perform. NATO's role in the region has its limits. First, NATO cannot be a universal player as its relations with Ukraine (aiming to become a member of the alliance), with Belarus (preserving negative official attitudes towards NATO enlargement), and with constitutionally neutral Moldova are bound to differ. Second, NATO is not an economic actor, so it cannot promote economic development in the region. Third, even in Ukraine, let alone in Belarus, NATO does not enjoy strong public support. NATO, therefore, will be instrumental in carrying out defence reform, when and to the extent the local government is ready for it, and in fostering limited security cooperation. It can hardly be more than a nominal factor in the systemic transformation of the region.

The country reports

Ukraine, Belarus and Moldova at a glance:

	Ukraine	Belarus	Moldova
Population, total, 2002, million*	48.7	9.9	4.4
Population, total, 2015, forecast, million**	44.4	9.4	4.2
Life expectancy, years*	68.2	68.2	67.0
GDP, 2002, billion current US\$*	41.4	14.3	1.6
GDP growth, 2001, %*	9.1	4.7	6.0
GDP growth, 2002, %*	4.5	4.7	7.2
GDP per capita, 2001, US\$, ppp**	4,350	7,620	2,150
Present value of debt, 2001, billion current US\$*	11.5	0.8	n/a
Trade with EU, 2002, billion Euros#	9.7	2.3	0.6 (in 2001)
Human development index, 2003, position and value**	75 – 0.766	53 – 0.804	108 – 0.700
Corruption perception index, 2003, position and score##	106 – 2.3	53 – 4.2	100 – 2.4
World press freedom ranking, 2003, position###	132	151	94

* Source: World Development Indicators Database, August 2003

** Source: Human Development Report, 2003

Source: European Commission

Source: Transparency International. Score varies from 10 (highly clean) to 0 (highly corrupt)

Source: Reporters sans frontiers

Belarus: Transition postponed

The challenge for EU policy posed by developments in Belarus is twofold. In the coming years, the enlarged Union will find it increasingly difficult to live next to a country that has put itself on the other side of the normative divide, becoming known as the “last dictatorship of Europe”. If EU policy remains unchanged, its potential influence on the situation in Belarus will be limited, yet full disengagement after the enlargement will not even be a theoretical option. Adding to the complexity of the situation, parallel to managing relations with today’s Belarus, the EU will have to prepare itself for possible changes in the country in order to be able to react quickly when they occur. If the EU fails in that objective, it may well be confronted with problems of a different sort, be they an explosive growth in the Russian presence, or the appearance of Ukrainian-style oligarchy, or the rise of poverty and the emergence of a weak state, powerless to control migration and illegal activities.

Stability assessment

Belarus is not a source of instability at the present time. For years, this industrialized country has demonstrated economic growth, which slowed after 2001, but did not stop. Macroeconomic stability seemed threatened by inflation (100 % in 2000, 50 % in 2001), but fears never materialized, and after 2002 stricter monetary policy decreased possible risks. Belarus remains the only CIS country which experts include in a category of countries with a high level of human development (Russia is in the medium-level category – *authors*). Per capita income, calculated on a purchase parity basis in 2001, was 7,620 dollars, which was approximately equal to that of Latvia and much higher than in Romania and Bulgaria.²³ A nat-

ural decrease in the population was noticeable, but it was approximately two times slower in percentage terms than in Ukraine – notwithstanding the fact that Belarus was most heavily affected by radioactive fallout after the explosion at the Chernobyl nuclear power plant (23 % of the national territory was contaminated).

The positive picture, however, is to a large extent a result of delayed transformation. Belarus was affected by transformation shocks to a small degree and retained many features of a planned economy. After the election of Alexander Lukashenko as president, the country froze the reforms and introduced a “socialist market” model, in which a considerable share of GDP is allocated to social expenditure.²⁴ The model succeeded due in the main to direct Russian economic subsidies (estimated as high as 20 % of GDP in the past²⁵), as well as preferential conditions of export to Russia (a destination for some two thirds of the country’s exports), and was further stabilized by labour migration and cross-border “shuttle” trade with Poland and, again, Russia.

Although they cannot provide a precise time frame, most economists agree that the Belarusian economic model will not be sustainable in the long run. The economy is simply too vulnerable to the practised model; Moscow is gradually minimizing direct subsidies, while Russian markets progressively demand quality-competitive, rather than price-competitive goods. This scenario does not bode well for certain social processes (rising poverty, accumulating migration potential, a weakening state, and an inability to perform basic social security functions), as has been evidenced in other post-Soviet countries. Coping with these processes in Belarus will be easier than elsewhere, however, due to experience gained, concerns in neighbouring states about possible spill-over effects (which make them ready to act), the relatively small size of the country and the influence of the “one at a time” factor.²⁶ Yet, it is important to be aware of the probable “transformation shock ahead”.

Crucial trends in Belarusian politics

Today’s Belarus is governed by an authoritarian, albeit non-totalitarian regime. In 1996, Alexander Lukashenko, who was elected president in 1994, amended the country’s Constitution by refer-

endum in a way which allowed him to concentrate power. The democratically elected parliament was replaced by a two-chamber legislative assembly, members of which are hand-picked by the president. The country's judiciary is subject to constant interference. Opposition has been suppressed, and several of its representatives have disappeared and are believed to have been assassinated. In the Press Freedom Ranking Belarus holds an unimpressive 151st position, and access to Russian media which was traditionally critical of Lukashenko is now hard to come by. In September 2001, Lukashenko was re-elected and is expected to hold a referendum in order to legitimize participation in the elections of 2006 (which current legislation bans).

The ability of the regime to survive can be attributed to various factors, the most significant being the personality of Lukashenko himself. He is an extremely charismatic leader, and an energetic and persuasive speaker, which sets him apart from many post-Soviet leaders, and definitely boosts his appeal with voters. Secondly, he cleverly exploited the Belarusian identity crisis vis-à-vis its initial unpreparedness to accept independence and reform, and nostalgic feelings towards the paternalistic Soviet state in order to remain popular. Thirdly, the regime has performed a social security function which is superior to that of Belarus's CIS neighbours.²⁷ Finally, Belarus avoided a number of social ills which are usually a source of frustration for post-Soviet people. The wealth in the country is not visibly polarized, oligarchs are absent, corruption is relatively low and the daily life of the average citizen is safe.²⁸

At present the regime is losing popularity, however. Charisma and rhetoric cannot compensate for visible stagnation, if not deterioration, in the state of affairs, particularly since large numbers of Belarussians can witness positive trends in Russia, Poland and Lithuania. By spring 2003, according to independent sociological surveys, Lukashenko's presidential rating had fallen from 46 % in October 2001 (immediately after re-election) to 26 %.²⁹ The regime is trying to counter the trend in different ways (most notably with cabinet reshuffles and by emphasizing the need to have a national ideology which would blend Soviet values with ideas of independence), but without much success thus far. One should not be too hasty to write off the leader just yet, however. In the past, Lukashenko has shown that he is able to pull out all the stops at the critical moment and win through. More importantly, in a

country like Belarus, where politics are personalized, a strong contender would be essential, but such a figure is lacking at the moment.³⁰ Experts agree that in the short-term perspective a change of power in Belarus is not possible along either Polish (negotiated transfer of power to the opposition), Serbian (electoral defeat), or Romanian (uprising) lines.

The longer-term future will primarily depend on the evolution of the opposition movement in Belarus.³¹ The trend seems to be encouraging for the opposition, which is going through a process of triple consolidation. First, the conceptual basis of the opposition is becoming more mature across the board. If previously there was a tendency to expect change to occur through Western pressure or Russian influence, now there is a realization of the need to do one's homework and become organized, not simply to protest vociferously. What is more, the ideology of the opposition mainstream is progressively converging with the views of the people. On the one hand, after ten years of political independence, Belarusian – as opposed to post-Soviet – self-identification is nascent in circles broader than those of the elite and the intelligentsia. In November 2003, only 18 % of the population supported reunification with Russia.³² On the other hand, the opposition leadership realizes that every Belarusian government should be on friendly terms with Moscow – a conviction that the majority has always held.

Secondly, opposition sentiment is spreading to new sectors of the elite. Part of the *nomenklatura* is alarmed by constant reshuffles, the arrests of several top managers of state enterprises between 2001 and 2002, and pressure on official trade unions, which followed the participation of their leader, Viktor Goncharik, in the 2001 elections. There are deputies in both chambers of the country's parliament who are willing to voice criticism of the president and his initiatives. Thirdly, the fragmentation of the opposition is being overcome, although it is too early to speculate about eventual success. In 2001 the opposition finally, if belatedly, managed to agree on a united candidate (Goncharik). In 2004, before the forthcoming parliamentary elections, a coalition called "5+" was founded which reportedly included all the major opposition parties (the United Civic Party, the Belarusian National Front, the Communist Party of Belarus, the Belarusian Social Democratic Party "Gramada", and the Belarusian Labour Party).³³ The Octo-

ber 2004 elections will be the first serious test case for the opposition since 1996.

Belarus and Russia: From paper integration to inter-state relations?

Between 1994 and 2000, Minsk successfully implemented a strategy of "paper integration" with Moscow. Ambitious treaties were signed annually, crowned by one in December 1999 that paved the way for the creation of the Union State between Belarus and Russia. Moscow under Yeltsin had its own reasons for playing this game and kept on subsidizing the Belarusian regime. At the international level, Russia granted political assistance to the regime in Minsk, which openly contradicted the position of European states and organizations.

After Putin came to power in March 2000, the game was discontinued. Putin's apparent lack of personal sympathies towards Lukashenko strengthened Moscow's unwillingness to go on losing money in view of the impossibility of creating a new state even theoretically while maintaining complete sovereignty over admitted entities. In addition, opportunities emerged for Russia to ensure a number of specific interests, involving Belarus, in other ways than before. As far as energy transit was concerned, Russia no longer needed to rely on Belarus as much after it reached an understanding with Ukraine. In security affairs, in the post-9/11 world, Minsk – with its pronounced hostility towards security cooperation with the West and alleged arms trade with Arab regimes – would not be an asset for Moscow, but a liability. In solving the Kaliningrad transit issue, it turned out to be easier for Moscow to deal with Brussels without taking Minsk's interests into consideration, thereby disaffirming a previously pronounced position about the crucial role of Belarus in the Kaliningrad equation.

Still, Russia's overarching interest in Belarus, which can be defined as maximizing its influence, remains as strong as ever, or even stronger. There are obvious economic reasons for this (Russian capital is keen to buy lucrative assets in Belarus before a local oligarchy emerges or foreign buyers arrive), but the most important imperative is the projection of influence elsewhere. For if Russia fails to attain this goal in Belarus, which is small and

extremely amenable, all the plans for more effective policy – whatever that happens to entail – in the post-Soviet space at large may be forgotten. Paradoxically enough, Lukashenko with his record of pro-Russian rhetoric, is, in fact, the major obstacle on the road to fulfilling the task. In safeguarding personal power from Russia, he by default becomes a factor that consolidates Belarusian independence, sovereignty and identity.

Moscow has tried a super-integrationist approach to Belarus. In summer 2002, Putin offered Lukashenko re-incorporation of Belarus by Russia (which was nothing short of an affront to divest the Belarusian leader of his integrationist image), and after this was rejected, concentrated efforts on establishing economic control over Belarus.³⁴ Negotiations were intensified to bring Belarus into the rouble zone ahead of schedule (the date originally set was January 2005) as well as to ensure the Russian monopoly *Gazprom's* ownership of Belarusian pipelines, if discounted pricing for gas was to continue. Neither talks succeeded. On the first issue, in addition to “equal economic conditions”, which implies extending Russian internal energy prices to Belarusian producers, Minsk demanded significant financial compensation for conceding the right to issue money. The claim was rejected by Moscow on the basis of the assumption that the rouble zone as such would be beneficial for Belarus. An eventual deal on the matter is possible, but by no means a foregone conclusion. On the second topic, each side's estimate of the assets in question differed tenfold, and no readiness to compromise was shown. As a result, in January 2004 *Gazprom* cut the gas supply to Belarus, which – ironically – made Russia's closest declared ally the first victim of Russia's gas leverage in the CIS. Minsk started to buy gas from independent producers at prices lower than those that *Gazprom* uses in Ukraine but higher than in Russia internally. Yet these producers are an unsatisfactory substitute as they lack sufficient supplies and alternative pipelines.³⁵ As a way out of the impasse, Russia offered Belarus a state credit, which is the best possible indication that the countries are moving towards a more formal inter-state relationship, compared to the previous “integrationist” model.

At the moment there are two short- to medium-term scenarios for Russian–Belarusian relations and neither is ideal from Moscow's point of view. One scenario would be some sort of temporary solution, not challenging the *status quo* and essentially

meaning Moscow's failure, as Lukashenko would retain control of the country's economy and politics. The other would put the relationship on a collision course. In response to pressure, Minsk could siphon off the gas transported to Europe (as Ukraine did in the 1990s), create impediments for Russian cargo traffic to the EU (where Belarus has a key role) and in transit to Kaliningrad, and under some circumstances demand payments for Russian military bases. Both scenarios are hard to reconcile with policies of integration.

Belarus and the West: Towards effective conditionality?

The EU, the Council of Europe and the OSCE have adopted a common approach and concerted actions vis-à-vis the regime in Minsk, based on concerns about the developments in the country. Following the constitutional referendum of 1996, the Council of Europe deprived Belarus of the special invitee status it had been granted, while the EU decided not to ratify the PCA, negotiated earlier.³⁶ In September 1997 the EU Council of Ministers adopted a set of decisions that reduced the sphere of contacts between Brussels and Minsk to a minimum.

In these circumstances, the OSCE became the major institutional vehicle of international influence in Belarus, first through the Advisory and Monitoring Group (1997–2002), and later through the OSCE office in Minsk (from 2003). OSCE activity in Belarus encountered tremendous difficulties, and in order to resume the presence of the organization in the country, 14 out of 15 member states had to ban Alexander Lukashenko and seven other Belarusian political leaders from visiting their territories.

International organizations demanded that the regime complied with four clearly-defined criteria (substantial powers restored to parliament; the opposition represented in electoral commissions, fair access to the state media, electoral legislation conforming to international standards) in order to resume the process of normalization of relations. Minsk, however, refused to respond and parliamentary (2000), presidential (2001) and local (2003) elections were conducted in an atmosphere of non-compliance with these criteria.

Western policy did not succeed in Belarus for a number of reasons, including the aforementioned Russian factor and political profitability for Lukashenko of the “besieged camp” logic, because he could use the argument of “outside pressure” to justify the difficulties to the people. But the most important explanation for the failure seems to be the fact that neither the available sticks nor the carrots which were offered were strong enough to matter much for the regime. Belarus sells only 13–15 % of its exports to the EU, which makes it fairly impervious to the notion of sanctions. In the absence of a PCA or Interim Trade agreement, it still enjoys the MFN status, inherited from the EU–USSR agreement of 1989, which suffices for most of the country’s EU-bound exports. EU assistance was minuscule even before Lukashenko came to power (between 1991 and 1996 Belarus benefited from 76 million euros through TACIS and other assistance programmes, which is less than 0.5 euros per person per annum) and dropped close to zero after that. At the same time, some lines of humanitarian assistance were kept open. Ultimately, psychological adaptation to life without much cooperation, but also without much pressure from the West took place in Belarus.

At the moment, however, grounds for exercising a more effective conditionality policy towards Belarus seem to be emerging. The regime’s room for economic manoeuvre is becoming narrower. Russia will continue to decrease subsidies to Belarus, while income from arms exports to the Middle East after the US war in Iraq will diminish. The EU enlargement will damage both official Belarusian exports to Poland and the Baltic states through the adoption of stricter standards. Moreover, the unofficial cross-border shuttle trade will suffer due to the introduction of visa requirements. As a consequence, Minsk can be expected to make overtures to Europe in this regard.³⁷

In such a case, the EU should be ready to take the lead in Western efforts. As an economic power, it is in a position to discuss substantial economic packages. In addition, its efforts will not agitate the Belarusian leadership as much as those of the US would. Unlike the Ukrainian case, the modest size of Belarus, the lack of regional leadership ambitions coupled with a less controversial history of bilateral relations, may make Poland a more effective actor in the translation of EU policies. By upgrading the intensity of interaction in order to provide a conditionality policy with the

required instruments, the EU would achieve three ends. It would contribute to the evolution of the regime towards more internal freedom, which would possibly bear fruit as early as the presidential elections of 2006. It would convert the EU–Russia–Belarus relations into a triangle, the absence of which among the West, Belarus and Russia was a major contextual weakness for Western policies. Finally, it would equip the EU with expertise, experience and, more broadly, the potential to act when a regime change in the country occurs.

Moldova: A country torn in two

The challenge that Moldova poses to the EU stems from its divided society and crumbling state structures. Since 1992, the country has been split into two parts, separated by the river Dnestr. The mainly Romanian-speaking ethnic Moldovans (Moldova proper) reside on the west bank and the more Russophone region of Transdniestria occupies a thinner slice of the country in the east. Basically, the situation is – and is likely to remain – stable in political and military terms, but the current division breeds new threats. It is the root cause of the endemic poverty, which, together with the lack of unified and efficient legal space in the country, has made it a black hole for human trafficking and organized crime. This applies particularly to Transdniestria, which is a veritable safe haven for all kinds of illicit activities. Although the international community, and especially the OSCE, Russia and Ukraine, have been engaged in solving the impasse for over a decade, the results have been modest thus far. With the eastern enlargement, the division of Moldova is also starting to affect the EU in a more direct manner and the Union should consequently take the problem more seriously.

The background to the current stalemate

Formerly known as the Moldavian Soviet Socialist Republic (MSSR), Moldova experienced a nationalistic and markedly anti-Russian movement for independence at the turn of the 1990s. After gaining independence, the country quickly slid into civil war as the Russophone minority in Transdniestria started its step-by-step secession from Moldova. The events of winter 1991/92 led to a period of fighting between March and July 1992, after which only 88 per cent of the country's total area remained under the control

of the government in the capital, Chisinau, while the eastern part seceded to become the self-proclaimed state of Transdniestria, run from Tiraspol.

Transdniestria has failed to win international recognition. This has not, however, stopped it from developing all the trappings of statehood, including an elected president and parliament, a national bank that issues currency, a judicial system, an army, police and internal security service, border guards and a customs service, a constitution, a national anthem, a coat of arms and a flag.³⁸

The division of Moldova does not follow strictly ethnic lines. Nearly 65 per cent of the total population of Moldova (4.4 million) are Moldovans, 14 per cent Ukrainians and 13 per cent Russians. Although most of the people on the Moldovan side are Romanian-speaking, only some 60 per cent of Transdniestria's 700,000 inhabitants are Russians or Ukrainians. It is important to emphasize that although the conflict has had some ethnic and linguistic elements, it is not rooted in deep disputes over history and ethnicity, as is the case in other "frozen" conflicts in, for example, the South Caucasus.³⁹ This should give some grounds for optimism that once the political will and international pressure and support is in place, the conflict could be resolved.

Moldova's division has sounded the death knell for the country's hope of modernizing, prospering and joining European integration. Its most advanced industries, including steel works and arms and ammunitions factories, are located in Transdniestria, as is the only power station. Despite these assets, the GDP of the break-away region is lower than in Moldova, which at USD 2,150 in 2001, has been dubbed the poorest country in Europe by and large.⁴⁰ Unemployment is high, estimated at 25 per cent, and with the average monthly salary in Moldova being 40–45 euros, some 80 per cent of the population subsist below the official poverty line.⁴¹

A reflection of Moldova's poverty has been massive emigration; according to various estimates, the final years of the 1990s saw as many as 800,000 Moldovans leave in search of a better livelihood abroad, with favourite destinations being Russia, Turkey and the European Union.⁴² According to some estimates, only one in ten have been legal immigrants, with the majority of Moldovan males ending up as illegal workers on construction sites and in factories, while the young women are being smuggled to work as prostitutes in brothels in Turkey, the EU, Russia and even Japan.⁴³ Although

remittances from the emigrants are important for the Moldovan economy (according to some IMF estimates, 15 per cent of GDP in 2001), emigration has also ushered in new social problems. Parents who have gone in search of work, or other forms of sustenance abroad, have left behind thousands of children who are, in effect, orphans without protection or the support of society.

Moldova's population is also haemorrhaging in another way. Since Moldova changed its Constitution to allow dual citizenship in 2000, some 300,000 Moldovans have applied for Romanian citizenship. Moreover, some 140,000 Moldavian citizens hold Russian citizenship, 60,000 others have Israeli citizenship, and several tens of thousands have Ukrainian citizenship.⁴⁴ The dual citizenship means that after Romania's membership, these people will be allowed to move and eventually work freely in the European Union.

Moldova's domestic political situation is similarly problematic. The Communists won a landslide victory in the parliamentary elections in February 2001 and took 71 of the 101 seats in the national parliament.⁴⁵ Although the elections in 2001 were deemed both free and fair – no mean feat for a post-Soviet state in the region – things have taken a turn for the worse since then. The absolute majority enabled the Communists to make their leader, Vladimir Voronin, president and thus concentrate both the legislative and executive power in their hands.

Citizens voted for the Communists mainly to demonstrate their disgruntlement with the previous government's poor policies. Thus a largely Romanian-speaking and westward-oriented country acquired leaders who have emphasized the status of Russian language and have urged closer relations with Russia. The country's strengthening orientation towards Russia has led to internal unrest. Between February and March 2002, for example, as many as 50,000 people, led by the opposition and pan-Romanian-minded Christian-Democratic People's Party, demonstrated against the government's "Russification measures." The government had to back down in the face of the protests but the domestic climate in Moldova has remained tense, with sporadic internal unrest emerging against the government.

The previously fairly open and pluralistic society and political climate has also taken a turn for the worse in Moldova. The local elections in May and June 2003 were no longer deemed fair. The

opposition has hardly any chances to influence parliamentary proceedings and debates, and the public media is effectively controlled by the ruling party. The judiciary has also been subjected to political influence, and human rights infringements such as torture and ill treatment by the police are on the rise.⁴⁶

Taken together, all these trends indicate that the very viability of the Moldovan state is at stake. If left to its own devices, it could over time become a failed state: It does not control all of its territory or its borders, it lacks access to its most important assets and resources, it has a shrinking population that lives in almost absolute poverty, and the central government does not have the resources, nor necessarily the legitimacy, to change the current situation.

By comparison, Transnistria does not fare even this well. The region is a veritable kleptocracy with every resource being turned into its president Igor Smirnov's and his allies' profit-making endeavours. The International Crisis Group's report has captured the current state of affairs well, where the authorities profit not only from trade (legal and contraband) in such products as fuel, cigarettes, liquor and otherwise standard goods, but allegedly also from trafficking in arms, drugs, and human beings, and from money laundering.⁴⁷

There can be no doubt about the highly authoritarian quality of Smirnov's regime. Numerous allegations of widespread violations of human rights and basic freedoms (freedom of speech, free and fair trials and free elections, to name but a few) are well documented. Despite the oppressive nature of its policies, Smirnov's regime remains fairly popular. This is partly due to the concerted campaign of the local government to construct a separate Transnistrian identity based on the vilification of Moldova and Moldavians.⁴⁸

Moldova's relations with its neighbours and other external players

The current status quo has meant that external parties have enjoyed a disproportionate influence on the country's development and its future course. It is, however, also in the involvement of outside parties that the best chances of success in resolving the current impasse emerge. Particularly in the aftermath of the terrorist strikes on 11 September, the importance of Moldova has been on the rise precisely because it is seen as a safe haven for the

kinds of illicit activities that breed and aid terrorists.

Russia is tightly entangled with the conflict in Moldova. It has been the main source of support for Smirnov's government, which is heavily dependent on the "compensation" that Russia is paying for stationing its troops in the region.⁴⁹ The remnants of the Soviet XIV army act as a valuable asset for Transdniestria against a possible – although highly unlikely – attempt at a military solution to the division by Moldovan forces.⁵⁰ It was agreed at the OSCE summit in Istanbul in December 1999 that Moscow would withdraw its forces from the region by the end of 2002. Since then the deadline has been extended to the end of 2003, a target which Russia, largely due to the active resistance of the Transdniestrian authorities, has also missed.

Russia also exerts a lot of economic influence over Moldova. Moldova is entirely dependent on Russian energy, and the lion's share of its foreign trade is with Russia. During recent years, Moldova has accumulated a vast gas debt to Russia, which Moscow can use as additional leverage over Chisinau.

Recently, however, Russia has begun to move away from the Transdniestrian leaders as Putin has started to consider Voronin's Moldova as the better partner. What is more, the growing western interest in the region has meant that the small gains that Russia can pocket from supporting Smirnov are outweighed by the ensuing diplomatic and political losses in the eyes of Russia's more important partners. It still remains to be seen how this will affect the current division, but it could lead to a situation where Smirnov will lose the most important, and indeed the only international support for its regime. One should, however, beware of too much optimism as in any case Russia will be interested in preserving its leading role in the country, a trend that could easily pit Moscow against the other western actors in the region.

Compared to Russia, Ukraine's role has been much more modest but not necessarily any less problematic. Ukraine has had an interest in the conflict mainly through its common border with Transdniestria. Only in 2003 – under heavy pressure from the United States and the EU – has Ukraine started to take steps which, if fully implemented, will effectively seal the border, which thus far has acted as an open conduit for smuggling and other illegal activities as well as a source of revenue for Ukraine.

Romania also has a stake in Moldova. Due to close ethnic kinship

(some argue that Moldovans are in essence Romanians), some circles in Bucharest have had hopes of unification with Moldova, which would create a Greater Romania.⁵¹ In recent years, however, Romania has given up on such hopes. In fact, instead of re-integration, the opposite could take place. Romania's drive for EU membership will entail that the two countries could be drifting further apart as Romania will gradually become more prosperous while Moldova risks lagging more and more behind. Bucharest also has to start applying the Schengen rules. Although its effects should not be exaggerated, it will nevertheless spell trouble for the movement of people and cross-border cooperation between Romania and Moldova as currently only a passport is needed for crossing the border. It is evident that in the present situation any worsening of Moldova's links with the West is highly harmful.

The European Union has been fairly slow to become active vis-à-vis Moldova. Although the PCA has been in force since 1998 and the Commission machinery is producing documents and evaluations of the country, a clear strategy on what to do with Moldova has been lacking.⁵² Even the "Wider Europe" communication in March 2003 failed to offer any new insights into the topic. It still remains to be seen whether the forthcoming Neighbourhood Action Plan will come up with some new initiative concerning Moldova. Recently, however, the EU has become more active in seeking a solution to the conflict with Transdniestria. For example, in February 2003, the Union and the United States issued a joint travel ban of 17 Transdniestrian leaders in order to apply pressure on Smirnov's regime. In February 2004 the visa ban was extended for another year. The EU has also taken up the issue in the EU-Russia summits as well as started planning for a possible military contingency which could be sent to Moldova to safeguard the ending of the conflict once a political solution has been reached. For the EU, the problems are still fairly large: a quick resolution to the conflict is not to be expected. Furthermore, Russia sees the situation in Moldova as a zero-sum game and views the EU's increased activism with suspicion.

Finally, the United States has been following, and sometimes even anticipating, the EU line. The US government has become more active in the resolution of the conflict. Washington has also supported various anti-human-trafficking measures and applied pressure on the Transdniestrian leaders, for example by joining

the travel ban with the EU in February 2003. Washington has also approached Moscow in an effort to find a common stance on Moldova.⁵³

The way forward

When it comes to Moldova, the only realistic goal for the time being is ending the current division. All other ideas of integration are feasible only after the conflict has been resolved. Since April 1993, the OSCE, together with Russia and Ukraine (since 1995), has been operating in Moldova with a mandate to create a comprehensive settlement for the conflict, which would consolidate the independence and sovereignty of the Republic of Moldova along with an understanding about a special status for the region of Transdnistria.⁵⁴ The OSCE's hands have been tied, however, by the fact that it has lacked both sticks and carrots to force Moldova and Transdnistria into an agreement. Also, as was shown above, the role of Russia and Ukraine as mediators has proved to be a cause for concern as they both have their own interests at stake in Moldova.

The process acquired new impetus in July 2002 when the so-called Kiev Document was launched by the OSCE, Russia and Ukraine. The document foresees a solution whereby Moldova would become a federation under international political and military guarantees that would guarantee considerable autonomy for Transdnistria. Since then, the process has ebbed and flowed, but a decisive breakthrough has yet to be achieved.

Russia's problematic role in the process was highlighted at the end of 2003. On 17 November, a surprise initiative for a resolution to the conflict in the form of the so-called Kozak Memorandum was launched. The Memorandum had been negotiated in secret under the tutelage of President Putin's First Deputy Chief of Staff Dmitry Kozak and it sidelined the OSCE in the process by seeking a trilateral solution between Russia, Moldova and Transdnistria. The aim of the plan was to present the OSCE and the other western partners, the EU among them, with a *fait accompli*. Although the plan envisaged a federation along the lines of the Kiev Document, it would have given a much stronger status to Transdnistria within it. What is more, the plan would have cemented the

presence of Russian troops in the region indefinitely, in clear breach of the OSCE accords in Istanbul in 1999.

All this was unacceptable to the OSCE and the EU. The Kozak plan was also greeted with sharp criticism within Moldova. The fact that Russia had been conducting separate talks behind the OSCE's back was seen as evidence of the fact that Russia was not an honest broker, but was seeking a unilateral solution that would accommodate only Russia's interests. The growing domestic and international criticism led the Moldovan President, Vladimir Voronin, to back out of signing the plan at the last minute at the beginning of December.

As the Kozak incident also shows, there is no quick fix for the Moldova problem. There are many reasons for this: Firstly, Smirnov's government is not very enthusiastic about the process to begin with. Secondly, in its present condition, Moldova is not a very attractive model and partner for Transdnistria. Thirdly, the peace process has lacked a strong western party that would balance the, at times, unwanted and even erratic Russian influence. The present impasse would seem to offer the EU an opening, and perhaps even a demand, for increased activism.

Ukraine: The European choice half-made

The main challenge to EU policy towards Ukraine is essentially linked to the fact that this country is highly unlikely to successfully complete its transformation into a functioning democracy and transparent market economy, if left to its own devices. In view of this assumption, the EU has to decide whether it will be content to co-exist next to a fairly stable, friendly and cooperative state, or whether it will also emphasize the need to add democracy to the above description. Strategies that would lead to either outcome are not identical. Stability and cooperation can, in principle, be achieved also if present trends continue. Accomplishing democratic transformation would require a dramatically different degree of involvement compared to that demonstrated earlier or foreseen at the moment.

Stability assessment

There are no factors at the moment that could be seen as threatening the viability of the Ukrainian state or the internal stability of the country. When compared with a number of alarmist scenarios drawn up for the future of Ukraine at the beginning of the 1990s, this fact will have to be recognized as a major achievement in its own right.

Ukraine has largely overcome the initial shocks of economic transition. Its economy, once suffering from hyperinflation of dozens of thousands per cent and in desperate need of Russian subsidies and Western assistance, now demonstrates monetary stability and growth, triggered by a similar process in Russia. Any assessment of poverty in Ukraine should be made carefully. If ad-

justed to purchasing power, per capita GDP is not much lower than in some EU candidate countries (4,350 US dollars in Ukraine compared to 5,830 in Romania in 2001).⁵⁵ Indeed, transition cost Ukraine a great deal in social terms. Within approximately a decade, without wars or conflicts on its territory, the country has lost about one tenth of its population and slipped into the category of medium human development countries. Demographic trends remain pessimistic, and exposure to the risk of TB and HIV epidemics is considerable.⁵⁶ At the same time, the mechanisms of social adaptation were created – massive labour migration being the most important – which prevented a dangerous rise in poverty.

Frustration with regard to the functioning of the state is significant. If the independence referendum had been held in August 2003, only 53.6 % of its potential participants, or 46.5 % of all citizens, would have voted, compared to 94.2 % in 1991.⁵⁷ As of November 2003, 72.2 % of Ukrainians thought the state was developing in the wrong direction. 58.1 % of respondents did not at all trust the country's president, 55.8 % – the parliament, 54.8 % – the police, 51 % – the cabinet of ministers, 45.6 % – the courts.⁵⁸ Yet, the potential for radical protest is minimal, and opposition attempts to organize mass action protests fail. Over half of the population, 51 %, believe that elections may change their lives for the better, while 42 % are skeptical in this sense; only 2 % do not have any interest in the elections.⁵⁹

Ukraine has avoided the risk of ethnic or religious conflict. Fears that serious problems might be provoked either by the Russian minority, which made up 22.1 % at the beginning of the 1990s, or by the several hundred thousand-strong Crimean Tatar community that had returned from exile in Central Asia, proved to be exaggerated.⁶⁰ Furthermore, the national census of 2001 demonstrated important trends concerning people's self-identification that were encouraging for Ukrainian independence. In particular, the proportion of people identifying themselves as Russians dropped to 17.3 %, revealing a decrease that did not correspond to demographic changes. Ethnic Ukrainians make up 77.8 % of the population and constitute a majority in all regions and administrative units except Crimea. And even in Crimea, an attempt by local Communist leader Leonid Hrach to play pro-Russian and secessionist cards on the eve of the parliamentary elections in 2002 was completely counter-productive: the Communist party lost

control over the local assembly.

Ukraine's political system is unique in the post-Soviet space. It is based on a compromise reflecting the vision of elites across the board which, for various reasons, treats independence of the country as a supreme value. The compromise has several elements. First, elites from eastern and western regions of Ukraine, in order to avoid a split in the country that would demolish their newly-acquired sovereign status, seem to have agreed to share responsibility for the country's future: the East "takes care" of the economy, while the subsidized West determines the ideology of state-building. Secondly, any idea – left or nationalist or liberal – could not win the support of the majority throughout Ukraine. Hence the political pluralism becomes logical, but the *nomenklatura*, or "party of power", also plays an important balancing role. Thirdly, oligarchic groups learned the language of compromise, too. The details of Ukrainian oligarchy will be dealt with below, but it is worth emphasizing that clans normally co-exist and do not seek to eliminate each other. Each group receives its slice of the pie, and this ensures its interest in perpetuating the system. People who discover themselves to be temporary political opponents may still have common business interests. This multiple compromise enabled Ukraine to establish an opposition, not only on the left, as a permanent part of the country's political landscape.

Internal challenges to Ukraine's future

The single most important internal challenge to Ukraine's European future is the regime of managed democracy. This is an independent variable conducive to other ills. Managed democracy in Ukraine is based on four main pillars. First of all, Ukraine is an oligarchic state. Out of a number of groupings, three, largely of regional origin, play a major role: a) the Donetsk group, b) the "home" group of president Kuchma, coming from Dnepropetrovsk, and c) the Kiev group. The personal fortune of their symbolic business leaders is estimated, respectively, to be 1.9 billion dollars for Rinat Akhmetov, 1.5 billion dollars for Viktor Pinchuk, who is Kuchma's son-in-law, and 400 million for Viktor Medvedchuk.⁶¹ These three groups largely privatized the state. A representative of the Donetsk clan, Viktor Yanukovich became Prime Minister in

November 2002. As of summer 2002, Viktor Medvedchuk runs an extremely influential presidential administration. In December 2002, Serhiy Tyhipko of Dnepropetrovsk "received" the position of the Head of Ukraine's National Bank. "The big three", along with smaller groups, are represented at all levels of the government and legislature. In this system, the president is allotted the arbiter's role of maintaining the balance and preventing major conflicts between the groups. Leonid Kuchma seems to have performed this function effectively and satisfactorily enough for the oligarchs to remain the core, albeit neither the brain nor the driving force, of the coalition. His politics are often characterized as "manual management" since he controls all major political appointments in the country.

Ukraine's constitutional design makes it possible to manipulate the political process in favour of incumbent authorities. Half of the Ukrainian parliament has been up to now elected in single-mandate districts, where members of the party in power have privileged positions in terms of access to money, the media and so on, while the other half of MPs, elected on party tickets, is free to change factions once in parliament.⁶² This makes them vulnerable to "carrot and stick" pressure by the government. As a result, the pro-presidential coalition, which in the parliamentary elections of 2002 won less than 20 % of the votes, was able to create a majority and form the government. Governors in the country are appointed by the president.

In 2003, the president tried to launch a constitutional reform, aiming to repeal the direct election of the president and entrust this prerogative to the parliament, as well as limiting the president's powers in favour of the cabinet of ministers. The reform proposal did not receive the necessary two thirds majority in the legislature in April 2004 and at the moment of writing it was more likely to fail altogether although there was no final clarity. The motivations of the sides are nevertheless worth analyzing. Proponents of the reform clearly want to change the appearance of the system in order to preserve its substance, allowing an agreed representative of the oligarchy to remain in power. The non-left opposition that includes the centrist national-democratic "Our Ukraine!" coalition, and the more radical "leader's" "Bloc of Yulia Tymoshenko" (formerly an oligarch herself, nicknamed "the gas princess") defends the status quo. They claim to be democratical-

ly motivated, yet there is a suspicion that Viktor Yushchenko, the head of “Our Ukraine!” and leader of the presidential candidate ratings, is afraid that the very prospect of losing power and not being able to pay his bills upon election will deprive him of supporters and make his financial base shrink.

The courts in Ukraine are influenced by the preferences of the executive power. Individual judges sometimes muster the courage to act against the wishes of the latter, but such behavior is the exception rather than the rule. The best example of judicial sensitivity towards the political milieu was the December 2003 ruling of Ukraine’s Constitutional Court. It found the present term of Leonid Kuchma to be the first one in accordance with today’s main law, despite the fact that, when he was elected president for the first time in 1994, the country had other laws allowing only two consecutive terms in office, and his de facto first term was prolonged by one year to comply with the current Constitution. As of today, the president may run for another term in the elections scheduled for October 2004, although he denies his intention to do so.

The media in Ukraine, particularly the electronic sort, are largely controlled by the oligarchs. The remainder often have to confront the repressive attitudes of the state. The murder of Georgiy Gongadze, the editor of an opposition internet-newspaper, which was perpetrated in October 2000 and has not been transparently investigated until now, taints the perception of Ukraine in this regard. In the World Press Freedom Ranking Ukraine was ranked in 132nd position (between Liberia and Afghanistan, although Russia was ranked even lower at 148th).⁶³

Top-down and bottom-up corruption is looming over the country. In the Transparency International rating published in 2003, Ukraine held 106th position among the 133 countries listed. According to an opinion poll, 60.5 % of respondents knew of cases of bribery to ensure the taking of a lawful decision, and 47.5 % were aware of this practice in the case of unlawful decisions.⁶⁴ The business climate survey revealed that nearly 70 % of enterprises made so-called “unofficial payments” to state bureaucrats, but even after that 25 % of respondents were not confident that the “service” they had paid for would be rendered.⁶⁵ This evidence comes as no surprise in a country in which 40 % of the economy is believed to be off the books in the shady sector.⁶⁶ The tolerance of

corruption in society is very high, and it has penetrated the political process down to the lowest level. The practice of handing out food and alcohol parcels to buy votes is repeated at every election. The Financial Action Task Force on Money Laundering (FATF) had Ukraine on its blacklist until March 2004.

The situation with regard to human rights has clearly aroused the concern of observers. Besides violations of media freedom, human rights organizations have drawn attention to prison conditions, cases of torture and other abuses in Ukraine's penitentiary system and law enforcement, as well as discrimination against women in the labour force.⁶⁷

What should not be underestimated is the fact that these problems are systemic and will not disappear overnight after positions of power change. In all probability, the balance of compromises would be re-arranged, but not removed completely. For any administration in Ukraine to exist in the foreseeable future, the clans will have to be paid off and the bureaucracy kept satisfied, otherwise the whole system of governance will be in jeopardy.

"European choice" versus "multi-vector" foreign policy

The Ukraine of today, declarations notwithstanding, remains nearly as undecided with regard to its foreign policy priorities as in 1991. Since independence, Ukraine's leadership has been performing a difficult balancing act between Russia and the West, determined by the divided loyalties of the country's population. This balancing act produced results in putting Ukraine at a greater distance from Russia in political and economic terms, but failed to bring it closer to Europe. Ukraine remained typologically a post-Soviet country and was not able to keep pace with its Central European neighbours' march towards European and Euro-Atlantic integration. In recent years, as all polls consistently demonstrate, approximately one third of the population mainly stakes Ukraine's future on good relations with Russia, another third on the EU, while NATO and US "stakes" feature lower.⁶⁸ Ukraine tried to avoid making a hard choice, but its search for the third way did not prove effective after it became clear that it could not efficiently lead the non-Russia-centred cooperation in the CIS, and after it failed to

grasp a part of the Caspian energy transit, and was essentially left outside regional cooperation in Central Europe.⁶⁹

However, the fact that a simple choice cannot be made and a “multi-vector policy” remains the most realistic option for Ukraine for quite some time (even if the prospect of EU membership were feasible, which looks unlikely), converts the EU–Ukraine–Russia relations into a real triangle, in which developments on each side define both the current and eventual configuration more than anywhere else.

Russian–Ukrainian relations seem to have left behind the conflict paradigm of the 1990s. The gas issue was solved in October 2001. Old debts were restructured and gas theft on Ukrainian territory halted in return. Over-sensitive discussions on the so-called “humanitarian agenda” were generally replaced by cooperation in the sphere of culture. In May 2003, the Russian language in Ukraine received a minority language status, which fell far short of Moscow’s original expectations but did not cause vehement official protests. Agreements on the delimitation of the land border and the status of the Sea of Azov and the Strait of Kerch were signed in January and December 2003 respectively.

Once again, one witnesses a “cooperation-competition” equation here – in every sense – and both sides have their limits. Russia seems to have accepted, be it willingly or unwillingly, the independence and sovereignty of Ukraine. The symbolic date of this acceptance was the ratification of the so-called “Big” political treaty, in February 1999. Putin reached the pinnacle of Russian power with this acceptance in mind and, therefore, it was not too difficult for him to visit Kiev in August 2001 to take part in the celebrations to mark Ukraine’s 10th anniversary of independence *from Russia*. Under Putin, Russia and Ukraine are now entangled in an inter-state relationship, quite different from the “brotherhood” pattern of the early 1990s. Moreover, Russia has finally come to the realization that a conflict with Ukraine would not serve its interests as it would sap too many resources and could potentially escalate out of control. Hence the readiness to compromise. Kiev, in turn, also realized the impossibility of prolonging previous strategies, which combined the use of Russian subsidies with strained rhetoric. Putin, if pressed, could opt for conflict, so offering or agreeing to a compromise was, in all probability, the best available solution.

The compromise has resulted in a certain expansion of Russian influence in Ukraine. It was more visible in the economic sphere after Russian capital was admitted to Ukraine to exert control over the country's non-ferrous metallurgy, its oil business, and telecommunications sector. Matters are somewhat less conclusive with regard to domestic politics, however. On the one hand, the Putin factor features strongly in Ukraine, forcing the opposition to publicly seek good relations with Moscow – something that former national democrats did not do. But on the other hand, for the first time in the country's history (and Russian open support notwithstanding), the pro-presidential bloc and the Communists lost the parliamentary elections of 2002 to a coalition that included, from the Russian point of view, a number of problematic figures.

Ukraine's current leaders also notched up a victory. President Kuchma received political support while the oligarchs were given access to the Russian market as well as property in the country. What is more, the Russians seem to have promised not to interfere in the businesses which are controlled by Ukrainian clans.

Therefore, the present *modus operandi* is workable, although not ideal for either side. However, Russia's previous and future attempts to reshape things in its favour have encountered, and will continue to encounter, resistance. In the autumn of 2003, Russia's construction of a dam in the Strait of Kerch, where maritime borders are not properly delimited, was interpreted in Ukraine as an action to shift the border by force.⁷⁰ Troops were deployed in the area to demonstrate Ukraine's readiness to fight, if necessary, but conflict was avoided. Even the expansion of Russia's economic presence in Ukraine stalled. Negotiations on Russia's pet projects (the operational gas consortium to manage Ukraine's pipeline system, agreed in June 2002, the use of the Odessa-Brody pipeline to export Russian oil through Odessa, and the purchase of energy companies by the Russian monopoly *United Energy Systems*) have been postponed or have fallen through altogether. Russia's initiative to bring Ukraine into the quadripartite Common Economic Space was questioned even in the cabinet of ministers and, although ratified in parliament in April 2004, has a slim chance of being implemented as it differs from Ukraine's vision of post-Soviet integration.⁷¹

Russia also has a stake in Ukraine's 2004 presidential elections. It is apparently afraid that the compromise described above will

be undermined in the event of changing power figures, and that this will cause bilateral relations to revert to the conflict pattern of the 1990s, however temporarily. Moscow, therefore, will not speak against undemocratic methods of ensuring continuity of the regime. At the same time, its ability to influence the political process in Ukraine in order to achieve a preferable result remains limited.

The track record of EU–Ukraine relations is fairly encouraging.⁷² They are based on a Partnership and Cooperation agreement that entered into force in 1998, enabling the development of a framework for political dialogue which has achieved mixed, but generally positive, results in the economic sphere. In December 1999, the European Council adopted the EU Common Strategy on Ukraine, which is to be replaced by the so-called European Neighbourhood Policy Action Plan. From December 2001 the sides started to implement the EU Action Plan on Justice and Home Affairs with Ukraine. The EU is the Ukraine's largest donor, and over the last decade EU assistance has amounted to approximately 1.1 billion euros, in addition to assistance from various member states.

Speculating beyond enlargement, however, highlights a number of fundamental problems that this relationship will have to face. First, as in the case of other new neighbours in the east, Ukraine's factual priority for the Union is likely to remain low, in both economic and soft security terms. A partial exception may be the potential role of Ukraine in the Caspian energy transit, but whether Ukraine will ever play this role in reality is uncertain.

Secondly, the EU is frustrated with Ukraine's level of democratic development. Brussels made it clear that consolidation of democracy would be Ukraine's responsibility as a precondition for a closer relationship. Whether this position is sufficient – or whether conditionality instruments should be applied more actively – is debatable, but the issue remains a matter of concern for the Union. Much in the EU position in this regard will depend on the assessment of the Council of Europe, of which Ukraine is a member and by which it is monitored.⁷³

Thirdly, the burden of managing the practical problems of enlargement precipitates Ukraine-fatigue. Kiev, for instance, refused to automatically extend the PCA to new members and demanded compensation – i.e. it behaved in a manner identical to Russia's, which irritated Brussels practitioners, a positive final outcome of

the talks notwithstanding.

Most important, however, is the discrepancy between the two prevailing conceptual visions of the future. Ukraine, from the mid-1990s onwards, has continuously reaffirmed its goal to attain first associated, and later full membership of the EU. The latter is ready to offer Ukraine only limited cooperation without the integration perspective.⁷⁴

The evolution of EU–Ukraine relations towards a less cooperative pattern is improbable. In the coming years, following the enlargement, the EU may replace Russia as Ukraine's leading trade partner, which makes further approximation of economic norms unavoidable. There is little alternative to cooperation in justice and home affairs since Ukraine and the EU share a common interest in this sphere and, in addition, Ukraine hopes to receive some privileged treatment for its citizens after the extension of the Schengen zone to its borders several years from now. Declarations about the "European Choice" will not be abandoned under any regime; it will, on the contrary, intensify, if the present opposition comes to power.

At the same time, the degree of EU influence on Ukraine decision-making may decrease. It seems more likely at the moment that the lack of integration perspective will make Kiev less inclined to take into consideration certain recommendations and wishes that will be emanating from Brussels and other European capitals. The effectiveness of the conditionality policy will therefore be put into jeopardy.

In this connection, NATO–Ukraine relations and relations with the US can become the main vehicle for anchoring Ukraine in the West. Unlike the European perspective, future membership of NATO is spelled out for Ukraine. The geopolitical importance of Ukraine is self-evident, and for this reason its foreign policy has always mattered more than its internal policy as far as the US and NATO are concerned. The prospects for Ukraine's defence reform, also thanks to consistent involvement by some NATO countries, are better than those of its economic reform. Depending on developments in Russia, NATO membership may be considered the best instrument for safeguarding the country against worst-case scenarios. In May 2002, a decision to strive for NATO membership was adopted by Ukraine's National Security and Defence Council. In the event of a regime change, the policy aimed at

obtaining NATO membership will be actively pursued.

For Ukraine, the NATO option is secondary to the EU option. NATO enjoys only lukewarm support in Ukraine, and the admission may cause complications with Russia, particularly concerning the troops stationed in Crimea until 2017. In the European context this would mean a less economically promising future, as the amounts of potential aid are not comparable. But this is a scenario which, in the absence of a European perspective, could materialize in the medium- to long-term future, and the possibility should therefore be taken into account in the EU's Ukraine strategy.

Conclusions

It is clear from the analysis above that although the central challenges that the new eastern neighbours (Belarus, Moldova and Ukraine) pose for the EU are easy to identify (such as the domestic political situation, the wealth gap and the as yet unanswered calls for European affinity), the solutions are not. There are three reasons for this state of affairs:

Firstly, at the present time the EU is not the only, and perhaps not even the most important, player in the region. So far this has meant that the EU has trodden carefully when – and if – seeking to penetrate the region. But the eastern enlargement opens a window of opportunity to change this. From May 1st 2004 onwards, the EU enjoys an opening to become more actively engaged vis-à-vis its new eastern neighbours. In fact, our analysis shows that it is imperative for the EU to become more active and to convert the system of relations between itself, Russia and the eastern neighbours into a triangle. This is necessary because it has, to date, been precisely the absence of a clear EU presence that has enabled Russia to wield disproportionate influence in the region. From now on, the shortage of resources notwithstanding (see below), the EU is in a position to bring its interests and agenda to bear in the region to a degree equal to that of Russia and, where appropriate, in cooperation with Russia. In this regard, possible avenues for closer cooperation are, for example, the energy transit and Justice and Home Affairs (JHA).

The second reason follows from the first, as it is still unclear whether the EU has a genuine will to become more active vis-à-vis its eastern neighbours. As has been shown, the countries are relatively stable, yet economically insignificant for the EU. Thus, both the negative and positive incentives for the EU to get involved are slight. Here the role of new member states will become crucial, as it will largely be up to them to raise the eastern issues on the EU's

agenda and act as standard bearers in a manner similar to that which Finland and Sweden have adopted with the Northern Dimension. Unlike in the north, however, the problem is that the new eastern member states do not have the economic resources to beef up their claims for a new “eastern dimension.”

Thirdly, and even if the will to become more active does exist, it cannot be taken for granted that the post-“Big Bang” EU has the necessary wherewithal (political and economic resources) to deal effectively with the issues at stake along its eastern periphery. This stems from the fact that the EU’s domestic and foreign agendas are already so overloaded (Intergovernmental Conference, the next budgetary period from 2007 onwards, the ESDP, making the current enlargement a success while preparing for the next one with Bulgaria and Romania in 2007, the Transatlantic relationship and the problems with Russia, to name but a few) that only scant and fairly sporadic interest can be expected from the Union towards the east.

Despite these problems and challenges, remaining inactive is no longer a fruitful option for the EU. It is therefore in the EU’s interests to reach a mutually acceptable compromise on the extent of cooperation/integration with its eastern neighbours. Both the concrete challenges and the more abstract calls for affinity from the east are real, and the EU should answer them in a constructive manner, keeping in mind the main lesson of the 1990s: there are two ways in which a country or region can draw the EU’s attention and resources to itself. The first is by effective internal transformation and gradual integration as exemplified by the CEECs, the other is by internal chaos and instability, which has the potential to spill over into the EU (as in the Balkans).

However, it is worth repeating that the likelihood of instability is fairly low on the EU’s eastern perimeter. None of the countries present the EU with serious problems in this regard. Thus, on the one hand the EU has the time to find answers to the questions posed above. But on the other hand, this shouldn’t be taken to imply that the EU has time to spare: It is in our view imperative that the EU starts making the decisions today, precisely in order to avoid a repetition of the pattern of decision-making on the Balkans where the Union was forced to improvise and engage itself in open commitments for accession in order to find the right formula for stability and association in the region. The European

Neighbourhood Policy can be seen as a step in the right direction. This is due to the fact that it seeks to operationalize the vague commitments found in the PCAs by creating benchmarks and offering some, albeit still modest, incentives for cooperation and transformation. But in the final analysis a lot will depend on the EU's ability to draw its eastern neighbours into the process in a serious manner and then to deliver what it has promised them. The quality and content of the first Neighbourhood Action Plans will act as an important indicator of things to come in this respect. If they do not contain clear objectives and timetables for the gradual deepening of the relationship, and merely recycle the central tenets of the PCAs in a slightly different order, then the Action Plans can be deemed to have been a failed exercise.

In our opinion it is important for the EU to fully take into account in the future that it will not be possible in practice to conduct a single, or even three slightly different policies within one comprehensive framework of "Neighbourhood Policy" in the east. This is so for two reasons. Firstly, as has been shown in the country reports above, the challenges posed by the new neighbours of the EU differ enormously. Secondly, the fact that the membership perspective is absent means in practice that there is no "natural" common headline goal available to all neighbours. As a consequence, some neighbours might opt for a closer cooperation and perhaps even faster integration than others. **Thus the clear differentiation that has been envisaged in the Action Plans should be pursued vigorously.**

In this regard, the EU should concentrate on the creation of success stories that would be seen and felt to be beneficial not only for the EU but also, and perhaps primarily, for the new neighbours. Success in one country or even in solving one significant problem alone is very important as it results in a positive momentum that strengthens the countries' – and their peoples' – wish to move further in the European direction. This makes a list of clear priorities drafted jointly with the neighbours an absolute must for an effective policy to appear.

Of the three neighbours, Moldova is the one where we anticipate the EU's chances of contributing to a change to be the strongest. This is due to the small size and the relatively strong western orientation of the country, which should allow the EU to put its weight behind a solution to the Transdnestrrian conflict. However, the EU

should not seek to sideline the on-going efforts of the OSCE, Ukraine and Russia but it should make its presence and resources more visible in the process. By bringing in a strong external interest, the EU could balance the, at times, dominating role of Russia that has proven to be a source of complications in the process.

Conditionality should be made both strict and realistic. Strict, as the EU is in a position to make conditionality work, since it can offer substantial economic packages. But also realistic, as the EU should also keep in mind that its leverage over its eastern partners cannot be as strong as it has been in the accession process: The carrot on offer is not as big since the “four freedoms” pale in comparison with full accession.⁷⁵ It seems that after the successful completion of the Eastern enlargement the Commission is locked into reproducing the accession model also in the case of ENP although it is not entirely appropriate. It would be more feasible for the EU to adopt an incremental approach of encouraging, and demanding, small steps in the right direction instead of making the improvement of relations conditional upon meeting *all* of the EU’s conditions. This applies especially in the case of Belarus.

Preventing the widening of the “wealth gap.” Recommendations regarding the use of financial instruments available to the Union (assistance funds and programmes as well as the activity of the European Investment Bank) are well known. However, taking into account overextension of the Union’s resources, it makes more sense to place the emphasis not on assistance but on the opening up of EU markets to the goods (agricultural products, metals, and fertilizers, among others) coming from these countries. Although difficult for the vested interests within the EU, “trade not aid” should be the working slogan. Among other things, this is the way to prove the credibility of the EU’s offer to include the new neighbours in the area of the “four freedoms,” provided that the latter demonstrate their commitment to continuing market reform.

Building up cooperation in Justice and Home Affairs. The task of establishing cooperation in this sphere is of tremendous importance. To manage the border is to have effective control of migration flows and, simultaneously, to facilitate legal border-crossing and cross-border cooperation in the regional format (EU, Russia, Ukraine, Moldova, Belarus). A regional package of readmission agreements should be a high priority, otherwise Ukraine and Belarus will be exposed to the risk of becoming accumulators of

illegal migrants. But cooperation in JHA should, from the very beginning, have a more ambitious goal than just controlling immigration, namely, the transfer of European expertise and standards of behaviour in the sphere of law to the new neighbours. The people should be helped to expect that the rule of law can prevail over the arbitrariness of the authorities.

Following from this, **promoting a new business, political and legal culture** is an important task. Fostering new elites is a precondition for successful democratic transformation in these countries. Otherwise changes may simply entail the replacement of power figures and the preservation of the systemic deficiencies. NGO-building, support for independent media, language-training for young people and improving opportunities for studies abroad – all these measures pack great potential and have to be used on an increasing scale. Insufficient attention is currently being paid to the promotion of the interests of European small and medium businesses in the eastern neighbours. If assisted in the struggle against local corruption, these businesses could propagate European economic culture and create jobs, which will also help to alleviate the pressure of labour migrants inside the EU.

By and large, the EU will be challenged to go beyond the "Big Bang." The new eastern neighbours will be drawn closer to the Union in the coming years, both for better and for worse. Hence the EU should take the challenge seriously, as substituting real policies with mere rhetoric won't suffice in the longer term.

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¹ In December 2002 the Copenhagen European Council decided on the accession of ten new members: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, and Slovenia. The previous “records” are from 1973 and 1995, with three new members on both occasions.

² For the effects of enlargement on the EU’s external relations, see Hiski Haukkala and Hanna Ojanen, “Ulko- ja turvallisuuspolitiikan haasteet,” in Tapio Raunio and Teija Tiilikainen, eds, *Euroopan rajat: Laajentuva Euroopan unioni* (Helsinki: Gaudeamus, 2002).

³ For a comprehensive overview of the accession process, see Graham Avery and Fraser Cameron, *The Enlargement of the European Union* (Sheffield: Sheffield Academic Press, 1998).

⁴ Antonio Missioli, “The EU and its changing neighbourhoods: stabilization, integration and partnership,” in Judy Batt et al. *Partners and neighbours: a CFSP for a wider Europe*. Chaillot Paper 64/September 2003 (Paris: EU Institute for Security Studies), p. 17.

⁵ For more about the ND, cf. Hanna Ojanen, ed., *The Northern Dimension: Fuel for the EU? Programme on the Northern Dimension of the CFSP No. 12* (Helsinki and Berlin: Finnish Institute of International Affairs and Institut für Europäische Politik, 2001).

⁶ The EU has halted the ratification process of its PCA with Belarus due to President Alexander Lukashenka’s unconstitutional coup in 1996.

⁷ All in all, the EU has concluded nine PCAs with the countries of the former Soviet Union. The contents of the PCAs have been introduced in the European Commission’s server at http://www.europa.eu.int/comm/external_relations/ceeca/pca/index.htm.

⁸ Arguably, Iceland, Norway and Switzerland would be good candidates for accession. However, none of them has applied, or is likely to apply, for membership in the immediate future.

⁹ SAP has been in place since 2000. More information about the Process can be found on the Commission’s homepages at http://www.europa.eu.int/comm/external_relations/see/actions/index.htm. Downloaded 2 February 2004. Croatia and Macedonia have applied for membership and they await the Commission’s opinion.

¹⁰ According to the Copenhagen criteria, a prospective member must (i) be a stable democracy, respecting human rights, the rule of law, and the protection of minorities; (ii) have a functioning market economy; and (iii) adopt the common rules, standards and policies that make up the body of EU law.

¹¹ Romano Prodi, *A Wider Europe – A Proximity Policy as the key to stability*. A speech at the “Peace, Security and Stability – International Dialogue and the Role of the EU” Sixth ECSA–World Conference, Brussels, 5–6 December 2002.

¹² The British, Polish and Swedish ideas about this “Eastern Dimension” have been analyzed in Hiski Haukkala, *Towards a Union of Dimensions: The effects of eastern enlargement on the Northern Dimension*. FIIA Report 2/2002 (Helsinki: The Finnish Institute of International Affairs); and Hiski Haukkala, “New Forms of EU Neighbourhood Policy: The Case of the ‘Eastern Dimension,’” in *Yearbook of Finnish Foreign Policy 2003* (Helsinki: The Finnish Institute of International Affairs).

¹³ The name – and the content – of the policy has been in flux; previously it has been known as the “Wider Europe Policy” and the “New Neighbourhood Policy.”

¹⁴ *Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours*. COM(2003) 104 final, 11 March 2003, available at http://www.europa.eu.int/comm/external_relations/we/doc/com03_104_en.pdf, downloaded 22 August 2003.

¹⁵ It seems likely that the countries of Southern Caucasus (Armenia, Azerbaijan and Georgia) will also be added to the list of the EU's "neighbours."

¹⁶ *European Neighbourhood Policy Strategy Paper*, Communication from the Commission, at http://europa.eu.int/comm/world/enp/pdf/strategy/Strategy_Paper_EN.pdf, downloaded 21 May 2004.

¹⁷ See *Paving the way for a New Neighbourhood Instrument*. COM(2003) 393 final, 1 July 2003, at http://www.europa.eu.int/comm/external_relations/we/doc/com03_393_en.pdf, downloaded 22 August 2003.

¹⁸ *Paving the way for a New Neighbourhood Instrument*, III.10 (p. 7).

¹⁹ Cf. Hiski Haukkala, "The Northern Dimension: A presence and four liabilities?" in Roland Dannreuther, ed., *European Union Foreign and Security Policy: Towards a Neighbourhood Strategy* (London and New York: Routledge, 2004); and Holger Moroff, "The EU's Northern Soft Security Policy: Emergence and Effectiveness," in Holger Moroff, ed., *European Soft Security Policies: The Northern Dimension*. Programme on the Northern Dimension of the CFSP No. 17 (Helsinki and Berlin: Finnish Institute of International Affairs and Institut für Europäische Politik, 2002).

²⁰ *Paving the way for a New Neighbourhood Instrument*, I.4 (pp. 3–4).

²¹ The details on the migration problem in the context of EU–Ukrainian and EU–Belarusian relations can be found in Astrid Sahn, "Barrier or bridge on the road to Europe? Justice and Home Affairs", in Ann Lewis ed., *The EU and Belarus. Between Moscow and Brussels* (London: The Federal Trust, 2002), pp. 375–386, and Inna Pidluska, "Justice and Home Affairs beyond enlargement", in Ann Lewis, *The EU and Ukraine. Neighbours, Friends, Partners* (London: The Federal Trust, 2002), pp. 241–251.

²² This was aptly illustrated by the US policies towards Ukraine between 2001 and 2003 when Kiev was suspected of selling sophisticated radar systems to Iraq, allegations which Washington took very seriously. The Ukrainian leadership was accused of non-cooperation with the US and British inspectors, which resulted in a symbolic refusal to invite president Kuchma to attend the NATO summit in Prague in November 2002. In the end, however, it sufficed for Kiev to send troops to Iraq to participate in the US-led post-war coalition in order to be taken off Washington's blacklist.

²³ Last available year. *Human Development Report 2003*, p. 238.

²⁴ *Belarus Country Brief 2003*. Available at www.worldbank.org

²⁵ Anders Åslund, "Is the Belarusian economic model viable?," in Ann Lewis, Op. cit., p. 182.

²⁶ A distant parallel to illustrate this point is the success of the international community in preventing the conflict in Macedonia after it had failed to do so everywhere else in the region for a decade.

²⁷ To be seen to be bolstering the safety net, Lukashenko used the so-called Presidential Fund, which is by no means transparent but nevertheless rather substantial. Money coming from the sales of arms is believed to have been one source of its revenue. According to different estimates, Belarus could have exported from one to two billion dollars' worth of weapons between 1997 and 2000. *Nezavisimaya Gazeta*, 19 December 2003.

²⁸ In the 2003 Corruption Perception Index, Belarus is ranked 53rd, which is higher than Czech Republic, Slovakia, Poland and a number of other countries that are going to join the EU. The trend is, however, negative, as in 2002 Belarus held 36th position. The country score fell from 4.8 to 4.2, which is a significant change.

²⁹ *Izvestia*, 22 April 2003.

³⁰ A poll showed that only 13 % of respondents said they knew of a candidate who could compete with Lukashenko in the elections, while 86 % knew of no such candidate. *Nezavisimaya Gazeta*, 26 May 2003.

³¹ See analysis of the Belarusian opposition in Vitaly Silitski. "The Change is yet to Come:

Opposition Strategies and Western Efforts to Promote Democracy in Belarus”, in Ann Lewis, *Op. cit.*, pp. 351–374.

³² *Nezavisimaya Gazeta*, 24 November 2003.

³³ *Kommersant-daily*, 24 January 2004.

³⁴ Putin proposed the admission of six Belarusian administrative units (*oblasts*) into Russia as subjects of the federation, which would signify the complete dissolution of the Belarusian state in Russia with a status de facto even lower than that of Russia's ethnic republics, like Tatarstan. Lukashenko emotionally retorted that Stalin would not have treated Belarus in such a humiliating way. *Vremya Novosti*, 22 August 2002.

³⁵ In 2003 *Gazprom* supplied Belarus with 10.2 billion cubic metres of gas at internal Russian prices (29 dollars per thousand cubic metres). In return it received lower transit tariffs. Independent producers sold 8.3 bcm at 45–47 dollars per tcm. If *Gazprom* applies the Ukrainian model to Belarus (50 dollars per tcm but slightly higher tariffs), this will cost Minsk 200 million dollars more. *Vremya Novosti*, 19 January 2004. But this is a problem mainly for the Belarusian state budget and Presidential Fund. Enterprises and households in Belarus have paid a near-market price for gas for quite some time, while the difference is used by the authorities to finance other projects. *Vedomosti*, 26 January 2004.

³⁶ An overview of the European Union's relations with Belarus can be found at http://europa.eu.int/comm/external_relations/belarus/intro/index.htm. It should be noted, however, that regrettably the site is a symbol of inadequate EU attention to the country. When the website was visited by the authors in January 2004, it had last been updated in February 2003.

³⁷ When commenting on a proposal concerning Russian credit to buy gas, the Head of the Belarusian National Bank, Petr Prokopovich, hinted that the country could seek loans from the West. *Nezavisimaya Gazeta*, 28 January 2004. On a separate note, cooperation between Belarus and NATO resumed recently.

³⁸ *Moldova: No Quick Fix*, ICG Europe Report No 147, 12 August 2003, p. 5. Available at http://www.crisisweb.org/library/documents/report_archive/A401086_12082003.pdf. Downloaded 10 February 2004.

³⁹ *Moldova: No Quick Fix*, p. 1.

⁴⁰ *Human Development Report, 2003*. The figure has been adjusted to purchasing power parity. However, these, as all the figures in this report and especially in this section, should be taken as rough estimates only, as the reliability of the data is highly questionable. One should also bear in mind that the size of the “black” economy especially in the case of Transdnistria – but also of Moldova – is fairly large.

⁴¹ Cf. *Moldova Seeks Stability Amid Mass Emigration*, MPI Country Profile, <http://www.migrationinformation.org/Profiles/display.cfm?ID=184>. Downloaded 10 February 2004. For a comprehensive overview of the socio-economic situation in Moldova, see Romanian Academic Society's *Early Warning Report: Republic of Moldova* (Bucharest: RAS, November 2002), available at <http://www.sar.org.ro/ewrpdf/Moldova/MD.ewr1en2002.pdf>. Downloaded 10 February 2004.

⁴² Estimates of the number of Moldovans working abroad range from 600,000 to 800,000 depending on the source. For example, the Moldovan Ministry for Internal Affairs mentions the number 600,000, whereas the EU's Moldova Country Strategy Paper gives the figure of 800,000. *Moldova Country Strategy Paper 2002–2006*, p. 3. Available at http://www.europa.eu.int/comm/external_relations/moldova/csp/02_06_en.pdf. Downloaded 10 February 2004.

⁴³ The amount of Moldovan women being smuggled annually for sex slavery has been estimated to be as high as 50,000. See, for example, *Moldova Seeks Stability Amid Mass Emigration*.

⁴⁴ *Moldova Seeks Stability Amid Mass Emigration*.

⁴⁵ According to some sources, part of the explanation for the Communists' popularity stems from the skewed demographics of the country: with a substantial part of the young and dynamic people residing abroad, the elderly have a disproportionate sway in the elections. Thus their nostalgia for the stability and relative prosperity during the Soviet era has propelled the Communists back into power. *Moldova Seeks Stability Amid Mass Emigration*. In all fairness, the Moldovans do have some justification for their nostalgia; the GDP of the country has dropped some 60 per cent during the post-Soviet era.

⁴⁶ *Moldova: No Quick Fix*, p. 28. See also the *Amnesty International Report 2004* on Moldova, available at <http://web.amnesty.org/report2004/mda-summary-eng>. Downloaded 4 June 2004. For more on media freedom and corruption, see *Transparency International's office in Moldova*, <http://www.transparency.md/>.

⁴⁷ *Moldova: No Quick Fix*, p. 6.

⁴⁸ Vladimir Solonari, "Transnistria: Old Problems, New Developments," in Iris Kempe, ed., *Prospects and Risks Beyond EU Enlargement. Eastern Europe: Challenges of a Pan-European Policy* (Opladen: Leske + Budrich, 2003), p. 198.

⁴⁹ Solonari, "Transnistria: Old Problems...", p. 197.

⁵⁰ Even without Russian troops the military odds between the two are even: Moldova 8,500 and Transnistria 7,500 soldiers. Solonari, "Transnistria: Old Problems...", p. 209.

⁵¹ Charles King, "Marking Time in the Middle Ground: Contested Identities and Moldovan Foreign Policy," *Communist Studies and Transition Politics*, vol. 19(3) Special Issue, 2003: 60–82, p. 73.

⁵² Solonari, "Transnistria: Old Problems...", p. 211.

⁵³ Cf. Text of Joint US–Russia Declaration, Moscow, 24 May 2002, available at <http://www.whitehouse.gov/news/releases/2002/05/20020524-2.html>. Downloaded 10 February 2004.

⁵⁴ For excellent overviews of the process, see *Moldova: No Quick Fix*; and Solonari, "Transnistria: Old Problems..."

⁵⁵ The last available year. *Human Development Report 2003*, p. 238.

⁵⁶ For details see Liudmila Shangina. "Demographic Situation in Ukraine: State, Trends, Forecasts". *Connections*, n. 2, 2002, pp. 55–75.

⁵⁷ Poll conducted by Ukrainian Centre for Economic and Political Studies. *Ukrain'ska Pravda*, www2.pravda.com.ua, downloaded 25 August 2003.

⁵⁸ Poll conducted by "Democratic Initiatives" Foundation and "Taylor Nelson Sofres Ukraine" company. *Interfax*, 17 November 2003.

⁵⁹ Anatoly Gritsenko. "What voters do think and politicians do not think about on the eve of elections". *Zerkalo Nedeli*, 17–23 January 2004.

⁶⁰ Problems regarding the latter issue cannot be fully excluded in the context of the global rise of radical political Islam, but in recent years the Ukrainian government has done a lot to stabilize the situation.

⁶¹ Estimates from the Polish magazine *Wprost*, as quoted in *Ukrain'ska Pravda*, 5 August 2003. In reality, the clan system is very nuanced, but a detailed analysis is beyond the scope of this report.

⁶² According to the electoral law adopted in March 2004, from 2006 the whole parliament will be elected on party tickets. The entry threshold will be three per cent of votes cast.

⁶³ See the website of Reporters sans frontières, www.rsf.org. Statistics on infringements of press freedom in Ukraine in 2003 can be found in *Ukrain'ska Pravda*, 12 January 2004.

⁶⁴ Igor Zhdanov. "Corruption in Ukraine: Essence, Scale and Impact". *Connections*, N. 2, 2002, pp. 39. The article, among other things, contains interesting evidence on connections between businesses and members of parliament.

⁶⁵ Oleg Kuziakiv, Irina Akimova. "Business climate in 1999–2002: nothing has changed?" *Zerkalo Nedeli*, 17–23 May 2003.

⁶⁶ *Interfax*, 12 January 2004.

⁶⁷ See, for example, a press release by Human Rights Watch "Ukraine: EU should press for rights commitments at summit". www.hrw.org/press/2003/10/ukraine100703.html

⁶⁸ A recent example can be found in *Zerkalo Nedeli*, 15–21 November 2003.

⁶⁹ The GUUAM group, consisting of Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova, remained insignificant for Ukraine in economic and security terms, and factored mostly as a further declaration of distancing from Russia. Ukraine's newly-built Odessa-Brody pipeline remains empty as there would not be enough confidence in its profitability if it were used to carry oil through Poland to European customers (the option favoured by the EU) and, consequently, further investment has not been secured. CEE countries were more inclined to cooperate in substance between EU candidates than with known outsiders.

⁷⁰ The origin of the decision is not clear. Trustworthy accounts centre on the domestic political struggle in Russia. However, the development of tensions between the two states made the border issue the only interesting aspect of the case.

⁷¹ There are three key points worthy of note. Ukraine only agrees to participate in the free trade zone, while other participants are aiming at customs union at least. Russia is reluctant to extend the free trade of energy products to Ukraine, which is the biggest carrot for the latter. Finally, Ukraine made it clear that integration into Europe is a matter of higher priority than the Common Economic Space.

⁷² Details can be downloaded at http://europa.eu.int/comm/external_relations/ukrain/intro/index.htm. The joint report on the implementation of the PCA between the EU and Ukraine, published in March 2003, is also available at that address as well as the Commission staff working paper, *ENP Country Report Ukraine* that appeared in May 2004.

⁷³ In January 2004 the Parliamentary Assembly of the Council of Europe adopted a resolution criticizing the intention of Ukraine's authorities to amend the Constitution on the eve of the elections and warned Ukraine about possible suspension of membership. An EU statement followed the next day. *Ukrain'ska Pravda*, 30 and 31 January 2004.

⁷⁴ *Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours*. Communication from the Commission to the Council and the European Parliament. Brussels, 11 March 2003. COM (2003) 104 final; and *European Neighbourhood Policy Strategy Paper*, Communication from the Commission.

⁷⁵ Interestingly enough, the May 2004 Strategy Paper does not mention the "four freedoms" explicitly any more but limits itself to trade and investment related sectors.

DO YOU WANT TO KNOW MORE?

The latest and most comprehensive overview of the EU's neighbourhood policies is to be found in Roland Dannreuther, ed., *European Union Foreign and Security Policy: Towards a Neighbourhood Strategy* (London and New York: Routledge, 2004).

The European Commission has special web pages for both the European Neighbourhood Policy (http://europa.eu.int/comm/world/enp/index_en.htm) and the eastern neighbours:

Belarus (http://www.europa.eu.int/comm/external_relations/belarus/intro/index.htm);

Moldova (http://www.europa.eu.int/comm/external_relations/moldova/intro/index.htm);

and Ukraine (http://www.europa.eu.int/comm/external_relations/ukraine/intro/index.htm).

Data about the socio-economic situation in the EU's three eastern neighbours is available at World Bank <http://www.worldbank.org>. For more about media freedom and corruption in the countries, visit Transparency International's website at <http://www.transparency.org/>. Amnesty International frequently reports on the state of human rights in the countries at <http://www.amnesty.org>.

Recommended books on Ukraine and Belarus are Ann Lewis, ed., *The EU & Ukraine: Neighbours, Friends, Partners?* (London: Federal Trust, 2002); and Ann Lewis, ed., *The EU & Belarus: Between Moscow and Brussels* (London: Federal Trust, 2002). There are no up-to-date book-length treatments of Moldova but Charles King's *The Moldovans: Romania, Russia, and the Politics of Culture* (Stanford: Hoover Institution Press, 2000) is still to be highly recommended. For a more recent overview of the Transnistrian problem, see International Crisis Group's Europe Report No. 147, *Moldova: No Quick Fix*, available at http://www.crisisweb.org/library/documents/report_archive/A401086_12082003.pdf.

An in-depth survey of Ukraine and its relationship with the EU has been conducted in Arkady Moshes, *Ukraine in tomorrow's Europe*. FIIA Report 4/2003, available at http://www.upi-fiia.fi/english/publications/upi_report/reports/fiia_report42003.pdf.

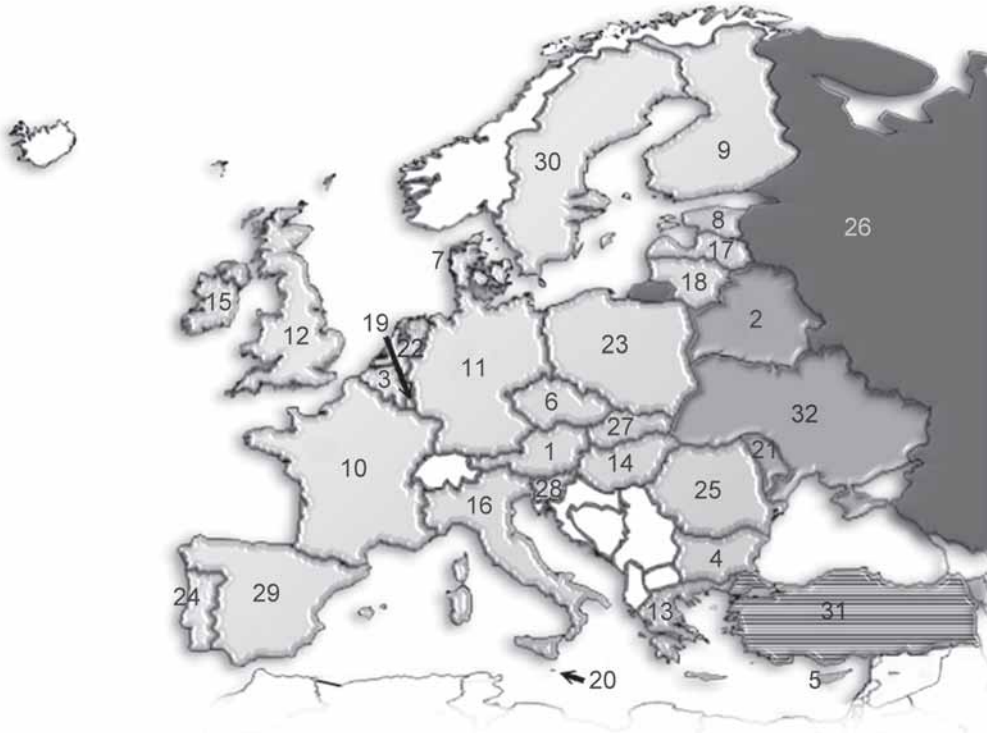
A slightly older but still relevant work on the effects of eastern enlargement on the Northern Dimension is Hiski Haukkala's *Towards a Union of Dimensions: The effects of eastern enlargement on the Northern Dimension*. FIIA Report 2/2002, available at http://www.upi-fiia.fi/english/publications/upi_report/reports/fiia_report22002.pdf; and in Finnish at http://www.upi-fiia.fi/julkaisut/upi_raportti/raportit/upi_raportti22002.pdf.

And finally, a comprehensive survey of NATO's, and to a certain extent the US's, role in the east is to be found in F. Stephen Larrabee, *NATO's Eastern Agenda in a New Strategic Era* (Santa Monica: RAND, 2003), pp. 99-100. The report is available at <http://www.rand.org/publications/MR/MR1744/>.

Abbreviations and acronyms

CEEC	Central and Eastern European Country
CIS	Commonwealth of Independent States
ENP	European Neighbourhood Policy
EU	European Union
FATF	Financial Action Task Force on Money Laundering
FTA	Free Trade Area
JHA	Justice and Home Affairs
MFN	Most Favoured Nation
NATO	North Atlantic Treaty Organization
ND	Northern Dimension (of the EU's policies)
NGO	Non-Governmental Organization
NNI	New Neighbourhood Instrument
OSCE	Organization for Security and Cooperation in Europe
PCA	Partnership and Cooperation Agreement
SAP	Stabilization and Association Process

Appendix: The EU and its new eastern neighbours



- | | |
|-------------------|---------------------|
| 1. Austria | 17. Latvia |
| 2. Belarus | 18. Lithuania |
| 3. Belgium | 19. Luxembourg |
| 4. Bulgaria | 20. Malta |
| 5. Cyprus | 21. Moldova |
| 6. Czech Republic | 22. The Netherlands |
| 7. Denmark | 23. Poland |
| 8. Estonia | 24. Portugal |
| 9. Finland | 25. Romania |
| 10. France | 26. Russia |
| 11. Germany | 27. Slovakia |
| 12. Great Britain | 28. Slovenia |
| 13. Greece | 29. Spain |
| 14. Hungary | 30. Sweden |
| 15. Ireland | 31. Turkey |
| 16. Italy | 32. Ukraine |

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Beyond “Big Bang”: The Challenges of the EU’s Neighbourhood Policy in the East

Hiski Haukkala & Arkady Moshes

The EU’s Eastern enlargement is an event which will radically reshape the Union. This FIIA Report analyzes one of its most significant external effects, namely the advent of new neighbours – Belarus, Ukraine and Moldova – along the Union’s Eastern perimeter.

The enlargement has heralded a need to rearrange the way the EU conducts its relations with its adjacent areas. The result will be the “European Neighbourhood Policy” (ENP), with which the EU will seek to gradually engage its neighbours in a loose community without overextending its own institutions with full accession. The ENP includes all of the EU’s neighbourhoods ranging from the Southern Mediterranean to Russia.

The report will proceed with a two-pronged analysis of the issue, giving an in-depth account of the central future challenges that face the EU in the region. This will be done by analyzing the development of the ENP and by putting it into a larger context of other significant actors in the region (especially Russia and the United States). This framework will then be followed by a country-by-country analysis of the central challenges presented by the EU’s future new neighbours in the east. The report ends with conclusions about the EU’s role in the region.

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