Between a Rock and a Hard Place? EU-Armenia Relations after Vilnius

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GüNTER WALZENBACH, NOV 26 2014

Armenia's decision towards the end of 2013 to join Russia's pet project, the Eurasian Customs Union, caught many people by surprise. The initial EU reaction highlighting the incompatibility between both forms of regional integration has been replaced more recently by some reassuring, constructive and encouraging, signals from Brussels towards the Southern Caucasus which might eventually generate a much needed policy space for blending together the requirements of competing projects. A set of statements made by key foreign policy actors of the European Union all seem to point in a similar direction suggesting a more nuanced and measured approach. In the assessments presented by the former High Representative for the Foreign Policy of the European Union Ashton, former Commissioner Fuehle, the current chair of the Foreign Policy Committee in the European Parliament, Brok, and current German Foreign Minister Steinmeier the last minute exit from a new Association Agreement had more to do with external 'Putinisation' rather than an ebbing interest in domestic political reform on the part of the Armenian elites.

The Eastern Partnership, in general, and the comprehensive political cooperation with Armenia more specifically, are most likely to continue. While at this stage this determination is not formally embedded in a revised 'lighter' version of an Association document, the 140 to 170 million Euros allocated for Armenia in the context of the bilateral dimension of the European Neighbourhood Instrument (ENPI) for the 2014-2017 programming period would fully match the commitments made in the previous 3 years. Hence, it is fair to say that despite Armenia's mixed record regarding its administrative, judicial and sectoral reforms, and continuing difficulties to progress in the regulatory approximation process towards EU standards, the fundamental belief in value-based, mutually beneficial cooperation is very much alive in the political sphere. Most importantly, last year's events around the Vilnius summit are not interpreted as in conflict with the EU's overarching partnership principle of 'more for more' or any further commitments to improve democratic capacities in the Southern Caucasus.

What has to be expected over the next five years, however, are changes in strategic focus with a new reorganised European Commission in power and with Johannes Hahn (Neighbourhood Policy) and Federica Mogherini (Foreign Policy) holding important portfolios within the EU's reinvigorated executive machine. Looking ahead, the intentions of the Juncker Commission are reasonably well known. For the Eastern partnership it will be imperative to maintain a momentum in effective policy reforms in increasingly diverse country contexts. In the case of Armenia this should mean a stronger recognition of civil society actors, a strengthened sub-state perspective on regional development, and an overall much greater willingness to develop a tailored approach appropriate for unique domestic political constellations.

In contrast to the political dimension of the Eastern partnership there are unfortunately many more question marks as regards the future of economic cooperation. As the EU has stated on several occasions, membership in the Eurasian Customs Union is incompatible with the operation of a Deep and Comprehensive Free Trade Agreement (DCFTA). Although this does not exclude economic exchanges with the EU in a variety of sectors of the Armenian economy, these will be constrained by the joint external tariffs of the members of the Eurasian Customs Union. As all parties involved are members of the WTO, the economic relations between the EU and the members of the Customs Union will have to follow respective rules of the multilateral trading system. This would only change if both regional entities could mutually agree on more far reaching trade liberalization in the future.

For the time being all measures anticipated as part of the DCFTA between the EU and Armenia cannot be implemented. This refers specifically to the reduction of general trade barriers in services, the reduction of border costs and a set of measures geared towards the improvement of the investment climate. While there is no conclusive evidence on the precise welfare effects the DCFTA would have had for the Armenian economy, most forecasts suggest an overall positive effect as regards productivity, economic growth and employment. More importantly, a successful ratification of the DCFTA would have signalled to the economic actors in the private sector the determination of the government to pursue a long-term modernization programme along EU standards.

Instead, and as a consequence of the membership in the Eurasian Customs Union, processes of trade diversion also have to be expected. While Armenia will derive gains from this new regional association with Russia, these are likely to be more limited and modest as regards any specific modernization goal. The Custom Union as yet has not spelled out what intentions their leaders have as regards particular forms of standard setting or trade facilitation. Even if the Customs Union does eventually expand into other areas of economic activity in addition to the mere control of an external tariff, potential positive effects due to technology transfer or the inflow of foreign direct investment are unlikely to match those from the competing EU arrangement.

Of course, the change in the regional integration outlook of Armenia has to be assessed with a view of the country's geopolitical situation. It is noteworthy here that there are no common borders with the other members of the Customs Union which no doubt will create operational difficulties. A lot, therefore, will depend on the ability of Russia, Belarus and Kazakhstan to successfully abolish the tariffs for their common intra-regional trade. In the long run Russia might have the ambition to replace the European Union as Armenia's largest trading partner. In this respect it can build on its already dominant position in the energy, transport and telecommunications sectors of the Caucasus likely to be strengthened further with the help of direct investments and a rising number of firm acquisitions. Last but not least the Customs Union will enable Russia to conclude preferential arms deals in line with its security interests in the region.

Already the Barroso Commission indicated that the Eastern Partnership will need to find ways to achieve a degree of regulatory convergence with the members of the Russia-led Customs Union. Brussels regularly warns of the detrimental effects of protectionism and reassures the rest of the world of its role as a champion of 'open regionalism'. The latter is a clear rejection of any ambition to reintroduce a notion of 'spheres of influence' in the EU's external relations and hence should dampen some of Vladimir Putin's biggest concerns.

For the foreseeable future trade disputes between Brussels and Moscow will end up before the World Trade Organisation (WTO) with doubtful results in terms of successful adjudication or further steps towards escalation. In theory at least, Armenia might become the testing ground and experimental laboratory where the approximation of EU standards with the rules of the Eurasian Customs Union is thoroughly explored in years to come. Under current circumstances, however, an economic rapprochement between Russia and the West is unlikely to occur any time soon and the potential for the negotiation of a working inter-regional agreement must be considered as low. As a result economic cooperation in the real world will most likely find all major trading partners holding on to the multilateral rules of the global trading system as the natural fall back solution in times of uncertainty and crisis.

About the author:

Gunter Walzenbach is Senior Lecturer in European Politics at the University of the West of England, Bristol.