

THE EU'S CONTRIBUTION TO A STRONGER ECONOMY IN THE EASTERN NEIGHBOURHOOD. A COMPARATIVE STUDY IN THE REPUBLIC OF MOLDOVA AND UKRAINE

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***Abstract:** The European Union has a major contribution to the economic and political development of Europe's neighbouring countries. To strengthen the relations between the European Union and its six Eastern neighbours has been launched the Eastern Partnership (EaP). Therefore, the EU and EaP aim to develop a strong economy in the whole region by strengthening the business environment, creating new jobs and generating market opportunities. The purpose of this article is to investigate the EU's contribution towards a stronger economy in the Eastern Neighbourhood, particularly in the Republic of Moldova and Ukraine. The methodological approach included a comparative study based on the EU's contribution towards economic development in the Republic of Moldova and Ukraine. We used the European Neighbourhood Instrument, which is the EU key financial instrument for cooperation with the EaP countries. The results of the analysis highlighted that the European Union provided support for the economic development of the Eastern neighbours: provided loans for SMEs, created new jobs, created opportunities for the development of the private sector, and supported trade among EU and Eastern Neighbourhood. Investigating the economic ties between the EU and the Eastern Neighbourhood could provide a basis for future strategies and political initiatives.*

Keywords: *EU, economic development, Eastern Neighbourhood, Eastern Partnership, comparative study*

JEL Classification: H70

Introduction

Over the years, the European Union acted as a stronger actor in the Eastern Neighbourhood through the European Neighbourhood Policy (ENP). The EaP countries benefited from privileged relations with the European Union from the perspective of laws, governance and economic development issues.

Furthermore, the Eastern Neighbourhood, besides governance, connectivity and society, was included in a priority area of building a stronger economy in the region. A stronger economy is connected with economic and sustainable development, an increase in trade and employability and the internationalization of the businesses.

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The purpose of this paper is to investigate the EU's contribution towards a stronger economy in the Eastern Neighbourhood, particularly in the Republic of Moldova and Ukraine. In this respect, the research included an analysis of several indicators related to the European Neighbourhood Policy countries (ENP). During the research, attempts are being made to answer the question "Did the European Union contributed to the economic development of Ukraine and the Republic of Moldova?"

The relevance of the research arises from the current challenge of the European Union to provide a degree of economic integration within the neighbouring countries. Ukraine and the Republic of Moldova are case studies in this research due to the political crisis and the economic circumstances that prevailed in these two countries in the recent period. Therefore, it is essential to visualize the EU's contribution to addressing these issues.

The structure of the paper encompasses a theoretical approach regarding the contribution of the European Union in the Eastern Neighbourhood, an overview of the role of the European Union in Ukraine and the Republic of Moldova, pursued by the EU's contribution to a stronger economy in the Republic of Moldova and Ukraine.

Theoretical approach regarding the contribution of the European Union in the Eastern Neighbourhood

It is hard to imagine modern society without its inherently reliable level of internationalization and the dynamic progress of the globalization process. In this respect, the role of economic cooperation is constantly growing.

The development of any country today depends upon the stability of international relations. As a result of sustainable technical progress, the division of labour directly from the beginning of the nineteenth century practically went beyond the borders and began to expand throughout the world. First of all, many organisational and economic relations between economic entities located in different countries have been limited primarily by the exchange of raw materials. Over the years, the intensity of trade increases and international cooperation expands to new areas of economic activity.

The European Union is a comparatively new actor in the global field of international relations. However, in its relatively short history, the European Union has succeeded in becoming a conspicuous entity with a notable influence on international relations and other countries. Professor Marise Cremona (2004) has identified five roles of the European Union in the global market: the magnet and neighbour, laboratory and model, market player, and rule generator and stabilizer.

In the current context of globalization, of the tendency to expand economic and political ties between countries and strengthen the concept of a democratic legal society, the European Union aims to enlarge and involve many other countries. In this respect, the European Neighbourhood Policy (ENP) is an example of an action of the EU towards stability, improved welfare and a high standard of living. According to this EU instrument, it is necessary to construct long-term relationships with the neighbouring countries of the south-eastern borders of the EU (Rettman, 2009).

Copsey (2014) argued that the creation of the Eastern Partnership included more efforts for establishing a free trade area in the EU region than previous policies. For instance, the introduction of free visa travel in the EU borders is an action within the Eastern Partnership.

Furthermore, Raharjo and Puspitasari (2018) states that the Eastern Partnership generates positive opportunities for both Eastern countries and the European Union since the economic reforms included in this partnership have contributed to the economic growth of non-EU countries. These circumstances have been achieved mainly by removing custom barriers, such as the removal of visa requirements.

Bosse (2007) claimed that the biggest challenge for the European Neighbourhood Policy was to implement commitments on the common political values, such as stable political institutions,

guarantees of democracy, respect for human rights and fundamental freedoms and respect for the rights of minorities.

Within the European Neighbourhood Policy, the partner countries do not receive a perspective of joining the European Union. However, the European Neighbourhood Policy offers privileged relations with the European Union and assistance for achieving the objectives set out in the cooperation. Moreover, the implementation of ENP contributes to an established democracy, effective governance and respect for human rights and freedom.

The first initiative of enlarging the borders to the east and south was established in March 2003 by the European Commission. To fund this project, have been introduced the European Neighbourhood and the Partnership Instrument, which aim to achieve sustainable development and adaptation to the rules and standards of EU law (EU Neighbours, 2021).

The advantages and disadvantages of the Eastern Partnership should be valued considering the objectives set out in the initiative. In general, the aim of the Eastern Partnership encompasses three areas: economic integration, political integration and ensuring stability and security. Bilateral agreements between the EU and partner countries are tools to achieve these goals.

In terms of economic integration, the development of trade relations is an advantage of the Eastern Partnership as the partner countries have managed to increase trade with the European Union and expand their EU market share.

According to David Cadier (2019), "The Eastern Partnership, like most other EU foreign policy initiatives, is the result not only of a strategy initiated by the main European figures but also of the particularities of the internal situation in the European Integration Association. From the very beginning, the establishment of the Eastern Partnership depended on several factors: first, the political will of the participants to strengthen relations with the European Union in the proposed form; secondly, the coherence of the approaches, directions and tasks of this form; third, the number of resources involved into promoting it; and, fourthly, the geopolitical effect of the Eastern Partnership on the configuration of the European continent."

Schimmelfennig and Sedelmeier (2020) argue that the extensive network of relations between the EU and its associated "eastern neighbours" helps to propose a new form of spreading democratic values-by cooperating and implementing joint projects with other democratic countries.

For the most part, researchers and practitioners have declared that the Eastern Partnership was an efficient initiative for the partner countries. Nonetheless, some of them did not agree with this statement. For instance, Witold Waszczykowski, Minister of Foreign Affairs of Poland (the country that, together with Sweden, was the initiator of the Eastern Partnership program) - declared the fiasco of the initiative. He stated that he does not deserve high acclaim since the countries included in this partnership (Ukraine, Belarus, Moldova, Armenia, Georgia and Azerbaijan) did not have the chance to join the EU.

In conclusion, it can be stated that the Eastern Partnership caused multiple reactions from the viewpoint of its efficiency. However, the establishment of the Eastern Partnership in the European Neighbourhood was instrumental in strengthening the relations of the European Union with its neighbouring partners in terms of "peace, stability and economic prosperity" (EU Neighbours, 2021).

The role of the European Union in Ukraine and the Republic of Moldova

The relations between Ukraine and the European Union are currently diversified. The current initiatives and actions of the European Union have positive effects on the Ukrainian economy and policies. The European Union plays a critical role in education, trade, science and technology, security (both external and internal), environmental protection and culture. Furthermore, the European Union has implemented multiple programs in various sectors of Ukraine, such as Erasmus+, Horizon 2020 and Creative Europe (European Commission, 2021).

The European Union is Ukraine's largest trading partner and also a priority partner (European Commission, 2021). The relations between Ukraine and the EU rely on common values and respect for democratic principles, state of law, good governance, human rights and fundamental freedoms.

Since 2014, when the two parties signed the association agreement, Ukraine was granted yearly with funds up to 200 million euros through the European Neighbourhood Instrument (European Commission, 2021). These funds have been allocated to various areas including economy, governance and society.

Ukraine is adapting many of its rules and standards concerning industrial and agricultural products for better and efficient integration within the EU market. Moreover, Ukraine aims to adapt the legislation in trade areas to the EU, such as competition, technical barriers to trade, sanitary and phytosanitary barriers, customs and trade facilitation, protection of intellectual property rights.

During the independence years, the Republic of Moldova has constantly declared its desire to implement the European integration strategy. This action was considered the ultimate goal of EU accession. Despite the comprehensive political and socio-economic processes and the territorial problems, the idea of belonging to the European community remains to unite the majority of the republic's population.

In January 2011, in parallel with the association negotiations, it started the process of acquiring a visa-free regime between the Republic of Moldova and the EU. Negotiations lasted until April 3, 2014. From April 28, 2014, the citizens of the Republic of Moldova received visa-free entry into EU member states. Thus, Moldova became the first country that participated in the Eastern Partnership program.

The results of the association agreement have proved to be extremely rapid. Exports have considerably increased and have had a positive impact on the economic development of the country. During the last 20 years, the economic ties and trade between the Republic of Moldova and the EU have been considerably strengthened. The European market has become a priority for Moldova.

Within the EU NEIGHBOURS project was designed in 2020 a survey for Ukraine and Moldova's population, related to the confidence in the European Union and on its role in Ukraine's economy. The results highlighted that more than 50% of the Republic of Moldova and the Ukrainian's population have a good image of the European Union and recognize the contribution of the EU on building a stronger economy (EU NEIGHBOURS, 2020).

The EU's contribution to a stronger economy in the Republic of Moldova and Ukraine

Within the framework of this section, we will submit a comparative study regarding the EU's contribution to a stronger economy in the Republic of Moldova and Ukraine. The statistics have been processed by using Eurostat database related to Eastern European Neighbourhood Policy countries for the period 2011-2019. The Eurostat database included several indicators concerning employment growth, labour productivity in GDP, gross domestic product at market prices, gross external debt of the whole economy, and gross value added by industry.

Employment is a very distinctive macroeconomic indicator of every economy of the world. It shows the socio-economic development of any nation and is essential for both states and individuals. In terms of employment growth within the Eastern European neighbours, Figure 1 presents the evolution of the indicator in the period 2010-2019. High employment was recorded in this period in the Republic of Moldova, except for 2010, 2012 and 2017. On the other hand, the situation in Ukraine is less good than in the Republic of Moldova. In 2014, 2015, 2016, and 2017, it was a decline in employment. The employment situation in 2019 was more favourable in Ukraine since it recorded high rates, compared to the other countries. To summarize, in the Republic of Moldova there is a higher degree of employability. This circumstance can be explained mainly through the fact that the European Union is the largest partner in terms of trade of Moldova (EU Neighbours, 2021). Moreover, the largest investor in the market of Moldova is also the European

Union. The European Union, through the Eastern Partnership, supports the creation of new jobs in Moldova. This initiative was implemented through the support of SMEs in accessing funding sources. Ukraine also benefits from support from the EU particularly for the development of the business environment (support for business loans, internationalization of the production).

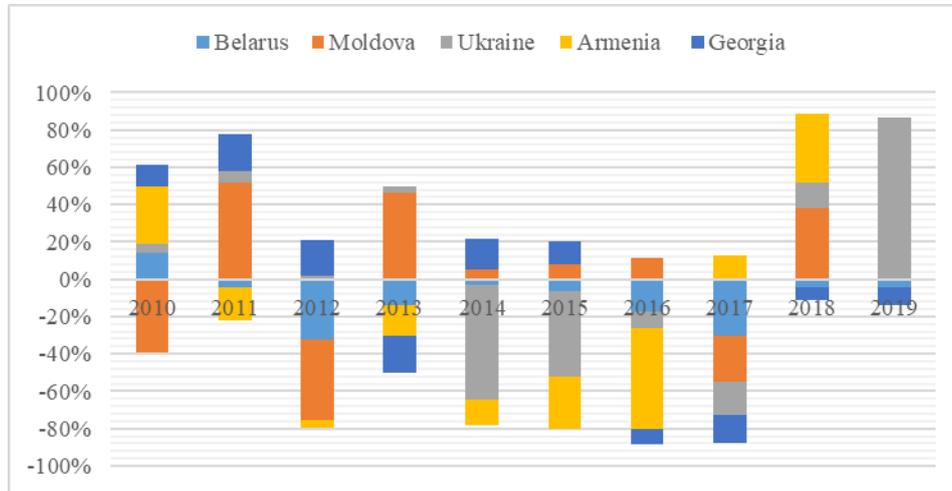


Figure 1. Employment growth in the Eastern European neighbours, 2010-2019
 Source: Author's representation based on European Commission statistics

Labour productivity in GDP is a significant indicator that indicates the stage of three pillars: human capital, physical capital, and the level of technology (Investopedia, 2021). In the period 2010-2019, Armenia and Georgia were the countries with the highest percentages of labour productivity in GDP (Figure 2). Compared to Ukraine, labour productivity in GDP was higher in the Republic of Moldova, particularly in 2013, 2014 and 2017. After 2015, the labour productivity in GDP started to increase in Ukraine. To increase the labour productivity in GDP in Ukraine and Moldova, the European Union has made investments in the development of the business environment, has provided the opportunity for local workers to improve their skills and participate in various programmes. Moreover, through the Eastern Partnership, Moldovan and Ukrainian businesses are encouraged and supported to internationalize their activities to implement new competitive technologies that would increase labour productivity.

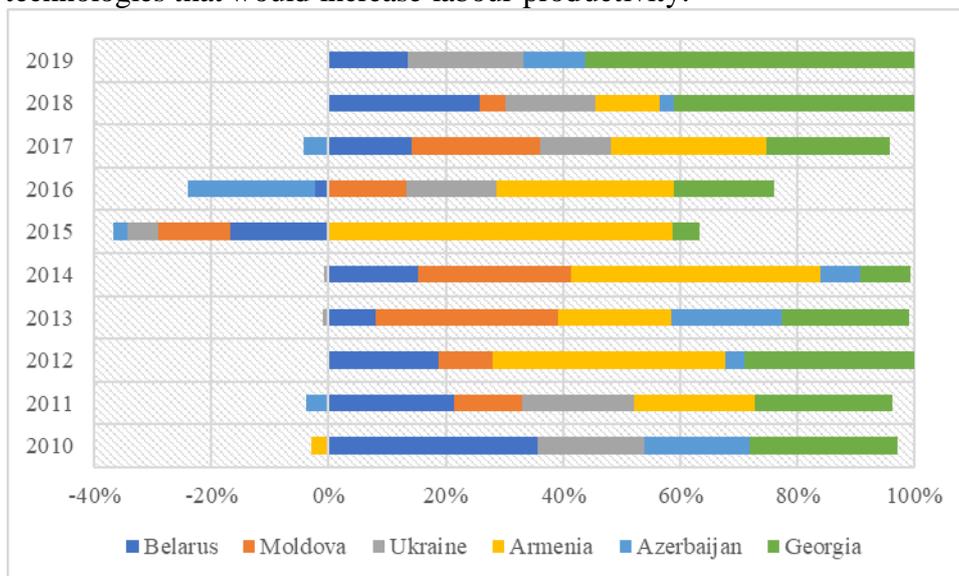


Figure 2. Labour productivity in GDP in the Eastern European neighbours, 2010-2019
 Source: Author's representation based on European Commission statistics

The European Union supports the Ukrainian business environment through various programmes, such as the EU4Business Initiative, designed especially for the development of small and medium enterprises (EU4Business, 2021). In terms of the labour productivity in GDP in the Republic of Moldova, the European Union will launch this year the programme “EU4Moldova: Local Communities”. This programme will contribute, among other areas, to the development of the business environment.

Figure 3 highlights the evolution of the Gross domestic product at market prices (GDP at market prices) in the Eastern European neighbours for the period 2011-2019. Generally, GDP is the most common indicator in Economics that indicates the level of economic development of any country. Moreover, GDP at market prices indicates the final result of production within a nation (National Institute of Statistics and Economic Studies, 2021). The evolution of the GDP at market prices point out that Ukraine had the highest GDP among countries in all the period analysed. The Republic of Moldova has recorded very small percentages of Gross domestic product at market prices in the period 2011-2019. Despite this situation, Ukraine and Moldova are considered to be among the poorest countries in Europe (World Population Review, 2021). Both are post-Soviet countries and over the years they encountered multiple impediments towards a market economy, such as political instability and socio-economic downturn. Although Ukraine has experienced a serious political crisis, the statistics indicate a positive image of the economy. The European Union attempts to overcome these circumstances and support both countries to develop and benefit from European integration. Through the EU-EaP agreement, Ukraine and Moldova have gained the biggest trade partner that allowed them to expand their products beyond the borders (European Commission, 2020). Furthermore, in the last ten years, the Ukrainian and Moldovan businesses have benefited from EU funding and investments that accelerated their development and penetration in the global marketplace.

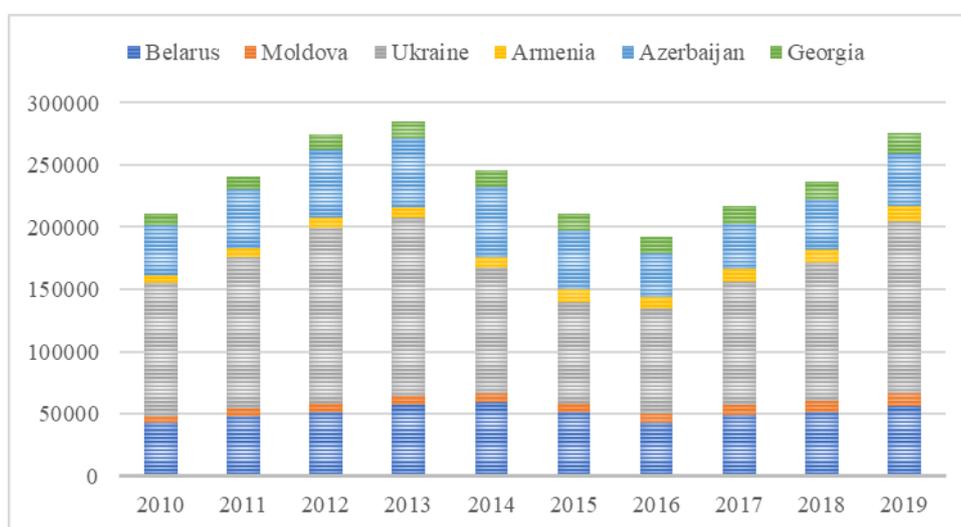


Figure 3. Gross domestic product at market prices in the Eastern European neighbours, 2010-2019
Source: Author’s representation based on European Commission statistics

In Figure 4, the Gross external debt of the whole economy indicates the total debt that the Eastern European neighbours own to foreign creditors. At first sight, it can be noticed that Ukraine has the biggest gross external debt of the whole economy in the period 2011-2019. The Republic of Moldova has recorded lower values of gross external debt of the whole economy. In consequence, Ukraine has a growing problem with the gross external debt of the whole economy that requires

immediate actions and reforms. However, the situation with its creditors is not so easy since political problems persist in the region and imply the USA, Russia and the European Union. The European Union supports the governance of Ukraine through reforms and several programmes, such as EUACI, EU4PAR, and EU4PFM.

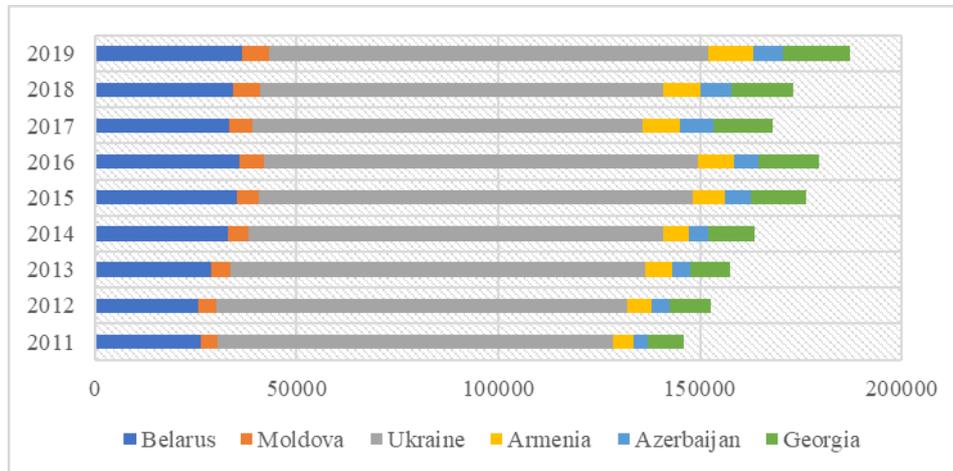


Figure 4. Gross external debt of the whole economy in the Eastern European neighbours, 2011-2019

Source: Author’s representation based on European Commission statistics

Gross value added by industry is presented in the following three figures, for the period 2011-2019. Figure 5 shows the evolution of gross value added in agriculture, forestry and fishing. The statistics underline the following aspects for Ukraine and Moldova: both countries recorded low values of gross value added (values between 10-30% of total); Moldova, compared with Ukraine, has recorded annually higher values of gross value added in this industry. However, the values recorded in this area of activity are comparatively lower than in the other industries (Industry and Services).

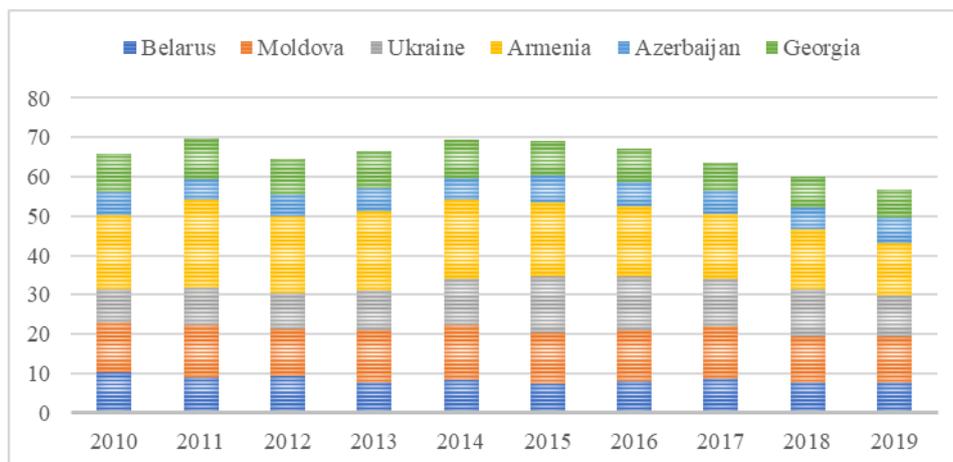


Figure 5. Gross value added by industry (Agriculture, forestry and fishing) in the Eastern European neighbours, 2010-2019

Source: Author’s representation based on European Commission statistics

Figure 6 presents the evolution of gross value added in Industry (except construction) in the Eastern European neighbours. The results of the analysis point out that both Moldova and Ukraine recorded low values of gross value added, but comparatively higher than in agriculture, forestry and fishing (values between 30-70% of total). The highest values of gross value added were recorded in the Service sector (Figure 7). Ukraine and Moldova have both recorded similarly values of gross value added in this industry, with values ranging between 50-170% of the total. The European Union aims to strengthen the economy of these two European countries and to increase the investments in business development and job creation.

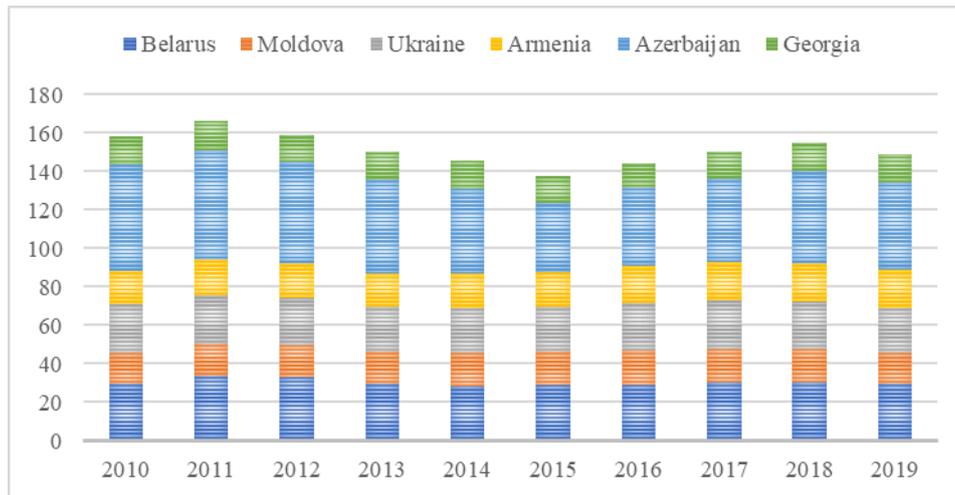


Figure 6. Gross value added by industry (Industry, except construction) in the Eastern European neighbours, 2010-2019

Source: Author's representation based on European Commission statistics

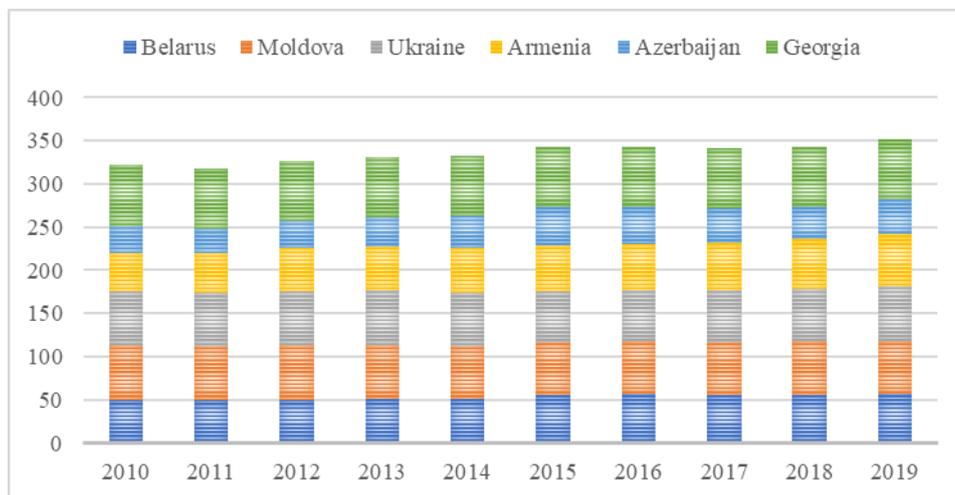


Figure 7. Gross value added by industry (Services) in the Eastern European neighbours, 2010-2019

Source: Author's representation based on European Commission statistics

In conclusion, the economic and political situation of Ukraine and the Republic of Moldavia needs support from the European Union. These two countries have benefited from numerous reforms and programmes provided by the European Union, which led to an increase in trade, employment, and internationalisation of businesses.

Conclusions

This paper aimed to investigate the EU's contribution towards a stronger economy in the Eastern Neighbourhood, particularly in the Republic of Moldova and Ukraine through the analysis of several indicators related to the Eastern European Neighbourhood Policy.

Results of the Eastern European Neighbourhood Policy indicators analysis demonstrated that the European Union plays a major role in creating a stronger economy in Ukraine and the Republic of Moldavia. The European Union provided loans for SMEs, encouraged the creation of new jobs on the market, increased the trade with the partner countries and international countries, and encouraged the internationalisation of the SMEs.

Eastern Partnership has proven to be an efficient initiative in the Eastern Neighbourhood that aims to create a stronger economy, governance, connectivity, and society. Between the EU and the two countries, the relations work under a partnership agreement that stipulates political and economic cooperation.

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