

## Eastern Partnership states benefit from free trade agreements with the EU, but gain little from similar agreements with Russia

*The Ukraine crisis illustrated the extent to which Eastern Partnership states can be torn between pursuing closer integration with the EU or with Russia. Outlining results from a recent study, [Inmaculada Martinez-Zarzoso](#) writes that when the effects of free trade agreements are compared, Eastern Partnership states stand to benefit substantially from agreements with the EU, but gain little from similar agreements with Russia. Nevertheless, she argues that the best policy for Eastern Partnership countries is to pursue free trade with both East and West, and that the EU should conduct a dialogue with Russia to create a free-trade zone from ‘Lisbon to Vladivostok’.*



In late November 2013, a European crisis erupted at the Eastern Partnership Summit in Vilnius. Armenia declined to initial its Association Agreement recently concluded with the EU, including a deep and comprehensive free trade agreement (DCFTA), and Ukraine postponed signing an already initialled DCFTA agreement with the EU. Only Georgia and Moldova initialled their Association Agreements.

Armenia had announced already in September 2013 that it would instead join the Eurasian Customs Union proposed by Russia, after the Kremlin threatened to withdraw its troops which protected the many Armenians in the region of Nagorno-Karabakh in Azerbaijan.

The implications of the Summit for Ukraine are well known: President Yanukovich announced shortly beforehand that he would postpone signing the Association Agreement with the EU. This led to prolonged and violent demonstrations on the Maidan Square in Kyiv and ultimately to civil war. Yanukovich fled the country on 21 February 2014 and the following day Parliament elected a provisional President and installed a new government.

In the Autonomous Republic of Crimea and the self-governing district of Sevastopol, separatists organised a referendum on 16 March and each entity voted to accede to Russia. On 21 March, Vladimir Putin signed documents admitting them into the Russian Federation; Moscow time and the Russian rouble were introduced soon thereafter. Since then, a civil war has raged in the Eastern Ukraine regions between separatist groups in Donetsk and Luhansk, supported by Russia, and the Ukrainian army.



In a [recent study](#), I (along with my co-authors Thorvaldur Gylfason and Per Magnus Wijkman) have assessed some of the economic and geopolitical aspects of this violent crisis. Among the most important issues are whether Eastern Partnership countries benefit more from free trade agreements with their Eastern partners than with their Western partners, and whether peaceful relations can be re-established in the region.

Our research compares the effects for Eastern Partnership countries of both deep and shallow free trade agreements with the EU and the effects of similar agreements they might sign with Russia. We have also investigated the role played by the quality of respective institutions (democracy and corruption) in fostering trade. Our results (outlined in detail in our [accompanying paper](#)) indicate that Eastern Partnership countries gain significantly from free trade agreements with the EU, but little if anything from free trade agreements with Russia.

We find that the quality of institutions plays an important role in explaining the greater impact of both deep and shallow free trade agreements with the EU. Our results also show that a customs union with Russia provides negligible benefits and that it would preclude having a free trade agreement also with the EU. On the other hand, we find that the Eastern Partnership states stand to gain significantly from free trade agreements with each other. The rough relative magnitudes of these estimated gains are supported by [other studies](#).

Ultimately, the significant potential benefits of integration justify major efforts by the EU to ensure that all Eastern partner countries retain their sovereign option to sign and to implement deep and comprehensive free trade agreements with the EU should they so wish. Failure to do this would have serious consequences for the credibility of the EU. This, however, does not prevent the Eastern Partnership countries from also having free trade agreements with Russia and each other. Free trade with both East and West is their best trade policy. The EU must therefore continue to support Ukraine, Georgia, and Moldova to implement their deep and comprehensive free trade agreements and keep the door open for Armenia, Azerbaijan, and Belarus.

However it is also important to recognise that the EU's 'soft power' by itself is ineffective and that a response to Russia's hard power requires some degree of coordination with the 'hard power' of the United States. A key instrument available to the EU is to mobilise the peace keeping resources of the United Nations and the Organization for Security and Co-operation in Europe to a significantly larger extent than at present. International organisations are needed to separate the warring factions, maintain law and order and arrange referenda so that the populations in disputed regions can express their views concerning national borders in a free and democratic manner.

Crucially, the EU must provide decision-makers in Russia with the prospect of cooperation rather than continue conflict. It can do this by offering Russia the opportunity to negotiate a deep and comprehensive free trade agreement in due course, thereby creating the "single economic space from Lisbon to Vladivostok" that Russia has requested. The Eastern Partnership should be an instrument to make the region a zone of cooperation rather than one of conflict.

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*Note: For a longer discussion of this topic, see the author's accompanying paper in the [Journal of Common Market Studies](#). The article gives the views of the author, not the position of EUROPPE – European Politics and Policy, nor of the London School of Economics.*

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