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**Post-Soviet Economic Integration :
The European Union and Russia in the South Caucasus**

Mémoire présenté pour l'obtention du
Master Russie-Europe médiane
par Laura Maria Scherer

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Abstract

Recent years have seen the emergence of various projects for post-Soviet economic integration: the European Union (EU) has developed its Eastern Partnership, while Russia has put forward the Eurasian Economic Union (EAEU). Post-Soviet states and, most notably, the countries of the 'shared neighbourhood' between Russia and the EU find themselves in a delicate position, as they are influenced and pressured by both of these actors for closer cooperation. The events in Ukraine have made clear that the resulting consequences of 'choosing a side' can be devastating for a country and that a new approach towards the integration of the post-Soviet space is necessary. This thesis analyses, firstly, the on-going process of post-Soviet economic integration, its main policies and instruments. Secondly, it focuses on the countries concerned by these integration efforts, how they are affected and which domestic needs and interests they have to consider in their decision making process. The case study concentrates on the South Caucasus, a geopolitically important area where peace and security are fragile due to frozen conflicts. The research has shown that the South Caucasus displays the same fragmentation as the overall post-Soviet space: Armenia has joined the EAEU, Georgia has signed the Association Agreement (AA) and Azerbaijan is pursuing a relatively independent stance. Furthermore, they each illustrate the crucial shortcomings of both EU and Russian approaches towards post-Soviet economic integration, such as the lack of flexibility (especially the AA proposed by the EU), coherence and the willingness to make concessions. Finally, it has been shown that, in decisions relating to cooperation with either the EU or Russia, political and security considerations are prevailing.

Résumé

Ces dernières années, les projets pour intégrer l'espace postsoviétique se sont multipliés: l'Union européenne (UE) développe le Partenariat oriental, pendant que la Russie se concentre sur l'Union économique eurasiatique (UEEA). Les Etats postsoviétiques et, en particulier, les pays du « voisinage partagé » entre la Russie et l'UE, se trouvent dans une situation délicate car les instruments en matière d'intégration que ces acteurs proposent sont incompatibles. Les événements en Ukraine démontrent les résultats catastrophiques que le choix entre les deux « camps » peut avoir sur un pays de l'espace postsoviétique. Ce mémoire analyse premièrement le processus de l'intégration économique postsoviétique (politiques et instruments) lancé par la Russie et l'UE. Deuxièmement, il analyse l'impact des efforts d'intégration sur les Etats du Caucase du Sud, une zone importante géopolitiquement et fragilisée par des conflits gelés. Les résultats de la recherche montrent que le Caucase du Sud présente la même fragmentation que l'espace postsoviétique dans son ensemble: l'Arménie a adhéré à l'UEEA, l'Azerbaïdjan poursuit une politique relativement indépendante tandis que la Géorgie a signé l'accord d'association (AA). De plus, ces pays illustrent les failles et les problèmes fondamentaux des approches de l'UE et de la Russie en matière d'intégration économique de cet espace, tels que le manque de flexibilité (particulièrement l'AA proposé par l'UE), de cohérence et de volonté de faire des concessions. Finalement, cette étude démontre également que les facteurs politiques et sécuritaires prédominent dans les prises de décision des Etats étudiés en matière de coopération avec la Russie ou avec l'UE.

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List of Abbreviations

AA	Association Agreement(s)
BP	British Petroleum
BTC	Baku-Tbilisi-Ceyhan
BTE	Baku-Tbilisi-Erzurum
CACO	Central Asian Cooperation Organisation
CEEC	Central and Eastern European Countries
CIS	Commonwealth of Independent States
CoE	Council of Europe
COMECON	Council for Mutual Economic Assistance
CRRC	The Caucasus Research Resource Centers
CSTO	Collective Security Treaty Organisation
CU	Customs Union
DCFTA	Deep and Comprehensive Free Trade Area
DG	Directorate General
EACU	Eurasian Customs Union
EAEC / EURATOM	European Atomic Energy Community
EAEU	Eurasian Economic Union
EaP	Eastern Partnership
EC	European Commission / European Communities
ECO	Economic Cooperation Organisation
ECSC	European Coal and Steel Community
EDB	Eurasian Development Bank
EDRC	Economic Development and Research Center
EEAS	European External Action Service
EEC	Eurasian Economic Commission
EIA	Energy Information Administration
ENI	European Neighbourhood Instrument
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood and Partnership Instrument
EP	European Parliament
EU	European Union
EurAsEc	Eurasian Economic Community
FAC	Foreign Affairs Council
FDI	Foreign Direct Investment
FTA	Free Trade Area
GDP	Gross Domestic Product
GU(U)AM	Organisation for Democracy and Economic Development
INOGATE	Interstate Oil and Gas Transport to Europe
ISS	(European Union) Institute for Security Studies
NATO	North Atlantic Treaty Organisation
NID	National Democratic Institute
NIS	New Independent States
OSCE	Organisation for Security and Co-Operation in Europe
PCA	Partnership and Cooperation Agreement(s)
PfP	Partnership for Peace
SCO	Shanghai Cooperation Organisation
SEEC	Supreme Eurasian Economic Council
SES	Single Economic Space
SES	Single Economic Space
SOFAZ	State Oil Fund Azerbaijan
SPM	Strategic Partnership for Modernisation
TACIS	Technical Assistance to the Commonwealth of Independent States
TANAP	Trans-Anatolian Natural Gas Pipeline
TAP	Trans Adriatic Pipeline

TCP	Trade and Cooperation Agreement
TRACECA	Transport Corridor Europe Caucasus Central Asia
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
US	United States of America
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organisation

List of Tables and Figures

Table 1. Basic features of types of economic integration	13
Table 2. Post-Soviet states in integration projects and international organisations	17
Figure 1. Armenia's exports by country groups, 2013	39
Figure 2. Armenia's imports by country groups, 2013	39
Figure 3. Principal Armenian export partners by country	39
Figure 4. Principal Armenian import partners by country	40
Figure 5. Azerbaijan's exports by country groups, 2013	43
Figure 6. Azerbaijan's imports by country groups, 2013	43
Figure 7. Principal Azerbaijani export partners by country	43
Figure 8. Principal Azerbaijani import partners by country	44
Figure 9. Georgia's exports by country groups, 2013	48
Figure 10. Georgia's imports by country groups, 2013	48
Figure 11. Principal Georgian export partners by country	49
Figure 12. Principal Georgian import partners by country	49

Table of Contents

Abstract/Résumé	2
Acknowledgments	3
List of Abbreviations	4
List of Tables and Figures	6
Table of contents	7
Introduction	8
 I. Theoretical Framework and Clarifications	
1.1. What is economic integration ?	12
1.2. Addressing the post-Soviet space : a distinction between East and West ?	14
 II. Post-Soviet Economic Integration	
2.1. The post-Soviet space between Russia and the EU	19
2.1.1. A period of uncertainty and prevailing domestic challenges	19
2.1.2. Growing importance : from a shared to a contested neighbourhood	20
2.1.3. A geopolitical competition between Russia and the EU for supremacy ?	22
2.2. EU economic integration schemes	24
2.2.1. The implementation and development of official relations	24
2.2.2. Towards more precise approaches : the ENP and the EAP	26
2.2.3. Conclusion : EU post-Soviet economic integration in a nutshell	28
2.3. Russian economic integration schemes	28
2.3.1. From the CIS to the EurAsEc	28
2.3.2. The EAEU	29
2.3.3. Conclusion : Russian post-Soviet economic integration in a nutshell	32
 III. Case Study : The South Caucasus	
3.1. Armenia	34
3.1.1. The end of complementarity ? Armenia's accession to the EAEU	34
3.1.2. Beyond Armenia's choice : taking stock of domestic interests	36
3.1.3. The EAEU versus the DCFTA	37
3.1.4. An uncertain future development	40
3.2. Azerbaijan	42
3.2.1. Azerbaijan between Russia and the EU	43
3.2.2. Azerbaijan's relations with the EU	45
3.2.3. Azerbaijan's relations with Russia	46
3.3. Georgia	47
3.3.1. Association with the EU : the DCFTA	47
3.3.2. Georgia's domestic interests : the situation with Russia	51
3.3.3. Between growing Russian influence and disappointment with the EU	52
 Conclusion	 54
Bibliography	56
Annexes	68

Introduction

In late November 2013, after many years of negotiations, Ukraine prepared to sign the Association Agreement (AA) with the European Union (EU) at the Third Eastern Partnership (EaP) summit in Vilnius, Lithuania. Greatly anticipated by many, this unprecedented political move would have made Ukraine the first former Soviet republic to enter into close cooperation with the EU. However, after coming under substantial pressure from Russia, then president Viktor Yanukovich announced a last minute about-turn and declined to sign the AA. This fateful decision exacerbated the growing rumblings of popular dissent on the ground in Kiev and quickly escalated into what became known as the Euromaidan protests; this, in turn, sparked a chain reaction of nationwide clashes between pro-Russian and pro-Western forces, the Russian annexation of Crimea and the still ongoing War in Donbass. While the AA would eventually be signed in March 2014, the violent events, both before and after, show that closer cooperation with the EU has come at the price of territorial integrity, stability and peace as well as the loss of countless lives.

In recent years, the post-Soviet space has increasingly become a hotspot for political, cultural and economic integration. Integration efforts were somewhat vague after the collapse of the Soviet Union and took off only slowly, but the last ten to fifteen years saw considerable progress in terms of development of concrete projects as well as speed of integration. Today, the issue of post-Soviet integration is more relevant and prevailing than ever before and, most significantly, it essentially operates on an economic rationale in practice. While this development raises questions as to its reasons and motives, it is vital to reflect upon the underlying means by which integration is achieved.

In essence, the ability to influence another actor and to shape or control his actions is power, and, according to Nye (2004, 31), it takes three basic forms: soft, military and economic power. Soft power, the ability to convince with attraction, is rooted in the idea that the values, policies and ideals of a country serve for others as a model worth striving for. If soft power or diplomacy is the proverbial 'carrot', then hard power, characterised by coercion or deterrence with the threat of military force, is the corresponding 'stick'. Finally, economic power combines elements of both hard and soft power; according to Nye, a successful economic model exerts the "gravitational pull of attraction" (Nye 2011, 52), while, at the same time, forcibly relies on coercion in the form of sanctions, bribes and the withholding of aid (2004, 31). Post-Soviet economic integration is linked to the question of power in two ways. First of all, the most advanced and concrete integration projects are proposed by Russia and the EU, two actors that differ greatly in their respective natures. The EU is a traditional soft power actor and a large part of its attractiveness stems from the economic prospects it has to offer. Russia, in contrast, draws from a toolbox of soft power instruments while at the same time relying on military and economic power. Secondly, as Nye (2004, 30) further argues, power today is less coercive and less tangible than it has been in the past. In his book *The Future of Power*, he argues that the 21st century will see the emergence of the concept of 'smart power' – a policy which seeks to integrate and combine different hard- and soft power elements into a successful strategy (Nye 2011, 209). According to the author, economic power is one of the most important instruments of smart power policies (80). In fact, a certain level of economic power resulting from size of GDP, per capita income, level of technology or natural and human resources is the very basis of, and underlying resource for, all instruments and forms of power. It not only provides the necessary resources for military power, but it also reinforces the soft power of a country considerably (51- 52). Indeed, recent years have even seen debate upon whether the concept of 'geo-economics' has superseded geopolitics (51). Economic tools – such as positive or negative sanctions in the form of trade embargoes, suspension of aid, tariff reductions or favourable market access – will be crucial in the future because they are often the most efficient coercive instrument in terms of relative costs (71; 80).

With the 2004 Eastern enlargement, the EU incorporated three former Soviet republics as new member states, namely the Baltic republics (Lithuania, Latvia and Estonia). Simultaneously, the EU, now a closer neighbour to the other countries of the post-Soviet space, began initiating new policies for neighbourly relations, prosperity and stability on the European periphery: the European Neighbourhood Policy

(ENP), and later, within that framework, the EaP. Both are designed to offer new cooperation perspectives and deepen existing political, economic and cultural relations. To this end, the EU foresees the implementation of AA which include a Deep and Comprehensive Free Trade Area (DCFTA). At the same time, Russia has been advancing its own prospects for integration. The most ambitious strategy is the Eurasian Economic Union (EAEU), which came into effect in 2015. It is the successor to the Eurasian Economic Community (EurAsEc), which was initiated in 2000, and represents the culmination of several steps towards economic integration such as the Eurasian Customs Union (EACU), which came into existence in 2010. Like the EU, Russia tries to integrate the other former Soviet republics into its projects. In the context of these integration dynamics, the post-Soviet states in Eastern Europe (Belarus, Moldova, Ukraine) and in the South Caucasus (Armenia, Azerbaijan, Georgia) have come to be known as a so-called 'shared neighbourhood' between Russia and the EU, an area in which both actors strive to gain influence.

Until recently, it might have been polemical and biased to argue that the post-Soviet space is 'torn between East and West'. Yet, the efforts of both the EU and Russia to pull Ukraine into their respective orbits left the country devastated and show that the combination of conflicting external pressures together with national interests can have severe consequences. The events in Ukraine have exposed the fragile security of the region and have created a climate of uncertainty. The post-Soviet space is more and more fragmented today and seems to have turned into a contested area, vital for Russia's geopolitical aspirations and a key challenge for EU policy considerations. On these grounds, this thesis is dedicated to the study of post-Soviet economic integration in the South Caucasus, a region which has become increasingly relevant in the context of security, geopolitics and energy.

As in the case of Ukraine, the South Caucasus is of great strategic importance, whether it is from a geopolitical or geo-economic point of view. It is a small buffer zone between Russia, Turkey and Iran, has vast resources of oil and gas and is the pivot point of commercial routes and energy transits between Asia and Europe. Moreover, it is important because of the fragile nature of peace and security in the region. The South Caucasus is characterised by the frozen conflicts in the three breakaway territories of South Ossetia, Abkhazia and Nagorno-Karabakh, which all stem from the fundamental conflict between the principles of territorial integrity and the right of self-determination of the peoples. Effectively, these smouldering conflicts could flare up practically anytime there is a clash or a military incident. The situation is especially critical in Nagorno-Karabakh, where violence and confrontations between Azeris and Armenians have been increasing recently (The Moscow Times, 2015). If hostilities in any of these conflicts were to break out again, it would not only seriously destabilise the whole region but also affect relations between major international actors such as Russia and the EU.

The sheer amount of up-to-date literature on this topic is striking. A large number of articles, books and studies have already been published during the last few years, especially in the light of the events in Ukraine and following Armenia's similar decision not to sign the AA in favour of Russia's Customs Union. The number of existing studies emphasises both the importance of continued research on post-Soviet economic integration as well as the topicality of the subject. Research for this thesis has been conducted in English, French, German and Russian and the consultation of such an extensive corpus of scholarly literature has facilitated an analysis that treats the subject from a broad and differentiated perspective. One of the pioneers of EU policy towards the post-Soviet space is Laure Delcour; she published her influential study *Shaping the post-Soviet space? EU policies and Approaches to Region-Building* in 2011 and has since published several articles, including "Faithful but Constrained? Armenia's Half-Hearted Support for Russia's Regional Integration Policies in the Post-Soviet Space" in 2015. In 2013, Rilka Dragneva and Kataryna Wolczuk published their comprehensive volume *Eurasian Economic Integration*, examining the law, policy and politics of the EAEU. Notable studies on EU and Russian presence in the post-Soviet space include *The CIS, the EU and Russia* by Katlijn Malfliet, Lien Verpoest and Evgeny Vinokurov, published in 2007, as well as *The European Union, Russia and the Shared Neighbourhood*, published in 2011 by Jackie Gower and Graham Timmins. For the theory of economic integration, Bela Balassa's *The Theory of Economic Integration* remains as relevant today as when it was first published in 1961; also noteworthy in this field is Miroslav Jovanovic's comprehensive tome *The Economics of International Integration*, published in 2011. Among the numerous think tanks and international organisations that have published studies, reviews and policy papers on this issue, the most comprehensive analyses are the European Parliament's *When choosing means losing*, by Pasquale de Micco in

2015, Nico Popescu's *Eurasian Union: the real, the imaginary and the likely*, issued by the European Union Institute for Security Studies (ISS) and CEIS' *De l'Union douanière à l'Union eurasiatique*.

With the exception of specific assessment reports, the bulk of existing research into this contentious geopolitical terrain pays little heed to the actual effects of economic integration. Rather, they overwhelmingly tend to use economic integration merely to provide context to their broader analyses of the actions, objections and underlying motives of world players in the post-Soviet states. Even when concentrated upon a specific region, such as the South Caucasus or Eastern Europe, the focus of such studies lies on the analysis of the EU and Russia as foreign policy actors and their quest for normative supremacy in the shared neighbourhood instead of the countries directly affected by these initiatives and the policies proposed to them. After analysis of the current body of literature, it can be concluded that scholars mostly agree upon the following two hypotheses and that, consequently, a collision of interests in the shared neighbourhood seems to be predetermined: (i) by means of economic integration, the EU is trying to export its model of governance to the European Neighbourhood to strengthen stability, peace and security; it promotes democracy, the rule of law, human rights and economic prosperity. (ii) Russia, on the other hand, perceives the post-Soviet space as its 'near abroad', a sphere of prerogative where it expects a privileged role and influence due to common links and historical heritage. The EAEU is often considered to be based more on political than on economic grounds and as a Russian effort to (re)establish its great power status and to (re)gain a hegemonic position in the post-Soviet space (e.g. Grätz 2013; Donaldson 2012; Casier 2007, 87-88; Corduneanu et al., 2014).

However, this thesis goes in line with Cadier (2014, 82) who states that presenting EU and Russian initiatives as “a clash between two cohesive integration blocs” and as “two 'spheres of influence', in which countries of the region would irremediably and definitively fall”, is not enough to show the actual complexity of the situation. The preferences and interests of the respective post-Soviet states are decisive in navigating between the two proposed integration schemes. It is therefore not only important to analyse what is being offered to them, but also, and even more importantly, their own domestic economic, political and strategic agenda (82). Thus, this thesis will, firstly, analyse the policies and instruments of post-Soviet economic integration. It will then shift focus towards the domestic actors in the South Caucasus and will analyse their perception of post-Soviet economic integration and the factors that shape it.

1. What are the EU's and Russia's policies and instruments for post-Soviet economic integration and how have they developed?
2. What do the EU and Russia propose to the countries of the South Caucasus and what are the resulting impacts of economic integration?
3. Where do Armenia, Azerbaijan and Georgia find themselves amid these integration efforts, what do they opt for¹? Apart from economic considerations, what other factors could influence their position and preferences?

The principal argument put forward in this thesis is that, in two ways, the South Caucasus is the very image of the on-going process of post-Soviet economic integration. As a region, it can be seen as a mosaic reflecting the very same features that characterise the post-Soviet space as a whole: it is a fragmented area, with one country choosing to cooperate with Russia, one country seeking integration with the EU and one country balancing its independent status between both these actors. As individual countries, each of them illustrates different aspects, challenges, weaknesses and key questions fundamental for the EU's and Russia's respective approaches towards the post-Soviet space and their integration schemes. Relying on both primary and secondary sources, this study adopts an interdisciplinary analytical research approach. In addition to books, articles and reports, this thesis draws from statistical data, public opinion polls, interviews, official discourses and a wide range of both internal and published documents from state, governmental and non-governmental institutions as well as national and international organisations. After establishing the general and theoretical framework for analysis, a holistic and in-depth approach is applied to the case study, combining elements of history,

¹ The breakaway republics South Ossetia, Abkhazia and Nagorno-Karabakh are part of the South Caucasus as well, but their independence is not or only partially recognised internationally. In the context of this study they are therefore only relevant in terms of how they influence the domestic policies of Armenia, Georgia and Azerbaijan.

political science, law, sociology, geopolitics and economics. The first chapter will define economic integration and identify its main principles. Subsequent chapters will shift focus on to the post-Soviet space in order to clarify how this area is perceived by both East and West. The aim of the second chapter is to introduce the reader to post-Soviet economic integration; it will provide a review of the policies pursued by the EU and Russia in this sphere and the mechanisms employed in implementing these strategies. The third chapter will focus on the South Caucasus and examine Armenia, Azerbaijan and Georgia in the light of the post-Soviet economic integration efforts by the EU and Russia. This chapter will analyse the respective relations with these two international actors and discuss the stance taken by the three republics. The respective benefits and disadvantages of cooperating with the EU on the one hand, and Russia on the other hand, will be critically examined. Finally, particular attention will be paid to the economic, political, social and strategic factors influencing the domestic agendas of the South Caucasian republics.

I. Theoretical Framework and Clarifications

1.1. What is economic integration ?

The theory of economic integration dates back to 1961, when Bela Balassa published his book *The Theory of Economic Integration*. Other scholars have dealt with trade, economic cooperation and the theory of customs unions before, yet Balassa was the first to incorporate existing research findings and reflections into a comprehensive theoretical framework (Sapir 2011, 1201). Balassa begins by explaining the difficulties of finding a precise definition for economic integration. While integration usually signifies bringing different parts together into a whole, the meaning of economic integration largely depends on the philosophical viewpoint of the economist and what he considers to be meaningful or redundant ([1973] 1961, 2). One could argue that, at the time of Balassa's writing, the process of economic integration was still relatively new in Europe. After all, the European Coal and Steel Community (ECSC) had only been created a few years earlier. Indeed, to this very day, the question of how to precisely define economic integration remains open. Scholars usually agree that there is, as yet, no clear-cut meaning and, consequently, they invariably preface their own use of the term with a critical evaluation of competing definitions.

As stated by Balassa, economic integration can be understood twofold, as a (gradual) process as well as a state of affairs. As a process, it “encompasses measures designed to abolish discrimination between economic units belonging to different national states.” As a state of affairs, it “can be represented by the absence of various forms of discrimination between national economies” ([1961] 1973, 1). Robson ([1980] 2002, 1-2) understands economic integration as regionalism and defines it as “the institutional combination of separate national economies into larger economic blocs or communities” where the primary concern is the regional promotion of efficiency in the use of resources. With Machlup (1977, 3), economic integration can be understood as the bringing together of separate economies into larger economic regions. He assumes that economic integration basically refers to the division of labour, involves mobility of goods and factors and – with regard to origin or destination – relates to the discrimination or non-discrimination in their treatment (14). Meanwhile, Samarasinghe and Weerasinghe define economic integration as the economic links between two or more countries which concern the process of removal of barriers to the international movement of goods, factors and technology as well as the economic effects and consequences of these measures (2002, 189). This thesis, however, in accordance with Jovanovic (2006, 21), regards economic integration as the process and the means by which a group of countries attempts to increase their level of welfare in a context where international partnership is consistently viewed as being more effective than independent or unilateral policies in the attainment of this goal. For successful integration, some degree of division of labour as well as freedom of movement of goods and services within the group is necessary. A key characteristic is the “inward-looking approach” the countries adopt – they care more about what is happening inside the group than outside of it (21). Economic integration can both promote and restrict trade; while there is at least partial liberalisation among the participants of the group, various barriers between the integrated members and outsiders remain (28).

Economic integration can take several forms, representing different degrees of integration. According to Balassa ([1961] 1973, 2), there are five possible forms of integration: a free trade area (FTA), a customs union (CU), a common market, an economic union and complete economic integration. With Balassa (Ibid.), Jovanovic (2006, 22), Samarasinghe and Weerasinghe (2002, 178-179) as well as Robson ([1980] 2002, 3-4), these forms can be characterised in the following way:

- In a *FTA*, countries agree upon the elimination of all tariffs and quotas on mutual trade². However, they maintain their own tariffs and trade restrictions and regulations with non-members of the area (third countries).

² A tariff is a tax imposed on imported or exported goods and services. A quota is the quantitative limit imposed on the export or import for goods and services.

- In a *CU*, countries individually retain the right to abolish tariffs and implement quota restrictions on intra-group trades. However, the customs union takes a step further and additionally establishes a common external tariff for trade with third countries. Therefore, the participating countries act as a single entity in international negotiations concerning trade and tariffs.
- Additionally to the tariff-free movements of goods and services and common external tariff, a *common market* is defined by the free movement of factors of production where restrictions on the movement of labour, capital and enterprise are abolished.
- An *economic union* includes not only a common market but to some degree the harmonisation of economic policies such as fiscal, monetary, industrial, regional or transport. The goal is to remove discrimination resulting from disparities between the national economic policies of individual members.
- *Total economic integration* is achieved when monetary, fiscal, social and countercyclical policies are unified into a single economic policy. This policy is designed and coordinated by a supranational authority whose decisions are binding for all members.

According to Jovanovic (2006, 23) and Samarasinghe and Weerasinghe (2002, 180), the basic characteristics of the different forms of integration described above can be summarised as follows:

Table 1. Basic features of types of economic integration

Characteristics of integration	Type				
	Free trade area	Customs union	Common market	Economic union	Total economic integration
Removal of tariffs and quotas between member countries	+	+	+	+	+
Common external tariff with third countries	-	+	+	+	+
Factor mobility	-	-	+	+	+
Harmonisation of economic policies	-	-	-	+	+
Complete unification of economic policies	-	-	-	-	+

It should be emphasised that economic integration does not necessarily have to occur as a step by step process where one form eventually graduates to the next more advanced one. Complete economic integration need not be the ultimate goal of integration; the depth of integration depends on what countries agree upon as well as what they aim for. For instance, if countries want to establish trade links while retaining their full political freedom of action, a FTA would be seen as the end goal of integration. Over the years, the five traditional forms of integration first presented by Balassa have been refined by other authors. Jovanovic (2006, 22), for example, has made the case for two additional types of integration: *preferential trade agreement* and *partial customs union*. The former is presented as a first form of integration where trade tariffs between participating countries are lower than those with third countries. Meanwhile, the latter is presented as an alternative should the participating countries choose to keep their initial tariffs on mutual trade and establish a common external tariff on trade with third countries.

These various types of economic integration illustrate one of its crucial features: it is rarely a case of 'just economics'. After a certain level of involvement, economic integration goes hand in hand with political integration. The political step from a FTA to a CU is already remarkable because the participating countries agree to establish a common trade policy which consists at least of a common external tariff (Sapir 2012, 1201). The last two forms of economic integration go even further and require considerable adaptations of national economic policies. Hence, the political willingness to limit autonomy and to transfer national sovereign competences to a higher authority is indispensable. Scholars and economists deal with this aspect of economic integration in very different ways. While Balassa ([1961] 1973, 6-7) does not disregard the political factors of economic integration, he emphasises that from the point of view of an economist, the likely economic effects of integration are more important and relevant than eventual political implications. Conversely, McCarthy (2006, 2) already includes the interdependent nature of economic and political integration in his definition of economic integration. He claims that

while economic integration on all spatial levels concerns the fundamental basis of economic study – how goods are produced, distributed and exchanged – it is much more than just an economic process. In the end, it results from human decisions and therefore, political considerations are inevitably involved. He proposes to approach economic integration as an economic and a political process that involves the interrelation between political and economic processes and institutions. Similarly, Robson ([1980] 2002, 4) emphasises the importance of the political element in the process of economic integration, which according to him cannot be overstated. Keeping this in mind, we can distinguish between the political and economic goals of integration. Economic goals can include the prevention of economic disintegration, expansion of the market size, obtaining a faster rate of technological advancement and increased economic growth (Balassa [1973] 1961, 5-6; Robson [1980] 2002, 84). Jovanovic (2006, 13) further considers economic integration as a desirable strategy for small and medium-sized countries and underlines various benefits such as securing access to markets of partner countries, having a bargaining tool with third countries or shrinking the power of vested interests and monopolies. Political goals can involve closer cooperation and partnership between countries. According to Balassa, the main political objectives of economic integration for post-war Western Europe were avoiding future wars, introducing another force in world politics and affirming the region's status as a world power ([1973] 1961, 6). Economic and political goals and motives are not mutually exclusive but often linked. The ECSC for instance was launched with the purpose of economic cooperation between European countries, but served ultimately also as a pan-European peace project.

It can therefore be concluded that economic integration is a process as well as a state of affairs with the explicit goal of increasing welfare. Some degree of division of labour and freedom of movement of goods and services is required. There are various degrees of economic integration: they are consecutive in terms of the level of economic and political commitment necessary to participate, but they do not have to be passed through step by step. Benefits of economic integration can be *inter alia* economic growth, increase of market size or competitiveness as well as stability, enhanced trust between countries and peace. The various motives, purposes and goals in the implementation of economic integration show that economic and political factors are often interdependent.

1.2. Addressing the post-Soviet space: a distinction between East and West ?

The Commonwealth of Independent States (CIS), New Independent States (NIS), post-Soviet space - the current discourse offers several terms for speaking about the same thing. Depending on various factors, such as the speaker's intention, his political or geographical point of view and how he essentially sees the post-Soviet space, the respective connotations of these terms can be very different. Generally speaking, the post-Soviet space is the area that was once covered by the former Soviet Union. Composed of the 15 former Soviet republics that emerged as independent states after the collapse of the Soviet Union, the post-Soviet space spreads from the Western European periphery far east towards Asia and includes the Baltic States; the East-Central European countries Belarus, Moldova and Ukraine; the South Caucasus; Russia and the Central Asian countries Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. The analysis of current scholarly literature and debates on the post-Soviet space leads to two major findings:

- (1) Both the EU and Russia aspire to integrate the post-Soviet space into their own zones of influence and they propose similar instruments for doing so. However, they differ in terms of their respective underlying motivations and in how they perceive and address this area.
- (2) The ongoing discourse lacks a common agreement on how to actually define and address the post-Soviet space.

Nikitin (2007) sees this term as an umbrella concept which underlines the common political, economic and historical roots of the countries in question. Significantly, he argues that this is only a temporary concept: the common Soviet heritage is no longer the dominant linking factor because the integration efforts of international actors divide the post-Soviet space into new geopolitical entities and neither the West nor Russia have yet adapted their policies to this new configuration. According to him, the label 'post-Soviet space' is used to stress the common Soviet heritage and continuity with the former empire, while the description NIS is used to emphasise national sovereignty and rupture with the past (1-2). Vinokurov (2007) confirms the need for differentiation in order to resolve the “terminological

confusion” concerning the post-Soviet space. He argues that the term CIS is often wrongly used as a synonym to address the post-Soviet space in its entirety, while it is de facto a regional organisation not all post-Soviet states are part of (22). Both Nikitin and Vinokurov agree that the Baltic States, that did not join the CIS, are usually excluded when using this term as a substitute for the phrase 'the post-Soviet space'. Further differentiation is, however, still necessary. The 2008 South Ossetian war severely disrupted Georgia's relations with Russia and, in consequence, Georgia withdrew from the CIS. Turkmenistan is only an unofficial associate member and Ukraine too, although a founding member and in fact participating, is not an official member because it never ratified its charter. In May 2014, following the annexation of Crimea to Russia, Ukraine announced its intention to withdraw from the CIS. So far, the permanent representative has been recalled and Ukraine is neither contributing to the common CIS budget nor participating in meetings. However, withdrawal is not yet official and recently the Ukrainian foreign minister has stated that leaving the CIS would in fact be premature and to the country's disadvantage (Tass 2015; Vzgl'yad 2015).

Stent (2014, 97-99) argues that the two vastly differing perceptions of this area held by the EU and Russia (as briefly explained in the introduction to this dissertation) are mirrored in the most fundamental way: namely, in how they address the post-Soviet states. She points out that Russians do not regard their neighbouring countries as essentially foreign, but rather as a 'near abroad'. According to her, they use the term post-Soviet space to imply that the binding factor for these countries is the common Soviet past. The West in turn uses the label NIS to underline independence from what tied them together in the past. While Nikitin already proposed a similar approach, he did not necessarily consider the use of these phrases as a symptom of a chilly or even hostile 'East versus West' atmosphere resulting from conflicting ideological views. Instead, he claims that the term NIS is preferred by politicians and researchers in the post-Soviet region itself, while the term 'post-Soviet space' is not only used by Russian but widely popular among Western scholars (2007, 2). Hence the terms post-Soviet space and NIS should not be blindly classified as having subliminal connotations rooted in ideologically charged perceptions of this area. Instead, they should be seen in accordance with the respective context in which they are being used. When used in a Russian discourse, speaking of a post-Soviet space might indeed express a certain privileged claim to this region but it does not automatically have to be the case. Likewise, when used by Western scholars it can be assumed that the term 'the post-Soviet space' does not have a particular connotation but simply expresses 'the totality of countries which were once Soviet republics but no longer are'.

While Nikitin doubts that the common Soviet past is still a justifiable reason for classification, he did not suggest any other alternative solutions. Other authors have also given this concept consideration and developed it further. Cheng (2015, 278) for example, states that Russia's view of the post-Soviet space as a traditional sphere of influence draws from the heritage of the tsarist and Soviet empire. He argues that by doing so, Russia essentially ignores the fact that the post-Soviet space is actually transforming into a post-post-Soviet space and thus constitutes a different reality to which international actors have to adapt. Averre (2011, 25) also considers the geopolitical, political and social transformations of the last years as “post-post-Soviet developments.” According to Kobrinskaya (2007, 18), these developments are rooted in the regime changes following the colour revolutions in several post-Soviet states (2003 Rose Revolution in Georgia, 2004 Orange Revolution in Ukraine, 2005 Tulip Revolution in Kyrgyzstan). She states that new leaders did not orient themselves towards the Soviet past, but sought to strengthen democracy, the rule of law and civil society and therefore build new post-post-Soviet statehoods. Cheng (2015, 278) identifies several signs which demonstrate the post-post-Soviet development. First of all, the performance and the purpose of the CIS as a regional organisation is growing constantly weaker. Furthermore, fewer countries participate in new integration projects. Secondly, several countries of the NIS, such as Georgia or Ukraine, have struck out in a new political direction. Thirdly, the post-Soviet space is becoming increasingly global: the influence of external actors is growing and a considerable number of regional organisations consist of countries both within and outside the post-Soviet space, such as the Shanghai Cooperation Organisation (SCO), which includes China, Russia and the Central Asian NIS except Turkmenistan, or the Economic Cooperation Organisation (ECO), which was created by Turkey, Iran and Pakistan and today also includes the Central Asian NIS and Azerbaijan.

In this thesis, the term 'CIS' will only be used when referring to the organisation and not to address the post-Soviet area as a whole. For the latter, the terms 'post-Soviet space' or 'NIS' will be used. The above arguments in favour of overcoming post-Sovietness certainly have a point. However, the goal of this thesis is not to analyse the extent to which the NIS have moved away from their status as former Soviet republics or exactly how distinct the features characterising the post-Soviet space as post-Soviet are today. For the purpose of this study, it is necessary to consider the post-Soviet space as a whole and to acknowledge the existing links between the single NIS which lead to considerable mutual influence as well as common political, economic preconditions influencing the integration process.

II. Post-Soviet Economic Integration

The post-Soviet space is shaped by a number of regional and bilateral trade agreements as well as regional integration groupings and organisations. Their composition mirrors the geographic location and multifaceted nature of the post-Soviet space: some of them involve or circle around Russia (e.g. the CIS or the Collective Security Treaty Organisation (CSTO)), others primarily concern the Asian part of the post-Soviet space, such as the SCO, or other Eurasian actors like Turkey or Iran (e.g. the ECO). At the same time, several post-Soviet states joined the World Trade Organisation (WTO) and there are also organisations countering the Russian-led CIS, such as the GUAM Organisation for Democracy and Economic Development (GUAM)³. The following table gives a non-exhaustive overview of various integration schemes in the post-Soviet space and shows in which regional organisations and international bodies the NIS participate.

Table 2. Post-Soviet states in integration projects and international organisations

Organisation	Year	Member States	Purpose
CIS	1991	Russia, Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Uzbekistan <i>Associate state:</i> Turkmenistan; <i>Participating state:</i> Ukraine <i>Former member:</i> Georgia (withdrawn 2008)	- cooperation in the fields of politics, economics, environment and culture - advancing economic and social development - peaceful resolution of disputes and conflicts between member states
CSTO	1992	Russia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, Armenia <i>Former members:</i> Azerbaijan (94-99), Georgia (94-99), Uzbekistan (94-99; 06-12)	- maintenance of member states' security, territorial integrity and sovereignty - mutual support and military assistance in case of aggression against a member state
EAEU	2015	Russia, Belarus, Kazakhstan (already in 2010 EACU), Armenia, Kyrgyzstan (2015)	- comprehensively intensifying cooperation, competitiveness and economic development of member states - pursuing the full implementation of the free movement of goods, services, capital and labour - harmonisation and coordination of economic policies
ECO	1985	Iran, Pakistan, Turkey; 1992: Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan	promoting economic, technical and cultural cooperation between member states
ENP / EAP	2004 / 2009	Armenia, Azerbaijan, Belarus, Georgia (AA), Moldova (AA), Ukraine (AA)	- developing closer political association and deeper economic integration with the EU's neighbours - to this end the EaP foresees implementation of an AA, including a DCFTA

³ The name of the organisation stands for its members: Georgia, Ukraine, Azerbaijan and Moldova. When Uzbekistan joined in 1999, the name was changed to GUUAM. However, Uzbekistan left the organisation in 2005 and consequently the original name was reassumed.

EurAsEC	2000 - 2015	Russia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan <i>Former members:</i> Uzbekistan (2006-2008) <i>Observer states:</i> Armenia, Moldova, Ukraine	- ensuring multilateral economic cooperation - promoting deeper economic integration among member states; establishment of the EACU between Russia, Belarus and Kazakhstan - working towards the creation of an economic union
GUAM	1997	Azerbaijan, Georgia, Ukraine, Moldova. <i>Former member:</i> 1999-2005: Uzbekistan (GUUAM)	- promoting democratic values, the rule of law and respect for human rights - strengthening international and regional security and stability - deepening European integration and expansion of economic and humanitarian cooperation
PCA	1997	Russia (1997), Moldova and Ukraine (1998), Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Uzbekistan (1999), Tajikistan (2010); Belarus: frozen, Turkmenistan: awaiting ratification	- establishing a framework for official bilateral relations and political dialogue - EU support to partner countries in their transition to democracies and market economies
SCO	2001	China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan; 2001: Uzbekistan <i>Observer states:</i> Belarus Dialogue partners: Armenia, Azerbaijan	- promoting good neighbourly relations and cooperation in politics, trade and economy as well as areas such as tourism, energy and transportations - maintaining peace, security and stability in the region
WTO	1995	Kyrgyzstan (1999), Georgia (2000), Moldova (2001), Armenia (2003), Ukraine (2008), Russia (2012), Tajikistan (2013), Kazakhstan (to join in 2015)	- regulating international trade - handling trade negotiations and trade disputes - monitoring national trade policies

Source: Dreyfus 2013, 7 and Websites of the respective organisations / integration projects. While this table lists all the full members of the respective organisations, with regard to observer states, associate states and dialogue partners only those countries which belong to the post-Soviet space have been considered. For a comprehensive list of further countries see websites of the respective institutions.

The goals and purposes of these various integration efforts are often similar. In fact, arrangements overlap to the extent that the post-Soviet space is described as a “spaghetti bowl of integration agreements”; a situation in which the rules of economic interaction are unclear, contradictory and even mutually exclusive (Zhukov, Reznikova, 2006, 97; UNDP 2005, 56-57). Some organisations simply ceased to exist after a few years, such as the Central Asian Cooperation Organization (CACO), while lasting agreements usually generated only low practical return and hardly encouraged the implementation of respective policies, let alone led to economic progress (2006, 99-100; 2005, 56-57). In recent years however, this picture has begun to change. Russia and the EU emerged as the players that advance the integration of the post-Soviet space beyond that of any other international actor. Both pursue ambitious goals and both have created economic integration projects which offer the NIS concrete possibilities for cooperation and closer ties. In the following sections, this chapter will trace these developments back to their origin and analyse the policies respectively adopted by the EU and Russia towards the post-Soviet space since the collapse of the Soviet Union and the role this area plays in their respective agendas. Equally, the key instruments employed by these two actors in order to implement their pursuit of economic integration will be compared and contrasted.

2.1. The post-Soviet space between Russia and the EU

Over time, the significance of the post-Soviet space for the EU and Russia has changed considerably, and, accordingly, their respective policies in this domain have also greatly evolved. In order to illustrate this development, this thesis distinguishes between three principal periods. The first period ostensibly covers the 1990s and early 2000s; it shows that the post-Soviet space was an area of relatively little interest for both the EU (and its direct antecedents) and Russia. The second period spans from the beginning of more concrete EU engagement in 2004 until the end of the decade. It illustrates the growing importance of the post-Soviet space; for the EU because expansion had brought it geographically closer, and for Russia because growing EU influence was considered threatening its own aim to re-assert its former hegemony in the region. Finally, the third period covers 2010-2015. The principal argument put forward is that the significance of the post-Soviet space has changed as follows: While the geo-strategic position and economic resources of the post-Soviet space has made this area one of great interest for many years, it has more recently become increasingly important - not for what it is, but more for what supremacy in this area signifies for both Russia and the EU. For the EU, the post-Soviet space has become one of its key challenges, calling into question its policy direction, strategy and the coherence of its member states. For Russia, the post-Soviet space has become essential for its self-perception as a global superpower and inseparable from its quest to shape its place in the international world order.

2.1.1. *A period of uncertainty and prevailing domestic challenges*

The collapse of the Union of Soviet Socialist Republics (USSR) forced both the EU and Russia to adapt to new geopolitical realities. The European Communities found themselves no longer facing a politically monolithic military superpower, but rather fifteen independent states⁴. The dissolution of Soviet structures left an enormous political and economic vacuum in its former member states and called issues such as identity and ideology into question. Having been largely isolated during the Cold War, the post-Soviet space was “virgin land” (Delcour 2011, 23), a somewhat alien territory whose future links and inter-relations were yet unclear. Given the speed and the extent of transformation as well as the “imponderable distribution of political responsibilities and economic competences” (European Commission 1992a, 17) in the former Soviet Union, there was little time to develop a strategy towards the new neighbourhood (Delcour 2011, 23-24). Russia, in turn, was rocked by internal conflicts. It had lost half of the population of the USSR and more than 20% of the territory it had previously controlled, including strategically important locations such as Crimea. For Russia, the best way to shape its new position in the changed world order was to regain its political influence in the region (Bordachev and Skriba, 2014, 16). The treaty on the end of the Soviet Union simultaneously launched the CIS, a loose association of states. The creation of this first post-Soviet regional integration initiative was embedded in a time of uncertainty and change: the NIS were wary of another sort of Russian-dominated organisation and also for the European Communities it was unclear what the creation of such an organisation implied; whether it was a sort of continuity of the USSR or something completely new.

In Soviet times, an official relationship between the European Communities and the USSR had been virtually non-existent. An agreement with the Eastern bloc's Council of Mutual Economic Assistance (COMECON) to establish and develop official relations was only signed in 1988 (Delcour 2011, 23-25). This rather limited form of cooperation changed little in the first years after the collapse of the Soviet Union. The European Communities tried to support the NIS in their processes of political and economic transformation and to ensure stable relations in the region, but they were preoccupied with internal questions concerning deeper integration and future enlargement. The Single European Act had just come into force, the Maastricht Treaty, intended to formally launch the EU, was being negotiated and the countries which would constitute the 1995 enlargement had expressed their interest in joining the EU (Delcour 2011, 23-25). Russia was also facing its own internal challenges. Its main priority was to spur domestic structural and economic reform, such as privatisation and economic liberalisation in order

⁴ The European Communities are constituted of the European Coal and Steel Community (ECSC), the European Economic Community (EEC, abbreviation which in the continuous text is used for the Eurasian Economic Commission) and the European Atomic Energy Community (EAEC, also called Euratom). They are the origin of the EU, which came into legal existence only in 1993 with the Maastricht Treaty.

to advance its transformation process. For the purpose of modernisation and the creation of new structures, Russia actively sought to develop relations with Western countries. This reform process distinguished it from the other post-Soviet states and brought the country much closer to the West (Bordachev and Skriba 2014, 17). In 1997, it became the first NIS to conclude a Partnership and Cooperation Agreement (PCA), a framework for bilateral relations through which the EU envisaged to develop a regular and institutionalised dialogue with post-Soviet states (Delcour 2011, 40).

After Russia had gradually recovered from the impact of the dissolution of the Soviet Union, the 1998 financial crisis marked a new low point. Though the economy did not collapse, the country was nevertheless left shattered and weak (Kobrinakaya 2005, 78). Consequently, Russia adopted a far more pragmatic policy towards the post-Soviet space, with the main goal of creating an economic system convenient for its economic interests (Kobrinakaya 2007, 18). Interestingly, the economic crisis also had an impact on its relations with the EU. The crash of the Russian economy had altered the trade and economic relations in the other NIS, as they were forced to find new markets for a large part of their exports. They mostly reoriented their exports towards Western European countries and in consequence, the EU became a promising partner. In consequence, trade between the EU and the overall post-Soviet space increased, while trade between Russia and the other NIS diminished (Kobrinakaya 2005, 78). In 2000, Vladimir Putin was elected president of Russia and the first years of his tenure were characterised by the development of a strategic partnership with the West. Notably, after the 9/11 attacks, Russia cooperated with the US and provided military support to NATO troops in Afghanistan, as countering terrorism was in its national security interests (Nikitin 2008, 16). However, despite these beginnings, the events of the 21st century have kept Russia from returning to the height of influence it enjoyed during the days of the USSR: in addition to the financial crisis and other internal challenges such as organised crime and corruption, its condemnation of the bombing of Serbia during the Kosovo crisis and its controversial support of the Milosevic regime resulted in the loss of Russian influence in the Balkans and weakened its role in the United Nations (UN) Security Council (Kobrinakaya 2005, 78-79; Fedorov 2005, 10). The 2000 national security concept reflects that integration of the Russian economy into the world market is necessary in order to guarantee sustainable long-term economic growth and stability and to gain more influence on an international level (Russian Federation 2015).

It can be concluded that the post-Soviet space was not a high priority in the 1990s for either the EU or for Russia. The principal difference lies in the approach adopted towards this area. For the EU, the post-Soviet space simply constituted a new and unfamiliar area and it gradually sought to enhance cooperation and to establish relations with the NIS. Whereas Russia regarded the post-Soviet space as an area over which it had the right to exert a special influence. However, their overriding priority was modernisation and, to this end, Russia sought to cooperate more closely with Western countries. Therefore, throughout the 1990s, Russian interests lay essentially outside of the post-Soviet space.

2.1.2. Growing importance : from a shared to a contested neighbourhood

An analysis of evolving EU and Russian approaches towards the post-Soviet space in the course of the 2000s reveals two notable characteristics. Firstly, the area is becoming more important for both actors. Secondly, this growing importance and the corresponding measures adopted by the EU and Russia to integrate the post-Soviet space is a direct corollary of their interrelationship: aside from national interests, actions of the other party towards the post-Soviet space play a considerable role in shaping own integration policies. The EU's integration policies, having evolved continuously since the 1990s, were now more clearly defined. While earlier approaches can be seen as a reaction to the political, economic and social developments in the region, integration efforts now had a more strategic background and were more differentiated (Delcour 2011, 37). Several sub-areas were distinguished within the post-Soviet space. The three Baltic states – which had immediately adhered to Western institutions (EU and NATO in 2004) following the collapse of the USSR and had never participated in joint post-Soviet regional organisations – were singled out from the rest of the post-Soviet space while Russia, as the biggest of the NIS, has also benefited from a tailor-made approach since the outset. A differentiation between the other NIS occurred however only much later. The Western part of the post-Soviet space and the South Caucasus were first grouped with the ENP, while a strategic partnership with the Central Asian NIS was only adopted in 2007 (Delcour 2011, 38). This shows that over the course of the years, the EU had progressively stretched further East. In the 1990s, primarily Russia and the

Western NIS were important. The Central Asian and South Caucasus NIS also benefited from the EU's policies, but they weren't a priority. This only changed in the aftermath of the 9/11 attacks, when in the context of the War on Terrorism, the Central Asian and South Caucasus countries became a geopolitically important point for the United States (US) and, simultaneously, became more important in the EU's approach towards its neighbourhood (Delcour 2011, 92-107).

Compared to the EU, Russia began to reassert its influence in the NIS at a relatively late stage; quite simply, other questions were considered to be more relevant to their immediate interests in the early-2000s. While cooperating with the West, Russia's approach towards the integration of the NIS has become both more pragmatic and more flexible. It focuses less on institution building but aims at establishing a legal base for economic expansion and the liberalisation of trade. Furthermore, instead of reaching out towards the broadest possible range of countries, it has deemed it more efficient to develop closer relations with only a few of the NIS (Vinokurov 2007, 32). The 2004 enlargement of the EU marked a considerable shift in the importance of the post-Soviet space, both for Russia and the EU, and was a key incentive for Russia to pursue its own integration process more seriously. It was the EU's biggest enlargement, with ten Central- and Eastern European countries joining the Union, amongst them the Baltic States. This enlargement not only fundamentally altered the EU as a Union per se but it also dramatically changed its political, geographic and economic situation on the European continent. It brought the EU's borders closer to the post-Soviet space and necessitated the European Commission (EC)'s call for the creation of a policy towards the new neighbourhood (European Commission 2003, 3). Significantly, up until this point, Finland had been the only EU member to have a common border with Russia (1340 km). With the accession of the CEEC and the Baltic states, the Russian enclave Kaliningrad found itself in between two EU member states and the common EU-Russia borders were extended to a total of 2.575 km (House of Lords 2008, 13)⁵. Russia had been wary of the more determined Western policy in Eastern Europe and the game gradually turned zero-sum (Bordachev and Skriba 2014, 17). The enlargement sparked a number of concerns for Russia, ranging from visa requirements for Russian citizens and the status of the Russian-speaking communities in the Baltic states to the position of the Russian enclave Kaliningrad and various economic concerns such as EU import tariffs and restrictions on sensitive Russian goods. Trade flows between Russia and the Central and Eastern European Countries (CEEC) were considerable and consequently, enlargement would increase Russia's dependence on the EU. Furthermore, with the CEEC also comprised of EU member states, Russian exports would have to deal with higher import tariffs as well as higher standards and technical and hygiene requirements for products. Moreover, new member states such as Poland had a highly critical view of Russia. They tended to promote closer cooperation with new Eastern neighbours such as Ukraine, stimulating overall EU influence in the shared neighbourhood (Casier 2007, 84-85). More importantly, a large part of EU member states are also members of NATO and most of the 2004 EU enlargement candidates additionally joined NATO⁶. In the eyes of Russia, the enlargement of the EU was therefore simultaneously an expansion of NATO influence towards its borders.

With president Vladimir Putin's second term of office, the self-image of Russia as a superpower grew increasingly important and influenced its policies towards the post-Soviet space (Vinokurov 2007, 23). Up until the launch of the ENP and the colour revolutions, the EU had more or less silently accepted the post-Soviet space as a sphere to which Russia had a remaining prerogative and therefore would not interfere with Russian interests by increasing its own influence in the area (Nikitin 2008, 16; Delcour and Wolczuk 2013a, 190). Though the EU's attitude on this matter changed over time, Russia remained stalwartly attached to its dominant position in the region and began to actively re-assert its self-perceived right to hegemony (Nikitin 2008, 16). Crucially, Russia now determined that integration could be best achieved by prioritising economic considerations over questions of ideology or historical ties (Bordachev and Skriba 2014, 16-18). In contrast to earlier years, Russia was actually able to put its power aspirations into action. Increasing economic growth had made the country more powerful – while Russia had a GDP of \$195 billion in 1999, it was \$1.6 trillion in 2008 (Worldbank). Oil prices were rising and were generating high state revenues and, as a result of the growing demand for oil and gas, Russia's

⁵ Extended EU-Russia borders from 2004: Estonia-Russia (455 km), Latvia-Russia (276 km), Lithuania-Russia (272 km) and Poland-Russia (232 km).

⁶ The six EU member states which don't belong to the NATO are: Austria, Ireland, Sweden, Finland, Malta and Cyprus.

importance as a global energy actor skyrocketed (Kobrinakaya 2005, 87-90; Bordachev and Skriba 2014, 17). Since, then, Russia has pursued its goals with a classic ‘carrot and stick’ approach to international power-play by drawing on the influence of pro-Russian politicians throughout the NIS, military support, as well as cheap energy supplies in the form of oil and gas used as either incentives or as leverage (Vinokurov 2007, 37). Furthermore, in contrast to the EU, which seeks to promote democratic norms and values, Russia prefers to ensure the stability of regimes, even if they are authoritarian (Averre 2011, 12). Consequently, a decade of independence and an impression of the norms and values yielded by integration with the EU makes Russian integration schemes unattractive in the NIS (Averre 2011, 12). Authorities across the post-Soviet states are either unwilling to form closer ties with Russia or openly try to avoid falling under Russian influence again. Those that are politically or economically dependent on Russia seek to diversify their economic links to decrease Russian influence. This, for example, is the case in Belarus where the EU is the country's second largest trading partner after Russia, accounting for 24.4% of imports and 28.2% of exports in 2013 (European Commission, DG Trade). Meanwhile, countries that enjoy the benefit of vast natural resources, such as Azerbaijan, can allow themselves to have a more independent stance towards Russia (Bordachev and Skriba 2014, 18-19).

2.1.3. *A geopolitical competition between Russia and the EU for supremacy ?*

As the previous section has shown, the growing importance of the post-Soviet space for Russia is essentially fuelled by EU influence in the area. In recent years, policies towards the NIS have become increasingly interrelated. With Russian attempts to gain a more influential position, the EU, in turn, is also developing its integration schemes further. After the EU accession of Romania and Bulgaria in 2007 and the Russo-Georgian war in 2008, a new framework for cooperation was launched. The AA and its integral part, the DCFTA, allow the closest possible relationship between the EU and a non-member state. Russia, interpreting EU presence in the region increasingly as a way to weaken its political and economic links with the other NIS, has decided to push the creation of a well-structured integration scheme forward (Bordachev and Skriba 2014, 19-20). Especially since the beginning of Putin's third term as president in 2012, the post-Soviet space has come to play a key role. According to the 2013 foreign policy concept, the post-Soviet space is of special interest to Russia and the establishment of a mutually beneficial economic union of all the post-Soviet states is of utmost priority (Russian Federation 2013). For Russia, this project is essentially a means of ensuring regional stability and a new opportunity to reinforce its control over the NIS and influence in the overall post-Soviet space (Bordachev and Skriba 2014, 21). Although political matters seem to prevail, there were several economic motivations behind the creation of the EAEU. One decisive factor was the global financial crisis in 2008, which affected Russia more than any other major economy (Trenin 2011, 46)⁷. The rationale that the domestic economy would be less affected by an economic crisis if it were part of a bigger economic community, seems to have played a role in advancing the new integration scheme (Cooper 2013a, 84). In that respect, the integration of the post-Soviet space is not only a means for Russia to regain an influential position but also serves the security of economic interests of the country.

Current events suggest that the post-Soviet space is transforming increasingly from a shared neighbourhood into a contested and fragmented area. For Russia, post-Soviet economic integration has become increasingly important because the post-Soviet space and, most notably, Russia's position in it are fundamental for its self-perception and have come to be inseparable from establishing its identity. The failure of its integration schemes would not only be a heavy defeat but would force Russia to re-evaluate its position in the international order and would lessen the degree of influence it could wield. In short, it would mean accepting the limits of its power. These considerations can be illustrated with a remark made by president Putin during the annual presidential press conference in 2014. Here, he used the traditional image of the bear as a symbol for the Russian nation in order to draw a distinctive metaphor for relations with the West where Russia's actions in the post-Soviet space are essentially about defending its independence, its sovereignty and its right to existence:

“[...] sometimes I think that maybe it would be best if our bear just sat still. Maybe he should stop chasing pigs and boars around the taiga but start picking berries and eating honey. Maybe then he will be left alone. But no, he won't be! Because someone will always try to chain him up. As soon as he's

⁷ The economic crisis led to the gross domestic product (GDP) falling by nearly 8% in 2009.

chained they will tear out his teeth and claws. In this analogy, I am referring to the power of nuclear deterrence. As soon as – God forbid – it happens and they no longer need the bear, the taiga will be taken over” (Kremlin 2014).

This quote is interesting for a number of reasons. It demonstrates just how profoundly Russia's perception of the post-Soviet space differs from that held by the EU. It shows the extent to which Russia appeals to its status as a great power and to what degree it perceives the post-Soviet space as 'its own area' – just as the bear, a mighty predator, sees the forest as its natural and rightful habitat and in chasing piglets, he is acting according to his nature. In fact, it is only if he stops doing so that he gives his opponents – by president Putin no further specified than 'they' – the very chance to approach him and put him in chains. Moreover, it is interesting how this metaphor turns the problem – the bear getting chained up – into something which is effectively an asset. After all, there is probably no one who would go after a small rabbit. The bear is chased to be chained precisely because he is so powerful and strong. Finally, it manifests a fundamental irony in Russian foreign policy considerations. Russia rigorously executes the concepts of independence and sovereignty as the greatest goods which have to be preserved at all times and doesn't tolerate any restrictions in that respect. Yet these very same values do not prevent Russia from restricting the sovereignty of another country, as, for example, in the case of Georgia or Ukraine.

In turn, the post-Soviet space has, in many respects, become one of the biggest challenges faced by the EU today. Especially with the creation of the EaP, it has turned into a crucial test ground, scrutinising EU policies and strategies. As the example of Ukraine has shown, economic integration and the way it is implemented has become a delicate affair which can have cataclysmic effects if it confronts the interests of other actors. The EU is not only faced with its own limits, it must also find an alternative way to cooperate closely with the NIS while remaining on good terms with Russia at the same time. To a certain point, Russia has become indivisible from the EU's policies within the post-Soviet space; it influences them and is a constant factor that has to be considered in the adoption of EU integration schemes. However, finding a common policy in the first place can be a lengthy process and the EU's ability to act as a single entity in pursuit of a clear strategy is often hampered by the national interests of EU member states and their conflicting opinions. As then Commissioner of Trade Peter Mandelson claimed in 2007, no other country reveals the existing disagreements and the weakness of Europe as a whole as much as Russia does. Indeed, he considered the incoherency of EU policy towards Russia to be “frankly alarming” (2007, 3). According to Leonard and Popescu (2007, 2) the EU is divided by two principal policy approaches. One side views Russia as a potential partner and therefore favours involving it more closely. The other side tends to perceive Russia as a threat and views its strategy in the post-Soviet space as a continuation of traditional Russian expansionism. They argue that Russia's actions as well as its concept of democracy should be countered with a policy of so-called 'soft containment': expanding NATO into the common neighbourhood, supporting pro-European regimes in the post-Soviet space and excluding Russia from the G8, as it happened in 2014 after the Crimea Crisis. In the context of these two main approaches, the authors further classify the EU member states into five different groups which tend towards one or the other policy paradigm. They illustrate how each country's stance is influenced by factors such as their domestic political or economic interests, historical experiences or whether their relationship with Russia is characterised by bilateral disputes or pragmatic cooperation. Here, Cyprus and Greece are described as the *'Trojan Horses'* which often support Russian interests and are willing to reject common EU positions. France, Germany, Italy and Spain are *'Strategic Partners'*, maintaining a special relationship with Russia and occasionally undermining common EU positions. Moreover, Leonard and Popescu describe the *'Friendly Pragmatists'*, a group which values their own business interests higher than political objectives and is composed of Austria, Belgium, Bulgaria, Finland, Hungary, Luxembourg, Malta, Portugal, Slovakia and Slovenia. The *'Frosty Pragmatists'* in contrast, a group constituted by the Czech Republic, Denmark, Estonia, Ireland, Latvia, the Netherlands, Romania, Sweden and the United Kingdom, are those who often criticise Russia when it comes to human rights or other sensitive issues. Finally, Lithuania and Poland, the *'New Cold Warriors'*, have an openly hostile relationship with Russia, often criticising it and willing to use their veto to block EU negotiations with Russia.

There are numerous examples that underline the above arguments and demonstrate the contradicting actions of EU member states and the lack of a common EU policy position towards Russia. The

December 2007 presidential election, for example, was sharply criticised by the EC for its non-transparency and poor democratic value, while French president Sarkozy warmly congratulated president Putin on his victory. Similarly, the Russo-Georgian ceasefire agreement negotiated by France on behalf of the EU was welcomed by a large number of EU members as it put an end to the conflict, but it has also been criticised by other members for its vagueness and its failure to mention Georgia's territorial integrity. Moreover, when Russia ignored the conditions of the ceasefire, several countries, notably France, Italy and Germany, remained in favour of preserving a dialogue. Conversely, the Baltic States, Poland, Sweden and the UK preferred to take a hard line, including the decision to impose sanctions (Delcour 2011, 59). In turn, Slovakia for example, is completely dependent on Russia as a supplier of energy (respectively 99% of its oil and gas are imported from Russia) and therefore more likely to oppose anti-Russian voices in the EU (Leonard and Popescu 2007, 31-38; International Energy Agency 2012). Furthermore, Leonard and Popescu argue that member states tend to act on their disputes with Russia on an EU level, while preserving favourable agreements and benefits through friendlier bilateral relations (2007, 16). Poland and Lithuania are especially known for 'europeanising' their own problems with Russia, which can damage the overall EU-Russia relationship. After a Russian ban on Polish meat for example, the Polish government blocked negotiations on a new EU treaty with Russia and therefore hindered progress in the relationship (50). The disunity of EU member states on how to approach Russia and subsequently the post-Soviet space is disadvantageous for the development of a clear and coherent policy, which, in turn, weakens the EU's credibility in the NIS.

2.2. EU economic integration schemes

In order to economically integrate the post-Soviet space, the EU relies on various bilateral, multilateral and regional agreements, which have become more specific and concrete over time. In the following sections, this development will be outlined and the most important integration projects will be highlighted.

2.2.1. *The implementation and development of official relations*

In the first years following the collapse of the Soviet Union, relations with the NIS mainly consisted of technical assistance. The newly emerged post-Soviet states struggled with an economy that had been stagnating for years. Due to the central planning and the monopolistic system of the Soviet economy, where regional concentration of specific production led to a high level of economic specialisation, organisational structures were severely lacking. Additional problems included inefficient bureaucracies, weakly developed civil societies and the high level of corruption. In order to stop the economy from further deterioration, a strategy to promote the transformation to market economies and democratic societies was needed and the fundamental idea was to provide the NIS with advice, know-how and practical experience in order to achieve this goal.⁸ To this end, the 'Technical Assistance Programme to the CIS' (TACIS) was adopted, which was the first initiative of Western engagement in the post-Soviet space. The EU offered policy advice, institution building, training as well as assistance in the design of legal and regulatory frameworks in order to establish functioning organisational and management structures (European Commission 1992a and 1992b). Several priority areas were identified, ranging from energy, training in the public and private sector, transport and financial services to human resources, nuclear safety and environment (European Commission 1993, 6; La Documentation française 2008). Technical assistance was intended to develop local skills and the necessary know-how to establish favourable conditions for reform and sustainably support the countries in their endeavours to transform, modernise and, eventually, integrate into the world market.

Apart from the support in the single NIS, TACIS funding covered a number of national, inter-state and regional programmes, in order to facilitate mutual trade relations and economic cooperation in the overall post-Soviet space. In 1993, the EU initiated the Transport Corridor Europe Caucasus Central Asia (TRACECA) programme with the aim of increasing and optimising transport routes in order to stimulate trade and facilitate access to European and world markets (TACIS Evaluation Unit 1998, 7-12). It encompasses Ukraine, the South Caucasus and the Central Asian NIS (except Turkmenistan) as well as other countries in the Black Sea Basin such as Bulgaria and Turkey (Traceca 2015). A few years

⁸ The Baltic States benefited from the PHARE programme, the EU's pre-accession instrument for the CEEC.

later, the Interstate Oil and Gas Transport to Europe Programme (INOGATE) was launched. The programme's goals are to convert energy markets, enhance energy security, support sustainable development and attract investment to regional energy projects. It concerns all the NIS except the Baltic States and Russia; the latter, however, has not shown much interest in participating, as in the case of TRACECA (Inogate 2015). The TACIS programme covered two periods: 1991-1999 and 2000-2006. In 1996, new legislation was adopted which amended the programme considerably. For the first time, the EU introduced an element of conditionality, which is today a central point in its economic integration policies. Since the EU had started to consider PCA as a basis for relations with the NIS, the TACIS programme was implemented into this greater political framework. Respecting democratic principles and compliance with human rights were now a precondition for full assistance. Otherwise “appropriate measures” (Council of the European Union 1996, Article 3.11) could be taken. The programme was therefore far more steered by EU policy than by the demands of the beneficiary countries. The programme was criticised for a wide number of reasons such as lack of transparency and coordination of assistance, insufficient supervision and evaluation of the programme, objectives that are poorly adapted to the realities in the field and the difference between committed funds and actual payment (Tacis Interim Evaluation Support 1997; Sodupe and Benito 1998, 63-64). Subsequently, the Council adopted a new TACIS legislation for the 2000-2006 period, in order to make it more efficient and targeted towards countries' needs and to decentralise the process of choosing suitable beneficiaries and allocating funds (La Documentation française 2008).

While technical assistance had been prevailing in the early years, relations with the NIS grew more concrete and comprehensive with the adoption of PCA. Until their conclusion in the middle of the 1990s, relations with the NIS still fell in the framework of the trade and economic cooperation agreement the EU had signed with the USSR in 1989 (Delcour 2011, 28). The new agreements were therefore the first legal framework for bilateral relations with the NIS. Based on the principles of respect for democracy, international law and human rights, the purpose of these partnership agreements was to establish a framework for political dialogue, to support the countries in their transition to democracy and a market economy and to encourage trade and investment (EEAS 2015). The policy framework of the PCA is similar for all the NIS. However, since they are negotiated individually with the NIS, small details still vary from country to country. The PCA for the South Caucasus countries as well as Uzbekistan and Tajikistan, for instance, especially emphasise the importance of cooperation in the areas of democracy and human rights (EEAS). The first PCA was negotiated with Russia. It entered into force in 1997, followed by the Ukrainian agreement in 1998. With the exception of Belarus, Tajikistan and Turkmenistan, the agreements with the remaining NIS entered into force in 1999. The PCA with Tajikistan only entered into force in 2010; due to the unstable political situation and the civil war that ravaged the country in the 1990s, the EU did not entertain negotiations and even suspended TACIS aid for some time. The PCA with Turkmenistan still has to be ratified; bilateral relations are consequently governed by a 1998 Interim Trade Agreement, pending the ratification of a PCA. In Belarus, a PCA was negotiated in 1995 but was frozen two years later as a response to the appalling democratic situation in the country, namely violation of electoral standards and repression of opposition, media and civil society. According to a 2012 Conclusion of the Foreign Affairs Council (FAC) on relations with Belarus, the EU maintains a policy of “critical engagement” towards the country (EEAS 2015).

The PCA with the NIS were concluded at a time when a large part of CEEC, as well as the three Baltic republics, had signed agreements on accession to the EU (Delcour 2011, 28-29). While the PCA for the NIS indeed brought relations between the EU and the NIS to a comprehensive and unprecedented level, they offered considerably less than an AA would do. Instead, it can be seen as a sort of compromise between an AA and a trade- and cooperation agreement (TCP) (29). Depending on the progress of economic transition of the respective partner countries, the PCA offer the establishment of free trade with the EU in the framework of non-preferential trade agreements. They envisage the advancement of EU-NIS relations by stimulating economic and political dialogue, yet prospects for membership or any sort of association with the EU are out of question (Delcour 2011, 29; Zagorski 2004, 81). According to Zagorski, the conclusion of the PCA contributed to widening the gap between the NIS and the CEEC. Countries that had signed an AA with the EU made it their priority to meet the Copenhagen criteria and

to prepare the implementation of the *acquis communautaire*⁹. In turn, the PCA not only lacked an incentive to promote and encourage the acceleration of reform, it also lacked the necessary instruments to prevent slowdown and setbacks. The mixed arsenal of democratisation, cooperation and technical assistance did not have the desired positive effects on domestic development and reform, and the EU was often unable to use its leverage and make a difference. The NIS, in turn, had experienced the pitfalls of interacting with a complex and slow-moving bureaucratic partner and began to find that lobbying in the capitals of influential EU member states could be more conducive to their needs (2004, 83).

2.2.2. *Towards more precise approaches : the ENP and the EAP*

The ENP was developed in 2004 in order to strengthen relations between the EU and its neighbouring partner countries. It envisages to create a “ring of friends” (European Commission 2003, 4) at the borders of the EU and offers a wide range of prospects for closer cooperation to the 16 countries it encompasses¹⁰. By creating the ENP, the EU has considerably advanced its policy towards the NIS, moving beyond the traditional approach to cooperation it had pursued before (Moga 2012, 387). Intensifying existing political, economic and social ties as well as approaching new areas of mutual interest allows the EU to pull partner countries closer into its orbit and to “prevent the emergence of new dividing lines between the enlarged EU and its neighbours” (European Commission 2004, 3). The EU sees this engagement as a “privileged relationship with neighbours” (2004, 3) which is founded on the respect of, and mutual commitment to, common values such as the rule of law, good governance, the principles of human rights and market economy as well as the encouragement of good neighbourliness (3). Envisaged as an eventual replacement for the existing PCA, the ENP has been built into framework of the former and seeks to frame relations with the NIS in a new comprehensive and legally binding political agreement (Koeth 2014, 25).

In order to implement the ENP, the EU first issues a country report for each partner, assessing the status quo of bilateral relations, reflecting on progress made within the existing framework of the PCA and describing the respective economic, political and social circumstances. Subsequently, the EU and the partner country jointly agree upon a number of key priorities for reform. These so-called Action Plans draw on a set of common principles like political reform, justice and home affairs, social policy, trade and economic reform, but essentially reflect and respond to the partner country's needs, particularities and capacities. They set out the agenda for political and economic reforms to be carried out within a time frame of three to five years. Finally, the EU monitors and evaluates progress of reform implementation as well as compliance with mutual commitments by publishing regular progress reports (ENP 2015; European Commission 2004, 3). The instrument for supporting and funding the ENP between 2007 and 2013 has been the European Neighbourhood and Partnership Instrument (ENPI), basically a revised continuation of the TACIS programme which had expired in 2006. It was superseded by the European Neighbourhood Instrument (ENI) in 2014, which will be operational until 2020 and aims to be more policy driven, to make more strict use of conditionality and to further differentiate between individual partner countries. Compared to earlier programmes, there are a number of new initiatives, such as reinforced cross-border cooperation, funding of land- and sea-border cooperation programmes between EU member states and ENP partner countries and a stronger emphasis on supporting convergence with EU norms. Priority areas for cooperation are for example supporting the engagement of civil society as well as the development of small businesses. Besides general goals, such as gradually advancing economic integration, the programme aims at making mobility easier and promoting gender equality (ENPI 2015).

In 2009, the EU launched the EaP. It is embedded into the framework of the ENP and is a joint initiative to establish closer ties with the six NIS Ukraine, Moldova, Belarus, Georgia, Armenia and Azerbaijan. Two years earlier, then president of the EC José Manuel Barroso had given a speech on the ENP and underlined the importance of a differentiated policy. Individually shaped approaches, more

⁹ The *acquis communautaire* is the body of common EU rules, legislations and rights every member state has to adopt. The Copenhagen criteria are the EU's accession criteria, a number of essential political, economic and administrative prerequisites for becoming an EU member.

¹⁰ The ENP encompasses altogether 16 countries: Armenia, Azerbaijan, Georgia, Moldova, Belarus and Ukraine as well as Egypt, Israel, Jordan, Lebanon, Morocco, Palestine, Tunisia, Algeria, Libya and Syria.

pronounced and tailored to the individual NIS, would allow the EU to develop more specific frameworks for cooperation and prospects for privileged relations, depending on the partner countries' respective ambitions, commitments and progress. Therefore, if a country is eager to advance the partnership with the EU, the EU is accordingly willing to increase assistance and support (Barroso 2007; van Elsuwege 2010, 205). This so-called 'more-for-more approach' is beneficial to those countries that make the most progress in reforms related to democracy and institution building (ENPI 2015).

The EaP is the EU's most ambitious and precise integration scheme. It offers the partner countries a new framework for considerably intensified relations in the form of a sophisticated AA. It is, in fact, the closest form of cooperation possible between the EU and a non-member state and demands considerably more commitment from partner countries, as they are to adopt a large part of the *acquis communautaire*. However, and although some countries aspire to it, future EU membership is not implicitly foreseen. The EU therefore has to operate in the hope that partner countries comply with its norms even if "the golden carrot of membership" (Gänzle 2011, 32) is not put up for debate. Consequently, the most tempting ENP aspect for partner countries is the chance to participate in the EU's large internal market, (Moga 2012, 387). Deeper economic integration has indeed been identified as a key point for the success of the new policy. Instead of relying solely on the free trade of goods and services, economic integration should also address non-tariff barriers such as inter alia technical norms and standards, sanitary and hygienic rules, competition policy, innovation, research cooperation and good governance in areas such as taxes and financial services (European Commission 2006, 4-5). The aim is therefore to implement a structure which goes beyond what a traditional FTA has to offer, concerning all trade and aiming for the highest possible form of liberalisation (European Commission 2008, 5; Jozwiak 2013). In order to sign an AA, it is a prerequisite for every partner country to be a member of the World Trade Organisation (WTO). Furthermore, the NIS are obliged to adopt a considerable amount of specific rules and EU legislations concerning, for example, trade, consumer protection or environmental questions. These strong, legally binding provisions and commitments to convergence with EU norms and standards concerning trade, and all areas related to it, are to ensure that only goods with eligible quality enter the EU market (Jozwiak 2013).

In addition, an AA consists of a number of large policy areas for closer cooperation, such as common foreign and security policy, including for example disarmament, conflict prevention and crisis management. Further areas are justice and home affairs, including the rule of law, migration, data protection and the fight against organised crimes as well as a number of issues ranging from transport and tourism to public health and civil society cooperation (EEAS 2015; Jozwiak 2013). The EaP is implemented not only bilaterally but it also strengthens multilateral cooperation, which mainly concentrates on: i) Democracy, good governance and stability, ii) Economic integration and convergence with EU policies, iii) energy security and iv) people-to-people contacts (EEAS 2015). The main idea of the multilateral approach is that the partner countries have the possibility to exchange ideas and good practices, learn from each other and be aware of the benefits of closer cooperation with the EU (van Elsuwege 2010, 206; Council of the EU 2009, 8-9).

According to Koeth (2014, 24-26), the introduction of the DCFTA as a new instrument must be seen in the context of trade policy's growing importance within EU foreign policy. It has essentially been the wish of the CEEC and the Baltic states to "belong to the club of wealthy and well-governed European states" (25) that has motivated them to pursue reforms. It was hoped that this approach would work again with the Eastern partners and that a more privileged relationship, as well as access to the EU's internal market, would be a sufficient incentive to stimulate reform. For those NIS who have repeatedly stressed their desire to join the EU, the AA is basically a foot in the door that paves the way to eventual, although distant membership. Furthermore, signing an AA allows partner countries to elude Russian influence. However, implementing the DCFTA is a long-term and costly process: economic benefits will only manifest over time. Access to the EU's agricultural sectors is limited and the NIS have no say in establishing common rules. In the short term, countries might lose access to the Russian market and suffer from income loss due to customs duties. The lesson learnt from earlier approaches to integration was central for the design of the AA. Within the PCA framework, countries tended to selectively implement only those agreements which best served their own interests. To avoid this in the future and in order to guarantee commitment, the AA requires the implementation of regulations in their entirety – opting out of a certain area is not possible, even if it might have unfavourable consequences for the

country. Whereas former cooperation agreements had been compatible with other economic engagements, by signing the DCFTA, partner countries consent to implement about 95% of the EU's trade-related *acquis*, which not only transforms the NIS' proper regulation framework but also constrains their economic interaction with third countries¹¹. This leads to 'either – or' situations in which countries have to decide between one economic partner or the other (Delcour and Wolczuk 2013a, 182-90).

The progress the NIS make in cooperating more closely with the EU varies considerably. In addition to WTO membership, a number of other requirements are necessary in order to start negotiations: a minimum level of democratic reform, progress in the rule of law and human rights, compliance with international standards concerning the framework for elections and cooperation with the Council of Europe (CoE) (European Commission 2008, 4). Such conditions automatically limits the number of confident prospects. For example, Belarus, often labelled the last dictatorship in Europe, would not make it past preliminary negotiations on a PCA. Furthermore, Belarus is a member of the EAEU, which is not compatible with the EU's DCFTA, because it would require a change in customs tariffs by an individual member towards a third party. In Azerbaijan, the democratic situation is also questionable but, more importantly, it is not a member of the WTO. Meanwhile, Armenia has changed direction at the last minute and has decided to adhere to Russia's EAEU. Consequently, the EaP cannot be the success the EU would have hoped it to have been. With Russian policy in the post-Soviet space being a key challenge for the EaP, it can be argued in line with Blockmans (2014) that it is necessary to conclude a new strategic approach towards Russia and to reflect upon the compatibility of DCFTA and EAEU regulations. However, as Delcour (2013, 182) emphasises, the EU's policy towards the post-Soviet space is mainly the result of complex internal considerations, because individual member states play a considerable part in the decision-making process. Therefore, the main challenge might not as much be developing a specific policy, but rather agreeing upon a common strategy (Leonard and Popescu 2007, 62).

2.2.3. *Conclusion : EU post-Soviet economic integration in a nutshell*

EU economic integration of the post-Soviet space has gradually developed from providing bilateral technical assistance to a complex and comprehensive policy executed on several different levels. As the post-Soviet space has become increasingly important, the EU hopes to integrate this area by supporting democratic, economic and social reform based on clearly defined norms and values which are to be mutually respected. In the framework of integration policies for this region, the EU's most sophisticated tool for doing so is the AA. It represents the highest form of integration the EU offers apart from membership, as the partner countries are obliged to adopt a considerable part of the *acquis communautaire*. Simultaneously, it marks a shift from vague assistance towards an approach characterised by detailed and binding obligations. The included DCFTA allows partner countries access to the EU's large internal market, thereby increasing prospects for economic development, competition, welfare, economic growth and investment as well as modernisation and reform. However, this is a long-term process that demands that partner countries undertake considerable changes long before any positive outcome may be visible. Furthermore, the EU acts in a 'take it or leave it' manner which leaves the countries no possibility to pursue integration in a more gradual or flexible manner, agreeing, for example, only to a part of regulations and continuing further once domestic considerations and relations with other actors and stakeholders are clarified and regulated.

2.3. Russian economic integration schemes

Over the course of the years, Russia has developed a number of schemes for post-Soviet economic integration and until recent years, none, of which have been particularly successful or ambitious. This has changed only with the newly developed EAEU. Therefore, this section will first briefly summarise the various integration schemes previously put forward by Russia, before then analysing the EAEU.

2.3.1. *From the CIS to the EurAsEc*

¹¹ The exact figures vary. Delcour indicated 80-90% in another publication the same year (Delcour and Wolczuk 2013b, 2).

As previously stated, the agreement on the end of the Soviet Union simultaneously launched the CIS, the first post-Soviet regional integration organisation. The heads of the CIS certainly had a common interest to dissolve the Soviet Union, but the motives for consequently joining a new regional organisation varied. To Russia, it was a possibility of maintaining the existing links between the former Soviet republics and to keep a pivotal role in the post-Soviet space. For the other NIS however, it was more of a stopover on the way to independence (Delcour 2011, 27). The real purpose of the CIS was in fact not to integrate the post-Soviet states in a new binding union, but rather to guarantee a “civilised divorce” (Vinokurov 2011, 27) after the dissolution of the USSR and to prevent disorder, potential violent clashes and disintegration processes which would hinder future cooperation (27). In addition, economic cooperation allowed the preservation of already established common infrastructures concerning electricity, transport and communications (Cooper 2013c, 15). Although there were efforts to increase economic integration, little progress was made in reality and there has been a great disparity between what countries agreed to establish, and what was actually implemented. The project lacked not only clearly defined goals but also a driving force (Cooper 2013c, 15). Russia at that time simply was not capable of pursuing an active CIS policy, let alone implement concrete ideas. However, its position in the post-Soviet space was not put into question by external actors. Therefore, a number of bilateral agreements with CIS member states and the stimulation of political dialogue through the framework of the CIS seemed satisfying at that moment (Bordachev and Skriba 2014, 17). A CIS charter was adopted and in 1993, the heads of states signed an agreement on the creation of an economic union. A year later, it was decided to establish a free trade area which would never come into existence because of Russia’s failure to ratify it (Vinokurov 2007, 26). In 1997, Russia and Belarus created the so-called Union State, but it was only towards the end of the century, when the newly established market economies were more stable and functioning more effectively, that interest in economic integration slowly began to grow. More determined to create a customs union and a common economic space, in 2001, Russia, Kazakhstan, Belarus, Kyrgyzstan and Tajikistan established the EurAsEC in order to advance these very goals. A large number of agreements were produced, but the EurAsEC essentially failed to put its ambitions into practice and overcome the obstacles to closer integration. At a 2006 meeting, it was agreed that Russia, Kazakhstan and Belarus would focus on creating a CU, while the other two EurAsEC countries would join “as soon as their economies are ready” (Eurasian Economic Commission 2015a, 7; de Micco 2015, 43-44). Subsequently, the integration process which would eventually lead to the EAEU picked up speed. When it was finally established in 2015, the EurAsEC was dissolved. Alongside the integration track focusing on the development of the EAEU, the CIS has been evolving too. Its main goal is to facilitate economic, social and cultural cooperation between its member countries. In 2011, a new multilateral FTA was signed, replacing the 1994 agreement with an upgraded and timelier version (de Micco 2015, 45-48).

2.3.2. *The EAEU*

The EAEU – constituted of Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan – is Russia's most ambitious, comprehensive and successful project to economically integrate the post-Soviet space to date. Armenia officially joined the EAEU in January 2015, a day after the EAEU had been launched. Kyrgyzstan, the latest member, joined in May 2015. The EAEU is the fruit of a series of integration steps commenced in the mid-2000s with an increased effort to concretise the idea of a CU. In 2007, Russia, Belarus and Kazakhstan signed a respective treaty and in 2010, the EACU became operative (Eurasian Economic Commission 2015a, 6-8). EACU external tariff provisions were largely based on Russia's tariffs in order to respect its WTO commitments. In consequence, other countries wishing to join the EACU had to raise their tariffs, making imports from the EU or China more expensive. In addition, Russia’s membership of the WTO means that other members of the EACU also have to respect WTO rules, even if they are not members themselves (Popescu 2014, 12; Davdchik and Romanova 2015, 4)¹². From 2010 to 2011, trade between the three EACU members increased by about one third, rising from \$47.1 billion to \$62.2 billion (Eurasian Economic Commission 2011, 16). However, the actual impact of the creation of the EACU remains unclear, as this time also saw an overall economic recovery from the 2008 financial crisis (Keene 2013). In 2011, then Prime Minister Vladimir Putin published an article in order to support the integration process. He promoted the EAEU

¹² In June 2015, Kazakhstan had finalised negotiations on its WTO membership and is to become a WTO member soon.

as new initiative for long-term and sustainable integration which would bring economic growth, modernisation and prosperity. The goal was to gradually deepen and widen the integration process, in order to implement the free movement of goods, capital, services and people and to harmonise economic policies until a real economic union was achieved. The EAEU would enact integration at a fast pace because it could benefit from the experience of the EU's integration process and take the challenges and problems experienced by the EU into account (Russian Federation 2011). In 2012, the EACU expanded into a Single Economic Space (SES), enabling the above stated four free movements and setting a framework for the coordination of technical and financial regulations, macroeconomic competition as well as policies concerning energy and transport. Finally, in 2015 the EAEU composed of Russia, Belarus and Kazakhstan officially entered into force (Eurasian Economic Commission 2015a, 6-8).

In its institutional composition, the EAEU has indeed borrowed from the EU. Among the EAEU institutional bodies, the most important ones are the Supreme Eurasian Economic Council (SEEC) and the Eurasian Economic Commission (EEC). The SEEC is constituted of the heads of member states and deals with the principal integration strategies, issues concerning the common interests of EAEU members and adopts the decisions necessary to achieve EAEU objectives. The EEC, in turn, is the supranational regulatory body and ensures the functioning and development of the EAEU, regulating, for example, *inter alia* trade regimes with third countries, monetary and competition policies and industrial and agricultural subsidies (Economic Development and Research Center 2014, 46; Adomeit 2012, 2). It should be stated that the EAEU is still a work in progress, pursuing the full implementation of the four economic freedoms mentioned above and the harmonisation of economic policies. In some questions, EAEU member states keep their sovereignty because they have not yet been regulated due to their sensitivity, for example non-tariff regulations concerning third countries (Jarosiewicz and Fischer 2015, 2). Furthermore, there are a number of areas in which the establishment of common regulations have been postponed: while a common market of medicines and medical devices will be created in 2016 and the establishment of a common electricity market is envisaged for 2019, a common market for oil and gas is only foreseen for 2025 (Eurasian Economic Commission 2015a, 31). According to Jarosiewicz and Fischer (2015, 2), postponing unification in these sectors points to a certain reluctance in the willingness to integrate those economic branches which are of strategic significance, especially for Russia.

Popescu argues, that there are in fact two versions of the EAEU. One is an economic, institutional and legal reality. The other one, in contrast, is imaginary – a geopolitical and key foreign policy concept of president Vladimir Putin in order to implement his vision of Russia as a great power (2014). There are in fact a number of arguments in favour of integration, such as raising competitiveness, having more weight in negotiations with the EU and other international actors or enhancing regional trade possibilities. The latter is important because in order to compete on international markets, the NIS would have to step up their economic performance, as processed goods produced in the NIS often lack a sufficient level of competitiveness (Vinokurov 2007, 30). In addition, to the citizens of the NIS, the EU is far away and little known, whereas they are familiar with Russia (Delcour and Kostanyan 2014, 4).

However, the EAEU has evoked mixed responses, many of which are critical and support Popescu's idea of the 'imaginary EAEU'; that is a politically motivated project created for the purpose of submitting the NIS under Russian influence. For example, in 2012, then US Secretary of State Hillary Clinton called Russian efforts to integrate the post-Soviet space “a move to re-Sovietize the region” (Radio Free Europe, 2012) and confirmed US determination to slow this process down or prevent it. In contrast to this, there are those who interpret Russian motives as being largely defensive and reactive towards a more aggressive EU policy in the shared neighbourhood. It is argued that Moscow pushed its own integration efforts forward because the EU-proposed DCFTA essentially threatened Russian economic interests in the NIS and, therefore, Russia felt compelled to react (Charap and Troitskiy 2013). Other researchers consider the project to be a potentially successful breakthrough in post-Soviet economic integration. Especially in comparison to the first years of post-Soviet economic integration, efforts are now seen as being more streamlined, better thought out and targeted towards a smaller group of participants (Libman and Vinokurov 2011). Although there are some evident challenges to the EAEU, which will be illustrated below, there has been improvement and positive development. When the EACU was launched, for instance, one of the highly criticised aspects was its decision-making

process. A large part of decisions were taken by qualified majority with a weighted voting system which attributed 57% to Russia and 21.5% to Belarus and Kazakhstan respectively. While this ensures that Russia cannot simply make unilateral decisions, it also means that Belarus and Kazakhstan, even if acting jointly, cannot possibly outweigh Russia in a decision (Dragneva and Wolczuk 2013, 7). In the EAEU however, the decision-making process has been changed and is now based on the principle of unanimity (de Micco 2015, 50).

Even concerning its structure and organisation, the EAEU raises a number of questions: are the supranational organs autonomous and able to work independently for the good of the EAEU as a whole, instead of being based on the participating countries' interests? Is the system of unanimity balanced or could the smaller economies still be pressured to agree to decisions? Further, there are a number of issues and problems concerning the economic foundation of the EAEU. Popescu (2014, 8) for example, considers it to be weak and questionable and doubts additional benefits for EAEU member states (2014, 8). For instance, in 2014, domestic trade in the EAEU only constituted for 11.4% of overall EAEU trade. In the first quarter of 2015, the already modest volume of intra-EAEU trade had further diminished, shrinking by 26.2% compared to the 2014 time frame (Davdchik and Romanova 2015, 2; Eurasian Economic Commission 2015b, 1). By way of comparison, domestic trade in the EU is more significant, amounting to 62% of total trade in 2013 (Eurostat 2015). Besides, the members of the EAEU are simultaneously part of the CIS and in the framework of its multilateral FTA, 90% of intra-CIS trade is already carried out free of import and export duties (de Micco 2015, 48). The EAEU is additionally characterised by a high level of asymmetry and imbalance between its member states. In 2014, Russia represented 87% of the total GDP and 83% of the overall population. In comparison, Germany, the largest EU economy, accounted for 15.8% of the EU's GDP and 6% of its population (Barbashin 2015). The great economic and military disparity between Russia and the other NIS will automatically lead to Russia being the EAEU's center of gravity and having the most influence (Umland 2011). The EAEU offers no possibility for economic diversification. Armenia and Kyrgyzstan are simply too weak and redundant to have a real impact and other EAEU economies have similar trade and production structures, relying heavily on the export of commodities such as oil and gas or minerals (International Monetary Fund 2015, 93). Yet what the NIS and Russia need most for economic growth and prosperity is innovation and modernisation in fields such as technology, education and administration. The means to achieve this, namely training, know-how and investment, can only be found outside the post-Soviet space (Umland 2011). Due to the high asymmetry in the EAEU's composition, its success depends largely on Russian economic growth, as its economy is by far the largest of all EAEU members. Apart from principal structural problems such as lack of infrastructure and insufficient constitutional institutions, which result in slower GDP growth than in fast developing economies, the Russian economy has to face declining oil prices and economic sanctions imposed by the EU, leading to economic stagnation (Davdchik and Romanova 2015, 4). The economy had started to crash in autumn 2014 and, contrarily to the estimations of the Russian government (decline of 2% in GDP), GDP shrank by 4.3% in the first quarter of 2015, meaning that the lowest point of the economic crisis is still to come (Gregory 2015).

Indeed, the Russian economic crisis reveals a number of the EAEU's profound problems and shows that the stagnation of the Russian economy spills over to the domestic economies of the EAEU. It shows that the EAEU essentially lacks cohesion and partnership. Furthermore, it demonstrates the high dependence of EAEU member states on Russia and the impact the slowdown of the Russian economy has on their domestic economies. First, when the EU imposed economic sanctions on Russia in the aftermath of the annexation of Crimea, the country responded with its own sanctions and prohibited the import of EU food. However, Russia did not consult with its EACU partners, some of whom – notably Belarus and Kazakhstan – did not support the retaliatory embargoes. When Russia was concerned that EU products could still enter Russia through Belarus, either smuggled or in transit destined for Kazakhstan, it expanded its sanctions and also restricted food imports from Belarus (Schenkkan 2014; Radio Free Europe 2014). Second, regional currencies depend highly on the stability of the Russian rouble. Already in 2014, the Kyrgyz som had lost more than 17% of its value towards the US dollar and the Kyrgyz National Bank sold sums equivalent to 6.5% of its GDP in order to defend it. Kazakhstan introduced restrictions on foreign currency exchange and dollar use after its currency was devalued by 19% overnight. In Belarus, president Aleksander Lukashenko also imposed a surcharge of 30% on all currency exchange transactions in order to prevent panic buying of dollars (Shenkkan 2014). This leads

to the third example: EAEU members are highly dependent on remittances sent home by migrant workers. In that respect, the EAEU is most attractive, because it promises the free movement of labour. It goes further than the visa-free regime granted in the framework of the CIS and eliminates the necessity of work permits. Moreover, workers would profit from additional benefits such as the extension of social protection and medical assistance to their families (de Micco 2015, 58-59). At the same time, this is one of the most crucial vulnerabilities of the NIS, as a 1% decrease in Russia's GDP already reduces remittances by about 1.5%. And if the Russian rouble decreases in value, the purchasing power of remittances shrinks further (International Monetary Fund 2014, 53). Apart from economic considerations, the question of remittances is quite important because it is a potentially explosive social issue in Russia. The population has been shrinking continuously (from 148.6 million people in 1993 to 143.7 million in 2014) and its labour force is declining – in 2012, 10% of the population was older than 70 and 22.7% over working age (Russian State Statistics Service). This has led to an influx of migrant workers to Russia and as a result, inter-ethnic tensions are growing. Russians have become wary of increased immigration due to the EAEU's free movements of services and persons (Rutland 2013, 4).

Altogether, the outlook for the EAEU is somewhat dire. Firstly, there seems to be disagreement on how the EAEU should proceed in the future. Kazakhstan primarily pursues an economic agenda and president Nursultan Nazarbaev, who had already promoted the idea of an Eurasian Union in the 1990s, has stated repeatedly that in contrast to Russia, he is not interested in introducing political elements (such as harmonising national defence policies) into the EAEU. Secondly, while economic integration is being deepened with efforts to fully implement the four economic freedoms, the possibility to widen the EAEU by acquiring new members is limited. It is no secret that the accession of Ukraine was highly desired. It is not only the second biggest economy of the NIS but it is also a strategically interesting position for Russia, including important geopolitical locations. Compared with the other NIS, it has a larger and more promising economy. Although Russia had pushed for integration and applied a wide range of its hard- and soft power tools such as gas embargoes, trade blockages and discounts on oil and gas, Ukraine signed the AA with the EU. Tajikistan's economy is largely dependent on Russia and Tajik authorities are wary of the fact that joining the EAEU would further increase Russia's role as a stakeholder in the country. However, accession is not completely off the agenda and of all the NIS, Tajikistan is the country most likely to become the next member. Uzbekistan and Turkmenistan both hold a far more critical position towards Russia and its EAEU project. According to Laruelle (2012, 9-10), Uzbekistan considers the EAEU as a form of disguised Russian imperialism and has stated that this kind of politically motivated integration is not an option for the country. Turkmenistan, in turn, has pursued a policy of neutrality and prefers not to participate in Russian integration projects. Therefore, the prospects for future enlargement are in reality rather limited. Russia could probably push Tajikistan towards integration, but the rather critical stance of the other Central Asian NIS, together with their efforts to diversify their economic ties, makes it highly unlikely that any of the other NIS will join the EAEU. Furthermore, in recent years Asian economies have become more interested in the region and offer alternatives to cooperation with Russia. Besides new markets and rather cheap crude materials, the Central Asian NIS offer a welcome alternative to other transport corridors. By competing with Russia in this sphere, China has seen its influence in the region greatly increase. (Davdchyk and Romanova 2015, 3).

2.3.3. *Conclusion : Russian post-Soviet economic integration in a nutshell*

Russian economic integration of the post-Soviet space only started in the form of concrete projects once the country had overcome its own domestic problems as well as its reform and transformation processes. Russian policies towards the post-Soviet space are characterised by the will to increase Russia's global significance as a great power and its claim to have a prerogative of special influence in this area. The process of integration was accelerated in the context of increasing EU presence in the post-Soviet space, objected by Russia, and the economic vulnerability experienced in the 2008 financial crisis. It resulted in the creation of the EAEU, the most sophisticated and well developed Russian scheme for post-Soviet economic integration to date. It unites Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan in an economic union and offers access to Russia's large (labour) market as well as favourable loans and discounts on oil and gas. Joining the EAEU does not require any major structural changes and the benefits are immediate. However, member states give up a part of their sovereignty, as they can no longer determine their trade policies or independently negotiate a FTA with a third country.

Due to the EAEU's economic limitations, there are no real prospects for sustainable and long-term growth, development, welfare, reform or modernisation. Furthermore, the EAEU is overshadowed by Russia's geopolitical aspirations which loom over its integration efforts.

III. Case Study : The South Caucasus

The South Caucasus is an ideal focal point for the study of post-Soviet economic integration for several reasons. The countries of the Southern Caucasus share a common Soviet past and have all evolved from the same planned and centralised economy. Progress towards democratic and economic transformation has been made, but persistent problems such as the lack of good governance, political arbitrariness, corruption, human rights abuse as well as the weak role of parliaments and insufficient judiciary are often criticised. Furthermore, all of the countries are challenged by conflicts in breakaway territories, making economic integration more difficult as the security interests of the respective countries are at stake. The conflicts in Abkhazia and South Ossetia strained Georgia's relations with Russia, while Nagorno-Karabakh is an intra-region conflict which concerns both Azerbaijan and Armenia. Although the countries of the South Caucasus face similar challenges they still differ considerably and their respective heritages shape the South Caucasus into a very multifaceted region: a 'melting-pot' of various cultures, ethnicities and religions. Armenia, a Christian country with a strong diaspora abroad, has chosen to adhere to the EAEU after years of balancing between Russia and the EU. Conversely, Georgia is characterised by a multi-ethnic population and strong regional identities. In the last years, it has continuously pursued its own path of Euro-Atlantic integration, which was further reinforced after the Russo-Georgian war when relations with Russia deteriorated. Finally, Azerbaijan is a secular and modern Muslim state which manages to maintain equally good relations with Russia and the EU. Owing to its natural resources, Azerbaijan prefers an independent position and has not shown serious interest either in the EAEU, or in the AA/DCFTA (Delcour and Duhot 2011, 10). Keeping these aspects in mind, it is interesting to see how EU and Russian instruments for economic integration are applied in the South Caucasus. The following chapter will examine the stance of Armenia, Georgia and Azerbaijan towards the projects of economic integration proposed to them. While focusing on economic considerations, the analysis will further illuminate the respective choices and consider domestic factors influencing their reasoning.

3.1. Armenia

3.1.1. *The end of complementarity ? Armenia's accession to the EAEU*

The fundamental basis of Armenian foreign policy is the notion of complementarity. It is defined as “a partnership approach that seeks to simultaneously develop relations with all states in the region and with states with interests in the region” in order to maintain an overall balance between pursuing a strategic partnership with Russia while at the same time tying closer relations with the EU (Republic of Armenia, 2007). Thus far, Armenia has successfully managed to balance its foreign policy between the interests of several international actors. Since the dissolution of the Soviet Union, Armenia has generally maintained a close relationship with Russia and has participated in all the Russian-led regional integration initiatives in the post-Soviet space (Delcour 2014, 38). Bilateral relations were officially established in 1992 and in addition to cooperation in the framework of regional organisations, a trade treaty (1992), a treaty on friendship, cooperation and mutual aid (1997) as well as agreements on long-term economic cooperation (2001, 2012) were signed (Foreign Ministry of the Republic of Armenia). At the same time, Armenia had sought to diversify its foreign policy by cooperating with other actors such as the US or the EU. In 1999 it signed a PCA with the EU and was subsequently included in the 2004 ENP and the 2009 EaP (EEAS). According to Vartan Oskanyan, Foreign Minister from 1998 to 2008, the concept of complementarity was created with the image of Armenia as a “meeting point, where the interests of competing powers could find some common ground” (DerGhougassian 2014). However, this approach seems to have come to an end in September 2013, when Armenian President Serzh Sargsyan announced unexpectedly that his country no longer intended to sign the AA with the EU but would instead join Russia's EACU and the further Eurasian integration process instead, stating: “I have said on many occasions that participating in one military security structure [the CSTO] makes it unfeasible and inefficient to stay away from the relevant geo-economic area” (Sargsyan 2013a).

While this decision is generally considered to be a 'U-turn' in Armenia's integration direction, the situation is all the more delicate because it was proclaimed directly after a meeting of Sargsyan with his

Russian counterpart, president Putin, in Moscow, raising the strong suspicion that Armenia was put under considerable pressure before deciding to join the EACU. Several months before, then Armenian Prime Minister Tigran Sargsyan had cited numerous obstacles to Armenian accession to the EACU, such as the absence of a common border with any of its members, a more liberal trade regime and an overall different economic structure (Danielyan 2013). Furthermore, the Armenian president had repeatedly claimed that the European direction was the country's priority and important for the implementation of reforms and the overall development of the country in terms of economy and stability (Sargsyan 2011). After negotiations with the EU had been concluded, the Deputy Foreign Minister had once more stressed that while Russia was important for Armenia's military-security choice, the DCFTA was the economic choice of the country. Moreover, and according to Hovhannisyan, a ruling party official had claimed just hours before the meeting between Sargsyan and Putin that nothing stood between Armenia and the AA (d'Urso 2013; Hovhannisyan 2013, 2). These statements all fuel the perception that Russia has turned Armenia around with one simple meeting, prompting wide speculation on what precisely was said during this encounter.

It is safe to say that Brussels was taken aback by this unexpected development. A statement was immediately published which strongly criticised the pressure Russia put on EaP countries in the form of threats relating to energy, trade and security questions (Füle 2013b). At a CoE parliamentary assembly, Armenian president Sargsyan responded to this by emphasising that he had not been confronted with any kind of obligation to join the EACU but rather did so because of the numerous concomitant advantages which are to the best interest of his country (Sargsyan 2013b). Taking account of the respective time frame of negotiations seems to confirm that Armenia took a 'helter-skelter decision' by joining the EACU. Negotiations for an AA with the EU had officially started in 2010. Talks on the DCFTA were launched in 2012, once Armenia had implemented a number of pre-required regulatory trade reforms. Negotiations were finally concluded a year later and the AA was supposed to be initialled during an EaP summit in Vilnius in November 2013 (EU 2013). Compared to these lengthy developments, accession to the Eurasian integration scheme was pushed on much more rapidly. Russia had invited Armenia to join its integration scheme before, but official negotiations never took place, suggesting that Armenia essentially bought a 'pig in a poke' when agreeing to join the EACU. Already at the end of 2013, it obtained a roadmap to accession and a year later, in October 2014, the official agreement on the accession to the EAEU was signed (Eurasian Economic Commission 2015a, 9).

In order to understand the reasons for these developments, it is necessary to comprehend that there are primarily two major aspects which define Armenia's current situation and shape its actions:

- (1) Russian military presence in the country
- (2) Strong economic dependence on Russia

A third important factor are social and cultural ties between Russia and Armenia. These ties are reinforced by a number of soft power mechanisms drawn upon by Russia in order to maintain its influence in the NIS, such as creating structures to promote Russian language or culture. However, it is most notably for economic and political reasons that Armenia is in need of good relations with Russia – the on-going conflict over Nagorno-Karabakh poses a constant security threat to the country. For its part, Russia is interested in keeping Armenia close in order to maintain influence and a strategic position in the South Caucasus. However, the asymmetry of their partnership becomes more and more evident, as it is largely one-sided and hardly to the benefit of Armenia (Giragosian 2013, 11). With growing Russian influence, Armenia's dependence increased to an extent that according to Nixey (2012, 2), "lack of sovereignty should be Armenia's number one concern". In line with this argument, Popescu (2013, 1), referring to the overall shock and surprise in the EU after Sargsyan's announcement to join the EACU, stated that the real surprise was rather the success of Armenia in advancing so far in its relations with the EU although this had clearly been to the detriment of Russian interests (Popescu 2013, 1). These factors raise questions on Armenia's motives for joining the EACU. When president Sargsyan decided to adhere to Russia's integration scheme, did he do so based on a sound economic rationale, striving to opt for what promises his country the most sustainable growth and development, or did he in fact have not much of a choice, given Armenia's considerable dependence on Russia? How do Armenia's isolated situation and the strong Russian presence in the country manifest themselves and to what extent do they shape Armenia's scope of action towards Russia and the EU? Finally, if we apply EU and Russian schemes for post-Soviet integration on Armenia, what characteristics can be identified?

3.1.2. *Beyond Armenia's choice : taking stock of domestic interests*

Armenia finds itself in a difficult and challenging geopolitical situation. From two sides, it is surrounded by historical enemies – Turkey in the West and Azerbaijan in the East. Relations with Azerbaijan have been strained over the unresolved conflict in Nagorno-Karabakh. This region had previously been disputed by Armenians and Azerbaijanis between 1918 and 1920, when both of the countries were independent. It was finally attributed to Azerbaijan in 1923. In 1988, the primarily Armenian population of Nagorno-Karabakh started an independent movement, which in turn fuelled nationalist movements and in 1992 eventually led to war between Armenia and Azerbaijan. The war ended with Armenia taking control of Nagorno-Karabakh and several other Azerbaijani regions which serve as a security zone (Tachler 2013, 1-2). In 1994, a ceasefire agreement had been negotiated under Russian patronage and since neither Armenia nor Azerbaijan are willing to abandon the region, Nagorno-Karabakh is generally considered a frozen conflict. The Organisation for Security and Co-Operation (OSCE) Minsk group, chaired by France, Russia and the US, negotiates the peaceful settlement of the conflict, but so far, little progress has been made. In fact, the likelihood of the conflict flaring up again in longer violent clashes is ever more present, as the number of conflicts and casualties have increased in recent years – in 2014, 60 people died in cross-border violence (Nigmatulina 2015). The Nagorno-Karabakh war also led to Turkey closing its borders with Armenia in 1993 as a sign of support of Azerbaijan. However, relations with Turkey had been tense in the past. In 1915, during the First World War, the Armenian population of Eastern Anatolia had been deported and massacred by the Young Turks. Internationally generally recognised as a genocide, Turkey not only diminishes the number of victims but refuses to accept the massacres as a genocide (de Waal 2010, 2). Relations between Armenia and Turkey further deteriorated in 2015, the centenary of the genocide, when Turkey sharply rejected a resolution of the European parliament and the voices of other international actors asking to appropriately recognise the 1915 events.

In contrast to Azerbaijan, Armenia's defence budget is rather modest, amounting to \$416 million in 2015 (Azatutyun 2014). In fact, with \$4.8 billion in 2015, Azerbaijani expenditures on military and defence are larger than the sum of Armenia's entire national budget, which constitutes of \$2.9 billion (Azatutyun 2014; Daly 2014). In order to guarantee its security, Armenia therefore relies on military support and protection from abroad. As a member of the CSTO – the only one in the South Caucasus and the Western NIS, with the exception of Belarus – political and military cooperation with Russia is vital to Armenia. Russia maintains military bases in Armenia and in 2010, the military treaty concerning the principal base in Gyumri near the Turkish border, which had been effective since 1995, has been prolonged until 2044. Since 2013, Russian military cooperation with Armenia has intensified by upgrading the range and quality of delivered arms and holding joint military exercises. Apart from that, Russian soldiers are fundamental to protect Armenian borders, especially with Turkey and Azerbaijan (Daly 2015). Settling the Nagorno-Karabakh conflict is the principal security interest of Armenia (Republic of Armenia, 2007). Since Armenia's own military capacities are rather limited and it faces the threat of potential escalation, Armenia simply has no other choice than to count on Russia. Due to its own economic and security interests, the EU tries to retain a neutral position regarding the Nagorno-Karabakh situation but it cannot provide the same kind of security as Russian forces in the country do. Therefore, from a politico-military perspective, good relations with Russia are vital for Armenian interests.

Armenia's economy is challenged by limited transport possibilities, marginal natural resources, a small domestic market and a chronic trade imbalance – it is an importing country, with imports being two to three times higher than exports. Russia is Armenia's biggest single trading partner, accounting for 24.8% of its imports and 22.6% of its exports in 2013. As a trading block however, the EU is more important, representing 26% of imports and 33.5% of exports (European Commission, DG Trade). The principal Armenian imports are oil and gas, while copper and spirits account for the largest export sectors (Worldbank). Like in security questions, Russia is central to the Armenian economy. Over time Armenia has given up assets of enterprises in exchange for debt relief and is nowadays over-dependent on Russia, as principal strategic sectors of its own economy are no longer under sovereign control. Russia's Gazprom for example, has started off with a 55% share of its Armenian subsidiary. Its share rose to 80% in 2010 and finally, Russia ended up controlling the entire gas distribution network when Armenia sold off its remaining 20% stakes in 2014, giving away any influence on decision-making such as importing more Iranian gas, which is cheaper (Asbarez 2014). In addition, Russia also controls

Armenia's sole nuclear power plant and a large number of the country's hydroelectric power stations. Concerning non-energy sectors, Russia has considerable shares in banks as well as the mining and telecommunications sectors and essentially manages the Armenian railway network (Nixey 2012, 5; Giragosian 2013, 11).

According to the 2013 Caucasus Barometer, 83% of interviewed Armenians identified Russia as the main friend of their country, compared to 7% in Georgia and 1% in Azerbaijan, suggesting that Russia also enjoys considerable influence on a socio-cultural level (Caucasus Barometer)¹³. Russian is more widely used in Armenia than in Azerbaijan or Georgia; it is very present in daily life and the media, often spoken in families and taught as an obligatory foreign language in schools. A basic Russian tool for pulling other nations closer is the so-called 'compatriots programme'. Launched in 2006, the 'State Programme to Assist Voluntary Resettlement of Compatriots Living Abroad' promises Russian citizenship, employment and various benefits to 'compatriots' living abroad who are willing to relocate and settle in sparsely populated regions of Russia. There has been some confusion about what the term 'compatriot' essentially comprehends. According to Zevelev (2008), the programme concerns Russian citizens living abroad and their descendants, individuals who emigrated from the USSR or Russia and those who used to have Soviet citizenship. However, the author stresses that the notion of 'compatriots' applies most notably to ethnic Russians, although this is not mentioned explicitly by Russian authorities (Hovhannisyan 2013; Zevelev 2008). Official statistics indicate that 17.6% of the Armenian population is unemployed and 32% live in poverty (Armstat). The prospect of working abroad is therefore very promising and often put into practice. In fact, today more Armenians live in a foreign country than in their native homeland, and while important diaspora communities have developed in the US or in France, the majority is still found in Russia. Migrant remittances are crucial for the Armenian economy and in 2013, about 86% of all remittances came from Russia (Economic Development and Research Center 2014, 7). Consequently, the large diaspora community is a vulnerable point which must be taken into consideration before any political decision or action. The Georgian diaspora has experienced discrimination by Russia in the form of immigration and visa restrictions and similar measures would be harmful for Armenia (Emerson 2014, 7).

3.1.3. The EAEU versus the DCFTA

In 2013, the Eurasian Development Bank (EDB) published a report assessing the impact of economic integration if Armenia were to join the EACU. It concludes that integration would be advantageous to all economic spheres, preferable “upon selection of any economic development strategy” and while integration with the EU may lead to certain results, these are “incommensurable” with the benefits of the EAEU (Eurasian Development Bank 2013, 6; 24). Within one year, reduction of gas prices alone will lead to gains in the amount of \$140 million, which is roughly also the annual amount the DCFTA foresees, however only in a much longer term (7). Accession to the EACU would increase Armenia's economic growth between 1.5 and 4% and would lead to economic security and guaranteed long-term stability through increased investment and by providing access to the EAEU's single market. The report identifies key interests and issues of the Armenian economy, namely energy security, the deadlocked transport situation and free movement of workforce and capital, and provides solutions for each (6-7; 24-26). The question of energy security will be tackled by constructing a new nuclear power plant and “certain preferences in receiving inexpensive energy” will enable the economy to flourish to its full potential (25). Plans for the solution to Armenia's transport situation are the construction of a railway with Iran and the opening of a railway network with Russia through Georgia (26). Furthermore, the importance of remittances from Armenians working in Russia is addressed, with emphasis on the fact that they stem primarily from Russia and amounted to 64.5% of Armenia's state budget in 2012. According to World Bank data, remittances in 2012 added up to 19.2% of Armenia's GDP (Worldbank). After accession to the EACU, remittances are supposed to increase by approximately 3% per year (Eurasian Development Bank 2013, 7). Armenia's WTO membership and the concomitant obligations

¹³ The Caucasus Barometer is a public database which evaluates political and social trends in the South Caucasus in the form of comprehensive surveys conducted annually in Georgia, Armenia and Azerbaijan as well as on a regional level. It is an initiative of the Caucasus Research Resource Centers (CRRC), a network of research, resource and training centers in the South Caucasus which were established in 2003 by the Eurasia Partnership Foundation, with financial support from the Carnegie Corporation. Funding varies depending on the different projects (support comes from the inter alia the UN, the World Bank, USAID and Transparency International).

are identified as a problem in its commitment to the EACU, requiring respective trade negotiations. The report further suggests that for at least some sensitive tariff lines a transition period will be necessary in order to approximate the Armenian tariffs closer to those of the EACU, which are considerably higher (19). Finally, the report warns about the possible negative impact if Armenia were to sign the DCFTA with the EU. Prices for energy and strategic commodities would increase and Armenian exports to the EACU could face increased custom duties as well as non-tariff restrictions. Furthermore, direct investment from EAEU members to Armenia would shrink since it would be directed primarily to countries which have agreed to pursue integration with the EAEU (27).

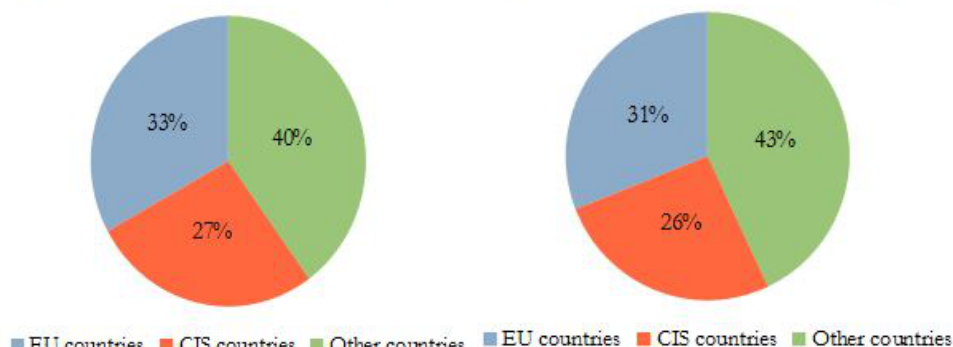
The DCFTA in turn envisages to enhance the EU and Armenia's trade and investment performance, with the final aim of integrating the Armenian economy into the EU economy. It offers Armenia a framework for enhanced trade relations and modernisation with the goal of sustainable economic growth and development. As soon as the AA enters into force, a large part of customs duties on goods will be abolished. Furthermore, the DCFTA is executed in accordance with WTO rules, meaning that in this respect, Armenia would not face any obstacles (European Commission 2013). To assess the trade sustainability impact of the DCFTA, the EC commissioned a study which was published in 2013. The report estimates that both of the actors would benefit from the DCFTA, with national income gains in the long run being estimated €74 million for the EU and €146 million for Armenia. While this sum is in fact negligible for the EU, it would mean a 2.3% increase in GDP for Armenia. Furthermore, Armenian exports and imports would increase by 15.2% and 8.2% respectively (Ecorys and Case 2013, 13-14). However, the positive impact of the DCFTA does not concern all the aspects of the Armenian economy. While the textiles and clothing sector as well as the machinery and equipment sector are expected to increase, other sectors such as tobacco, motor vehicles or processed food and beverages could face strong deterioration (Ecorys and Case 2013, 14; 201). Furthermore, the DCFTA requires a considerable and costly harmonisation with EU regulations, laws and norms in order to bring the Armenian economy closer to EU standards (European Commission 2013).

Based on the prospects of the EDB, economic integration in the framework of the EAEU cannot be considered as beneficial for Armenia. The report is not very differentiated and is highly selective, picking certain aspects which can be turned into arguments to support integration. Some obstacles of Armenia's accession to the EACU such as its WTO commitments are approached, while other problematic questions and issues are not taken into consideration. The goals and expected results of economic integration with the EACU are not clear, only vaguely defined and there is no long-term strategy for durable and sustainable development. The emphasis lies clearly on short-term benefits, mostly in the form cheap oil and gas. This in turn shows that Russia is willing to bear these costs as a concession to make integration more favourable for Armenia. Pressure points such as the importance of remittances are exploited to demonstrate Armenia's vulnerable position. In addition, this can be taken as an example to reveal the weakness and the lack of substantial foundation in the argumentation. For instance, the report compares the situation of Armenian migrant workers in the framework of the EAEU with their prospects if Armenia were to sign the EU's AA. It is argued that remittances would decrease due to the limited free movement of people to the EU, employment difficulties of Armenian migrant workers in the EU as well as language barriers (Eurasian Development Bank 2013, 39). However, due to different conditions, possibilities and limitations, it is not possible to compare every aspect of integration between what the EU offers and what the EAEU offers one-on-one. Labour mobility as in the framework of the EAEU is not foreseen under the AA – according to Federica Mogherini, High Representative of the EU for Foreign Affairs and Security Policy and Vice-President of the EC, access to the labour market is subject to bilateral agreements between EU member states and the partnership countries. In this respect, the report's argumentation is redundant because migrant workers certainly would not abandon their possibilities in Russia in order to work in the EU instead (Mogherini 2015). The prospects for Armenia described in the report are wholly based on existing vulnerabilities and dependencies. Implementing the proposed ideas would only further increase Armenia's dependence on Russia since it was already emphasised in the report that Russia would be the main stakeholder interested in new projects such as the construction of a nuclear power plant. Just after the September 2013 announcement, then Secretary of the National Security Council Artur Baghdasaryan supported the country's new integration direction by stating that the DCFTA could not possibly yield the same benefits as the EACU: “We carefully studied Armenia’s export potential as well as the CU’s tariff rates. We concluded that Armenia’s export is more oriented towards the CU member states” (Panarmenian 2013). As stated above, although Russia

might be the largest single trading partner, the EU still accounts for the principal share of Armenian imports and exports. In 2013, with the exception of Russia (23%), not a single EAEU member can be found among Armenia's principal export partners, which are inter alia Bulgaria (10%), Belgium (9%) as well as Iran and the US (both 6%). After Russia, the biggest trading partners in the post-Soviet space are Turkmenistan (1.3%) and Ukraine (1%). The export shares of EAEU members are considerably smaller – Belarus amounts for 0.6% of exports and Kazakhstan for 0.5%, while the shares of Kyrgyzstan and Tajikistan, the latter which might join the EAEU, are negligible (WITS and Armstat). In terms of country groups, exports to the CIS generally account for the smallest share of total exports. The largest part of all the exports destined towards the CIS go to Russia (83%), followed by Turkmenistan (5%) and Ukraine (4%) (Armstat).

Figure 1. Armenia's exports by country group

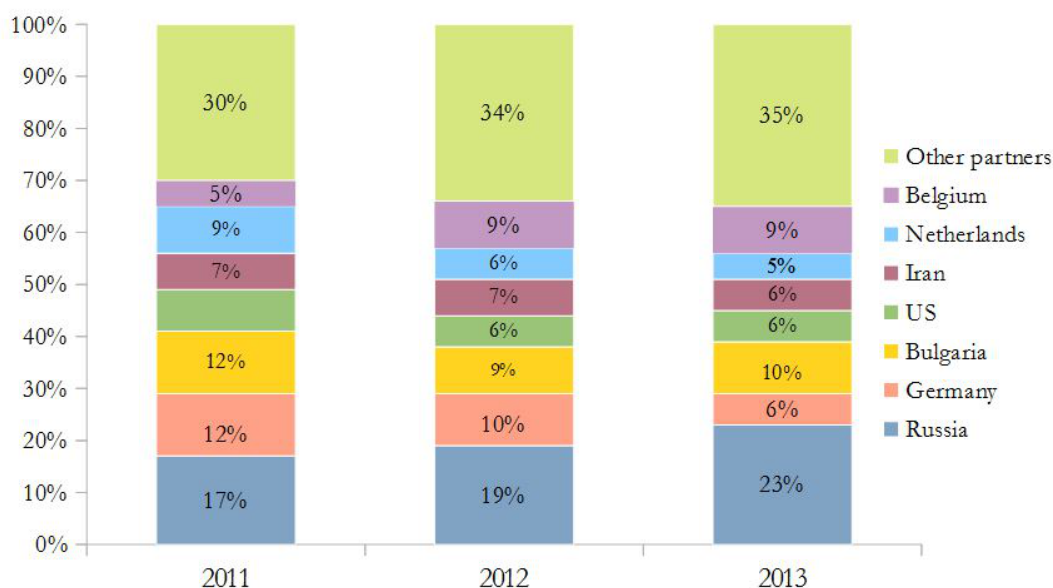
Figure 2. Armenia's imports by country group



Source: Modelled by the author with data from Armstat

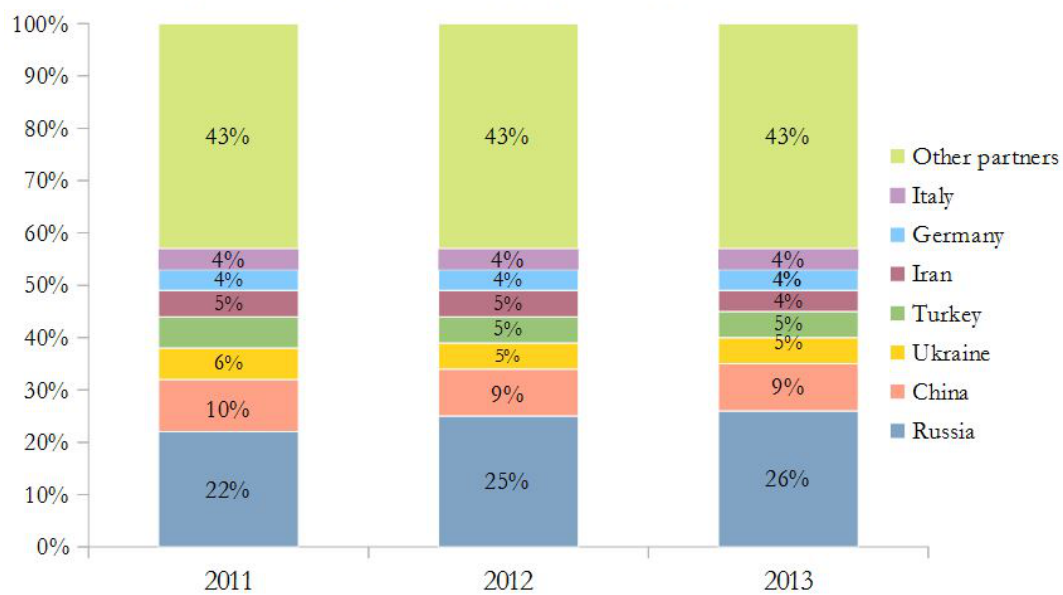
The picture is similar for import statistics: Russia accounts for 78% of imports from CIS countries, followed by Ukraine with 19% (Armstat)¹⁴. Concerning single countries, after Russia (26%) the main import partners are China (9%), Ukraine (5%) and Turkey (5%), while no EAEU member is above the 1% limit (WITS).

Figure 3. Principal Armenian export partners by country



¹⁴ Data (also in Figure 2) modelled after Armstat import data considering imports by country of consignment.

Figure 4. Principal Armenian import partners by country



Source: Modelled by the author with data from Armstat

As we can see, apart from Russia Armenian trade is certainly not directed towards the EAEU area. The country would only benefit from 1.13% of customs duties revenues, while 4.65% would go to Belarus, 7.25% to Kazakhstan and 86.97% to Russia (Eurasian Economic Commission). Furthermore, membership in the EAEU requires Armenia to considerably change its trade policy with third countries. The country has to adopt higher external tariffs than it had before, from an average 2.9% to 7.2%. Seemingly concerned about this fact, the Armenian government has asked for almost 900 exemptions from external tariffs so far (Delcour and Kostanyan 2014, 6). According to a report by the Economic Development and Research Center (EDRC) in Yerevan, Armenia already makes full use of the existing FTAs with Russia and the EAEU members. Further integration therefore offers little prospect for economic growth and development and is in fact economically not effective, as import tariffs for up to 65% of import items could increase if exemptions are not introduced. (2014, 65). With 42% of total investment, Russia has the biggest share of foreign direct investment (FDI) in Armenia (Eurasian Development Bank 2013, 27). However, a large part of investment does not support private sector development but serves to acquire strategic infrastructure and goes primarily to the power and telecommunications sector (60). Giragosian (2015) stresses that Armenia would benefit more from economic integration with the West. For instance, fuelled by US investment, the Armenian information technology (IT) sector has developed rapidly into a significant and flourishing sector in the last years, accounting for about a third of exports in 2013 and 5% of the country's GDP. However, new rules concerning IT and weak intellectual property rights in the EAEU could hamper its further development.

3.1.4. *An uncertain future development*

As the analysis above has shown, there are various obstacles to Armenia's full integration in the EAEU and first negative consequences are about to come to light. Economic considerations are clearly not an incentive for joining the EAEU. Instead, due to the delicate situation of Nagorno-Karabakh and Armenia's disadvantages in the face of powerful Azerbaijan, the country has manoeuvred itself into a situation of over-dependence on Russia where the choice between the EAEU and the AA has been essentially made in the light of geopolitical and security considerations. A large part of the scholarly literature agrees that Armenia was virtually 'blackmailed' into joining the EAEU. After all, prior to the negotiations with the EU coming to an end, the Russian company Gazprom had announced a 50% increase in gas prices for Armenia and Russian president Putin had made his first high-profile visit to Azerbaijan in seven years and concluded a weapon deal with Baku in the worth of an estimated \$4 billion (Wierzbowska-Miazga 2013, 2). However, from another point of view, this can be seen as a direct response to Armenia's negotiations with the EU (de Waal 2013). EU officials held on to emphasizing

that the two integration schemes of Russia and the EU are simply not compatible, leaving Armenia with little scope of action. Yet for a country like Armenia, diversification and pursuing relations with multiple actors is vital; it needs Russia in terms of security and the West for sustainable economic reform and long-term growth and development. This makes Armenia an interesting case for the EU's approach to post-Soviet economic integration, as it is an example for what Delcour calls "silent Europeanisation" (2014, 42). Although Armenia had never pointed out its achievements and, more importantly, expressed interest in EU-membership, its progress in economic and democratic reform has repeatedly been acknowledged. In the framework of the ENP it was the easiest country to negotiate an Action Plan with and due to its liberal foreign trade policy it was labelled a WTO-model country in 2010 (Delcour and Dhuot 2011, 16; EDRC 2014, 50). Consequently, one of the main points of criticism of the EU's AA, the absence of the EU-membership offer as a real incentive to undertake the demanded comprehensive reforms, does not apply to Armenia. The process of integration with the EU is therefore solely based on the rationale that this is the best form for modernising the country and pushing economic development forward. A new framework for EU-Armenia relations is about to be negotiated. Had the EU been a slightly more flexible and willing to make more concessions, taking into account domestic particularities and vulnerabilities, it might not have lost Armenia in the first place.

At the time of writing this thesis, the EAEU has been officially functioning for a few months only. So far, the positive outcome for Armenia has been questionable. Already in 2014, then Prime Minister Tigran Sargsyan has underlined the importance of monitoring the country's business competitiveness (News 2014). Armenia's economic dependence on Russia makes it extremely vulnerable and it is indeed deeply affected by the fall of the Russian economy which started to crash in autumn 2014 and is currently balancing on the edge to recession. While remittances from Armenians working in Russia have increased in the last years, they have shrunk considerably – in November 2014, transfers from Russia amounted to 70% of the November 2013 sum. Furthermore, prices for consumer goods have increased by 5-15% (Khojoyan 2015). The political will of the Armenian government to pursue integration seems to decrease and relations with Russia are increasingly disturbed. Although Armenia originally wanted to join the EAEU together with Nagorno-Karabakh it eventually agreed to the request – particularly demanded by Kazakhstan, that it could only join without the *de facto* state (Shenkan 2014). Yet establishing a customs point between Armenia and Nagorno-Karabakh is still ruled out by both the Prime Minister of Nagorno-Karabakh and Armenian officials (Armenianow 2014). Armenia has repeatedly expressed its discontent over the delivery of Russian armaments to Azerbaijan. According to President Serzh Sargsyan, these weapon deals have a psychological effect on the Armenians because they assume that they are being fired at with weapons made in Russia, their strategic ally (Verelq 2015). Furthermore, social unrest has been growing, criticising the government and its weak stance towards Russia. When a Russian soldier murdered an Armenian family in Gyumri, protests sparked due to the government's reluctance to take action in the Russian-led investigation (Giragosian 2015). In June 2015, president Serzh Sargsyan had declared a 17% rise in electricity prices, requested by Armenia's Russian-owned electric distribution company in order to compensate for the strong devaluation of the Armenian dram¹⁵. As a result, Armenians have flooded the street in a protest which has come to be known as 'Electric Yerevan'. Although it was announced shortly after that the government would bare the increased costs, the protests have not dissolved yet (Oliphant 2015, Aljazeera 2015). More importantly, the situation in Nagorno-Karabakh has not changed for the better or become more stable since Armenia's decision to join the EAEU. Incidents have in fact become more frequent. Although Armenian President Serzh Sargsyan has recently been confident of Russian military support if need be, there is in fact no such guarantee in the case of an escalation (Verelq 2015). The CSTO Secretary General Nikolay Bordyuzha has stated that "Armenia will get support from partners if necessary", but support is in fact limited to Armenian territory (Asbarez 2015). According to the Charter of the CSTO, the organisation can operate exclusively in the territory of its member states (Article 22). Since Nagorno-Karabakh is *de jure* part of Azerbaijan, the CSTO has no legal right to intervene in the case of military escalation. The chances of Russian support outside of the CSTO are also marginal. Russia has in fact little interest in doing so and it would deteriorate its relations with other international actors. Russia's military intervention in Georgia and Ukraine have been based on the argument of protection of Russian citizens and this certainly is not the case in Nagorno-Karabakh.

¹⁵ The average exchange rate for \$1 had been 409.54 Armenian dram in 2013, compared to an average of 476.16 Armenian dram in the first two quarters of 2015 (Central Bank of Armenia).

3.2. Azerbaijan

Azerbaijan is the largest and wealthiest country in the South Caucasus. It has vast natural resources in the form of oil and gas and is a transit hub for exports to Europe. However, its geopolitical situation is vulnerable as it is surrounded by three powerful regional actors: Russia, Turkey and Iran. In contrast to Armenia and Georgia, Azerbaijan only participates in a limited number of regional integration organisations. So far, it has pursued a relatively self-isolated policy of balancing its interests equally between its surrounding neighbours as well as the US and the EU. Relations are strained with Armenia which occupies a part of Azerbaijani territory. Azerbaijani officials repeatedly state that 20% of the country's territory is occupied, whereas a study by de Waal (2003, 285-286) suggests that the number is in fact much lower, amounting to 13.6%. Relations with Russia, an important trading partner, have been complicated by Moscow's support for Armenia in the Nagorno-Karabakh conflict which, in turn, compromises Azerbaijan's own security interest in the region. While Armenia relies on Russia for military support, Azerbaijan spends a large sum on its military and defence budget. In 2013, Azerbaijan's military expenditures amounted to \$3.6 billion, considerably exceeding Armenia's defence budget of \$447 million (Daly 2015). Furthermore, in 2014, Azerbaijan was the second largest importer of weapons in Europe, with 13% slightly below the share of the UK which came first. Compared with the years 2005-2009, Azerbaijan's arms imports increased by 249% for the period 2010-2014, which shows that the on-going conflict poses a considerable threat to Azerbaijan (SIPRI 2015, 7). Azerbaijan is a special case amongst post-Soviet economic integration initiatives, because the country neither has intentions to sign an AA, nor interest in joining the EAEU. President Ilham Aliyev has repeatedly stated that there is no necessity for his country to choose. Apart from the occasional provocative statement – such as taking EAEU membership into consideration if Armenia withdraws its troops from Nagorno-Karabakh – such a move has never been contemplated seriously. (Ann 2015a). Concerning the AA with the EU he stated:

“I consider that the level of relations between Azerbaijan and European Union requires a higher form of cooperation than Association. And the word 'association' is not quite acceptable for us. 'Associated member' – what kind of partner is it? There's no clear definition here. Azerbaijan is a self-sufficient country both in the sense of politics and economics. Any integration process should be joined to gain additional preferences” (ABC 2014).

In fact, Azerbaijan is also hesitant to join the WTO, which is a precondition for signing the AA. Negotiations have been going on for 17 years and so far, little progress has been made. President Ilham Aliyev stated that he would only consider joining once the Azerbaijani agriculture and industrial sector were export-oriented and could compete with inflowing foreign goods (Contact 2014). Azerbaijan is able to maintain its relatively independent position primarily due to its wealth and economic performance and neither the EU nor the EAEU offer an incentive for closer cooperation. Between 2007 and 2013, the EU has allocated €143 million for bilateral assistance to Azerbaijan. According to data of Azerbaijan's State Oil Fund (SOFAZ), revenues in 2013 equalled a daily average of 47.50 million dollars, which means that within roughly three days of running its pipelines, Azerbaijan has already gained more than what the EU provided during several years (SOFAZ). This makes Azerbaijan an interesting case because it is essentially the only partner state in the South Caucasus which is not in need of EU support and to which the EU is not automatically attractive. Dealing with a partner unwilling to simply accept all of its conditions is an extraordinary challenge for the EU, particularly because – in contrast to the marginal economies of Georgia or Armenia – Azerbaijan is an attractive partner for the EU. Its natural resources offer the possibility of diversifying the EU's energy imports and decrease dependence on Russia. However, Azerbaijan's regime has become increasingly autocratic in the course of the years and it is therefore appropriate to analyse how the EU's interests in the area are compatible with its norms and values of supporting democracy, the rule of law and human rights. Concerning relations with Russia, the above quote of president Ilham Aliyev underlines the importance of independence and equal partnership. Within Russia's EAEU, this would certainly not be the case – in contrast to Russia, Azerbaijan is not only an economic and military dwarf, membership in the EAEU would also considerably limit the country's sovereignty which it is not willing to surrender. It is of course not possible to make assumptions about the future, but comparing Azerbaijan's economic situation and future outlook with what the integration schemes offer, suggests that closer cooperation with the EU would be preferable over Russia's EAEU.

3.2.1. Azerbaijan between Russia and the EU

Azerbaijan had a spectacular GDP growth in the 2000s, with an average annual growth of 18% between 2003 and 2009. In contrast to the other South Caucasus countries, it survived the 2008 financial economic crisis unscathed, with GDP still growing in double-digit figures. The principal Azerbaijani export products are petroleum oils, natural gas and beet sugar, while imports consist mainly of gold, airplanes, motor cars and wheat (WITS). The EU is Azerbaijan's largest trading partner and accounted for about 44% of its total trade in 2013. It is also the biggest export market (48% of total exports) as well as the biggest import market (35%) (European Commission, DG Trade; Azerbaijan Statistical Committee).

Figure 5. Azerbaijan's exports by country group

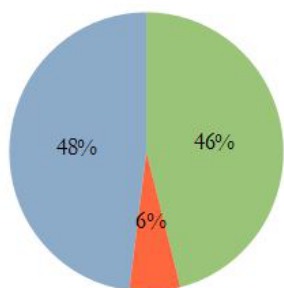
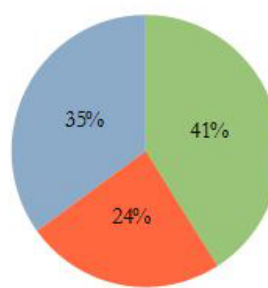


Figure 6. Azerbaijan's imports by country group



■ EU countries ■ CIS countries ■ Other countries

Source: Modelled by the author with data from Armstat

The largest single export partner of Azerbaijan is Italy, which makes up for 25% of total exports, followed by Indonesia (12%), Germany (6%) and Israel (5%). Russia is the only NIS in Azerbaijan's top trading partner, accounting for 4% of exports. However, it is Azerbaijan's biggest single partner in terms of import together with Turkey (both 14%), followed by the United Kingdom (12%) and Germany (8%) (Azerbaijan Statistical Committee). After Russia, the EAEU member with the largest share of imports is Kazakhstan (3%), followed by Belarus (1%). In terms of exports, no EAEU member apart from Russia is above the 0.3% line.

Figure 7. Principal Azerbaijani export partners by country

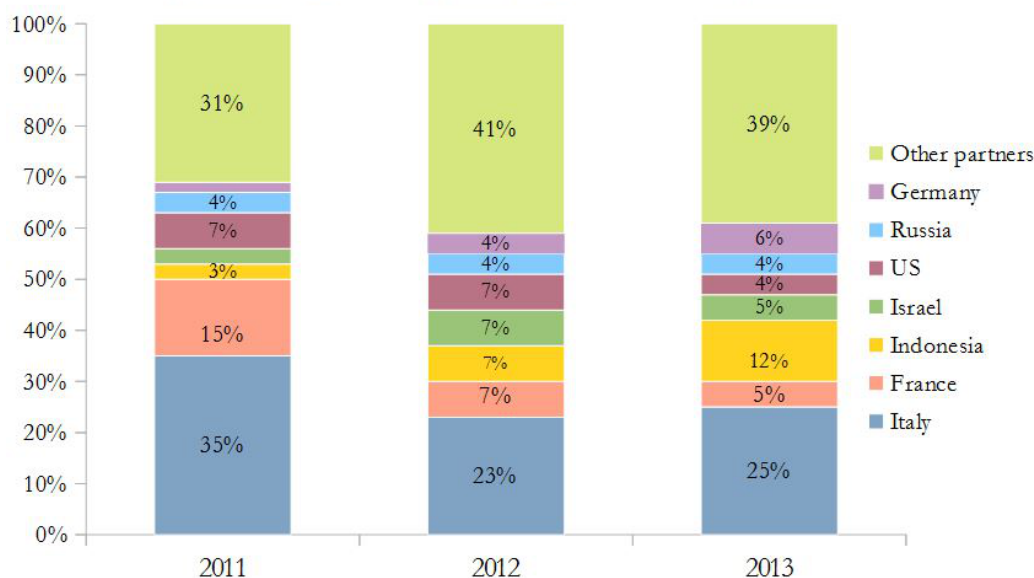
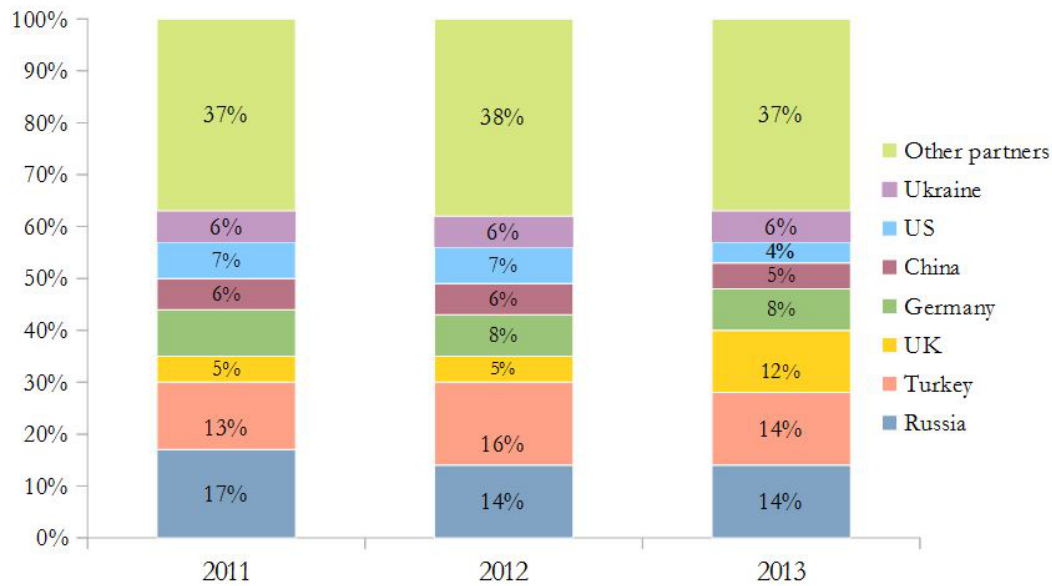


Figure 8. Principal Azerbaijani import partners by country



Source: All modelled by the author with data from Azerbaijan's Statistical Committee

Azerbaijan's economy is characterised by a heavy dependence on energy exports. It is classified as a post-Soviet rentier or petrostate: a state which receives considerable rents from foreign actors (Franke et.al, 2010)¹⁶. 93% of its total exports are fuel and the energy sector accounts for 40% of GDP and contributes 72% to budget revenues (WITS; EaP Index 2015, 57). However, approximately 40% of the labour force is employed in the agricultural sector, which is weakly developed and contributed only 5.3% of GDP in 2013 (Guliyev 2015, 4). In 2014, crude oil reserves were estimated at 7 billion barrels, which could be used up in 22 years at the current production rate and if there are no new discoveries (Energy Information Administration (EIA) 2015, Guliyev 2015, 5). Oil production reached its peak in 2010, with 1.045 thousand barrels a day, and has been steadily decreasing since. In 2014, Azerbaijan had a daily production of 856 barrels a day, placing it on rank 24 on the international oil production scale (EIA 2015). In addition to its oil exports, Azerbaijan started gas production in 2006. It constitutes 7% of total exports and while it does not generate as much revenues as oil, EIA estimations predict that natural gas will become increasingly important in the future (EIA 2015, Guliyev 2015, 5). Azerbaijan has 35 trillion cubic feet in reserves and at the current reserves-to-production ratio, these resources could last about 54 years (EIA 2015; Guliyev 2015, 5). Compared to the US' gas production in the volume of 22.9 trillion cubic feet in 2011, Azerbaijan's 577 billion cubic feet is rather small, but production and Azerbaijan's importance as a gas exporter have been growing. Natural gas also plays an important role on a domestic level because it accounts for more than 80% of Azerbaijan's electric power generation (EIA 2015).

Azerbaijan's economic performance is tied to its oil and gas exports and reserves are not infinite. The current economic model is sensitive to fluctuation in oil prices and is clearly unsustainable. The necessity of economic diversification is reflected in the development concept 'Azerbaijan 2020'. Eliminating the country's dependence on energy exports is inevitable in order to avoid "turning into a raw material appendage for the world economy" (Government of Azerbaijan 2012, 6). Instead, the main priority is to increase the competitiveness and effectiveness of the economy and to ensure rapid growth of the non-oil sectors by modernising inter alia the agricultural sector, strengthening food security and improving the foreign trade and investment structure (Government of Azerbaijan 2012, 6-12). However, according to Guliyev (2015, 2), Azerbaijan has heretofore made slow progress in achieving growth in non-oil

¹⁶ In contrast to the petro state, the rentier state's wealth doesn't necessarily root in oil. Yet the two concepts are similar, shaped by a number of common features such as a corrupt, rent-seeking elite which concludes contracts, deficits in the regulation of economic structures, a certain autonomy of elites towards the society due to large revenues or lack of transparency.

sectors. In 2014, it was primarily stimulated by government investment, directed at the construction of new infrastructure such as bridges, highways and sport complexes, which was mostly to the benefit of Azerbaijani elites and officials who own the largest businesses. Prospects for long-term and sustainable development in private business and non-oil sectors that are not stimulated by government investment are unclear. With respect to modernisation and economic diversification, the EAEU can be hardly attractive for Azerbaijan. It cannot provide Azerbaijan with know-how, technology or prospects for modernisation and economic diversification, as its major economies – Russia and Kazakhstan – are major oil- and gas exporters as well. Furthermore, and probably most important to Azerbaijan, the EAEU foresees the implementation of a common energy policy which would no longer allow Azerbaijan to independently pursue its own strategic preferences. It would also be required to share revenues from its natural resources with other EAEU member states. Yet, there is a certain necessity to cooperate with EAEU members Russia and Kazakhstan, which also belong to the oil-rich Caspian Sea region¹⁷. The Caspian region has resources of about 48 billion barrels in oil and 292 trillion cubic feet in gas. So far, Caspian oil mainly comes from onshore fields, as offshore waters are still hardly explored due to territorial disputes between the countries in the region. It is estimated that offshore waters offer considerable further resources and are therefore an important prospect for further development and production (EIA 2013).

3.2.2. *Azerbaijan's relations with the EU*

In line with the other SC states, Azerbaijan has concluded a PCA in 1999 and was consequently incorporated into the ENP and EaP. It has however always been rather reluctant in pursuing integration with the EU and has not made real progress towards the reforms envisaged (Khachatryan 2015, 9). In 2013, the EaP index identified positive results in terms of trade and economic integration with the EU (Khachatryan 2015, 10). At the same time, Azerbaijan's development concerning elections, the fight against corruption and democratic control over law enforcement institutions was rated the second worst of the EaP countries after Belarus (Khachatryan 2015, 10). In respect to the Nagorno-Karabakh conflict, the EU tries to maintain a balanced position. The AP for Armenia supports the concept of self-determination of the peoples, while the one for Azerbaijan emphasises the importance of territorial integrity. Paul (2015, 7) argues that Azerbaijani officials believe that the EU insists on the principle of territorial integrity far less than in Georgia, Moldova or Ukraine (Paul 2015, 7). In May 2015 for example, the first deputy speaker of Azerbaijan's parliament told reporters after the EaP summit in Riga that the EU shows disrespect for the country's territorial integrity (Trend 2015). The EU, however, was quick to react – during a visit to Baku in July 2015, president of the European Council Donald Tusk emphasised the EU's full support in that respect (Ann 2015b). Talks on the AA have been frozen due to the fundamental difference in the conception of how cooperation between the two actors should look like. In terms of WTO membership, a new round of negotiations opened in March 2015 but the Chairman of the WTO Working Party, Walter Lewalter, has stressed that it was necessary to move beyond routine in order to achieve any results (WTO 2015). While the EU emphasises the importance of reform in areas such as human rights, Azerbaijan is more interested in a strategic relationship based on mutual interests (Paul 2015, 7). So far, there is no agreement on the Strategic Partnership for Modernisation (SPM) proposed by Azerbaijan, but a small success in EU-Azerbaijan relations was realised with the signing of the 'Visa Facilitation, Readmission and Mobility Partnership' in 2013 (EEAS).

The key challenge for the EU concerning Azerbaijan's economic integration is that it does not have the same leverage over the country as it enjoys over other countries in the region, such as Georgia. Instead, the EU is often faced with criticism for its double standards with regards to turning a blind eye on Azerbaijan's democratic and human rights record which has been seriously deteriorating in recent years. The country clearly does not comply with EU norms and values on a political level – its democratic performance is poor, elections are neither free nor fair, power is centralised in the hands of a few and human rights are systematically violated – but, at the same time, it remains an important partner. In fact, the EU is often accused of succumbing to Azerbaijan's so-called 'caviar diplomacy'. According to Knaus (2015, 11-12) and Coalson (2013), this is a systematic policy of influence-building and lobbying pursued by the Azerbaijani government, characterised by spoiling European policy makers with expensive gifts,

¹⁷ In total, the Caspian Sea basin includes Azerbaijan, Iran, Kazakhstan, Russia, Turkmenistan and Uzbekistan.

benefits and other inducements in order to shift their opinions to the benefit of Azerbaijan. In practice, this means that Azerbaijan gets away with practically zero progress in the sphere of the EU's core values of democracy and good governance while still keeping good relations with the EU.

While the EU is not hesitant to sharply point out the democratic shortcomings of Russia or other countries, its stance towards Azerbaijan is less critical and statements concerning the political situation in the country tend to be lukewarm. In June 2012 for example, the EC sharply criticised harassment of civil society and independent media in Belarus and called on authorities to stop all repressive policies, while warmly congratulating Baku on the release of nine civil society activists, without mentioning or condemning the fact that more people were still imprisoned on political grounds or calling upon the end of repressions (European Commission 2012). In another case in 2012, Hungary transferred military officer Ramil Safarov, who had been convicted for murder in 2004, to Azerbaijan in order to serve the rest of his life sentence in his native country. He had murdered an Armenian student who was sleeping while both of them were participating in a NATO Partnership for Peace (PfP) English language course in Budapest. He had shown no remorse and defended his action on the grounds that his victim was Armenian. When he returned to Baku, he was welcomed as a hero, pardoned, got a promotion and a payback for the eight years he had spent in prison (European Parliament 2012; Economist 2012). While the EP has eventually called for a joint resolution, the initial statement of EC simply expressed concern about these news (European Commission 2012). Notably, the 2013 arrest and imprisonment of a number of youth activists, political activists, journalists and oppositional politicians on various (false) charges of drug possession, tax fraud or 'hooliganism' was ignored by then president of the EC José Manuel Barroso who instead commended Azerbaijan's commitment to political reform, democracy and the rule of law (Knaus 2015, 14-15; 6). Indeed, Azerbaijan repeatedly reveals the lack of coherence inside the EU. In September 2014, the European Parliament (EP) adopted a resolution criticising Azerbaijani authorities for human rights violations and calling for targeted sanctions (EaP Index 2015, 57). A few months later, during a visit of president Ilham Aliyev to Germany, Chancellor Angela Merkel called Azerbaijan an increasingly important partner, underlining the great potential of economic relations and stating that the most important issue was to keep the lines of communication with Azerbaijan open, despite differences of opinion on the point of democratic principles and the rule of law (Bundesregierung 2015).

3.2.3. Azerbaijan's relations with Russia

Azerbaijan's relations with Russia are complex and fragile. Relations were cool in the 1990s, after then President Heydar Aliyev opened up the Azerbaijani energy market for foreign investment and Russia began to militarily support Armenia in the Nagorno-Karabakh conflict. Relations improved after president Putin came to power in 2000 and became the first Russian president to visit Azerbaijan.

In comparison with the other countries in the South Caucasus, Azerbaijan is far less dependent on Russia. In 2003, the Baku-Tbilisi-Ceyhan (BTC) pipeline was launched, bypassing Russia. Together with the Baku-Supsa pipeline to Georgia as well as the Baku-Tbilisi-Erzurum (BTE) gas pipeline to Turkey, Azerbaijan's energy dependence on Russia has considerably decreased (Nixey 2012, 5). The only shared Russo-Azerbaijan operation in this domain is the Baku-Novorossiysk pipeline co-managed with Russian oil company Transneft. While the country did import gas from Russia for some time, it stopped doing so in 2007 after Russia announced a price increase. Growing gas production allowed Azerbaijan to provide for its own domestic needs and in 2010, Azerbaijan commenced gas exports to Russia (Socor 2009). Although Azerbaijan prefers to independently pursue its own agenda, it cannot afford to rule out all cooperation with Russia. The latter is wary of the former's importance as an energy supplier and the export of resources from the Caspian region through the Transcaucasian energy corridor which lies outside of Russian control. It is particularly concerned about the Trans-Anatolian Natural Gas Pipeline (TANAP) and its extensions, the Trans Adriatic Pipeline (TAP), which connects Azerbaijan via Turkey with Europe (Roberts, Cohen and Blaisdell 2013). Russia's biggest leverage over Azerbaijan is the vulnerability of the approximately 2 million Azeris working in Russia. The remittances they send home amount to about 10% of GDP (Nixey 2012, 5). Moreover, Russia is one of the countries chairing the OSCE Minsk group which seeks to mediate a solution to the Nagorno-Karabakh conflict and is therefore a crucial actor to solve the question of Azerbaijan's occupied territory (Nurullayev 2014).

According to the integration index for EaP countries, the year 2014 saw a rapprochement between Azerbaijan and Russia, which used the on-going hostilities in Nagorno-Karabakh to assert its role as a mediator and support peace talks between Azerbaijan and Armenia. Bilateral relations intensified: in 2013, Azerbaijan's total trade turnover with Russia increased by 4% compared with the year before (EaP Index 2015, 57). Furthermore, 85% of the arms Azerbaijan had imported came from Russia (SIPRI 2015, 7).

3.3. Georgia

On 27 June 2014, Georgia signed an AA with the EU, making it the focal point of Western engagement in the South Caucasus. According to Prime Minister Irakli Garibashvili, this was “a dream come true” and “just the beginning of the country's modernisation and Europeanisation” (CNBC 2014). Georgia is indeed the only country in the South Caucasus which has steadily pursued the process of Euro-Atlantic integration and openly declared the wish to join the EU. In a July 2014 interview, Prime Minister Irakli Garibashvili had confirmed once more: “The AA for us is like a master plan. It doesn't mean that in a day or two Georgia will become a member of the European Union. But signing this document is not our final goal. Our ultimate goal is the full membership of the EU. [...] We are fully committed and motivated to meet all the requirements of the EU in order to one day become a member of the EU” (Euronews 2014). What is noticeable in the same interview is the Prime Minister's cautiousness with regard to Russia. He was careful to emphasise that Georgia's European integration would not interfere with its principal policy of having friendly relations with all its neighbouring countries, including Russia. When asked about potential negative consequences pointed out by Russia prior to the signing of the AA, he asserted: “I wouldn't call these ‘warnings’. We are simply in a process of dialogue.” Georgia's relations with Russia have been strained for years, dating back to Russian support for the separatist movements in Abkhazia and South Ossetia in the beginning of the 1990s. In 2006, Russia put an embargo on imports of Georgian wine and mineral water and since the 2008 war in South Ossetia, diplomatic relations have been interrupted. The relationship with Russia has recently started to improve, but overall, it is still complicated – a month after Georgia signed the AA with the EU, the Russian government announced its intent to suspend the FTA with Georgia it had concluded in 1994 (TVC 2014).

In respect thereof, the situation seems clear-cut at first glance. Georgia has tirelessly confirmed its determination to integrate with the EU. Nevertheless, it is important to keep in mind that, to some extent, Georgia is still dependent on Russia and Russia has a certain leverage over the country. It is estimated that about 100,000 families rely on remittances from Russia, which constitute about 50% of total remittances and equal 4.5% of GDP (National Bank of Georgia; de Micco 2015, 22). Considering these aspects in the framework of post-Soviet economic integration, the case of Georgia prompts the following questions: What is the impact of the DCFTA on the Georgian economy and how can the overall AA contribute to the country's pursuit of modernisation? What are the principal domestic considerations that have led Georgia to this decision? Given Georgia's vulnerabilities towards Russia, to what extent is its foreign policy shaped with respect to Russia?

3.3.1. *Association with the EU : the DCFTA*

Bilateral relations between the EU and Georgia began in 1999 with the signing of a PCA. After the 2003 Rose revolution, president Mikheil Saakashvili made Euro-Atlantic integration one of the country's foreign policy priorities, which enhanced relations with the EU (Khachatryan 2015, 6). Georgia was subsequently part of the ENP in 2004 and the EaP in 2009. In June 2014, Georgia signed the AA, bringing relations with the EU to an unprecedented level. In July, the Georgian government approved a multi-annual Action Plan, which regulates the implementation of the DCFTA in the period from 2014 to 2017. Starting from September 2014, the AA/DCFTA has been partially applied (EEAS, 2015). Until the AA is ratified by the European Parliament (EP) and the national parliaments of the EU member states, the provisional application of the DCFTA will focus on the implementation of trade-related objectives – such as working towards the cutback on import duties and the application of competition laws – as well as provisions concerning the general part of the AA, such as justice reform and increased political dialogue (EU-Georgia 2014, 1-3). The full implementation of envisaged reforms promises to improve Georgia's GDP by 4.3%, which is about €292 million. It is expected that exports to the EU and imports from the EU will increase by 12.5% and 7.5% respectively. In addition, it is expected that prices

for domestically available goods will decrease which in turn would lead to increased real purchasing power. Furthermore, the DCFTA will strengthen competitiveness and provide a more stable trade regime (EEAS/DCFTA 2015, 4). The DCFTA foresees a time frame of four to ten years to implement regulations, depending on the complexity of the area. While approximation with EU legislation should be completed within four years concerning customs and trade facilitation, implementation of technical regulations and standards for industrial goods will take up to eight years (EEAS/DCFTA 2015, 3-4).

According to a recent study, Georgia is “the best candidate for a DCFTA model” (Meserlin, Emerson et. al 2011, 29). It is a relatively small economy which primarily exports wine, nuts, copper ores, machinery and transport equipment, while importing oil, gas and motor cars (Worldbank and European Commission, DG Trade). However, in contrast to Armenia, it is in a more favourable situation: it has access to the Black Sea, is a transit route for Azerbaijani resources to international markets and entertains active trade relations with its neighbouring countries. After the 2003 Rose Revolution, Georgia's efforts to profoundly reform the country made it “a regional leader on the path to economic freedom and growth in the South Caucasus” (Roberts, Cohen and Blaisdell 2013). The new government introduced structural reform, various anti-corruption measures, eliminated almost all tariff barriers and considerably reduced non-tariff barriers to trade. The liberal economic policies resulted in an average annual GDP growth of about 10% between 2004 and 2008 and due to the elimination of barriers to FDI, the sum of investment in 2008 was four times higher than in 2004 (WITS; Geostat). In 2013, Georgia ranked ninth in the World Bank's survey 'Doing Business'. Indeed, ranking higher than most EU member states and all the other NIS, Georgia presents a highly attractive option for investment in Europe. The second best performer among the post-Soviet countries, Armenia, came at position 32, while Azerbaijan and Russia are ranked 67 and 112 respectively (Roberts, Cohen and Blaisdell 2013; Worldbank).

With 50% of the total sum, the EU holds the largest share in FDI. According to official data for trade between January and May 2015, Georgia's biggest trading partners are Azerbaijan (13%), Turkey (10%), Bulgaria (9%) and Armenia (8%). Concerning the export shares per country, the smallest share (27%) goes to the EU. Besides Bulgaria, the largest trading partners are Italy and Germany. 35% of exports go to other countries, where, apart from Turkey, the US and China are the main export partners. With 38%, the biggest share of total export is destined for other NIS. In this group, Azerbaijan is the largest trading partner (35% of NIS exports), followed by Armenia (22%) and Russia (17%). On an import level, Turkey (18%), China (9%) and Azerbaijan (8%) are the most important partners. As a country group, the CIS has the smallest share of imports (26%), topped by the EU (31%) and other countries (43%) (Geostat).

Figure 9. Georgian exports by country group

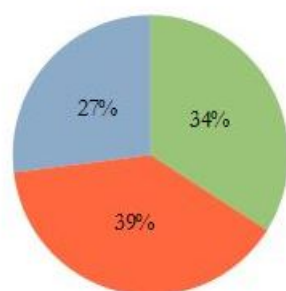
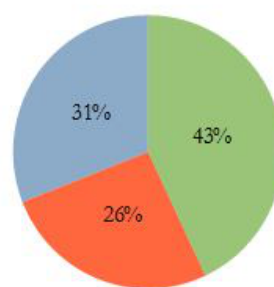


Figure 10. Georgian imports by country group



■ EU countries ■ CIS countries ■ Other countries ■ EU countries ■ CIS countries ■ Other countries

Source: Modelled by the author with data from Geostat

Figure 11. Principal Georgian export partners by country

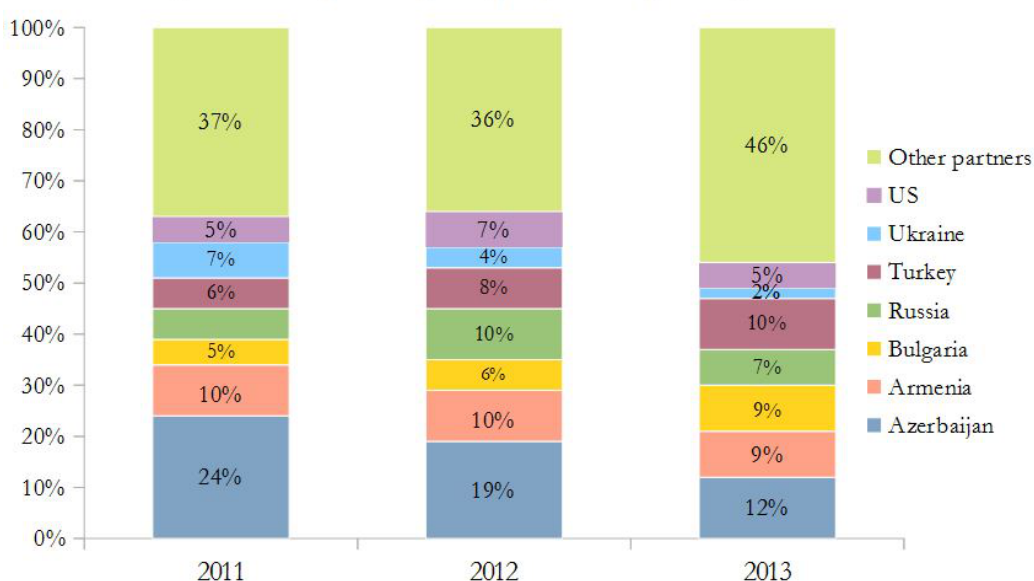
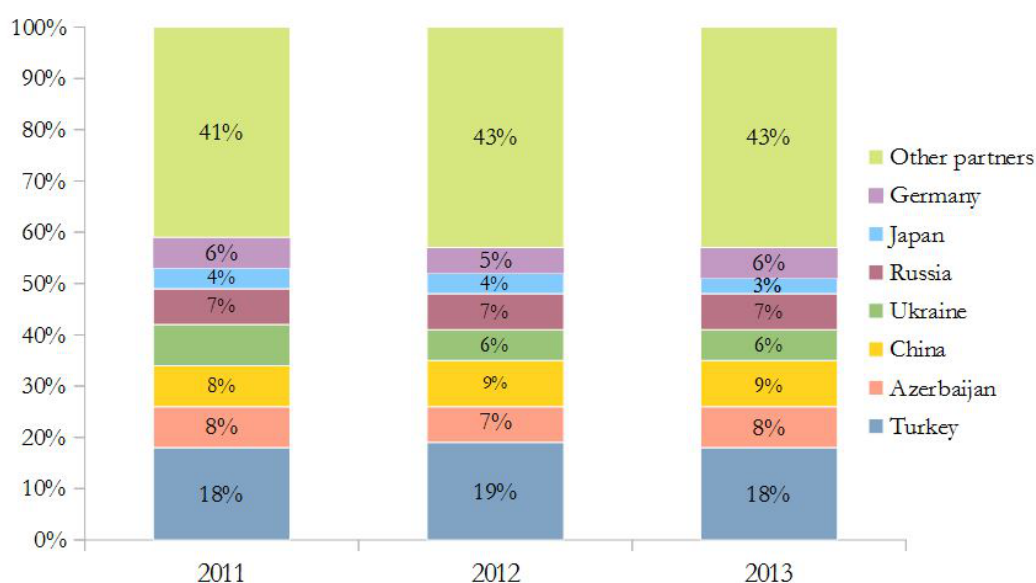


Figure 12. Principal Georgian import partners by country



Source: Modelled by the author with data from Geostat

As we can see from these statistics, Georgia's trade relations are relatively well balanced and diverse. Georgia's imports are traditionally higher than its exports, with imports accounting for 73% of total external trade turnover in 2013. In that respect, the EU is an important trading partner, even though it holds the smallest share in exports. The largest part of Georgian exports goes to the post-Soviet space and key trading partners such as Armenia, Russia or Kazakhstan are part of the EAEU. According to Patsuria (2015), this could potentially hurt the Georgian economy, depending on whether the FTA it has with the EAEU countries will be cancelled or not – which is precisely what Russia announced in July 2014. Furthermore, in the light of the sanctions it imposed on the EU, Russia is wary of any EU products entering the country. Therefore, it could for example ban re-exports via Georgia in order to protect its market. Furthermore, in the worst case, due to regulatory divergences with the EU, Georgia could lose access to the existing EAEU market while at the same time being not sufficiently competitive on the EU market (Delcour and Wolczuk 2013a, 186-187). Aleksishvili (2014) claims that substituting cooperation with Georgia's immediate neighbours with Europe will not allow Georgia to develop its full

economic potential. The author describes that Georgia has become an important regional business hub in recent years and that the number of companies from other NIS entering the Georgian market has increased. According to him, Georgia will also have to deepen economic cooperation with its regional partners in order to ensure sustainable economic growth.

The DCFTA has been subject to criticism for a large number of reasons. First of all, the overall AA is a highly complex and technical document, consisting of about 1,000 pages describing in detail the objectives to be achieved in every area of cooperation and the deadlines for implementing relevant EU norms. The EU has in fact published a number of reading guides and fact-sheets in order to make it more comprehensible for citizens. While some details may change for respective partner countries, it is a largely standardised document and non-negotiable. Meserlin, Emerson et al. (2011, 2) criticise the vague language of the documents, leaving it to the EU to decide when progress – with regard to developing systems and implementing reforms – may be deemed sufficient. Some of the scheduled obligations are even pointless. Georgia is, for instance, required to implement EU regulations on cable cars and lifts, although it does not produce these items (Delcour and Wolczuk 2013a, 184). There are even terms which would hinder Georgia's economic growth. Meserlin, Emerson et al. (2011, i) also criticise the EU's weakness in identifying provisions for those sectors which are actually relevant for the Georgian economy. Preconditions on 'industrial technical norms' for example, would slow down Georgia's process of industrialisation.

Second, Georgia's trade policy is far more open towards the EU than vice versa (Meserlin, Emerson et al. 2011, i). Its liberal trade policy is also the principal difference between the Georgian DCFTA and the one concluded with Moldova and Ukraine. Georgia, does not apply custom duties on any of its imports, regardless of origin (de Micco 2015, 32-33.). Therefore, one of the principal benefits of the DCFTA, removal of EU tariffs on import and prohibition of export duties, essentially does not apply to Georgia. Third, according to Delcour (2013, 347-348), Georgian authorities would in fact have preferred a simple FTA which would have offered more favourable conditions for the Georgian economy. Yet on the basis of a feasibility study, the EU has argued that the DCFTA would be more profitable and would bring greater benefits. The EU has furthermore made it clear that there were no alternatives on offer and that if Georgia wanted to proceed in forging closer relations, approximation with the *acquis* would be necessary (347-348). The way in which the EU demands the implementation of the DCFTA is therefore somewhat hegemonic, paying little interest to Georgia's economic capacities and interests and other markets in which it is involved (Delcour 2013, 185).

Fourth, the EU has developed the DCFTA on the assumption that what worked for the accession process of its own member states – approximation with EU legislation – would also work for EaP countries and automatically lead to modernisation. In the case of the countries of the 2004 enlargement, deep and comprehensive adoption of EU regulations has indeed proven to have a real transformative power. However, to a certain extent the success of this transformation process and approximation with the EU is due to the fact that it was in line with the countries' overall transition to market economies. Meserlin, Emerson et al. argue that the case of Georgia is different because it had already started comprehensive reforms needed for building an open and market-based economy well before the EU provided a respective incentive and, in terms of regulatory performance, is even on an equal footing with some of the EU member states (2011, 14). The idea that benefits and positive results can only come from deep and comprehensive adoption of EU regulations, is therefore not valid in the case of Georgia. Emerson (2014, 3) also underlines the fact that the countries of the 2004 enlargement only accepted the heavy burden of acquiring EU provisions because they knew that membership was awaiting them down the road, citing a respective quote of Estonian president Toomas Ilves. In this respect, the EU demands more from Georgia but offers much less in return. Furthermore, concerning EU norms and legislations, there is a great difference between the status quo in the partner countries and what the EU expects. While Georgia might have a liberal trade regime, the DCFTA encompasses not only tariff regulations but reform concerning non-tariff barriers. However, areas such as sanitary and phyto-sanitary standards, competition or intellectual property rights are still weakly pronounced (Delcour 2013, 347-348). According to Meserlin, Emerson et. al, these areas came up at the very end of accession negotiations with Croatia and are considered to be the most difficult in the case of accession candidate Macedonia. They were nevertheless chosen as a precondition for Georgia to even open negotiations on the DCFTA (2011, 23).

As an alternative, the authors propose a 'pro-growth' DCFTA which would allow gradual approximation with the EU acquis, starting in those sectors which are most essential for economic growth. Further commitments would only happen when its GDP per capita reaches certain thresholds (2011, 6). They summarise that the DFTA heavily burdens the Georgian economy which is despite its economic performance still fragile. Instead of resulting in economic growth, it could slow down development (17). There is no doubt that integration with the EU is Georgia's key priority. However, this seems to come at a certain price and the above arguments suggest that economic considerations are in fact not that decisive. It is therefore appropriate to examine which other factors influence Georgia's European integration direction.

3.3.2. Georgia's domestic interests : the situation with Russia

Georgia's policies are essentially shaped by its two breakaway entities Abkhazia and South Ossetia, which have been officially recognised by Russia as independent states since 2008. Within the territory of the Georgian Soviet Socialist Republic, Abkhazia had been an Autonomous Soviet Socialist Republic and South Ossetia an Autonomous Oblast. When the Soviet Union collapsed, they fought for their independence, supported by Russia. After the war in South Ossetia (1991-1992) and Abkhazia (1993-1994) a ceasefire agreement was negotiated. However, in 2004, there were violent clashes in South Ossetia and in August 2008, conflicts broke out into a five day war. Russia's military involvement, on the side of the South Ossetians, escalated the situation from a conflict within a state to war with another country. It was the first direct conflict between Russia and a former Soviet republic and it irreversibly ruptured Russo-Georgian relations. The exact order of events remains controversial to this day. According to Georgian sources, Russia invaded its territory while Russia, in turn, claims that it was Georgia who started the attacks and Russia solely reacted to protect Russian citizens in the territory (King 2008). As a matter of fact, the Georgian government had tried to re-establish the territorial integrity of the country and to solve the conflict in South Ossetia. It launched a military offensive to get the breakaway region back under its control but Russian troops responded immediately and entered into Georgia. With the help of the EU, a ceasefire agreement was negotiated shortly after, but the consequences of the war were enormous, leaving hundreds dead and thousands wounded or displaced (King 2008, Independent International Fact-Finding Mission on the Conflict in Georgia (IIFFMCG) 2009). The IIFFMCG, charged with clarifying the background to the conflict as well as the order of events and culpability of the parties involved, emphasises the responsibility of both sides. While Georgia had started the conflict by attacking the South Ossetian capital, the reaction of Russia was deemed to be unjustified and inappropriate (Euractiv 2014).

As a consequence of the war, Georgia left the CIS and terminated bilateral relations with Russia. Georgia successfully managed to limit its trade relations with Russia, but at the cost of lower economic growth. As a transit country for the BTC and the BTE pipelines, Georgia was able to reduce its dependence on Russia considerably, by diversifying its energy relations by starting to import most of its oil and gas from Azerbaijan (de Micco 2015, 22-23). After the presidential and parliamentary elections in 2012 and 2013 respectively, the rhetoric cooled down in order to normalise relations with Russia and relations softened a bit. In September 2013 for example, then Prime Minister Bidzina Ivanishvili stated that Georgia keeps a close eye on the development of the EAEU and could perhaps even join it if it were in Georgia's strategic interest (Rettman 2013). Trade enhanced once more; Russia lifted its embargo on Georgian wine and as of December 2012, limited bilateral talks took place. However, relations have deteriorated again in the light of the Ukraine crisis which brought Georgia's own occupied territories back into the spotlight. According to the chairman of the Georgian parliament, relations with Russia have changed "from bad to worse" (Johnson 2015). Shortly after Georgia had ratified the AA, Russia concluded a new treaty on alliance and strategic partnership with Abkhazia, bringing it politically, militarily, economically and socially closer to Russia (Boden 2014, 1). As stated in the National Security Concept, the principal threats to Georgian national security are the occupation of Georgian territories by Russia as well as the risk of renewed military aggression. Ensuring the country's territorial integrity and reintegrating the two breakaway entities is of great importance (Government of Georgia, 2012). The 2008 war had wiped away any hopes that Georgia could join NATO in the foreseeable future, which made close cooperation with the EU even more important. However, in practice, there is little the EU does besides repeatedly expressing support for Georgia's territorial integrity and concern over unfavourable developments. In

February 2015, Russia dealt another heavy blow to Georgia by going a step further and signing an even more comprehensive treaty on alliance and integration with South Ossetia, making it essentially part of Russia (Otarashvili 2015). According to Paul (2015, 5), this can be considered as a direct response to Georgia's move towards the EU and “a message to other former Soviet states about the price of integrating with the West.”

3.3.3. Between growing Russian influence and disappointment with the EU

Disappointment with Georgia's development seems to be growing. The recent months have been especially critical because the decline of the Russian economy can also be felt in Georgia. In fact, the number of Georgians who think that their country is going in the right direction has diminished considerably. According to the National Democratic Institute (NDI), this number peaked in February 2012, with slightly more than 60% approving of the country's direction¹⁸. However, it has deteriorated considerably, to a new low point of 23% in April 2015. Cecire (2015) claims that while support for Euro-Atlantic integration may be broad (68% of Georgians approve the signing of the AA according to NDI data), it is in fact not very profound. He argues that especially in the non-governmental sector, support for Russia is growing. A number of organisations which, according to Georgian officials, receive funding from Russia, promote 'Eurasianism' and 'Orthodox civilization'. They appeal to social conservatism and economic vulnerability by emphasising the importance of traditional family values which would be endangered by the EU's anti-discrimination laws. Furthermore, they fuel anti-Western sentiments by commenting that the EU is giving Georgia too little in return for its efforts. According to Gordadze (2015, 58) the influence of the church and its leverage on education, justice and foreign policy has been increasing. In schools and universities as well as within governmental structures, orthodox presence is becoming more visible, promoting values corresponding to president Putin's new strategic policy of presenting Russia as the guardian of Christian morality in the face of Europe's decadence (58-59).

The feeling that Georgia should be rewarded for its progress is indeed fuelling discontent. Expectations towards the visa-facilitation part of the AA are high: in a 2014 NDI poll, 35% of the people who approve of the AA do so because it would lead to visa free travel to the EU (NDI 2014). Delcour (2013, 345) confirms that visa liberalisation is indeed a major expectation of Georgian citizens and a principal incentive to adopt EU norms and standards which makes it a great leverage for the EU. In May 2015, shortly before an EaP summit, the Georgian president, Prime Minister and Chairman of the Parliament wrote an open letter to Donald Tusk, president of the European Council, hoping for the EU's endorsement of a visa-free regime which would be “a long-awaited tangible reward for reforms”. They hoped for the EU's recognition of Georgia's efforts in order to “demonstrate to our people that the commitment to comprehensive reforms delivers tangible benefits” and to show that the EU “delivers on its promises” (Civil 2015). Nevertheless, Georgia's hopes were not fulfilled. An assessment of the reform progress states that Georgia's progress “has been significant in a short period of time” but that it “still needs to address the remaining recommendations” concerning anti-corruption, asylum and trafficking in human beings and drugs (European Commission 2015). Although the open letter clearly shows Georgia's need for some degree of recognition and reward for its efforts, the EU is not flexible enough to make even small concessions. It will further monitor Georgia's progress and assess them in reports, the next one to be published at the end of 2015 (European Commission 2015). It is therefore very unlikely that Georgia will see any benefits before fully implementing all the provisions the EU insists on.

It is certainly too early to assume a clear evaluation of the DCFTA's impact on Georgia. Firstly of all, it is focusing on the implementation of reforms which shall lead to long-term economic growth, therefore it is not a system which brings immediate benefits to Georgia. Secondly, the slowdown of the Russian economy has considerable influence on the Georgian economy as well and therefore influences the DCFTA's progress. Thirdly, it is still unclear how Georgia's relations with its trading partners in the post-Soviet space will develop and which policies the EAEU will adopt towards it. It is evident that in the light of its relations with Russia over the two breakaway entities, Georgia has made a lot of efforts to come closer to the EU. However, instead of going strictly by the protocol, the EU should develop a

¹⁸ The NDI is a US non-governmental organisation founded in 1983 with the aim to reinforce democratic institutions. Programmes in Georgia have been conducted since 1994, focusing on parliamentary strengthening, safeguarding elections and the development of political parties and civil society.

more flexible approach and grant small concessions in order to acknowledge the worth of Georgia's efforts.

Conclusion

This thesis set out to explore the principles, mechanisms and development of post-Soviet economic integration and aimed to provide a comprehensive case study. The different forms and stages of economic integration have been illustrated, some of which require considerable restriction of sovereignty concerning economic policies and freedom of action. It has been shown that economic integration is a complex process; it can have different underlying purposes and be fuelled by a number of considerations of an economic, and also political or strategic, nature. This study has examined the development of initiatives for post-Soviet economic integration, from vague forms of cooperation and assistance to the comprehensive and sophisticated integration schemes of today, the AA/DCFTA and the EAEU. This development correlates with the (geopolitical) significance of the post-Soviet space: in the course of post-Soviet economic integration, this area has become increasingly important. The EU has expanded its borders towards the East, putting Russia's sole position as an actor of influence and power in the post-Soviet space into question. Besides economic considerations, the integration of the post-Soviet space is especially important to Russia because of its role for the country's self-perception as an influential power; it is a means to (re)establish an assertive position in the international world order. The integration of the post-Soviet space is therefore also due to the very importance of this area.

With the AA, the EU proposes the countries of the EaP the closest possible form of cooperation apart from membership. The DCFTA requires comprehensive reform and the adoption of a considerable part of the EU's *acquis communautaire*. Countries gain access to the EU's large internal market, but implementation is a lengthy and costly process and benefits will only be visible after some time. Russia, in turn, proposes the NIS membership in its EAEU, which is a deeper form of economic integration and requires the harmonisation and adoption of common policies in a number of areas and limits the sovereignty of its members as well as their ability to pursue an independent economic policy. Benefits are immediate, for example in the form of favourable loans or reduced gas prices, but an underlying strategy for long-term and sustainable development is missing. After examining these two integration schemes and underlining their strengths and weaknesses as well as possible benefits, disadvantages or problems which could come along for partner countries, the dynamics of post-Soviet economic integration have been applied to the South Caucasus. It is a complex and geopolitically important area, a 'melting pot' of different ethnicities, cultures and religion, challenged by frozen conflicts which dominate the considerations of policy makers. The fundamental hypothesis of this thesis is that the South Caucasus is exemplary for the analysis of post-Soviet economic integration because on a regional level, its dynamics are characteristic of the overall post-Soviet space: growing fragmentation due to the EU's and Russia's 'competition for influence' in the region and their increasingly incompatible and mutually exclusive integration projects. On a national level, the South Caucasus republics exemplify the mechanisms of post-Soviet economic integration and highlight the characteristics, shortcomings and key challenges of the respective integration schemes.

The analysis of post-Soviet economic integration in the South Caucasus has shown that it is a highly complex process which is essentially shaped by prevailing national political and security considerations. The example of Armenia has pointed out the EAEU's lack of substance and its limitations in respect to the prospects for development and economic growth. Cooperation with the EAEU in essence hinders Armenia's economic diversification and sustainable development and only further intensifies existing dependencies and challenges. The analysis of Armenia's economic and trade profile has shown that Russia is the only relevant EAEU member (accounting for 23% of exports and 26% of imports) and that Armenia's economy is in fact more directed towards the West and the EU. The example of Armenia also reveals that in contrast to popular belief, the prospect of EU membership isn't necessarily the key incentive to stimulate reform in a country. Armenia has never been in the position to be too enthusiastic about approximation with the EU and yet recent years have seen considerable development in reform progress. Azerbaijan is interested in maintaining good relations with both of the actors but does not see the necessity for closer cooperation with either the EU or Russia, as its oil wealth allows for the country to pursue a relatively independent agenda. Apart from this, Azerbaijan cannot choose in the same way as Armenia or Georgia because it is not a member of the WTO, which is a precondition to negotiate the AA/DCFTA with the EU. Examining the dynamics of the Azerbaijani economy shows that the country

has differentiated trade relations in which the EU is far more important than the EAEU. Certain aspects of the EAEU such as the establishment of a common energy policy would be to the detriment of Azerbaijan. Furthermore, as oil production is declining, economic diversification will be necessary – something the EU could better provide for. Azerbaijan further reveals the challenges the EU faces if what it proposes is not automatically attractive for a country. While every document states the importance of the EU's norms and values in the fields of democracy, human rights and good governance, in reality the EU tends to neglect insistence on respective compliance in favour of energy and economic interests. Finally, the example of Georgia shows that economic reform and progress can be stimulated independently from deep and comprehensive economic cooperation, which the EU had defined as the most effective tool. The analysis has shown that in a number of aspects, the DCFTA is in fact not ideal for the Georgian economy. Georgia's neighbours in the post-Soviet space, most notably Russia, Armenia, Azerbaijan and Ukraine, are important trading partners and with its approach the EU shows its lack of consideration for domestic needs and particularities. Georgia has tirelessly emphasised its ambition to integrate with the EU and made considerable effort in doing so, but the EU is not flexible enough to make even small concessions.

The EAEU is only a few months old and the future will certainly hold intriguing developments. During the final stages of writing this thesis, the amount of scholarly articles and studies being published on post-Soviet economic integration and the interaction of the EU and Russia in this area has been further increasing and there is surely more to come. For future research, it would be interesting to apply and evaluate the underlying theories and findings in the field. It could be enriching to examine post-Soviet economic integration on a smaller scale, for example the concrete effects on small- and medium sized economies or non-governmental institutions. On a more theoretical level, it would be interesting to take a look at the link between a country's response to EU and Russian integration efforts and its governing authorities. While this study has shown that political and security considerations are essential for shaping the integration direction of post-Soviet states, it could be valuable to measure the interrelationship between policy actions and the ruling elites' desire for self-preservation, especially in authoritarian regimes. Another perspective could also be gained by examining the interrelationship between civil society and the integration process. At least since the Euromaidan in autumn 2013, it seems that the process of economic integration has, in fact, led to increasing disintegration. As a result of the efforts by the EU and Russia to pull the NIS into their orbits, the area today is the most fragmented it has been since the collapse of the Soviet Union and relations between the EU and Russia have reached a new low. In order to achieve stability, peace and security in Europe and Eurasia, there needs to be closer cooperation between the two actors. Furthermore, with regard to the integration schemes developed by the EU and Russia, and the countries which they are concerned with, a more flexible approach and the willingness to make concessions are necessary. Finally, to a region such as the South Caucasus, where frozen conflicts are most crucial and fragmentation is likely to reinforce tensions, the current dynamics of post-Soviet economic integration can only be detrimental. In order to support cooperation and stimulate partnership, a more regional approach is necessary.

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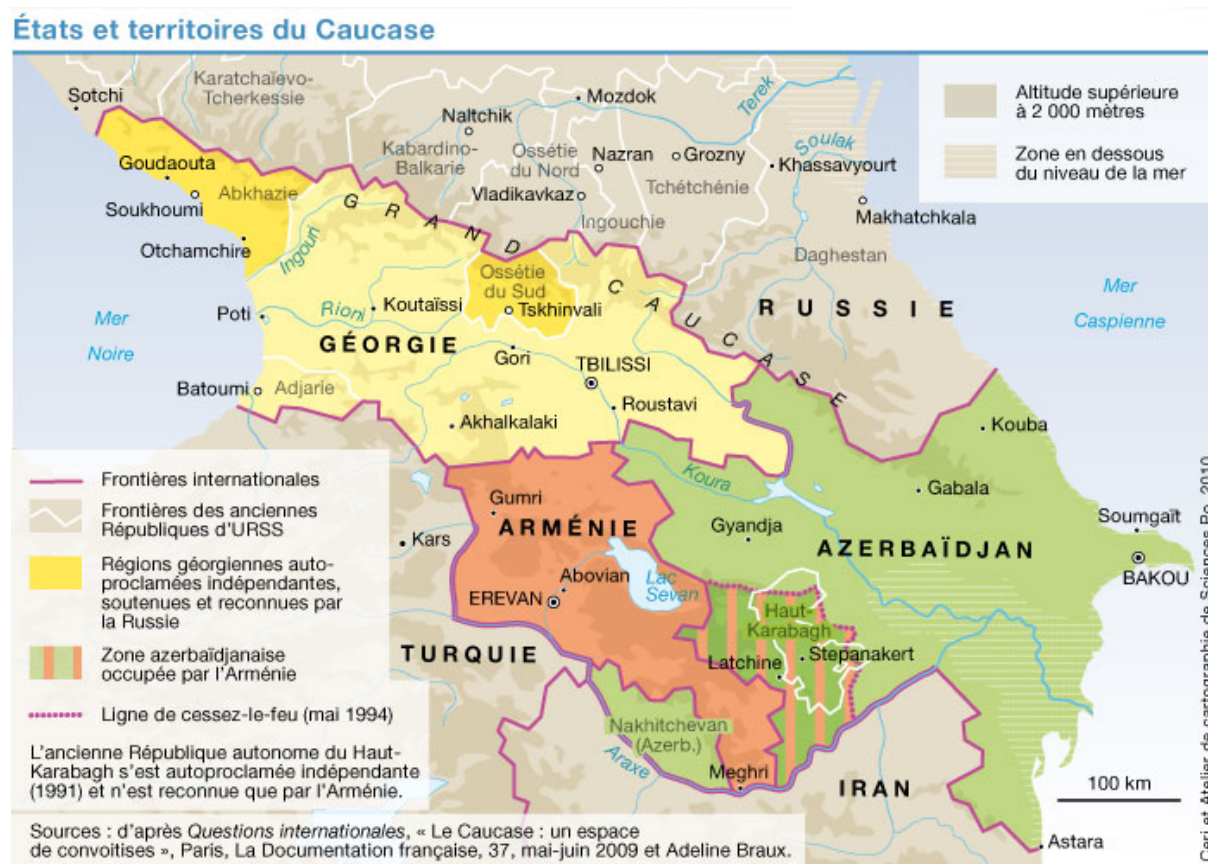
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Annexes

ANNEX 1 :



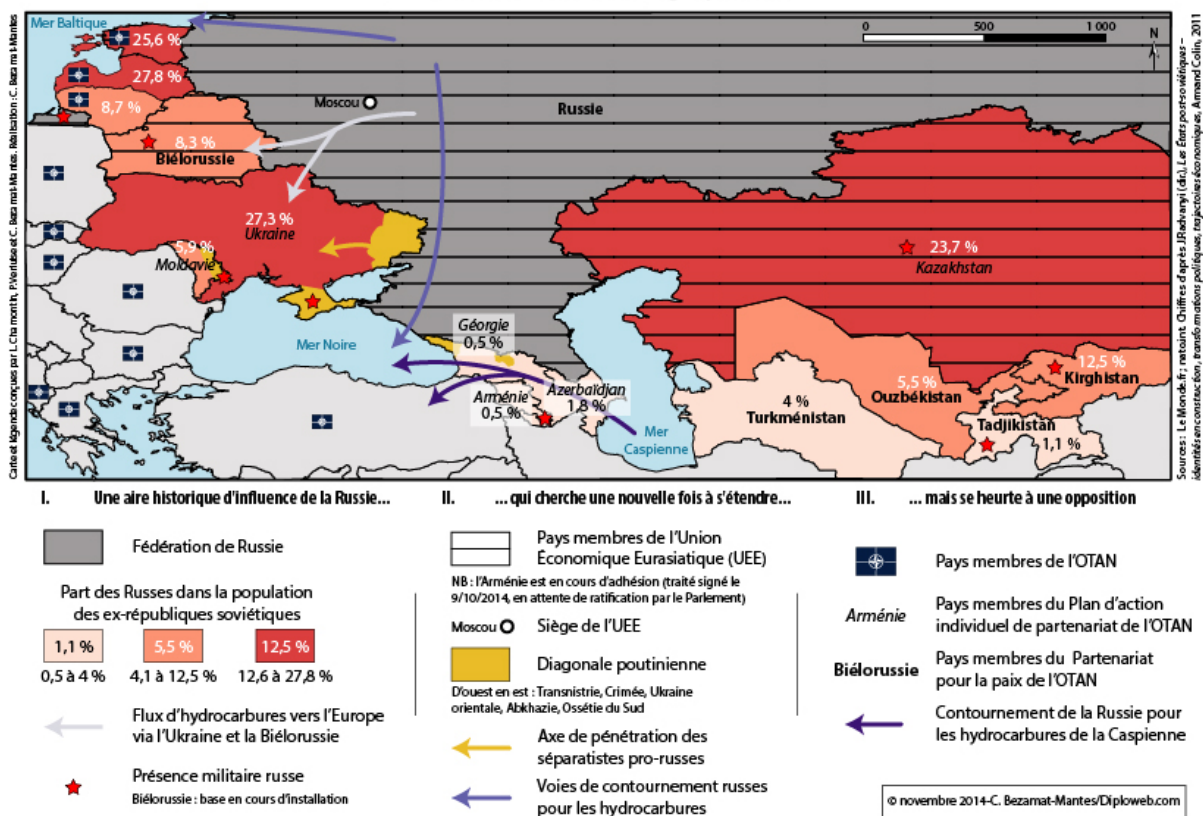
Source: <http://ceriscope.sciences-po.fr/taxonomy/term/10>

Strategic Map of the South Caucasus



Source: <http://www.lesjeunesrussisants.fr/geopolitique.html>

La Russie et son « Étranger proche »



Soure: <http://www.diploweb.com/Russie-et-Etranger-proche-retour.html>

ANNEX 2 :

The EU and the EAEU at a glance :

	EU	EAEU
Member states	28	5
Territory	4.3 million km2	20 million km2
Population	511 million	179 million
GDP	\$18.2 trillion (2014)	\$2.4 billion (2013)
Production/Exports	machinery, motor vehicles, pharmaceuticals and chemicals, aircrafts	natural gas, oil, electricity, sunflower, sugar beet

Source: CIA Factbook (<https://www.cia.gov/library/publications/the-world-factbook/geos/ee.html>); Eurasian Economic Commission 2015a