

## POSSIBLE IMPACT OF RECONCEPTUALIZATION OF THE EASTERN PARTNERSHIP ON FURTHER INTEGRATION WITHIN THE EU

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**Abstract:** *The involvement countries of bilateral and multilateral economic relations, global markets and integration enables the achievement of mutual and multiple benefits which in the case of the Eastern Partnership expressing as security, stability and prosperity, democracy and the rule of law. On the basis of Cost benefit analysis and SWOT analysis, the paper will analyzes the impact of Eastern Partnership on achieving economic objectives of member states of the partnership and the impact of the current situation and issues reconceptualization the mutual relations of partners in foreign trade. As a separate issue the paper analyzes the relationship between the Republic of Serbia with the member countries of the Eastern Partnership in order to detect potential threats and benefits in international exchanges.*

**Keywords:** partnership; integration; foreign trade

**JEL Classification:** F10; F13

### Introduction

Regional integration present economic associations that are generated to form a transnational order and ensure maximum utilization of institutional own advantages (capital, technology, direct investment). The economic dimension of globalization refers to the increase in trade, investment, financial flows, as well as, the creation of a global world market with increased economic and trade activities.

The processes of globalization emerged as a result of deregulation policies under the leadership of the United States after Second World War. The liberalization of world trade within the framework of the GATT (WTO) has resulted in an accelerated economic development of the national economy. The free flow of capital, goods, services and labor, are guaranteed by the legal framework and measures taken by the organization: WTO, World Bank, IMF and the EU.

However, despite numerous advantages of integration and globalization, economic associations, the European Union and Eastern Partnership face the problems that affect the economic and international policy.

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Current situation in the EU suggests the existence of sub-blocks in the segments political system and foreign policy within which the EU has introduced sanctions against Russia. The concept of the Eastern Partnership is problematic after the Russian intervention in Crimea.

In these conditions, sets up the question of influence relations between member states partnership in the economic relations, especially in terms of unwinding foreign trade. Does the global market in these two economic associations increased or reduced and that the market has greater loss? Is the question reconceptualization of the Eastern Partnership sets in the domain of foreign trade?

### **1. Indicators open economy in contemporary forms of integration**

Eastern Partnership consisted of 28 member countries of the EU and Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova and Ukraine. Within the framework of this partnership are implemented political, social and economic reforms which are based on common values and have got three objectives: accelerating political association, furthering economic integration between the EU and its eastern neighbors and providing for citizen's mobility.

The situation in the relations between the EU and the Eastern Partnership conditions on the forming of new economic trends and tendencies. Therefore, establishing new relations in international trade contributes to the strengthening or weakening of the concept of open economy. The paper analyzes some indicators of economic openness and relations between countries with other countries within blocks or alliances: the volume of foreign trade, the share of foreign trade partners in the realized exchange and import/export as part of GDP.

#### ***1.1. The volume of foreign trade***

Analysis of the volume of foreign trade of Russia in the previous five-year period (2011 to 2015) indicates a decrease in the volume and value of trade in relation to the year 2011. The largest decrease value of import and export was recorded in 2015 when imports dropped by 42% and exports by 35% compared to 2011 (Table 1).

Analysis of the volume of foreign trade in the EU (Table 2) shows a decrease in the volume and value of import while export recorded a significant reduction in 2015. Export in 2014 was higher compared to 2011.

Analysis of the volume of foreign trade in Ukraine (Table 3) shows a decrease in the volume and value of import but only in 2015. In previous years, the increase recorded in what is the largest

recorded in 2013. Export is decreasing but is not yet recorded export value which is less than the amount in 2015 (all indices are over 100).

**Table 1 - Movement of import and export of Russia from 2011 to 2015 (US Dollar)**

Year	The value of imports	Index (2011=100)	The value of exports	Index (2011=100)
2011	306.091.490	100	516.992.618	100
2012	316.192.918	103	524.766.421	101
2013	314.945.095	102	527.265.919	102
2014	286.648.777	94	497.833.529	96
2015	177.292.663	58	333.501.801	65

Source: The International Trade Centre database, <http://www.trademap.org/>

**Table 2 - Movement of import and export of EU from 2011 to 2015 (US Dollar)**

Year	The value of imports	Index (2011=100)	The value of exports	Index (2011=100)
2011	6.234.535.082	100	6.078.138.553	100
2012	5.825.056.461	93	5.796.407.018	95
2013	5.875.833.221	94	6.058.563.940	99
2014	6.001.790.604	96	6.135.040.532	101
2015	5.194.361.489	83	5.372.239.298	88

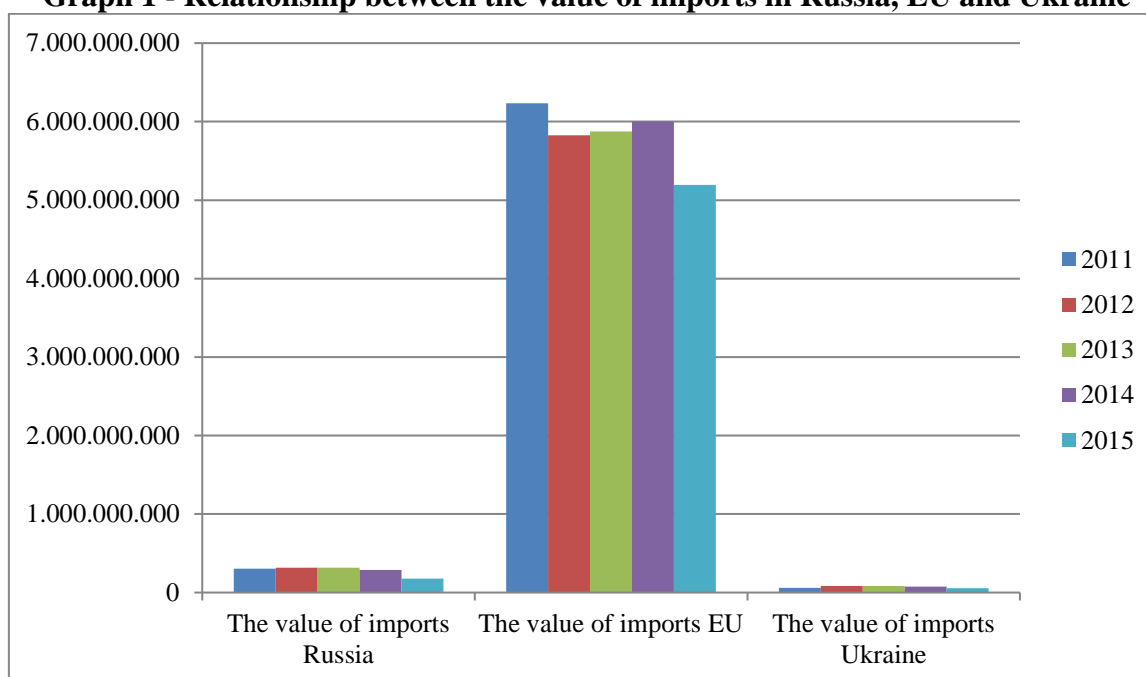
Source: The International Trade Centre database, <http://www.trademap.org/>

**Table 3 - Movement of import and export of Ukraine from 2011 to 2015 (US Dollar)**

Year	The value of imports	Index (2011=100)	The value of Exports	Index (2011=100)
2011	60.737.135	100	51.430.286	100
2012	82.607.537	136	68.393.034	133
2013	84.656.667	139	68.694.495	134
2014	76.986.013	127	63.320.469	123
2015	54.381.409	89	53.913.302	105

Source: The International Trade Centre database, <http://www.trademap.org/>

Analysis of the volume of foreign trade is one of the segments of analysis mutual relations within the EU, Ukraine and Russia. However, the existence of other economic problems can be viewed through the prism of trade policy. These are firstly, adverse changes in the GDP, employment and investments. Negative changes in external trade will not be the same volume and intensity to touch all countries taking into account the total value of their imports and exports. Thus, the EU exports 12 times higher than Russia's exports and 96 times from exports of Ukraine. Imports were 20 times higher than Russia's imports and 81 times Ukraine on imports (Graph 1).

**Graph 1 - Relationship between the value of imports in Russia, EU and Ukraine**

Source: author's representation using The International Trade Centre database

### *1.2. The share of foreign trade partners in the realized exchange*

Analysis of the participation foreign trade partners of Russia in the imports shows the largest share of China and Germany with more than one-quarter exchange. However, analysis of the ten most important foreign trade partners shows that all countries in 2014 reduced their participation in the exchange (except for United States of America and Kazakhstan, but they reduce imports in 2015).

Among the ten most important foreign trade partners three are EU member states. Analysis of relations between Russia and the EU shows the impact of sanctions and against sanctions to the volume of foreign exchange. EU imposes sanctions on Russia in March 2014 due to the annexation of Crimea.

However, certain products despite the ban on import arriving to Russia from neighboring countries (Belarus) which represents the development of re-export. Russia has imposed sanctions and embargo on EU, sanctions on France and Ukraine, against sanctions to Montenegro, Albania, Iceland, Liechtenstein and Ukraine and the ban imports from the Netherlands.

Analysis of relations between Russia and the countries of the Eastern Partnership in imports shows that Ukraine is the eighth partner with a share of 5% in the period from 2011 to 2015. Other countries don't have greater importance of foreign trade (Georgia is 65, Armenia 66 and Moldova 69 partner).

Analysis of exports by foreign trade partners shows the highest participation Netherlands and China. Ukraine is at the value of exports from Russia 12 trading partner with a share of 2.85% (Armenia is 49, Moldova 51 and Georgia 57 partner). Suspension of free trade agreements with Ukraine in 2015 will affect to reduce the participation of Ukraine in the foreign trade activities of Russia.

**Table 4 - The ten most important foreign trade partners of Russia to import and export from 2011 to 2015 (US Dollar)**

Import						
Partner countries	2011	2012	2013	2014	2015	%
China	48.038.378	51.767.694	53.173.086	50.853.010	34.077.598	17
Germany	37.436.682	38.289.660	37.904.569	32.947.335	19.909.557	12
United States of America	12.881.410	15.505.298	16.717.711	18.594.395	10.814.961	5.3
Belarus	14.508.643	12.991.857	13.959.262	12.316.244	8.445.717	4.4
Italy	13.296.465	13.433.189	14.563.302	12.683.365	8.102.874	4.43
Japan	15.012.611	15.676.090	13.560.500	10.917.410	6.661.581	4.41
France	9.825.079	13.806.116	13.021.468	10.551.969	5.766.354	3.78
Ukraine	20.000.466	17.955.443	15.790.890	10.714.366	5.547.517	5
Kazakhstan	6.912.746	9.409.256	5.664.931	7.172.377	4.656.477	2.41
Korea, Republic of	11.575.682	10.976.879	10.305.436	8.972.462	4.461.377	3.3
Export						
Partner countries	2011	2012	2013	2014	2015	%
Netherlands	61.240.029	76.036.014	69.259.511	66.683.274	38.670.526	13
China	34.692.362	35.766.830	35.625.420	37.414.604	27.308.038	7.12
Germany	22.766.472	24.039.166	22.962.139	24.950.268	24.638.146	4.97
Italy	27.902.346	28.018.170	29.164.844	28.991.185	21.795.936	5.66
Turkey	15.086.788	16.103.173	15.122.092	14.755.154	19.145.807	3.34
Belarus	24.930.203	21.380.405	16.870.228	16.539.841	15.038.038	3.95
Japan	14.234.690	15.588.027	19.667.508	19.830.781	14.190.916	3.48
Korea, Republic of	13.329.721	13.865.479	14.867.070	18.081.831	13.091.553	3.05
Kazakhstan	14.173.690	14.892.490	17.218.175	13.862.274	10.451.073	2.94
Poland	21.194.164	19.753.359	19.408.184	15.760.463	9.512.996	3.57

Source: The International Trade Centre database, <http://www.trademap.org/>

Analysis of the participation foreign trade partners of the EU in the realized imports shows the largest share Germany, United Kingdom and France which to achieve about 40% of total trade. The relationship between partners in terms of participation in foreign trade has not significantly changed in the last five years, but all countries reduced in 2015 the value of imports compared to the previous year.

Analysis of the participation foreign trade partners in exports shows the largest share Germany, Netherlands and France which to achieve over 45% of total exports. All countries reduced their participation and the value of exports in 2015.

**Table 5 - The ten most important foreign trade partners of EU to import and export from 2011 to 2015 (US Dollar)**

Import						
Partner countries	2011	2012	2013	2014	2015	%
Germany	1.260.297.537	1.161.213.213	1.187.314.564	1214955667	1.056.340.529	20.18
United Kingdom	717.606.233	689.137.011	657.222.528	694.344.323	629.228.889	11.63
France	720.457.190	675.085.211	681.545.292	676.940.135	572.693.106	11.42
Netherlands	594.722.586	587.513.399	589.746.624	589.735.299	506.971.551	9.85
Italy	558.831.982	489.104.116	479.336.353	474.082.559	408.971.013	8.27
Belgium	467.222.955	439.567.335	451.730.083	454.859.752	379.123.999	7.53
Spain	362.834.519	325.835.176	332.266.846	350.977.773	305.266.032	5.76
Poland	210.723.386	199.258.268	207.631.110	223.786.654	194.238.024	3.56
Austria	191.532.282	178.691.580	183.298.994	182.097.196	155.591.292	3.06
Sweden	176.944.638	164.542.409	160.588.788	162.220.676	137.986.742	2.75
Export						
Partner countries	2011	2012	2013	2014	2015	%
Germany	1.482.202.274	1.410.129.633	1.450.950.921	1.498.157.778	1.331.193.671	24.36
Netherlands	667.501.474	656.028.757	671.633.593	673.007.893	567.700.354	10.99
France	596.825.675	569.273.198	581.026.740	580.758.163	506.130.343	9.63
United Kingdom	517.288.693	481.225.754	548.041.853	511.145.443	465.921.609	8.57
Italy	523.256.296	501.528.851	518.095.103	529.528.733	458.751.239	8.59
Belgium	475.956.377	446.384.629	468.814.580	472.554.246	400.249.590	7.69
Spain	298.170.964	285.936.446	310.963.648	318.649.312	278.122.010	5.07
Poland	188.809.418	185.558.854	205.007.562	220.262.067	198.323.753	3.39
Czech Republic	162.391.721	156.422.743	161.524.152	174.279.452	155.677.685	2.75
Austria	177.534.038	166.777.447	175.176.378	178.337.444	152.914.141	2.89

Source: The International Trade Centre database, <http://www.trademap.org/>

Analysis of the participation foreign trade partners of Ukraine in the realized imports shows a dominant share of Russia's (30%). The second and third partners are China and Germany, but their participation is three times less than Russia's. However, the value of imports of Russia's in 2015 reduction of 45% compared to 2014. The other trade partners have reduced the value of imports, but not to the degree, as well as, Russia.

Analysis of exports Ukraine shows dominant participation of Russia. However, the value of exports to Russia is decreasing since 2012 with the greatest decrease in 2015 from the 35%.

**Table 6 - The ten most important foreign trade partners of Ukraine to import and export from 2011 to 2015 (US Dollar)**

Import						
Partner countries	2011	2012	2013	2014	2015	%
Russian Federation	22.198.006	29.132.198	27.418.296	23.243.994	12.678.683	32
China	4.700.390	6.268.325	7.899.576	7.903.219	5.408.879	8.95
Germany	4.602.823	6.865.667	6.807.070	6.772.748	5.360.106	8.46
Belarus	2.567.589	4.211.750	5.068.567	3.605.256	3.971.111	5.40
Poland	2.788.802	3.183.387	3.567.072	4.074.125	3.067.345	4.64
United States of America	1.772.945	2.600.758	2.914.260	2.770.420	1.931.904	3.34
Italy	1.390.344	2.005.849	2.235.233	2.087.345	1.509.461	2.56
Hungary	1.214.631	1.326.707	1.159.534	1.400.578	1.463.888	1.83
Turkey	1.298.282	1.481.219	1.951.858	1.852.897	1.298.157	2.19
France	1.108.769	1.504.474	1.667.216	1.730.584	1.267.296	2.02
Export						
Partner countries	2011	2012	2013	2014	2015	%
Russian Federation	13.431.880	19.819.713	17.631.749	15.077.259	9.799.144	24.77
Turkey	3.026.601	3.748.622	3.685.113	3.805.541	3.561.436	5.83
Egypt	1.327.994	1.335.647	2.898.250	2.720.561	2.862.068	3.64
China	1.316.550	2.180.034	1.777.169	2.726.653	2.674.118	3.49
Poland	1.787.222	2.794.085	2.576.195	2.547.824	2.645.031	4.03
Italy	2.413.285	3.041.387	2.481.642	2.360.085	2.470.973	4.17
India	1.426.038	2.265.303	2.290.932	1.974.622	1.817.438	3.19
Belarus	1.899.198	1.922.320	2.251.119	1.983.697	1.617.139	3.16
Germany	1.499.469	1.763.907	1.644.879	1.603.740	1.590.570	2.65
Hungary	860.084	1.340.723	1.510.219	1.556.952	1.510.170	2.22

Source: The International Trade Centre database, <http://www.trademap.org/>

### ***1.3.Import/export as part of GDP***

Indicator import/export as part of GDP shows the level of openness/closeness of the economy or the sufficiency of domestic production and the need for imports. However, due to the performance of intra-industry trade, this indicator should be understood conditionally.

The world economy is faced with a decrease in GDP since 2009 and its amount was affected by the global financial and economic crisis (Eurostat, 2015). On this basis can be explained by the growth of imports as part of GDP.

Analysis of export as part of GDP shows that the largest part of production is exported Belorussia, Ukraine and Moldova. In other countries exported about 1/3 of domestic production.

The import value of GDP has the biggest share in Moldova, Belarus, Georgia and Ukraine. The biggest difference between the attitude of imports and exports as part of GDP occurs in Moldova and Georgia.

**Table 7 - Exports of goods and services (% of GDP)**

Countries	1990	2000	2007	2008	2009	2010	2011	2012	2013	2014	2015	x
Russian Federation	18.2	44.1	30.2	31.3	27.9	29.2	28.3	27.4	26.6	27.5	29.5	29
Ukraine	27.6	62.4	44.8	46.9	46.4	50.7	49.8	47.7	43.4	49.2	52.8	47
Armenia	35.0	23.4	19.2	15.0	15.5	20.8	23.8	27.6	28.4	28.5	29.7	24
Azerbaijan	43.9	39.0	68.1	65.8	51.6	54.3	56.4	53.7	48.7	43.3	37.8	51
Belarus	46.0	69.2	60.9	60.9	50.5	53.2	81.1	81.3	60.3	56.9	60.1	62
Georgia	40.0	23.0	31.2	28.6	29.7	35.0	36.2	38.2	44.7	42.9	45.0	36
Moldova	48.2	49.8	47.5	40.8	36.9	39.2	45.0	43.5	43.3	41.5	43.4	44
Serbia	-	9.9	28.4	29.1	26.8	32.9	34.0	36.9	41.2	43.4	47.7	33

Source: World Bank database, World Development Indicators

**Table 8 - Imports of goods and services (% of GDP)**

Countries	1990	2000	2007	2008	2009	2010	2011	2012	2013	2014	2015	x
Russian Federation	17.9	24.0	21.5	22.1	20.5	21.1	20.1	20.6	21.0	20.9	21.2	21
Ukraine	28.7	57.4	50.4	54.9	48.0	53.6	56.4	56.4	52.7	53.2	54.8	52
Armenia	46.3	50.5	39.2	40.7	43.0	45.3	47.4	48.4	48.2	46.9	41.3	45
Azerbaijan	39.2	38.4	28.5	23.5	23.1	20.7	24.1	25.6	26.9	26.2	34.8	28
Belarus	43.6	72.4	67.2	68.7	61.8	66.9	82.2	76.7	63.5	57.7	59.1	65
Georgia	45.3	39.7	58.0	58.4	48.9	52.8	54.8	57.8	57.6	60.5	64.9	54
Moldova	50.6	75.4	97.1	93.6	73.5	78.5	85.8	83.9	80.6	78.5	73.7	79
Serbia	-	14.3	52.7	54.1	42.7	47.9	49.4	53.6	51.9	54.2	57.4	40

Source: World Bank database, World Development Indicators

## 2. Role of the Eastern Partnership in contemporary foreign trade

Key strengths of the Eastern Partnership are reflected in the abolition of tariffs and quotas what will lead to a general liberalization of foreign trade and the realization the free movement of goods. DCFTA-Free Trade Agreement EU and Ukraine signed on 27 June 2014 in the framework of the Association Agreement (AA) EU and Ukraine. According to the Agreement states are obliged to: the progressive elimination of tariffs and quotas and harmonization of Ukrainian legislation and standards in the various sectors with that of the EU. Agreement provisionally entered into force on 01 January



2015. Customs tariffs on imported products in Russia amounted to 6.8%, in Ukraine (4.3%), Armenia (4.6%), Azerbaijan (8.5%) and Belarus (6.3%).

Opportunities of the Eastern Partnership will increasingly contribute to faster economic and commercial development of the member states as they can on the basis of multilateral trade agreements and trilateral talks to bring about the growth of foreign trade and improving economic indicators.

Weaknesses include sub-blocks in partnership, sanctions, failure to comply with the agreement and lack of interest for further EU expansion. Threats related to the impact of the political crisis, the unstable political environment and embargo to carry out economic and trade policy.

Through the further development of foreign trade in the framework of the Eastern Partnership, as well as the attitude of countries towards Russia and the EU, it is necessary to minimize the impact of weaknesses and threats to carry out economic and trade policy.

**SWOT analysis**

Strengths	Weaknesses
The abolition of tariffs and quotas The liberalization of foreign trade Increase in foreign trade	Sub-blocks in partnership Sanctions Failure to comply with the agreement
Opportunities	Threats
Multilateral trade agreements The growth of macroeconomic indicators Enlargement EU	Economic crisis The unstable political environment Import ban (embargo)

Source: author's representation

Using cost-benefit analysis in terms of the assessment of damages and benefits for Russia, Ukraine and the EU shows that all countries have common damage: the reduction of imports, exports and rate of GDP. Dominant participation of Russia as a partner for foreign trade relations with Ukraine will require finding alternative markets or strengthen other trade partners.

Analysis of trade between trading partners shows the unequal importance of foreign trade for mutual market participants in the exchange. In addition, changes in economic and political situation between the partner countries are not affected in the same intensity to all participants in the exchange.

Terms of trade which are the gains for Russian Federation are achieved with Azerbaijan and Georgia. Ukraine achieved more favorable terms of trade of Russia with a greater number of countries, particularly with Azerbaijan, Moldova and Belarus.

Other member countries of the Eastern Partnership mostly were realized higher exports than imports.

**Table 9 – Relationship exchanges as indicators of losses on the foreign market (2011-2015)**

Countries	Russian Federation	Ukraine	Armenia	Azerbaijan	Belarus	Georgia	Moldova	Serbia
Russian Federation								
Ukraine	0.79							
Armenia	0.59	0.85						
Azerbaijan	1.62	1.40	6.79					
Belarus	0.94	1.02	0.86	1.17				
Georgia	1.27	0.91	1.68	2.16	1.01			
Moldova	0.82	1.36	1	0.98	1.23	2.35		
Serbia	0.43	0.87	0.53	2.53	0.95	1.19	0.2	

Source: author's representation using The International Trade Centre database

The benefits of foreign trade are related to the emergence of new trading partners, reducing import rate and shortening the time required to perform the import operations.

### 3. Serbia's position in relations with the EU and Russia

Serbia has signed the Stabilization and Association Agreement (2011) which is committed to the reform and harmonization of foreign policy with the provisions of the EU. Foreign political activity is based on: the joint interests of member states and joint value framework the EU.

Serbia has increased in 2015 its trade integration with the EU. The EU has increased its trade with Serbia so that is the main trading partner of the country, which accounts for 69% of total exports and 61% of total imports of goods. The EU is also a major source of foreign direct investment for a share of three quarters (European Commission, 2015).

EU in 2015 published a total of 40 declarations which called on third countries to the harmonization of which ten declarations related to Ukraine or Russia. Serbia has not complied with any of these ten declarations (policy of non-interference in connection with the conflict in Ukraine and to the sanctions for Russia). Specific position of Serbia towards Russia can be the contribution of the EU. Serbia's participation in the military parade marking the 70th anniversary of victory over fascism in World War II in May 2015 caused a negative reaction of the EU. Also, the EU was against the joint military exercises Serbia, Russia and Belarus in September the 2015. Serbia should act in accordance with their obligations under the EU accession process.

## **Conclusion**

Questioning reconceptualization of the Eastern Partnership is topical in modern conditions, especially having in mind the relations of Ukraine and Russia, Russia and the EU, Serbia towards Russia and the EU.

Currently, estimate that more than the number of claims benefit from those relations in any event affected the achieved mutual partnership and bilateral and multilateral relations. In the coming years can expect a greater number of sub-blocks of the EU sanctions and against sanctions Russia to EU countries, as well as, the requirements for Serbia to take a clear stance towards Russia, that the fulfillment of the obligations related to joining the EU.

Failure to relations between the partners within the framework of foreign trade agreements will affect the continued reduction in the volume of foreign trade and opening new markets.

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