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Perspectives of EU-CIS economic relations

1. Introduction

The purpose of this paper[1] is to examine economic aspects of the EU Eastern neighborhood, i.e. the complexity of bilateral relations between the enlarged EU and CIS countries in the spheres of trade, investment, labor movement, technical cooperation, and influence of the Union's economic and institutional model on the course of CIS economic reforms and institutional modernization.

We use the name of the Commonwealth of the Independent States and its abbreviation CIS for purely analytical convenience – to define a group of twelve successor countries of the former USSR (all former Soviet republics apart from the Baltic one, which are now the EU members). Although they have, to a large extent, a common historical and institutional background (at least in most of 20th century) their development strategies as well as political and economic systems have become increasingly divergent one from other after gaining independence. We are also aware that the role CIS as the regional integration block founded at the end of 1991 in order to provide a "velvet divorcement" of the former USSR is gradually decreasing[2].

The paper briefly summarizes the early results of the Specific Targeted Research Project (STREP) on "EU Eastern Neighborhood: Economic Potential and Future Development (ENEPO)" funded under the EU Sixth Framework Program, Priority 7 "Citizens and Governance in a Knowledge Based Society", Contract No 028736 (CIT5) and conducted by a consortium of 11 research institutes led by CASE – Center for Social and Economic Research in Warsaw.

Section 2 of this paper characterizes the economic importance of both regions in their bilateral economic relations. Section 3 analyzes the basic conceptual foundations of the European Neighborhood Policy, the new external policy framework of the enlarged EU. Section 4 provides a brief note on the special partnership framework between EU and Russia. In section 5 we discuss directions of enhancing and upgrading the ENP and EU-CIS economic relations. Finally, Section 6 offers brief conclusions.

2. Geopolitical and economic importance of CIS region for the EU and vice versa

The 2004 and 2007 EU enlargements moved the EU external borders to the East and Southeast, changing radically the EU's geopolitical and economic perception of the CIS region and its potential importance as economic and political partner (particularly for the EU new member states).

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[1] This is written version of my presentation at the VIII Annual International Conference of the High School of Economics, Moscow, April 3-5, 2007.

[2] This group of countries is also called sometimes as the New Independent States (NIS). However, as more than 15 years passed from the end of 1991 when they obtained independence this notion also does not sound accurate. The ambitious task of finding a more appropriate name of this regional group is outside the agenda of this paper.

Until these enlargements CIS countries formed the second, outer 'ring' of the EU neighbors, being geographically separated from the EU by the EU accession countries of Central and Eastern Europe. Their economic and political importance for EU-15 was quite limited with an exception of Russia, the largest (territorially) country in the world with huge natural resources and nuclear weapon, directly bordering with one of the EU members (Finland).

Simplifying, the EU-15 real economic and foreign policy interests in cooperation with CIS countries concentrated mostly on oil and natural gas supply from Russia, and on a relative geopolitical stability of the post-Soviet area (avoiding proliferating of regional and ethnic conflicts).

The picture changed with the Eastern Enlargement of the EU. First, in purely geographical terms four CIS countries – Russia, Ukraine, Belarus and Moldova – became the direct EU neighbors sharing long land borders. In a slightly longer time horizon, with Turkey's accession, three Caucasian countries (Armenia, Azerbaijan and Georgia) will also start to share their land borders with the EU. Already now they share the Black Sea border with the enlarged EU. It means that all but Central Asian CIS countries already moved or will move geographically from the second to the first ring of EU neighbors.

Most of the new members states (NMS) of the EU share much of common political and economic history with countries of the former USSR, not only because of the unfortunate communist experience of the second half of the 20th century. Some of them were, before the World War I, part of the Russian empire (part of Poland, Baltic countries, Finland). There are close ethnic and cultural links between NMS and EU candidate countries on the one hand and CIS countries on the other (Romania – Moldova, Poland – Belarus and Ukraine, Russian speaking minority in Baltic countries, Turkey – Azerbaijan and most of post-Soviet Central Asia).

Looking at the aggregate trade indicators, CIS importance for the EU-27 is not much higher than it was for EU-15. This is a result of the limited economic potential of both NMS and CIS. In 2003 the NMS-10 constituted only 4.7% of EU-25 total GDP and small share of its total extra-EU export. On the other hand, even including Russia, the overall CIS share in the world economy is quite limited. It accounted for 3.7% of world GDP in 2003 (PPP-based estimation) and 2.3% of global export (see WEO, 2004; Table A).

According to European Economy (2005) only 2.2% of the total exports of EU-25 in 2004 was directed to CIS (see **Table 1**). For comparison, another EU 'neighborhood' region – the Middle East and North Africa (MENA) accounted for only slightly higher share of EU-25 countries exports – 3.8% on average. In CIS countries the shares of EU export in their total export are higher, sometimes much higher, as illustrated by **Table 2**. Such an asymmetry can be considered as normal when less-developed or middle-income countries representing a limited economic potential[3] trade with a large developed partner or large and highly integrated trade block.

[3] This characteristic also applies to Russia in spite of its largest territory in the world and its geopolitical importance. The total nominal size of Russia's 2005 GDP of USD 763 billion (calculated in current exchange rate) is close to that of Australia (USD 709 billion), Mexico (USD 768 billion), India (USD 772 billion), Korea (USD 778 billion) and Brazil (USD 796 billion) - WEO 09_2006 database http://www.imf.org/external/pubs/ft/weo/2006/02/data/index.aspx

Table 1

Directions of Exports of Goods, 2004, World=100%

	EU-25	Acceding/ Candidate Countries	CIS	MENA
EU-25	68.3	2.4	2.2	3.8
Belgium	77.8	1.3	0.9	3.1
Czech Republic	83.8	3.0	2.4	1.6
Denmark	68.5	1.0	1.8	2.5
Germany	64.6	2.7	2.8	3.0
Estonia	74.6	0.6	11.5	0.5
Greece	60.1	15.6	3.3	7.0
Spain	75.2	2.5	0.9	5.2
France	67.1	2.0	1.4	6.8
Ireland	63.2	0.5	0.3	1.3
Italy	60.4	4.8	2.6	6.3
Cyprus	64.9	2.8	2.8	17.6
Latvia	75.9	0.1	7.8	1.0
Lithuania	61.3	2.1	15.2	0.1
Luxembourg	90.4	0.7	0.8	1.0
Hungary	80.7	6.0	3.2	2.2
Malta	44.5	2.4	0.1	5.2
Netherlands	81.0	1.4	1.6	2.3
Austria	72.4	4.2	2.4	1.8
Poland	79.1	3.1	7.9	1.2
Portugal	80.8	0.9	0.3	1.8
Slovenia	73.3	11.1	5.1	2.1
Slovakia	85.7	2.9	2.8	0.5
Finland	58.3	1.1	9.9	4.7
Sweden	59.1	1.3	2.1	3.2
United Kingdom	57.0	1.6	1.3	5.0

Source: European Economy 2005, No. 5, Table 57

Table 2: Share of export to EU-25 in total country's export

Country	2004
Armenia	38.2
Azerbaijan	65.2
Belarus	37.0
Georgia	30.1
Kazakhstan	31.7
Kyrgyzstan	4.9
Moldova	38.3
Russia	50.4
Tajikistan	32.4
Ukraine	27.4
Uzbekistan	17.4

Source: ENEPO WP1 database; UNCTAD Statistical Handbook 2005.
http://stats.unctad.org/Handbook/ReportFolders/ReportFolders.aspx

However, the aggregate and average statistics presented in **Table 1** may be misleading, for at least three reasons.

First, the concept of EU-25 exports in this table also includes an intra-Union trade, which accounts for 68.3% of total (even slightly more if Bulgaria and Romania are included). Thus, analyzing the structure of EU external trade the shares of non-EU countries/ regions should be at least tripled.

Second, **Table 1** demonstrates that some of the EU member countries represent higher share of trade with the CIS than Union's average. This relates to three Baltic countries, Poland, Finland, Bulgaria and Slovenia. Consequently, these countries can gain more from development of EU-CIS trade relations. However, they are also more vulnerable *vis a vis* any potential episodes of political, economic or social destabilization in CIS[4].

CIS countries also differ themselves in terms of importance of their trade relations with the EU (see **Table 2**). In 2004 the share of export to EU in total country's export varied from 4.9% in Kyrgyzstan to 65.2% in Azerbaijan. Russia goes the second in this ranking with the share of 50.4%. However, in most cases the high share of export to the EU is determined by just one commodity/ group of commodities: energy resources in case of Azerbaijan. Kazakhstan and Russia, aluminum in Tajikistan, diamonds in Armenia, metal products in Ukraine. The monoculture structure of CIS countries export can be considered as a serious source of their potential vulnerability to external shocks.

Third, a special importance of energy sector must be also taken into account. Many EU countries are very much dependent on import of the CIS energy resources from Russia and, to a smaller but systematically increasing extent – also from the Caspian Sea region. In 2004, Russia supplied around 40% of all EU gas imports, 32% of all EU oil imports and around 17% of coal imports (Eurostat, 2006). Individual EU countries represent even higher dependence on energy import from CIS, particularly from Russia. For example, in 2004 imported Russian gas accounted for more than 80% of all consumed gas in the Czech Republic, Finland, Greece, Lithuania and Slovakia (see Jakubiak and Paczynski, 2007). On the other hand, energy export plays a crucial role in countries such as Azerbaijan (around 90% of total export), Russia, Kazakhstan, Turkmenistan and - to a lesser extent – Uzbekistan.

Going beyond trade in goods and services, labor migration from CIS to EU represents another potentially important field of economic cooperation. In spite of restrictive migration and visa policies in the EU the flow of labor migrants (mostly irregular or illegal) from European CIS countries to the EU is systematically increasing.

Similarly to trade flows, they have an asymmetric impact on both sides and their importance differs country by country. For the EU as the whole, the immigrants of CIS origin constitute still a small share of a total migrant inflow (in spite of their systematically growing number) and labor force, much smaller comparing to intra-Union flows (especially from the EU NMS to OMS) or migration from Middle East, Africa or Asia. However, migration flows from CIS are unevenly distributed between EU member countries with most of them going to NMS and Mediterranean countries[5].

Looking at the "export" side, outgoing migration became a serious economic and social phenomenon for some low-income CIS countries where one quarter to one third of population in working age works abroad at least on seasonal basis – in Russia, EU, Turkey and other countries (Kazakhstan in case of Central Asian migrants). Emigrants remittances

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[4] At the beginning of 1990s former CMEA countries and Finland have been heavily affected by a disruption of this trade block (based on inter-government trade protocols and special payment mechanism) and collapse of the USRR. The next shock originating from CIS region - the 1998 Russian and CIS financial crisis – had already less severe and more differentiated impact. Although Central European and Baltic countries managed to avoid a direct contagion effect in respect to their currencies and financial markets (unlike most of CIS countries), some of them suffered substantial export and GDP losses. This relates, in first instance, to Baltic countries and (to lesser extent) to Poland and Bulgaria.

[5] Factor of geographical, cultural and language proximity plays an important role here. Ukrainian labor migrants prefer, for example, countries of Central Europe such as Czech Republic, Poland or Slovakia (but many of them works also in Spain or Portugal) while Moldovan migrants choose very often Roman language speaking countries.

constitute a substantial portion of GNP and important balance-of-payment item. In the case of Moldova the outflow of labor force amounts to approximately one quarter of the working-age population, and remittances accounted for one third of GNP in 2006 (see Luecke, 2007). According to the same research remittances amounted to 14% of GNP in Georgia and 17% in Kyrgyzstan. Other sources differ in terms of exact figures (see **Table 3** based on UNCTAD database) what is hardly surprising taking into consideration unofficial character of labor migration and various channels of transferring remittances to home country (mostly outside the banking sector).

Table 3: Labor remittances as %of GDP

Country	2004
Armenia	14.11
Azerbaijan	3.59
Belarus	0.53
Georgia	7.08
Kazakhstan	0.19
Kyrgyzstan	8.66
Moldova	38.83
Russia	0.48
Tajikistan	15.40
Ukraine	0.75

Note: Workers' remittances are goods and financial instruments transferred by migrants living and working (being residents) in a new economy to residents of the home economy.

Source: ENEPO WP1 database; UNCTAD Statistical Handbook 2005.
http://stats.unctad.org/Handbook/ReportFolders/ReportFolders.aspx

Finally, capital flows have importance for CIS countries as the potential importers of capital and sometimes (due to capital flight) also exporters. For the EU economies size of capital movement between them and CIS represents a negligible scale.

For many years CIS countries lagged behind countries of Central and Eastern Europe in attracting foreign direct investment (FDI). This was mainly due to poor business and investment climate in this region caused by high inflation, high fiscal deficits, currency instability, poor property rights protection, insiders-oriented privatization, numerous bureaucratic obstacles (including those directly affecting foreign investors), delays in adopting market-oriented legislation and its effective enforcement, pervasive corruption, fragile financial sector, underdeveloped infrastructure and many others. Substantial part of recorded FDI had, in fact, post-Soviet origin even if formally recorded as coming from other countries (repatriation of capital, which earlier fled CIS countries). Most of investments was concentrated in just few sectors like energy or mobile telephony.

The situation started to change quite recently, in mid of 2000s, with rapid capital inflows to the biggest economies such as Russia, Ukraine and Kazakhstan. Their sectoral destination is much broader than before including various manufacturing industries, retail trade, financial services, etc. FDI are accompanied by increasing portfolio capital flows (see Lozovyi and Kudina, 2007).

On the other hand, some smaller CIS economies managed to increase FDI flows either due to investment into energy sector (Azerbaijan), or as result of privatization and some improvement of investment climate (Armenia, Georgia and Moldova). However, CIS countries continue to experience a substantial gap in the size of FDI flows not only in respect to EU NMS but also to countries of South-Eastern Europe (see **Table 4**).

Table 4: Foreign direct investment, inward stock, 2005

Countries	**Per capita in USD**	**% of GDP**
EU NMS		
Bulgaria	1185.0	34.3
Cyprus	10496.7	52.7
Czech Republic	5831.4	48.1
Estonia	9125.9	93.6
Hungary	6068.7	55.9
Latvia	2079.5	28.7
Lithuania	1891.9	25.1
Malta	10380.8	77.3
Poland	2445.4	31.1
Romania	1101.0	24.2
Slovakia	2844.5	32.8
Slovenia	4035.9	23.7
EU Candidate countries		
Croatia	2816.0	33.3
Macedonia	924.3	37.5
Turkey	580.6	11.6
EU Potential candidates		
Albania	536.9	20.1
Bosnia and Herzegovina	528.9	21.9
Serbia and Montenegro	664.6	20.7
CIS countries		
Armenia	406.1	32.5
Azerbaijan	1689.9	110.5
Belarus	243.7	8.1
Georgia	518.4	36.3
Kazakhstan	1660.6	44.8
Kyrgyzstan	101.2	21.4
Moldova	268.4	37.9
Russia	925.5	17.3
Tajikistan	80.2	22.6
Ukraine	365.3	21.1
Uzbekistan	36.2	8.2

Source: ENEPO WP1 Database; UNCTAD Foreign Direct Investment database (http://stats.unctad.org/fdi/); UNCTAD World Investment Report 2006.

3. European Neighborhood Policy – A Basic Conceptual Framework

In 2004, simultaneously with the first and main phase of the EU Eastern Enlargement, the European Commission proposed European CIS and Southern Mediterranean countries the new cooperation framework under the name the European Neighborhood Policy (ENP), with the declared objective of avoiding the emergence of new dividing lines between the enlarged EU and its old and new direct neighbors and strengthening stability, security and well-being in the entire mega-region.

According to the official public statement[6], the EU offers its neighbors "…*a privileged relationship, building upon a mutual commitment to common values (democracy and human rights, rule of law, good governance, market economy principles and sustainable development). The ENP goes beyond existing relationships to offer a deeper political relationship and economic integration. The level of ambition of the relationship will depend on the extent to which these values are effectively shared*". Originally this general declaration was followed by a clear statement that the ENP is not about next EU enlargement and does not offer an EU accession perspective. Recently it was replaced by a more flexible approach telling that "*the ENP remains distinct from the process of enlargement although it does not prejudge, for European neighbors, how their relationship with the EU may develop in future, in accordance with Treaty provisions.*" So the door became hypothetically opened for those CIS countries, which became beneficiaries of the ENP (see below) and will be determined to harmonize their political, economic and legal systems with *acquis*. This seems to be, however, a very distant and unclear perspective, especially if one takes into consideration a phenomenon of "enlargement fatigue" observed recently in some countries of Western Europe[7].

According to the ENP Strategy Paper (p.14)[8] the ENP offers "... *neighbouring countries the prospect of a stake in the EU Internal Market* [underlined by MD] *based on legislative and regulatory approximation, the participation in a number of EU programmes and improved interconnection and physical links with the EU*". However, so far there is no clear interpretation what can "*a stake in the EU Internal Market*" mean in practice.

Furthermore, taking into consideration poorly developed institutional basis of trade and economic relations between the EU and CIS countries (based only on Partnership and Cooperation Agreements signed in 1990s) it is very unlikely that the ENP can offer the latter a fast-track and full participation in the EU internal market, similar to that of Norway, Iceland or Switzerland. A gradual building up of these relations based on more or less "deep" free trade agreements (FTA) and selective participation in some segments of EU internal market, a process which will take at least one decade, seems to be a more realistic option at the moment.

Recent ENP official documents[9] put a greater emphasis on necessity to use this institutional framework as a tool of modernization and support to economic and institutional reforms in neighborhood countries. Again, no concretes have followed yet.

The ENP is conducted through bilateral Action Plans and principle of bilateralism is deeply rooted into this policy framework, contrary to regional approach, which governed the recent EU Eastern Enlargement. This does not mean, however, that third-country externalities of bilateral agreements will be completely neglected. For instance, some form of coordination on the EU side of future FTA negotiations with Russia and Ukraine is not excluded. Simultaneous negotiations and signing actions plans between the EU and all three Caucasus

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[6] http://ec.europa.eu/world/enp/policy_en.htm

[7] This anti-enlargement sentiment works particularly strongly against EU membership aspiration of Turkey, for historical and cultural reasons. However, one can expect a similar reaction in respect to hypothetical EU membership aspiration of Ukraine, Moldova or Caucasus countries.

[8] http://ec.europa.eu/world/enp/pdf/strategy/strategy_paper_en.pdf

[9] See e.g. "Strengthening the European Neighborhood Policy. Presidency Progress Report", General Affairs and External Relations Council (GAERC), June 18-19, 2007, http://register.consilium.europa.eu/pdf/en/07/st10/st10874.en07.pdf

countries (in mid-November 2006) can serve as another good example of a coordinated sub-regional approach.

The ENP has covered so far five CIS countries: Armenia, Azerbaijan, Georgia, Moldova and Ukraine. Belarus is the potential ENP participant of this process but currently with a "frozen" status, for political reasons (an autocratic regime and violation of human rights). The EU also launched a mechanism of strategic partnership with Russia, similar to the ENP (see below).

Five Central Asian countries are left outside the ENP but one cannot exclude that some of them (Kazakhstan, in the first instance) will be invited to join this cooperation framework at some point in future. For the moment, The European Council on its meeting on June 21-22, 2007 in Brussels approved the document titled "The EU and Central Asia: Strategy for a New Partnership"[10], which outlines the EU strategy towards this subregion. Its agenda is, however, a more narrow and less ambitious comparing to the ENP.

A general weakness of ENP consists in the lack of balance between far going expectations in respect to neighbors' policies and reforms and limited and distant rewards, which it can potentially offer. This imbalance is especially seen in such areas as migration policy (see Guild et al., 2007).

4. Special partnership framework for Russia

In spite of an initial EU offer, the Government of Russian Federation opted out from the formal ENP framework, preferring to have separate strategic partnership relations with the EU. This framework is to be built up on the concept of the Common European Economic Space between the EU and Russia as defined by joint declarations of subsequent EU-Russia summits in 2001 and 2003. The next step involved a joint EU-Russia declaration of May 10, 2005 defining so-called road maps of four common spaces:

- Common Economic Space (including environmental and energy issues)
- Common Space of Freedom, Security and Justice (including migration and visa issues)
- Common Space of External Security
- Common space on research, education and culture

Starting from 2007, Russia is also a beneficiary country of the European Neighborhood Policy Instrument (ENPI), which will replace former TACIS aid window.

EU and Russia are about to start negotiations on the new strategic cooperation agreement replacing the old Partnership and Cooperation Agreement (PCA) signed in 1994 and entering into force in 1997. However, the detail content of this new treaty is not determined yet. For example, this is unclear whether it will include the free trade agreement between the EU and Russia and how "deep" this kind of agreement might be.

Taking into consideration a great diversification of ENP bilateral agendas, Russia's position and its chance to develop a far going economic and political cooperation with the EU

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[10] http://register.consilium.europa.eu/pdf/en/07/st10/st10113.en07.pdf

are not principally different comparing to countries who are formally the ENP advanced partners (such as Moldova or Ukraine).

5. How to make the ENP effective?

The above mentioned fundamental weakness of the ENP (i.e. its internal imbalance) leads many expert to call for its serious enhancement on the “reward” side. For example, Emerson et al. (2007) propose a concept of ENP Plus, which should add the following elements to the existing ENP concept:

- an advanced association model for the able and willing partner states,
- a strengthening of regional-multilateral schemes,
- upgrading of the standard instruments being deployed,
- the offer of an ‘ENP light’ model for difficult states or non-recognized entities.

Indeed, in order to have a real impact on development, modernization and reform of CIS countries the ENP initiative must go beyond the narrowly defined cooperation agenda in some selected sectors and areas considered as priority by the EU side (examples of energy supply or fighting illegal migration) and address a broader set of issues.

Even if one addresses only the economic issues she/he must go beyond an idea of a simple trade liberalization in a narrow sense (i.e. scrapping tariffs, mostly for manufactured products). The contemporary global economy is much more sophisticated than it was few decades ago and its complexity determines the need of a broader liberalization and institutional harmonization package (called sometimes a “deep FTA”, “enhanced FTA” or “FTA plus”) involving also freer movement of services, investments and labor based on far going institutional harmonization/ alignment. Let us take a brief look how this web of mutually dependent policies works:

1. Trade expansion between the EU and its Eastern neighbors will depend not only on trade liberalization *per se* (first membership of all the CIS countries in WTO, then their FTAs with EU) but also on investment climate in the CIS region, speed of institutional harmonization and, to some extent, on liberalization of movement of people (particularly important for trade in services).

2. Intensification of foreign investment inflow to the CIS region will depend not only on significant improvement of their domestic investment climate (determined by a speed of institutional harmonization) but also on trade liberalization offering potential foreign investors in CIS economies easy access to European markets.

3. Intensification of trade and FDI and the resulting diminishing of the income gap can weaken the income motive of labor migration from several CIS countries and make freer movement of people less politically and socially controversial in the EU countries.

4. Free movement of people is important not only for balancing national labor markets (both in “origin” and “destination” countries) and current account (in “origin” countries). It is also significant for the development of the domestic SME sector in “origin’ countries and learning experience of more mature market economies and

democratic societies, therefore strengthening domestic constituencies in favor of democratic and market reforms (in "origin" countries).

5. Institutional harmonization very often involves substantial social, political and (sometimes) economic costs. Without strong incentives/ potential rewards these costs may be considered too high by societies and politicians in neighboring countries. The traditional pay-off offered by the EU side to the CIS countries (very gradual improvement of their trade regime with the EU and technical assistance) seem to be insufficient. A stronger set of incentives should probably include at least a faster pace of trade liberalization and liberalization of movement of people. In the case of countries which are explicitly interested in EU membership, such a perspective should not be ruled out *a priori,* as it is potentially an important and powerful incentive.

There is a quite recognizable fact that the perspective of the EU membership (even if it is very distant in time) can become a very powerful incentive speeding up political, economic and institutional reforms, solving ethnic and political conflicts, mobilizing societies and politicians to accept the most unpopular measures and undertake the most difficult modernization efforts. This is an observation which can be drawn from the previous EU enlargement experience, especially that of Mediterranean countries in 1970s and 1980s, and Central and Eastern European countries, which joined the EU in 2004 and 2007. The same can be said about West Balkan countries and Turkey, despite their quite distant timetable of accession.

The situation of CIS countries seem to be less favorable in this respect. In most cases their societies express the limited interest in the idea of deep European integration apart from Moldova, Ukraine and Georgia. But, more importantly, this has been lack of the serious "European offer" from the EU side addressed to these countries and societies, which has made pro-reform integration incentive unrealistic. At the moment it is hard to say whether the ENP give a chance to provide such an incentive but this cannot be totally excluded. Very much will depend on real interest and determination of individual CIS countries to deepen their economic and political relations with the enlarged EU.

6. Summary and conclusions

Until very recently, CIS countries did not belong to the first ring of EU neighbors and their economic importance as the EU potential partner was very limited (apart from supplying energy resources to the EU, mostly from Russia). This situation started to change with the Eastern Enlargement of EU completed in 2004 and 2007. The European and Caucasus countries of the CIS moved geographically from the second to the first ring of neighbors. The NMS from Central and Eastern Europe have closer economic, social and cultural relations with the CIS region than most of EU OMS. In addition, CIS countries, after a decade-long period of severe adaptation output decline entered the phase of rapid growth, which generates more demand for EU-originated imports and investments, and offers more benefits of enhanced economic cooperation for both sides.

The new geopolitical and economic circumstances led the EU to offer the new cooperation framework called the ENP for part of the CIS (along with the Southern Mediterranean region (Middle East and North Africa). Parallelly, it launched a similar cooperation framework with Russia. However, the main ENP weakness so far consisted in lack if its internal balance: the EU expected a far going cooperation of the neighborhood countries in areas considered as having a priority importance for the EU (for example, energy supply and fighting illegal migration) while it offered very little incentives in exchange. Thus, making this cooperation framework more effective requires a serious enhancement of the reward side using, to extent possible, positive experience of the subsequent EU enlargements. The nature of the contemporary economic relations in the globalized world calls for a more complex package-type approach to economic integration rather than just limiting cooperation to some narrow fields.

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