THE ORIGINS AND EVOLUTIONS OF THE EU'S ENLARGMENT AND NEIGHBOURHOOD POLICIES IN THE SOCIO-ECONOMIC AREA

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AUTHORS:	*Tinatin Akhvlediani (CEPS)* *Steven Blockmans (CEPS)* *Assem Dandashly (UM)* *Gergana Noutcheva (UM)*

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1. INTRODUCTION

The development of the European economic integration project has confirmed the importance of collective action to face the challenges of globalisation. These challenges include recurring economic shocks and crises (financial crises, fluctuating energy prices, trade disputes, in addition to economic challenges resulting from wars and natural disasters). The last few decades have witnessed major disruptions (expected or not) such as the end of the Cold War, the dissolution of the Soviet Union and Yugoslavia, the global financial crisis, the Russo-Georgia war, the annexation of Crimea, and the COVID-19 pandemic. All these disruptions have led to significant surges in uncertainties (Kolev and Randall, 2024, p. 1, see also Meyer et al., 2022).

More recently, the 2022 Russian full-scale invasion of Ukraine has brought further economic unpredictability (Yotzov et al., 2022). The ongoing instability in the Middle East, fuelled by the Israel-Hamas war, has further worsened uncertainties and disrupted the flow of major food and energy supplies for Europe and the world. These economic shocks and uncertainties might lead to recession, inflation, increased poverty and unemployment, in addition to social discord and political instability (see Ahrend, Moeser and Monacelli, 2011). With the 2022 Russian invasion, the EU and its neighbours witnessed high levels of economic uncertainty due to dependence on the Russian energy sector, which increased pressure on both households and businesses. This has pushed EU decision makers to consider the situation as significantly worrying and requiring intensive and coordinated action (Kolev and Randall, 2024, see also Schnabel, 2022; Adrian, 2022). Kristalina Georgieva (Managing Director of the International Monetary Fund) stated that the 'challenges the EU faces going forward […] shout out for a concerted response. In a time of geopolitical and economic uncertainties, policy choices will matter deeply' (Georgieva, 2024).

Disruptions to the economy often challenge established power structures and necessitate adaptive responses from various actors (at both individual and collective levels) within the economic landscape. Kahneman and Tversky's (1979) discussion on prospect theory highlights that 'the decision weight associated with an event will depend primarily on the perceived likelihood of that event, which could be subject to major biases. In addition, decision weights may be affected by other considerations, such as ambiguity or vagueness' (289). In general, economic shocks often push for responses from institutional actors such as international and regional organisations, governments, central banks, and regulatory agencies. Scholars have analysed the effectiveness of policy measures to lessen the impacts of economic shocks and bring back economic and financial stability, such as monetary and fiscal stimulus, regulatory development, and international/regional cooperation in mitigating the impacts of economic shocks (see Ahrend, Moeser and Monacelli, 2011).

Among the responses to uncertainties and shocks, the concept of protean power has emerged as a framework to understand how individuals, organisations, and states navigate and exert influence in dynamic and uncertain environments. Rather than using ready-made definitions, our analysis of the conceptual framework to which protean power and the related notion of control power belong starts with acknowledging the distinction between risk and uncertainty in decision-making. Classifying events and situations as representing risks versus uncertainties is not easy.

Trying to understand 'economic uncertainty is difficult because it is not directly observable. In response, economists have developed a large literature that attempts to measure uncertainty and assess how heightened uncertainty affects the economy – both in theory and in practice' (Moore, 2017, p. 550). Knight (1921) provides a definition of uncertainty and distinguishes it from the concept of risk. According to Knight, risk is a quantifiable concept, whereas uncertainty is incalculable (Knight, 1921, pp.19-20). Under uncertainty, economic actors are unable to precisely predict probabilities and take pre-emptive measures to limit their effect. In contrast, a situation of risk (even if it also has some ambiguities according to Knight, 1921, p. 20) allows for assigning probabilities to outcomes (Alhabeeb, 2021). Sometimes, measurable uncertainty and risks are used interchangeably (see Knight, 1921, p. 20). Despite these distinctions, the terms risk and uncertainty are frequently used interchangeably (for a review of the literature, see Kolev and Randall, 2024).

In retrospect, we can make relatively safe assumptions about political life as risky or uncertain, but we cannot be sure that policy makers at the time have experienced the environment as risky or uncertain in the same way as we describe it years later. We follow on from Katzenstein and Seybert (2018) who considered risks to be connected to the realm of predictable and foreseeable occurrences whereas uncertainties are experienced because of the potentiality of unpredictable and unexpected change.

In our study, we therefore try to contextualise the events and occurrences in the Western Balkans and the eastern neighbourhood that have spurred the EU into action over the course of the last 30 years, keeping in mind 'the fluidity of real-life situations that often oscillate between risk and uncertainty' (Katzenstein and Seybert, 2018, p.85) and providing an expert reading of predominant perceptions of risks and uncertainties at the time of the events.

Likewise, when we distinguish between the effects of control power, linked to the domain of risk, and the effects of protean power, generated in the context of radical uncertainty (Katzenstein and Seybert, 2018), we are aware of the interplay between the two types of power and their interdependent and even reinforcing qualities. Protean power often leans on control power capabilities, and control power resources are often necessary for generating protean effects. Our analysis is in this sense both guided by the main conceptual framework offered by Katzenstein and Seybert and sensitive to the complexity of the empirical contexts that we deal with.

Protean power can take various forms depending on the strategies and capacities that policy makers implement to deal with shocks, uncertainties and risks and reduce their negative impact. Actors with protean power cultivate resilient networks of relationships spanning multiple sectors, industries, and geographical regions. These networks serve as sources of information, support, and collaboration, enabling adaptive responses to economic disruptions. Research by Granovetter (1985) studying 'the problem of embeddedness' highlights the importance of the strength or weakness of diverse network connections in accessing new opportunities and resources during periods of uncertainty. Protean power involves an inclination for creativity and entrepreneurship. This allows actors to build on their technological and economic development in addition to capitalising on emerging markets. Studies by Schumpeter (1950) and subsequent scholars underscore the role of creative destruction in driving economic renewal and resilience. This requires creativity and innovation at the decision-making level to be able to adjust to uncertainties and utilise potential opportunities that can arise from them.

When zooming in on the EU, we observe that the EU has emerged as a significant economic power internationally, in which it has used its single market and common currency to strengthen its position. The EU's role in the WTO, G20, IMF, the World Bank, etc. and its efforts in promoting liberal economy have been documented in the literature (see for example Jacoby and Meunier, 2011; Bradford, 2005, 2015, 2020; Beeson and Stone, 2013, Woolcock, 2016). However, this economic strength at the global level has been challenged internally and externally. Internal issues such as economic inequalities among EU Member States, differences in fiscal/economic policies and labour performances, uneven impacts of the euro crisis, in addition to external/global challenges such as the global financial crisis (2008/2009), COVID-19 pandemic, wars in the neighbouring regions, climate change (to name but few) have put more pressures on the EU economic model and necessitated creative ways to handle all of these crises.

Against this background, this paper delves into the origins and evolution of the EU's enlargement and neighbourhood policies in the socio-economic area. It first examines the internal and external economic security risks and radical uncertainties that the EU has faced in the Western Balkans six (WB6) and the Eastern neighbourhood trio (EN3) in the last three decades. It then investigates the traditional power tools (control power) that the EU has employed and the innovations and improvisations (protean power) that it has undertaken in response to economic challenges. While economic risks and uncertainties raise challenges that would require proactive measures from international and local institutions and agencies to promote resilience, stability, and inclusive growth, this paper studies how the EU adapts to changing circumstances and mitigates risks through its attempts to turn challenges into possibilities by exercising protean power.

Following this introduction, the next sections delve into the intricacies of socio-economic risks and uncertainties. The paper reviews the internal and external risks observed in the WB and EN3 regions. Internal risks outline the structural vulnerabilities in the candidate countries, stemming from the break-up of the Soviet Union and Yugoslavia, while external risks include economic security perils: coercive economic tactics employed by Russia, China, Turkey and others, encompassing trade embargoes, customs arrangements, energy security dynamics, strategic investments, the weaponisation of migration, and passportisation strategies.

Consequently, the paper discusses the economic shocks and uncertainties observed during the 2008-2009 financial crisis, the COVID-19 pandemic, and the aftermath of the 2022 Russian invasion of Ukraine. Our analysis then extends to evaluating the EU's response and the tools employed at both traditional (control power) and innovative (protean power) levels. This encompasses aspects such as breaking free from energy dependency and utilising new or existing tools for fostering trade and investments. These aspects can be seen as part of a multifaceted approach to address the complex challenges posed by the region's economic landscape and to prepare the candidate countries for integration into the EU.

2. SOCIO-ECONOMIC RISKS

2.1. Internal risks and structural vulnerabilities in the WB and EN3

The decomposition of the former Socialist Federal Republic of Yugoslavia (SFRY or Yugoslavia) was one of the most tragic events in Europe since the end of the Second World War. After almost fifty years of peace, the spectres of inter-ethnic strife and armed conflict reared their ugly heads in southeastern Europe, exactly at a time when 12 western European countries were redefining their organised cooperation, characterised by prosperity, democracy and 'ever-closer integration'. A similar countervailing tendency, albeit with far less bloodletting, was observed with the dissolution of the Soviet Union at the end of 1991.

In the aftermath of the collapse of Yugoslavia and the USSR, the WB6 and EN3 countries experienced profound economic shocks. The political breakup led to ethnic tensions and armed conflicts, causing severe economic downturns across both regions.

Even though Yugoslavia, under its 'market socialism' model, was much more open to trade than the EN3 countries belonging to the Soviet Union, the transition to fully market-oriented systems was challenging. This transition was marked by hyperinflation, currency devaluation, and a collapse of industrial production (Kmezić and Haynes (2016); Kozul-Wright and Rayment (2004), EBRD (2010), World Bank (2020)).

The dissolution of the Soviet Union in the early 1990s brought similar economic shocks to the EN3. The newly independent states faced the monumental task of transitioning from centrally planned economies to market economies. This process involved privatisation, liberalisation, and price reforms, leading to economic contraction, unemployment, and social hardship. The sudden breakout from Soviet-style central planning led to a reduction in production capabilities and caused tremendous drops in economic activity in the EN3 countries. Studies by Gelb and Jefferson (1993) and Havrylyshyn et al. (1998) highlight disruptions in trade, loss of subsidies, currency devaluation, hyperinflation, and the collapse of industrial production as major consequences of the Soviet Union's dissolution.

Additionally, political instability, ethnic tensions, and conflicts further exacerbated the challenges faced by both the WB6 and EN3 in their transition to independence (Hale (2008) and Bunce (1999)). The political and social ramifications of the Soviet Union's collapse and the dissolution of Yugoslavia reflected the complexities of identity politics and nationalist movements shaping social dynamics in the WB6 and EN3 (Brubaker (1996), Suny (1998), Bieber (2005), Hayden (1996)).

Overall, the political instability, economic shocks and eruption of conflicts led to widespread poverty, unemployment, and social dislocation in both the WB and the EN3 countries (Aslund, 2007; Pop-Eleches, 2010). It has taken years for these countries to establish functioning economies (Gelb and Jefferson, 1993; Aslund, 2007; Pop-Eleches, 2010). This has resulted in a series of specific internal risks that can be summarised as follows:

(under)developed production capacities, dependence on Russian energy supplies, dependence on imports and cheap supplies from China, unstable local currencies, large export deficits, and increasing external debts.

These structural risks are reflected in high poverty rates and unemployment, which to date remain the major concerns for both groups of countries. Roughly around a quarter of the population in the WB6 and EN3 countries live in poverty (World Bank statistics). Poverty can take many forms such as financial poverty, social deprivation, lack of access to public services, and climate poverty. These forms of poverty depend on the demographics, the main modes of economic activity, as well as susceptibility to climate conditions. High poverty rates are mostly fed by a lack of job opportunities and well-paid jobs, and this has led to high labour force emigration and brain drains from the WB6 and EN3 countries (Reljić, 2023). For instance, in the WB, average monthly gross wages were six times less than in the EU-15 in 2021 (WIIW, 2021). In 2023, around one-fifth of the WB population resided abroad (OECD, 2023; Reljić, 2023). Other than the lack of high-skilled labour and the loss of human capital, this also creates another strong characteristic of the WB and EN3 countries: dependence on remittances and money transfers from emigrants and the diaspora abroad. Cumulatively, the funds transferred by migrants back to their home nations even surpass FDIs in some WB6 and EN3 countries. In 2020, Kosovo, Moldova, Georgia, and Montenegro notably recorded the highest proportions of remittances relative to GDP, with figures ranging from 13 to 21 % of their respective GDPs. For EN3 countries, the main source of remittances is Russia; for WB countries it is the EU (Bertelsmann & WIIW, 2023).

2.2. External risks

Internal risks and vulnerabilities of the WB6 and EN3 countries leave them exposed to external risks, which are exploited by Russia, China and others (such as Turkey) through different yet complementary strategies. Russia relies on historical economic ties and energy dependencies, while China leverages debt-based financial aid and investments in infrastructure projects to create dependencies that can be manipulated for geopolitical gain. Turkey employs a mix of trade and investment strategies, particularly in WB countries.

Russia's leverage primarily stems from the high dependency of EN3 countries on Russian energy supplies, and the control of energy infrastructures. The trade and economic links established during the Soviet era further allow Russia to manipulate access to its markets through customs arrangements and trade embargoes. Additionally, labour force migration is exploited by Russia through passportisation policies, restrictions on remittances, and using the diaspora for disinformation purposes (Cenusa et al., 2014; Delcour, 2017).

China's strategy to exploit the vulnerabilities of the WB6 and EN3 countries focuses mainly on creating dependencies through debt-based financial aid and investing in infrastructure projects via its Belt and Road Initiative (BRI). These investments can easily be leveraged to exert influence over recipients (Tonchev, 2017; Ghiasy & Zhou, 2017; Dreher et al., 2018).

Turkey's strategy in both regions has focused on increasing trade and FDIs. This has been on the rise since the 1990s. Turkish FDI primarily targets infrastructure, the banking sector, energy, and other manufacturing sectors

(Michalski, 2022). The Turkish drive for investing in these neighbouring regions is more focused on increasing its regional presence, authority and interdependence.

2.2.1. Trade embargoes (Russia) and the resilience of supply chains (China)

Russia has attempted to exert influence through trade by imposing punitive measures on EN3 countries that lean towards the west, employing trade embargoes and other restrictions. Specifically, Georgia, Ukraine, and Moldova have been the primary targets of Russian trade sanctions due to their persistent efforts to strengthen ties with the EU. Following their commitment to a Deep and Comprehensive Free Trade Area (DCFTA) with the EU in 2014, all three nations have faced economic repercussions from Russia. Despite employing various measures, including trade disincentives, Russia's endeavours to hinder or reverse the pro-EU orientation of the EN3 have proven unsuccessful. This is evident in the diminishing share of Russia in the trade balance of the three countries (as highlighted in Emerson and Kovziridze, 2021; Emerson and Cenusa, 2021; Emerson and Movchan, 2021). The trade patterns of the EN3 trio have decisively shifted away from Russia and towards the EU and China, demonstrating resilience in the face of Russian trade adversity.

As a manufacturing powerhouse, China serves as the linchpin in the intricate web of international trade. However, this centrality also underscores the risks it poses to supply chains, particularly concerning wider Europe (Kilubi, 2016).

Firstly, China's dominance in manufacturing means that any disruption within its borders can send shockwaves throughout global supply chains. Natural disasters, political instability, or labour disputes can halt production, causing delays and shortages that reverberate across Europe. The Covid-19 pandemic vividly demonstrated this vulnerability, with widespread factory closures and logistical bottlenecks disrupting supply chains worldwide (see above).

Secondly, China's aggressive trade policies and geopolitical ambitions introduce uncertainty and volatility into supply chains. The ongoing trade tensions between China and the US, and to a lesser extent the EU, have led to retaliatory tariffs, export restrictions, and investment barriers. Moreover, China's strategic investments in critical infrastructure projects, such as the BRI, raise concerns about countries' over-reliance on Chinese-funded ports, railways, and telecommunications networks. These investments grant China significant leverage over supply chains, potentially enabling interference or coercion in times of geopolitical tension.

Montenegro's experience serves as a cautionary tale about the potential pitfalls of relying too heavily on Chinese financing and involvement in critical infrastructure (Martinović and Milović, 2022). The construction of the Bar-Belgrade railway, financed by a Chinese loan, has faced delays, cost overruns, and allegations of corruption. Such issues underscore the challenges and complexities of navigating partnerships with China, which often come with strings attached and long-term implications for sovereignty and economic stability.

Regarding disruptions in global logistics networks, China is better positioned to gain early access to alternative transportation routes in the event of a major disruption, such as a war, accident, or security threat in locations like the Red Sea, compared to the EU. This advantage stems from China's investments in the BRI infrastructure.

2.2.2. Customs arrangements – (EAU + China)

Prior to the securitisation of the customs zone, the Eurasian Economic Union was designed by Russia to create a regional economic bloc, and preserve its historical influence over the region, against both China and the EU (Blockmans, Kostanyan, Vorobiov, 2012). The customs union that originally involved Central Asian countries was extended to Armenia (membership) in 2015 and Moldova (observer status) in 2017. The Eurasian Customs Union does not prevent member states from negotiating with the WTO individually, but it prevents them from striking up comprehensive free trade agreements with the EU or have any sort of customs union with any other country. For Armenia, this has been to the detriment of its economic relations with EU Member States, which were much larger than those with Russia and China. That said, academic research shows that the impact of the BRI and China's bilateral energy deals with the Eastern Neighbourhood countries has been deeper than that produced by the Eurasian Customs Union (Svetlicinii, 2018).

In fact, Russia itself is becoming increasingly dependent on trade with China. Russia's pivot to Asia, which was intended to balance China's increasing influence in 'Russia's Far East', Siberia and the Arctic have turned from an ad hoc alliance to a structural dependency on China since the full-scale invasion of Ukraine (Trudolyubov, 2024). Russia's Great Eurasian Partnership (GEP) and China's BRI are now linked together discursively and in real economic terms.

China's influence runs much deeper in the Balkans than the EN3. Once a part of China's CEE pivot called '17+1', the Western Balkans are now the only remaining stronghold of China since many EU member CEE countries have withdrawn from the 17+1 Initiative. China's reaction to the initial withdrawal of countries like Lithuania and Czechia provides a prime example of the exercise of economic coercion through trade embargoes (Blockmans, 2021). For instance, China removed Lithuania from the customs clearance list to push Lithuanian suppliers away from global supply chains – despite repeated warnings about violating WTO rules. While it did not drastically change the EU-China trade balance, it was, and still is, a potential threat to the rules-based international economic order. The politically motivated retaliatory actions of China toward the countries withdrawing from the 17+1 Initiative and (re)establishing relations with Taiwan have shaped the Western Balkan countries' relations with China. The Western Balkan countries typically hedge against the EU's conditionalities by engaging with China.

2.2.3. Weaponisation of energy dependence

Russia has traditionally been a major energy provider in the region, granting it significant leverage over the EN3 and – to a lesser extent - WB countries. This leverage is exerted through threats, energy supply cuts, massive price manipulations, and the imposition of severe energy blockades as punitive measures for those pursuing pro-Western policies. Several studies highlight Russia's manipulation of gas supplies and pricing mechanisms to assert dominance and advance its strategic objectives in countries like Ukraine and Moldova (Balmaceda, 2007; Stern, 2010). This approach has often been characterised as 'energy coercion', where Russia leverages its energy resources to exert political pressure and undermine the sovereignty of these nations (Goldthau & Witte, 2010). By exploiting the indebtedness of its neighbours, accumulated through energy supplies with manipulated prices, Russia has actively sought to acquire the main energy/gas infrastructure in the EN3 states (Van de Graaf, et al., 2024).

Weaponising energy supplies in the EN3 states results in broader geopolitical implications over regional security dynamics. For instance, in Georgia and Ukraine, the weaponisation of energy supplies has been linked to broader geopolitical conflicts, such as the Russo-Georgian War in 2008 and the outbreak of war in Eastern Ukraine in 2014 and the full-scale invasion of the country in 2022 (Baranovsky, 2016; Kuzemko, 2016).

Russia's manipulation of its energy dominance in the region also influences domestic politics. For instance, in Moldova, Russia's control over natural gas supplies has been associated with political instability and economic vulnerabilities, with implications for state sovereignty and democratic governance (Hill, 2018). In addition, Russia has been enhancing its leverage by providing eased energy supplies to breakaway regions, for instance in Transnistria. Russia's manipulation in this manner does not only create high tensions and conflicts in the domestic politics of Moldova, but also hampers the economic development of the country (Litra, 2023).

Russia's efforts to cultivate energy dependencies in the WB countries mainly works through investment in energy infrastructure and the provision of natural gas supplies (Vankovska, 2018; Lybæk, 2020). This approach has enabled Russia to leverage its energy resources as a means of exerting political leverage and undermining Western influence in the region. As in the EN3 countries, Russia's energy dominance in the region has intersected with geopolitical rivalries between Russia and the EU, shaping debates over energy security and regional stability (Pavlović, 2019; Maksimovic, 2021).

Similar as well to the EN3 countries, Russia's energy influence can lead to domestic repercussions in the WB countries. This includes impacting on political dynamics, governance structures, and economic development. The literature highlights the entrenchment of corrupt practices, elite capture, and state capture in countries like Serbia and Bosnia-Herzegovina, where Russian energy interests intersect with domestic political interests (Bugaric, 2016; Popovski, 2017, on the EU and state capture in the WB, see Richter and Wunsch, 2019).

2.2.4. Strategic investments in key sectors/infrastructure

The EU is the largest provider of FDIs in both the WB and EN3 countries. Multinational corporations (MNCs) play a crucial role in FDI flows, particularly in sectors like energy, telecommunications, and infrastructure (UNCTAD, 2020). Studies suggest that FDI inflows have contributed to economic growth, job creation, and technology transfer in recipient countries, although the extent of benefits varies (World Bank, 2018). Despite the potential benefits, challenges such as regulatory hurdles, corruption, political instability, and lack of infrastructure pose significant risks to foreign investments (EBRD, 2021). Alignment with EU standards and regulatory frameworks is often seen as a catalyst for attracting investments and improving the investment climate in these regions (EBRD, 2019).

However, investments from the other players, particularly from China have been growing in the WB and EN3 countries (Brînză and Popescu, 2020). As discussed earlier, China's BRI was conceived as a second stage of China's economic recovery mechanism from the global financial crisis. This second stage included the internationalisation of high technology and infrastructure-led investments based on debt financing. In this manner, China's investments in the WB and EN3 countries are made through debt financing rather than FDIs.

From 2014 to 2021, the total value of Chinese investments in the EU's neighbourhood surpassed USD 127 billion, significantly exceeding the value of its FDI stock more than tenfold. WB countries have witnessed a significant surge in investments from China in 2014-2021. Most investments in 2014-2021 were directed towards Serbia, which captured 62.8 % of China's investment in WB countries (Astrov, 2023). This also reflected China's investment strategy in southeast Europe, characterised by a substantial redirection of investment focus from Turkey to Serbia. Chinese investments in the EN3 countries, however, does not reflect a similar surge. In the period from 2014 to 2021, Chinese investments decreased in EN3 countries. This could be due to geopolitical factors such as the annexation of Crimea and the outbreak of military conflict in the Donbas region in 2014 (Astrov, 2023).

When it comes to the sectoral allocation of investments, EU FDIs are mainly greenfield investments focused on the energy sector, and renewables in particular. In WB countries, EU FDIs are also focused on consumer goods, food and beverages, transportation and warehousing accounts, as well as automative manufacturing. In EN3 countries, EU FDIs are now growing in IT and software, alongside the energy sector (Astrov, 2023).

As for investments from China, while WB countries, and Serbia in particular, are among the most politically and economically aligned with China, Chinese investments are not realised in the form of FDIs but rather debt financing. Chinese investments are mainly focused on energy, construction and transportation sectors. For Chinese investments in infrastructure and transport, the WB region is seen as part of the hinterland of the Piraeus Port, the primary BRI port access to Europe. China applies the same strategy with Georgia to secure good access to the Black Sea port.

As mentioned before, when it comes to Russian investments in the EN3 and WB countries, the literature highlights how Russian investments have been focused in sectors such as energy, infrastructure and telecommunications. Such investments have allowed Russia to pursue its strategic goals in its neighbourhood through creating economic dependencies that could be easily weaponised (Džankić and Cvijić, 2019; Paul and Popescu, 2018).

Turkey's economic investment and trade has been slowly increasing since the 1990s, especially following the rapid development of the Turkish economy in the 2000s (European Parliament, 2017). Since 2007, the WB countries saw a fourfold increase in Turkish investments. However, Turkey does not figure among the top ten investors in the region (Michalski, 2022). The integration of investments between Turkey and the WB surpasses trade integration (Jusufi & Ukaj, 2021). The largest recipient of Turkish FDI is Albania, with Turkey ranking as the fifth most important investor (Shehu, 2021; for more information on WB FDIs 2012-2022, see Institute for Democracy-Societas Civilis-Skopje (IDSCS), 2024).

Turkish FDI primarily targets the banking, energy, and manufacturing sectors (Michalski, 2022). In Albania, Banka Kombëtare Tregtare, owned by Çalık Holding, holds a 28 % market share (Michalski, 2022). In Kosovo, four out of eight banks owned by foreign investors, including Banka Kombëtare Tregtare, TEB, Ziraat Bank, and İşbank, are controlled by Turkish consortia, achieving a 16 % market share (Michalski, 2022). In North Macedonia, Halkbank, a Turkish state-controlled entity, has a 7.2 % market share. Turkish investors look for companies that have a monopolistic position on the local market (Michalski, 2022). In Kosovo, Turkish holdings Çalık and Limak have owned the country's sole electricity distributor since 2012 after signing a EUR 26.4 million privatisation contract with Kosovo's government (Michalski, 2022; Hodo, 2023). In Albania, Kürüm Holding has privatised the Albtelecom telecommunications company, hydroelectric power plants, steelworks and mines (Michalski, 2022).

Turkey's aspirations to invest in the region, in particular Albania and Kosovo, are driven by numerous factors. These include increasing regional authority and regional interdependency and cooperation based on the historic relationship between Turkey and the Western Balkans, as well as establishing itself as a stabiliser and mediator of the inter-ethnic conflicts in the region (Ibish & Ferhad, 2023). The Western Balkan market is attractive to Turkish firms due to lower costs – industrial land costs are nearly half of those in Turkey, and prices for industrial areas in the region are significantly lower compared to the Marmara region (Jusufi & Ukaj, 2021). Turkey also has a geographic proximity with the WB which means lower transportation costs, as well as similar patterns in consumption habits (Shehu, 2021).

2.2.5. Weaponisation of migration

Russia has been manipulating refugee flows during conflicts in the post-Soviet space such as in Ukraine, Georgia and Moldova, through supporting separatist movements. This has led to internally displaced persons and refugees. As highlighted by several studies, Russia has been exploiting existing migration flows, fostering irregular migration channels, and manipulating migrant communities to undermine state sovereignty and foster political unrest (Korneev & Makarychev, 2019; Toal, 2020).

Russia is also a major destination for migrant labour, which creates economic dependence in neighbouring countries on the Russian market. This particularly refers to the EN3 states, where Russia is the major provider of remittances (see above) and contributes to unsustainable economic models through boosting the consumer base instead of strengthening production capacities. Given the cultural and historical ties, and the ease of access to the labour marker compared to the EU's labour market, the EN3 countries have traditionally had large labour emigration, and numerous business ties with the Russian labour market (see above). In return, Russia has been exploiting its diaspora and utilising diaspora communities to mainstream certain interests, feeding political instability in the EN3 and WB countries (see Jagiełło, 2021).

Russia is also known for mastering hybrid warfare through disinformation campaigns that further exacerbate migration-related tensions. The literature highlights how Russia weaponises migration by exploiting vulnerabilities in neighbouring countries' immigration systems, conducting information warfare campaigns, and using migrant populations as proxies in conflicts (Ratti, 2017; Mungiu-Pippidi & Sikkink, 2019).

2.2.6. Passportisation

Russia's passportisation policy in neighbouring countries has been a contentious issue since the dissolution of the Soviet Union in 1991. This policy involves the distribution of Russian passports to ethnic Russians and Russian-speaking populations in former Soviet republics, ostensibly to protect their rights and maintain influence in these regions. However, it's often perceived as a tool for asserting control and influence over neighbouring states, sparking tensions and conflicts in the region (Hoffmann and Cochia, 2018).

One prominent example is the situation in Crimea. Prior to the annexation in 2014, Russia had been issuing passports to residents of the peninsula, many of whom identified as ethnic Russians or Russian-speaking Ukrainians. This move was used to justify Russia's intervention in Crimea, claiming to protect the interests of Russian citizens (Knott, 2022).

Another example is the conflict in eastern Ukraine, particularly in the Donetsk and Luhansk regions, where pro-Russian separatists have been fighting Ukrainian forces since 2014. Russia has been accused of providing military and financial support to these separatist groups. Reports suggest that Russian passports have been distributed among the local population to bolster support for secession from Ukraine (Bescotti et al., 2022).

Similar passportisation practices have been observed in other former Soviet republics, such as Georgia and Moldova (Nagashima, 2019). In Georgia, the regions of Abkhazia and South Ossetia have declared independence with Russian support, and Russian passports have been widely distributed in these territories. Likewise, in Moldova, the breakaway region of Transnistria has received significant Russian backing, including the distribution of passports to its residents.

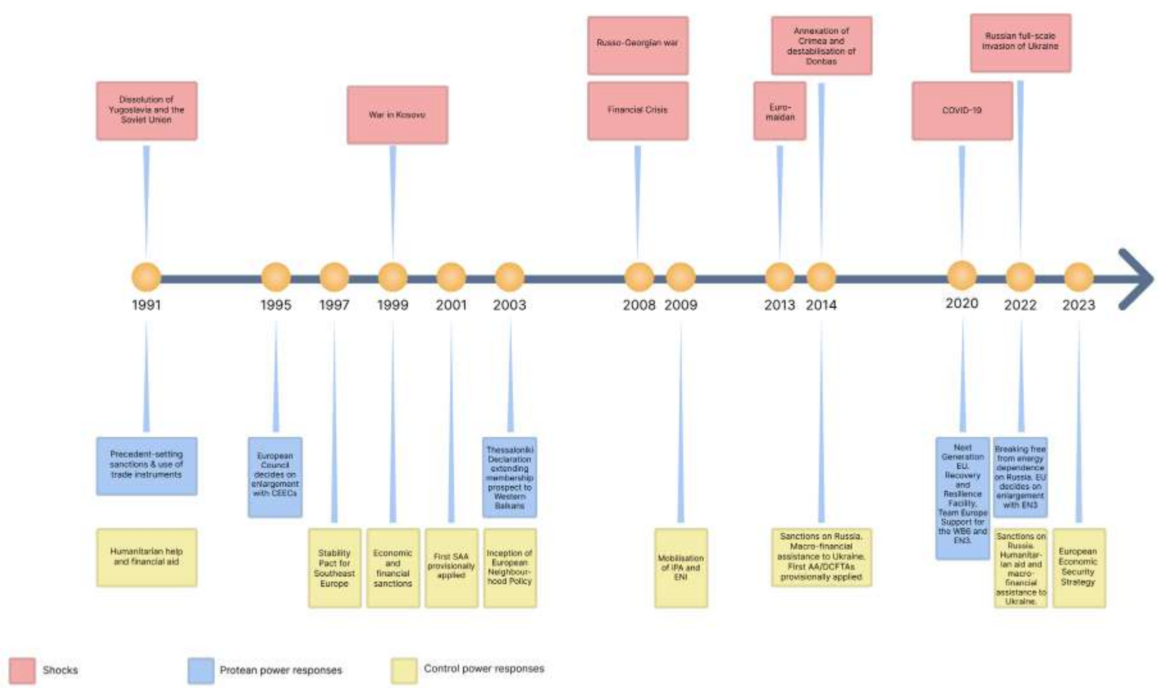
These actions have drawn condemnation from the international community, with many countries viewing Russia's passportisation policy as a violation of the sovereignty and territorial integrity of neighbouring states. Efforts to resolve these conflicts through diplomacy have been hindered by Russia's continued support for separatist movements and its strategic use of passportisation to advance its geopolitical interests in the region.

3. SOCIO-ECONOMIC UNCERTAINTIES

As mentioned in the introduction, classifying past events and situations as representing quantifiable risks versus incalculable uncertainties is not easy. Further to the reading provided by Katzenstein and Seybert (2018), who considered uncertainties to be connected to the realm of unpredictable and unexpected change, the following classification may well be fraught with difficulties. Many foresight studies have considered a global financial crisis, global health crisis, and outbreak of a major violent conflict on the European continent as belonging to the realm of the possible.

To support our classification, we therefore try to contextualise the events and occurrences in the Western Balkans and the eastern neighbourhood that have spurred the EU into action over the course of the last 30 years, keeping in mind 'the fluidity of real-life situations that often oscillate between risk and uncertainty' (Katzenstein and Seybert, 2018, p.85) and providing an expert reading of predominant perceptions of risks and uncertainties at the time of the events. When combined with an interpretation of the scale of the EU's action and the transformational character (or lack) thereof, such reading leads to a better understanding of what constitutes a protean or control power response.

The timeline below shows the major external shocks administered to wider Europe over the past 30 years and distinguishes between the protean and/or control power responses by the EU. As such, the infographic also serves to accompany the occurrences covered in Section 4 of this report.



Source: Authors' own compilation. With thanks to Marco Christian Parluhutan Panjaitan

3.1. Global financial crisis (2008-2009)

The global financial crisis of 2008-2009 had profound implications for the EU and its neighbours. For the WB6 and EN3 countries, the effects of the global financial crisis were reflected in declining GDP growth, growing fiscal unsustainability, and exposure to external vulnerabilities. Arsov et al. (2011) and World Bank (2010) highlight the significant economic downturn experienced by countries in both regions, marked by declining output, rising unemployment, and heightened fiscal pressures. The crisis also exposed structural weaknesses in the banking sectors of these countries, leading to liquidity constraints and credit crunches, as summarised in the reports of EBRD (2009) and IMF (2011).

The financial crisis rendered the WB6 and EN3 countries vulnerable to investments and financial aid. While the EU was itself hit hard, China was able to fill the gap and exploit some of the vulnerabilities of the EU's neighbours, particularly in the WB countries. As the over-financialisation of the world economy was perceived as the primary culprit for the crisis, national economies were prompted to turn towards industrial upgrading and infrastructure-led development in its aftermath. China's BRI was conceived at the second stage as an economic recovery tool for its economy. This second stage included the internationalisation of high-tech and infrastructure-led investments, as well as the provision of related financial aid, which made the Global South dependent on China. China's economic interest in the WB6 and EN3 countries was realised on these grounds.

Furthermore the crisis also had political and social implications, aggravating poverty and inequality and reducing social cohesion. Milanovic (2016) (see also UNDP, 2011) emphasises the exacerbation of poverty and vulnerability among marginalised populations, as well as the widening income disparities observed in the aftermath of the crisis. Additionally, the literature highlights the political repercussions of the crisis, focusing on governance, institutional resilience, and policy responses. Popov (2010) discusses the challenges of governance reform and democratic consolidation in the context of economic crisis, pointing to the risks of political instability and social unrest. International assistance and policy coordination was proved to be useful in mitigating the impact of the crisis and promoting sustainable recovery efforts in the regions (De Vylder et al. 2012; USAID, 2014).

3.2. Covid 19 pandemic (2019–2021)

The COVID-19 pandemic has had significant implications for the WB6 and EN3 countries, both in terms of economic and social dynamics. Reports by the World Bank (2020) and EBRD (2021) emphasise the pandemic's adverse impact on economic activity, leading to recessions and contractions in output across the regions. Moreover, Kireyev et al. (2021) (see also IMF (2020)) discuss the challenges posed by supply chain disruptions, reduced demand, and fiscal strains.

Even though the actual death and infection rates in the WB and EN3 countries were lower than the EU average, they were still affected by pandemic-related socioeconomic problems, mostly due to their fragile economic structures.

As both the WB6 and EN3 countries represent open economies with high dependence on international trade, the outbreak of COVID-19 has had an impact on trade performances. Notably, trade has been boosted with China due to cheaper supplies than from the EU (Akhvlediani et al., 2020).

The impact of COVID-19 has also been reflected in the sharp decline in tourism revenues, which provided large shares of GDP in the WB and EN3 countries before the outbreak of the pandemic. This has had a negative spillover into tourism-related sectors such as services, transportations, leisure and hospitality, which also represent key sectors in many WB and EN3 economies.

Furthermore, both the WB6 and EN3 countries represent economies that are heavily dependent on remittances. A decline in remittances sent from countries hit by the COVID-19 pandemic led to a decline in aggregate consumption and spending in the WB6 and EN3 countries.

The pandemic has also had profound social and health implications, exacerbating vulnerabilities and inequalities within societies. Reports from UNDP (2020) and the European Centre for Disease Prevention and Control (ECDC) (2021) highlight the strain on healthcare systems, inadequate access to healthcare services, and socio-economic disparities in healthcare outcomes. Moreover, Save the Children (2021) (see also Human Rights Watch (2020)) outline the pandemic's negative effects on vulnerable populations, including refugees, migrants, and marginalised communities, aggravating social disparities.

While WB6 and EN3 countries turned to the EU for support, the initial measures such as restrictions on medical exports to candidate states, despite the arrival of direct financial aid later (including the repurposing of existing EU support for both WB6 and EN3 countries) left a vacuum that was later filled by China's health diplomacy. China provided vaccines and other medical supplies to WB and EN3 countries, resulting in an improvement in the positive public perception of China in the region, particularly in WB countries. Russia also pursued the same bilateral health diplomacy mostly with EN3 countries.

3.3. Russia's full-scale invasion of Ukraine (since 2022)

Russia's full-scale invasion of Ukraine led to a tremendous economic shock for the Ukrainian economy. It also caused a ripple effect among neighbouring countries (Moldova, Georgia, WB6 and the EU) through disruptions in supply chains, increased energy and food prices, spikes in production costs and reorientation of trade globally.

The war created a global food crisis, through constraining Ukraine's production and exports of grains and other critical commodities (such as sunflower oil, for which Ukraine provided 50 % of global exports before the full-scale war). Russia's power to affect global energy prices and critical inputs and raw materials, (such as energy and fertilisers) consequently made agricultural produce and production processes more costly in the EU, across its neighbours and globally. Russia's actions, including attempts to weaponise food and disrupt Ukrainian ports, have further driven up costs and aggravated fluctuations in global energy, grain and fertiliser prices. Overall, the effects of Russia's full-scale invasion of Ukraine resulted in a substantial increase in prices across the EU and globally. Additionally, losing export markets to Ukraine, Russia, and Belarus added extra challenges for some of EU Member States (Akhvlediani et al., 2022).

Migration flows from Ukraine and Russia accounted for approximately 6 million refugees from Ukraine, two thirds of which are now residing in the EU, and around 1 million Russians who have left their country (Akhvlediani and Movchan, 2024). When it comes to emigration from Russia, most self-exiled Russians moved to Kazakhstan, Serbia, Armenia, Montenegro, Turkey, and Georgia. These arrivals from Russia translated into a sharp influx of Russian money and remittances in the rather small economies of the WB and E3. This boosted aggregate demand without similarly increasing aggregate production, which in the end resulted in inflation and an aggravation of poverty and inequality in the EN3 and WB countries. For instance, Georgia, by the end of 2022 saw double-digit economic growth surpassing 10 %. This upsurge was predominantly attributed to heightened consumption fuelled by both international arrivals and remittances from Russia following the outbreak of war in Ukraine. As the boost in aggregate demand was not coupled with an increase in production capacity, this led to a surge in inflation exceeding 11 %. Inflationary pressures persisted further due to the surge in global commodity and energy prices. In the end, even though the country saw a boost in its GDP growth, the cost of living increased, the affordability of basic goods became more challenging and inequalities rose (GIP, 2023).

4. EU RESPONSES TO UNCERTAINTIES AND RISKS

4.1. Protean responses

4.1.1. Violent implosion of Yugoslavia

From the outbreak of the war onwards, the European Community (EC) —and later the EU— was at the forefront of international efforts to stop the escalation of the armed conflict. But even if the holder of the rotating presidency of the Council heralded that the hour of Europe had dawned, the Yugoslav war arrived at the 'wrong' moment for Europe. While the European Community had developed itself into a powerful trading bloc, foreign affairs, let alone security policy, still largely remained outside the ambit of its competences. The instruments through which the EC could wield real influence were therefore economic and only to a much lesser extent diplomatic and political, but by no means military in nature (Blockmans, 2007).

Almost immediately (within 24 hours) after the conflict erupted in Slovenia on 27 June 1991, the EC decided on a first set of economic measures designed to influence the Yugoslav parties. The 12 Ministers of Foreign Affairs decided on an arms embargo, which fell not within the purview of the EC's competences but those of the Member States. The suspension of the second financial protocol with Yugoslavia did fall within the EC's powers. The EC and the Member States expressed the hope that a normalisation of the situation would lead this to be resuscitated, and thus contribute to the recovery of the country. However, with the war spilling over into neighbouring Croatia, PHARE[1] cooperation was stopped (Blockmans, 2007).

In response to the parties' failure to respect agreed ceasefires and accept a peace plan tabled by the EC in October 1991, the EC unilaterally suspended trade concessions provided for by the 1980 Cooperation Agreement between the EEC and the SFRY. It removed Yugoslavia from the list of beneficiaries of the Community's Generalised System of Preferences and restored quantitative restrictions on imports from Yugoslavia. After having received the assent of the European Parliament, the Council finally formally denounced the Cooperation Agreement, thereby setting a precedent in European sanctions practice. Diplomatic relations were maintained.

[1] In the 1990s, the Programme of Community aid to the countries of Central and Eastern Europe (Phare) was the main financial instrument of the pre-accession of CEECs. It was extended to the WB until 2000. However, since 2001, Phare was replaced by CARDS programme (Community Assistance for Reconstruction, Development and Stability in the Balkans) to provide financial assistance to WB. CARDS was replaced by replaced by the Instrument for Pre-accession Assistance (IPA) in 2007 (European Commission, 2010; 2024). IPA replaced all previous pre-accession assistance instruments (European Commission, 2024).

In a move to single out who it considered as the instigators of the armed aggression against Slovenia and Croatia as well as the opponents to its peace plans, the EC in December 1991 – retroactively – restored the PHARE programme and re-established the trade concessions provided for by the former Cooperation Agreement, for all Yugoslav republics, except Serbia and Montenegro (Lopandic, 1992). By doing so, the EC had *de facto* accepted the final dismemberment of the SFRY and the recognition of its successor states. Granting specific trade treatment to products originating from different parts of the same country was a unique case in EC practice. The later inclusion of Montenegro in the list of republics 'contribut[ing] (…) to the furtherance of a peaceful solution to the conflict' served to further isolate Serbia (Blockmans, 2007).

At the beginning of 1992, it was possible, for a while, to believe that international mediation and the measures spearheaded by the EC were producing positive effects and that the conflict was heading for appeasement: the ceasefire was holding in Croatia. On 7 April 1992, by the same declaration recognising Bosnia-Herzegovina as a state, the EC even decided to extend to Serbia the benefits of positive measures granted to other republics. However, this decision was never implemented because the war escalated in Bosnia-Herzegovina.

While the arms embargo remained in place against all successor states of the former Yugoslavia, no further sanctions were adopted against Slovenia, Croatia, Macedonia, and Bosnia-Herzegovina. In the years to follow, the Federal Republic of Yugoslavia was the main target for international sanctions as it was seen as the main instigator of armed conflict on the territory of the former SFRY. The impact of these sanctions did not deter Belgrade to open another front. In the second episode of the wars in the former Yugoslavia (from 28 February 1998 to 5 November 2001), the EU took a range of new restrictive measures (arms and oil embargoes, flight bans, visa restrictions, financial sanctions, investment bans) against the Federal Republic of Yugoslavia, because of its role in Kosovo. One need not speculate about the effectiveness of these enhanced sanctions since it was ultimately NATO's bombing campaign that ended that violent episode.

In the wake of the Balkan wars of the first half of the 1990s, the Council adopted the 'OBNOVA' Regulation (EC) No. 1628/96 on reconstruction in Bosnia, Croatia, Macedonia and the 'Federal Republic of Yugoslavia' (Serbia and Montenegro, including Kosovo), which explicitly identified the respect for democratic principles, the rule of law and human rights and fundamental freedoms as 'essential elements' for the application of the aid programme.

The adoption on 29 April 1997 by the General Affairs Council of a 'regional approach' towards the WB represented the first step of the EU towards the formulation of its own strategy designed to favour a progressive process of 'stabilisation and association' regarding Albania, Bosnia-Herzegovina, Croatia, Serbia and Montenegro (including Kosovo as defined by UN Security Council resolution 1244) and the Former Yugoslav Republic of Macedonia (FYROM). Over the years, this strategy has been defined, refined and redefined. Because it has always revolved around the application of the conditionality principle – which in one way or another has always been part of EC/EU policies directed towards third countries and which since 1993 has been firmly embedded in the enlargement framework – EU-WB relations have had their fair share in the gradual development of EU conditionality.

On 17 May 1999, amid ongoing NATO air strikes against Serbia, the Foreign Affairs Council, following an initiative by the German presidency, launched the Stability Pact for Southeastern Europe. What marked a fundamental shift in the EU's strategy towards the WB was the Council's self-declared willingness to draw the countries of the region closer to the perspective of full integration into EU structures, through a new kind of contractual relationship (cf. Stabilisation and Association Agreements), with a perspective of EU membership on the basis of the Treaty of Amsterdam once the Copenhagen criteria were met. This explicit offer of future EU membership for the WB countries was firmly endorsed by the European Council at its summit in Santa Maria da Feira in June 2000 and enshrined in a political promise at the EU-Western Balkans Summit in Thessaloniki in 2003.

Pippan has argued that, in respect of the Western Balkans' *rapprochement* to the EU, 'the Council's unilateral "Common Position" on the Union's launching of the Pact was, at the time of its adoption, probably of more importance than the Pact itself' (Pippan, 2004). Indeed, not only did the Stability Pact create expectations that, in view of the available resources, it could not hope to meet (van Meurs, 2002), it also remains one of the most enigmatic political inventions for southeastern Europe of the last century (Sandole, 2002).

In sum, the EU response to the Yugoslav wars focused mostly on economic measures and diplomatic efforts. The EU imposed economic sanctions and trade concessions – which marked a protean moment since this was a precedent in European sanctions practice. Later, the EU developed a comprehensive strategy that reflected a shift towards a long-term policy for stabilisation and integration.

4.1.2. Global financial crisis

Just as the global economic and financial crisis of 2008 hit the Eurozone unexpectedly harder than the US, where the crisis had erupted, the current candidate WB and EN countries were also more vulnerable to shocks than the countries that joined the EU few years earlier (2004 and 2007). The EU's protean response to stave off the crisis in the Eurozone was forged through decisive action to improve public finances through budget (re)allocations, push through deep reforms (e.g. monetary policy), tighten surveillance of fiscal policies (cf. European Semester, Stability and Growth Pact), and establish new institutions to manage and prevent crises better (cf. European Stability Mechanism, European Banking Authority, European Securities and Markets Authority) (Lannoo, 2015). While incomplete, the changes were structural, long-lasting and made the EU more competitive, at least through the years of the following decade.

By helping itself, the EU was able to help others better. In a spirit of solidarity with hard-stricken neighbours, the EU mostly resorted to controlling power capabilities within the context of neighbourhood and enlargement policies. The EU's responses in this protean moment helped the longer-term transformational change of economic and financial policies of the (proto) candidates.

The Instrument for Pre-Accession (IPA) was a key tool used by the EU to support the Western Balkans. This instrument provided funding for reforms in various sectors, including governance, rule of law, and economic development, thereby helping these countries prepare for eventual EU membership. The IPA funds were essential in maintaining economic stability and promoting growth during the financial crisis (European Commission, 2014). The EU provided Macro-Financial Assistance (MFA) to several WB countries to help them address balance-of-payments difficulties and support economic stabilisation. For instance, Serbia and Bosnia and Herzegovina received significant MFA packages, which were crucial in mitigating the adverse effects of the global financial crisis on their economies (European Commission, 2011).

For the EN3 region, the outbreak of the crisis coincided with Russia's invasion of Georgia, which further prompted the EU to launch its Eastern Partnership policy. The European Neighbourhood Instrument (ENI) was the primary financial tool for implementing the European Neighbourhood Policy (ENP) in the EN3 countries. During the financial crisis, the ENI provided substantial funding for projects aimed at economic development, governance, and social cohesion. These funds were essential for maintaining economic stability and promoting recovery (European Commission, 2013). The EU provided MFA to Ukraine, Moldova, and Georgia to address balance-of-payments problems and support economic stabilisation. For instance, Ukraine received multiple MFA packages, which were crucial for stabilising its economy during the crisis (European Commission, 2010). These economic and financial stabilisers helped pave the way for signing the Association Agreements (AAs) and Deep and Comprehensive Free Trade Areas (DCFTAs) with the EN3. These agreements aimed at deepening political and economic ties, facilitating trade, and promoting economic reforms. The DCFTAs provided EN3 countries with accelerated access to the EU market, which was crucial for their economic recovery and building long-term economic resilience (Emerson and Kovziridze, 2018).

4.1.3. Outbreak of Covid-19 pandemic

Several countries have tried to use the pandemic as an opportunity for geopolitical and geoeconomic gains. For example, China and Russia have been engaged in active vaccine diplomacy in the WB and the EN3 countries, including supplies of the vaccine and medical equipment (Reuters, 2020; BBC, 2021; The Diplomat, 2020). From China, this was coupled with strategic investments in infrastructure projects and economic cooperation initiatives (ECFR, 2020; EPRS, 2021). China's BRI has emerged as a significant driver of increased infrastructure investments in the region. Notably, these Chinese investments are characterised by a lack of conditionality on democratic and rule of law reforms – a significant difference from the principles guiding EU investments in the same areas. China's assertive economic presence, especially through the BRI, has raised questions about its geopolitical motives and the impact on local governance and autonomy.

For the EU, it sought to create new initiatives to address the economic and social impact of the COVID-19 pandemic across its Member States as well as in its neighbourhood: Next Generation EU (NGEU) and the Recovery and Resilience Facility (RRF). The NGEU has been put forward as a recovery instrument in response to the COVID-19 pandemic. It's aim is to mobilise a total of EUR 750 billion to support the EU's recovery efforts and build a greener, more digital, and more resilient Europe (EC, 2020). The RRF is a centrepiece of the NGEU - a specific funding mechanism established as part of the EU's Multiannual Financial Framework (MFF) for the period

2021-2027. It was designed to provide financial support (both grants and loans) to EU Member States to help them recover from the COVID-19 crisis and increase their resilience to future economic shocks (EC, 2020).

The major innovation of the NGEU lies in its scale and scope, with the primary sources of funding raised by the EU on the financial markets. The borrowing works through bonds issued by the EU that are backed by the EU budget, with long maturities and low-interest rates that take advantage of the EU's credit rating (EC, 2021). With this, the EU has developed a fresh borrowing approach, aimed at securing funds safely, reliably, and cost-effectively (Claeys, Christie, and Weil, 2021).

To support its neighbours, the EU has launched the Team Europe initiative to provide the coordinated support of the EU institutions, the EU Member States and financial institutions. Team Europe has mobilised EU assistance and facilitated the delivery of medical equipment, vaccines, and healthcare services to the WB6 and EN3 countries (European Commission, 2020). In addition, the EU has allocated substantial financial aid through various instruments such as the Instrument for Pre-Accession Assistance (IPA) for the WB6, and the Neighbourhood, Development, and International Cooperation Instrument (NDICI) for the EN3 countries (EC, 2021). The RRF and Next Generation EU funds have contributed to these mechanisms, allowing for increased support of the EU to the WB and EN3 countries (European Commission, 2021).Overall, through coordinated efforts, the EU allocated EUR 1.47 billion for Ukraine, Georgia and Moldova and around EUR 3.3. billion to the WB6 to help ease the socio-economic and humanitarian consequences of the pandemic, strengthen healthcare and promote resilience and recovery in the region (EC, Team Europe, 2021).

4.1.4. Breaking free from energy dependence on Russia

In 2021, the EU imported about 27 % of its oil, 40 % of its natural gas and almost 46 % of its total coal imports from Russia (EC, 2022). In response to Russia's full-scale invasion of Ukraine, the EU's dependence on Russian energy supplies was significantly reduced through EU sanctions on Russian imports. The EU has diversified the sources of its energy supplies (for instance with Kazakhstan, Egypt, Israel) and put forward policies to limit dependence on Russian supplies, phase out dirty energy sources and introduce gas and oil price caps through RepowerEU. The EU proposed common gas procurement to avoid energy supply disruptions and set out new gas storage rules to avoid energy blackouts and power shortages during winter. The EU Member States have agreed to voluntarily reduce gas use by 15 % across the EU. As a spillover effect, by the end of 2022, the EU saw a decline in overall natural gas consumption by more than 20 % (Eurostat 2022).

As for the neighbouring countries, in 2022 Moldova faced the worst energy crisis since its independence. Gazprom cut its supplies to Moldova by 30 %. Cuciurgan power station in Transnistria decreased its supplies to 27 % of normal capacity, and Ukraine stopped electricity exports to Moldova due to the destruction of electricity infrastructure caused by Russian bombing. Ukraine and Moldova requested emergency synchronisation with the Continental European power system, which went ahead with unprecedented speed. The process of synchronisation which was initially foreseen to last a couple of years was implemented in in just three weeks. This allowed Ukraine and Moldova to import electricity during the most challenging times.

In the WB, Russia has maintained a strong foothold that allows Moscow to sway the region's political and economic landscape, despite its waning dominance in Europe's oil and gas markets (Bechev, 2023). Russia's strategy to keep its energy exports to the WB is facilitated by projects like the TurkStream pipeline. This pipeline, established in partnership with Turkey, delivers gas to Bulgaria, Serbia, North Macedonia, and Hungary, bypassing Ukraine. Since its launch in early 2020, TurkStream has enabled gas shipments to these Balkan nations, with Hungary now receiving Russian gas via Serbia (Euractiv, 2024).

Since Russia's full-scale invasion of Ukraine, the country has actively sought to disrupt stability in the WB through forming alliances with pro-Russian factions, particularly in Serbia and the Republic of Srpska within Bosnia and Herzegovina. These alliances, coupled with the reluctance of these governments to align with Western sanctions, have further solidified Moscow's regional influence (Ichord, 2022), partially countering the EU protean responses.

4.1.5. Trade and humanitarian measures in response to the 2022 Russian invasion of Ukraine

Russia's full-scale invasion of Ukraine caused Ukraine's economy to shrink substantially. It was therefore of critical importance for Ukraine to maintain economic activities with its traditional trade partners such as the EU. The European Commission initiated 'solidarity lanes' to facilitate exports from Ukraine via land routes and EU ports. 'Solidarity lanes' facilitated 55 % of agricultural exports from Ukraine and allowed the country to export non-agricultural goods and receive humanitarian aid. The EU has also temporarily allowed all Ukrainian goods to have full access to the EU single market (full trade liberalisation) under Autonomous Trade Measures (ATMs). These EU policies allowed Ukraine to keep trading and exporting and to remain integrated in global value chains (Akhvlediani and Movchan, 2024).

Given structural trade changes, and the blockage of grain supplies from Ukraine and other critical primary goods (such as fertilisers) from Russia, the EU put forward some ad-hoc initiatives to ensure economic resilience. This included several market measures under the Common Agricultural Policy (CAP), enabling set-aside areas to be mobilised to increase production within the CAP, as well as a temporary crisis framework for state aid for EU Member States in need (Akhvlediani et al. 2022).

The EU has for the first time triggered its Temporary Protection Directive. This allows Ukrainian citizens to be granted temporary residence permits, and to access medical treatment, employment and education in the EU. So far, more than 4 million Ukrainian citizens have utilised the temporary protection mechanism (Akhvlediani and Movchan, 2024).

4.2. Control power responses

4.2.1. The breakup of the Soviet Union

The dissolution of the USSR in December 1991 marked a significant geopolitical shift, albeit less violent than in the Balkans. The European Community's reaction was characterised by a similar mix of diplomatic recognition, economic assistance, and support for democratic transitions that determined the European response to the violent collapse of Yugoslavia. Yet none of the economic elements of the European Community's comprehensive approach to the collapse of the Soviet Union was innovative and transformational in nature, or deployed on such a scale that it became protean.

The EC swiftly provided humanitarian aid to address urgent needs in the newly independent states. This aid included essential food supplies, such as butter, to combat widespread shortages and malnutrition. The EC not only delivered food but also offered technical assistance to support economic recovery and infrastructure development (Desmond, 1992).

In the first half of 1992, the EC launched significant aid programmes to support the transition of the newly independent states (especially those in the Baltics, which were immediately recognised in January 1992) from centrally planned economies to market-oriented ones. The Technical Assistance to the Commonwealth of Independent States (TACIS) programme, established half a year before the demise of the Soviet Union, was a pivotal initiative in this regard (Frenz, 2008). TACIS provided technical assistance and expertise in areas such as governance, economic restructuring, and infrastructure development.

Starting in mid-1992, through the Partnership and Cooperation Agreements signed with several former Soviet states, the EU sought to build long-term political and economic partnerships, aspiring to a stable and more prosperous neighbourhood. Starting in 1993 for Ukraine and 1995 for Georgia and Moldova, the EU also put forward its new Generalised System of Preferences (GSP), providing preferential access to its single market to the Eastern neighbours (EC, 2020). The GSP promoted economic growth and development by granting tariff reductions or exemptions on a wide range of products exported to the EU and laid the basis for further trade liberalisation under the DCFTAs that were concluded two decades later.

While this comprehensive approach was aimed at laying the groundwork for the integration of the newly independent states into the European and global order, the EU's efforts failed. Corruption, inadequate infrastructure, and weak institutions impeded effective economic reforms, leading to slow growth and persistent poverty in many regions (Emerson et al., 2018). The EU's initiatives to promote governance reforms and human rights were often met with limited success due to entrenched political elites and a lack of robust civil society structures. Regional conflicts, such as those in the Caucasus, disrupted stability and cooperation. These conflicts not only strained the resources and focus of the EU but also created environments where integration efforts were sidelined by immediate security concerns. With a new form of authoritarianism making a come-back under Putin, EU-Russia relations petered out until they came to a grinding halt in February 2022.

4.2.2. Economic security toolbox

In response to Russian, Chinese and other third countries' economic coercion, the EU has toughened up its enforcement game in recent years. The Commission amended its regulation regarding the exercise of the Union's rights for the application and enforcement of international trade rules (European Union, 2021) against trade law offenders (Szyszczak, 2021) and appointed a 'Chief Trade Enforcement Officer' (European Commission, 2024) whose mandate includes strengthening implementation of the EU's multilateral, regional and bilateral trade agreements, coordinating dispute settlement proceedings between the EU and non-EU countries (in and outside the context of the WTO), and ensuring that the EU has an effective arsenal of legal tools. To the latter end, the EU has added a raft of shiny new legal tools (Gehrke, 2022), including a Carbon Border Adjustment Mechanism (CBAM) (European Commission, 2023) to levy taxes on dirty imports into the Single Market –controversial among experts and third countries alike (Beattie, 2024a; Reid, 2022); an Anti-Coercion Instrument (European Commission, 2023) against trade bullies (Schaupp, 2023); and a Foreign Subsidies Regulation (European Union, 2022) which extends the EU's anti-state aid regime to governments around the world (Blockx and Pierfrancesco, 2023).

The EU now has the legal weaponry to enforce its 2023 Economic Security Strategy (European Commission, 2023) in line with international law, at least on paper. Early practice with some of these new unilateral tools has underlined their potential power. For instance, DG GROW's announcement of a first public procurement investigation under the Foreign Subsidies Regulation led the Chinese train company bidding to supply electric trains in Bulgaria to immediately pull out of the bidding process. A second investigation, into two Chinese energy companies tendering for contracts in a solar park in Romania, may go the same way (Beattie, 2024b). The reason is simple: the level of scrutiny into a company's finances – often opaque in Chinese cases – is so deep and so fast under the terms of the Regulation, that companies would rather pull the plug on the opportunity than pass on information to the Commission. This is to the chagrin of the China Chamber of Commerce to the EU, which is sure to kick up dust.

The effective use of the EU's new economic security toolbox hinges on tricky commercial and diplomatic judgments. As an open trade economy with many strategic dependencies offering chokepoints to adversaries (European Commission, 2022), the EU must be careful when deciding how it seeks confrontation. In July 2023, it had another taste of China's propensity for retaliation, when China unveiled restrictions on the exports of gallium and germanium (He, 2023), two key metals used in chipmaking, electric vehicles, telecoms products, and weapons systems. This came in response to the US banning Chinese companies from buying advanced chips and chip-making equipment without a license and putting pressure on European allies to do the same. For many observers, this appeared to have knocked the EU off-balance (Aarup et al., 2023). Beijing had decided to leverage China's astonishing dominance in the production of many raw materials critical to modern technology in areas at the heart of the EU's green transition. But in practice, supply disruptions for gallium and germanium did not materialise. Exports continued, albeit with the hassle of requiring new permits. This underscores that the new export rules were carefully designed as a warning to the US, the EU and their allies that China would, and could, retaliate (White, 2023). The signal was lost on the Biden administration, which proceeded with wide-ranging export controls of high-end technology. The PRC's subsequent decision to impose export curbs on graphite (White et al., 2023) sent shockwaves through battery industries and governments that found themselves exposed to China's market dominance.

4.2.3. Economic sanctions against Russia

In response to Russia's illegal and unjustified war against Ukraine, Member States have agreed to an impressive number of sanctions packages (13 by the second anniversary of the full-scale invasion) (European Commission, 2024), rapidly widening the net cast over growing numbers of targeted individuals and institutions. Official talking points of the EU's institutions and Member States invariably proclaim that the Union's restrictive measures against Russia represent the largest set of sanctions in its history. Compared to other heavily sanctioned countries such Iran and North Korea, they are indeed remarkable with respect to the number and variety of targeted sectors. This is especially true when considering that scoping sanctions is always subject to compromise among the 27 Member States with regards to the level of pain to inflict on the targets and what shocks can be absorbed at home, as observed in discussions about capping gas prices and restricting the trade in luxury products.

Most Member States plead for an incremental approach to the adoption of sanctions to keep something up the EU's sleeve in case of further violations of international law. The step-by-step approach to wean the EU off from its gas dependency on Russia is a case in point: other, less sizeable imports of hydrocarbons (coal, oil) were phased out first, thus sending warning signals to Russia that the EU was prepared to ramp up the pressure, while leaving Member States time to prepare for a major – and largely successful – energy transition. A similar escalation ladder can be observed in the adoption of financial sanctions, with a handful of Russian banks being targeted before Member States agreed to punish the largest operators (Sberbank and Gazprombank, which owned around 60 % of the Russian banking sector assets).

A debate on whether to use the roughly USD 300 billion of Russian Central Bank assets frozen in EU bank accounts to pay for reparations in Ukraine has dragged on for more than a year. Key concerns include possible breaches of international law, and the danger of setting a precedent that could come back to haunt western states for their interventions in conflicts around the world (Emerson and Blockmans, 2022; Blockmans, 2024). The European Central Bank has also warned that the move could undermine investor confidence in the euro, leading to capital flight and volatile financial markets. In the first half of 2024, agreements were reached in both EU and G7 formats to use the proceeds ('windfall profits') of frozen Russian assets to aid Ukraine financially and with arms, all in keeping with prevailing international law on immunities of state assets held abroad.

5. CONCLUSION

The EU is one of the main global economic powers, thanks to its single market, single currency, and a significant presence in international organisations. However, this economic strength at the global level has been challenged in the last three decades by the global financial crisis (2008/2009), the COVID-19 pandemic, various wars in the neighbouring regions, and the policies of other regional and global players. These risks and uncertainties have put pressure on the EU and necessitated immediate actions that have, at times, involved non-traditional measures. The EU's reaction to the economic uncertainties and risks it has faced over the past three decades reflects a mixed approach of using traditional tools and applying more innovative and creative responses. While the innovative protean response has sometimes been based on available traditional control tools at the EU's disposal, the creativity and innovation has come from bold decisions taken and their extensiveness.

The EU's development of its economic tools and policies has mostly been an exercise in building (economic) control power, albeit one that has taken place in a changing environment, with several uncertainties materialising in the last three decades (and more frequent in the last decade). This largely control power response to economic risks and uncertainties is, perhaps, to be expected, as the EU is one of the most advanced economic powers globally. On the one hand, EU policies and tools are based on decades of institutional and policy development in the economic realm, including in the context of the crises that Member States have faced from the 1960s until the 2020s (such as the financial crisis of the 1970s, the end of the Bretton Woods system, the oil crisis, and various wars in the neighbourhood, to name but a few). On the other hand, the EU has innovated in times of crises, for example in external commercial policy through applying sanctions. An example of this was the precedent-setting suspension of the Cooperation Agreement between the European Economic Community and the Socialist Federal Republic of Yugoslavia during the Balkan wars of the 1990s (Delevic, 1998). On such occasions, the EU has surprised observers with unexpected actions and as such has also demonstrated protean power.

The boldest steps that the EU has undertaken in the economic domain reveal its undeniable capacity for self-transformation and re-invention in the face of existential crises. The repercussions of the financial crisis pushed the EU to take significant structural reforms to strengthen its economic and financial governance, enhance its competitiveness and stabilise the EU economy and financial situation. This protean response aimed at improving the EU's fiscal situation through budget (re)allocations, pushing through deep reforms, tightening surveillance of fiscal policies (such as European Semester, Stability and Growth Pact), and establishing new institutions to manage and prevent crises better (cf. European Stability Mechanism, European Banking Authority, European Securities and Markets Authority). These innovative policies were necessary, developed in the heat of the moment, and enabled the EU to cope with the crisis. By doing so, the EU was not only able to survive these crises and develop structural, long-lasting institutions and economic policies, but also become more competitive. These protean responses allowed the EU to be better at supporting the neighbouring countries through the existing frameworks of the enlargement and neighbourhood policies. Using traditional control power capacities, the EU managed to generate a protean momentum, pushing for a longer-term transformational impact on economic resilience of the candidates and the neighbouring countries (through available tools such as the IPA, MFA and ENI). This also paved the way for signing the AAs and DCFTA with the EN3 – steps that were crucial to build long-term economic ties with the EU and facilitate their access to the EU's single market.

Likewise, the COVID-19 pandemic presented not only a new challenge but also a new opportunity for adaptation, which the EU took advantage of. The EU launched unprecedented initiatives like the Next Generation EU (NGEU), with the Recovery and Resilience Facility (RRF) as its centrepiece. The major innovation of these initiatives lies in its scale and extent. EU efforts highlighted its commitment to economic recovery, not only in the EU but also in the WB6 and EN3 countries. It also helped build resilience and showed solidarity through providing critical aid to both regions. The Team Europe initiative to support neighbouring countries further highlighted the EU's capacity for coordinated response, delivering crucial medical and economic assistance to the WB6 and EN3.

Furthermore, with the full-scale Russian invasion of Ukraine in 2022, the EU showed an unparalleled commitment to break free from Russian energy dependency. The EU's dependence on Russian energy supplies was significantly reduced amidst EU import sanctions on Russia. The EU diversified the sources of its energy supplies and implemented measures that would reduce the dependency on Russian imports without disrupting business and household dependence on gas/oil – this enabled the EU managed to avoid power shortages and blackouts. The EN3 suffered from a more dramatic energy crisis. Both Ukraine and Moldova requested emergency synchronisation with the continental European power system, which went ahead with unprecedented speed (implemented in the duration of only three weeks). This allowed Ukraine and Moldova to import electricity during the most challenging times. In the WB, Russia maintained a strong position. Russia's strategy to maintain energy exports to the WB was facilitated by projects like the TurkStream pipeline. Since its full-scale invasion of Ukraine, Russia has actively sought to strengthen alliances with pro-Russian factions (especially in Serbia and the Republic of Srpska within Bosnia and Herzegovina). These alliances, coupled with the reluctance of these governments to align with Western sanctions, further solidified Moscow's regional influence – showing that EU measures did not break ties between those countries and Russia.

An impactful and innovative EU response to the humanitarian crisis and trade disruptions due to the Russian invasion was to ensure that Ukraine kept economic activities and trading with its strategic partners. The European Commission initiated 'solidarity lanes' to facilitate exports from Ukraine via land routes and EU ports. It also allowed Ukraine to export non-agricultural goods and receive humanitarian aid in addition to granting unprecedented full access to the EU single market. The EU also triggered the Temporary Protection Directive for the first time since it was created. This allowed Ukrainian citizens to be granted temporary residence permits and access to medical treatment, employment and education in the EU.

In terms of control power, the EU's development of an economic security toolbox and the imposition of extensive sanctions on Russia underscored its strategic use of economic measures to enforce international norms and protect its interests. The EU had to enhance its economic security mechanisms against economic coercion by Russia and China. For example, the EU amended its regulations by appointing a chief trade enforcement officer and strengthen trade law enforcement mechanisms through the available institutions and tools. The EU introduced new legal tools to protect the its interests such as the Carbon Border Adjustment Mechanism (CBAM), the Anti-Coercion Instrument, and the Foreign Subsidies Regulation. Implementation of these tools has shown their likely effectiveness through preventing unreliable Chinese companies from entering the EU market. However, the EU must navigate complex commercial and diplomatic landscapes, as seen in China's retribution through export restrictions on critical materials used in chips, electric cars and batteries.

In response to Russia's full-scale invasion of Ukraine, the EU implemented an extensive selection of traditional measures such as sanctions (political, economic, security). These 14 packages of sanctions have been among the most comprehensive restrictive regimes in the EU's history. These measures target various sectors and individuals, with a strategic, incremental approach to soften shocks within the EU due to the long history of interdependencies. Furthermore, there have been discussions and more concrete plans to use frozen Russian assets in foreign banks to support Ukraine, and for Ukrainian compensation.

Overall, the EU's comprehensive responses to various economic uncertainties and risks over the past three decades have involved a mix of protean and traditional measures. These measures have reinforced the EU's position as an adaptable and flexible actor, succeeding to navigate through complex economic, political, security and social threats. By utilising its internal structures and tools and through innovating at times, the EU has managed to help build economic resilience across its neighbours (WB6 and EN3). It has also managed to counterbalance the increased malign interferences of other actors such as China, Russia and Turkey. In sum, it has harnessed its abundant economic power to both address its immediate concerns and equip itself institutionally and financially for future emergencies. In so doing, it has leveraged its control power to transform itself into a more united, coherent and visible economic actor. In other words, it has seized various protean moments to ratchet up its economic actorness.

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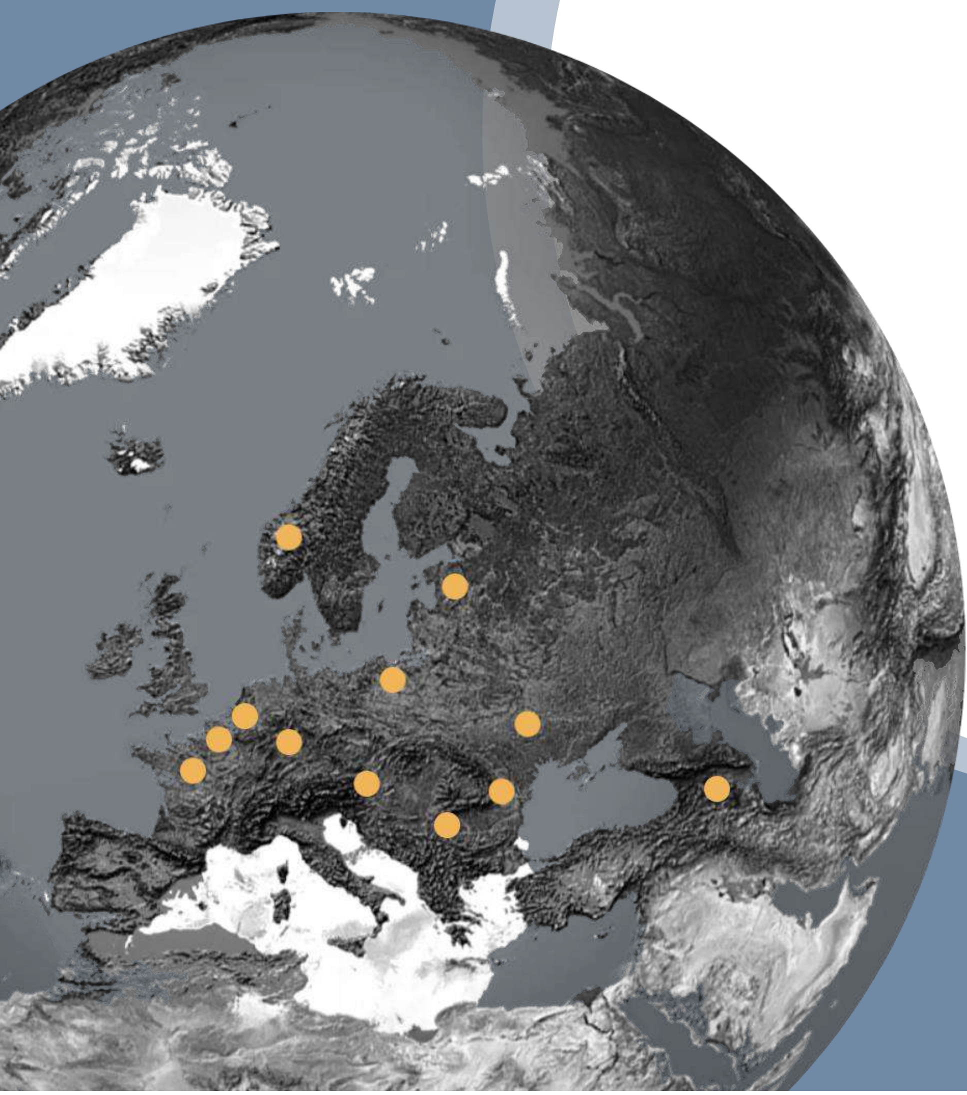

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