

WORLD AND REGIONAL CENTERS OF POWER AND THEIR IMPACT ON THE SITUATION IN CENTRAL ASIA AND THE CAUCASUS

ENLARGEMENT OF THE EUROPEAN UNION AND ITS INFLUENCE ON THE CENTRAL ASIAN COUNTRIES

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This year the European Union increased its membership from fifteen to twenty-five states, thus greatly extending its territory and increasing the size of its population and the aggregate economic potential of this organization, which is one of the most influential centers of power in the world. It should also be noted that compared with the previous stages, the current

wave of the European Union's enlargement is characterized by a higher level of integration. In particular, the formation of the economic and monetary union is nearing completion, and significant progress toward creating a political union and strengthening cooperation in security is being made. In this respect, the current enlargement of the EU is accompanied by significant changes in

the structure and mechanism of the foreign economic activity of the countries that have joined it.

As should have been expected, this stage of development in this structure, which is unprecedented in the quantitative and qualitative sense, has given rise to heated discussions not only in Europe, but also beyond it. Various scenarios of the development in events are being proposed. Experts are primarily worried about the influence this enlargement will have on the economic situation, both in the European Union in particular, and in other regions of the world as a whole. But the Central Asian countries are essentially not participating in these discussions. What is more, without getting into complicated theoretical combinations, but merely summing up a few facts, it can be presumed that the current entry of ten countries into the European Union could have a perceptible impact on the state and development of cooperation of our region's republics in the trade and economic sphere on the world arena. This conclusion can be drawn from the simple fact that the list of states joining the EU this year includes such important trade and economic partners of the Central Asian republics, as Poland, Latvia, and other countries. For example, in 2003, the goods turnover between Kazakhstan and Poland alone neared 400 million dollars.¹ In so doing, according to the documents furnished by the trade and economic department of the Polish Republic Embassy in Kazakhstan, the share of oil amounted to 91.2% of Kazakhstan's total exports to Poland.²

Trade and economic ties are developing between Uzbekistan and Latvia. According to some data, in 2001 the volume of transit of raw Uzbek cotton through Latvia was more than 30% of the

¹ See: *Novoe pokolenie*, No. 14 (254), 2003 [http://www.np.kz/2003/14/mir.html].

² See: *Polsha i Kazakhstan rassmatrivaiut vozmozhnosti razvitiia torgovo-ekonomicheskikh otoshenii v sfere gornodobyvaiushchei promyshlennosti* [http://www.pressclub.kz/news/pr.asp?pday=18&pmonth=09&pyear=03&n=(1)].

total export of "white gold" from Uzbekistan.³ As was noted during a meeting of the Uzbek-Latvian intergovernmental commission held in Riga in the summer of 2001, Tashkent is interested in increasing the volumes of this transit.⁴ (According to the republic's Academy of Sciences' Institute of Economics, cotton fiber currently produces approximately 22% of the country's entire export revenue.⁵)

On the whole, according to some sources, in 2003 the goods turnover between Kazakhstan and the EU countries amounted to 4.04 billion dollars (31% higher than in 2002),⁶ and between Uzbekistan and the European Union states to 1.1 billion dollars. What is more, the representative offices of 147 companies from EU countries are accredited in Uzbekistan, and a total of more than 500 companies from these states are working in the republic, 114 of them with 100 percent European capital.

In this respect the question arises of the possible consequences of the EU's enlargement on the development of relations between the Central Asian countries and Europe. In an attempt to at least partially answer this question, the authors of this article will try to identify some aspects, both positive and negative, of the current stage in trade and economic development of the European Union, which may have an impact on Central Asia. We will mainly focus our attention on Uzbekistan and Kazakhstan, since these two states are playing a key role in the region and are the most active trade and economic partners of the EU in Central Asia.

³ See: [http://www.autotransinfo.ru/tr_news.asp?MsgID=1649866102&q=&Type=0&m=-1&p=1].

⁴ Ibidem.

⁵ See: A. Rasulov, R. Alimov, "Struktrunye preobrazovaniia i povyshenie konkurentosposobnosti ekonomiki Uzbekistana," *Obshchestvo i ekonomika* (Nauka Publishers, Moscow), No. 6, 2003, pp. 193-212.

⁶ *Tsentral'noaziatskie novosti. Evropeiskii soiuz podderzhivaet vstuplenie Kazakhstana v VTO*, 16 March, 2004 [http://www.centran.ru/cgi-bin/index.pl?text_id=14252&all=yes].

Some of the Positive Aspects

The most important positive aspect of the European Union's enlargement for Central Asia can be seen as the likely intensification of economic and political relations between this organization and the countries of our region. According to Christopher Patten, EU Commissioner for Foreign Relations, "Bi-

lateral trade between the EU and Central Asia will increase by more than 20%".⁷ What is more, the European Union is drawing closer to Central Asia geographically, which is raising the importance of several joint projects, including in the transportation-communication and energy fields. Here a significant role is being played by the rich hydrocarbon supplies of our region's countries. In particular, as Jacek Cichocki, deputy director of the Center for Eastern Studies in Warsaw, emphasizes, in keeping with the EU's request, Poland, the Czech Republic, Slovakia, and Hungary should significantly reduce their dependence on Russia in the energy sphere. In this respect, according to the Polish expert, the development of cooperation with the Caspian states, particularly with Kazakhstan, is one of the key areas in diversifying raw hydrocarbon sources for these countries.⁸

Direct access of the Central Asian republics to the joint European market is also increasing, which they were offered under previous agreements with the EU. In the event that their products meet European standards, exporters from Central Asia will be able to deliver their goods to all the EU countries, using the most favored nation treatment with respect to customs fees, and so on. In so doing, it should be noted that in several cases, the EU's general customs tariff on imported goods is on average lower than the national customs rates of the countries that have just joined this organization.

Nevertheless, for several reasons, in particular due to the lack of competitiveness of the technology and products of the new EU members on the European market, they will most likely have to reorient their exports in several branches of their economy to the markets of third countries. What is more, by accepting the European Union's regulations, the cost of products will increase in its new states, which will create additional stimulus for transferring certain types of production to third countries. According to specialists from the World Bank, this vector of foreign trade "expansion" will be a vitally important way for the new EU countries to compensate for the costs involved in joining the European Union.⁹ According to Natalia Smorodinskaia, head of the center for analyzing growth poles and free economic zones at the Russian Academy of Sciences' Institute of Economics, "the trend toward a rival importer from the more developed European countries ousting the goods of new EU members from domestic markets plays just as important a role here."¹⁰ As the Russian expert believes, under such conditions, these countries "will soon begin to develop their own export flows to Russia and other CIS members."¹¹

It can be presumed that possible export and technological "expansion" will also have a certain impact on our region, whereby not only on the part of the new EU countries. For example, Russia, Belarus, and Ukraine will strive for more active development of trade and economic relations with the Central Asian republics, since they are also interested in compensating for the consequences of a possible loss in their foothold on the markets of the new EU members.

A similar trend could cause an increase in the economic presence of Europe and the CIS countries in Central Asia, which will largely balance out the growing trade and economic influence on the region from other centers of power, particularly China. In so doing, we will note that opening up the markets of the new members for the European Union old-timers will retard the development of their export to the Central Asian republics to a certain extent.

The influence of "export expansion" should be viewed here separately from "technological expansion." For example, "export expansion" to the Central Asian states could shrink the regional consumer market for goods from our region's countries, while "technological expansion" could become an addi-

⁷ *Speech by The Rt Hon Chris Patten. Keynote Speech to the International Community as part of Official Visit to Kazakhstan.* Almaty, 16 March, 2004. SPEECH/04/132 [http://europa.eu.int/comm/external_relations/news/patten/speech04_132.htm].

⁸ See: J. Cichocki, "The Significance of Caspian Oil and Gas for Diversifying Energy Imports to the Visegrad Group Countries," *Connections*, Vol. II, No. 1, March 2003. The Quarterly Journal of Partnership for Peace Consortium of Defense Academies and Security Studies Institutes. Garmisch-Partenkirchen (Germany).

⁹ See: H. Tang, *Winners and Losers of EU Integration Policy: Issues for Central and Eastern Europe*, Wash., D.C.: The World Bank, March 2000.

¹⁰ N. Smorodinskaia, "Sudba Kaliningrada: globalnoye izmerenie," *Pro et Contra*, Vol. 8, No. 1, Carnegie Endowment for International Peace, Gendalf Publishers, 2003, pp. 137-162.

¹¹ *Ibidem*.

tional factor capable of increasing the number of joint ventures in the Central Asian countries, the production of which would be oriented toward the regional market. This in turn would promote the development of the national economies of the region's republics and raise their export potential. Some elements of this trend are already becoming apparent. For example, in the very near future, Kazakhstan plans to begin implementing a project to manufacture Czech Skoda cars at the Azia-avto factory in Ust-Kamenogorsk.

Ultimately, the current stage of EU enlargement can serve as a kind of experiment both for the EU and for the Central Asian countries in making joint preparations for the subsequent stages of European integration. For example, Rumania and Bulgaria are hoping to join the European Union in 2007. Other states, in particular Albania, Bosnia, Macedonia, Serbia, Montenegro, and Croatia, signed agreements with the EU on stabilization and association, which could also open the gates to European integration for them. What is more, the question of Turkey joining the European Union is becoming more urgent, which is one of the most important trade and economic partners of the Central Asian countries.

Nevertheless, the current stage of European enlargement could also lead to certain negative consequences for the republics of our region.

The Negative Consequences

It stands to reason that changes in the trade legislation of the new EU states will primarily have an impact on the Central Asian countries which have relatively significant trade and economic relations with these EU countries. This is due to their transfer to European Union standards, in particular to a single customs tariff, as well as to corresponding qualitative and quantitative restrictions and trade protection measures adopted by the EU. For example, the countries joining this organization observe standard regulations with respect to cotton. This protective system was introduced in 1981, when Greece, a cotton exporter, joined the European Union.¹² Based on this, an agreement on textiles signed by Uzbekistan and the EU envisages a quantitative limit on the import of certain types of so-called "second category" goods into the European Union, mainly cotton fiber.¹³ And with respect to Latvia's entry into the EU, the fifth country in the world in terms of import volume of Uzbek cotton fiber,¹⁴ it will be necessary to review the conditions for Uzbek-Latvian and Uzbek-European trade turnover, since now the Latvian side must determine the amount of its cotton fiber import in accordance with the quota it is offered by the European Union.

It can be presumed that basically the same problem will also arise regarding the import of certain commodities from Kazakhstan to the European Union. For example, pursuant to an agreement between Astana and the European Coal and Steel Community on trade in specific commodities of 15 December, 1999, the EU Commission set restrictions on the delivery of Kazakhstani steel into the European Union.¹⁵ And a new agreement in this sphere signed on 22 July, 2002 in Brussels, although it significantly increases this quota, does not abolish the limit itself.¹⁶ What is more, as German researcher Peer H. Lange believes, "the previous vision of the Baltic states as a bridge between the EU and former Soviet republics is changing."¹⁷ In his opinion, when the Baltic states become integrated into the EU, the status of their budget-

¹² See: R. Abdullaev, "Regulirovanie rynka khlopka v Evropeiskom soiuze," *Ekonomicheskii vestnik Uzbekistana*, No. 1/2, 2001, pp. 15-16.

¹³ [http://europa.eu.int/comm/external_relations/uzbekistan/intro/index.htm].

¹⁴ The data of the Uzbekistan State Statistics Board presented in an article called "Tsenovaia koniunktura blagopriiatstvuet eksportu," published in the newspaper *Bankovskie Vedomosti*, No. 13 (412), 17 March, 2004, p. 8.

¹⁵ [http://europa.eu.int/comm/external_relations/kazakhstan/intro/index.htm].

¹⁶ See: Zh. Ibrashiev, E. Ensebaeva, "European Union and Kazakhstan: Trends in Trade and Economic Cooperation," *Central Asia and the Caucasus*, No. 1 (19), 2003, p. 63.

¹⁷ See: P.H. Lange, "The Baltic Countries as a Bridge?" *Internationale Politik*, No. 1, January-February 2003 [<http://www.deutschebotschaft-moskau.ru/ru/bibliothek/internationale-politik/2003-01/index.html>].

supporting transit services, primarily the sea ports, will dramatically change.¹⁸ This in turn will have a perceptible influence on interregional relations between Central Asia and the Baltic in the trade and economic and transportation-communication spheres.

It is likely that similar problems will also arise in other areas of bilateral cooperation. Take, for example, certain technical aspects of air transport communication. At one time, the European Union prohibited essentially all Soviet-manufactured airplanes from entering its air space, as a result of which, companies of the Central Asian countries using these airplanes for flights to the new EU member states will have to refurbish their airplane fleet (if, of course, they do not want to cut back on the volume of air freight). For example, Kazakhstani cargo carriers making flights to Hungary will have to do this before 1 January, 2005. For the moment, however, on the basis of recent bilateral agreements, Budapest will service such airplanes from Astana only as an exception.¹⁹

Expanding European legislation to include the states joining the EU could also lead to several of their agreements with third countries, including Central Asian republics, being cancelled. For example, “in keeping with the obligations to eliminate all discrepancies with EU legislation (*acquis communautaire*) before becoming a full-fledged member of the European Union common market,” on 11 November, 2003, Latvia withdrew from certain agreements on economic cooperation with several states. According to a report by the Latvian LETA Information Agency, the country’s government approved, in particular, “cancellation of the Latvian-Uzbek agreement on cooperation in standardization, weights and measures, and certification” of 3 July, 1988.²⁰

The visa conditions of new EU members are also becoming more complicated, which will probably create additional obstacles for the interregional activity of commercial agents, primarily “shuttle workers” from our region’s countries. And the current situation cannot be corrected by “automatically” enlarging the framework for applying partnership and cooperation agreements (PCA) signed between the EU and a few Central Asian countries.²¹ First, it cannot be claimed that partnership and cooperation agreements will make it possible to resolve all the problems of trade and economic cooperation. Second, only a few Central Asian countries have such agreements with the EU (see table).

Table

Partnership and Cooperation Agreements between the EU and Central Asian Countries

Countries	Year the PCA was signed	Entered into force
Kazakhstan	1995	1 July, 1999
Kyrgyzstan	1995	1 July, 1999
Tajikistan	2003	not yet in force
Turkmenistan	1998	not yet in force
Uzbekistan	1996	1 July, 1999

Source: [http://europa.eu.int/comm/external_relations/ceeca/pca/index.htm].

¹⁸ Ibidem.

¹⁹ [www.centran.ru 04.12.03].

²⁰ [<http://www.pravo.uz/inter/query.php3?topic=1688&sub=0>].

²¹ Already today partnership and cooperation agreements need some correcting capable of raising their efficiency, for more detail, see: K.I. Baizakova, “Politiko-pravovye osnovy sotrudnichestva Evropeiskogo soiuza s gosudarstvami Tsentral’noi Azii,” *Analytic*, No. 3, 2003, pp. 27-30.

European experts are also forecasting possible negative aspects for the CIS countries. In particular, specialists from the European Bank for Reconstruction and Development believe that the enlargement of the European Union could raise the economic barriers between East European states that are EU members and those that are non-members, for example, between Poland and Moldova.²² Under such conditions, states that are not members of the EU will be unable to develop their export potential, as a result of which a so-called “belt of undeveloped countries” could form on the eastern borders of the EU.²³ As Stefan Wagstyl, an observer of the British weekly *Financial Times*, notes,²⁴ enlargement of the European Union to the East could increase the danger of economic marginalization of some former Soviet countries. In his opinion, this danger could aggravate the economic situation and worsen even more the relatively low level of economic development of these states apparent today due to insufficient attraction of direct foreign investments and few opportunities for legal migration of the population.²⁵ Apparently, it is no accident that certain CIS countries are expressing displeasure about the EU’s enlargement. In particular, Moscow is making political and economic complaints to Brussels.²⁶ It is trying to postpone the introduction of restrictions on export of several strategically important Russian goods, for example steel, to Europe. What is more, if the European Union is enlarged as far as the Russian borders, Russia will have extremely urgent problems with respect to visa regulations, and so on.

The experts of several CIS countries also have a negative view of the likely activation of the EU in promoting their producers on the markets of third countries. This opinion suggests there will be a rapid increase in European pressure with respect to opening markets in the Commonwealth countries, in particular in the Central Asian republics. What is more, the European Union is becoming a dominant trade partner of such countries as Russia and Iran, which are playing an important role in the international relations of our region’s states. For example, whereas today the EU accounts for 36% of Russia’s trade turnover with the outside world, according to some sources, after EU enlargement this index will increase to 51%. As for the European Union’s share in Iran’s foreign trade turnover, according to official sources, it accounted for approximately 40% of import and 36% of the IRI’s export in 2001.²⁷ In so doing, Russia and Iran are the biggest rivals of the Central Asian countries on the European market, particularly in raw hydrocarbon, grain, and steel deliveries.

C o n c l u s i o n

The following conclusions can be drawn on the basis of the above. First, enlargement of the EU will have a perceptible influence on the development of trade and economic relations of the Central Asian countries, both with the European Union itself, and with its new member states. Second, this process will have an effect on our region’s trade and economic relations with other European EU non-member states, including with certain members of the CIS, particularly Russia, Ukraine, and Belarus. Third, indeterminate legal difficulties and other problems capable of having a negative effect on the dynamics of economic trade relations between the Central Asian countries and the new states of the European Union may arise. This problem will be urgent, at least in the short term, until the legal principles of this cooperation are reconsidered under current conditions.

In this respect, measures must be envisaged for minimizing the possible negative effects and optimizing the anticipated positive results of the EU’s enlargement regarding the economy of the Central Asian

²² *Transition Process Report. EBRD*, November 2003.

²³ *Ibidem*.

²⁴ See: S. Wagstyl, “EBRD Sees Danger in EU Eastern Enlargement,” *The Financial Times*, 17 November, 2003 [<http://new.ft.com/servlet/ContentServers?pagename=FT.com/StoryFT/FullStory&c= StoryFT&cid=106656594506>].

²⁵ *Ibidem*.

²⁶ See: J. Chalmers, “Russia Makes Trade Demands Ahead of EU Enlargement,” *Reuters*, 2 February, 2004.

²⁷ See: A. Ioayeri, “Relations between the Islamic Republic of Iran, the European Union and Belgium,” *Studia Diplomatica*, Vol. LV, No. 2, 2002, p. 77.

countries. In particular, the following can be proposed: discussing joint mutually advantageous proposals with the European Union and other interested sides; more actively developing regional cooperation and integration of the Central Asian states, drawing up a common trade and economic policy for them that takes into account the likelihood of the EU's further enlargement; accelerating economic reforms and modernizing the national economies of the region's countries.

On the whole, enlargement of the European Union is helping to develop trade and economic relations between the Central Asian countries and both the EU and CIS states. This will help to strengthen interdependence between Europe and Central Asia. With the current asymmetrical (in favor of Europe) state of this interdependence, the Central Asian countries will be the ones required to adapt to the new transformations in Europe. A significant increase in European influence will require new approaches to drawing up and implementing economic policy, taking into account the development trends of the economic situation in new Europe, which is getting ready to enlarge even more.