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### Caucasus and Central Asia: Towards a Non-Strategy

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*Georgia will easily overcome the economic problems stemming from its withdrawal from the USSR. We will join the European Union.<sup>1</sup>*

#### Introduction

The paper has five components. The first addresses the regional context(s) of the Caucasus and Central Asia. What challenges do these areas pose for the European Union in its approach towards “wider Europe”? The second discusses EU interests in the region. Third, how are these interests translated into policy and EU Commission activities and programmes? The fourth section looks at how effective EU activities have been. The final section looks at the implications of the analysis for future development of the EU’s role in the Caucasus and Central Asia.

I take Central Asia to include the five former Soviet republics of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. I take the Caucasus to mean the southern Caucasus (Armenia, Azerbaijan, Georgia). I realise that the EU has attempted to weigh in on northern Caucasian issues (notably the conflict in Chechnya), and that developments in the northern Caucasus do have significant effects for Russia’s southern neighbours. However, it is impossible to separate out EU perspectives on the northern Caucasus from their broader approach to Russia.

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<sup>1</sup> From an interview with the Chairman of the Economic Reform Committee of the Georgian Parliament, January 1990.

In examining EU perspectives and approaches to these two regions, it is important to recognise that – unlike many of the other regions considered here – there is no real history of interaction between the Union and its member states on the one hand and the states of the southern Caucasus and Central Asia on the other. There were moments when these regions were important to western European great powers. Central Asia played a key role in the ‘Great Game’ between Russia and Britain in the last half of the 19<sup>th</sup> Century. Azerbaijan’s oil resources were a major focus of the emergent petroleum industry in Europe and the United States. During the period immediately after the Bolshevik revolution, Germany and then Britain intervened on a small scale in the southern Caucasus, while small elements of the British Army in India raided into Central Asia. But this was all a long way from the kind of systematic interaction that characterised the West’s interactions with Poland, Hungary, Czech-Slovakia and the Balkans. And it evaporated with the consolidation of Soviet power along the former Russian Empire’s southern periphery. Consequently, there was no significant legacy or track record of European relations with the regions that are the focus of this chapter when the southern union republics of the USSR emerged into independent states in 1991.

It is important, finally, to stress that these two sub-regions are a key example of a broader developing challenge for the EU. The Union appears to have decided that the best way to deal with proximate states is to absorb them. Accession negotiations are well along in the Baltic Republics, Poland, the Czech Republic and Hungary, and Slovenia. They may be moving more slowly in Rumania and Bulgaria, as well as Croatia, and Cyprus, but the direction towards accession is reasonably clear. The logic of geography would suggest that, eventually, Albania, Macedonia, and the Federal Republic of Yugoslavia or its successor states, will find their way into the Union. Even Turkey now appears to be making the political and economic adjustments necessary for serious candidacy. I do not underestimate the difficulties in accession, but the Union clearly sees these states as potential members.

The Caucasian and Central Asian states, like Russia and Ukraine, are equally clearly perceived not to be potential member states. They are,

however, states whose fates are directly linked to the Union and in the stability and prosperity of which the Union has a strong interest. It therefore behooves the Union to have a 'strategy' towards these states. If their problems are not going to be subsumed within the framework of membership, what can the Union do to ensure that the problems they pose for the EU can be minimised and controlled?

## **The Regional Context**

Turning to the first issue, in many respects the states of the region are quite dissimilar. One should, therefore, take care in the effort at generalisation. In territory, Armenia at the small end is 28.9 thousand square kilometres. At the high end, Kazakhstan is 2.7 million square kilometres. In population, Armenia (again in the low position) is estimated by the World Bank to have a population of 4 million, while at the high end, Uzbekistan comes in at 25 million.<sup>2</sup> Some states in the region are almost completely homogeneous in ethnic terms (Armenia post-1988), while some are highly diverse (Georgia and Kazakhstan). In economic terms, Tajikistan's GDP per capita is US\$170; Kazakhstan's is US\$1190. In short, they vary substantially both in power potential, in the depth of their economic and other difficulties, and in their potential for civil conflict.

None the less, there are a number of general points that serve to distinguish this region. One obvious point is the depth of the economic collapse affecting Central Asia and the Caucasus since 1991. The decline also lasted longer than that of, say, Central Europe. The recovery has generally been slower, not least because of the weakness of foreign investment outside the natural resources sector (see Table 3). A comparative examination of recorded trade flows suggests that the opening of these economies to the international economy has had little impact (again with the exception of energy producers), although the direction of trade statistics indicate greater diversification.

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<sup>2</sup> These figures are from the World Bank. They apparently do not take into account the substantial emigration of unemployed young people (mainly male and particularly, although not exclusively, from the Caucasus).

**Table 1: General Data**

Country	Territory square kilometres	Population	GDP 1990 billions \$US	GDP 1999 billions \$US	GNP/cap 2000 \$US
Armenia	29,800	4	4.1	1.8	520
Azerbaijan	90,500	8	-	4.6	610
Georgia	69,700	5	-	14.6	590
Kazakhstan	2,717,300	15	40.2	16.9	1,190
Kyrgyzstan	198,500	5	-	1.3	270
Tajikistan	143,100	6	-	1.1	170
Turkmenistan	488,100	5	-	3.3	840
Uzbekistan	447,400	25	-	8.7	610

Source: World Bank, <http://lnweb.worldbank.org/eca/eca.nsf>. (Data from 12 August 2002.)

**Table 2: Structure of National Economies**

Country	Agriculture		Industry		Services	
	1990	1999	1990	1999	1990	1999
Armenia	17.4	28.7	52	32.6	30.7	38.7
Azerbaijan	-	18.8	-	33.2	-	48
Georgia	-	29.2	-	13	-	57.8
Kazakhstan	33.9	10.5	32.5	34.9	33.6	54.6
Kyrgyzstan	34.2	37.7	35.8	26.7	30	35.6
Tajikistan	33.3	18.7	37.6	24.6	29.1	56.7
Turkmenistan	32.2	27.8	29.6	46.1	38.2	26.1
Uzbekistan	32.8	33.5	33	24.6	34.3	41.9

Source: World Bank.

**Table 3: Current and Projected Growth in GDP**

Country	1999	2000	2000-2004
Armenia	3.3	6.0	5.6
Azerbaijan	7.4	11.1	5.7
Georgia	3.0	1.8	3.4
Kazakhstan	2.7	9.6	4.8
Kyrgyzstan	3.7	5.0	4.4
Tajikistan	3.7	8.3	5.8
Turkmenistan	17	17.6	7.3
Uzbekistan	4.4	4.0	2.0

Source: World Bank

Although time series data for the region's economic performance is hard to come by (see Table 1 above), the figures of 1990-99 GNP shrinkage for Armenia and Kazakhstan are not out of line with estimates for change in GNP in the official economy elsewhere in the region. Indeed, they are almost certainly less severe than the decline of the several countries affected by civil wars (Azerbaijan, Georgia, and Tajikistan). In general, production plummeted, unemployment and underemployment rose substantially, and the personal savings of most of the population disappeared in the recurrent inflations of the early and mid-1990s. The structure of regional economies shifted from manufacturing and towards services (and, in some instances agriculture) (see Table 2). Income differentials rose as state sector privatisation processes favoured those with connections to those in charge of the divestiture of state assets.

There was a return to limited growth in 1995 and 1996 throughout much of the region, associated with currency stabilisation, and varying degrees of economic and monetary reform. Some of the rates were impressive. These gains were largely reversed in 1997-98, however, as a result of the Russian currency crisis. Growth resumed for much of the region in 1998-99 (see Table 3). However, the return to growth was from a very low starting point. Moreover, high growth was concentrated in the region's energy economies (Azerbaijan, Kazakhstan, and Turkmenistan).

Energy sector growth is a mixed blessing. In the context of more general economic stagnation, it may widen income differentials within these states. In addition, its foreign exchange effects ('the Dutch disease') may impede the growth of other sectors of the economy by making their products less competitive in international markets and with respect to imports. These effects can be destabilising, particularly as the widely held popular expectations for general improvement are frustrated.

Turning to Table 4, which portrays the region's evolving engagement with the larger international economy, a similar pattern is evident. The majority of states in the region have seen little expansion in total trade, and, if one factored out intra-CIS trade, largely miniscule trade with the outside world. The exception is again the energy producers. The same is true of investment. In areas other than energy production and transport (and, to a limited extent, the production and export of other resources such as gold in Uzbekistan and Kyrgyzstan), there is almost no foreign direct investment in the region. Even taking the energy sector into account, the total value of FDI in the Caucasus and Central Asia since 1991 is dwarfed by that into either the Czech Republic or Hungary.<sup>3</sup> It is also unsurprising, if depressing, that the countries with the highest debt/public revenue ratios tend to be those with the least capacity to repay (Georgia and Kyrgyzstan). This implies a growing debt service burden for states with minimal tax revenue and consequent cuts in public services that - in a better world - people could depend on in times of economic crisis and penury.

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<sup>3</sup> It is striking that the inward investment to either the Czech Republic (US\$19,424 million) or Hungary (US\$19,420 million) exceeds the total for the eight states of the Caucasus and Central Asia over the time period covered in the Table 4 FDI data. If one removed FDI in natural resources and associated activities from the regional FDI figures, the regional figures would be truly negligible.

**Table 4: Engagement with the International Economy (2000) (\$US million)**

Country	Exports	Imports	FDI**	Debt	Debt service
Armenia*	383	919	605	932	58
Azerbaijan	2146	2023	4092	1184	110
Georgia	1142	1412	687	1617	85
Kazakhstan	10571	8705	8,706	6690	1822
Kyrgyzstan	573	651	450	1770	169
Tajikistan	800	839	141	922	53
Turkmenistan	2774	2350	882	2203	374
Uzbekistan	3383	2962	1021	4534	957

\*1999 data, except FDI

\*\* Cumulative 1989-2000

Source: World Bank and EBRD

These data on the regional economy obscure a larger human story. Part of it is told in Table 5, which indicates the region's fall from Soviet grace in terms of an aggregated measure of life expectancy at birth, literacy, gross primary, secondary, and tertiary enrollment in education, and GDP per capita (US\$ PPP). The point of comparison would be the USSR index and ranking of .92 and 31, respectively, in 1990.

**Table 5. Human Development Index Ratings and Rankings – 1999**

Country	Index	Rank
Armenia	.744	72
Azerbaijan	.738	79
Georgia	.742	76
Kazakhstan	.742	75
Kyrgyzstan	.707	92
Tajikistan	.66	103
Turkmenistan	.73	83
Uzbekistan	.698	99

Source: UNDP Human Development Report, 2001

The practical manifestations of this are found in falling educational and literacy standards, egregious public health standards, rising rates of communicable disease, declining life expectancy, rising criminality, growing levels of prostitution and massive male emigration.

Turning to the political context, it is noteworthy that all regimes and political systems in the region have shown remarkable staying power after the dust of the first few years settled. Despite roughly four attempts against the life of Geidar Aliev, at least three against Shevardnadze, the assassination in the Armenian parliament chamber of the majority of the sitting government in 1999, one major attempt against Uzbekistan's President Karimov, and several attempts against Tajikistan's Rahmonov, these people appear to be survivors. Most led their republican communist parties prior to independence; at least two led republican KGBs before they became party secretaries. They benefit from a substantial residuum of authority from those days, and appointed many of the current officials in their countries earlier in their careers. That is to say, they not only know how to coerce, but have substantial patronage networks and ties of loyalty. Opposition parties and figures are, by contrast, weak.<sup>4</sup> The real business of government occurs outside the official channels in which the opposition is represented. Decisions are, therefore, non-transparent, and official politics is discredited, not least since this real business is massively corrupt.

One problem of this model of governance is that it fails to lay the basis for constitutional succession. The presidents of the region have spent considerable effort in controlling or removing serious challenges to their rule. The result is chronically poor governance, and the delegitimation of the regimes and the political and economic system that they have generated. All of this raises real questions about what

happens when the intimidating presence of the *vozhd'* disappears.

Underlying political structure and process, and aspects of political culture, mitigate against long term, stable, and successful processes of political change. The citizens of the region's states have little experience of meaningful participation in government. Given the approach and performance of successor regimes, they have little incentive to learn what democratic participation means, and good reason to avoid trying it. Citizens have little experience of forming parties and fighting elections; most opposition parties within the system tend, therefore, to be shallow and personalistic. Finally, for many, the idea of association of one's loyalty with a sovereign state and its collective purpose is weak, both for the reasons just discussed, and also because of the significant fragmentation of political society into ethnic groups and family, clan and regional associations.

All of this said, it is worth noting that in some of the states of the region (e.g. Georgia, Kyrgyzstan, Kazakhstan, Armenia), there is evidence of the emergence of viable civil society organisations. And the resignation of the cabinet in Georgia in 2001 as a result of massive demonstrations in Tbilisi suggests that, on occasion, civil society organisations can have a significant positive impact. However, it is worth noting that some of the most powerful civil society organisations actually make the government look pretty good. For example, the Abkhaz 'parliament in exile' in Georgia is quite deliberately attempting to undermine the cease-fire in that war while advocating the complete suppression of any Abkhaz governmental structures, if not the complete removal of this 'foreign' people. Uzbekistan's IMU is a civil society organisation; it is also a terrorist organisation dedicated to the creation of radical Islamic states throughout the region.

Moreover, there is hardly a trend in the region as a whole towards the emergence of a civil society that might constrain those who govern and hold them accountable for their actions. The pattern appears to be not so much of civil society reaching up to constrain the state, but of the state, or powerful elements within it, reaching down into civil society to remove people who become excessively annoying (viz. in the most

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<sup>4</sup> The one major exception here is Tajikistan's democratic and Islamic oppositions. Subsequent to the creation of a coalition in this case, the circle around the president set about dismantling their partners by co-opting their leaders into the system. The consequent fragmentation of the Islamic Republican Party has left a vacuum on the religious end of politics that may be being filled by more radical Islamic organisations. See Ahmed Rashid, *Jihad: The Rise of Militant Islam in Central Asia* (New Haven: Yale University Press, 2002).

'liberal' country of the region - Georgia - the effort to shut Rustavi 2 by ex-Interior Minister Targamadze, the assassination of the Megrel military leader Akaki Eliava, allegedly by agents of the National Security Ministry, and the 'suicide' and subsequent smearing of Rustavi 2's popular news anchor in 2000).

Social fragmentation brings us to civil and interstate conflict. Two states in the Caucasus have frozen conflicts. Prospects for moving beyond cease-fire to political settlement both in Georgia (re. Abkhazia) and in Azerbaijan (Nagorno-Karabakh) remain poor. Both leaders fear that significant concessions might undermine their hold on power. Substantial economic interests have evolved around the conflicts (e.g. alcohol and drug smuggling through South Ossetia, kidnapping, timber trade in Abkhazia, and illicit petroleum trade from Azerbaijan to Armenia). It is not entirely clear, given the slow erosion of both leaders' power, whether they could impose settlements on those who are already looking beyond their era.

The conflict in Chechnya continues, although at a lower level, with potential for spillover into the southern Caucasus. This is evident, for example, in Russian air raids against Chechen militants trying to cross into Chechnya from Georgia's Pankisi region in July and August 2002. Tajikistan has the distinction of being the one country in the region to have resolved a civil conflict, but the settlement is fragile and the government does not control a considerable portion of its territory.

These various facets of the regional context are interrelated. The region's politics are a significant impediment to economic recovery: corruption and arbitrariness in economic regulation pose significant barriers to indigenous entrepreneurship, while inhibiting foreign investment (outside the energy sector<sup>5</sup>). Economic stagnation reduces revenues available to the state while contributing to the legitimacy crisis of the region's governments. This combination of factors puts the region into the running for the award of 'most problematic periphery.'

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<sup>5</sup> Regarding the energy sector, leaders see a substantial interest in creating conditions or predictability for foreign concerns, and have had considerable success in insulating the sector from the broader failure of economic governance. Interviews with IFI officials in Baku, 1998, 2000.

## EU Interests in the Caucasus and Central Asia

One should perhaps begin by noting that the EU is not that interested in the region, by comparison to its level of interest in North Africa or Russia. North Africa has a strong and vocal lobby within the Union (the Mediterranean littoral EU members), as do the Baltics (the Scandinavian members) and Russia (Germany and Finland). Instability in the Balkans poses direct perceived threats to EU security; the Caucasus does not.

That said, the region does have importance to the EU for three reasons: 'weak state spillovers,' the potential of the region as an exporter of energy to Europe<sup>6</sup>, and 'European values.' In the first category, the region's economic torpor has generated substantial flows of economic migrants, mainly to the Russian Federation. The incapacity or lack of will of states to control their territories and enforce their laws - coupled with the overall economic situation - has made the region an ideal venue for the emergence and flourishing of transnational criminal activity. Again, the principal victim here may be the Russian Federation. However, Central Asia in particular is a major transshipment area for drugs destined for Europe, giving the EU a stake in strengthening law enforcement capacities there. Limited state capacity to regulate the banking sector makes the region a potentially attractive venue for money-laundering activity. The activities of the IMU in Uzbekistan, Tajikistan, and Kyrgyzstan in 1999-2001, the involvement of Islamic militants in Chechnya (and in Georgia), and the close connections between these groups and al-Qaeda highlight the significance of the region in the war against terror. Arguably, the EU has an interest in addressing the economic and political problems there that foster such activity. The region's conflicts draw humanitarian resources that might otherwise be used elsewhere. For all these reasons, there exist reasonably strong reasons for EU engagement in the Caucasus and Central Asia.

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<sup>6</sup> The Commission has identified access to the Caspian Basin energy reserves as a strategic interest of the EU. See European Commission, *TACIS Regional Cooperation Indicative Programme, 2000-2003* (Brussels: EU, 2000), p.4.

As for energy, John Gault's paper (in this series on The European Union and its Neighbourhood) makes a persuasive case for the deepening dependence of the EU on imports of oil and gas. As he points out, there are four significant energy provinces that may meet this growing demand: the Russian Federation, the Middle East, North Africa, and the Caspian Basin. EC officials are wary of increasing dependence on the Middle East and North Africa, given the uncertainties of these regions' politics. They are concerned over deepening dependence on Russia, since they fear that such dependence may give Russia an uncomfortable degree of leverage in its relations with the Union. In short, the watchword is diversification of supply. The Caspian Basin may play a significant role in this diversification.

One challenge here is to develop the infrastructure to export energy product from the region. In this area, substantial progress has been made. The CPC pipeline from Kazakhstan to the

Middle East opened last year, resulting in a substantial increase in Europe's capacity to tap Kazakhstan's substantial petroleum reserves. We appear to be close to a go-ahead on the Baku-Tbilisi-Ceyhan oil (and, subsequently, gas) pipelines from Azerbaijan to the Mediterranean coast of Turkey.

Another challenge is to ensure that the product flows west. Europe is only one potential market for this product. Others include Turkey and Asia. The existence of such competition creates a second incentive for an active EU engagement in the region's deliberations on energy development.

The energy issue is part of a larger trade dimension to potential EU interest in the region. Table 6 outlines the evolution of the Union's trading relationship with the Caucasus and Central Asia.

**Table 6. EU Trade with Key Partners in the Caucasus and Central Asia (in millions of Euros)**

Country	1995		1997		1999	
	EU X	EU M	EU X	EU M	EU X	EU M
Azerbaijan	120.3	48.1	253.9	67.9	213.7	444.4
Kazakhstan	447.3	359.4	1394.1	1442.3	972.9	1763.4
Turkmenistan	79	152.9	142	62	206.6	247.9
Uzbekistan	409	500	762	541	496	392

Source: Dept. of External Relations, European Commission.

The trade figures are hardly overwhelming, but if one takes into account the probability of significant increases of energy exports from the region, and associated increase in the demand for, and the capacity to pay for, imports, then there is sizable market potential for European exports to the region.

The final reason for EU engagement is normative. Recent electoral results notwithstanding, the EU apparently conceives itself to be wedded to the promotion of liberal values (democracy, the liberal economy, the rule of law, human rights) in international relations. This reflects the judgement that an international

system of states embracing these values will be one in which it is easier to pursue the Union's external objectives. However, these norms are also considered to have intrinsic as well as instrumental significance. They are judged to be right. This commitment is not merely a product of elite calculation. The commitment to such values (and particularly those related to human rights and the rule of law) also has roots in the presence of large, and frequently vocal, civil society organisations that promote them in the domestic arenas of member states.



## EU Policies and Instruments

The abstract objectives of EU policy in the region are quite transparently stated in EU official documentation. EU cooperation objectives in Armenia, for example, are “to build a relationship with Armenia in which the respect of democratic principles, the rule of law and human rights, as well as the consolidation of a market economy are fostered and supported.”<sup>7</sup> This formulation is repeated more or less verbatim in the equivalent document for Georgia. Interestingly, the other six country documents do not include initial statements of EU policy objectives, reflecting perhaps a degree of realism as to how long it would take them to reach liberal-democratic modernity. However, similar normative commitments are evident in the comments on elections, economic difficulties, and rights issues in all the others.<sup>8</sup> Four additional general policy objectives are evident in EU documents: political stability; conflict resolution and conflict prevention; the consolidation of the independence of these states; and fostering a westward orientation in their engagement with the international economy.

The EU deploys a range of instruments in pursuit of these objectives. In the first years after independence, humanitarian assistance held pride of place. As things settled down, other instruments have gradually eclipsed the ECHO role.<sup>9</sup> The major instruments of the EU in the region include one major technical assistance programme to states (TACIS) and several programmes intended to foster regional development and co-operation or to deal with cross-border problems. In addition, the EU has sought both to regulate its bilateral relations with states in the region and to foster reform through Partnership and Co-operation Agreements (PCA). In addition, at various times and in various circumstances, partners in the region receive allocations from other EU sources on an ad hoc basis (e.g. exceptional financial assistance, the food security programme, the food aid programme).

Total EU assistance to the countries of the region is listed in Table 7. TACIS funding by country is provided in Table 8. As for regional co-operation programmes in the current period, three are of specific relevance to the Caucasus and Central Asia - TRACECA, the regional seas component of the environment programme, and the drug trafficking element of the justice and home affairs programme. The total envelope for these programmes is 24 million euros from 2002 to 2004.

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<sup>7</sup> EU Department of External Relations, “The EU’s Relations with Armenia,” p.1.  
[http://www.europa.eu.int/comm/external\\_relations/armenia/intro/index.htm](http://www.europa.eu.int/comm/external_relations/armenia/intro/index.htm).

<sup>8</sup> Moreover, the latest version of *TACIS Regional Cooperation: Strategic Considerations 2002-2006 and Indicative Programme 2002-2003* (Brussels: EC, 2001), which covers the CIS region as a whole, identifies EU cooperation objectives as the support of “democratic principles and human rights and the transition towards market economy.”

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<sup>9</sup> ECHO began to draw down its emergency programmes in 1996 in the southern Caucasus (its major focus), and wound them up in 2000.

**Table 7. Total EU Assistance by Country since 1991**

Country	Amount in million ecus/euros
Armenia	286.13
Azerbaijan	333.9
Georgia	342.88
Kazakhstan	116.9
Kyrgyzstan	144
Tajikistan	78
Turkmenistan	44
Uzbekistan	111

Source: Department of External Relations, European Commission.

**Table 8. TACIS Allocations by Country, 1991-99 and 2002-03**

Country	Cumulative Allocation 91-99	Indicative 02-03
Armenia	58.9	10
Azerbaijan	87.2	
Georgia	66	14
Kazakhstan	111.9	
Kyrgyzstan	49.5	16 (00-03)
Tajikistan	8 <sup>10</sup>	
Turkmenistan	39.9	
Uzbekistan	102.5	10

Source: European Commission, Department of External Relations.

TACIS programming has largely focused on capacity-building in state institutions. At the national level, it proceeds on the basis of a bilateral process where the recipient state identifies priorities and projects and the EC then chooses those which it wishes to support. Generally speaking, EU preferences in the national programmes are: support for institutional, administrative and legal reform;

support for private sector development; assistance in the development of infrastructure; and support for the development of the rural economy. With the coming into force of PCAs (see below), TACIS programming has focused increasingly on technical assistance in the implementation of these agreements, while also targeting the social consequences of economic transition. In certain instances (e.g. Azerbaijan

<sup>10</sup> A relatively small amount of this allocation was actually disbursed, given difficulties with the security situation in 1997-98.

and Georgia) limited amounts of TACIS monies are used to promote post-conflict rehabilitation. This assistance may be conditionalised to a degree on progress in conflict resolution.

Turning to TRACECA, the principal activity of the programme is technical assistance in planning for infrastructure development in transport (pipelines, roads, railways, ports, border-crossing facilities) and communications linking the states of the region on an east-west axis from Central Asia to the Black Sea. As of 2000, the programme had disbursed some 35 million euros in this area. By and large, this assistance (feasibility studies, route surveys, etc.) is seen as a means of assisting states in the region to access multilateral lenders (the EBRD, the World Bank, and the Asian Development Bank), as well as private financial markets. In addition, the programme does make small investments in specific rehabilitation projects intended to remove bottlenecks in the developing transport corridor (e.g. the optical cable project to render signaling on Caucasian railways more effective and safe, partial funding of the rehabilitation of the Red Bridge linking Georgia and Azerbaijan). Some €42 million have been disbursed under this element of the programme. The 2002-03 funding envelope is €10 million.

The final instrument under consideration here are the PCAs. All of the states on the southern tier of the former Soviet Union signed PCAs in 1999, with the exceptions of Tajikistan and Turkmenistan. Each agreement provides for a framework of political dialogue, EU support of democratic and economic transition, the promotion of trade and investment, and the establishment of frameworks for legislative, economic, social, financial, scientific, technological and cultural co-operation. The documents are interesting in that, although they generally run to 70 pages, the great bulk is devoted to technical measures to be taken by EU partner states to facilitate economic exchange. In contrast, discussion of the political and other objectives of the agreements is minimal. They are also interesting in that, while they provide for most favoured nation status in trade, they contain reservations allowing either partner to restrict trade where unanticipated damage to importing economies and societies is experienced. In some instances, negotiation of the PCAs was accompanied by side deals in

which the partner country agreed to restrictions on particular categories of export to the EU.<sup>11</sup>

## **The EU's Impact in the Caucasus and Central Asia**

A comparison between the objectives of the EU in the region and the situation in the region twelve years after the EC began to engage there would suggest that the Union has encountered significant difficulties in the pursuit of its agenda there. There has been substantial privatisation of economies. This has been accompanied by a significant return to growth in most of the states of the region (see Table 3). However, there has been little movement on the rule of law, rights and democratisation fronts; indeed there may be evidence of slippage. Outside the energy sector, there has been little progress in integrating the economies of this region into broader European markets, despite the PCAs, and not least because the EC has chosen to limit regional exports to the EU in key sectors (e.g. metals).<sup>12</sup> The privatisation process has been deeply corrupt, while the growth that is occurring is from very low baselines of per capita income, is highly concentrated in particular sectors, and is extremely uneven in its effects on national economies and societies.

Moreover, it is unclear to what extent the limited positive result has anything in particular to do with the EU itself. Other international institutions operating in the region pursue similar objectives, and the EU has a far lower profile in the region than they do. The EBRD and the World Bank have real money; the IMF can inflict real pain. In addition, comparing the figures in Table 4 to those in Table 7, one immediately discovers that EU resources committed to the region are dwarfed by those of the private sector in areas of the regional economy that they are interested in. For example, cumulative EU assistance to the region as a whole in 1999 amounts to approximately 1/40 of the Chevron investment in Kazakhstan

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<sup>11</sup> For example, Kazakhstan and the ECSC agreed on limitations on Kazakhstan's steel exports to the EU in July 1999, simultaneously with the coming into effect of the PCA.

<sup>12</sup> In 1993, the EC applied anti-dumping provisions to Kazakhstan's exports of ferro-silicon products to Europe. These restrictions are currently under review.

(largely in one oil field), or 1/25 of the investment of British Gas in the same country. At the level of the region as a whole, ODA is not the story in terms of external economic impacts.

Turning to conflict resolution, the EU has avoided the diplomatic limelight in these areas; its limited programmes supporting processes led by other organisations (the UN in Abkhazia, the OSCE in South Ossetia and Nagorno-Karabakh) have had no identifiable impact. For all these reasons, it is fair to say that the EU is a bit player in the Caucasus and Central Asia, compared to Russia, other major powers such as the United States, other international organisations, EU member states, and the private sector.

How do we explain the EU's limited impact? One initial point is technical. The TACIS programme has extremely rigid and opaque decision-making and implementation criteria. The money is very hard to get, takes a very long time to disburse, and is largely consumed by the salaries of those EU citizens doing the implementing. The latter often have little knowledge of the countries they are dealing in and (frequently) a remarkably dismissive attitude towards local capacity.

Second is the resources gap. Even if implementation were effective, the EU has not been willing or able to commit resources at a level that might make a significant difference by encouraging policy-makers to change their behaviour on issues that matter to them. One particularly poignant example was the EC's declaration that levels of TACIS assistance to Azerbaijan would be linked to progress in conflict resolution. The relevant budget envelope is in the tens of millions of euros. Azerbaijan's income from oil revenue is in the several billions of US dollars.

A third problem, linked to the second, is the gap between the demands of the situation and the EU's will to address it. EU member states and the Commission do not want a significant engagement in the region, given their preoccupation not only with peripheral areas of greater importance to Europe, but also with the impending enlargement, and the dilemmas of reform in structural programmes, agricultural policy, and decision-making that is long overdue. In the meantime, to the extent that member states have agendas in the two regions, there is little evidence of any willingness on their

part to subordinate national prerogative to community solidarity.

The result is another gap: that between rhetoric and reality. The EU's rhetorical reach exceeds its grasp. Regional leaders find the moral posturing of outsiders on things that matter to be tedious and occasionally infuriating. Where the organisation is unwilling or unable to apply meaningful pressure, where its preferences are ignored (as in Azerbaijan) or derided (as in Turkmenistan), and where it is not willing to put in significant resources to implement its preferences, it is all the more obnoxious.

A fourth problem is the inherent conflict within the EU's suite of interests. If the real point of EU engagement is access to the region's energy resources, and these resources lie in the hands of people who fall rather short of Western liberal principles of democracy, the rule of law, and human rights, then the democratising agenda complicates the pursuit of the energy one. If the real point in the current framework is addressing the threat of terrorism, then one might be willing to trade democratic principle for strong leadership *à la* Karimov or Aliev. It is not surprising in this context that the EU appears content to ignore the transgressions of leaders of countries who play significant roles in the energy sector (Kazakhstan and Azerbaijan) or putatively in the struggle against terrorism and drugs (Uzbekistan). The message here is again not lost in the region.

Finally, even if one could get the EU end right, one should not forget the local political and cultural context of the region. Reforming states is not only expensive; it is an extraordinarily complex endeavour. The pursuit of the liberal agenda is limited not only by the resources gap and the effectiveness of the institutions pursuing it, but by the absorptive capacity of the states and societies that are the targets of the programmes. Weak, underinstitutionalised and corrupt states generally have poor records in using resources effectively. Many members of the state apparatus benefit from the irregularities of transitional administration. They can be expected to oppose the imposition of transparency and accountability in governance.

Beyond the state, the important relations amongst the region's peoples are patrimonial, kinship, ethnically and regionally based. What appears to be corruption to us may appear to

those engaged in the practice as serving the needs of their community.<sup>13</sup> This impedes the development of the civic nation and civil society that the EU purports to seek. Moreover, the experience of the region with politics is not such as to facilitate the absorption of Western normative agendas. People have little experience of political competition between parties. The law has historically been owned by those in charge. Post-Soviet states have combined the unrepresentativeness and opacity characteristic of the Soviet era with the collapse of the services that the Soviet state did provide to most people most of the time. The experience of the past decade suggests that western institutions do not know how to implement their liberal agendas in this environment, and highlights both the resilience of local social, cultural, and political centres of power as they deal with the assault from the West, and the naiveté of Western institutions in addressing these structures.

### **Towards an EU Strategy?**

To sum up, if by strategy we mean a coherent relationship between ends and means, there is no EU strategy in the Caucasus and Central Asia. Nor, for the foreseeable future, is one likely to appear. Enlargement, constitutional reform, and reform of structural programmes and agricultural policy are likely to absorb the energies of the Commission and the Councils for the foreseeable future. The limited budgetary envelope for 'stabilisation' is likely to be monopolised for the foreseeable future by the Balkans. State members show little interest in policy coordination in the two regions. There does not appear to be any strong member-based lobby for the activation of EU policy there. "Strategic" initiatives in the former Soviet Union focus now, and are likely to continue to focus, on the Russian Federation and Ukraine.

By way of conclusion, it is worth noting that EU diffidence and lack of commitment with respect

to the southern Caucasus and Central Asia is not necessarily bad policy. Strategic choice is about the optimal employment of limited resources in pursuit of identified interests. The resource endowment of the EU is not infinite. There are multiple demands upon it. The southern tier of the former Soviet Union does not rank highly in the EU calculus of interest. One could, therefore, question whether the devotion of substantial strategic effort and resources to the region would be rational. It is sensible for lesser interests to give way to larger ones.

This is not to say that the EU's engagement has been pointless or worthless. It is probable, for example, that TRACECA has been instrumental in enhancing access to multilateral financial assistance in the energy and transportation sectors. EU initiatives in the justice and home affairs area may make a difference in the struggle against drug trafficking in Central Asia. The promise of access to EU markets may well have had an effect in accelerating economic reform in partner countries despite the problems that remain in the transition process. In other words, although the EU lacks a credible overarching strategy and is reluctant to commit the resources to undergird such a strategy, this does not mean that it does not or cannot play a useful role.

However, one should recognise the implications for the EU's profile in the region. In the roster of external engagement, it has been a bit player. It is recognised as such by regional actors. It will continue to be so seen. And, correspondingly, its leverage (beyond trade issues) is, and will continue to be, limited. This was true before 11 September, 2001. It is all the truer after these events, given the deepening of US engagement in the region and the emergence of apparently robust Russo-American co-operation in addressing the security challenges of the former Soviet Union's southern tier.

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<sup>13</sup> In Azerbaijan, it is reported that it costs some US\$20,000 to obtain a job as a customs inspector. This sum is generally borrowed through extended family and or other personal networks. The money is loaned in the expectation of return to the group. There is no way that the sum could be recouped through salary. The individual concerned consequently fulfils the obligations he cares about through corruption.

## Acronyms

BTC	Baku-Tbilisi-Ceyhan (pipeline)
CIS	Commonwealth of Independent States
CPC	Caspian Pipeline Consortium
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECHO	European Commission Humanitarian Aid Office
ECSC	European Coal and Steel Community
EU	European Union
FDI	Foreign Direct Investment
IFI	International Financial Institution
IMU	Islamic Movement of Uzbekistan
INOGATE	Interstate Oil and Gas to Europe
ODA	Official Development Assistance
OSCE	Organisation for Security and Co-operation in Europe
PCA	Partnership and Cooperation Agreement
PPP	Purchasing Power Parity
TACIS	Technical Assistance to the CIS
TRACECA	Transport Corridor Europe Caucasus Asia
USSR	Union of Soviet Socialist Republics