

# The European Union's Central Asia Strategy

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## **Avrupa Birliđi'nin Orta Asya Stratejisi**

*özet:* Avrupa Birliđi, on yılı aşkın bir süredir, eski Sovyet Cumhuriyetlerinin demokrasiye ve piyasa ekonomisine geçiş süreçlerini, TACIS (Bağımsız Devletler Topluluđu'na Teknik Yardım) programı çerçevesinde desteklemektedir. TACIS aracılığıyla Birlikten karşılıksız teknik yardım alan 13 Dođu Avrupa ve Orta Asya ülkesinden, Avrupa Birliđi ile ortaklık ilişkisi içinde bulunan Dođu Avrupa devletleri, doksanlı yıllar boyunca Birliđin dikkatini daha fazla çekmiştir. Ancak, Amerika Birleşik Devletlerindeki 11 Eylül 2001 terörist saldırıları ve Afganistan Savaşı sonrasında, Orta Asya'da istikrarın ve güvenliđin sağlanması, önemli bir uluslararası mesele haline gelmiştir. Bu şartlar altında Avrupa Birliđi, Kazakistan, Kırgızistan, Tacikistan, Türkmenistan ve Özbekistan'da yoksulluđun azaltılmasına ve sürdürülebilir ekonomik kalkınmanın gerçekleştirilmesine yardımcı olmak amacıyla, 2002-2006 yılları için yeni bir Orta Asya stratejisi belirlemiştir. Bu yazı, Birliđin -bölgeye TACIS programı ile yapılan yardımı da içeren- yeni Orta Asya stratejisini incelemektedir.

*Anahtar Kelimeler :* Avrupa Birliđi; Orta Asya; TACIS; geçiş süreci; Orta Asya Strateji Belgesi 2002-2006; Orta Asya Belirleyici Programı 2002-2004

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The European Union (EU), the world's leading actor in international trade, has already established itself as a major economic and monetary power. However, being an economic giant has not prevented the characterisation of the Union as a political dwarf. Several steps have been taken in recent years towards establishing a European identity on the international scene. But, initiatives like the establishment of a European army are yet too weak to turn the EU into a political power. For the time being, it is true that there is little distinction in practice between the Union's economic and diplomatic activities on the world stage. Nonetheless, without an effective Common Foreign and Security Policy, the EU is still considered to be economically influential rather than being politically capable.

Throughout its existence, the EU has formed economic relations with almost all the countries, regions and organisations of the world. These range from the United States (US) to Malta; from Africa and Latin America to Australia and Asia; from the World Trade Organisation (WTO) to the United Nations (UN). Also, the type of these relations vary from development aid to bilateral or unilateral trade agreements.

The states of the former Soviet Union (SU) known as the Newly Independent States (NIS) attracted the attention of the EU, following the dismembering of the Soviet Union. These states soon became involved in a transition process to establish market economies and democracies. The EU welcomed this as an opportunity to create strong relationships with these countries, and started to assist them in their efforts to modernise their economies and strengthen their democracies.

The first initiative in creating economic relations with the former Soviet Union countries was the launching of the TACIS (Technical Assistance to the Commonwealth of Independent States) programme. Following the example of the PHARE (Poland-Hungary: Aid for Reconstruction of the Economy) programme for the countries of Central and Eastern Europe, the TACIS programme provides grant-financed technical assistance for 13 countries of Eastern Europe and Central Asia during their transition to a market economy. These are the 10 members of the CIS, namely, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turk-

menistan, Ukraine, Uzbekistan, plus Azerbaijan, Georgia and Mongolia, The European Union, together with its Member States, is the largest provider of technical assistance to these countries: 4.221 million Euro were committed through the TACIS programme between 1991 and 1999; an additional 3,138 million Euro in TACIS budget has been agreed to be committed for the period 2000-2006. Furthermore, the EU is the most important external trading partner for these countries, aside from economic ties between themselves (Europa web 2001-1).

After a decade of assistance, the EU's policies towards the former Soviet Union countries have started to become more specialised. As the geographical locations of the above mentioned 13 countries indicate, the TACIS programme deals with a vast area that actually incorporates 3 different regions: Eastern Europe, Caucasus and Central Asia. The Union's differing attitude towards these regions and the changing needs of the countries involved require several policies to be pursued, rather than a monolithic approach. Accordingly, while TACIS still remains as a general framework for assistance, the EU is developing specific policies to deal with several groups of countries within the context of TACIS. Moreover, each one of these beneficiary states themselves have unilateral relations with the EU.

This paper is going to assess the EU's strategy towards Central Asia for the years 2002-2006. According to the Union's Strategy Paper for Central Asia, which the Commission started to implement as of October 2002, the core objective of the new EU assistance is "to promote the stability and security of the countries of Central Asia and to assist in their pursuit of sustainable economic development and poverty reduction" (Europa web 2002:3). This new strategy towards Central Asia is not a policy independent of the TACIS programme. Rather, it is an initiative that includes the TACIS Indicative Programme for Central Asia for the years 2002-2004. That means the two must be evaluated together.

in order to deal with the Union's new strategy towards the five Central Asian countries, namely, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, TACIS experience will be tackled first. Since TACIS has been the first initiative in establishing economic relations

with the NIS, and is still part of the Central Asia strategy for 2002-2006, it deserves a general assessment. Following this section, specific attention will be paid to the EU's newly developed Central Asia strategy, including an overview of the transition process in the region. Finally, the EU's priorities and expectations in providing technical assistance for Central Asia till the end of 2004 will be explained by putting forward the main points of the TACIS Indicative Programme for Central Asia 2002-2004. Since the EU is one of the world's major economic and monetary powers, explaining its approach towards Central Asia is hoped to shed some light upon the forthcoming economic developments in the region.

### **TACIS: A GENERAL ASSESSMENT**

The TACIS Programme, which was launched by the European Community (EC) in 1991, aims at enhancing the transition to a market economy and a democratic society in the 13 countries of Eastern Europe and Central Asia. When TACIS was initiated, technical assistance was a stand-alone activity. Later on, the programme became part of a complex and evolving relationship with each of the countries concerned. Today TACIS is a strategic instrument in the co-operation process between the EU and partner states (Europa web 2001-2).

Five priority sectors were identified for TACIS in 1991: training, energy (including, most importantly, nuclear safety), transport, support for industrial and commercial enterprises, food production and distribution. Later on these priorities were revised and detailed according to the changing needs. TACIS aid is given in the form of grants, which may cover the costs related to the preparation, implementation, monitoring and evaluation of the projects, as well as the costs of supplies required in support of the technical assistance (MacLeod et. al. 1996: 350). TACIS authorities work closely with other countries and international agencies in this field. The European Commission, which administers TACIS, keeps a Central Consultancy Register of firms within the Union interested in participating in TACIS projects (Bainbridge et. al. 1996: 437).

TACIS funding is allocated through various programmes. First of all, there are national country programmes. Secondly, there are regional or multi-country programmes, which are used for areas like environmental protection or promotion of transport networks. Cross-border programmes have also been set up to promote the co-operation and the development of links between neighbouring communities in different countries. Finally, a limited number of small projects programmes are used to address very specific tasks, such as advice to governments in particular fields like trade regulation, co-operation in higher education, or encouraging EU investment in partner countries. Since their objectives are not set with pre-defined beneficiaries in mind, they are organised in a different manner, with specific priorities set each year (Europa web 2001-2).

The national and regional country programmes comprise indicative and action programmes. Indicative programmes cover three to four year periods and define the principal objectives of, and guidelines for EU assistance in the above mentioned areas of co-operation and, as far as possible, include indicative financial estimates. Action programmes based on the indicative programmes are adopted on an annual or biannual basis and include a list of the projects to be financed within the areas of co-operation.

Tendering process is an important element in the application of TACIS programmes. Once agreed by Member States, technical assistance projects are put out to tender. Organisations from the EU (and also from the accession countries) are selected to implement projects, transferring their know-how to beneficiaries in the partner countries (Europa web 2001-2).

Technical assistance that the EU has provided through TACIS funds between 1991-1999 can be seen in Tables 1 and 2 as breakdown of allocation by countries and sectors respectively:

Table 1: TACIS funds committed by country 1991-1999 (in Million Euro)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
Armenia	2,3	9,6	17,0	0,0	6,0	14,0	0,0	10,0	0,0	58,9
Azerbaijan	0,4	12,5	8,0	8,0	6,0	16,0	0,0	26,8	9,5	87,2
Baltics*	15,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	15,0
Belarus	8,9	14,6	9,0	7,0	12,0	0,0	5,0	0,0	0,0	56,6
Georgia	5,0	9,0	6,0	8,0	6,0	16,0	0,0	16,0	0,0	66,0
Kazakhstan	7,7	20,6	14,0	14,0	15,0	0,0	24,0	0,0	16,6	111,9
Kyrgyzstan	0,7	9,2	10,0	0,0	8,0	0,0	13,0	0,0	8,6	49,5
Moldova	1,1	9,0	0,0	10,0	9,0	0,0	18,0	0,0	14,7	61,8
Mongolia	0,0	0,0	0,0	8,0	0,0	9,5	0,0	11,0	0,0	28,5
Russia	212,0	111,0	160,8	150,0	161,2	133,0	132,9	139,7	73,5	1.274,0
Tajikistan	0,0	0,0	0,0	4,0	4,0	0,0	0,0	0,0	0,0	8,0
Türkmenistan	0,9	8,8	0,0	8,0	4,0	0,0	11,5	0,0	6,7	39,9
Ukraine	28,7	48,3	43,3	50,0	72,5	76,0	59,0	44,0	38,6	460,8
Uzbekistan	1,7	18,8	0,0	15,0	10,0	28,0	0,0	29,0	0,0	102,5
Regional Programmes**	106,0	88,6	172,0	131,5	124,5	152,0	135,0	155,8	129,4	1.194,8
Donor Co-ordination***	0,0	34,9	21,0	24,7	40,0	43,0	37,0	43,0	64,4	308,0
Programme Implementation Support****	6,2	24,0	11,1	21,0	23,0	37,5	34,5	31,9	65,6	254,8
Others *****	0,0	0,0	0,0	10,0	10,0	11,0	11,9	0,0	0,0	42,9
Total	396,5	418,9	472,1	469,7	511,2	536,0	481,7	507,2	427,6	4.220,9

\* Baltic states received TACIS funding only in 1991; then they were included in the PHARE Programme

\*\* Includes the inter-state, nuclear safety and cross-border co-operation programmes

\*\*\* Includes European Bank for Reconstruction and Development (EBRD) Bangkok Facility, Partnership and Co-ordination Programme, International Science and Technology Centre

\*\*\*\* Includes Co-ordinating Units, information, monitoring and evaluation

\*\*\*\*\* Includes the Democracy Programme

**Source:** Europa web 2000-3

Table 2: TACIS funds allocated by sector 1991-1999 (million Euro)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
Nuclear safety and environment	53,00	60,00	100,00	88,00	108,00	141,50	98,00	118,53	84,09	851,12
Restructuring state enterprises and private sector development	37,50	79,64	94,46	78,66	72,40	55,20	60,92	61,41	55,05	595,24
Public administration reform, social Services and education	103,00	42,28	79,91	63,55	99,40	55,70	44,75	73,20	70,57	632,36
Agriculture and food	79,95	60,54	32,19	41,58	48,33	18,50	26,50	20,10	17,06	344,75
Energy	65,00	38,96	38,00	43,70	42,35	45,80	43,90	38,85	24,70	381,26
Transport	49,80	33,19	32,77	22,80	21,10	43,00	20,70	34,30	20,90	278,56
Telecommunications	0,00	6,76	6,65	4,10	7,90	6,40	7,30	0,00	15,00	54,11
Policy advice	0,00	37,80	8,00	41,08	0,00	61,01	55,32	25,90	36,00	265,11
Others*	2,05	0,83	48,02	40,53	48,71	28,39	52,88	10,56	8,88	240,85
Donor Co-ordination **	0,00	34,88	20,98	24,69	40,00	43,00	37,00	81,62	56,00	338,17
Programme Implementation Support	6,20	24,03	11,11	20,99	23,00	37,50	34,46	42,77	39,30	239,36
Total	396,50	418,91	472,09	469,68	511,19	536,00	481,73	507,24	427,55	4.220,89

\* Includes the Democracy Programme and miscellaneous

\*\* Includes International Science and Technology Centre, Partnership and Co-ordination Programme and the EBRD Bangkok Facility

\*\*\* Includes Co-ordinating Units, Multidisciplinary fund, information and monitoring and evaluation

**Source:** Europa web 2000-3

The breakdown of TACIS funds for 1991-1999 according to the recipient countries indicates that Russia received the "lion's share", followed by Ukraine. Among the Central Asian countries, Kazakhstan and Uzbekistan were the ones that received the greatest amount of aid, while Tajikistan had the smallest amount of assistance. When it comes to allocation among the sectors, nuclear safety and environment stands out as the best supported area. Then comes public administration reform, social services and education, followed by restructuring state enterprises and private sector development. Telecommunications was the least supported sector.

As of 1999, the formalisation of bilateral relations between the EU and individual partner countries included in TACIS has been mostly achieved through the entering into force of Partnership and Co-operation Agreements (PCAs). PCAs, are legal frameworks, based on the respect of democratic principles and human rights that set out the political, economic and trade relationship between the EU and its partner countries. Each PCA is a ten-year bilateral treaty signed and ratified by the EU and the individual state. PCAs with different partner states provide for trade liberalisation and wide ranging co-operation, including in the fields of environment, justice and home affairs, energy, transport, telecommunications, border networks and economic development (Europa web 2000-1).

PCAs between the EU and Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, and Uzbekistan became effective as of 1 July 1999. PCA with Belarus, which was signed in March 1995 has not been put into force yet, due to the political situation in that country. PCA that was signed with Türkmenistan in May 1998 is going through the process of ratification. On the other hand, PCAs with Russia and Ukraine have been effective since 1 December 1997 and 1 March 1998, respectively. As far as bilateral relations with Mongolia are concerned, a Trade and Co-operation Agreement entered into force in March 1993. Because of the 1992-97 civil war and the related political situation in Tajikistan, no PCA has been drawn up with this country yet. The ten-year trade and economic and commercial agreement that had been signed with the Soviet Union in 1989 and came into force in April 1990, is still the contractual basis governing the relations between the EU and Tajikistan.

in 1999, together with the entry into force of the above mentioned PCAs, TACIS became even more closely integrated with EU policy in the region. TACIS is the main financial instrument supporting the implementation of PCAs, assisting the NIS in strengthening democracy and the rule of law, consolidating a market economy and increasing the administrative capacity linked to the implementation of the agreements. Such stronger links between policy and technical assistance enables TACIS to respond



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Belarus	8,9	14,6	9,0	7,0	12,0	0,0	5,0	0,0	0,0	56,6
Georgia	5,0	9,0	6,0	8,0	6,0	16,0	0,0	16,0	0,0	66,0
Kazakhstan	7,7	20,6	14,0	14,0	15,0	0,0	24,0	0,0	16,6	111,9
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Russia	212,0	111,0	160,8	150,0	161,2	133,0	132,9	139,7	73,5	1.274,0
Tajikistan	0,0	0,0	0,0	4,0	4,0	0,0	0,0	0,0	0,0	8,0
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**Source:** Europa web 2000-3

5. Promotion of environmental protection and management of natural resources:

- development of sustainable environmental policies and practices,
- promotion of harmonisation of environmental standards with European Union norms,
- improvement of energy technologies in supply and end use,
- promotion of sustainable use and management of natural resources, including energy saving, efficient energy usage and improvement of environmental infrastructure.

6. Development of the rural economy:

- legal and regulatory framework, including land privatisation,
- increasing access to finance and promotion of training,
- improvement of distribution and access to markets." (Europa web 1999).

Based on the TACIS Regulation, the European Commission adopted the TACIS Regional Co-operation Strategy Paper 2002-2006 , which puts forward the strategic framework within which EU assistance to multi-country activities will be provided. The Strategy Paper sets out the Union's co-operation objectives, policy response and priority fields of co-operation on a multi-country or cross-border basis, by making an assessment of shared and global challenges, specific cross-border aspects and other sub-regional issues. There are four annexes to the Strategy Paper that constitute the Indicative Programmes for the multi-country, or cross-border activities for the period 2002-2003, highlighting programme objectives, expected results and conditionality in the priority fields of co-operation (Europa web 2001-3).

During the 2002-2006 period, the TACIS programme is intended to most effectively assist the partner states by focusing on the promotion of co-operation in the areas of environment, networks (telecommunications, energy and transport), and justice and home affairs, together with a focus on certain cross-border issues, including the activities of sub-regional co-operation bodies and initiatives (Europa web 2001-3: 4). Even though the NIS cannot be treated as a monolithic bloc, these areas present challenges, problems or issues which are global or transboundary in nature and require the efforts of all the concerned countries.

The EU's co-operation objectives are expected to build a relationship with the partner states of Eastern Europe and Central Asia, in which respect for democratic principles and human rights and the transition to market economy are fostered and supported. These objectives form part of a proximity policy, reflecting the political and strategic importance of these regions to the EU. Such a regional approach is to address issues that concern present and future EU borders, taking into account the impact of eastern enlargement. The strategic importance of this relationship will increase as the EU enlarges to the east (Europa web 2001-3: 4).

in this context the position of the Eastern European countries are different from the Central Asian ones. Russia, Ukraine, Belarus and Moldova will all become bordering neighbours of the EU once the eastern enlargement takes place. Therefore, the Union has developed special ties with these countries, including Common Strategies with Russia and Ukraine. This "special treatment" of the western NIS is also reflected in the amount of TACIS assistance provided to Russia and Ukraine, which supersedes the aid received by the eastern NIS. On the other hand, when the eastern NIS are considered, problems that the Caucasian countries Armenia, Azerbaijan and Georgia encounter have to be treated separately from the needs of the Central Asian countries. So, in October 2002, the Union has put into effect a strategy paper for Central Asia, which will cover the years 2002-2006, together with the TACIS Indicative Programme 2002-2004 for the region.

in the next section the EU's new strategy towards Central Asia, involving Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan will be assessed, including an overview of the transition process in the region.

## **THE EU'S CENTRAL ASIA STRATEGY: 2002-2006**

Throughout the nineties, the EU's relations with the NIS had mostly favoured the Eastern European partner states, rather than the Central Asian ones. However, the terrorist attacks in the US on 11 September 2001 (9/11) and the subsequent war in Afghanistan have caused the EU to revise its policies regarding Central Asia. At the beginning of the 21<sup>st</sup> century, achieving stability and security in Central Asia became an important

issue on the international agenda. Just like the US, the EU began to follow the developments in the region, paying special attention to terrorist activities, smuggling of drugs and people, and the risk of the proliferation of knowledge on weapons of mass destruction. Most Central Asian countries welcomed the EU's desire to establish closer relations with the region. In order to prevent the Central Asian countries from becoming established sources of enhancement for international terrorism and smuggling, the objectives and amount of assistance given to the region had to be reviewed again.

Shortly after 9/11 terrorist attacks in the US in 2001, the EU Troika visited Central Asia at ministerial level, and on 10 December 2001 the General Affairs Council decided to strengthen bilateral relations between the Central Asian states and the EU. It was agreed to:

- pursue enhanced political dialogue with all countries in Central Asia, through Partnership and Co-operation Agreements (PCAs) or Trade and Co-operation Agreements (TCAs), or else through Member States' local presence;
- invite the Commission to resume TACIS assistance to Tajikistan and to open discussions on upgrading contractual relations with Tajikistan;
- target assistance to a reduced number of priority areas including poverty reduction, social and economic development, good governance, environment and water management;
- combat drug trafficking, making full use of the Action Plan on Drugs between the EU and Central Asian Republics;
- consider action on border control and border management, including arms smuggling and non-proliferation, which have become highly relevant in view of the conflict in Afghanistan;
- develop co-operation between the five states of Central Asia on key issues of common concern;
- work in close co-operation with relevant international organisations (United Nations-UN, Organisation for Security and Co-operation in Eu-

rope-OSCE), international financial institutions (International Monetary Fund-IMF, World Bank-WB, European Bank for Reconstruction and Development-EBRD, Asian Development Bank-ADB) and other partners (Europa web 2001-4).

Following these guidehnes, the European Commission decided to double the annual TACIS allocation for Central Asia from around 25 million Euro to 50 million Euro. it also decided to resume TACIS assistance to Tajikistan, which had been suspended due to the civil war (1992-97) and continuing political problems in that country (Europa web 2002: 5).

The document that puts forward the EU's new approach concerning Central Asia is the Strategy Paper for Central Asia 2002-2006. The Strategy Paper (SP) reviews the EU's co-operation with Kazakhstan, Kyrgyzstan, Tajikistan, Türkmenistan and Uzbekistan to date and puts forward a new strategy to provide technical assistance to the region during the period 2002-2006. The Indicative Programme 2002-2004 is also included in the SP. This new strategy complements the TACIS Regional Co-operation 2002-2006 paper by revising and elaborating the content of it with respect to 5 Central Asian countries.

The SP sets out the EU's co-operation objectives, evaluates the Central Asian policy agenda, and, taking into consideration lessons learnt from past EU assistance and the work of other donors, proposes a response strategy and priorities for co-operation. The Indicative Programme explains the response in more detail, by highlighting programme specific objectives and expected results for TACIS in the priority areas of co-operation for 2002-2004.

#### **According to the SP :**

*"While the specific issues facing each country vary, the countries of Central Asia face common development problems. Slow democratic transition, poor records of implementing human rights obligations, concern over Islamic radicalisation, and the proliferation of weapons of mass destruction, demographic pressures straining the capacity of social services, lagging implementation of market-oriented economic reforms, poor business and investment climates,*

*widening income disparities and poverty are problems experienced throughout Central Asia. Shared challenges—including combating transnational crime, improving border management, achieving economic diversification, increasing intra-regional trade, accessing world markets, and making more sustainable use of natural resources—present opportunities for developing mutually beneficial relations"* (Europa web 2002: 3).

in this context, the main objectives of the new EU assistance strategy will be to promote the stability and security of the countries of Central Asia by eliminating sources of political and social conflict, and, to assist their pursuit of sustainable economic development and poverty reduction. These objectives will be achieved through TACIS assistance along three tracks:

- a regional co-operation programme, designed to promote good neighbourly relations and concerted work between the Central Asian countries in areas where the EU has a strategic interest, such as transport and energy networks, sustainable use of natural resources, implementation of international environmental conventions, justice and home affairs;
- a regional support programme, implemented at national level designed to address the main common challenges to sustainable economic development -which have actually been identified regionally-, such as facilitating investment and trade, improving customs and border management and, reforming the education sector;
- a poverty reduction scheme, centred on the most vulnerable groups in 2-3 target regions, focusing on activities such as poverty alleviation, and community and rural development (Europa web 2002: 4).

Within this framework, before giving the details of the EU's response strategy, an analysis of Central Asia in terms of the common problems and shared challenges in the region will be useful. Accordingly, the next sub-section will focus on Central Asia to highlight the process of transition in the region with respect to multi-country issues that can be tackled by joint efforts. Also what the EU has done so far to support such efforts, and the lessons learnt from those experiences will be outlined briefly.

## **Transition in Central Asia: Transnational Problems and Challenges**

Soviet Legacy - First Decade of Transition: The transition process following the fall of the Berlin Wall and the demise of the Soviet Union has been quite complex. While Central and Eastern European countries and NIS have been building market economies and democratic societies,

"two broad patterns in transition have emerged. In the more advanced countries, rapid liberalisation and sustained macroeconomic stabilisation have laid the basis for gradual institutional change. These changes have been driven by the demand from enterprises and voters and have been shaped by the process of European integration. In the less advanced countries, progress in liberalisation and privatisation has been slow and uneven and stabilisation has been jeopardised by the persistence of soft budget constraints. The business environment for new enterprises also remains deeply flawed" (EBRD web 1999).

The Central Asian republics are among these less advanced countries. They had been the poorest and least developed areas in the Soviet Union, and later on "were hit by a triple-transition: the adjustment to the economic shock of the break-up of the former SU, the transition from state planning to market-driven economies, and an ongoing political transition" (WB web 2002).

Together with the break-up of the SU, the Central Asian republics had to face several problems. First of all, trade and transit were interrupted with new borders, and transportation costs increased. The collapse of traditional markets, especially in Russia, seriously hurt industrial and agricultural production in Central Asia due to disruption in access to inputs and markets. Subsidies for budgets, enterprises and households were also lost. Another important handicap was the loss of access to secure water and energy resources within the region, which was key for agriculture and industry, as well as households. Loss of administrative structures and skilled labour turned out to be considerably damaging. As the traditional Soviet administration collapsed, new national institutions had to be built up and many Russians left. Environmental legacy should also be underlined, since those countries were left with large environmental burdens -including the Aral Sea ecological disaster, as well as industrial, nuclear and bi-



ological waste. Finally, civil war proved to be disruptive, especially in Tajikistan (WB web 2002).

As for market reform, replacing state management with market-driven economic systems was -and still is- a major challenge for the new republics which, in contrast to Central European countries, had no recent market experience. Even though the Central Asian countries initially faced major macroeconomic instability, they were able to bring high inflation under control relatively quickly. Market-oriented policy reforms took place with mixed progress. While the best performances were seen in Kazakhstan and Kyrgyzstan, Turkmenistan and Uzbekistan were very slow. Regarding capacity building, all Central Asian republics advanced rather slowly. Some progress was made in such areas as setting up Central Banks, payments systems, basic national administrative structures, and legal systems. But basic weaknesses remain with respect to the civil service, budget management, regulatory and judicial systems, and control of corruption (WB web 2002).

When it comes to the political reform component of the transition process, progress with the creation of democratic institutions, civil society and social capital was rather slow. In some countries the growing strength of civil society became obvious, especially in Kyrgyzstan, while there have been reversals in others, such as that in the civil war ridden Tajikistan. Regional political co-operation is minimal, despite some regional co-operative declarations and institutions. Significant economic, political and personal rivalries have grown among the five countries and their leadership and Central Asian countries are alleged to be vulnerable to extremist influences and movements (WB web 2002).

As a result of these disruptions, the Central Asian republics suffered huge economic losses, resulting in economic declines by 20-60% of their GDPs in 1995/96 relative to the levels in GDP in 1990. In terms of economic performance, there has been some recovery since 1995/6, but this was dramatically interrupted by the Russian crisis of 1998. Since 2000, there has been reasonably good growth -enhanced in part by Russia's recovery-, giving some hope that the worst is over. But some countries, especially Kyrgyzstan and Tajikistan are still under the impact of the earli-

er economic shock, with high debt burdens and low per capita incomes that place them among the poorest of the developing countries. Within this context, access to secure water resources, trade and transit for goods and people, communicable diseases -HIV/Aids and TB-, drug trade and use remain to be among the issues that have become increasingly regional (WB web 2002).

**Situation Today - Common Problems:** Table 3 gives selected indicators of the general and economic situation in Central Asia today. The region is faced with several problems and some of these should be tackled on a multi-national basis.

Table 3: Central Asia selected indicators (2000)

	Kazaldıstan	Kvravzstan	Tajrkıstan	Türkmenıstan	Uzbekıstan
General					
Area(sq.km, millions)	2.7	0.199	0.143	0.488	0.447
Populatiort (millions)	14.9	4.9	6.2	5.2	24.8
Life expectancy (years)	65.5	67.3	68	66.3	69.7
Population growth rate (annual %)	-0.4	1.0	0.2	2.0	1.4
Adult literacy	97	97	99	97	88.5
Economy					
GDP(US%)	18.2	1.3	0.987	4.4	7.7
GNP per capita (US\$)	1190	270	170	840	610
Re al GDP growth rate	9.6	5.1	8.3	17.6	4.0
Inflation	13.2	18.7	32.9	8.3	24.2
External debt stoçfc (US\$, billions)	3.9	1.739	1.229	2.23	4.36
Trade with EU					
Expports to EU (Euro, millions)	1,242	58	33	160	532
Imports from EU (Euro, millions)	3,203	130	44	220	618
Trade balance <u>with</u> EU (Euro,millions)	-1,960	-71	-11	-60	-86

**Sources:** EBRD web 2002; Europa web 2002.

Following the first decade of transition, the policy agenda of Central Asia is characterised by a consolidation of state structures and efforts to harness the benefits of further integration into the global economy. State building remains an important priority for ali the states of the region. Since, in the past, several conflicts stemmed from perceived threats to fragile national stability, it has become crucial to establish state identity and territorial integrity, particularly internationally and regionally recognised borders. While the authorities of ali Central Asian countries

have worked to consolidate their power, democratic transition in the region has slowed down. Political regimes tend to become autocratic and sometimes even built upon the personality cult of the leader. Under these circumstances, development of civil society, a free media, the implementation of international human rights obligations and enhanced co-operation with neighbouring states have turned out to be neglected factors (Europa web 2002: 6, 8).

Attitudes towards Islam vary in these states, and religious freedom is of concern. The Taliban regime in Afghanistan had presented an external security concern. While this does not seem to be a vital problem any more, internal security remains high on the policy agenda of each country and influences attitudes towards regional co-operation:

*"Islamic radicalisation has both domestic and regional dimensions. International networks explicitly aim to establish the Muslim community at the expense of pluralistic political structures. For example the Islamic Movement of Özbekistan (IMU), whose declared goal is to topple the Uzbek government, began extending its militant operations from Afghanistan and Tajikistan into Kyrgyzstan and Uzbekistan in 1999 and 2000.*

*in Central Asia and the wider region, terrorist forces and their support groups operate in close liaison with transnational crime networks, smuggling drugs (the IMU is also believed to control the drug trafficking routes through Tajikistan and Kyrgyzstan), arms and human beings. Afghanistan remains the largest exporter of heroin to Western markets, particularly to the EU where it is said to supply 80% of the market. Drug export routes extend throughout Central Asia, fostering addiction and spreading HIV/AIDS, increasing corruption and undermining the real economy. A vicious cycle is developing whereby Central Asian countries are taking action to limit cross-border movement of people and goods in the name of security which, in turn, hinders the legitimate movement of people and goods and the medium-term prospects for economic growth in the region (Europa web 2002:8).*

in the sphere of economics all five countries are still vulnerable to external shocks. Economic reform can only be consolidated when long term growth required to reduce unequal income distribution and poverty is achieved. Success in the fight against unequal income distribution and poverty is of utmost importance if ethnic and religious extremism is not to feed on social and economic inequality. This kind of success will mostly depend on Central Asia's ability to create employment, to develop new industries that will replace those sustained by the centrally planned Soviet economy, to improve agricultural output, and, to find new markets for their products and raw materials. Such attempts should utilise existing human and physical capital more efficiently and set the proper conditions for development of private initiatives at the local, national, and, regional level. On the international level, joining the WTO and improving access to global export markets are priorities shared by most of the Central Asian governments, which are also keen to attract financial support. They seem to take into consideration the essential importance of investment and structural reforms, notably in the energy sector (Europa web 2002: 6, 8).

**Outlook on the Future - Shared Challenges:** The EU's Strategy Paper for Central Asia 2002-2006 holds that, "shared challenges create opportunities for Central Asian countries to develop mutually beneficial relations contributing to economic and political stability in the region. At the same time, many of the problems faced by Central Asian countries need to be addressed within a collaborative framework if they are not to lead to growing differences between and within countries" (Europa web 2002: 10).

These shared challenges are tackled under four headings: Border disputes; sharing of natural resources; access to world markets; and, foreign investment.

Border disputes arise from the fact that borders, which had been administrative during Soviet times, turned into barriers that prevent the movement of people, goods, and services. The Soviet rule administratively divided ethnic groups and clans for political purposes. Today, such people face border restrictions while travelling between different states. Such a dis-

ruption in traditional patterns of commerce and social exchanges, not only contributes to poverty, but also prevents regional co-operation for economic, cultural, or, security purposes (Europa web 2002: 10).

Sharing of resources is a critical issue with regard to water and energy. "Lack of access to reliable and clean sources of water for consumption, irrigation and energy production, the pollution of sea and inland water, energy inter-dependence for gas, oil and electricity and access to export opportunities/routes are all vital issues for the future development of the region" (Europa web 2002: 11).

Access to world markets is a vital matter, since population sizes and per capita incomes of the Central Asian countries are too low for domestic demand to support diversified economies:

*"Economic co-operation is essential to increasing the opportunities for local producers to achieve economies of scale and increase the efficient and cost-effective use of resources towards greater potential for economic growth. Complementary resource allocations suggest that a system of comparative advantage could be exploited between the Central Asian states, providing the basis for trade with the rest of the world. Trade facilitation, the establishment of efficient, safe and competitive transport routes and transit conditions within the region are also prerequisites for sustained economic development and access to foreign markets. However, the growth in intra-regional trade to date has been uneven at best and, while the potential for expansion remains considerable, all the countries of the region retain trade restricting policies and practices. WTO accession has only been achieved so far by one country in the region -Kyrgyzstan"* (Europa web 2002: 11).

Foreign investment has mostly been concentrated in the natural resources sector, whereas,

*"Central Asia has a considerable unmet need for investment in vital economic infrastructure, to promote the restructuring of key industries, to support the SME (Small and Medium Enterprises) sector and to increase diversification*

*in exports. ... New legal frameworks and investment promotion activities have failed to attract foreign investors as these policies are consistently undermined by continued state intervention, inadequate administrative capacity, red tap and endemic corruption. The absence of the rule of law and the difficulties foreign firms experience with accessing the judicial system do not provide any further incentives for their involvement" (Europa web 2002: 11-12).*

Common problems and shared challenges in Central Asia require international support. In fact, the international community has started to pay closer attention to the region, especially in the aftermath of the Afghan war. Besides the EU, the World Bank, UN agencies, EBRD, ADB and Islamic Development Bank (IDB) are major multilateral providers of grants and concessional financing, as well as technical and humanitarian assistance. The UNDP (United Nations Development Programme), EBRD and ADB operate regional and bilateral programmes. When it comes to bilateral donors, Germany, Japan, Switzerland and the US are the major ones. Then comes the United Kingdom, France, the Netherlands, Canada, Turkey and Norway on a smaller scale of activities. Also the Aga Khan Foundation plays a leading role among non-governmental actors. The EVIF plays a central role in macro-economic surveillance of the region by focusing on fiscal and budget stability and balance of payments support. It also provides expertise on tax administration, policy/institution building, and banking legislation/supervision, while promoting transparency and good governance (Europa web 2002: 15).

Among these international actors, the EU has provided assistance of 944.4 Euro to Central Asia, since 1991. This assistance has included:

- 366.3 million Euro in bilateral technical assistance provided through TACIS during 1991-2001 (Uzbekistan 118,2; Kazakhstan 134,6; Kyrgyzstan 63, 2; Turkmenistan 42, 3; Tajikistan 8,0);
- 153.5 million Euro in humanitarian assistance through European Community Humanitarian Aid Office-ECHO (Tajikistan, Kyrgyzstan).

- More than 137,4 million Euro from the Food Security Programme-FSP (Tajikistan, Türkmenistan and Kyrgyzstan);
- 265.7 million Euro in macrofinancial assistance (of which 14 million Euro in interest rebate grants to Tajikistan).

*"it should be noted that certain sectors have been targeted almost constantly within most national TACIS programmes throughout the years, as well as under the Food Security programme. This is particularly true for areas of co-operation such as legal, institutional and administrative reform, overcoming the social consequences of transition, economic development through promotion of (small) business activities, rural development, and statistics. As such, TACIS 2002-2006 will be a logical sequel to earlier national programmes"* (Europa web 2002: 38).

An important benefit of EU assistance supplied to Central Asia so far has been, the increasing mutual understanding and knowledge sharing between the EU and Central Asia. While a network of local experts has been established in Central Asia with good knowledge of EU mechanisms and procedures, new expertise on the region, both within the Commission and the EU Member States has been generated (Europa web 2002: 14).

There are also major lessons learnt from past TACIS experience that the EU has taken into consideration. For example, there is the need to better coordinate TACIS activities between countries and across the region and to concentrate assistance on a much more limited number of priorities and programmes. When assistance is focused on common themes, it is possible to open up opportunities to achieve economies of scale, more efficient and cost-effective use of resources. Also sharing of experience and best practice between the countries of the region should be facilitated to achieve better results and increase EU visibility. A narrower focus on priorities and programmes should help bring about more efficient programme design and implementation arrangements, as well. This is important, because in the past, there had been an excessive time lag between the commitment of funds and the launch of project implementation (Europa web 2002: 12).

*"Slower than expected reform on the part of the beneficiaries has led to many TACIS projects being postponed or delayed. On the other hand, a number of projects that made a difficult start were successful in their later stages. In order to better respond to changes in the pace of reform, EU assistance must be developed with a far longer-term perspective than has been the case with the biannual National Action Programmes and three year National Indicative Programme to date. It is envisaged that, in the main, the objectives of and programmes undertaken within the Indicative Programme 2002/2004 will serve as a basis for TACIS actions in the following programming period 2005/2006"* (Europa web 2002: 12-13).

in the following section the EU's TACIS Indicative Programme for Central Asia 2002-2004 will be reviewed to explain the priorities and expectations of the Union in the region for the coming years.

## **TACIS INDICATIVE PROGRAMME FOR CENTRAL ASIA 2002-2004**

As it was explained above, the EU's Strategy Paper for Central Asia 2002-2006 puts forward that the core objective of the new EU assistance strategy, which is to promote the stability and security of the countries of Central Asia, and to assist in their pursuit of sustainable economic development and poverty reduction, will be achieved through TACIS assistance along three tracks: a regional co-operation programme; regional support for programmes implemented at national level; and, a pilot poverty reduction scheme targeted at the most vulnerable groups. TACIS Indicative Programme for Central Asia 2002-2004, as part of the Strategy Paper, tackles the priority areas in terms of these three tracks in detail.

As for regional co-operation, programmes are expected to be designed in a pragmatic and flexible way, taking national sensitivities into consideration. One of the specific objectives of regional co-operation is to develop viable, secure, safe and competitive transport and energy routes, lin-



king the countries of Central Asia with their neighbours and Europe. Another objective is to strengthen border management capacity in order to facilitate economic development, and to prevent organised crime and trafficking in drugs and human beings. Also, a more sustainable use of natural resources by the partner countries is among the objectives. This includes the integration of environmental concerns into the economic process and collaborative action to resolve environmental challenges, particularly transboundary waters and river basin management (Europa web 2002: 21).

Expected results of regional co-operation activities are:

- "- improvement in relations between neighbouring countries and realisation of joint/collaborative initiatives.
- improved safety and security of transport routes/transit of goods in countries of Central Asia, increasing access and flows to European and world markets.
- improved integration and harmonisation of the region's transport regulatory environment with European and international norms.
- improved networking between national Civil Aviation Authorities.
- continuing energy policy reform by the partner countries, increasing transparency and leading to increased capacity to attract foreign investment.
- increased safety, transparency and reliability of the gas transmission systems from Central Asia to the EU.
- increased efficiency and reliability of the Central Asia electricity grid system.
- implementation of obligations resulting from the Climate Change Framework Convention and the Kyoto Protocol, in particular as regards Joint implementation and the Clean Development Mechanism.
- spread of cleaner production and energy savings projects.
- reduced risks of conflict resulting from more equitable use of water resources for hydro-electricity, irrigation, industrial and household consumption and co-operation between upstream and downstream countries.

- more efficient use of natural resources resulting on the de-coupling of economic growth from environmental degradation and overall reduction of pollution levels.
- successful expansion of CAREC (Central Asia Regional Economic Co-operation) activities in the region.
- increased regional trade, in particular in the Ferghana valley.
- more reliable statistical data on border crossings and trade available.
- organisation of a border management system which ensures efficient and functioning border control.
- promotion of national as well as cross-border co-operation among the relevant agencies involved (border guards/customs/police).
- new border crossings constructed or at least under construction.
- law enforcement and border management related equipment delivered and in use.
- introduction of anti-money laundering regimes in Kazakhstan and Uzbekistan.
- spread of cleaner production and energy saving projects and promotion of renewable energy resources" (Europa web 2002: 23-24).

When it comes to regional support for programmes implemented at national level, to improve the climate for trade and investment and to fulfil PCA/TCA commitments are among the specific objectives. In order to achieve them, regulatory, legal, administrative and institutional reform, capacity building and increased understanding of PCA/TCA and WTO requirements will be promoted. Another objective is to reduce poverty by providing policy advice, institutional support and capacity to those Ministries involved with EU Food Security Programmes, in support of the implementation of national Poverty Reduction Strategy Programmes (PRSPs). Moreover, complementary assistance at the national level in support of work aimed at trade facilitation, border management and combating organised crime under the regional support programme (Track 1) is to be provided. Reform of education systems, in particular higher education and technical institutions will also be supported (Europa web 2002: 25).

On the national level, expected results are summarised as:

- *progress in PCA implementation.*
- *more transparent trade regimes and business climate.*
- *strengthened organisational structure and improvement in operational effectiveness of Customs Services.*
- *improved quality of statistical data available.*
- *improved governance and transparency via upgraded functional organisation and resource allocation in Ministries benefiting from the FSP.*
- *better training and management methods in education system, particularly for higher and technical education" (Europa web 2002: 26).*

Finally, pilot poverty reduction scheme targeted at the most vulnerable groups has the specific objective of assisting "local communities in 2-3 target regions in their efforts to tackle poverty, particularly amongst the most vulnerable sections of the populations, through measures designed to improve local governance, food security, social protection and employment opportunities. Efforts will, wherever possible and appropriate, also promote crossborder co-operation at the local level" (Europa web 2002: 27).

Such activities are expected to yield the following results:

- *strengthened co-operation between community organisations and regional /national administrations.*
- *increase in the number of community based associations capable of defining their priorities and implementing projects with external donors.*
- *reduced risk of conflict surrounding use of natural resources and co-operative activity between local communities*
- *improvement in environment for subsistence farming.*
- *increase in number of micro and small enterprises and improved access to local economic infrastructure" (Europa web 2002: 28).*

The Indicative Programme for 2002-2004 comprises of a total budget of 150 million Euro. 40 million will be allocated for Track 1 activities, while Track 2 and 3 activities will be allocated 80 and 30 million respectively.

With this amount of technical assistance, the EU aims to support projects that can induce policy change and have a lasting impact on both national and regional levels in the five countries of Central Asia.

## **CONCLUSION**

The EU's attitude regarding the NIS has been modified in recent years. During the nineties, the Union pursued a policy that reflected its special preference for the Eastern European partner states. Central Asian countries were rather neglected, since they did not have the prospect of EU membership. However, 9/11 terrorist attacks and the Afghan war caused the EU to turn its attention towards Central Asia. Critical issues for the West, such as, terrorist activities, smuggling of people and drugs, and, the risk of the proliferation of expertise on weapons of mass destruction all contributed to a change in the EU's outlook on Central Asia.

The beginning of the 21<sup>st</sup> century marked the initiation of a new EU strategy for Central Asia that aims to enhance regional development efforts. Transition to democracy and market economy in Central Asia is being supported by greater amounts of EU technical assistance. The main objective is to create a region of peace and prosperity, in which dangerous activities like terrorism and smuggling will not flourish.

Within this context shared challenges in Central Asia, such as combating transnational crime, improving border management, increasing intra-regional trade, accessing world markets, and making more sustainable use of natural resources, present opportunities to develop regional co-operation schemes. In order to assist these activities, the new EU strategy in Central Asia aims at eliminating sources of social and political conflict, and, supporting the pursuit of sustainable economic development and poverty reduction.

TACIS continues to be the major EU instrument to provide technical assistance to Central Asia for the 2002-2006 period by functioning along three tracks: a regional co-operation programme, regional support for programmes implemented at national level, and, a pilot poverty reduction scheme targeted at the most vulnerable groups. The EU is determined to support projects within these tracks that are likely to have a lasting impact on national and regional welfare, stability and security.

As the world's leading actor in international trade, the EU effectively uses the instrument of economic assistance in its external relations. In the late nineties, the EU and its Member States accounted for 60% of all international aid. Apart from Member States' bilateral aid programmes, the Union, as a separate entity itself, has become the fifth largest aid donor in the world (Cox et. al. 1997; from Bretherton et. al. 1999: 109). In the post-Cold War world, the EU aspires to assert its identity on the international scene. Being a politically capable actor on the international scene seems to be very difficult, since the road to the Common Foreign and Security Policy is full of obstacles and problems. However, the Union is likely to go on asserting its identity in international relations by using its economic influence. Its strategy towards Central Asia for 2002-2006 will be one of the many aspects of the Union's reflection of its economic power around the world.

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# The European Union's Central Asia Strategy

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*Abstract:* For more than a decade now, the European Union has been assisting the transition process in the former Soviet Union states through the TACIS (Technical Assistance to the Commonwealth of Independent States) programme. 13 Eastern European and Central Asian countries have received grant-financed technical assistance through TACIS. During the nineties the Union mostly favoured the Eastern European partner states, rather than the Central Asian ones. However, following the 11 September 2001 terrorist attacks in the United States, and the war in Afghanistan, achieving stability and security in Central Asia turned out to be an important issue on the international agenda. Under these circumstances the European Union has developed a new strategy towards Central Asia for the years 2002-2006, with the aim of promoting stability and security of the 5 countries of Central Asia -namely, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan- by assisting them in their pursuit of sustainable economic development and poverty reduction. This paper assesses the Union's new Central Asia strategy, which is an initiative incorporating TACIS assistance to the region.

*Key words:* European Union; Central Asia; TACIS; transition; Strategy Paper 2002-2006 for Central Asia; Indicative Programme 2002-2004 for Central Asia.

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## Стратегия Европейского Союза относительно Средней Азии

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**Резюме:** Уже более десятка лет Европейский Союз поддерживает переходный процесс в странах бывшего Советского Союза программой ТАГИС (Техническая помощь Независимым Государствам). По этой программе 13 восточноевропейских и центральноазиатских стран получило бесплатную техническую помощь. На протяжении 90-х годов Союз отдавал предпочтение восточноевропейским странам-партнёрам больше, чем среднеазиатским. Однако, вслед за террористическим актом в Соединённых Штатах 11 сентября 2001 г. и войны в Афганистане, достижение стабильности и безопасности в Средней Азии стало важной международной тематикой. В этих условиях ЕС разработал новый стратегический план относительно Средней Азии на 2003-2006 гг., с целью повысить стабильность и безопасность пяти среднеазиатских стран- Казахстана, Киргизии, Таджикистана, Туркменистана и Узбекистана- помогая им в их поисках достижения экономического развития и снижения нехватки. В этой статье оценивается новая Среднеазиатская стратегия ЕС, которая включает в себе и помощь региону по программе ТАГИС.

**Ключевые слова:** Европейский Союз, Средняя Азия, ТАГИС, переходный процесс, стратегический план на 2002-2006 гг. для Средней Азии, определительная программа на 2002-2004 гг. для Средней Азии

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