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**EURASIA AND EUROPE
UNICE POSITION PAPER**

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A- EXECUTIVE SUMMARY

Eurasia is defined in a variety of ways ranging from a broad definition, which includes the whole of Asia to a narrower one focusing only on CIS (Commonwealth of Independent States). Regarding economic, political and cultural characteristics, the definition of Eurasia adopted in this paper is as follows: the transition countries surrounding the Black Sea and Caspian Sea, including the Republics of Central Asia and Transcaucasia and Belarus.

After the dissolution of the socialist system, these republics have been in a transition process, from a closed, centrally planned economy towards a free market economy and democratic state, which has not yet been finalised. Besides some common characteristics of a transition economy, there are also close cultural, ethnic, economic and political ties within the states of this region.

The smooth and rapid completion of the transition process in this important region adjacent to Europe has great importance to the EU and Eurasia both in economic and political terms. The recent Russian crisis further reinforces this objective.

Private sector development is the key element in this process. For this purpose, the countries need to improve institutional infrastructure regarding foreign trade, foreign direct investment, the legal framework, tax regimes, fight against crime and corruption, and finance. Enhanced cooperation between the private sectors of the EU and Eurasia will facilitate this process. The programmes and mechanisms such as Tacis, Phare, Partnership and Cooperation Agreements and an effective business network such as BSEC (Black Sea Economic Cooperation), SECI (South Europe Cooperation Initiative), FEAS (Federation of Eurasian Stock Exchanges) and IPAs (Investment Promotion Agencies) constitute the initial starting point.

B- GENERAL ECONOMIC OUTLOOK AND THE IMPORTANCE FOR EUROPEAN BUSINESS COMMUNITY

The Eurasian countries, besides their rich natural resources, represent a big market with their large population and geography. The population of these countries totals 317 million people, on around 24 million square kilometres of land. The total GDP of the Eurasian countries was close to \$750 billion in 1997. The initial inflationary pressures of the transition period are tending to abate. There are possibilities that Eurasian countries can enter a period of sustained growth and moderate inflation provided that they can utilise their important material and human resources and undertake to put in place the necessary legal and administrative framework.

The region has close economic ties with the EU. In 1996, the region's exports to the EU were \$ 37 billion (38 % of the total), and the region's import from the EU was \$ 27.5 billion (46.3 % of the total).

The total foreign direct investment (FDI) received by the countries concerned is relatively small, compared with their potential. In 1997, FDI in the region was only \$8.9 billion, half of which from Russia. The amount of cumulative foreign direct investment received between 1989 and 1997 was around \$24 billion. Among the reasons for low FDI are political and economic instability in the region, and absence of the conditions of free market economies; namely, volatile governments, internal and external upheavals, currency transfer restrictions, and non-convertibility of the national currency in some countries. Lack of international arbitration also inhibits a greater inflow of foreign direct investment into the region. The landlocked and interdependent nature of the countries of Eurasia contributes to this and makes regional stability a prerequisite to attracting foreign direct investment.

The Black Sea and Caspian Sea area is likely to become an important energy producer in the world. The size of the potentially recoverable resource base could even make the region one of tomorrow's oil and gas exporting powers. In the region, proven oil reserves represents around 1.5% - 4% of the world's reserves and the proven gas reserves represents 6% of the world's reserves.

C- A FRAMEWORK FOR EURO-EURASIAN PARTNERSHIP

UNICE considers that the creation of a Euro-Eurasian partnership, with a special emphasis given to private sector cooperation designed to transform the Eurasian basin into a region of peace, stability, prosperity and cooperation, is of strategic importance for the EU and the Eurasian countries. UNICE calls for the Union to seek to strengthen existing links and to contribute to sustainable economic and social development in the region.

I- PARTNERSHIP AND COOPERATION AGREEMENTS AND FINANCIAL PROGRAMS

UNICE welcomes conclusion of the agreements on Partnership and Cooperation with the Russian Federation, Ukraine, Belarus, Moldavia, Kazakhstan, Georgia, Azerbaijan, Armenia, Kyrgyzstan, and Uzbekistan and the intention of the EU to conclude similar trade agreements with the other Eurasian countries. It welcomes the possibility of future free-trade agreements between the EU and Russia, Ukraine, Belarus and Moldavia. UNICE supports the view that the EU should aim at Free-Trade Agreements (FTAs) with all of the Eurasian countries when proper conditions are fulfilled.

These agreements, in most cases, are the basis of relations between the European Union and the Eurasian countries. The importance of these agreements should receive due attention and support from European industry. They will stimulate cooperation, promote democratic and economic reforms, and open the way for Tacis to play its role more effectively in the transition of these countries.

UNICE, recognising the needs of Eurasian countries during the transformation process and the limited amount of EU funds, proposes that appropriate lessons be drawn from the EU's assistance programmes in CEE and Baltic countries in terms of fields of allocation, efficiency and monitoring. Those countries have been benefiting from the Phare programme and the EBRD funds in order to support economic restructuring, human resource development, public sector consolidation and development of infrastructure networks.

In the case of Eurasia, the EU Commission's main instruments of cooperation have been the Tacis programme, which has increased over time and reached ECU 691 million in 1997. In the allocation of this fund, the recipient countries' interests, rather than those of the donor countries and their consultant companies, should be taken into account. UNICE supports the view that changes be made to Tacis, which would increase the effectiveness of the programme. In particular, emphasis could be placed on three areas: development of small and medium-sized industry, public administration reform and human resource development.

In the field of small and medium-sized industry (SME), success calls for actions concerning three points: assistance for development of strategic alliances between enterprises (pre-feasibility and feasibility studies, and pilot projects), risk capital (medium-and long-term finance), technical assistance (strengthen human capital resources by providing training programmes and helping in the transfer of know-how). Joint venture programmes should also be encouraged to foster the development of SMEs.

In the field of public administration in Eurasia, there is a need for central and local government reform. Central governments have to be restructured to adopt European principles in budgeting, accounting, reporting and auditing systems. At the local government level, responsibilities and financial resources have to be increased. The introduction of programmes similar to Sigma¹ and additional EU funding will facilitate this process.

For human resource development, besides the cooperation programmes such as Tempus and programmes on vocational education, there is a need for training programmes in the areas of public administration, finance sector, enterprise restructuring, privatisation and modernisation of customs and statistics services.

Concerning foreign investment, creation of a working group between the EU and Eurasian countries will help to explore ways for the protection and promotion of foreign investment in the region.

II- TRADE POLICY

Since 1989, there has been an appreciable growth in trade with the EU, which is now the biggest customer and leading supplier in those countries.

In order to overcome obstacles to trade in Eurasian countries, UNICE proposes that the following actions be pursued by those countries

1. Eurasian countries should establish transparent rules in their trade policy. Reform of trade policies should be comprehensive, lasting and enforceable, and be in conformity with relevant WTO (World Trade Organization) Agreements. Accordingly, tariffs should be reduced, customs procedures should be standardised and foreign certification should be accepted.
2. Eurasian countries should support policies, which foster the effective use of their human and natural resources, to increase their competitiveness. In this respect, they should pay attention to environment-friendly production techniques and efficient implementation of competition law and protection of intellectual property in order to be in conformity with the EU acquis and to be more integrated in the world trade system.

III- ENERGY

As stated in the Declaration adopted by the General Affairs Council on 27 April 1998, exploitation of the energy resources and the role of security of supply, especially around the Caspian Sea, are important for the stability and prosperity of the Eurasian region and for the robust development of their democratic and economic institutions. The European Union should encourage Eurasian countries in their efforts to liberalise energy markets. In this framework, the first priority should be privatisation of state monopolies. Acceptance of international arbitration by all countries will foster the privatisation process.

¹ Sigma was initiated in 1992 as part of OECD's Public Management Service (PUMA) It is a joint initiative of the OECD Centre for Cooperation with Economies in Transition and Phare Programme. Its aim is to make available to CEE OECD's expertise in modernising general management systems of government and technical cooperation in public administration.

It is important for European firms to urge the countries in the region to be sensitive to international environmental standards in exploration, production and marketing activities.

IV- LEGAL AND ADMINISTRATIVE FRAMEWORK

The major challenge for establishing sustained growth and for eliminating widespread corruption in Eurasia is an effective legal and administrative framework. Especially, commercial law pledges, bankruptcy and company law and protection of intellectual property should be developed for transparency and fairness in market transactions.

However, the most pervasive problem of the governments of Eurasia is still their interference with privatised enterprises. The role of the state in the economy should be reduced through the institution-building demanded by the private sector. This will help creation of an appropriate environment for the growth of private enterprise in the countries of Eurasia.

Measures should be taken against the protectionist interests which prevent modernisation, and restructuring of ineffective enterprises according to free-market mechanisms in a competitive manner. To achieve this, companies need fresh funds to modernise and restructure in the wake of mass privatisation.

Eurasian countries need to reform state aid in conformity with relevant WTO agreements, incorporating a medium-and long-term industrial policy and efficient application of competition laws which are already enacted in most of these countries. Laws which grant monopolies and legal exclusivities restricting competition in the markets should be eliminated.

To improve transparency, predicability and stability in public administration, and to eliminate corruption, government administration should be bound by law, the judiciary system should be improved, and definition of corruption in criminal codes should be adjusted pursuant to Western standards. To attract foreign capital, the legislation relating to foreign direct investment should be drafted in a non-discriminatory manner, in line with the principles of national treatment and most favoured nation status.

The tax system should be reformed in order to create a business-friendly environment by eliminating unclear rules, bureaucratic discretion and corruption. The reformed system should aim at reducing the sizeable parallel economy through improved tax administration, balanced tax burden and sanctions. Besides improving supervision, the financial system should also be deepened by further liberalising the markets and by introducing new financial instruments.

D- BUSINESS COMMUNICATION NETWORK

The Eurasian countries can benefit greatly from other transition countries' experiences and international platforms for cooperation. For this aim, the existing links between economic agents at national and international level - business associations, individual companies, etc. - have a crucial role to play. UNICE considers that active participation of these economic agents is the best guarantee for entering into dialogue with Eurasian organisations. European and Eurasian private sector are the locomotives for strengthening relations and they can develop channels of communication and of cooperation on the existing initiatives.

Identifying the institutions with which an effective regional business network can be created is an important first step. Four existing platforms are the following:

1. Black Sea Economic Cooperation Business Council, established in August 1992 under the Black Sea Economic Cooperation (BSEC), brings together business associations and chambers of commerce of the 11 countries concerned² in order to integrate the region with the global economy. Besides taking concrete steps in identifying, developing and implementing projects of common interests, the Council also envisages cooperation in the improvement of the business environment and supports small and medium-sized enterprises. The Black Sea Trade and Development Bank became operational this year in Thessaloniki to supply finance for these projects.

Moreover, the academic dimension of BSEC promotes this initiative. Within this framework, the Black Sea Universities Network, initiated by the Black Sea Foundation of Romania in 1997, covers 53 universities and aims to enhance the intellectual resources needed for sustainable development in the region. In addition, the newly set-up International Centre for Black Sea Studies (BSEC countries participate at governmental level) based in Athens is expected to promote cooperation between research centres, businesses and government agencies by executing joint studies specifically in the area of science and technology for the development of the region. There is a need for the active cooperation of the private sector with the work of the centre and universities.

The Council has established dialogue with UNIDO, UNCTAD, EBRD, IFC, OECD and the World Bank. The initiative is also supported by the Commission report published on 14 November, 1997 on Regional Cooperation in the Black Sea area. The Commission has already financed some projects through different Community instruments such as the Tacis and Phare programmes.

2. The Federation of Eurasian Stock Exchanges (FEAS) was established, at the initiation of the Istanbul Stock Exchange, on May 1995. It involves currently, 22 member exchanges³ from 18 countries, representing 8022 traded companies with a market capitalisation of over \$ 161.1 billion on an average daily traded value of \$ 479.7 million, in the first half of 1998. The Federation aims to establish cooperation between its members in order to achieve harmonisation in rules and regulations, share new technology and build up a common marketing strategy.
3. SECI (South Europe Cooperation Initiative), launched in December 1996, has adopted a very practical approach to eliminate barriers to trade and to establish economic cooperation in its region. It will help to create a regional climate that encourages the transfer of know-how and augment investment in the private sector.
4. OECD has launched in 1996 a Network of Eurasian Investment Promotion Agencies (IPAs) within the framework of the Centre for Private Sector Development in Istanbul in order to facilitate a systematic exchange of expertise of CIS/Black Sea IPAs and explore opportunities for cooperation. Although participation in that initiative by the Eurasian countries is currently at the state level, the private sector in these countries is starting to become involved as it strengthens.

² Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldavia, Romania, Russian Federation, Turkey and Ukraine

³ Jordan, Slovakia, Bulgaria, Kazakhstan (2), Bangladesh (2), Pakistan (3), Turkey, Kyrgyzstan, Former Yugoslav Republic of Macedonia, Moldavia, Turkmenistan, Iran, Israel, Albania, Uzbekistan, Ukraine, Armenia, Croatia.

These already established networks provide a first and practical basis for enlarging business dialogue with the Eurasian region. Besides developing cooperation with these platforms, UNICE supports the active involvement of private sector representatives under the EU policy for the region.

E- CONCLUSION

Taking into account the historical, geographical, economic and strategic importance of the region and the vulnerability of the Eurasian countries in the wake of the recent global economic crisis, EU support for the region takes on greater importance. UNICE attaches great interest to smooth and rapid completion of the transition to the market economy. In this respect, the actions of the European business community will help secure the integration of these countries in the international economic system. UNICE would welcome joint action with the European Union in Eurasia and agrees that collaboration with the regional authorities by using the existing business communication networks will help the effectiveness of these actions.
