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Political Economy of the EU Rapprochement Policies with Cuba and Central Asia

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ABSTRACT

The paper illustrates the inherent conflicts in the politics of the European Commission on two case studies. Its methodology was inspired by the logic of economic geography where the level of economic cooperation between two countries rises if the product of their GDP increases and especially if the "cultural distance" between them (subject to institutional arrangement) decreases.

While the EU-27 is an economic, commercial and monetary giant, its effective external politics remain lagging behind. Its main problem is the incongruous split of interests of member countries that cannot be disciplined by an instrument of unified decision-making. We can therefore observe the existence of forgone opportunities, as the EU refrains from entering into long-run economic and political alignments. The potential of such alignments emanates from the gravity of the EU economic power, once its "energy" is transformed into alliances by means of more active European Neighbourhood Policies. The prisoner's dilemma of failed coordination is present in even such cases where the policies would bring benefits to all stakeholders – the EU, the aligned nation and the rest of world.

Although the choice of Cuba and Central Asia has been a hazard of the author's two independent projects, the study reveals that the EU lacks the capacity to exercise its geopolitical strategies commensurable to its economic size. In addition, the decision-making in the EU has not abandoned its insular vision at the level of six founding countries ("the EU core") even after the crucial enlargement to the East. It thus underutilises the potential for new alliances present in the 12 new member countries that could facilitate the widening of EU's spheres of influence far beyond the Western European neighbourhood. Such influence could involve the economic and cultural alignment with Latin America, as well as with Near East and Central Asia.

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The Counter-intuitive Mechanism of Velvet Revolutions: the Non-violence

The arguments of this paper are derived from the theory of economic gravity that is a part of the theory of economic geography (see Fujita, Krugman and Venables, 1999). The problem can be stipulated as follows. Intensity of trade from country i to country j (e.g. exports X_{ij}) depends on the size of partners' GDP (Y_i and Y_j) and on geographic and cultural distances (i.e. GD_{ij} and CD_{ij}). In the case of EU-27 the gravity equation can be derived from the following implicit function:

$$X_{ij} = \Phi (Y_i, Y_j, GD_{ij}, CD_{ij}, e_{ij})$$

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Where $i=EU-27$ and $j = 1, 2, \dots, n$ are the remaining countries of the world. The signs below the variables represent the functional relationship (i.e. positive or negative proportion) for making the X_{ij} rising. The e_{ij} is the random term with unknown sign, which can represent the difference between the potential for exchanges and their real values. Because the GDP of EU-27 is 23% of the world's GDP (i.e. it is the most robust economy of the world), the dependence of trade of even remote small countries on the EU can be still quite strong. In addition, the interdependence will be even stronger if the variable of cultural distance (CD) would be related to a country j , whose cultural alignment with the EU is stronger than with other superpowers².

Neighborhood policies concern the parameter CD – their purpose is to make the cultural gap smaller. We can also extend the model and expect that very similar relationship concerns not only exports but also imports, financial transactions and other exchanges (e.g. political or cultural). The problem is that the relationships between X_{ij} and explicit explanatory variables offer the **potential for exchanges only** and its **real use can fall short if the countries do not fine-tune its policies for their absorption**. In such a case the term e_{ij} acquires negative value that results in low X_{ij} .

Let us now switch our attention to the problems of socio-economic transition and the potential for transition spillovers. The fall of communism and the adoption of specific policies is not an internal affair of given transition country. Transition is not neutral to the aforementioned potential of gravity and it implies a re-alignment of economic and cultural exchanges. Both partner countries must be therefore prepared for it and react with respective policies of openness.

In the case of Cuba the EU's soft-pedaled policies of intervention have not succeeded in furthering the velvet fall of local communist regime, contrary to what happened as a storm in 33 totalitarian countries of Europe and Asia. Even though in all of them the police and military forces were kept ready in reserve, the final settlement of social conflict resolution was very peaceful in the vast majority of these countries. According to Kornai, 2006, the Great Communist Transformations were unique in the human history because of their non-violence, external non-interference, enormous speed and the complexity of restructuring that covered all structures of the society. The direction of transformation was also straightforward nearly everywhere: going back to capitalism, even though to an aberration of capitalism that has not betrayed its local idiosyncrasy.

At the same time it would be incorrect to presume that EU (or any external) intervention was the primary cause of the communist breakdown because the incentives for a

² Such are the cases of Cuba or countries in Central Asia, whose cultural "distance" to EU is smaller than to the USA or China. Even though the culture of Central Asian countries is closer to Russia than to the EU, their long-term orientation can be targeted more at the EU than on Russia.

change were generally internal at the level of social grass roots. However, velvet revolutions in the Soviet block would not materialize so early and so easily if the EU's accommodating external policies would not act as a catalyst for building trust in national solutions.

What was so special in the policies of the EU before 1990? Those policies were represented by the stress on intensive trading relationships where all its agents on the communist side were exempt from an ideological discrimination. In another words, the cultural distance between West and East was not artificially deepened by the policies of the West (contrary to the politics of the East). That happened notwithstanding the East and West were implacable ideological adversaries.

No surprise that such an arrangement became a liability to the East: the inefficient communist economies could not function without supplies of technologies and strategic inputs that were exchanged directly for natural resources or for manufactured goods intensive in the usage of natural resources. That implied their terms of trade losses with hardly any gains from technology spillovers. However, there were cultural (ideological) spillovers undermining the communist regime. Thus already in 1990 49% of all exports of the former Soviet empire were traded with the OECD countries, of which more than three quarters went to the EU-15. Also only a couple of months later, when the power of communists was not completely overcome and when the transformation required the downsizing of many industries and the growth subsided, the accelerated growth of trade with the EU helped enormously bring the restructured businesses back to competitiveness. The tamed communists of the Gorbachev era and the tamed EU capitalists behaved like complements for their mutual advantage.

The ideological subversion from the West looked very soft and non-aggressive during the days of Andropov and Gorbachev, especially when viewed via the prism of trading. It offered a voluntary choice where the decision was on the side of the receiving parties of the East. Surprisingly, it succeeded not only with the dissatisfied consumers but also with the entrepreneurially minded parts of the "producers", i.e. the nomenklatura cadres of the Communist Party. When it finally came to having a choice in the socio-political regime without threats of violence and retributions of the former ruling class, the tastes of all dominant actors of social decision-making opted for a change without a long hesitation. The transition agenda, having its features of business exchanges open do domestic negotiations and free of external interventions by force, muddled through quite successfully, so that during 8-14 years it unraveled into a fast sustainable growth.

The **central idea of this paper** is as follows: once the business relationships could be exempt from the ideology and once such a policy was proven to be successful in bringing a one-sided convergence towards capitalism in countries with highly distorted market institutions (meanwhile such policies were also beneficial to capitalist countries), why should they be discontinued in other parts of the world just when the effects of their efficiency became obvious?

Conflicts in societies could be solved by power – the stronger and the more violent suppressing the weaker (a "standard solution" in the course of human history) – or by negotiation and mutual concessions. The latter being the main message of the fall of communism, though the doctrine of non-violence was known from the times immemorial. Nowhere in history non-violence was used for extinguishing such a deep conflict of social interests, in such a wide geographic space and imitated so quickly in time within such a different multi-cultural environment. Some authors ascribe this approach to the post-war evolution in Europe and the establishment of the EU (see Rifkin, 2004, or Soros, 2006). The approach of the US power politics towards the world, deepening the cultural distance between them, is then used as a contrast ³.

³ According to Rifkin, 2004, the "European Dream", which champions communalism, sustainability, and human rights over property rights and radical individualism, is better-suited to 21st century challenges than

The Missed Opportunities of the Cuban Transition

Let us contrast the above introduction with the policies of advanced capitalist countries towards Cuba. At the beginning we should discuss the circumstances why the velvet revolution has not succeeded in Cuba.

Firstly, Fidel Castro, as the sole proprietor of the "Island of Liberty", was a much more skilled strategic player than Ceausescu in Romania was and his hunch warned him that the experiments of Gorbachev could turn to a direct threat. Secondly, Cuba has a giant neighbour less than 200 km to the north, whose claims on disciplining the "nest of troubles" was internationally recognized. An interference with Cuba could lead to a conflict between superpowers. Thus the EU, as an alternative strong player in the region, found its hands tied and had no courage to step forward. Because the fall of Cuban communism could have wide externalities within Latin America, the capitalist world missed its chance by helping the transition in Cuba to strengthen its alliance with the Latin America. The third factor can be called a fluke of hard luck: the execution of general Ochoa in 1989, before velvet revolutions were initiated in Europe, helped Fidel and Raúl to recover the control over army and police. Ochoa was a hero of the Cuban army intervening in Angola and his rising popularity was interpreted as a threat to revolutionary stalwarts. Thus his execution trumped up charges turned the balance of power unexpectedly against the reformers-to-be. The executive power of Raúl Castro, the least-charismatic leader imaginable, was thus strengthened before the transition commenced – a chance he did not let to lose.

The position of Cuban army is exceptional. There are not many achievements where Cuba is competitive. It is a superpower in sports; it offers one of the best education among poor developing countries; its performing arts still retained a high standard; but Cuban army is supposed to be the most functional organisation in the country. The most ingenious achievement of Raúl Castro was that he – as a chief commander over armed forces – could also become the chief new reformer and succeed in integrating army and police into the economy, whatever absurd the "entrepreneurial treat" could be. It is this most characteristic feature of the present Cuban economy – the so-called „raúlismo“ – which lifted the army not only above the communist party but also above the reform-minded nomenklatura. The army is thus able to own or control a large part of agriculture, construction, industries, research, tourist business and FDI inflows.

The last two mentioned are of crucial importance because they are the main resource of foreign exchange and income of the government. It is then irrelevant what is the share of the army on state budget (officially 2-3%), when it owns nearly all economy. Army, with their officers as newcomers, crowded out nomenklatura from their position in early 90s. Thus in early 90s army had little incentive to take part in velvet revolution because officers would be overruled by nomenklatura that they just replaced. Now the succession after Fidel is under the control of this "new nomenklatura" and its motives could be compatible with aims of velvet revolution.

The heavy reliance of Cuban economy on tourism can, however, seriously backfire. Even though the majority of visitors move exclusively in the dollarized tourist Potemkin ghettos, to where a non-screened Cuban is banned to enter, still many take advantage of free travels and contacts with ordinary Cubans. The belief in the omnipresent communist ideology is then seriously undermined and the people dream about a change. It is a paradox that the

the "American dream" of personal fortune, which may become obsolete. According to Rifkin, Europe and the EU are potentially more efficient in providing leadership for the governance of the modern world.

best position in case of a „Cuban Sugar Revolution“ would be taken by the managerial elite of the army and by that part of the state sector, which is engaged in internationally competitive businesses (e.g. FDI dealings, tourism, art and construction).

Cuban political power has now an access to foreign exchange from foreign investments, tourism, aid transfers and external implicit subsidies, in addition to 85% of the GDP revenues. The Cuban state is thus relatively rich. Rich enough to build its military and police power. On the other hand, the ordinary Cubans get very little. Their household income per capita is 12-15 dollars per month – an income that converts to approximately 40 kilos of rice, including the supplements of household food rationing. Any income above this subsistence level must come from remittances from Cuban refugees. It amounts to nearly \$ 1 billion, which raises the household disposable income by 80%. The standard of living of ordinary Cubans, who do not have access to remittances, is thus one of the lowest in the world. From this point of view the Cuban revolution was a complete failure.

Since 1959 Cuban present regime has depended crucially on foreign aid and external economic relations, the importance of which only increased after 1990. It has accumulated high debts, even though the relationship with creditors was more political than economic. External debt in 2004 was \$ 13 billion in convertible currency – a very high level relative to \$ 8 billion in the effective GDP in current dollars, plus there are estimated \$ 15-20 billion outstanding to be paid to former COMECON countries, especially to Russia. This debt makes the actors of transition rather cautious.

Paradoxically, the main underpinning of the totalitarian regime comes from making the danger from outside (i.e. from the US) credible. This is a crucial point of departure for understanding the knife-edge situation in the Cuban potential for a change. Therefore we can presume that the external threat of the US government, which was already present in early 90s, was the main factor that "saved" Fidel Castro from losing his power already during the social unrest in 1991.

The EU, Russia or China are not considered threats. Therefore they offer attractive models for a transition. However, the US politics based on the threat of external intervention, the use of military power and the menace of restitutions have been deterrents of such a calibre that make all attempts at domestic reforms very risky. Taken from the point of economics of embargo (Hufbauer and Schott, 2002, or Seiglie, 1997), the US embargo was nearly irrelevant in practically all Cuban imports, which could be purchased at the price increased by transportation costs in more distant non-embargoing countries. It was very inefficient in the majority of Cuban exports too, which had to be diverted from the US market to other markets where they caused a mild price decline. The total loss in terms of trade and transportation costs was present but could not cause a major setback. The only great loss concerned Cuban sugar revenues, where the markets in both the US and the EU were highly regulated and subsidized – but that was not a direct effect of embargo. The US embargo had mainly political and ideological impacts, strengthening the internal political deadlock in both Cuba and the US.

The threat that the United States would seek to restitute property nationalized after 1958 is another politically explosive issue. In 2001 the US refused to negotiate the Cuban bid for indemnifying the nationalised US property. Hypothetically the restitutions can be raised for the majority of sugar industry, 1,2 million acres of land and hypothetically for assets producing 2/3 of GDP in 1958. There is also the property of 2.4 million emigrants, settled mainly in Florida. In the US there are registered restitution claims of 5000 US nationals and 898 companies. The estimates of their value are wide: from \$ 6 to \$ 100 billion. Cuba, precautionally, raised a claim for \$ 60 billion as a compensation for the damages caused by embargo (Eaton, 2005).

Keeping this battlefield oriented to past reminiscences open – is a policy that boosts the calls for resisting America on grounds of both economic instability, political sovereignty and national pride. So it serves also as a deterrent undermining the momentum for a domestically driven change in Cuba. At the same time the US political support of Cuban immigrants makes them look like a Trojan horse that frightens the majority of misinformed ordinary Cubans. Thus the US politics of power have brought the Cuban transition to a standstill while the EU, as the most effective intermediary for a smooth transition was wavering outside, unable to offer Cuba a sort of a Partnership and Cooperation Agreement that would support a peaceful domestic solution of Cuban problems.

While on one hand the US by means of embargo, threat of restitutions and direct political interventions widened their cultural estrangement with Cuba (and while a similar aggressive approach estranged it to Latin America), Europe – a continent with closest cultural ties to Cuba and Latin America and with highest economic potential for commercial exchanges – did not use the opportunity so arisen for shifting the development in Cuba to a less confrontational stance. In spite of the slow pace and the superficiality of reforms, the position of Cuban nomenklatura and party elites is so deeply entangled in the disconnected dual (internal domestic versus external foreign) economic system that substantial reforms must come sooner or later. Cuban society cannot avoid the convergence to the mainstream of development of civilisation, which is based on private initiative (i.e. capitalism) and democracy. We may suppose that partial reforms could start already under the present communist system, similarly like those in Central and Eastern European countries before and during perestroika. Such logical reforms could include:

- a) Currency: the repeal of the absurd three-level system of prices (i.e. the rationing system, prices in shops for domestic currency and dollar retail prices).
- b) Firms: raising the independence of enterprises in decisions about employment, product structure and the access to profits, foreign exchange and loans.
- c) Small privatisation: widening the access to licenses for private ventures from the present strictly regulated minimum to micro-firms outside the family businesses and allowing an easier access to the supply-side on local markets.
- d) Wages: liberalising partially the wage regulation in the private and the cooperative firms.
- e) Ownership: allowing the ownership and the re-sale of land and real estates to domestic and foreign legal persons.

As the experience from post-communist countries implies, the last mentioned move is actually the first step of every real reform. It shifts dramatically the incentives for decision-making. Thus the introduction of liberal laws on ownership implies a complete U-turn in the expectations of nearly all stakeholders in future political changes and modifies their behaviour. There is just one snag: a real reform is painful and its actors need an international support. We presume in this paper that such a help could come mainly from the EU. Without such an external underpinning the reforms would be tantamount to power transfers to the US protégés in Florida. That would also mean that incumbent Cuban nomenklatura would lose not only its political power but also its share on earning assets – the greatest incentive for orchestrating the changes from inside.

The latter is in sharp conflict with the arrangements in all previous smooth post-communist transitions⁴. That would also weaken the position in property transfers of all non-privileged Cuban residents, making the US dominated transition domestically unacceptable. The Chinese type of reforms would require much less radical demands on ownership

⁴ The only exception was the transition of Eastern Germany that was masterminded from outside and least successful in Central Europe, costing approximately 1200 billion euros of transfers, of which 700 billion went into investments (Sinn and Westermann, 2001).

transfers. Even more gradual than it was in the majority of Eastern European countries. No wonder why its attraction to Raúl Castro was long recognized. But the support of China, if compared to the potential that the EU could muster, is a make-shift arrangement. The Chinese type of reforms could start in the above points a) through d). But even that extremely cautious and slow approach to reforms seemed to be a threat to old communist stalwarts at home that felt the US intervention in an aftermath.

Castro discovered from the very start that heating the awareness of sacrifice and martyrdom would bring his plummeting rotten regime popular support of the last resort. Therefore any over-reacting in the US (or EU) politics showing an iron fist can be turned to an ideological asset in domestic propaganda. But this brings a message to the world politics: **the struggle for the abolition of communism should bear no association with an external aggression.** Was it not noticed, or was it already forgotten, that it was exactly this non-violent clash of ideas and seemingly free choice given to the communists that powered the unique success of the “velvet revolutions” across Europe?

This message is often deeply misunderstood. The fall of communism in Europe is often explained as a combination of four factors:

- a) a complete economic collapse in these countries;
- b) their unconditional surrender to the thrust of the US military and economic superiority (see e.g. O’Sullivan, 2006);
- c) internal pressure of dissidents as recognized leaders of the dissatisfied public;
- d) desire of the public for free markets and a transformation by “shock therapy”.

Even though each of the 33 post-communist countries in Europe and Asia had a different mixture of their internal and external factors leading to transition, it was conceded recently by Kornai, 2005, (and many others) that none of the mentioned four factors was of crucial importance. For the majority they were even insignificant, even though their presence acted definitely as a positive catalyst of transformation. The decisive factors for entering actively into a Great Transformation of the socio-economic system are always internal and forward-looking, not external and backward-looking.

The crucial factor is seen in resigning of the communist elite to communist fundamentalism and in their expectations for transforming their informal access (quasi-ownership) to capital into a formally legal ownership by using their advantages in human capital and social (relational, networking) capital. The daily contacts with the surrounding western culture and business and the lack of external aggression were the other most important factors. The whole problem was reduced in the initial stage of transition to the access of communist nomenklatura to privatization, entrepreneurship and political processes (Benacek, 2001, Benacek, 2007b, Winiecki et al., 2004). The paramount role of indigenous elites in domestic political shake-outs is difficult to dispute. Externally enforced takeovers of countries hardly succeed. All such attempts that avoid the participation of local elites cause an internal pressure for a revision or turn the productive initiatives into redistributive or even destructive.

Elites of all origins (including the communist ones) are more efficient in organising a collective action than any loosely organised public. Their ownership of human capital and social capital in particular cannot be disregarded. Any transition going against them is burdened with economic and political costs and wasted productive potential. The inverted U-shaped relationship between moral purity and its pragmatic expediency seems to end up again in a trade-off, once the initial optimum of "acceptable morality" is reached – like so many times in human history. The whole process of economic and political "tâtonnement" among millions of domestic agents who exploded into disequilibria of reallocations is too complicated to be mastered by external intervention or by relying on naive ethical rules where no one cheats and no one uses destructive strategies. It must be left at local micro-negotiations

to settle the inter-human relationships that were fettered and neglected for ages. Among the most controversial changes was the rise of new grand entrepreneurs in post-communist countries, who form the core of capitalism (Benacek, 2007). Its evolution was full of ups and downs, bringing at the end quite efficient new economies – in many aspects the most dynamic and highly competitive ones in Europe.

Why Cuban transition should be so different and avoid the well-tested path of non-confrontational falls of regimes followed by politics of national reconciliation? Why should it be subject to the four misconceived factors mentioned above and turned into being violent? Cuban political elite after the demise of Fidel Castro is as ready for the opportunistic capitalist transition as were other rotten communist regimes in Central or Eastern Europe. The process should be internal and peaceful, i.e. it should offer a chance for the nomenklatura to take part in transition. However, it cannot proceed without an external cooperation and cultural contact, acting as catalysts. The role of the EU can be seen in this kind of underpinning.

The shakeout should come from the domestic civil society, where even the present apparatchik Cuban elites should feel a chance for survival. Unfortunately Cuba missed its moment in early 1990s. At present the external threat sounds too strong and the military-backed network of restructured party nomenklatura thinks it might lose too much of their growing fortune once the starved Cubans will lose their fear. There is a growing concern among Cubans at home and in emigration that the demise of the Castro brotherhood will result in a civil war. The conflicting policies of the free world, offering too many whips and too little carrots, may even press Cubans into such panicky reaction, once they would feel driven to a tight corner.

When the EU suspended its Cuban sanctions in January 2005, a new debate ignited about their reinstatement because of Cuba's treatment of dissidents. In response, Castro brothers intensified their alignment with China and Venezuela. Such a strong move off the traditional European alignment required a new "proof": so in June 2005 a controversy over the "spying" erupted, ending in expelling the EU activists from Cuba. The EU has kept losing the ground.

Concerning the geopolitical setup in Americas and the mute approach of the EU, the chances for filling the vacancy left by Europe were offered to China. Even though Beijing had first hardly any thoughts about a geopolitical entrenchment in the Latin America, it has been offered a windfall chance. Thus China and not the EU is investing \$ 1 billion (though promised 2 billion) into Cuban nickel and oil extraction and offering trading loans (\$ 400 million in 2005). As a long-term strategy, a bridgehead in Cuba represents an excellent bargaining position for China in striking a new arrangement with the US over the rule in Taiwan. The EU's non-interference has its costs.

However, Cuba is an ideal bridgehead for another strategic move offered to all trade-intensive countries – to the penetration into the Latin American market of 600 million consumers, which can be easily extended to an economic and political alliance. As the US influence over Cuba got into a deep conflict since 1990 and as the EU-27 has not been able to change its politics and re-gain its ground lost in the same year, so the Latin America moved away from both the US and the EU. At the same time Castro's ties with the Latin America improved and he was even able to export his revolutionary ideas to some countries following his example (Venezuela, Bolivia, Ecuador). The former alliance of Cuba with Spain, US and the Soviet block has been gradually shifting into an alliance with Venezuela and China.

If the leadership in reformed China moulds its image by helping the developing countries in building their prosperity by trade, present Latin America is an ideal place for China to establish its quest for becoming a leader in world politics by commencing with its economic presence just there. As the United States and the EU could not follow the high speed of changes in this huge dynamic region and both have been losing political ground,

their trade linkages have also weakened. The survival of “revolutionaries” in Cuba or elsewhere in the Latin American subcontinent will be much easier with the backing of China. That would be again a flawed choice.

Nevertheless, there were two recent events of major importance, which have revealed that Latin American downslide to populism had its limits. The electoral results in Perú and Mexico confirmed that the opposition to populism is able to mobilise and Latin America is not going to be a single left-wing arena. The democratic sentiments and the belief in free enterprise have not been eliminated. They have been only sharply polarised recently. The left-wing governments in Argentina, Chile or Brazil are aware of the thresholds of populism that should not be overstepped. Thus the chances for the EU in establishing their neighbourhood policies are still there.

Strangely enough, the essential ideological service, which Cuba and Castro’s mentoring has provided to Latin American populism for long, can turn under some circumstances into its opposite. The Cuban spiritual and personal opposition to communism, i.e. to its disastrous economic and totalitarian policies, is most probably the highest in Latin America. Hardly anywhere in the world the communist governments caused so many damages to human dignity and to the spirit of human rights, like in Cuba. If the Cubans were relieved of their totalitarian burdens and allowed to pursue their entrepreneurial spirit, their sudden sharp development could become a new showcase for an alternative way to the present populism. The containment of the Communist build-up in Latin America is therefore of world-wide strategic importance and Cuba can become again a key leader of changes. Europe, as a continent with long-lasting cultural ties with Latin America, should not be exempt from such responsibilities. The EU-27, and among them especially the transition countries have a large potential for strategic economic, institutional and cultural cooperation with Latin America.

The political clash between the Spanish wing and the Central European wing of alternative policies to Cuba should be reconciled and restructured. Stress should be given to trade and investment opportunities, though still coordinated at the EU level with the politics of human rights and democracy. The inability to divert the Spanish tendency to contain the politics with Cuba and Latin America within the opportunism of its linguistic comparative advantage is a weakness of the EU foreign and trade policies.

Spain alone is too weak to bring a strategic advantage in influencing politics in Cuba and in persuading the younger generation of local human and economic elites that Europe offers them more opportunities than China, Russia or Venezuela, including a message that Europe is a natural historical partner that is able to countervail the American dominance. The latter also implies that the EU should be able to coordinate its policies with the US and persuade them that politics of external threat are counter-productive and that the introduction of capitalism by fiat (i.e. not by internal pressure of the social upheaval) can never work. Bringing democracy to Cuba depends crucially on changed attitudes of the United States and their ability to share its dividend with Europe.

A constructive dialogue about concessions in some parts of the political issues is compatible with a tough sticking to principles. There are examples to follow. Contrary to the strained relations between the Czechia and Cuba, Czech export figures confirm an accelerated growth in mutual trade that started in 2002. \$ 16.5 million of exports in 2005 was the highest figure in the last 15 years, promising at least a partial return to the days when Czechoslovakia was the second most important exporter and investor in Cuba before 1990. Dilapidating Czechoslovak power stations still provide the majority of Cuban electricity but they need heavy repairs or a delivery of new ones.

The issue of too many large restitutions (e.g. the restitutions of land) and especially the restitutions favouring foreign outsiders, can virtually freeze the chances for a communist

surrender. Nowhere in Central and Eastern Europe the privatization was driven by complete restitutions. Also the large sales to foreign owners in the beginning of transition in Hungary or Eastern Germany was considered hostile by the population. The case of US restitution claims on property privatised prior to 1962 should be re-opened and treated as a dividend transferred to Cubans in exchange for their drive to democracy.

The politics of realism and the experience from the former communist countries in Europe call for a different approach. The revoking of embargo and the renewal of the presence of US and European volunteers, pensioners and businessmen in Cuba will subdue the present paranoia of the Castro brothers, support the expectations of more entrepreneurial Cubans and offer new hope and courage to ordinary citizens, who might otherwise suffer of poverty, humiliation and civil war. The future of 13 million Cubans, and even hundreds of millions of people in the whole of Latin America, depends on the concerted co-acting between Europe and the United States. It was that coordinated mix of sticking to liberal values and practicing economic openness that brought communism to an internally-induced soft crash in Europe. The voices proposing that Cuban communism should be brought to its knees by unyielding orthodoxy and external pressure disregard the causes of the fall of communism in Europe 17 years ago. They underestimate Cuban national sentiments as well.

In choosing among the types of models to be followed by Cuba we could consider:

- Puerto Rico/Batista – obedience under the US trusteeship;
- Haiti – with a weak State governance and social chaos as a result of internal strife;
- Venezuela – with an unhinged populism extending the present totalitarian rule;
- China – with a retained political power of communist party but with economic freedom;
- EU new members – with a minimal intervention of Western powers in politics but very intensive economic cooperation.

Let us leave the judgment on the readers, which model could suit Cuba best.

Open and concerted EU and US trade, investment and aid policies to Cuba are more likely to subvert the local communist system than an embargo. The presence of American, Dutch, Czech or any other businessmen from the free world at the Havana Trade Fair is not a sign of entrepreneurial greed committed to ideological sell-out, but a message to the Cuban nation that there is a better world and that they could become a part of it.

Castro's regime is corrupt, economically super-inefficient at home and generally hated. The people feel desperate and abandoned. They should be made aware, similarly like it happened in Central Europe 20 years ago, that capitalism could bring prosperity and dignity to all. The propaganda of bullying them by the threat of American power and restitutions is counter-productive. The economic incentives are high enough to bring both sides to wide cooperation. Economists at the National Summit on Cuba predicted that trade between the United States and Cuba could generate more than \$50 billion of trade and 900,000 jobs during a two-year period if the embargo was lifted and more reforms undertaken (Fortado, 2006). Such success would be instrumental to many Latin American countries for abandoning the lure of populism and engaging more in trade exchanges with other countries.

EU-27 has the largest potential for furthering the so much needed and so long postponed socio-economic transition in Cuba. From the point of view of economic potential, investments, cultural proximity and peaceful know-how on transition management that leads to growth patterns well above 6 %, EU-27 can offer better conditions than what is offered by China. The experiences gained from partnership and association programmes, plus from the period of perestroika prior to the communist breakdown are quite unique and they should replace the deadlock policies of confrontation exercised by the present US government. It is the liability of the EU that European Commission failed so far in proposing such policies.

The Neglected Sides of the EU Policies with Central Asia

In this part of the paper we will look at the EU's politics with Central Asia in a wider geopolitical context. We will see that the relationship with Central Asia, a region that seems to be extremely remote from the European interests, is actually an important complement to the eastern politics of the EU, which include in the first place Russia, Ukraine, Belarus and Moldova as the EU's direct neighbours. There are also Turkey and three Caucasian countries, whose alignment with the EU has gained significant attention in the last ten years. Once the direct economic ties go so far, we should consider also the economic and political cooperation with adjacent five land-locked countries of Inner Asia (Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan and Tajikistan).

This extensive region, which could be hardly considered a traditional sphere of Western European concerns, offers very different vision on the region extending to the south where the politics of developed Western countries were strategically involved for long time and at present this part of the world is considered a focus of the world instability. It is the region to the east of Cyprus that comprises Israel, Lebanon, Syria, Iraq, Iran, Pakistan and Afghanistan. The connection to this area via Caucasus and Central Asia escaped for long the attention of the EU-15. With the EU-27 we can find out that all 12 new EU members have had large experience with that region. We should keep in mind that 10 of recent accession countries were a part of this geopolitical area by taking part in the economic exchanges within the Soviet empire.

Two EU enlargements are the crucial points of departure, which shifted the EU borders further to the East and South. Thus the pan-European economic sphere of influence reached borders that were abandoned with the rise of the Soviet Union. After 1990 the EU-15 economic and political interests concerned in the first place the access to resources of oil and gas. With the last two EU enlargements these concerns are much wider now because there are natural exchanges of goods and services dictated by the laws of geographic gravity (i.e. proximity) and the rates of growth in some industries around 10-25%. There are being opened to the EU-27 extensive investment opportunities that go beyond the extraction of natural resources – they concern equipment and technologies servicing natural resources, as well as manufacturing and services that grow at a fast rate as the welfare of inhabitants reaches certain level. Even though Central Europe benefited from the manufacturing relocations from the West to the East, a large part of it will have to shift further to the east, as the labour cost in the new EU countries will continue to rise. Last but not least, the whole eastern area of former Soviet Union, now integrating their economic potential in Eurasian Economic Community (EurAsEC)⁵, can be considered a source of labour migrating to Turkey and to the whole EU.

The policies of Brussels, that used to be traditionally concerned with the geography of EU-12 that concerned the Atlantic alliance and the post-colonial interests of France and Britain, had to respond to new opportunities and redirect their attention further to the East. This process has been rather slow. The 12 new EU member states constitute mere 7% of the GDP of EU-27 in 2006 and their share on total trade is even lower. Similarly the post-Soviet CIS (i.e. the Commonwealth of Independent States) countries represent mere 4,2% of the world GDP in 2006 measured at PPS. These economic forces are not strong enough for

⁵ EurAsEC, as a potential customs union, was founded in 2000 by Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Belarus, followed in 2006 by Uzbekistan, comprising thus the population of 236 million. Moldova, Ukraine and Armenia are the observing participants. It is evident that the exclusion of Turkey (a member of the preceding Central Asian Cooperation Organisation) weakens the westward orientation of the block that makes the relationships with Russia dominant. The involvement of EU, China and Iran (at least as observers) would turn this block into a powerful instrument of development free of trading bias.

striking a change. The whole CIS group of countries is weaker in their trade attraction than traditional "EU neighbourhood" countries of Middle East and North Africa that attracted 4% of the EU-25 exports.

However, as Dabrovski, 2007, pointed out, if we consider certain groups of EU countries that could form easily a coalition, the picture is more revealing. If such a coalition is formed by all 10 post-communist new members, joined by Finland, Germany and Greece (all of which trade with the CIS significantly above average), the European Commission cannot but yield to their pressure and redirect their policies to the East. If the trade attraction is calculated for the EU external trade only, than the share of trade with the CIS region can shift to 18%. What matters is the dynamics of such a trade and its quality. Concerning the former, the growth rates of exports and imports with the CIS are definitely above average among the EU partners. The fast growth in Eastern Europe and Central Asia needs investment goods, technologies and their servicing, and the EU has the best position for gaining such contracts. On the import side the CIS countries supply the decisive volumes of the EU's external energy needs. The trade relations with these countries is gradually approaching the qualities pointing to a strategic partnership that require political safeguards.

Table 1: Share of exports to the EU-25 in total exports

Azerbaijan	65	Kazakhstan	32
Russia	50	Tajikistan	32
Turkmenistan	40 (est.)	Georgia	30
Armenia	38	Ukraine	27
Moldova	38	Uzbekistan	17
Belarus	37	Kyrgyzstan	5

Source: UNCTAD Statistical Handbook, 2005

We can see from the data that many of the CIS countries, including those from Central Asia, depend vitally on the trade with the EU. If we added to them the trade with Turkey (as a potential future EU member that already became a strategic player for the whole region of CIS)⁶, the trade directed towards the EU and Black and Mediterranean Seas has a strategic significance for the whole CIS and EurAsEC group. The economic interdependence of EurAsEC and the EU is to a large extent complementary and irreplaceable by any other economic alignment of the Central Asian countries. The strategic directions toward Japan, Korea or China are too distant and lacking appropriate infrastructure. The bordering Chinese huge province of Uygur Xingjiang has mere 20 million inhabitants and is economically weak.

Another attraction of the region of Central Asia is in its high growth that moves around 7%. All of these countries are now a part of a common boom caused by rising prices of natural resources and high investments supported by policies attracting foreign capital. Except for a rapid growth of industries concentrated around energy and other natural resources, these countries have a high potential for developing manufacturing industries that used to be there during the Soviet days. As the experience from Central Europe confirms, such a know-how and educational capacities survive for approximately a generation (i.e. at least 20 years).

As was further elaborated in Benacek and Asadov, 2006, the enormous potential for growth in countries of Central Asia can be underpinned by advancing further their economic transformation. The priority should be given to the three pillars of transition:

⁶ Turkey shares a common (or similar) language with inhabitants of Turkic origin in Kazakhstan, Uzbekistan, Kyrgyzstan, Turkmenistan and Azerbaijan, where they have a majority; plus with Russia, Iran, Moldova and Bulgaria, where they have a minority population. This population as close to 150 million.

- Progressing further with market reforms, namely with the support to the legal system underpinning the property rights, private initiative and the separation of the State from the liabilities of enterprises. The experience gained in the policies in transition countries that are now the EU members could speed up both the growth and its sustainability.
- The countries must free themselves from constraints in their low domestic aggregate demand by opening up to trade with highly dynamic and developed economies. Poor infrastructure, corruption and bureaucracy are the main barriers. The bottleneck rests in two strategically positioned countries – Turkmenistan and Uzbekistan – that are least reformed and which block the access to Black Sea.
- The financial system should be open to supporting new businesses under the criterion of hard budget constraint from both sides: the internal one by promoting the creation of *de novo* firms (this generally means the rise of small and medium sized indigenous firms, including the self-employment) and the external one by promoting the incoming FDI. Both also require a more efficient banking sector, which should be international.

Coordinated policies of the EU, optimally based on multilateral agreements, could strike a break-through in overcoming these barriers and open a natural channel of intensive trade of Central Asia in the western direction. EU, Turkey and whole Mediterranean region could benefit from such a new injection to economic exchanges. The monoculturalism in exports from the EurAsEC countries could then turn into a more diversified portfolio of products, the investments for which could come from the EU countries.

At present the situation of monocultural exports and of barriers limiting the trade in the western direction benefits the political oligarchs, whose ventures are not subject to competition and rules enforced internationally. The same problem was encountered in Central Europe in the first stage of transition (e.g. in 1991-96) where this barrier to growth initially resisted all internal attempts for its dismantling. The requirements of the EU entry (i.e. a series of incentives for greater gains than from internal stagnating monopolies) were the final force that broke that resistance. With the EU entry and the compliance with the *acquis* and the trade and competition policies no such a backlash is probable.

Another player that benefits from the dysfunctional alignment of Central Asia with the EU is Russia. Even though the Soviet empire collapsed and originally it seemed that Russian interests will further weaken in this area, the Russian grand come-back came suddenly after the September 11th terrorist attacks and the rising price of oil and gas. With the competition coming the EU being blocked by infrastructural and institutional misalignments between Central Asia and the EU, Russian capital (whatever limited it is in its value, financial expertise and technological capacities) is again dominant and able to collude with local oligarchs and political elite. This is quite a paradox because national policies in the majority of countries in Central Asia (as well as in other CIS countries) are generally directed towards politics that call for new arrangements countervailing the Russian economic power. Hesitating EU could finally end up in losing the whole region of Central Asia, contrary to expectations of its population and the present distribution of chances.

From the geopolitical point of view we should anticipate the future restructuring of integration groupings. The most dramatic change is expected to come from the Far East where the sphere of influence of China will expand to ASEAN countries (e.g. to Indonesia, Malaysia, Vietnam or Singapore). Upon the assumption that Chinese pan-Asian plan will not succeed so much in the north-east and north-west direction because of the national policies of Russia, Korea and Japan, and also when India will act outside (being allied closer with the Western democracies), the EurAsEC region will keep standing as a niche in search of an anchor for trade expansion and cultural alignment. The only natural solution will be found in a neutral alliance, side by side, with Russia and the EU, where Turkey will become a connecting bridge. Culturally, such a flexible economic alliance will have to be free from

Islamic fundamentalism that nowhere in this zone was present in the last 80 years. EurAsEC economic community, where the dominant role of Russia will have to be countervailed by intensive economic and cultural relations with Turkey and the EU, will also become an Islamic zone countervailing the influence of Moslem countries exposed to violent extremism in their close neighbourhood - those of Iran, Afghanistan, Pakistan and Syria.

The basic tenet of this study is that violent forms of Islamic fundamentalism (islamism) cannot be eliminated by similar violent forms of external aggression. Fundamentalism and its terrorist extremism can be effectively neutralised in the first place by internal forces of the world of Islam. It is an illusion to assume that (religious) differences between two cultures can be solved by escalating the conflict between them. Unimpeded business contracts were found to be the most effective instrument for defusing such tensions. Therefore the policies of integrating countries of smouldering conflicts into an intensive trade with each other, in a mutual competition for prosperity and in peaceful exchanges with the other parts of developed or dynamically evolving world, is the most convenient constructive way forward. According to economic geography, the EU-27 (not to speak about politically more reasonable EU-30) with its expected 23% share on world output, will become an important beneficiary of such an eastern expansion. We should therefore expect that the EU neighbourhood policies will have to be much more active in that direction.

The countries of Central Asia, Caucasus and Turkey can be turned into crucial players, countervailing the Russian imperial ambitions and mitigating the risks of using the energy deterrent in hands of Iran, Saudi Arabia and Venezuela. The EU should, however, ally with EurAsEC both economically and politically. Otherwise the countries of Central Asia will fall into alliance, voluntarily or by force, with Russia and double the bargaining force of Kremlin. The EU should therefore strengthen its South-East flank via Turkey, Ukraine, Caucasus and Caspian Sea. By using its know-how from integration and transition, combined with the trade potential, the EU should become an active catalyst in the evolution of Euro-Asian Economic Community.

The first steps in this direction was the proposal for European CIS and Southern Mediterranean countries to establish a new cooperation framework of ENP (European Neighbourhood Policy). Unfortunately, with an anticipation of the "enlargement fatigue", this scheme does not offer an accession perspective. However, in its more recent clause (see the ENP Strategy Paper of June 18, 2007), it helps the "neighbourhood countries" harmonise their political, economic and legal systems with *acquis*. It is only a partial step forward because it offers hardly anything concrete in exchange from the EU side. Nothing like the fast-track participation in the EU internal market, similar to the status given to Norway or Turkey.

Another drawback of the ENP is that it is conducted via bilateral Action Plans, which put the participants into a position of competitors for "favours", instead of offering them a system of common regionally binding conditions. Such an approach became extremely efficient in pushing the post-communist accession countries into behaviour and policies that would not be otherwise undertaken in such a speed and depth. So far, the ENP alliance was established with Armenia, Azerbaijan, Georgia, Moldova and Ukraine ⁷. Thus it misses the objectives outlined in this part of the paper – the buildup of an economic and cultural alliance on the whole track between Athens and Almaty.

The European Council on its meeting on 21-22 June, 2007, issued a document "The EU and Central Asia: Strategy for a New Partnership", whose agenda fell short of the potential offered by ENP. According to Dabrowski "A general weakness of ENP consists in

⁷ Russia has a special status. She opted out from ENP, but in 2001-2003 she established a programme of "Common European Economic Space between the EU and Russia". In 2007 Russia should benefit from European Neighbourhood Policy Instrument that replaces TACIS agreement. The EU thus discriminates between Russia and its former members of Soviet Union in Central Asia.

the lack of balance between far-going expectations in respect to neighbours' policies and reforms, and limited and distant rewards, which it can potentially offer" (Dabrowski, 2007: 8).

The present main attractions of the ENP for its association countries – those of trade liberalisation in a narrow sense (such as abolition of mutual tariffs on manufactures that hardly reaches the status of free trade area) – are far short of the potential that an intensive alignment could bring to both participating sides. It should shift to institutional harmonisation, cultural exchanges, freer movement of services and capital, and also to concessions in the mobility of labour. The latter should be conceded for liberalising the investment climate among the Asian partners. The investment expansion from the EU and Turkey to the East can bring prosperity to the whole Central Asian mega-region. Like in the Central Europe, it can have positive impact on enhancing the indigenous small and medium-size businesses that are the core of local sustained development (Winiecki et al., 2006). The perspective of very narrow EU alliance (like that of Switzerland) can become a powerful incentive for speeding-up political reforms towards democracy and economic liberalisation that would mobilise these societies to undertake modernisation reforms free of totalitarian forms of islamism.

Conclusions to the second part

Creating the alliance Brussels–Ankara–Tbilisi–Almaty, whose economic externalities should spill both to north (Ukraine and Russia) and to south (Syria, Iraq, Iran and Afghanistan) would have numerous positive externalities for all its members, the EU and the rest of world:

- increasing the safety in international fossil energy supplies;
- bringing prospects of prosperity and political independence to countries still toiling with transition or paralysed in their development with islamism;
- solving its mutually embarrassing recent failure in the Turkish accession – Turkey will be offered in an interim candidate position an important strategic orientation and still be anchored as an EU strategic ally;
- offering new economic perspectives to Iraq, Iran and Afghanistan – countries stricken by unsuccessful US influence and international isolation;
- by launching new directions to local development, the more active EU presence in this part of the world could help settle the conflict between Israel and its Arab neighbours.

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