

WORKING
P A P E R S

**THE
ENLARGEMENT
OF THE
EUROPEAN
UNION**

**Consequences
for the CIS
Countries**

*Anders Åslund
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**Political and Economic
Reform Project**

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WITHIN A FEW YEARS, TEN FORMER COMMUNIST countries are supposed to become members of the European Union (EU).¹ The question immediately arises: What will this enlargement of the EU mean to the twelve former Soviet countries of the Commonwealth of Independent States (CIS)?² The effects will be many and multifaceted, both qualitative and quantitative.

A substantial literature has dealt with the effects of EU enlargement on the ten Central and Eastern European (CEE) accession countries and on EU member states (notably Baldwin, François, and Portes 1997; Buch and Piazolo 2001).³ However, the literature on the exclusion of CIS countries is relatively thin, and it tends to focus on individual countries (e.g., Hoffman and Möllers 2001).

The question this paper addresses is the impact of the current EU enlargement on the CIS countries. Because we are discussing profound long-term changes, the time perspective needs to be at least a decade. We discuss the major issues, namely, growth in gross domestic product (GDP), trade, financial flows, migration, and the impact on the overall economic system. We focus on the crucially important issue of trade, and we show that the CIS countries suffer badly from discrimination from the EU at present.

ECONOMIC OUTPUT AND GROWTH

The effect of the EU accession of an adjacent group of states on the growth of the CIS states of course will not be immediate. Nevertheless, we can look at possible indirect effects. The clearest way forward is to outline the factors that probably will be important for the CIS countries' growth and then to examine the extent to which the EU accession of neighboring countries will impinge on them.

To start, it is important to bear in mind that transitional issues dominate current growth in CIS countries and that these issues, though important today, are likely to recede in importance in future years. The major transition is the massive movement of resources from state industries or at least communist-dictated sectors to new and sometimes unknown sectors. In practice, there is often no movement of resources at all; rather, there is simply a decline of the older sectors that is resisted by entrenched elites and a slow creation of entirely new structures and industries.

¹ Caroline McGregor has kindly provided research assistance, compiling the tables and tracing references for this paper. We would like to thank the participants in the Centrum Analiz Społeczno Ekonomicznych (CASE) conference for their many comments, especially Michael Emerson and Daniel Gros.

² The CIS countries are Russia, Belarus, Ukraine, Moldova, Georgia, Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

³ The EU-accession CEE countries are Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Romania, and Bulgaria.

The major economic reality in the CIS states is that the industries inherited from the era of communist planning are outdated and sometimes perverse given the states' economic endowments. The importance of structural change makes the growth determinants somewhat different for postcommunist countries than for other countries. It requires attention to reforms that facilitate structural change, such as eliminating the remaining subsidies for outdated factories, encouraging labor market flexibility, developing antimonopoly policy, and facilitating start-up enterprises.

The postcommunist countries vary considerably in the rates at which they have eliminated barriers to structural change. Labor markets were quite flexible in many countries almost from the beginning of the transition. Subsidies (both implicit and explicit) were eliminated gradually as part of the inflation stabilizations of the 1990s. More recently, there has been a concerted effort in several countries to reduce administrative barriers to start-up enterprises, through increased attention to the problems of small and medium-sized enterprises. The financial system remains an issue in most countries. It is usually impossible to get venture capital, and the formal financial system has scant patience with new enterprises asking for financing with little or no collateral. The good news is that the importance of formal financial structures may be overrated. Informal financial arrangements are flourishing in several countries. For example, the recent Bulgarian recovery from the financial crisis of 1996–1997 must have been financed without formal financing because the country's banking statistics do not show any significant increase in credit.

Although there has been considerable progress, the CIS countries still lag behind Eastern Europe in structural change. Table 1 shows a composite structural reform index, consisting of 73 percent liberalization and 27 percent privatization (De Melo, Denizer, and Gelb 1997). Whereas a normal market economy would attain an index value of 1, the nine CEE countries had achieved an average value of 0.88 in 2000 and the CIS countries only 0.63. This means that transitional growth is not over in many of the former Soviet economies.

How will the accession affect this reform situation? If there is any effect at all, it will be primarily the force of example raising support for further reform. In the previous ten years of transition, a reliable empirical regularity has been that countries with faster and deeper reforms have grown more quickly; and countries on the border with Europe have had faster and deeper reforms. In other words, there has been evidence of a demonstration effect at work: Greater proximity to Europe has been conducive to a greater acceptance of market reforms, and this has propelled growth. As the border of European economic institutions shifts further to the east, we can expect this to bolster reforms and transition in the CIS states.

However, as the transition matures and the remaining barriers to structural change diminish, traditional determinants of growth will become more prominent. At the risk of oversimplification, we can list three broad categories. One is factor accumulation, including physical capital, skills, and knowledge capital. A second is openness to external trade, foreign investment, and the inflow of foreign ideas and practices. And a third is institutions, meaning especially property rights to protect investments and efficient legal mechanisms for resolving disputes.

For empirical evidence on which particular variables have been reliably correlated with growth during the past 40 years, we can turn to Doppelhofer, Miller, and Sala-i-Martin (2000). Their list includes initial income, openness to international trade (from Sachs and Warner 1995), life expectancy, primary schooling enrollment rates, and primary export intensity (which is inversely correlated with growth). Earlier studies found evidence that smaller governments and less corruption

help growth, although these studies did not include many controls (see Barro and Sala-i-Martin 1995; Mauro 1995). The existence of some effect on both counts is plausible, although the size of the effect is in considerable doubt.

Most discussions of the effects of EU enlargement focus on trade and finance or exchange rate issues. This paper concentrates on trade, but four other areas also deserve detailed examination and discussion: international financial flows, labor migration, the systemic consequences of EU membership or exclusion, and the introduction of the euro currency in the EU-accession countries. Alas, here we can only cursorily identify these four areas, before focusing on the issue of trade, which is clearly critical.

Table 1. Structural Reform Index for EU-Accession CEE and CIS Countries (normal market economy = 1)

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
EU-accession CEE countries											
Bulgaria	0.19	0.62	0.86	0.66	0.63	0.61	0.57	0.67	0.79	0.79	0.85
Czech Republic	0.16	0.79	0.86	0.90	0.88	0.82	0.82	0.82	0.90	0.90	0.93
Estonia	0.20	0.32	0.64	0.81	0.83	0.77	0.78	0.82	0.90	0.93	0.93
Hungary	0.57	0.74	0.78	0.82	0.83	0.82	0.82	0.87	0.93	0.93	0.93
Latvia	0.13	0.29	0.51	0.67	0.71	0.67	0.74	0.74	0.86	0.86	0.82
Lithuania	0.13	0.33	0.55	0.78	0.79	0.71	0.74	0.74	0.82	0.82	0.86
Poland	0.68	0.72	0.82	0.82	0.83	0.79	0.79	0.81	0.86	0.86	0.86
Romania	0.22	0.36	0.45	0.58	0.67	0.65	0.64	0.66	0.76	0.82	0.82
Slovakia	0.16	0.79	0.86	0.83	0.83	0.79	0.79	0.77	0.90	0.90	0.89
Average	0.27	0.55	0.70	0.76	0.78	0.74	0.74	0.77	0.86	0.87	0.88
CIS countries											
Belarus	0.04	0.10	0.20	0.33	0.42	0.50	0.44	0.37	0.37	0.37	0.43
Moldova	0.04	0.10	0.38	0.51	0.54	0.64	0.64	0.64	0.76	0.76	0.75
Russia	0.04	0.10	0.49	0.59	0.67	0.64	0.71	0.72	0.64	0.64	0.64
Ukraine	0.04	0.10	0.23	0.13	0.33	0.54	0.57	0.59	0.65	0.65	0.68
Georgia	0.04	0.22	0.32	0.35	0.33	0.50	0.61	0.66	0.79	0.79	0.79
Armenia	0.04	0.13	0.39	0.42	0.46	0.54	0.61	0.61	0.76	0.76	0.72
Azerbaijan	0.04	0.04	0.25	0.31	0.33	0.40	0.44	0.51	0.61	0.61	0.65
Kazakhstan	0.04	0.14	0.35	0.35	0.42	0.50	0.64	0.66	0.79	0.72	0.71
Kyrgyzstan	0.04	0.04	0.33	0.60	0.71	0.71	0.67	0.70	0.82	0.79	0.79
Tajikistan	0.04	0.11	0.20	0.26	0.42	0.40	0.40	0.39	0.55	0.58	0.61
Turkmenistan	0.04	0.04	0.13	0.16	0.29	0.27	0.27	0.36	0.36	0.36	0.35
Uzbekistan	0.04	0.04	0.26	0.30	0.50	0.57	0.57	0.54	0.57	0.50	0.49
Average	0.04	0.10	0.29	0.36	0.45	0.52	0.55	0.56	0.64	0.63	0.63

Note: The composite structural reform index consists of 73 percent liberalization and 27 percent privatization.

Sources: De Melo, Denizer, and Gelb (1997); Havrylyshyn and Wolf (1999, 34); Åslund (2002).

THE ENLARGEMENT OF THE EUROPEAN UNION

Trade will be most obviously affected. These effects are usually divided into trade creation and trade diversion. The static allocation effects are comparatively easy to assess. But the accumulation effects, or the long-term dynamic effects, are most important. The countries that become members of the EU will benefit greatly from trade creation in large and open export markets, whereas the nonmembers might suffer from less access, though they may also gain from the unification of their major export market.

EU accession will also influence international financial flows. The new EU members will receive net direct EU financing. They will also likely obtain more foreign direct investment, because EU membership will guarantee them steady trade access to the whole common market; European Monetary Union (EMU) membership will follow and eliminate currency risk; and the acceptance of the *acquis communautaire* and all EU institutions will also provide substantial institutional guarantees. But what does all this mean for the CIS countries?

A third effect is less discussed with regard to economics than to politics, namely, migration. After several years of membership, the new EU members will become part of a free common labor market. That will probably encourage labor migration, and as a consequence wages are likely to rise more in the accession countries than would otherwise be the case. How will the CIS countries be influenced?

A fourth impact is more esoteric but possibly the most important in the long term, namely, the systemic consequences of the CEE countries' membership in, and the CIS countries' exclusion from, the EU. The new members of the EU will be compelled to adopt a full range of EU institutions and policies. They will also be encouraged to conform to other noncompulsory institutions of EU countries, because they will be the obvious peer countries. The nonmembers, by contrast, will be on their own. This will make the CIS countries choose institutions and policies in quite another fashion.

A fifth effect on the accession countries will be the introduction of EMU and the permanent fixing of their exchange rates. On the one hand, the euro will eliminate exchange rate risk and make it more attractive to invest in the accession countries. On the other hand, if inflation does not converge rapidly to European levels, the permanent exchange rate will involve a risk of overvaluation, as is most obvious in eastern Germany.

GDP per capita is very low throughout the CEE countries in transition compared with the EU level—only 40 percent of that of the EU-accession countries in 1998, even when measured in purchasing power parity (PPP) (see table 2). The CIS countries, in turn, have a GDP per capita in PPP that is only 14 percent of that of the EU-accession countries, though Russia is actually wealthier than four of the accession countries (Bulgaria, Romania, Latvia, and Lithuania).⁴ This should offer the CIS countries an opportunity for higher growth (*ceteris paribus*) than the EU-accession countries, given their large quantity of underutilized human capital (Barro 1991). Yet such an effect was not apparent during the first decade of transition (Berg et al. 1999).

TRADE

From various empirical estimates, it does appear as if the CIS countries will benefit from the EU enlargement because of a larger single European market (Baldwin, François, and Portes 1997;

⁴ Throughout this paper, we use unweighted averages, because our purpose is to illustrate the relative position of various countries.

Table 2. Measures of GDP in CEE and CIS Countries, 1998

Country	GDP per Capita (PPP-adjusted international dollars)	GDP per Capita (PPP-adjusted) as a ratio of the EU average ^a
CEE countries		
Bulgaria	4,683	22.2
Czech Republic	12,197	57.8
Estonia	7,563	35.8
Hungary	9,832	46.6
Latvia	5,777	27.4
Lithuania	6,283	29.8
Poland	7,543	35.7
Romania	5,572	26.4
Slovakia	9,624	45.6
Slovenia	14400	68.2
Average	8,347	39.6
CIS countries		
Belarus	6,314	29.9
Moldova	1,995	9.5
Russia	6,180	29.3
Ukraine	3,130	14.8
Georgia	3,429	16.2
Armenia	2,074	9.8
Azerbaijan	2,168	10.3
Kazakhstan	4,317	20.5
Kyrgyzstan	2,247	10.6
Tajikistan	1,041	4.9
Turkmenistan	2,550	0.1
Uzbekistan	2,044	9.7
Average	3,124	13.8

Note: PPP is purchasing power parity.

^a EU average = 21,105 international dollars.

Source: World Bank (2000).

Sulamaa and Widgren 2002; Hamilton 2002). A major positive effect is that the Polish economy will become more open, and another positive effect will come from the greater unification of the European market.

A broader issue in understanding the trade prospects of the CIS countries, however, is the nature of EU trade policy and how this might change after accession. There is currently a sharp difference in export performance between the CIS and CEE countries. What explains this difference, and what do these explanations imply for the future?

The data show that though exports to the EU from the CEE countries have grown toward normal levels, exports from the former Soviet countries remain depressed, especially to the major regional market, the EU. Most of the trade to Europe from CIS countries is still related to natural resources. Natural resources were exported to the West under communism; hence, this trade simply continues preexisting patterns. Furthermore, natural resource trade does not compete with European products and is less politically sensitive. The crux of the matter is how to explain the low levels of trade to Europe in agriculture and manufactures. How much of this missing trade can be explained by geographic barriers, poor conditions in the CIS countries themselves, or protectionism from the European Union? Are there significant trade barriers in Europe for CIS goods?

In the following pages, we address the question of possible European protectionism from a number of angles. We test whether CIS or CEE status explains the share of exports to Europe of each country after controlling for the distance of each former communist country from Düsseldorf and for the countries' reform rankings by the European Bank for Reconstruction and Development (EBRD). We also look at the issue from the vantage point of Europe and focus on so-called sensitive goods such as agriculture, steel, and chemicals. We examine whether the European import shares of these goods specifically are lower for CIS versus CEE countries.

Before looking at the econometric evidence, however, it is worth asking if CIS trade is lower than it should be on the basis of international standards. A large number of calculations have been made with the help of the gravity model on the plausible geographical distribution of trade, if free trade and markets prevailed. The gravity model predicts trade on the basis of GDP and distance.⁵ For example, Collins and Rodrik (1991, 134) estimated that 58 percent of the Soviet Union's exports should have gone to the then-soon-to-be fifteen EU member countries in 1989, when the actual number was only 33 percent. However, the actual numbers have been approximately constant, and even in 2000 only 31 percent of the exports of the CIS countries went to EU countries (see tables 3 and 4).

By contrast, the EU-accession countries have increased the average share of their exports to the EU from a low of 53 percent in 1993 to 67 percent in 2000, which compares favorably even with the EU members' mutual trade of 63 percent of their total trade in 1993. This grand expansion occurred while the EU phased out all tariffs on industrial goods from the CEE (Baldwin, François, and Portes 1997, 130–32). It does not much matter what assessment is used (cf. Hamilton and Winters 1992; Havrylyshyn and Al-Atrash 1998). A distortion on the order of one-quarter of total exports of the CIS countries results.

What about the growth of trade to all countries, not just the EU? The postcommunist transition has brought the liberalization of foreign trade to nearly all countries in the region. As a result,

⁵ For its econometric specification, see Matyàs (1997, 1998) and Egger (2000).

Table 3. Exports to the European Union as a Percentage Share of Total Exports

Country	1992	1993	1994	1995	1996	1997	1998	1999	2000
CEE countries									
Bulgaria	46	46	40	38	29	36	50	51	51
Czech Republic	..	47	46	43	58	60	64	68	69
Estonia	87	48	48	55	51	49	57	65	84
Hungary	62	56	64	65	65	73	73	76	69
Latvia	40	35	39	44	44	49	57	63	65
Lithuania	89	39	30	36	33	33	38	50	48
Poland	62	69	70	70	66	64	71	71	70
Romania	35	41	48	55	53	56	67	67	64
Slovakia	..	27	35	37	41	55	56	59	59
Slovenia	..	63	66	68	65	64	65	65	64
Average	59 ^a	53	55	55	57	60	65	68	67
CIS countries									
Belarus	32	32	13	12	8	7	7	9	9
Moldova	3	3	6	12	10	10	12	21	20
Russia	48	44	33	32	31	32	31	32	35
Ukraine	10	14	7	13	11	12	17	18	16
Georgia	5	35	1	5	9	8	35	28	21
Armenia	1	11	28	29	21	28	34	46	36
Azerbaijan	15	7	13	15	9	11	22	46	60
Kazakhstan	30	42	16	22	19	26	31	23	23
Kyrgyzstan	37	36	6	14	4	5	41	38	34
Tajikistan	38	58	53	46	34	33	43	36	28
Turkmenistan	81	52	19	8	6	6	13	15	19
Uzbekistan	51	74	..	..	..	..	..	..	..
Average	40	39	27	27	26	26	27	28	31

a Includes Czechoslovakia.

Sources: IMF (1996, 2001).

exports almost tripled from 1992 to 2000 for the region as a whole. Strangely, there was little difference between the early reformers, now EU-accession countries, and the CIS countries. The CEE countries increased their exports in this period by 183 percent in U.S. dollars, whereas the CIS countries boosted theirs by 162 percent (see table 5).

As would be expected, the small and interconnected CEE countries have very high export ratios relative to their GDP, at 38 percent of GDP at current exchange rates in 1999. However, the CIS countries are barely lagging behind, with exports amounting to 28 percent of their GDP (see table 6). A major

Table 4. Exports from CEE and CIS Countries to the European Union (millions of U.S. dollars)

Country	1992	1993	1994	1995	1996	1997	1998	1999	2000
CEE countries									
Bulgaria	1,144	1,089	1,564	2,013	1,913	1,942	2,137	2,035	2,463
Czech Republic	..	6,268	7,480	9,273	12,760	13,557	16,976	18,172	19,905
Estonia	308	389	628	1,006	1,060	1,424	1,788	1,894	2,623
Hungary	6,644	4,982	6,818	8,077	8,234	13,603	16,782	18,927	19,263
Latvia	310	334	389	568	628	815	1,025	1,078	1,206
Lithuania	610	780	610	984	1,096	1,256	1,409	1,505	1,824
Poland	8,221	9,794	11,929	16,039	16,248	16,553	19,285	19,338	22,154
Romania	1,536	2,027	2,970	4,388	4,271	4,752	5,522	5,723	6,630
Slovakia	..	1,493	2,340	3,208	3,645	4,540	5,970	6,076	7,017
Slovenia	..	3,847	4,539	5,648	5,369	5,321	5,917	5,625	5,577
Total	25,944 ^a	31,003	39,267	51,204	55,224	63,763	76,811	80,373	88,662
CIS countries									
Belarus	335	245	315	579	457	495	522	526	689
Moldova	12	13	39	86	78	90	79	137	164
Russia	20,227	19,672	22,411	26,051	27,189	27,998	23,073	24,022	36,881
Ukraine	806	1,120	671	1,716	1,599	1,762	2,135	2,130	2,362
Georgia	37	44	1	7	17	20	67	106	68
Armenia	4	17	61	79	62	66	76	107	107
Azerbaijan	228	70	83	94	59	88	131	423	1,054
Kazakhstan	72	331	515	1,145	1,127	1,708	1,711	1,284	2,074
Kyrgyzstan	28	40	41	57	19	30	213	173	171
Tajikistan	11	72	259	347	266	269	259	248	220
Turkmenistan	52	169	216	142	101	48	75	174	471
Uzbekistan	83	452	..	..	..	..	..	..	..
Total	21,895	22,245	24,612	30,303	30,974	32,574	28,341	29,330	44,261

^a Includes exports from Czechoslovakia.

Sources: IMF (1996, 2001).

Table 5. Total Exports of CEE and CIS Countries (millions of U.S. dollars)

Country	1992	1993	1994	1995	1996	1997	1998	1999	2000
CEE countries									
Bulgaria	2,495	2,363	3,947	5,359	6,602	5,323	4,299	3,964	4,810
Czech Republic	..	13,205	16,230	21,686	21,916	22,746	26,418	26,832	29,018
Estonia	355	805	1,313	1,838	2,077	2,924	3,131	2,936	3,133
Hungary	10,680	8,918	10,689	12,439	12,652	18,628	22,958	24,950	28,007
Latvia	774	963	991	1,305	1,443	1,672	1,811	1,723	1,865
Lithuania	689	2,025	2,029	2,705	3,355	3,860	3,711	3,004	3,810
Poland	13,324	14,143	17,042	22,895	24,440	25,751	27,191	27,397	31,651
Romania	4,363	4,892	6,151	7,910	8,085	8,431	8,300	8,505	10,367
Slovakia	..	5,451	6,709	8,595	8,823	8,254	10,721	10,226	11,885
Slovenia	..	6,083	6,828	8,316	8,312	8,372	9,048	8,604	8,733
Total	43,990 ^a	58,848	71,929	93,048	97,705	105,961	117,588	118,141	133,279
CIS countries									
Belarus	1,053	757	2,510	4,707	5,652	7,301	7,070	5,909	7,331
Moldova	470	484	619	739	805	890	644	668	805
Russia	42,040	44,297	67,542	81,096	88,599	88,288	74,888	74,663	104,836
Ukraine	8,045	7,817	10,305	13,317	14,441	14,232	12,637	11,582	14,579
Georgia	774	124	156	151	199	240	192	381	330
Armenia	774	156	216	271	290	233	221	232	294
Azerbaijan	1,571	993	638	637	631	781	606	929	1,745
Kazakhstan	244	788	3,231	5,250	5,911	6,497	5,436	5,598	9,140
Kyrgyzstan	76	112	640	409	505	604	514	454	502
Tajikistan	29	124	492	749	772	803	597	689	784
Turkmenistan	64	324	1,162	1,881	1,693	751	593	1,187	2,505
Uzbekistan	162	611	1,991	2,718	1,620	2,896	2,312	1,952	2,126
Total	55,302	56,587	89,502	111,925	121,118	123,516	105,710	104,244	144,977

^a Figure includes exports from Czechoslovakia.

Sources: IMF (1996, 2001).

Table 6. Total Exports of CEE and CIS Countries as a Percentage Share of GDP, 1999

Country	In Current Dollars	In PPP Dollars
CEE countries		
Bulgaria	32	10
Czech Republic	51	20
Estonia	56	24
Hungary	52	22
Latvia	28	11
Lithuania	28	12
Poland	18	8
Romania	25	6
Slovakia	52	18
Average	38	15
CIS countries		
Belarus	22	9
Moldova	58	8
Russia	19	7
Ukraine	30	7
Georgia	14	3
Armenia	13	3
Azerbaijan	23	4
Kazakhstan	35	8
Kyrgyzstan	36	4
Tajikistan	37	..
Turkmenistan	37	7
Uzbekistan	11	13
Average	28	6

Note: PPP is purchasing power parity.

Sources: IMF (2001); World Bank (2001).

of postcommunist countries. The table shows results from a number of cross-section regressions, one for each year during the period 1994–2000. The explanatory variables are a dummy variable taking the value of 1 for CIS countries (used to test discrimination against CIS countries), the distance in kilometers between the capital city of each country and Düsseldorf (used as a rough estimate of the economic center of Europe), and the two-year lagged value of the economic reform index released by the EBRD (used as a control for country-specific policies that affect exports).

caveat is that the apparently high foreign trade dependence of the CIS countries is explained by their depressed real exchange rates. If we make the same comparison with GDP in PPP, exports were 15 percent of GDP for the CEE countries but only 6 percent of GDP for the CIS countries, indicating a very low level of exports in the CIS countries (table 6).

EMPIRICAL TESTS

This section describes empirical tests of the determinants of exports of former socialist countries. It is worth bearing in mind that the statistical problems are considerable. The United Nations and the World Trade Organization (WTO) compile the most authoritative trade statistics, but these are released after a delay of several years. The International Monetary Fund (IMF) does produce many statistics relatively quickly, and we shall make use of them, but they are not sufficiently detailed and trade is not a major focus of the IMF. The EBRD and various U.N. agencies also reproduce some trade statistics produced by others. Most governments in the region of study offer very poor trade statistics, which are not accurate, comparable, or particularly accessible. We use these only insofar as they are reported, and therefore implicitly sanctioned, in statistical annexes of reports from IMF missions. The European Commission does offer many commodity-specific trade statistics, but their problem for our purposes is that they do not give a comparative global picture. The trade statistics for the last year of communism and the first year of transition are particularly poor.

Bearing these points in mind, table 7 presents regression estimates of the determinants of the share of exports destined to Europe in total exports

Table 7. Cross-Section Regressions Testing for the Roles of Distance from the Economic Center of Europe, Reform, and CIS Membership in Explaining the Share of Total Trade to Europe

Year of Regression	Dummy Variable for CIS Countries	Distance of Capital City from Düsseldorf	EBRD Reform Index, Lagged Two Years	N	R ²
1993	-15.24	0.01	27.02	20	36
	-1.01	2.46	0.92		
1994	-24.65	0.00	20.54	20	56
	-1.87	0.32	0.70		
1995	-21.43	0.00	31.72	20	63
	1.41	0.36	1.58		
1996	-20.49	0.00	44.51	20	74
	-2.54	-0.34	2.17		
1997	-27.12	0.00	42.83	20	72
	-3.26	-0.14	1.42		
1998	-29.52	0.00	67.21	20	79
	-4.78	1.97	3.25		
1999	-22.34	0.00	67.43	20	77
	-3.21	0.20	3.00		
2000	-22.35	0.00	67.92	20	80
	-3.13	-0.44	3.07		

Notes: T-ratios appear below the coefficients. The sample consists of twenty Central European and former Soviet countries. Azerbaijan was excluded from the regressions due to the special nature of its oil exports, but this does not affect the substantive conclusions. EBRD is European Bank for Reconstruction and Development.

After a preliminary analysis of the data, it emerged that Azerbaijan and Latvia were statistical outliers in these regressions. We tested whether the results depended on the inclusion of these countries and found little sensitivity. Nevertheless, because Azerbaijan's exports are so dominated by a single commodity, namely oil, the regressions we report exclude Azerbaijan.

The results generally show that both reform and CIS status but not distance from Düsseldorf were significant factors in explaining exports to Europe. The unimportance of distance is a telling fact, because it confirms that market forces such as transport costs are not particularly important in explaining the region's trade. This result is also reasonable, because natural resource trade tends to be dictated by who has the resources rather than by transport costs.

The unimportance of distance from Düsseldorf can be illustrated by referring back to tables 3 and 4. Among the EU-accession countries, the EU share of their exports ranged from 48 to 84 percent in 2000, whereas this share varied from 9 to 36 percent among the CIS countries (ignoring oil-exporting Azerbaijan). Among the CIS countries, there appears to be an inverse gravity at work. Moldova, which arguably is geographically closest to the EU, managed to sell only 20 percent of its exports to the large EU market, although it has undertaken almost as much structural reform as Latvia, which directs 65 percent of its exports to the EU (table 3). Ukraine, which is about as close to

the EU, sells only 16 percent of its exports to the EU, whereas Russia, Armenia, and Kyrgyzstan each deliver about 35 percent of their exports to the EU. Distant Azerbaijan manages to send 60 percent of its exports to the EU.

The variable in these regressions to test for possible European protectionism is the dummy variable for CIS status. The regressions show that this is significantly negative. The estimates imply that the CIS countries' exports to Europe range between 20 to 29 percentage points lower than those of the CEE countries. A noteworthy point about this estimated effect is that it does not decline over time, and after 1996 it is consistently statistically significant. This provides preliminary evidence that some common EU policy toward the CIS group is responsible for the export shortfall. The CIS countries as a group have significantly lower export shares to European markets. Moreover, these are exports of all commodities. If we excluded natural resources, the estimated CIS shortfall would be larger, because they have a higher share of natural resources in their EU exports than do the CEE countries.

A country's own performance also matters. The regressions show that exports to Europe are affected by the countries' performance on overall economic reform. This variable is lagged two years to give a chance for the reforms to have an effect. The length of the lag, however, does not significantly affect the results. Although this variable does not measure specific policies that facilitate exports, it is nonetheless a rough proxy for a number of background reforms that are important for exporting. This variable is usually statistically significant, giving the overall picture that there is a positive effect.

In summary, the EU export shares of the CIS countries are significantly lower than those of the EU-accession CEE countries, and this fact is not eliminated by controls for reform or distance from the EU market. Moreover, the commodity structure of CIS exports is dominated by natural resources (see table 8). Azerbaijan is so successful on the EU market because it exports oil. So does Russia, whereas Kyrgyzstan exports gold and Armenia diamonds, probably the commodities least sensitive to protectionist measures. By contrast, exports of agricultural goods, textiles, and clothes from the CIS countries are remarkably small, and the large steel exports of Russia, Ukraine, and Kazakhstan are going to other countries.

There are other possible explanations for the significant dummy variable for CIS countries in the regressions discussed above. Note, however, that any such explanation would have to be sharply different between the two groups of countries to explain the regression result. One possibility is the continued implicit use of export barriers by CIS countries, perhaps a hidden legacy from old communist practices. However, overt export quotas have declined dramatically, and although there is some holdover from previous practices, it is hard to believe that these are sufficient to fully explain the large differences in exports to Europe.

Another explanation would be that CIS countries as a group have suffered a larger destruction of their exporting capability than the CEE countries, through brain drain or lack of connections to European markets. But again, it seems implausible that this would be so starkly different between the two groups of countries as to account for the estimated effect of a 20–29 percentage point shortfall in exports to the EU.

The trade shortfall of the CIS countries to Europe would be less serious if CIS exports to Europe were growing and thereby closing the gap with the CEE countries. If this were the case, we would see the estimated CIS effect decline over time. But the estimated coefficients show no such decline. We would also expect to see direct evidence of recent faster growth of CIS exports, but as we show below, there is little evidence for this on a commodity-by-commodity basis. While CEE exports to

Table 8. Main Exports of Selected CIS Countries, by Sector

Country	Year	Sector	Percentage Share of Total Exports
Azerbaijan	2000	Oil and products	90
Kazakhstan	2000	Oil and products	39
		Ferrous metals and products	15
		Manufactured goods	13
		Copper and products	11
Kyrgyzstan	2000	Nonferrous metals	47
		Electric energy	16
		Machine building	10
		Light industry	9
		Agriculture	9
Tajikistan	2000	Aluminum	50
		Electricity	23
		Cotton	12
Russia	2000	Oil and products	35
		Metals	17
		Natural gas	17
		Machinery	9
		Chemicals	7
Ukraine	1999	Metals	39
		Food and agriculture	11
		Chemicals	11

Sources: Statistical appendices to IMF Country Reports.

the EU skyrocketed by 220 percent from 1992 to 2000, CIS exports to the EU only rose moderately at less than half that speed by 102 percent (as shown in table 5), while CIS exports to other parts of the world surged by 201 percent. EU imports from the CEE increased at an annual rate of 19.2 percent between 1993 and 1997, while imports from the CIS grew at 12.3 percent (Allen 1999).

What about CIS exports to non-European destinations? Did they grow faster than European exports? Statistics on the total exports of transition countries to nontransition countries are hard to trace, but the EBRD has compiled the share of total trade with nontransition countries, essentially from 1994 to 1999. In that period, the EU-accession countries' trade with nontransition countries rose from 64 to 75 percent, while that of the CIS countries increased from 41 to 52 percent, although Belarus and Tajikistan went in the opposite direction (see table 9). Although the CIS countries experienced a greater reorientation of their external trade with the rest of the world, they did not do so with the EU.

A second perspective to test for a group effect with respect to the CIS countries is to take the vantage point of the European market and ask whether CIS-sourced imports are lower or have grown more slowly than other imports. We consider the specifics of the European market in the next section.

Table 9. Percentage Share of Total Trade of CEE and CIS Countries with Nontransition Countries, 1991–1999

Region and Country	1991	1992	1993	1994	1995	1996	1997	1998	1999
CEE countries									
Central Europe									
Poland	83.2	84.4	87.7	86.3	82.3	79.3	75.5	77.4	79.3
Czech Republic	..	..	..	68.6	68.1	71.3	72.1	74.3	73.9
Slovakia	..	..	39.5	44.9	45.6	49.4	54.2	62.0	62.0
Hungary	82.3	80.6	78.2	79.1	77.7	77.0	81.2	84.3	87.9
Southeastern Europe									
Romania	65.8	74.8	84.4	86.2	88.8	88.9	86.5	88.0	89.5
Bulgaria	80.0	85.1	84.2	76.1	65.4	66.2	72.0	76.9	80.4
Baltic states									
Estonia	..	..	54.8	54.5	61.6	59.5	73.1	64.3	76.3
Latvia	..	46.8	43.6	46.4	49.5	50.0	56.7	66.4	..
Lithuania	..	..	..	35.0	43.0	38.8	54.6	46.6	50.9
CIS countries									
Russia	..	..	..	66.6	68.2	67.0	65.4	66.9	70.5
Belarus	..	..	..	28.5	20.5	19.0	19.3	17.3	22.6
Ukraine	..	..	..	38.7	40.3	45.5	57.1	53.6	57.4
Moldova	..	..	..	8.9	16.5	15.4	19.4	29.2	40.3
Armenia	..	..	..	34.3	52.4	55.5	55.4	60.0	62.0
Azerbaijan	..	..	..	58.4	58.3	53.1	43.8	43.7	..
Georgia	..	..	..	33.3	33.1	27.6	35.7	58.7	70.0
Kazakhstan	..	..	..	33.2	39.9	41.7	52.4	47.3	58.7
Kyrgyzstan	..	..	..	40.2	17.6	19.4	33.5	57.7	55.7
Tajikistan	..	..	..	75.6	58.9	52.7	28.2	27.6	23.6
Turkmenistan	..	..	..	23.3	31.8	32.4	38.8	72.6	61.0
Uzbekistan	..	..	..	45.6	34.9	47.3	38.2	47.4	53.5

Source: EBRD (2000).

DIFFERENCES IN THE EU TRADE REGIME TOWARD CEE AND CIS COUNTRIES

One reason that the exports of the CEE countries to the EU have differed greatly from those of the CIS countries has been totally different trade regulations. The EU has developed an elaborate hierarchy of trade treaties, reflecting the graduation of countries from the status of trading partner to full member state (Messerlin 2001, 4). As nations on the way to becoming full members, the CEE countries greatly benefit, whereas the CIS countries remain minor trading partners.

The EU offered favorable Europe Agreements to the CEE countries early on, which committed all parties to eliminating tariff and nontariff barriers on industrial products by the end of a ten-year period, which ended in 2001 or 2002. These agreements were asymmetric to the benefit of the CEE countries. Agricultural products are subject to preferential treatment under tariff quotas. On January 1, 1998, the EU lifted quantitative restrictions on imports of textiles and clothes from the CEE countries (WTO 2000, 32, 54).

To the CIS countries, by contrast, the EU offered limited Partnership and Cooperation Agreements, which were little but a codification of WTO principles for WTO nonmembers. Unlike the Central European economies, the major CIS countries are not members of the WTO. The first CIS country to become a member of the WTO was Kyrgyzstan, in 1998, and since then Georgia, Moldova, and Armenia have joined. Russia, Kazakhstan, and Ukraine remain nonmembers.

The CEE countries are considered market economies by the EU, which means that any antidumping investigation is based on their own prices and not on a hypothetical country's prices. The CIS countries, on the contrary, are labeled "economies in transition" by the EU. In practice, this means that they are subject to potentially biased calculations based on another country's prices and not the actual prices.

On the whole, this can mean a world of difference in the EU's respective treatment of the CEE and CIS countries. The CEE countries are about to become EU members, but the CIS countries have no associate status, customs union, or free trade arrangement. Largely, they are not even members of the WTO or recognized as market economies by the EU. In short, they have a trade status reminiscent of "open season." These differences in status are reflected quite consistently in very many areas.

The total effect of these different trade arrangements adds up to something significant. The CEE countries, with their regional trade agreements, get 80 percent of lines duty free, whereas the CIS countries obtain 54 percent of lines duty free as Generalized System of Preferences (GSP) beneficiaries (WTO 2000, xix). The GSP applies to developing countries, but it is not very beneficial. For very sensitive goods (textiles, metals, and many agricultural goods), most-favored-nation (MFN) duty rates are reduced by only 15 percent, and for sensitive goods (e.g., chemicals, many agricultural goods, footwear, plastics, rubber, leather goods, wood, wood products, paper, glass, and copper), MFN tariffs are reduced by 30 percent. Only nonsensitive goods, which tend to be not very significant, are duty free (WTO 2000). Moreover, the GSP regime suffers from many weaknesses. The supposed beneficiaries do not conclude any contract and therefore have no recourse to a dispute settlement procedure. The rules of origin are onerous, whereas special simplified agreements have been reached with CEE countries. And tariff reductions are less than for the EU-accession countries (Stevens and Kennan 2000).

Messerlin (2001) has assessed EU protection by industry in 1999. He puts the level of overall protection for the whole of the EU economy at almost 12 percent in 1999. EU protection, however,

varies by commodity, with rates of overall protection exhibiting wide differences by sector; and the differences have remained stable (p. 21). Messerlin includes ordinary customs tariffs and major border nontariff barriers (quantitative restrictions and antidumping measures), but he ignores all nonborder barriers, that is, an array of norms and standards.

The simple average of all existing EU tariffs on goods was 7 percent in 1999 (Messerlin 2001, 25). It must be stressed that EU tariff levels are not very high by global standards, and certainly not when compared with other highly protectionist countries during the past 30 years. However, the commodity structure of the protection is important. Protection is higher for certain goods that the CIS countries might be expected to export. A second issue is that even small barriers can have important restrictive effects *on the exporting countries* if two potential exporters are otherwise similar. If other costs in the CIS countries are similar to those in CEE countries, the moderate barriers can effectively rule out imports from the CIS countries. The CIS countries generally have a cost advantage compared with CEE countries due to lower wages, but this is counteracted by higher transport and other costs. Even small differences in protection make all the difference when the overall competitive situation without tariffs is similar.

EU trade policy is also more restrictive than simple average tariffs indicate, because of a lack of transparency. For instance, about half the EU tariffs are expressed in euros per physical unit of output and not in ad valorem terms (WTO 2000). The nontariff barriers include variable levies in agriculture, voluntary export restraints in industrial sectors (notably in textiles and clothing), quotas on imports from centrally planned economies (which the EU counts the CIS countries as being), and antidumping measures (Messerlin 2001, 29). The peaks of overall protection are very high. The maximum tariffs exceed a prohibitive 200 percent for certain agricultural goods (WTO 2000).

We turn now to a comparison of EU imports from CIS as compared with CEE countries. Unlike the regression estimates discussed above, these comparisons do not control for other factors affecting trade; but they have the advantage of focusing on specific commodities. We focus on agriculture, steel, textiles, clothes, and chemicals as particularly important sensitive products.

The EU's measures against CEE countries are persistently milder than those against CIS countries. One example is antidumping measures. The number of antidumping cases that the EU instigated against the CEE countries from 1990 to 1999 was 42, admittedly almost equal to the 41 initiated against the CIS countries. However, the duties imposed against the CIS countries were about twice as high as those levied on the CEE countries (Messerlin 2001, 353).

EU agriculture is particularly well protected. Although the simple average tariff is estimated at 17.3 percent (WTO 2000, xix), actual protection is often prohibitive for the CIS countries because of variable levies and technical standards. In addition, the EU is reluctant to give any preferences for farm goods from countries with temperate climates and for food products (Messerlin 2001, 28). EU minimal market access commitments in cereals under the Uruguay Round of multilateral trade negotiations prompted bilateral agreements on a duty-free quota of 300,000 tons of wheat essentially from the CEE, whereas the major grain producers in the CIS, which were not WTO members, were left without much access (Messerlin 2001, 302). The CEE countries are allowed to export meat, fruit, and vegetables to the EU, and the EU has reciprocal protection through bilateral agreements with Bulgaria, Hungary, and Romania, the main CEE wine producers (WTO 2000, 87, 91).

The results are reflected in table 10. Although EU agricultural imports from the thirteen candidate EU members remain small, because of severe EU protectionism, they at least increased from 1995 to 1998. The EU imports of agricultural goods from the CIS countries actually declined somewhat, although this was a time when they were recovering, indicating extraordinary EU protectionism. The country that is suffering the most from this EU protectionism is Moldova, which primarily exports agricultural goods. Although it is located adjacent to the EU and its accession countries, only 20 percent of its exports went to the EU. Moldova is Europe's poorest country, but it is refused access to the vital EU market. Ukraine is another country with major comparative advantages in agriculture, but only 11 percent of its total exports originate from that sector, and its agricultural exports—like Moldova's—are directed primarily to Russia.

Table 10. EU Imports of Agricultural Goods (billions of euros)

Source of Imports	1995	1996	1997	1998
From 13 EU-candidate countries	4.5	4.7	5.1	5.1
From 12 CIS countries	1.5	1.6	1.5	1.3
Difference	3.0	2.9	3.4	3.9

Source: EU Trade Directorate.

EU steel imports are subject to moderate protection. The General Agreement on Tariffs and Trade—bound tariff of 4.8 percent and the antidumping protection of 16.3 percent lead to an overall protection rate of 21.9 percent. The Europe Agreements initially abolished the EU tariffs on steel exports from the CEE countries, but a regime of tight monitoring of steel imports from the region prevails, and it can lead to antidumping actions. For the CIS countries that are major producers and exporters of steel—that is, Russia, Ukraine, and Kazakhstan—restrictive EU import quotas were imposed from 1995 on. These have become ever more cumbersome as steel capacity has recovered swiftly, while domestic demand has plummeted. In addition, antidumping measures remain a severe and permanent threat (Messerlin 2001, 278, 282; WTO 2000, 55). Russia, Ukraine, and Kazakhstan are far greater producers and exporters of steel than the CEE countries, and they have obvious comparative advantages. Even so, they have barely managed to increase their exports to the EU, and CEE exports to the EU remained twice as large in 2000 (see table 11). The open-ended threat of antidumping provisions discourages investments in capacity to export to Europe.

Table 11. EU Imports of Steel (billions of euros)

Source of Imports	1998	1999	2000
From 13 EU-candidate countries	3.5	3.0	4.0
From 12 CIS countries	1.5	1.4	2.2
Difference	2.3	2.1	1.8

Source: EU Trade Directorate.

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The trade regime for chemicals is similar to that for steel. The average MFN tariff on industrial chemicals is moderate at 5.7 percent, but antidumping measures are common and severe, with an average antidumping rate of 24.5 percent (Messerlin 2001, 22–23). The major CIS producers are Ukraine and Russia. The CIS countries have not been able to catch up with the CEE countries in this highly protected product group, but they have seen a slight decline in their exports to the EU, and CEE exports to the EU remain more than twice as large (see table 12).

Table 12. EU Imports of Chemical Goods (billions of euros)

Source of Imports	1995	1996	1997	1998
From 13 EU-candidate countries	3.8	3.8	4.2	4.3
From 12 CIS countries	2.0	1.6	1.8	1.8
Difference	1.9	2.4	2.3	2.4

Source: EU Trade Directorate.

The differences in trade regimes for textiles and clothing are great. In January 1998, the EU lifted quantitative restrictions on imports of textiles and clothes from all CEE countries, and they account for more than one-tenth of CEE exports to the EU. All the candidate members are considered to have comparative advantages in their production. The CIS countries, on the contrary, are subject to low quotas unilaterally imposed by the EU. Because most of the CIS countries are not members of the WTO, these quotas are patterned on but go beyond the Uruguay Agreement on Textiles and Clothing, which succeeded the Multi-Fiber Agreement. In addition, antidumping actions are common for textiles (Messerlin 2001, 289–92; Allen 1999). WTO membership is the responsibility of the CIS countries; but the preferential access given by the EU to the CEE accession countries puts the CIS countries at a great competitive disadvantage.

Oil and natural gas are usually considered freely traded commodities, but this is not necessarily the case. In the early 1990s, the EU negotiated an Energy Charter with the CIS countries. For many reasons, the Russian Duma will never ratify this agreement. It does not comply with current Russian energy policy. (The same is true of Norway.) However, the EU demands that Russia ratify this treaty before major energy projects are undertaken, thus restricting Russian energy exports to the EU. The Energy Charter is an issue in its own right; nevertheless, a by-product of the deadlock on the charter is that CIS energy exports are impeded.

EU protection tends to be concentrated on so-called sensitive goods, especially agricultural goods, textiles, steel, and chemicals. Do CIS exports of these goods do worse in Europe than in the rest of the world? To examine this issue, let us review the share of these goods in exports to all countries and to the EU from seven Central European countries and seven European former Soviet countries (see table 13).⁶ The Central Europeans export about the same to the EU as to other countries. Although the share of sensitive goods in their exports to the EU amounts to 30 percent, it is only slightly larger—33 percent—in their total exports. By contrast, the seven European former Soviet republics (including the

⁶ The different categorization here from that of CEE and CIS countries elsewhere is due to the use of U.N. Conference on Trade and Development statistics.

Table 13. Sensitive Goods as a Percentage Share of Total Exports of Central European and Former Soviet Countries, 1997

Source	Food ^a	Chemicals	Iron and Steel	Textiles ^b	All Sensitive Goods
From Central European countries^c					
To the EU	6.1	5.5	4.1	14.1	29.8
To the world	7.2	8.3	6.4	10.9	32.8
From former Soviet countries^d					
To the EU	3.2	6.7	2.6	5.2	17.7
To the World	5.5	9.6	11.9	3.8	30.8

a All food items, including beverages, tobacco, edible oils, and seeds.

b Exports of textile fibers, textile yarn and fabrics, and clothing.

c I.e., from Albania, Bulgaria, Czech Republic, Hungary, Poland, Romania, and Slovakia.

d I.e., from Estonia, Latvia, Lithuania, Russia, Ukraine, Moldova, and Belarus.

Source: UNCTAD (2000).

Baltic states) have only 18 percent sensitive goods in their exports to the EU, compared with 31 percent in their total exports. In particular, the EU appears more protectionist than the rest of the world with regard to steel. The share of food in total exports is remarkably low for all these countries, although Moldova and Ukraine should be major exporters of agricultural goods.

Apart from the lack of equal treatment for imports from the CIS countries, a potentially more serious issue would be that European protection tends to be high for precisely those goods for which the CIS countries have a comparative advantage. Comparative advantage is difficult to assess before the fact, but an important clue is what products the CIS countries already export (see table 8). It appears plausible that Ukraine has underutilized its comparative advantages in textiles and apparel; Moldova and Ukraine in food products; and Ukraine, Russia, and Kazakhstan in steel. A large share of EU imports from such countries as Ukraine and Moldova falls into these sensitive categories; but that is exactly as it should be, if those countries' comparative advantages are concentrated in sensitive products. That is very likely, because the sensitive goods tend to be labor intensive and the CIS countries are less than half as wealthy as the EU-accession CEE countries.

Another relevant measure is the share of raw materials and labor-intensive goods in exports. In a quantitative analysis of Ukraine's exports to the EU, Quaisser and Vincentz (2001) find that these exports consist of very few products—steel, metal scrap, clothes, and oil seeds—all of which are sensitive goods. Although the EU-accession countries succeeded in switching their exports to the EU to labor-intensive products early on, Ukraine only saw these rise in the mid-1990s. This could be a reflection of slow domestic reforms or of the effects of outside protectionism or a combination of both.

EU advocates argue that the CIS countries should raise the degree of processing of their export goods to avoid EU barriers. However, it is difficult to jump one stage in processing. A common pattern is that exports take off with raw materials and intermediary goods, such as steel and chemicals, which function as cash cows for investment in the next stage of processing. If this is the

EU's stance, it is cutting off the CIS countries from a common strategy of export development. A recent survey of enterprises in Ukraine found that export orientation, and especially the orientation of sales toward non-CIS markets, drives enterprise restructuring (Akimova 2001).

Given economic geography—the location of the CIS countries, transportation routes, and the relative sizes of adjacent economies—the EU is their all-dominant potential export market. If they are not allowed to export to the EU, they might have no alternative customer, because transportation costs are crucial for bulky goods. The end result may be that potential EU export goods will never be produced. Thus, rather than looking upon the limited CIS trade with the EU as trade diverted elsewhere, we may consider the lacking exports as lost production. Obviously, cumulative effects are strong. Interestingly, Christoffersen and Doyle (2000) find that the growth of potential export markets has been one of the most important determinants of growth in the transition countries.

Furthermore, in each transition country, the interests of progressive exporters, pushing for more progressive market reforms, tend to take over after a few years. External protection means that it takes longer for the progressive exporters to acquire the critical weight, which delays systemic reform.

CONCLUSION: IT CANNOT GO ON LIKE THIS

The question that has been posed here is whether the CIS countries will benefit or suffer from EU enlargement in terms of trade and real income. However, the broader point brought out by the statistics that have been analyzed is that the crucial issue is the effect of EU enlargement on future EU trade policy toward the CIS countries. The EU has been surprisingly successful in accommodating the CEE countries' trade interests, but it has done very little for the CIS countries' trade interests. Fortunately, there are many reasons to believe that this situation cannot continue forever.

The reason for the current situation is primarily that it has not been noticed. The trade problems of the CIS countries have long been considered a matter of their lacking reform. But that is no longer the case. Because the big CIS countries—Russia, Ukraine, and Kazakhstan—are becoming members of the WTO, the EU will have to give them greater recognition, and gradually the CIS countries will gain the ability to defend themselves in trade policy.

When the CEE countries have acceded to the European Union, the union's debate will probably become less introverted and will be able to focus on problems further ashore. The union itself will be able to deploy substantial analytical and policy-making resources to focus on its problems with the CIS countries. This change in perspective and the freeing up of policy-making capacity are likely to greatly improve the economic prospects of the CIS countries. Therefore, the CIS countries may benefit considerably from the completion of the current EU enlargement in a roundabout and unanticipated fashion.

If nothing is done by the EU to alleviate this situation, however, the CIS countries will suffer increasingly from EU protectionism, because their production of sensitive goods such as metals and grain is taking off and they need to find markets for these goods. In 2002, Russia, Ukraine, and Kazakhstan probably exported 25 million tons of grain, whereas the Soviet Union never reached the level of grain exports of 8 million tons attained by the Russian Empire in 1913. The tension in trade policy between the CIS countries and the EU is likely to rise fast, but that tension should lead to a solution in the form of freer trade.

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