

CHAIRMAN'S SUMMARY

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Some 150 participants from academia, business, government, NGOs, the EU and the NATO Parliamentary Assembly representing 31 Allied and Partner countries attended this year's Colloquium, whose remit was to analyse the growing importance of non-military aspects of security and their importance in maintaining peace and stability in the 21st century. The focus was on transition in Cooperation Partner countries, exploring the linkages between economic reform, security and social stability. The Colloquium examined the role of economic progress (or lack of it) in building (or weakening) social, democratic and civic societies that form the guarantor of security in the modern world. The Colloquium was divided into five panels, four of a regional nature covering South-Eastern Europe, Russia, Ukraine and the South Caucasus, with the final session bringing together the various issues raised into a concluding assessment. Highlights, reflecting the views of Colloquium speakers but not necessarily those of NATO, were as follows:

Panel 1 - South-East Europe

“Balkanisation” is a word often used in a derogatory sense (the process of something tearing itself apart into smaller units) and as justification for ignoring the region's problems. But it is important to remember the reality of the starting-point that these countries faced at the onset of transition and the slight but real progress made. We were reminded how the economic crisis in Bulgaria in 1996/97 forced the government into remedial action which has led to a degree of macro-economic stability and, in the words of a Bulgarian expert, “a new life”.

One speaker described economic stability as “preventive medicine” to ward off unrest, instability and poverty, but warned that economic growth without a degree of income distribution would do nothing to enhance social stability. In other words, **“bad politics becomes the pro-genitor of bad economics”**. Another speaker added that **one “rogue” institution could contaminate others** leading to a whole culture of corruption throughout society. Regional cooperation will also be a useful tool with which to build stronger political ties between nation states.

The proposed Stability Pact for South-East Europe was compared with the Marshall Plan that helped to bring economic prosperity and hence economic

security (from want, hunger and disease) throughout post-war Western Europe. In this respect, the Stability Pact should be seen as an opportunity rather than as a cost, as indeed was the Marshall Plan before it. In this case, **altruism is self-interest**. It was also noted that perhaps the most valuable bit of altruism on the part of the West would be to open its markets, especially for farm products.

Panel 2 - Russia

No panellists saw any real hope for rapid improvement in the economy, which has now fallen faster and further than Western economies in the Great Depression of the 1930s. Massive investment in infrastructure renewal is required to kick-start growth but the internal resources from which the bulk of this investment must come are extremely limited. Much human and physical capital is absorbed by the military and nuclear sectors, which have limited if any growth potential. Future growth will thus be dependent upon the development of the internal market which needs a competitive exchange rate (as at present) to survive. As one participant said, “**poverty equals suppressed demand**”.

Nevertheless, this **decline has not yet led to social unrest because of the flexibility**, indeed informality, of the Russian labour market. The high rates of involuntary part-time work and wage arrears keeps unemployment low and mobility high, but at the cost of a slump in **productivity that is now much lower than in the Soviet era**.

Implied energy subsidies and barter allow value-subtracting firms to survive. There is no real pressure on these firms to reform, indeed, both social pressure and perverse economic incentives (subsidies, high tax on visible profits and the lack of competition) ensure that they keep going. A panellist claimed that **one-quarter of all employment is in single-industry towns** - often in remote locations - where no other employment opportunities exist. Thus the expressed fear that political stability might not survive the transition process.

The existing elite profits greatly from the current turmoil to the extent that real structural reform is unlikely to start soon. “Insiders” dominate the socio-economic environment and reinforce the status quo. Outside investment is actively discouraged. Prosperity cannot arrive until and probably sometime after these conditions eventually change. The danger with continuing economic stagnation is that so-called “reform” will take the blame, with some kind of authoritarian backlash (involving the relaxation of monetary controls to pay for a more proactive foreign policy) being the inevitable result. **Maybe we need to be more patient with Russian transition**, especially in view of the fact that the Russian economic crisis is - in the view of one panellist - of 90 years duration rather than just a decade.

It was further explained that Russia has a completely different understanding of security than the West because of its historic roots, its geographical size, its multi-cultural population and thinly populated regions. These factors make it especially difficult to realise a rapid and successful transition process. One of the main problems extant in Russia was the conflict between the **will to remain strong and secure** (a “power” to be reckoned with in world affairs) and the need for **modernisation** which, to be successful, requires an open, relaxed and international outlook on such matters as investment and trade. Russia appears to be closer to resolving this conflict today than it was a decade ago.

Panel 3 - Ukraine

Ukraine’s transition appears to be stuck between a command plan economy and the market, with the result that economic growth remains elusive and (most of) the population is getting steadily poorer. One speaker described the country as “being in Europe but culturally far away.” The now significant differences between Poland and Ukraine were graphically emphasised by one expert, who warned that EU enlargement could have a negative impact upon Ukrainian trade and prosperity.

Nevertheless, it was also suggested that the recent elections offer a unique opportunity for Ukraine to move forward. Ukraine has many advantages; good geography, a literate population, resources, no expensive military and/or diplomatic ambitions, is open to foreign investment, and has amicably settled long-running political differences (*inter alia*, over the Crimea and Black Sea Fleet) with Russia. These it must use and soon. Otherwise, **Ukraine’s dependence upon Russia would in future grow because of energy debts**. One panellist warned of the “culture of incompetence” that unless checked is passed on to the next generation.

Panel 4 - Caucasus

A highly turbulent and unstable region described by one participant as being “**full of independent states without any experience of independence**.” Another apt description was “the nexus region of the globe where security, resources, economy and diplomacy all come together.”

Rich energy resources were rightly identified as a potential source of wealth to further development and thus security, but it was also suggested that Norway - which has invested its oil revenues long-term - would be a better model to follow than Nigeria where a pampered elite has frittered away the wealth of the state. Thus energy will only equal security and stability if certain conditions are met - an evolution of democracy, the establishment of rule of law, equitable

management of resources and a fair distribution of wealth. There is a long way to go.

Outside influences in the region are strong, both from states and firms that have a strategic interest in securing long-term energy supplies and - more importantly - control over the routes by which oil and gas egresses this largely landlocked and relatively inaccessible region. Delegates generally agreed that such routes should be determined by commercial factors alone, but accepted that geo-politics would remain influential in determining what actually happens. **There was thus a danger of the whole region becoming marginalised** by such geo-political disputes, especially since reserves are generally much smaller than at first hoped and because the economies of the region, if not successfully integrated, will remain tiny and thus highly vulnerable to external factors such as financial crisis in Russia or another sharp fall in global energy prices.

Demography and water were also identified as potentially serious issues - too much of the former and too little of the latter - that could compromise stability in the future. Large numbers of young people will need productive and rewarding things to do. Otherwise, political or religious extremism could fill the void as has happened elsewhere. **The problem with oil and gas development is that they do not employ many people**, especially from the host country and especially once the infrastructure is built.

Regional cooperation - if geo-politics allows - can be the key to security in this region. Joint projects - such as the Baku-Supsa oil pipeline - involving FDI help to remove old animosities and suggest to states that flexibility and accommodation are the keys to future prosperity. Traditional national security concerns may need to be sacrificed if states wish to be included in what is going on.

Panel 5 - Concluding Assessment

The link between economics and security/stability is both obvious and complex. Historically, it was treated as a simple trade-off in that a state can choose whether to satisfy the requirements of private consumption or of state security, or, optimally, an efficient balance between the two. State security meant armed force or the threat of armed force, or, in an economic sense, the mercantilist use of that force to secure gold, treasure and spice. In the later mercantilist era, the governing elite became more interested in control over raw materials, trade routes and markets. The similarity being that only the few prospered at the expense of the many.

Today, this paradigm has changed in three important ways. Firstly, because of the homogenising effects of what is usually termed “**globalisation**”. Economic growth and prosperity (assuming states want these) means **opting-in** to the dominant or hegemonic market system and accepting the loss of raw sovereignty

involved. More specifically, it requires open borders whereas economic security - mercantilist definition - requires closed borders. In other words, many states think they are enhancing their economic security through protectionism when in reality they may be doing exactly the opposite.

Secondly, because of the growth of what could be termed “**unconventional**” threats, such as terrorism, proliferation of WMD, drug trafficking and international organised crime. **All these threats have a non-state or rather trans-national character that are and will continue to be impervious to traditional or mercantilist solutions.** Only international cooperation against such security threats will do any good.

Thirdly, because people and governments now understand (or are beginning to understand) **the dimension of human security** (basically from poverty) which is enhanced by and not inimical to private consumption. The worse-off a people are, the less they have to lose by challenging, perhaps violently, the legitimacy of their state or of other states. And vice-versa. But poverty need not be absolute to cause instability. People in Brezhnev’s Soviet Union did not become demonstratively worse-off, it was just that they were experiencing the stability of the graveyard and became aware of much better and constantly improving standards of living in the West. What one panellist described as “dynamic stability”. Another as “**consumption being the tool of stabilisation**”.

So the economy/security focus now has evolved from the **zero-sum game** of the mercantilist era in which any increase in “our” power, wealth and thus security was matched by an equal and opposite loss in “their” power, wealth and security (and vice-versa) into an altogether more complex paradigm. Today, **economy and security are indivisible and mutually reinforcing**, but beyond that obvious platitude, economics and security must also now be considered as part of a **highly complex global environment** encompassing concepts and issues such as hegemony, sovereignty, power, culture, history, democracy and the role of the state. These issues are explored in much greater detail in many of the papers submitted to the Colloquium and now published in this book.