A BRIEF SUMMARY OF PRESENTATIONS AND DEBATE BY THE ECONOMICS DIRECTORATE

"Defence without economic security is illusionary."[1]

Still a Divided Continent

To say that security and economics are now inter-linked is practically a tautology. Beyond the obvious direct linkages relating to armed forces affordability and security of energy supplies, lies the essential provision of human security - against hunger, want, poverty and disease - that states must provide for their populations. If they fail so to do, people will justifiably look to challenge, perhaps violently, the status quo in the belief that they have nothing further to lose. The Cold War brought security and stability of a sort to most of Europe, but in the eastern half of the continent this was the stability of the graveyard. Lacking diversity, initiative and dynamism, societies atrophied and states eventually failed to provide appropriate levels of human security for their citizens, not perhaps in absolute terms but certainly relative to the more dynamic and prosperous societies of the West.

The Iron Curtain barrier is no more, but the prosperity differentials remain. Whether this divide is sustainable in the longer term is open to doubt. Failure to close the gap would first and foremost be a moral failure on the part of the West and a systemic failure for liberal democracy. More specifically, it would likely open up a whole host of related problems with regard to migration, criminality and civil unrest, not to mention the loss of trading potential that much richer and more stable states in South East Europe, the South Caucasus and Central Asia would bring. Certainly, leading politicians and officials of all the states in these regions represented at the Colloquium - and Western experts thereof - were more or less unanimous that the existing magnitude of prosperity differentials would become a source of deep resentment and distrust if not addressed.

Already, some of these regions are to a certain extent seen in the West as unimportant, except as nuisance value and, in the case of the Caspian Sea basin, as a potentially significant supplier of non-OPEC oil. In economic terms, combined they make up considerably less than one half of one percent of global GDP[2] so the threat of

"marginalisation" is real. States are also weak internally and local disputes going back generations and in some cases Centuries remain unresolved. Decades of communist authoritarian rule managed to keep the lid on these disputes and ancient grievances, which are now boiling over everywhere; in the former Yugoslavia, in the key Ferghana valley region of Central Asia, and all over the Caucasus. Colloquium participants agreed that a large-scale regional war was unlikely, but that existing local conflicts would likely fester for a long time.

On the subject of wars, one speaker posed the paradoxical question as to whether poverty was the cause of war, revolution and civil unrest or vice versa. Both are obviously true in a mutually reinforcing circle of destruction, but the premise that rich nations do not start wars or that their populations do not violently challenge the status-quo is to some extent disproved by the case of Yugoslavia that was, just over a decade ago, significantly more prosperous than most of its neighbours. Nevertheless, it is necessary to differentiate between the level of welfare and its trend. For example, people in the Soviet Union did not become demonstrably less well off during the Brezhnev era of stagnation; they simply became aware of their growing relative poverty vis a vis the West. The Soviet Union was not therefore a victim of major economic disruption, but more of a growing discontent that rotted the system from within. In this respect, the gap in levels or trends of development and welfare among neighbouring countries or ethnic groups constitutes a major risk for stability and peace. The fight against poverty is also a fight for security.

Better Governance Required

The good news is that a few states previously on the wrong side of the European divide - those in close geographical proximity to the West - have made substantial advances over the past decade and have effectively provided "route maps" for their neighbours to the east and south. For these Central European states, membership of NATO and the EU are either extant or imminent and this fact alone acts as a spur to others. Several speakers from NATO partner countries confirmed that the promise of accession to the EU and NATO has stimulated efforts to reform and harmonise laws with international norms. Others found inspiration from the Baltic example, where three small states overcame old differences and found common cause in economic progress. But we were reminded that peace and stability are not yet evident in the Caucasus and in Central Asia and are not yet

self-sustaining in South East Europe where poverty remains widespread and Balkan conflicts continue to fester. If the international community is to prevent the creation of another curtain or division a few hundred miles further east than the old Cold War divide, engagement and cooperation in mutual security and economic issues will be paramount.

In this respect, the logic of the post-war Marshall Plan might remain relevant but with the proviso that although money transfers might be a necessary condition for the narrowing of the gap, cash alone is far short of being a sufficient condition. The task facing those states aspiring to close the gap and to belong to the economic and security institutions of the West was described by one participant as no less than "nation building". In South East Europe, the term nation "re-building" might be more apt, but the key tasks are the same. Institution building, introducing democratic practice and the separation of powers at all levels of society, and, crucially, in ensuring the impartial rule of law. Only then could FDI be successfully absorbed and, more importantly, domestic capital formation begin.

A key problem common to all new and re-emerging states is the relative youth and inexperience of civil and governmental institutions, which leads to poor and opaque governance at federal, regional and local levels. This is characterised by the insider control of an elite few, endemic corruption and the direct opposite of what Mancur Olsen termed "market-augmenting government".[3] This means creating and sustaining governance that is powerful enough to create and protect private property rights and to enforce contracts, yet constrained so as to not, by its own actions, deprive individuals of these same rights. More specifically, creating better governance equals transparency, accountability, predictability, visibility, responsibility, public participation and access to information. In short, the quality of governance determines the quality of democracy. Both induce better economic performance and the benefits in terms of human security that flow therefrom. Of course, the overall standard of governance in all Western countries can at times fall someway short of this ideal paradigm, but good practice can nevertheless be demonstrated and imparted to NATO partner countries if they are open to debate and prepared to learn. To some extent, this is what Colloquia such as this are all about.

At the micro-level, one Colloquium speaker defined "the building blocks of the market system" as book-keeping, auditing, marketing, accounting, improving productivity and contract law. All this is second

nature to business in the West, but remain alien concepts to many factory managers in the regions under review. Help at the micro level with skills of this sort can make and in some cases have made a big difference, but there are also examples where larger scale and more general assistance has been wasted through corruption, mismanagement or bureaucratic incompetence. But behind this veneer of official malaise lies an untapped seam of human potential. All that is needed to release this potential are the right incentives and a receptive environment. People are very flexible and ingenious everywhere. They can work either to benefit society or to destroy it with equal vigour. Only when better governance makes it worth their while to do the former rather than the latter will real economic security and stability ensue.

Common Problems - Common Solutions

In all the regions covered by this Colloquium, the problems faced by individual states tended to be common to all of them, these being relative poverty, high rates of unemployment, low investment, indebtedness, ethnic and religious conflicts, and minimal levels of inter-regional trade. In Central Asia can be added water shortages and militant Islamic fundamentalism. Since problems are thus regional in nature, it was strongly felt that regional rather than national solutions were required and, moreover, that regional cooperation should ideally be initiated from within and not imposed from without. Indeed, maybe it would be wrong to assume that any regional cooperation would be a good thing and produce results. One should ask whether these regions are really optimal for something as advanced as a currency union, for which a high degree of monetary and fiscal expertise, not to mention cross-border discipline and trust are required. Most economies in these regions are simply too small and poor, factors that would make some aspects of integration pointless.

But even modest efforts to promote regional cooperation - and there have been many - have generally failed to live up to the high expectations generated by their formation. Regional blocs have been awarded minimal budgets by their member states and have had even less influence. One participant referred to the "spaghetti bowl" of overlapping memberships and drew attention to the persisting conflicts and poverty that these multifarious organisations have signalled failed to address. One problem here could be that genuine regional cooperation requires a sharing or pooling of sovereignty, something

that may be difficult for states that have only just gained it to accept. On a more practical level, transport and communication links are still very much nation based.

Regional Awareness and Cooperation

Another identified problem along the above lines is that individual countries in these regions rarely consider themselves as part of a region and do not see the need for closer cooperation. In Central Asia and parts of the Caucasus, rulers often are autocrats who prefer control over coordination and compromise. They cultivate bi-lateral ties and shun multi-lateral initiatives because the former are more easily managed. Despite the existence of blocs modelled on the EU, such as CEFTA (Central European Free Trade Association), the CAEU (Central Asian Economic Union), or BSEC (Black Sea Economic Cooperation), the reality is that the former is seen by its members as an anti-chamber for the EU and NATO. It is not taken seriously because it is not seen as the real thing. As for the other two, member states are moving in a diametrically opposite direction from the ever closer economic union of the EU. Fifteen years ago, both Central Asia and the Caucasus were similar to the EU if we look at factors such as open borders, free trade and a common currency. But today, internal borders bear a physical resemblance to the Iron Curtain itself. The regrettable result has been a very low level of inter-regional trade; in the south Caucasus amounting to a tiny 3% of total trade and not much better at around 10% in Central Asia. But even in Soviet times trade links were stronger with Moscow than with each other.

Small countries have small domestic markets and need to trade and integrate their economies with neighbours more than large countries need to do. In short, they need to adjust to the rules of globalisation and be competitive to be prosperous. The prime Western example of this fact would be the Netherlands. But throughout the regions under review, competitiveness is based upon the price of a few commodities over which they have no control. Cotton, oil and gold are global trade goods not regional ones. Trade in consumer and consumption goods ought to be much higher, but remains minimal because domestic industries in these sectors, if they exist at all, remain small, underdeveloped and subject to unnecessary regulation. In Central Asia, these problems are compounded by the non-convertible status of the Uzbek som, which effectively cuts off the largest market and second largest economy in Central Asia from all its

neighbours. It is as if Canada and Mexico were barred from trading with the US. A further problem throughout these regions is persistently high unemployment which merely encourages regimes to find nationalist and protectionist solutions to their economic problems.

And then there is Russia, sadly not represented at this Colloquium. The question was raised as to how far will Russia allow regional cooperation in the southern Caucasus and Central Asia to go? Not very far if the GUUAM grouping (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova) is anything to go by. All these states have improved bi-lateral relations with Russia over the past year to the extent that GUUAM is effectively dead. Russia appears as if it wants both to control the near abroad and have a strategic partnership with the EU. Forecasting Russian intentions in this area is a dangerous game. One participant suggested that Russia was going through a slow "learning process" that might result in a more consistent and realistic foreign policy in years to come.

Cooperation is Key

So, as we were starkly reminded by one speaker, in the main strategic areas requiring regional cooperation, these being trade and security, there has been only "abject failure". Another suggested what might be done, urging everyone to insist and insist again. All international agencies and aid donors working in these regions should insist on regional cooperation and concentrate solely on projects that connect states together, not individually to the outside world as at present. The EU has spent Euro1bn in grants, mainly to South East Europe, but has never played a significant political role. Maybe now is the time for that to change, with the EU defining a common policy for these regions which should convince leaders that all the big problems they face are regional not national. Indeed, the Stability Pact for South East Europe highlights the importance of regional economic cooperation, in that no project is taken on board unless at least two countries participate.

Furthermore, multi-national firms working in these regions prefer larger markets and should also insist that national barriers to trade and investment disappear. In this way, it might eventually be possible to demonstrate a dividend of regional cooperation and thereby encourage more of it. In the Caspian Sea region, joint energy investments could be a useful starting point and would improve

stability, because it is in all the littoral nations' economic interest to fully develop and market resources.

Final Thoughts

The link between regional cooperation and international security is strong. Under the globalisation process, there is no benefit to be gained from the construction of new economic fortresses, indeed, it would be dangerous to try. The great advantages that accrue from regional cooperation are market enlargement, an enhanced ability to face international competition, the provision of a secure environment for FDI, and the promotion of higher levels of both foreign and local investment. Thus, the great benefit of regional cooperation for international security is to build a real mutual solidarity based on strong micro-economic links.

Still there has been progress. Opportunities to meet and talk (as with this Colloquium) never existed before. We were reminded of the Marshall Plan ideal of a "Europe full and free". Now the unfinished business of moving the western European space eastwards is at hand. All the regions under discussion have recently re-entered history and Colloquium participants felt that it was the duty of all to try and ensure that they do not disappear again. Clearly, the numerous conflicts that persist throughout these regions will need to be settled before any more detailed problem resolution can begin. International capital and support for liberalising change will be important, but slowly building internal strength both at the national and regional levels will be key. Success must start at home.

1. Quote by a Colloquium speaker during the Introductory Session.

2. Based on World Bank data for 1999. See World Development Report 2000/2001; pp 274,275 & 316.

3. 'Power and Prosperity - Outgrowing Communist and Capitalist Dictatorships' by Mancur Olsen. Basic Books; 2000.