

THE LINK BETWEEN ECONOMICS, SECURITY AND STABILITY: THE CASE OF SOUTH-EASTERN EUROPE

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Introductory Remarks

In a book on security published in 1997, mention is made of the fact that “it has long been a staple in international relations that economics and security conflict with each other”¹. In other words, fully satisfying security necessarily means sacrificing at least some aspects of the economy or vice-versa. However, there are strong arguments to suggest that such an approach is no longer relevant. Indeed, during the last decades, the nature and content of political and economic relations among states and within each society have dramatically changed. Growing economic interdependencies and the globalization of the economy have produced significant transformations in the way countries view their national objectives and interests, and hence the ways and instruments to promote them. This applies for security and stability interests/objectives as well. Developments throughout the world demonstrate more and more that security and stability, political and social alike, are multi-dimensional concepts, and that economics is one of the most important dimensions.

In fact, a review, even a cursory one, of these developments clearly indicates a direct link between economy and security, which in most cases translates into the reality that where an economy is more developed, prospects for security and stability are much better. This does not mean at all a one-way approach, since it is equally clear that economic development depends on the policies promoted, be they at national or international level. Appropriate policies generate a greater feeling of security, which in its turn generates increased incentives for economic activities and, as a direct result, more prosperity. To try to put it in other words, security can thus be achieved more easily, provided of course that one paramount condition is fulfilled, namely that prosperity spreads to the greatest extent possible over all the members of the society. It is an objective that can only be properly obtained when economic development and prosperity are the result of democratically established policies. It suffices to look to the map of the world, especially Western Europe, North America and Japan, to see this assertion confirmed.

That being said, perhaps an even more convincing confirmation of the strong link between economics on the one hand and security and stability on the other is provided by the way countries in Central and Eastern Europe, South-Eastern included, evolved after the fall of the Berlin Wall. All these countries stated immediately after that turning point in European history that their top priority objective was reintegration into the community of democratic societies and market economies. The speed as well as the magnitude of the process has been different from country to country. The reality is, as indicated *inter alia* by the recently published annual report of the European Commission on candidates for EU membership, that as of now some of these candidates are more advanced, others like Romania are lagging behind.² It is, however, extremely important that in all cases the process has become irreversible.

Quite often, these differences are considered to be primarily if not exclusively the result of differences in the way the new policies were promoted. Those countries where from the beginning reform has been more radical are now either formally admitted into structures specific to democracies and market economies such as NATO and OECD, or are advanced compared to the laggards in their demarche towards integration into the European Union.

Facts speak for themselves in the support of such a view. However, in order to have the best possible picture and explanation of such differences, other aspects have to be taken into account. Due consideration should, for example, be given to the significant differences as regards the starting points in the post 1989 process of transition. Since this is self-evident, there is no need to elaborate. Neither should one see any attempt from the laggards' side to find excuses for delay and slowness in adopting radical reform measures.

Nevertheless, analysis of the situation in Central and Eastern Europe, and even more so of that in South-Eastern Europe, confirms once more that while economic prosperity is strengthening security, the latter is in its turn a prerequisite for long term economic growth. Indeed, without confidence that resources invested today will still be owned and available tomorrow, investment will wither, growth will decline and, eventually, as assets depreciate, the economy will collapse. So security and wealth are necessary complements: one cannot exist without the other.³

In this respect, where do the countries from South-Eastern Europe or those directly neighbouring this region, like Romania, stand? In answering this question, one has to take into account the various ways in which South-Eastern Europe is viewed. Are we, for example, to tackle the issue from a geographical point of view? Should we on the contrary give priority to the economic dimension or to the political dimension which includes the status of relations of each country with the European and Euro-Atlantic structures? Another possibility would be to look to the region from the perspective of security challenges not only within the region but also to Europe as a whole. Probably this third approach fits best into the rationale of this Colloquium. However, it is clear

that the other aspects cannot be ignored. Therefore, a combination of all three possibilities could be more convenient.

No matter what dimension is considered, there are significant differences among the countries in the region under discussion: some are members of EU and/or NATO; some like Romania are hopefully about to enter EU membership negotiation and are candidates for NATO membership; whilst others have similar objectives but are in a more incipient stage. Last but not least, there are in the region countries which by their progress towards democracy and market economics, as well as by their active role at the regional and European level, are rightly perceived as factors of stability and security. However, unfortunately, there are others from which factors of instability or even threats to stability and hence security still originate. Note should be taken of the fact that those factors have to a significant extent an economic dimension/motivation. What has happened in ex-Yugoslavia, Kosovo included, can be considered as an example in this respect.

The Case of Romania

A Central-European country, directly neighbouring the Balkans, Romania, like other countries from the region, clearly stated very early in 1990 that its primary objective was the re-establishment of a democratic society and of a market economy. As a direct consequence of such an option, Romania's top foreign policy objective could not logically be other than integration into the European and Euro-Atlantic structures. How far has Romania gone from the economic point of view?

In general terms, since 1990 to date, Romania has made considerable progress towards the setting up of a market economy:

- the private sector constitutes roughly 60% of GDP;
- agricultural land is more than 75% privatised;
- two-thirds of exports and close to three-quarters of imports are carried out by private companies;
- price liberalisation has been practically achieved in full;
- approximately two-thirds of Romania's foreign trade is with the EU countries; if one adds trade with CEFTA countries - all of them future members of the EU - the percentage rises to about 75%;

That being said, one has to recognize that the economic situation is still fragile. Improvements are still needed to macroeconomic policies while in the restructuring of large state-owned enterprises there is still a lot to be done. It is encouraging, however, that in 1999 and in spite of difficulties, not least due to the international environment (particularly the Kosovo crisis), structural reforms have been stepped up. These developments facilitated the conclusion of new arrangements with the International Financial Institutions. Through the IMF stand-by arrangement, the World Bank loan for Private Sector Adjustment

(PSAL) as well as through the EU PHARE financed program of economic restructuring and privatisation, important additional support has been mobilized for the furthering of the restructuring process.

Full implementation of the targets set forth through all these arrangements and programs are the main objective of government policy for the next period. Particular attention is to be given, *inter alia*, to a further reduction in inflation; reduction of the current account deficit; further diminution of the budget deficit; stepping up privatisation so as to create conditions for reversing the decline in GDP, and relaunching economic growth in the year 2000. Indeed, estimations by the International Monetary Fund indicate 2% growth in year 2001.

On the other hand, further efforts have to be made to strengthen and stabilize the legal framework for economic activity, so as to encourage both domestic and foreign investment. Priority should also be given to strengthening financial discipline and to restructuring the large loss-generating state companies. Last but not least, a medium-term economic strategy needs to be urgently adopted and adequately pursued. Conditions will thus be created to develop an economic activity commensurate with the considerable potential that Romania has.⁴

All are measures and actions to be taken at the domestic level. However, their success will not depend exclusively on internal action. The external, specifically regional, environment can have an important influence, positive as well as negative.

The Situation in South-Eastern Europe

There are several aspects that need to be taken into account when looking at the situation from a regional perspective. First and as mentioned earlier, an analysis of the situation in each of the countries from the region under discussion indicates the existence of significant differences among them, including economic. Nevertheless, there seems to be a temptation to see the region as a whole, with specific consequences deriving therefrom. Take foreign investment. Of all the countries in Central and Eastern Europe that have an association agreement with the EU and seek EU membership, Romania and Bulgaria record the lowest level of foreign investment.

One reason for this, justified, is of course the delay in establishing a domestic legal environment conducive to investment, domestic and foreign alike. On the other hand, it is more than evident that the reluctance of investors also comes from the perception that countries like Romania are part of a region characterized by instability and a high crisis potential. Such a perception should at least be amended since throughout all this period of crisis and in spite of serious economic difficulties, Romania clearly proved to be not only internally stable but also a stabilizing factor in the region as a whole.

One question still unanswered is should one wait until everything is in place before investing in a particular venture/country, or should one look prospectively

and thus contribute to the acceleration of transformation. The latest developments appear to be encouraging. Reference should be made in this respect to the differentiated approach within the Stability Pact for South-Eastern Europe and especially to the recent recommendation of the European Commission that membership negotiations be started with all 10 Eastern European countries. It is almost sure that this will have a stimulating effect on the countries concerned. It will be all the more so once negotiations proper start. The experience with the association agreements is quite relevant from this point of view.

A second comment refers to the role of regional (economic) cooperation as an important factor in promoting economic development and, as a consequence, regional stability and security. Romania has been an active promoter of the development of regional cooperation in general and of economic regional cooperation in particular. Three main reasons are behind such a policy:

- regional cooperation is beneficial for each of the participants;
- regional cooperation contributes to strengthening confidence among the participants and, as a direct consequence, the security and stability of the whole area;
- regional (economic) cooperation is helpful in efforts to prepare for integration.

This is why Romania has been and will continue to be an active participant in schemes such as CEFTA, BSEC, etc. Similar reasons lay behind Romania's decision not only to welcome but also to actively participate from the outset in the Stability Pact for South-Eastern Europe. Romania considers that the implementation of the economic dimension of this pact will be crucial. Indeed, the success in promoting the other two dimensions - namely security/stability and human rights/democracy - will greatly depend upon how the economic component of the Pact evolves.

To reach concrete results in this respect means, *inter alia*:

- giving priority to reconstruction and economic development based upon well defined and realistic projects;
- substantial involvement of foreign investment, both public and private;
- giving countries in the region the key role of defining and implementing projects and proposals;
- giving particular attention to projects aimed at the development of (sub) regional cooperation.

A third and last remark bears upon the possible use and role of economic instruments in conflict prevention as well as during and after a crisis. Quite often, tensions and crises involving the abuse of human rights are at least to some extent associated with or are the result of economic discrepancies. Even the crisis in Kosovo confirms this in that one of the main grievances of the Kosovar Albanians was that the regime in Belgrade carried out an economic policy disfavoring both the province vis-à-vis the rest of Yugoslavia, and, inside Kosovo itself, the Albanian majority at the expense of the Serbian minority.

A remaining question is whether more intensive and determined use of economic instruments and/or incentives could have had a greater impact on the

efforts aimed at preventing the open conflict in Kosovo. Another question is whether and to what extent the recourse to economic sanctions produced the results expected or generated unforeseen or even undesired effects. A debate is now underway as to whether maintaining sanctions on the FRY is helping to strengthen and accelerate developments towards democracy in that country or is tightening the grip of the regime in Belgrade (the parallel here can be made with what happened in Iraq after the Gulf War).

A third and final question relates to situations of crisis and/or open conflict, specifically as to whether additional effort should be made to identify potential consequences of a particular course of action before such an approach is adopted. Past experience seems to suggest an acute need for such additional efforts particularly in order to identify all possible effects, not the least upon countries neighbouring the crisis area. Solutions to avoid or to alleviate such effects, including effects of the respective approach, should also be considered and identified in advance. The consequences of the air strikes on FRY on trade flows in Europe, particularly among both the countries within the region and between them and the countries riparian to the Danube, are a case in point. A similar point is that related to the cost of reconstruction.

The adoption of the Stability Pact for South-Eastern Europe and even more importantly its appropriate implementation becomes in such circumstances a *sine-qua-non* prerequisite for bringing lasting stability and security in the region. As mentioned before, the economic dimension is a key factor for the success of this endeavor. Regarding the development and implementation of projects within the economic dimension of the Pact, it is of paramount importance that projects are aimed towards both resuming and strengthening regional economic cooperation. Such projects should envisage first of all:

- development of infrastructure including the resumption of traffic on the Danube river (Romania has already put forward a concrete project proposal in this respect), the modernization of road and railway networks, and the setting-up a regional system for the interconnection of electric power grids;
- promotion of investment in the region, with the elaboration and adoption of well defined rules - perhaps under the format of an investment charter - being a valuable beginning;
- development of trade among the countries in the region as well as between each of them and the European Union;
- development of cross border cooperation schemes to ease border and customs controls, to fight against crime and corruption, and to protect the environment.

In developing projects along the ideas outlined above, one has to take into account the fact that some concrete proposals have already been elaborated and launched within various other initiatives and/or programmes related to South-Eastern Europe. Coordination and correlation of all these initiatives and programs constitute a matter of urgency. A first and indispensable step in this direction should be the elaboration of an inventory of the existing projects and programs.

Conditions would thus be created so as to avoid duplication and waste of effort. Let efficiency prevail.

References

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- 3 Government of Romania "Report on the progress in preparing for accession to the European Union", June 1999.
- 4 Speech delivered by Radu Vasile, Prime Minister of Romania, at the Romanian-Greek Economic Forum (Athens, 19/10/1999).